

GMPs – a giant leap towards simplification?

1 BACKGROUND

It is clear from both the Government's Green Paper published on 17 December 2002 and its "Action Plan" published on 11 June 2003, that it has been pondering what to do about simplifying guaranteed minimum pensions (GMPs) for some time now. On 17 October 2003, Andrew Smith (Secretary of State for Work and Pensions), announced "action to sweep away complex regulations in a move which will save business up to £16 million a year". His announcement was also confirmed by Baroness Hollis who made a similar statement in the House of Lords on the same day.

2 HOW WILL IT WORK?

As a quick reminder, GMPs were introduced in 1978 as the state scheme substitute for schemes wishing to contract out on a defined benefit basis, being replaced in 1997 by the "scheme reference test". The "action" the Government has in mind is to allow schemes to convert GMPs into scheme benefits of an actuarially equivalent value. If a scheme does this, it will no longer be required to offer GMPs.

Although precise details about how the actuarial conversion method will work are not yet available, some key points to note are that:

- The announcement does not specifically address the thorny issue of GMP equalisation, although the Occupational Pensions Regulatory Authority (Opra) recently provided some guidance on this difficult subject in the context of winding up a defined benefit or hybrid scheme (Opra Update 3).
- The new regulator will be able to produce a code of practice, the aim of which will be to protect members whose benefits are being converted.
- Likewise (although not surprisingly), the Pensions Advisory Service (OPAS) and the Pensions Ombudsman will be able to investigate complaints by members whose benefits have been converted.
- If they choose to do so, schemes will be able to continue offering GMPs as the proposals are not intended to "force" schemes to change.

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3 CONCLUSION

In principle, the Government's proposals offer a real opportunity for progress to be made down the road towards simplification. But the process for unravelling GMPs must be kept as simple as possible if it is not to deter schemes from taking this route.

As regards timing, whilst it is unclear from the Government's announcement, the most likely time-frame for implementing the changes is Spring 2005.