

XPS Express for Employers

Bringing you the latest pensions news for employers

Using bridging income options to help your members and reduce risk



At a glance

Due to recent and ongoing increases in the State Pension Age, most members draw their scheme benefits before they can access their state pension

As a result, members can receive significantly less income in the early years of their retirement, often when they want and need it the most

To bridge the gap, members may be able to re-shape their pension benefits to provide more income in those early years

This re-shaping can be done within the pension scheme, often known as a 'Bridging Pension Option' (BPO)

A new alternative option, 'Bridging Income Pots' (BIPs), allows members to do this flexibly outside the scheme instead. Members transfer a portion of their benefits into a flexible pot to 'draw down' in the early years of retirement

For a typical member retiring at age 60, BIPs could result in the member receiving around 10% more income over their lifetime, compared to traditional BPOs



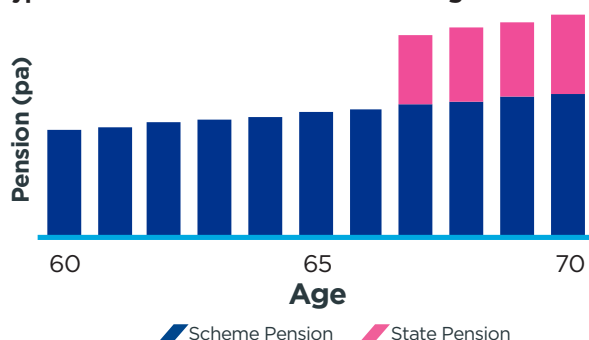
Advantages of bridging income

 Income needs	Allows members to re-shape pension income to suit their needs
 Retirement planning	Increased income in the early years of retirement enables members to retire when they want to
 Tax-free cash	Generally allows members to take more tax-free cash
 Funding	Terms usually will improve funding of the pension scheme
 Risk	Reduces risk. Particularly true for Bridging Income Pots, where benefits are transferred out



The need for bridging income

Typical member with a State Pension Age of 67



Source: XPS Pensions Group



Actions employers can take

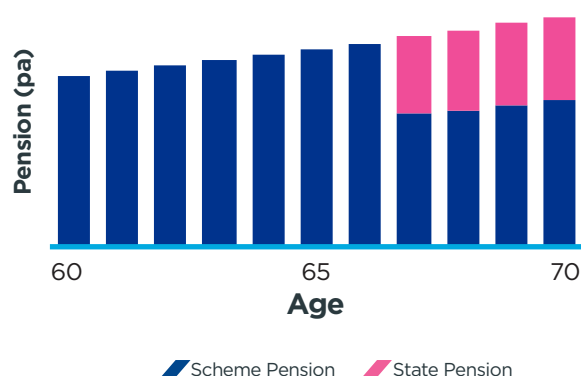
1. Review the current options available to see if a bridging income option exists.
2. Assess whether your members and your strategy could benefit from BIPs.
3. Engage with your trustees to explore implementing BIPs.
4. Review your communications to ensure members are receiving all the information they need, in the best way possible, to make informed retirement decisions.



The two options for providing bridging income

Option 1: Bridging Pension Options

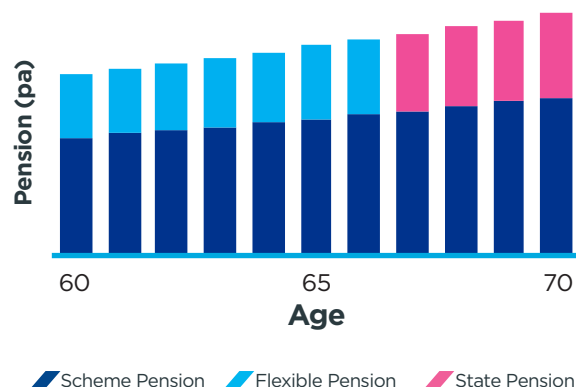
Exchange implemented within the pension scheme.



Source: XPS Pensions Group

Option 2: Bridging Income Pots

Partial transfer taken from the scheme and flexible pot 'drawn down' in the early years of retirement.



Source: XPS Pensions Group

Comparing the two options

	Bridging Pension Options	Bridging Income Pots
Members	Typical terms can result in members losing significant value through the exchange	Members provided with best estimate terms through the transfer value basis
Scheme Funding	Will improve funding but extent depends on terms	Will improve funding by difference between transfer value and funding bases
Scheme Risk	Reduces risk by accelerating pension payments	Greater risk reduction as removes proportion of risk by making a transfer payment
Communication	A (potentially) new option so could be difficult to communicate alongside existing options	Extension of current transfer option – arguably easier to communicate
Administration	Complex and costly to administer	Simpler to administer, particularly after partial transfer is paid
Advice	No financial advice required	Financial advice required in almost all cases. Ensures members make an informed decision

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