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Member Options – A valuable Option or Member Exploitation? 2019 Update

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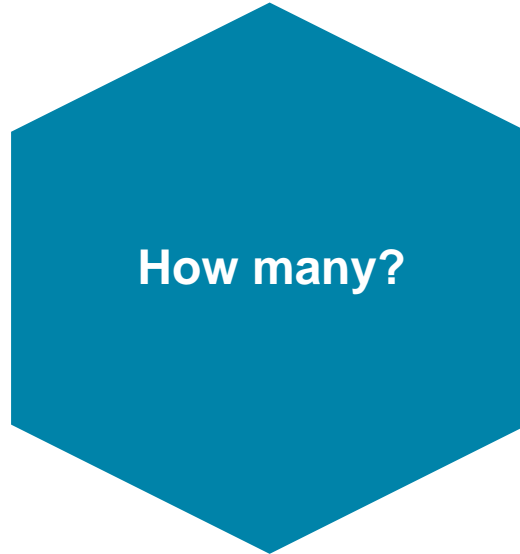
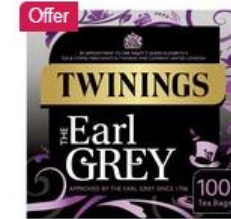
Choice – good or bad?

19 June 2019

Choice – good or bad?



Choice – good or bad?



Choice – good or bad?



1,017



Food envy!



Choice – finding the right balance

- Overall there is no question that some choice is better than none
- But it doesn't follow necessarily that more choice is better than some choice
- There is a **balance**

- Largely depend on what **information** we're given as we make those choices





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Why now?

10 June 2019

Budget – 19 March 2014



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Budget 19 March 2014

FREEDOM & CHOICE

“Pensioners will have complete freedom to draw down as much or as little of their pension pot as they want, anytime they want.

No caps. No drawdown limits.

Let me be clear. No one will have to buy an annuity.”




INFORMATION

An individual, who wants to transfer away from a defined benefit scheme must take advice from a professional financial adviser



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Member Options – suitable for all parties

	Trustee 	Members 	Company 
Choice and flexibility	✓	✓	✓
Benefits that better suit the member's circumstances	✓	✓	✓
Help to make a complex decision		✓	
Better member outcomes through supported decisions	✓	✓	✓
Improved terms and options	✓	✓	
Manage reputational and governance risk	✓		✓
Reduced risk of 'pension scams'		✓	
Improved funding position	✓		✓
Risk reduction	✓		✓
Accelerate progress to buy-out / long-term funding target	✓		✓
Doing the right thing for members	✓		✓

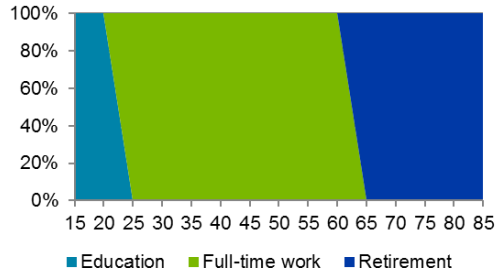


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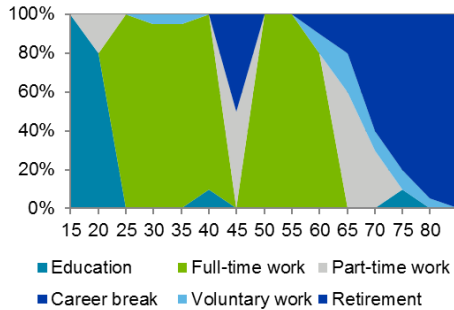
Flexible retirement from DB schemes

Illustration of changes to demographics and the typical working life

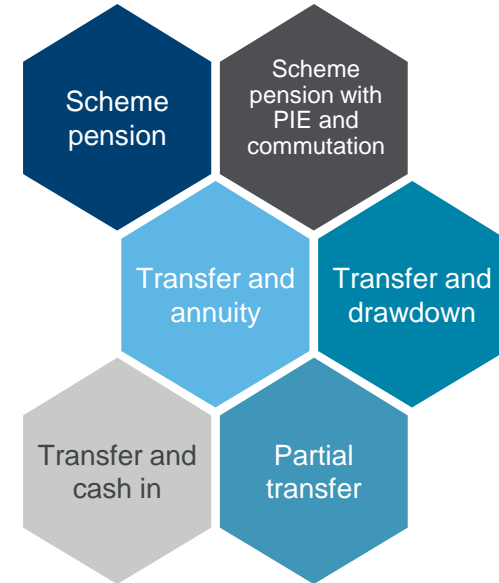
Historically:



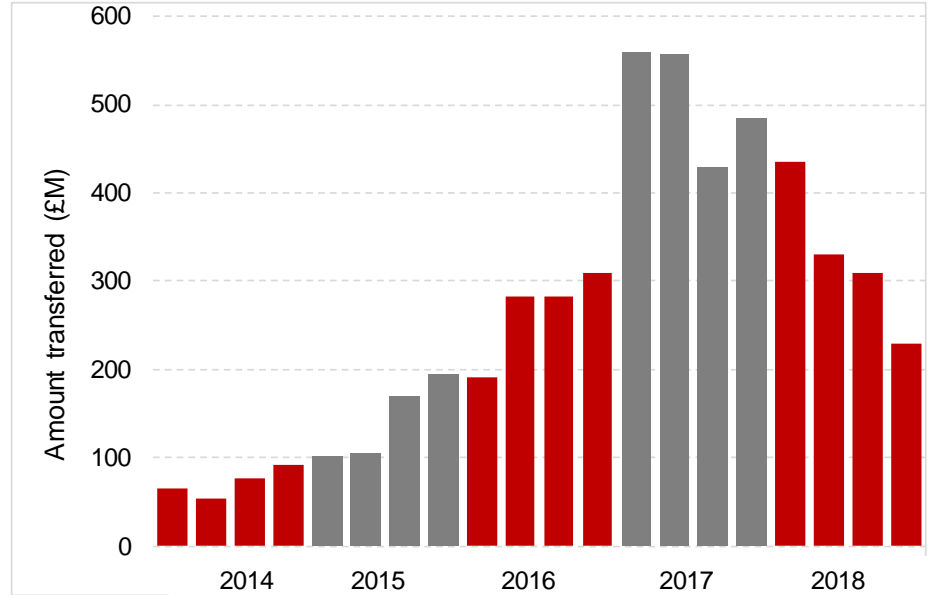
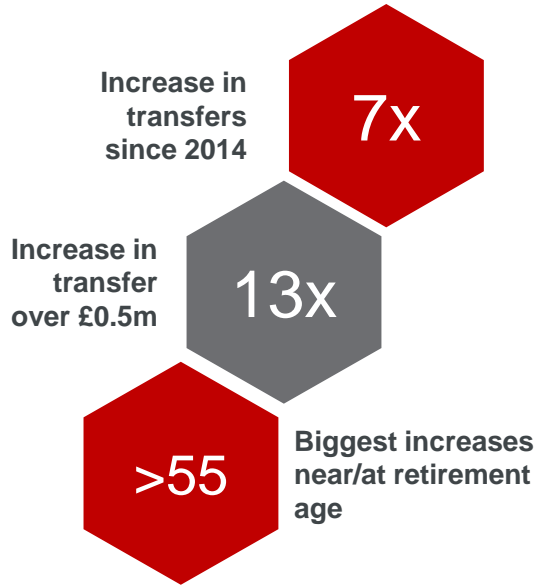
More recently:



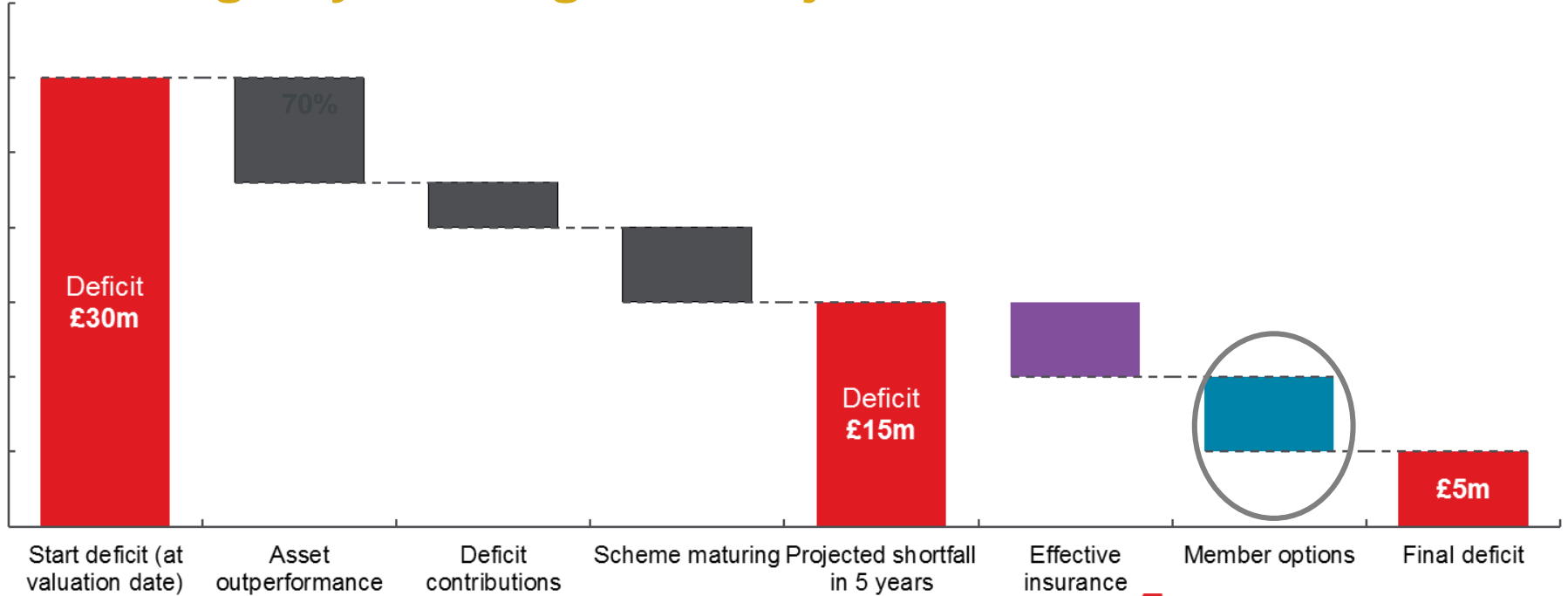
Changes to legislation aka 'Freedom and Choice'



Transfer value experience



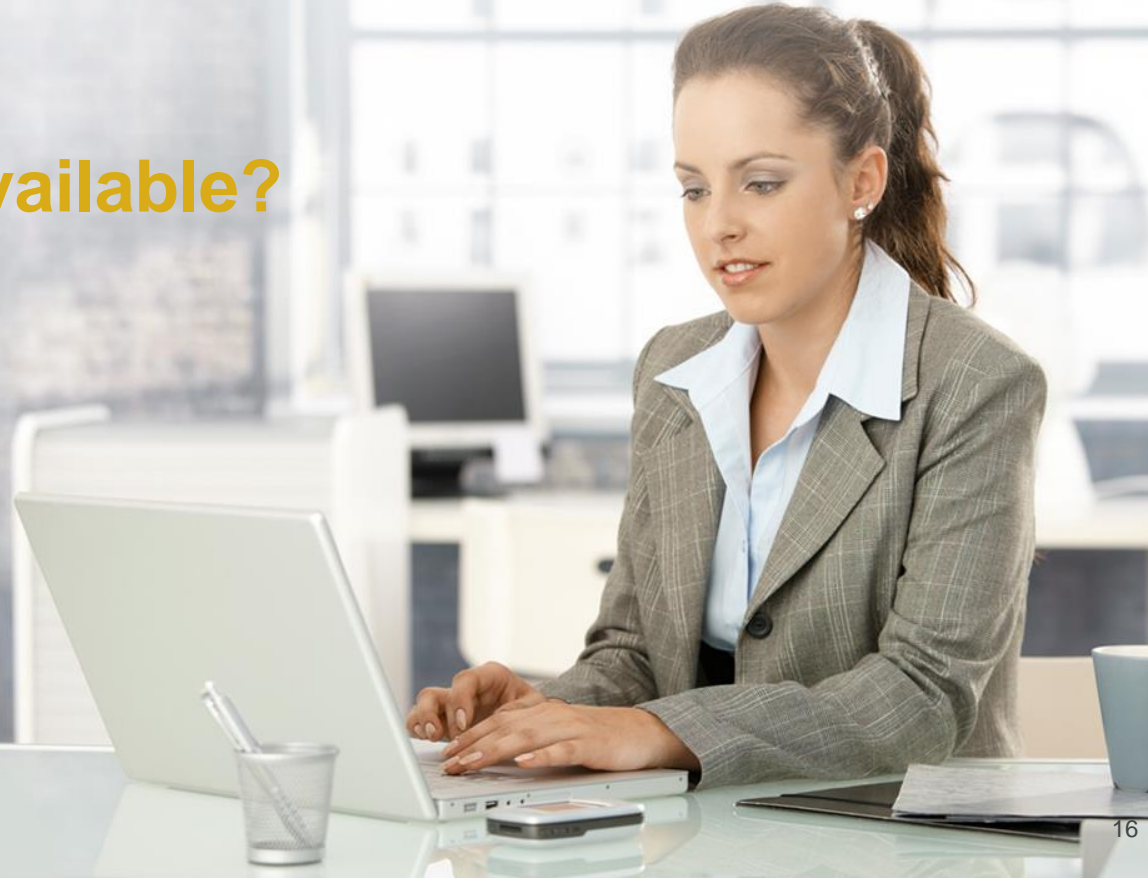
Getting to your long term objective



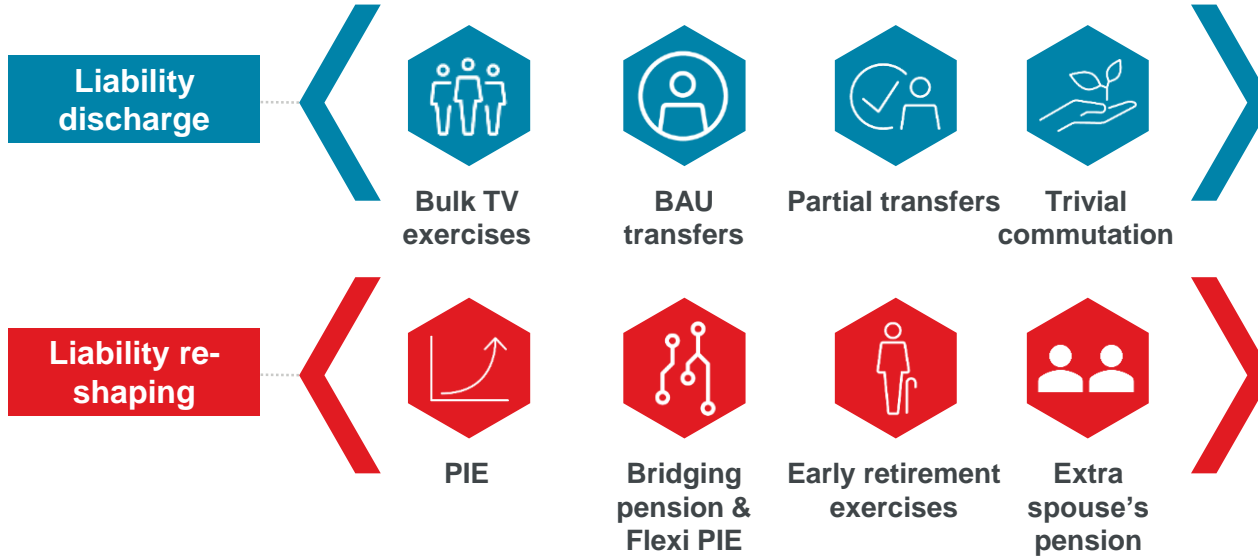


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What options are available?



What are others doing? A range of options on offer



The transfer option from the member's perspective

Example retirement options for a 'typical' scheme member

Retirement option	Details	Annual pension	Tax-free cash	Drawdown pot / cash fund
Scheme pension	RPI(0,5) increasing, joint-life	4,900	32,700	-
Transferring to purchase an annuity	Fixed 3% p.a. increasing, joint-life	4,900	61,800	-
	Flat, joint-life	8,200	61,800	-
	Flat, single-life	8,700	61,800	-
	Flat, single life, smoker	9,900	61,800	-
Drawdown option		-	61,800	185,200

Source: Example from a recent exercise. Figures shown are for a male aged 60; pension of £6,000 p.a. (before any PCLS) which will increase in retirement by RPI max 5% p.a.; CETV of £247,000; commutation factor applicable to the member's pension is 30:1

- Swap RPI-linked pension increases for fixed increases and **double tax-free cash**
- Alter the form of the pension (e.g. no increases or single life) to **boost income** further
- **Full flexibility** through the drawdown option



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Member support and insight into the IFA market

10 June 2019

Levels of member support



Reactive

Issue statutory information only, provide information on member request



Broadcast

Flag option to transfer in generic communications, no numbers or member specifics



Personal

Include transfer value figure in the retirement pack



Advisory

Use technology to offer additional education and guidance and / or support members with paid for IFA advice or put in place a preferred IFA firm

What does full support look like?

Member support spectrum



Member “on their own”

Revamp of communications

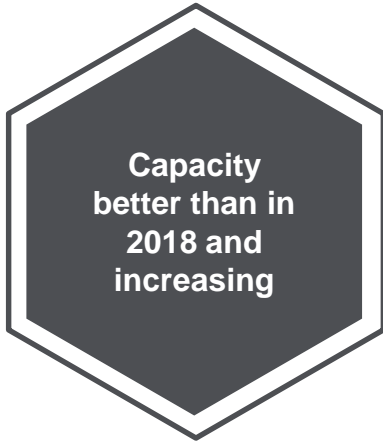
Online education

Facilitate IFA support



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IFA market update



Why appoint a preferred IFA



Improve member experience



Due diligence on IFA



Quality of advice



Cost of advice / value for money



Reduce administration burden



Remove a barrier to transfers

Paying for advice



Business case

Typical CETV might be £300K, compared to TPs significantly higher

Every transfer reduces the deficit by 10's of £Ks

Cost of advice <<£1K

Only small increase in transfer take-up required to pay for the cost of advice



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Hot topics

10 June 2019

GMP equalisation

- Exercises are going ahead as planned
- Either update to equalised TVs or top up later
- IFAs want to compare “apples with apples”
- PIE can proceed, recommend keeping options open in communications

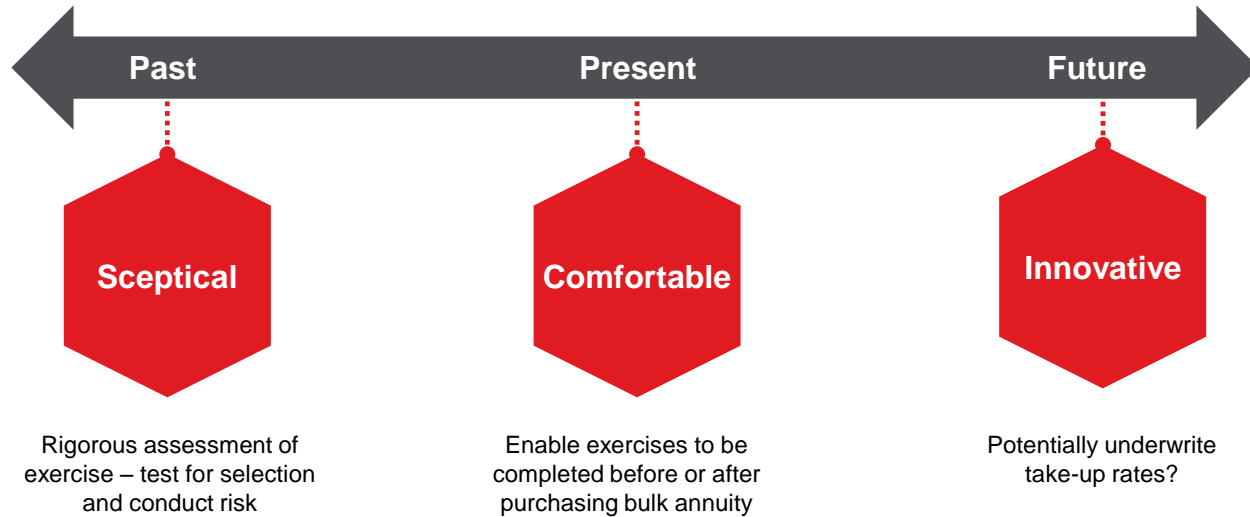


Partial Transfers



Liability settlement – considering member options with annuities

Insurers view of member options exercises



Insurers have recognised that member options exercises are now mainstream and a core part of the de-risking toolkit

Questions

Comments

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