

All change for DB transfers?

ISSUE 5

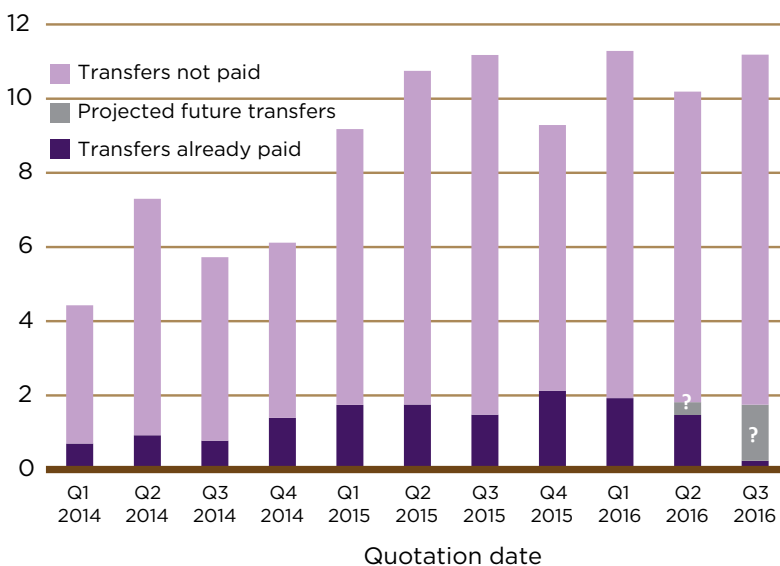
Changes in members' transfer behaviour due to Freedom and Choice

NOVEMBER 2016

After Freedom and Choice in pensions was announced in the 2014 Budget, LCP saw a significant increase in the number of members requesting transfer value quotations. The average transfer value quoted and the average age of members requesting quotations also increased.

Over the past year or so, the number and profile of members requesting quotations had broadly stabilised at these higher levels. However, since the Brexit referendum, there have been signs of further significant changes, with a jump in the number of transfer requests in September 2016 and a further substantial increase in the average transfer value quoted.

Number of transfer quotations per 1000 deferred members



How is the Brexit referendum result affecting transfer activity?

Following the referendum, UK government bond yields fell to record lows. For many schemes, this resulted in significantly higher transfer values, something which the press soon picked up on. Perhaps as a result of this media interest, we saw a significant increase in quotation activity in September 2016, with the number of requests around 30% higher than usual. Early indicators show this level being maintained into the final quarter of 2016.

The average transfer value we quoted in the third quarter of 2016 was £368,000. This was 25% higher than in the second quarter, making it the highest we have seen since we started our analysis and over double the average transfer value quoted two years ago.

Do you know how your scheme's transfer experience has changed since April 2015?

We are monitoring the changes in transfer experience for the defined benefit schemes we administer.¹ Here, we summarise the experience up to 30 September 2016.

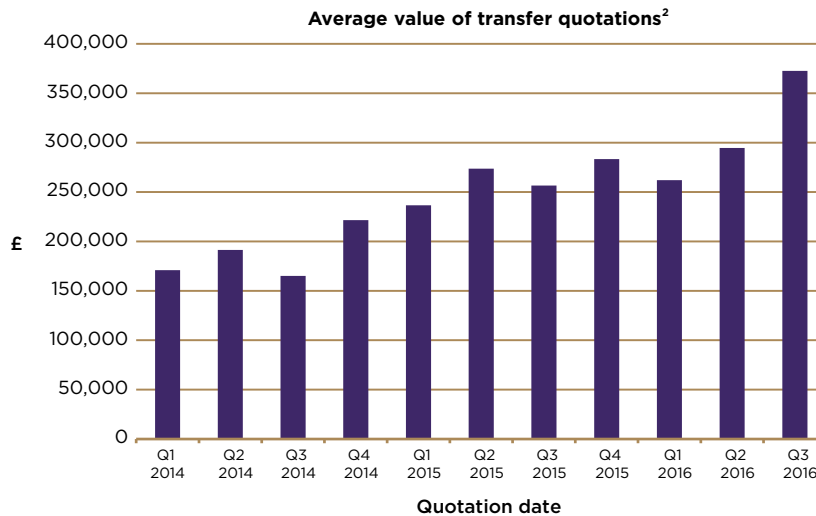
If you would like to see [how your scheme's experience compares](#) with the LCP average, please contact us.

¹ Analysis is based on 78 schemes at 30 September 2016 with about 28,800 deferred members.

Our analysis only includes quotations requested by members. It excludes unsolicited quotations, such as those provided in retirement packs and incentive exercises.

New in this issue

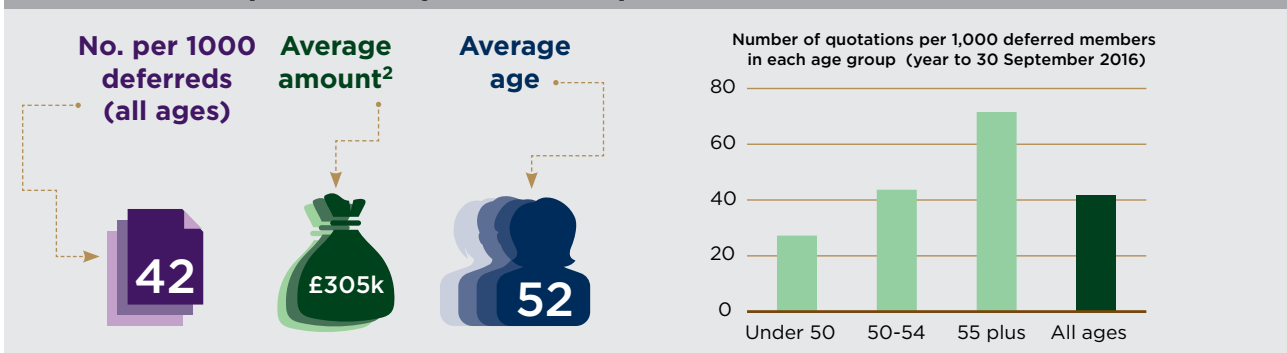
We also look (see back page) at where members are taking their transfer values; with 25% going overseas to QROPS, mostly based in Gibraltar and Malta.



Which members are requesting quotations and taking up transfer value payments?

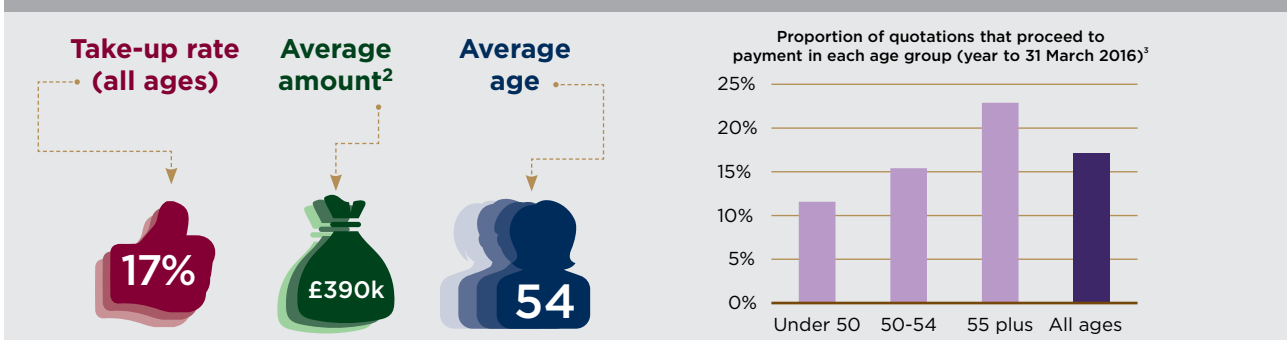
Since 2014 we have seen a marked increase in the average age of members requesting transfer quotations. Average transfer values quoted have also been on an upwards trend, with 10% of quotations in the latest quarter being over £1m. There is also evidence of members requesting requotes, even within the three month guarantee period, in the knowledge that transfer values may have increased - in some cases prompted by their financial advisers. Trustees may wish to monitor this and consider whether they will provide requotes more frequently than required by law.

Transfer value quotations (year to 30 September 2016)



Quotation and take up rates continue to be highest for those aged 55 and over. More than 7% of deferred members aged 55 and over requested a transfer value in the year to 30 September 2016, compared to around 4% of deferred members as a whole.

Transfer values taken³



² Excluding any Additional Voluntary Contributions.

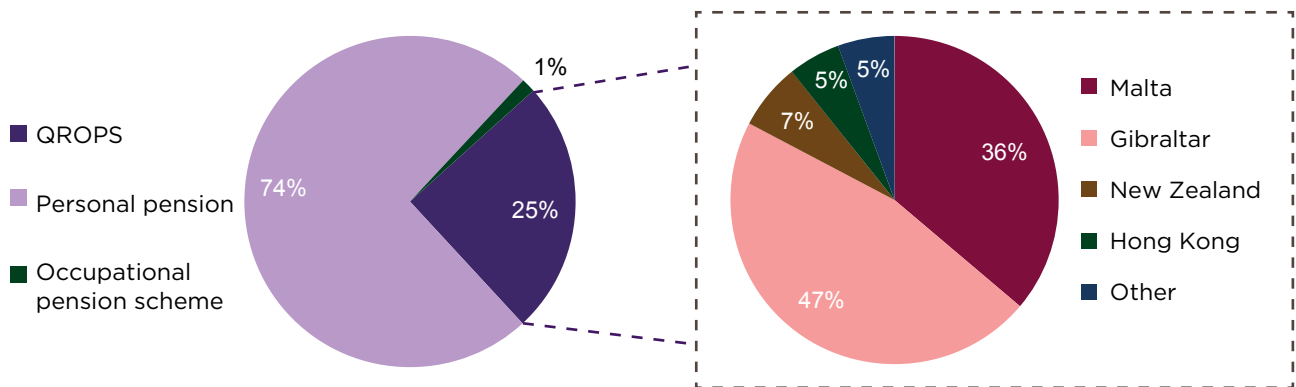
³ There can be a delay of up to six months between a transfer quotation being issued and the corresponding transfer payment being made. For this reason, this analysis of payments relates to quotations issued more than six months ago.

What is the destination of transfer value payments?

The large majority of transfer payments (70% of the total number and 74% of the total value) have been made to personal pensions in the UK, with a significant minority (24% by number and 25% by value) being made to Qualifying Recognised Overseas Pension Schemes (QROPS). Although only 1% of transfer payments by value were made to UK occupational pension schemes, this partly reflects their small average size. They made up 6% of transfer payments by number, most of these being paid to public sector pension schemes.

The destination of most overseas payments is Gibraltar (38% of all QROPS payments by number and 47% by value) or Malta (40% by number and 36% by value). Gibraltar and Malta are territories located and regulated within the EU where the local regulatory authorities actively encourage QROPS. Nevertheless, there are industrywide concerns that QROPS may in some circumstances be used as platforms for investment scams, and we may see regulatory action in this space in the future.

Destination of transfer payments by value (since 1 January 2014)



Contact us

If you would like further information, please contact your usual LCP adviser or one of the people below.



Jim Little
Senior Consultant
 jim.little@lcp.uk.com
 +44 (0)1962 873363



Stuart Levy
Consultant
 stuart.levy@lcp.uk.com
 +44 (0)1962 873364



Bart Huby
Partner
 bart.huby@lcp.uk.com
 +44 (0)1962 872711



Mark Butler
Consultant
 mark.butler@lcp.uk.com
 +44 (0)20 7432 0638

LCP is a firm of financial, actuarial and business consultants, specialising in the areas of pensions, investment, insurance and business analytics.

All rights to this document are reserved to Lane Clark & Peacock LLP ("LCP"). This document may be reproduced in whole or in part, provided prominent acknowledgement of the source is given. We accept no liability to anyone to whom this document has been provided (with or without our consent). Lane Clark & Peacock LLP is a limited liability partnership registered in England and Wales with registered number OC301436. LCP is a registered trademark in the UK (Regd. TM No 2315442) and in the EU (Regd. TM No 002935583). All partners are members of Lane Clark & Peacock LLP. A list of members' names is available for inspection at 95 Wigmore Street, London W1U 1DQ, the firm's principal place of business and registered office. The firm is regulated by the Institute and Faculty of Actuaries in respect of a range of investment business activities. The firm is not authorised under the Financial Services and Markets Act 2000 but we are able in certain circumstances to offer a limited range of investment services to clients because we are licensed by the Institute and Faculty of Actuaries. We can provide these investment services if they are an incidental part of the professional services we have been engaged to provide. © Lane Clark & Peacock LLP 2016.