

All change for DB transfers

LCP's quarterly review of the transfer experience of the schemes we administer

Issue 29, December 2022

Transfer values fall to their lowest levels in 7 years – as do quotation rates

The average quotation size in Q3 2022 was £252,000, down 24% from £330,000 in Q2 2022. This is the lowest figure for over 7 years and coincides with a sharp rise in government bond (gilt) yields. Gilt yields have been rising over 2022 and Q3 2022 saw the highest yields since 2014.

After a significant drop in Q2 2022, the quotation rate has continued to fall in Q3 2022. LCP's administration team issued 100 quotations for every 10,000 members, 11% lower than the Q2 2022 figure and the lowest rate for almost 7 years.

As a result, £63m of transfer quotations were issued in Q3 2022, the lowest total since Q1 2015.

For quotations made in Q1 2022 – the latest quarter with complete payment data - the average transfer value paid was £441,000, down 29% from £617,000 in the previous quarter. This is the second lowest figure since Q2 2020 and coincides with a low average quotation size of £297,000 in Q1 2022.

The take-up rate (percentage of quotations ultimately paid out) for quotations issued in Q1 2022 was 15%, the second lowest rate since 2015. This compares with a take-up rate of 23% for quotations issued in Q4 2021. This drop is the largest between any two successive quarters since we started our analysis in 2014.

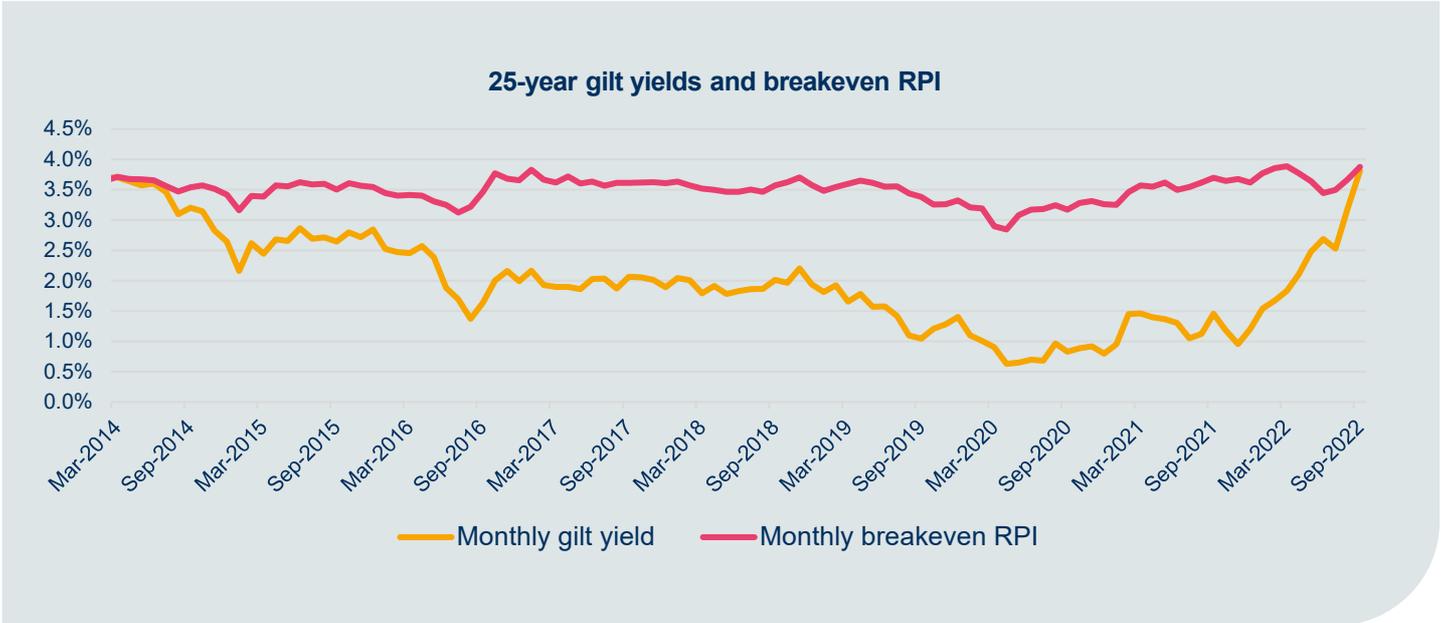


Transfer values plummet as gilt yields rise

The average transfer value for Q3 2022 fell to its lowest level since Q1 2015. Most schemes use gilt yields as the reference rate to set their discount rates to calculate transfer values. Therefore, the rise in gilt yields and the subsequent rise in discount rates, has led to significantly lower transfer value quotations.

As shown in the chart below. A typical 25-year gilt yield has continued to rise throughout 2022. Following the announcement of the mini budget on 23 September, gilt yields rose briefly to above 5% pa before falling back down to 3.8% pa on 30 September 2022. The last week of September saw the biggest fluctuations in yields for more than 30 years and yields were in line with inflation expectations, which hasn't happened since 2014.

For those schemes that use financial conditions based on the actual date of calculation, transfer values calculated within the final week of September are likely to have been affected by the increase in gilt yields following the announcement of the mini budget. During this period, gilt yields ranged from 3.8% to just above 5%. This high yield environment will likely have reduced the transfer amounts quoted compared to if they had been calculated a month prior.



Over recent months yields continued to fluctuate and remained relatively high at 3.7% pa on 31 October 2022 and 3.5% pa on 30 November 2022. It will be interesting to fully observe the impact of these high yields on transfers quoted in Q4 2022. From the chart on the right we can see that since March 2022 as gilt yields have risen the average transfer value quoted has decreased (with a one-month lag). It is likely we will see further falls in the average transfer value quoted in Q4 2022 due to high gilt yields and we expect this may also have a knock-on effect by further reducing take-up rates.



Fall in quotation size coincides with a fall in take-up rate

The average quotation size in Q1 2022 fell below £300,000 for first time since Q3 2019. We now have complete payment experience for Q1 2022 which shows the average transfer value paid was £441,000, the second lowest quarterly figure since Q2 2020. Only 15% of transfers quoted in Q1 2022 were taken-up, the second lowest rate in 7 years.

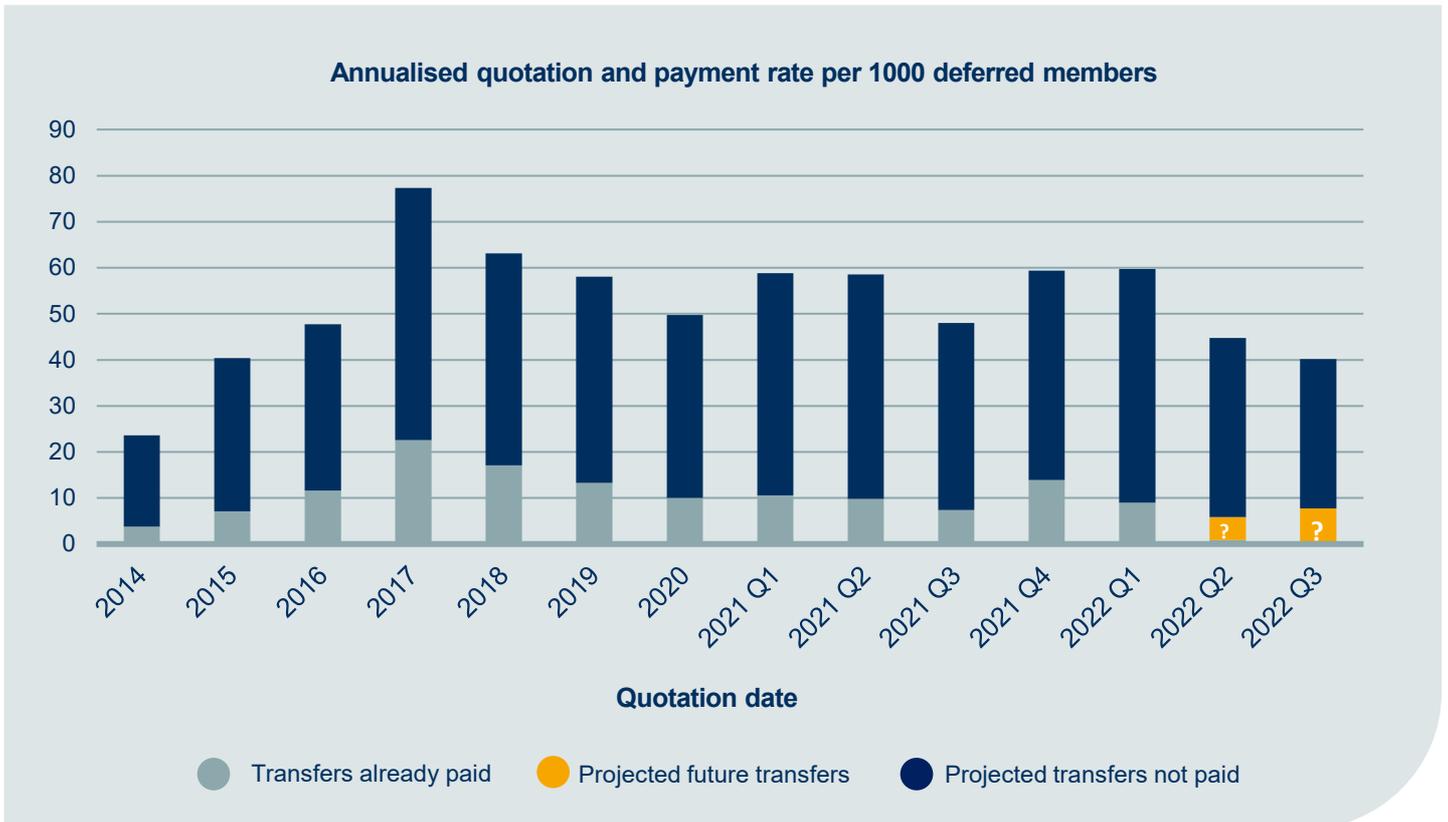
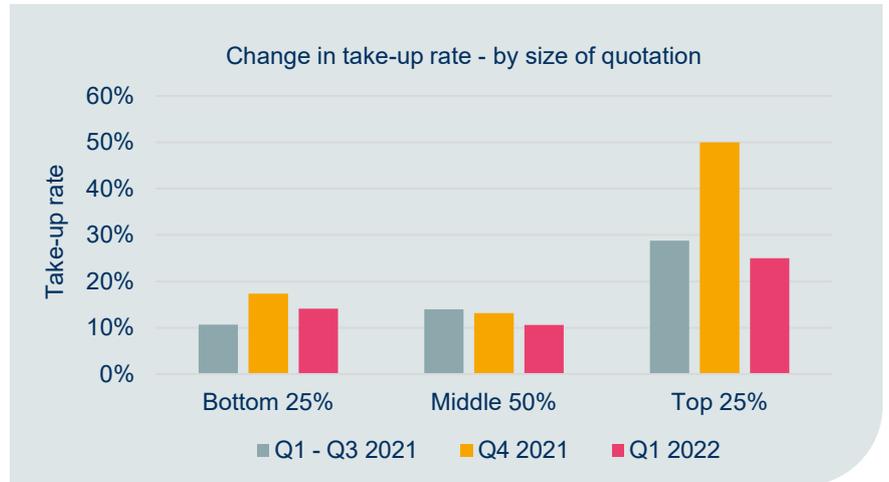


Why did take-up rates drop significantly?

The take-up rate fell sharply to 15% in Q1 2022, compared to 23% in Q4 2021. In a previous issue of this report we compared take-up rates in Q4 2021 with the those in the first 9 months of 2021 – a period of relative stability in the DB transfer market. The overall average take-up rate in the first 9 months of 2021 was 17%. We have extended our analysis to include take-up rates in Q1 2022.

In Q1 2022 the top 25% of the market (corresponding to quotations over c£540,000 in Q4 2021, and those over c£365,000 in Q1 2022) have since seen the biggest fall in take-up rate from 50% in Q4 2021 to 25% in Q1 2022, this is also lower than the take-up rate of 29% in the first 9 months of 2021. The bottom 25% (those below c£80,000) saw a smaller decrease in take-up rate from 17% to 14%, compared to 11% in the first 9 months of 2021. The middle range of the market has also seen a slight decrease in take-up rate from 14% in the first 9 months of 2021 to 11% in Q1 2022. Members with smaller benefits may be taking a transfer value to help with the rising cost of living. Whereas members in the middle and top end of the market have likely been deterred by the reduced amounts being quoted.

The new legislation that came into effect on 30 November 2021 may also have contributed to the fall in take-up rates which requires trustees to carry out due diligence on transfer payment requests received, with the aim of protecting members from pension transfer scams. It may be the case that more transfer requests are now being raised as amber or red flags, which could lead to a reduction in the take-up rate. Additionally, Members may also be struggling to find appropriate advice from Independent Financial Advisers (IFA) leading to a reduction in the take-up rate.



Long-term trends in transfer activity

In the 12 months to 30 September 2022 our administration teams provided transfer value quotations to 4.6% of deferred members, with a value of £416m in total. This compares to 5% and £512m in the 12 months to 30 September 2021. Overall transfer quotation activity remains significantly lower than the peak in activity seen in 2017 when almost 8% of deferred members requested transfer quotations with a total value of £778m.

The total value of payments in respect of quotations provided in Q1 2022 decreased to £30m with an average size of £441,000; this compares to the peak for quotations provided in Q1 2017 (£92m paid out with an average size of £627,000).

Have take-up rates changed?

The take-up rate for quotations made in Q1 2022 was 15%; this represents a decrease from the previous quarter (23%). The largest decrease was in respect of transfer values of over £250k

Transfer value quotations in year to 30 September 2022

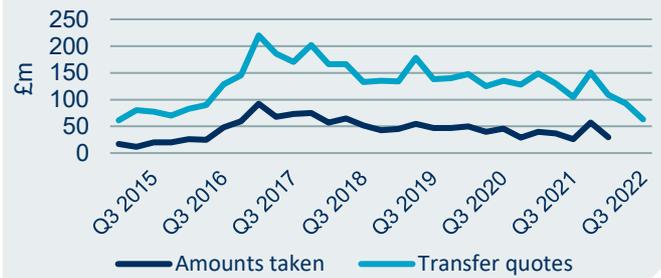
Quotation rates continue to be highest for those aged 55 and over. Around 7% of members aged 55 and over requested a transfer quotation in the 12 months to 30 September 2022, compared to less than 3% of members under 50.

Transfer values taken in year to 31 March 2022

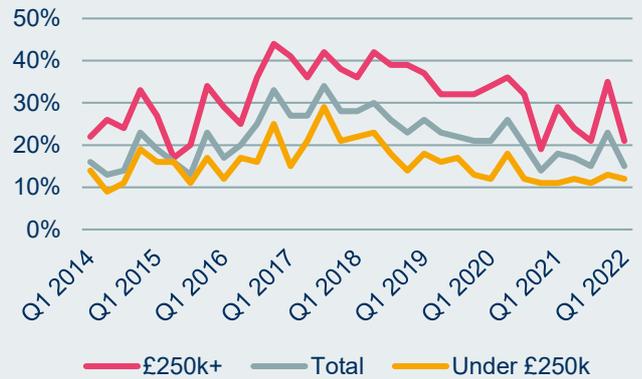
Around 22% of quoted transfer values proceeded to payment for those members aged 55 and over, compared to 18% of all transfer values quoted in the 12 months to 31 March 2022. Only 10% of transfers quoted to members under 50 were taken over the same period. As a proportion of all quotations in the year which were then paid, 67% were paid to members aged 55 and over and 9% were paid to members under 50.

The average transfer value taken in respect of quotations in the 12 months to 31 March 2022 was £496,000, just under twice the average price of a house in the UK during this period.

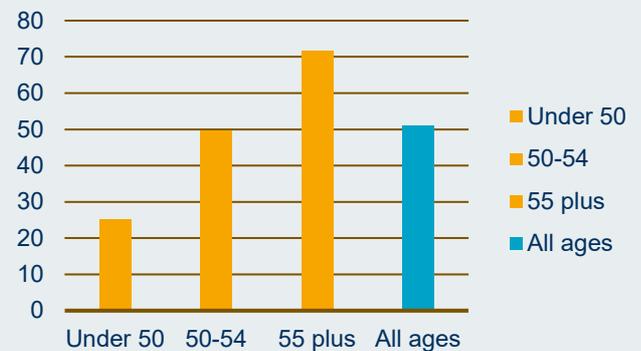
Total amounts quoted and paid out



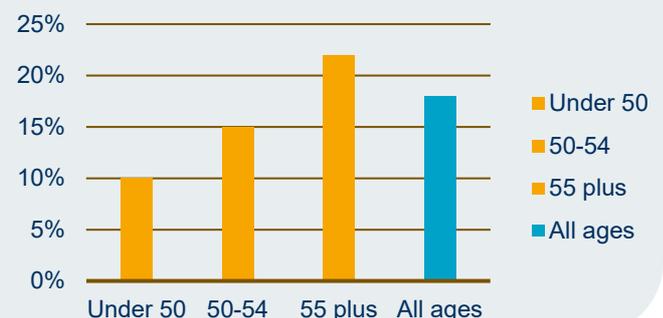
Proportion of transfers taken over and under £250k



Number of quotations per 1,000 deferred members in each age group



Proportion of quotations that proceed to payment in each age group



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