

GMP equalisation – Practical next steps to data

Thanks to the GMP Equalisation Data working group, led by PASA, we now have a guide to the data you'll need for equalisation. This document is designed to support you with your next step – planning your approach to data gathering whilst considering the material impact to members. We also touch on some of the wider considerations you should think about now, like administration system changes – where we have more guidance coming soon.

July 2020

GMP equalisation: A data project

GMP equalisation has often been looked upon as an exercise to re-calculate scheme benefits, where the challenge is to agree the necessary calculation approaches. This is very important, however, equalisation is fundamentally based on the data a scheme holds, and the requirement it creates to hold different data in the future. Data is the lynchpin to the whole exercise.

GMP equalisation projects, especially where significant data is missing, can become expensive. As a rule of thumb the actual uplift is fairly small for most members, so it's important to take a proportionate approach, where project resource is focused and costs are constrained towards members where the impact is greatest.

The industry working group's GMP equalisation data guidance is really useful – with information around the data you'll need and why it's important. Your project will potentially look at data up to 30 years old, which is not always readily available, and obtaining it can be costly.

Understanding which members are likely to be impacted will allow you to:

- + Focus your resources upfront
- + Establish the quality of the data
- + Investigate your options for getting your data GMP equalisation ready



GMP equalisation: working out which members are affected

Practical steps for a pragmatic approach

To understand which members are affected, and by how much, you'll need to identify in-scope members, as well as carry out an impact assessment. If you're still completing historic GMP rectification work after reconciliation, you might like to consider the net impact where the same members are in-scope for equalisation.

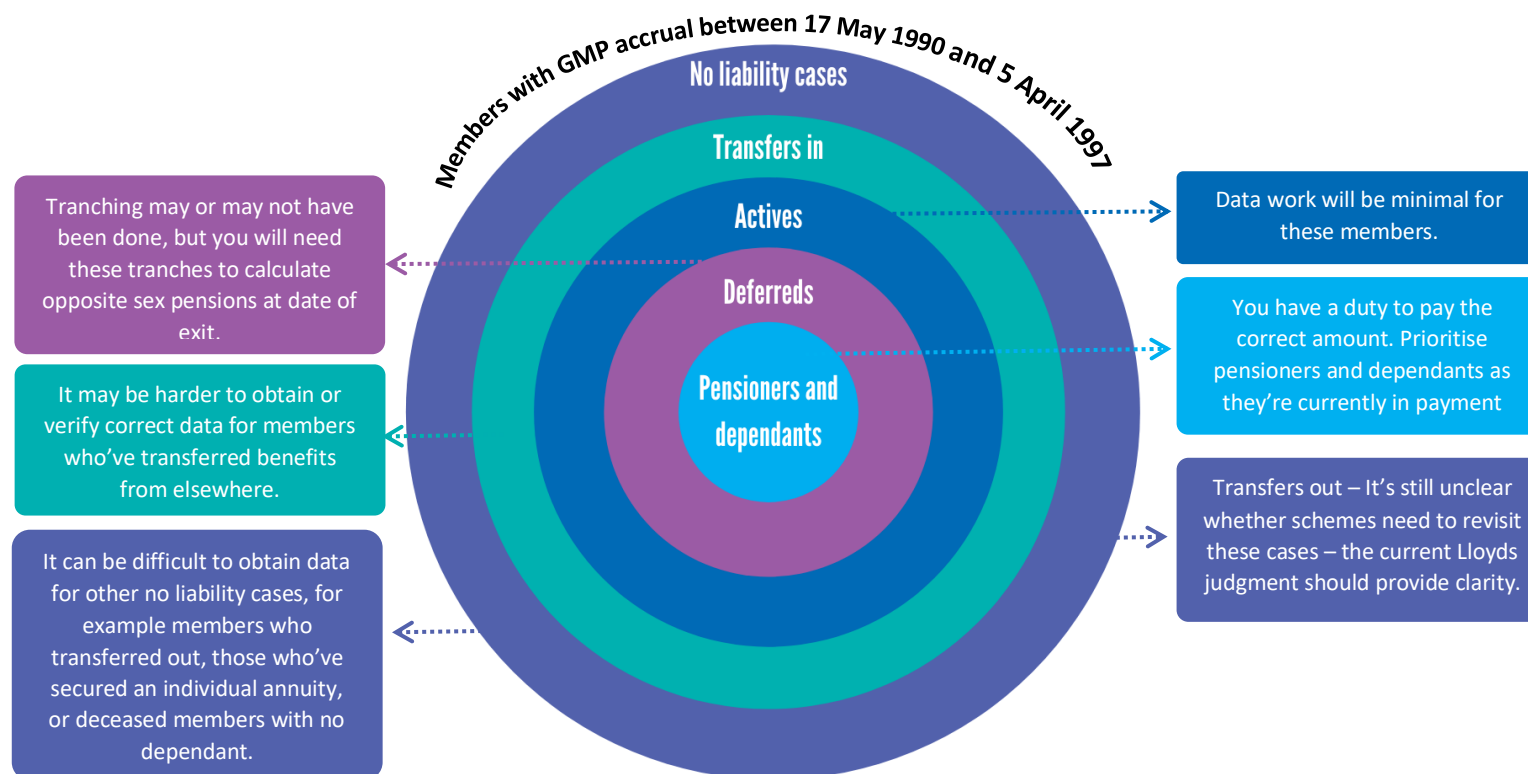
A member impact assessment aims to:

- + Identify members in-scope for equalisation
- + Understand the data profile of affected members, so you know where your data challenges are
- + Quantify the potential material impact of equalisation
- + Develop an approach to data gathering
- + Develop an approach to calculations, which is best supported by your data
- + Identify areas where assumptions and trustee decisions might be needed
- + Create an overall project plan
- + Consider other scheme objectives, like GMP rectification or strategic goals like de-risking

GMP equalisation: Identifying in-scope members

This begins with finding out how many potential members' benefits could be affected by equalisation. Begin by finding out how many members had contracted out service between 16 May 1990 and 5 April 1997.

You'll also need to identify dependant's pensions where the original member would've been in-scope for equalisation. This can prove challenging, especially if the record is not properly linked back to the original member.



GMP equalisation: Understanding your data

Next, you'll need to understand what data you already hold for these members. There are a number of data items you'll need in order to calculate equalised benefits – highlighted within the latest guidance from the industry working group.

At this point, it's also a good idea to consider what method you might choose for equalising as this can have an impact on the data items you'll need. If you're using a dual record approach (B, C1 and C2) you'll have slightly different data requirements than conversion (D2). If you're considering conversion there will be additional data items you'll need, like contingent spouses pensions and pre-commutation pension. You might also be planning to convert benefits for all members with GMPs rather than just the 90-97 cohort, this will of course increase your data requirements.

It's also worth thinking about your longer term strategic goals, for example, if you're looking at a de-risking exercise in the future, gathering the additional data you'll need might be worthwhile.

It's likely you won't hold all the data you need, or some of the data is hidden away in historic records, like microfiche and image files. Taking a data stock-take for in-scope members will enable you to make decisions about where to invest resources in obtaining missing data.

Where data items are missing, there are a few different approaches you can take:

- + [Look for the missing data in historic files](#)
- + [Derive missing information from other sources](#)
- + [Make assumptions based on similar cohorts of members](#)

To help you make pragmatic decisions about what approach to take, it's useful to look at the possible material impact equalisation might have on members. It's particularly important to consider the impact an assumption-based approach might have, and a sensitivity analysis to different assumptions can support you in making the right decisions.

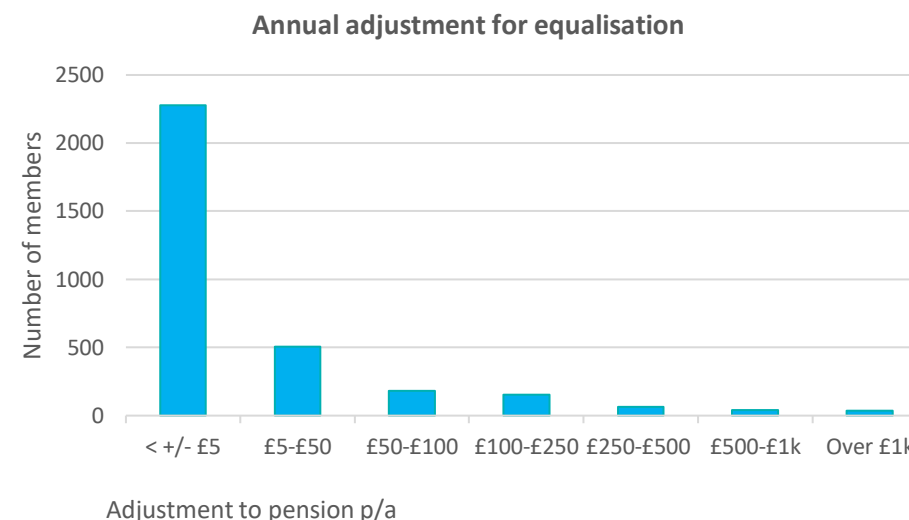
GMP equalisation: Quantify the potential impact

This is a crucial step which will enable you to direct your efforts on data sourcing towards those members where the overall impact is greatest.

Using the data you do have, it's possible to estimate the effect equalisation will have on benefits, on a member-by-member basis.

In our experience, it's likely to look like the graph to the right.

You may then decide to spend more time and money sourcing data for fewer members where the impact is greatest. This can help to constrain your project costs, whilst take a fair proportionate approach.



1 Develop an approach to data gathering

Within the steps above you've identified the members in-scope, the quality and completeness of your data, and where greater efforts should be made to obtain missing data. These are important steps to enable you to develop a data cleansing plan.

If missing data could be held within image files it's worthwhile carrying out a sample check, to see how useful interrogating image files would be. This is time consuming, costly work, especially considering it's often quite manual, so you want to be confident the searches within images will be fruitful before investing in this cleanse activity. We usually use automated image-scanning software to speed up the process and make it as cost-effective as possible. If your sample image file searches are proven successful, this will provide you with evidence to make decisions about whether to carry out wider image searches.

It's quite possible you won't find all the missing data within images, and that's where you're more likely to make the decision to derive data via other means, or make reasonable assumptions.

GMP equalisation: Calculations



2 *Develop an approach to calculations, which is best supported by your data*

As highlighted in the equalisation working group's guidance, there are various ways to calculate equalisation changes, each with their own data dependencies.

If you've followed all the practical steps above, at this stage you should have a clear understanding of all the data you hold, where members are affected the greatest, and where data has been derived or assumed. Looking at your data after you've carried out as much data cleansing as reasonably possible, you'll be able to adapt your calculation methods appropriately.

The ideal route is known as 'reconstruction' – requiring the most complete data – but as with anything GMP-related, scheme data is often far from ideal. We usually find the data lends itself towards a rollback or formulaic calculation – where a good understanding of data is necessary, but, after cleansing, there's often enough data to carry out calculations effectively.

In specific circumstances you may then need to make further assumptions, backed by analysis to see how they may change outcomes, or even use broad-brush methods such as making adjustments for dependant members who you cannot link back to a former scheme member. Lastly, the 'broad-brush' approach, where data is so incomplete that you need to make assumptions based on equivalent member populations. This a last resort as it's likely to lead to materially incorrect calculations.

3 *Identify areas where assumptions and trustee decisions might be needed*

At this point you're likely to have a good understanding about where deriving data from other sources and making assumptions are necessary. These decisions will need to be agreed by the scheme Trustee and, depending on the scheme, may also be scrutinised by unions.

It's important that all the steps you've taken so far, and all the data gathering and cleansing you've carried out are clearly documented. Where using assumptions is the recommended approach, you'll need to evidence how and why you've come to that decision. A clear audit trail is vital, with a log of all steps and decisions.

GMP equalisation: Steps to take now



Identifying in-scope members

You need to establish which members are in scope so that you can constrain your data gathering and cleansing efforts.



Understand the quality of data for these members

You'll need to take a look at what data you have available for these members, where you can source additional data and the quality of the data you have.



Develop cleanse plans which are proportionate

You want to ensure you're focussing your attention in the right places, and avoid time and costs spent on gathering data where the impact is minimal.

Following these practical steps will give you the momentum you need to move your GMP equalisation project along. There are lots of elements which need to come together in order to make your project as efficient and successful as possible – for the purpose of equalisation but also for ease of administration and changes later on. That's why we recommend looking at your administration systems early.

We'll be bringing out some more guidance and top tips on administration systems for GMP equalisation soon.

Talk to one of our consultants about your GMP equalisation project – we'd be happy to help you get started. Call us on 020 7648 9990 or email info@itm.co.uk.



@ITM - Independent Data Consultants

@ITMdataexperts

info@itm.co.uk

www.itm.co.uk