Flexible retirement options



Choices that benefit your members and Scheme

first actuarial

Trustees and employers have a shared duty to provide members with good outcomes. The options they make available to members as they approach retirement are a key part of that responsibility.

Providing flexible retirement options means giving members choices in the way they access their benefits.

Up to now, pension schemes have tended to offer only one retirement option – a cash lump sum. While these one-off payments are popular with members, other options that trustees and employers can now offer will be even more helpful.

The good news is that introducing more flexible retirement options doesn't just improve member outcomes. If carefully designed, it should improve employer and trustee outcomes too.

> *Our experience in using First Actuarial has been really very positive. We find the quality of advice excellent and feel that those we deal with really understand us.*



First Actuarial can help you offer the right flexible retirement options on the right terms, so members can make the most of the valuable benefits they have built up in the scheme. We can manage both the costs and the risk for you, and help move your Scheme closer to its Long Term Funding Target.

How will offering flexible retirement options help your Scheme?

Flexible retirement options will benefit all pension scheme stakeholders:

Trustees

Trustees can improve the scheme funding position and make it easier to achieve the Long Term Funding Target.

Members

Members can access their benefits in a way that suits them.

Employers

Employers can reduce risk, making scheme costs more controllable and affordable.



How will scheme members view flexible retirement options?

As scheme members approach retirement, they become much more engaged. In some cases, this may be the first and only time they think hard about pensions.

When members are engaged, they are open-minded. They are in listening mode. If you send them a letter about pension options, they're more likely to read it and take action than hide it away in a drawer.

This is a great opportunity to move beyond the cash lump sum and offer a broader range of choices that will meet members' individual needs while also benefiting the scheme.

Of course, people find pensions hard to understand and adding extra choices at retirement can increase complexity. So, it's vital to explain all options and give members the clear and comprehensive information they need to make an informed choice.

When we explain flexible options to members, they are usually delighted and appreciate what the trustees and employer are offering.

How will offering flexible retirement options help them?

Defined Benefit pension schemes offer a great deal of certainty. They give members confidence that they will get the benefits due to them, when they have been promised them. However Defined Benefit schemes haven't always offered much in the way of flexibility. Different people with differing needs get the same shape of benefits, such as pension increases.

Flexible retirement options allow members to reshape the benefits they have built up into something that meets their needs. Some members may choose a bridging pension so they can retire earlier, for example. Others may opt for a pension increase exchange, with a higher pension in the early part of their retirement and a lower pension later on.

By providing this flexibility, schemes can improve members' wellbeing.

Flexible retirement options – what are the most common approaches?

Many trustees and sponsors will choose to offer flexible options that either reshape member benefits or reduce scheme liabilities.

Flexible retirement options that reshape member benefits

With these options, the pension remains in the scheme, but is reshaped to better suit the member's needs and aspirations in retirement.

- **Cash commutation** – Members give up a portion of their pension in return for a tax-free lump sum. This substantial upfront payment can be useful for paying off a mortgage or planning the holiday of a lifetime, for example.
- **Early retirement** – Members can opt for a lower pension if they decide to retire before the Normal Retirement Age. This gives them more flexibility to retire when they can afford to do so.
- **Pension Increase Exchange (PIE)** – Members can give up future pension increases in return for a higher pension today. For some members, it makes sense to receive a higher pension at an age when they can truly enjoy it.
- **Bridging or levelling pension** – Some members may want a higher pension today in return for a lower pension when their State Pension starts. This can help smooth out their retirement income, and allow members to retire earlier than they thought possible.
- **Higher (or lower) dependant's pension** – Members can give up some pension in return for a higher dependant's pension. This may suit members who want to better protect their dependants. Others, for whom that protection is not needed, can increase their pension while reducing or removing their dependant's pension.

Flexible retirement options that reduce scheme liabilities

With these options, members take all or some of the value of their pension out of the scheme, which can help trustees and employers discharge liabilities.

- **Standard transfer out** – This involves transferring pension benefits out of the scheme in return for a one-off payment into another plan. Some members may be keen to make use of Defined Contribution pension freedoms, to reshape their pension. They may draw down their pension on their own terms, or buy a more 'efficient' pension, such as a single life annuity.
- **Enhanced transfer out** – This is similar to the standard transfer out, with similar member motivations for choosing it, but the one-off payment is higher.
- **Partial transfer out** – Members transfer part of their pension into another arrangement, but leave some of their pension rights within it. This is a 'best of both' option that will appeal to some members who want to take advantage of the freedoms in Defined Contribution schemes while enjoying some Defined Benefit certainty.
- **Trivial commutation** – Members can exchange small pensions in return for a one-off cash lump sum. This may help them simplify their overall retirement income sources.



How can First Actuarial help you offer the right flexible retirement options?

Choosing the right flexible retirement options can generate savings that outweigh the costs involved, and lead to improved member outcomes.

But these options do not come without cost or risk.

Helping you manage the selection process

We can provide a training session on the selection process, trustee and employer roles and responsibilities, and potential benefits. This will help you review the options available and gauge the value to members and to the Scheme itself.

Helping you manage costs

Introducing flexible retirement options can incur a number of costs in terms of calculating and administering them. You may also decide to pay for Independent Financial Advice for your members, depending on the options introduced.

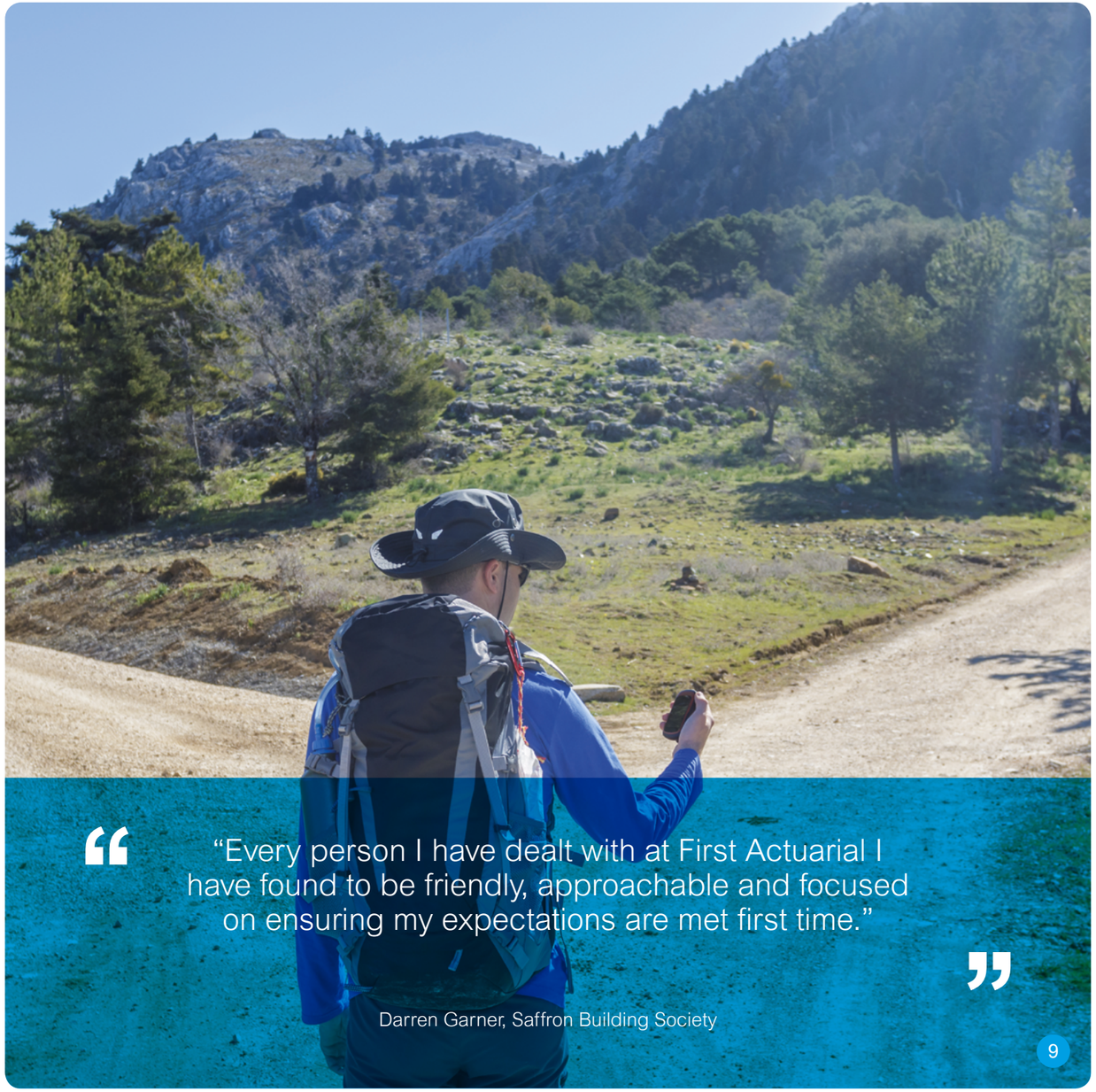
To manage the costs involved, First Actuarial can carry out a cost-benefit analysis to gauge the impact in advance of making any changes.

Helping you manage change

First Actuarial can support you if your Scheme rules need to be changed to permit any new flexible retirement options, or if your Scheme Actuary needs to advise you on the option terms.

Helping you manage risk

'Selection risk' occurs where members choose options that maximise their own financial position to the detriment of the scheme. One example is where a member with a lower life expectancy chooses to receive a higher pension today. Our specialists can highlight any such risks as you select the right flexible retirement options for your Scheme.



"Every person I have dealt with at First Actuarial I have found to be friendly, approachable and focused on ensuring my expectations are met first time."

Darren Garner, Saffron Building Society

How can First Actuarial help you communicate flexible retirement options to your members?

Helping you manage member communications

To improve understanding and take-up of the flexible retirement options you offer, First Actuarial can help you develop and carry out a communications strategy aimed at members approaching retirement.

Communication	What is it?	Why might members want it?
1. Written correspondence at early retirement age	Rather than writing to members as they approach their normal retirement date, this involves issuing early retirement quotations at younger ages.	Members aren't always aware of their option to retire early. A simple reminder can help those members with an immediate need for cash or pension income.
2. Webinars and workshops	Online webinars and face-to-face workshops offer guidance to members approaching retirement.	Group presentations can give members the answers to questions they might not have thought of themselves.
3. One-to-one guidance sessions	A one-to-one session – face-to-face or by telephone – with a First Actuarial consultant helps members understand the retirement options available and their potential impact.	Retirement decisions are very important and, in most cases, cannot be changed at a later stage. Guidance from a First Actuarial pensions specialist is highly valued by members.
4. Online retirement guidance tool (firstselect)	firstselect is an online retirement guidance tool which explains a member's retirement quotations and what to consider when choosing options.	firstselect uses engaging graphics and clear everyday language to explain the options available to members at retirement. It's easily accessible at work, home or on the move, and outside normal working hours.

Get in touch

If you would like to learn more about developing your flexible retirement options, we would love to speak with you.



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About us

First Actuarial LLP is a nationwide partnership with more than 300 staff covering five offices. Each office provides our whole range of services.

We help you run your scheme smoothly and effectively at reasonable cost.

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