

PASA issues anti-franking guidance

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Introduction

Following requests from the industry to expand upon the section included in its [methodology guidance](#), on 29 September 2021 PASA issued [supplemental guidance on allowing for anti-franking when achieving GMP equality](#) (“the Guidance”). It examines the interaction of anti-franking requirements under legislation with GMP equalisation, considering why anti-franking is important and suggesting approaches to deal with key areas of uncertainty.

Key points

- The Guidance notes that all schemes should consider anti-franking as part of achieving GMP equality, as its impact can be significant.
- There are three potential approaches to applying anti-franking for equalisation purposes: “ringfencing”, “DWP 2012” and “apportionment”. These are not intended to be exhaustive and schemes may consider another technique more appropriate.
- The Guidance does not attempt to provide definitive answers to areas of legislative uncertainty.

What is anti-franking?

Anti-franking is designed to ensure that, except in limited circumstances, the revaluation provided in respect of GMPs in deferment cannot be offset against a member’s other benefits.

Where it applies, an “anti-franking minimum pension” underpins the member’s scheme pension. Broadly, this can result in pensions in payment being “stepped up” when a member reaches their GMP age (60 for women; 65 for men), or at retirement when a member remains in active pensionable service after their GMP age.

It is unusual for scheme rules to prescribe how anti-franking tests should be applied and different techniques can be used. A scheme’s past practice will usually dictate how anti-franking will be approached for the purposes of equalisation.

Impact on GMP equalisation

Following the [*Lloyds No.1*](#) case in October 2018, PASA set up a cross-industry working group with the aim of producing guidance to help schemes equalise for the effect of GMPs.

Anti-franking is a technical area of GMP legislation which can have a significant impact on equalisation. In some schemes, it is responsible for most of the large uplifts required to achieve GMP equality. The PASA guidance aims to highlight this, and also where anti-franking may give rise to particular issues in the context of GMP equalisation, so as to assist schemes in factoring it into their equalisation projects.

Applying anti-franking for equalisation purposes

Contracting-out on a GMP basis was a possibility on and from 6 April 1978 up to and including 5 April 1997. Anti-franking is a whole service test, in that it applies right across a member's benefits. However, equalisation only applies to GMPs built up on and after 17 May 1990 up to and including 5 April 1997 ("the equalisation period"). It is therefore unclear how anti-franking should be factored into GMP equalisation in respect of members with pre-1990 GMP.

The Guidance suggests three potential approaches – the "ring-fence" technique, the "DWP 2012" technique, and the "apportionment" technique (a summary table is set out in Appendix 1 of the Guidance). Each approach has different data requirements. For example, ringfencing requires three different data streams, ie whole pension for the member, as well as one for each of the member and the comparator in respect of the equalisation period.

For most schemes, the Guidance considers the starting point will be ringfencing as it is "relatively simple" and "will often be appropriate". For this reason, all the examples in the Guidance focus on this approach. However, schemes should be aware that "it can give odd answers in some circumstances".

Next steps?

The Guidance is very technical and aimed at administrators and advisers to support them in factoring anti-franking into GMP equalisation projects, and trustees should expect advisers to consider it in the advice they provide to their schemes.

Future guidance on "Administration of GMP Equalisation" will aim to explore in more detail the interaction of multiple pension streams with administration and payroll systems. PASA also intends to publish a set of Equalisation Q&As in October 2021.

If you have any questions on any of the above, **please speak to your usual Sackers contact.**

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