

### Summary

- Initial assumptions that schemes would choose to use GMP conversion have not materialised.
- Tax complexities have muddied the waters and hampered progress.
- Method 'B' GMP equalisation is emerging as the preferred route for schemes to take.
- The GMP conversion bill was recently granted Royal Assent.
- Employers have cited ongoing costs as a source of frustration.



# GMP in 2022: Unresolved complexities hamper momentum

As the GMP conversion bill has completed its journey through parliament, trustees are navigating technicalities to implement solutions for members

Since the government issued guidance on GMP equalisation in April 2019, the topic has been an ever-constant reality amid a rapidly changing industry landscape. But as the complexities of equalisation exercises come to fruition, inflationary tensions are further compounding one of the most intricate areas of the pensions sector.

### Keeping GMP in vogue

Trends are developing on multiple fronts in terms of which method of equalisation schemes are ultimately deciding to go ahead with, says Sackers partner, Claire van Rees. She says the initial assumption that schemes would choose to use GMP conversion has not materialised.

“As the complexities of implementation have become clearer, we’re tending to see more of an even split between schemes deciding to use conversion, sometimes combined with liability management exercises such as a pension increase exchange, and schemes

choosing dual records methods,” she says.

One reason behind this is the cost of implementing GMP conversion. Van Rees says it is a “more expensive exercise from an adviser and service provider perspective,” leading many to conclude that it’s “not worth the spend” unless the benefit structure or circumstances of the scheme mean it is attractive for particular reasons.

“Unresolved questions around tax complexities have further complicated the picture on GMP conversion,” she adds.

Punter Southall Governance Services’ chief operating officer, James Double, notes that schemes are increasingly exploring the possibility of using method ‘B’ GMP equalisation – a process that compares both benefit streams each year and results in the higher of the two being paid.

Double explains that the “simplicity” of explaining this to members compared to other methods can “outweigh the additional cost of implementation.”

“In quite a few cases, the additional cost is lower than first envisaged, which makes this a more viable alternative,” he adds.

Buck principal and London retirement practice leader, Mark Williams, continues to see a leaning towards a year-by-year method for equalising GMPs, “especially the simpler ‘B’ form”.

“This is perhaps driven by changing employer attitudes and the increased cost and complexity of implementing conversion,” he says.

Williams adds that the “uptick in activity” could be due to the “track record of completed projects to learn from,” meaning trustees can benefit from the efficiencies generated.

One constraint that has diminished recently is administration capability, says van Rees. “Most insurers and administrators can handle any of the methods and it is only for historical systems that choice is restricted,” she says.

In the day-to-day implementation of GMP solutions, technical questions in niche areas are more commonly arising, says van Rees.

“For some schemes, depending on their particular circumstances, it

can have a significant impact on GMP equalisation and so people are having to look at what the scheme has done in the past in rather more detail than is ideal,” explains Van Rees.

“This, and other technical questions, can be quite scheme-specific in how they are relevant to GMP equalisation and so it all adds to the costs of implementation and makes it difficult to have a standardised approach to these projects.”

Parallel to this, the progression of projects is bringing consultancies and advisers to the table. Collaborative work is done in as standardised a manner as possible to keep costs down, van Rees adds.

### Parliamentary approval

Broadstone’s head of GMP equalisation, Kylie Arbon, says the main development the pensions industry was waiting on was the GMP conversion bill to go through parliament.

The bill, which has now completed its journey through parliament and become an act, contains several amendments designed to clarify and streamline the GMP conversion process. The bill sets out to clarify the point at which conversion applies to earners as well as survivors, and sets out which employers need to give consent.

“It [*the bill*] should pave the way for more conversion exercises, which can help simplify the future running of schemes rather than a dual record approach which complicates it,” Arbon says, although he notes that a dual record approach “can be considered most appropriate for certain schemes”.

HMRC has also been issuing guidance, in particular relating to past transfers out. Double says that the recently published guidance will make the payment of top-ups where the value is under £10,000 more straightforward.

“They’ve confirmed a lump-sum payment can be made directly to a member after a ‘relevant accretion,’” he says, although certain conditions must be met for this to be considered

an authorised payment. While it only applies to post A-Day transfers – the date in 2006 when multiple tax systems were overhauled – Double believes the development will make the process of tracking down historic transfers “more straightforward” potentially creating a precedent for more top-ups to be “dealt with this way”.

Cartwright’s director of pensions administration, Julie Yates, adds that the conditions set out by HMRC are “not too restrictive”, meaning the option will “save trustees time and money especially when a significant number of transfers have been paid”.

But Gunnercooke pensions partner, Parminder Latimer, adds that trustees are also waiting on a consultation from the DWP, “detailing how employer consent and contingent survivor pension aspects of GMP conversion will work in the future”.

Amid this ambiguity, uncertainties have arisen over particular cases and circumstances.

“One area that remains problematic is the tax implications of conversion for members yet to retire,” points out van Rees. “In its latest newsletter on the issue, HMRC notes the need for further work to be done to determine an appropriate outcome and hints at the potential for changes to legislation.”

Latimer acknowledges that the developments will involve “increased work and checks for scheme sponsors, trustees and administrators, particularly around tax implications”. Additionally, identifying those with Lifetime Allowance Protections and vulnerable Pension Input Amounts that would be “triggered by the conversion” will be time-intensive.

### Economic impact

As reported in *Pensions Age*, warnings were made over the impact of rising inflation on GMP conversions. Arbon says that as a consequence of the macroeconomic landscape, trustees are not “suddenly trying to push through exercises” for this reason, with

“discretionary pension increases being more of a focus in that regard”.

On the flip side, employers have signalled increasing expenses as a “source of frustration”, particularly where the work involved “appears disproportionate to the ultimate benefit to members”. Importantly, Arbon has not yet seen any employers asking to delay projects in response to economic developments.

The current economic situation is, however, causing concern for trustees, says Latimer, with increasing regulatory, governance and reporting burdens coming through various channels, notably the Task Force on Climate-related Financial Disclosure (TCFD) reports.

“With climate change continuing to be a real and present danger, as well the impact of the war in Ukraine and rising living costs, trustees of all schemes continue to be stretched in juggling their responsibilities to their schemes as well as recognising the increased financial strains on their scheme sponsors,” says Latimer.

However, the current cost of living crisis could give precedent for trustees to “double their efforts”, says Double. He says that if members are “knowingly being underpaid” then trustees should be doing everything possible to get the project completed to “ensure members receive the correct benefits, and back payments where relevant, at a time when extra income could be very useful”.

As PTL client director, Dan Richards, says, everything related to GMP is “slow, expensive, and it affects a huge number of members in a very minor way and a small number of members in a major way”. He adds that keeping momentum going tends to yield the best results, but given the waiting periods for regulatory direction, tackling the various issues “methodically” is the most sensible approach for the industry to take.

 Written by Tom Higgins, a freelance journalist