

Member outcomes under freedom and choice

October 2021

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Executive summary

Our fourth annual survey of member outcomes under freedom and choice reveals that 23% fewer members opted to transfer in the twelve months to 31 March. However, the average transfer value paid has increased by 29%, compared to the previous twelve months.

23%

fewer members opted to transfer in the twelve months to 31 March

29%

average transfer value paid has increased by 29%

£326k

average transfer value paid to female members

10%

increase in annual fees

We saw the **average transfer value paid to female members break £300,000** for the first time, closing the gap to the average male transfer value paid. However, the majority of transfers continue to be taken by male members.

Most transfers continue go into Self-Invested Personal Pensions (SIPPs). There is a wide range in sophistication of SIPPs but we see very few transfers being made to low-cost receiving vehicles, such as Master Trusts or workplace pensions.

This means that transferring members are facing much higher costs. The 1,700 members we looked at are now paying the highest average annual fees since our survey began – up 10% in a single year. Such high fees risk members running out of money a full 10 years earlier than would otherwise be the case.

Warning signs of poor member outcomes are up too, with our Scam Protection Service flagging 24% more cases over the last twelve months.

On a more positive note, trustees and employers are continuing to step up their efforts with a **further 20% of schemes providing enhanced support** in the last twelve months. **50% of schemes we work with now provide additional help** to their membership.

The issues highlighted by our survey confirm that there is too little choice available in the pensions transfer advice market. High quality advice and protection are now more vital than ever and it is crucial that schemes continue improving that support.

As we all emerge from the lockdowns over the last year, we expect members to show increased interest in pension options. This will be particularly true when the end of the furlough scheme may force some members to accelerate their retirement plans. With transfer values at all-time highs, accessing their pension may be an avenue of financial support for vulnerable members.



Although it's frustrating to see average charges increase, we're encouraged to see that trustees and employers are continuing to build support for their members.

Mark Barlow
Partner



1 Key survey findings

We have continued to monitor the transfers we administer in order to understand how the market is changing. The table below summarises our analysis of 1,700 transfers recorded over the twelve months to 31 March 2021.

These are the key survey findings

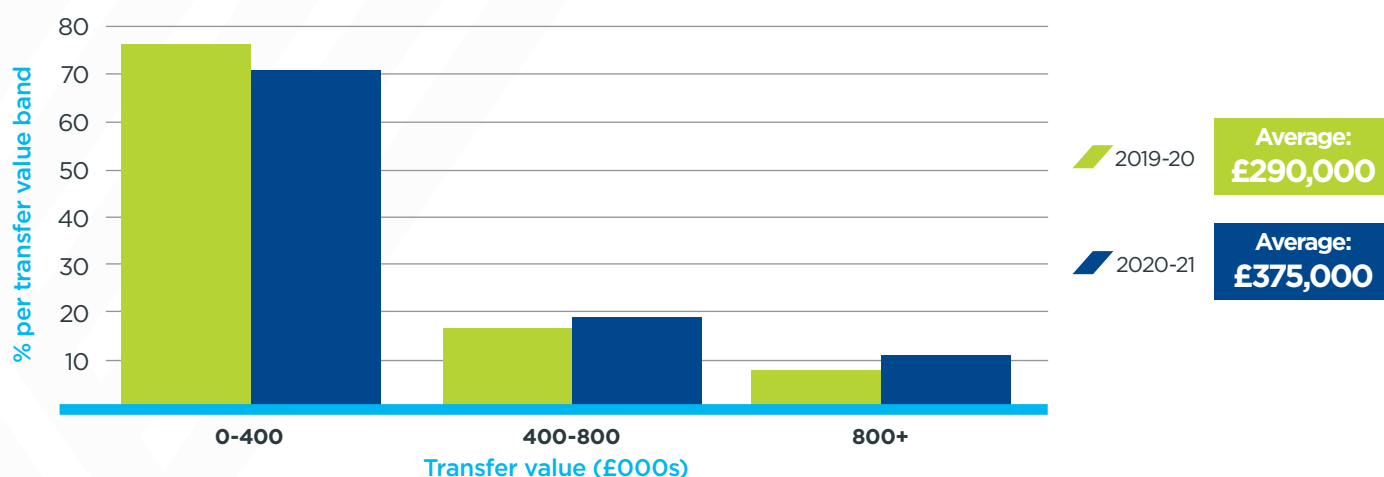
Year to 31 March	2021	2020	Change
Average transfer value	£375k	£290k	+29%
Transfers processed	1,700	2,200	-23%
Total transfers paid	£644m	£637m	+1%
Proportion transferring to Self Invested Personal Pensions (SIPPs)	99%	98%	+1%

2 A closer look at the data

» Average transfer value increases

Whilst the total number of transfers we processed fell by 23% compared with 2019-20, the average size of transfer increased significantly. Only a small proportion of this can be explained by market movements; transfers have been taken by those members with larger pensions.

Distribution of transfer values: two-year comparison



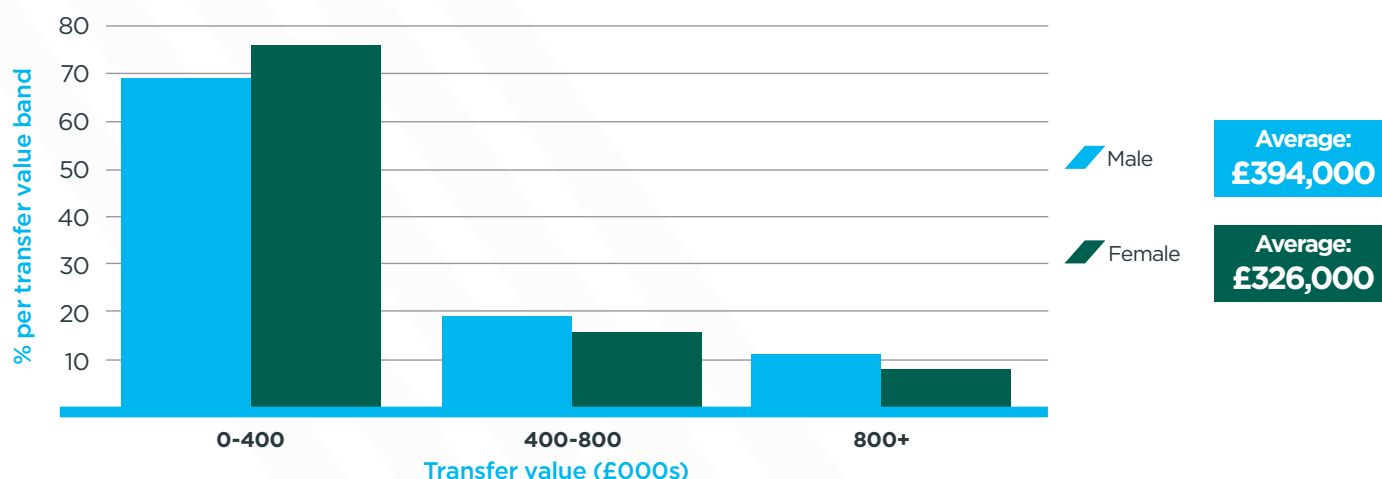
Source: XPS Administration

» Males were more likely to transfer

Men requested nearly three-quarters of the transfers processed in the year to 31 March 2021. Yet men make up only 61% of non-pensioners in the schemes we administer.

The average female transfer value paid of £326,000 remained lower than the average male transfer value paid of £394,000. Transfer values paid to males were on average 21% higher than those paid to females, which is down from male transfer values averaging around 50% higher last year.

Distribution of 2020-21 transfer values by sex

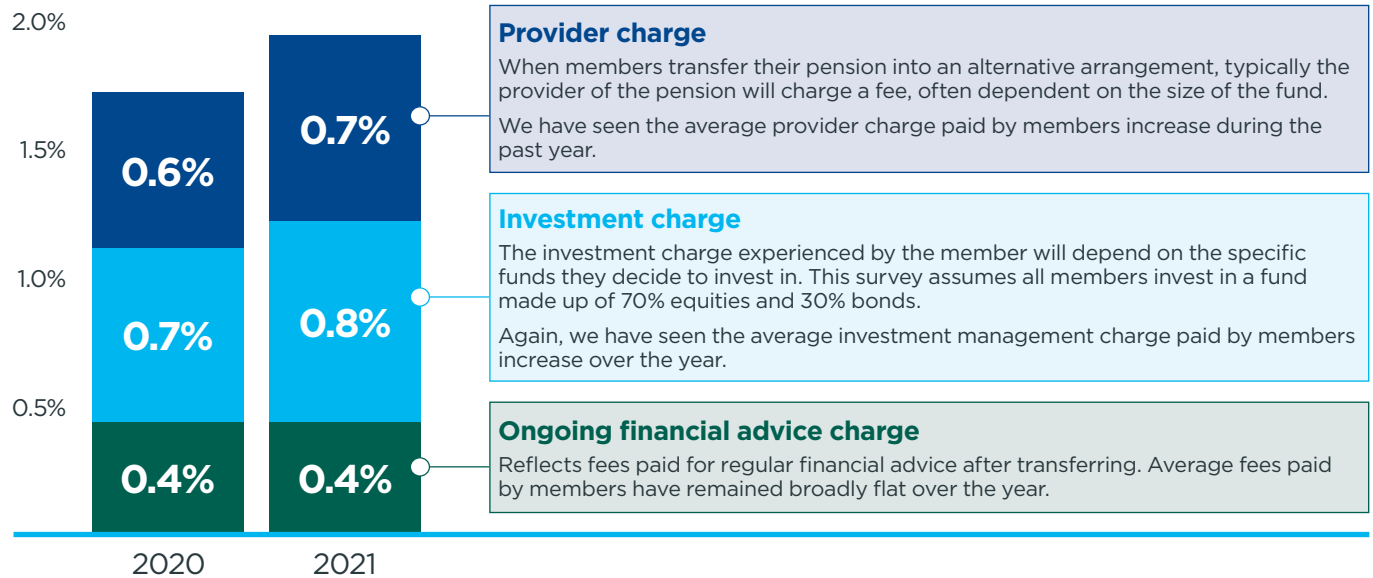


Source: XPS Administration

» Average charges have increased

We have analysed the financial cost to members of transferring out of their DB scheme to other providers. This is made up of three key elements; provider charges, investment charges and charges for ongoing advice. The total average cost has risen from 1.7% p.a. in last year's survey to 1.9% p.a this year. A breakdown is shown below.

Breakdown of average annual charges



Source: XPS analysis of destinations of transfers processed by XPS Administration during the year to 31 March 2021.

The introduction of low-cost receiving vehicles can reduce provider and investment charges by over 1%. This alone would have a transformational impact on member outcomes. With all other factors remaining constant a typical transferee's pension fund would then last a further nine years.

» Members defer retirement decisions

Understandably, members appear to have deferred retirement decisions during the turbulence of the pandemic. Not only have fewer members transferred during the year but we have also seen a fall in the rate of retirements.

↓ **23%**

fall in number of transfers*

↓ **7%**

fall in retirement rate*

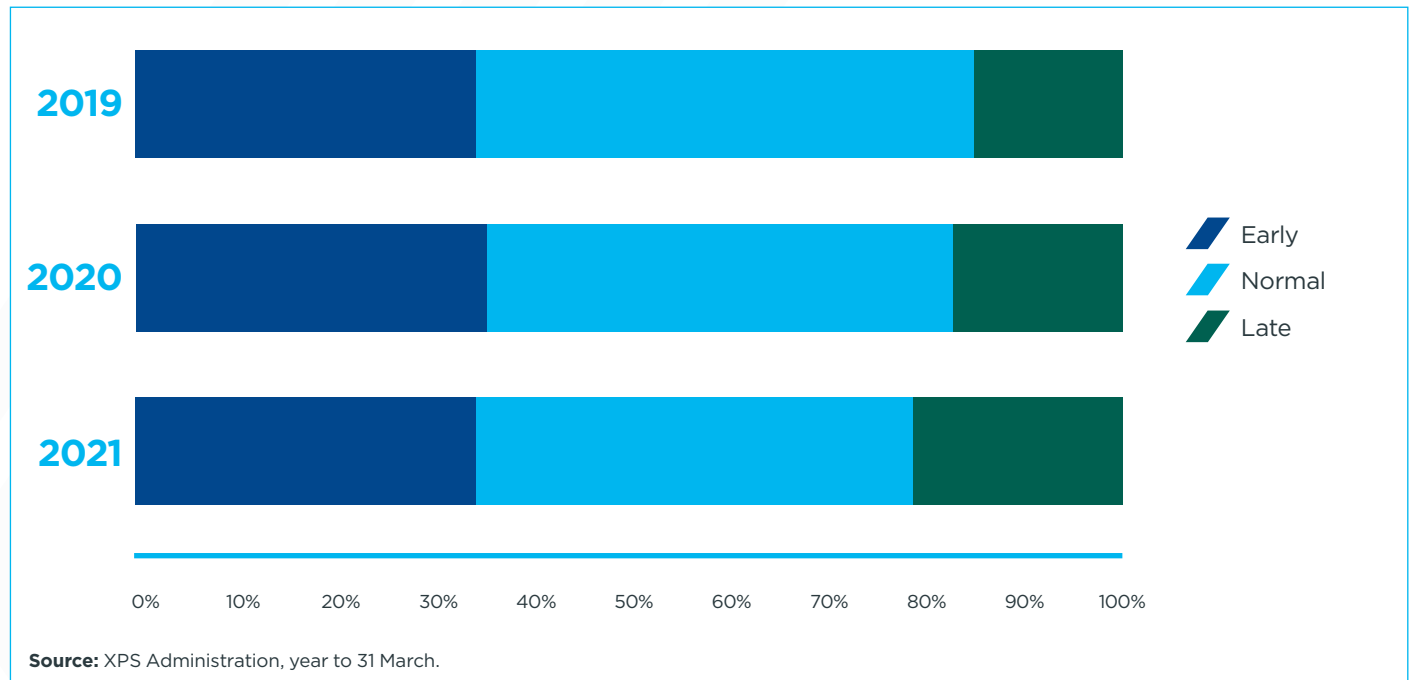
*Source: XPS Administration

» A changing regulatory landscape

Welcome regulatory clarity has been provided by the Financial Conduct Authority's (FCA's) recent guidance for financial advisers together with that for trustees and employers published in collaboration with The Pensions Regulator (TPR). These have given schemes the confidence they need to improve the support offered to members.

Members are retiring later

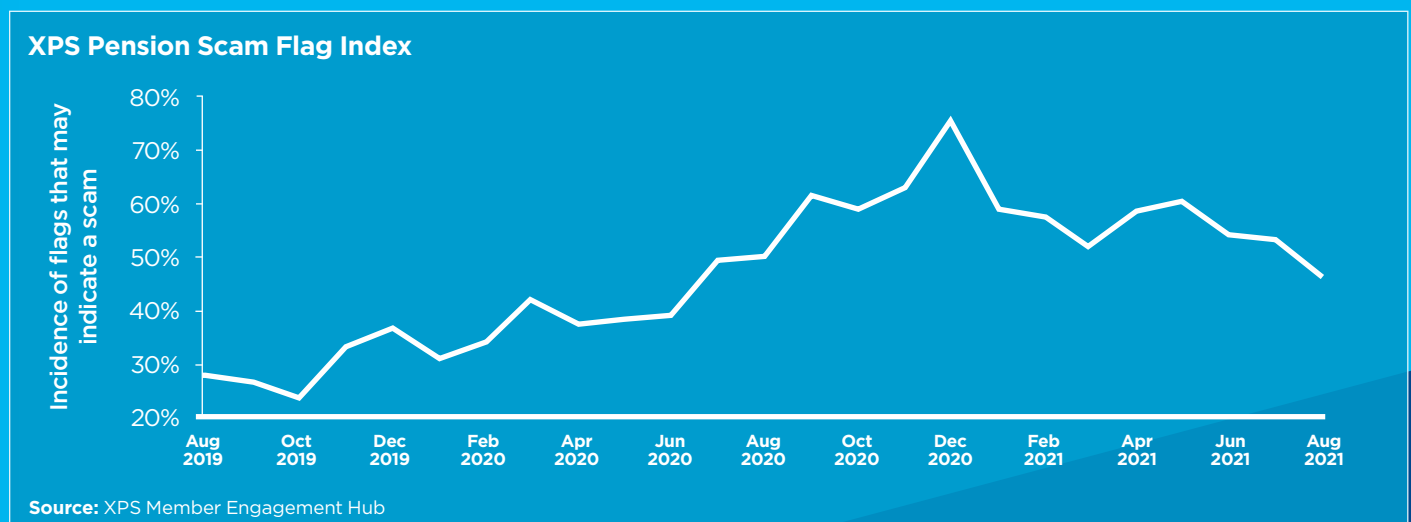
Recent years have also seen a general trend towards later member retirement, as shown in the chart below.



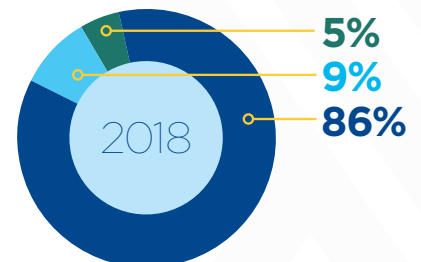
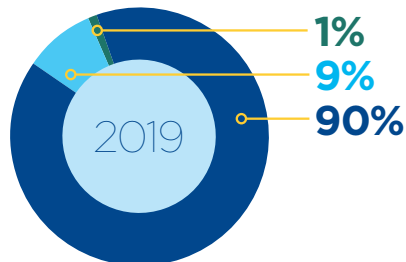
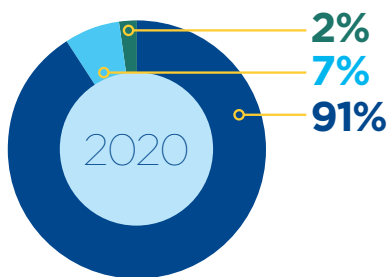
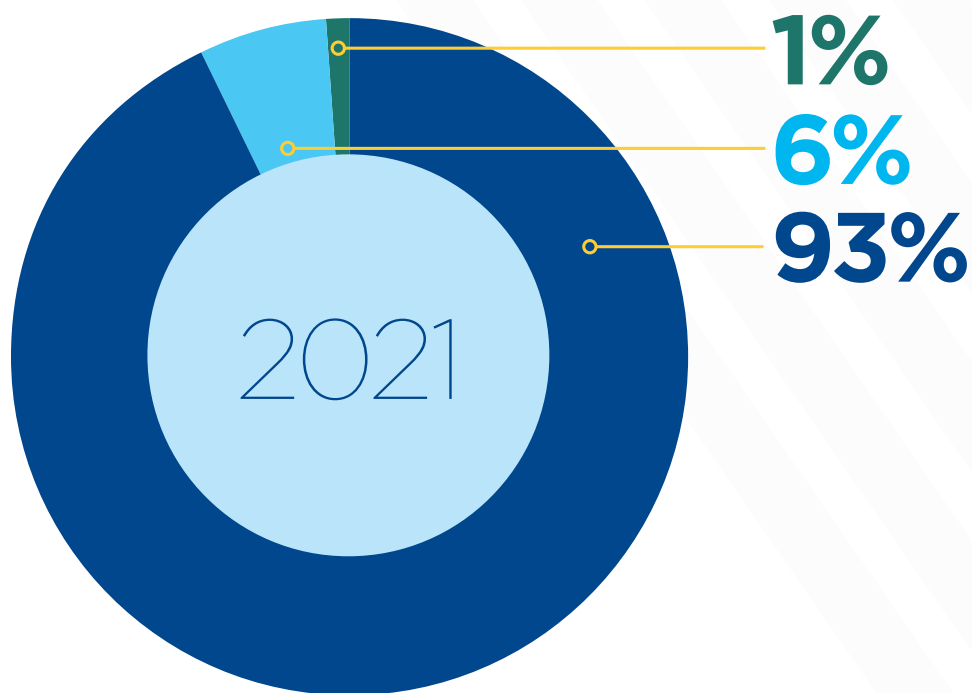
The risk of scams has increased significantly

There has been a rise in pension scam activity throughout the pandemic. 55% of cases reviewed by our **Scam Protection Service** showed at least one warning sign of either a potential scam, or poor member outcomes arising from a proposed transfer. These 'flags' are up from 31% in the year to 31 March 2020.

We welcome TPR's pledge to combat scams, together with the proposed new transfer value regulations. But analysis by our **Scam Protection Service** clearly shows that these initiatives alone will not solve the problem. It is crucial that trustees carry out robust transfer due diligence to protect their members from potentially life-changing outcomes.



Transfer destination



Platform SIPP Full SIPP Other

Source: XPS Pensions Group





SIPP products continue to dominate the market, though we are seeing fewer transfers to the more expensive 'full SIPP' options. We see a range of members transferring and their needs will be diverse. Considering this, we see relatively few transfers to workplace pensions (included in 'Other') which often offer lower charges, albeit with fewer features.

3 Our recommendations

Member outcomes have deteriorated since last year, with a typical transferee now paying average fees of 1.9% p.a, up from 1.7% p.a. in last year's survey.

Some members may be happy to pay higher fees in return for additional functionality. The FCA has obliged advisers to explain charges more clearly but, so far, this seems to have had a limited effect. XPS's **Scam Protection Service** speaks to members at the point of transfer and is still finding that many do not understand, or are not even aware of, the charges they will face.

XPS continues to work alongside trustees and employers to improve member outcomes via enhanced options, education and support. **Encouragingly, 50% of the schemes we work with have taken steps to improve outcomes across four key areas:**

Our recommendations 2020		Survey results 2021	2021 vs 2020
1 Ensure education and support is provided alongside transfer values		46% have access to enhanced member communications to improve understanding	▲23%
2 Highlight low-cost transfer options for appropriate scheme members		10% have access to a low-cost transfer option	▼9%
3 Offer partial transfers to avoid all or nothing decisions		15% will be able to transfer part of their defined benefit pension	Unchanged
4 Provide access to unbiased financial advice		24% have support from a financial adviser at retirement	▲11%

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



It's great to see so many schemes taking action to support members over the past year.

With interest in retirement options expected to rise in the near future, it's vital that trustees and employers continue to explore options to protect members and their pensions.

Paul Hamilton
Consultant

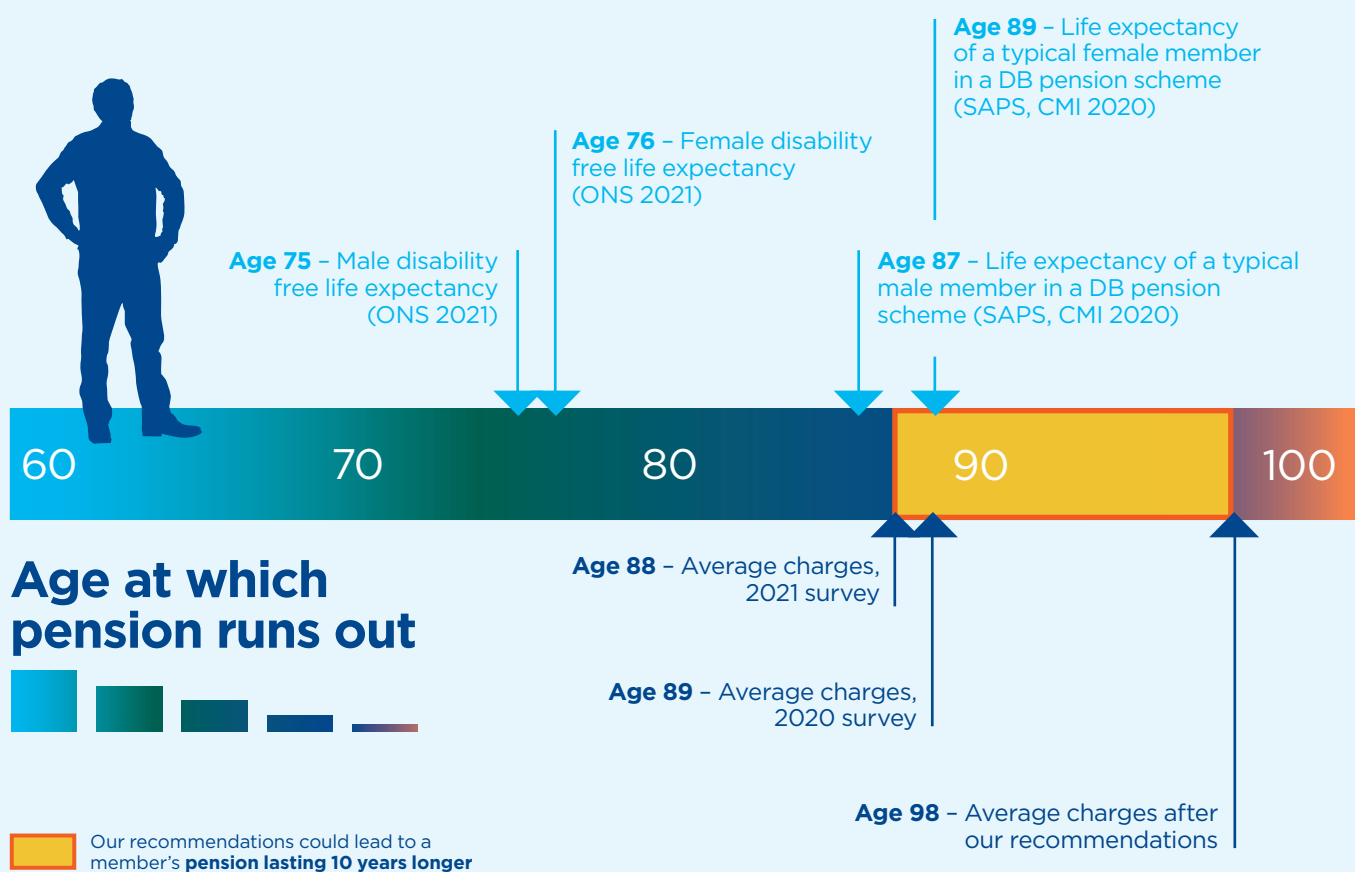


» How our recommendations would help a typical transferring member

Based on the average charges identified in this survey, a typical transferring member could draw around £14,000 p.a. from age 58, and expect their £375,000 pension pot to last around 30 years. Providing additional support could have a transformational impact on retirement outcomes.

For example, providing access to funded financial advice with a low-cost transfer option could either help a member's fund last a further 10 years (see below), or allow him or her to draw a 20% higher annual pension.

How long could the member's income last



With the typical transferee now paying almost 2% p.a. in charges, it's more important than ever to provide members with unbiased financial advice. This is crucial to ensuring they understanding the charges they'll face after transferring.

Ellen Chapman
Senior Consultant

4 Looking to the future

Although recent months have seen significant regulatory changes for pension transfers we continue to see too little diversity in how members make use of freedom and choice. This spells potentially poorer outcomes for those who do not need higher cost products.

In May 2021, the FCA and TPR published a guide for schemes looking to provide additional member support. This has provided greater clarity, advice and encouragement and we expect more trustees and employers to support members by implementing our four recommendations, for the reasons set out below.

1 Education and support for members



This is an area that has seen significant focus in the last twelve months, with many schemes doing more to support members.

The joint guide from the FCA and TPR makes it clear what can and can not be communicated to members and will enable employers and trustees to further enhance support.

2 Access to low-cost receiving vehicles



Our 2021 survey shows that members are increasingly transferring into vehicles which charge high fees. Providing members with a low-cost alternative is a key part in improving outcomes.

The guidance from the FCA reiterates that advisers should be considering such arrangements in their advice and so we expect the popularity of these to increase.

3 Offering members the option of a partial transfer



Partial transfers are expected to become increasingly common, particularly as schemes complete GMP equalisation, which has been a potential barrier to this option.

Advisers tell us that they are supportive of partial transfers and the recent FCA guidance makes it clear that consideration of partial transfers should form part of any advice process.

4 Access to unbiased financial advice



The introduction of the contingent charging ban in October 2020 resulted in a significant contraction of the financial advice market. As a result, members have found it difficult to find a reputable financial adviser to support them in considering their options.

The recent guide acknowledges the valuable role that trustees and employers can play in helping members access financial advice and so we expect this option to remain popular with pension schemes.

Members face harder choices

A number of factors are driving the increase in average charges. There is too little choice available in the pensions transfer advice market, a direct result of last year's ban on contingent charging which, as expected, left members with fewer options. Members may have less choice in the receiving vehicle for their transfer.

The cost of financial advice, which now has to be paid upfront, will also be putting some members off taking this valuable support. This will be particularly true for members with smaller transfer values.

Trustees and employers can play a vital role in improving member outcomes through the actions outlined above.

About this survey

We have been carrying out our research into member outcomes under freedom and choice for four years. In this time we have analysed 11,700 transfers processed by our administration team, worth over £3bn in total.

11,700

transfers analysed across four surveys into member outcomes under freedom and choice

£3bn

total transfer values analysed

4

our fourth annual survey of member outcomes

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 of more than 1,500 pension schemes and their sponsoring employers on both an ongoing and project basis. We undertake pensions administration for over 920,000 members and provide advisory services to schemes of all sizes, including 47 with over £1bn of assets each.

Authors

Mark Barlow

Head of Member Options

E: mark.barlow@xpsgroup.com

T: 0113 284 8001

Helen Cavanagh

Client Lead, Member Engagement Hub

E: helen.cavanagh@xpsgroup.com

T: 0113 487 4835

Ellen Chapman

Senior Consultant

E: ellen.chapman@xpsgroup.com

T: 01483 330 130

Paul Hamilton

Consultant

E: paul.hamilton@xpsgroup.com

T: 020 3764 2635



Contact us

xpsgroup.com

Belfast

T: 028 9032 8282

1st Floor – Flax House
83-91 Adelaide Street
Belfast
BT2 8FF

Edinburgh

T: 0131 370 2600

3rd Floor – West Wing
40 Torphichen Street
Edinburgh
EH3 8JB

Manchester

T: 0161 393 6860

10th Floor Chancery Place
50 Brown Street
Manchester
M2 2JG

Portsmouth

T: 023 94 31 11 66

One Port Way
Port Solent
Portsmouth
PO6 4TY

Birmingham

T: 0121 230 1900

1 Colmore Row
Birmingham
B3 2BJ

Guildford

T: 01483 330 100

Tempus Court
Onslow Street
Guildford
GU1 4SS

Middlesbrough

T: 01642 727331

Vancouver House
Gurney Street
Middlesbrough
TS1 1JL

Reading

T: 0118 918 5000

Phoenix House
1 Station Hill
Reading
RG1 1NB

Bristol

T: 0117 202 0400

33 – 35 Queen Square
Bristol
BS1 4LU

Leeds

T: 0113 244 0200

1 City Square
Leeds
LS1 2ES

Newcastle

T: 0191 341 0660

4th Floor – Wellbar Central
Gallowgate
Newcastle
NE1 4TD

Stirling

T: 01786 237 042

Scotia House
Castle Business Park
Stirling
FK9 4TZ

Chelmsford

T: 01245 673 500

Priory Place
New London Road
Chelmsford
CM2 0PP

London

T: 020 3967 3895

11 Strand
London
WC2N 5HR

Perth

T: 01738 503 400

Saltire House
3 Whitefriars Crescent
Perth
PH2 0PA

Wokingham

T: 0118 313 0700

Albion
Fishponds Road
Wokingham
RG41 2QE

Please direct all email enquiries to:

E: enquiries@xpsgroup.com

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