BARNETT WADDINGHAM
beyond the expected

BRIEFING

Transfer value experience – Q2 2022

We have analysed defined benefit (DB) cash equivalent transfer values (CETVs) over the twelve months to 30 June 2022.

Transfer value amounts

The charts to the right illustrate how CETV amounts for a 60 year old have changed over the quarter and year in response to changes in market conditions. The impact can vary significantly depending on a scheme's benefit structure. Therefore, the illustrative changes in CETVs are shown separately for pensions that increase in payment in line with inflation (blue lines) and for pensions that increase in payment at a fixed rate (yellow lines).

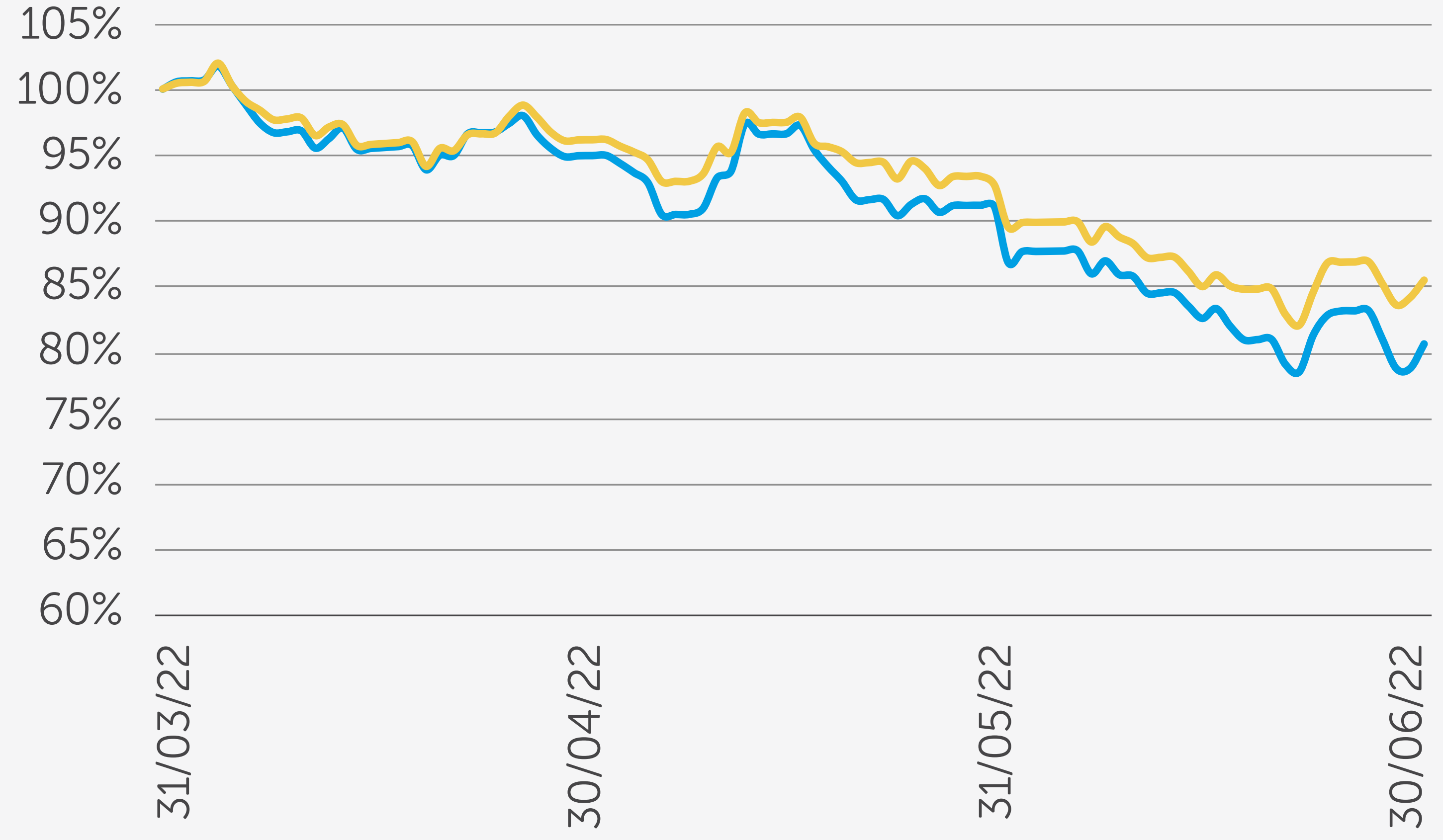
CHANGES IN CETV AMOUNTS

- A typical CETV for a 60 year old decreased by around 19% over the quarter where pension increases are linked to inflation and decreased by 15% where pensions increase at a fixed rate in payment.
- The changes over the quarter mean that CETVs for 60 year olds are around 20% lower than they were year ago.
- The large fall in transfer value amounts over the quarter and year is due to significant increases in gilt yields over the period. This follows the Bank of England's decision to increase interest rates in response to the current high levels of inflation.

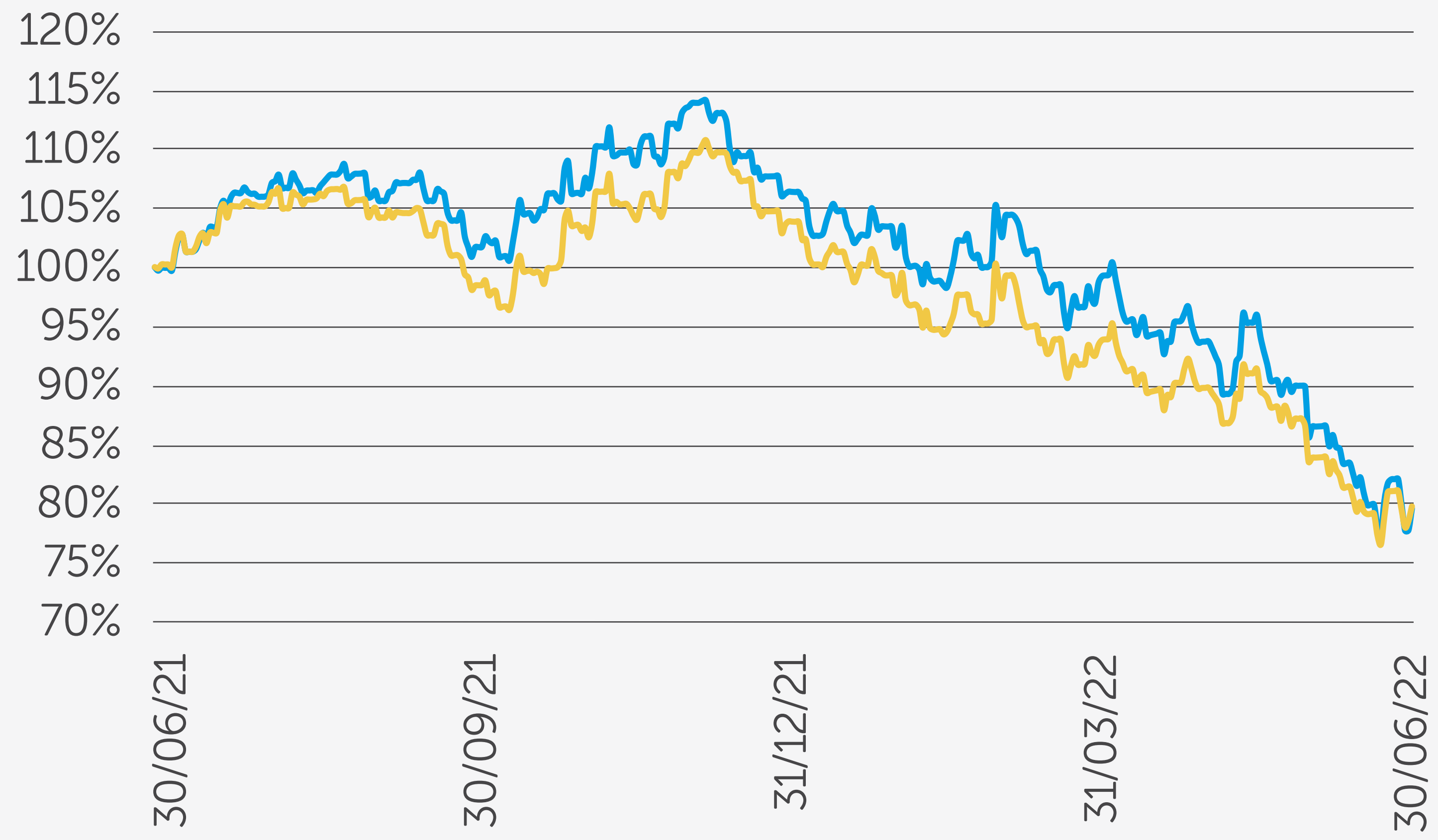
Relative CETV for a 60 year old member with fixed pension increases

Relative CETV for a 60 year old member with inflation-linked pension increases

Illustrative Quarterly Change in Transfer Value Amount



Illustrative Yearly Change in Transfer Value Amount



Transfer value exercises

With schemes increasingly looking to support members with at-retirement and transfer decisions, we have analysed data on IFA-supported transfer value exercises that we are aware have come to the market over the last twelve months. This covers both one-off bulk exercises and also ongoing 'business-as-usual' exercises. In both types of exercises, the employer and / or trustees were appointing an IFA to provide financial advice to scheme members.

The charts below show the market activity we are aware of over the last twelve months. The source of this data are exercises we have seen instigated on our own clients, plus data on exercises we see via the IFA firms we work with. It will not capture all exercises brought to market.

Bulk exercises +

Business-as-usual ('BAU') exercises +

BULK EXERCISES

- 23 exercises have come to market over the period from July 2021 to June 2022, the lowest twelve month figure for some time.
- Q2 was a very quiet quarter, with only three exercises coming to market.
- Most exercises over the twelve month period were medium sized, with equal, but small, numbers of larger and smaller exercises.

BUSINESS-AS-USUAL ('BAU') EXERCISES

- 27 BAU exercises came to market over the twelve month period from July 2021 to June 2022.
- Q2 was relatively quite quarter, with only three exercises coming to market.
- A third of exercises have been for larger membership populations, with the rest for mid-sized member populations.

All transfer value activity

Transfer value quotes and payments

The top chart illustrates the number of CETV quotation requests received quarterly across all Barnett Waddingham administration clients since 2020. The chart below shows the number of CETV payments made since 2020.

The charts illustrate that transfer related activity recovered in 2021 following a dip during the national lockdowns in 2020 and early 2021.

However, the chart at the top shows that the number of transfer value requests is slightly down in 2022 compared with 2021. We speculate that this is because of the changes introduced by the FCA in October 2020, which included a ban on contingent charging (see this blog to find out more).

+ Weekly transfer out quotes and payments

+ Transfer out quotes and payments (12 months)

Latest CETV related news

- Just after the end of the quarter, TPR and the DWP issued some guidance around the regulations designed to protect members from scammers. In particular, the guidance centred on transfers to schemes where the trustees due diligence had thrown up some concerns, driven by some concerns over potential “incentives to transfer” offered by one provider. The guidance was that the regulations are not intended to impose additional burdens on schemes or administrators, or to impact on standard business practices. For bulk and BAU exercises where there is an IFA in place, this is less of an issue as they are less likely to be recommending transfers to the provider concerned (unless the member already has funds there).

- IFAs are increasingly finding that, due to increasing inflation on everyday goods and spiralling energy prices, a higher proportion of the members they speak to are looking to access their pensions earlier and in greater amounts. These (hopefully) short-term pressures are driving behaviour that will impact on members’ long-term incomes and so should potentially be treated as Vulnerable Customers.

- A driver of exercises over the last few years has been to offer members choice and accelerate the timeline for reaching scheme buyout. Because of changes in market conditions, especially the increase in interest rates, some schemes are now finding themselves much closer to buyout than expected, meaning that the timeline and/or rationale for running such exercises needs to be revisited.

What does this mean for Employers? +

What does this mean for Trustees +

What does this mean for Members +

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively get in touch via the following:

info@barnett-waddingham.co.uk

0333 11 11 222

Important: the information shown in this note may not be representative of any particular scheme. You should therefore speak to your usual Barnett Waddingham contact if you wish to find out more and/or before you take any action.

www.barnett-waddingham.co.uk