

A unique opportunity to manage pension costs

Why pension scheme sponsors should act now to influence the approach to removing GMP inequalities

The Lloyds Bank judgment on 26 October 2018 set out several potential methods for equalising benefits.

The court has ruled that all but the default 'C2' methodology require the employer's approval.

This means that other methods, which could potentially simplify benefits and reduce costs, are only possible with the sponsor's consent.

Without input from the sponsor, the trustees will have little choice but to opt for the default approach, which could result in higher costs than necessary.

We expect that the key strategic decision for most companies will hinge around using, in the terminology of the judgment, either method C2 (dual records) or D2 (conversion).

The optimal method will very much depend on each company and their scheme's specific circumstances, but with conversion, companies have the opportunity to:

- Avoid increased running costs from having to keep dual records
- Make further savings by simplifying the scheme's benefit structure, in particular ahead of any future insurance transaction

The method chosen to address GMP inequalities will have a real cost to your business, in terms of:

- An increase in actual benefits paid
- An increase in your scheme's assessed liabilities
- Fees to advisers and administrators for implementing and maintaining a solution

However, if approached in the right way, it could also **help your business**, for example by



Reducing the cost of future transactions such as buy-ins, and making ultimate buy-out more affordable, or achievable sooner



Reducing inflation and longevity risk



Reducing running expenses going forwards

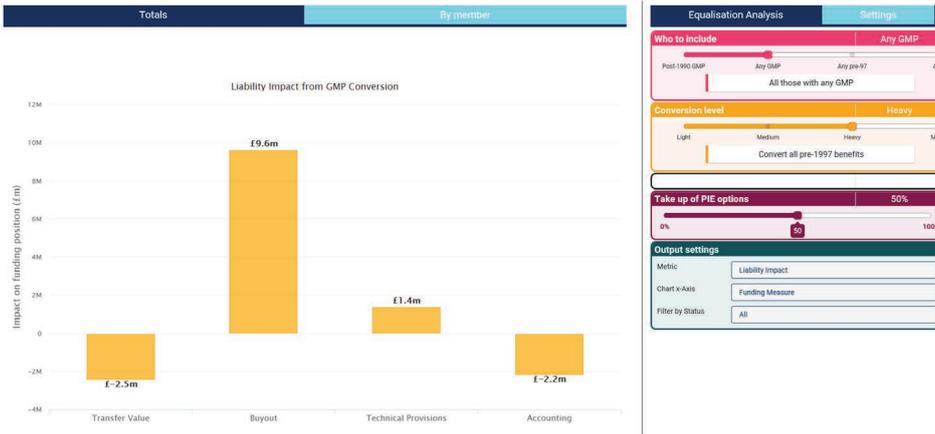
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How will you know if conversion is right for you?

There are many different ways that conversion could work and each of these could lead to different savings and risks.

Our GMP Focus tool will help you analyse your membership, see who is impacted and understand how different combinations of approaches could impact your funding, accounting and (if relevant) buy-out position.



LCP GMP Focus

- 1 Will help you choose who to include
- 2 Will help you consider which benefits are included in any conversion (eg removing complex features such as an underpin)
- 3 Will help you consider whether changes should be made without consent (with consultation) or on an opt-in or opt-out basis
- 4 Will show the extent of the expected savings under various scenarios

This tool will help you identify opportunities on the spot, by showing how different combinations of post conversion benefits, category of members included in the exercise and potential take-up rates will impact your costs.

Want to find out more?

If you would like further information, please contact your usual LCP adviser or one of the people on the right.



Alasdair Mayes
Partner
+44 (0)1962 872725
alasdair.mayes@lcp.uk.com



Alex Waite
Partner
+44 (0)1962 872738
alex.waite@lcp.uk.com



Ming Fong
Senior Consultant
+44 (0)1962 673012
ming.fong@lcp.uk.com

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