



Know your options

✔ **Aon senior partner and head of member options team, Benjamin Roe, speaks to *Pensions Age* about member option exercises**

What options are available for schemes to offer their members, in order to help reduce the scheme's risk?

Options that could be offered to members typically fall into two categories. Firstly are those that make the scheme smaller and less risky by discharging assets and liabilities. The most common examples here would be DB to DC transfers or trivial commutation (cashing out small pension benefits).

Secondly, those that allow members to reshape the benefits provided within the scheme, for example pension increase exchange (PIE). This allows members the option to exchange future pension increases for a higher starting rate of pension, which does not increase in payment.

In all cases these options are presented as a member choice. Care is taken to ensure that the options are communicated clearly and concisely and member support is put in place to ensure members can make an informed decision.

The bulk annuity market has seen record-breaking growth over the past couple of years. Have the number of schemes offering members transfers and PIE increased similarly?

We have seen a large increase in the number of schemes that are running bulk incentive exercises and also proactively communicating options to members

and providing members with access to independent financial advice as part of the ongoing running of the scheme.

The results of the Aon 2019 *Global Pension Risk Survey* show that only 15 per cent of schemes say that they are unlikely to implement a flexible retirement option (communicating the transfer value option and providing support so members can make an informed decision at retirement) in the next 12-24 months. This has fallen significantly from 2013 when 74 per cent of respondents said that they were unlikely to implement this option.

While large bulk annuity transactions are visible and often make the press, ongoing member option activity is less likely to as many schemes see this as good governance in the ongoing running of the scheme.

What impact can implementing a member option exercise have on a scheme's journey to buyout? And are schemes aware of this impact?

One-off bulk member option exercises are usually particularly attractive as schemes approach buyout. Quite often you can find that as a scheme approaches buyout, the transfer terms on offer through the scheme are more generous to members than the transfer terms that would be available from the insurer following the buyout – but yet still leading to an insurance premium saving. So taking a future profit from the insurer and giving it to members now instead. In this way we often see these exercises as a win-win for transferring members, remaining members and sponsors.

We are seeing more and more interest from our clients in this area and it is becoming increasingly common for member options to help to accelerate the journey to buyout. Recent large examples in the public domain include Rentokil and PA Consulting.

What advice would you give for schemes considering implementing a member option exercise?

The first step is to understand the various options that could be made available to members and working out the effect they could have on the current funding and investment strategy and journey to buyout.

Preparation is important; schemes need to make sure that the required data is available or understand if there are any workarounds for any missing information. Make sure that address data is up to date, especially for deferred members who may not be in regular contact with the scheme.

Member option programmes can be large complex projects with multiple stakeholders so make sure you have strong experienced project management in place.

And finally, always keep the focus on the member journey, how can you engage with members in the most appropriate way – and ultimately make sure that they can make informed decisions on their retirement benefits.

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