

Briefing

Transfer value experience – Q2 2021

RISK | PENSIONS | INVESTMENT | INSURANCE



We have analysed defined benefit (DB) cash equivalent transfer values (CETVs) over the twelve months to 30 June 2021.

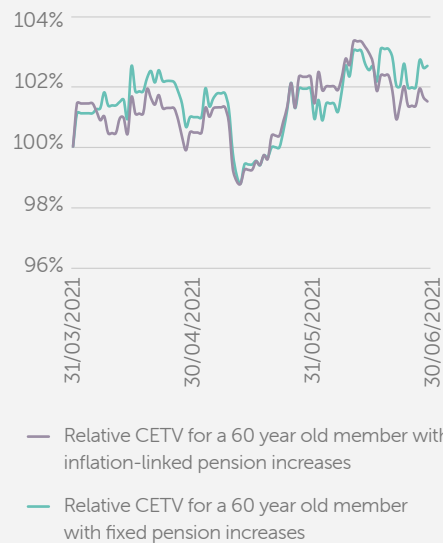
Transfer value amounts

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).

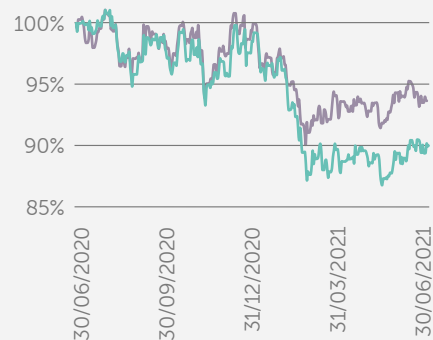
CHANGES IN CETV AMOUNTS

- A typical CETV for a 60 year old increased by around 2% over the quarter for members where pension increases are linked to inflation (and by 3% 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 around 7% lower than it was a year ago where pension increases are linked to inflation. CETVs for 60 year olds are now around 10% lower than a year ago where pension increases are fixed in payment.
- The falls in transfer value amounts over the year are due to significant increases in gilt yields in Q1 2021, 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

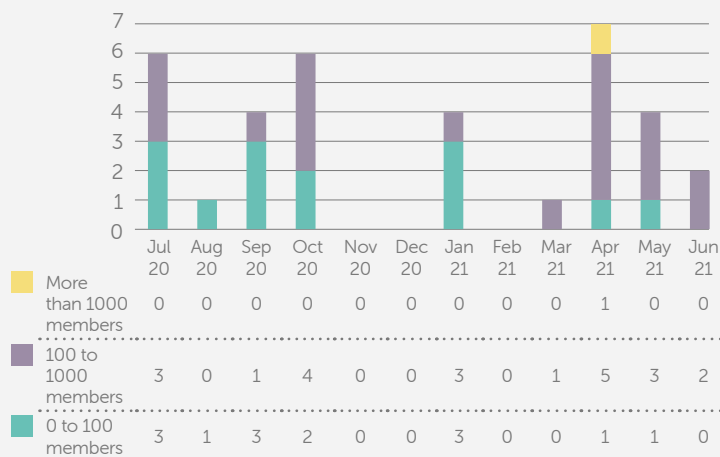


Transfer value exercises

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.

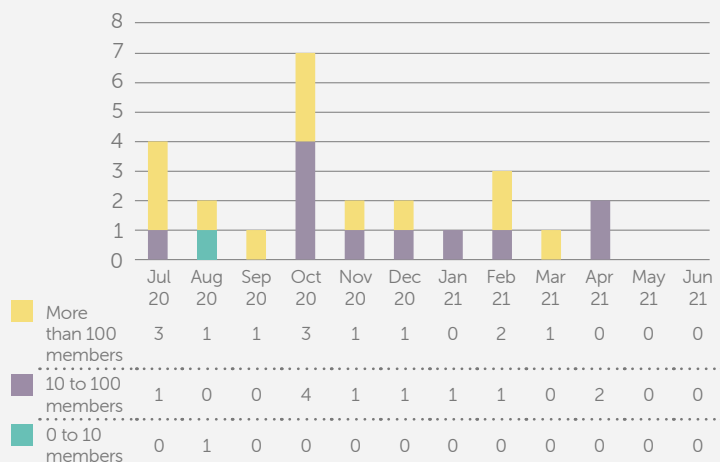
NUMBER OF BULK TRANSFER EXERCISES BY MEMBERS IN SCOPE



BULK EXERCISES

- 35 bulk exercises came to market in the 12 months to June 2021, with 13 coming in the 3 months to June 2021
- This represents a notable spike in bulk exercises coming to market compared to the previous 9 months
- The average size of exercises in the 3 months to June 2021 was 200% greater than the average size in the preceding 9 months, suggesting that larger schemes are regaining the confidence to run transfer exercises

NUMBER OF BAU TRANSFER EXERCISES BY RETIREMENTS PER YEAR

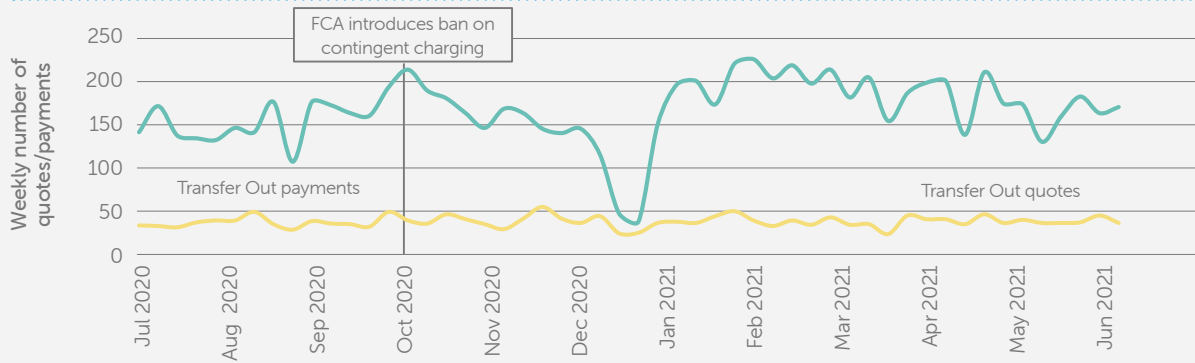


BUSINESS-AS-USUAL ('BAU') EXERCISES

- Only two BAU exercises came to market in the 3 months to June 2021 compared to 27 in the previous 9 months, with none in May or June 2021
- This is in stark contrast to the increased activity seen on bulk exercises
- This could, potentially, be due to trustees and sponsors pausing as a result of the updated FCA and TPR guidance on communicating to members about DB transfers

All transfer value activity

WEEKLY TRANSFER OUT QUOTES AND PAYMENTS



TRANSFER VALUE QUOTES AND PAYMENTS

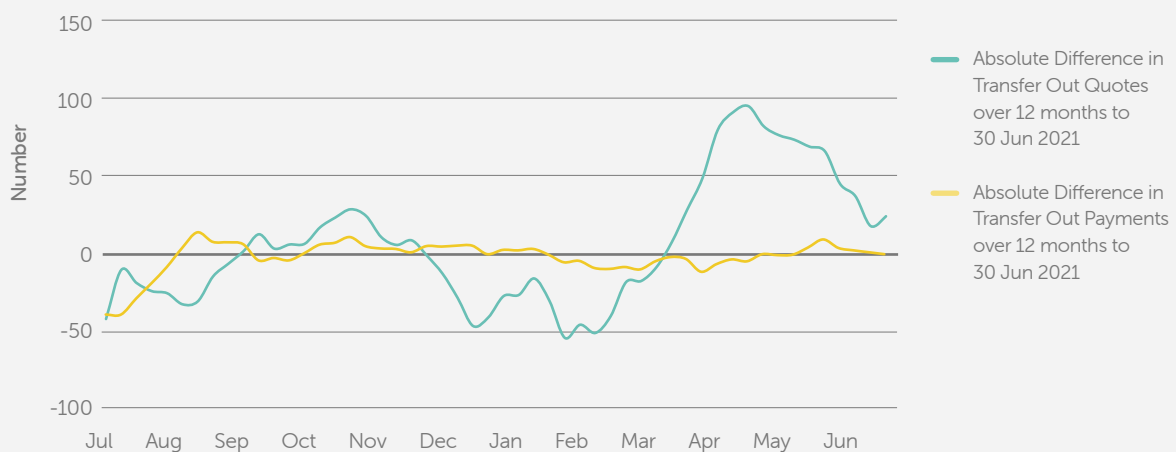
The chart above shows the number of CETV quotation and payment requests received weekly across all Barnett Waddingham administration clients over the past year. The chart below shows how these request numbers differ to the equivalent figures from 12 months earlier.

The chart illustrates that transfer quotation requests have fluctuated greatly over the previous 12 months.

Requests for quotations decreased between October 2020 and January 2021. While this is to be expected over the Christmas period, the drop off in quotes was more significant than in previous years, likely as a result of the national lockdowns. Following the January low of around 40 weekly requests, the number of quotations increased significantly in Q1 2021, and remained relatively stable at around 150-200 quotations per week during Q2 2021. This is similar to the levels seen in 2019 and early 2020.

The chart below illustrates that relative to the previous year, there was a noticeable rise in the number of requests in the second quarter of the year. This is due to the impact of the national lockdown of Q1-Q2 2020, which resulted in a very significant reduction in the number of transfer value quotes requested by members.

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



LATEST CETV RELATED NEWS

- The DWP consulted on draft regulations that will allow trustees to refuse to pay a CETV to a member if it does not satisfy at least one of four conditions. If implemented, trustees will have more powers to stop members falling foul of pension scams.
- Guiide DB, a new entrant in the DB transfer market, launched a service aimed at helping trustees and sponsors provide their members with better access to good quality advice without the governance burden of appointing their own IFA. Guiide's platform will signpost members to up to three vetted advice firms. The service is due to go live on 1 August.
- The FCA's latest regulatory initiatives grid confirmed that its fourth thematic review into DB transfers will continue into 2022. Previous thematic reviews have preceded significant rules changes (such as the ban on contingent charging) in a continuing effort to raise the standard of DB transfer advice being given to individuals.

Employers:

- Sponsors will be interested in the pick-up in bulk exercises coming to the market and should consider if and how a bulk transfer exercise could be part of their strategic 'journey plan' to de-risk their DB plan. The 1 – 2 years in the run up to a planned insurance transaction is likely to remain a popular time to consider a bulk transfer exercise as the cost-benefit analysis for the sponsor becomes increasingly clear and because members can lose some flexibility to take benefits afterwards.
- Whilst bulk exercises can provide an immediate 'bang for buck' for a sponsor, feedback from IFAs confirms that it is still likely to be the case that overall take-up rates of transfer values will be higher where members are provided with support at the point of retirement. Therefore sponsors should also consider the merits of working with trustees to put in place ongoing support for members.

What does this mean for...?

Trustees:

- Interest from members in transfer quotes has picked up and appears to be returning to more normal, pre-pandemic levels. In conjunction with the updated FCA-TPR guidance and the entry of a new model for supporting members, a gradual return to normality provides a good time for trustees to review what support they provide to their members.
- Trustees should start to consider how to implement the new powers to be given to them to stop a DB transfer where it has characteristics of a pension scam. With some cases likely to require an element of subjective judgment, which is potentially time-consuming, a pro-active approach to directing members to reputable sources of transfer advice could help minimise the additional administrative burden this may impose.

Members:

- Transfer value amounts will have fallen back from the heights of last summer with a widening gap between those members with predominantly fixed increases in payment and those with predominantly inflation-linked ones. But transfer value amounts will still look high compared to historical levels.
- Members will receive increased protection from scammers with the proposed new powers for trustees to refuse a CETV payment but this may frustrate some individuals, and their advisers, who still wish to transfer despite it failing the proposed checks.

