# Deferred DC Discharge

Employers perceive that they get little value from expenditure on administering former employees' pension benefits. Trustees, too, may wish to focus their efforts on supporting active members.

Discharging deferred members' benefits to insurance 'buy out' policies may remove the liability from the scheme, but also detrimentally affects the shape and value of members' benefits. Further, members then have to transfer again at the point of retirement to access their benefits flexibly.

Discharging benefits into the National Pension Trust can maintain the shape and value of members' benefits. The highly governed DC Mastertrust provides significant member support, enabling members to effectively plan for their futures and access their benefits in the way that they want, when they want.

## Mitigate costs

The cost of administering trust based DC arrangements is increasing each year, with the extra cost often being incurred for former (rather than current) employees.

Once all administration, management, levy and audit and communication costs are considered, the cost of each deferred member can vary between £50 and £100 per annum. A 20 year old former employee may cost the Employer £4,500 before they retire.

Benefits can be transferred to the Trust on a bulk basis, as either a one off exercise, or on an ongoing basis. Transfers are cheaper and quicker than securing buy-out policies.

Established in 2009, the Trust has a proven track record of supporting Employers and Trustees to discharge DC deferred members' benefits.

## No discharge limits

Insurance buy-out policies have numerous limitations:

- Death benefits become subject to inheritance tax
- Members need to meet the additional expense of IFA fees
- To access retirement benefits flexibly, members have to transfer to yet another policy
- Pre A-day protected tax free cash calculation bases are lost on the subsequent transfer
- Outside of wind-up, members need to have been deferred for at least 12 months and have less than 5 years' pensionable service

The Trust provides a fully flexible retirement solution without the above drawbacks. The practical aspects of moving benefits into the Trust are straightforward and can be achieved without the need for members to become involved.

## Support for your members

The National Pension Trust is governed by a Professional Board of Trustees, avoiding conflicts of interest and ensuring high levels of objective governance. Economies of scale keep charges low, levels of service high and speed of response swift.

Members are supported to select an appropriate investment strategy given how they wish to receive their retirement benefits.

Members can choose between any combinations of cash lumps sums, Flexi Access Drawdown or annuities.

Interactive modelers, helpline and 'web chat' facilities help members to choose the right combination of benefits for them, and importantly, keep their retirement benefits under review.

The National Pension Trust will support the Trustees and Employer to remove the cost and governance requirements of deferred members' benefits, whilst ensuring your former members continue to be looked after.

nationalpensiontrust

| The Challenges that DC Schemes are facing | How the National Pension Trust can help |
|---|---|
| **1. Mitigating the cost of former employees**<br>• The cost of administering DC arrangements is increasing each year, with the extra cost often being incurred for former (rather than current) employees.<br>• Once all administration, management, levy audit and communication costs are considered, the cost of each deferred member can vary between £50 and£100 per annum. A 20 year old former employee may cost the Employer £4,500 before they retire.<br>• Whilst staff turnover is principally responsible for the number of deferred members, salary sacrifice arrangements increase the number of deferred members by preventing payment of refunds of contributions. Auto-enrolment and the abolition of short-service refunds will compound this. | • Established in 2009, the Trust has a track record of supporting Employers and Trustees to successfully discharge DC deferred members' benefits.<br>• Members' benefits can be transferred on a bulk basis, as either a one off exercise, or on an ongoing basis.<br>• Buy out policies require detailed paperwork and communications to be undertaken. All the while, scheme expenses continue to be incurred. Transfers to the Trust are typically cheaper and quicker than securing insurance buy-out policies.<br>• If the scheme is not offering full retirement flexibilities, members will transfer when they want to access their benefits; a deferred member transfer to the Trust simply shortens the process, reducing administration costs. |
| **2. Buy-Out policies have significant limitations**<br>• Buy-out policies' death benefits are subject to IHT tax unless members set up their own trusts – which is unlikely to occur in a non-consent buy-out.<br>• To access benefits flexibly, buy-out policy members have to transfer to a SIPP, which is typically subject to higher charges.<br>• Pre A-day protected tax free cash calculation bases are lost on a transfer to a SIPP.<br>• Outside of wind-up, buy-out policies only enable a discharge where members have been deferred for 12 months and have less than 5 years' pensionable service. | • Discharging benefits into the Trust can maintain the shape and value of members' benefits. Transfers are not restricted by lengths of pensionable service nor deferred membership.<br>• Members can access their benefits from the Trust in the way that they want, when they want, with no need to transfer to another arrangement.<br>• The practical aspects of moving benefits into the Trust are straightforward and can be achieved without the need for members to become involved. Xafinity will guide the Trustees and Employer through the process which can be completed in less than 2 months. |
| **3. Ensuring deferred members are supported**<br>• If the Trustees do not wish to retain deferred members' benefits within the scheme, care is required if selecting a vehicle to discharge them into.<br>• Buy-out policies provide little member support.<br>• Members will incur the additional expense of IFA fees, or risk receiving lower retirement income due to inappropriate investment or retirement decisions.<br>• Not all Mastertrusts offer the full flexibilities, or provide the same levels of governance. | • The Trust's economies of scale keep member charges low, whilst ensuring high levels of service.<br>• The Trust is governed by a Professional Board of Trustees, avoiding conflicts of interest and ensuring high levels of objective governance.<br>• Members are supported to select an appropriate investment strategy given how they wish to receive their retirement benefits.<br>• Interactive modelers, helpline and 'web chat' facility support members to access benefits via any combination of cash lumps sums, Flexi Access Drawdown or annuities. |

For further information please contact:
Simon Hazeldine
Business Development Manager
Phone: 0203 376 3476
Email: simon.hazeldine@xpsgroup.com

ICAEW