

# All change for DB transfers

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

Issue 30, June 2023

## Transfer value take-up rates fall to an all time low

The take-up rate (percentage of quotations ultimately paid out) for quotations issued in the 6 months to 30 September 2022 - the latest period with complete payment data - was 14%. In particular, the take-up rate for Q3 2022 was 11%, this is the lowest quarterly figure we've seen since we started our analysis in 2014. For quotations made in the 6 months to 30 September, the average transfer value paid was £461,000. Q3 2022 saw a particularly low average transfer value of £390,000 which is the lowest figure for over four years.

We have started to see some impact of the scams legislation that came into effect on 30 November 2021. For quotations issued in the 6 months to 30 September 2022, 21% of transfers that were ultimately paid out were paid past the 6-month statutory deadline and the delays were related to the scams' legislation.

LCP's administration team issued 234 quotations for every 10,000 members in the 6 months to 31 March 2023. Q4 2022 saw a particularly low quotation rate with less than 1% of members requesting a transfer quotation, this is the lowest quotation rate we have seen since Q4 2015. However, Q1 2023 saw an increase to 138 quotations for every 10,000 members.

The average quotation size in the 6 months to 31 March 2023 was £198,000. Q1 2023 saw an average quotation size of £185,000 - this is the lowest figure for nearly nine years and coincides with a sharp rise in government bond (gilt) yields. Gilt yields have been rising over 2022 and Q1 2023 saw the highest yields for more than ten years.



## Transfer values at their lowest level in 9 years as gilt yields continue to rise

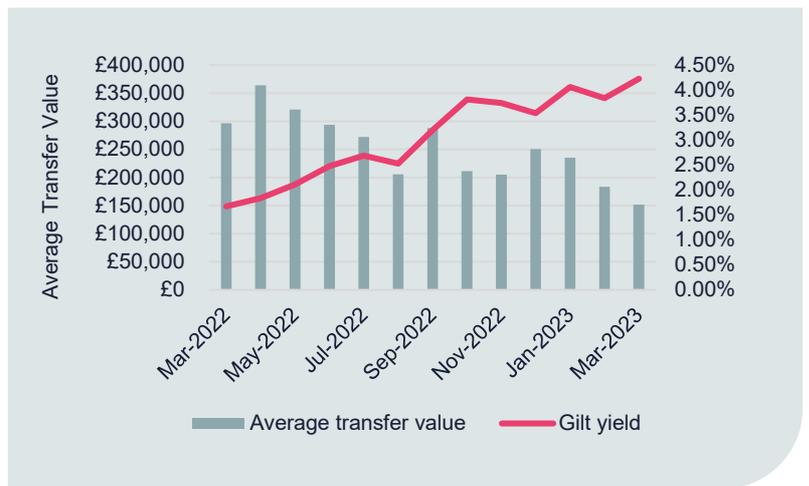
The average transfer value for the 6 months to 31 March 2023 was £198,000, this is the first time the average transfer value has fallen below £200,000 since Q3 2014. Most schemes use gilt yields as the reference rate to set their discount rates to calculate transfer values. Therefore, the rise in gilt yields and the subsequent rise in discounts rates, has led to lower transfer value quotations.

As shown in the chart below. A typical 25-year gilt yield has continued to rise since the start of 2022. Following the announcement of the mini budget on 23 September 2022, gilt yields rose to 3.8% pa at 30 September 2022 and have risen further since.

### 25-year gilt yields and breakeven RPI



Over the 6 months to 31 March 2023 gilt yields continued to fluctuate and rise. By 31 December 2022 the 25-year gilt yield was at 4.1% pa and reached 4.3% pa at 28 February 2023, this is the first time gilt yields have surpassed 4% pa in more than 10 years. As a result of these particularly high gilt yields, the average transfer value for the 6 months to 30 September fell to £198,000. Q1 2023 saw a particularly low average transfer value of £185,000, the lowest figure since Q3 2014. From the chart we can see that since March 2022 as gilt yields have risen the average transfer value quoted has decreased (with a one-month lag). As at 30 April 2023 gilt yields were at 4.2% pa so it is likely we will continue to see low average transfer values quoted and the knock-on effect of continued low take-up rates.



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

The average quotation size for the 6 months to 30 September 2022 fell to £294,000. Q3 2022 had a particularly low average transfer value of £254,000, the lowest figure since Q1 2015. We now have complete payment experience which shows the average transfer value paid for the 6 months to 30 September 2022 was £461,000. Only 14% of transfers quoted in in the 6 months to 30 September 2022 were taken-up, the second lowest rate we have seen since we started our analysis 8 years ago.

In line with the low average transfer value quoted, Q3 2022 saw a particularly low average transfer value paid of £390,000 which also coincided with a particularly low take-up rate of 11%. The total amount paid out in Q3 2022 was £12m – this is the lowest figure since 2015. Q2 2022 also saw a low total amount paid out of £27m, excluding Q3 2022, this is the second lowest figure for 7 years.



## New scams legislation causing significant delays

The new legislation that came into effect on 30 November 2021 has led to some delays in transfer values being paid out. The new legislation requires trustees to carry out due diligence on transfer payment requests received, with the aim of protecting members from pension transfer scams.

LCP administration teams carry out the checks and controls required under the new regulations on behalf of trustees under delegated authority. If an amber flag is present, 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. We have now started to see the impact of these regulations on the time it takes to make transfer payments.

Of the 84 transfer values paid out for quotes issued in the 6 months to 30 September 2022, 53 (63%) of these received an amber flag and 1 (1%) received a red flag. A significant portion of proposed payments are currently receiving an amber flag and members may be struggling to book a guidance session with the Money and Pensions Service and receive appropriate advice within the 6 months period which has led to significant delays in the payment process.

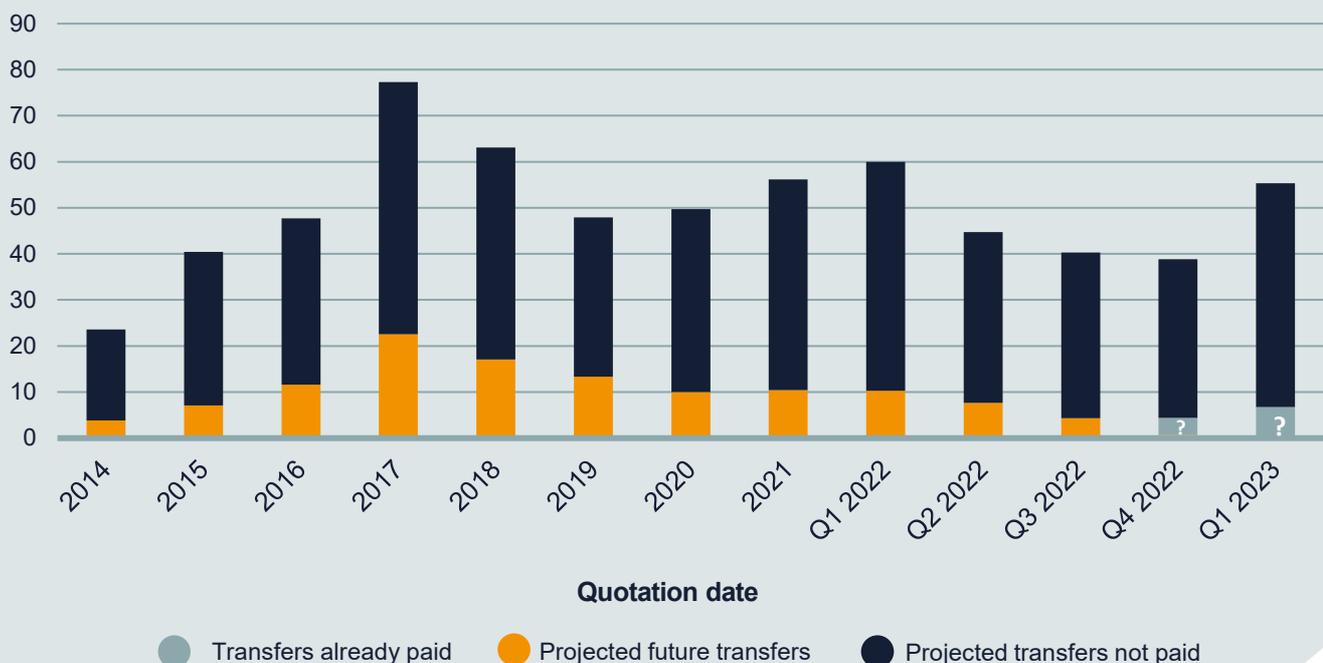
We have seen an increase throughout 2022 and 2023 in the number of payments which have missed the 6-month statutory deadline. There were 18 (21%) transfer values paid out (for quotes issued in the 6 months to 30 September) which were paid over the 6-month statutory deadline, all of these delays were related to the scams legislation.

This new legislation could be seen as a sticking plaster on an ineffective transfer process and David Fairs of LCP explores this further in his recent [blog](#)

## Could quotation rates start to rise after their lowest rate in 7 years?

Q4 2022 saw the lowest quotation rate since Q1 2015 - 97 quotes per 10,000 members were issued. However, Q1 2023 saw a sharp jump to 138 quotes per 10,000 members; this is an increase of 43% between quarters. It is difficult to fully understand the reasons behind the low quotation rate in Q4 2022. The announcement of the mini-budget and resulting impact on the gilts market and reduction in average transfer values, together with the Christmas period may have deterred members from requesting a transfer value in Q4 2022.

Annualised quotation and payment rate per 1000 deferred members



## Long-term trends in transfer activity

In the 12 months to 31 March 2023 our administration teams provided transfer value quotations to 3.9% of deferred members, with a value of £274m in total. This compares to 8.3% and £495m in the 12 months to 31 March 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 the 6 months to 30 September 2022 the total value of payments in respect of quotations was £39m with an average size of £461,000; 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 the 6 months to 30 September 2022 was 14%; this represents a decrease from the take-up rate for quotations made in the 6 months to 31 March 2022 (20%). The largest decrease was in respect of transfer values over £250k.

## Transfer value quotations in year to 31 March 2023

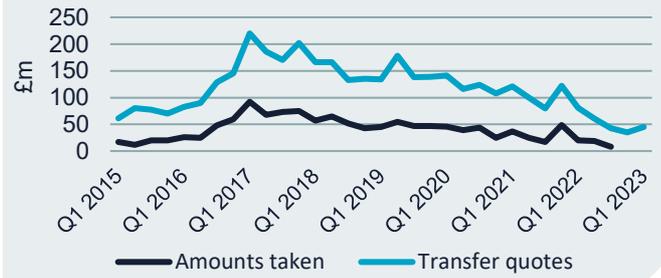
Quotation rates continue to be highest for those aged 55 and over. Just under 10% of members aged 55 and over requested a transfer quotation in the 12 months to 31 March 2023, compared to just over 2% of members aged below 50.

## Transfer values taken in year to 30 September 2022

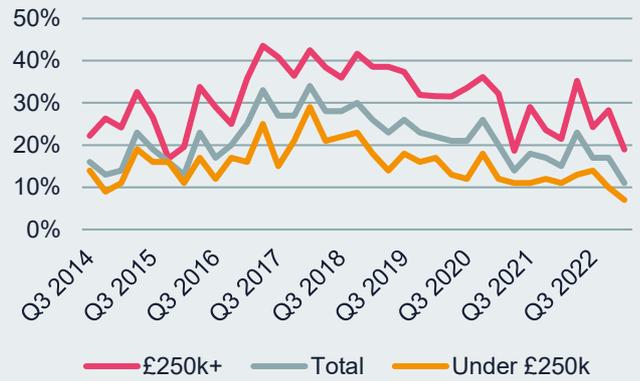
20% of quoted transfer values proceeded to payment for those members aged 55 and over, compared to 18% of all transfer values quoted in the 12 months to 30 September 2022. Only 10% of transfers quoted to members under 50 were taken over the same period. As a proportion of all quotations in the year which were then paid, 63% were paid to members aged 55 and over and 10% were paid to members under 50.

The average transfer value taken in respect of quotations in the 12 months to 30 September 2022 was £509,000, this is just under twice the average price of a house in the UK during this period.

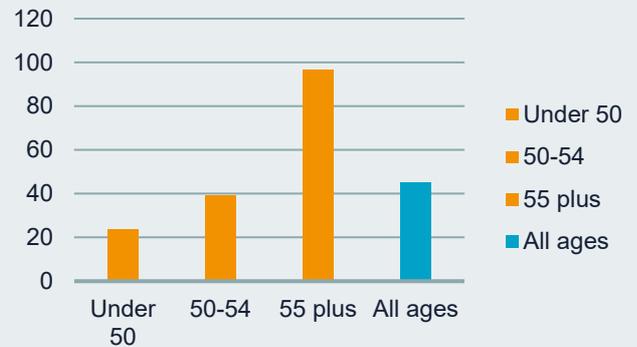
## Total amounts quoted and paid out



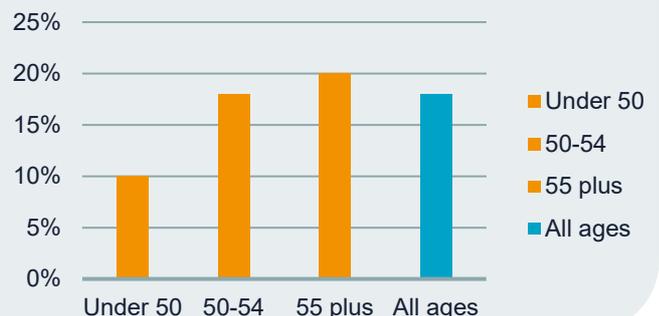
## Proportion of transfers taken over and under £250k



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



## Proportion of quotations that proceed to payment in each age group



## Contact us

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



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