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### Data issues for GMP equalisation

The Pension Administration Standards Association has, on behalf of the industry working group for Guaranteed Minimum Pension (GMP) equalisation, published guidance on the data aspects of an equalisation project to help trustees prepare their pension scheme's data.

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This guidance applies irrespective of whether equalisation is to be achieved via the conversion approach, or by retaining GMPs in the scheme and using a year-by-year comparison.

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#### Background

One of the fundamental considerations of any GMP project, whether in terms of reconciliation, rectification, or equalisation, is the need to understand exactly which members should be included in such an exercise, and what their relevant accrued benefits are.

For GMP equalisation, trustees should have already been through a reconciliation exercise, and have received confirmation from HMRC of the final data cuts for GMP accrual (or be due to receive this information shortly, due to HMRC's reconciliation schedule having slipped somewhat.)

The quality of scheme record-keeping is a perennial concern for the Pensions Regulator, and trustees of all occupational pension schemes are expected to have plans in place to improve the quality of their scheme data. Generally, the standard of more recent data is likely to be of a better quality. This presents a problem though for GMP data, which can stretch back as far as the late 1970s; even the period of accrual that has to be equalised is well over 20 years ago.

The PASA guidance, while complex in places, focuses on a practical approach that trustees can adopt to data gathering, including work-arounds and assumptions. Where scheme data has yet to be cleansed for GMP reconciliation and rectification, it is suggested that this is undertaken at the same time to create efficiencies and, potentially, cost savings.

## What should trustees be doing?

There are a number of issues for trustees to consider in relation to data, often in conjunction with their advisers.

### Which members to focus on?

Trustees need to establish which members are affected by GMP equalisation, and their relevant pension figures. Affected members will include those who accrued GMP between 17 May 1990 and 5 April 1997, as well as members with GMP entitlements for this period who transferred into the scheme, and any dependants whose pensions arise from members with post-16 May 1990 GMPs.

Consider whether to include any 'no liability members', for example those who have transferred out (although we are waiting for a High Court judgment that is expected to consider the treatment of transferred out benefits), fully commuted their benefits, or have died (without any dependant's pension being due). There is also the need to consider the position for dependants' pensions in payment, where benefits would have been established on the basis of unequalised member pensions. It is possible that some of these members (and beneficiaries) may have lost out due to unequal benefits being paid in the past.

For each affected member, the pension is split into its constituent parts. As a minimum, this will identify each member's pension accrued between 17 May 1990 and 5 April 1997, although it may be that trustees will need to consider GMP accrual from 6 April 1978, or for full service, depending on how pensions are to be equalised.

It is possible that trustees might look to equalise the benefits of certain groups of members at different times, such as looking at the position of deferred members before active members, or focusing on those members with less material benefit adjustments, ahead of those with more substantial changes to their benefits. Trustees may also wish to consider equalising pensions in payment first, since these members and dependants are already receiving their benefits.

### How much data is available?

Appendix 1 of the guidance sets out the potential data required for a GMP equalisation project. It recognises that trustees are unlikely to hold all the data necessary to accurately calculate the GMP adjustment and accumulation arrears for every affected member. Certain pieces of data are unlikely to be available if trustees do not already hold it (for example, part-time hours' histories), or it may not be readily available to trustees (e.g. the contracted-out earnings history for a pensioner may not be held on the scheme's administration system, but would be available on HMRC's online GMP checker). Alternatively, the original member record may be missing a dependant's pension figure.

Trustees will need to consider what data is readily available, what could be available at some additional expense and effort, and what's unlikely to ever be available. They need to consider the impact of the missing data, and weigh up the costs of obtaining it, against the impact and risk of not having the data.

### Adviser input

Trustees will need to consult all relevant advisers on the data required, the impact of making assumptions or approximations, and availability of resource, as many schemes will be tackling similar issues at similar times.

A decision needs to be made on who will carry out the data related work (e.g. the administrator, a separate consultant, or a combination). Clear lines of communication are needed if more than one party is involved in this work. The process of cleansing also needs to be decided on (e.g. if data cleansing is required, will it be extracted from the system, worked on and reloaded after completion, or carried out using routines on the live system?).

### Consistency with other data projects

In deciding how to manage data for GMP equalisation, consideration should be given to consistency with other similar decisions. For example, equalisation undertaken in the 1990s in response to the Barber judgment, and more recent GMP reconciliation and rectification projects. Commonly, trustees may have accepted certain approximations that resulted in small differences from accurate results. These tolerances can obscure the effects from equalisation so it is not necessarily always the case that past approaches will be appropriate.

Trustees should also bear in mind how the data requirements for GMP equalisation may fit in with data needs for any other forthcoming projects, including any that are still to be completed.

### Calculation options

Trustees will need to calculate the post-16 May 1990 GMP (and non-GMP) elements for the true and opposite sex. There are different ways to do this: broadly speaking, if sufficient data exists, the elements can be calculated from first principles (e.g. using contracted-out earnings and splitting these at 17 May 1990 to determine a more accurate 1990-1997 GMP) or by a ratio of relevant contracted-out service and related factors, or by using the HMRC GMP checker service and cross-referencing it back to other data. The option chosen and the detail of the calculation method will depend on the data available, the benefit structure and the profile of the affected members. The decision on which option to use will therefore be scheme-specific and may even be different for groups of members within a scheme.

To the extent that decisions are needed regarding data, and these may be for categories of members, or sections of a scheme, or sub-groups of members or, even, in some cases, individuals, a record of the decisions should be maintained along with a note of the actions taken.

### Other practical issues

Trustees should be speaking to their administrators and other advisers early on to assess the data requirements for GMPE, and how much of this data is readily available, both in terms of existence and quality / reliability.

It is possible that the necessary data won't be readily available in a suitable electronic format or there might be other known / suspected issues. Trustees will need to consider:

- Can members be grouped so any additional data work required is targeted?
- The level of work effort involved in inspecting and keying essential data from member images for the affected members, and how cost-effective is this?
- If essential member data is thought to be available from paper files, microfiche or roll film, how easy is it going to be to make these available for inspection and essential data keying?
- Can any historical data be audited as safe to use? If new data is being keyed remotely from the calculations, can it be verified to pick up keying errors?

- Is the contracting-out data validated during the GMP reconciliation project readily available? Even if the reconciliation project is complete, whilst GMP figures would have been updated on the administration system, the contracting-out data may not yet have been loaded, particularly for pensioners and dependants.
- The option, if there are significant gaps in essential historical data, to contact previous administrators for possible further data, however small the chances of success might be.
- The data requirements of the proposed communication strategy, so any data required for inclusion in member letters is captured during the data gathering process.
- The need for any address tracing, for example if GMP conversion is the chosen equalisation methodology.

## Comment

It's very unlikely that any pension scheme undertaking a GMP equalisation project is going to have the benefit of perfect scheme data, particularly for the period in time that equalisation applies to. While few trustees are yet in a position to begin GMP equalisation, there is plenty of preparatory work that needs to be undertaken, and data considerations are central to that preparation.

Trustees will no doubt be pleased to note that Buck's Square proposition, for undertaking GMP equalisation, complies with the measures set out in the PASA guidance. For example, the guidance highlights the opportunity for potential cost savings where trustees have yet to undertake GMP reconciliation, or rectification. Square can combine reconciliation, rectification, and equalisation, into one exercise.

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