

# Guaranteed Minimum Pensions: Why conversion can ease the pain

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While pension schemes must comply with GMP equalisation, the process of GMP conversion will help the medicine go down.

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After the October 2018 judgment in the Lloyds Bank Guaranteed Minimum Pension (GMP) equalisation case, one might have expected a flurry of activity as the ruling provided much needed clarity in the murkiest of areas. However, since that time the pensions industry has been showing a collective hesitancy to begin the process of implementing the judgment.

## So why the delay?

It's important to stress what isn't behind the delay: sponsors dragging their feet in an attempt to squirm out of their responsibilities. The lack of action will not significantly impact the eventual cost of equalisation. The main issue is that no one wants to go first – preferring to wait to see how others navigate the still-significant challenges around data accuracy and tax liabilities.

Sponsors are approaching GMP equalisation a bit like a course of medicine they know they have to take but are putting off beginning the bitter brew.

That said, a few schemes have forged ahead – usually to facilitate an insurance transaction. Most are building a GMP conversion into their solution. This offers schemes a way to convert their GMPs for policyholders into other scheme benefits, thereby offering something positive while removing many of the side effects experienced in taking the 'equalisation medicine'. Even better, schemes can start that process today.

## Is it worth converting?

Whilst GMP equalisation is mandatory, conversion is not. However, those which choose not to convert their GMPs are likely to face a longer-running administrative burden – having to build in a dual record system of regular checks to make sure male and female members are receiving equal benefits.

By contrast, conversion involves a one-off calculation that takes the equalised benefits and rearranges them into a different, and probably simpler, form with equal actuarial value.

## Assessing conversion options

The good news is that schemes don't need a mass of member data to assess the relative pros and cons of their conversion options. That means administrators can crack on planning a GMP conversion while simultaneously undertaking the considerable task of collating the necessary information for a detailed GMP equalisation.

There is also flexibility on who takes the lead on conversion – trustees or sponsor – though both parties need to agree on the strategy.

Once they have the full suite of data on members, the scheme actuary can carefully calculate the final member-by-member conversions – making sure the conversion is compliant with regulations and all parties understand its effects.

## The big three benefits

**Simpler administration:** There are various difficulties in administering dual records and adapting processes. This will be reflected in routine fees, which should be compared against the one-off additional calculations required for conversion. In the majority of cases we would expect the upfront costs of conversion to be recouped within a relatively short timeframe.

**Journey planning:** At a strategic level, simplification and removal of some pension increases can improve the efficiency of liability hedging. Coupled with simplified administration, this should mean conversion leads to better insurance pricing versus an unconverted scheme. As a final benefit, conversion will likely assist in member options presented in the future, for example a pension increase exchange (PIE) or Bridging Pension Option (BPO) for those who haven't retired yet. All of this will help most schemes achieve their long-term targets sooner.

**Member experience:** For many scheme members, pensions are already an opaque area of financial planning. GMP equalisation only adds to the confused picture. By simplifying their benefits, GMP conversion should actually improve member understanding and appreciation of their pension.

## Prevention is better than cure

The process of GMP equalisation will undoubtedly be a headache for most of pension schemes across the country. But while GMP conversion will involve extra effort upfront, over the longer-term it should make equalisation a much easier pill to swallow.

Importantly, schemes can – and should – consider conversion now, before they start taking their equalisation medicine.

## Contact

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