



# Optimising redundancy outcomes with Member Options

As the economic consequences of COVID-19 continue to bite, many employers are making difficult decisions in relation to the size and shape of their workforce. At the same time, job prospects for those who find themselves unemployed are bleak – many older employees are finding themselves needing to cover a financial gap that could stretch for 10 years or more until their State Pension is payable. Others may simply be looking for increased flexibility – perhaps to help family members financially.

## What cost-effective measures can employers take to help employees at this time?

Member options at the point of retirement have become increasingly popular in recent years as a win-win-win for members, trustees and employers alike – providing members of DB pension schemes with choices around the timing and form of pension benefits while simultaneously reducing risk, improving benefit security and reducing the ultimate cost of the pension scheme to the employer.

Providing members with access to financial advice to understand their options – particularly where they are facing redundancy and may have choices to make in relation to redundancy monies – can be exceptionally valuable. The advice can simply cover the existing options available at retirement, or include new options specific to individual circumstances (for example, bridging pensions).



## What are bridging pensions?

There is really nothing new in bridging pensions. Some schemes have had them for a while and they do what they say: re-shaping a member's standard scheme pension to bridge the gap between their retirement and their State Pension date.

This enables a potentially smoother overall pattern of pension payments across retirement and also enables individuals to take a bigger tax-free cash lump sum. Most schemes experience a liability saving when a member takes a tax-free cash lump sum – so allowing members to take a larger sum increases these savings for the scheme.

### Employer benefits

- ▶ P&L positive
- ▶ Potential immediate cash savings
- ▶ Reduced long-term funding costs

### Employee benefits

- ▶ Increased flexibility
- ▶ Higher tax-free cash
- ▶ Smooth retirement income

“It may well be a sign of the times that we have seen a sudden rise in interest from clients wanting to explore bridging pension options. Flexibility has been a keyword for pension schemes in the last few years and now – given the economic circumstances we are facing – it may be that employers, schemes and members are thinking alike and looking to explore what flexibility is possible and how it can improve both scheme and personal circumstances.”

**Kelly Hurren,**  
Head of Member Options, Aon

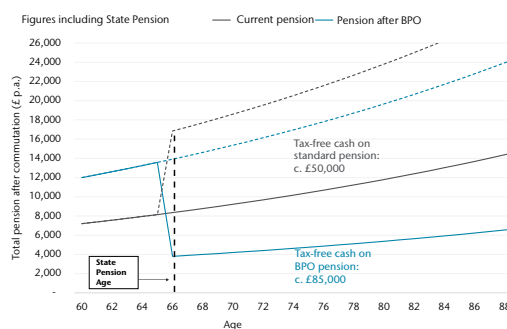
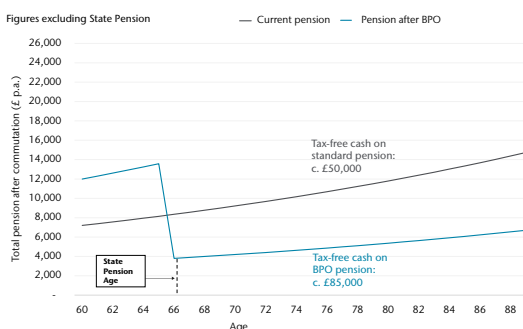
## Bridging pension options

### What is the impact for a member?

Few members are expected to retire at their State Pension Age; this means members retiring today will see a large increase in their total income when they hit State Pension Age. Would these members prefer a smoother level of pension?

A bridging pension option allows members to smooth their income so that their total income (from the scheme and the State) is broadly equal before and after their State Pension Age. In the chart below (left) the black line represents the standard scheme pension for an example member and the blue line represents the scheme pension after BPO.

If we overlay this chart with total pension from scheme and State (broken lines), we see the smoothing impact of BPO on the member's overall retirement income (chart below to the right):



### What is the impact for the employer?



Typical accounting and funding savings are 2-3% of non-pensioner liabilities.

If commutation terms in your scheme are less generous than average this may lead to higher savings.

### Integrating bridging pensions with a redundancy exercise can be particularly attractive:

- The option can incentivise take-up of voluntary redundancy programmes / soften the blow of compulsory redundancies, as it permits members to take immediate retirement at ages where they would otherwise not have been able to afford to.
- Where individuals receive redundancy payments in excess of the £30k tax-free limit, these could be 'spent' buying a bridging pension in the scheme in a way which actually reduces the liabilities. The redundancy payment might not need to actually be paid by the employer, leading to immediate cash savings.

#### About Aon

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### Enhanced transfer values

We are continuing to see that enhanced transfer value (ETV) exercises remain popular with both members and employers.

In this challenging economic environment – where flexibility is valued so highly – ETV exercises coupled with paid-for, independent financial advice can ensure that members make the right financial decisions which meet both their short-term and longer-term retirement needs.

For employers, ETV exercises can assist with workforce management goals without necessarily requiring a formal redundancy programme. If combined with redundancies, it may be possible to offer scheme-funded enhancements in lieu of redundancy monies. Either way, material cost savings for schemes and employers are possible.