

## All change for DB transfers?

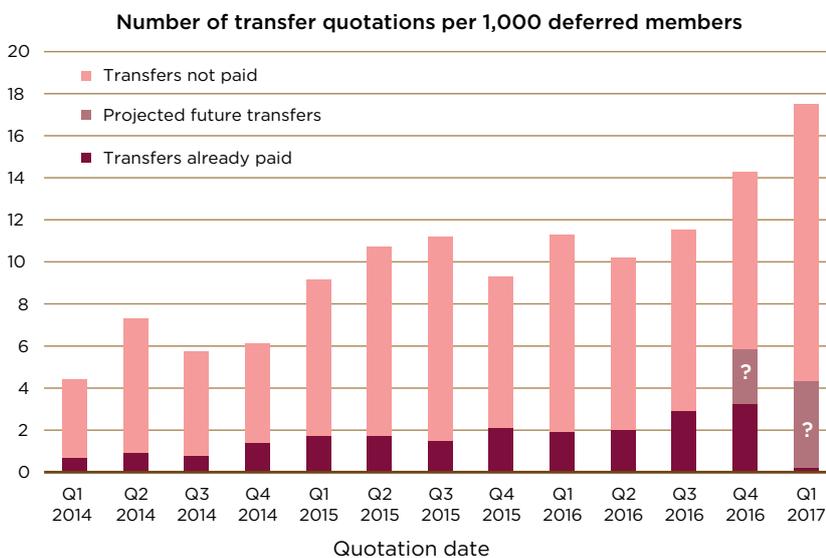
ISSUE 7

### Changes in members' transfer behaviour due to Freedom and Choice

MAY 2017

Since Freedom and Choice was announced in the 2014 Budget, LCP has seen a substantial increase in the number of members requesting transfer value quotations, and in the amounts of transfer values taken by members. The average transfer value quoted and the average age of members requesting quotations also increased.

Over 2015 and the first half of 2016, the number and profile of members requesting quotations broadly stabilised at these higher levels. However, following the Brexit referendum in June 2016, we saw a further significant jump in the number of transfer requests and this trend has continued into Q1 2017.



#### Do you know how your scheme's transfer experience has changed since April 2015?

We are monitoring the changes in transfer experience for the defined benefit schemes we administer<sup>1</sup>. Here, we summarise the experience up to 31 March 2017.

If you would like to see [how your scheme's experience compares](#) with the LCP average, please contact us.

<sup>1</sup> Analysis is based on 77 schemes at 31 March 2017 with approximately 28,700 deferred members

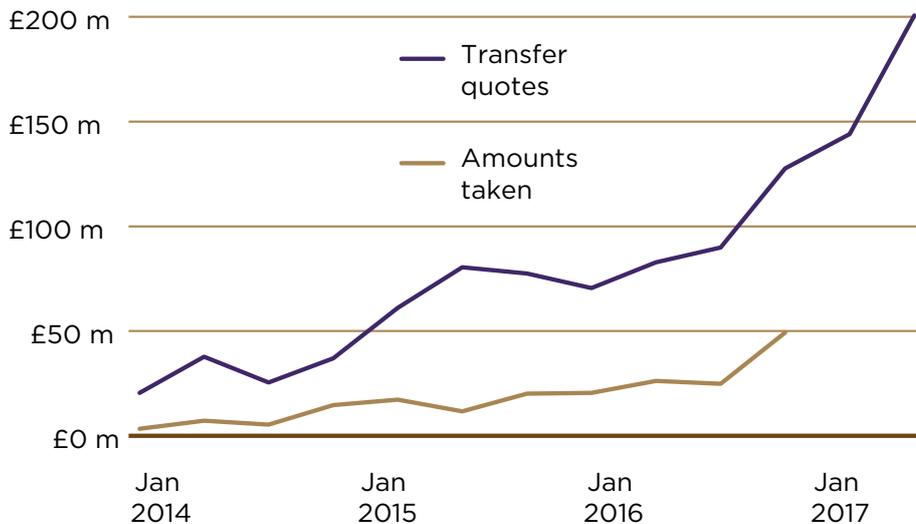
Our analysis only includes quotations requested by members. It excludes unsolicited quotations, such as those provided in retirement packs and incentive exercises.

#### What is causing the significant increase in transfer activity?

Following the Brexit referendum, UK government bond yields fell to record lows. This low yield environment has persisted and real yields hit an all-time low in April 2017. For many schemes, this is being reflected in significantly higher transfer values, something which has been highlighted in the press. We expect news of the high levels of transfer values is spread amongst members, which is leading to unprecedented increases in quotation activity. In Q1 2017 we have seen the highest number of requests since the start of our analysis three years ago. The number of quotes was up almost 300% compared to Q1 2014 and up 22% compared to the previous quarter, which was also a previous high.

The total transfer values quoted have also increased substantially, from around £20m per quarter to £200m per quarter since Q1 2014 - and the total amounts paid out have increased from around £3m per quarter to almost £50m per quarter. As a result, normal transfer activity now represents a material level of ongoing derisking for many of our clients. This hike in quotations and payments also has immediate implications for cashflow requirements, as well as increased workloads for pensions administrators.

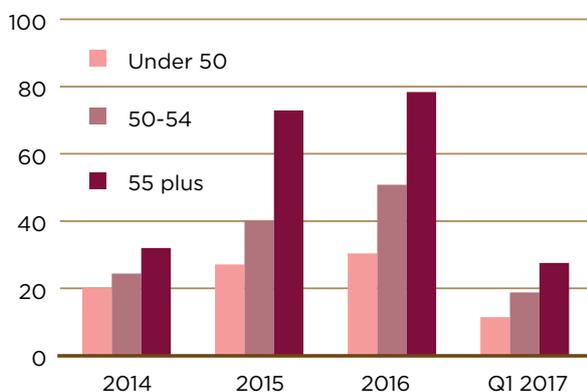
### Change in transfer activity since 2014



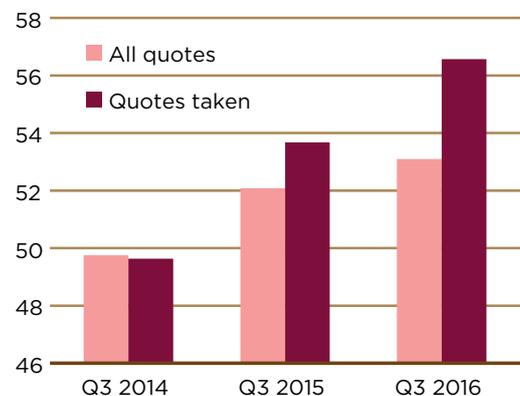
### Which members are requesting transfer quotations and taking up payment?

Most of the increase in quotation activity has been among the over 50s. In Q3 2016 the average age of those taking transfer values was 57, the oldest age we have seen since we started our analysis three years ago. Over half the members taking transfer values are now over age 55, indicating that much current transfer activity represents members choosing pension flexibility as part of their retirement planning.

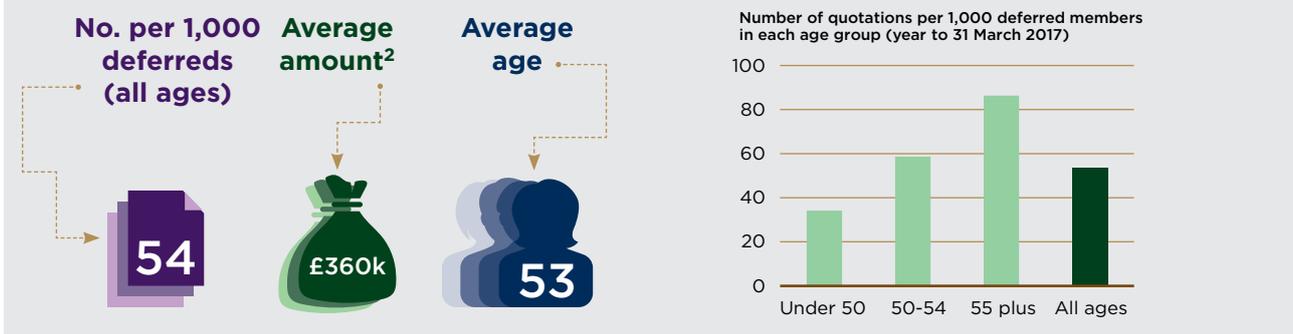
#### Number of quotations per 1,000 deferred members in each age group over last four years



#### Average age of quotations taken / quotations requested

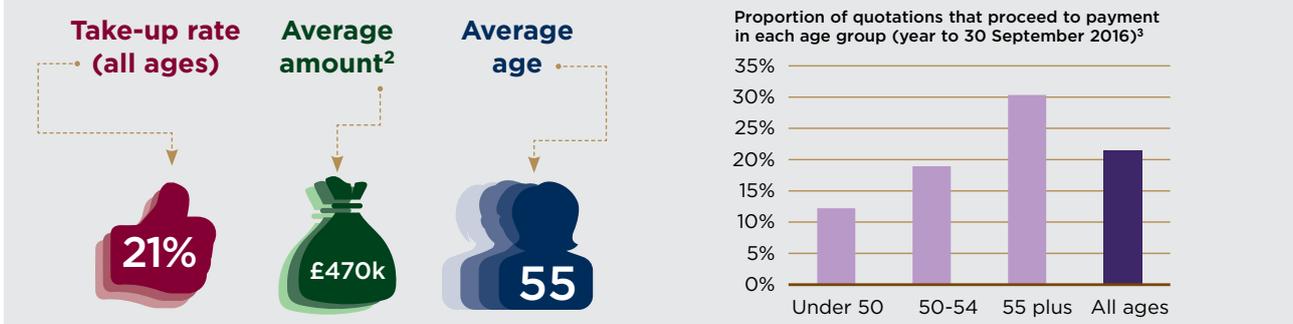


### Transfer value quotations. Quotations issued in year to 31 March 2017



Quotation and take up rates continue to be highest for those aged 55 and over. Around 9% of deferred members aged 55 and over requested a transfer value in the year to 31 March 2017, compared to around 5% of deferred members as a whole.

### Transfer values taken. Quotations issued in year to 30 September 2016<sup>3</sup>



#### The impact of member communications on transfer quotation and take-up rates

Writing to members to remind them of the pension benefits they have and options for drawing those benefits can lead to a significant increase in quotation and payment rates, even if unintended. This surge in activity can lead to knock-on effects such as the need to disinvest scheme assets on a much larger scale than needed before and significant increases to workloads for pensions administration teams. The case studies below show two recent examples of this for schemes administered by LCP.

#### Case Study 1

- At the request of the sponsoring employer, the trustees of a final salary pension scheme, which is open to accrual, sent retirement packs to 50 active members who were aged over 55 setting out the early retirement options available to them. The options included taking a transfer value and an indicative transfer amount was included.
- The early retirement options were enhanced but the transfer values quoted were not.
- In the following quarter, the trustees received 34 requests from active members for an illustrative transfer value and 12 requests from deferred members for transfer value quotations. Clearly, news of the transfer value option and the level of transfer values quoted had spread.

Average number of quotes before communication:

**1**  
per quarter

(average amount)  
**£474k**

Number of quotes in Q1 2017

**46**  
per quarter

(average amount)  
**£800k**

<sup>2</sup> Excluding any Additional Voluntary Contributions

<sup>3</sup> There can be a delay of up to six months between a transfer quotation being issued and the corresponding transfer payment being made. For this reason, this analysis of payments relates to quotations issued more than six months ago.

## Case Study 2

- With the aim at reducing the number of queries received by the pensions administration team from members with preserved benefits and therefore reducing running costs, the trustees of a final salary scheme sent a communication to all of the deferred members. The communication provided an update of the member's preserved pension and an illustrative transfer value amount.
- In the 3 months after this, the trustees quoted £25m worth of transfer values compared to £6m in the 3 months prior to the communication, which had significant consequences for workloads and potentially cash requirements.
- The trustees now expect to pay out over £10m worth of transfer values in the first half of 2017 compared to £1m in the first half of 2016, representing a saving of nearly £3m against the technical provisions for these members.
- Although this exercise actually resulted in a significant increase in workloads and administration running costs, this was much less than the funding savings from the transfers that were taken by members.

3 months prior to communication

- no. of quotes **33**

Total amount **£6m**

3 months after communication

- no. of quotes **60**

Total amount **£25m**

## Contact us

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



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