GMP equalisation – keep moving forward

This major article looks at the challenges of GMP equalisation and how pension funds should meet this challenge

There are things schemes can do now to start addressing the 'GMP equalisation' challenge.

'GMP equalisation' may appear to be a mammoth task and acknowledging there are still some unknowns, many schemes typically expect that it will take around two years to get the job done[1].

While we expect further guidance from the industry led working groups, and HMRC's pending advice on tax treatment, we strongly advocate that trustees consider what more can be done on GMP projects to maintain momentum and position schemes well to implement equalisation in timescales of their choosing. Undertaking preparatory work also avoids a potential capacity crunch in the industry across administrators, actuaries, and other advisers, should all schemes wait and look to start delivering GMP equalisation at the same time. Trustees also have a duty to ensure that their members get the uplifts, and any back payments that are due as soon as possible.

There are some simple steps that schemes can proceed with, and these are not contingent on pending guidance:

"Firstly, one of the biggest unknowns and concerns for schemes may relate to quantifying the volume of data work[2] and creating a plan to address any shortcomings or requirement for new data fields. In the knowledge of the specific GMP equalisation technicalities, making an informed initial data assessment on the scheme's data readiness will demystify the position for many, and enable schemes to prepare a prioritised action plan and pick up any easy wins early. Schemes will then be one step closer to carrying out the necessary calculations once strategic decisions have been taken. Most obviously, schemes need to source reliable electronic data

that will allow them to identify the part of a post-1988 GMP that relates to service between 19 May 1990 and 5 April 1997 – they did not need this before, and the building blocks of those calculations such as service dates, may not always exist in an immediately usable electronic format. Schemes who convert GMPs into other benefits will also need more precise estimates of spouses' pensions before these come into payment.

Equalisation is coming on the back of the need to reconcile the scheme's GMP records with HMRC's. There will be some overlap between the population needing correction following the reconciliation exercise, and the population needing correction to allow for equalisation, but the extent of that overlap will vary from scheme to scheme. The two exercises can therefore progress in tandem to some extent but for those who have yet to make progress, we advocate moving ahead now with the rectification work following reconciliation – HMRC delays notwithstanding – so that corrected figures for the overlapping population can be fed into the equalisation process in a timely manner. With the potential for multiple changes to the pension amounts of some members, most schemes will want to avoid confusing members and hence will only want to correct an individual's benefits once. Sensible segmentation and scheduling of the tasks, one of which may include getting rectification out of the way for members who clearly won't qualify for an equalisation uplift can ensure that momentum is maintained on the schemes' GMP journey and hence reducing the outstanding data payload for the trustee ahead of equalising benefits.

"Secondly, schemes are starting to drill down further into how benefits should be equalised. We have twice polled our own clients in 2019, and around three quarters say they expect to convert GMPs rather than keep dual records showing what the male and female benefit would be[3]. They are now contemplating the shape of the benefits they want to replace GMPs with – for example, the balance between the initial pension level and how quickly it increases. Schemes will not want to commit to anything before HMRC has confirmed the tax consequences, but they can explore the trade-offs and start to pencil things in.

While most affected members will be younger, some of the people who accrued GMPs between 1990 and 1997 will now be in their eighties and a few will be in their early nineties. In some cases, making sensible progress now can only help move things forward so that more member will receive a corrected entitlement sooner.

So if we rewind to the end of 2018, there was a good reason for schemes to pause and reflect before deciding the immediate next steps on their GMP journey, and that was particularly true for GMP equalisation, where clarity was needed to take some of the key strategic decisions. Whilst today, that need for clarity still remains in some areas, we believe it is imperative that schemes start to gain some momentum and start to take some material steps in both rectification and equalisation projects. This can be easily achieved with some sensible effort focused in the right areas, such as laying the foundations with some early data work and paying equalised transfer values. This will ultimately position schemes well to take the strategic decisions around equalisation and conversion, and move to implementation, at a time of their choosing, rather than potentially having to make a standing start late in 2019 or well into 2020. With the volume of work that needs doing across the industry, our clear message to our clients is "Get started now".

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[1] At a recent Willis Towers Watson client webinar, only 6% of schemes said they expected to complete 'GMP equalisation' within one year. 53% thought it would take between one and two years, and 41% that it would take more than two years.
[2] 57% of schemes cited data as the biggest challenge, with a further 20% saying it was administration.
[3] 76% said that, if they had to choose now, they would be most likely to convert GMPs