Summary
- Confusion is still evident among pension savers trying to navigate their way out of a DB pension scheme.
- Data from Mercer in May immediately succeeding the advent of the freedom and choice regime revealed a 60 per cent increase in the number of employees asking for a transfer value.
- A survey of 200 schemes by Aon Hewitt found a 20 per cent increase in transfer requests, while actual transfers had risen by 50 per cent.
- At the heart of the reluctance to transfer lies a lack of understanding about pensions in general and freedom and choice. People are unsure about where to go for information, and are confused by conflicting advice and jargon. Where schemes assist members with decision making and with additional communications, transfer rates are higher.
- Where trustees are amending the retirement process to provide transfer quotes automatically, average take up rates have increased to 5 to 10 per cent.
- Typically transfers can be appropriate for people falling into two camps. Those with small DB funds that aren't their main retirement income and those with a low life expectancy.

Scratching heads

Gill Wadsworth looks at the issues surrounding DB to DC transfers and what factors will affect the rate of increase in this area

Confusion among pension savers is hindering the take up of freedom and choice, particularly among those trying to navigate their way out of a defined benefit (DB) scheme.

The new freedom and choice regime, which came into force last April and allows defined contribution (DC) members to draw their pensions flexibly from age 55, does not extend to their DB counterparts.

Consequently huge numbers of DB members enquired about transferring to a DC plan where they would be able to take advantage of the new flexibility.

In the May immediately succeeding the advent of the freedom and choice regime, Mercer released data revealing a 60 per cent increase in the number of employees asking for a transfer value.

However, the number of actual transfers remained level as, the consultant says, people took time to understand their options.

At such an early stage it made sense for people to hold back, since so little was known about the new flexible framework.

Fast forward several months to the summer of 2015 and the story had started to change.

A survey of Aon Hewitt's client base, consisting 200 schemes, found a 20 per cent increase in transfer requests while actual transfers had risen by 50 per cent.

This sounds like a considerable rise, but since the transfer market is in its infancy even the tiniest increase translates to high percentage changes.

"The headline take-up rate in terms of transfer values has increased by 50 per cent since the pension freedoms were introduced," Aon Hewitt partner Ben Roe comments. "But while that sounds like a high number, it is starting from a very low base."

Roe says before freedom and choice, schemes saw an average transfer rate of between 1 and 2 per cent; meaning the recent increases only translate to average transfer rates of 2 to 3 per cent.

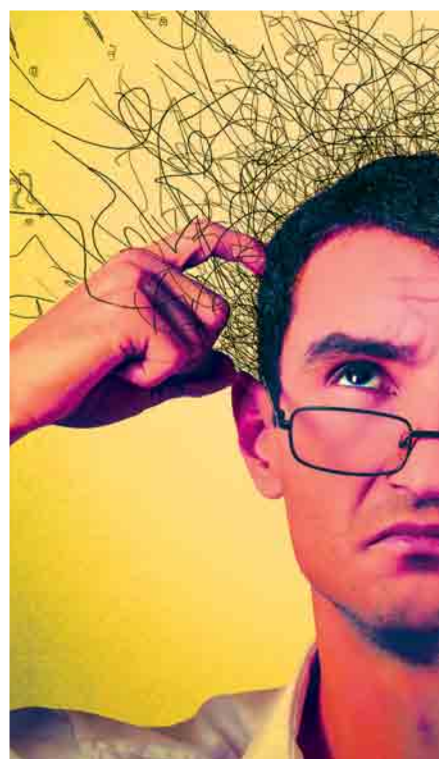
Member support

At the heart of the reluctance to transfer lies a lack of understanding about pensions in general and freedom and choice in particular.

A survey of 900 UK employers by Close Brothers Asset Management in January this year found more than a third (36 per cent) of businesses has experienced a request for transfers from DB members.

However that same survey reported 50 per cent of employers said staff in both DB and DC schemes had either a limited understanding of the pension freedoms, or were confused about what the changes meant for them.

Similarly, data that tracked 80 individuals aged 55 to 70 over the course of eight months, released by State Street Global Advisors and The People's Pension, found 60 per cent of pension



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savers had mixed or negative emotions about making retirement choices and "are feeling overwhelmed by the task at hand and are worried about making the wrong decision".

At the same time, the research found people are unsure about where to go for information, and are confused by conflicting advice and jargon.

Roe says that where schemes assist members with decision making and with additional communications, transfer rates are higher.

"We are seeing a much higher take-up rate at schemes where there is more communication to members and more member support", he says.

Roe says that where trustees are amending the retirement process to provide transfer quotes automatically, average take-up rates have increased to 5 to 10 per cent.

And where employers offer free independent financial advice, take-up rates increased even more dramatically.

Roe says: "In cases where schemes are making free financial advice available we are seeing 30 to 40 per cent of people on average transferring."

The right time to make a move

The role of the financial advisers in facilitating transfers from DB to DC is critical.

Not only is there a legal obligation for anyone with a pot of £30,000 or more to take independent financial advice before trustees can sanction a transfer, proper support helps individuals assess when it is in their best interests to make a change.

Roe says: "It is not just about grabbing the money; there are really good reasons to transfer. Savers can swap the shape of their pensions and do things that make sense for their individual circumstances."

Pinsent Masons partner Mark Baker says typically transfers can be appropriate for people falling into one of two camps.

"The first group taking up transfers have small DB funds which aren't their main retirement income. They would rather have a cash sum to pay off a loan or help family. At other end of scale are those with very large pensions who have got enough to live on and are sophisticated enough to find more effective ways of using the money," Baker says.

There are also those with a low life expectancy who may benefit from accessing their retirement funds more immediately. In addition, unmarried DB members who cannot use the spouse's pension may also find DC schemes more attractive.

However while the impact of receiving independent financial advice and additional member support is clear, Roe notes that few schemes are willing or able to offer such a perk.

Just 6 per cent of employers surveyed by Aon offered access to free financial advice, while a further 3 per cent directed employees to a preferred adviser.

Roe says: "Offering financial advice is not cheap and that is putting employers off. There is also the reputational risk of being associated with an IFA; what if something goes wrong, who carries the risk for that?"

Failing to offer financial advice may yet prove to be a false economy, particularly where employers are looking to de-risk their DB schemes.

The fewer members in the DB scheme, the smaller the burden on the sponsor. So where leaving the plan is in the employee's interest, it can also be in the employer's.

"Transfers out can make a difference from a company perspective as it de-risks the scheme and makes it smaller and less risky and can lead to a reduction in the funding deficit," Roe says.

Smooth systems

According to the SSGA and The People's Pension survey, more than one in five people who started a transfer process had not made a decision to go within six months.

The six month mark is pertinent since falling outside of that time means individuals lost their statutory rights to insist the transfer is made. They may then have to start the whole process again, and if they do that in the same year, they will not have the same statutory rights.

Baker says: "It takes time to get financial advice and make sense of that advice, and we are seeing cases where people are making transfer requests and coming back to trustees outside of the statutory time limit which creates a practical problem, since they have to resubmit the transfer request."

To help savers understand freedom and choice and to ensure transfers can be made easily, it is critical schemes have robust systems and processes in place.

Baker says sound administration provides the foundations on which these systems can be built.

"The bottom line is that trustees have to be confident their admin team will follow the right steps. There is the danger that some schemes won't have the right processes in place but all trustees should be making a point of checking in with their administrator."

Revisiting and reviewing communication with members is another important step for trustees.

The wording on transfer documentation must be clear and accessible if members have a hope of engaging with the process.

The People's Pension director of policy and market engagement Darren Philp says it is time for employers, providers and advisers to equip members with the tools they need to make the most of freedom and choice.

Philp says: "While savers generally welcome the new flexibilities, it is clear they are struggling to compare options and get the right information at the right time to help them make the right decisions. People need a helping hand to understand their options."

Inevitably there will be growth in DB to DC transfers; the rate of that increase depends on the pace at which communications and systems improve.

Members need to understand the benefits of changing from DB to DC, the dangers, and be helped to make the right decisions within an appropriate timeframe.

Written by Gill Wadsworth, a freelance journalist