▼ de-risking GMPs

GMP equalisation – a potential hurdle in the PRT fast lane?

Kelvin Wilson discusses how GMP equalisation can be efficiently automated into the pension risk transfer process

mproved funding levels are enabling a growing number of schemes to consider and complete bulk purchase annuities (BPA), propelling the pension risk transfer (PRT) market towards another record year in 2024, both in terms of number of transactions and combined value.

While schemes and insurers continue to ride the wave swelled by improved scheme funding levels, it presents a new challenge for Guaranteed Minimum Pension equalisation (GMPe) assessment.

Previously, schemes might have been willing to tackle GMP as part of the overall risk transfer process. However, with the allure of faster buy-in deals, many are, understandably, prioritising speed and bypassing the GMPe hurdle.

Shifting priorities in PRT transactions

However, conducting GMPe work during the buy-in stage of BPA transactions can present backlog risk that could delay schemes completing buyouts in their desired timeframe – particularly if they are also undertaking important data cleansing work. Buyout, the issuing of individual annuity policies to members and scheme wind-up are all contingent on GMPe work having completed.

Tackling a GMPe bottleneck

GMPe by its very nature involves intricate calculations, multiple stages and data interrogation and analysis to ensure entitlements are accurately reflected in the buyout price. It's typically a time-consuming and laborious exercise and, in some cases, can take well over a year to

finalise. For schemes ready and eager to secure full buyout and individual policies today, a lengthy delay to complete GMPe is far from ideal.

By addressing GMPe early in the de-risking journey, pension schemes can avoid costly delays and complications later. Early preparation ensures that all data and calculations are thoroughly validated before engaging with insurers, which not only streamlines the buy-in or buyout process but also enhances the scheme's attractiveness to insurers. Additionally, taking a proactive approach to GMPe work fosters better collaboration with insurers, leading to more favourable premium negotiations and ultimately a more secure financial future for scheme members.

From an insurers point of view too, they are understandably hesitant to take on the added workload associated with GMPe due to the potential scale of the task and associated cost implications. In an ironic twist, this creates a situation where the very process designed to protect pensioners' benefits can become a roadblock to a desired securing of benefits with an insurance company.

Where schemes have not taken the lead to address GMPe, insurers will reflect the additional workload and risk in charging a higher premium. Schemes must weigh the cost of undertaking GMPe work with the benefits of a smoother transaction and potential lower than otherwise insurance premium.

With every challenge comes opportunity

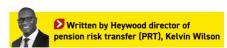
There are solutions entering the market

that enable schemes to factor GMPe work into the PRT process: Solutions that can dramatically reduce the time required to complete GMPe work at scale, such as Heywood Passport.

Being able to automate and efficiently tackle GMPe, without compromising accuracy, will allow schemes to experience significant reduction in project times. This translates to lowering costs, faster buyout completion and achieving their PRT endgame in desired timeframes.

Stakeholders benefit from the above: Trustees and advisers can focus on value-adding BPA negotiations whilst administrators will welcome the workload support. An efficient GMPe solution will be welcomed by insurers, as it helps instil confidence about a scheme's preparedness. Insurers can then focus on developing favourable risk reward propositions and create a more attractive market for everyone involved. Addressing GMPe remediation work is essential for achieving successful outcomes.

As the BPA market continues to be buoyed by a strong tailwind, staying ahead of challenges like GMPe is crucial. Visit Heywood.co.uk to learn more about Heywood's data and benefits calculations expertise, how it helps schemes navigate the hurdles and complexities associated with endgame journeys and tackle important GMPe projects.



In association with



www.pensionsage.com October 2024 **PENSIONSAge** 23