What's going on in the DB Transfer Value Market?

Alex Waite
Partner

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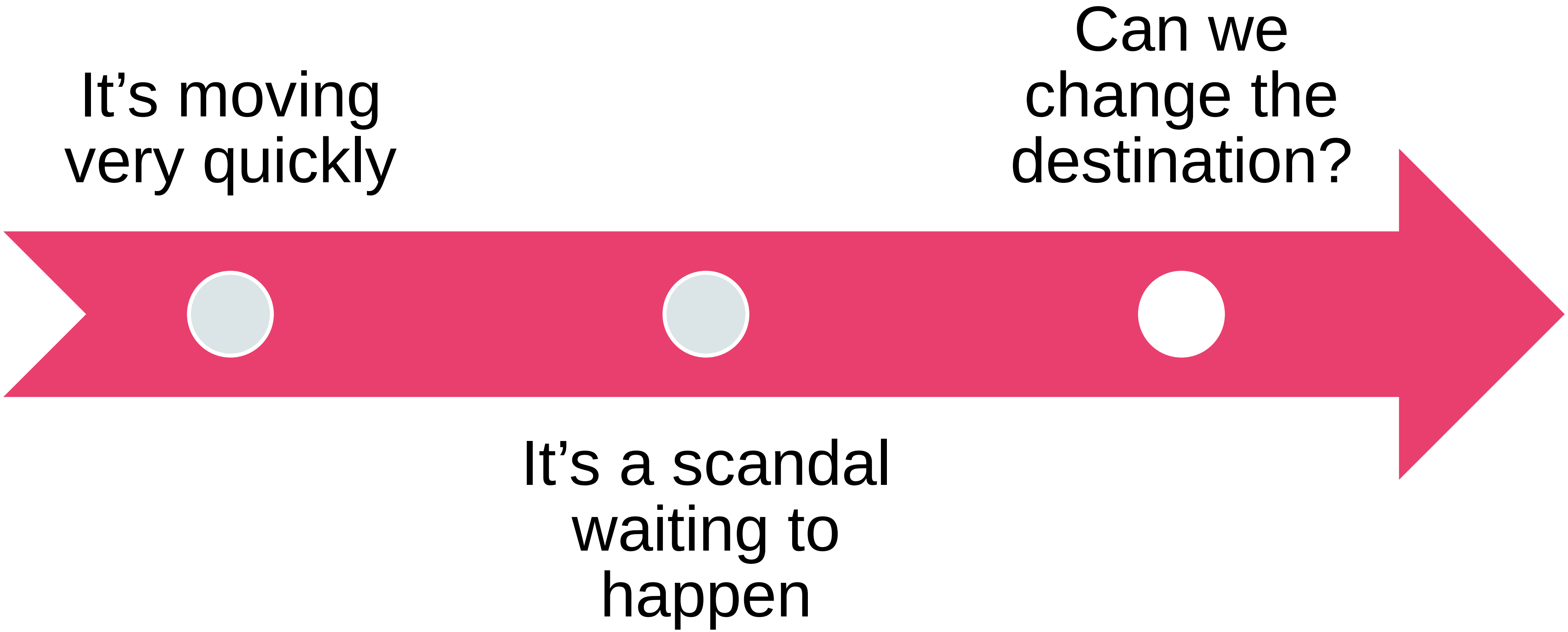
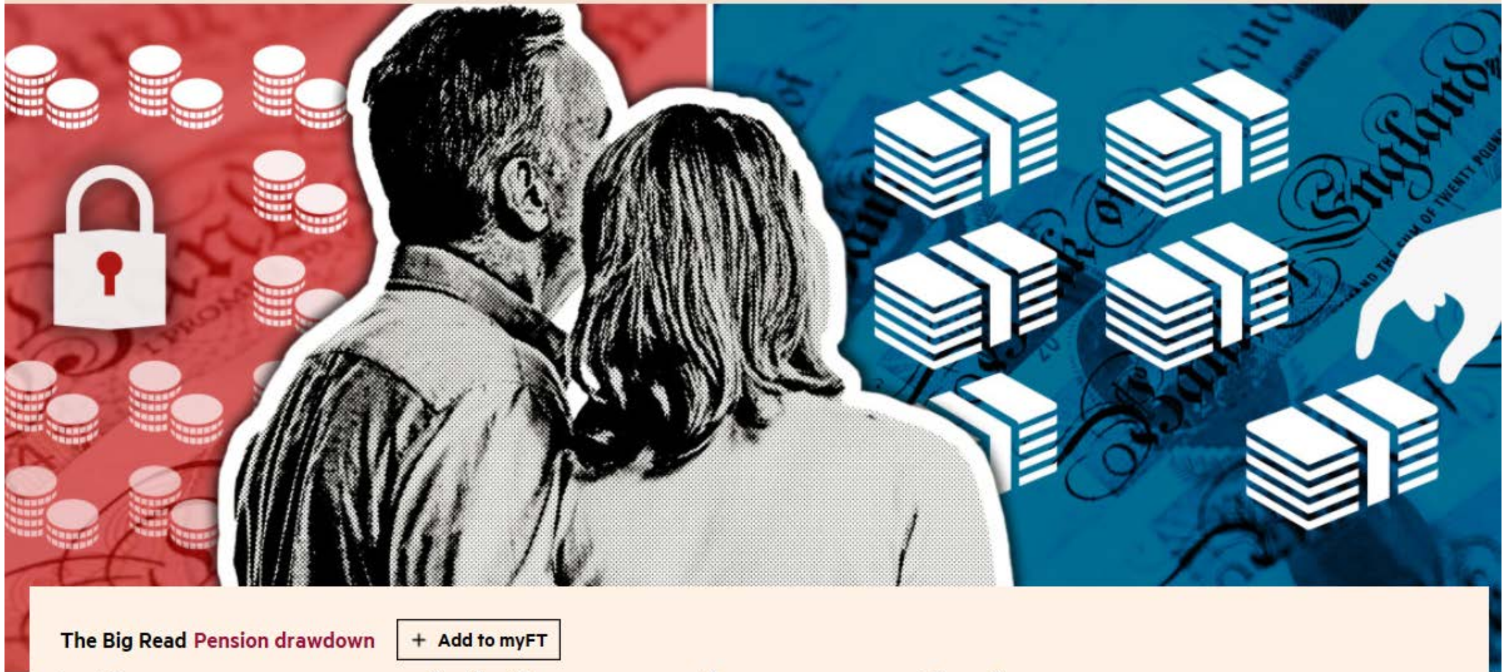


The great British pensions cash-in

FINANCIAL TIMES

The great British pensions cash-in



The Big Read Pension drawdown + Add to myFT

The great British pensions cash-in

Reforms gave Britons the freedom to spend their pension how they pleased. But concerns are growing over sales tactics, scaremongering and mis-selling

Josephine Cumbo in London

156

OCTOBER 25, 2017

Source: FT October 25, 2017

The story so far

My personal view

The “Dark Ages”

TV is “Forgotten Option”

Low-cost administration means minimal disclosure

Responsibility for TV amount

Freedom & Flexibility

Osborne’s pension flexibility is a vote winner

Regulations inadequate

TVs are expensive to calculate and advise on

2018

IFA market still in chaos

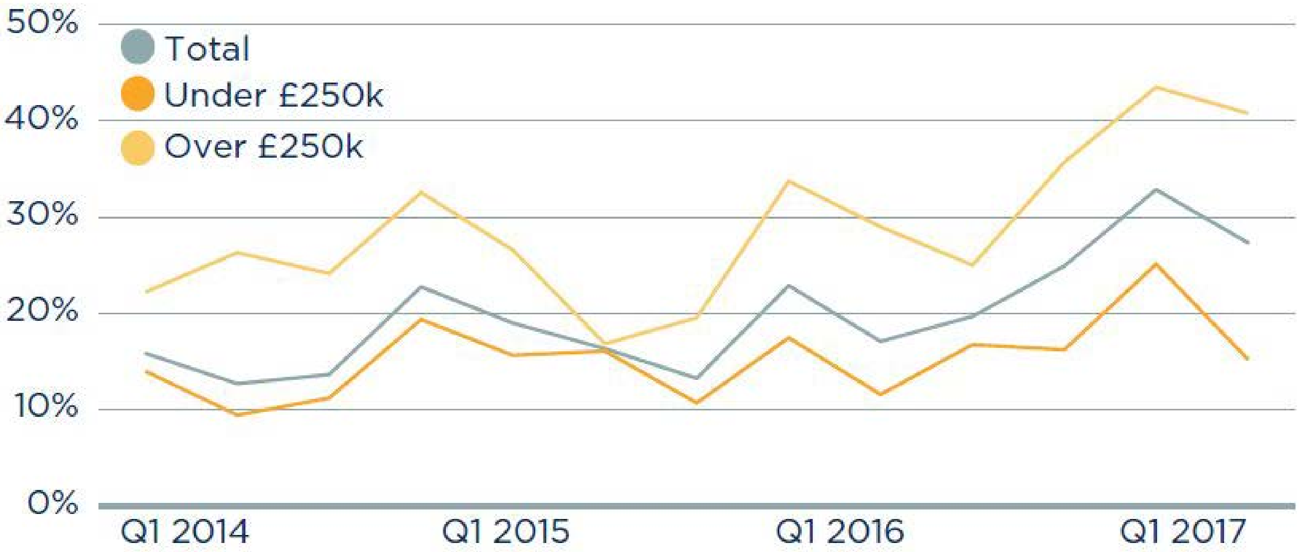
FCA promising “VFM”

IORP II due in 12 months

Interest in TVs is accelerating

TV quotes per 1000 deferreds by age

Proportion of TVs taken by value



11% of 55 plus group quoted, 40% take up if over £250k

Source: LCP Survey of Transfer Value experience – 2017

What's going on in the DB Transfer Value Market?

LCP INSIGHT CLARITY ADVICE

It's moving very quickly

Can we change the destination?

It's a scandal waiting to happen

Option I

Blame the IFAs

“Much advice from IFAs is biased and driven by attractive fees”

- Taking advice leads to poor member outcomes
- Members will regret their decision
- Another “Pension Scandal” waiting to happen

Evidence

- Stories from Tata Steel and “Factory gates” at other major companies
- Half of cases reviewed by FCA were not demonstrably good advice
- Stream of advisers being pulled out, or leaving “tainted” market

Counter argument

- Perhaps it’s just journalists in search of a snappy headline?

This is an industry issue, not just an adviser issue

Option II

Blame the Administrators/Trustees/TPR

Whole pensions industry has failed to communicate effectively

- Many instances of other financial products not being adequately explained – eg PPI, Open Market Options, Guaranteed Annuity Rates, …
- Prevailing view that Trustees want to protect members from bad outcomes
- Concern that if we communicate an option, it will be taken

Evidence

- Few Trustees currently communicate specific options regularly to most of their members
- New regulations will mandate greater disclosure, based on IORP II
- Where disclosure is increased, take up increases

Counter argument

- The option was mentioned in the booklet when you joined, and in the media

Not adequately disclosing options is very risky in an increasingly litigious society

Option III

Blame the Actuaries

A wide range of transfer values is possible

- An objective measure of value would be expected to give a narrow range
- New rules could call into question how actuarial judgement has been used in the past

Evidence

- Lowest to Highest TV is at least a multiple of two
(for the same benefit, provided by different schemes)
- FCA “Value For Money” check expected, will highlight differences
- If TVs are lower in future, will be a focus on current methods of calculation

“Members can’t be trusted to assess a good TV”
…but can we as actuaries do better?

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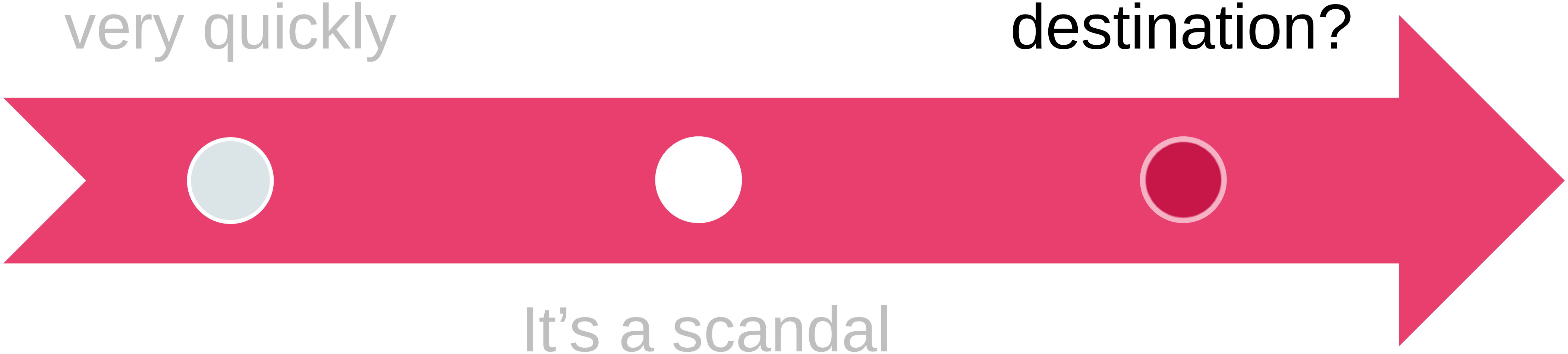


It's a scandal waiting to happen

Can we change the destination?

Can we change the destination?

Three ideas to find a good way out

1. **Help our clients understand the risk**
   - TVs are not inherently "good" or "bad", they are a statutory member option
   - IFAs are not inherently "good" or "bad", and are almost always not "independent"
   - Value of CETV is one figure in a wide range

2. **Provide access to Advice/Guidance**
   - Point people in the right direction
   - Appoint a specialist firm who are not remunerated on outcome
   - Encourage consideration of wider options for the industry ("Robo-Advice"/Independent Guidance Service/National Advice Service)

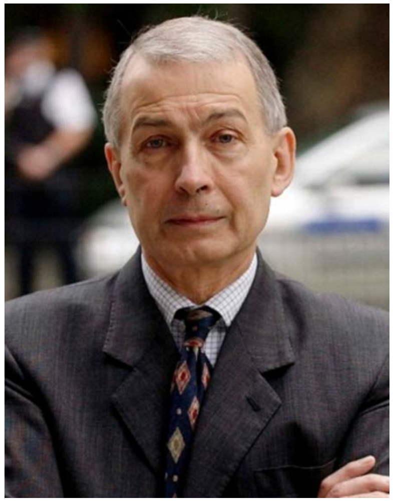
3. **Communicate!**
   - Proactive, timely and engaging communications
   - Include options, with numbers
   - Proactive initiatives feel risky in this space, but in-action also dangerous

Could these be the headlines in 2019?

1. High court decides Trustees failed to consider inheritance advantages for members, when deciding not to quote TVs

2. Pension Administrator pays compensation for failing to fully communicate benefit options to members

3. Actuaries and Consultants sued over “inappropriate” Transfer Value calculation, which fails “VFM” test



4. Prime Minister Frank Field says best home for a DB Transfer Value is a CDC Scheme

Which do you think could never happen?

Use of our work

Alex Waite
Partner

01962 872738
alex.waite@lcp.uk.com
@alexwaite4

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