Settlement of retirement benefits as Uncrystallised Funds Pension Lump Sums (UFPLS)

Who should read this? Any pension scheme that is considering the introduction of an additional option for members to settle their defined contribution (DC) benefit (including an AVC fund).

Reasons to Introduce UFPLS

From 6 April 2015 legislation allowed the full value of a DC fund (including AVCs in a DB Scheme) to be paid as a lump sum (known as UFPLS).

Following the introduction of this option, we have seen an increasing level of member requests to take their DC Fund as UFPLS, with many members expecting that their pension scheme will offer this option. We are seeing that members generally seem to be taking a common sense approach to accessing their DC funds in this way, with the average size of UFPLS payment made in the year following the implementation of this policy less than £15,000.*

There are several reasons why a pension scheme may wish to consider allowing members to take this option:

- Increase in member choice. Provides members with an additional solution at retirement that may better suit their needs
- Member demand. We are starting to see increasing member expectation that their scheme will offer this option
- Designed to increase member flexibility
- May be used as part of an overall liability reduction strategy

Implementing this option

While the legislation is not overriding it does contain a permissive 'rules override'. This override is intended to allow the trustees to implement such an option without the need to change the scheme rules. Trustees can choose whether or not to pay an UFPLS.

Aon can offer this option to members at retirement by making a standard change to the retirement process. The changes required are implemented on a scheme by scheme basis.

Where a scheme wishes to introduce this option the changes needed would include (see table below):

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Contact:

Nick Harper
+44 (0)121 262 5032
nick.harper@aon.com

Member communications	Amending retirement quotation letters to include this additional option. The letters will also include the necessary information advising the member of the implications of accessing benefits in this way. Settlement letters will also be amended so that confirmation can be provided to members who choose this option for settling their DC fund.
Member records	Member records will be updated to show the nature of benefits taken.
Payroll set up	For DC schemes that do not have an associated pension payroll, this facility will be set up to allow UFPLS payments to be made. An automated process is also introduced between the administration and payroll functions to instigate such benefit settlements.
Process changes	The automated workflow system is amended to allow the relevant member letters and process steps relating to this option to be accessed.
Documentation	Scheme information is also updated to record that the scheme has elected to allow such payments.

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What will the member see?

When a scheme implements the UFPLS option, members receiving a retirement quotation will be provided with details of this additional option. This will include the benefit amount, how the payment will be made and taxed and other relevant information.

When a member elects to settle a DC benefit by way of an UFPLS, the payment will be set up using the next available payroll cycle. Confirmation of the payment will be provided to the member along with the required information confirming that benefits taken from the scheme have been accessed flexibly.

Costs

There is no administration cost to the member when accessing their DC fund by way of an UFPLS. The benefit is subject to taxation, with 75% being taxed via PAYE and 25% payable tax-free. Whether this suits a member's circumstance is a personal decision but trustees can be assured that communication with the members will clearly set out the position.

There is an administrative cost to trustees in implementing the settlement option. This differs according to the type of scheme and whether there is a payroll function already set up:

Implementation for a DB scheme in relation to AVC funds	£552 plus VAT
Implementation for a DC scheme with existing payroll function	£1,875 plus VAT
Implementation for a DC scheme with no existing payroll function	£3,087 plus VAT

On an ongoing basis there are transactional costs for a DC scheme to cover the cost of processing the regular payrolls – these have to be processed regardless of whether any transactions occur. These are £170.00 plus VAT per transaction plus a minimum charge of £60 plus VAT per month.

> ### Timescales
> The option can be introduced within three to six weeks. The longer timeframe is needed when a payroll function is not already present.

Find out more

For more information on introducing this retirement option, get in touch with your usual Aon contact or alternatively contact:

Nick Harper

nick.harper@aon.com

+44 (0)121 262 5032

About Aon

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