

XPS Express for Employers

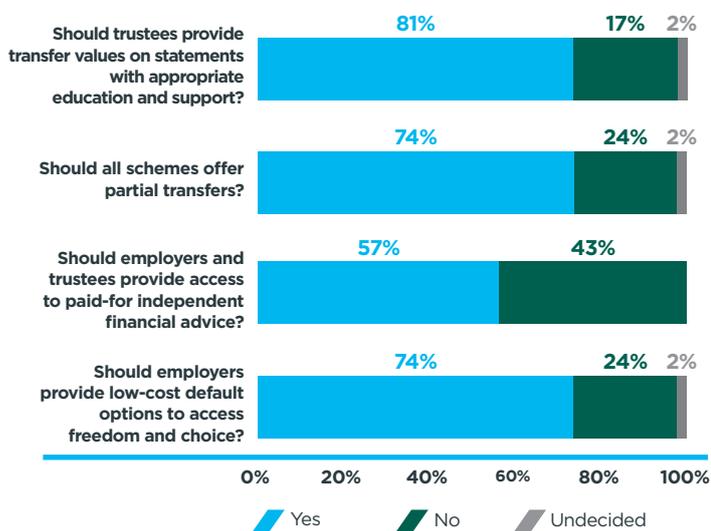
Bringing you the latest pensions news for employers

Offering better member options will reduce cost and risk

At a glance

- There has been a surge in members leaving employers' pension schemes. In two years we have seen 6,000 members transfer £1.4bn out of schemes we administer.
- This usually leads to a cash funding saving and a substantial saving on the settlement cost (e.g. through buy-out or entering a consolidation vehicle), reducing cost and risk for employers.
- But experience is not uniform. Some schemes are seeing no transfers while others are arguably seeing too many, risking poor outcomes for members, reputational damage and possibly costs for the employer.
- More employees are using *freedom and choice* while working – people can now work over a decade in retirement for their employer meaning poor outcomes can impact workforce management.

What might your trustees be thinking



Source: XPS Pensions Group survey at our Annual Conference

Cost of member benefits

The cost of £1 of pension for a 65 year-old member



Source: XPS Pensions Group

Accounting liabilities may be larger or smaller than the transfer value – so members leaving may lead to a cost or saving.

Transfer activity in your scheme can mean that your long-term objective may be much closer than you thought.



Actions employers can take

- Investigate what is happening on your own scheme: are members leaving?
- Understand whether members leaving leads to a cost or saving on accounting and funding.
- Review options members have and how these are communicated – are these fit for purpose and can different options give members better outcomes while reducing pension cost?
- Consider partial transfers – this removes the need for an all-or-nothing decision and allows benefits to be reshaped to be simpler and cheaper to secure.
- Provide education and a low-cost default receiving vehicle for transfers (e.g. a master trust) – this will support member outcomes and may increase the number of members who will benefit from transferring.

Quarterly accounting update

Increases in corporate bond yields have led to a slight reduction in accounting liabilities since September 2017. Global equities have performed well, so a number of schemes may see an improved accounting position.

Change in value per £100m of accounting liabilities



Source: XPS Pensions Group

Year-to-date returns on key asset classes

	Sep-17 – Dec-17	Dec-17 – Mar-18	Mar-18 – Jun-18	Jun-18 – Sep-18	Year to Sep-18
Global equities	5.1%	-4.4%	6.9%	5.7%	13.4%
UK equities	5.0%	-6.9%	9.2%	-0.8%	5.9%
Property	8.3%	-3.8%	5.0%	-5.0%	3.8%
Index-linked gilts	3.5%	0.1%	-1.0%	-1.2%	1.3%
Corporate bonds	2.0%	-1.5%	-0.4%	-0.1%	0.0%

Source: Thomson Reuters

Judgment on Guaranteed Minimum Pensions (GMPs) to impact accounting year-end

The High Court is expected to rule on whether schemes need to equalise GMPs between men and women (the Lloyds Banking case). Most schemes have GMPs – a minimum pension linked to opting members out of the state second tier pension in the past.

Equalising GMPs typically adds **1% to 3%** to total pension liabilities with a greater impact on company balance sheet liability.

Auditors are still forming their views on treatment if the judgment requires equalisation. Key influencing factors are:

- ▶ How equalisation uplift should be calculated.
- ▶ Whether there is an appeal and the nature of any appeal – this may influence the need to reserve immediately.
- ▶ The nature of any cost – the most likely view is it is a plan amendment with a corresponding charge to P&L. A decision is also needed on whether it is a prior period or current period cost.

Member outcomes under freedom and choice

watch [video](#) or view [full report](#)



For further information, please get in touch with **Wayne Segers** or **Helen Ross** or speak to your usual XPS Pensions contact.



t 020 3326 6101

e wayne.segers@xpsgroup.com



t 0121 230 1900

e helen.ross@xpsgroup.co.uk

twitter [@xpsgroup.com](https://twitter.com/xpsgroup.com)

linkedin company/xpsgroup



© XPS Pensions 2018. XPS Pensions is the trading name of Xafinity Consulting Ltd and Punter Southall Ltd. Registration: Xafinity Consulting Ltd, Registered No. 2459442. Registered office: Phoenix House, 1 Station Hill, Reading RG1 1NB. Punter Southall Ltd, Registered No. 03842603. Registered office: 11 Strand, London WC2N 5HR. All companies registered in England and Wales.

This communication is based on our understanding of the position as at the date shown. It should not be relied upon for detailed advice or taken as an authoritative statement of the law. **Part of XPS Pensions Group**