

All change for DB transfers

LCP's analysis of the transfer experience of the schemes we administer

Issue 31, November 2023

Take up rates fall further to a new all-time low of 3%.

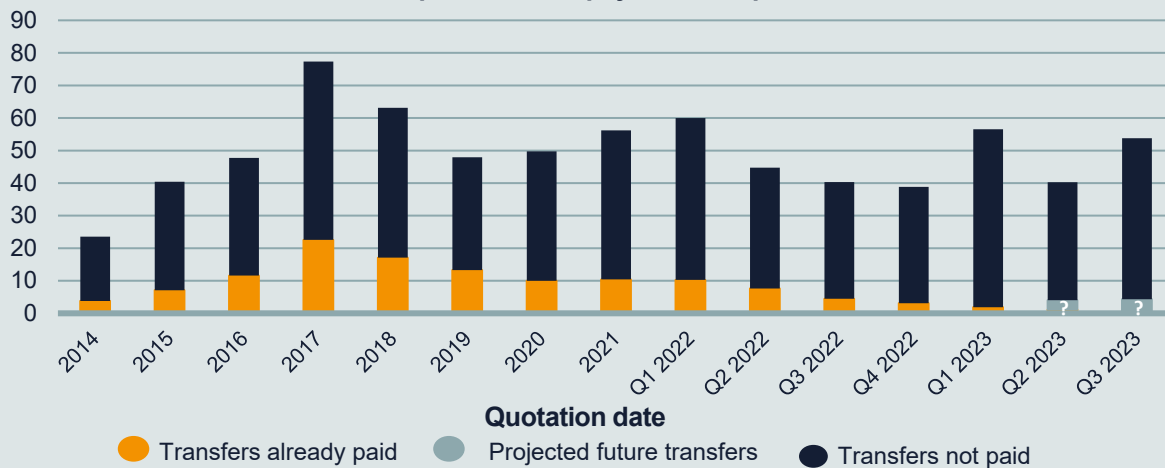
The take-up rate (percentage of quotations ultimately paid out) for quotations issued in Q1 2023 - the latest quarter with complete payment data - was only 3%. This is a significant drop and the lowest figure we have seen since we started our analysis almost 10 years ago. The previous quarter, Q4 2022 also saw a low take-up rate of 8%. Since the start of 2022, take-up rates have dramatically decreased from the 17% we saw for quotes issued in Q1 2022 and the high of 34% in 2017.

The low take-up rate coincides with low average transfer values. For quotations made in the Q1 2023, the average transfer value paid was £333,000, which is the second lowest figure since Q2 2015.

In Q3 2023, the average quote value was £162,000, a decrease from the £181,000 average value recorded in Q2 2023. This is the lowest figure we've seen since we started our analysis in 2014 and coincides with a sharp rise in government bond (gilt) yields. Gilt yields have been rising over 2023 and Q3 2023 saw the highest yields since 2014.

Nevertheless, members with DB pensions continue to ask for transfer valuations. LCP's administration team issued quotations for 1.3% of non-pensioner members in Q3 2023. This is a 30% increase from Q2 2023 where the figure was 1.0%.

Annualised quotation and payment rate per 1000 deferred members



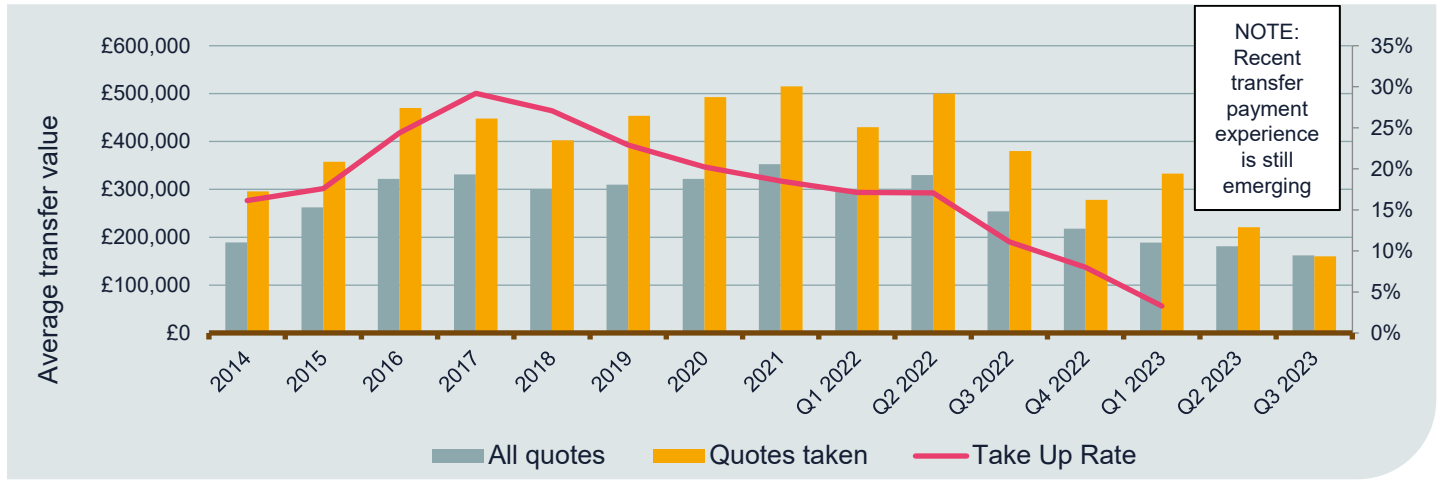
Fall in in take-up rate coincides with a further fall in quotation size

We now have complete payment experience for quotes provided in Q1 2023 which shows only 3% of transfers quoted were taken-up, this is by far the lowest rate we have seen since we started our analysis in 2014.

The main reason for the fall in take-up rates is likely to be the rise in gilt yields and the subsequent fall in transfer values. The average quotation size for Q1 2023 was £189,000, this was lowest figure since Q3 2014, with average quotation sizes for Q2 and Q3 2023 now even lower. This dramatic fall in transfer values means that the option to take a transfer is looking a lot less attractive to members than it may have done a few years ago. Especially for those members who might have received a previous transfer value quotation or illustration and can see that the value has fallen sharply.

The average transfer value paid for Q1 2023 was £333,000 this is the second lowest figure since Q2 2015. The average transfer value taken tends to be higher than the average transfer quoted, as it tends to be members with higher value benefits who take a transfer value. As can be seen from the chart below both the average transfer quoted and transfer taken have been trending down since 2022.

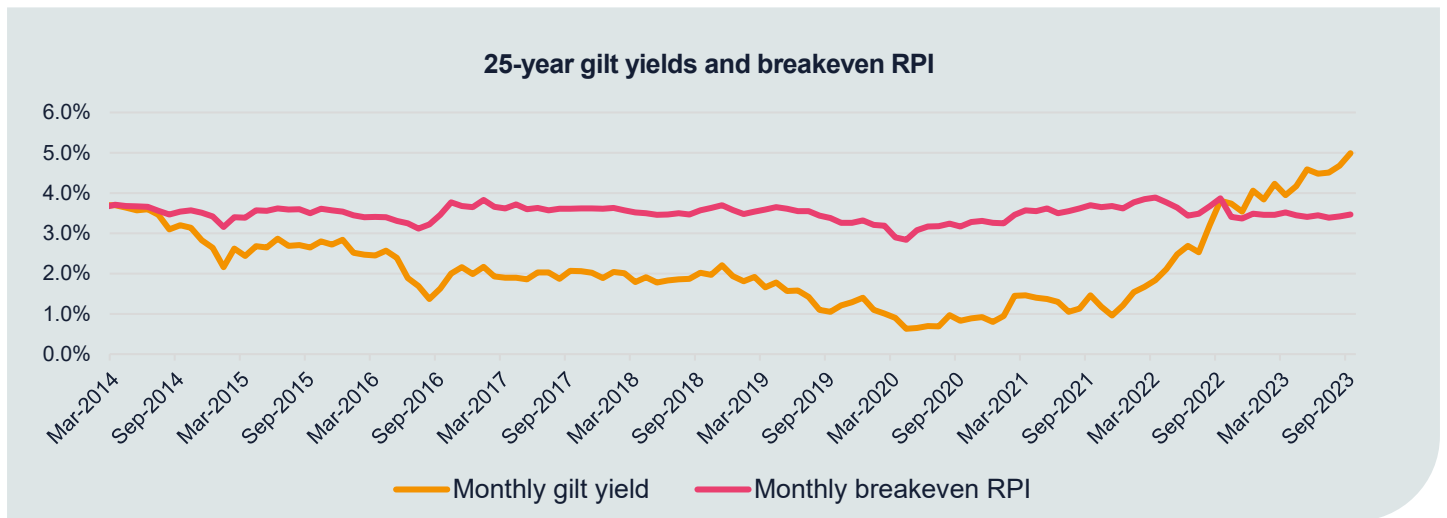
As discussed in our [previous glossy](#), the new scams legislation has led to delays in transfer values being paid out which may also be suppressing the Q1 2023 take-up rate



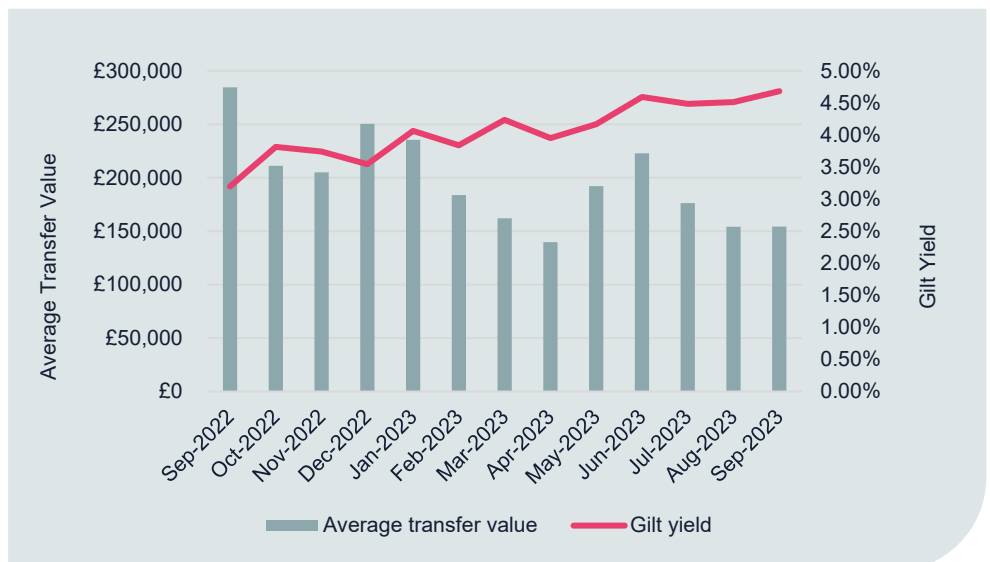
Transfer values continue to decline as gilt yields rise.

The average transfer value quoted for Q3 2023 was £162,000, this is the lowest figure we’ve seen since we started our analysis in 2014. Most schemes use gilt yields as the reference rate to set their discount rates to calculate transfer values. Therefore, the continued rise in gilt yields over 2023 and the subsequent rise in discounts rates, has led to lower transfer value quotations.

As shown in the chart below. A typical 25-year gilt yield has continued to rise since the start of 2022. Over Q3 2023 gilt yields continued to fluctuate and rise. By 30 June 2023 gilt yields were at 4.5% pa and reached 5.0% pa at 30 September 2023, which is the highest level we have seen since we started our analysis in 2014. As a result of these particularly high gilt yields, the average transfer value for Q3 2023 fell to £162,000.



From the chart on the right, we can see that since September 2022 as gilt yields have risen the average transfer value quoted has decreased (with a one-month lag). Given the continued rise in gilt yields, it is likely we will continue to see transfer value quotes further decrease due to the time lag in the impact of gilt yields on transfer value quotes. We expect this may also have a knock-on effect by further reducing take-up rates - perhaps even below 3%!

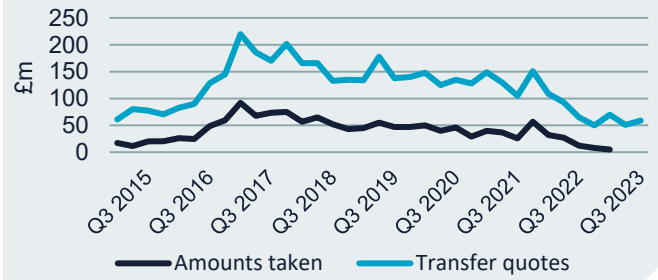


Long-term trends in transfer activity

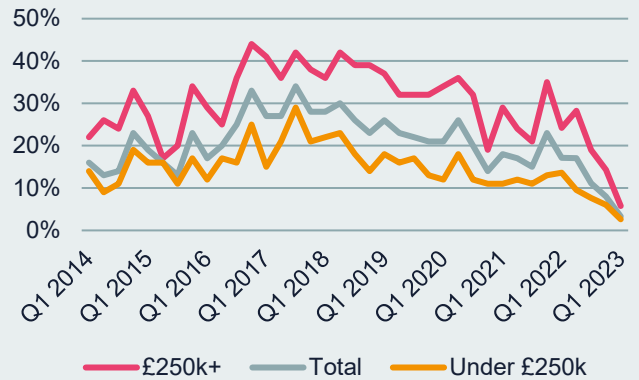
In the 12 months to 30 September 2023 our administration teams provided transfer value quotations to 3.8% of deferred members, with a value of £230m in total. This compares to 4.6% and £418m in the 12 months to 30 September 2022. Overall transfer quotation activity remains significantly lower than the peak in activity seen in 2017 when almost 8% of deferred members requested transfer quotations with a total value of £778m.

In Q1 2023 the total value of payments in respect of quotations was £5m with an average size of £333,000; in comparison to the peak for quotations provided in Q1 2017 where £92m paid out with an average size of £627,000).

Total amounts quoted and paid out



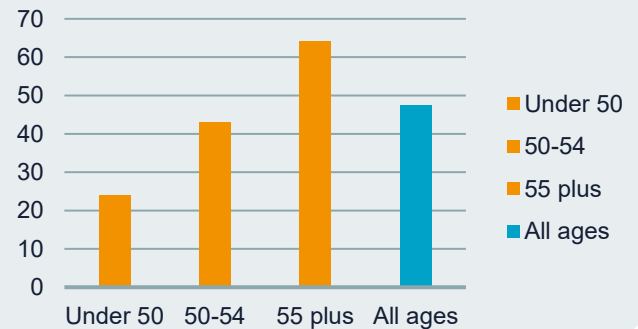
Proportion of transfers taken over and under £250k



Transfer value quotations in year to 30 September 2023

Quotation rates continue to be highest for those aged 55 and over. Over 6% of members aged 55 and over requested a transfer quotation in the year to 30 September 2023, compared to just over 2% of members aged below 50.

Number of quotations per 1,000 deferred members in each age group

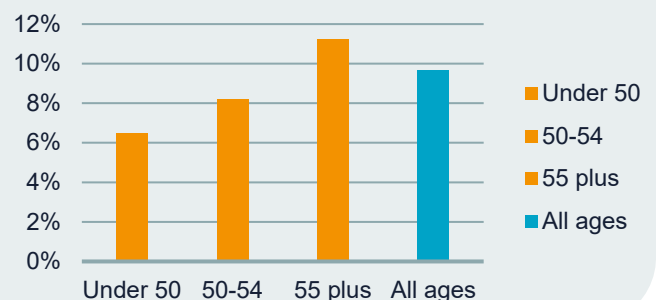


Transfer values taken in year to 31 March 2023

Around 11% of quoted transfer values proceeded to payment for those members aged 55 and over, compared to 10% of all transfer values quoted in the 12 months to 31 March 2023. Only 6% of transfers quoted to members under 50 were taken over the same period. As a proportion of all quotations in the year which were then paid, 74% were paid to members aged 55 and over and 7% were paid to members under 50.

The average transfer value taken in respect of quotations in the 12 months to 31 March 2023 was £404,000, this is just under twice the average price of a house in the UK during this period.

Proportion of quotations that proceed to payment in each age group



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