



Summary

- During an Aon webinar, 59 per cent of the pension professionals polled said they considered combining GMP conversion and PIE to be a positive solution.
- The combination can lead to cost savings and a reduction in complexities.
- It is important to make sure however that PIE is an appropriate thing to do in its own right.
- It is essential to also consider whether GMP conversion itself is right for the scheme.

The challenges surrounding GMP equalisation continue to rattle on and, in the eyes of the pension scheme and the wider industry, anything that can make the process more fruitful or more efficient can only be a good thing. That is why a recent suggestion from Aon that coupling GMP conversion with Pension Increase Exchange (PIE) exercises could bring about positive outcomes has come as welcome news.

When asked during an Aon webinar, 59 per cent of 124 pension professionals polled said that they considered combining GMP conversion and PIE to be a positive solution. Aon head of member options, Kelly Hurren, explains why: “Combining GMP conversion and PIE allows you to encourage members to engage and make an active decision on the shape of benefits they want, reducing the risk of complaints about forced change from GMP conversion; support members with IFA advice; and increase the proportion of benefit that can be included in the PIE, offsetting the implementation costs and potentially some of the GMP equalisation costs too.”

So, in some cases, there could be a multitude of potential positives. In addition, she says, for schemes that already have PIE, offering GMP conversion with PIE is a straightforward and natural extension of the current options already available to members.

LCP partner, Alasdair Mayes, agrees that the combination has potential benefits, reinforcing the view that, if already offering PIE at retirement, applying it with GMP conversion at retirement makes sense for efficiency reasons “as you are doing similar

Killing two birds with one stone

► **Francesca Fabrizi looks at the potential benefits of combining GMP conversion with Pension Increase Exchange (PIE) exercises, while also highlighting when it might not be the right thing to do**

calculations anyway; it is clean, as it avoids dual records and you can sweep away the complexities of GMPs”. Plus, the pensions tax issues associated with GMP conversion are very similar to those of a PIE and are more manageable at retirement than for a pre-retirement exercise.

Finally, he adds, “if you are not already offering PIE, but you think it might be of interest, you could introduce it and wrap up GMP equalisation with it”.

From theory to practice

As good as it sounds, however, how much of this is being seen in practice or is expected to be seen going forward? Hurren comments: “There is a growing appetite now to start tackling the thorny issue of GMP equalisation and a combined PIE exercise can put a positive slant on an otherwise daunting project. We have already seen a small number of early movers complete combined exercises, with one example (albeit with a relatively generous PIE offer level) resulting in 61 per cent of members engaging with the IFA and 43 per cent of members accepting the PIE offer.”

Aon also has a number of clients

committed to offering a combined exercise later this year and an increasing number of clients are actively working towards doing so.

“Given the clear benefits to members, trustees and sponsors, where conversion is the favoured method, we expect a combined GMP conversion and PIE exercise to be a very common solution,” she adds.

Similarly, Mayes expects the vast majority of LCP clients with an existing PIE option to combine it with GMP conversion going forward; while ITM chief innovation officer, Maurice Titley, has also seen the option of combining a PIE exercise with conversion being put “on the table”, though he has yet to see a scheme decide this is definitely the route they will take.

Considerations

As with anything positive, however, there will always be potential drawbacks, or at least considerations to be made to ensure that it is the right thing to do.

First of all, explains Hurren, there is a clear decision to be made between dual records and conversion methods. “A dual records method of GMP

equalisation will be the right approach for schemes that want to only change benefits for members where they are directly impacted by GMP equalisation; and/or ensure that equality has been fully achieved, even with the benefit of hindsight”, she says.

Hayes also makes the point that, however many positives there may be to combining conversion and PIE, you would want to make sure PIE was an appropriate thing to do in its own right.

“It does not make sense to introduce a PIE simply because of the need to equalise for GMPs. That would be the tail wagging the dog. A PIE normally involves a fundamental change in an individual’s benefits. It might be right for some but not for others.

“Equalisation, on the other hand, might have little or no impact on the benefits of many members. It is possible to use GMP conversion to equalise for GMPs without a PIE. We are finding lots of clients are keen to use GMP conversion to equalise, avoid dual records and sweep away the complexities of GMPs without making big changes to members’ benefits. This minimal interference approach has been going down well.”

So, he reiterates, before introducing a PIE you should make sure it is an appropriate thing to do in its own right for your scheme and your members, not least to avoid potential issues in the future: “There is a risk of complaints for decades to come. You should therefore be aware of the Code of Good Practice. Ideally you would make available for your members a pension specialist IFA no matter whether it is bulk exercise or an ongoing at retirement option. And don’t forget the uncertainty in the future level of RPI. In a PIE you are locking in current inflation expectations and the prospect of RPI reform and Covid-19 means there is a fair bit of uncertainty.”

Cost savings versus other factors

The thought of saving money will almost certainly be music to anyone’s

ears, particularly in the current market, and Titley agrees that there will be cost savings from combining GMP conversion with PIE if a member option exercise is planned in any event.

In practice, however, these savings may not be as great as one might think, he warns, as much of the costs of preparation for GMP conversion will relate to data preparation to enable accurate valuation and conversion of benefit entitlements, and once this work is carried out for GMP conversion, then it will not need to be repeated for a later PIE exercise. Savings, he adds, would more relate to the communications and implementation process for the options exercise.

It is worth stressing, also, that the exercises have one important difference: GMP conversion is an enforced process where a member does not have the option of retaining the ‘status quo’.

Titley explains: “Not being able to present the ‘status quo’ to members will be disruptive to cautious members who would naturally be the first to say no to any change of pension benefit, or those that would simply not engage in a member options process.”

Also, in ITM’s experience, members above a certain age are often treated differently in PIE exercises – for example, being required to opt-in before receiving details of their offer – and, again, this could not really work the same way in this case, he argues.

“We assume a ‘default’ change to pension benefits would need to be proposed that would apply if members did not engage with the process. It could therefore be better for member experience and communications to keep the two stages separate so that members are more trusting of the ‘default’, which would simplify both communications exercises, and the fact that a PIE is to be offered in the future could still be flagged at the point of GMP conversion so that it is no surprise to interested members who then receive their offer further down the line,” he says,

Choosing the right path

To summarise, therefore, how can anyone know whether this is the right road to go down? Titley says that, in addition to ensuring member communication is as good as it can be, the key point to consider is whether or not GMP conversion itself is right for the scheme.

“In considering this, we would recommend that all important factors are considered, and that it is not evaluated primarily as a potential cost saving, either in terms of combining member options exercises or avoiding having to implement dual records. This is because there are also significant costs to a conversion route, including data preparation up to a buyout standard, updates to scheme processes on administration platforms both for those members converted, and also for those who are not converted (for example deferred members).”

If member options exercises are being integrated with GMP conversion, he adds, then it is even more important that robust plans and timeframes can be agreed with all parties, and this includes the administrator. There is no doubt that administration platform changes following GMP conversion are much more significant than those following a traditional PIE exercise, so the dependency on the administrator is more critical, he stresses.

“Following on from this”, he says, “our main tip would be to look closely at your administrator’s readiness to implement changes to their admin process and platforms post-GMP equalisation, and understand what the likely costs and timescales would be for carrying out the required work to support either dual records or a GMP conversion approach. In doing this it will be useful to agree with your advisers how GMP conversion would be implemented for deferred members, and any active members, because this is where hidden costs can appear when processes are updated.”

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