Are transfer values too high or too low?

Summary

Our presentation provides our comments on transfer value levels in the current climate.

We show that for the first 10 months of 2015, we saw 2,400 for transfer value requests with only 8% conversion – a take-up that is much less than for cash or trivial commutation.

Our experience is that for a minority, a transfer is the right thing to do (for example, the member is single or in ill health). There is another group of insistent customers that want to access their savings more flexibly. The rest should stay where they are.

We show that transfer values for a typical scheme that backs pre-retirement liabilities with a growth portfolio and the post-retirement liabilities with a mix of gilts and bonds could have seen transfer values increase by 50% in the last 4 years.

It follows that transfer values could be seen as too high if the scheme is unable to rely on the covenant over the scheme's lifetime. We also feel cash commutation should be allowed for within transfer values, subject to materiality.

However, we explain that transfer values are generally too low to attract members and that critical yields are typically too high to lead to a positive recommendation from a financial adviser.