# Financial Directors checklist – how to reduce your pensions liabilities

This checklist will help you to manage and reduce your liabilities and risks from your final salary pension schemes.

## Freeze your final salary pension scheme

- Close the scheme to future pension accrual so that it is 'frozen'. The scheme continues and members remain entitled to pension already accrued, but future liability is capped.
- Final salary (DB) benefits are replaced by money purchase (DC) benefits – the risk transfers to members.

## Contingent assets – guarantees, securities, charges, escrow, asset backed contributions

- Trustees may include contingent assets in their scheme's funding strategy in order to reduce employer contributions payable/permit more investment risk to be taken.
- A contingent asset may reduce the scheme's risk-based levy payable to the Pension Protection Fund.

## Enhanced Transfer Values (ETV)

- An ETV exercise incentivises deferred members to transfer their benefits into another arrangement.
- A successful ETV exercise can reduce the size of the membership and liabilities of the scheme, with the enhancement paid being less than the anticipated additional cost of providing pensions from the scheme.
- A Code of Practice covers ETV exercises developed by the pensions community's Industry Working Group and supported by the Pensions Regulator.
- Budget 2014 flexibilities make transfer more attractive even without enhancement.

## Pension Increase Exchange (PIE)

- An employer can offer members the option of giving up future pension increases in return for a higher immediate pension – Code of Practice applies.
- A PIE reduces risks associated with future pension increases, ie inflation and life expectancy, and the scheme's funding deficit.

## Trivial commutation

- Members can commute pension pots up to £30,000 in aggregate for a lump sum at retirement.
- Members can commute small pot limits at any time up to the value of £10,000 regardless of the value of other pension savings.
- Commutation removes pension liabilities from the scheme.

## Buy-out or buy-in scheme liabilities with an insurance company

- A buy-out involves the trustees securing the scheme's accrued pensions with annuity policies and winding-up the scheme. A buy-in has the same effect but is only in respect of some of the scheme pensions and the scheme continues with the annuity policies held as an investment of the scheme.
- This transfers the inflation risk, longevity risk and investment risk to the insurance company.

## Merge your pension schemes

- Pension schemes in the same employer group can be merged by bulk transfer of all assets and liabilities without members' consent.
- This achieves considerable time and cost savings relating to administration and professional advisers and the possible winding-up lump sum option to discharge small liabilities cost-effectively.

## Retirement Options

- Early retirement – tax free cash taken by members is often cheaper to provide than pensions, and residual pension is smaller, reducing long term liabilities and risk.
- Transfer to DC scheme at retirement – taking advantage of new DC flexibilities e.g. taking all pension as cash or 'flexible draw down' with pension drawn down in stages to suit member needs reduces liabilities and risk.

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Contact me for more information

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