Unhappy anniversaries: why GMPE and Lloyds 3 delays are untenable

The pensions industry recently marked two anniversaries on?Guaranteed Minimum Pension equalisation (GMPE) and Lloyds 3. And neither was a cause for celebration.?

On 26 October 2018, the High Court ruled that pension schemes must address inequalities arising from Guaranteed Minimum Pensions for men and women. Yet *seven years* on, much of the industry is still working its way through the task. ?

And it's now *five years* since the High Court's third GMPE judgment on 20 November 2020, which is known as Lloyds 3. This delay can't go on.

The industry is facing a range of pressures – from regulation to strategic goals and our duty to members – that make further delays untenable.?In this article, I'll recap the background to GMPE and Lloyds 3 and discuss why now is the time to get this work done and how to do it.

I discussed GMPE and Lloyds 3 with John Wilson, our Head of Pensions Technical, in the most recent edition of the Aptia Pensions Administration Pod. You can listen to our discussion here.?

Time, data, dashboards and strategy

There are several reasons why the current position isn't acceptable?for our industry. In summary they are:?

- The Pensions Ombudsman has indicated that unnecessary delays to GMPE aren't acceptable?
- Schemes need to complete GMPE to be ready for connection to pensions dashboards in 2026
- The Pensions Regulator is cracking down on schemes with poor data – and GMPE is a data problem?
- If your scheme is targeting buyout or another derisking option, unresolved GMPE issues can threaten your plans?
- Members have waited too long for what can be substantial payments?

I'll look at all these reasons in more detail later. First, let's look at the history of GMPE and how Lloyds 3 fits in. ??

The High Court's first ruling concerned a case between Lloyds Bank and the trustees of its pension schemes. The judge held that pension schemes?are?obliged to equalise benefits to address unequal treatment from GMP legislation.??

The decision left several loose ends, including transfers out, that were largely resolved in the third ruling involving Lloyds Bank and the trustees in November 2020. ?

The Lloyds 3 judgment said:??

- There was no time bar on trustees' duty to make top-up payments??
- All transfer values paid since 17 May 1990 were potentially in scope??
- Transferred-in benefits should be equalised?

As with the original Lloyds ruling, the court gave no time limit or guidance for when pension schemes should complete this work. The result is that – all these years after each ruling – progress has been woefully slow. ?

Lloyds 3 is particularly tricky because it involves ex-members whose cases can stretch back further than other GMPE work. We have supported schemes that have made good progress with or have completed the equalisation. ?

But many schemes are still at the early stages, and some haven't started to analyse their situation and liabilities or completed any planning. Trustees of these schemes are now in a position where they should start this planning and begin the equalisation.?

How have we got to this point? There are several overlapping reasons:?

- GMPE has been around for so long that the industry has fallen into a pattern of talking about GMPE rather than getting on with the work ?
- Trustees' agendas are filled with other concerns such as triennial funding decisions, new legislation, investment projects and derisking options (though more on this later)?
- Because Lloyds 3 applies to ex-members who have transferred out, trustees may give these former members less priority than current members – though both groups worked for the same employer and arguably deserve the same level of care?
- Lloyds 3 is often low on the to-do list of advisers to pension schemes?
- There is a myth about the practicalities of Lloyds 3 that says you need to complete GMPE for current members before moving on to ex-members?

None of these points reflect well, and circumstances have now come together to make further delays hard to justify. Let's take those reasons in turn.?

1 Regulation?

In January, the Pensions Ombudsman considered a complaint against a pension scheme by a former member, based on the Lloyds 3 judgment. The ombudsman largely supported the scheme trustee but said the scheme's GMPE project "should not be unnecessarily delayed". ?

We wrote about this case in more detail here. The key point for our purposes is that GMPE projects can take "a reasonable period of time" but that they shouldn't be delayed. ?

Seven years after the first court ruling, and five years since Lloyds 3, it can certainly be argued that the definition of reasonable is reaching its limit. We would also expect the Pensions Regulator?to have noted the ombudsman's determination and to take a growing interest in GMPE and Lloyds 3.?

2 Pensions dashboards?

It's now less than a year until the final deadline (31 October 2026) for schemes to connect to pensions dashboards, and this adds to the urgency for GMPE and Lloyds 3.?

I've been asked a number of times: What have pensions dashboards got to do with Lloyds 3???

First, as we have pointed out, the Pensions Regulator spent the summer reiterating its determination to drive up data standards across the industry. This included contacting schemes with poor data to find out how they planned to improve – and dashboards played a big role in this push.?

GMPE and Lloyds 3 are data problems, and schemes won't be able to present members with an accurate picture of their pensions if they aren't resolved.?

Second, pensions dashboards will give 16 million people a full view of their pension savings and will be big news. At Aptia, we expect to receive potentially hundreds of thousands of enquiries each day (certainly in the initial rush) and if GMPE and Lloyds 3 aren't fixed, this could generate complaints for schemes. ?

3 Strategic goals?

After a long period in deficit, many defined pension schemes are now in surplus and are considering how to secure their members' benefits through buyout or other derisking options.?

As an administrator, we are at the centre of these transactions, and too often we see schemes' plans changed (or at worst disrupted) because they haven't addressed GMPE, and Lloyds 3 in particular, early enough. If the insurer can't get comfortable with the potential risks, transactions can grind to a halt or become prohibitively expensive. ?

We've helped trustees resolve Lloyds 3 problems late in the day, but this creates extra stress and cost – and sometimes there isn't time before the insurer's guaranteed pricing expires. In these situations, the resulting increases in price could often have been avoided. So, as leading insurers say, get your administrator involved early.?

4 Members' welfare?

Last, but most fundamental, is your members and their welfare. Members have now been waiting more than seven years for money that is theirs. Most equalisation arrears payments and adjustments under GMPE will be small, but many will be significant.?

In our experience, around 5% to?10%?of members typically receive a payment of £10,000 or more, depending on the specifics of the member population and the scheme benefit structure. For many people, this is a substantial sum, especially during a cost of living squeeze.?

With member outcomes and pensions adequacy high on the agenda, these are significant amounts that are arguably being withheld if a plan is not in place.?

How to get the work done?

We've been helping trustees resolve GMPE for a long time, and we have a specialist Lloyds 3 team that understands the problems it presents. We help trustees to understand the extent of their liability and the number of members that may be impacted, and we support them with putting a plan in place based on our experience. ??

Lloyds 3 can be tricky to resolve because it involves contacting ex-members, and much time has often elapsed since they were a member of the scheme in question. When we contact ex-members, they are often suspicious and don't respond. The passage of time may mean the name of the pension scheme has changed and the people we contact don't recognise it as their former scheme.?

This wariness is understandable because, unfortunately, criminals see pensioners as easy targets and pension liberation scams (or attempted scams) are common. Our team has the experience and skills to work with trustees to understand their membership and their specific needs to deal with this situation sensitively and get the former members engaged.?

At Aptia, we can complete a Lloyds 3 project with minimal burden on trustees, and we know how to work around the scheme’s other activities so members aren’t disrupted. The important thing is to get started as soon as possible, because tracing and contact get harder as time goes by.?

Pension schemes and their members have waited long enough to resolve the seven-year delay of GMPE, and now five years for Lloyds 3. It’s time to consign this saga to the past, and the capacity is there to get the job done.? ?

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