



BRIEFING

# Transfer value experience - Q4 2023

We have analysed defined benefit (DB) cash equivalent transfer values (CETVs) over the twelve months to 31 December 2023.





# Transfer value amounts

The charts to the right illustrate how CETV amounts for a 60-year-old have changed over the quarter and the 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**).

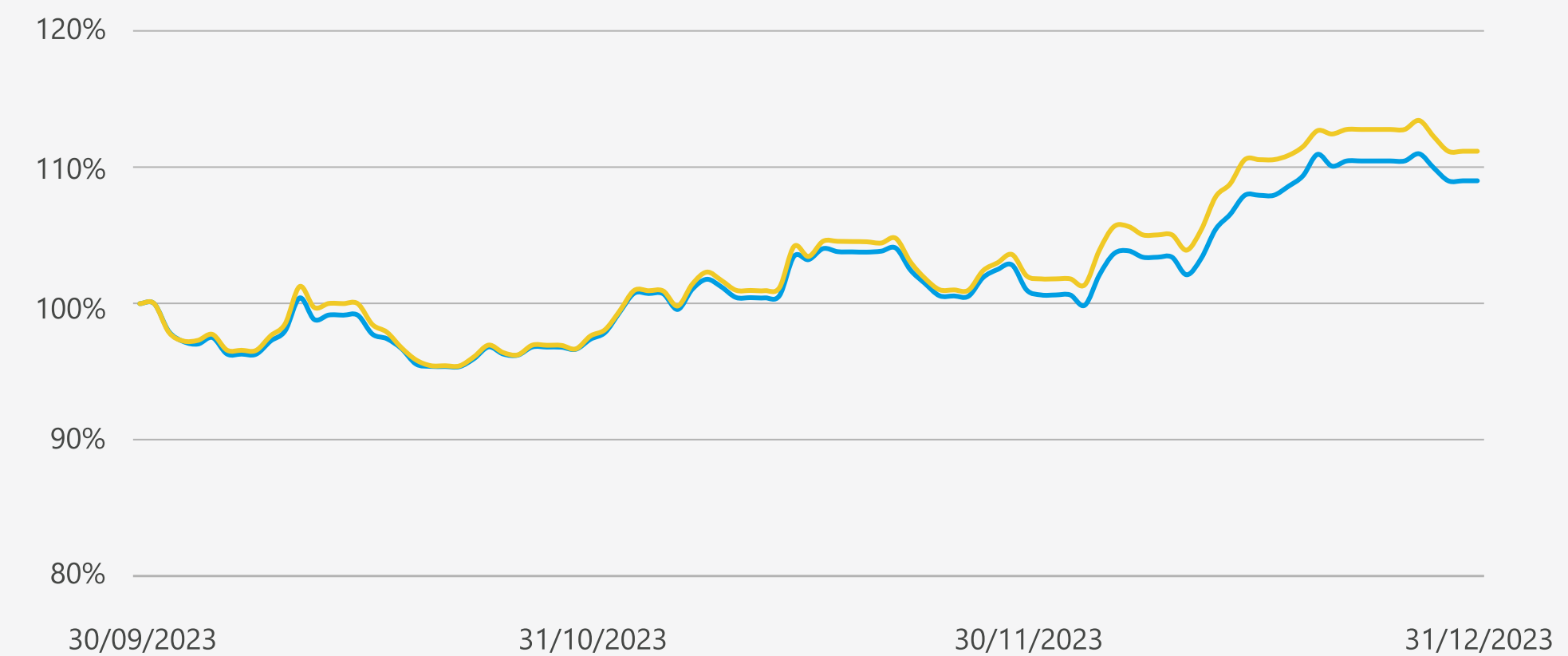
## CHANGES IN CETV AMOUNTS

- A typical CETV for a 60-year-old decreased by around 4% for inflation linked increases and around 2% for fixed increases over the twelve months to 31 December 2023.
- However, CETVs have risen roughly by 9% and 11% for inflation linked increases and fixed increases respectively over the quarter to 31 December 2023.
- The yearly change chart illustrates there was a steady reduction in CETV amounts over the first three quarters of the year, reflecting a gradual rise in long-term gilt yields. However, this trend was reversed in the final three months of 2023, meaning that year end CETV amounts were broadly similar to those at the start of the year.

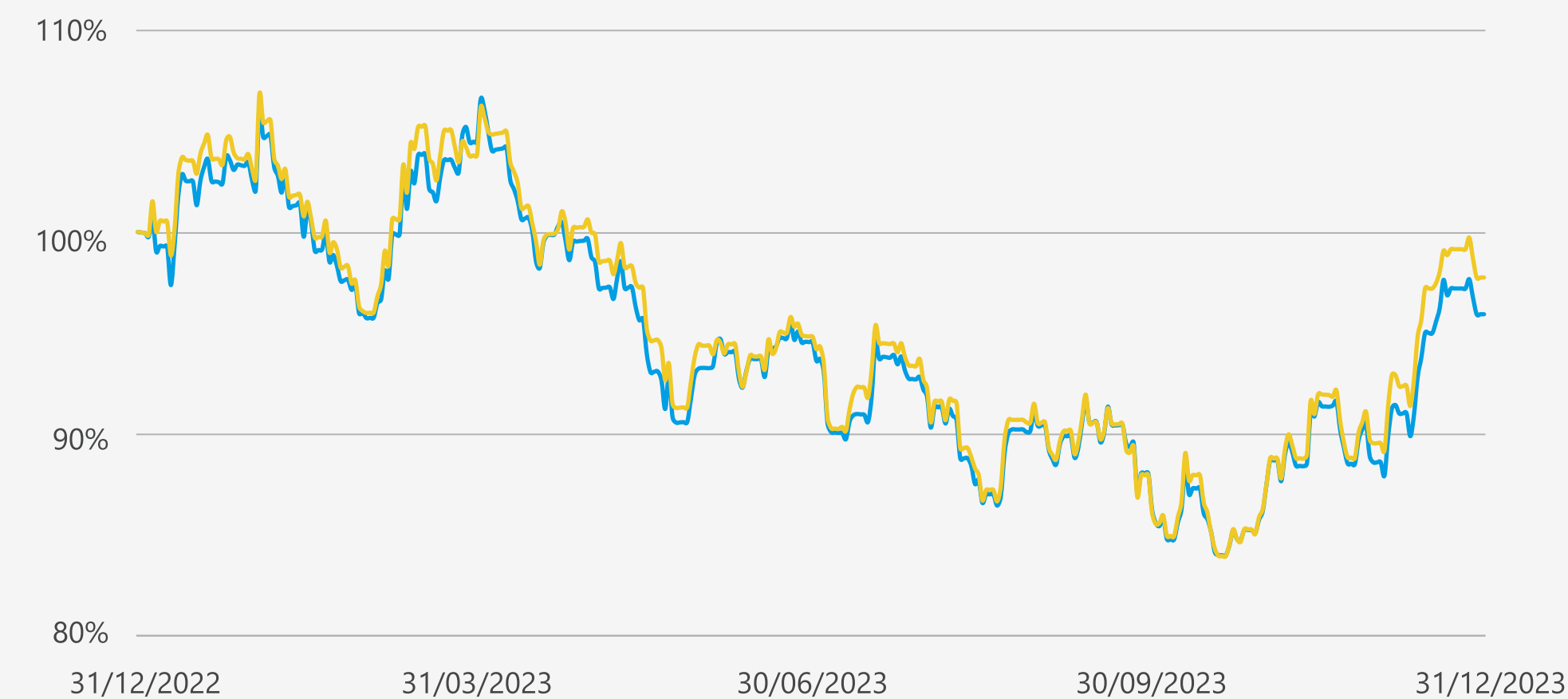
● Relative CETV for a 60 year old member with fixed pension increases

● 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

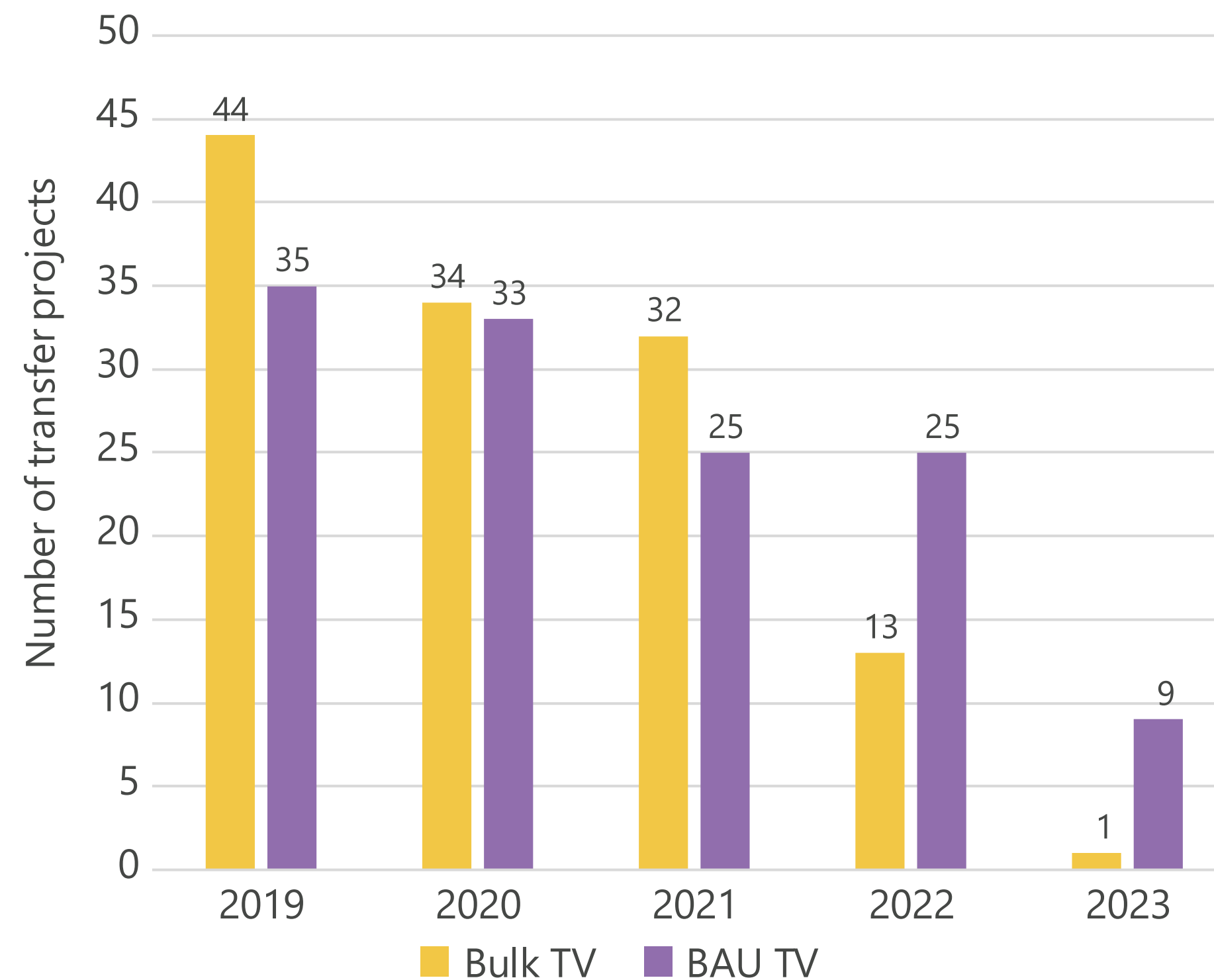
Following the introduction of the pension flexibilities in April 2015, schemes increasingly looked to support members with retirement and transfer decisions.

We have analysed data on Independent Financial Advisor (IFA) supported transfer value exercises that we're aware have come to the market. This covers both one-off bulk exercises and ongoing business-as-usual (BAU) exercises.

In both types of exercises, the employer and/or trustees were appointing an IFA to provide financial advice to scheme members.

The chart to the right shows the market activity we have been aware of since 2019. 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.

Number of transfer projects by calendar year .....



The chart shows there has been a very significant drop off in transfer value exercises, with very few schemes choosing to run these exercises in 2023. This decrease in exercises may have been caused by high gilt yields which decreased the value of CETVs and schemes focusing on buyout preparations.

## All transfer value activity

### Transfer value quotes and payments

The two charts illustrate that transfer value activity continues to be low at the moment by historical standards.

Our analysis suggests that the number of transfer value quotations requested by members was largely unchanged over the quarter. This means that the number of quotations issued over Q4 2023 was noticeably higher than in Q4 2022, however, this is likely only because many schemes chose to temporarily pause CETV calculations following the October 2022 gilt crisis.

The continued low levels of member interest in the CETV option is likely to be due to the significant falls in CETV values over the past couple of years as gilt yields have risen. Changes introduced by the Financial Conduct Authority (FCA) in October 2020 may also be a contributing factor to the low number of transfer value quotations.

The number of transfer value payments has also remained at low levels over the last quarter, as shown by the bottom chart. However, there was a slight uptick in the number of transfers out in Q4 compared to Q3. Rising CETV amounts over the final quarter of the year (as shown on page 2) will offer further encouragement for members to transfer, so it will be interesting to see whether this trend continues into 2024.



## Latest CETV related news

- The fallout from past episodes of financial advisers giving poor DB transfers advice continues, with the Financial Conduct Authority (FCA) issuing a warning notice to one and a ban to two others in relation to historic DB transfer advice.
- Transfer value activity appears to have settled down to a new normal, at levels much lower than seen before 2022.
- Our recent [blog](#) outlines our thoughts on what this 'new normal' means for member options exercises, like a transfer value exercise. It concludes that, whilst trustees and sponsors may not have compelling reasons to do the types of exercises we have seen in the past, members are still likely to benefit from a proactive approach in this area.





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](mailto:info@barnett-waddingham.co.uk)

☎ 0333 11 11 222

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