

PASA guidance on GMP Equalisation – 'When to rectify'



For most schemes, Guaranteed Minimum Pension (GMP) rectification would naturally follow on from the completion of GMP reconciliation, but with the Lloyd's judgement and the need to equalise GMP benefits, some trustees are wondering whether to combine rectification and equalisation projects. Helpfully, the Pension Administration Standards Association ('PASA') has issued [guidance](#) on four steps you should consider as trustees when planning GMP rectification and equalisation projects, to ensure you make the best decision for your scheme.

Step 1 - Understand the data

There are three sub-steps to work through to understand your data:

- 1. Confirming GMP reconciliation status** - Confirm the current status and timescales for completing your scheme's GMP reconciliation exercise. Even though a number of schemes have received final data cuts from HMRC, these final data cuts have revealed discrepancies with data held by HMRC which need to be resolved before rectification can occur.
- 2. Understanding members in scope for GMP rectification and equalisation** - Assess potential overlap between members whose benefits need to be rectified and equalised to help you to make appropriate decisions, avoid rework, monitor progress and ensure each member is dealt with consistently.
- 3. Understanding data needed for rectification and equalisation** – Are we missing any of the historical data which we need for these calculations? How will it be populated? Are there other events to dovetail with e.g. pension increases?

Step 2 - Understanding the nature of the task

You should think about the wider requirements of ongoing administration and equalisation when planning rectification work.

Active and preserved members - Rectification involves updating GMP data stored on the scheme's administration system, so correct benefits are put into payment. It provides a firm foundation for calculating equalised benefits and other related missing HMRC data items, such as National Insurance (NI) history, should be updated as part of the exercise. Where rectification has already taken place, you might need to revisit those records to add this data.

Pensioners and dependants – A change in GMP is likely to mean benefits in payment are incorrect. You should consider with your advisors the extent to which the same approach or tools can be used for rectification and equalisation calculations or how one project can build on the other.

Step 3 - Consider the impact on members of any delay

Delaying rectification to finalise the equalisation approach could impact pensioners who may be being under or overpaid. On the other hand, trustees may wish to avoid rectifying benefits only for them to be changed again when equalisation methods are agreed. PASA recommends:

- Use reconciled GMP data to calculate new retirements, deaths and transfers to avoid later rectification.
- Implement rectification as soon as possible for pensioners not in scope for equalisation.
- Consider pensioners in scope for equalisation where rectification calculations show they are being underpaid, the likelihood is GMP equalisation will either result in no change to their pension or a small increase. For those where rectification calculations indicate overpayments, when equalisation is considered, the overpayment may need to be adjusted, or possibly removed altogether.

Step 4 - Consider and document other factors influencing the timing of GMP rectification

You should appreciate the importance of making informed decisions on the timing of GMP rectification and documenting the factors that have influenced these decisions. In addition to the factors above, other considerations include:

- The requirement to pay the right benefits at the right time - Under or overpayments from GMP rectification could be substantial so a delay could lead to accusations of breach of trustees' duties. If you consider recovering overpayments, there may be a limitation period so consider gaining legal advice.
- Understand the impact on members before making decisions - Complete rectification calculations so informed decisions can be made on which members are to be rectified and whether to delay those also impacted by equalisation.

- Understand the timescales in which the projects may be completed - The factors that influence this, including industry capacity (work on equalisation projects may go into 2023 and beyond). Consider any other strategic projects you may have, and whether these have a bearing on timescales for rectification and equalisation.
- Consider communication with members – You should have a communication plan and ensure it is joined up. Writing to members about rectification without mentioning equalisation may not be appropriate.
- Consider impact on costs - The costs of separate rectification should be considered alongside the benefit to members and timescales for equalisation. Cost is not the only factor.
- Consider decisions made in previous benefit rectification exercises - What was the approach taken on recovering overpayments, back payments, interest, forfeiture etc. and is that appropriate now?

Conclusion

The PASA guidance provides interesting food for thought and a number of key decisions that trustees will need to make. Here at Barnett Waddingham we have the skills and expertise to help you with this decision making process. Please get in touch with your usual Barnett Waddingham contact if you would like further information.

