

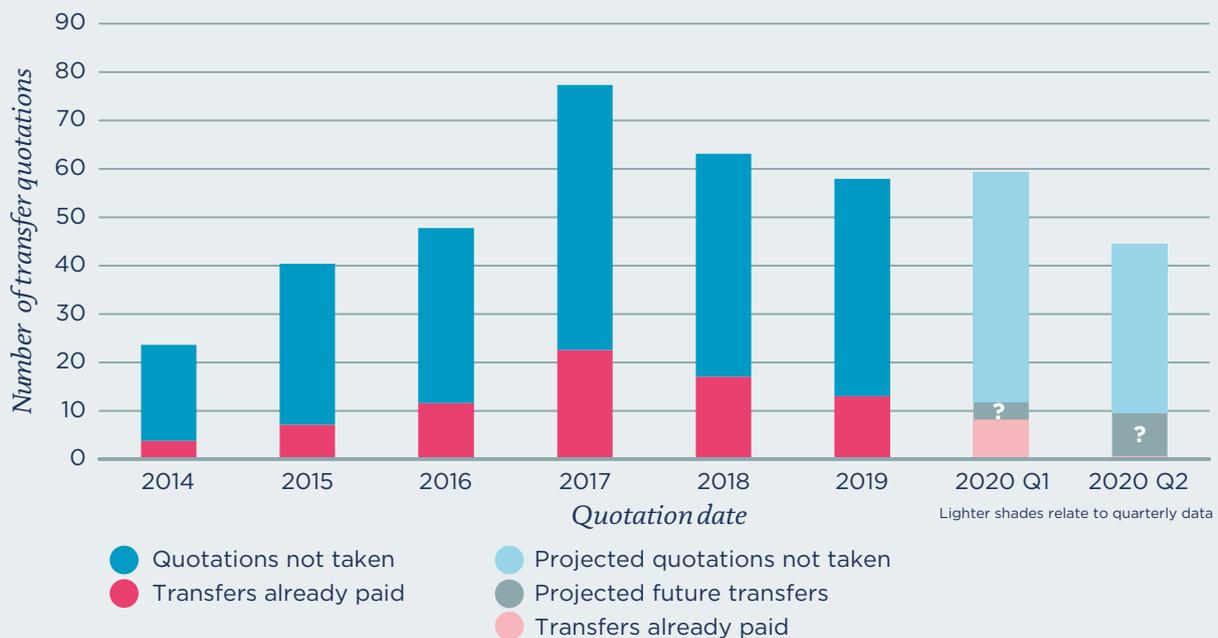
All change for DB transfers

LCP's quarterly review of the transfer experience of the schemes we administer
Issue 20, August 2020

Sharp fall in DB transfer activity over the Covid-19 lockdown period but average transfer value paid out jumps 30% to over £550,000

- The number of transfer quotations in Q2 2020 was down 25% from the previous quarter, with 1.1% of deferred members receiving a quotation in this quarter. This is the lowest level we have seen since Q2 2016.
- This dip in activity coincided with the Covid-19 lockdown in the UK - in particular the lowest level was in April and May, with June activity returning towards pre-lockdown levels. A number of schemes paused the provision of transfer value quotations over this time, in line with Regulator guidance.
- Take-up rates were also down this quarter, with only 20% of quotes paid out - this is the lowest take-up rate seen since 2016, and well below the average of 27% over the three intervening years.
- The average transfer value paid out increased by 30% from £425,000 in the previous quarter to £556,000, making this the first quarter since Q1 2017 in which the average transfer paid out exceeded £500,000. This was likely due to a combination of very low interest rates pushing valuations up and DB transfers being attractive in such uncertain times mainly to individuals with large benefits who can afford to take more risk.

Annualised quotation rate per 1000 deferred members



An end to contingent charging

In June 2020, the Financial Conduct Authority confirmed the introduction of a ban on “contingent charging” by financial advisers for DB transfer advice, effective from 1 October 2020, with a transitional period running until 1 January 2021. “Contingent charging” is the practice of advising a client on a transfer from one scheme to another where the adviser’s own charges are substantially dependent on the outcome. Typically, this means that the adviser charges nothing if the advice is not to transfer, and charges a fixed amount or a percentage of the member’s fund if the advice is to transfer. This has been a common charging approach of many advisers for some years.

A number of our pension scheme clients have now appointed a specialist financial adviser firm to help their members make better retirement decisions and to advise on the options available to them, including the option to transfer. Given the expected impact of the FCA’s new rules on the availability and affordability of financial advice, and continuing strong industry calls for schemes to take a more active role in supporting members in their decision-making, we can only see this trend continuing. For further details see Clive Harrison’s [blog](#).

The FCA acknowledge that fewer members will take up advice. However, it will be interesting to see if this also causes a significant fall in the number of quotations in the future and if there is any impact on take-up rates for those quotations that do go ahead. With the Covid-19 pandemic also ongoing, it may be challenging to immediately assign definite causes to any changes in activity which we might see.

A new normal following Covid-19 lockdown?

In last quarter’s release we began to cover the impact of the start of the lockdown period. There was a sharp reduction in transfer quotation activity over March, April and May, with the rate of requests falling initially to well below 50% of pre-lockdown levels. Over June this picked up somewhat, but has since settled back and is currently running at about 75% of pre-lockdown levels.

Total requests for all LCP schemes



How has the Regulator responded to the pandemic and what are LCP clients doing?

In [Covid-19 guidance](#) to trustees issued by the Regulator at the end of March, the Regulator said that Trustees may decide to suspend cash equivalent transfer value (CETV) quotations and payments to give themselves time to review CETV terms and/or to assess the administrative impact of any increase in demand for CETV quotes.

Following this, 28% of LCP’s administration clients (covering 37% of the total non-pensioner membership) had decided to pause or reduce transfer quotations as a result of Covid-19. All have since resumed quoting.

On 29 April the Regulator issued guidance to

trustees covering communication with members during Covid-19 which said “You should actively monitor the number of requests for CETV quotes you receive and which advisers are supporting the members’ request. If you identify unusual or concerning patterns, such as spikes in CETV requests or the same adviser across a multitude of requests, please contact the FCA on DBTransferSchemeInformation@fca.org.uk.”

To help our clients with this we have been monitoring transfer requests on a weekly basis across the 82 schemes we administer, since the beginning of lockdown.

Change in transfer activity

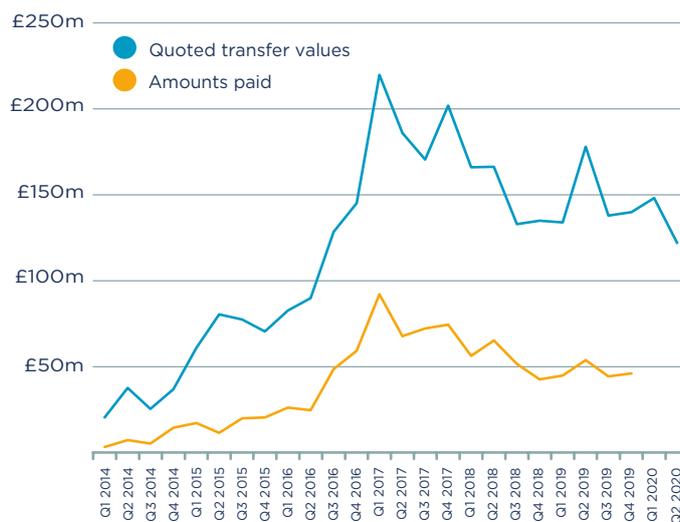
Over the 12 months to 30 June 2020 our administration teams have provided transfer value quotations to over 5% of deferred members, with a value of £548m in total. This compares to 6% and £580m for the year to 30 June 2019. Apart from the final four months to 30 June 2020, transfer quotation activity has broadly stabilised at around this 6% level and is significantly lower than the peak in activity seen in 2017 when almost 8% of deferred members requested transfer quotations with a value of £778m.

The total value of payments in respect of quotations provided in Q4 2019 increased to £46m with an average size of £556,000; this compares to the peak for quotations provided in Q1 2017 (£92m paid out with an average size of £627,000).

Have take-up rates changed?

The take-up rate for quotations in Q4 2019 was 20%; this is down from the previous quarter (22%) and is the lowest rate since Q2 2016. Take-up rates continue to be highest for transfers over £250k with a take-up rate of 31% in Q4 2019 compared to a take-up rate of 13% for transfers under £250k.

Change in transfer activity since 2014

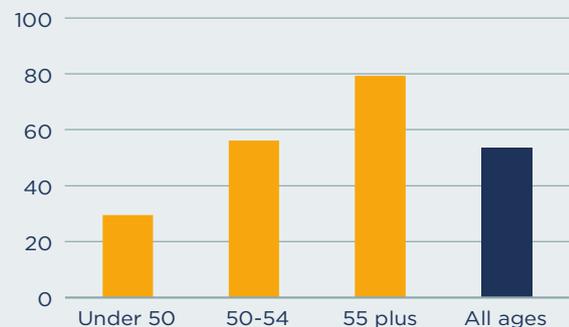


Proportion of transfers taken over and under £250k



Transfer value quotations. Quotations issued in year to 30 June 2020

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





53
No. per 1,000
deferreds
(all ages)



54
Average age



£315k
Average amount

Quotation rates continue to be highest for those aged 55 and over. Around 8% of members aged 55 and over requested a transfer quotation in the year to 30 June 2020 compared to only 3% of members under 50.

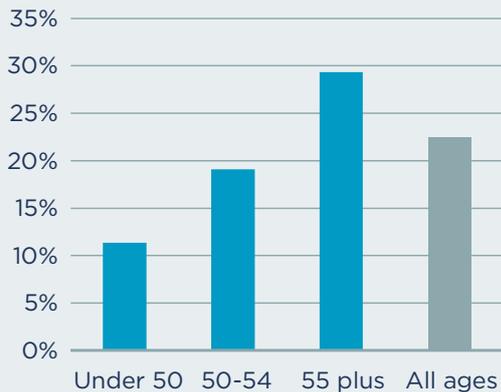
+ Analysis is based on 82 schemes at 30 June 2020, for which LCP provide pensions administration services, with approximately 33,000 deferred pensioners. Our analysis only includes quotations requested by members. It excludes unsolicited quotations, such as those provided in retirement packs and incentive exercises.

Which members are taking transfers?

Around 29% of quoted transfer values proceeded to payment for those members aged 55 and over, compared to 22% of all transfer values quoted in 2019. Only 11% of transfers quoted to members under 50 were taken over the same period. As a proportion of all quotations in the year which were then paid, 65% were paid to members aged 55 and over, and 11% were paid to members under 50.

Transfer values taken. Quotations issued in year to 31 December 2019

Proportion of quotations that proceed to payment in each age group



22%
Take-up rate
(all ages)



56
Average age



£441k
Average amount

The average transfer value taken in respect of quotations in 2019 was £441,000, almost twice the average price of a house in the UK.

Contact us

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