



Punter Southall
CONSULTING ACTUARIES

Employer consulting

Case study

Controlling the cost of member options

» Client issue

The client's defined benefit pension schemes allowed members the option of exchanging some of their pension for tax-free cash on retirement, and most scheme members took the maximum available. The terms for exchanging pension for cash (commutation factors) were reviewed at each valuation in accordance with the scheme's rules, usually upwards, and the client was concerned about the cost of potential changes following the most recent valuation. At the same time, the client did not want to see a significant drop in take-up, as members exercising the cash option reduced the client's long-term pension risks.

» Our solution

The Employer Consulting team carried out a review of the current terms. We discussed a number of reasons why the terms for tax-free cash should not be as generous as those used to calculate the schemes' reserves for prudent funding purposes (Technical Provisions).

Our arguments were documented in our report which provided the client with information on the value of the cash option, which was especially important since the overall impact on its pension liabilities and future cash costs were material.

» Adding value

- Our report allowed the client to evaluate the generosity of the options they were giving, using both qualitative and empirical arguments
- They used the report to debate successfully with the trustees that, for the current review, the factors should not be simply moved in line with changes in the valuation assumptions
- As a result, increases in the cost of this option were contained. Research since the review suggests that the take-up of the option is still close to 100%.



Find out more

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