

# FYI<sup>®</sup> Alert

## For Your Information<sup>®</sup>

### Legislation to simplify GMP conversion

The Pension Schemes (Conversion of GMPs) Act 2022 is designed to make conversion of GMPs into other normal scheme benefits easier and more attractive to trustees seeking to equalise GMPs.

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#### Background

GMP conversion was introduced by the Pensions Act 2007, which set out five conditions for conversion to take place:

1. The converted benefits must be actuarially at least equivalent to the pre-conversion benefits.
2. For pensions in payment, the conversion does not reduce the pension payable.
3. The converted benefits must not introduce any money purchase benefits.
4. Survivors' benefits are provided in accordance with legislative requirements.
5. Certain procedural requirements are complied with (i.e. employer consent, consultation with affected members, notification to HMRC).

While GMP conversion has been available to trustees since April 2009, it has been used infrequently to date, mainly in connection with scheme wind ups.

GMP conversion has gained a far higher prominence since the first judgment in the Lloyds case, which introduced the legal requirement for GMP equalisation. One potential method of equalising GMPs highlighted in the Lloyds judgment involves converting GMPs into 'normal' scheme benefits.

#### Resolving conversion difficulties

There has proved to be a lack of clarity in the operation of certain GMP conversion provisions in the legislation.

In particular, concerns have been raised about:

- A lack of clarity as to how conversion applies to survivor benefits;

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- How the requirement for employer consent applies where the sponsoring employer no longer exists; and
- The requirement to notify HMRC of a conversion exercise, when HMRC no longer needs to be informed about changes to GMPs.

First introduced as a Private Member's Bill by Margaret Ferrier, the Pension Schemes (Conversion of GMPs) Act 2022 received Royal Assent on 29 April 2022. The Act is intended to make the process of GMP conversion work more effectively.

## Immediate impact

The Act:

- Makes it clear that the GMP conversion process applies not just to those who earned the GMP, but to survivors benefits; and
- Removes the requirement to notify HMRC about GMP conversion.

## Regulations

The Act also paves the way for regulations to be issued which will:

- Set out the conditions that must be met in relation to survivors' benefits; and
- Clarify who needs to provide consent for conversion to occur.

A consultation is promised by the government on the regulations.

## Comment

Very few Private Members' Bills become law. This one achieved cross party support, including the backing of the DWP, and the support of the pensions industry generally. Whilst the changes are technical, they are designed to make it easier for trustees who wish to use GMP conversion in their equalisation plans and are to be applauded. We now await the consultation on the draft regulations.

It is to be hoped that this clarity will prompt the government to provide more guidance on GMP conversion generally – something that has been lacking until now (although HMRC has recently issued some initial tax guidance on conversion for GMP equalisation purposes).

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