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Our guide to **GMP equalisation**



We've put together this guide to help trustees through the complexities of GMP equalisation. If you need a refresher about GMP and why equalisation is needed, we have produced a brief background document.

The current position

The October 2018 Lloyds Bank judgment made it clear that all trustees need to equalise GMPs. However, most haven't started yet, as they've been waiting for further court judgments and guidance from government and industry groups.

We've now received most of this guidance, and we don't expect further clarifications to have a material impact on the approach taken for current scheme members. We see no reason to delay GMP equalisation any longer. Indeed, we think there are some great reasons to start work now.

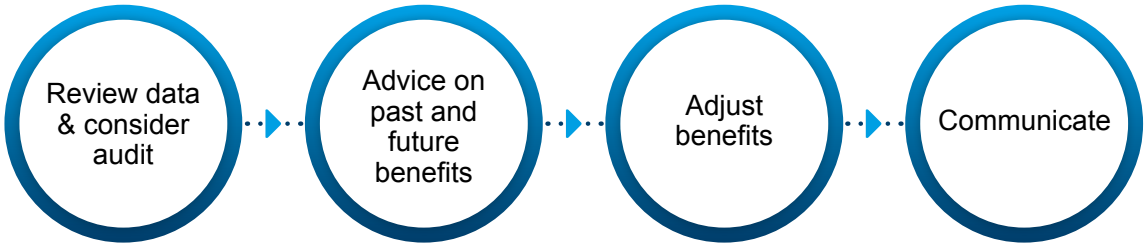
> The pensions industry is now ready to equalise GMPs and scheme auditors will expect to see real progress.

What do trustees need to do?

Every member with a GMP built up after 17 May 1990 will need to be reviewed – whether they have retired, died, transferred out or are simply a deferred member. This could make GMP equalisation a long, complicated and potentially expensive process.

The work involves:

- **Data preparation** – Before you start, you need to finish GMP rectification and check you have all the data needed. We also think you should consider checking that the data you hold is accurate, to avoid having to re-adjust benefits later.
- **Agree methods** – You will need to agree the method for equalising payments that have already been received as well as the method for equalising future benefits.
- **Calculations** – We will need to perform the calculations and correct benefits.
- **Member communications** – Clear communication throughout the process is essential.





How can First Actuarial help?

We will run the GMP equalisation process quickly and cost-effectively. We will work efficiently to minimise costs and avoid the need for any rework or duplication of effort. We will assess the work and advice needed, and at each stage we will inform you of your options and the cost involved. At every point, we will get your agreement on further work before proceeding.

Our GMP equalisation process has been developed to help you make the right decisions for your scheme and to allow us to equalise GMPs quickly, efficiently and cost-effectively for you.

Training

To help you understand the range of issues to be addressed and the decisions you will need to make, we propose to start with some training. We will make this as efficient and easy for you as possible, delivering the training via a short webinar. We will make recordings available to all trustees, so you can watch them at a convenient time.

On the strength of this training, we will be able to make our advice papers more concise and focused on the specific issues concerning your scheme.

Clear, simple training at your own pace, to help you make the right decisions.

Data preparation

Before we start any calculations, it's important that you have completed both GMP reconcilliation and rectification, so that you are confident in the GMP information you hold. It's also important that any historical data issues are addressed. This is because the final step in the GMP equalisation process will be to inform affected members that they will be receiving a small increase in their benefits, and to make lump sum payments to pensioners. If the underlying data contains errors then we may need to revisit any payments and adjust benefits again.

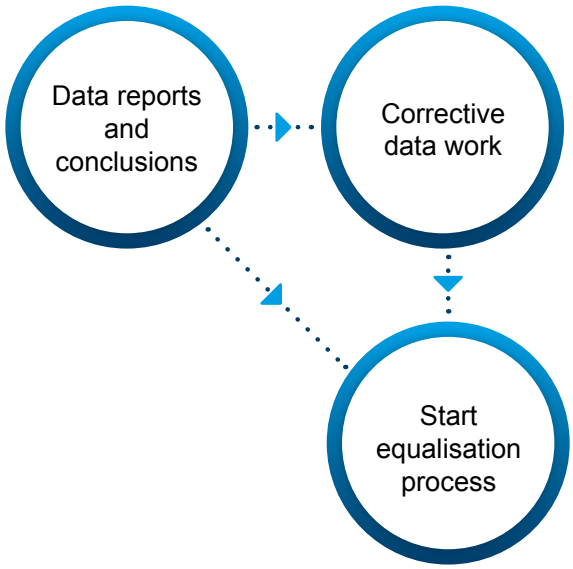
> You don't have to audit your data but it may save time and money in the long run.

We will also need to check whether you hold all of the key data needed for pension comparison or to convert GMPs. We can do this by running our equalisation data analysis report.

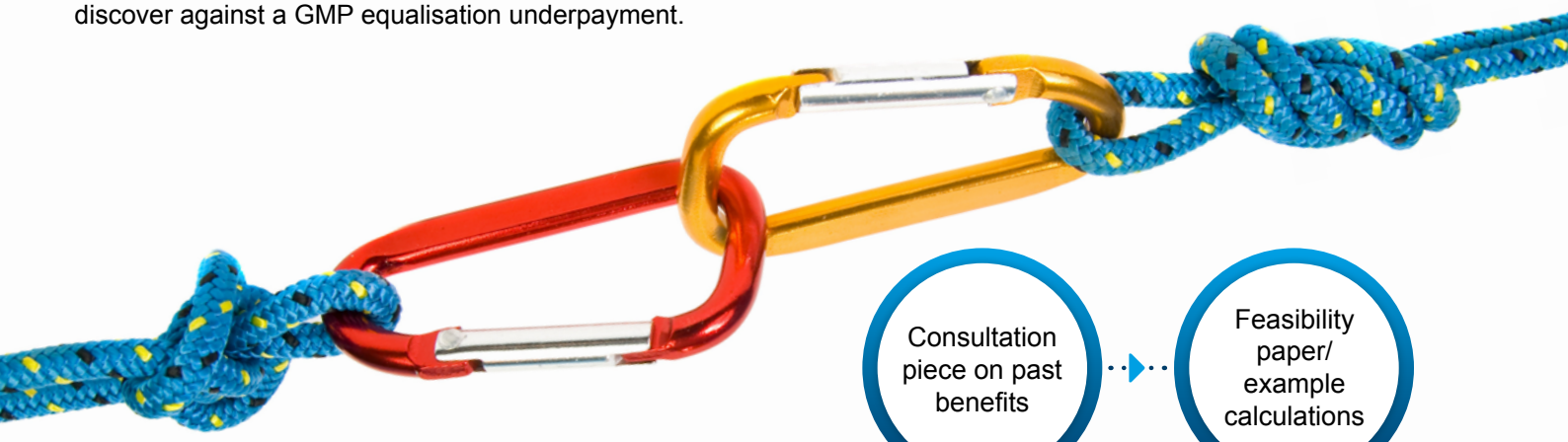
At this stage we'd also recommend a simple benefit audit exercise. This audit won't be needed for all schemes, but will give trustees the confidence to proceed without worrying about future rework.

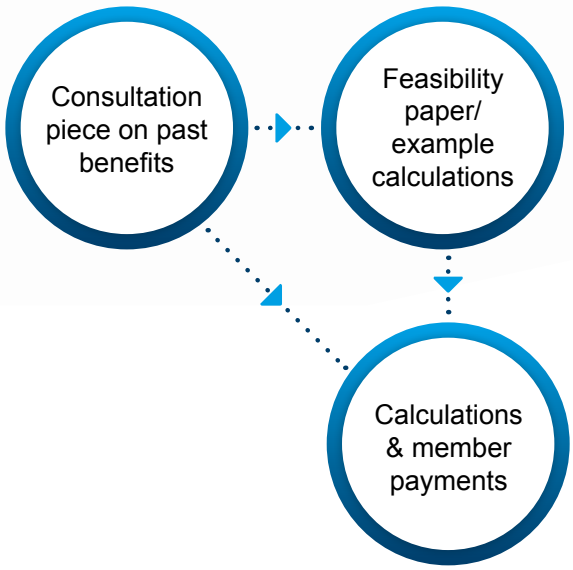
A benefit audit involves summarising the scheme's benefits and using a sample of member data to test that we can agree historical benefits. We will investigate any known uncertainties around benefits. If any issues are identified, we will put together a proposal to investigate and correct the data. Carrying out all this work at the same time will keep data review and benefit change costs down to a minimum. Checking data at this time also gives us the opportunity to offset any historical overpayments we may discover against a GMP equalisation underpayment.

This benefit summary can also be formalised and reviewed by your legal adviser if you are considering insuring benefits, GMP conversion, or if the sponsoring employer wishes to consider a liability management exercise. Producing a benefit summary and undertaking a benefit audit are important steps in insuring benefits.



> GMP equalisation data work can also form a cost-effective basis for the data verification needed for buy-in, buy-out or transfer to a consolidator.





Equalising past payments

There is a range of options that Mr Justice Morgan considered suitable. We will produce a report specific to your scheme and explain your options simply. We will help you and the sponsoring employer agree on a proportionate approach that strikes a sensible balance between minimising additional benefits for pensioner members and increasing the cost of the exercise.

Equalising future payments

You can choose from two very distinct approaches when equalising future payments:

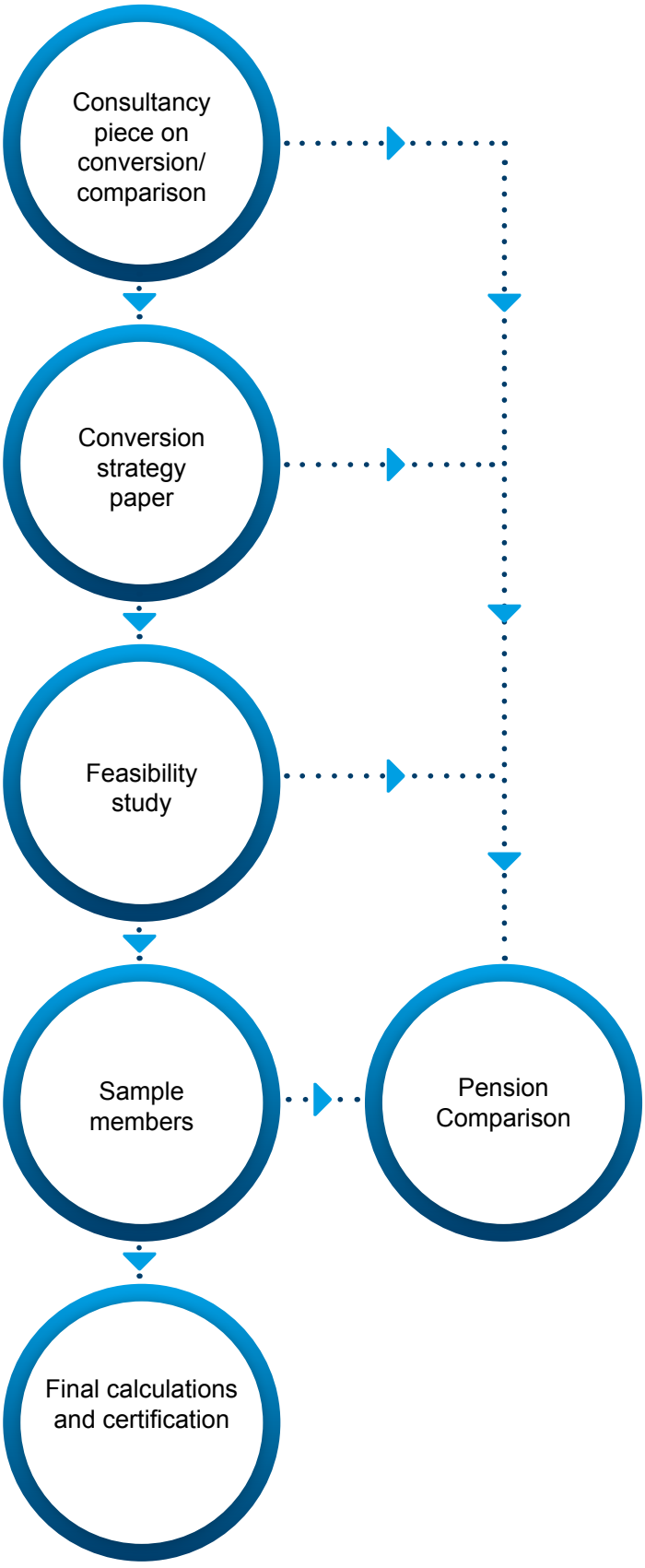
- **GMP conversion** – The Scheme Actuary calculates a new pension of equivalent value, allowing for equalisation of GMPs. From that point, GMPs no longer form part of members' pensions.
- **Pension comparison** – A male and a female record are held for each member. The administrator compares them at retirement and potentially every year thereafter, paying the largest. This involves holding dual records and carrying out two sets of calculations.

This is an important decision. The pension comparison approach brings additional complexity and long-term administrative expense to the scheme. GMP conversion involves much more work up front but prevents any increase in administrative complexity. GMP conversion also gives schemes the opportunity to review the benefits of all members and potentially simplify them. This can reduce buy-in and buy-out costs and make it easier to get a quotation from an insurer.

GMP conversion can help simplify benefits, reduce risk, and make insuring benefits easier and more affordable, It can also put more member benefits under the protection of the PPF.

There are both simple and more complicated approaches to GMP conversion. Typically, the more complicated approach creates greater future savings, but it's a balancing act and, with the employer, your decision to make. We have developed a stage-by-stage process, giving you time to understand the issues and make the right decisions. At any time, you can move straight to a pension comparison approach.





Choose a dual record approach, equalising quickly and simply but with longer-term expense, or spend more now converting GMP, and benefit from savings and efficiencies later.

Carrying out the calculation process and correcting benefits

Once we've worked with you to agree the process for all the different categories of members, we will carry out the calculations. Because we know your scheme, we will understand which of the complexities of GMP equalisation apply. We will use our knowledge to tailor our recommended approach so we can carry out our calculations in a cost-effective way to an agreed timescale and budget.

> We understand your scheme and we will use our knowledge to simplify the equalisation process.

Communicating with members throughout the process

This is a complex process but the message to members is simple. Some people will get a small increase in their benefits to remove any discrimination between men and women. For pensioners, this may mean a one-off back payment too.

We will communicate simply and openly to members, outlining what we are doing and explaining the impact on their benefits.



Take the first step

You can now watch a recording of our GMP equalisation training. This will give you information that you'll find useful throughout the process.

If you have a trustee meeting coming up soon, we will add to the agenda the current position on GMP rectification and the start of the data preparation work. We will also discuss whether you want us to carry out a benefit audit.

If you don't have a meeting scheduled for this calendar year, we will arrange a short video call to discuss GMP equalisation after you've watched the training.

Watch Getting started on GMP equalisation – Training for trustees and employers.

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