Clarity needed

> **The Institute and Faculty of Actuaries (IFoA)'s Charles Cowling asks for GMP equalisation clarification following the Brexit vote**

It has been argued, IORP II aside, that the effect on pension schemes of the UK leaving the EU would be second order. Not so with GMPs – will Brexit mean that schemes do not need to equalise them?

Unfortunately, the recent DWP consultation has not provided any clarity on this question. The IFoA has argued that until we get clarification on this issue, trustees are unlikely to engage in an expensive exercise to carry out the required calculations. Recognising that high-level political decisions impact real life, we urge DWP in its response to clarify what will be needed post-Brexit.

Assuming Brexit won't overturn the need for GMP equalisation, is the DWP consultation exactly what is needed? It is important to highlight the potential expense of equalising GMPs: lawyers will provide advice; actuaries will perform calculations; but administrators will have a massive and possibly very expensive task to reconcile data. It would be very helpful for trustees if the DWP and/or TPR issued guidance on what would be acceptable for dealing with missing data and also what would be acceptable in terms of simplification of the process or calculations.

The IFoA believes the DWP's suggestion of an equivalent value approach is much more acceptable than the significantly more generous and complicated method proposed in 2012. However, we would like the DWP to make clear that other approaches are also acceptable. There is an obvious tendency for people to regard a government suggestion as the only, or best, way of dealing with a problem. Identifying other approaches would send a clear message to trustees that they should equalise GMPs in the most suitable manner for their scheme. The DWP should also be aware that there is no guarantee that trustees and employers will agree on the best approach.

While the proposed approach is a very useful starting place, there are some other issues we believe trustees should take into account. A scheme's CETV basis is probably the most appropriate basis to use, but there are two complications with the proposed approach:
• The CETV methodology is not suitable for pensions in payment: and

• There does not appear to be any need to use a unisex methodology, as pension schemes can take gender into account for calculations.

The methodology provides a relatively simple example for equalisation. In practice, the range of examples will be from the simple to the extremely complex, depending on anti-franking approaches and historic increases for pensions in payment.

The methodology shown only considers future payments, but our expectation is that schemes will also have to consider past payments. Experience of our members suggests this could be a drawn-out process.

There are a number of other areas where we believe more work is required:
• There is no ability under existing legislation to reduce pensions in payment. This will constrain possible solutions to current pensioners and is likely to lead to conversions with lower rates of increase.
• Conversion exercises will depend heavily on the assumptions used.
• The need for separate spouses' pensions may constrain options.

Confirmation of two practical matters would also help trustees. Firstly, when trustees undertake equalisation, it would be beneficial if there was an explicit statement that they did not have to follow Section 67 processes. Secondly, trustees and advisers would welcome clarity from HMRC about the application of the lifetime and annual allowances.

GMP equalisation is a difficult issue and the DWP's efforts to clear the logjam are welcome. Until schemes have clarity about the need to equalise, there will still be an incentive to delay the process. When DWP makes that statement, all advisers, trustees and members anticipate the closing of one of the longest-running challenges of scheme management.

> **Written by Charles Cowling, member of IFoA's Council and a former chair of its Pension Board**