

# FYI<sup>®</sup> Alert

## For Your Information<sup>®</sup>

### **GMP Equalisation Industry Working Group's Call to Action**

Last year's Lloyds Bank ruling confirmed that pension schemes had to equalise the benefits paid to male and female members for the effect of guaranteed minimum pensions (GMPs).

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**Authors**

John Dunkley

Gary Crockford

Equalisation was never going to happen overnight, and most trustees are still nearer the start, than the end, of their equalisation projects. An industry working group has been convened, to provide assistance to the industry, and to publish useful guidance. The first document to be published by the industry working group is a [Call to Action](#).

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### **Background**

This Call to Action sets out key points to consider such as:

- The need for all stakeholders to work collaboratively to ensure a successful project.
- That some of the aspects of the project will be scheme-specific, but there are equally some areas that will be common to all pension schemes, and, therefore, where industry good practice guidance would be of value.
- Whilst potentially this is a highly complex project, it is one where the total financial impact for schemes and their members may be relatively modest. Industry guidance should seek to identify good practice in terms of the planning, management and efficiency of the project.
- The likelihood of resource constraints within the industry, with many schemes looking to complete GMP equalisation within similar timescales. This reinforces the importance of advanced planning.

### **Action points for trustees**

The document covers the following three topics for which there are good reasons to take action now. (Trustees may well already have begun taking actions on these issues, and if so, much of what is contained in the Call to Action will act as a useful summary. However, trustees of all pension schemes impacted by GMP equalisation will have to consider the issues contained in the document.)

## GMP rectification

Once GMP reconciliation has been completed, trustees need to consider when they make the necessary changes, in terms of under/overpayments of GMP (i.e. is this undertaken ahead of GMP equalisation, or as part of the equalisation project?)

Clearly, where rectification is undertaken as a separate exercise, some members are likely to receive two different adjustments to their benefits. However, where trustees are rectifying members' GMPs, they should ensure that members understand exactly what is happening, and why.

Any decision on whether to combine the rectification and equalisation of GMPs could also well depend on how many members in a scheme are likely to be affected by both exercises.

## Data

Improving the quality of a scheme's data should be a standing agenda item for many trustee boards. GMP equalisation is an obligation that really brings the need to have reliable scheme data into focus.

Trustees should be speaking to their administrators and advisers to assess what the data requirements for GMP equalisation might be, and how much of this data is available. This should include considering whether it may be necessary to try and contact past advisers, especially past administrators.

The most urgent issues for trustees include ensuring that a scheme's common data is in the best possible position, obtaining members' contracted-out earnings for the equalisation period and capturing historic payroll data, ensuring historical records are in a suitable electronic format, and considering any significant gaps in a scheme's data that exist. GMP equalisation may also prompt trustees to consider undertaking a full data cleanse project.

## Impacted transactions

Members and dependants have a right to expect that the normal day to day administration of their pension scheme is not compromised by GMP equalisation.

There are numerous issues for trustees to consider, including:

- Settling retirement and death benefits on an equalised basis.
- Making an allowance for GMP equalisation in transfer values.
- The provision of quotes for divorce purposes.
- The options for paying trivial commutation and other small lump sum payments, and also serious ill health lump sums, ahead of the anticipated HMRC guidance on this.

## What's next?

The Industry Working Group will be following up the Call to Action with a guidance paper on the relationship between GMP rectification and equalisation. Later this year it will be issuing full guidance documents on data, impacted transactions, methodology, and tax.

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