

For Professional Clients Only

Pension Conference 2020

GMP Equalisation

A practical guide



Table of contents

Executive summary	3
Objectives	4
Combining GMP conversion with Pension Increase Exchange (PIE)	5
Data	7
Communications	9
Planning and resources	10
Contacts	11

Executive summary

GMP equalisation is a particularly technical corner of DB pensions. Schemes have put off grasping the nettle on this issue for 30 years, but the Lloyds case now makes clear that trustees are currently failing in their duty to pay the correct pension benefits when they fall due, so it is a project that must be done.

We all accept that it may take time to complete, but that is no excuse not to make a start. Although there is still some uncertainty about the implementation phase of the project this should not stop you making a start on setting the strategic direction, project planning and data work.

A number of trustees and sponsors are looking to turn the challenge of equalisation into an opportunity by linking together GMP equalisation through conversion and Pension Increase Exchange. The costs of equalisation and implementation being more than offset by the prize of simplification and cost savings achieved.

In this practical guide we explain some of the decisions you need to make in each area, key issues to consider and challenges that you may face when considering:

- Objectives
- Combining GMP conversion with Pension Increase Exchange
- Data
- Communications
- Planning and resources

For more background on GMP equalisation Methods see [Indepth](#)

Objectives

As GMP equalisation is a complex project, understanding what success would look like is important to achieving your goals. Trustees and the sponsor should jointly agree the approach because they both have powers in relation to GMP equalisation.

The trustees need to pay the benefits due but, the sponsor is allowed to specify if they want the trustees to use a different method from the default of C2.

However, if the sponsor selects D2 conversion then the trustees have significant rights and responsibilities on how to implement conversion.

Typical success criteria come under the following five headings:



Key decision	Considerations
What is low cost ?	<ul style="list-style-type: none"> Which liability measure or measures? e.g. technical provisions, long-term funding target, buy-in pricing or accounting. Do you take into account implementation and ongoing costs? If you take into account implementation and ongoing costs, do you have a required 'breakeven' period eg, three years or five years?
What is ease of administration ?	<ul style="list-style-type: none"> Minimise impact on BAU. Aim for long-term simplified administration.
Impact on members?	<ul style="list-style-type: none"> Do you prefer to only communicate with members once? Do your members like choice or is it confusing? Are you willing to have any reduction in benefits (even if offset by a lump sum payment?)
Speed	<ul style="list-style-type: none"> Is slow acceptable? Are there other projects where timescales need to be considered?
Consistency	<ul style="list-style-type: none"> Are there multiple benefit structures to consider consistency across? Are there multiple schemes in the corporate group to consider consistency across? Do you need to be consistent with any historic benefit correction exercises? Are you comfortable to equalise some circumstances differently to others? Eg, go ahead with equalising Cash Equivalent Transfer Values even when the final method decision has not been made?

Key challenges

The biggest challenge in setting objectives is the potential for objectives to conflict. For example there is a compromise that needs to be made between low cost and speed.

You also need to be clear with your advisers and providers how directive you want them to be.

Combining GMP conversion with Pension Increase Exchange (PIE)

Where schemes are considering achieving GMP equalisation by carrying out GMP conversion, there could be significant advantages from combining this with a Pension Increase Exchange (PIE) exercise.

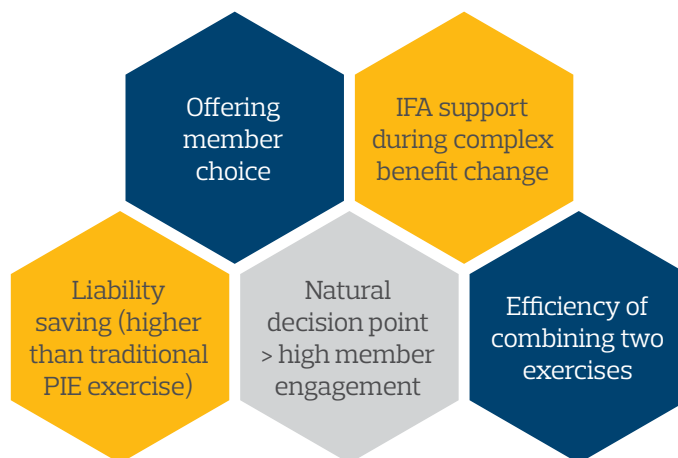
Members would be offered a choice between:

- A. Conversion to a slightly different shape of pension which still attracts annual increases (this would be the default); and
- B. Conversion to a non-increasing pension but with a one off uplift in pension.

A traditional PIE exercise allows members to convert their pension in excess of GMP into a non-increasing pension. This new option allows members to convert their quasi-GMP too.

This can be offered both to current pensioners as part of the one-off conversion exercise and to current actives and deferreds at point of retirement.

This has a number of benefits:



Key decision	Considerations
Which equalisation method?	<ul style="list-style-type: none"> • PIE is one of many factors to take into account when choosing between equalisation methods. • Under a dual records equalisation approach, a PIE exercise could still be carried out.
What offer design?	<ul style="list-style-type: none"> • How closely the default structure (A) should mirror the current structure. • Desired level of savings. • Typical market practice. • Ease of administration and cost of insurance of chosen pension increases.
Which IFA firm?	<ul style="list-style-type: none"> • Expertise. • Cost. • Capacity.
When to launch the PIE option to members?	<ul style="list-style-type: none"> • Data work, design work and several other workstreams need completing first. • Capacity of advisors, administrators and IFAs. • Interaction with other projects.

Key challenges

- Communicating a complex message**
 GMP conversion will be confusing for many members and combining this with PIE risks adding to this complexity. We think the availability of IFA advice (which is a requirement of a PIE exercise for current pensioners) will alleviate this and leave members feeling empowered to make an informed decision.
- Risks associated with member options exercises**
 Some schemes may be nervous around members making poor decisions or the risk of future member complaints. PIE exercises are now commonplace and should be run by an experienced advisor and project manager. Any member option should be communicated openly and clearly and the exercise should be run in full compliance with the Code of Practice on Incentive Exercises. The availability of IFA advice avoids members making poor decisions.
- Planning and resourcing**
 Combining with PIE adds complexity to the GMP conversion project. This can be mitigated through strong project management and collaborative trustee-company working. Planning ahead will help avoid capacity constraints in the IFA market.

Key milestones

There should be no real barriers preventing you from starting to plan GMP conversion and PIE now for the majority of your membership. HMRC's guidance on GMP conversion could impact the final design of the offer structure for some high earning members but these cases are unlikely to drive the decision making for the bulk of the membership.

Aon Benefit options **Explore further** Next steps 33% Signed in as Aon Hewitt [Get help](#) [Log out](#)

Your standard pension options

You've selected to explore your standard pension options. This area provides an illustration of how your pension is expected to increase in payment over time. It also helps you understand the impact of swapping the increases on some elements of your pension for a higher initial income (which will then not increase in payment).

Maximum tax-free lump sum - Pension increase options -

Standard pension	Remove increases
Lump sum £45,000	Lump sum £48,900
Initial taxable annual income £9,360	Initial taxable annual income £11,000
Estimated total payments received by age 90 £381,000	Estimated total payments received by age 90 £372,000
PLUS income for your dependants should you die first.	PLUS income for your dependants should you die first.

Future illustrative income

Legend: Remove increases (Red), Standard pension (Grey)

The chart shows the income you could receive from your standard pension compared with if you select to exchange increases on some elements of your pension for a higher initial pension. By removing the increases where this is allowable we estimate you will receive more income each year until age 78. We estimate the total payments received will be lower for the standard pension without income increases until age 90.

Life expectancy: 90

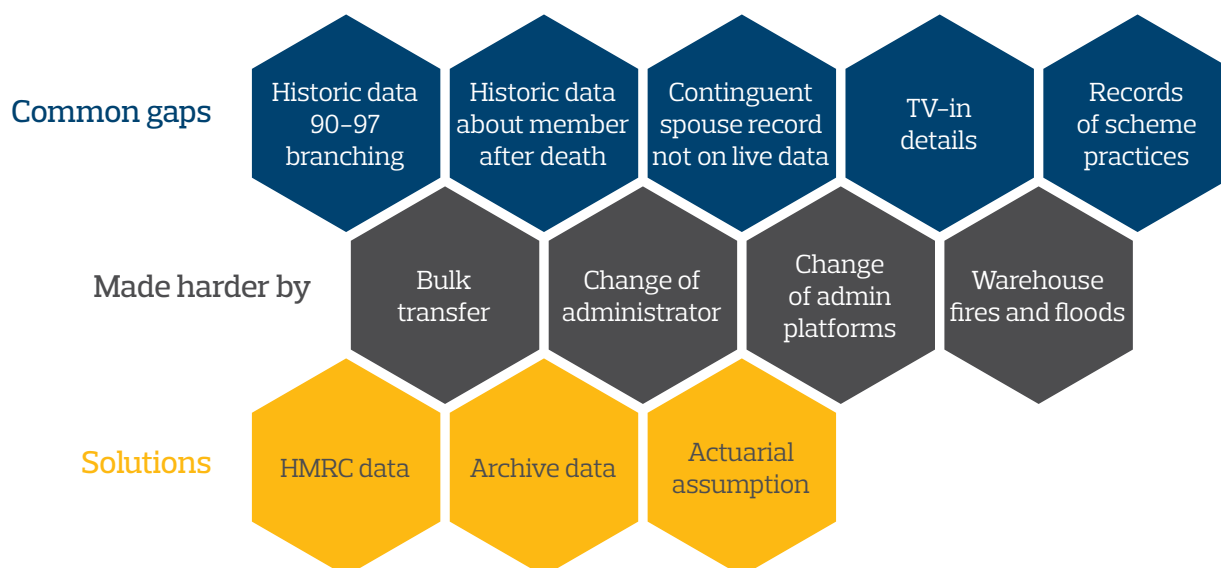
☆ Range of outcomes ☆ Inflation ☆ Life expectancy ☆ State pension

Data

Data is a critical element of any GMP equalisation project. You will need a significant amount of historic data that would not normally be required for the day-to-day administration of the scheme and so it is important that, from an early stage in the project, you have a good understanding of:

1. The data needed for the project including both membership data and benefit information
2. Which of these data items you hold or are relatively easy to source and for what proportion of the population
3. The data gaps that you are unlikely to be able to fill and will require actuarial assumptions to be made

Whilst there are benefits in knowing the GMP equalisation method to be adopted prior to commencing data work, the majority of data items needed are common across all methods and so not having your preferred method agreed should not be seen as a barrier to commencing the data work and trying to get a handle on your data gaps.



Key decision	Considerations
When to begin?	<ul style="list-style-type: none"> • Capacity constraints within market. • Do you complete GMP rectification first or combine with equalisation? • Can you combine with any other exercises for increased efficiency?
What level of review?	<ul style="list-style-type: none"> • Do you run a data triage before the Gap Analysis? • Do you complete a full data audit? • Could you combine with any other exercises needing clean data?
Which population?	<ul style="list-style-type: none"> • Equalisation population, those with GMP or all members?
Who will support you with managing the process, completing the data audit, providing the advice?	<ul style="list-style-type: none"> • Expertise. • Cost. • Capacity.

Key challenges

- Keeping it proportionate**
 It is unrealistic to try and aim for a perfect set of data and so it is important to take a proportionate approach to filling the gaps and take advice at the appropriate time.
- Efficiency**
 Allowing yourself the time to take fully informed decisions at each stage of the project should help to increase efficiency so we recommend you start early.
- Planning and resourcing**
 A project of this size can easily drift and so it is vital that sufficient focus is given to agreeing a project plan with all stakeholders at outset. A project manager to take control and ensure it stays on track will also be beneficial.

Key milestones

Regardless of whether you are planning on completing your GMP rectification exercise before GMP equalisation or planning to combine to the two, a key milestone will be to complete the GMP reconciliation in the first instance.

Once you have made a decision on which method to adopt, you will be able to confirm the members in scope for the exercise and therefore the extent to which of any data remediation work is needed.



• Pensioners

Total number of records under review: 5,877

Core data item	What we review	Fails	Core data item	What we review	Fails
Member identifier	A unique point of reference	0	Sex	Valid sex	0
Section (if multiple sections with different benefits)	Valid section within the scheme	0	Date of birth	Valid date of birth and under 105 years old	0
Normal retirement date	Valid normal retirement date	Not provided	Date of retirement	Valid date of retirement	0
Date of leaving	Valid date (which is not more than one month after date of retirement)	0	Date joined scheme	Valid date (which is not less than 2 years prior to date of leaving, nor after 9 April 1997)	95
ICD status	ICD status available for members who retired from defined status	Not provided	Total pension currently in payment	Pension greater than zero	0
Status pre-retirement (e.g. deferred, active)	Valid status within the scheme	5	Retirement reason, e.g. normal, early, ill health	Valid reason within the scheme	5
Pre07 pension currently in payment	If member has pre07 service, check that pre07 pension is greater than zero	55	Pre08 GMP currently in payment	If member at or over GMP age and has both pre08 contracted-out service, check if member has pre08 GMP	247
Pre07 pension currently in payment	If member has only post07 service, check that post07 pension is zero	91	Pre08 GMP currently in payment	If member at or over GMP age and has both pre08 contracted-out service, check if member has pre08 GMP	428

Communications

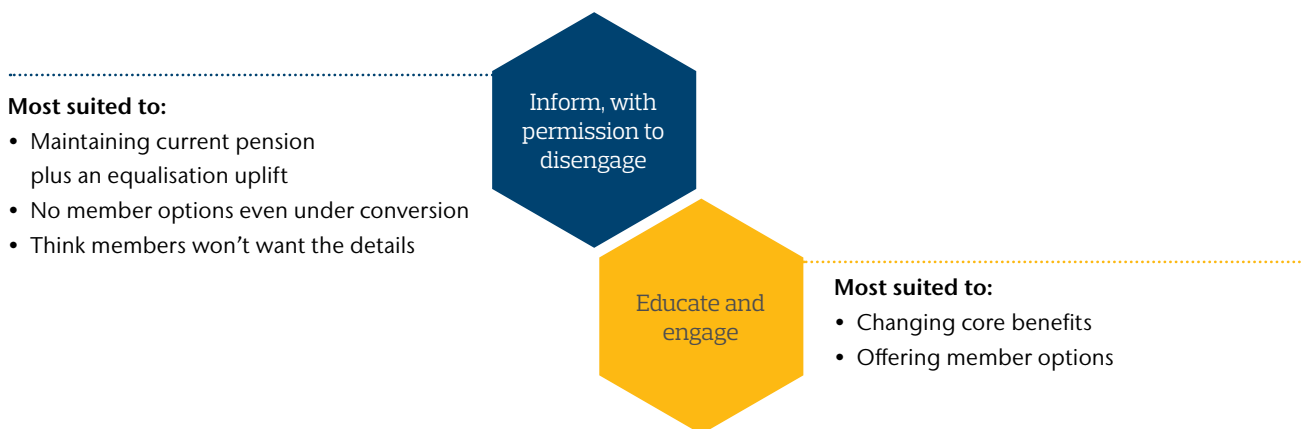
Pensions communications should normally engage members particularly where looking to get members to make a decision, educate, or encourage greater savings. GMP equalisation is potentially quite different to this because:

- The members will normally have no actions to take
- The impacts for most members will be trivial
- Explaining the technical details of GMP equalisation is not going to be helpful for pensions education.

You might therefore prefer to inform members that you have equalised but otherwise allow members to quickly disengage.

These differences potentially change rather than remove the key role for communications.

The two main options are:



If you adopt one of the administration solutions, such as the default method C2 or method B, then most members will receive their current benefits plus a trivial or nil increase and so are unlikely to be interested in the details. This would lend itself to a communication strategy built around inform with permission to disengage.

If you offer a Pension Increase Exchange (PIE) alongside conversion, then your communication will need to be about education and engagement and will be very similar to existing PIE communications.

If you adopt conversion without a PIE, the required level of detail may depend on the extent to which you are reshaping member benefits as part of the conversion.

Key challenges

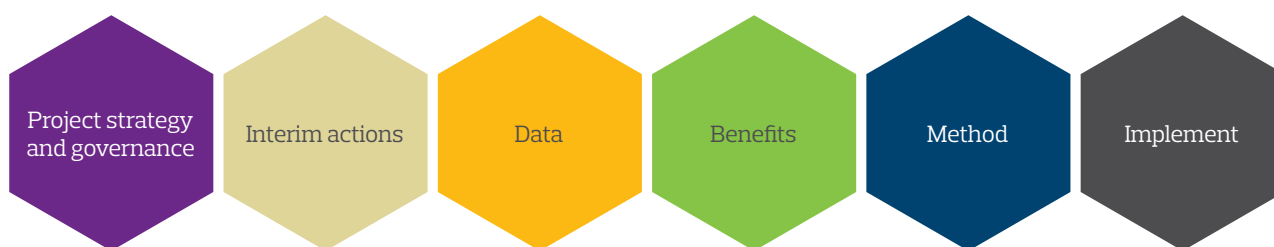
Many trustees will prefer to minimise the communications, but this will need to be balanced against how you:

- Inform and reassure members.
- Reduce the burden on your administrators in answering member queries.
- Give members the information required for their personal taxation.

This is why we think most schemes will adopt a tiered approach of offering interested members more information but letting others quickly disengage and stop reading.

Planning and resources

Pulling it all together and getting it done requires a focused approach to planning and resources. A large project of this kind needs structure and we would suggest breaking it down into separate workstreams to enable you to focus on one area at a time.



It is vital that sufficient time is invested at the start of the project to fully understand the scope of the project, what it is that you are trying to achieve, the key decisions that will be needed and what the risks are. This will help you to determine how the project should be run and to agree on roles and responsibilities before drawing up the overall plan for the project.

There will be a large number of stakeholders involved and a number of moving parts and so it is important that there is someone taking responsibility for bringing it all together and ensuring that everyone is working to the same goal to enable the project to be delivered as efficiently as possible.

Key decision	Considerations
When do you want to have equalised?	<ul style="list-style-type: none"> • What are your objectives? • Interaction with other projects. • Outstanding market guidance.
When to begin?	<ul style="list-style-type: none"> • What is your target completion date? • Resource constraints / capacity. • Interaction with other projects.
Who will manage the project and who will the other stakeholders be?	<ul style="list-style-type: none"> • Do you have the capacity to manage it internally? • Will you appoint a specialist project manager and, if so, who? • What advice will you need? • Costs of appointing a specialist(s) • Roles and responsibilities.
How will the project be run and monitored?	<ul style="list-style-type: none"> • Do you set up a Joint Working Group? • How will progress be reported on? • How directive do you want your advisers to be?
Sequencing	<ul style="list-style-type: none"> • Do you complete the GMP reconciliation and rectification exercise before GMP equalisation or do you look to combine the two? • Do you make an initial decision on the method of equalisation before or after you have completed your data gap analysis? • Interaction with other projects.

Key challenges

- **Keeping it proportionate**

The ultimate impact of GMP equalisation on members' benefits may be relatively small and so any decisions taken over the course of the project should be proportionate.

- **Efficiency**

Investing sufficient time to fully plan the project should help to increase efficiency so we recommend that you start the planning early.

- **Project drift**

A project of this size can easily drift both in terms of timescales and costs but a project manager should help to keep it on track and ensure that all stakeholders are fulfilling their roles and responsibilities.

- **Capacity**

Capacity within the market could have an impact on your overall project plan and so we suggest starting early to ensure you are not constrained by this.



Contacts

Tom Yorath FIA
Partner
+44 (0)1372 733 525
thomas.yorath@aon.com

Lynda Whitney, FIA
Partner
+44 (0)1372 733 617
lynda.whitney@aon.com

Jason Eshelby FIA
Principal
+44 (0)1372 733 756
jason.eshelby@aon.com

Kate Whittingham
Senior Consultant
+44 (0)161 687 2445
kate.e.whittingham@aon.com

Neha Coulthard FIA
Consultant
+44 (0)1727 888 276
neha.coulthard@aon.com

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

For further information on our capabilities and to learn how we empower results for clients, please visit <http://aon.mediaroom.com>.

Aon Hewitt Limited

Aon Hewitt Limited is authorised and regulated by the Financial Conduct Authority.

Registered in England & Wales No. 4396810

Registered office: The Aon Centre | The Leadenhall Building |
122 Leadenhall Street | London | EC3V 4AN

To protect the confidential and proprietary information included in this material, it may not be disclosed or provided to any third parties without the prior written consent of Aon Hewitt Limited.

Aon Hewitt Limited does not accept or assume any responsibility for any consequences arising from any person, other than the intended recipient, using or relying on this material.

Compliance code A53-300820

Copyright © 2020 Aon Hewitt Limited. All rights reserved.