



All change for DB transfers

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

Transfer Analysis 2024

Issue 33, March 2025

Introduction

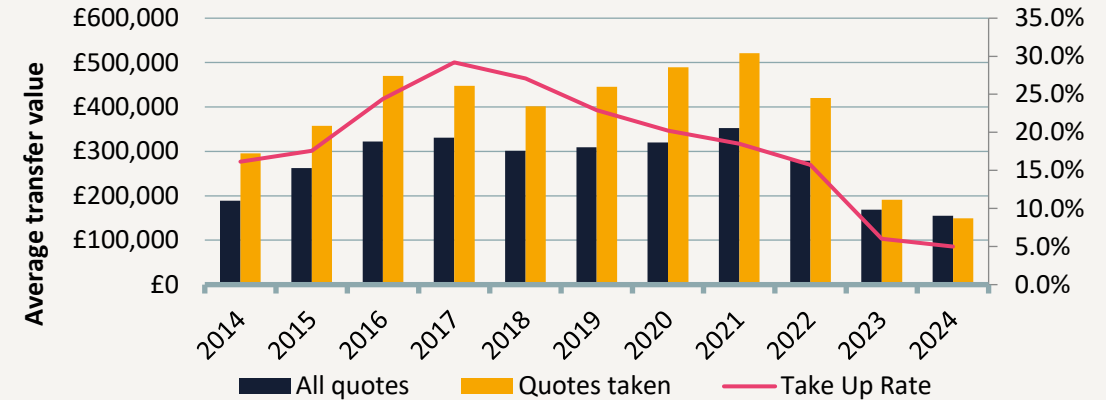
Take up rates remain at historic low level over 2024

The take-up rate (percentage of quotations ultimately paid out) for quotations issued in the 6 months to 30 June 2024 - the latest period with complete payment data - was only 5%. This is the joint lowest half yearly figure we have seen since we started our analysis 10 years ago. Since 2017, when take-up rates were at a high of 29%, we have seen take-up rates decrease year on year.

The low take-up rate coincides with low average transfer values. For quotations provided in the 6 months to 30 June 2024, the average transfer value paid was £149,000, which is the second lowest half yearly figure we've seen since we started our analysis in 2014.

Additionally, in 2024, the average quoted transfer value was £155,000 - this is the lowest figure we've seen since we started our analysis.

LCP's administration teams issued quotations for only 3.8% of non-pensioner members in 2024. This is the third lowest figure since 2014.



*note that the transfer payment experience goes to 30 June 2024 for 2024, as experience is still emerging

Average take up amounts have fallen below average quotation amounts for the first time

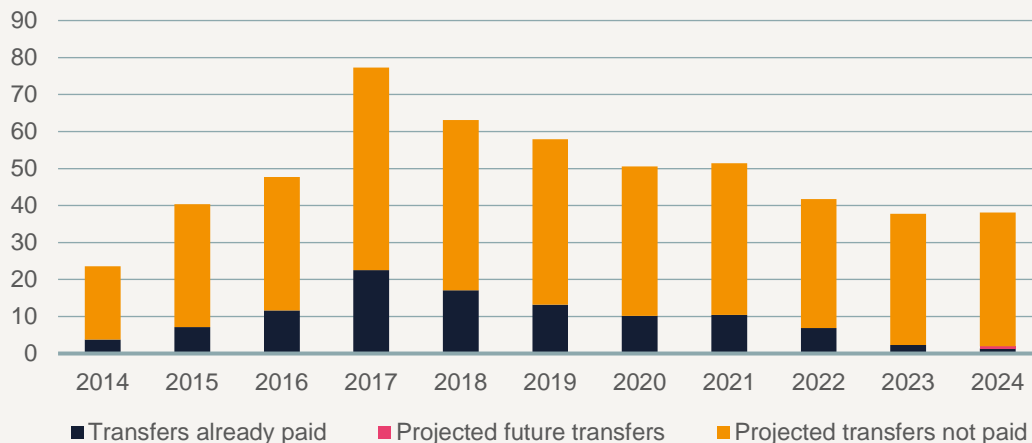
The main reason for the fall in take-up rates over the last 2 years is likely to be the sharp rises in gilt yields and the subsequent falls in transfer values. This dramatic fall in transfer values means that the option to take a transfer may now look a lot less attractive to members than it did a few 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 over the 12 months to 30 June 2024 is £147,000, this is the lowest annual figure since we started our analysis in 2014, and compares to an average transfer value for quotes issued in the same period of £151,000.

Historically, the average transfer value taken has been 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 above, both the average transfer quoted and transfer taken have been trending down since 2021, and for the first time the average transfer quoted is higher than the average transfer value paid.

Recent changes to inheritance tax rules could see take-up rates reduce even further going forward, particularly for members with higher value pensions as, from April 2027, pension funds will be included in the value for inheritance tax purposes - where previously they were excluded.

Annualised quotation and payment rate per 1,000 deferred members



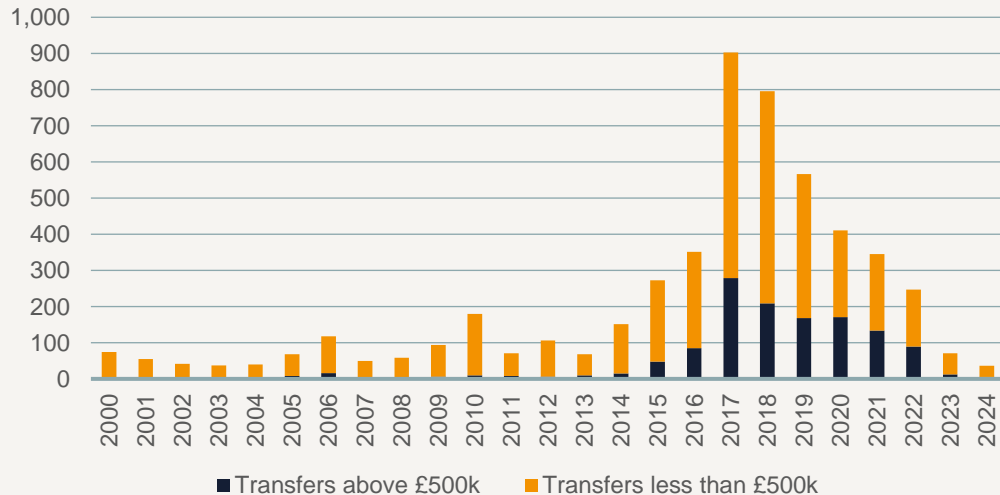
Inheritance Tax

DB to DC pension transfers

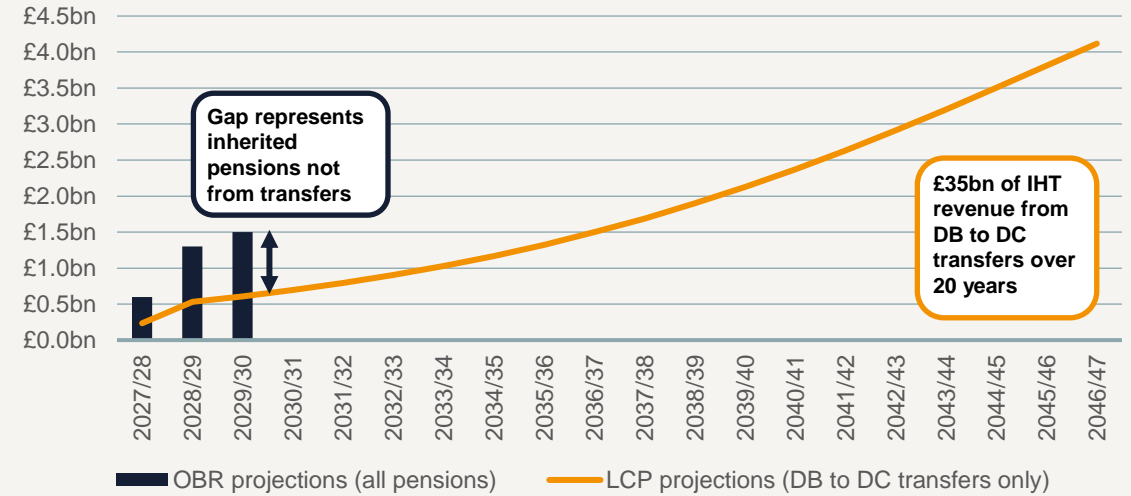
Inheritance tax (IHT) is a tax on the estate of someone who has died. The tax is only levied if the value of the estate is above a certain threshold. The Chancellor recently announced that pension wealth will no longer be exempt from IHT. From 6 April 2027, unused DC pension pots will count towards IHT as part of an individual's estate (currently they are excluded). This change will not impact DB members explicitly, but there is a potential impact if DB benefits are transferred to a DC pot – which may well reduce the attractiveness of transferring for individuals with higher value pensions.

The chart below shows the number of historic transfers over £500k administered by LCP that proceeded to payment each tax year. We have highlighted the proportion of these transfers that were above £500k as it is plausible that these transfers will count towards inheritance tax (IHT) under the new rules. From 2016 to 2022, as transfer activity in the UK peaked, approximately 1 in 4 transfers proceeding to payment exceeded £500k. We have highlighted the high take-up rates and high average transfer value amounts taken over this period in previous publications. In contrast, LCP only administered 7 DB to DC transfers in 2024 that were above £500k.

Historic DB to DC transfers per tax year



Projected IHT revenue from pension wealth



The chart above shows a projection of the expected revenue that will be collected by UK Government in respect of UK-wide DB to DC transfers. Our model projects forward to 2047 using the assumptions stated below. We have extrapolated LCP data to assess UK-wide estimates. Our model indicates that the aggregated inheritance tax collected in respect of DB to DC transfers alone will exceed £35bn over the two decades as the DB transfer generation gets older.

The OBR figures show the projected revenue from inheritance tax on all pension wealth. Our model only includes revenue collected in respect of DB to DC transfers.

Assumptions:

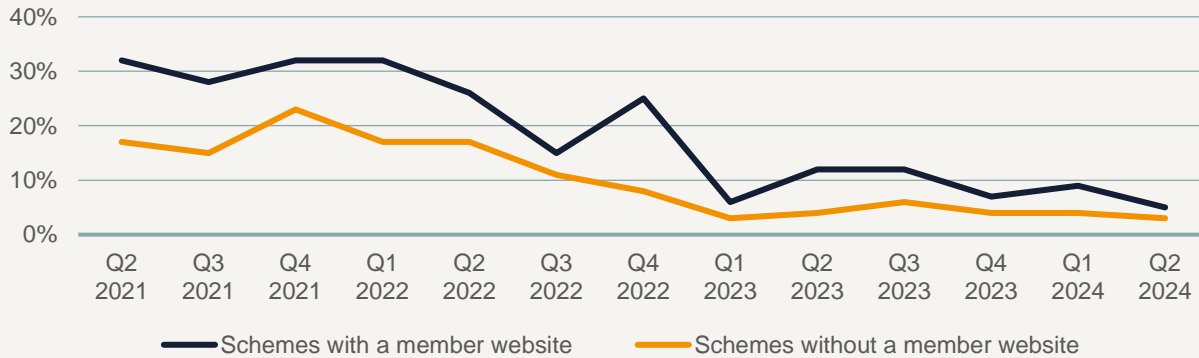
- Someone with a DC pot of £500k and above also has c.£500k in other assets
- DC pots grow at a nominal rate of 7% pa
- Funds are withdrawn from DC pots at a rate of 4% pa
- LCP administer c.1% of DB to DC transfers in the UK each year
- The existing IHT thresholds remain in place over the projection period
- Revenues are smaller in 2027/28, due to delay from a 2027/28 death to HMRC receiving revenue

Pulse member website

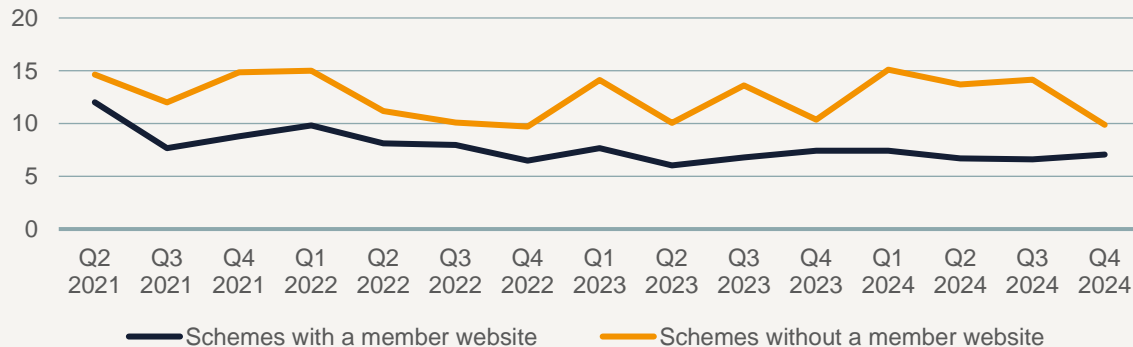
In 2019 LCP launched Pulse where members can view live information about their benefits, including an illustrative transfer value. In addition to providing an improved service to members, it was anticipated that this would reduce the number of guaranteed quotes requested and lead to higher take-up rates, as members who may previously have speculatively requested a guaranteed quote – without much intention of transferring – would now instead use the website to view their illustrative transfer value. We have analysed the quotation and take-up rates since 2021 and compared the quotation rates and take-up rates for schemes with and without a live member website.

From the chart below we can see that the quotation rate per 1,000 has been consistently lower, and the take-up rate has been consistently higher for schemes where members are able to view their illustrative transfer value on a scheme website. In previous quarters the take-up rate has been double, for example in Q4 2022 the take-up rate was 25% for schemes with a live member website and 8% for schemes without a live member website. In recent quarters the take-up rates have started to converge as there has been a decline in the overall take-up rate.

Transfer value take-up rate since 2021

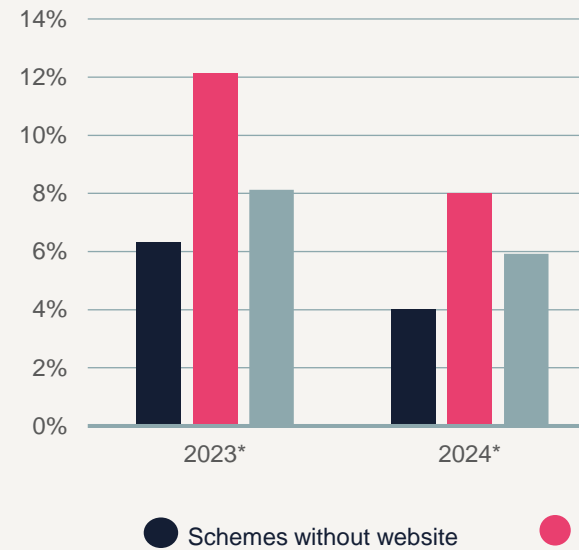


Transfer values quotation rates per 1,000 deferred members since 2021

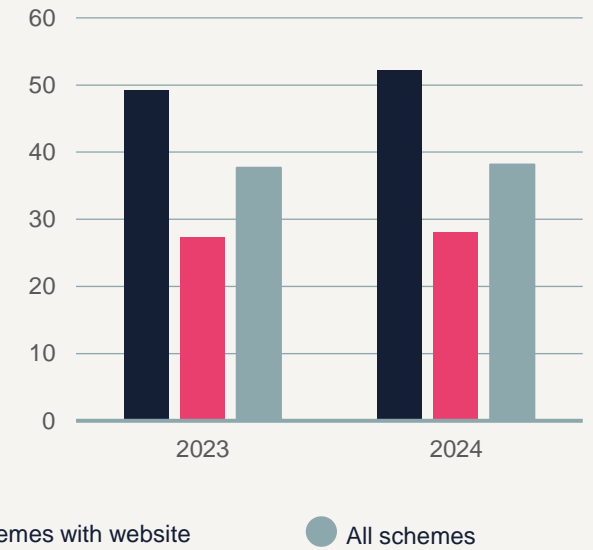


Lower quotation rates and higher take-up rates for members with access to a live illustrative transfer value

Transfer value take-up rates



Transfer values quotation rates per 1,000



*note that the transfer payment experience covers the 12 months to 30 June

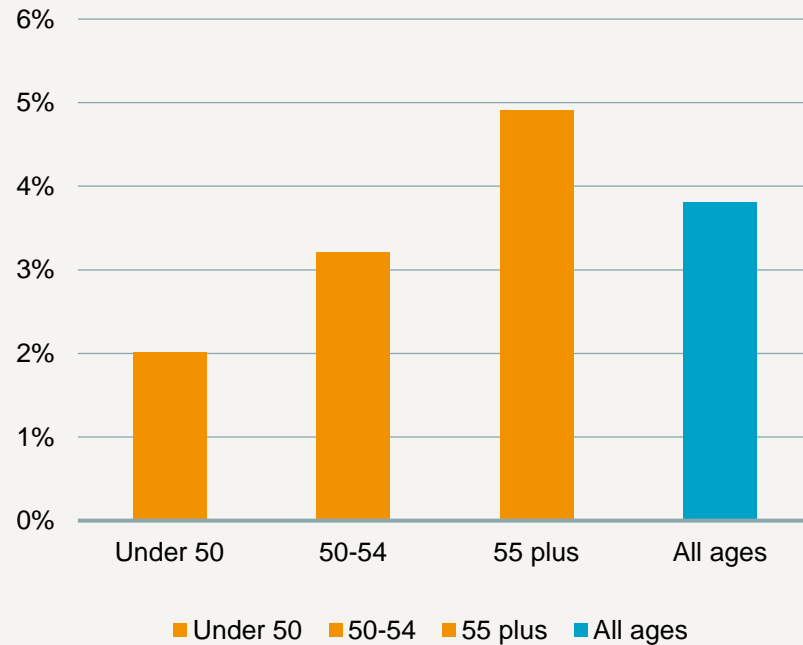
As mentioned earlier, LCP's administration team issued quotations for only 3.8% of all non-pensioner members in 2024. This is broken down into 2.8% for non-pensioner members who are able to view their illustrative transfer value using Pulse, and 5.2% for non-pensioner members without access to a live illustrative transfer value.

The take-up rate for all quotes issued in the 12 months to June 2024 was 6%. This can be broken down to give a take-up rate of 8% for members with access to a live illustrative transfer value and 4% for members without access. The overall decline in take-up rates since 2023 is reflected in both schemes with a live member website and schemes without.

Demographics

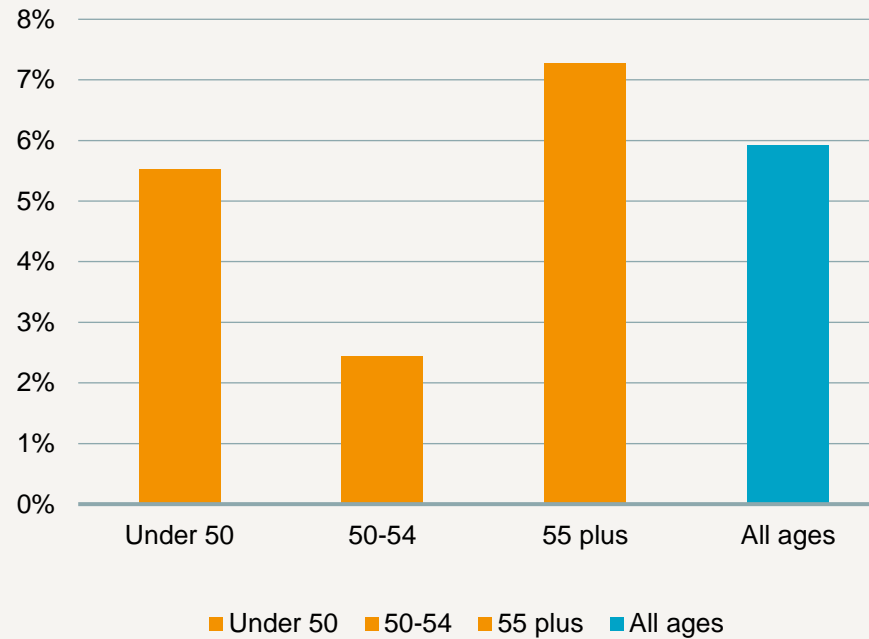
Transfer value quotations in year to 31 December 2024

Quotation rates continue to be highest for those aged 55 and over. Under 5% of members aged 55 and over requested a transfer quotation in the year to 31 December 2024, compared to over 2% of members aged below 50.



Transfer values taken in year to 30 June 2024

7% of quoted transfer values proceeded to payment for those members aged 55 and over, compared to 6% of all transfer values quoted in the 12 months to 30 June 2024. Only 2% of transfers quoted to members aged between 50 and 54 were taken over the same period. As a proportion of all quotations in the year which were then paid, 81% were paid to members aged 55 and over and 9% were paid to members aged between 50 and 54.



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