

All change for DB transfers

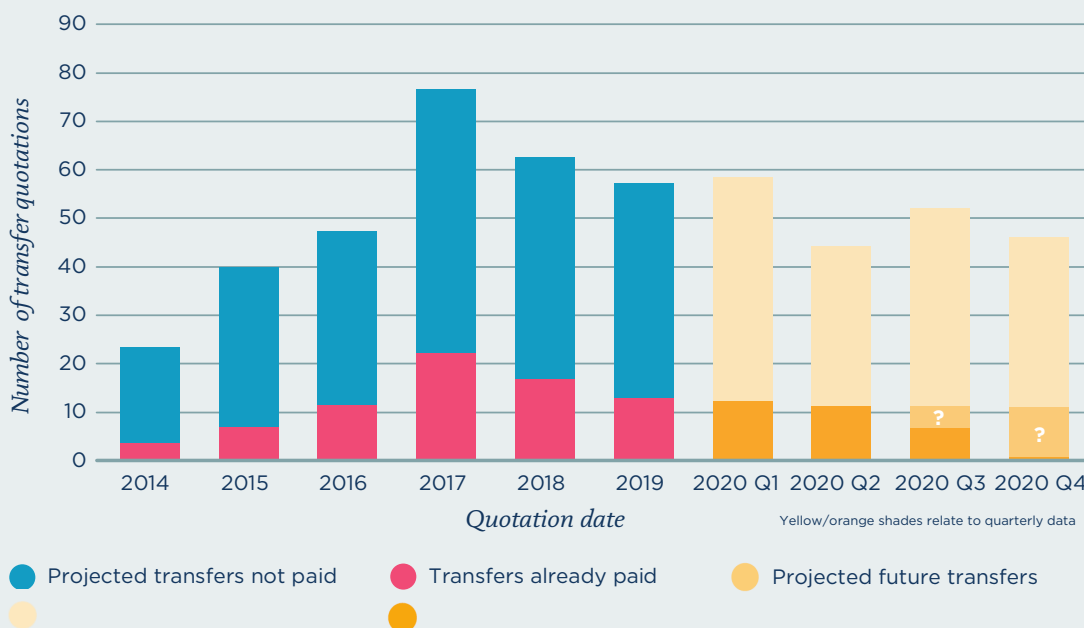
LCP's quarterly review of the transfer experience of the schemes we administer

Issue 22, February 2021

Second lockdown coincides with another drop in transfers quoted, but transfer payment activity remains largely unaffected

- After an uptick in transfer activity in Q3 2020 as we emerged from the first lockdown, transfer quotation rates decreased by 11% over Q4 2020 to 116 quotations per 10,000 deferred members.
- Of the 365 quotations issued in Q2 2020 – the quarter with the lowest quotation rate since Q2 2016 and the most recent quarter with complete payment data – 26% (94) were subsequently paid out. This represents an increase from 21% in the previous quarter and is the highest take-up rate seen since Q3 2018.
- Despite there being 117 fewer quotations issued in Q2 2020 than in Q1 2020, only 8 fewer payments were made in respect of the Q2 quotations. This could suggest that, while more speculative transfer quotation requests were put on hold during the first lockdown, members who were serious about transferring were not deterred by the market volatility and general turmoil of this period. The higher take-up rate could also point to increasing concerns about employer covenant strength and the security of a DB pension.
- Of the total value of transfers paid out in the latest quarter, 85% was paid to members in their 50s – this is the highest that this level has been since we started our analysis in 2014.

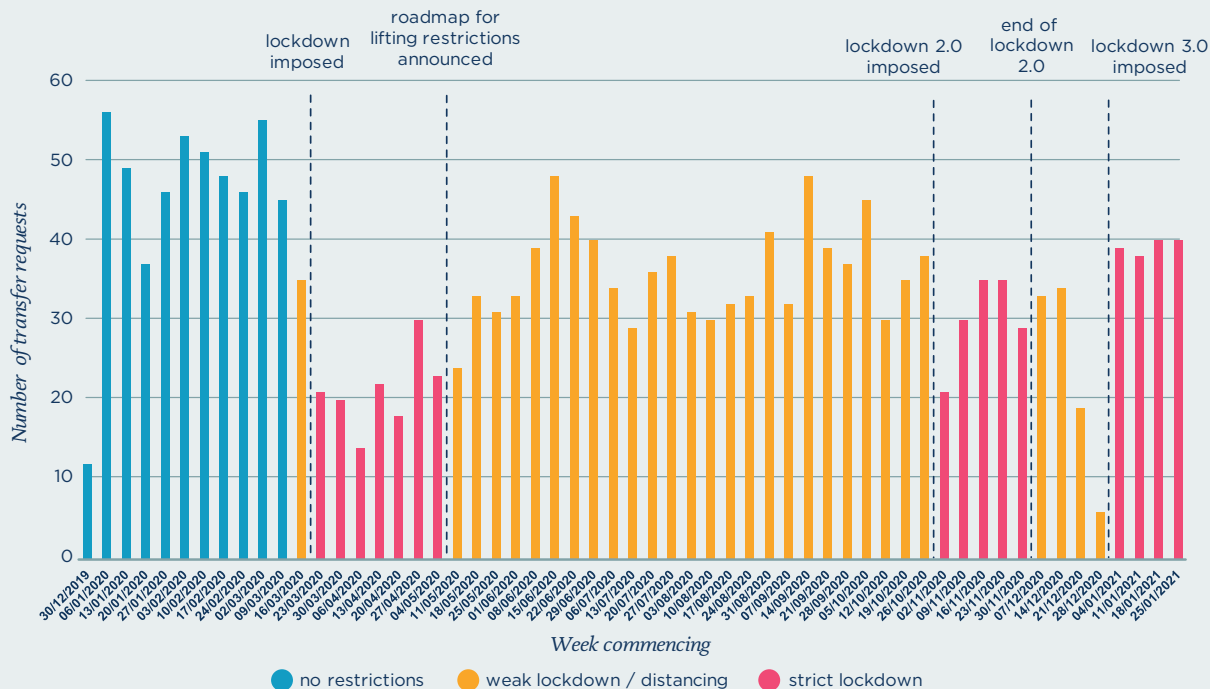
Annualised quotation and payment rate per 1000 deferred members



Strong link between transfer activity and lockdown restrictions in 2020

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 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. While January 2021 activity was higher, it was lower than the previous January, suggesting that the elevated level may have been somewhat of a post-Christmas backlog.

Total requests for all LCP schemes



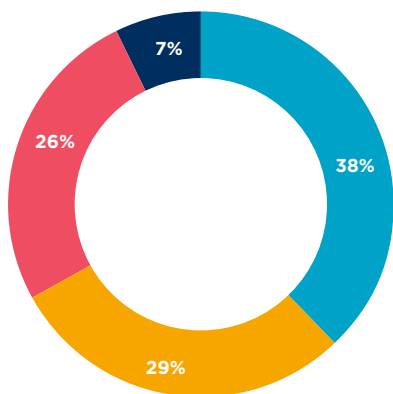
Follow the money – where are members taking their transfer values?

Large fall in insurers’ share of the market

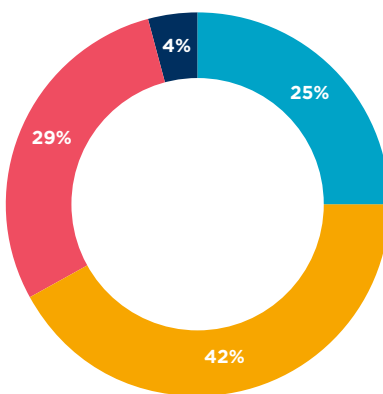
In [our release one year ago](#), we looked at where DB members were taking their transfer value over 2018 and 2019. We’ve now revisited the question in light of 2020’s experience.

During 2020, pension schemes administered by LCP paid out 438 DB transfers, totalling £210m. We looked at where these transfers were paid and so, by extension, where financial advisers are advising their clients to take them.

Destination of transfers by number



Destination of transfers by £ amount



- Insurers
- Independent platforms
- Vertically integrated advisers
- Others

How we categorise the destinations

We split our analysis of the transfer destinations into three main groups:

Insurers

These are traditional insurance companies with generally high name awareness (eg Prudential, Aviva). Insurers typically provide access to a range of investment funds which they manage themselves, along with an investment platform with a range of funds managed by specialist investment managers.

Independent Platforms

These are investment platforms operated by independent firms who provide individuals and independent financial advisers with access to a range of funds managed by specialist investment managers, and charge a separate platform fee.

Vertically Integrated Advisers

These are wealth management firms which have significant financial adviser arms within the same overall organisation. These firms are therefore able to benefit financially from both the fees charged by the financial adviser at the advice stage and from ongoing investment management charges following the transfer.

Over 2020, the largest sector receiving transfers (in terms of number of payments) remains traditional **insurers**, with 38% of transfers going their way. However, these transfers were generally at the smaller end, with an average of £320,000, compared with an overall average of £480,000 for each transfer, meaning that only 25% of the money transferred went to insurers. Four insurers each had just over 5% of the total transfer market (and thus over half of the 38% between them): Aegon, Aviva, Royal London and the Prudential.

29% of all transfers went to **independent platforms**. These tended to be larger transfers with an average of around £695,000 per member and represented 42% of the transferred money. This is a more fragmented sector, with a substantial number of different firms providing this service – only one of these (AJ Bell) had more than 5% of the total market.

Just over a quarter of all transfers went to **vertically integrated advisers**, with an average transfer value of £520,000. This sector is dominated by St James' Place with around 13% of the market for all transfers, with True Potential and Old Mutual Wealth (part of Quilter plc) having around 4% of the market each.

The two other destination groups with material numbers of transfers were occupational pension schemes (generally smaller, with an average of £180,000) and overseas QROPS arrangements, accounting for around 3% of transfers each.

Developing trends

The trends should be seen in the context of a fall in transfer activity in 2020 compared with 2019, with around 20% fewer transfers paid out in 2020 compared with 2019. However, as the average transfer value size increased significantly, the total amount paid out remained very similar between the two years. These trends were however not evenly spread between the sectors.

	Market share				Average transfer value			
	2018	2019	2020		2018	2019	2020	
Insurers	41%	48%	38%	▼	£290,000	£320,000	£320,000	▬
Independent platforms	31%	23%	29%	▲	£475,000	£520,000	£695,000	▲
Vertically integrated advisers	23%	26%	26%	▬	£425,000	£395,000	£520,000	▲
Others	5%	3%	7%	▲	£285,000	£135,000	£275,000	▲

The independent platforms enjoyed market share rising from 23% to 29% and additionally saw their average transfer payment growing by nearly 35% to £695,000. The relative position of vertically integrated advisers remained steady, with a similar share of transfers and a 32% rise in the average transfer value. In contrast, the insurance sector's share of transfers fell from 48% in 2019 to 38% in 2020, with each of the four insurers that have more than 5% of market share receiving reduced numbers of transfers. Not only this, but the average transfer value going to insurers remained virtually constant at around £320,000 – despite 30%+ increases across the other sectors.

Change in transfer activity

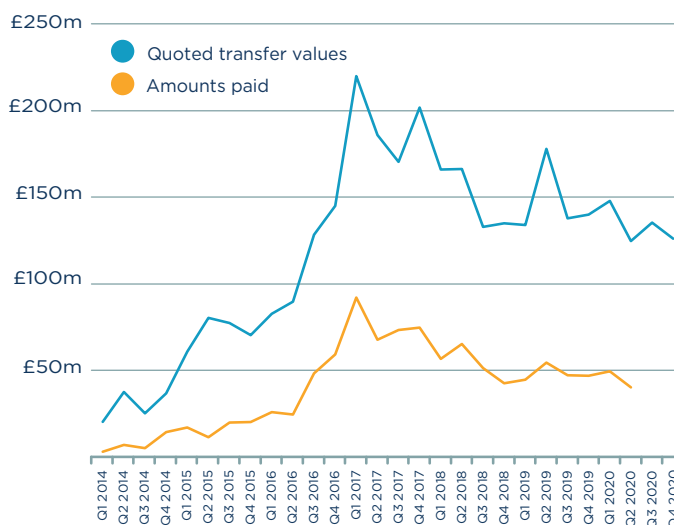
In 2020 our administration teams provided transfer value quotations to just over 5% of deferred members, with a value of £534m in total. This compares to just under 6% and £590m in 2019. While there has been significant volatility in demand for quotations during the Covid-19 pandemic, the underlying trend in overall transfer quotation activity has continued its gradual decline and is 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 Q2 2020 decreased to £40m with an average size of £430,000; this compares to the peak for quotations provided in Q1 2017 (£92m paid out with an average size of £627,000).

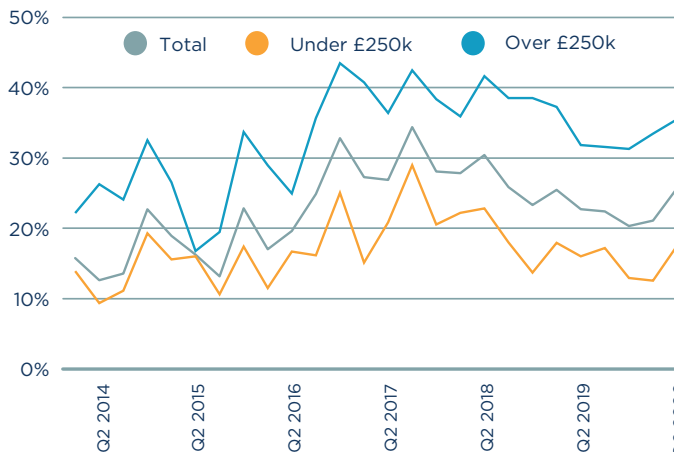
Have take-up rates changed?

The take-up rate for quotations made in Q2 2020 was 26%; this represents an increase from the previous quarter (21%) and is the highest take-up rate since Q3 2018. Take-up rates continue to be highest for transfers over £250k with a take-up rate of 36% in Q2 2020 compared to a take-up rate of 18% for transfers under £250k.

Change in transfer activity since 2014

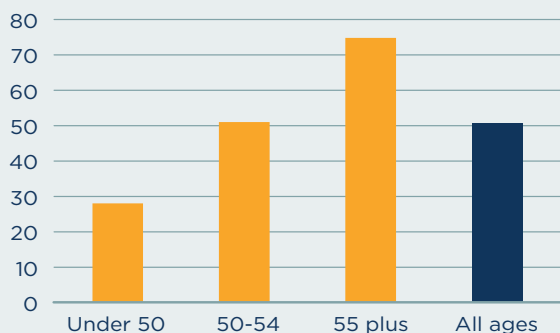


Proportion of transfers taken over and under £250k



Transfer value quotations. Quotations issued in year to 31 December 2020

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



51
No. per 1,000
deferreds
(all ages)



54
Average age



£319k
Average
amount

Quotation rates continue to be highest for those aged 55 and over. Around 7.5% of members aged 55 and over requested a transfer quotation in 2020, compared to less than 3% of members under 50.

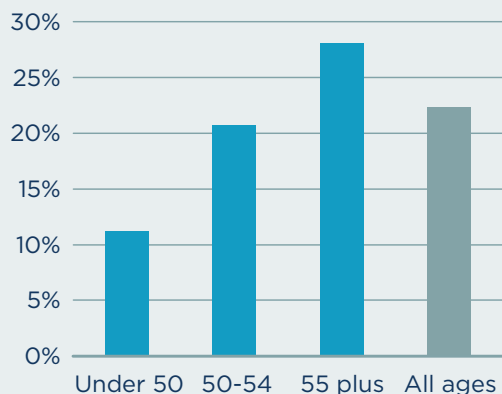
+Analysis is based on 86 schemes at 31 December 2020, for which LCP provide pensions administration services, with approximately 33,800 deferred pensioners. Our analysis only includes quotations requested by members. It excludes unsolicited quotations, such as those provided in retirement packs and incentive exercises.


Which members are taking transfers?


Around 28% of quoted transfer values proceeded to payment for those members aged 55 and over, compared to 22% of all transfer values quoted in the 12 months to 30 June 2020. 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, 62% were paid to members aged 55 and over, and 11% were paid to members under 50.

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

Proportion of quotations that proceed to payment in each age group




22%
 Take-up rate
 (all ages)


56
 Average age


£476k
 Average amount

The average transfer value taken in respect of quotations in the 12 months to 30 June 2020 was £476,000, around twice the average price of a house in the UK during this period.

Contact us

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