



BRIEFING

# Transfer value experience – Q4 2021

We have analysed defined benefit (DB) cash equivalent transfer values (CETVs) over the twelve months to 31 December 2021.



# Transfer value amounts

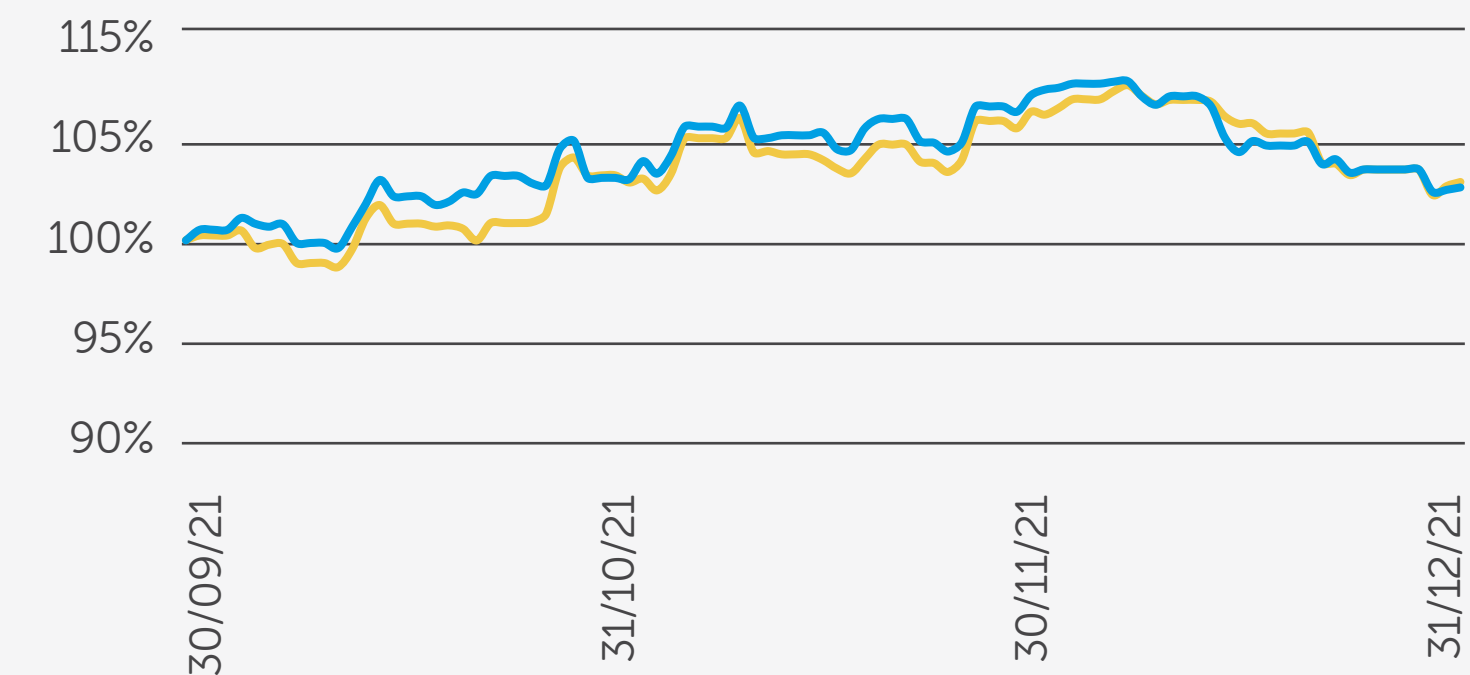
The charts to the right illustrate how CETV amounts for a 60 year old have changed over the quarter and year in response to changes in market conditions. The impact can vary significantly depending on a scheme's benefit structure. Therefore, the illustrative changes in CETVs are shown separately for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

## CHANGES IN CETV AMOUNTS

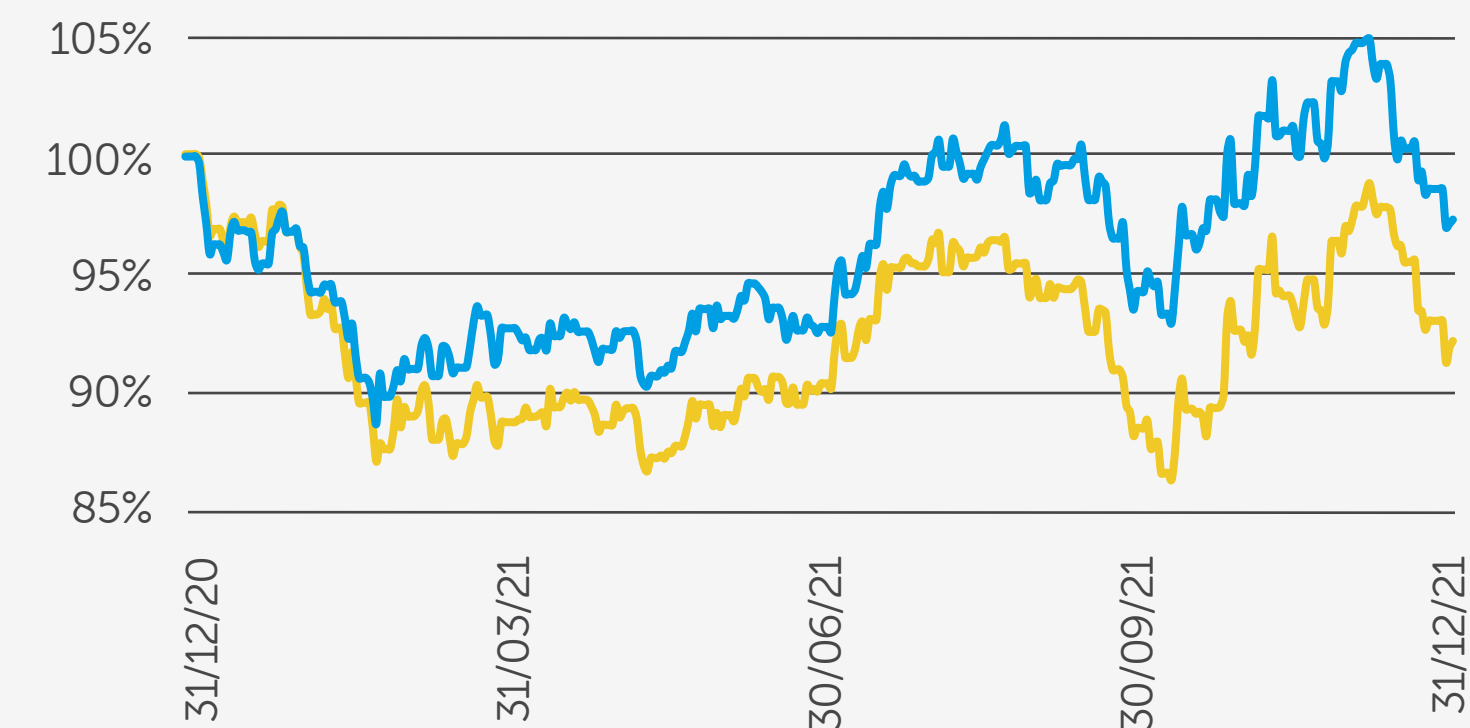
- A typical CETV for a 60 year old increased by around 4% over the quarter.
- The changes over the quarter mean that the size of a typical CETV for a 60 year old whose pension increases are linked to inflation is now around 3% lower than it was a year ago. CETVs for 60 year olds for whom pension increases are fixed in payment are now around 7% lower than a year ago.
- The falls in transfer value amounts over the year are due to significant increases in gilt yields in Q1 2021, possibly reflecting an improved economic outlook following the roll out of Covid-19 vaccines.

● 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 12 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 12 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

- 32 bulk exercises came to the market over the 12 months to December 2021
- Activity picked up in Q4 2021 with 10 exercises coming to market
- 2021 has seen an increase in larger exercises come to market compared to 2020

### BUSINESS-AS-USUAL ('BAU') EXERCISES

- 23 BAU exercises came to the market over the 12 months to December 2
- The second half of the year saw over twice as many exercises compared to the first half
- Mid-sized exercises (10 - 100 members per year) have been the most common in 2021, with 75% of exercises falling into this category

## All transfer value activity

### Transfer value quotes and payments

The chart, top/right, illustrates shows the number of CETV quotation and payment requests received weekly across all Barnett Waddingham administration clients over the past year. The chart below shows how these request numbers differ to the equivalent figures from 12 months earlier.

The chart above illustrates that both the number of transfer quotation requests and transfer payments have remained relatively stable over most of 2021, with the usual drops off in quotes over the New Year periods.

The observed activity is similar to pre-pandemic levels, suggesting that:

- The changes introduced by the FCA in October 2020 have yet to have a significant impact on transfer value activity as was widely predicted; and
- The pandemic has not yet had a lasting material impact on member behaviour.

It is, however, possible that these two factors are offsetting each other for time being, and the situation may change in the future.

The chart, bottom/right, illustrates that relative to the previous year, there was a noticeable rise in the number of requests during the second quarter of the year. This is due to the impact of the first national lockdown in Q2 2020 that resulted in a significant reduction in the number of transfer value quotes requested by members at that time. There were similar - but much smaller - noticeable increase in requests in November 2021 compared to 2020 (when the second national lockdown was introduced).

## Latest CETV related news

- New regulations came into force at the end of November 2021 giving trustees the power to refuse a statutory transfer where there is a risk of the member being scammed.
- In December 2021 the FCA wrote a 'Dear CEO' letter to financial adviser firms which advised on transfers for members of the British Steel Pension Scheme (BSPS), setting out plans to set up a redress scheme for members, which firms will be expected to fund if they provided unsuitable advice to members of the Scheme.
- With expectations of interest rate rises in 2022, members may see volatility in their transfer values as markets respond to any changes - a significant rise in long-term interest rate expectations could reduce transfer values significantly.





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:

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