

# All change for DB transfers?

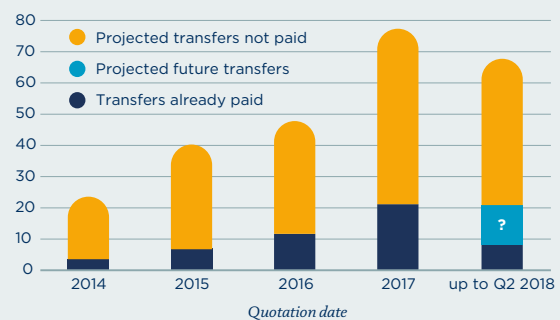
LCP's quarterly review of the transfer experience of the schemes we administer

Issue 12, August 2018

## Transfer activity begins to stabilise – but are new FCA rules about to bring further change?

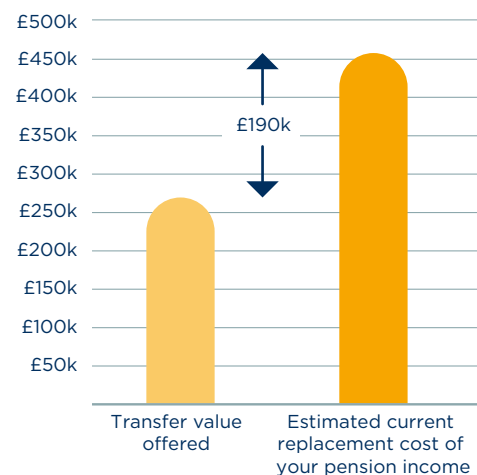
- In the latest quarter, quotation rates increased slightly since Q1 2018 but are still below the record level of activity during 2017. The total amount quoted over Q2 2018 was £167m (similar to £166m the previous quarter), but some way off the highest quarterly figure of £220m quoted in Q1 2017.
- Interest in transfer values continues to be highest at older ages, with an average age of 54 across members requesting a quotation in Q2 2018, compared with 51 for the deferred population as a whole.
- For the 20% of schemes that allow partial DB transfers, we are seeing increasing interest from members, with double the number of partial transfers taken during the first 6 months of 2018 compared with the whole of 2017.

Annualised quotation rate per 1,000 deferred members



## New FCA advice rules from 1 October 2018: what impact will they have on take-up rates?

From 1 October 2018, new FCA rules will require all pension transfer advice to include a Transfer Value Comparator (“TVC”). The TVC will show in graphical form 1) the transfer value offered by the DB scheme and 2) the estimated cost of replacing the client’s DB income in a DC environment, assuming so called “risk-free” investment returns before retirement and assuming the client uses their fund to buy an annuity with an insurer. This is illustrated to the right for a typical 55 year old currently 10 years away from retirement with a DB pension of £10,000 pa.



Whilst the significant gap between the transfer value and TVC replacement cost may come as a surprise to some members and financial advisers, this is due to the “risk-free” nature of the required FCA assumptions underlying the replacement cost, including the cost of an individual purchasing an annuity at retirement. In contrast, schemes typically invest in a mixture of assets including equities and bonds, and do not purchase individual annuities when members retire.

It remains to be seen what impact these new rules will have but because the apparent “generosity” of a scheme’s transfer value basis will be more transparent, we anticipate schemes with less “generous” transfer values could have lower take-up rates. Some members and their advisers may also decide to delay transfers until just before retirement, when the TVC gap will generally be at its lowest.

We are also expecting further changes in the FCA’s rules from next year following a recent consultation on “improving the quality of transfer advice” which included consideration on introducing a ban on contingent charging – this could have a dramatic impact on take-up rates.

## How we help our clients

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

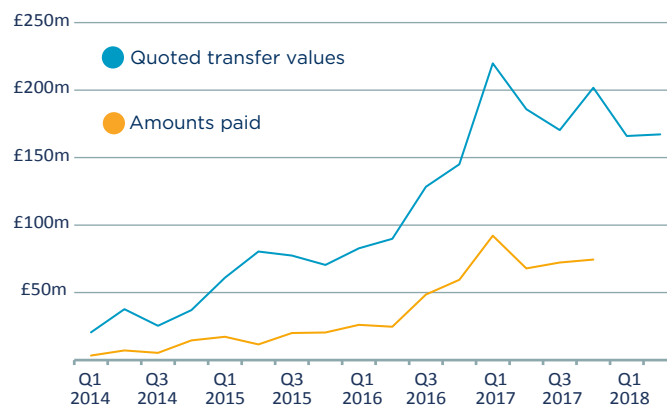
We provide trustees with comparator statistics against the overall experience of schemes we administer and can generate summary reporting on where members are taking their transfers.

## Change in transfer activity

Over the 12 months to 30 June 2018, our administration teams have provided transfer value quotations to 7.2% of deferred members with a value of £705m in total. The total amounts quoted quarterly have increased slightly since Q1 2018 but are still lower than the record level of activity over 2017.

Over £74m was paid out for quotes provided in Q4 2017 with an average size of £428,000; this compares to the peak for quotes provided in Q1 2017 (£92m paid out with an average size of £627,000).

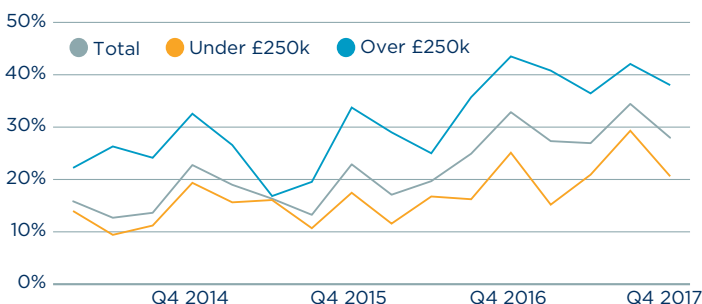
### Change in transfer activity since 2014



## Have take-up rates increased?

Overall Q4 2017 take-up rates have fallen to 28% from the previous high of 34% last quarter. The drop in take-up rates over Q4 2017 was greater for quotes under £250k than for quotes above £250k. For larger transfer values, take-up rates have been steady at around 40% for around 18 months now.

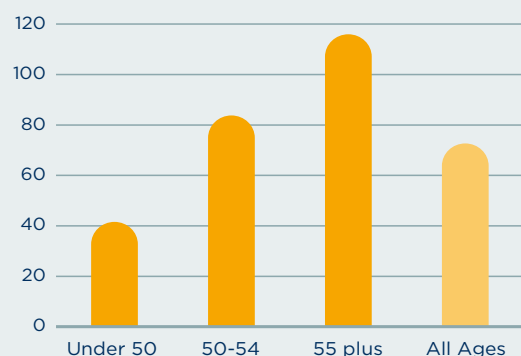
### Proportion of transfers taken over and under £250k



Quotation and take-up rates continue to be highest for those aged 55 and over. Nearly 12% of deferred members aged 55 and over requested a transfer value in the year to 30 June 2018, compared to 7% of deferred members as a whole.

## Transfer value quotations. Quotations issued in year to 30 June 2018

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



**72**  
No. per 1,000  
deferreds  
(all ages)

**54**  
Average age


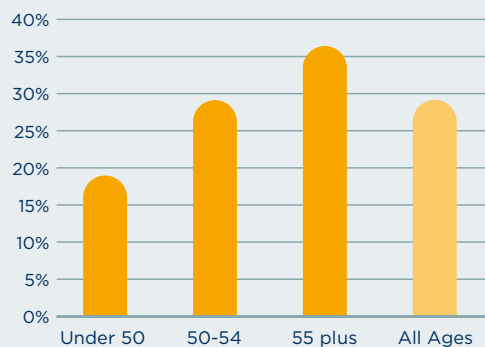
**£310k**  
Average amount<sup>1</sup>

<sup>+</sup>Analysis is based on 77 schemes at 30 June 2018, for which LCP provide pensions administration services, with approximately 31,000 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 36% of quoted transfer values proceeded to payment for those members aged 55 and over compared to 29% of all transfer values quoted in the year to 31 December 2017. The average transfer value taken in the year to 31 December 2017 was £448,000, more than double the average price of a house in the UK.

## Transfer values taken. Quotations issued in year to 31 December 2017<sup>2</sup>

### Proportion of quotations that proceed to payment in each age group



**29%**  
Take-up rate  
(all ages)



**55**  
Average age



**£448k**  
Average amount<sup>1</sup>

<sup>1</sup> Excluding any Additional Voluntary Contributions.

<sup>2</sup> 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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