DB transfer guidance: Finishing the work

Summary
• The FCA's finalised DB transfers guidance is largely the same as draft guidance released in the summer of 2020, although some elements have been tweaked and additions have been made.
• Explanations and examples have been included to help trustees and employers avoid giving outright advice to members, while still giving them the resources they need.
• The amount of DB transfers taking place looks set to decrease even further, given the FCA's position that most savers should remain in DB schemes.

Duncan Ferris delves into the FCA's finalised DB transfer guidance, looking into both the content of the guidance and what it might mean for the future of the DB transfer market

As March came to a close, the Financial Conduct Authority (FCA) confirmed its finalised defined benefit (DB) transfer guidance for advisers, trustees and employers, setting draft guidance from June 2020 in stone with just a few amendments and additions. The watchdog explained that the guidelines had been carved out based on its assertion that it is in most DB savers' best interests to remain in rock-solid DB pension schemes, while advice for those seeking an exit should give advice that is suitable for each consumer's needs and situation.

Content

The FCA's guidance for employers and trustees was released as a separate document to its guidance for advisers, and lists what these parties can do to help members with financial matters without needing to be authorised by the watchdog, including examples to illustrate what they can and cannot do.

For instance, trustees are required to check that members wishing to transfer a pension with a value of over £30,000 have taken appropriate independent advice before allowing the transaction, with the FCA pointing trustees to check advisers against the Financial Services Register to ensure good service.

Commenting at the time of the release, Hymans Robertson partner and head of member operations, Ryan Markham, said: "This should allow trustees and sponsors to review and develop their member engagement and options strategy at a time when members have never needed this valuable support more. This can only be helpful in members engaging fully in their choices and reducing the risk of poor decisions or even worse falling victim to scammers."

Meanwhile, the document pertaining to advisers is intended to help firms identify weaknesses in their existing processes after the FCA said it found that many firms were "struggling to give consistent, suitable advice". It also aims to make the DB transfer market more sustainable by creating a situation where professional indemnity insurers see fewer instances of firms doling out unsuitable advice.

Canada Life technical director, Andrew Tully, says: "The changes that the FCA introduced (mostly from October 2020) were significant and changed or clarified almost every aspect of DB transfer processes.

"The final guidance provides a clear steer of what the FCA is expecting around DB transfers. While advisers will have changed their processes, they will be able to use this final guidance as a reference point to double-check the measures they have put in place and determine whether any tweaks are needed."

The release of the finalised guidance comes after the FCA reported in January that the DB transfer market was showing "some signs of improvement", with a significant fall in conversion rates interpreted as indicating that advisers

were normally suggesting to savers that remaining in their DB schemes was probably the best choice following the release of draft guidance. Additionally, there was a "significant reduction" in the number of savers who opted to transfer out of DB schemes against the recommendation of an adviser.

Tweaks

Following the emergence of the new guidance, LCP partner, Steve Webb, stated that the release had provided "welcome clarity and shows that schemes can help in a range of ways". Of particular concern for Webb had been the earlier draft of the guidance's slightly blurred lines around the definition of what amounted to giving savers advice, which he said had sparked concern that pension schemes could unwittingly end up providing advice without proper FCA regulation.

The offending segment had stated: "Some employers and trustees want to give their scheme members illustrative figures that compare the outcomes a member might get if they keep a safeguarded benefit or transfer/convert it into flexible benefits. But this kind of analysis might steer a member towards a specific course of action, which is part of the regulated advice process.

"As a result, we consider that providing such figures could mean that firms are likely to be giving advice or an inducement. If an employer or trustee provides a transfer value comparator, in accordance with the FCA's rules, they should consider whether they are doing it by way of business and need FCA authorisation."

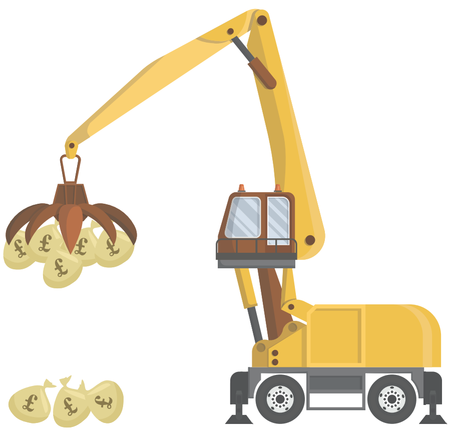
However, following a consultation which ended in September 2020, the new release saw the FCA clarify that schemes are permitted to provide transfer value quotes even if members have not requested them, can provide annuity estimates and can appoint independent financial advisers to assist scheme members.

Consequences

As the FCA have approached the guidance with the perspective that most savers would be best served by remaining in their DB schemes, it seems likely that one consequence of the guidance will be a drop in DB transfers. Tully points out that this will likely continue a trend which has already been observed.

Tully explains: "Around £14 billion of DB pensions were advised to transfer over the year April 2019 to March 2020. These stats also show the numbers of people transferring has fallen significantly since the prior couple of years. So there has already been a fall in the numbers transferring, however it has been fairly level over the 18 months to March 2020.

"These figures are a year out of date and there are some pressures on advisers in this market, including the greater regulatory scrutiny and the cost of professional indemnity insurance. But there are still many people who want to consider a transfer. This guidance will hopefully help ensure we continue to have a functioning DB transfer market while reducing the instances of poor outcomes for consumers."



Aegon pensions director, Steven Cameron, agreed, stating: "While this guidance will provide further confidence to those firms who specialise in this market, it is unlikely to reverse the general downward trend in the supply of DB transfer advice."

The FCA in January noted that the number of firms offering DB transfer advice had essentially halved in the past three years, dropping from 3,042 to 1,521. Similarly, research from Aegon released in January found that just 22 per cent of adviser firms offered DB transfer advice, down from 41 per cent in 2020. Nine per cent of those that did still offer DB transfer advice said they expected to leave the market entirely within the next 12 months,

While this in some ways suits the FCA's view that most savers should remain in DB schemes, it has sparked concerns that those few who would like to leave, for example because of unsatisfactory death benefits, might not be able to seek out the appropriate independent advice needed to transfer out. In the latter study, challenges around professional indemnity insurance and business risk were cited as the most common reasons that advisers might want out of the market, so hopefully the FCA's efforts to improve the market in the eyes of indemnity insurers will bolster its health.

Illustrating how important it is that the market survives, Tully explains: "Many people will be better off remaining in their DB scheme. However, there are some specific situations, such as those in ill-health or heavily in debt, where a transfer will be the best outcome."

Written by Duncan Ferris