

Briefing

GMP Equalisation: PASA Working Group publishes data guidance

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Implementing a Guaranteed Minimum Pension (GMP) Equalisation project, will require more data than is needed for the day-to-day operation of a pension scheme. What can schemes do to ensure that they have enough data to carry out GMP equalisation?

The Pension Administration Standards Association (PASA) GMP Equalisation Working Group, have published a guidance note to help trustees decide how to approach data collection. The guidance also sets out “best practice” approaches to dealing with common issues not addressed by the Lloyds High Court ruling.

Preparing scheme data – acting early is key

Firstly, trustees must be aware as to the purpose of the data. The data required will help pension schemes to equalise for the effect of GMPs. In particular, the data will enable the actuary or administrator to calculate a member’s opposite sex GMP, which can then be used to calculate the member’s opposite sex pension. These data items will be used in the GMP equalisation calculations to decide whether the member requires an adjustment to the pension.

Schemes should therefore be looking to source data which will help them calculate members’ opposite sex Post 1990 GMP, such as service dates or contracted-out earnings. Acting early will help both trustees and advisers to plan the equalisation project as some data issues may take some time to resolve.

Guidance note key thoughts

We set out some key items for trustees to consider based on the guidance and possible actions to take below.

Obtaining the opposite sex Post ‘90 GMP

A key data item for a GMP equalisation project is the opposite sex Post 1990 GMP amount. There are three different approaches to obtaining the Post ‘90 GMP. In most cases the results of each approach will be very similar.

1. Pro-rata approach: Apportion the original member’s GMP into pre-1990 and post-1990 by using service dates.
2. First principles: Use the original member’s contracted-out earnings to calculate the opposite sex GMP from first principles.
3. HMRC’s dual calculation service: The online NISPI GMP checker service supplies opposite sex GMPs. However, there can be pitfalls with using this service and care should be taken.

The guidance suggests that schemes try to automate the opposite sex GMP calculation process as much as possible to help with calculation efficiencies.

The guidance acknowledges that the approach for calculating the opposite sex Post '90 GMP will be determined by each scheme.

We expect that most schemes will find that the Pro-Rata approach is the most cost-effective option and we'd expect it to provide sufficiently robust and accurate figures for most members. However, some schemes may be in a position to use the First Principles approach or HMRC's Dual Calculation Service if it's clear that the data is available and good quality. We can incorporate these approaches into the overall GMP equalisation project if appropriate.

Calculating the opposite sex pension

After calculating the opposite sex Post '90 GMP, schemes then need to calculate the opposite sex total pension. The guidance note outlines four methods, or Calculation Solutions, to calculate a member's opposite sex pension:

Requires the most data

- **Reconstruction:** Involves recreating the administrator's original calculations for the member and for an identical member of the opposite sex.
- **Rollback:** The member's current pension in payment is "rolled back" to date of leaving the scheme. Then, it is adjusted for the member's opposite sex Post '90 GMP. Finally, the adjusted pension at date of leaving is "rolled forward" to the date of calculation.
- **Formulaic:** A formula is used to estimate the opposite sex current pension using a number of assumptions.
- **Broad-brush:** Could be used where data is insufficient for the methods outlined above. The member's opposite sex pension is estimated by using a sex-specific percentage increase, based on the proportion of GMP accrued between 1990 and 1997 (the post-equalisation GMP accrual period).

Requires the least data

Trustees and their administrators will need to decide on the appropriate Calculation Solution. Each Calculation Solution has different data requirements. It is important to note, that Calculation Solutions which require more data are likely to improve the accuracy of the GMP equalisation adjustment. This additional accuracy is likely to come with additional costs to the scheme because of increased data collection and detailed calculations.

The appropriate Calculation Solution is therefore, likely to depend on the data available. For members where all relevant data is available, the Reconstruction Solution may be most appropriate. However, for members with insufficient data, an alternative solution is likely to be more suitable. In our experience, we anticipate that the Rollback method will be the most appropriate Calculation Solution for most schemes and members, even where data is relatively scarce. However, we recognise that some schemes may wish to adopt other approaches – we can incorporate these methods into the overall GMP equalisation project.

What data is needed?

As discussed above, the choice of Calculation Solution will depend on what data is available. Similarly, the data required will depend on what Calculation Solution is used. Using a Solution with more data requirements is likely to require schemes to source data if it is currently unavailable.

The data requirements differ between types of members, and schemes are likely to experience more data issues with dependant members. This is because data relating to the original member will be required. Due to its historic nature, the original member's data may not be available in a format required for the calculations. Or, it may not be available at all.

There may also be additional scheme specific complexities which may mean that additional data will be required. For instance, details of special terms or underpins.

The guidance note sets out the data requirements for undertaking a GMP equalisation project and highlights essential data items and notes where data can be derived from other data items.

How accurate are the Calculation Solutions?

It is important for trustees to be aware of the limitations of the Calculation Solutions. In particular, a more accurate Calculation Solution is likely to result in more accurate GMP equalisation adjustments to members' pensions.

Trustees should also consider that the overall equalisation adjustment will likely be a relatively small adjustment between two large numbers. This means that consistency and sufficient precision through all stages of the equalisation journey are very important, with the data preparation stage arguably the most important of them all. The accuracy of the calculated equalisation uplift will be limited by the accuracy of the data that has been used.

What are the possible pitfalls?

The guidance outlines possible pitfalls which could reduce efficiency of the GMP equalisation project.

In particular, trustees should beware of the work turning into an overly thorough benefit audit. This is most likely to occur where the work involves reconstructing original administrator calculations.

Where essential data items are missing, the guidance suggests alternative data sources and/or reasonable assumptions. For example, a key issue that many schemes are likely to face for dependants is a missing record for the original member. In this case the guidance suggests referring to the HMRC data from the scheme's GMP reconciliation work.

The guidance note also suggests that trustees don't rule out the option of contacting past administrators who may hold some of the missing data.

Next steps

The guidance note suggests that trustees should be consulting with their administrators to establish what data is required and how this data may be sourced.

Finally, it is important to bear in mind that the guidance note is meant to act as a guide to trustees and is not meant to provide a set of rules which trustees must abide by. In particular, the suggested workarounds in the guidance may not be appropriate for all schemes. Trustees still have some flexibility in the way that they approach GMP equalisation and this will mean that we are likely to see a wide variety of approaches to data collection.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively get in touch via the following:

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