

WORKPLACE FACTSHEET

Flexible Retirement Options for Employers

BACKGROUND

In his Budget in March 2014, the then Chancellor, George Osborne, announced the introduction of new far-reaching changes to pension legislation. The most significant of these changes being that from age 55, individuals with DC pensions now have a greater degree of flexibility in how they access their pensions at retirement.

These flexible options are also available to members of private sector DB schemes by transferring their pension benefits to a DC arrangement. Such transfers are subject to new safeguards which are designed to protect the best interests of the member and the scheme.

WHY MIGHT SCHEME MEMBERS TRANSFER THEIR DB BENEFITS

- More flexible income available
- Bigger tax-free cash available
- Ability to pass on whole of fund on death (not just 50% as in most DB schemes)
- No future worries about scheme deficit
- Income Tax Planning
- Access to pension before "normal retirement age"
- Receive better guaranteed rates on ill health or if they are single

ISSUES FACING EMPLOYERS WITH DB SCHEMES

Traditionally, DB schemes have been seen as the gold standard of occupational pension schemes offering guaranteed benefits linked to an employee's final salary and length of service at the time of their retirement. Costs are generally shared between the employer and employees but it is the company that remains responsible for any shortfall in meeting the accrued liabilities under the scheme. Unfortunately, a combination of scheme members living longer, low interest rates and lower than expected investment returns have all contributed to a rise in the value of scheme liabilities leading to significant deficits for many DB schemes. In fact, according to the PPF, at the end of October 2016 the UK DB scheme deficit was approximately £329 billion.

To deal with such deficits many employers have either reduced benefits, altered the benefits payable, sold the scheme's liabilities or closed their scheme altogether to new entrants whilst freezing further accrual of benefits for existing members. The new pensions freedoms offer an alternative option to employers with DB schemes by allowing their members to transfer their DB benefits to a separate DC arrangement.

THE BENEFITS TO EMPLOYERS IF DB MEMBERS TRANSFER

- Scheme liabilities are reduced
- The potential for future problems is reduced
- Easier to find alternatives for those left in the scheme
- Administration costs are lower
- The regulatory burden is reduced

MORE INFORMATION OR REQUEST A DEMONSTRATION?

Visit us: ev.uk **Contact us:** +44 1635 881180 **Email us:** contact@ev.uk

THE CHALLENGE

Due to longstanding demographic changes and economic issues, many companies with DB schemes now face substantial liabilities resulting in ongoing financial pressures and continued regulatory demands. Members may transfer their liability to a DC provider but transferring out of a DB scheme is not a simple process. A plethora of rules currently exist to ensure that employees do not make any rash decisions and fully understand the implications of surrendering the guaranteed benefits that they and their family are entitled to under their DB scheme.

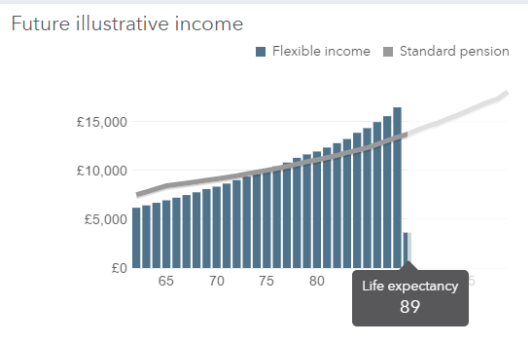
Employees must obtain independent advice for transfers over £30,000 but face to face advice is expensive and is difficult for individual members to obtain. Indeed, many advisers are often reluctant to offer such advice since not only must they be specially qualified but comparing the guaranteed benefits members are intending to give up with any alternative future options is a difficult task.

OUR SOLUTION

The delivery of financial advice is constantly evolving. Currently, one of the most efficient solutions is to utilise a part customer and part adviser process. EValue's Flexible Retirement Options tool helps employers to clearly and impartially communicate the options available to their employees by providing a secure area for DB members to fully explore and compare their retirement options if they were to transfer out their final salary benefits. It also allows appropriately qualified advisers to directly access these findings and provide mandatory advice more cost-effectively and efficiently.

Undoubtedly, the flexibility inherent in the new pension freedoms may be better suited to some DB members than others. EValue's Flexible Retirement Options tool helps to demonstrate the advantages of each alternative option by providing realistic potential outcomes so members who should remain in the scheme understand why this is the case.

Realistic forecasts from stochastic projections powered by Insight asset model



PLUS...

- Additional questionnaires included to improve the accuracy of the member's future retirement income
- Ability to cope with the vast majority of DB schemes
- Easily configurable for individual schemes

Clearly demonstrates pension freedoms by displaying retirement options side-by-side

Explore the money you could get from each option

The amounts shown below are illustrative and we have assumed you'll take a tax-free lump sum.

Standard pension	Annuity	Flexible income	Cash
Tax-free lump sum of £50,000	Tax-free lump sum of £62,500	Tax-free lump sum of £62,500	Take a single lump sum of £250,000
Initial taxable annual income payable for the rest of your life £7,500	Taxable annual income payable for the rest of your life £4,200	Taxable annual income of your choice until the money runs out £6,170 until age 89	We estimate your lump sum would be reduced by £71,000 due to income tax on money above 25%, leaving you with £179,000.
Your standard pension income will typically increase in payment; your dependents will usually receive an income should you die first.	We've assumed this income is based on having a 50% secure income; having a pension which increases in line with inflation, not being a health issue and not being a smoker.	We've assumed this income will increase with inflation and you choose a medium risk investment strategy.	We've assumed you have not received any income in this tax year.
Learn more Answer 5-9 questions to explore your pension increase exchange option	Learn more Answer 5-9 questions to get a more accurate income estimate	Learn more Answer 13 questions to tailor your investment risk	Learn more Answer 3 questions for a more accurate tax figure
Explore further >	Explore further >	Explore further >	Select this option >

Use of gamification to allow members to explore & understand their options

4%

Collect the stars

You'll find stars throughout the site

Click each star to reveal new content. Your % explored status will increase with each star you collect.

Got it!

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