

In Touch technical update

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Call to action on GMP equalisation

- Quality of the data required for GMP equalisation should be reviewed
- Schemes should understand and progress GMP reconciliation and rectification
- Transactions currently in process need to be managed

Following the Lloyds Bank GMP equalisation High Court ruling in October 2018, the cross-industry GMP Equalisation Working Group (GMPEWG) was launched to produce guidance and assist the industry. The GMPEWG, which is chaired by the Pensions Administration Standards Association (PASA), has now published its high-level guide *A Call to Action*. Although some points await clarification, the group has identified three initial areas on which schemes can start work – data, GMP rectification and impacted transactions.

Data

Trustees are urged to work with their administrators and advisers to assess the data requirements and how much of this data is available. This may involve contacting past advisers. The actions that can be progressed now are:

- Considering whether data (both common data and relevant scheme specific data) has been reviewed recently - this will help to meet the Pensions Regulator's requirements as well as aid the equalisation process.
- Accessing all historical records (including factors and past calculations), ensuring they are in a suitable electronic format.
- Identifying historic payroll data and considering approaches where full data is not available.
- Considering the impact of significant data gaps and how to deal with these.
- Obtaining full contracted-out earnings over the relevant period – HMRC's GMP checker can be used to help with this task.
- Considering a full data cleanse project.

GMP rectification

Formerly contracted-out schemes will be undertaking GMP reconciliation projects. Having completed GMP reconciliation, trustees need to decide whether to progress the necessary rectifications now or incorporate this work within the GMP equalisation project. The main considerations here are:

- Timing for rectification – once a member's benefit is known to be incorrect, standard good practice requires the benefit to be corrected within a reasonable timeframe. Where trustees wish to combine rectification and equalisation, they may want to consider whether the equalisation project can be completed within such a reasonable timeframe. The GMPEWG expects that most schemes will not have completed GMP equalisation before 2020 or later.
- If rectification and equalisation are implemented as separate projects, some members will be subject to two adjustments to their benefits (possibly including a reduction due to rectification) and two sets of communications. Trustees may consider that combining the two projects is more efficient and may be less likely to cause confusion for members.
- Some members may not be impacted by both rectification and equalisation. Also, the DWP's conversion guidance makes clear that equalisation (and conversion if used) does not need to be implemented for all members at the same time. The relative balance of members in scope for each project may affect the decision on whether to combine the tasks.

Trustees are also urged to take legal advice when considering how best to align rectification and equalisation.

Impacted transactions

The GMPEWG defines these as transactions that need to be completed now, before GMP equalisation is completed, but may need to be revisited as part of an equalisation project. The considerations here are:

- Settling retirements and death benefits on an equalised basis – trustees are urged to discuss this with their advisers, but the group suggests that it is usually justifiable to pay these benefits on an unequalised basis and revisit them at a later stage.
 - Transfer values for individuals – these could be dealt with in advance of a long-term solution by adjusting either the benefits or the assumptions. Trustees should discuss such an approach with their advisers, taking account of whether transfer values may still need to be revisited when the equalisation project is completed and whether the proposed approach would impact on the eventual choice of equalisation method. The group states that particular care is needed when considering transfer values for GMP-related benefits previously transferred in.
 - Transfer values for divorce purposes – quotations must still be provided but should include statements that the benefits are unequalised (where relevant); information needs to be disclosed to the court, so the member should be asked to inform the spouse.
 - Transfers-in with a post 17 May 1990 GMP – the trustees should seek legal advice as to whether non-equalised benefits can be accepted.
 - Trivial commutation and small lump sums - HMRC guidance is still awaited on these, so trustees might want to discuss with their advisers whether to stop offering such payments or to make them based on the unequalised benefits with a top-up at a later date (if appropriate). Alternatively, such commutations could be paid now but build in an allowance for GMP equalisation similar to that suggested for transfer values.
 - Serious ill-health lump sum payments - similar options can be considered as for trivial commutation and small lump sums, although the option of delaying such payments is not practicable.
- Anti-franking checks – these must be considered; trustees must understand the scheme's current approach. The group intends to issue more guidance on this.
 - Buy-in/buy-out exercises in the past – the insurer should be contacted. Contracts for the transaction and any subsequent contracts for additional insurance need to be checked, and legal advice obtained.
 - Buy-in/buy-out transactions in progress or planned – if a transaction is well-advanced, urgent legal and actuarial advice should be sought, and the trustees should liaise with the insurer. For projects in planning or in the early stages, the impact of GMP equalisation needs to be discussed with the insurer.

Project preparation

The Call to Action includes a checklist of tasks that can be carried out now in preparation for an equalisation project.

Next Steps

The GMPEWG is due to issue further guidance in what is intended to be a series of documents. It will first issue a guidance paper on the relationship between GMP rectification and equalisation. Later this year, it will also release first versions of full guidance for Data, Impacted Transactions, Methodology, and Tax – which will suggest good practice approaches.

The group also proposes to cover some issues that were not addressed by the High Court and are unlikely to be subject to judicial scrutiny.

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