

# 'FaR'

## Do you give your members 'Flexibility at Retirement' (FaR)?

### Key Points

- Some members entitled to defined benefit (DB) pensions may find that by taking a transfer value to an immediate vesting personal pension (IVPP), the form and/or amount of benefits available are more suited to their individual circumstances.
- IVPPs can be particularly advantageous for members who are entitled to an 'enhanced annuity', due to a lifestyle or health condition. They can also be beneficial if a member has no spouse/partner or dependants.
- IVPPs can also have a positive impact on the financial position of schemes which offer them.
- To provide the benefits of IVPPs to schemes and members in the most efficient way, JLT Employee Benefits has developed a new 'Flexibility at Retirement' (FaR) service.

### Introduction

The process by which members turn their defined contribution savings into a retirement income (also known as 'decumulation') has received a lot of attention recently and, according to the Pensions Regulator, appropriate decisions on converting pension savings into a retirement income are one of the elements necessary for members to receive good outcomes.

Much less attention is paid to retirement processes in DB schemes. It is often assumed that the member must take benefits from the scheme and that the only member decision is whether or not to take tax free cash, with issues such as indexation and survivors' benefits being prescribed by scheme rules without any reference to individual member circumstances.

However, members do not have to accept the benefits prescribed by the rules of their scheme. By transferring to a personal or stakeholder pension, they can have far greater control over what is paid to them in retirement and any pension payable on their death. For example:

- Do they want/need indexation or would they be better suited by a bigger starting pension?
- Are they married and, if not, why the need for a survivor's pension?
- Do they want/need a guarantee period?

Moreover, depending on their circumstances and state of health, members may also qualify for an enhanced annuity(\*) providing them with a pension that could be more valuable than their existing entitlement.

\* It is estimated that around 40% of people could qualify for an enhanced rate.

### Example (£300k purchase price)

*A 65 year old male member purchasing a single life, level annuity with a five year guarantee would be entitled to a conventional annuity of around £20,000 per annum. However, entitlement to 'smoker rates' would increase the member's pension by around £4,000 p.a. to £24,000 i.e a 20% uplift.*

So, the option to transfer at retirement is important. However, members may not be aware that this potentially valuable right is available to them.

### FaR

This is the backdrop to the new JLT Employee Benefits Flexibility at Retirement service, which builds on the immediate vesting personal pension concept by making transfer options part of the retirement process in DB schemes.

Trustees, by including the transfer option in retirement literature and introducing a policy of allowing transfer values within a year of retirement (where a statutory right to a transfer may not be available) are, at the very least, providing members with a wider range of options. They are also potentially improving member outcomes in terms of control, flexibility and even the level of retirement income.

# Let's Talk 'FaR'

FaR can also be extended to deferred members who are aged at least 55.

Each member would be provided with a statement detailing the scheme benefits they would receive at normal pension age and if they took early retirement. An illustration would also be included showing the benefits that could be secured if a member took a transfer value, including the impact of eligibility for an enhanced annuity.

JLT Employee Benefits has developed a process, including an arrangement with a leading pension provider, that ensures members are able to make informed decisions and, if a transfer value is selected, there is a straight through process for any annuity purchase.

Importantly, the introduction of FaR into the retirement process does not entail trustees giving advice to members. All that is likely to be required is the addition of a simple statement in retirement literature such as:

*"The trustees will also allow members to transfer out of the scheme before their retirement, even if they do not have a legal right to a transfer. For some members, a transfer to a pension arrangement in their own name may be preferable to taking benefits from the scheme. For example, by transferring to a personal pension before retirement, members have more control over the form of their benefits because they choose whether to have pension increases or survivors benefits (both of which are mandatory under the scheme). Also, some members may be entitled to preferential annuity rates for converting retirement savings into pension (potentially providing them with a higher income than would be provided by the scheme).*

*However, before transferring, members must take independent financial advice; only then will they be in a position to make an informed decision as to whether they should take benefits from the scheme or a transfer to an individual pension arrangement. The trustees cannot advise members but can, if requested, provide illustrations of benefits and details of how independent financial advice can be obtained".*

More detail of the FaR process can be provided in the form of a Flexibility at Retirement Report, which we tailor to the circumstances of different schemes.

## Other benefits

Where members choose a transfer over benefits from the scheme, there can be a positive effect on the scheme funding position.

Depending on the member (e.g. the proportion of liabilities that he or she represents) requesting a transfer and the volume of such requests, the positive net impact on scheme funding may be significant. This potential funding effect can be modelled.

### FaR Case Study

*The first client to conduct a FAR exercise was a scheme with approximately 2,700 deferred members aged 55 or over.*

*60% of the 2,700 contacted the IFA helpline*

*45% proceeded to the advice stage, of which 31% took no action*

*8% took early retirement through the scheme and 61% transferred to an immediate vesting personal pension.*

*The scheme paid out £65m in transfer values. This reduced the scheme deficit by approximately £12m.*

## Checks and balances

A transfer to an immediate vesting personal pension will not, of course, be appropriate for everyone and, whilst recognising that some members have a statutory right to transfer out, trustees should insist that members provide evidence of advice before allowing a transfer.

There are other issues to consider too. For example, members with transitional protection of pension, cash or pension age before 55 need to ensure that this is not lost in the event of a transfer out. Such considerations can be identified as part of a scheme FaR Report.

## Next steps

For further information on FaR and the potential benefits of making it part of your scheme's retirement process, or to commission a report, please contact your usual JLT consultant.

*This fact sheet is only a brief summary – advice should always be sought before taking any action(s).*