Six dos and don’ts to meet your Guaranteed Minimum Pension obligations

Pension schemes should think now how to meet 2018’s ruling on Guaranteed Minimum Pensions to beat the rush.

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Pensions teams across the UK were a hive of activity in late 2018 immediately after Britain’s High Court ruled that Lloyds Banking Group should equalise pension scheme members’ pensions for gender inequalities in Guaranteed Minimum Pension.

However, after the initial rush, trustees and sponsors have been in wait and see mode as the remaining elements of the case are being resolved and industry groups draw up best practice guidance. A certain amount of ‘GMP fatigue’ has set in as trustees, sponsors and advisers reeled from a bombardment of information on Guaranteed Minimum Pension equalisation (GMPE).

Unfortunately, burying heads in the sand is no longer an option. Schemes could find themselves at the back of a long queue with their advisers given the significant constraints in capacity that GMPE is likely to create meaning that members have to wait even longer to receive their correct benefits.

If the recent GMP reconciliation process has taught us anything, it is that waiting until the last minute and hoping that everything will work out is a recipe for disaster. So, with that in mind, here’s my list of dos and don’ts to help you address any GMPE liabilities:

Do: Prepare in advance

There is nothing to stop any scheme from starting preparatory work now to make sure they are ready to implement at the appropriate time. For example you could be:

- Analysing your scheme’s data to understand the different segments and logistical challenges for those populations
- Scenario testing to understand the impact of data issues and costings for differing options
- Making policy decisions in key areas (e.g. methodology, communication, treatment of different categories) with proper dialogue between trustees and sponsors
- Creating a detailed plan for the next 18 to 24 months

Don’t: Feel you have to be 100% accurate straight away

Even the best run schemes will experience data challenges.

The sheer scale of the data items required means that carrying out exact GMPE calculations for every member will likely be impossible, whether that be for particular segments of population (e.g. dependants, long-standing pensioners) or ‘difficult’ cases (e.g. transfers-in, part timers).

Looking at data quality early on will enable a proper assessment of what is realistically possible in terms of data gathering and where pragmatism may be required, having taken appropriate professional advice.

Do: Take advantage of available guidance and best practice

The industry is still trying to fully understand the practicalities of implementing GMPE. You only need to look at the number of different industry groups and sub-groups that have been set-up to consider issues as diverse as data quality and tax implications.

As industry guidance becomes available, so practice will evolve as lessons are learnt from early exercises.

Don't: Let GMPE distract you from other priorities

Many schemes will have a clear journey plan to achieve self-sufficiency or buy-out over the short to medium term and will have a programme of activities to support such goals.

Whilst it is tempting to see GMPE as an excuse to defer such events as insurance transactions and liability management exercises, these projects actually create an opportunity to incorporate GMPE into wider activity and achieve greater efficiency.

There is no real reason that GMPE should be a barrier to schemes carrying out key strategic activity in the next few years.

Do: Actively manage the process with your advisers

There is no doubt that GMPE will have a negative impact on capacity within the pensions industry, for both administrators and actuaries. Many organisations will struggle to cope with delivering such large-scale projects whilst maintaining the quality of business-as-usual activity.

Schemes will need to actively manage the governance of the GMPE project, starting by considering who will be best placed to deliver GMPE. In that decision, you have four key considerations:

1. The fee structure
2. The robustness and efficiency of their processes
3. Quality control
4. Who can best minimise the impact of GMPE on day-to-day business activity

Don't: Forget the members

Ultimately, all this work is for the benefit of your scheme's members. Whilst the additional liability as a whole may be immaterial for schemes, any change to pension benefits will feel material to the member.

Effective communication with members is therefore be crucial: both to manage their expectations and explain an undeniably a complex concept. Taking time to get this bit right will pay dividends later on.

Contact

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