

GMP equalisation

Our client.

A worldwide provider of forklift trucks, warehouse equipment and automation technology. UK sponsor with German parent.

4 schemes totalling £430m assets and 4,300 members:

- 3 defined benefit (DB) & hybrid schemes
- larger hybrid scheme

The issue.

Legal advice received on the interpretation of the pension increase rules for two of the schemes required rectification of pension increases back to 1992. Some members were owed significant back payments.

With guaranteed minimum pension (GMP) reconciliation and equalisation now also needed, we needed to **think about the impact on members**. There was a risk multiple amendments to benefits could cause confusion and a lack of confidence for scheme members. So, despite having to work through GMP equalisation 'early' compared to other schemes, the trustees decided to wrap them into one project to ensure benefits were only amended once.

What we did.

GMP equalisation was a new subject and joined-up working was needed to **achieve early agreement** and avoid revisiting the approach later, which would only increase costs. We used our **effective working relationships** with scheme actuarial and legal advisers to develop a plan of action. The key steps we took were:

Set up sub-committee to deal with the detail and push the project through. Members were PSGS Chair of Trustees, PSGS scheme secretary, legal adviser and scheme actuary.

We enabled the trustee board to focus on high level strategic principles and red lines by setting up a sub-committee, led and project managed by PSGS, to deal with the detail.

Committee considered issues and discussed possible ways forward to create a workable proposal guided by the trustees' principles. We moved the pension increase issue to the final stage as no material decisions were needed, just calculations to be performed.

We had the technical expertise within our team to work through the pros and cons of alternative solutions with the trustee advisers and find the best solution to minimise future administrative risks and complexity.

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We assessed the data and analysed what GMP equalisation meant for the schemes. GMP conversion was chosen as the preferred method for equalisation.

To manage potential tax issues with converting deferred member benefits, we chose to use a convert at retirement (on an annual basis) approach. (A side benefit being we can change this approach if guidance is provided by HMRC at a later date.) On balance, this was more favourable than the dual payroll method which comes with significant administrative risks.

We presented the proposed strategy and next steps to the full trustee board. GMP equalisation is complex so we focused on the key areas.

To help alleviate unintended tax consequences, the conversion would be done through re-shaping benefits (more pension given higher future increases) rather than providing an immediate uplift to affected members.

The trustees approved the proposed methodology.

Once agreed by the pension administration team, the GMP reconciliation data was given to the actuary to undertake calculations.

To simplify the process, members with transfers in, other potential difficulties such as divorce cases and any members who the reconciliation had shown had been significantly overpaid were removed from the first batch of pensioner members.

To keep everyone up to date and give notice well ahead of when input was needed, we held bi-weekly calls with the administration team, scheme actuary and, where required, the schemes' legal adviser. Minor decisions we took were summarised on a decisions log and approved at quarterly trustees' meetings.

We **considered legal aspects early on** and ensured **members with protection did not face tax issues.**

We **focused on hard numbers and the impact on members.**

Having employer nominated trustees on the trustee board was a significant benefit as it significantly **sped up decision making.**

We **batched members** so the majority of cases could be dealt with in a straightforward way.

We dealt with all the minor matters so the wider **trustee board could concentrate on significant decisions.**

We **involved the scheme sponsor throughout** the process to make the required employer consultation straightforward.

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Member communication was crucial. This involved both a consultation process and a letter confirming the process had been completed and how this impacted the individual member. It is a very complex area with various legal requirements about information to be included.

Standard templates were created covering scenarios including a member not being impacted, having a change to their future pension and/or being owed any back payments. We also provided the administration team with a FAQ document for the main queries we expected to receive from members.

A final formal stage was to put in place a Deed and inform HMRC we had converted GMP benefits within the scheme.

The annual conversion of retirees throughout the year has been added to the trustees' business plan.

We focused on delivering a **clear message** to members, tailored with their specific pension information, **so they could easily see the impact** on their pension.

To **assure the trustees**, we:

- dealt with non-standard queries so members received a consistent message
- set up the new payroll concurrently so members received the payments our letter had told them they'd get.

We're now **checking complex cases** to ensure calculations have been carried out correctly.

The result.

By flagging issues ahead of time, clearly scoping advice requirements and requiring agreement before we moved to each next key stage, we **completed the project within the timescale set** at outset.

The technical knowledge of this complex subject within the sub-committee enabled effective challenge of advisers to ensure all potential **issues were highlighted and resolved quickly**. The outcome was a **£7m saving** compared to the expected cost of resolving the pension increase issue.

Member communications have been minimised to reduce complexity and aid clarity – dealing with equalisation and rectification together means the trustees needed to consult with members (and the employer) and explain what the benefit change means for them only once.

All that's left is for the trustees to celebrate reaching the end of the project once we're allowed to meet face-to-face!