

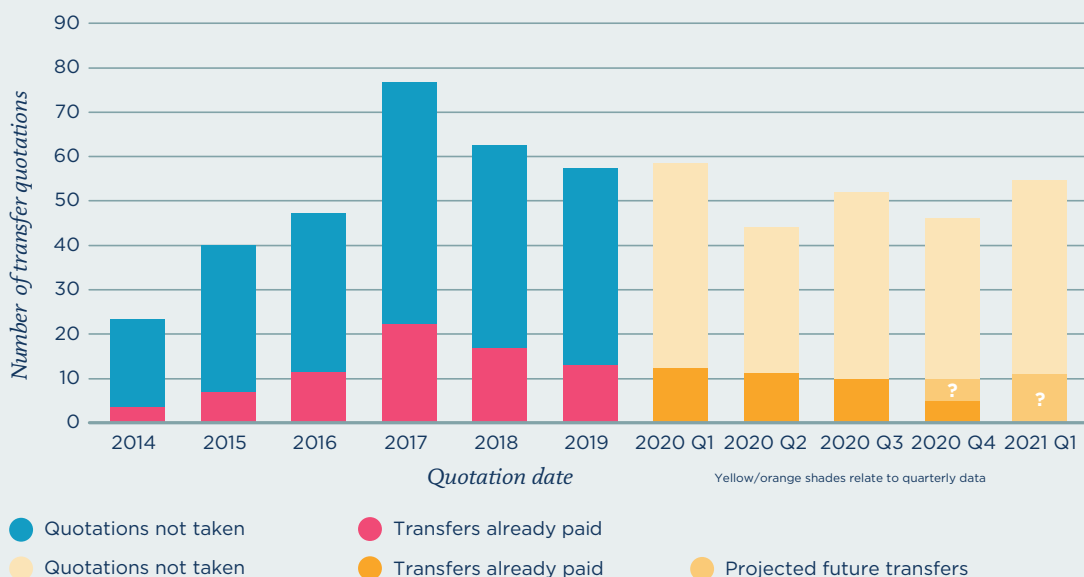
All change for DB transfers

LCP's quarterly review of the transfer experience of the schemes we administer
Issue 23, June 2021

Quotation activity edges back up towards pre-pandemic levels, while take-up rates fall to lowest level since Q1 2016

- Despite the imposition of a third national lockdown at the start of January 2021, transfer quotation rates rose 17% from Q4 2020 to Q1 2021, to 136 quotations per 10,000 deferred members.
- This compares to a quarterly average of 145 quotations per 10,000 deferred members in the year to 31 March 2020, before transfer activity dropped off sharply with the arrival of the Covid-19 epidemic.
- Of the 433 quotations issued in Q3 2020 – the most recent quarter with complete payment data – 19% (82) were subsequently paid out. This represents a decrease from 26% in the previous quarter and is the lowest take-up rate seen since Q1 2016.
- These 82 payments correspond to 0.25% of all deferred members – the lowest payment rate since Q2 2016. The reduction in payment activity may be linked to the ban on contingent charging by financial advisers which came into effect on 1 October 2020 and is considered in the next section.

Annualised quotation and payment rate per 1000 deferred members



Contingent charging ban coincides with lower take-up rates

The Financial Conduct Authority’s ban on “contingent charging” by financial advisers for DB transfer advice came into effect on 1 October 2020. “Contingent charging”, which had been a common approach of many advisers for some years, involved the level of charges for advice depending significantly on whether the transfer ultimately went ahead. In many cases, the adviser charged nothing if their client’s transfer did not proceed and a fixed amount or a percentage of the member’s fund if the transfer went ahead. The ban was borne out of concerns that this charging structure was unduly incentivising advisers to recommend transfers that were not in members’ best interests.

To maintain profitability, it is expected that financial advisers who previously used a contingent charging method will now switch to higher up-front advice fees. It is also expected that some advisers who relied on contingent charging may now decide to withdraw from the DB transfer market. As a result, it may become harder for members wishing to transfer to find and afford appropriate financial advice. This may then lead more employers and trustees to consider providing support to members wanting to consider a transfer.

As of April 2021, 6 of the 81 schemes administered by LCP have a specialist financial adviser firm in place to provide advice to members in relation to DB transfers on an ongoing basis. The trustees subsidise 80% of advice costs on one of these six schemes, with the subsidy provided by the employer on the other five schemes. Two of these five employers pay advice

costs in full for the member, while the other three cover part of the costs.

The first quarter following the imposition of the contingent charging ban (Q4 2020) saw a decrease in quotation rates - although there has been a significant uptick in Q1 2021. The take-up rate for Q3 2020 quotations – many of which would have been advised on after the introduction of the ban – was lower than usual. It may be that some members were put off proceeding further than the quotation stage by higher up-front advice costs, or – more positively – the lower take-up rate may be linked to advisers no longer having a financial incentive to recommend a transfer (as was the intention of the ban).

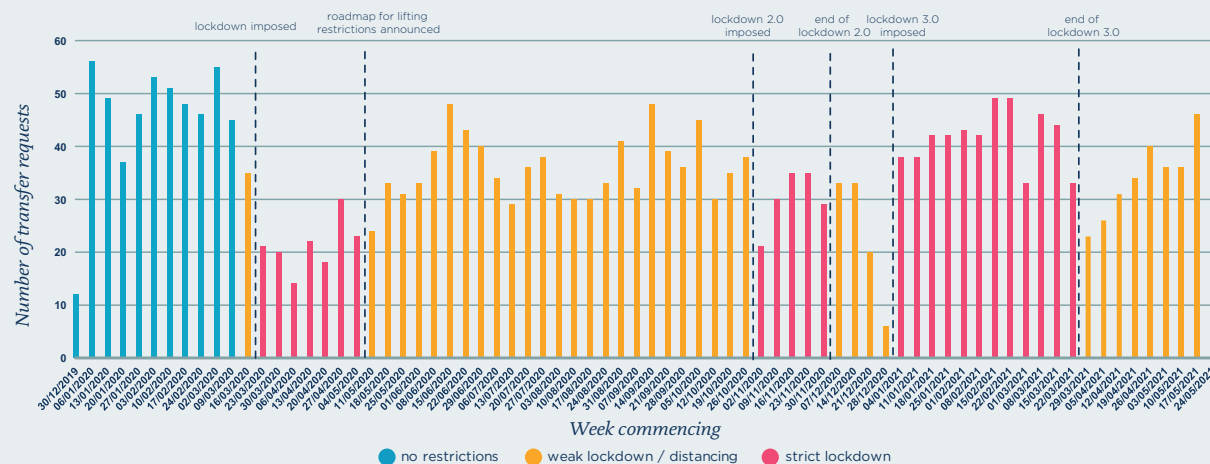
Despite relatively stable government bond yields over 2020 (which underlie the calculation of most transfer values), the average transfer value paid out in respect of Q3 2020 quotations was £557,000, up from £430,000 in respect of Q2 2020 quotations and £487,000 in respect of Q1 2020 quotations. This could imply that members with smaller benefits are finding it harder to afford up-front advice costs, or that advisers are now levying more fixed charges (irrespective of the amounts transferred), making smaller transfers less attractive.

It is, however, difficult at this stage to pinpoint to what extent these movements are linked to the contingent charging ban, given the natural variation in the figures and the volatility associated with the ongoing Covid-19 pandemic. We will continue to monitor the situation as the pandemic recedes and more data becomes available, to gain a clearer understanding of what effect (if any) the ban is having on the market.

Q1 2021 bucks trend of lower transfer activity during lockdowns

In 2020 we began to track DB transfer quotation requests on a much more regular basis, in particular to gauge the impact of Covid-19 lockdowns on the demand for DB transfer quotations. The seven weeks of strict lockdown between March and May 2020 saw greatly reduced levels of transfer activity, with the rate of requests falling to less than 50% of pre-lockdown levels. As the country emerged from the first lockdown there was a gradual increase in activity in late May and June, perhaps due to pent-up demand, which again dropped off with the second national lockdown in November. In contrast, transfer activity increased as we moved past Christmas into the third national lockdown, coming close to the levels seen towards the start of 2020 - although we then saw a slight decrease in requests around the Easter period.

Total requests for all LCP schemes



Long-term trends in transfer activity

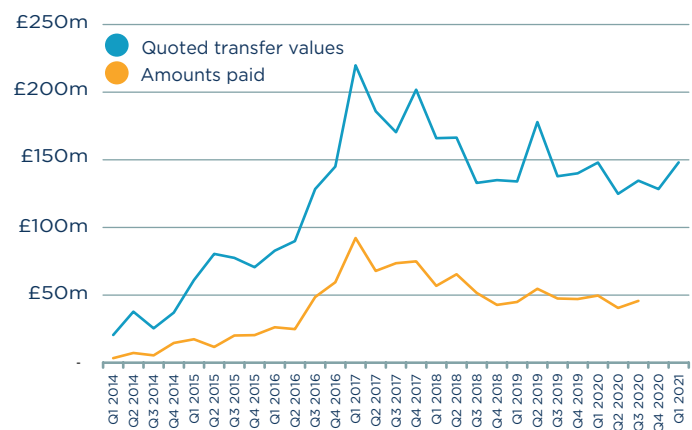
In the 12 months to 31 March 2021 our administration teams provided transfer value quotations to just under 5% of deferred members, with a value of £536m in total. This compares to just under 6% and £604m in the 12 months to 31 March 2020. While there has been significant volatility in demand for quotations during the Covid-19 pandemic, overall transfer quotation activity remains significantly lower than the peak in activity seen in 2017 when almost 8% of deferred members requested transfer quotations with a total value of £778m.

The total value of payments in respect of quotations provided in Q3 2020 increased to £46m with an average size of £557,000; this compares to the peak for quotations provided in Q1 2017 (£92m paid out with an average size of £627,000).

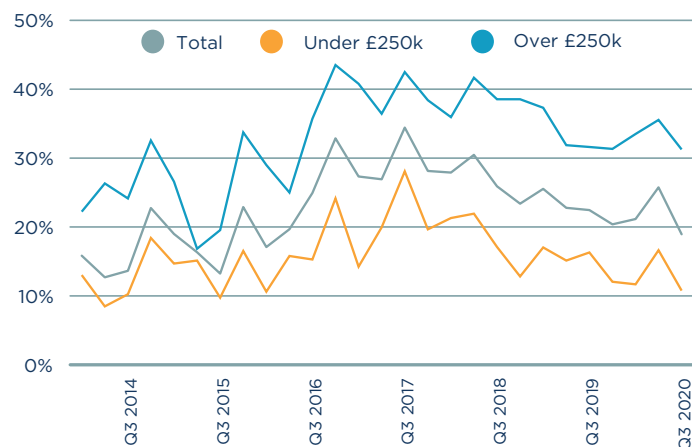
Have take-up rates changed?

The take-up rate for quotations made in Q3 2020 was 19%; this represents a decrease from the previous quarter (26%) and is the lowest take-up rate since Q1 2016. Take-up rates continue to be highest for transfers over £250k, with a take-up rate of 31% in Q3 2020 compared to a take-up rate of 12% for transfers under £250k.

Change in transfer activity since 2014

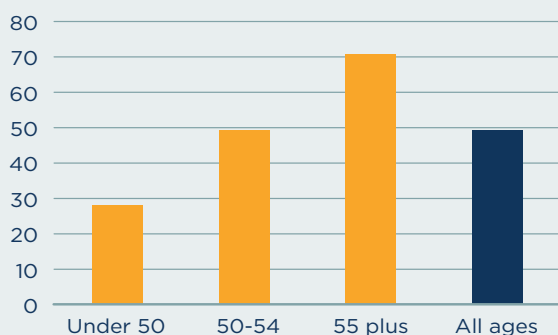


Proportion of transfers taken over and under £250k



Transfer value quotations. Quotations issued in year to 31 March 2021

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



49
No. per 1,000
deferreds
(all ages)



54
Average age



£329k
Average
amount

Quotation rates continue to be highest for those aged 55 and over. Just over 7% of members aged 55 and over requested a transfer quotation in the 12 months to 31 March 2021, compared to less than 3% of members under 50.

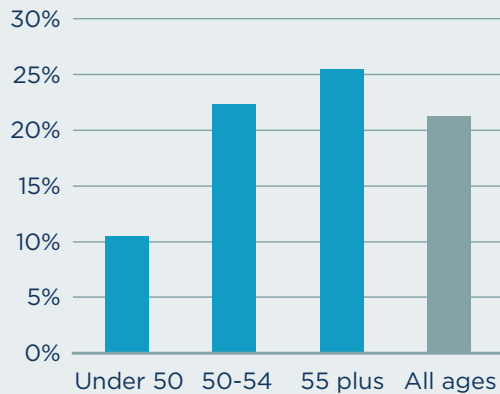
+ Analysis is based on 81 schemes at 31 March 2021, for which LCP provide pensions administration services, with approximately 31,800 deferred pensioners. Our analysis only includes quotations requested by members. It excludes unsolicited quotations, such as those provided in retirement packs and incentive exercises.


Which members are taking transfers?


Around 25% of quoted transfer values proceeded to payment for those members aged 55 and over, compared to 21% of all transfer values quoted in the 12 months to 30 September 2020. Only 10% 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, 59% were paid to members aged 55 and over and 10% were paid to members under 50.

Transfer values taken. Quotations issued in year to 30 September 2020

Proportion of quotations that proceed to payment in each age group




21%
Take-up rate
(all ages)


56
Average age


£505k
Average amount

The average transfer value taken in respect of quotations in the 12 months to 30 September 2020 was £505,000, over twice the average price of a house in the UK during this period.

Contact us

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At LCP, our experts provide clear, concise advice focused on your needs. We use innovative technology to give you real time insight & control. Our experts work in pensions, investment, insurance, energy and financial wellbeing.

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