

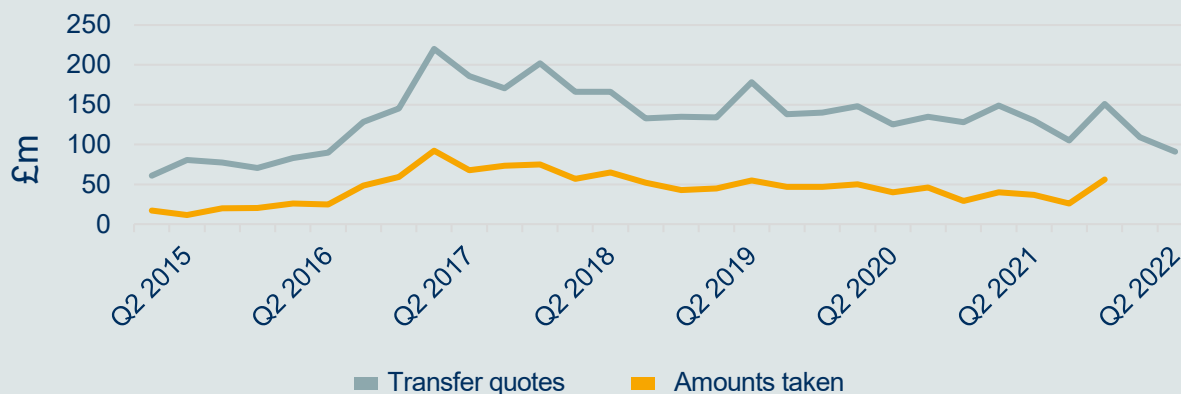
All change for DB transfers

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

Issue 28, August 2022

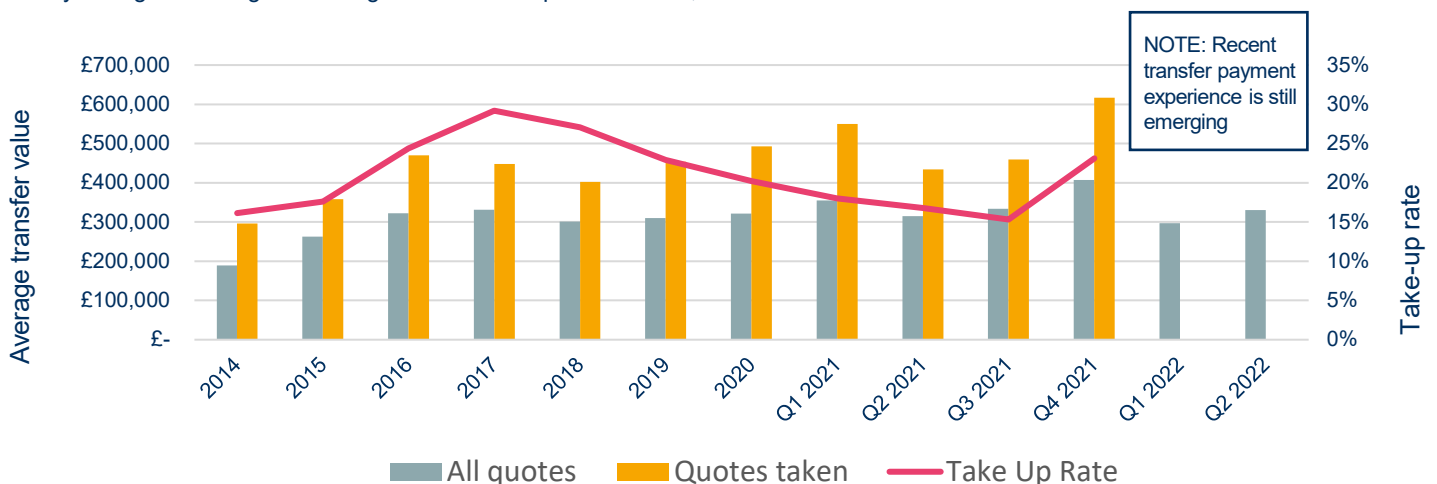
Members cash in before slowdown as transfer values fall

- For quotations provided in Q4 2021 – the latest quarter with complete payment data - the average transfer value paid was £617,000, up 34% from £459,000 in the previous quarter. This is the second highest figure since our analysis began and coincides with an unusually high average quotation size of £407,000 in Q4 2021.
- The take-up rate (percentage of quotations ultimately paid out) for quotations issued in Q4 2021 was 23%, the highest rate since Q2 2020. This compares with a take-up rate of 15% for quotations issued in Q3 2021. The increase may have been due to members taking advantage of the higher transfer values quoted in Q4 2021 amidst rising inflation.
- However, partial data for Q1 2022 suggests a potential significant fall in the take-up rate, possibly linked to the new transfer regulations that came into force on 30 November 2021, which required trustees to carry out enhanced due diligence on transfer requests, and a sharp fall in the average transfer value quoted, down to £297,000. Transfer values have in general been falling through 2022, as long-term interest rates rose steadily.
- The quotation rate fell significantly in Q2 2022. LCP's administration team issued 110 quotations for every 10,000 members, 27% lower than the Q1 2022 figure and the lowest rate since Q2 2016. This drop was also the largest between any two successive quarters since we started our analysis in 2014.
- As a result, £91m of transfer quotations were issued in Q2 2022, the lowest total since Q2 2016.



Peak in quotation size coincides with rise in take-up rate

The average quotation size in Q4 2021 jumped above £400,000 for only the second time since our analysis started in 2014. We now have complete payment experience for Q4 2021 which shows the average transfer value paid was £617,000, the second highest figure since our analysis began. The highest average transfer value paid was £627,000 in Q1 2017.



Why did the take-up rate increase for quotes provided in Q4 2021?

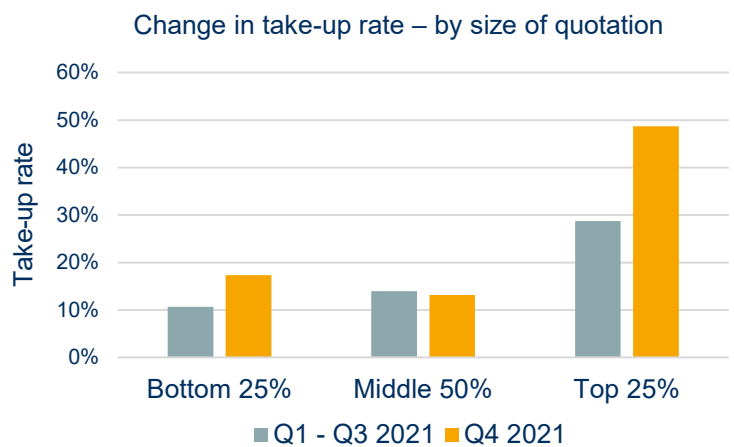
As described in [a previous issue](#) of this report, it is likely that rising inflation expectations played a part in the unusually high average transfer value quoted in Q4 2021.

Members may have been eager to take advantage of these higher transfer values, particularly during a time where the cost of living is rising. Transferring out gives members access to the greater flexibilities (cash sum, drawdown etc) available via a defined contribution arrangement at retirement. Therefore, these lucrative transfer values may have been more appealing at this time than they once were which may have led to a spike in take-up rates.

We have 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, during which the average transfer value quoted ranged between £315,000 and £355,000. The overall average take-up rate over this period was 17%, compared to 23% in Q4 2021. We have found that the rise in take-up rate in Q4 2021 was largely concentrated at the extreme ends of the market and in the 50-55 age range.

The top 25% of the market (corresponding to quotations over c£420,000 in the first nine months of 2021, and those over c£540,000 in Q4 2021) saw a substantial jump in the take-up rate in Q4 2021, rising from 29% to 49%. This could be explained by financially savvy members and advisers taking advantage of an unusually high transfer values quoted in Q4 2021. The take-up rate also increased at the opposite end of the market: the bottom quartile of quotations (those below c£80,000) saw an increase in take-up rate from 11% to 17%. This could indicate that more members are using their pension benefits to help meet the rising cost of living.

The age range with the biggest jump in take-up rates was members aged between 50-55. In Q4 2021 members aged 50-55 had a take-up rate of 26%, compared to 12% for the same age range in the first nine months of 2021. In contrast, for members below 50 and above 55 the take-up rate in Q4 2021 was broadly in line with the first nine months of 2021. Pension freedoms allow members to start accessing their DC savings from age 55, so transferring members in the 50-55 age range might typically intend to invest their transfer value for a few years before starting to draw from their pot or purchase an annuity. The opportunity to invest a larger sum than usual, due to the favourable market conditions in Q4 2021, might have appeared especially attractive to members in this age range.

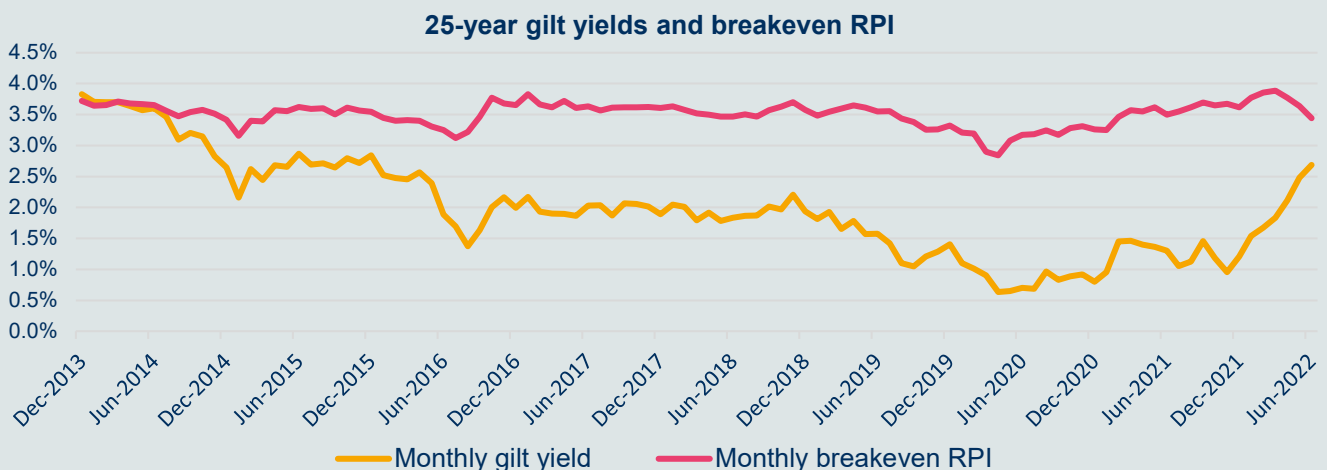


...but are take-up rates now falling?

Following the increase in average transfer values quoted and paid in Q4 2021, the average transfer value quoted in Q1 2022 fell to below £300,000 for the first time since Q3 2019.

The fall is likely linked to a rise in government bond (gilt) yields outstripping increased inflation expectations, as shown in the chart below. A typical 25-year gilt yield rose from 1.0% pa on 30 November 2021 to 1.8% pa on 31 March 2022, with a further rise to 2.7% on 30 June 2022.

As most schemes use longer-term gilt yields as a reference rate to set the discount rates they use in transfer value calculations, this trend will have resulted in a higher discount rate and hence lower transfer values among many schemes.



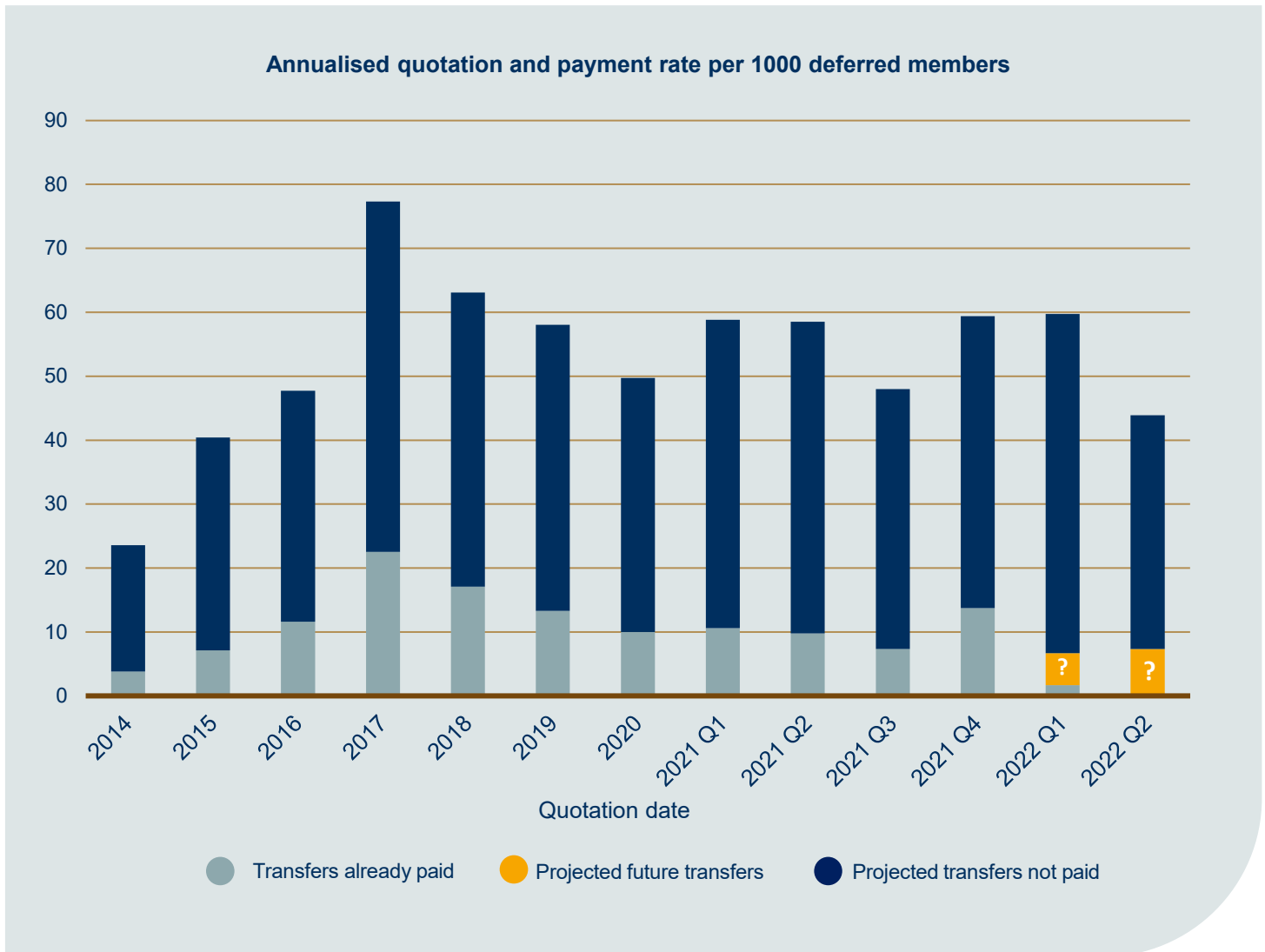
Although we do not have complete payment experience for Q1 2022, initial data shows the take-up rate is projected to be very low at just above 10%, which would be the lowest rate we have seen since we started our analysis in 2014. The lower average transfer values quoted may be behind the lower take-up rate as members are less likely to give up the security of a DB pension for a lower transfer value amount.

Another reason behind the fall in take-up rates may be the new legislation that came into effect on 30 November 2021 requiring trustees to carry out due diligence on transfer payment requests received, with the aim of protecting members from pension transfer scams. Under the new legislation, if a transfer payment request raises an “amber flag”, the member will need to attend a guidance session with the Money and Pensions Service (MaPS) before the transfer can proceed. If a “red flag” is raised, the trustees will be required to block the member’s statutory right to transfer. 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, greater awareness of the risks of transferring might be discouraging some members from taking transfer values.

A fall in quotation rates in Q2 2022

Quotation rates have dropped to 110 quotes per 10,000 members in Q2 2022 compared to 149 quotes per 10,000 members in Q1 2022. The 27% drop was also the largest between any two successive quarters since we started our analysis in 2014.

It is difficult to understand fully the reasons behind this sharp drop. It may be the fall in average transfer values is deterring members from requesting a quote. Other reasons may be that members are aware of the new legislation, the risks associated with transferring and the extra steps required to take a transfer value, which may be acting as a further deterrent.



Long-term trends in transfer activity

In the 12 months to 30 June 2022 our administration teams provided transfer value quotations to just under 5% of deferred members, with a value of £456m in total. This compares to just over 5% and £542m in the 12 months to 30 June 2021. While there has been a slight uptick in demand for quotations over the 12 month period, 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 Q4 2021 increased to £56m with an average size of £617,000; 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 Q4 2021 was 23%; this represents a substantial increase from the previous quarter (15%).

Transfer value quotations in year to 30 June 2022

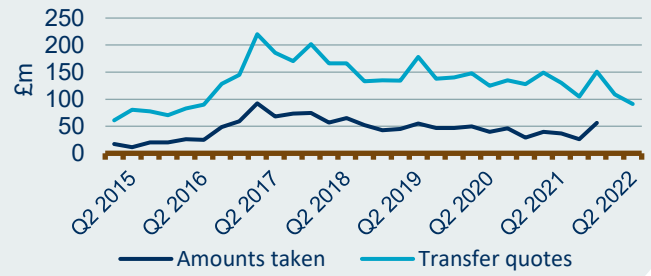
Quotation rates continue to be highest for those aged 55 and over. Around 7.5% of members aged 55 and over requested a transfer quotation in the 12 months to 30 June 2022, compared to less than 3% of members under 50.

Transfer values taken in year to 31 December 2021

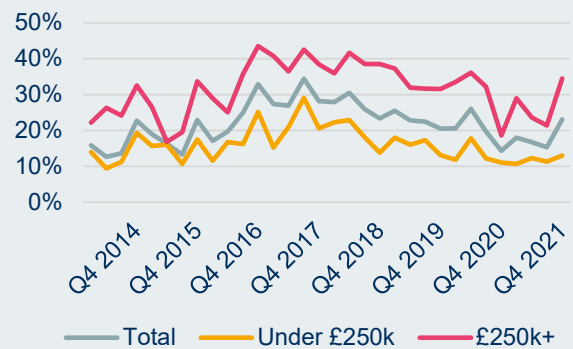
Around 22% of quoted transfer values proceeded to payment for those members aged 55 and over, compared to 18% of all transfer values quoted in the 12 months to 31 December 2021. Only 12% of transfers quoted to members under 50 were taken over the same period. As a proportion of all quotations in the year which were then paid, 64% were paid to members aged 55 and over and 11% were paid to members under 50.

The average transfer value taken in respect of quotations in the 12 months to 31 December 2021 was £523,000, around twice the average price of a house in the UK during this period.

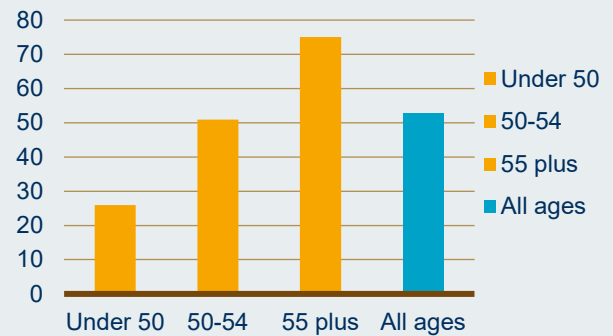
Total amounts quoted and paid out



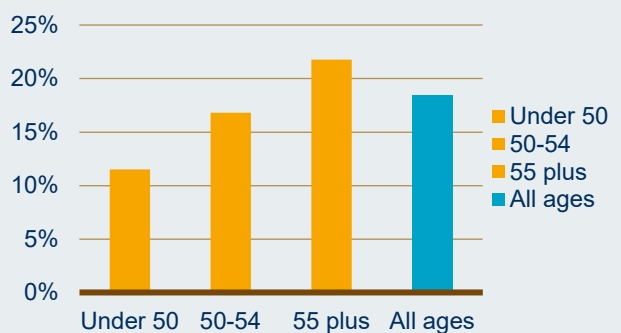
Proportion of transfers taken over and under £250k



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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