



BRIEFING

Transfer value experience - Q3 2023

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

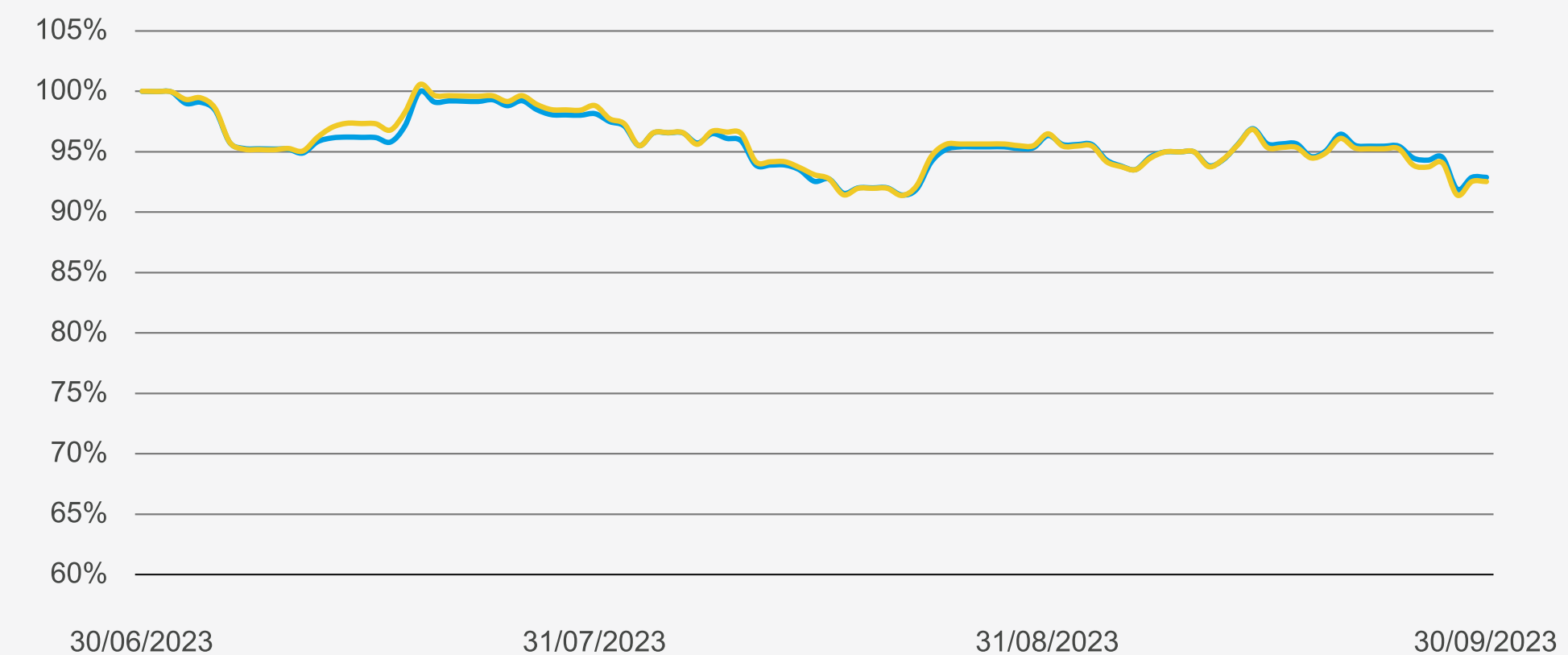
CHANGES IN CETV AMOUNTS

- A typical CETV for a 60-year-old decreased by around 18% for inflation linked increases and around 15% for fixed increases over the twelve months to 30 September 2023.
- CETVs have fallen roughly by 7% over the quarter to 30 September 2023.
- The yearly change chart illustrates that there have been two distinct periods of interest over the past year. Firstly, there was the extreme volatility around October last year, which saw huge fluctuations in transfer values in a short space of time. However, since late November 2022, there has been a relatively steady reduction in CETV amounts, reflecting the gradual increase in long-term gilt yields over the past 10 months.

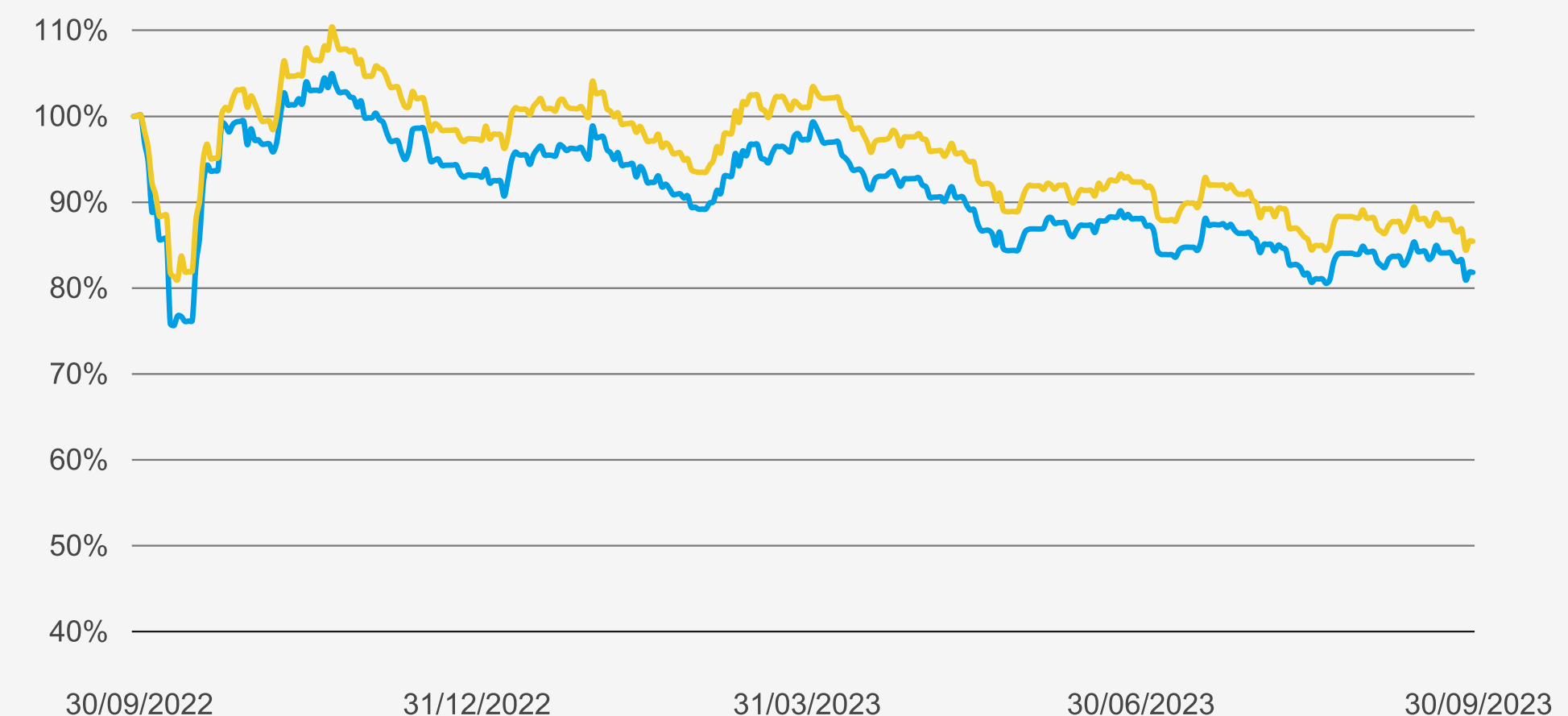
● Relative CETV for a 60 year old member with fixed pension increases

● 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

- One bulk exercise came to the market over the twelve months to September 2023.
- This exercise was for a scheme with over 1,000 members.
- Q3 saw no new exercises which continues the trend we have seen over 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.

BUSINESS-AS-USUAL ('BAU') EXERCISES

- 13 BAU exercises came to the market over the twelve months to September 2023.
- Over the past twelve months, all BAU exercises have been expecting less than 100 members a year to access financial advice. This is a change from previous quarters where broadly 25% of exercises were expecting more than 100 members a year.
- Q3 2023 saw four new exercises which was amongst the highest out of any quarter since Q4 2022. Unlike bulk exercises, there has still been demand for BAU exercises in Q3 2023.

All transfer value activity

Transfer value quotes and payments

The two charts illustrate that transfer value activity continues to be very low at the moment. Our analysis suggests there has not been much change from Q2 2023 to Q3 2023, as there has only been a 3% decrease in transfer quotations issued.

This does mean that Q3 2023 was the third lowest quarter for the number of quotations issued since we started analysing data back in 2019. The only other quarters that saw a lower number of quotations issued were Q2 2020 and Q4 2022.

The lack of quarterly change is a reflection of the relatively stable market conditions. 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 have also remained at very low levels over the last quarter, as shown by the bottom chart. The percentage of quotations implemented decreased by around 15% from Q2 2023 to Q3 2023, meaning Q3 2023 saw the lowest number of transfer payments since we began analysing data. This is likely a result of fewer transfers being requested and reduced transfer value amounts.



Latest CETV related news

- Transfer value activity continues to fall, with widespread reporting of low levels of activity across the market.
- Transfer values amounts have fallen over the quarter in the face of rising long-term interest rates.
- A freedom of information (FOI) request to the FCA showed that the number of advisers able to advise in the specialist area of DB transfers has fallen by around two-thirds in the four years to May 2023, demonstrating the difficulties individuals face in getting this specialist advice.





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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