



PASA Guidance

GMP Equalisation

Admin implications of past transfers out

June 2022

Admin Implications of past transfers out

Section	Content	Page
1	Introduction	1
2	Checklist	1

Acknowledgments

PASA is grateful to the authors of the Guidance and members of the PASA GMPE Working Group (GMPEWG) Administration sub-group and their employers.

Geraldine Brassett	Capita Pensions Solutions	Mark Riordan	Capita Pensions Solutions
Stephen Blakesley	Mercer	Neil Reilly	Mercer
Brian Docherty	Hymans Robertson	Rob Brown	Nestle
Christian Macnab	LCP	Sarah Allard	Barnett Waddingham
Ellie Ingamells	Capita Pensions Solutions	Suzanne Dosell	Hymans Robertson
Elyot Rush	WTW	Vickii Burton	Nestle
Iain Wilson	XPS		
Ian Wort	Premier Pensions		
Jan Manning	EQ		
John Doherty	XPS		
Karla Bradstock	THPA		
Kathy Cruse	WTW		
Lucy Cresswell	Barnett Waddingham		
Marcus Hines	EQ		

1. Introduction

In order to implement equalising past transfers out for the effects of GMP (the project), trustees need to make a number of decisions which will influence both the scope of the project and the number of former members where a top up payment is due. Many of these decisions have the potential to impact the administration aspects of the project. An important part of the planning is to detail the decisions which need to be made, why they're important and the potential impact on administration. The checklist below details the generic questions and administrative implications. The table can be used to inform discussions, capture the decisions made and provide an audit trail for the future.

2. Checklist

Issue	Trustee Decision	Administrative Implications
<p>If current transfer out quotations aren't being calculated on an equalised basis it's recommended trustees seek actuarial advice and adopt transfer value factors to ensure the values are calculated in a way which eliminates any GMP inequalities in respect of the Equalisation Period.</p> <p>What plans are in place to do this?</p> <p>Is the transfer value modeller used for any other types of calculations, for example, trivial commutation calculations?</p>	<p>Confirm the proposed timing to move to equalised transfer value payments (if not already done) to confirm historic transfers to be revisited. Consider whether to include other transfer value related payments.</p> <p>Basis to be used for the exercise to review historic transfer values.</p>	<p>If CETVs aren't equalised going forward:</p> <ul style="list-style-type: none"> • The number of cases which need to be revisited will continue to increase • It'll be hard to define, manage and the reconcile the in scope population • It may necessitate a second, smaller historic transfer exercise • Members and/or receiving arrangements may raise queries about top up payments resulting in more individual queries • Some cases may be on hold for longer than necessary • Additional cases may need to be referred to the Scheme Actuary, potentially impacting on member service
<p>Non-statutory individual transfer values (for example those within 12 months of normal retirement age) were treated separately in the Lloyds 2020 judgment. In practice transferring schemes may choose to correct any non-statutory transfers in the same way as statutory transfers (unless there are exceptional circumstances).</p>	<p>As records don't generally contain an indicator differentiating between statutory and non-statutory transfer values, confirm if you're happy for the administrator to treat all individual transfer values in the same way.</p>	<p>If it's decided to differentiate between statutory and non-statutory transfer payments, it's likely the administrator will need to undertake individual file reviews for the members of the in-scope population who've been disadvantaged, to check which category they fall into. Depending on the numbers involved, this has the potential to be time-consuming and will give rise to additional costs.</p>

Issue	Trustee Decision	Administrative Implications
<p>Transferring schemes which have paid bulk transfer values, perhaps as part of a company disposal, should take specific advice on how the Lloyds judgment impacts on those transfer exercises.</p>	<p>Confirm if you need the administrator to implement any special arrangements for members who were part of a bulk transfer payment.</p>	<p>It's possible these members will require both special communications and calculations. It's important to have sight of any non-standard cases early in the project so these can be shown separately as part of the population reconciliation and any special terms or provisions applied</p>
<p>Interest will need to be added to any top up payment. In the Lloyds 2020 judgment, interest on top up payments was set at 1% simple over bank base rates (from time to time). Consideration could be given to using the approach to interest adopted in the Lloyds 2020 judgment, although some trustees may, having taken advice, choose to use an alternative basis based on scheme rules or previous precedents.</p>	<p>Confirm you're happy to use 1% above base rate and whether this should be on a simple or compound basis.</p>	<p>This will mainly impact the provider undertaking the calculations, likely the Scheme Actuary. However, from an administrative perspective, the approach to interest may need to be reflected in member communications and any FAQs used to answer member queries.</p> <p>Administrators should also consider recording the amount of the top up and any interest separately.</p>
<p>It may be possible to conclude for some groups of former members a top up payment won't be due based solely on the transferring scheme's benefit structure, knowledge of the basis used to calculate historic transfer values and/or the member's accrual cessation date. Such groups can then be excluded from the exercise.</p>	<p>Advise the administrator if you believe this would apply to some or all members of your scheme.</p>	<p>Any such members will need to be excluded from the population and the administrator may wish to put a flag on the member's record to indicate they were considered for the exercise and to provide an audit trail of why such members were excluded. Where this applies to a whole scheme, this should be recorded centrally as part of scheme governance.</p>
<p>Trustees may want to discuss with their advisers the scope for adopting a de-minimis policy to limit the number of past transfers out cases which will be reviewed.</p>	<p>Advise whether your scheme will be adopting a de minimis amount</p>	<p>If a de minimis is agreed, it'll be necessary to complete the calculations to understand which members are in scope but where the top up won't be made as the amount due is below this de minimis. The administrator may wish to record the amount which would've been due and create a flag indicating why it wasn't paid. This would be required should the member or receiving arrangement contact the Trustees requesting payment of the top up.</p>

Issue	Trustee Decision	Administrative Implications
<p>An expectation may already have been set regarding GMP equalisation with any members who transferred out after the Lloyds judgment in October 2018.</p>	<p>Advise if former members who transferred out after the Lloyds judgment, but are in scope for this exercise, should be prioritised or treated differently.</p>	<p>It's likely the administrator will have changed their standard transfer letters for in scope members in 2018 to note the transfer value had been paid on an unequalised basis. Members who transferred out from 2018 will likely expect their transfers will be reviewed. There may be a case for contacting them, to confirm their transfer has been reviewed and they haven't been disadvantaged. If this approach is taken, this work will need to be factored into the project plan.</p>
<p>In some cases, transferring schemes may have been required by the receiving arrangement to provide specific equal treatment warranties or indemnities. These contractual arrangements between the schemes may need to be considered in the light of the Lloyds 2020 judgment.</p>	<p>Advise if any such warranties or indemnities have been in place for your scheme at any point since 17 May 1990.</p>	<p>While this is more of a legal than administrative point, the scheme administrators need to be aware if any cases needed to be treated differently as a consequence of any review of indemnities and warranties.</p>
<p>If a transferring scheme chooses to pay the top up payment to the former member as a cash lump sum the tax treatment would need to be considered.</p> <p>The pension tax rules allow for small lump sum payments and relevant accretions to be paid out to former members as authorised payments, but conditions apply.</p> <p>It's not certain these conditions would be met in all cases where a top up payment is paid to the former member and trustees of transferring schemes will need to take advice to ensure the payment is authorised for pension tax purposes.</p> <p>Alternatively, the sponsoring employer of the transferring scheme may agree to pay top up payments to avoid any pension tax complications. Where a lump sum is paid to a former member income tax may need to be deducted under PAYE.</p>	<p>Advise if you're considering making top up payments direct to the member.</p> <p>If you're considering this option, it's strongly recommended you seek the appropriate legal advice before making any final decision.</p>	<p>Whether the top up payment is paid to the member or a receiving arrangement will impact the amount of work required. For example, if the decision is taken to make payment to the former member, it won't be necessary to review the quality of data held in respect of receiving arrangements and carry out any resulting data cleanse. However, if payment is to be made to the original or a new receiving arrangement, the relevant information needs to be sourced and the receiving arrangement will need to confirm they're willing to receive the top up payment.</p>

Issue	Trustee Decision	Administrative Implications
<p>It's likely to be necessary to undertake tracing and mortality screening for some or all of the in scope population.</p>	<p>Decide at what point in the project the tracing should be undertaken and how this relates to the other decisions which are made e.g. if a de minimis is adopted.</p>	<p>Undertaking tracing and verification before values are calculated may create an expectation where a member hasn't been disadvantaged. Communications shouldn't be sent to members who have since passed away.</p> <p>Initial data analysis will indicate if there are any members with insufficient information to undertake mortality screening and tracing. This will inform the decision on when tracing should be undertaken and the level of tracing required at each stage.</p> <p>The guidance on historic transfer values includes a helpful graphic to illustrate how this might be achieved.</p>
<p>It's important to keep records which ensure all of the in scope population have been addressed. This will make it easy to identify the decisions taken on a member by member basis in the future.</p>	<p>While this isn't a trustee decision, trustees need to ensure appropriate controls and governance are in place, including robust records for future reference e.g. if there's a change of administrator or for de-risking purposes.</p>	<p>Trustees should ask their administrators what they're planning to do to address this. The admin sub-group is working on guidance to help.</p>



Get in touch:

info@pasa-uk.com

www.pasa-uk.com