Quattro Pensions
CONSULTING ACTUARIES

news bulletin

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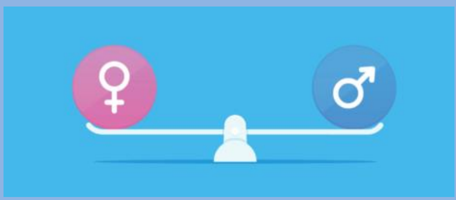

GMP Equalisation

(Pre-1997) liabilities up by 1% - 4%

Trustees of contracted-out schemes must equalise benefits for the impact of unequal Guaranteed Minimum Pension (GMP), following a landmark High Court case (the Lloyds case).

What is a GMP?

Most defined benefit schemes were contracted-out of the State scheme, so members and employers would pay lower rate NI. In return, the scheme must provide a GMP in respect of scheme service prior to 6 April 1997.

Why aren't GMPs already equal?

In short – because they were set by the Government.

But haven't we already been through "equalisation"?

Most trustees have already equalised the amount and accessibility of the scheme's total benefits between men and women, but not many on-going schemes have addressed GMP equalisation, because there has been uncertainty about whether it is really necessary, and how to do it.

If the total benefit has already been equalised, why does it make a difference if the GMP element isn't?

A GMP may have different rules relating to increases in deferment and in payment, than other parts of the scheme pension. So even if a scheme's total benefits were equalised before, differences arise between males and females due to these different increases over time.

What does the Lloyds case say?

The case confirms that schemes must equalise, and considers different methods to do it. The choice of method can have a big impact on the eventual cost – actuarial and legal advice will be required to determine what your scheme can/should do.

What's the cost implication?

We have performed dozens of GMP equalisation exercises for schemes in wind-up and PPF assessment. Our experience shows that a scheme's liabilities usually increase by 1% - 4% following GMP equalisation, and there may also be backpayments and possibly interest to pay.

Is there an alternative?

You should discuss with your actuary the possibility of GMP "conversion" – an actuarial calculation that leads to GMP being converted to non-GMP. This may still result in an increased liability to reflect the equalisation impact, but may simplify the ongoing administration hassle considerably. It may also be a simpler method.

What about people retiring or transferring now?

Given this may take time to sort out (including talks with the sponsoring employer on best ways forward, given the cost implications) all quotes should carry a health warning.

Quattro has drafted its own wording and we will write separately to agree the details.

Next Steps

1. Complete GMP *reconciliation* work with HMRC
2. Ask Actuary to audit data

   The choice of method of GMP equalisation may be limited by the data available, particularly in respect of pensioners who retired a long time ago.
3. Seek actuarial advice on the method.
4. Talk to your actuary about GMP conversion – a one-off project that may reduce long-term administration costs.
5. Seek legal advice

   Confirm actuary's recommended approach is appropriate for your scheme. Check whether scheme rules permit backpayments / interest calculations.
6. Talk to the scheme sponsor. There are choices to make, and they will have cost implications.
7. Communicate to members.

   Given the press coverage of this issue, consider whether to issue an early communication, to temper expectations. Any "windfall" is likely to be very small for any individual, and the project may take a while to resolve.

In the meantime:

- Amend wording on retirement and transfer quotes
- Consider whether to include a reserve for the extra liabilities in actuarial calculations.

Please speak to your usual Quattro contact to find out more.
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