

# The Guaranteed Minimum Pension: How to equalise without the fuss

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Thorough prep work can reduce the fear factor for pension schemes trying to equalise the benefits between men and women who earned a Guaranteed Minimum Pension (GMP).

James Riley

DIYers will sympathise with my predicament the other weekend: after a confident start, my early enthusiasm evaporated as I peeled back old wallpaper to discover shoddy plasterwork beneath. Overawed by the mission before me, I decided there were several other, more pressing, tasks to be tackled.

I've seen a similar tendency among company pension sponsors and pension scheme trustees as they've sought to fulfil their legal requirement to equalise the treatment of men and women who earned Guaranteed Minimum Pension (GMP) – the pension that occupational schemes had to provide to employees between 1978 and 1997 if staff were contracted out of the State Earnings-Related Pension Scheme (SERPS).

## So how can sponsors and trustees make the task simpler and less daunting?

Like decorating your house, taking time to plan properly can make things a lot more manageable. There is nothing to stop sponsors and trustee agreeing a plan and considering the key principles to be adopted. You might discover that the challenge is smaller than you think once you've considered the issues and understand which members are affected.

This view (on GMP rather than DIY) is shared by the GMP Equalisation Working Group (GMPEWG) which published a 'call to action' in a similar vein, citing the complexity of the project and likely industry resource constraints as reasons to start planning now.

While the overall member impact of GMP equalisation is likely to be low, there will be individual members for whom the impact is significant (particularly older members who might have potentially 'life changing' back payments due). As an industry, we mustn't take too long making things right.

## So, what's still outstanding?

We are still waiting to hear from HMRC on the tax implications of GMP conversion, and the consequential hearing on whether GMP from pensions transfers needs to be equalised and, if so, by who. Without clarity on the tax situation in particular, conversion remains difficult as there is the very real risk that it could have very negative consequences for certain individuals.

## The latest developments on GMP equalisation

**December 2018** – follow up hearing providing clarification on the conversion approach and refusing the ‘Representative Beneficiaries’ a right to appeal.

**January 2019** – announcement of the cross industry GMPEWG, chaired by the Pensions Administration Standards Association.

**March 2019** – HM Revenue & Customs (HMRC) announces the formation of a new working group in issue 108 of its Pension schemes newsletter.

**April 2019** – we receive the much awaited DWP GMP conversion guidance outlining a 10-step plan for executing a ‘lawful’ conversion and setting out expectations on how trustees communicate with members during consultation.

**June 2019** – the GMPEWG confirms its five areas of focus: methodology, impacted transactions (e.g. transfers out and trivial commutations), data (including suggestions of good practice for rectification), tax and reconciliation and rectification. We are expecting guidance from the GMPEWG on each of these issues. While this can’t address the specifics of individual schemes, it should address the common issues across schemes. Any industry standard on how to approach missing or hard-to-access data would be particularly welcome.

**July 2019** – the GMPEWG publishes a ‘call to action’ emphasising the need for advance planning and sets out three areas where action should be taken now:

1. GMP reconciliation and rectification – consider timings of the two exercises
2. Data – what information is required and possible sources
3. Transactions – appropriate treatment for member benefits such as transfer values and trivial commutations

**September 2019** – the GMPEWG publishes version 1.0 of its guidance on methods for equalising GMP. The document covers: correcting past underpayments, approaches for equalising future benefit payments, common unanswered issues and a number of worked examples.

**February 2020** – HMRC issue a newsletter setting out the tax treatment of any increases to members’ benefits as a result of GMP equalisation. The document, however, does not address the tax implications of conversion.

## Contact

If you are interested in discussing how to plan your course of action for GMP equalisation, please contact:

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