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GMP conversion

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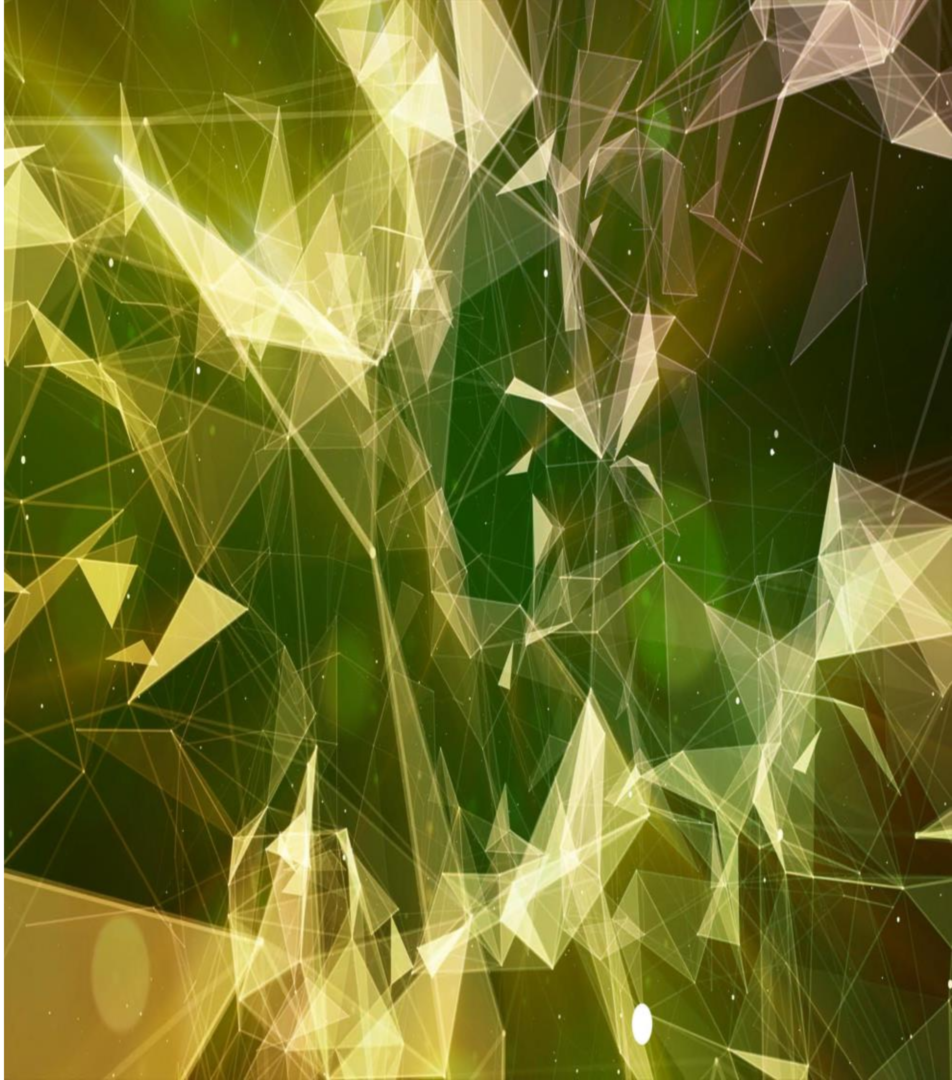

GMP equalisation vs GMP conversion

GMP equalisation

1990 - 1997

- A3, B, C1, C2
- Structure unchanged

Method D2

Equalisation via conversion

GMP conversion

Whole GMP

- Future only
- Arrears by another method

A game of two halves

- How conversion works
- The big decisions
- Challenges

- Range of approaches to conversion
- Challenges

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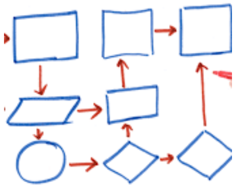
How conversion works

Power to amend

Conditions for amendment



Process for amendment

Enforcement of requirements

How conversion works: s24G statutory power to modify

- Power to modify by resolution “so as to effect GMP conversion”
- **GMP conversion**: “amendment of the scheme in relation to an earner so that it no longer contains the guaranteed minimum pension rules”
- s67 PA95 subsisting rights rules disapplied to scheme power of amendment “in so far as the power [of amendment] enables GMP conversion”
- “Where a scheme is amended to effect GMP conversion the trustees may include other amendments which they think are necessary or desirable as a consequence of, or to facilitate, the GMP conversion”

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How conversion works: s24B conditions

- **Condition 1**: Benefits must be actuarially at least equivalent to pre-conversion benefits
- **Condition 2**: New benefit structure for earner does not reduce amount of pension already in payment
- **Condition 3:** New benefit structure is not defined contribution (except to the extent it was originally DC)
- **Condition 4**: Survivors' benefits are provided in the new benefit structure if pre-conversion the earner had a GMP and survivors' benefits were payable under the scheme in accordance with old GMP requirements
- **Condition 5**: Procedural requirements have been followed

s24E procedure: Statutory guidance (1)

Before you start

Data

- GMP reconciliation
- GMP checker services
- Timing of rectification process

Stage 1

Employer agreement

- Required
- Terms on which benefits are converted
- Members affected?
- Date of conversion?

Stage 2

Selection of members, benefits and future form

- Give options? Code requirements

Stage 3

Date

- Agree date for conversion

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Statutory guidance (2)

Stage 4

Consultation

- Consultation with selected members
- High level briefing on proposal only
- No minimum 60 day rule – different from listed change

Stage 5

Valuation

- Trustees instruct the actuary
- Basis?

Stage 6

Equalisation

- Equalise benefits at higher value

Stage 7

Conversion

- Convert value back to revised pension benefit
- Use same valuation basis

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Statutory guidance (3)

Stage 8

Actuary’s certificate

- Certification from the actuary: calculations are complete, post-conversion benefits actuarially equivalent to pre-conversion benefits.
- Within 3 months of completing the calculations

Stage 9

Modification

- Trustees resolve to effect the conversion on the agreed basis or use the scheme’s amendment power to enable GMP conversion

Stage 10

Notify members

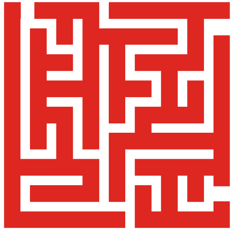
- Notifications to members and survivors.
- In advance or as soon as practicable after conversion date
- Amount and shape of benefit: individual calculations
- The trustees must take “all reasonable steps” to notify affected beneficiaries

[Stage 11]

Notify HMRC

- Before conversion date

The big decisions



Is this actually a good idea?

Interference is authorised

Trustee fiduciary duties

Long-term plans

Which members?

One size fits all?

Pre-1990 members?

Which benefits?

All GMP

Guidance assumes 6/4/78 to 9/5/97

Just equalisation period?

Scope of power of amendment

Calculation details

Basis?

Unisex factors?

Missing data

DWP recommends advice on..

- Which methodology?
- Which employers to consent?
- *De minimis*: costs of calculation and implementing equalisation exceed new benefits
- Proposed structure of new benefits and application of Code of Practice to options
- Assumptions to be used (actuarial)
- Suitability of basis, treatment of retirement date
- Treatment of pre-1978 benefits
- Treatment of active members
- Forfeiture rules for accumulation of arrears

- Form of payment of arrears
- Are arrears over generous? Should C2 be used to calculate future payments first?
- Treatment of transfers in?
- Treatment of former members?
- Treatment of gaps in data?
- Sex-based vs unisex factors?

plus

- Tax

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