

# Member outcomes under freedom and choice

May 2019



**XPS** Pensions

# Overview

Freedom and choice continues to be popular with pension scheme members. In 2018 we launched our first survey of transfer activity which followed members leaving their occupational pension schemes. In this paper we have:

- 1. Updated our survey of transfers following a further 1,800 leavers.**
- 2. Investigated actions employers and trustees are implementing to improve member outcomes.**
- 3. Launched a new transfer activity index.**

Our latest survey shows that with so many leaving schemes there is still disappointingly little variety of destination for transfers. In the early days of the motor industry, Henry Ford famously stated you can have any colour that you want as long as it is black. And this seems to be the case with pension transfers. In 2018 we followed 6,000 transfers and 95% of members transferred to a Self-Invested Pension Plan (SIPP). We have updated our research for 2019 following 1,800 further transfers.

## This showed 99% of members moving to a SIPP.

Given the low average size of pension transferred (less than £10,000 a year) we remain concerned that many members may not need, or benefit from, the potential upside that higher cost SIPP offerings can provide.



It is encouraging to see trustees and employers taking action to support members in achieving better retirement outcomes.

**Wayne Segers**  
Principal



There have, however, been a number of positive developments since our survey:

### 1. Regulation

Regulators have made it a priority to focus on member outcomes, set out in the joint strategy of the Pensions Regulator and Financial Conduct Authority.

The Pensions Regulator is in the process of granting authorisation to DC master trusts. A healthy master trust sector will help provide lower cost options to members.

The emergence of pension dashboards, well implemented, can also help members obtain better information on their retirement options and inform better decision making.

### 2. Employer and trustee support

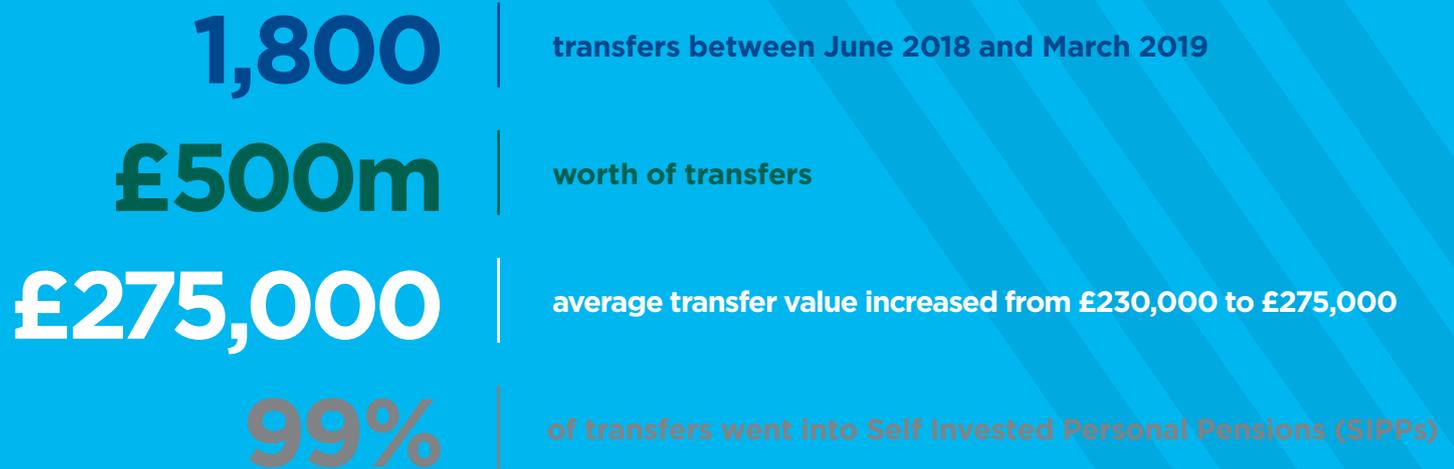
It is encouraging that more employers and trustees are also taking action. In 2018 we set out four key actions that can help improve member outcomes, and we are seeing a lot of activity in these areas. The two most popular are improving communication and education, and looking at providing partial transfer values to members – avoiding an all or nothing decision for members.

We will continue to focus on good member outcomes. Our new transfer activity index shows that up to 1.5% of members (of those who can) continue to opt to leave their pension scheme each year. Whilst this appears to be a small percentage, this represents a significant proportion of scheme liabilities. If replicated across all schemes 70,000\* members could be leaving DB pensions each year. As awareness grows, and a greater proportion of a member's retirement income is provided by DC rather than DB benefits, more members are engaging with their options. Providing good value options for members with proper support is an essential part of any scheme's journey to its long term objective.

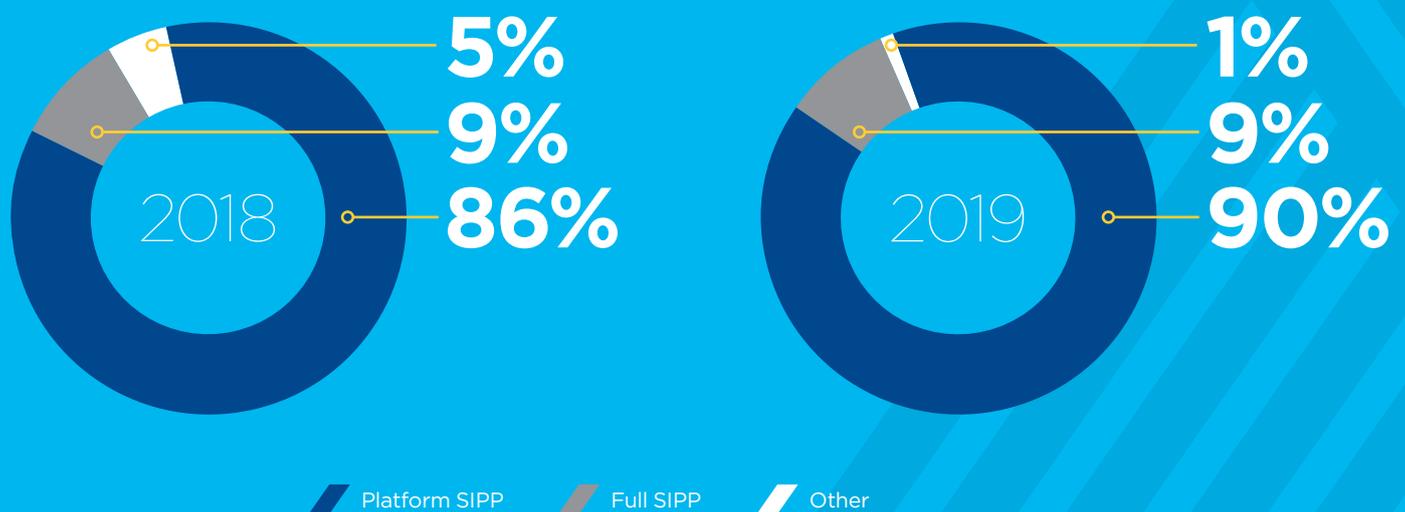
\* Source: The Purple Book 2018 membership statistics combined with XPS' analysis

# Helping members achieve good retirement outcomes – 2019 update

We have continued to monitor the transfers that we administer to understand how the market is changing. Over the period since our last survey, we have analysed 1,800 transfers and the charts below summarise our findings.



## Member outcomes analysis



The SIPP products continue to dominate the market. Within this, there has been a slight shift towards the simpler, cheaper SIPP products.

# Financial impact of member choices on future cash or income

As for 2018, we have modelled four examples of typical outcomes for members. As we have seen that 99% of transfers went into a form of Self Invested Personal Pension (SIPP) it is important to understand the financial impact this decision has on future cash or income.

These products typically give members access to a range of investment options and flexibilities, which members pay for through a variety of different charges.

There is a range of charges within the SIPP market, although they are, on the whole, typically more expensive

than alternative retirement products such as a master trust. Whilst more expensive products can provide good value and better outcomes for members they are suitable for, many members do not use the additional features that they are charged for the members. For these members, their choice of retirement product can have a significant impact on their retirement outcomes.

**The average transfer value has risen since last year to c£275,000, which has also meant there is even more at stake for members.**

## Adam



Transfers £275,000 on retirement at age 60, takes 25% as a tax-free lump sum and draws an annual income of £12,000 from his fund.



**The choice of drawdown product could result in Adam running out of money 7 years earlier (same as our 2018 survey).**

## Helen

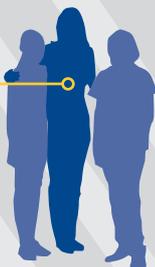


Transfers £275,000 at age 55 and leaves it invested until age 60 when she begins drawing a fixed level of income.



**The choice of drawdown product could result in Helen receiving £3,200 less in each year of retirement (£2,500 in our 2018 survey).**

## Sophie



Transfers £275,000 at age 55 to leave as an inheritance for her children.



**Her choice of product could result in Sophie leaving £400,000 less for her children (£340,000 in our 2018 survey).**

## Scott



Transfers £275,000 at age 60 and invests it until his retirement at age 75, at which point he purchases an annuity.



**Scott's choice of provider and product could have a huge impact on the level of annuity income he can receive at age 75, receiving up to £5,000 a year less (£4,000 a year in our 2018 survey).**

# Positive developments

In 2018 we set out four key actions employers and trustees could take to achieve better outcomes.

## Our Recommendations 2018

## Survey Results 2019

- 1** Ensure education and support is provided alongside transfer values.



# 40%

of our clients surveyed\* have implemented or are considering implementing a communications strategy.

- 2** Highlight low-cost transfer options for appropriate scheme members.



# 25%

of our clients surveyed are looking at introducing a low-cost receiving vehicle for members.

- 3** Consider offering partial transfers to help members avoid making all-or-nothing decisions on transferring their benefits.



# 30%

of our clients surveyed are actively investigating the partial transfer option.

- 4** Provide access to unbiased financial advice.



# 10%

of our clients surveyed now have an IFA in place at retirement, with a further 25% considering it.



More pension scheme trustees are investigating offering their members a partial transfer. Current availability of this option is minimal. If this changes it could make a real difference to member outcomes.

**Helen Ross**  
Senior Consultant



\* Survey of 270 XPS Pensions clients carried out in Q4 2018

# Looking forward

It is encouraging that trustees and employers are beginning to take steps to improve outcomes for members transferring from pension schemes. At the same time, regulators and industry bodies are prioritising member outcomes as a key issue.

## Education and support for members

It is crucial to provide education and support to members when they are making their retirement decisions.

The way pension schemes engage with their members is evolving to reflect the modern world. At XPS, we can use member profiling tools to help our clients to understand which communication channels and styles are most likely to resonate with members.

## Access to low-cost receiving vehicles

Those members not looking to use the additional features of expensive products should be made aware of low cost options.

The authorisation regime has now given us a set of clear standards for master trusts. We expect this to increase their use as a low-cost option for members transferring to access the pensions flexibilities.

## Access to unbiased advice

Members should ideally be provided with access to unbiased advice, preferably paid for by the scheme or employer.

We welcome the recent launch of the Pension Transfer Gold Standard by The Pensions Advice Taskforce. The principles set out in the standard will raise standards of pensions advice across the industry and ensure members understand what good pensions advice looks like.

## Offering members the option of a partial transfer

Every pension scheme should consider offering partial transfers values. Members should not be forced to make an all-or-nothing decision regarding their pension benefits.

The simplification opportunities presented by the equalisation of Guaranteed Minimum Pensions will make partial transfers easier for schemes to implement. We believe this option will be more commonplace in future.

## Regulatory developments

The FCA and the Pensions Regulator have recently launched a joint pensions strategy, setting out their approach to key issues in the retirement sector. The strategy statement notes 'a specific focus' on 'improving member/consumer outcomes from DB transfers'. This could mean additional regulatory requirements for trustees and employers of DB schemes in future.

The anticipated launch of a pensions dashboard may have an impact on transfer activity. If members are better able to keep track of their pension savings, they may be more likely to move their pension pots around to consolidate them.

## Protecting members from scams

The majority of XPS' pension scheme members are covered by our specialist anti-scam service which is reassuring. The recent ban on cold calling also provides comfort. However, scam activity is unfortunately prevalent and continues to evolve. As an industry it continues to be a challenge and a priority to protect members from scammers.



It is important that we build on the good progress made since last year and help members to make the best decisions for their circumstances.

**Mark Barlow**  
Senior Consultant



# Activity trends and value trends – 2019

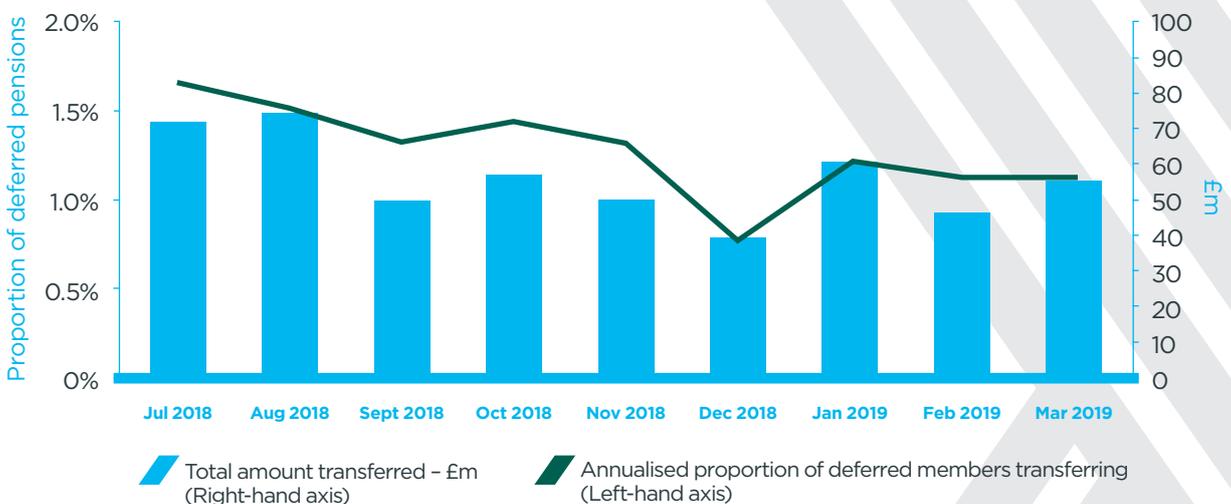
**NEW!**

## XPS Transfer Activity Index

Our transfer activity index looks at the proportion of deferred members leaving their scheme and the total amount of transfers each month out of schemes we administer. It gives an indication of how popular transfer options are.

We started measuring activity in July last year. This confirmed what wider ONS data was showing – that transfers remain popular with a significant minority of members. Towards the end of 2018 there was a marked slowdown in transfers, perhaps linked to schemes withholding transfer quotes while deciding how to deal with GMP Equalisation. Since then, activity has picked up again, likely as schemes got to grips with GMP and due to the rise in transfer values, over early 2019. Actual experience will vary by scheme.

## XPS Member Transfer Activity Index



## XPS Transfer Value Index

Individual transfer values have remained at record highs. Late March 2019 saw the highest value we have observed since starting the value index in 2016.

## XPS Transfer Value Index



The XPS Pensions Group Transfer Value Index tracks the transfer value that would be provided by an example DB scheme to a member aged 64 who is currently entitled to a pension of £10,000 each year starting at age 65 (increasing each year in line with inflation). Different schemes calculate transfer values in different ways. A given individual may therefore receive a transfer value from their scheme that is significantly different from that quoted by the XPS Pensions Group Transfer Value Index.

# About us

**XPS Pensions Group** is the largest pure pensions consultancy in the UK, specialising in actuarial, investment consulting and administration, with revenues of around £110 million. The XPS Pensions Group business combines expertise, insight and technology to address the needs of over 1,000 pension schemes and their sponsoring employers on an ongoing and project basis. We undertake pensions administration for over 870,000 members and provide advisory services to schemes of all sizes including 25 with over £1bn of assets.



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