

Working Paper

Processes and costs of transferring a pension scheme: Qualitative research with pension providers and third-party administrators

by Andrew Wood, Peggy Young, Naomi Crowther and Annalise Toberman

Department for Work and Pensions

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Any errors in the report remain the responsibility of the four authors.

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Abbreviations

| | |
|-------|---|
| ABI | Association of British Insurers |
| BACS | Banks Automated Clearing System |
| CHAPS | Clearing House Automated Payment System |
| DB | Defined benefit |
| DC | Defined contribution |
| DWP | Department for Work and Pensions |
| FSA | Financial Services Authority |
| GMP | Guaranteed minimum pension |
| GPP | Group personal pension |
| GSHP | Group stakeholder pension |
| HMRC | HM Revenue and Customs |
| IFA | Independent Financial Adviser |
| NEST | National Employment Savings Trust |
| NI | National Insurance |
| PSTR | Pension Scheme Tax Reference |
| SERPS | State Earnings Related Pension Scheme |
| SIPP | Self-invested personal pension |
| TPA | Third-party administrator |
| TPR | The Pensions Regulator |

Glossary of terms

| | |
|--------------------------------------|---|
| Automatic enrolment | Pension scheme enrolment technique whereby an employer automatically enrolls eligible jobholders in the workplace pension scheme without the employees having to make a separate application for membership. Employees are able to opt out of the scheme if they prefer. |
| Ceding provider | In the context of this study, the ceding provider is a pension scheme member's existing provider , from whom the member wishes to transfer their pension pot. |
| Contract-based pension | A defined contribution pension scheme purchased by an individual, either through their employer or individually, from a pension provider. It is owned entirely by the individual with the contract existing between the individual and the pension provider. |
| Defined benefit scheme | An occupational pension scheme that provides benefits based on a formula involving how much a person is paid at retirement (or how much a person has been paid on average during their membership of the scheme) and the length of time they have been in the pension scheme. |
| Defined contribution scheme | A pension scheme that provides pension scheme benefits based on the contributions invested, the returns received on that investment (minus any charges incurred) and the rate at which the final pension fund is annuitised. |
| Group personal pension | An arrangement made for the employees of a particular employer, or for a group of self-employed individuals, to participate in a personal pension scheme on a grouped basis. |
| Group self-invested personal pension | An arrangement made for the employees of a particular employer, or for a group of self-employed individuals, to participate in a self-invested personal pension scheme on a grouped basis. |
| Group stakeholder pension | A personal pension that must meet certain legislative conditions including annual management charges of no more than 1.5 per cent. Employers with five or more employees who do not already offer a pension scheme must currently offer a group stakeholder pension scheme. These employers do not have to contribute to a group stakeholder pension but they must allow employees access to the scheme. GSHPs will cease to be mandatory after the workplace pension reforms are introduced. |
| Guaranteed minimum pension | The minimum pension that a pension scheme has to provide for members that contracted out of the State Earnings-Related Pension Scheme between 1978 and 1997. |

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| Independent Financial Adviser | An adviser, or firm of advisers, that is in a position to review all the available products and companies in the market as the basis for recommendations to clients. All IFAs are regulated directly by the Financial Services Authority. |
| Member | A person who has joined a pension scheme and who is entitled to benefits under it. |
| National Employment Savings Trust (NEST) | An occupational pension scheme, formerly known as Personal Accounts, established by legislation. NEST will be aimed at eligible jobholders on moderate to low incomes, who do not have access to a good-quality workplace pension . |
| Occupational pension | See trust-based pension . |
| Options | A pension-to-pension and pension-to-annuity transfer platform used by many UK pension providers . It was designed by the pensions industry in 2008 with the primary aim of reducing the average time taken to transfer a pension pot, as experienced by the customer. |
| Pension Scheme Tax Reference | A unique reference allocated by HM Revenue and Customs to a registered pension scheme. |
| Personal pension | See contract-based pension . |
| Provider | An organisation, usually a bank, life assurance company or building society, that sets up and administers a pension scheme on behalf of an individual or trust. |
| Receiving provider | In the context of this study, the receiving provider is a provider to whom a pension scheme member wishes to transfer their pension pot. |
| Self-invested personal pension | A personal pension scheme under which the member has some freedom to control investments. The requirements governing Self Invested Personal Pensions are set out in the Personal Pension Schemes (Restriction on Discretion to Approve) (Permitted Investments) Regulations 2001. |
| State Earnings Related Pension Scheme | An element of the state pension to which employees and employers could contribute between 1978 and 2002. |
| Third-party administrator | An external organisation that is responsible for the day-to-day administration around processing pension scheme transfers, on behalf of a provider . |
| Trust-based pension | A pension scheme taking the form of a trust arrangement, which means that a board of trustees is set up to govern the scheme. Benefits can be either defined contribution or defined benefit . |

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| Trustee | An individual or company appointed to govern a trust-based scheme, in accordance with the provisions of the trust instrument, the legal document that sets up, governs or amends the scheme, and general provisions of trust law, for the benefit of scheme members . |
| Workplace pension | Any pension scheme provided as part of an arrangement made for the employees of a particular employer. |
| Workplace pension reforms | The reforms introduced as part of the Pensions Act 2008 and updated as part of the Pensions Bill 2011: the measures include a duty on employers to automatically enrol all eligible jobholders into qualifying workplace pension provision from 2012 to improve pension saving for those who participate. Defined benefit and some hybrid schemes must meet a test of overall scheme quality; and defined contribution schemes and some hybrid schemes require a minimum contribution equivalent to eight per cent of qualifying earnings. |

Summary

This report provides the findings of a study commissioned by the Department for Work and Pensions (DWP), designed to explore the processes and costs involved with the transfer of pension pots between providers of defined contribution (DC) pension schemes.

Background

As part of DWP's ongoing workplace pension reform research programme, the purpose of this study was to better understand the processes and costs involved in transferring an individual's DC pension pot from one pension provider to another. This research builds on previous research into regulatory differences between trust and contract-based pension schemes as well as wider research into scheme charges and costs that DWP is currently undertaking.

Scope of the research

The study was qualitative in nature, and consisted of in-depth, face-to-face interviews with 15 UK pension providers. This included most of the Top 10 pension providers, representing over 75 per cent of the market, as well as a number of providers that fell just outside the Top 10.¹ Where relevant we spoke to the provider's third-party administrators (TPAs). We also spoke to representatives of Options, a pension-to-pension and pension-to-annuity transfer platform used by many UK pension providers.

Key findings

The Options platform

The providers interviewed typically used the Options platform to process the majority of pensions transfers. Between 60 to 80 per cent of the transfers they performed were processed via this method. Only a few providers did not currently use Options, some believing the potential efficiency gains did not justify the cost, although others were open to considering it in future.

Options was designed by the pensions industry in 2008 with the primary aim of reducing the average time taken to transfer a pension pot, as experienced by the customer. Options unifies and standardises the transfer processes used by subscribing providers, creating a web-based method of communication between providers and a common set of information requirements.

Before Options, some providers reported typical transfer times of up to 50 calendar days. In the third quarter of 2011, the average transfer time was 8.7 calendar days, representing a significant reduction in the time taken to process a transfer.²

¹ Based on Association of British Insurers (ABI) data, *Top 10 UK insurance companies by funds held in insurer-administered pension schemes, 2010*. See the ABI's Data Bulletin Funds held in Life and Pension products in 2010, published September 2011: http://www.abi.org.uk/Facts_and_Figures/58288.pdf

² Quarterly provider performance figures can be found at: <http://www.origoservices.com/options/performancefigures>

The transfer process via Options

There are three stages to the transfer process via Options:

Stage 1: The transfer process tends to begin when an individual or their Independent Financial Adviser (IFA) approaches the receiving provider (i.e. the provider receiving the pension pot) requesting to switch their existing pension pot(s) to them.

The main piece of documentation that needed to be filled out by members was the 'discharge form'. This contains information the receiving provider needs in order to pass on the transfer instruction to the ceding provider via Options. All providers also required the member to complete an HM Revenue and Customs (HMRC) Lifetime Allowance Declaration.

Stage 2: The receiving provider would then enter this valid transfer request into Options, which would then begin the process of communication between the receiving and ceding providers. At this point both providers must conduct a series of checks to ensure that the requested transfer can be processed. These include:

- checking that the pension type is supported by the receiving provider;
- checking to ensure that the ceding and receiving schemes are HMRC-registered. It is illegal to transfer a pension to or from anything other than an HMRC-registered pension scheme;
- anti-money laundering checks.

Stage 3: The final stage of the transfer process is the transfer of the funds themselves from the ceding to the receiving pension provider.

When executed via Options, this was typically said to be a straightforward process, because provider account details are held on the platform, along with contact details of the transfer team members. The Options system requires that these are kept up-to-date at all times, and all payments are tagged to ensure that funds cannot go astray.

Most providers used the Banks Automated Clearing System (BACS) or the Clearing House Automated Payment System (CHAPS) to raise a bank transfer automatically. A minority of providers used a slower paper-based process, involving the printing, production and mailing of a cheque.

Factors that could affect the transfer process

There is a range of different factors that can affect the speed and ultimate outcome of the transfer process, and many providers reported that most of the time spent by their transfer team was spent on processing the more complex transfers. The main factors were as follows:

- Many agreed that the involvement, or not, of an IFA had an impact on the process. Most providers agreed that the presence of an IFA meant that the discharge form was more likely to be completed correctly the first time, and less likely to be terminated mid-way through.
- The process of checking whether a provider could accept a scheme was straightforward under Options, because the key features of all the providers' schemes on Options were visible immediately to the receiving provider. Conversely, where schemes were not on Options, some receiving providers reported that there was sometimes a risk of discovering too late that the pension was not one they could accept. As a result, providers occasionally had to transfer funds back to the member.

- It was not necessary to check whether a scheme on Options was HMRC-registered, because all schemes on the platform are automatically HMRC-registered. Where transfers were not processed via Options, however, different providers tended to require different information in order to prove that a scheme was registered, sometimes resulting in delays.
- When the actual transfer of funds takes place via the Options platform, payments are tagged and traced ensuring that none go astray and that there is no confusion about the source and destination of any payment. Typically, non-Options systems were said to be slower and more error-prone because of the high degree of manual input needed.

The complexity of occupational pension scheme transfers

Most providers agreed that occupational scheme transfers could often take far longer to process, and could often not be processed via Options, for three main reasons:

- Before the money can be released from an occupational scheme, the ceding provider must obtain the assent of the scheme's trustees. This could take a considerable amount of effort and delay the transfer process.
- Some occupational pension scheme rules – particularly in older schemes – could make a transfer more complex or even prevent a provider from accepting a transfer.
- Several pension providers pointed out that occupational pension schemes were often stored on computer systems that are 'archaic'. As a result, more steps must be completed manually to access the required data.

The time and cost of pension transfers

Providers typically estimated that the average time spent by a ceding provider on a straightforward group personal pension (GPP) to GPP transfer via Options was approximately one hour and 45 minutes. The average time spent by a receiving provider on a straightforward GPP to GPP transfer was slightly longer, at just under two hours.

While the majority (60 to 80 per cent) of transfers took this amount of time, a significant proportion of the time spent by the transfer team was focused upon the more complicated transfers, which could take far longer than the time outlined above.

No provider that we interviewed had ever attempted to measure the cost of making a pension transfer. In most cases, providers claimed that this was in part because it varied so much depending on the complexity of the transfer; but also because it was generally viewed as a relatively low cost, and an inherent part of their service.

Based on the cost of internal time and other related costs, around half of the providers were able to provide an estimate of the minimum cost of a straightforward GPP to GPP transfer. Among the nine providers that could give a breakdown, the average marginal cost to a ceding provider of a straightforward GPP to GPP transfer was just under £50. The average marginal cost to a receiving provider of an equivalent transfer was around £55. The average marginal cost of a straightforward transfer end-to-end is, therefore, about £105.

However, all providers stressed that the figures they gave us were the minimum possible, for the most straightforward transfers, and only represented a fraction of the providers' actual transfer costs.

1 Introduction

This report provides the findings of a study commissioned by the DWP, designed to explore the processes and costs involved with the transfer of pension pots between providers of DC pension schemes.

This introductory chapter outlines the context and objectives of the research, as well as the methodology we used to achieve these objectives.

1.1 Background

As part of DWP's ongoing workplace pension reform research programme, the purpose of this study is to better understand the processes and costs involved in transferring an individual's DC pension pot from one pension provider to another. Prior to this research, little information was publically available on the costs and processes involved with pension transfers; therefore, DWP commissioned this study to shed light on the charges and systems used by pension providers.

This research builds on previous research into regulatory differences between trust and contract-based pension schemes³ as well as wider research into scheme charges and costs.

1.2 Research objectives

The objectives of this research were to understand the process of transferring a pension pot from the providers' point of view, as well as the costs involved in the process. Particular aspects of the process on which we sought to gain information included:

- the process of interaction between the member and providers;
- the information requirements at each stage of the process;
- the process of communication between the 'ceding' provider (the existing provider, from whom the member wishes to transfer their pension pot) and the 'receiving' provider;
- the factors that may impact upon the process and therefore the time taken to complete a transfer;
- the different systems used by different providers;
- the level of cost that transfers entail;
- anything the government or others could do to reduce the duration and therefore cost of transfers.

1.3 Project methodology

The study was qualitative in nature, and consisted of in-depth, face-to-face interviews with 15 UK pension providers. This included most of the Top 10 pension providers, representing over 75 per cent

³ Wood, A., Young, P. and Wintersgill, D. (2011). *The use of vesting rules and default options in occupational pension schemes*. DWP Research Report No. 725.

of the market, as well as a number of providers that fell just outside the Top 10.⁴ Where relevant we spoke to the provider's TPAs. We also spoke to representatives of Options, a pension-to-pension and pension-to-annuity transfer platform used by many UK pension providers.

1.3.1 Recruiting providers

The provider sample frame was constructed using information from a variety of sources.⁵ The study covered providers offering occupational DC schemes, group stakeholder pensions (GSHPs), GPPs and group self-invested personal pensions (SIPPs), as well as leading members of the Options Steering Group, who meet with a view to further developing the Options platform (see Section 2.1 for further details).

Where providers were willing and able to commit to a face-to-face interview, the recruitment team sent them an introductory letter from DWP explaining the aims of the research and a summary of the topics that would be discussed.⁶ Also, to understand costs to a provider of processing a transfer, we sent providers a cost template document in advance, asking for cost estimates of a typical straightforward GPP to GPP transfer.

All participants were assured that the information discussed in the interview would remain confidential to the RS Consulting research team and would only be reported in aggregate form; it would not be attributed to specific individuals or organisations, either in presentations to DWP or in this final report.

1.3.2 Fieldwork

Interviews were conducted over a three-week period in October and November 2011 by the RS Consulting research team. Most of these were face-to-face rather than via telephone, typically lasting 60-90 minutes, although in some cases, follow-up interviews also took place via telephone.

We asked for the individuals with the most relevant knowledge on the subject of transfer processes and costs to be present at the interview. As a result, most interviews were conducted with two to three respondents within the provider's organisation. Some also involved TPAs responsible for processing the transfers themselves for the providers, if they outsourced this function.

Listed below are examples of the job titles of individuals we interviewed.

Examples of respondent job titles

- Head of Transfer Compliance.
- Head of Pensions Policy.
- Policy Development Manager.
- Head of Customer Services.
- Proposition Manager.
- Administration Team Manager.

⁴ Based on ABI data. *Top 10 UK insurance companies by funds held in insurer-administered pension schemes, 2010*. See the ABI's Data Bulletin Funds held in Life and Pension products in 2010, published September 2011: http://www.abi.org.uk/Facts_and_Figures/58288.pdf

⁵ Sources included the ABI, Presswatch and listings of leading providers from published research reports.

⁶ The recruitment scripts and the letter sent to participants in advance can be found in the Appendix of this report.

- Head of Transfers Team.
- Strategic Insight Manager.
- Head of DC Propositions.
- Public Affairs Manager.
- Managing Director.
- Head of Regulatory Strategy.

1.3.3 Analysis and reporting

Digital audio recordings were made of all of the individual depth interviews for analysis purposes, with the explicit permission of all of the participants. No participants declined permission. We used each recording to transcribe the interviews. The recordings were destroyed at the end of the project.

The team analysed the results of the individual depth interviews at an individual respondent level to produce an internal summary document identifying key emerging themes and provisional findings. In addition, a custom-made spreadsheet was produced to collate and analyse the data on transfer costs recorded. This allowed us to calculate the average cost of a transfer out and a transfer in, as well as to assess the extent to which costs varied by provider.

2 The stages of the transfer process

This chapter of the report outlines the stages of the process involved when a pension provider transfers a customer's pension pot to another provider.

The providers interviewed typically used the Options platform to transfer pension pots. Section 2.1 describes what Options is, the functions it is intended to perform, and the reasons why it was designed. Sections 2.2 to 2.4 describe the different stages of the process of transferring a pension pot via Options, assuming that the process is straightforward and no major issues arise.

This chapter also briefly considers the processes involved in a bulk transfer of multiple pension pots from one provider to another, where providers had a specific system in place for this.

2.1 The Options platform

'Options from Origo' is a service that was designed by the pensions industry in 2008. It was initially designed to benefit members that were converting their pension pot into an annuity at retirement, and who chose to take their annuity from a different provider from the one they had built up their pension pot with. Its aim was to reduce the average time taken to transfer a pension pot from a pension provider to a different annuity provider, primarily to improve the customer experience. It was quickly extended from such 'pension to annuity' transfers to also cover 'pension to pension' transfers, since the processes involved were identical.

Options unifies and standardises the transfer processes used by subscribing providers, creating a web-based method of communication between providers and one common set of information requirements.

'What Options does is it creates standardisation between providers. Prior to that, we all had our own paperwork and this effectively created common paperwork and it created an electronic system.'

At the time of fieldwork 25 providers, including almost all those we interviewed, subscribe to Options for some or all of their pension types; this covered the vast majority of the providers in the market. Those we interviewed typically estimated that 60 to 80 per cent of the transfers they performed were processed through the platform.⁷

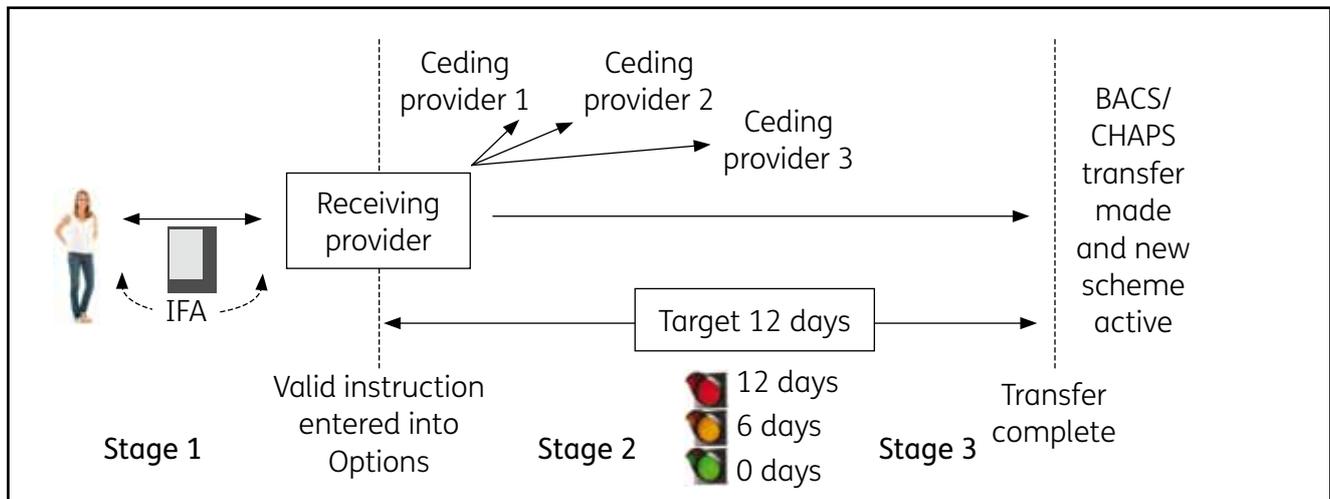
Several providers meet on a regular basis as part of the Options Steering Group, with a view to further improving the processes involved and increasing the percentage of transfers that can be processed via Options.

Even so, some providers do not use Options at all, however, and many cannot use it for transfers between all of their pension products: reasons why Options cannot be used for all transfers are explored in Chapter 3. This chapter focuses on those transfers that can be processed via Options.

⁷ Details of the Options service, as well as participating providers, can be found on the Options from Origo website: see <http://www.origoservices.com/options>

Figure 2.1 illustrates how a typical transfer processed through Options works.

Figure 2.1 A typical pension-to-pension transfer under Options



Options can be used even where a member is consolidating pension pots from more than one provider into one single pot. In the example given in Figure 2.1, the member is transferring pension pots from three separate ceding providers across to a pension provided by a single receiving provider.

Our discussions with providers showed that the process can usefully be split into three separate stages:

- Stage 1: the individual member or their IFA approaches the receiving provider to notify them of their intention to transfer their pension pot to them, and completes the necessary documentation (see Section 2.2 for more details).
- Stage 2: the receiving and ceding providers communicate with one another, to ensure that the transfer can go ahead, and to ensure that all the necessary information to process the transfer is exchanged (see Section 2.3).
- Stage 3: the actual transfer of the pension pot from the ceding provider to the receiving provider takes place (see Section 2.4).

Options sets the target time for a transfer as 12 calendar days. On the system, a traffic light-based warning system flags the elapsed time on all transfers: the elapsed transfer time is measured from the moment that a valid instruction is entered into Options by the receiving provider, to the moment that the receiving provider confirms they have received the money and successfully activated their new customer's account. In the third quarter of 2011, the average transfer time was 8.7 calendar days.⁸ Before Options, some providers reported typical transfer times of up to 50 calendar days, measured on the same basis.

The department(s) in charge of transfers on the provider's side varied a great deal between providers. Dedicated transfer teams appeared to be most common among the larger providers, which processed a relatively high volume of transfers. Often, smaller providers did not have a dedicated transfer team, and so transfers comprised only part of the role of service staff within a customer service department or a technical department.

⁸ Quarterly provider performance figures can be found at: <http://www.origoservices.com/options/performancefigures>

2.2 Stage 1: member approaches the receiving provider

Providers told us that the transfer process tends to begin when an individual or their IFA approaches the receiving provider, requesting to switch their existing pension pot(s) to them.

2.2.1 The use of IFAs by members

In principle, a member's request to transfer a pension pot can come from either the member or their IFA. Providers typically recommended that members should take advice before deciding to transfer their pension pot(s); they considered it part of their service to ensure that the customer was acting on appropriate advice, before accepting a transfer. A minority of providers in fact insisted that all new business was intermediated by an IFA, and so direct 'execution only' transfer requests from members were not permitted.

In most cases, however, providers did accept non-advised transfers, with the proviso that the customer reads the providers' information explaining covering the risks that their product entails and signs a declaration that they understand the product they are purchasing. This documentation tended to include information on charges; penalties that could be incurred; risks associated with investing in the financial market; and protected rights (if transferring from certain occupational pension schemes). Some providers additionally made a point of discussing the implications of transfers with non-advised individuals over the phone.

'If they insist that they don't want to take advice, then we'd ask them some questions if they are on the phone to ascertain as to whether it's anything where we really feel they need to take advice, and we would encourage them to do so.'

A minority of providers had their own internal advisers or a tied sales force, available to guide current or prospective members on transfer decisions. In such cases, a customer wishing to transfer their pension pot needed to approach the provider's advisory team or sales force before being allowed to make a request to transfer.

2.2.2 Information requirements from the member

The creation of a common set of information requirements from members was one of the key reasons why Options was said to have reduced the amount of time typically required to process a transfer. The main piece of documentation that needed to be filled out by members was the 'discharge form'. This contains information the receiving provider needs in order to pass on the transfer instruction to the ceding provider via Options.

Options standardised the format of the discharge form. Although there is still some variation between providers, it typically requires the following:

- the member's name and address;
- date of birth;
- National Insurance (NI) number;
- details of their existing scheme, such as the provider name, scheme type and member number;
- details of any protected rights (i.e. pensions that include an element of Guaranteed Minimum Pension (GMP), if members had contracted out of the State Earnings Related Pension Scheme (SERPS) before April 2002);
- details of the scheme that they wish to transfer to;

- a declaration that the member authorises the receiving provider to communicate with the ceding provider;
- a signature with date.

In most cases, the provider expected the member to provide an original (or ‘wet’) signature, which was necessary according to their own interpretation of contract law. Consequently, applications could not typically be completed online by the customer. Once the member and/or their IFA had completed the discharge form, they were expected to return it to the receiving provider for processing.

Some providers suggested that it was also possible for the member to communicate with the ceding provider first (i.e. by contacting them and requesting to leave, rather than contacting the receiving provider with a request to switch to them), by completing the discharge forms that they would subsequently forward on to the receiving provider.

All providers required the member to complete an HMRC Lifetime Allowance Declaration.⁹ The providers that were subscribed to Options had a standardised format of declaration.

Finally, providers sometimes, but not always, required some form of proof of identification, such as a photocopy of a birth and/or marriage certificate, to be supplied before the transfer could take place.

A number of providers suggested that this first stage could be the most time-consuming – and therefore, most costly – component of the transfer process.¹⁰ This was primarily because members often made errors, even though the form was said to be as straightforward as possible. This could lead to delays, not least because correspondence often had to take place via post.

‘We need to make sure that the member understands that they need to be doing the right thing for themselves. We do spend a lot of time on it.’

2.3 Stage 2: communication between receiving and ceding providers

Once the member had correctly provided all the information required of them and sent this to the receiving provider, the receiving provider could then enter this valid request to transfer into Options, which would then begin the process of communication between the receiving and ceding providers. As Figure 2.1 illustrated, from this point the transfer is treated as a live case on Options, and so the transfer time begins to be measured.

At this point both providers were required to conduct a series of checks to ensure that the requested transfer can be processed. These include:

- checking that the pension type is supported by the receiving provider;
- checking to ensure that the ceding and receiving schemes are HMRC-registered;
- anti-money laundering checks.

⁹ Legislation introduced in April 2006 limited the total tax-relieved benefits an individual can receive from registered pension schemes. This limit is called the lifetime allowance.

¹⁰ This was particularly said to be the case where the member was non-advised, as Section 2.2.1 describes.

2.3.1 Checking that the pension type is supported by the receiving provider

Providers are not required to accept any particular pension to pension transfer. Indeed, as Section 2.2.1 described, many providers do not accept transfers unless through an IFA. In addition, some providers do not deal with transfers from certain pensions with particular features, such as those with protected rights, or those with special pension sharing arrangements as a result of divorce.

Consequently, providers typically told us that at this stage in the process, the receiving provider would typically check whether they are able to accept the type of pension being transferred. According to most providers, the most commonly 'unsupported' pension types tended to be those with protected rights. This was reportedly a very straightforward check to perform via the Options platform, because it makes such scheme details automatically visible.

If the ceding provider does not subscribe to Options, the check would need to be performed manually, a slower and more time-consuming process with inherent risks involved; this is explored in Section 3.2.1.

2.3.2 Checking to ensure that ceding and receiving schemes are HMRC-registered

Before accepting a transfer, providers told us that the receiving provider must always ensure the ceding scheme is HMRC-registered; similarly the ceding provider must perform the same check on the scheme that they are transferring the pension to. The reason for this was, according to most providers, straightforward: it is illegal to transfer a pension to or from anything other than another HMRC-registered pension scheme.

One particular reason why these checks were said to be so important was that there must be no risk of the money being sent to or from a 'trust-busting' scheme (i.e. a fake scheme, usually illegal and often offshore, that may be set up in the name of a fictitious employer or pension provider, whose purpose is to give immediate access to the cash in the pension pot).

'I think there is risk of transferring to what are registered pension schemes that are essentially fraudulent vehicles, or vehicles which are exploiting loopholes in the law. One particular type of scheme is called a pension reciprocation plan, which has sprung up all over the place recently.'

Providers said that all schemes, even those in the name of well-known providers, must be checked to ensure their legitimacy, because there had been instances of fake schemes being set up in the names of major providers.

'There have been problems in the past where fake schemes, trust busting schemes, have been set up using a name which would appear to be a large provider but by changing a couple of words and calling it the such-and-such scheme they have managed to avoid detection for a little while.'

Generally, providers pointed out that Options has made this process extremely straightforward, as all schemes on the platform are automatically HMRC-registered, and therefore, if the scheme is on Options, there is no need for further checks to be made.

Most reported that if the scheme cannot be transferred on Options, however, the providers would need to communicate with each other, to ascertain whether the receiving and ceding schemes are HMRC-registered. The complexities that this could lead to are explored in Section 3.2.2.

2.3.3 Anti-money laundering checks

Several providers pointed out that receiving providers were also expected to perform anti-money laundering checks. Pensions are a regulated product, and consequently are subject to the same checks as all other regulated investment products, including anti-money laundering checks.

This was reportedly an automated process, however, and not seen as time-consuming for providers.

2.4 Stage 3: completion of the transfer

The final stage of the transfer process was the transfer of the pension pot itself from the ceding to the receiving pension provider.

When executed via Options, this was typically said to be a straightforward process, because provider account details are held on the platform, along with contact details of transfer team members. The Options system requires that these are kept up-to-date at all times, and all payments are tagged to ensure that funds cannot go astray.

Most providers used the BACS or the CHAPS to raise a bank transfer automatically. A minority of providers used a paper-based process, involving the printing, production and mailing of a cheque. Providers described this method of payment as slower and less reliable than other methods, as Section 3.3 will examine.

The ceding provider would usually send a confirmation of payment to both the former member and receiving provider. The receiving provider would typically send the paperwork relating to the new account to the member, confirming the completion of the transfer and details such as the new policy number and the value of the pot when they received it.

2.5 Alternative systems in place for processing bulk transfers

A minority of providers had different processes in place for 'bulk' transfers, which normally take place when an employer decides to move some or all of their employees' policies to a new provider. The employer or their intermediary would make the request to transfer, instead of an individual or their IFA, as is the case in a single transfer. Typically, the receiving provider would send one form or set of forms to the employer to be completed on behalf of all employees, but still required individual members' authority to transfer; this means that the employees would each sign a declaration stating that they were happy for the transfer to take place.

One provider commented that Options does not currently have the facility to process bulk transfers. As a result, a minority of providers have implemented their own automated systems for processing bulk transfers, potentially reducing the time taken to perform these by a significant extent.

For example, one provider claimed that a transfer through their in-house processing system could take the same amount of time as the fastest transfer through Options. Another pointed out that their automated system allowed all the members' transfers to be processed almost simultaneously. On Options, transfers could only be processed one by one, meaning that some members could receive confirmation of transfer completion weeks before or after others. Using this provider's system for multiple transfers, nobody's transfer was processed considerably earlier or later than anyone else's.

3 Factors that can affect the transfer process

As Chapter 2 described, Options has reportedly simplified the transfer process for the majority of the transfers by creating a common transfer platform and a single set of information requirements for all transfers. Where transfers cannot be processed via Options, they tend to be slower, because the platform that allows transparency of information cannot be used: checks have to be performed manually and providers' information requirements may differ.

The average amount of time that a provider spends on a very straightforward transfer was said to be just under two hours for a receiving provider, and slightly less for a ceding provider (see Section 4.2). There is, however, a range of different factors that can affect the speed and ultimate outcome of the transfer process, and many providers reported that most of the transfer team's time was spent on processing the more complex transfers.

This chapter will assess these potential issues and setbacks that can occur at each stage of the transfer process:

- **At Stage 1 (member approaches the receiving provider):** At this stage, whether or not an IFA is involved was seen as having the greatest influence on the time taken to complete the transfer process (Section 3.1).
- **At Stage 2 (communication between receiving and ceding providers):** At this stage, whether or not the provider was on Options was seen as a crucial determinant of the time taken. Where schemes were not on Options, this led to differing information requirements between providers, which affected the time taken to check whether or not the other provider was registered, and whether or not the transfer could happen. Occupational schemes in particular required a higher degree of effort at this stage (Section 3.2).
- **At Stage 3 (completion of the transfer):** Although this stage of the process was usually straightforward, issues could still arise at this stage, depending on the processes put in place by the provider (Section 3.3).

3.1 Factors affecting Stage 1: member approaches the receiving provider

As Section 2.2 described, the first step of the transfer process typically begins when a member approaches the receiving provider, either directly or through an adviser, to ask for their pension pot(s) to be transferred to them, and completes the necessary documentation.

Many providers agreed that this stage of the process could often be the most time-consuming for the provider, even though the onus is essentially on the member to supply the information required. The provider cannot enter the information into Options until the discharge form has been correctly completed by the member, and so delays at this stage could affect any provider, whether or not they were on Options. Many agreed that the involvement, or not, of an IFA at this stage of the process had the greatest impact on the effort required at this stage.

14 Factors that can affect the transfer process

In most cases, providers agreed that the presence of an IFA meant that the discharge form was more likely to be completed correctly the first time. Some providers also suggested that the likelihood of the process being terminated before completion (either because the member changes their mind or because the member had not realised that the provider could not accept their particular type of pension) tended to be higher for non-advised transfers. Providers pointed out that some individuals may not realise the risks inherent in the transfer process or understand the features of the receiving scheme at the point of making their request to transfer, resulting in them backing out at a later stage when these facts come to light.

One provider in particular highlighted the potential complexity of the process for the member when citing lack of financial advice as the most frequent reason for transfers to and from his organisation failing.

‘You have got a person dealing with two different organisations and he is hoping that they are talking to each other and they are giving the right information to each other and giving the right information back to him, and unless there is a financial adviser involved he is unlikely to have the knowledge or skills to manage that small project.’

Some providers gave examples of the type of information that may not occur to members before making the transfer, but which, in the absence of an adviser, might come to light after the transfer has already started:

- If there is a delay between when the ceding provider transfers the cash out of the previous fund, and the receiving provider invests it in the new fund, there could be an impact on the value of the fund, if the market moves over that period.
- If a member is transferring out of a with-profits fund, there may be a ‘market value adjustment’ or penalty if the funds are not transferred within a very specific time window.
- In certain circumstances, members may lose protected rights if transferring to a pension type that does not support these.

Occasionally, providers mentioned that if the member is unaware of such facts and discovers them at any point before the cooling off period is over, and so decides to cancel the transfer as a result, the provider must terminate or reverse the transfer, even if it has already been completed. As well as creating additional time and expense for the provider, the need to reverse a transfer can occasionally lead to specific additional problems, as Section 3.3 will explore.

While the majority of providers did agree that an IFA was beneficial to the process, a minority suggested that IFA involvement could sometimes slow the process down, because it added an extra person to the chain, creating another layer of complexity to the process rather than facilitating it.

‘The middle man is arranging with the customer to get these forms completed, send them back there and sending it to the new provider as well. It is all very messy, particularly if you make mistakes with the forms.’

3.2 Factors affecting Stage 2: communication between receiving and ceding providers

Most providers agreed that the process of communication between providers is the area that Options has improved most significantly: the direct contact details of all the member providers’ transfer teams are immediately available through Options, which means that if there is any incorrect or missing information, the provider has immediate access to the other provider to rectify this.

However, if either the ceding provider or the receiving provider's products are not on Options, this means that the entire transfer cannot be processed on Options. In general, most of the delays identified by providers at this stage were related to whether or not a scheme was on Options, as this section will explore.

3.2.1 Checking that the pension type is supported by the receiving provider

As Section 2.3.1 described, some providers do not accept transfers from certain pensions with particular features, such as those with protected rights, or those with special pension sharing arrangements as a result of divorce. As a result, receiving providers' first check was typically to ensure that the transfer was from a scheme they could accept.

While this process was straightforward under Options, because the key features of all the providers' schemes were visible immediately to the receiving provider, when providers did not use Options, it was possible for details of certain key features of the scheme not to be passed between providers.

Some receiving providers reported that where they had not obtained the full details of a ceding scheme before processing the transfer, there was sometimes a risk of discovering too late – and potentially even after the transfer is complete – that the pension was not one they can accept. As a result, providers reportedly had to transfer funds back to the member. As well as creating significant extra work for both providers, it could also have caused confusion and/or disappointment for the member.

'A pension was transferred across with protected rights, and the other scheme took it and then realised that it was protected rights, and so it was sent it back because they said, "We can't accept them".'

Section 3.3 explores in further detail risks inherent in reversing a transfer.

3.2.2 Checking to ensure that ceding and receiving schemes are registered

Before accepting a transfer, both providers must always ensure that the other provider's scheme is registered by HMRC, as Section 2.3.2 described. This is straightforward under Options, because all schemes on the platform are automatically HMRC-registered, and therefore, if the scheme is on Options, there is no need for further checks to be made.

Where transfers were not processed via Options, however, different providers tended to require different information in order to prove that a scheme was registered. Some providers only required the HMRC Pension Scheme Tax Reference (PSTR) number, while others required scans of the other provider's HMRC registration document.

'Some of them will want copies of our HMRC letter saying we are an approved pension scheme. Some of them will want print-offs of the website of us logged in. So different companies will go to different levels to try and get proof that you were an approved pension provider.'

If the format required was of an unusual format or an approach that the other provider was not typically used to sending, significant delays could occur. One provider saw this as an example of several different areas where differing information requirements could lead to delays.

'It could take months. It is not what we do. It is what they are not doing and what they require. If they want a screenshot of a registration number and this and that and the other ... The insurance company come back and say "Well, you have filled that in wrong", and then you have to mail that out to the client to re-sign a new one and all that drags on and on and on.'

In order to get around this manual process, a minority of providers said they held their own database of registered schemes that they constantly kept updated. As many providers pointed out, only HMRC holds the full database of registered pension schemes, but this is not made available to providers, which was a source of frustration for many.

3.2.3 Member-specific circumstances

During this second stage of the transfer process, providers must also examine the member's pension for any legal circumstances that could affect a transfer. According to providers only a small minority of cases were found to contain any legal detail which needed to be given special attention during the transfer process. Nevertheless each transfer application still needs to be checked for relevant legislation such as court orders and divorce bankruptcy.

'There are lots of little legacy bits of legislation which you just have to pay attention to but probably apply one time in hundreds. Less than one per cent of cases will be impacted by this thing but to some extent you have to apply a test to every single case to see whether it does apply.'

If any transfer is found to contain any sort of legally binding circumstance, third parties must be informed before the transfer can take place. In the case of an attachment order those responsible for the pension arrangement (i.e. the trustees or managers of the pension fund), are required to pay a percentage of the pension income and/or lump sum to the non-pension holding spouse once the pension becomes payable. Once the providers' legal obligations have been addressed, they must then wait for a legal discharge before they can transfer the money.

In the case of bankruptcy the provider must check for bankruptcy and then address the individual who has legal authority over the funds, a process which can also prolong the transfer.

3.2.4 Providers' differing information requirements

According to providers, the information required of the ceding provider by the receiving provider, and vice versa, is standardised to a large degree by the Options platform. Providers who are not members of Options often require each other to supply different information in order to validate a transfer.

For example, receiving providers with tied advisers often requested full details from the ceding provider of the features of their scheme, so that they could advise their prospective new customer about the suitability of their product, compared to the pension that the member already has. Instances were found where ceding providers refused to provide the information requested, therefore preventing the transfer from taking place.

'If all providers were automatically required to give straight honest information when asked for it, it would make our lives a lot easier. For example, [provider] point blank refuse to give us the information that we need to be able to do comparisons, so we can't do certain [provider] transfers now. They shouldn't be allowed to do that.'

3.2.5 The complexity of occupational pension scheme transfers

Most providers agreed that occupational schemes could often take far longer to process, and could often not be processed via Options, for three main reasons:

- Before the money could be released from an occupational scheme, the ceding provider was required to obtain the assent of all trustees.
- Occupational scheme rules could be very complex.
- Occupational schemes were often held on older, legacy computer systems that were not compatible with Options.

Obtaining trustee assent

Under current rules, trustees have a legal obligation to authorise transfers out of occupational schemes, which they must do so as long as there is no detriment to the remaining members of the scheme. As a result of this, if a member wishes to transfer out, the provider must obtain discharge signatures from the scheme's trustees before the transfer can be made, which can take a considerable amount of effort and delay the transfer process.

If the board of trustees does not meet regularly, or the contact details of the scheme trustees are not kept up-to-date, this could delay the process further. Providers often reported that trustees may only meet once a month, or even less, and so if the transfer request is received shortly after a trustee meeting, the provider sometimes needed to await the following one before the transfer could be authorised. One provider gave the example of an occupational scheme that had been wound down and the contact details of the trustees having been lost in the process.

However, a minority of providers pointed out that in the case of bulk transfers of multiple employees, trust-based schemes could actually be easier to process than contract-based schemes, because the receiving provider only needed the consent of a board of trustees, and not all the company employees individually.

'If the trustees consent and the trustees obtain an actuarial certificate to say that the members are no worse off in the new scheme, that can be done as a bulk transfer without the member consenting. So you simply say, "We are going to transfer the whole scheme over to the new scheme, so transfer all your pots at one time", and that is obviously the easiest way to do it.'

The complexity of occupational scheme rules

Some occupational pension scheme rules – particularly in older schemes – could make a transfer more complex or even prevent a provider from accepting a transfer. Typically, these were schemes that were set up in different regulatory environments, and whose rules have since been superseded, but whose entitlements must, nevertheless, be protected. In some cases, schemes were also subject to special additional documentation or rules that might be prescribed by the trustees.

Providers were often unwilling to include such schemes on Options, as they felt it might not have the flexibility to support the transfer of information required to process the most unusual scheme types.

Unbundled trust-based schemes, where multiple investment managers are managed by a board of trustees and administrator, with no single pension provider, were also said to be particularly complex. Providers said that the process of collating and transferring an unbundled scheme could only be minimally automated and therefore, required a sizeable amount of manual input.

Legacy computer systems

Several pension providers pointed out that occupational pension schemes are often stored on computer systems that are 'archaic'. As a result, more steps must be completed manually to access the required data, and often the data could not be produced in a format that allowed the transfer to be completed on Options.

3.2.6 Transferring from ceding providers who are closed to new business

Many providers mentioned that ceding providers whose schemes were now closed to new business were often significantly slower at providing the information necessary for a transfer to take place.

Certain providers even claimed that some closed fund providers could stall throughout the transfer process, sometimes taking up to a month to reply to a transfer request, and then still supply incomplete information. One provider guessed at the rationale behind these actions:

‘They are making hefty charges on that money as long as it stays with them. So if they can hang onto it for another three or four months then all well and good in their book.’

A few providers blamed the lack of incentive for closed fund providers to spend money speeding up the transfer process when ultimately this would speed up the process of losing business.

‘Every time a client rings you up and says they want to transfer out, it is admin cost and lost funds, two very negative things.’

In the words of one, these providers ‘don’t have to impress anybody in the market,’ and so some were said to have cut their administration capacity down drastically and consequently were unable to respond to communication requests speedily.

3.3 Factors affecting Stage 3: completion of transfer

The final stage of the transfer entails the transfer of funds from the ceding to the receiving provider. This process was typically deemed far easier and more reliable when the exchange took place via the Options platform.

When the transfer of funds takes place via the Options platform all the payments are tagged and traced, ensuring that none go astray and that there is no confusion about the source and destination of any payment. Options was said to have reduced human error through improved communication lines, traceability and accuracy of transfers.

‘Options is forcing the companies who are involved in the process to properly account for money they have sent between each other. So all of the problems around transfers are going away. Money is coming through the suspense account and being allocated faster and more accurately.’

Typically, non-Options systems are slower and more error-prone because of the high degree of manual input needed. Some providers used a paper-based process, essentially involving the printing and production of cheques, which must then be mailed to the receiving provider. Non-Options providers occasionally mentioned examples of payments going astray, payments failing due to incorrect account details or payments that the receiving provider could not match back to the member’s account.

‘So potentially, worst case scenario, you could be five days before your actual post, and they respond ten days later, and you sit on it for another five days, so potentially it could be a minimum of a month from their letter to the money arriving with their other provider.’

This could potentially have repercussions for the fund value of the member if the value of the stock market were to increase significantly while the member’s funds were still being transferred. We have also seen in this chapter that a transfer may sometimes need to be reversed, either at the request of the member or because the provider discovers too late that they cannot support the pension type. In these cases, the member could be at risk of losing units from their original fund, after the transfer is reversed.

‘If a transfer fails, the member wants to make sure that they have still got a million units, because that process may take a couple of days to a week to move across, and obviously the price can change.’

A minority of providers mentioned another issue that could arise: if the ceding provider is not open to new business, then once the funds are liquidated the original provider may not accept them to be returned. In this case the receiving provider is left with the funds and it is their responsibility to contact the member and find out where they would like their funds moved to.

‘Some of the firms have refused to take money back. Again, they may say that they are a closed fund and they have actually cashed in the units, hence they are giving you the money. So we are then stuck with this tranche of money which again we are meant to send it back as part of their cooling off rights, but the people that sent it to us won’t take it back. In those examples I believe we contact the IFA and we will say, “Where is it meant to be going?” So again it is a manual process.’

4 The time and cost of pension transfers

This chapter estimates the effort required for a provider to process a typical, straightforward pension transfer in terms of man hours. It will also provide an estimate of the marginal cost of a typical transfer in terms of internal time and other related costs.

4.1 Defining a ‘typical’ pension transfer

No provider that we interviewed as part of this study had ever attempted to measure the cost of making a pension transfer. In most cases, providers claimed that this was in part because it varied so much depending on the complexity of the transfer; but also because it was generally viewed as a relatively low cost, and an inherent part of their service.

The cost of a transfer was said to be chiefly made up of internal time, as Chapters 2 and 3 described. The amount of internal time required per transfer varied quite widely from provider to provider:

- Providers that used Options, processed transfers electronically, and whose systems were automated, tended to spend less time on transfers on average.
- Providers that were not on Options, processed transfers using cheques, and whose systems of communication were more heavily paper-based, tended to spend longer on transfers.

In addition, as Chapter 3 described in detail, while the majority (60 to 80 per cent) of transfers were relatively trouble-free and therefore, less costly, much of the time spent by the transfer team was focused upon the less typical, more complicated transfers. Providers told us that these could vary so widely that it was impossible to generalise about how long a complex transfer might take, and therefore, what it might cost.

Instead, we asked providers to estimate time spent on, and marginal cost of, a typical straightforward GPP to GPP transfer between two providers who are members of Options.

4.2 Internal time spent on a straightforward pension transfer

Providers typically estimated that the average time spent by a ceding provider on a straightforward GPP to GPP transfer via Options was approximately one hour and 45 minutes, covering all elements of the process described in Chapter 2. There was some variation between providers, with the shortest estimate 30 minutes, and the longest four hours.

Turning to the time spent by the receiving provider, there was some disagreement as to whether the time they spent was greater or less than the time spent by the ceding provider. While some said that the time spent setting up the scheme, which included time spent communicating with the applicant and ensuring they had fulfilled all the information requirements, meant that transfers in took longer, others said that this was outweighed by the fact that the receiving provider does not have to process the actual transfer. Overall, the average time spent by a receiving provider on a straightforward GPP to GPP transfer was just under two hours.

4.3 Estimated marginal cost of a straightforward pension transfer

As well as asking providers to tell us the estimated time spent on a straightforward GPP to GPP transfer, we asked them to estimate any additional costs involved in transfers, and also asked them to provide us with the basic hourly salary of the staff in the transfer team.

This allowed us to estimate the approximate marginal cost of a transfer to a provider.¹¹ Around half of the providers we asked were able to estimate the costs in this way.

Where providers incurred costs other than internal staff costs, these typically consisted of the following:

- The cost of making the transfer itself: transfers made via the BACS, which take three days, typically entailed no additional cost. However, some providers used the CHAPS to perform instant transfers in certain cases. On average this service cost £2.50.
- Providers with paper-based systems mentioned that paper, printing, postage and cheque production could typically cost between £1 and £5 per transfer, and sometimes higher.
- Options also requires an annual subscription fee, which is not included as part of these cost estimates.

Among the nine providers that could give a breakdown, the average marginal cost to a ceding provider of a straightforward GPP to GPP transfer was just under £50. The average marginal cost to a receiving provider of a transfer in was about £55. The average marginal cost of a straightforward transfer end-to-end is, therefore, about £105.

However, as we mentioned earlier in the chapter, none of the providers included in this research had attempted to calculate transfer costs before our interviews. These costs are, therefore, estimated, and so should be taken as indicative only.

More importantly, all providers stressed that the figures they gave us were the minimum values, for the most straightforward transfers, and only represent a small fraction of the providers' actual transfer costs.

'[The marginal cost of a straightforward transfer] is going to be a cost which might sound good because it might sound quite low, but it doesn't take into account any of the realities of the situation.'

'You have to factor in as well the cost of system changes, technical support, regulation costs, disclosure costs...'

¹¹ Where providers gave us the estimated hourly rate of transfer staff, we have uplifted it by a multiple of 1.5 in these calculations, in an attempt to more accurately reflect the total costs of employment.

5 Proposed improvements to the transfer process

To conclude the interviews with providers, all were asked whether the government, or anybody else, might do anything in the future to improve the transfer process for providers. In fact, most felt that the industry has already improved the functioning of processes in this area with the introduction of Options, and indeed, the Options Steering Group is doing a great deal to improve things further. Section 5.1 outlines these areas.

Nevertheless, some providers mentioned ways that the government could play a role in improving the transfer process, and these are described in Section 5.2.

5.1 Areas where the industry is working to improve the transfer process

Several of the providers that we interviewed were members of the Options Steering Group. This group consists of the heads of customer services from approximately 30 different life offices; who discuss in person any issues they may be having with the operation of Options; any issues that have arisen with certain companies; ways to promote adherence to Options within the industry; and ways to improve the functioning of Options in the future. This allows any issues to be discussed face-to-face and therefore, addressed more rapidly. Indeed, some providers felt that the headway the industry is making by itself is far more effective than anything the government could realistically do in this area.

‘I think if I was to say what the government can do regarding transfers at the moment, I think I would say absolutely nothing. We have got Options. It is going. Things have got better. I think my plea would be to leave it alone for now until we get some of these things bedded in and see what happens.’

The greatest barrier to switching individual products, or entire systems, over to Options was often seen as being the internal time that programming teams and other teams would need to spend on such a project.

‘You need to do a detailed business analysis of what the changes are; and then you need to convert that business analysis into a set of requirements that the programmers can understand; and then they have got to write the code. They have got to test the code. They have got to implement the code and then regression test it and then they have got to make it live. That all costs, and if it takes them three months to do it and it’s ten people then internal costs spiral rapidly.’

Among current providers, the Options Steering Group is also currently working towards bringing as many products as possible onto Options, including certain occupational schemes mentioned in Section 3.2.5, which have therefore far proven difficult to include on Options.

5.2 Areas where the government could play a role in improving the transfer process

There were three areas where some providers did feel that the government might aid the streamlining the transfer process:

- HMRC could give providers a list of registered schemes (Section 5.2.1).
- The Financial Services Authority (FSA) might provide guidance on the need for a physical customer signature during the application process (Section 5.2.2).
- The Pensions Regulator (TPR) could to provide guidance to aid the transfer process from occupational schemes (Section 5.2.3).

5.2.1 HMRC could provide a list of registered schemes

As Section 2.3.2 described, before accepting a transfer the receiving provider must always ensure the ceding scheme is HMRC-registered; similarly the ceding provider must perform the same check on the scheme that they are transferring the pension to.

However, only HMRC holds the database of registered schemes, and they do not make it available to providers. Some wondered whether HMRC might make it possible to them to have access to this database, in order to eliminate this lengthy step in the process.

‘If that HMRC list was up-to-date, surely it would be a good idea to have that HMRC system available to everyone. What difference would it make?’

Many providers felt that providing access to the list of HMRC-registered schemes would not just ease the transfer process for non-Options transfers, but also increase security. One provider pointed out that it is easy to fake a printout with current technology.

‘To me, getting a screen print of a number means absolutely nothing. If you’ve got a list with a number on it, how does it prove anything? These days you can Photoshop things. You can create the “[Provider] Pension Scheme” with a number on it. Great. It doesn’t mean anything.’

5.2.2 The FSA could provide clarification on the need for a physical signature

Some providers sought clarity from the FSA on certain information requirements.

In particular, as Section 2.2.2 noted, all transfer applications currently require a physical signature to process a transfer. This means that applications could not typically be completed online by the customer, which could sometimes lead to errors caused by manual data entry by the provider. Some providers noted that if the FSA were to allow an electronic signature, online applications could naturally follow. This would eliminate the need for manual data entry by the receiving provider and could, therefore, result in efficiency gains.

5.2.3 TPR could provide guidance to aid the transfer process from occupational schemes

Several providers pointed out that occupational pension scheme transfers can be particularly complex, in part because under current rules, the provider must obtain discharge signatures from the scheme’s trustees before the transfer can be made, which can take a considerable amount of effort and delay the transfer process. This was described in Section 3.2.5.

24 Proposed improvements to the transfer process

As a result of this, a minority of providers questioned whether, under certain circumstances, it might be appropriate to allow a transfer from an occupational scheme to take place without a trustee's signature. These circumstances might include, for example, if a particular pension pot is below a certain value. They felt that this could remove a significant time-consuming step in the transfer process of occupational schemes; and some providers mentioned the possibility of approaching TPR to provide such guidance.

Appendix

Materials used in conducting the research

A.1 Introductory letter

Dear [NAME]

Costs of transferring a pension scheme

I am writing to you to ask for your help with a new research study that has been commissioned by the Department for Work and Pensions (DWP). Its purpose is to understand the processes and costs involved in transferring a pension scheme from one provider to another.

The DWP recognises that after automatic enrolment the need for individuals to transfer or consolidate pension pots could increase, and it is important for DWP to understand the costs faced now, and whether anything can be done to streamline or improve the process in the future.

This research will consist of interviews with key pension providers and administrators, and we would welcome your input, to ensure our evidence reflects your views and experiences. Your organisation has been selected from a list of UK pension providers and we are contacting you for research purposes only.

The research is being conducted on DWP's behalf by RS Consulting, an independent research organisation. A researcher from RS Consulting will be in touch with you to ask if you are willing to participate in a single face-to-face interview which should take approximately 50 minutes, and will take place at a location convenient for you.

Any information you provide will be held in the strictest of confidence and will be handled securely throughout the study. The research findings will not identify you, and no personal information will be shared with any third parties. DWP will not know the identity of any of the providers or administrators who take part in this study.

If you do not want to take part please let RS Consulting know by [date]. You can contact [RS team member] at RS [details supplied].

If you have any questions about the research at all, please do not hesitate to get in touch with RS Consulting on the number above or DWP Project Manager [details supplied].

Your contribution will provide us with valuable information that will help to inform policy and improve the services we provide. We hope that you decide to take part.

Yours sincerely

A.2 Discussion guide

My name is from RS Consulting. Thank you very much for agreeing to take part in this study.

As you know, we are conducting this research on behalf of DWP.

We are talking to the UK's leading pension providers and pension scheme administrators, to understand the processes and costs that are involved in transferring pension pots between different DC scheme providers in the UK.

DWP recognises that after automatic enrolment the need for individuals to transfer or consolidate pension pots could increase, and it is important for DWP to understand costs now, and whether anything can be done to streamline or improve the process in the future.

Confidentiality: I can assure you that anything you tell me will be treated in confidence by the RS Consulting project team. It will not be attributed to you, or your organisation, either in our presentations or in the final project report which will be published by DWP. Your participation in the research is entirely voluntary and will not affect your future dealings with the department. You can withdraw from the research at any time.

Ask for permission to record for our analysis purposes. The recording will not be passed onto any third party and will be destroyed after the project finishes.

Before we start our discussion, do you have any questions?

0.1 Could I first of all re-confirm your job title? And could you summarise your role within your organisation?

Section 1: Introduction

As you know, in this study we are focusing purely on transfers between the following types of UK defined contribution work-based pension:

- Occupational DC schemes, including free-standing additional voluntary contributions (FSAVCs).
- Group personal pensions (GPPs).
- Group stakeholder pensions (GSHPs).
- Group self-invested personal pensions (group SIPPs).

1.1 For each of these pension types, can you tell me whether you offer them to new customers, have them open for existing business only, or do not offer them at all?

1.2 For each pension open to any customers: Do you accept transfers from other providers into the [pension type]? If yes: Are there any limitations you impose on this? What are they?

| | Open to new business | Existing business only | Not offered | Accept transfers in? |
|-----------------------------------|----------------------|------------------------|-------------|----------------------|
| | Tick one | | | Y/N |
| Occupational DC (including FSAVC) | | | | |
| GPP | | | | |
| GSHP | | | | |
| Group SIPP | | | | |

1.3 For each pension type accepting transfers in: Are you able to quantify how many transfers you have accepted from other providers in the last 12 months? What percentage of your total book does this represent? **Allow estimate/different time period if unable to answer.**

1.4 For each pension open to any customers: And are you able to quantify how many transfers out you have processed in the last 12 months? What percentage of your total book does this represent? **Allow estimate/different time period if unable to answer.**

If more than one pension type offered: In our interview, we will initially focus on the processes and costs that are common to all of your different scheme types, but we'd also like to understand if there is any variation between the different scheme types.

Section 2: Transfers out

Could we focus first of all on the process of transferring a scheme from yourselves to another DC provider in the UK (transfers out)?

2.1 Could you talk me through how the process works, from when you are first notified of a customer's intention to switch to another provider, to when the transfer is complete?

Allow respondent to talk in detail. Ensure that every step of the process is clear. If necessary, cover the following:

- Who first notifies you of the customer's intention to switch to a new provider?
- Do you need to do any preparatory work before you can process the transfer? What does this entail? Is it manual? Electronic? Paper-based?

- What communications need to take place between you and the new provider? How does this work? Do you need to speak to them in person? Is communication electronic? Paper-based?
 - What does the transfer itself entail? How does this work?
 - Are there any follow-up processes required? How do you know that the process is complete?
 - How long does the process take in total, from start to finish?
 - Which departments are involved in the process? Is it a specific department dedicated to the process, or do different departments need to work together?
 - Does the process differ if an employer decides to switch their scheme to another provider, as opposed to a single customer, meaning that you could be processing multiple transfers out?
 - Are there any other factors that can impact on the transfer process, such as the size of the member's pension pot or other member-related issues?
 - Can the amount of time taken vary depending on which provider you are transferring the pot to?
 - Do you recommend/require members to seek financial advice regarding the transfer?
 - **If more than one pension type offered:** Do these processes vary at all depending on the type of pension scheme you transfer from? **If so:** how?
- 2.2 Do you have any processes in place to ensure that the data that you transfer to the other provider is correct? How does this work in practice?
- Do you have any processes in place to ensure that the transfer is being made to a registered pension scheme? How do these work? Does this process differ if you are not transferring to a major provider? In what way?
- 2.3 Is it possible for a transfer to another provider to fail under any circumstances? **If so:** Why would this happen? How often has this happened? What would be necessary to overcome this? **Important: establish how many/what proportion of transfers encounter issues.**
- 2.4 Are there any other risks or problems that arise when processing transfers? **If so:** What is the risk? How common is this? What would be necessary to overcome this?
- 2.5 I'd like to look at the costs that these transfers typically entail. Have you ever attempted to calculate how much it costs you to transfer out a single pension pot? Are you able to give a figure for how much it costs you to transfer a pension pot to another provider? **If so:** How much does it cost per transfer? **Try to obtain a 'per-transfer' cost, but allow other formats if necessary.**
- **Ask all:** Are you able to estimate how the costs are comprised? What would you say are the most costly elements of these transfers? What proportion of the total costs of a transfer do they represent? **If respondent described different stages of the process at 2.1, try to understand the costs of each stage.**
 - How is internal cost calculated? **If necessary:** How much internal time is typically required per transfer?
 - **If more than one pension type offered:** Do your costs vary depending on the type of pension you transfer from? **If so:** how?
 - Do your costs vary depending on any other factors, for example the size of the pension pot being transferred, or the provider being transferred to? **If so:** How much can the costs vary?

We would like, if possible, to establish the cost of a ‘typical’ transfer from a GPP to another GPP.

Give and discuss transfer costs estimate: allow completion now or offline (email if necessary).

- **If respondent is sure they cannot answer:** DWP are trying to understand the cost of transferring a pension scheme: if they estimated £150 for transferring out do you think that sounds about right? **If no, try to establish a figure that might be closer (+/- £50) to get an estimate as close as possible.** What about transferring in? Is it more, or less? How much?

Transfer costs estimate

Please estimate the marginal cost of transferring a £30k pension, from a GPP to a GPP, assuming that all the information supplied is in the correct format, and there are no significant issues or delays in transferring. Assume that the transfer is processed via Options, if you use it.

Please include: preparing for and processing the transfer itself, including all communications with the member/adviser and provider.

Please exclude: Options subscription fees; time spent by sales/marketing or customer retention teams; any advice that you provide the customer (where applicable).

Transfers out:

Internal time

Hours spent _____ multiplied by average hourly salary £ _____ = £ _____

Please divide the average, basic annual salary of staff working on the transfer by 1,680 to give an approximate hourly salary. Please do not include any extras (NI etc).

Other costs if applicable

Please describe and give amount where significant, e.g. bank transfer costs, postage:

- £ _____
- £ _____
- £ _____
- £ _____

Transfers in:

Internal time

Hours spent _____ multiplied by average hourly salary £ _____ = £ _____

Please divide the average, basic annual salary of staff working on the transfer by 1,680 to give an approximate hourly salary.

Other costs if applicable

Please describe and give amount where significant, e.g. bank transfer costs, postage:

£ _____
 £ _____
 £ _____
 £ _____

DWP have given some examples of costs that they think transfers out might entail.

- Would you say that these are representative of the areas of cost that are involved? Which are the most expensive? Least expensive? Entail no cost at all?
- Are you able to put a figure on any/all of these areas? **Obtain as many details as possible.**

Possible costs involved in transferring out

| Task | Cost per transfer out |
|---|-----------------------|
| Ensuring transfer form is correctly completed | |
| Ensuring transferring scheme is a registered pension scheme | |
| Liquidating investments prior to transfer | |
| Raising cheque/bank transfer | |
| Tracking that transfer has been successfully received and the schemes liability to member has ended | |
| Retaining customer record after transfer complete | |

2.6 Were there any separate capital expenditure or other one-off costs that you incurred, to be able to process transfers in this way? What were these? **Obtain full details.**

2.7 Who bears the costs of transferring a pension? **If necessary:** Do you absorb the costs, or are they passed onto the customer?

- Do the terms of your pension scheme say that you charge for transfers out? What is the level of charge that may be applied? How often do you charge members for transfers out in practice? **If more than one pension type offered:** Does this vary depending on the pension scheme type?

Refer to <http://www.origoservices.com/Options/Providers>

2.8 We understand that you use/do not use the Options Pensions Transfer service from Origo for some of your transfers – is this correct? **If not used, skip to 2.11, otherwise continue:** Do you use it for transfers out of your [pension type] pensions?

| Ask for each type of scheme offered @ 1.2: | Options used for transfers out? |
|--|---------------------------------|
| | Y/N |
| Occupational DC (including FSAVC) | |
| GPP | |
| GSHP | |
| Group SIPP | |

Skip to 2.11 if no scheme uses Options for any transfers out.

2.9 When did you first start using Options for these transfers out?

2.10 Could you describe the impact that it has had on the process of transferring pensions out? Has it streamlined the process? In what ways? Are there any ways it could be improved?

- Has the use of Options had any impact on your costs associated with transfers out? What are these?
- Were there any costs associated with implementing Options for transfers out initially? What were these?

Skip to 2.12.

Ask only those not using *Options from Origo*:

2.11 Has your organisation ever considered using the Options Pensions Transfer service from Origo for transfers out? **If not, skip to 2.12, otherwise ask:**

- Why was it considered?
- Why did you not decide to adopt it?
- What technology do you have in place instead? How does this compare to Options? What are the advantages and/or disadvantages of this for your organisation?

Ask all:

2.12 Have any of the processes for transferring pensions out changed in recent years? **If so:** In what way? Why was the change made?

- What have been the advantages and/or disadvantages of this for your organisation?

2.13 Overall, is the process of transferring pensions out as efficient as you feel it could be, or are there any processes that you feel could be simplified? **If so:** How would this work? What would be required for this to happen in practice?

- Would doing this entail any cost to you? **If so:** How much?
- After this was implemented, would this reduce the cost of transfers out? **If so:** by how much?

Section 3: Transfers in

I'd now like to look at the process of transferring a scheme from another provider to your own scheme (transfers in), from other DC schemes in the UK. Just to be clear, we wish to exclude transfers from defined benefit (DB) schemes.

If any questions in this section lead to the same answers as Section 2 allow respondent to skip detail or focus only on those elements that differ, but ensure that all aspects have been covered.

Refer back to Question 1.2, and confirm which pension scheme types allow transfers in.

If any schemes that are open to new business do not permit transfers in, ask 3.1:

3.1 We established earlier that your [pension type] pension does not allow transfers in, is this correct? **Confirm that transfers in are not permitted. If correct:** Why are transfers in to your [pension type] not permitted? Is the decision cost-related? Is there anything that could lead to you allowing transfers into this pension in the future?

If any schemes allow transfers in, ask remainder of Section 3, otherwise skip to Section 4:

3.2 Could you talk me through how the process of transferring a pension to you works, from when you are first notified of a customer's intention to switch their pension to you, until the transfer is complete?

Allow respondent to talk in detail. Ensure that every step of the process is clear. If necessary, cover the following:

- Who first notifies you of the customer's intention to switch?
 - Do you need to do any preparatory work before you can receive the transfer? What does this entail? Is it manual? Electronic? Paper-based?
 - What communications need to take place between you and the previous provider? How does this work? Do you need to speak to them in person? Is communication electronic? Paper-based?
 - What does the transfer itself entail? How does this work?
 - Are there any follow-up processes required? How do you know that the process is complete?
 - How long does the process take in total, from start to finish?
 - Which departments are involved in the process? Is it a specific department dedicated to the process, or do different departments need to work together?
 - Does the process differ if an employer decides to switch their scheme to another provider, as opposed to a single customer, meaning that you could be processing multiple transfers in?
 - Are there any other factors that can impact on the transfer process, such as the size of the member's pension pot or other member-related issues?
 - Can the amount of time taken vary depending on which provider you are transferring the pot from?
 - Do you require the member to have sought advice before accepting the transfer?
 - **If more than one scheme type allows transfers in:** Do these processes vary at all depending on the type of pension you transfer into? **If so:** how?
- 3.3 Is it possible for a transfer to you to fail under any circumstances? If so: Why would this happen? How often has this happened? What would be necessary to overcome this?
Important: establish how many/what proportion of transfers encounter issues.
- 3.4 Are there any other risks or problems that arise when receiving transfers? **If so:** What are these? How common is this? What would be necessary to overcome this?
- 3.5 I'd like to look at the costs that receiving transfers typically entail. Have you ever attempted to calculate how much it costs you to transfer in a single pension pot? Are you able to give a figure for how much it costs you to process a transfer in? **If so:** How much does it cost per transfer? **Try to obtain a 'per-transfer' cost, but allow other formats if necessary.**
- **Ask all:** Are you able to estimate how the costs are comprised? What would you say are the most costly elements of these transfers in? What proportion of the total costs of a transfer do they represent? **If respondent described different stages of the process at 3.2, try to understand the costs of each stage.**
 - How is internal cost calculated? **If necessary:** How much internal time is typically required per transfer?

- **If more than one scheme type offered:** Do your costs vary depending on the type of pension, or the provider that the pension pot is being transferred from? **If so:** how?
- Do your costs vary depending on any other factors, for example the size of the pension pot being transferred? **If so:** How much can the costs vary?
- Similarly, do your costs vary depending on the provider that the scheme is being transferred from? In what way?
- Do costs differ if an employer decides to switch their scheme to you from another provider, as opposed to a single customer?

If not already covered, discuss costs of transferring in.

- **If respondent is sure they cannot answer:** DWP are trying to understand the cost of transferring a pension scheme: if they estimated £150 for transferring in do you think that sounds about right?

ASK ALL:

DWP have given some examples of costs that they think transfers in might entail.

- Would you say that these are representative of the areas of cost that are involved? Which are the most expensive? Least expensive? Entail no cost at all?
- Are you able to put a figure on any/all of these areas? **Obtain as many details as possible.**

Possible costs involved in transferring in

| Task | Cost per transfer in |
|--|----------------------|
| Setting up new pension membership, if required | |
| Ensuring member has either sought advice or that scheme is content to accept transfer without advice | |
| Ensuring protected-rights and non-protected rights are tracked separately | |
| Purchasing units in accordance with member preference | |
| Fulfilling any money laundering duties | |
| Informing member of transfer completion | |
| Informing transferring scheme of receipt of funds | |

3.6 Were there any separate capital expenditure or other one-off costs that you incurred, to be able to process transfers in? What were these? **Obtain full details.**

3.7 Do you absorb the costs of transferring in a pension, or are they passed onto the customer?

- Do the terms of your pension scheme say that you charge for transfers in? What is the level of charge that may be applied? In practice how often do you charge members for transfers in?
If more than one pension type offered: Does this vary depending on the pension scheme type?

Refer to <http://www.origoservices.com/Options/Providers>

If provider has not already confirmed whether they use Options for transfers in, ask: Do you use the Options Pensions Transfer service from Origo for any of your transfers in?

If provider uses Options from Origo for any pension transfers ask 3.8-3.10, otherwise skip to 3.11.

3.8 Do you use the Options Pensions Transfer service for transfers into your [pension type] pensions?

| Ask for each type of scheme accepting transfers in @ 1.2: | Options used for transfers in? |
|---|--------------------------------|
| | Y/N |
| Occupational DC (including FSAVC) | |
| GPP | |
| GSHP | |
| Group SIPP | |

Skip to 3.11 if no scheme uses Options for any transfers out.

3.9 When did you first start using Options for these transfers?

3.10 Could you describe the impact that it has had on the process of transferring pensions in? Has it streamlined the process? In what ways? Are there any ways it could be improved?

- Has the use of Options had any impact on your costs associated with transfers in? What are these?
- Were there any costs associated with implementing Options for transfers in initially? What were these?

Skip to 3.12.

Ask only those not using *Options from Origo*:

3.11 Has your organisation ever considered using the Options Pensions Transfer service from Origo for transfers in? If not, skip to 3.12, otherwise ask:

- Why was it considered?
- Why did you not decide to adopt it?
- What technology do you have in place instead? How does this compare to Options? What are the advantages and/or disadvantages of this for your organisation?

Ask all:

3.12 Have any of the processes for transferring pensions in changed in recent years? If so: In what way? Why was the change made?

- What have been the advantages and/or disadvantages of this for your organisation?

3.13 Overall, is the process of transferring pensions in as efficient as you feel it could be, or are there any processes that you feel could be simplified? If so: How would this work? What would be required for this to happen in practice?

- Would implementing this entail any cost to you? If so: How much?
- After this was implemented, would this reduce the cost of transfers in? If so: by how much?

Section 4: Future issues

4.1 Finally, focusing on all the processes and costs associated with transferring pensions, is there anything that we haven't yet mentioned, that could help reduce the cost or administrative burden to you? **If so:** How would this work? What would be required for this to happen in practice?

- Would the process of implementing this entail any setup cost to you? **If so:** How much?
- After this was implemented, would this reduce the cost of transfers? **If so:** By how much?

4.2 Is there anything else that you think that the government could do to reduce scheme transfer costs? **If so:** How would this work? What would be required for this to happen in practice?

- Would the process of implementing this entail any setup cost to you? **If so:** How much?
- After this was implemented, would this reduce the cost of transfers? **If so:** By how much?

4.3 Finally, under automatic enrolment, it is possible that the number of transfers in and out of schemes might increase. Is the volume of transfers likely to have any impact on the transfer costs that we have discussed today? **If so:** What is the impact likely to be?

4.4 Do you intend to make any changes to your rules around pension transfers in response to automatic enrolment? **If so:** What are these?

4.5 Thank you very much. The Department for Work and Pensions (DWP) may wish to commission RS Consulting to conduct further research on similar subjects in the future.

This would mean someone contacting you again in the future to ask if you might participate in further research. If you are re-contacted, you will still be able to decline to participate if you wish.

Would you be happy for RS Consulting to keep your contact details and for someone to re-contact you if more research takes place in the future?

Yes

No

Thank and close.

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This report presents findings from qualitative research with pension providers and third-party administrators, into the processes and costs involved in transferring pension pots between providers. This research was carried out in October and November 2011, by RS Consulting, on behalf of the Department for Work and Pensions.

If you would like to know more about DWP research, please contact:
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