

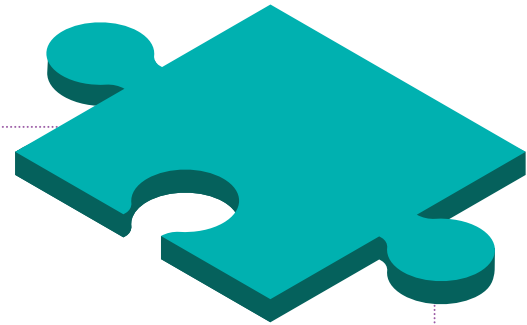
APPROACHING RECTIFICATION BEFORE EQUALISATION

Rectifying GMP? Hesitant about GMP equalisation? Here's why you shouldn't be...

GMP rectification and equalisation have both been hot topics for some time now. But with outstanding questions around GMP equalisation many of our clients are hesitant to go ahead with rectification. They ask us:

- > **Isn't it easier to amend member benefits once?**
- > **Won't it be hard to communicate two benefit adjustments?**
- > **Shouldn't we just wait to rectify as part of our equalisation project?**

We're lucky at ITM to be working with lots of schemes, but with an independent 'helicopter' view of the market, common risks, what works and what doesn't – it makes us experts at GMP rectification and equalisation.



APPROACHING RECTIFICATION

When you begin analysis for rectification and compare data held with HMRC to your own records you're likely to find members fall into 3 camps:

● **Camp 1 – Those that don't require rectification**



In our experience for most schemes, a high proportion of members were 'ok'. However, some of these members could later be impacted by equalisation.

Camp 2 – Those that have been underpaid



For members that have been underpaid it's important to rectify their benefits as soon as possible. Rectification can result in significant underpayments. It's possible some members may be impacted by equalisation too. If so, it likely means they'll need two increases to benefits. While this might mean two letters, most members won't mind if it means increased pension benefits.

Camp 3 – Those that have been overpaid



It's important to rectify benefits as soon as you can – even for overpayments.

Knowingly continuing to overpay members places a funding strain on the scheme and could be considered unfair to other members. Overpayments can be difficult to communicate and schemes are most hesitant about reducing benefits if the member could also be impacted by GMP equalisation. Explaining a reduction following rectification and an increase due to equalisation in one communication will be a challenge.

HOW MIGHT GMP EQUALISATION AFFECT RECTIFICATION?

It's possible that some members can be impacted by both rectification and equalisation.

- ✓ **For those that have been underpaid, an equalisation exercise is likely to increase pension benefits further. It makes sense to correct the underpayment and ensure members are receiving the correct amount as soon as possible.**

If your main concern, like some of the schemes we help, is communicating with members, then this group should be the easiest to approach.



For members that have been overpaid, our experience has shown us that it's best to carry out further analysis for equalisation:

- 1. Work out, of those overpaid, how many are also impacted by equalisation.**
- 2. Work out the value of equalisation**
- 3. Assess the materiality of any equalisation**

This should break your overpaid 'camp' down further into those that are not materially impacted by equalisation and those that are.

If a member is not materially impacted there is no harm in correcting their pension for rectification purposes without waiting for equalisation.

If a member is materially impacted by equalisation it may be best to hold off on adjusting benefits until you're ready to go ahead with equalisation.

It all starts and ends with data

Whether you're looking at rectification, equalisation or both the foundation for success in either of these projects is always data. This could include analysing what you already have over a number of systems and platforms, identifying inaccurate or missing information and obtaining all the data you need for analysis.

At ITM we're data experts and have helped a number of schemes prepare for rectification and equalisation. Contact us to find out about our tried and tested approach.