Making DB transfers simpler, smoother, swifter


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Post pensions freedoms instances of individual and bulk DB pensions transfers have been rising but transfer times are under FCA scrutiny. The right technology can help improve the outcome for consumers, schemes and TPAs.

Since the introduction of the pensions freedoms, demand to transfer out of defined benefit (DB) schemes to defined contribution (DC) pensions has escalated.

There are two main drivers of this: the ability provided by the new legislation for someone aged 55 or above to access the cash from their DC pension and use it as they will, and also the ability to pass on wealth through the pension to beneficiaries free of tax, where the pension holder dies before 75, and at the beneficiaries' nominal rate of income tax after that age.

It is easy to see why this is appealing compared to what could seem more restrictive DB pension arrangements. Hence, financial planning and in particular, inheritance tax mitigation, are now major drivers to move money out of the DB environment.

Furthermore, events like the BHS pension scheme collapse and the imbalance between liabilities and assets reported on DB schemes will have raised concerns with many people, who may want to take their money out and put it into a DC scheme, where they can have more control.

Post the EU Referendum and the Bank of England's decision to cut the interest rate again, from 0.5% to 0.25%, gilt yields have fallen, increasing transfer values which is also making the movement from DB to DC more appealing.

So, it is not surprising to learn that recent research among financial advisers found that 75% report a rise in client requests for DB pension transfers, with 40% reporting significant demand.

But the demand is not limited to personal pension holders.

Post-pension freedoms, there has also been a noted rise in the number of trustees looking to secure the best outcome for scheme members, resulting in the need for bulk DB transfers. These are in addition to the incentivised bulk transfers, being instigated by employers.

This trend is likely to continue as people seek the greater control and flexibility available to them in respect of their retirement funds.

The problem for all concerned is that due to the complexities of this kind of transfer, the process to move the money can be intensely time consuming for end consumers, advisers, pension schemes and third party administrators (TPAs) alike.

As well as this, the Financial Conduct Authority (FCA) has turned its spotlight on the issue of slow transfer times and the lack of transfer automation by the trust-based occupational sector, establishing an Industry Working Group to help drive forward best practice in this area.

Advice

The need for individuals or trustees to have sought professional advice to ensure the action being taken is right for them or the scheme members is vital. But this can be very time intensive, with regulated financial advice taken up to an estimated 20 hours or more to complete.

Then, if having taken advice the decision is to move forward with the transfer, then the scheme actuary needs to be involved to calculate a final transfer value. For many schemes this would then lead to a paper process to carry out the transfer.

Technology

It is here where technology can be brought in to create greater efficiencies in the process, making it faster for the end consumer and also more cost effective for the ceding and receiving schemes.

Using an automated transfers system can make all the difference – enabling the execution of the transfer instruction and payment so that it can be automated, tracked and captured for auditing. Add to this the removal of paperwork and the process is significantly smoother and faster, improving the overall experience for the end consumer.

The changing landscape and shifting consumer expectation that we're now seeing doesn't marry all that well with existing manual processes. Automation is the only real way to ensure that timescales are met, data is tracked and controlled and security levels are consistently adhered to.

This applies to individual as well as bulk scheme transfers using automated transfers services.

By necessity, the DB pension transfer advice process will take time, but where the process can be accelerated it makes sense to do so - improving the outcome for all involved – especially members.

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