

All change for DB transfers

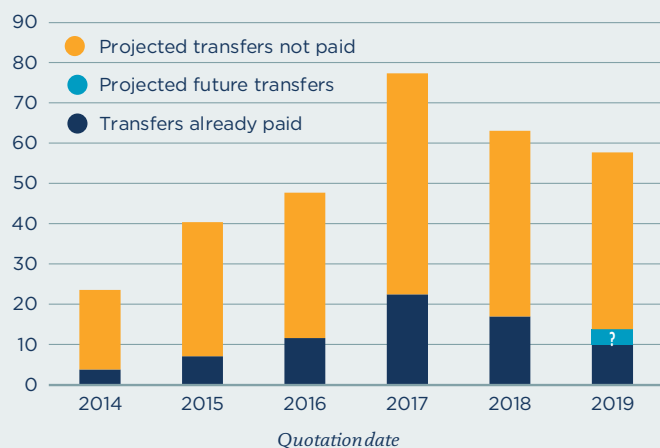
LCP's quarterly review of the transfer experience of the schemes we administer

Issue 18, March 2020

Transfer quotation rates fall to lowest level for over 3 years

- The number of transfer quotations in Q4 2019 was down 17% from the previous quarter, with 1.2% of deferred members receiving a quotation in this quarter. This continued the fall off in activity seen in Q3 2019 and is the lowest level of transfer quotation activity since Q3 2016.
- Take-up rates were also down this quarter with 22% of quotes paid out. This is well below the average take-up rate over the last 3 years of 28%. Of the quotes paid out, 73% were for members aged 55 and over; this is the highest proportion since we started our analysis on 1 January 2014.

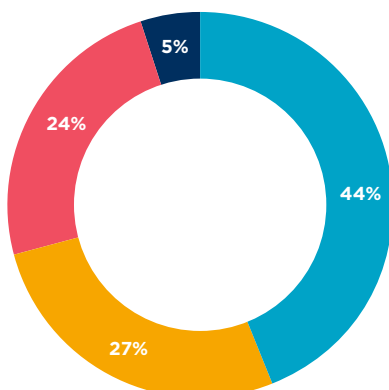
Annualised quotation rate per 1,000 deferred members



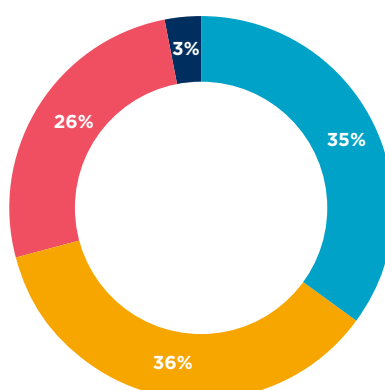
Follow the money – where are members taking their transfer values?

Pension schemes administered by LCP paid out 1,250 DB transfers, totalling over £470m, during the two years 2018 and 2019. We've looked at where these transfers were paid and so, by extension, where financial advisers are advising their clients to take them. We looked at both the whole two-year period and also at the two calendar years separately to spot developing trends.

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.

Where the money went

Over the 2-year period, the largest sector receiving transfers was traditional **insurers**, with 44% of transfers going their way. These transfers were generally at the smaller end, with an average of just over £300,000, compared with an overall average of nearly £380,000 for each transfer. The two insurers with the largest shares were the Prudential and Royal London who each received around 10% of all transfer payments during the two years. Three other insurers each had just over 5% of the market, Aegon, Aviva and Standard Life.

Over a quarter of all transfers went to **independent platforms**. These tended to be larger transfers with an average of around £490,000 per member. This is a more fragmented sector, with a substantial number of different firms providing this service – only two of these had more than 5% of the total market, AJ Bell and Transact.

Just under a quarter of all transfers went to **vertically integrated advisers**, with an average transfer value of £410,000. This is a more concentrated group, and the two largest firms in this sector were St James Place, with around 10% of the total market, and Old Mutual Wealth (part of Quilter plc) with just over 5%.

The two other destination groups with material numbers of transfers were occupational pension schemes, with 2% of transfers (generally smaller, with an average of £150,000) and overseas QROPS arrangements with 2.5% of transfers (primarily to arrangements operated in Malta).

Developing trends

There was a significant fall off in transfer activity over the period, with around 15% fewer transfers (by both number and value) paid out in 2019 compared with the previous year (the average transfer value remained stable at £380,000). The decline in numbers was not however evenly spread between the sectors.

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

Indeed one sector received more funds in total, this being the insurers, increasing both market share, from 41% to 48% of all transfers, and the average transfer amount from £290,000 to £320,000. In contrast, the biggest losers were the independent platforms, with market share falling from 31% to 23% - albeit with the average transfer payment growing by nearly 10% to £520,000. The relative position of vertically integrated advisers remained steady, with a small increase in the share of transfers but a fall in the average transfer value received.

Change in transfer activity

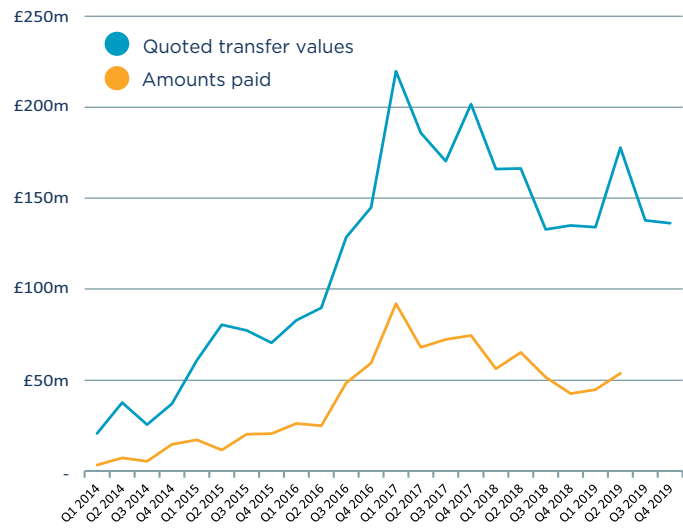
Over the 12 months to 31 December 2019 our administration teams have provided transfer value quotations to just under 6% of deferred members, with a value of £586m in total. This compares to 6.3% and £600m for the year to 31 December 2018. Transfer quotation activity has broadly stabilised at these levels over the course of 2018 and 2019 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 Q2 2019 increased to £54m with an average size of £445,000; this compares to the peak for quotations provided in Q1 2017 (£92m paid out with an average size of £627,000).

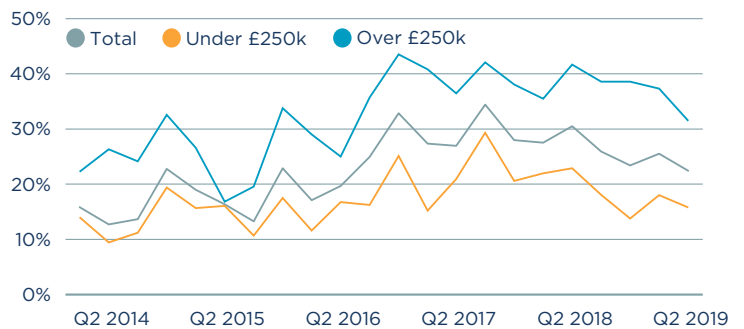
Have take-up rates changed?

The take-up rate in Q2 2019 was 22%; this is down from the previous quarter (26%) 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 Q2 2019 compared to a take-up rate of 16% for transfers under £250k.

Change in transfer activity since 2014

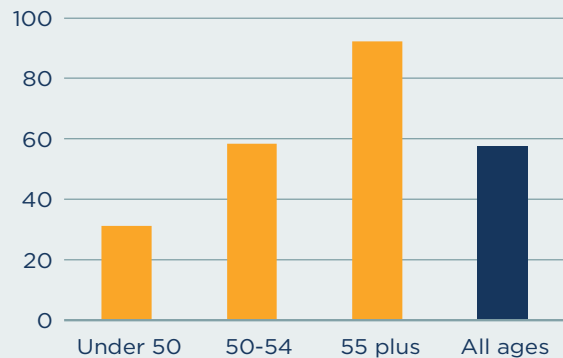


Proportion of transfers taken over and under £250k



Transfer value quotations. Quotations issued in year to 31 December 2019

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



58
No. per 1,000
deferreds
(all ages)

54
Average age

£308k
Average amount

Quotation rates continue to be highest for those aged 55 and over. Around 9% of members aged 55 and over requested a transfer quotation in 2019 compared to only 3% of members under 50.

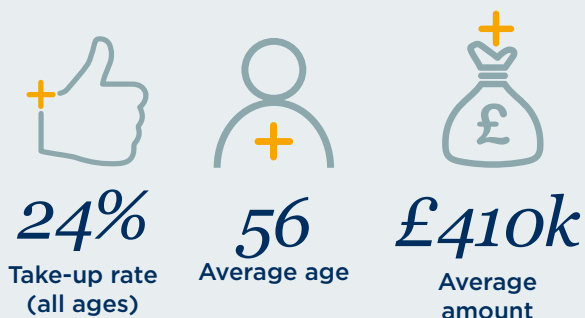
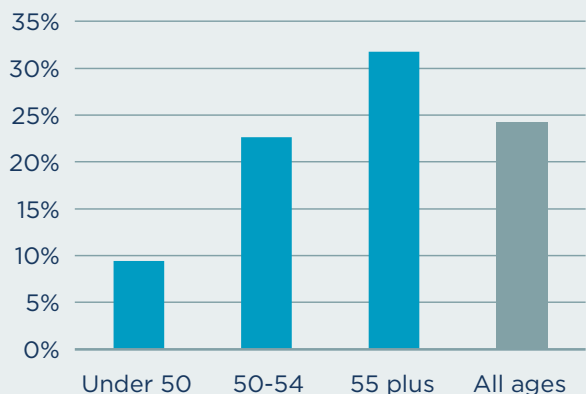
+ Analysis is based on 80 schemes at 31 December 2019, for which LCP provide pensions administration services, with approximately 32,700 deferred pensioners. Our analysis only includes quotations requested by members. It excludes unsolicited quotations, such as those provided in retirement packs and incentive exercises.

Which members are taking transfers?

Around 32% of quoted transfer values proceeded to payment for those members aged 55 and over compared to 24% of all transfer values quoted in the year to 30 June 2019. Only 9% of transfers quoted to members under 50 were taken over the same period. As a proportion of all quotations in Q2 2019 which were then paid, 73% were paid to members aged 55 and over, and 8% were paid to members under 50.

Transfer values taken. Quotations issued in year to 30 June 2019

Proportion of quotations that proceed to payment in each age group



The average transfer value taken in respect of quotations in the year to 30 June 2019 was £410,000, around 1.75 times the average price of a house in the UK.

Contact us

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