

# All change for DB transfers

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

Issue 16, August 2019

## *Quotation rates increase for the first time in 18 months - but take-up rates continue to fall following the introduction of new rules for advisers*

- The number of transfer quotations in Q2 2019 was up 12% from Q1 2019, with 1.6% of deferred members receiving a quotation this quarter. This increase reverses the general decline in transfer activity since the all-time high of 2.0% of deferred members receiving a quotation in Q2 2017.
- In Q4 2018, the latest set of quotations for which full payment experience has been realised, take-up rates have fallen since the previous quarter. Of quotations issued in Q4 2018, only 23%



- we were taken up; this is the lowest take-up rate we have seen since Q2 2016, and coincides with the introduction on 1 October 2018 of the [Transfer Value Comparator \(TVC\)](#) disclosure requirements for DB transfer advice and other new rules for financial advisers.
- Take-up rates in this quarter were especially low among younger members: only 6% of the quotes issued to members under age 50 in Q4 2018 were paid out, compared to 20% in the same quarter for the previous year. Perhaps a sign that advisers are being more cautious about recommending transfers to younger members, influenced by the new TVC disclosure requirements which typically show transfer values for younger members as being a much lower proportion of the TVC than for those closer to retirement.

## *Radical FCA proposals will transform the pension transfer advice market*

The pension freedoms introduced by the government in 2015 provided DB pension scheme members with more flexibility in how and when they could access their pension benefits - but only by transferring out to a DC arrangement, so losing the security of an income for life provided by a DB pension. The FCA have always maintained their view that advisers providing advice to members considering a transfer from DB to DC should start from the position that such a transfer, would not generally be in the best interest of DB members. Despite this the FCA's work shows that 7 out of 10 members are advised to transfer and the issue is not confined to a few firms with 60% of firms recommending that at least 75% of their clients should transfer. The FCA's ongoing review of the suitability of advice has consistently found that only half the advice reviewed is suitable. They estimate that the harm of unsuitable transfers is £2bn each year.

This is a concern to the FCA and on 30 July 2019 they opened a [consultation](#) on pension transfer advice and in particular, the FCA's proposed measures to change how advisers manage and deliver pension transfer advice. The main headlines are:

- they are consulting on a proposal to ban contingent charging (where the adviser only gets paid if the member transfers) and making other changes to their rules and guidance. The FCA see the practice of contingent charging as an obvious conflict and a clear incentive to give unsuitable advice;
- an “abridged advice” regime that could be introduced, allowing those customers for whom a transfer is unlikely to be suitable to receive lower cost advice; and
- they have asked questions on whether all schemes should offer partial transfers.

We support the consultation but do wonder if a full ban on contingent charging will severely restrict the availability of advisers and number of members taking advice. We consider the changes radical and it will therefore be interesting to see what comes out of the consultation.

We also note that the take-up rate for transfer quotations for schemes administered by LCP is typically 25-30%, which is much lower than the average 70% “advice to transfer” rate shown in the FCA report. This may be because many members for whom a transfer would not be attractive do not approach an advisor – and perhaps also because some advisors have been “triaging” members and suggesting to those they would not expect to advise to transfer that they should not go through a formal advice process.

## *PASA launches its DB transfers guidance for Scheme administrators*

In early July the Pensions Administration Standards Association (PASA) [launched](#) its DB Transfers Guidance for scheme administrators. The guidance aims to improve the overall member experience through faster, safer transfers; improve efficiency for administrators, and improve communications and transparency in the processing of transfers. It also includes the template for financial advisers that The Pensions Regulator and the FCA have been working on.

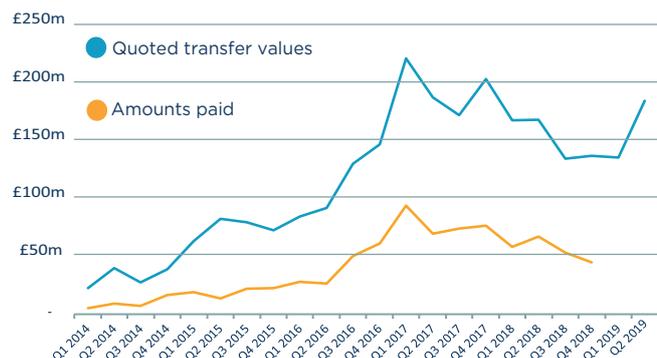
We think this guidance is a big step in the right direction that if adopted by trustees, will improve the experience for members and should help deliver improvements for all those involved in the DB transfer process.

## Change in transfer activity

Overall the 12 months to 30 June 2019, our administration teams have provided transfer value quotations to 6% of deferred members with a value of £585m in total. This compares to 7% and £705m for the year to 30 June 2018. There was however, a significant increase in quotation rates in Q2 2019, bucking the downward trend seen in previous quarters.

The total value of payments in respect of quotations provided in Q4 2018 fell to £43m with an average size of £396,000; this compares to the peak for quotations provided in Q1 2017 (£92m paid out with an average size of £627,000) and is the lowest total value since Q2 2016.

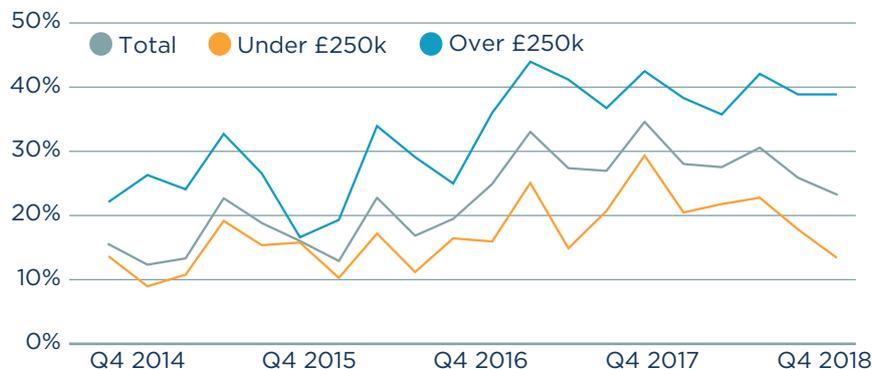
Change in transfer activity since 2014



## Have take-up rates changed?

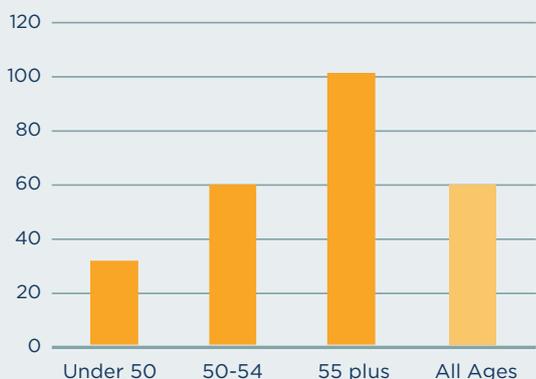
The overall take-up rate in Q4 2018 was 23%; this is down from the previous quarter (26%) and much lower than the previous high of 34% (Q3 2017). Take-up rates continue to be highest for transfers over £250k with a take-up rate of 39% in Q4 2018.

Proportion of transfers taken over and under £250k



## Transfer value quotations. Quotations issued in year to 30 June 2019

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



**60**  
No. per 1,000  
deferreds  
(all ages)



**54**  
Average age



**£300k**  
Average  
amount<sup>1</sup>

Quotation and take-up rates continue to be highest for those aged 55 and over. More than 10% of members aged 55 and over requested a transfer value in the 12 months to 30 June 2019 compared to just over 3% of those members aged under 50. As a proportion of all quotations in Q4 2018 which were then paid, 64% were paid to members aged 55 and over, and 6% were paid to members under 50.

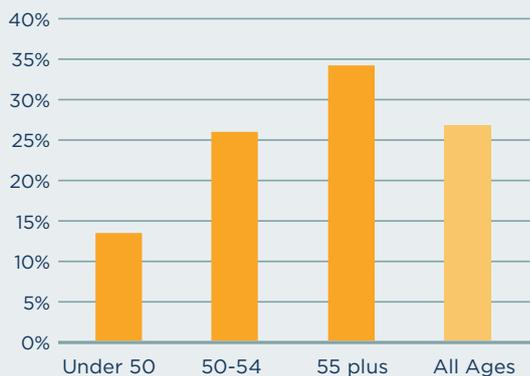
<sup>+</sup>Analysis is based on 78 schemes at 30 June 2019, for which LCP provide pensions administration services, with approximately 33,800 deferred pensioners. Our analysis only includes quotations requested by members. It excludes unsolicited quotations, such as those provided in retirement packs and incentive exercises.

## Which members are taking transfers?

Around 34% of quoted transfer values proceeded to payment for those members aged 55 and over, compared to 27% of all transfer values quoted in the year to 31 December 2018. Less than 15% of transfers quoted to members under 50 were taken over the same period. The average transfer value taken in respect of quotations in the year to 31 December 2018 was £402,000, over 1.5 times the average price of a house in the UK.

### Transfer values taken. Quotations issued in year to 31 December 2018<sup>2</sup>

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



**27%**  
Take-up rate  
(all ages)



**56**  
Average age



**£402k**  
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.

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