

Discharging small DB liabilities

Members often prefer to exchange small DB benefits for a cash lump sum. However, many members are unable to trivially commute their small DB benefits due to strict eligibility criteria. Others are concerned that such an exercise would make their benefits subject to 40% income tax when they would not otherwise be.

A potential solution for deferred members is to transfer their DB benefits into a DC plan to access their benefits flexibly. Whilst transfers of up to £30,000 do not require members to obtain financial advice, the FCA and the industry Code of Practice to combat Pension Scams require DB Trustees to carefully consider such transfers.

XPS' highly governed DC Mastertrust, the National Pension Trust, provides an effective solution. It provides significant support to members to access the full range of new flexibilities whilst reducing the risk that Trustees and Employers would otherwise face. This new solution represents an opportunity to achieve a reduction in administration costs, a reduction in overall liabilities (and therefore risk) and potentially an improvement in Scheme funding.

Freedom, choice or restriction

Employers and Trustees of DB Schemes are presented with an opportunity to remove the disproportionately expensive cost of administering small DB benefits.

Most members are genuinely interested in receiving one or more cash lump sums, rather than a series of small pension payments. However for many, trivial commutation is not an option if their DB benefits are worth between £10,000 and £30,000 and:

- the total value of all their pension benefits exceeds £30,000; or
- they received a trivial commutation lump sum greater than £10,000 more than 12 months ago; or
- they are aged under 55.

Flexibility for your members

The Trust offers an effective solution. It has no minimum size for transfers and offers all the new flexibilities without the restrictions associated with trivial commutation.

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.

Further, unlike a 'one off' Scheme trivial commutation payment, the Trust can make a series of cash payments over two or more tax years helping a basic rate taxpayer to avoid becoming subject to a 40% tax charge on their benefits.

Mitigate costs and risks

Consumer Watchdogs have warned that over 55s are being cold called by bogus IFAs. In response, the industry Code of Practice to combat Pension Scams states that any transfer should be checked.

A transfer to a fraudulent arrangement could be treated as an unauthorised payment, resulting in heavy penalties on the Trustees and the member.

Using the National Pension Trust as a consistent arrangement for members to transfer into to access their benefits flexibly would reduce the risk of a scam occurring. It would also reduce the cost of checking numerous individual retirement vehicles.

The practical aspects of moving benefits into the Trust are straightforward. XPS will guide the Trustees, Employer and member through the process.

Established in 2009, the Trust is a fully flexible retirement solution. It can complement your DB scheme to remove cost and risk whilst providing your members with the flexibility they want.



The Challenges that DB Schemes are facing

1. Trivial Commutation limitations

- Members with DB benefits worth less than £10,000 can exchange those benefits for a cash lump sum. Members normally prefer a cash lump sum to a small pension and so take up is generally very high.
- Members with DB benefits worth between £10,000 and £30,000 typically also want to trivially commute their benefit. However many are often unable to do so because:
 - the total value of all of their pension benefits exceeds £30,000
 - they received a trivial commutation lump sum greater than £10,000 more than 12 months ago.
 - they are aged under 55.

Mitigating costs and risks

- 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 55 year old former employee may cost the Employer in excess of £4,500 in administration costs before they cease membership.

3. Helping members to access benefits flexibly

- Care is required if signposting members towards another arrangement to access benefits flexibly.
- Not all Mastertrusts or SIPPs offer the full flexibilities and few accept benefits valued less than £30,000
- Whilst SIPPs can provide significant flexibility, they provide little member support. Members need to meet the additional expense of IFA fees, or they risk receiving a lower retirement income due to inappropriate investment or retirement decisions.
- SIPPs are typically more expensive than Mastertrusts due to their individual nature.

How the National Pension Trust can help

- The Trust has no minimum size for transfers and offers all the new flexibilities introduced by Freedom and Choice without the restrictions associated with trivial commutation.
- Members with a DB benefit worth less than £30,000 can transfer the value of that benefit to the Trust without the need to take Financial Advice.
- Unlike a 'one off' scheme trivial commutation payment, the Trust can make a series of cash payments over multiple tax years helping a basic rate tax payer to avoid becoming subject to a 40% tax charge on their benefits.

- Members can choose to transfer their benefits into the Trust to access them flexibly. This new solution represents an opportunity to achieve a reduction in administration costs, a reduction in overall liabilities (and therefore risk) and potentially an improvement in Scheme funding.

- Established in 2009, the Trust can act as a 'retirement' scheme to support your DB members to access their benefits flexibly.
- The Trust's economies of scale keep member charges low, whilst ensuring high levels of service.
- The Trust is governed by a Professional Board of Trustees, avoiding conflicts of interest and ensuring high levels of objective governance.
- Interactive modelers, helpline and a 'web chat' facility support members to access benefits via any combination of cash lump sums, Flexi Access Drawdown or annuities.

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