



Finding lost treasures

- how the industry benefits from locating missing members

The problem of lost pensions is regularly mentioned. Articles mostly focus on the problem, without looking at possible solutions and the benefits for the pensions industry as a whole that could be achieved by seriously addressing this issue. Many of the stories also feature large figures which the general public cannot relate to, with no genuine discussion arising as a result.

There is little to be gained from trying to apportion blame for how the problem of lost pensions has got to this point. The figure widely quoted for the estimated size of the current lost pension pot is £3bn - £4bn, a very big number which unfortunately may not resonate with members of the public. It's an issue which is not going to be solved without the pensions industry, as a whole, taking the responsibility to try and find a solution.

It is true that members need to ensure their pension providers have correct and up-to-date details for them. Nevertheless, pension schemes and administrators need to be more proactive when it comes to trying to track down deferred members, where contact has been lost. Co-operation from pension administrators, coupled with an innovative movement to embrace independent open-source technology, as seen in other European countries, could re-unite a large percentage of the estimated one million deferred members that defined benefit (DB) schemes have lost track of within the UK. In addition, the universal marketing reach of The Pensions Advisory Service (TPAS), the Money Advice Service (MAS) and the Citizens Advice Bureau (CAB) would only further help people plan more effectively for retirement.

The current state of play

The majority of the public believe that pension schemes will get in touch with them when the time to claim their pension draws close, not realising that this is not a straightforward process if they haven't kept schemes updated of changes of address since leaving the scheme. Some members will be found using existing measures including the Department for Work and Pensions (DWP) letter forwarding, tracing agencies, section 27 notices and internet-based search tools like 192.com. However, many others including beneficiaries, ex-pats and residents not on the electoral roll may not be located in these ways.

Currently, the pensions industry follows best practise in terms of keeping in touch with their deferred members, which includes regular correspondence via written communication. Many schemes will employ various trigger points such as impending retirement or death of a member. The scheme's records of lost or 'gone away' members are likely to stem from returned annual benefit statements and/or funding statements; these however don't take into account statements which are, for example not returned by a new resident at the member's old address.

The benefits to schemes

The process of updating a scheme's records when administrative tasks such as annual benefit statements are undertaken is very labour intensive for already strained pensions departments. There is no doubt schemes would see a benefit from being able to keep track of these members throughout their working lives. A searchable online database simply containing a unique identifier such as the national insurance number of the member, whilst also containing contact details of the pension provider, could bridge this 'knowledge gap' for schemes where deferred members are not accounted for. Keeping tabs on these deferred members would significantly reduce costs for the scheme with regard to existing processes, and also help to satisfy the Pension Regulator's common and conditional data requirements.

Having accurate member data could also help to reduce buyout costs through improved location (for mortality assumptions) and marital status information. This is often seen as the most time-consuming and difficult part of the process to get right. Other de-risking exercises (such as enhanced transfer values, pension incentive exercises, trivial commutation and refunds of contributions) could have a higher success rate for reducing the scheme's liabilities, if you can contact all of your members and allow them the option to leave the scheme in one of these ways. Lost member records affect the scheme's funding position, and resolving this missing data removes certain restrictive funding assumptions, and potentially smaller pots. All of which help make the lives of pension scheme managers and trustees that little bit easier. ▶



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The benefits to members

For members themselves, there needs to be a realisation that to be able to make the most accurate and effective decisions about their retirement options, they need to be sure they have all the correct information at hand. With pensions freedoms now upon us more help than ever before is available to consumers. Despite this, there are still going to be cases where an individual seeks guidance without having a completely clear picture of their financial position. There is no benefit to these individuals, or pension schemes of benefits going unclaimed.

It is now believed that as many as one in three Britons expect to work beyond retirement age, and even a small unclaimed pension could greatly help people in this situation. Members, irrespective of how far they are from retirement, should at any time be able to locate their entire library of built-up pensions, to properly assess their retirement position.

The Government's position

A lot has already been written about the new 'pot follows member' system introduced by the DWP. It is expected to begin its first phase in autumn 2016 and, moving forward, this is certainly a move in the right direction to help prevent an escalation of workers losing track of their retirement savings as they move from job to job.

However, the system is designed only to track workplace pensions taken out since July 2012 under automatic enrolment. So once again, there is a return to the problem of potential lost pensions prior to this date, which lie in unclaimed occupational and personal pension plans in the UK. The Government claims that the plan could halve the number of dormant pensions by 2050 – and says that otherwise 50 million individual pensions would go unclaimed by that point.

It should certainly stop the continued growth of lost pensions in the forthcoming years, but whilst existing benefits continue to go unclaimed the Government is losing out on tax revenue that could be earned from the payment of these pensions. On an individual basis, a traced pension may not be of significant value to HM Revenue & Customs – £30 a week in recent years – but taken as a whole we are looking at a large sum of money, and therefore lost tax revenue. In 2014, the Pension Tracing Service helped around 100,000 people find pensions worth in excess of £150 million, which is less than 5% of the estimated total unclaimed pension pot.

In conclusion

If the Government resolves the issue of lost pensions, then the benefits are quite clear. Deciphering the problem need not be an expensive project; a growing UK National database such as PensionsLink incorporating FindMyLostPension.com was developed for considerably less than the Dutch pension tracking system, for example. The task of providing people with a crystal clear vision of their entire retirement savings does however, remain challenging, requiring co-operation from all interested parties, both the public and private sector.

The upshot though would potentially benefit millions of participants. From the employee able at any time to see their retirement funds and plan for the future, to a beneficiary who can easily track down an entitlement, or defined benefit schemes which could plausibly reduce their liabilities. Not to forget third party administrators and insurance companies. Finally, there is the Treasury and very welcome increased tax revenue.

So there would be a considerable upside to the pensions industry as a whole if it were to pull together resources and help consumers be reunited with their rightful entitlements. At present it appears that not a day goes by without another pension scam warning from ministers. It would be a welcome change to restore public confidence in retirement saving with news that people need no longer worry about lost pensions, as the industry had worked together to find a resolution. 📌