XPS Pensions Group

Member outcomes under freedom and choice

July 2020


XPS Pensions Group

Overview

Our third survey on member outcomes under freedom and choice highlights a modest improvement in outcomes for members – the first we have seen. However, these first signs of progress must be reinforced by an acceleration of the support that we are seeing ever more trustees and employers put in place for their members. This report sets out:

1. Survey findings
We followed the transfers of a further 2,200 members.

2. Who is transfering
We profiled who is choosing to transfer and looked at how their outcomes have improved.

3. Our recommendations
We investigated the actions sponsors and trustees are taking to improve outcomes.

Key findings

For the first time since starting our survey, **the 2020 results show a modest improvement in potential member outcomes for those choosing to transfer.**

In particular, we have seen a **welcome shift towards members choosing less expensive vehicles for their transfers, but costs still remain high**.

This shift coincides with many more trustees and employers taking steps to improve outcomes for their members.

Many of the schemes we advise have implemented initiatives to improve outcomes.

We have also looked at the members who are choosing to transfer. We have found **those who are financially secure and more comfortable using online technology are more likely to transfer** their defined benefit pension.



The vast majority – some 98% – of members continue to transfer to a Self-Invested Personal Pension (SIPP).

Given the low average annual pension transferred (less than £10,000 per year), we remain concerned that many members may not need (or value) the additional features that a higher charging SIPP can provide. The outcome for these members can still be improved.

Looking to the future

Despite the improvement in this year's survey, we are particularly concerned about the outcomes for members in the near future.

As we emerge from lockdown in the UK, many pension scheme members will face significant financial uncertainty, be it in terms of their current employment or the value of other significant assets that they own (like their house). It is likely that they will investigate their pension options.

Unfortunately, one element of support, high quality financial advice, is about to become much harder for individuals to obtain. Without action, there is a significant risk of poor member outcomes or, at worst, a rise in pension scams.

We believe it is important that employers and trustees continue to implement solutions to protect their members and improve their outcomes in retirement. We may also see the typical transferring member changing. More detail is provided on page 11.

Despite the modest improvements, we believe that a lot more still needs to be done to support members.

Helen Ross
Head of Member Options

Survey findings

We have continued to monitor the transfers that XPS administer to understand how the market is changing. We have analysed 2,200 transfers recorded since our last survey and the charts below summarise our findings.

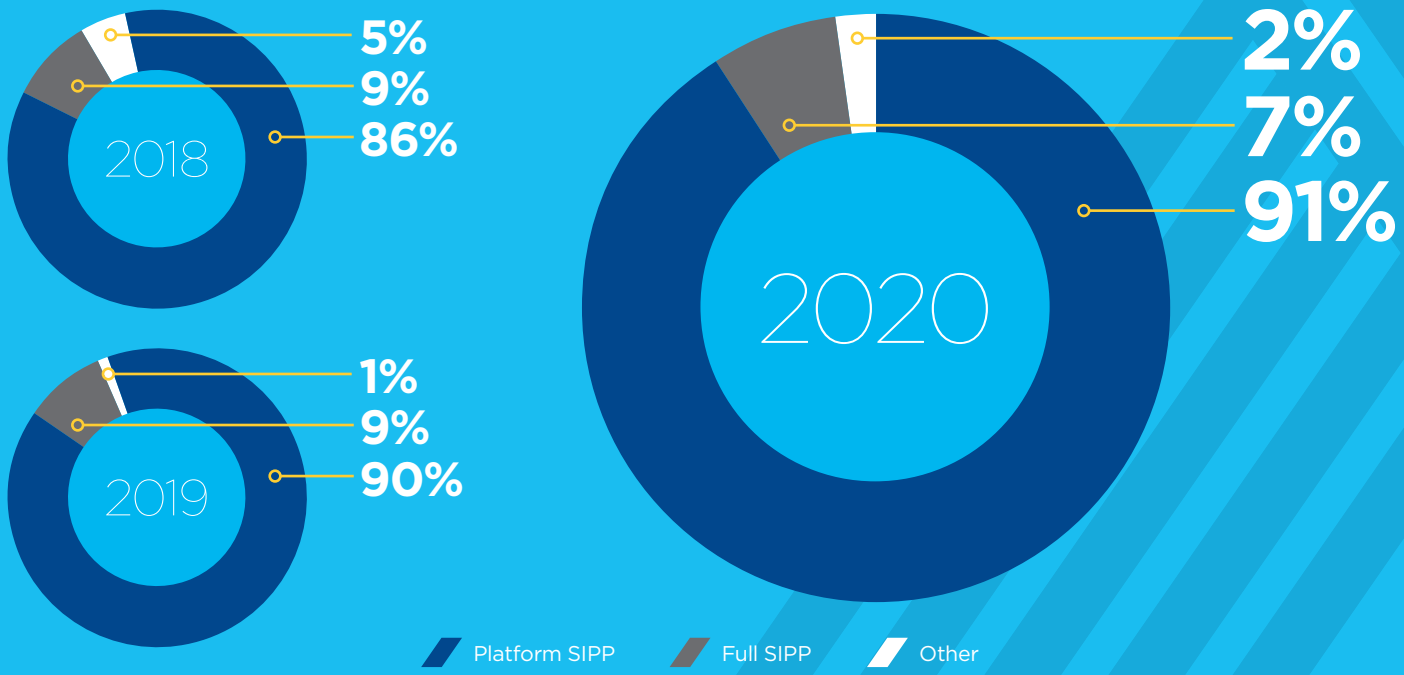
2,200 | transfers from April 2019 to March 2020 (0.9% of eligible members)

£637m | worth of transfers

£290,000 | average transfer value increased from £275,000 to £290,000

98% | of transfers went into Self-Invested Personal Pensions

Transfer destination



Source: XPS analysis

SIPP products continue to dominate the market. However, there has been a move away from expensive 'full SIPP' products and generally towards the less expensive end of the SIPP market.

Who is transferring?

XPS carries out detailed member profiling analysis for trustees and employers to help them understand their members better. We have used this to look at which members are actually choosing to transfer.

Profile of the actual typical transferring member*



Michael, 58

- **Male**
- **Married with 2 children**
- **Healthy**
- **Homeowner**

Financially secure

- Employed: £46k p.a. household income (50% higher than the UK average)
- Considers himself very good at managing his money
- Always pays his credit card balance in full

Tech savvy

- Manages most of his finances online
- Shops at Amazon and other online stores
- Responds often to personalised emails

- **Michael is healthier, wealthier and more familiar with technology** than the average UK pension scheme member.
- Michael decided to **transfer his £290,000 defined benefit pension** to a platform SIPP.
- **He paid £7,000 for his financial advice** and will now pay **annual charges of 1.7%**.
- He plans to **draw £11,000 per year** and wants his fund to last for **the rest of his life**, expected to be around **30 years**.

Protecting the most vulnerable

10%

of the transfers that XPS process are for those members with a transfer value lower than £30,000

These members do not have to take financial advice before transferring and so are particularly vulnerable to poor outcomes or, at worst, pension scams

The actions that we recommend throughout this report are very relevant to these members

* **Note**: The profile above is not an illustrative profile. It has been built using large scale data from a range of public information sources which have been provided by individuals on an informed basis. It reflects the reality of the actual member transferring even if it appears not particularly diverse.

Our recommendations

Member outcomes have improved for the first time since we started this survey.

Michael, our typical transferee, is paying lower annual fees after transferring than he would have in previous years. This will help Michael's fund to last a year longer in his retirement.

However, there is still more that can be done to help Michael and his fellow transferees. For example, if Michael has access to funded financial advice at retirement and a low-cost transfer option, his fund could last a further 9 years in retirement, or Michael could draw a pension that is 20% higher.

We continue to work with trustees and sponsors to improve member outcomes. In total, 30% of schemes we work with have taken steps to improve outcomes across the following four areas:

Our recommendations 2019		Survey results 2020
1 Ensure education and support is provided alongside transfer values		**23%** have access to enhanced member communications to improve understanding
2 Highlight low-cost transfer options for appropriate scheme members		**19%** have access to a low-cost transfer option
3 Offer partial transfers to avoid all or nothing decisions		**15%** will be able to transfer part of their defined benefit pension
4 Provide access to unbiased financial advice		**13%** have support from a financial adviser at retirement

Source: XPS survey of advisory clients, covering eligible members who already have or will soon have these options

The risks faced by members like Michael are very real. It is great to see so many of the schemes we work with taking steps to protect their members from pension scams and improve their outcomes in retirement.

Paul Hamilton
Senior Associate



Recommendation 1:

Ensure education and support is provided

Members need to make decisions throughout their retirement journey, not just when it comes to taking benefits. Engagement, support and education are key to that process.

As the pensions industry struggles to move away from decades of untailored compliance-focussed member communications, it is important to balance the requirements to disclose information with the need to educate, inform and equip members in a simple and clear way.

We have found that schemes adopting a tailored engagement strategy have more satisfied members who are better placed to make important retirement decisions. This leads to better outcomes.

Tailored to members

Many schemes are using tools to understand their membership to help them to communicate more effectively to members.

Communicating digitally

The recent COVID-19 outbreak has highlighted the power of digital communications.

Over 10% of schemes we advise are engaging with their members using a scheme website, moving away from paper and hosting important documents online and also using email to share updates with members.



> Good member communications, provided at the right time and in the right format, are vital if members are to engage and make decisions that lead to good outcomes in retirement.
>
> **The Pensions Regulator, Regulatory Guidance: Communicating and reporting**

30,000

We are currently undertaking bespoke communication reviews that will cover a further 30,000 members



Michael, our typical transferee, is **familiar with technology and used to managing his money online**. He would have responded well to digital communications and personalised emails.



Recommendation 2:
Highlight low-cost transfer options

Putting in place an approved receiving vehicle for members allows them to benefit from economies of scale and improved governance.

SIPPs can offer significant flexibility for members who want to actively manage their funds in retirement. However this comes with a cost, which is unnecessary if the member does not need or make use of all the features. These members may benefit from an alternative arrangement being made available.

Any employer can participate in a DC Master Trust, which offers all of the flexibilities available under Freedom & Choice, with the added benefit that it is overseen by a board of professional trustees who are responsible for the suitability of investments and member communications.

The economies of scale can result in significant cost savings for members.

Flexibility and value-for-money

A Master Trust would provide members with access to full retirement flexibility at a low-cost. Employers can chose an appropriate, well-governed vehicle from a range of available Master Trusts.

Protection for members

£30,000

The availability of a low-cost receiving vehicle would put in place an extra layer of protection against pension scams. This is particularly important for the most vulnerable members with a transfer value below £30,000.



Read more

In a recent example a member had been contacted by a financial adviser offering the opportunity to 'unlock' cash from their pension. The transfer was £27,000, meaning IFA advice was not required.

The member paid advice fees of £6,000 to access their benefits, reducing them in value by 21%. This would not have been necessary if there had been a low-cost option available to them.

51,000

We are currently working to introduce a low-cost transfer option to cover a further 51,000 members



Michael continues to pay **1.7% of his fund in annual charges**. Had he chosen a low-cost transfer option, his money could last a further eight years.

Recommendation 3:
Offer partial transfers



Most members only have the choice between transferring all their defined benefit pension or none of it. This presents a tough binary choice between security and flexibility.

Providing members the option to transfer some, but not all, of their defined benefit pension in order to access freedoms may allow an individual to balance the desire for both security and flexibility.

Partial transfers provide a way of tailoring transfers to suit an individual's needs, and is supported across the industry and by regulators.

Flexibility for members[1]

£290,000

The average transfer value that XPS paid in the year to 31 March 2020 was £290,000.

£231,855

In comparison, the average house price in the UK was £231,855. A member's pension is commonly their most valuable asset.

15%

15% of men stay in employment with a single employer for more than 20 years. Without a partial transfer option, a large proportion of an individual's pension savings may be indivisible and inflexible.

Support from independent financial advisers[2]

Financial advisers welcome the additional flexibility provided by partial transfers. They are able to advise members on how much of their pension to transfer, rather than whether to transfer at all.

[1] **Source**: XPS transfer watch, Land Registry Data; UK House Price Index, CIPD Megatrends 'Has job turnover slowed down?'

[2] **Source**: XPS survey of financial advisers

> Trustees may also wish to consider the option of offering partial transfers of either safeguarded or flexible benefits if this is permitted under a scheme's rules. This could range from a pre-determined, set ratio or leaving the choice open for members to select a proportion of benefits to transfer.
>
> **The Pensions Regulator, Regulatory Guidance: Communicating and reporting**

13,000

We are currently working to introduce a partial transfer option to cover a further 13,000 members



Michael's pension is his largest asset and, although we cannot know whether it would have changed his decision, he is likely to have valued the **additional flexibility a partial transfer offers**.

Recommendation 4:
Provide access to unbiased advice

High quality unbiased financial advice is critical to members understanding their options and making the right decisions for their circumstances.

However, this market has its own challenges as highlighted by Financial Conduct Authority (FCA) reviews in recent years. It is very difficult for members to choose a reputable financial adviser when left to their own devices.

It is really important to help members access high-quality, unbiased financial advice. This is ideally paid for by the scheme or the employer to ensure that the advice is taken by members. Some of the benefits include:

Better outcomes for schemes[3]

25% vs 69%

Fewer members are advised to transfer when trustees and employers help members to access high quality unbiased advice.

Trustees and employers can be confident that members are making the right decision for them.

Broader outcomes for members[4]

3% vs 7%

Fewer members advised into more expensive full SIPPs (3% vs 7%) and more members advised into other arrangements, like an existing employer scheme (39% vs 2%).



Read more

> Deciding whether to transfer a DB pension is one of the most complex financial decisions a person may have to make. It can also have far-reaching consequences, and it's for this reason that it's important that consumers get high quality advice.
>
> Despite this, too much advice is not of an acceptable standard.
>
> **Financial Conduct Authority, June 2019**

18,000

We are currently working to introduce unbiased financial advice to cover a further 18,000 members

[3] **Source**: XPS survey of financial advisers compared with FCA consultation CP19/25

[4] **Source**: XPS analysis compared with financial adviser survey



Michael paid **£7,000 for his financial advice**. This is significantly more than the cost paid by pension schemes for their members. If Michael's advice had been funded he might have a further year of pension in retirement.

Looking to the future

Recent developments

So far, 2020 has been dominated by the COVID-19 pandemic and the world of transfer values has been no different. Our monthly Transfer Watch publication has shown significant fluctuation in the transfer value of a sample member, caused by market turbulence as a result of lockdown in the UK.

XPS Transfer Watch for the period 1 January to 30 June 2020



Source: XPS analysis

In response to this volatility, we have seen:

6%

of schemes we advise continue to suspend transfer values whilst they consider affordability

20%

reduction in transfers processed in May 2020, compared with the same time last year

30%

reduction in requests for a transfer value quotation in May 2020, the first stage in the transfer process

We have also seen regulatory developments with:

1. The Pensions Regulator issuing guidance for trustees around communicating with members in the current environment; and
2. The FCA to ban contingent charging for financial advice on pension transfers from 1 October 2020.

Looking to the future

The next twelve months will be challenging for many pension scheme members. As the UK emerges from lockdown, there is likely to be significant financial uncertainty for individuals and many may investigate their pension options.

As a result, it is vital that trustees and sponsors continue the good work to implement valuable support and protections for their members. Some of our expectations for the next 12 months are shown below.

1 Education and support for members

Schemes will take further steps to improve the quality and frequency of member communications. Many will increase their online presence – the COVID-19 outbreak has highlighted the power of digital communications.

Unfortunately, it is likely that pension scammers will look to take advantage of the ongoing pandemic and potentially make use of social media. Schemes who do not have sufficient scam protection in place will need to take steps to improve it.



2 Offering members the option of a partial transfer

Partial transfers will become more widely available.

Through its recent consultation process, it is clear that the FCA is supportive of partial transfers and expects financial advisers to consider them in their advice.

In addition, schemes may see a potential barrier to partial transfers removed when they complete GMP equalisation.



3 Access to low-cost receiving vehicles

Many schemes will look to provide a safe, low-cost place for those members looking for a simple vehicle to access their savings.

We expect this to be particularly popular to help those members with a transfer value under £30,000, who do not need to take financial advice. These members are particularly vulnerable to excessive charges and pension scams.



4 Access to unbiased financial advice

Contingent charging will be banned from 1 October 2020. Whilst generally positive, this could lead to worse member outcomes in the short-term with members unwilling to pay for advice and, at worst, at greater risk of falling victim to a pension scam.

Therefore, many more schemes will to look to appoint high-quality unbiased advisers to support their members when making decisions.



Transfer activity could rebound as we emerge from lockdown and members turn their attentions back to financial decisions. We have already seen signs of this in our Transfer Activity Index for June 2020.

In these times of financial uncertainty, it is crucial the trustees and employers take steps now to improve support and protection for their members.

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About us

XPS Pensions Group is the largest pure pensions consultancy in the UK, specialising in actuarial, investment consulting and administration. The XPS Pensions Group business combines expertise, insight and technology to address the needs more than 1,200 pension schemes and their sponsoring employers on an ongoing and project basis. We undertake pensions administration for over 930,000 members and provide advisory services to schemes of all sizes including 25 with over £1bn of assets.

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