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beyond the expected

Briefing

Advice on DB transfers under the spotlight

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As the FCA announce a major policy statement on improving the quality of pension transfer advice, we take stock of the situation, look past incendiary headlines and find positive signs in an important area.

The pension freedoms have proved immensely popular with the general public since their introduction in 2015. Annuity sales have plunged as people have flocked in droves to drawdown. The freedoms have also acted as a powerful pull from defined benefit (DB) occupational pension schemes into defined contribution (DC) arrangements, especially SIPPs.

> Figures from the Financial Conduct Authority (FCA), obtained under a freedom of information request, show that the value of DB to DC transfers rose from almost £8bn in 2016 to nearly £21bn in 2017.

The number of transfers rose from 61,000 to 92,000. These figures correspond well with those from The Pensions Regulator, whose stats run from 1 April 2017 to 31 March 2018, estimating c.100,000 transfers out of DB pensions.

The Office for National Statistics (ONS) has also released data showing that in the first quarter of 2018, £10.6bn was moved between pension schemes. The ONS does not break its analysis down between DB and DC but context can be gained from the figure prior to the introduction of the pension freedoms in 2015, which was just in excess of £2bn.

There has certainly been a range of vivid stories in respect of DB transfers, from allegations of predatory practice by advisers targeting vulnerable people such as those in the British Steel pension scheme, to outright scams that have made a working lifetime's savings disappear.

While raising the public's awareness of issues can be valuable, it is also important to keep things in perspective: it's simply the way the news works that a one in a thousand occurrence does not get one thousandth of the coverage!

Rather less dramatic - but of greater relevance to most - is that supply of advice does not match demand (it is a legal requirement that anyone with a transfer value over £30,000 obtains qualified financial advice). So it is a positive development that more advisers are moving in to this specialist area.

> Even more important than the supply of advice is its quality. The FCA have been alert to this and have been gathering data, conducting consultations, issuing guidance and holding workshops with financial advisers.

Though the FCA unearthed concerns, it is welcome that they were looking in the right place and have acted quickly and constructively.

This has culminated with a policy statement issued on 4 October. Measures within it include:

- raising qualification levels for pension transfer specialists
- guidance to advisers on exploring clients' attitudes to the general risks of a transfer
- guidance to advice firms on their 'triage' services
- a requirement for firms to provide a suitability report, regardless of the outcome of advice; and
- technical updates to assumptions made when valuing particular DB scheme benefits.

'Triage' services relate to initial conversations with clients and are an important area to support. Done right, they provide balanced, generic information to potential clients without getting into advice. This can act as a useful filter so that only better-founded interest continues through to formal advice, saving time and money for both advisers and clients.

The policy statement also looked at the area of contingent charging. This is where clients only pay for the advice if they go ahead with the transfer. This has obvious potential to create a conflict of interest for advisers.

However, looking at the data they gathered, the FCA found the evidence 'does not show contingent charging is the main driver of poor outcomes'.

While purists will argue with the strength of reason, for a ban on contingent charging, the fact of the matter in the real world is most people are highly disinclined to pay for advice when it tells them to stay where they are and not transfer.

The FCA go on to explain that they will carry out further analysis including considering how these measures fit within their wider reviews of financial advice. This leaves the door open to further proposals in 2019.

For our part, Barnett Waddingham requires that members of our self-invested pensions receive qualified financial advice on transfers from a DB pension scheme and that the recommendation is positive (i.e. to go ahead). Like most providers, we will not accept 'insistent clients' – those who want to go ahead against advice to the contrary. While the member may have clear reasons, if they were not sufficient to sway the advice, we will not facilitate it.

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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