

What retirement options do DB schemes provide to members and how are they communicated?

LCP DB member communication survey
August 2017



Introduction

Most members of DB pension schemes are not obliged to take scheme benefits at scheme pension age. In many cases they have options to reshape their benefits either by remaining within the scheme or by transferring out some or all of their rights.



Jonathan Camfield
Partner

This survey looks at how DB pension schemes communicate with their members and what options are being provided to members.

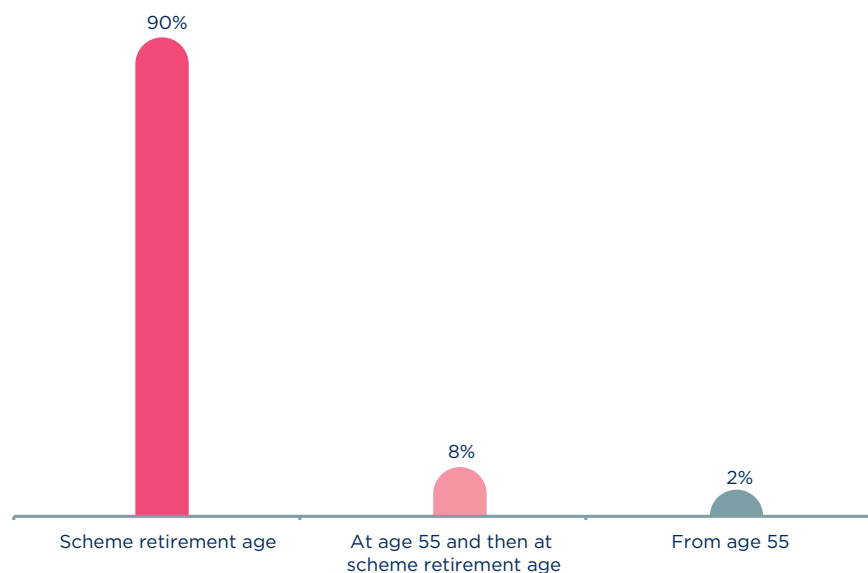
Over 100 schemes were included within this survey and represent a wide cross-section of UK pension schemes, across all industries, with scheme sizes ranging from less than £50m to more than £1bn. We conducted a similar survey in 2015 shortly after the new freedom and choice in pension reforms were implemented, and in some cases a trend in market activity can be seen.

DB retirement options can include:

- Commuting part of pension rights to a lump sum.
- Taking pension earlier or later than normal scheme pension age.
- Transferring some or all of rights out of the scheme into DC arrangement.
- Reshaping benefits within the scheme, for example by exchanging future pension increases for a higher starting pension, or taking a higher pension for the period between retirement age and state pension age.
- Accessing any supplementary DC element of pension (eg as purchased by additional voluntary contributions).

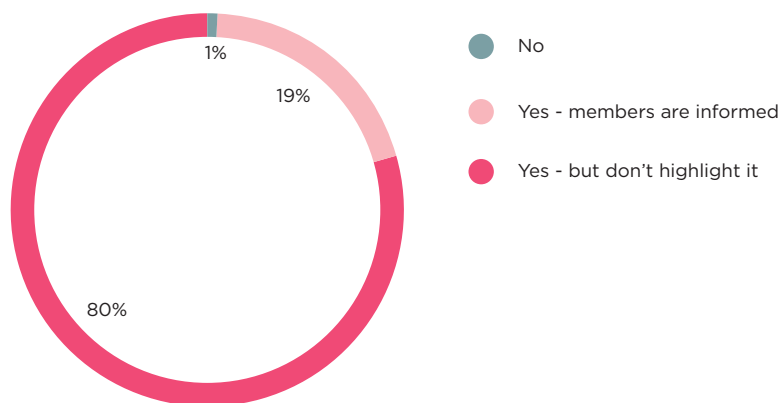
Retirement communications

When do you write to deferred members about their retirement options?



10% of schemes write to members well before their normal pension age (typically from age 55) about their pension options – the remaining 90% contact members for the first time as they approach their normal pension age (typically 60 or 65).

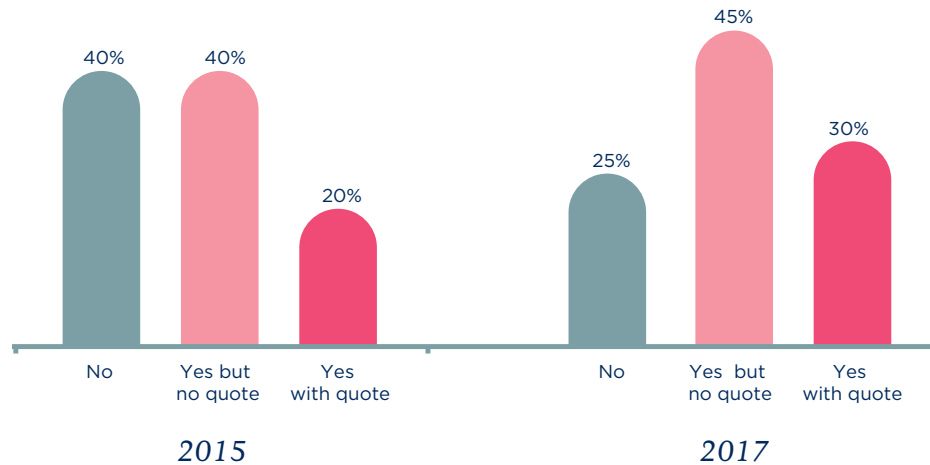
Do you offer early retirement to deferred pensioners?



Nearly all schemes have an option for deferred pensioners to take early retirement, but 80% of schemes do not highlight this option to members, and retirement communications generally arrive too late for members to make use of early retirement options.

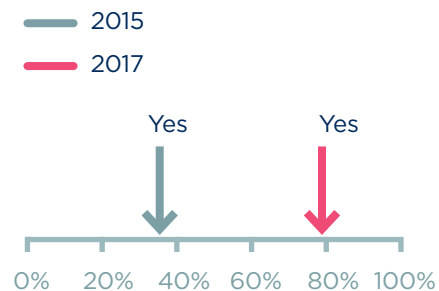
Communication of transfer options

Do you include the option to transfer in retirement documentation?

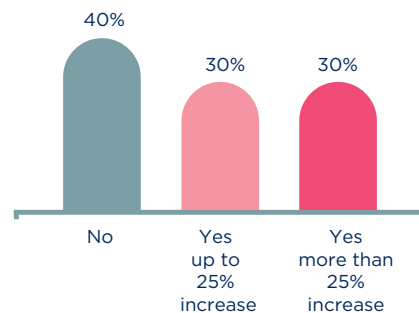


In 2015, 20% of schemes were quoting transfer values in retirement communications – now in 2017, this has increased to 30% and anecdotal evidence suggests that this percentage will increase further.

Have you seen an increase in transfer value quotes?



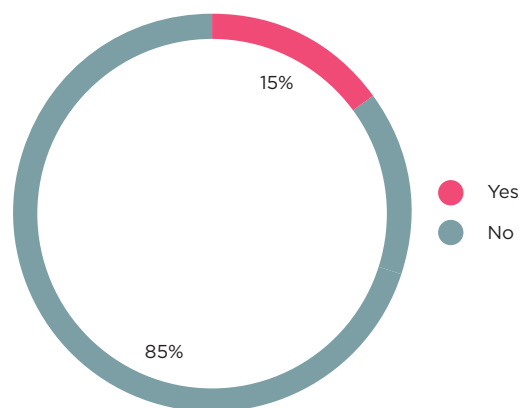
Have you seen an increase in the take up of transfers?



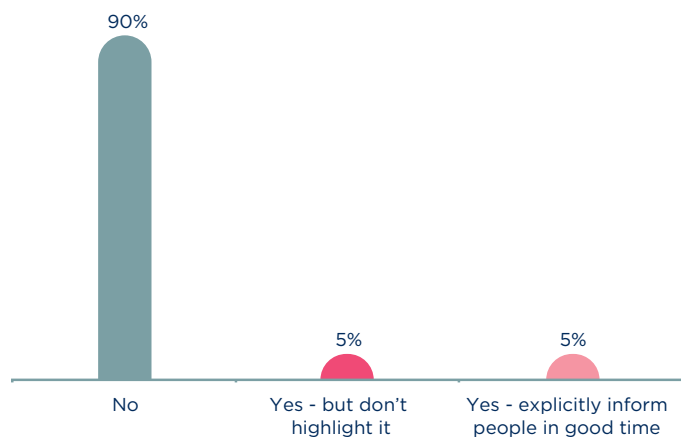
Back in 2015, one-third of schemes had seen a recent increase in transfer value quotes and transactions – since then in 2017, more than 80% of schemes have seen increases in transfer quotations and more than half of schemes have seen the number of transfers increase.

Introducing new options

Do you offer partial DB transfer options?



Do you offer reshaping of pensions (pension levelling or pension increase exchanges) to retirees?



Around 15% of schemes offer a partial transfer option – a similar proportion to those schemes identified in 2015 as having made the decision to do so.

Many financial advisers tell us that they like the partial transfer value options as it helps their clients 'hedge their bets'.

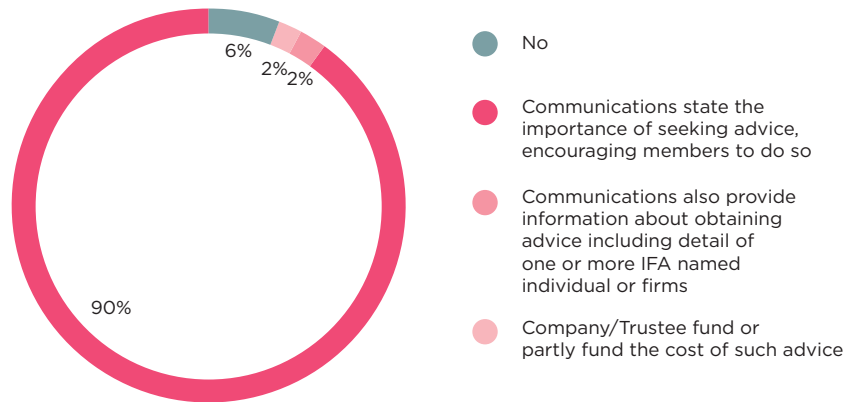


Clive Harrison
Senior Consultant

10% of schemes offer other options at retirement such as levelling pension and pension increase exchange – however, around half of those don't highlight the options to members, so that take-up can be low.

Supporting members with complex decisions

Do you comment on or provide access to financial advice?

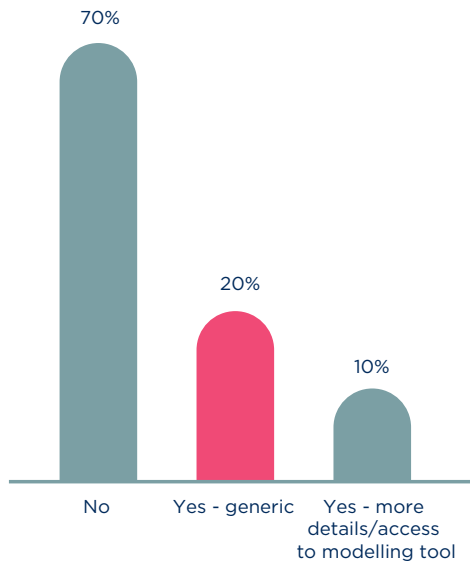


Given the range of choices on offer and the complexity of choosing between them, it is important that scheme members get the right information, advice and guidance to help them make the right choices for their own circumstances and financial well-being.



Hannah Carpenter
Senior Consultant

Do you provide information online to DB members?



Online tools are increasingly being provided to help educate members and enable them to compare and contrast their various retirement options.

How can we help?

Review of options

We can help you benchmark and develop your policy for offering members alternatives to a standard pension package, including considering partial transfers, pension levelling and pension increase exchange.



Transfer experience analysis

We can help you monitor your schemes transfer experiences.

Increasing numbers of transfers can impact on cash-flow management, a scheme's funding position, its risk profile and investment strategy, so understanding quotation and take-up trends can really help trustees manage change effectively.



Communication plan

We can help you set a plan for regular, timely communications, so members receive information and nudges at the right times.

We can also support you with member written communications tailored to your arrangements, group seminars and one-to-ones.



Financial advisor selection

Many members need help with the array of decisions they have.

We can help you appoint a specialist IFA to assist your members, improving efficiency, reducing risk and reducing costs.



Efficient retirement process

The process of making retirement decisions can be inefficient for all concerned, especially if it involves considering a transfer.

Preparation of standard material for members and their advisors can significantly improve efficiencies and reduce costs.



Videos and modellers

Using bite-size videos can be a good way to improve member understanding and engagement.

A simple on-line modeller can also be very helpful.



Benefit statements

Providing annual benefit statements is a likely legal requirement in 2018 and can be a great help to members.

Benefit statements can improve understanding, bypass shortcomings in the disclosure regime, and reduce queries and complaints.



Get in touch with our experts to discuss how we can help.

Contact us

If you would like more information please contact your usual LCP advisor or one of our specialists below.



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