Why transfer exercises are declining

Summary
- Pensions transfer exercises have declined since 2022.
- An increase in gilt yields and the reluctance of financial advisory firms willing to conduct these exercises are partly to blame.
- Better-funded schemes may not see the point of a CETV exercise.

Rising gilt yields, proximity to buyout and difficulties in finding financial advisers willing to execute transfer exercises have contributed to a decline in volumes over recent years

Several data sources confirm waning pensions transfer activity. In September, XPS Group said that its Transfer Activity Index had fallen to its record low over August, with an annualised rate of 14 members for every 1,000 transferring their benefits to different arrangements. Apart from a short increase in July, volumes have been stuck at lower levels throughout the year.

This is a trend that has also been reflected in Barnett Waddingham's data. Just five transfer value exercises came to market in the opening six months of the year, the consultancy said in August, with the decline in exercises witnessed in 2023 having continued into 2024.

A standard CETV for a 60-year-old member fell by around 3 per cent for inflation-linked increases and approximately 2 per cent for fixed increases during the 12 months to 30 June 2024, Barnett Waddingham observed.

"Since the 2022 gilt movement, and those significant increases in gilt yields, the value that actuaries, trustees and schemes are placing on the cost of providing benefits in the future has fallen," says Mercer partner, Matt Smith. Higher expected returns as a result of higher underlying gilt yields have led transfer values falling by as much as 50 per cent in some cases, he continues.

"It is fair to say that transfer exercises have been much less common over the past couple of years," says Broadstone chief actuary, David Hamilton.

'Take-up rate was never that good'

Experts recognise a number of reasons behind the fall in transfer activity. The rise in gilt yields since the 2022 mini-budget is partly responsible. This "served to reduce transfers and make them less eye-catching, particularly for members who were looking at the pound amounts rather than relative to annuity pricing", Hamilton says.

Cartwright director of investment consulting, Sam Roberts, says that CETV exercises for defined benefit schemes have become something of a rarity. "With the odd exception, the typical take-up rate was never that good," he says.

"A big lump sum can be tempting to members but there are hurdles in terms of members getting advice to do it and deciding what they do with the cash afterwards, and ultimately they have to make a positive decision to transfer out," Roberts continues. "The status quo will feel safer, rightly or wrongly."

A survey of large DB schemes published by Legal & General, in partnership with the Centre of Economics and Business Research, in March revealed that 53 per cent of respondents are targeting a buy-in or buyout.

This proximity to buyout has played a part in low transfer volumes. "Some schemes rushing to buyout were reluctant to lose time undertaking a member exercise when the opportunity to simply secure all benefits and draw a line under their DB journey was already available to them," Hamilton says.

"With generally better funded DB schemes, many schemes don't need a CETV exercise to afford buyout," Roberts observes. "Why go through the extra hassle, cost, uncertainty and delay of a CETV exercise?"

Independent financial advisers are reluctant

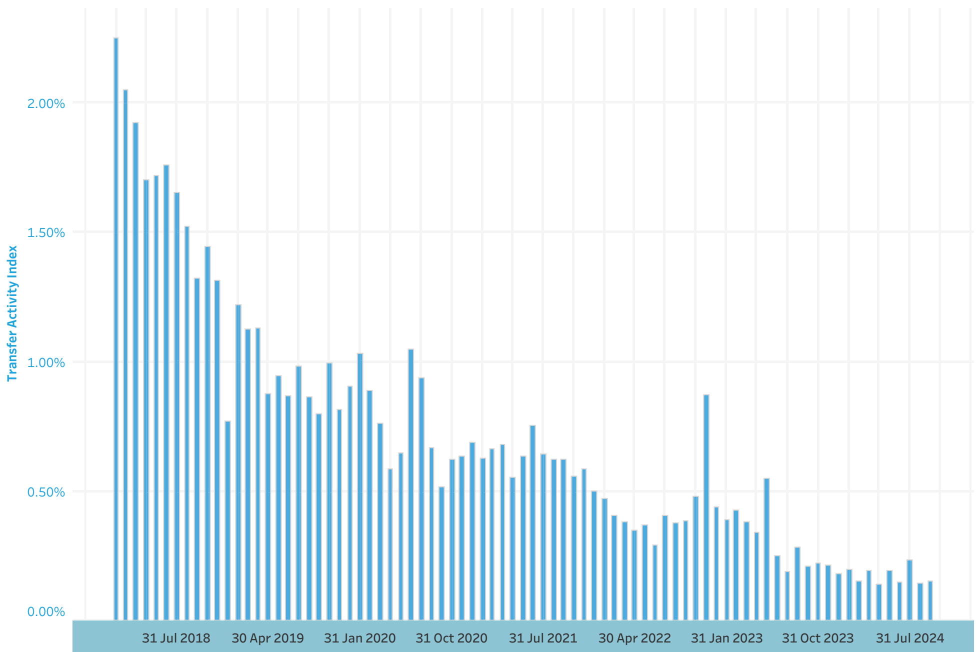
Independent financial advisers also appear increasingly unwilling to conduct transfer exercises. According to Aegon, 43 per cent of financial advice firms offered DB transfer advice in 2018, a figure that now just stands at 19 per cent – with 7 per cent of firms stating that they will stop or significantly reduce the extent to which they offer this service.

"With generally better funded DB schemes, many schemes don't need a CETV exercise to afford buyout"

"The majority of IFAs have chosen to stop advising on transfers out due to the reputational risks of doing so," says Roberts. "This makes it more difficult for members to get the required financial advice."

Rather than changing market conditions, WTW head of member options, Abigail Currie, believes that recent modifications made by the Financial Conduct Authority to financial advice requirements have been a key driver in the drop-off in transfer exercises. An IFA now needs to be able to demonstrate that the transfer would better meet the retirement needs of that member than staying in the scheme.

The adviser needs to understand that member's needs and wants, a task that is more challenging when it comes to younger members, Currie observes. In 2020, the FCA said in a guidance



Source: XPS Transfer Activity Index

consultation that "if a client is some way from retirement and has no clear idea of what they want from it, it may not be possible to advise them on a transfer, until they are closer to retirement".

"You then think about that in the context of a bulk transfer exercise, when you're writing out to members of all ages," Currie says. "You're probably going to get a reasonable proportion of members that are going to engage in the process," she says, suggesting that 50 per cent of people engage with an adviser when written to in bulk.

"They'll go through the process, they'll take the paid-for financial advice, but then the adviser won't be able to give them a positive recommendation to transfer," Currie says. "At that point, you've gone through the cost of doing a bulk exercise, and actually you haven't really seen the transfer take-up come up on the back of it."

Around 35 per cent of schemes have now appointed a financial adviser at the point of retirement, Currie notes, citing WTW data, which helps schemes to support members when they have their retirement plans in place.

Squire Patton Boggs pensions partner, Kirsty McLean, recognises an unwillingness on the part of IFAs to conduct these transfers.

"I have heard anecdotally that it's becoming harder and harder for members to get the financial advice that they need if they're transferring out of a DB scheme with more than £30,000 worth of benefits," she says.

"There are fewer IFAs who are prepared to get the regulatory permissions and maintain them for that line of business, which I have some concerns about, because it is the right thing to do for some people".

McLean has experience of schemes and employers paying for advice, often at a discounted price, with low take-up from members. "I haven't seen a scheme choose to do that for probably at least a couple of years now," she says, with this trend partly being driven by difficulties in finding a provider.

A resurgence?

While a surge in transfer exercises appears unlikely in the short term, there are signs that some members are beginning to embrace transfer exercises once more.

"Anecdotally IFAs have told us that members are starting to get used to a 'new normal' on transfer value levels and they're starting to see an uptick in take up," Aon partner, Kelly Hurren, tells *Pensions Age*, adding that this has yet to come through in the data.

Smith does not expect a reversal in the low take-up of transfer exercises. "My personal view is that there is still a lot of value in member options for both schemes and members," he says. "They're a very valuable tool in helping members draw their retirement incomes."

Written by Alex Janiaud, a freelance journalist