

All change for DB transfers

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

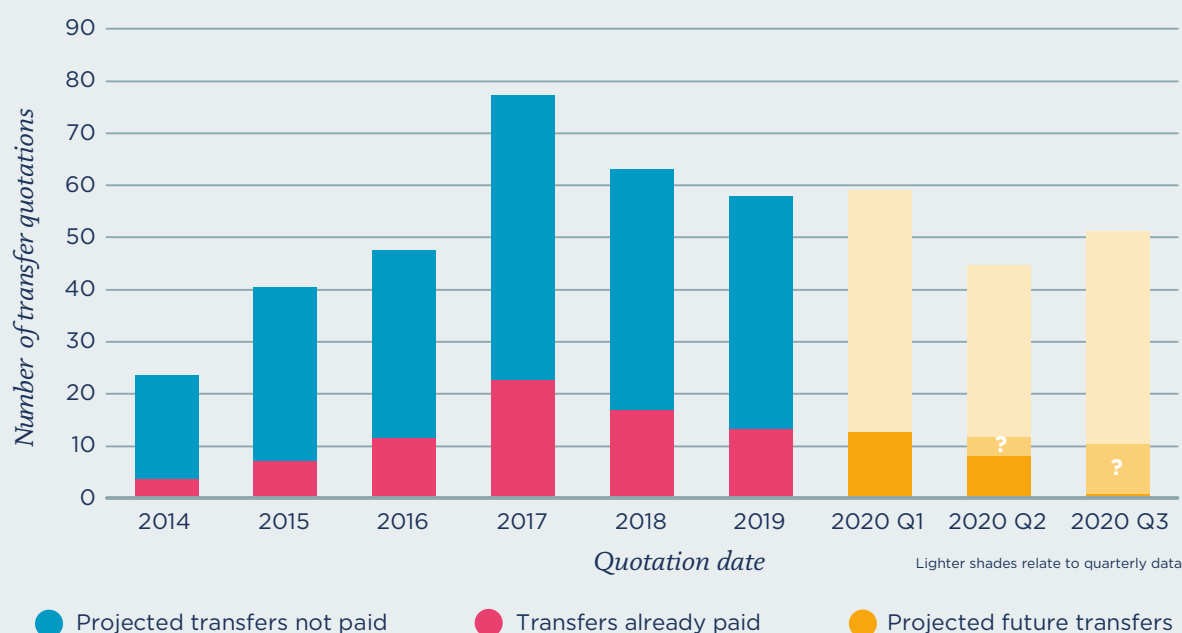
Issue 21, November 2020

Transfer quotation activity picks up following the first Covid-19 lockdown period, but take-up rates remain low

- After transfer activity dropped in Q2 2020 to its lowest level since 2016, transfer quotation rates increased by 15% over Q3 2020 with a return to broadly pre-lockdown levels in July and September.
- Somewhat surprisingly given the economic impact of Covid-19, take-up rates were low again in the latest quarter, with only 21% of quotes paid out – this represents an increase from 20% in the previous quarter but is still the second lowest take-up rate seen since 2016 (and well below the average take-up rate of 27% over the three intervening years). The average transfer value paid out was £480,000, the second highest amount we have seen since Q1 2017.
- Of the value of transfers paid out in the latest quarter, 24% was paid to members aged 60 and above – this is the second highest that this level has been since we started our analysis in 2014, perhaps reflecting the impact of Covid-19 on the finances for this cohort.

On page 2, we look at what Lockdown 2 may bring, and how appointing an IFA for their scheme can help trustees support their members in this challenging environment.

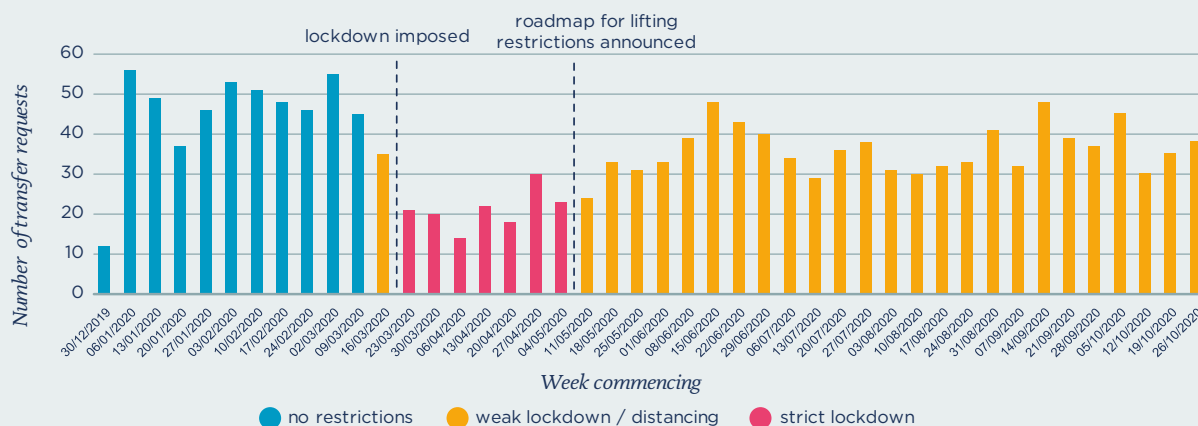
Annualised quotation and payment rate per 1000 deferred members



A new normal following Covid-19 lockdown?

In the previous two quarters we began to cover the impact of the start and easing of the first Covid-19 lockdown period on the demand for DB transfer quotations. The seven weeks of strict lockdown 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 strict lockdown there was a gradual increase in activity in late May and June, perhaps due to pent-up demand, but this has since fallen away with current quotation requests broadly running at 80% of pre-lockdown levels.

Total requests for all LCP schemes



Lockdown 2 – An increasingly challenging environment for trustees, employers and advisers

It will be interesting to see how transfer activity changes as we head into Lockdown 2. Will we see a similar fall off in activity as that seen in April and May, or will the increasing numbers of redundancies coming through and the economic impact of the second lockdown result in more members looking to their DB pensions for some financial flexibility? And will the ban on contingent charging by financial advisers (which came into effect in October with transitional arrangements until January) make it harder for members to access the advice they need to transfer - which could potentially reduce activity. It is an unprecedented and quickly changing environment which we will continue to monitor closely.

Be vigilant if transfer activity spikes

In an environment characterised by rising number of redundancies, concerns over the strength and future viability of sponsoring employers and potentially large DB transfer values, trustees, employers and advisers need to be particularly vigilant of the transfer activity of their DB schemes. In April the Pensions Regulator (TPR) issued [guidance](#) to trustees advising them to monitor and report activity to the Financial Conduct Authority (FCA) where they had concerns. In an unusual move, the FCA, TPR and the Money and Pensions Service (MaPS) recently issued a joint [statement](#) regarding their involvement with Rolls Royce highlighting the risks associated with increased transfer requests as a consequence of redundancies. The statement included a warning from the FCA to advisers that they will take action in cases of unsuitable advice and bad practice.

Consider appointing an IFA but be aware of the challenges

Historically, trustees have often been cautious about doing more than meeting their legal duty to provide a DB transfer value when requested, however, more recently, some trustees are increasing their support by identifying a firm members could use and, in some cases, subsidising the cost of that advice (whilst at the same time continuing to be careful not to provide advice or recommendations to the member).

In the Rolls Royce case, we understand that the trustees have “done the right thing” and have appointed a fully paid for IFA for members who are considering their options. Despite this, other advisers appear to be acting inappropriately, including factory gating, as previously seen in the British Steel case, and the FCA has requested that 65 advisers provide them with data and information relating to this case. If the trustees had not appointed an IFA, we would anticipate that the regulatory concerns would have been even greater.

Greater vigilance of transfer activity and the support of good IFAs is set against a backdrop of a shrinking number of IFA firms that are willing to provide advice on DB transfers (more detail is provided in LCP’s [joint paper](#) with Royal London).

In this current environment, trustees and employers may now consider NOT putting in place a specialist IFA represents a material reputation risk, particularly if there is uncertainty about the future strength of the employer and the prospect of redundancies at the employer and/or within the employer’s industry. Our specialist team at LCP can help trustees or employers select a suitable IFA in a challenging marketplace.

Change in transfer activity

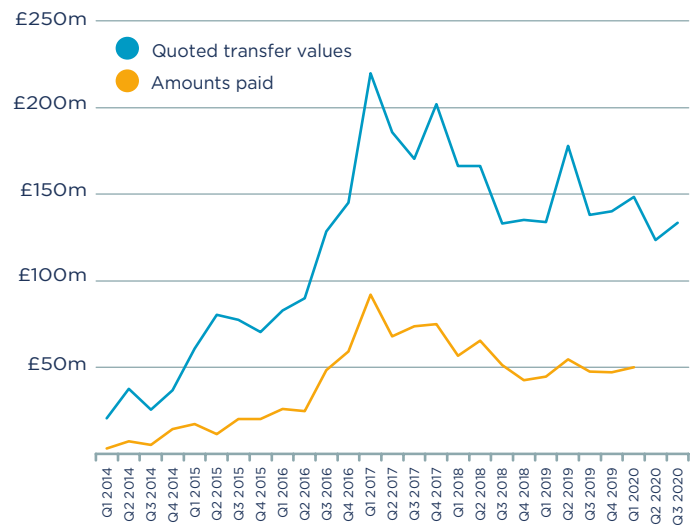
Over the 12 months to 30 September 2020 our administration teams have provided transfer value quotations to over 5% of deferred members, with a value of £545m in total. This compares to 6% and £585m for the year to 30 September 2019. While there has been significant volatility in demand for quotations 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 value of £778m.

The total value of payments in respect of quotations provided in Q1 2020 increased to £50m with an average size of £480,000; this compares to the peak for quotations provided in Q1 2017 (£92m paid out with an average size of £627,000).

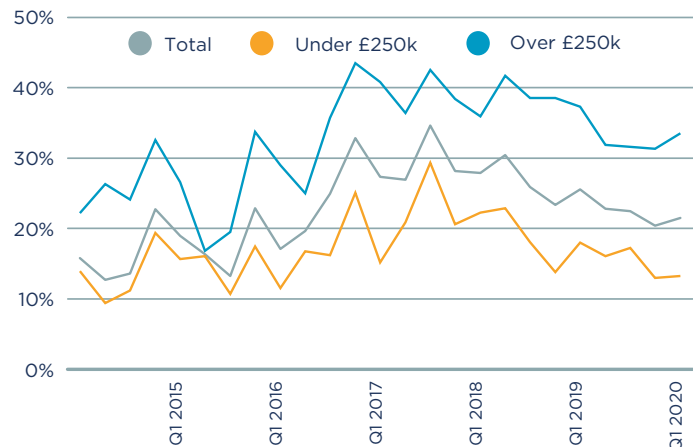
Have take-up rates changed?

The take-up rate in Q1 2020 was 21%; this is up very slightly from the previous quarter (20%) – these two quarters being the lowest two since Q2 2016. Take-up rates continue to be highest for transfers over £250k with a take-up rate of 34% in Q1 2020 compared to a take-up rate of 13% for transfers under £250k.

Change in transfer activity since 2014

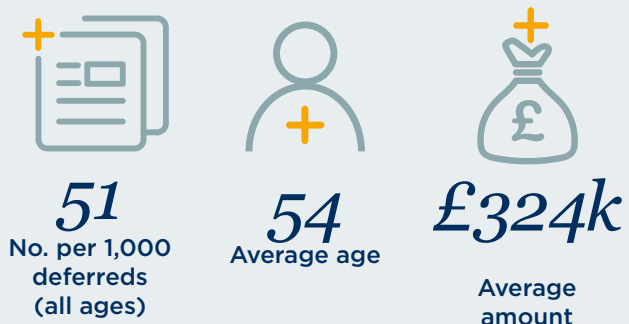
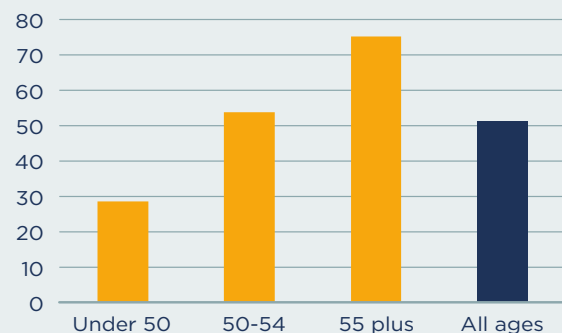


Proportion of transfers taken over and under £250k



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

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



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 the year to 30 September 2020 compared to less than 3% of members under 50.

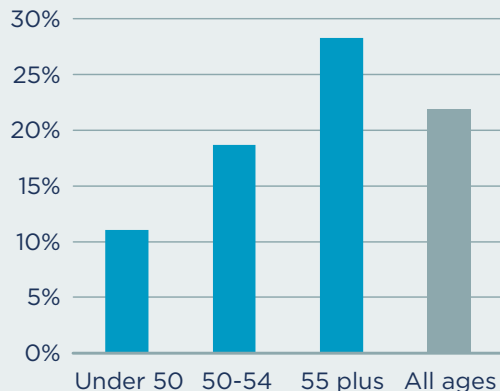
+ Analysis is based on 83 schemes at 30 September 2020, for which LCP provide pensions administration services, with approximately 33,600 deferred pensioners. Our analysis only includes quotations requested by members. It excludes unsolicited quotations, such as those provided in retirement packs and 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 Q1 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, 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 March 2020

Proportion of quotations that proceed to payment in each age group




22%
Take-up rate
(all ages)


56
Average age


£475k
Average
amount

The average transfer value taken in respect of quotations in the 12 months to Q1 2020 was £475,000, almost twice the average price of a house in the UK.

Contact us

If you would like further information, please contact your usual LCP adviser or one of the people below.



**Bart Huby -
Partner**

bart.huby@lcp.uk.com
+44 (0)1962 872711



**Jim Little -
Partner**

jim.little@lcp.uk.com
+44 (0)1962 873363



**Tim Camfield -
Consultant**

tim.camfield@lcp.uk.com
+44 (0)1962 672973



**Andrew Pijper -
Associate Consultant**

andrew.pijper@lcp.uk.com
+44 (0)1962 673011

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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