

All change for DB transfers

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

Issue 15, May 2019

Slow-down in transfer activity continues and there is evidence of declining interest from younger members

- In Q3 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 Q3 2018, only 26% have been taken up. This is the lowest rate we have seen since Q3 2016 and its down from a high of 34% in Q3 2017.
- The number of quotations in Q1 2019 is slightly higher than the previous quarter, with 1.5% of deferred members receiving a quotation this quarter. This compares to a high of 2.0% of deferred members receiving a quotation in Q2 2017.
- The average age of members receiving a quotation in Q1 2019 was 55 and the average age of members taking transfer values quoted in Q3 2018 was 57. These are the highest average ages since we started our analysis in 2014. Even allowing for the generally aging deferred membership, there is evidence of diminishing interest from younger members (ie those under age 50) since the highs of 2017.



Recent developments that may provide greater assurance and protection for transferring members

In a previous [edition](#) we reported on the concerns that trustees and the FCA have regarding the quality of advice members of DB pension schemes may be receiving in relation to DB pension transfers; this was on the back of the [FCA review](#) on this matter. Since then there have been two developments which may help provide greater assurance and protection for members wishing to transfer.

Firstly, the Personal Finance Society¹ has [published](#) the Pension Transfer Gold Standard which is a principles based voluntary code of good practice for DB pension transfer advice. The aim of the code is to help consumers better understand what good advice relating to DB transfers looks like, as well as enhancing consumer protection. We understand that around 500 financial advisory firms that provide advice in this area have already applied for the Gold Standard accreditation.

The standard is good news for trustees who have concerns about the quality of advice in this area and who want to avoid a fiasco like the British Steel experience happening again. The 9 principles of the code include helping clients understand when advice is appropriate, ensuring client understanding and acceptance of all charges, and helping clients understand the cost of transferring benefits.

Secondly, the FCA has [announced](#) a £200,000 increase to the limit for compensation awarded by the Financial Ombudsman Service from £150,000 to £350,000 for actions by firms on or after 1 April 2019. This will provide greater assurance and protection for members of DB pension schemes who are looking to transfer out.

¹ The Personal Finance Society is the professional body of the financial advisory profession.

Change in transfer activity

Over the 12 months to 31 March 2019 our administration teams have provided transfer value quotations to 6% of deferred members with a value of £572m in total. This compares to 8% and £724m for the year to 31 March 2018.

The total value of payments in respect of quotations provided in Q3 2018 fell to £52m with an average size of £426,000; 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 Q3 2016.

Change in transfer activity since 2014

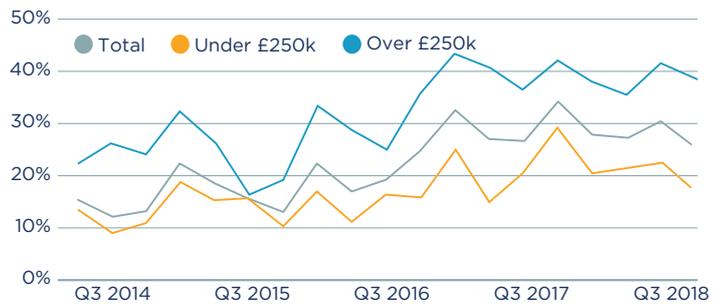


Have take-up rates changed?

The take-up rate in Q3 2018 was 26%; this is down from the previous quarter (30%) 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 Q3 2018.

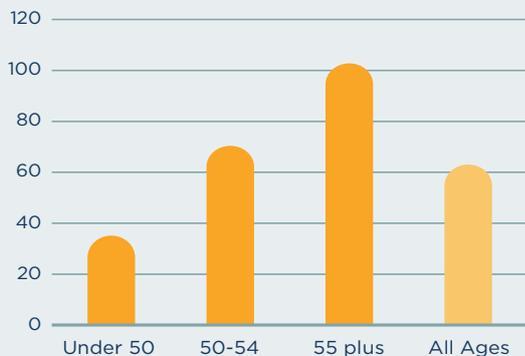
Quotation and take-up rates continue to be highest for those aged 55 and over. As a proportion of all quotations in Q3 2018 which were then paid, 64% were paid to members aged 55 and over, and 10% were paid to members under 50.

Proportion of transfers taken over and under £250k



Transfer value quotations issued in year to 31 March 2019

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



61
No. per 1,000
deferreds
(all ages)



54
Average age



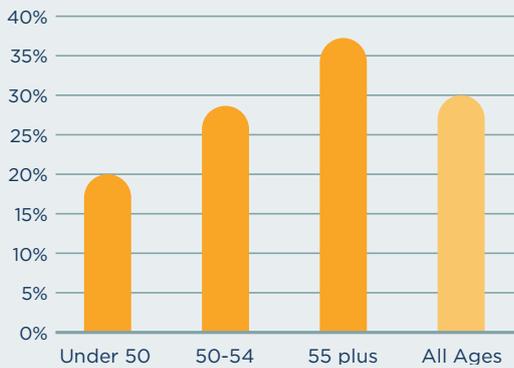
£294k
Average
amount¹

⁺ Analysis is based on 76 schemes at 31 March 2019, 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 35% of quoted transfer values proceeded to payment for those members aged 55 and over compared to 28% of all transfer values quoted in the year to 30 September 2018. The average transfer value taken in respect of quotations in the year to 30 September 2018 was £411,000, over 1.5 times the average price of a house in the UK.

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

Proportion of quotations that proceed to payment in each age group




28%
Take-up rate
(all ages)


55
Average age


£411k
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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