

All change for DB transfers

LCP's analysis of the transfer experience of the schemes we administer

Issue 32, March 2024

Take up rates and quotation rates remain close to historically low levels

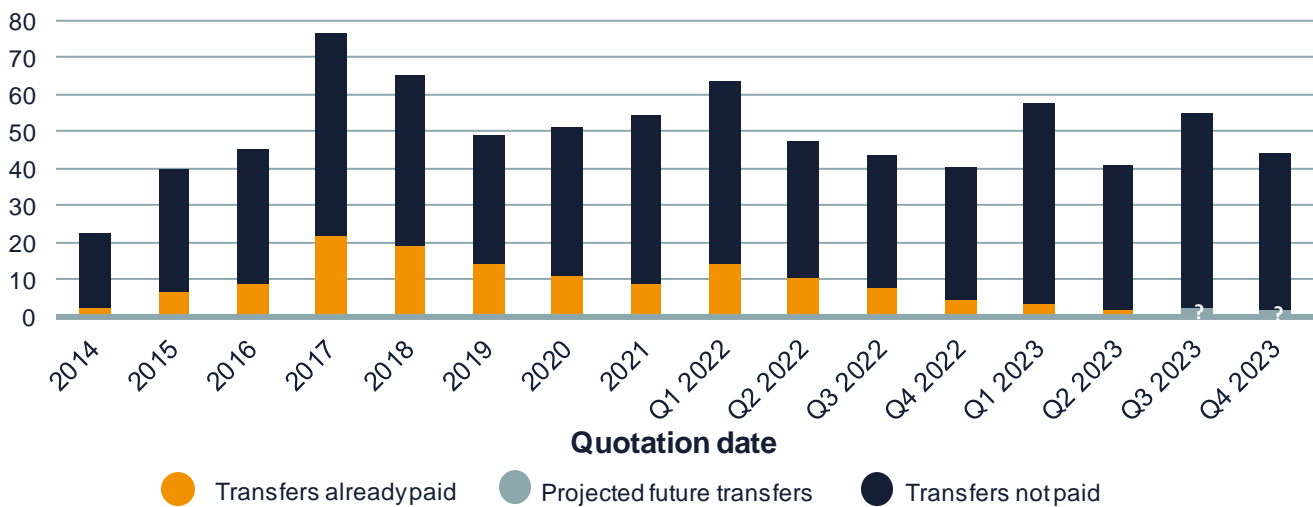
The take-up rate (percentage of quotations ultimately paid out) for transfer quotations issued in Q2 2023 - the latest period with complete payment data - was only 4%. This is the second lowest figure we have seen since we started our analysis 10 years ago, the previous quarter saw the all-time lowest take-up rate of 3%. Since the start of 2022, we have seen take-up rates dramatically decrease from the 17% we saw for quotes issued in Q2 2022 and the high of 34% in Q3 2017.

The low take-up rate coincides with low average transfer values. For quotations provided in Q2 2023, the average transfer value paid was £198,000, which is the lowest figure since Q1 2014.

In Q4 2023, the average quoted transfer value was £143,000 - this is the lowest figure we've seen since we started our analysis in 2014 and coincides with high government bond (gilt) yields.

LCP's administration team issued quotations for only 1.1% of non-pensioner members in Q4 2023. This is the third lowest figure since Q2 2016 and compares to the lowest quotation rate we have seen of 1.0% in Q4 2022.

Annualised quotation and payment rate per 1000 deferred members

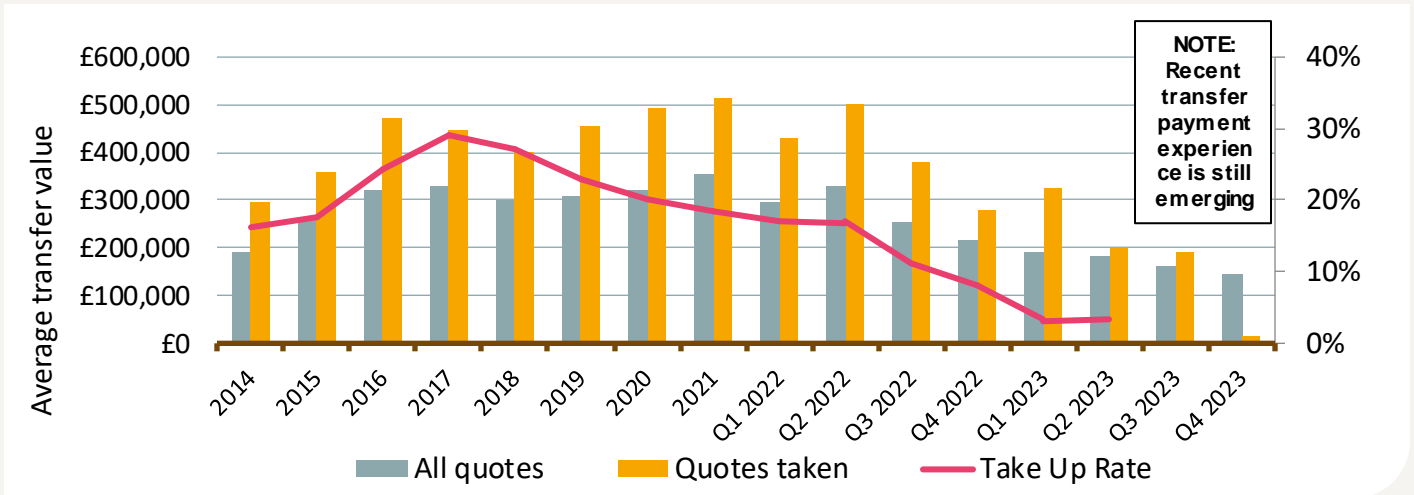


Low take-up rate coincides with a further fall in quotation size

We now have complete payment experience for quotes provided in Q2 2023 which shows only 4% of transfers quoted were taken-up. This is the second lowest rate we have seen since we started our analysis in 2014, the lowest all-time figure of 3% was seen in the previous quarter.

The main reason for the fall in take-up rates is likely to be the rise in gilt yields and the subsequent fall in transfer values. The average quotation size for Q2 2023 was £181,000, this was the lowest figure for nearly 10 years, with average quotation sizes for Q3 and Q4 2023 now even lower. This dramatic fall in the take-up of transfer values means that the option to take a transfer continues to look a lot less attractive to members than it may have done a few years ago. Especially for those members who might have received a previous transfer value quotation or illustration and can see that the value has fallen sharply.

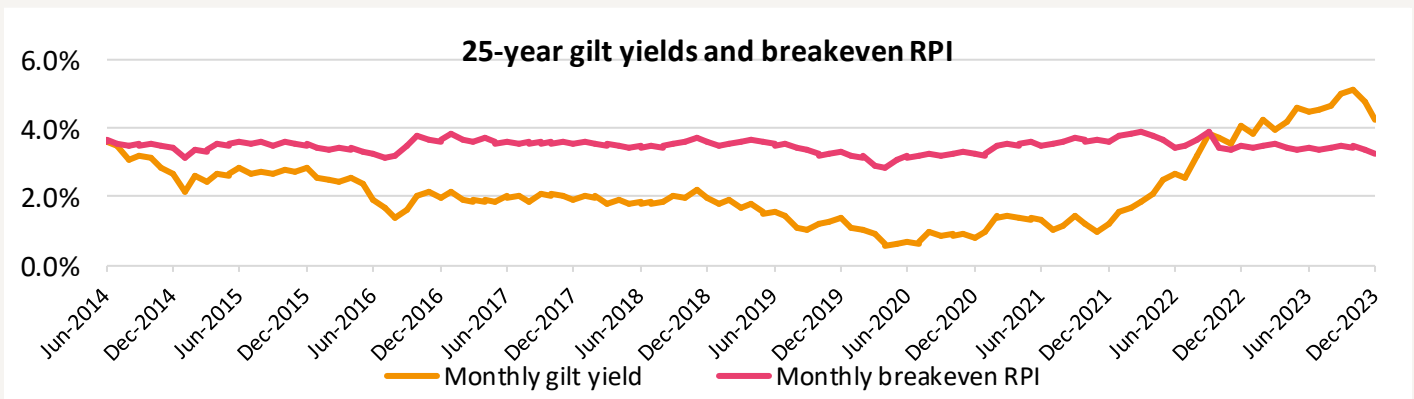
The average transfer value paid for Q2 2023 was £198,000, this is the lowest figure since Q1 2014, and compares to an average transfer value paid for quotes issued in Q1 2023 of £326,000. The average transfer value taken tends to be higher than the average transfer quoted, as it tends to be members with higher value benefits who take a transfer value. As can be seen from the chart below, both the average transfer quoted and transfer taken have been trending down since 2022.



High gilt yields leads to a further decline in transfer value amounts quoted

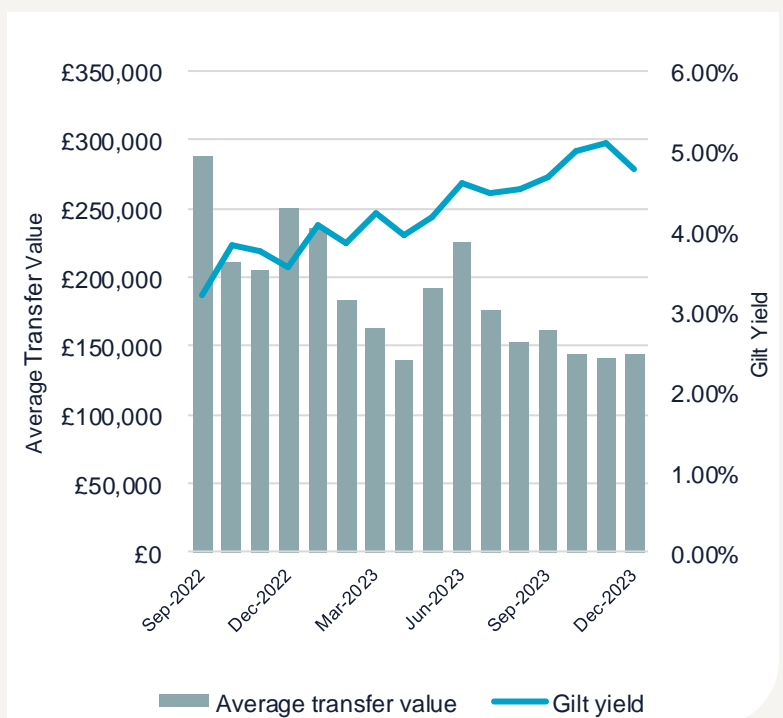
Over 2023 gilt yields in the UK continued to rise throughout the year. This rise in UK gilt yields has led to a decrease in pension transfer values. The average transfer value quoted for Q4 2023 was £143,000, this is the lowest figure we've seen since we started our analysis in 2014. Most schemes use gilt yields as the reference rate to set their discount rates to calculate transfer values. As a result, the continued rise in gilt yields over 2023 and the subsequent rise in discounts rates, has led to lower transfer value quotations.

As shown in the chart below. A typical 25-year gilt yield has risen significantly since the start of 2022.



Over 2023 gilt yields continued to fluctuate and rise - followed by a sharp but relatively small drop in the final weeks of 2023. At 30 September 2023 gilt yields were at 5.00% and peaked at 5.10% at 31 October 2023, which is the highest level we have seen since 2014. Gilt yields then fell slightly over the quarter, to 4.80% at 30 November 2023, followed by a sharper drop to 4.20% at 31 December 2023. Even with the slight fall, gilt yields over Q4 2023 remained comparatively high and as a result, the average transfer value for Q4 2023 fell to £143,000. From the chart on the right, we can see that since September 2022 as gilt yields have risen the average transfer value quoted has decreased (with a one-month lag).

Given the drop in gilt yields at the end of 2023, we may see an increase in transfer values quoted in Q1 2024. However, the notable UK gilt yields fluctuations we have seen in early 2024 makes it difficult to predict future gilt yields.

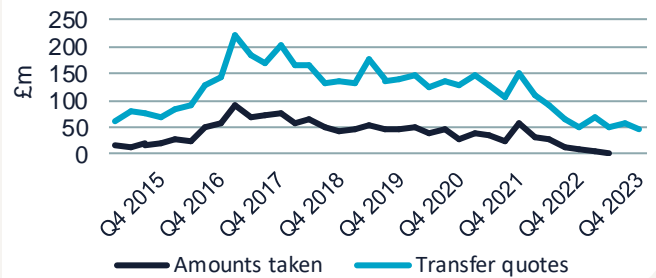


Long-term trends in transfer activity

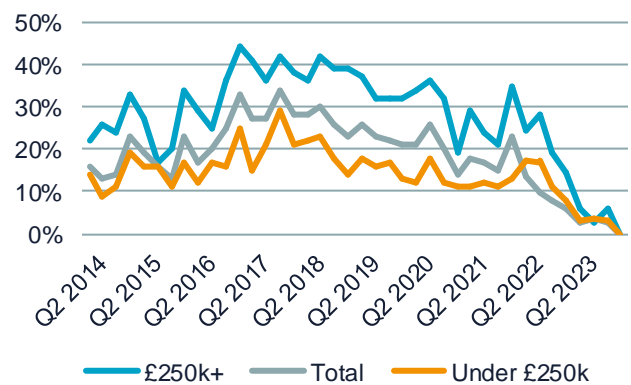
In the 12 months to 31 December 2023 our administration teams provided transfer value quotations to 3.8% of deferred members, with a value of £227m in total. This compares to 4.2% and £317m in the 12 months to 31 December 2022. Overall transfer quotation activity remains significantly lower than the peak in activity seen in 2017 when almost 8% of deferred members requested transfer quotations with a total value of £778m.

In Q2 2023 the total value of payments in respect of quotations was £4m with an average size of £198,000; in comparison to the peak for quotations provided in Q1 2017 where £92m paid out with an average size of £627,000.

Total amounts quoted and paid out



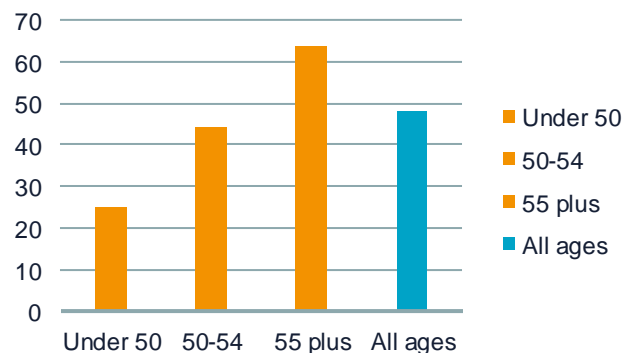
Proportion of transfers taken over and under £250k



Transfer value quotations in year to 31 December 2023

Quotation rates continue to be highest for those aged 55 and over. Over 6% of members aged 55 and over requested a transfer quotation in the year to 31 December 2023, compared to under 3% of members aged below 50.

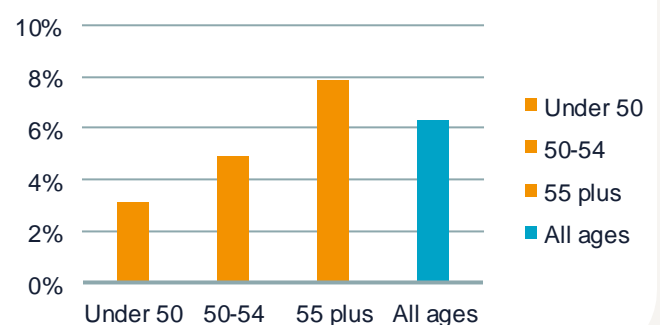
Number of quotations per 1,000 deferred members in each age group



Transfer values taken in year to 30 June 2023

8% of quoted transfer values proceeded to payment for those members aged 55 and over, compared to 6% of all transfer values quoted in the 12 months to 30 June 2023. Only 3% 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, 71% were paid to members aged 55 and over and 8% were paid to members under 50.

Proportion of quotations that proceed to payment in each age group



The average transfer value taken in respect of quotations in the 12 months to 30 June 2023 was £300,000, this is similar to the average price of a house in the UK during this period.

Contact us

If you would like further information, please contact your usual LCP adviser or one of the people below.



Bart Huby
Partner

bart.huby@lcp.com
+44 (0)1962 872711



Jim Little
Partner

jim.little@lcp.com
+44 (0)1962 873363



Avneet Gill
Associate Consultant

avneet.gill@lcp.com
+44 (0)1962 454433



Iris Shrestha
Associate Consultant

iris.shrestha@lcp.com
+44 (0)1962 872728

At LCP, our experts help to power possibility by navigating you through complexity to make decisions that matter to your business and to our wider society. We are powered by our desire to solve important problems to shape a more positive future. We have market leading capabilities across pensions and financial services, insurance, energy, health and analytics.

All rights to this document are reserved to Lane Clark & Peacock LLP ("LCP"). This document may be reproduced in whole or in part, provided prominent acknowledgement of the source is given. We accept no liability to anyone to whom this document has been provided (with or without our consent).

Lane Clark & Peacock LLP is a limited liability partnership registered in England and Wales with registered number OC301436. LCP is a registered trademark in the UK and in the EU. All partners are members of Lane Clark & Peacock LLP. A list of members' names is available for inspection at 95 Wigmore Street, London W1U 1DQ, the firm's principal place of business and registered office. The firm is authorised and regulated by the Financial Conduct Authority and is licensed by the Institute and Faculty of Actuaries for a range of investment business activities.