

Eaton UK Pension Plan – Aeroquip Vickers DC Section

How GMP Equalisation and GMP Conversion will affect your pension benefits

Introduction

The Trustee has decided in principle, in consultation with Eaton, that it will apply Guaranteed Minimum Pension (GMP) conversion as a part of the retirement process for members with Individual Member Accounts (IMAs) arising from their membership of the Aeroquip Vickers Defined Contribution Section of the Eaton Plan.

This note sets out what GMP conversion means for your benefits. Before implementing GMP conversion we are required to consult with affected members.

Answers to some of the questions you may have and examples of how GMP conversion may affect your benefits are included at the end of this document.

What is a GMP and why is GMP changing?

If you are a Plan member with an IMA, whatever the value of your account when you retire, for your pension earned before 6 April 1997 the Plan will provide a pension at least equal to your GMP from your GMP age (65th birthday for men; 60th birthday for women) or later retirement date, and a pension to your spouse or civil partner when you die.

GMP is calculated differently for men and women and is paid at different ages. This can mean men and women receive different overall pension amounts from the Plan. However, following a High Court decision in October 2018 we now need to adjust the GMP benefit for affected members to remove any inequality from GMPs earned between 17 May 1990 and 5 April 1997. This process is called 'GMP equalisation'. This ruling affects all pension schemes in the UK.

To comply with this Court decision, your GMP benefits from the Plan earned between 17 May 1990 and 5 April 1997 have been adjusted if required to include any necessary increases and earlier payment date to allow for GMP equalisation.

We have provided more detail about GMPs and GMP equalisation in the Frequently Asked Questions below.

How does GMP restrict your retirement pension?

The Trustee must pay you a pension at least equal to your GMP from your GMP age. This can restrict how you can take your benefits when you retire. In particular, you cannot use any of your IMA required to pay your GMP to provide tax-free cash, and you cannot take your GMP before GMP age.

In order to remove these restrictions, we intend to "convert" your GMP benefits. This won't reduce the expected value of your GMP benefits but will maximise the benefit options available to you when you wish to retire and it will make your pension easier to administer.

What impact will GMP conversion have on your benefits?

Our aim is to keep things as simple as possible with as few changes as possible, while providing you with more flexibility to tailor your pension to your retirement plans.

When you want to retire we will apply GMP conversion including a GMP Equalisation test to your GMP underpin.

1. Typically the GMP Equalisation test will mean a male member's GMP earned between 17 May 1990 and 5 May 1997 will be replaced by the (usually) more valuable GMP payable from age 60 earned by a female member. The GMP Equalisation test will apply to female members' GMPs but typically these will not change as they are usually more valuable
2. GMP conversion will mean your GMP becomes "Former GMP". Your Former GMP will be the same as your GMP at retirement if you are retiring at or after GMP age. If you are retiring before GMP age you will now be able to receive your Former GMP immediately, this will then be reduced to reflect that it will be paid for longer (in line with other scheme benefits)
3. Your Former GMP benefits will have the same pension increases as your GMP has currently:
 - No increase will apply for any pension earned before 6 April 1988
 - An increase will be provided for the pension earned from 6 April 1988 to 5 April 1997 on a similar basis as applies for GMP earned in this period (which is currently in line with increases in the Consumer Prices Index, to a maximum of 3% a year)
4. Following your death, your spouse or civil partner will receive a pension equal to 50% of your Former GMP with increases as above.

These calculations apply only to your GMP benefits; there will be no change to the minimum pension benefits earned for any service from 6 April 1997.

How does this work with your IMA?

We will also work out the value of your Former GMP (which reflects any adjustment required for GMP equalisation and any reduction for early payment). We do a similar calculation at the moment and this sets the minimum value of your benefits (together with the value of any minimum pension benefits earned from 6 April 1997) even if it is higher than your IMA.

However, by converting GMPs into Former GMPs we no longer need to leave enough money to provide a pension equal to your full GMP from GMP age; depending on your circumstances, this may mean that:

1. You can take some of your Former GMP as a cash sum if you want to do so (by commuting some of your Former GMP, up to the limits allowed by HMRC)
2. If your IMA is higher than the value of your Former GMP and any minimum pension benefits earned from 6 April 1997, any excess can be used to provide an additional pension (as now) however this excess pension from your remaining IMA funds no longer needs to fit in with paying your GMP so can also be calculated more simply as a pension payable from your retirement date – see example 2 below.

When will your benefits be converted?

The proposal is that the conversion will take place immediately before your retirement. This is necessary to remove any restrictions on the amount of cash, or early retirement, that can be caused by GMPs.

Annual Allowance

If you were in pensionable service in the Eaton Pension Plan on or after 6 April 2006, GMP conversion may lead to pension savings in the tax year of your retirement that need to be tested against the Annual Allowance even if you are now a deferred member of the Plan. If your pension savings in the Plan exceed £40,000 we will send you a Pension Savings Statement setting out your pension savings in the tax year of your retirement and the previous three tax years. This will be sent by the 6 October following the end of the tax year of your retirement. If you have any other pension savings or otherwise need details of your pension savings in the Plan please let us know by emailing eatonpensions@willistowerswatson.com or calling the Eaton Call Centre on 01707 607603.

If you have concerns about the impact on your annual allowance, you can elect to have your GMP converted immediately after your retirement, rather than immediately before your retirement. However, this may mean you are only able to take a tax-free cash sum equal to the amount that could be paid under the current Plan rules, which could be lower than the amount indicated in your retirement statement. The value of your benefits immediately after conversion will be the same as the value of your benefits immediately before conversion whether you convert immediately before, or immediately after, retirement.

This is a technical point and is brought to your attention in order that you can manage your tax liability in the most effective way given your personal circumstances. You may wish to consider taking impartial financial advice before deciding whether to convert immediately before, or immediately after, your retirement. If you wish to convert immediately after your retirement, we will then provide you with an updated retirement quotation

What if you have Lifetime Allowance protections?

If you have any Lifetime Allowance protections (Enhanced Protection or one or more of the Individual or Fixed Protections), converting your GMP prior to your retirement may cause you to lose these protections and you may incur a tax charge. If you have Lifetime Allowance protections you can elect to have your GMP converted immediately after your retirement, rather than immediately before your retirement. This will mean that you do not lose your Lifetime Allowance protection, but some of the GMP restrictions could apply. In particular, this may mean you are only able to take a tax-free cash sum equal to the amount that could be paid under the current Plan rules, which could be lower than the amount indicated in your retirement statement. The value of your benefits immediately after conversion will be the same as the value of your benefits immediately before conversion whether you convert immediately before, or immediately after, retirement.

You can check whether or not you have protection on the HMRC website. Click <https://www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance#check-your-existing-protection> to log in with your HMRC login details. If you do have protection, you'll see confirmation of it while you're logged in. Please download a copy of the page that confirms the type of protection you have and send it by email to us at eatonpensions@willistowerswatson.com.

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What GMP is being converted?

The proposal to convert GMPs applies to all GMP earned in the Defined Contribution Section of the Aeroquip-Vickers U.K. Retirement Plan (the AV DC Section) and now held in the "Former Aeroquip Vickers Members" Section of the Plan, including any benefits you may have transferred into this Section, whether or not GMP equalisation applies.

The Trustee is still considering its position in relation to GMPs and GMP equalisation in other Sections of the Plan but expects to extend GMP Conversion to other Sections of the Plan in due course.

As the Trustee must convert all of a member's GMP, GMP conversion will not currently apply for a member of the AV DC Section who has a GMP in any other section of the Plan. In the exceptional case that you have GMP in any other section of the Plan we will have contacted you to confirm this.

Following GMP conversion, you will not have any GMP (only Former GMP) in the AV DC Section of the Plan.

What if I have any concerns?

As noted above, before the Trustee is able to apply GMP conversion to your benefits, it is required to consult with you. You should therefore contact the Trustee within 30 days of the date of your retirement pack if you have any questions about the GMP conversion proposal as it affects your benefits or wish to raise any concerns about the proposal. If you accept your retirement quotation the Trustee will assume that you have no queries in relation to the conversion of your GMP benefits and will put the converted benefits as set out in your retirement quotation into payment. We have set out some questions and answers below, but if you have any further questions or comments on our proposal please contact us at eatonpensions@willistowerswatson.com or call the Eaton Call Centre on 01707 607603.

We appreciate that this is a complex area – the important things to remember are that:

- we're legally required to make a change to the Plan's benefits to equalise for the effects of GMPs, which will provide more valuable benefits for some Plan members
- The changes won't reduce the overall expected value of your GMP benefits, and in many cases will provide greater flexibility in terms of when you are able to retire and how much of your pension you can take as tax-free cash.

Questions and Answers

Q1. What is Guaranteed Minimum Pension (GMP)?

A1. Guaranteed Minimum Pension, or GMP for short, is the minimum level of pension the Plan has to provide you with for the time you were an AV DC Section member (or any relevant transferred-in membership) between 6 April 1978 and 6 April 1997. The age from which your GMP is paid is 65 for men and 60 for women (GMP age).

Q2. How is my GMP calculated?

A2. The amount of the GMP depends on how long you were in the Plan between 6 April 1978 and 5 April 1997 and your earnings during that time. Men's and women's GMPs were also calculated slightly differently.

Q3. Why are GMPs being equalised now?

A3. Because of the way pension benefits built up in our Plan and other schemes like it, there are differences in how men's and women's GMPs are calculated. On 17 May 1990, the European Court of Justice ruled that pension schemes must provide equal benefits between men and women earned after that date. However, the ruling did not apply to State benefits, and it was unclear how it applied to GMPs. In October 2018, a case was brought to the High Court relating to the equalisation of GMPs in the Lloyds Bank pension schemes. Following that case, it is now clear that the original Court decision in 1990 does apply to GMPs, and we now have guidance on what steps we need to take to remove inequalities in benefits caused by GMPs built up in the Plan between 17 May 1990 and 6 April 1997 (when members stopped earning GMPs).

Q4. What steps are the Trustees proposing to take?

A4. The changes we're proposing relate to a very technical area of pension law, and there are different ways to equalise for the effects of GMPs. We are proposing to use a process called GMP conversion to make sure that the pension you receive when you retire is at least equal in value to your GMP or, for your pensionable service from 17 May 1990, the value of the GMP had you been of the opposite gender if this is higher.

Q5. What if I don't choose to retire now?

A5. If you do not choose to retire now, there will be no changes to your benefits at this time. Your GMP will only be converted when you choose to retire or should you die before you retire.

Q6. What will happen next?

A6. If you choose to retire now and return your completed forms, we will confirm your benefits and that your GMP has been converted into Former GMP. If you have any questions please contact us at eatonpensions@willistowerswatson.com or call the Eaton Call Centre on 01707 607603.

Member example 1 – member retiring at age 65

Davina worked for Aeroquip Vickers between 1992 and 1996. She transferred her benefits earned with a previous employer before 1992 (including GMP) into the AV DC Section. All figures below are after GMP equalisation. Davina wants to retire at age 65, and her IMA is enough to cover her minimum pension.

Before conversion Davina could have a full pension of £700 a year; or take a cash sum of £2,400 and a reduced pension of £600 a year.

In Davina’s case, conversion and GMP equalisation do not change her pension which is still £700 a year (her pension is more valuable than the pension that would have been paid to a man in her circumstances).

However, if Davina wants to do so, she is able to take more of her benefits as a tax-free cash sum. In Davina’s case the maximum tax-free lump sum is now £5,100 but she gets a lower pension than before conversion of £525 a year (because Davina is taking more cash).

Breakdown of pension if Davina decides not to take tax-free cash:

Before Conversion		After Conversion	
	Amount		Amount
GMP built up before 6 April 1988 (no annual increases)	£100	Former GMP built up before 6 April 1988 (no annual increases)	£100
GMP built up after 5 April 1988 (annual increases in line with inflation capped at 3%)	£500	Former GMP built up after 5 April 1988 (annual increases in line with inflation capped at 3%)	£500
Money Purchase Excess Pension (no annual increases)	£100	Money Purchase Excess pension (no annual increases)	£100
Total Pension at 65	£700	Total Pension at 65	£700

Breakdown of pension if Davina decides to take the maximum tax-free cash available:

Before Conversion		After Conversion	
	Amount		Amount
Cash	£2,400	Cash	£5,100
GMP built up before 6 April 1988 (no annual increases)	£100	Former GMP built up before 6 April 1988 (no annual increases)	£75
GMP built up after 5 April 1988 (annual increases in line with inflation capped at 3%)	£500	Former GMP built up after 5 April 1988 (annual increases in line with inflation capped at 3%)	£375
Money purchase excess pension (no annual increases)	Nil	Money purchase excess pension (no annual increases)	£75
Total Pension at 65	£600	Total Pension at 65	£525

Member example 2 – member retiring at age 57

Simon worked for Aeroquip Vickers between 1989 and 1994. He transferred his AV DB benefits earned before 6 April 1993 (including GMP earned between 6 April 1988 and 5 April 1993) into the AV DC Section. All figures below are after GMP equalisation. Simon wants to retire at age 57.

Like Davina, Simon's IMA also covers his minimum pension, which means he is allowed to retire early, but most of his funds are needed to provide his equalised GMP from 60 and his male GMP from age 65. Therefore, under the current Plan rules:

- Once money has been reserved to provide Simon's GMP, what's left over is enough to provide a pension of £100 to cover the period from retirement at age 57 until his 60th birthday when part of his GMP is paid. This pension does not increase.
- From his 60th birthday his pension increases to £600, which is the GMP that would have been provided for service from 17 May 1990 had he been a woman. He will receive pension increases on this pension.
- When he reaches 65, his male GMP earned before 17 May 1990 starts to be paid and increases his pension by a further £400 to £1,000 a year plus any increases he has already received on the pension of £600 (paid from age 60).

Under the current Plan rules, Simon would be able to take a cash sum of £300 and receive no pension until age 60, when £600 of his GMP starts to be paid. This then increases (as above) to £1,000 a year (plus any increases on the £600 pension paid from age 60). Simon decides that he cannot afford to retire under the current Plan rules.

Under the Trustee's GMP conversion approach, Simon can bring his full pension into payment when he wishes to retire at age 57. In these circumstances his pension is £715 a year (of which £700 increases each year). This is a higher starting pension, but he no longer gets any extra pension at 60 or 65. He is now able to take a cash sum of up to £7,900 and receive a pension of £540, of which £530 increases each year. After conversion, Simon decides he can retire, taking some of his IMA as a tax-free cash sum.

Breakdown of pension if Simon decides not to take tax-free cash (pension increases, where applicable, assumed to be 2% a year for illustrative purposes):

Before Conversion		After Conversion	
	Amount		Amount
Money Purchase Pension payable between age 57 and age 60 (no increases)	£100	Former GMP built up after 5 April 1988 payable from age 57 (annual increases in line with inflation capped at 3%)	£700
		Money Purchase Excess Pension payable from age 57 (no increases)	£15
Total pension at age 57	£100	Total pension at age 57	£715
GMP built up from 17 May 1990 payable from age 60 (annual increases in line with inflation capped at 3%)	£600		
Total pension at age 60	£600	Total pension at age 60	£758
GMP built up between 6 April 1988 and 16 May 1990 payable from age 65 (annual increases in line with inflation capped at 3%)	£400		
Total Pension at age 65	£1,062	Total Pension at age 65	£835

Breakdown of pension if Simon decides to take the maximum tax-free cash available (pension increases, where applicable, assumed to be 2% a year for illustrative purposes):

Before Conversion		After Conversion	
	Amount		Amount
Cash	£300	Cash	£7,900
Money Purchase Pension payable between age 57 and age 60 (no increases)	Nil	Former GMP built up after 5 April 1988 payable from age 57 (annual increases in line with inflation capped at 3%)	£530
		Money Purchase Excess Pension payable from age 57 (no increases)	£10
Total pension at age 57	Nil	Total pension at age 57	£540
GMP built up from 17 May 1990 payable from age 60 (annual increases in line with inflation capped at 3%)	£600		
Total pension at age 60	£600	Total pension at age 60	£572
GMP built up between 6 April 1988 and 16 May 1990 payable from age 65 (annual increases in line with inflation capped at 3%)	£400		
Total Pension at age 65	£1,062	Total Pension at age 65	£631