

# Lost pensions: what's the scale and impact?

## PPI Briefing Note Number 110

Page 1

### Introduction

It is not uncommon for individuals to lose track of some or all of their pension savings. If unclaimed, these 'lost' pensions can impede individuals in achieving adequacy goals in retirement and ultimately leave them more reliant on State Pension payments and means-tested benefits. However, at present there is no agreed upon definition of which pension assets can be classified as **lost** or **'dormant'**. Neither is there an agreed upon estimate of the value of pension assets that may be lost. There is also a variation in the effectiveness of attempts to reunite savers with their lost pension pots, which compounds this issue.

This Briefing Note explores the definition of lost pensions, the estimated value of such policies, as well as the effectiveness of current processes to reunite individuals with their retirement savings. It presents data from the PPI Lost Pensions Survey, which covers more than 800,000 pots of which the holders are considered 'gone away'.

### People generally lose track of pensions for one of two reasons

There are two primary reasons why people may lose track of one or more of their pensions:

- Moving jobs, deferring the pension and likely accumulating a new pot with their new employer; and
- Moving house and not updating their address with their pension provider.

Nearly two thirds of UK adults have multiple pension pots,<sup>1</sup> and as work patterns continue to evolve (the average person has around 11 jobs over their lifetime) the number of people with multiple pension pots is likely to increase. Combined with the increased frequency with which younger generations (in particular renters) move house and the introduction of automatic enrolment (which has brought many unengaged individuals into pension saving), the number of individuals who have some lost pension savings is likely to increase in the future.

Younger generations are likely to move house more frequently than older generations. This is largely because, on average, they are less likely to purchase a house at a young age than previous generations, and are likely to live in rented accommodation for longer and move around more frequently. As a result they are more likely to lose contact with their pension provider, particularly in the case of workplace pension schemes for which they may have also left the associated employer.

### Definitions and interpretations of what is meant by the term 'lost' vary

Estimates of the number of lost pension pots vary depending on the definition used, and even more so on whether they are looked at from the consumer or provider perspective.

Use of the term 'lost' to describe

the pension pots is not uncontroversial, as it can be interpreted to mean lost forever and very unlikely to be reunited with the owner, rather than temporarily misplaced.

Scheme members with whom providers have lost touch are often referred to as **'gone aways'**, while their assets held within the scheme may be described as **'dormant assets'**.

The Commission on Dormant Assets (hereafter referred to as The Commission) describes a **dormant asset** as **'one that a firm is unable to reunite with a beneficial owner'**. However, because of the long-term nature of pensions, it is not unusual for members to have little regular contact with their scheme, particularly during working life.

The Commission proposed a framework for the inclusion of pension assets within an expanded dormant assets scheme (Box 1). However, the Commission primarily focused on the question of what should be done with pension assets that cannot be reunited with their owner. Because of this, the Commission's proposed definition of dormancy was limited to instances in which individuals would be unlikely to claim their lost assets in the future. The Commission stated that assets should be considered dormant and transferred to an expanded scheme in the case of:

- Pension policies with a contractual end date or trigger

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## PPI Briefing Note Number 110

Page 2

### Box 1: The Dormant Bank and Building Society Accounts Act 2008

The Act legislated that unclaimed assets in bank and building society accounts should be transferred to a reclaim fund with two key objectives:

- Ensuring that future reclaims can be paid; and
- Distributing money for the benefit of good causes.

Unclaimed pension assets are not currently included in this scheme. However, the Commission on Dormant Assets has proposed that an expanded scheme could be used to transfer unclaimed pension assets to a reclaim fund to subsequently be used for good causes.

point for crystallisation of benefits (accessing pen- beginning to receive pension payments), seven years after the contractual end or trigger date;

- Policies with no contractual end or trigger date, when the individual's age is greater than 120 years old; or
- The acceptance of a death claim.<sup>2</sup>

This proposed definition does not account for the full scope of individuals who have lost track of some of their retirement savings. Neither does it tackle the issue of how to reunite savers with their pension pots where possible.

#### Provider definitions of 'gone away' cover a broader range of individuals

Unlike the Commission's proposed definition, which aims to identify assets which are very unlikely to be reclaimed in the future, definitions used by providers include people who may still be reunited with their savings. Most providers consider customers to be gone away if a written communication regarding the pension pot

has been sent and subsequently returned as 'Not at this address' or 'Return to sender'.

#### How many lost pension pots are there?

The free Government Pension Tracing Service (PTS) aims to reunite individuals with pension pots when they have lost contact with their provider. In 2015/16, the service dealt with 169,000 tracing requests. The number of tracing requests that the PTS has dealt with each year has increased by more than 430% over the last decade.<sup>3</sup>

It is estimated that just under two thirds (62%) of UK adults have multiple pensions. Among those with multiple pensions, 21% (more than 6.6 million people) are aware of having at least one lost pension pot.<sup>4</sup> Among those who are aware that they have lost track of some of their pension savings, 17% have lost track of two pots and another 6% have lost track of three or more pots.<sup>5</sup>

The actual number of lost pots is likely to be higher because these figures only take into account pots which individuals are aware they

have lost. Providers may be able to provide a more accurate estimate of the number of unclaimed pensions.

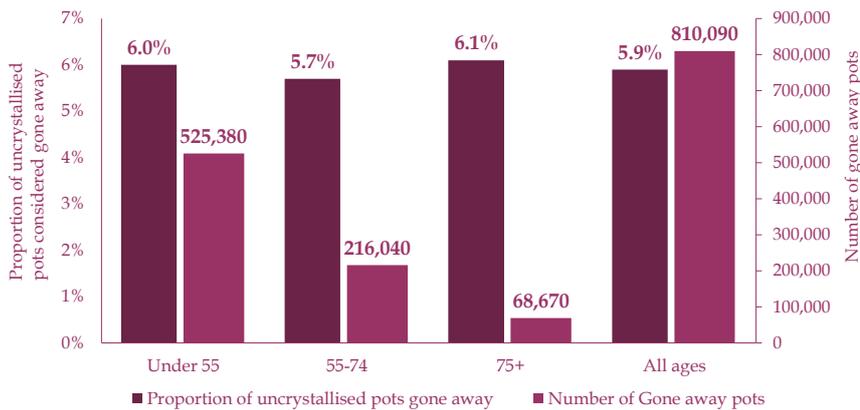
Responses to PPI's Lost Pensions Survey revealed that nearly 6% of uncrystallised pots (pots which have not yet been accessed for retirement income) are considered gone away by providers (Chart 1). Overall, over 800,000 pots were lost to the sample of providers who provided figures, adding up to nearly £10 billion (Charts 1 and 2).

There is a variance in the proportion of gone away customers by age group, with uncrystallised pots held by those aged over 75 most likely to be gone away (6% overall but individual responses vary from 4% to 54%). There is also substantial variance across the market, with the proportion of uncrystallised pots considered gone away ranging from 4.3% to 28.3%. For the most part, higher than average proportions of gone away customers is driven by those aged over 75; the two responses with the highest proportion of gone aways overall also have the highest proportion of gone aways aged over 75, at around 50%.

On current trends, the Department for Work and Pensions (DWP) predicts that there could be as many as 50 million dormant and lost pension pots by 2050.<sup>6</sup>

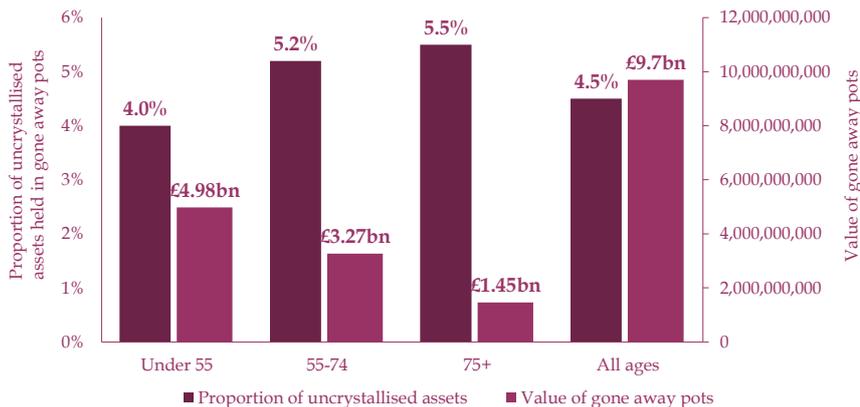
## Chart 1: Around 6% of uncrystallised pension pots are held by gone away customers

Number of uncrystallised pots considered gone away, and as a proportion of total uncrystallised pots, by age



## Chart 2: The gone away pots within the PPI lost pensions survey hold aggregate assets of nearly £10 billion

Value of gone away pots, and as a proportion of total uncrystallised pots, by age



### What is the value of lost pension assets?

The Commission on Dormant Assets estimated, in 2017, that around £400m to £500m of insurance and pension assets were dormant, with a further £40m to £50m becoming dormant on an

annual basis.<sup>7</sup> However, this estimate is based on the Commission's proposed definition of dormancy, which is somewhat narrow.

Others estimate the value of lost pension assets to be significantly

higher. The Unclaimed Assets Register estimates that there is approximately £4 billion unclaimed assets in life insurance and pension schemes.<sup>8</sup> When it launched the PTS in 2010, DWP estimated that there was around £3 billion in lost pension pots.<sup>9</sup> (Chart 3)

Based on responses to the PPI's Lost Pensions Survey and using the definition of gone away customers used by providers, the aggregate value of lost pension assets is likely to be much higher. The total value of assets held within gone away pots covered by the survey is £9.7bn (4.5% of total uncrystallised assets covered by the survey) (Chart 2), and as the survey does not cover the entirety of the market, the total value of lost pension assets will be higher still. However, unlike the assets considered lost by the Commission on Dormant Assets, these assets could still be reunited with their owners in the future.

Gone away pots are, on average, smaller than other uncrystallised pension pots. This is supported by the qualitative data, with several respondents citing small pot size as a characteristic which increases the likelihood of a customer being gone away. Based on the number of gone away pots covered by the survey and the total amount of gone away assets covered, the average gone away pot may be worth around £12,670, although there is variation between age groups and

across the market. Looking at the average size of uncrystallised pots, the average gone away pot is around 22% smaller (Chart 4). Gone away pots held by those aged over 75 are around half the size of average uncrystallised pots held by this group.

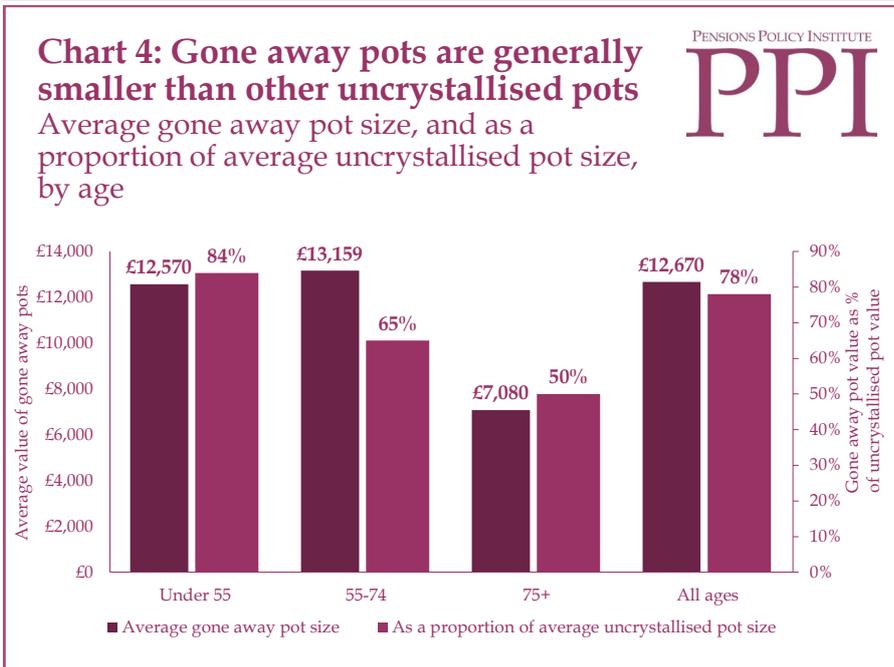
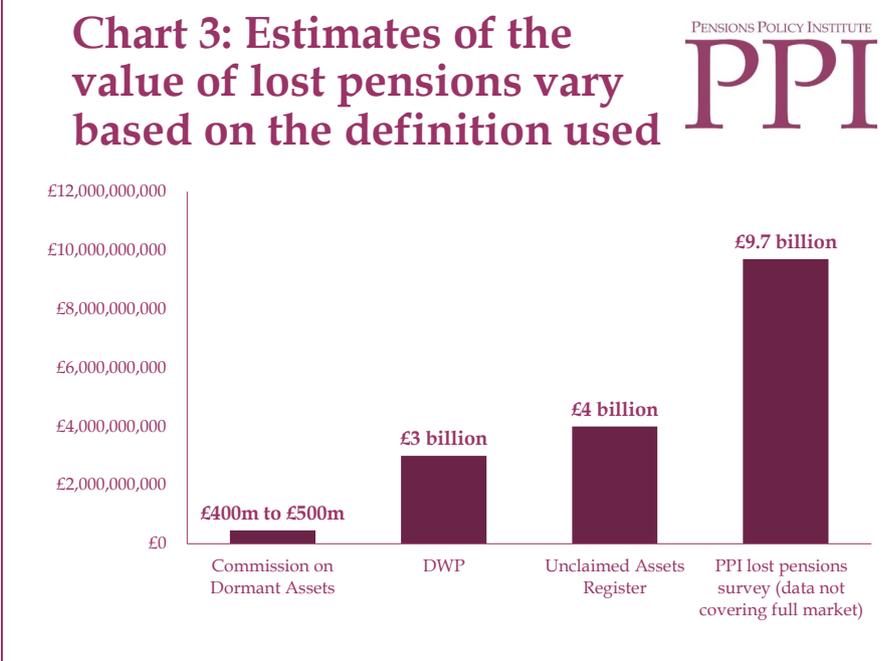
### There could be as many as 1.6 million lost pension pots

The survey data covers around half of the Defined Contribution (DC) market.<sup>10</sup> Scaling up from the survey data, this means that there could be as many as 1.6 million lost pension pots, with a potential aggregate value of around 19.4 billion. Because the survey data does not cover the whole market and there is variation across the market, for instance large master trusts generally have a slightly higher proportion of gone away customers but with smaller pot sizes, the true scale and value of lost pots could vary.

Defined Benefit (DB) pensions can also be 'lost', however as the survey does not cover this section of the market, it is unclear whether the scale and value of these pots is comparable to that of DC.

### If unclaimed, lost pension pots have the potential to reduce individuals' standard of living in retirement

In the majority of cases, individuals who have lost track of a pension pot will have other DC savings, DB entitlement or a combination of both. However, with many retirees unlikely to achieve adequate income replacement levels in retire-



ment, losing track of even a small amount of savings can have a significant impact. In 2018, the median level of DC savings at State Pension age (SPa) is around £28,000. Given the average size of gone away pots suggested by the survey, losing a pension pot could im-

pact retirement outcomes substantially.

Pot sizes are likely to increase as a result of automatic enrolment. However, making sure that individuals are able to draw upon their full amount of pension savings will remain a

key element in improving retirement outcomes.

An individual reaching SPa with the average level of DC savings (£28,000) could purchase an annuity which would provide them with an annual income of around £1,100 (around £92 per month). Combined with State Pension income of around £160 per week, this would yield a total retirement income of £730 per month or £8,780 per year. This is unlikely to be sufficient to replicate the same standard of living in retirement that people had in working life if they earned over £12,500 per year.

There is already a gap between target replacement rates and the income that individuals with an average sized DC pot are likely to achieve. If people lose track of some of their pension savings, this will further widen the gap and decrease their standard of living in retirement. The loss of even one pot is likely to significantly impact retirement income.

The other characteristic cited as being correlated with being gone away is that the pot has not been contributed to for a long time ('paid up') and in many cases this may be because the pot was set up by an employer for whom they no longer work and the employee (pot holder) may never have made any contributions. This makes it more likely that customers will forget that the pot exists as they have had lower levels of awareness and engagement when the pot was set up.

**Processes to re-engage lost customers currently vary across the industry**

In its 2016 thematic review *Fair treatment of long-standing customers in the life insurance sector*, the FCA found that in many cases processes to locate 'gone away customers' were ineffective and did not use all relevant customer details to regain contact. Ineffective tracing processes reduce the likelihood that people will be reunited with their lost pension assets. Over half of the firms covered by the review demonstrated weaknesses in 'gone away' processes that are likely to result in poor member outcomes.<sup>11</sup>

In terms of carrying out tracing exercises in order to track down gone away pot holders, the frequency with which this is done after the first initial attempt varies, with responses to our survey ranging between once every six months and three years, although one response stated that this exer-

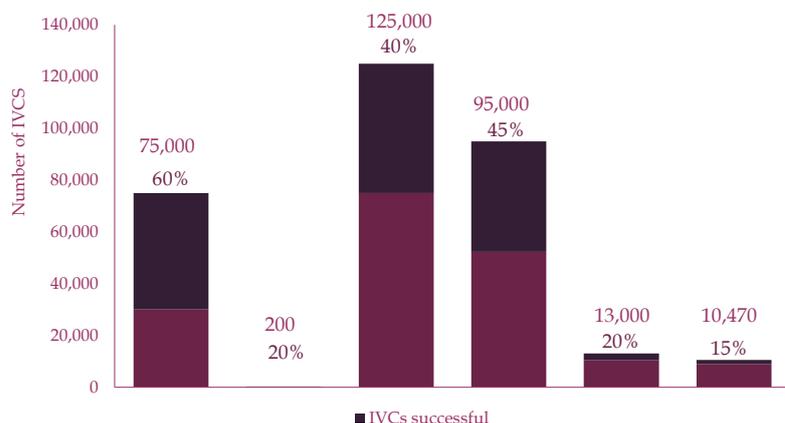
cise is only carried out once after the initial attempt is unsuccessful.

In 2017 an estimated 375,700 Identity Verification Communications (IVCs) were sent by the firms surveyed. This is around 60% of the total number of gone away pots covered in the survey. The average success rate of those communications was 30%, although there was a broad range in responses from 15% to 60% (Chart 5). Based on average gone away pot sizes and the success of IVCs, around £1 billion of lost pension assets may have been reunited with customers last year.

Some schemes either do not have a well-defined process in place or do not measure the success or otherwise of their attempts to locate and re-engage gone aways. A quarter of the respondents do not currently

**Chart 5: IVC success rates vary across the industry**

Total number of IVCs and success rate in 2017



track data on the number of IVCs they send or the success rate of these exercises.

A more consistent approach to the management of gone away pot holders across the industry may help to reduce the number of gone away pots as more people are reunited with their lost savings. The ABI has formulated a framework for the management of gone away customers (Box 2).

There is general consensus among providers that re-engagement processes could be improved if they were given more linked sources of data for the purposes of verifying customers. For example, if they were given access to data held by HM Revenue and Customs, DVLA and the TV Licensing Authority.<sup>12</sup>

### The Pensions Dashboard

During the 2016 Budget, the government made a commitment that Pensions Dashboards would be created by the pensions industry, enabling everyone to find and view details of all of their pensions in one place. The

Pensions Dashboard Prototype project was launched in September 2016 by the Economic Secretary to the Treasury.

Government and industry have suggested that the pensions dashboard may deliver:

- Better understanding of people's likely finances in retirement, based on their current situation
- Clearer grasp of the need for financial advice
- Motivation to increase pension contributions
- More inclination to take a proactive role in managing retirement.<sup>13</sup>

The overall policy aim driving pension dashboards as a concept is that pension savers can easily and securely find all of their pensions together, to enable them to understand and make more informed decisions about their saving.<sup>14</sup>

During the summer of 2018 there were concerns that DWP may decide that it would no longer deliver the dashboard project as it may be more in the scope of industry to provide this. Stakeholders within the pension industry were

prepared to deliver their own dashboard platforms if DWP pulled out of the project. However, DWP has now stated that it supports the project going forward, but is looking to industry to take a leading role.

### Conclusions:

The key issue surrounding lost pensions appears to be uncertainty, with no clear definition or measure of what is meant by lost and a wide range of estimates as to the value which might be in these lost pots. If government, regulators and providers are working towards a more joined-up and effective approach to making sure that individuals are reunited with all of their pension assets, this issue will need to be addressed.

It is hoped that the Pensions Dashboard will help to reduce the prevalence of lost pensions in the future and enable those who have already lost track of pots to find them once they have proved their identity, as it will bring together information about all of an individual's pension pots in one place. Improvement in the effectiveness of re-engagement processes will also be key to improving outcomes.

**Box 2: ABI Framework for the Management of 'Gone Away' Customers in the Life and Pensions Market<sup>15</sup>**

'Gone away' Customers Management							
Definition	Quality validation	Identification	Tracing	Verification	Recycle	Contact targets	Post Re-engagement
Process							
Controls and Reporting							
Conduct Risk							

With 6% of uncrystallised pension pots and 4.5% of uncrystallised pension assets held by customers considered gone away, lost pensions have the potential to have a substantial impact on individual retirement outcomes, based on the estimated average gone away pot size of £12,670. Improvements in the management of gone away customers, and ways of making it easier for customers to find their pensions, may be needed to ensure that individuals are able to draw on the entirety of their pensions savings to support them during retirement.

<sup>1</sup> Aegon (2017) *1 in 5 with multiple pensions has lost track of savings*

<sup>2</sup> Commission on Dormant Assets (2017) *Tackling dormant assets: Recommendations to benefit investors and society*

<sup>3</sup> DWP (2016) *New pension tracing service website launched*

<sup>4</sup> Aegon (2017) *1 in 5 with multiple pensions has lost track of savings* [sample size 1,004]

<sup>5</sup> Aviva (2017) *One in eight savers have a 'forgotten' pension* [sample size 9,910]

<sup>6</sup> DWP (2014) *Thousands to make contact with long lost funds*

<sup>7</sup> Commission on Dormant Assets (2017) *Tackling dormant assets: Recommendations to benefit investors and society*

<sup>8</sup> FCA (2016) *Thematic Review: Fair treatment of long-standing customers in the life insurance sector*

<sup>9</sup> DWP (2010) *The Pension Tracing Service: A quantitative research study to establish who is using the service, and their outcomes*

<sup>10</sup> TPR scheme return data 2017-18

<sup>11</sup> FCA (2016) *Thematic Review: Fair Treatment of long-standing customers in the life insurance sector*

<sup>12</sup> Commission on Dormant Assets (2017) *Tackling dormant assets*

<sup>13</sup> House of Commons (26 September 2018) *Pensions Dashboard*

<sup>14</sup> Pensions Dashboard Project (2017) *Reconnecting people with their pensions*

<sup>15</sup> ABI (2018) *ABI Framework for the Management of 'Gone Away' Customers in the Life and Pensions Market*

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