Summary
- The number of DB-to-DC pension transfers fell at the end of last year, before rising again.
- Some think the pandemic caused the drop, while others think it actually reinvigorated the market in 2021.
- Going forward, there is a sense within the industry that it should be driving consolidation before we head into a period of cost-and-inefficient confusion.

Highs and lows

Pete Carvill looks over the ups and downs of members' pensions transfers over the past year

If there was ever a good time to transfer a personal pension, it seems that it was not the end of last year. It was at this point, in Q3 2020, that some players in the market saw the whole thing tumble and plummet. According to Lane Clark & Peacock (LCP), defined-benefit-to-defined-contribution transfers were, during that period, 62 per cent lower than they had been in Q3 2017, having dropped from 66 out of 10,000 members transferring in a year to just 25.

And, yet, almost as soon as transfers fell, they began to rise. LCP reported in June that it saw quotations in Q1 2021 hit 136 per 10,000 scheme members, an increase of 17 per cent on Q3 2020 and 22 per cent on Q2 2020. They were not the only ones to notice this uptick. In August, XPS Pensions Group's Transfer Activity Index showed that defined benefit pensions transfers rose to their highest rates in a year, with 75 out of every 10,000 members choosing to take the plunge.

This fall and rise in those seeking to transfer their pensions has not gone unnoticed, and there are many with different opinions as to why.

"A range of factors have contributed to this, including increases in individual fund sizes," says The People's Pension chief sales and marketing officer, Rob Porter. "The improvement of provider and external industry communications have meant more people have woken up to the fact they have a pension. The Covid-19 pandemic and associated lockdowns, as well as the government's furlough scheme have given many savers the time and opportunity to both review and make decisions about their pension savings. Another area of consolidation within the auto-enrolment market, sees some members transferring deferred pots to their current active employer account."

Pandemic effect

The pandemic was certainly a factor, but no one is quite sure how or to what extent. LCP associate consultant, Andrew Pijper, says that the pandemic explains both the drop and the rise in the number of transfers. "In the first lockdown," he says, "transfer requests declined by 50 per cent, went back up, and then dropped

through the floor during the second lockdown."

But then, he says, came the increases at the beginning of this year. "My theory is that there was uncertainty in 2020 as to the duration of the pandemic and what its effects would be on the economy. But with a vaccine rollout and a timeline for the pandemic's end, we're in a different place in 2021."

Other work supports the pandemic-as-suppressor theory. In June, LCP released its *All Change for DB Transfers* report. The authors of that wrote: "The seven weeks of strict lockdown between March and May 2020 saw greatly reduced levels of transfer activity, with the rate of requests falling to less than 50 per cent of pre-lockdown levels."

Others look at the pandemic as having caused the boost in transfer earlier in the year. Nest head of member experience, Debjani Kundu, says that the lockdowns gave people the chance to deal with what she calls 'life admin'. "A lot of people," she says, "are waking up to the fact that they have pensions."

Another factor that fuelled the Q3 2020 drop-off was the Financial Conduct Authority's (FCA) ban in October on contingency charging for pensions transfers. The move, intentioned to improve outcomes for customers, had another effect: January data from the body showed that the number of firms in this sector dropped 42 per cent between 2018 and 2020 (as of the middle of this year, the total had gone back up to 1,521). It seemed that fewer advisers in this area may have made it more difficult for customers to obtain the information that it is mandated they have.

Trends

But will the rise continue or is it temporary, the result of a blockage in the pipe being worked out? Kundu says that it is hard to tell. "This trend may continue to some extent," she says. "Maybe not as much as at the beginning of the year but it won't fall back to last year's levels. At the end of the day, though, it's difficult to be accurate because a forecast is only a forecast."

The fluctuations in the sector make it hard to judge, but there is a sense in some quarters that a health industry needs more transfers. "I think it's not enough," says Now Pensions director of policy, Adrian Boulding. "The labour market turnover is much higher than that. If you have 11 jobs over a 40-year career, that's a move every four years. And when people move on from one workplace, they tend to leave the pension behind and start another at the next one. That leads to a lot of duplication and admin costs as a result."

There are other knock-on effects as customers move between workplaces, leaving their smaller pots behind. Aviva head of savings and retirement, Alistair McQueen, points to the Pensions Schemes Act of 2015 as a catalyst for much of what we see today.

He says: "More people in the UK than ever before are saving into a pension, and it looks like the number of pots is set to rise from eight million to 30 million over the next 20 or so years. An environment of many pots with lots of small amounts of money is not an attractive one; it's more complicated for individuals and the value of those pensions is going to slowly be eaten away by the charges. And it'll going to create a costly and inefficient industry for providers, the costs of which will be passed down to the customer."

An agglomeration of smaller pots, says Boulding, also has the potential of a sub-prime outcome for customers. "There are FCA statistics about what people do at retirement," he says. "The smaller pension pots – often in the low thousands – tend to get cashed in and not put towards a pension. But if the customer had gathered those pots together earlier, then it is likely that they would have had a much bigger pot at the end."

There is clearly a lot of work to be done in this area. As always, engagement is key. Kundu says that work needs to be done on 'breaking down barriers' when it comes to pensions, giving the disengagement of customers who find their financial affairs labyrinthine and distant. It is something, she says, that customers often do not engage with until it is too late, adding, "The industry should be ensuring that they look with more interest at their pensions, so they understand their own wellbeing and get the most out of their products."

Others put the onus elsewhere. LCP partner, Bart Huby, says that a scheme's trustees should appoint financial advisers that provide members approaching retirement with sound, professional advice.

"It wouldn't be about transferring," he says, "but about their accumulated benefits. The advice, too, would be better and cheaper because the advisers would have a more-comprehensive, deeper understanding of the benefits on offer."

Boulding tells *Pensions Age* that there was a cross-industry effort he was involved in for customers' pensions to be automatically consolidated. He says that such a scheme would be on an opt-out basis but would essentially boil down to tracking where someone goes after leaving a workplace, then consolidating their existing pension with their new one automatically. Even with all the GDPR nightmares around such an idea that treading softly is the only option, Boulding says that the UK government – and, specifically, the Pensions Minister – have evinced a particular interest.

"We may find out that the law does not allow us to do that," Boulding says, "and we have spoke to the Minister about this. But, generally, it's in the best interests of people that their pensions are all in the same place."

Written by Pete Carvill, a freelance journalist