

The rise and fall of transfer values...

29 June 2022



After a sustained upward trajectory, many of you have noticed that our transfer values have been falling in recent months.

In a defined benefit (DB) scheme like the Rolls-Royce UK Pension Fund, you don't have an individual pot of money, so our actuary has to calculate the market value of your DB pension, which is done every month.

The transfer value you see when you get an estimate is a complex calculation that takes into account lots of moving parts, including inflation assumptions, investment performance, funding levels and interest rates. It broadly represents the purchasing power of a cash sum being used to buy an annuity and right now (June 2022) you'll get a higher annuity in exchange for your cash than you did a year ago.

Following the ever changing fortunes of transfer values is a bit like tracking the value of your house. If you're about to sell it, then the price you get for it is really important. But if you're not planning to sell it now, or in the near future, it's not that relevant; as the value of what you're selling (and subsequently buying) is likely to have changed by the time you make the transaction.

It's important to remember that the DB pension that you've earned is not fluctuating in value. Only the market value of it is changing. So if you don't think the market value is attractive enough, you still have the right to take your DB pension, which will have steadily increased in value while it's been deferred.

We've seen a lot of people who have transferred out over the last couple of years who are now worrying about falls in the value of their investments. Do remember managing investments can be stressful for many people and the regulatory authorities think that most people with a defined benefit pension will be better off in the long term taking the pension instead of transferring out.