

Briefing

Transfer value experience – Q1 2021

RISK | **PENSIONS** | INVESTMENT | INSURANCE

We have analysed defined benefit (DB) cash equivalent transfer values (CETVs) over the twelve months to 31 March 2021.

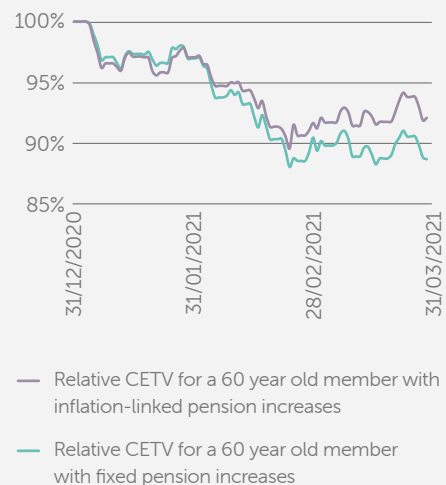
Transfer value amounts

The charts to the right illustrate how CETV amounts for a 60 year old have changed over the quarter and year in response to changes in market conditions. The impact can vary significantly depending on a scheme's benefit structure. Therefore, the illustrative changes in CETVs are shown separately for pensions that increase in payment in line with inflation (purple lines) and for pensions that increase in payment at a fixed rate (green lines).

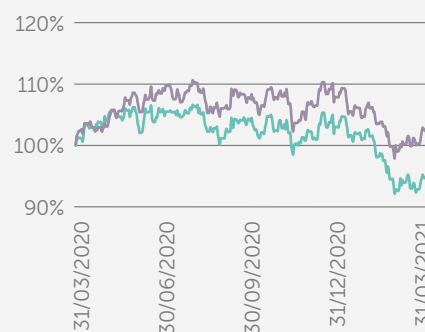
CHANGES IN CETV AMOUNTS

- A typical CETV for a 60 year old decreased by around 8% over the quarter for members where pension increases are linked to inflation (and by 12% where pension increases are fixed in payment).
- The changes over the quarter mean that the size of a typical CETV for a 60 year old is now broadly the same as it was a year ago where pension increases are linked to inflation. Whereas CETVs for 60 year olds are now around 7% lower than they were a year ago where pension increases are fixed in payment.
- The falls in transfer value amounts over the quarter are due to significant increases in gilt yields over the period, possibly reflecting an improved economic outlook following the roll out of Covid-19 vaccines.

ILLUSTRATIVE QUARTERLY CHANGE IN TRANSFER VALUE AMOUNTS



ILLUSTRATIVE YEARLY CHANGE IN TRANSFER VALUE AMOUNTS

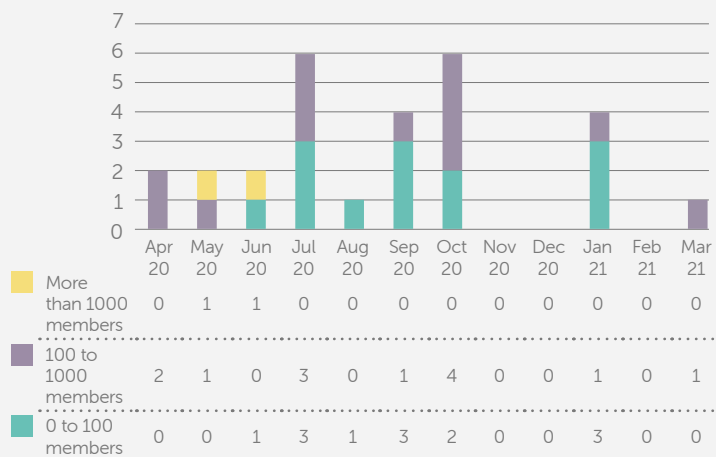


Transfer value exercises

With schemes increasingly looking to support members with at-retirement and transfer decisions, we have analysed data on IFA-supported transfer value exercises that we are aware have come to the market over the last 12 months. This covers both one-off bulk exercises and also ongoing 'business-as-usual' exercises. In both types of exercises, the employer and / or trustees were appointing an IFA to provide financial advice to scheme members.

The charts below show the market activity we are aware of over the last 12 months. The source of this data are exercises we have seen instigated on our own clients, plus data on exercises we see via the IFA firms we work with. It will not capture all exercises brought to market.

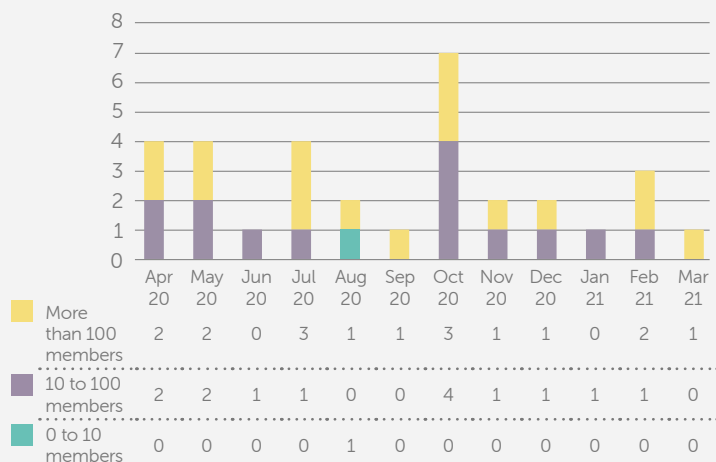
NUMBER OF BULK TRANSFER EXERCISES BY MEMBERS IN SCOPE



BULK EXERCISES

- 28 bulk exercises came to the market over the 12 months to March 2021, but only 5 since the lockdowns imposed from November 2020.
- There remains a noticeable absence of large bulk exercises coming to market, with the majority of recent exercises for fewer than 100 members
- Covid continues to make trustees and sponsors wary of carrying out large, one-off exercises.

NUMBER OF BAU TRANSFER EXERCISES BY RETIREMENTS PER YEAR

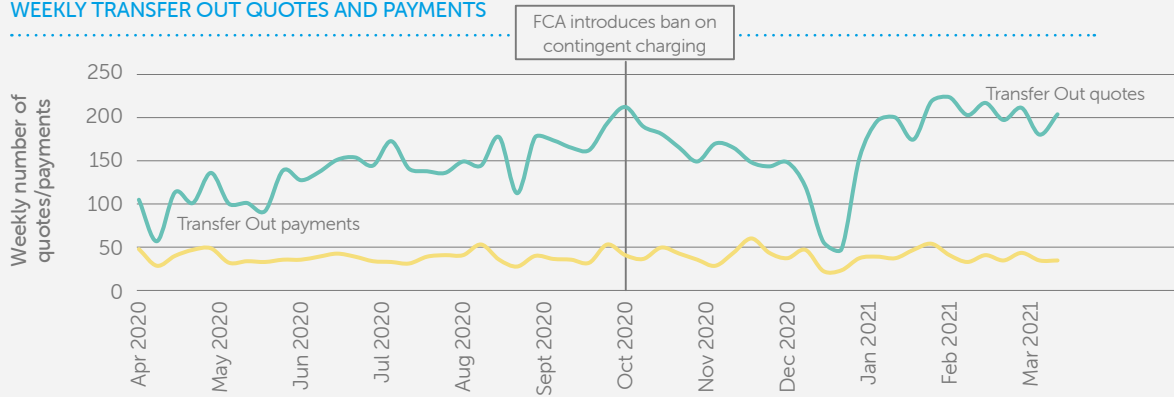


BUSINESS-AS-USUAL ('BAU') EXERCISES

- 16 BAU exercises came to the market in the six months to 30 September 2020 and 16 in the following six months.
- Unlike bulk exercises, we continue to see a steady flow of BAU projects come to market on both smaller and larger schemes
- There remains a broadly a 50 / 50 split between BAU exercises expecting greater or less than 100 members a year to access financial advice.

All transfer value activity

WEEKLY TRANSFER OUT QUOTES AND PAYMENTS



TRANSFER VALUE QUOTES AND PAYMENTS

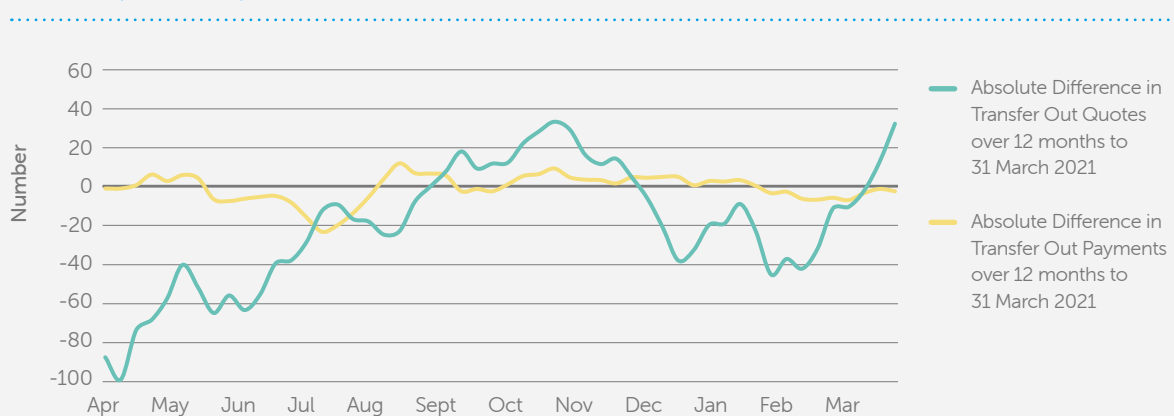
The chart above shows the number of CETV quotation and payment requests received weekly across all Barnett Waddingham administration clients over the past year. The chart below shows how these request numbers differ to the equivalent figures from 12 months earlier.

The chart illustrates that transfer value quotation requests have fluctuated greatly over the previous 12 months. During the first national lockdown in April, the number of weekly requests for a transfer quote was as low as 50. This figure slowly increased over the following months, up to a peak of around 220 in October.

Relative to the previous year, there was also a noticeable fall in the number of requests during the second and third national lockdowns. However, in early March, we received more requests than in the same period in 2020, perhaps suggesting that schemes may see a backlog of demand for transfers over the next year as life hopefully returns to normal.

There is a delay between when a transfer value is requested and when it is paid. This explains why it took until June 2020 and March 2021 for there to be falls in transfer payments made relative to the previous year, despite the very significant drop off in requests during the first and third lockdowns.

ABSOLUTE (SMOOTHED) DIFFERENCE IN TRANSFER OUT QUOTES AND PAYMENTS OVER THE PREVIOUS 12 MONTHS



LATEST CETV RELATED NEWS

- The FCA and TPR published updated guidance for employers and trustees relating to what is, and is not, acceptable when issuing communications to members about DB transfers.
- The Pensions Ombudsman published a factsheet setting out its guidance on appointing an IFA for scheme members to use to access financial advice. Following the guidance should minimise the chance of a successful complaint against the trustees or employer by a member who received poor advice from the appointed IFA.
- The FCA published DB transfer market statistics covering the period to 31 March 2020. The statistics show a 40% drop in the number of members receiving advice after 1 October 2018 (when new FCA rules for advising on DB transfers were put in place) along with a c. 10% fall in the proportion of individuals advised to transfer.

Employers:

- The new FCA-TPR guidance applies equally to employers as it does to trustees and employers and provides confidence that a lot of industry practice in the area of supporting members with DB transfer decisions does not cross the line into advice. The guidance also sets out useful information on when employers need to pay for financial advice and a reminder to check the tax consequences of doing so.
- There is not much evidence yet of a move back to running large, one-off DB transfer exercises for de-risking purposes, though this may change as lockdown restrictions are eased. IFA capacity to support exercises is likely to remain good for the rest of the year.

Members:

- Despite CETV amounts falling back slightly over the quarter, they will continue to look attractive in the current economic environment.
- All stakeholders will need to be wary of pension scams which may rise even further in 2021 once the economic realities of Covid start to be felt in the economy.

What does this mean for...?

Trustees:

- Trustees should consider the implications of the new FCA-TPR guidance on communicating to members about DB transfers. The guidance provides helpful clarity that most routine communications will not cross the line into financial advice. However, particular care is needed over any illustrative drawdown or annuity purchase figures given to members. Our separate briefing document provides more detail.
- As highlighted last quarter, we expect demand from members for transfer value quotations to increase and are starting to see this in the quotation statistics, potentially the start of a release of pent-up demand from members for information about pension options.
- With the new guidance in place, trustees remain well-placed to consider if they can, and should, provide members with additional support in this area. The continued flow of BAU exercises is evidence that many schemes do think they should do more.

