

Briefing

Transfer value experience – Q4 2020

RISK | PENSIONS | INVESTMENT | INSURANCE



We have analysed defined benefit (DB) cash equivalent transfer values (CETVs) over the twelve months to 31 December 2020.

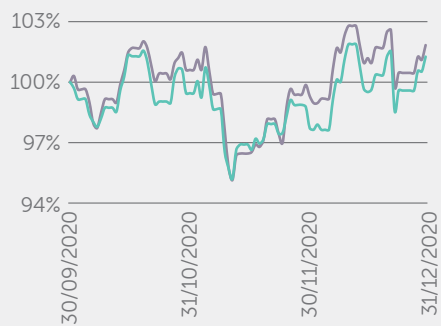
Transfer value amounts

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

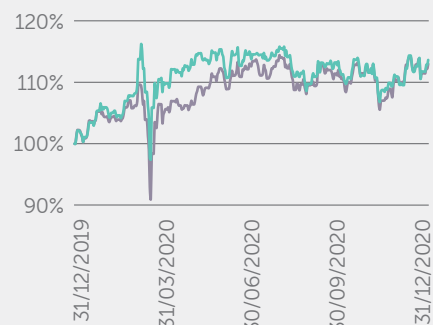
- A typical CETV for a 60 year old increased by around 2% over the quarter where pension increases are linked to inflation and by 1% where pension increases are fixed in payment.
- Looking over a period of one year, the size of a typical CETV for a 60 year old has increased by 13% where pension increases are linked to inflation and by 14% where pension increases are fixed in payment.
- While CETV amounts for a typical 60 year old fluctuated by around 6% during the second UK lockdown in November 2020, CETV amounts were significantly less volatile than in March 2020.

ILLUSTRATIVE QUARTERLY CHANGE IN TRANSFER VALUE AMOUNTS



- Relative CETV for a 60 year old member with inflation-linked pension increases
- Relative CETV for a 60 year old member with fixed pension increases

ILLUSTRATIVE YEARLY CHANGE IN TRANSFER VALUE AMOUNTS

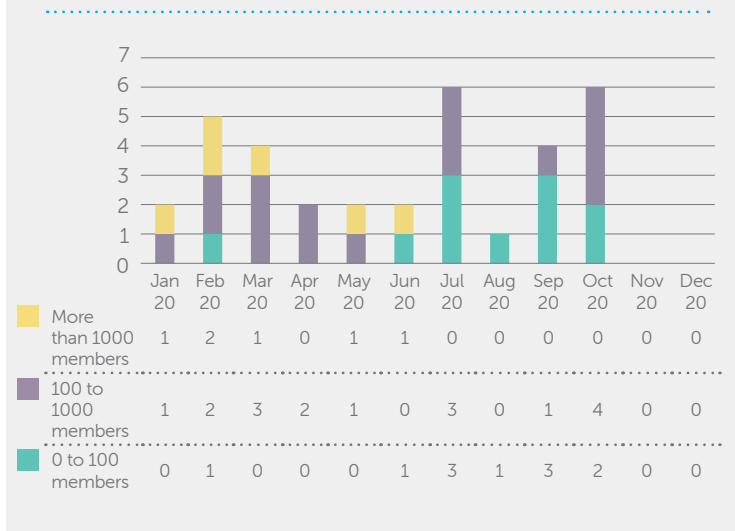


Transfer value exercises

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.

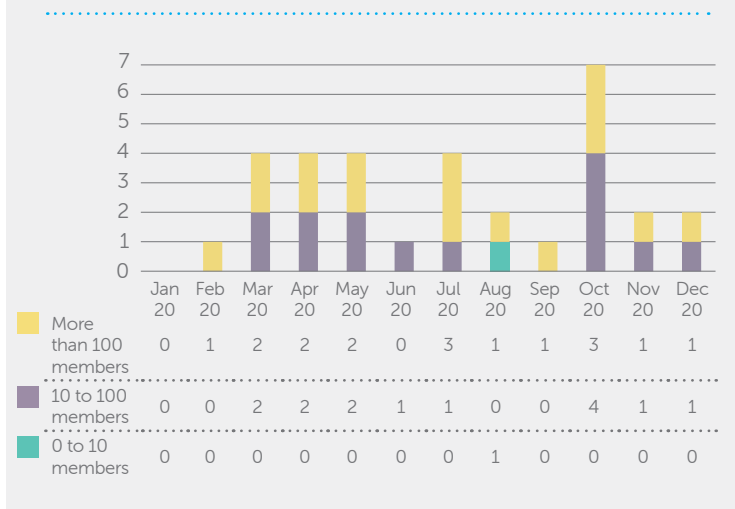
NUMBER OF BULK TRANSFER EXERCISES BY MEMBERS IN SCOPE



BULK EXERCISES

- 34 bulk exercises came to the market over the 12 months to December 2020, though we saw no new exercises during the second national lockdown starting in November
- Prior to November, there was a slight pick up in activity at the smaller end of the scale with July and October seeing a relative flurry of activity
- However, there was a noticeable absence of larger bulk projects coming to the market in these uncertain times

NUMBER OF BAU TRANSFER EXERCISES BY RETIREMENTS PER YEAR

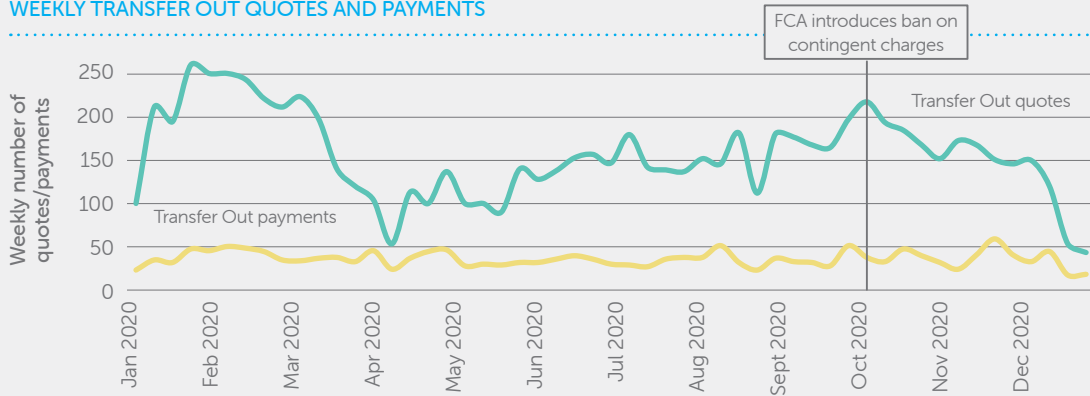


BUSINESS-AS-USUAL ('BAU') EXERCISES

- 32 BAU exercises came to the market in 2020 with October being the busiest month for new BAU projects
- The data loosely supports an emerging trend of larger schemes looking to put in place BAU support rather than carry out a bulk exercise
- 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



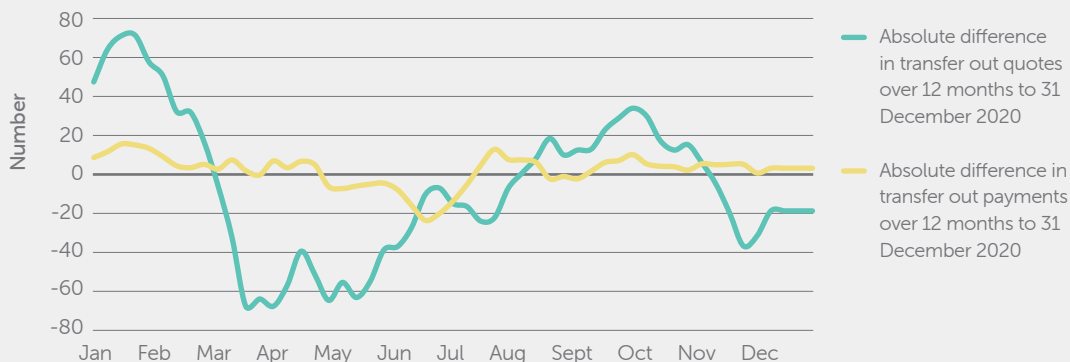
TRANSFER VALUE QUOTES AND PAYMENTS

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 charts illustrate that the number of transfer value requests reduced significantly during the first national lockdown. The impact of the second lockdown was much less severe, although the number of requests was still noticeably down in November and December 2020 compared to the same periods in 2019.

There is a delay between when a transfer value is requested and when it is paid. This likely explains why it took until July 2020 for there to be a fall in transfer payments made relative to the previous year, despite the very significant drop off in requests in March and April. This lag also means that it is too early to say how the FCA's ban on contingent charging or the second lockdown will impact the number of transfer values paid.

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



LATEST CETV RELATED NEWS

- The FCA's ban on contingent charging and other changes to the rules for giving DB transfer advice took effect from 1 October – see our blog [here](#) to find out more.
- The FCA is expected to revise its guidance setting out the extent that trustees can help members with DB transfers in Q1 2021, following a consultation that closed in September.
- In the meantime, the FCA has released a tool (DBAAT) for financial advisers to check the suitability of DB transfer advice given before 1 October 2020 as part of its ongoing efforts to drive up standards.

What does this mean for...?

Trustees:

- Trustees may wish to monitor transfer payments to see if there is a noticeable drop after 1 October 2020 (the date of the FCA's contingent charging ban), which could be reflective of members now being unable to get the financial advice required to take a transfer of more than £30,000;
- At the same time, the ongoing financial challenges caused by the pandemic, combined with CETVs being 13% to 14% higher on average than a year ago (for a typical 60 year old member), may mean that more members are attracted to the idea of taking a transfer value in 2021. Trustees should therefore ensure that their CETV basis is robust and consider conducting a CETV basis review, if necessary. In addition, trustees should be comfortable that they have sufficient liquidity to pay an increasing number of transfer values;

- Trustees are well placed to consider if they can, and should, provide members with additional support in this area to ensure that members make well-informed decisions. The continuing business as usual activity suggests many trustees are taking steps in this area. However, trustees will need to bear in mind the revised joint guidance from the FCA and TPR once it is published in "the coming months".

Employers:

- The once active market for one-off bulk transfer value exercises to manage cost and risk has slowed down with the heightened economic uncertainty. Employers should carefully consider the timing of any planned exercises, though we expect there to be good capacity in the specialist IFA market to support exercises in H1 2021.

Members:

- Transfer value amounts continue to increase, on average, which will make the pound amount of a CETV a very attractive sum. Those members getting closer to retirement who have considered a transfer value in the past may well be tempted to review this again and those seeing a CETV for the first time may be surprised at the size;
- However, members (and trustees and administrators) all need to be wary of pension scams which may rise even further in 2021 as the economic realities of the coronavirus pandemic continue to be felt in the economy.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively get in touch via the following:

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☎ 0333 11 11 222

www.barnett-waddingham.co.uk

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