

GMP equalisation:

A natural opportunity to better engage and support your DB members?



Background

The high court decision to require DB schemes to equalise Guaranteed Minimum Pensions (GMPs) has left the industry with a conundrum to solve. To do this will require a significant amount of time, effort (when trustee and administrator bandwidth is already stretched) and cost. This is balanced against the impact for many members being modest, albeit the combined total of the extra payments to members will be many billions.

Guidance and best practice to help trustees implement Guaranteed Minimum Pension equalisation (GMPE) in a proportionate and cost-effective way continues to evolve. There is now a clear steer from the Regulator that schemes should be getting their data ducks in a row and progressing towards equalisation. However, many schemes have been adopting a wait and see approach, hoping to benefit from learnings/ efficiencies coming out of the early adopters.

The opportunity

Rather than viewing GMPE as a compliance exercise (or headache!) with potentially a lot of complexity and upfront cost, it's important to think more widely and consider how going through this process could add real value for trustees and members.

Data and benefits

At a basic level, GMPE will require analysis and rectification of data across a large proportion of members. Elements of this work may well be required at some point prior to buyout/ wind up of the scheme anyway so a positive way to think about this is GMPE bringing forward your data strategy. Should any material issues be identified, you'll have longer to put them right.

Member options

DB retirement is changing. The fallout of the pandemic has compounded this with those at or close to the minimum retirement age taking stock of their retirement benefits and looking for support to help them make the most of their retirement from DB. At the one end, for those who have lost their jobs or who are in poor health, this might be an immediate need for early retirement and/ or cash. For others it might be about a more flexible retirement to spend more time doing what's most important to them whilst they can. Regardless, what's clear is that DB savings will be a key part of retirement planning and members will be looking to trustees to help them understand their options and make supported decisions.

Having fit for purpose data naturally opens up the thought of using that data to communicate and engage positively and with confidence with members on their options. We know that if structured and communicated well, member options can provide valuable choice to DB members whilst also naturally reducing the cost and risk of operating a DB scheme.

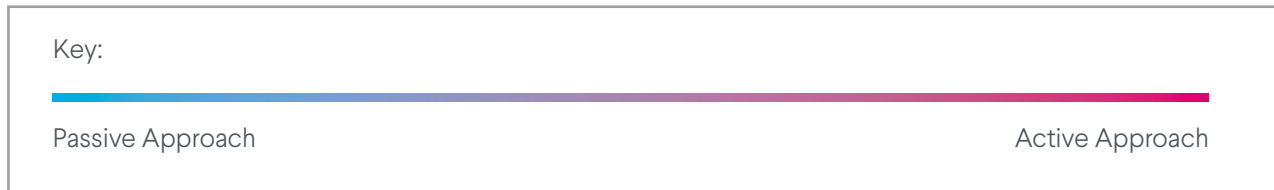
As well as being of real benefit to members, a well thought through member options strategy is expected to realise financial benefits for the scheme that would materially offset the cost impact of GMPE. This would therefore be a genuine win-win for members and trustees.

Therefore it is important to consider member options in conjunction with GMPE. This does not necessarily mean that we need to combine GMPE and member options into a single project/ engagement plan. Members may well find combining these incredibly difficult to understand and this could detract from the objective of positive member engagement. What it does mean is considering what your member options strategy could look like and how you can use GMPE as a springboard to move that forward efficiently.



What could this look like in practice?

We've set out some approaches below ranging from taking a passive approach to member options through to a more active approach. The approaches are wide and varying – on one hand doing nothing right now around member options but on the other looking to use GMP conversion to reshape benefits or offer members greater choice.



Approach to member options	Commentary
Do nothing right now.	Consider the benefits of member options alongside GMPe but revisit member options in the future.
Enhanced data analysis and cleansing.	Leverage data work that must be undertaken for GMPe to test and develop the quality of data for member options.
Remind members of their benefits and options.	Leverage GMPe communications strategy to remind members of their core DB benefits and options.
Communicate more choice with personalised information.	In addition to core benefits and options, remind members of options like early retirement, transfer values or trivial commutation. Relevant figures and balanced information could be included in statements.
Introduce new options.	Under GMP conversion, options like Pension Increase Exchange and Bridging Pensions could provide a win win for members and the scheme.
Change the shape of benefits via GMP conversion.	Consider the suitability of benefit changes without member consent.

Which approach is right for me?

The approach taken will of course vary based on a range of factors – there is no one size fits all here. The factors you'll want to think about include:

-  Data quality
-  Administration capacity
-  Financial implications
-  Views on member options
-  Complexity of existing benefits
-  GMPe objectives

It will be important to consider a suitable range of approaches and for the more complex approaches really understand some of the technical interactions of GMPe and member options.

Some key observations for us include:

Conversion is better suited to member options

If you are thinking about undertaking member options at some point in the future, conversion could be the preferred route. In particular, it would be a real challenge to undertake and administer a Pension Increase Exchange under a dual records approach. Similar principles apply for Bridging Pensions. Conversion would also make partial transfers far easier to implement and administer. We've discussed before how partial transfers could be of real benefit to schemes and members given they prevent an all or nothing decision for members.

Think about the terms for conversion of GMP

If conversion is the preferred route, you'll want to make sure your conversion terms offered are fit for purpose. 2019 guidance from the DWP gives a steer towards using a unisex version of the transfer value basis. This guidance highlights the importance of checking the terms are up to date. It is worth considering, does the current transfer value basis adequately reflect the RPI reforms that were introduced in November 2020 or current views on longevity? Given the significance, an out of cycle review of your transfer terms could well make sense.

Employers should want to have a say in this

Given the implications of the methodology adopted for GMP equalisation on member options, employers may wish to have greater involvement in the chosen approach. For example, going down a dual records approach without fully understanding the implications of this on the ability to do member options effectively in the future needs to be clearly understood.

Any sponsor proposal needs to be something the trustee could support

Where sponsors are taking the lead on this, we have seen proposals focused around conversion but where conversion is being applied to all pre 1997 benefits and benefits are being reshaped, for example by removing all pre 1997 pension increases. Such an approach can lead to notable savings against a buy-out target. Given member consent isn't needed for conversion this approach could lead to a similar place as a Pension Increase Exchange but without member consent being obtained. This is straying some way from a 'minimal interference' approach and although this is something that may make sense in limited circumstances, it may not be something that generally trustees will allow if the provisions of the scheme were designed to provide members with inflationary protection. Consequently, it is important for sponsors to develop well thought out plans that take account of the trustee position.



Some takeaways

In isolation GMPe may seem like lots of time and effort for relatively small changes to overall scheme benefits. However, when you broaden this to think about using GMPe as a catalyst for engaging with members around their DB benefits the value for both members and schemes may be much clearer. There are clear synergies with the work needed for both – quality data, assurance over benefits and a clear plan for communicating to members. The 'right approach' will vary based on a range of factors but we'd strongly encourage trustees and sponsors to consider this further and develop a plan for getting the most out of this based on your circumstances.

If you'd like to get discuss GMPe and Member Options in more detail, please get in contact with one of our consultants:



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