

All change for DB transfers

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

Issue 14, February 2019

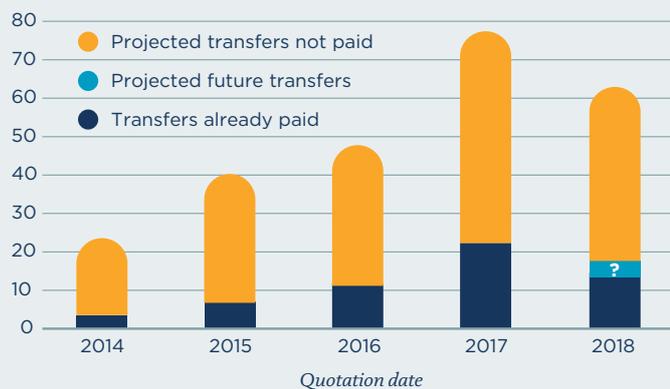
Transfer quotation activity continues to decline alongside continuing concerns regarding the quality of member advice

- In the latest quarter, quotation rates have dropped to the lowest rate we have seen since Q3 2016. Over the whole of 2018 transfer quotation rates fell to just more than 6% of deferred members, compared to almost 8% over 2017.

- Despite this decline in quotation requests, the take-up rate has remained stable, with take-up rates of 30% for the 12 months to 30 June 2018. This compares to 28% for the 12 months to 30 June 2017. Take-up rates continue to be highest for older members with a take-up rate of 37% for members aged 55 and over during the 12 months to 30 June 2018.

- Transfer values that are requoted within a 12-month period tend to have a much higher take-up rate; of the quotations that were calculated twice within the 12-month period to 30 June 2018, 76% were paid out.

Annualised quotation rate per 1,000 deferred members



Can Trustees be satisfied with the quality of advice their members receive in relation to pensions transfers?

The FCA recently [published](#) its findings of its most recent review of the advice given to members considering transferring their DB benefits. Alarming, less than 50% of the advice reviewed was suitable. It found that risk management controls in some firms were not keeping pace with the growth in pension transfer business and this often led to inappropriate advice and non-compliance going unnoticed.

In a separate review, Caroline Rookes (ex-CEO of the Money Advice Service) was asked by the Pensions Regulator to conduct an independent [review](#) of the communications and support offered to members of the British Steel Pension Scheme during the restructuring exercise in 2017/18. Her conclusions included that it would have been useful for the Scheme's Trustees to have compiled a list of advisers willing and able to take on members' cases. Instead, some British Steel workers were 'factory-gated' by unscrupulous introducers; others were directed to adviser directory Unbiased.co.uk, which Rookes described as 'anything but unbiased', and to the FCA's website which she criticised for being difficult to use and did not make clear if advisers could deal with DB transfers. (The FCA website also included advisers under investigation).

One of the recommendations of the Rookes review was that Trustees should be expected to provide appropriate support to members who are considering a pension transfer via tPR codes and guidance.

The Regulator is likely to provide more guidance to trustees relating to the quality of advice members should receive on taking a transfer. Until then, trustees and employers alike should consider 'getting on the front foot' and appointing a good quality IFA to provide education and advice to members who are considering their pension options. LCP have already helped many clients appoint reputable pension specialist IFAs who have robust processes and who are not incentivised to advise members to transfer out. Members and clients alike tell us that they have seen a step change in members' understanding of the risks involved and in the consequent numbers of transfers out.

Change in transfer activity

Over the 12 months to 31 December 2018 our administration teams have provided transfer value quotations to 6% of deferred members with a value of £602m in total. This compares to £778m in 2017 and £446m in 2016.

Over £65m was paid out for quotes provided in Q2 2018 with an average size of £401,000; 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

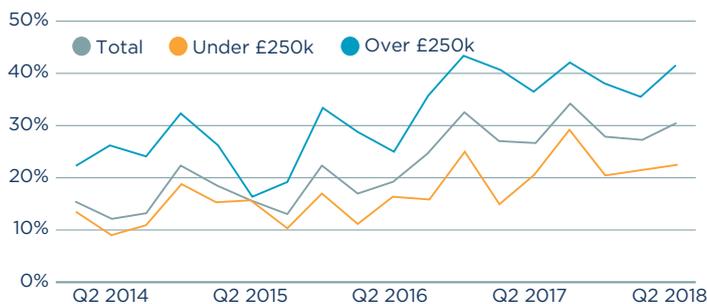


Have take-up rates changed?

The take-up rate in Q2 2018 was 30%; this is a slight increase from the previous quarter (28%) but 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 42% in Q2 2018.

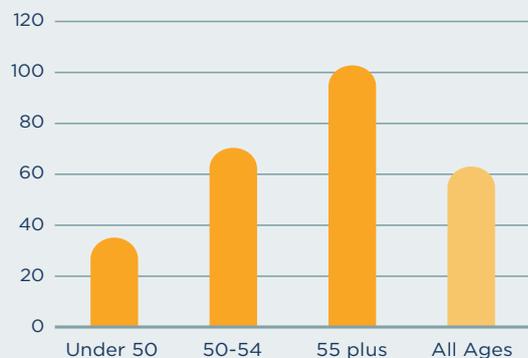
Quotation and take-up rates continue to be highest for those aged 55 and over. As a proportion of all transfers paid in Q2 2018, 62% were paid to members aged 55 and over and 12% were paid to members under 50.

Proportion of transfers taken over and under £250k



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

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

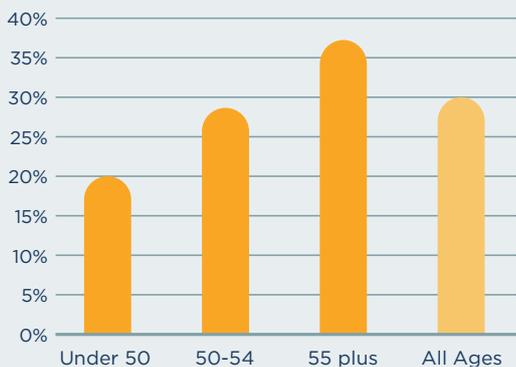


⁺ Analysis is based on 78 schemes at 31 December 2018, for which LCP provide pensions administration services, with approximately 33,000 deferred pensioners. Our analysis only includes quotations requested by members. It excludes unsolicited quotations, such as those provided in retirement packs and incentive exercises.

Around 37% 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 June 2018. The average transfer value taken in the year to 30 June 2018 was £394,000, about 1.5 times the average price of a house in the UK.

Transfer values taken. Quotations issued in year to 30 June 2018²

Proportion of quotations that proceed to payment in each age group




30%
Take-up rate
(all ages)


55
Average age


£394k
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.

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