



BRIEFING

# Transfer value experience - Q2 2023

We have analysed defined benefit (DB) cash equivalent transfer values (CETVs) over the twelve months to 30 June 2023.



# 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).

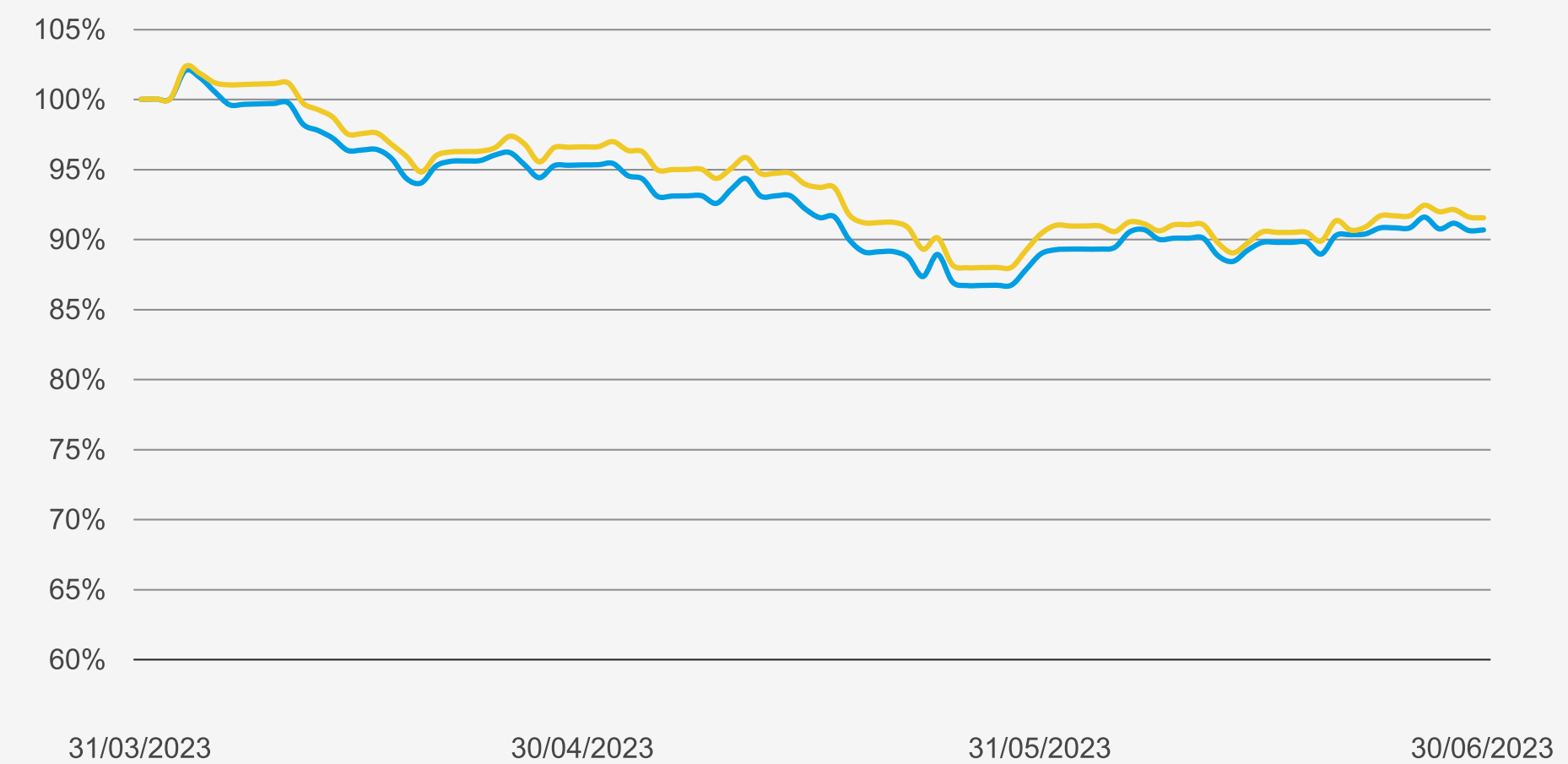
## CHANGES IN CETV AMOUNTS

- A typical CETV for a 60 year old decreased by around 25% over the twelve months to 30 June 2023. This is because gilt yields increased significantly over the second half of 2022, due in part to the Bank of England's decision to increase interest rates in response to high inflation.
- CETVs have fallen roughly 10% over the quarter to 30 June 2023. This follows further rises in gilt yields over the period.

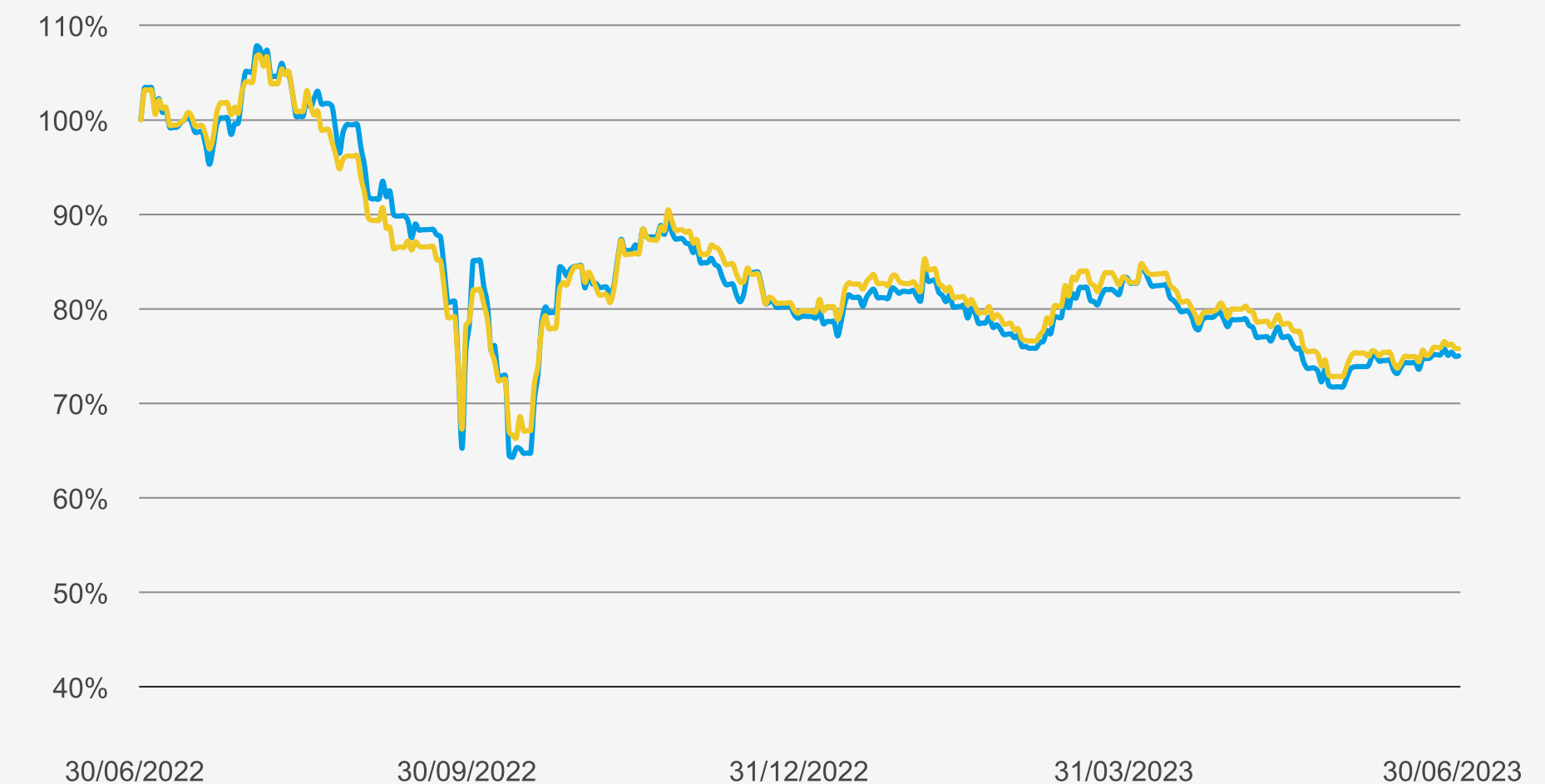
● Relative CETV for a 60 year old member with fixed pension increases

● 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

- Four bulk exercises came to the market over the twelve months to June 2023.
- Exercises for members between 100 and 1,000 members are the most common size we see.
- Q2 2023 saw no new exercises which was the same as Q1 and is the lowest out of any quarter pre 2023. This decrease in exercises may have been caused by higher gilt yields which have decreased the value of CETVs and increases the number of schemes focusing on buyout preparations.

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

- 21 BAU exercises came to the market over the twelve months to June 2023.
- There remains a broadly 75 / 25 split between BAU exercises expecting less or greater than 100 members a year to access financial advice.
- Q2 2023 saw two new exercises which was amongst the lowest out of any quarter since we started this analysis in 2019. However, unlike bulk exercises, there has still been some demand for BAU exercises in Q2 2023.

## All transfer value activity

### Transfer value quotes and payments

The two charts illustrate that transfer value activity is very low at the moment. Specifically, our analysis suggests that over the past four years there has been a 20% fall in the number of transfer quotations issued and a 50% fall in the number of transfer values paid.

Indeed, Q2 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 (Q2 2020 and Q4 2022) were periods of extraordinary market volatility (being affected by the first lockdown announcement and the 'mini-budget', respectively) during which many schemes chose to suspend CETV quotations.

In part, this continues a trend of falling transfer value quotations, which we speculate is due to changes introduced by the FCA in October 2020, which included a ban on contingent charging. However, the significant recent fall in quotations can more likely be attributed to the material falls in transfer value amounts over the past year following the rise in gilt yields.

The bottom chart illustrates that the number of transfer value payments remained at very low levels over the latest quarter. Indeed, Q2 2023 saw the lowest number of transfer payments since we began analysing this data. This is likely due to the combination of fewer transfers being requested and reduced transfer value amounts.



## Latest CETV related news

- Transfer value activity continues to be muted compared to previous periods, with a sustained, significant fall in the number of transfer values paid out since the mini-budget in 2022.
- Transfer values amounts have stabilised over the quarter and settled at a level about 25% lower than they were twelve months ago.
- All IFA firms will need to consider how the upcoming Consumer Duty requirements from 31 July 2023 will impact how they provide DB transfer advice, which may result in some significant changes to their advice process.





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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