

All change for DB transfers?

LCP's quarterly review of the transfer experience of the schemes we administer

Issue 11, May 2018

Over one-third of transfer quotations paid out for the first time – but quotation requests fall

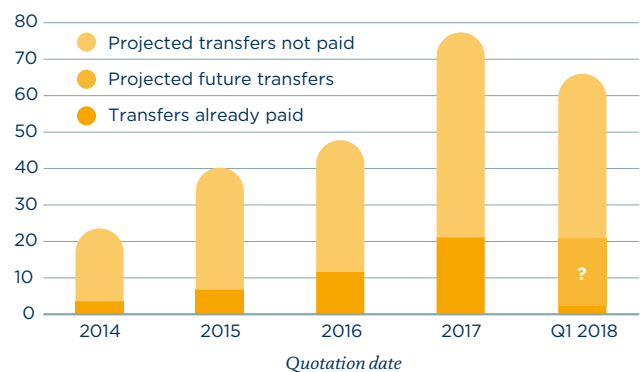
- Transfer payment activity shows no signs of slowing down over 2018. For the first time since we began our analysis in 2014 more than one-third of the transfer values were paid out (Q3 2017 is the latest quarter for which all transfers have now been paid out). For members over the age of 55, 43% of quotations were paid out.
- In contrast to this, there was the first significant fall in overall quotation rates in Q1 2018 since the Freedom and Choice reforms over 2015 and 2016 brought increased transfer activity. Interest in transfer values continues to be highest at older ages, and the average age of members requesting a quotation in Q1 2018 is 54, the highest we have yet seen.
- Just under 20% of the schemes we administer offer the option of partial transfers to members and around 80% of those tell members about this option in communications relating to transfer value or retirement quotations. There are early signs in Q1 2018 that members are becoming more interested in this option.

Concerns over the quality of advice and transfer activity

Concern over the quality of advice in relation to DB pension transfers has become headline news recently after a series of allegations of bad practice, most notably around the British Steel Pension Scheme many of whose members were targeted by unscrupulous advisers and unregulated introducers.

- The FCA has recently maintained its [guidance](#) that “an adviser should start from the assumption that a transfer will be unsuitable” and this has led to a number of major UK specialists suspending their pension transfer services.
- The Financial Service Compensation Scheme has recently [cited](#) claims relating to DB pension transfers as the main reason for the 2018/19 levy being 20% higher than previously expected and noting that £10m had been set aside to pay for claims against a number of independent financial advisers.
- In its annual funding statement [published](#) in April 2018, the Pensions Regulator highlighted transfer activity as one of its main concerns. In particular, they are concerned about members taking transfer values without having access to clear and robust financial advice needed to make well informed decisions.
- The Regulator goes on to say that **trustees are expected to monitor transfer activity closely**, keep records and report any concerns to the Regulator or the FCA.

Annualised quotation rate per 1,000 deferred members



How we help our clients

As administrators LCP has a robust process for checking that where required members have taken financial advice and a specialist team that reviews suspicious cases.

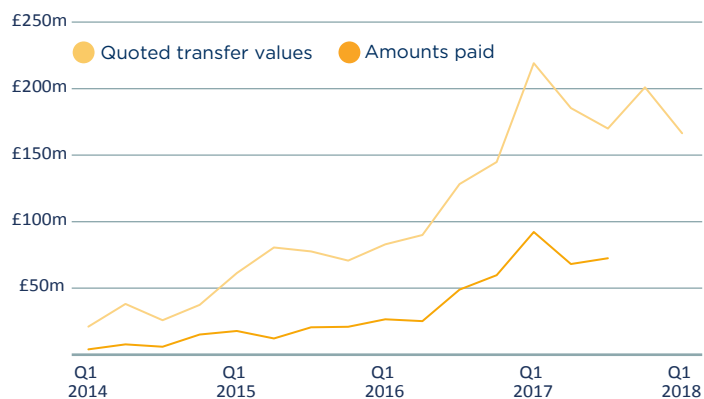
We provide trustees with comparator statistics against the overall experience of schemes we administer and can generate summary reporting on where members are taking their transfers.

Change in transfer activity

Over the 12 months to 31 March 2018 our administration teams have provided transfer value quotations to 7.5% of deferred members with a value of £725m in total. The total amounts quoted quarterly have fallen since the high of Q1 2017; this is largely due to the reduction in the average value of the amounts quoted.

Over £72m was paid out for quotes provided in Q3 2017 with an average size of £361,000, this compares to the peak values seen in Q1 2017 (£92.2m paid out with an average size of £627,000).

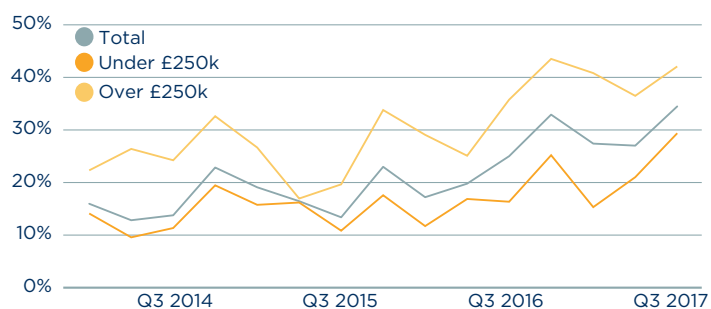
Change in transfer activity since 2014



Have take-up rates increased?

For the first time since we began our analysis in 2014, more than one-third of transfer values quoted in Q3 2017 have been paid out; this compares to take up rates of less than 15% for the first half of 2014. When looking only at those transfer values over £250,000 the take up rate was over 40% for the year to 30 September 2017.

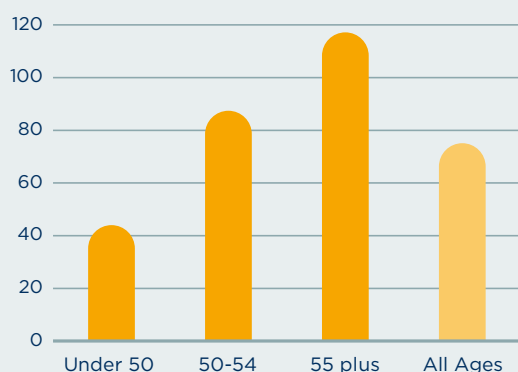
Proportion of transfers taken over and under £250k



Quotation and take up rates continue to be highest for those aged 55 and over. Around 12% of deferred members aged 55 and over requested a transfer value in the year to 31 March 2018 compared to nearly 8% of deferred members as a whole.

Transfer value quotations. Quotations issued in year to 31 March 2018

Number of quotations per 1,000 deferred members in each age group



75
No. per 1,000
deferreds
(all ages)

53
Average age

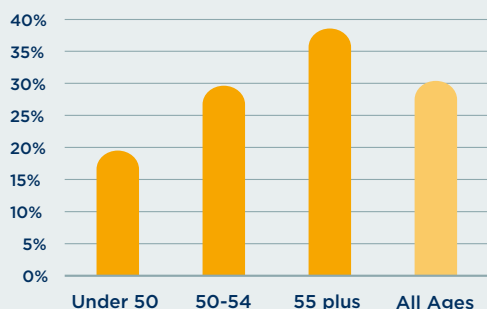
£310k
Average
amount¹


⁺Analysis is based on 78 schemes at 31 March 2018, for which LCP provide pensions administration services, with approximately 32,000 deferred pensioners. Our analysis only includes quotations requested by members. It excludes unsolicited quotations, such as those provided in retirement packs and incentive exercises.

Around 39% of quoted transfer values proceeded to payment for those members aged 55 and over compared to 30% of all transfer values quoted in the year to 30 September 2017. The average transfer value taken in the year to 30 September 2017 was £450,000, more than double the average price of a house in the UK.

Transfer values taken. Quotations issued in year to 30 September 2017²

Proportion of quotations that proceed to payment in each age group




30%
Take-up rate
(all ages)


55
Average age


£450k
Average amount¹

¹ Excluding any Additional Voluntary Contributions.

² 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.

Contact us

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