Lost Pensions 2022: What's the scale and impact?

PENSIONS POLICY INSTITUTE

PPI

PPI Briefing Note Number 134

Introduction

The challenge of how to cope with lost pension pots is currently a key concern. It is not uncommon for individuals to lose track of some or all of their pension savings. If unclaimed, these 'lost' pensions can make it more difficult for individuals to achieve adequacy goals in retirement, make them more dependent on the State Pension and means-tested benefits, and reduce living standards in working life with no material gain during retirement.

In 2018, the Pensions Policy Institute (PPI) published Briefing Note 110 – *Lost Pensions: What's the scale and impact?* This Briefing Note explored the definition of lost pensions, their estimated value and potential impact on retirement outcomes, and the effectiveness of current processes to reunite individuals with their retirement savings. It was supported by data from the PPI Lost Pensions Survey (2018).

This Briefing Note revisits the lost pensions challenge four years on, and is supported by fresh data from the PPI Lost Pensions Survey (2022).

This Briefing Note explores:

- The progression of the lost pensions challenge between 2018 and 2022.
- Factors that may have exacerbated the problem, particularly the acceleration of job changes following the COVID-19 lockdowns.
- The expected impact of pensions dashboards, a government initiative to enable people to see the location and value of all their pension pots, including those which they have lost track of.

Key findings:

- The total value of lost pension pots has grown from £19.4 billion in 2018 to **£26.6 billion in 2022**.
- High unemployment levels seen around the pandemic, combined with automatic enrolment, mean an especially large number of people may have left jobs with pension schemes, creating a wave of deferred pots which may become lost.
- There is industry consensus that pensions dashboards will have a positive impact by reuniting many savers with their lost pots, although with an administrative burden for providers caused by a surge in engagement.
- Some respondents expressed concern that dashboards would not have a lasting impact unless there was a sustained campaign.

What is a lost pension?

Definitions of lost pensions

The 2018 Briefing Note highlighted that interpretations of what is meant by 'lost' vary. 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'. Both the 2018 and 2022 PPI Lost Pensions Surveys use the definition of 'gone away', meaning the provider is not currently in touch with the member. Lost in this sense does not mean lost forever, or even that it is very unlikely that the pot will be reunited with the owner, rather just that the connection between the pot and the owner is currently cut off.

Since 2018, the dormant asset scheme has been amended to include certain eligible pension assets, as proposed by the Commission on Dormant Assets. Pension assets are now considered dormant after[1]:

- Whichever comes first:
    - the point at which it is identified that a deceased owner has no next of kin,
    - seven years after a death claim is accepted and there is no ongoing contact with the managers of the estate,
    - seven years after the end of the contractual term and there is no ongoing contact with the owner.
- Alternatively, if the owner was born before the oldest living person known at the time of transfer into the scheme, and there has been no contact with the managers of the estate for at least seven years.

This provides some consensus on what a dormant pension asset is, although this definition is strict and only covers very unambiguous cases. Questions still remain about:

- When a pension pot counts as lost, and
- What steps a provider should take to reunite it with their owner and how frequently if the pot remains lost after initial tracing exercises.

Cause of lost pensions

Automatic enrolment is designed to work directly with inertia, meaning that people who are enrolled are not required to engage with their pension savings. This has the result of ensuring more people are saving, but also means that some people are not aware that they have a pension or who manages it for them. There are two primary reasons why providers may no longer be able to contact the owners of pension pots:

- People move jobs and cease contributing, which automatically defers the pension; and
- People move house and don't update their address with their pension provider.

Since 2018, the rate at which people move house appears to have increased slightly, with the proportion of people who have lived in their current house for more than 30 years falling from 16.6% to 13.1% since 2018. However, this is still a significantly larger proportion than before 2012, when automatic enrolment was introduced. The proportion of people who have lived in their current house for less than five years has only increased by around 1% since 2018, but the proportion of people who have lived in their current house for five to ten years has increased by around 4% (Figure 1).

More significant, however, is the rate at which people have changed jobs. In the fourth quarter of 2021, the job-to-job move rate was the highest it has been in the history of automatic enrolment, likely at least in part caused by COVID-19 lockdown related job changes. (Figure 2). Higher rates of job mobility, combined with a higher-than-ever chance that a worker was automatically enrolled into a pension by their pre-pandemic employer, could produce a new wave of deferred pots that may be lost by the time members reach retirement.

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Figure 1[2]: The rate at which people are moving house has increased since 2018

Length of stay in current house by year

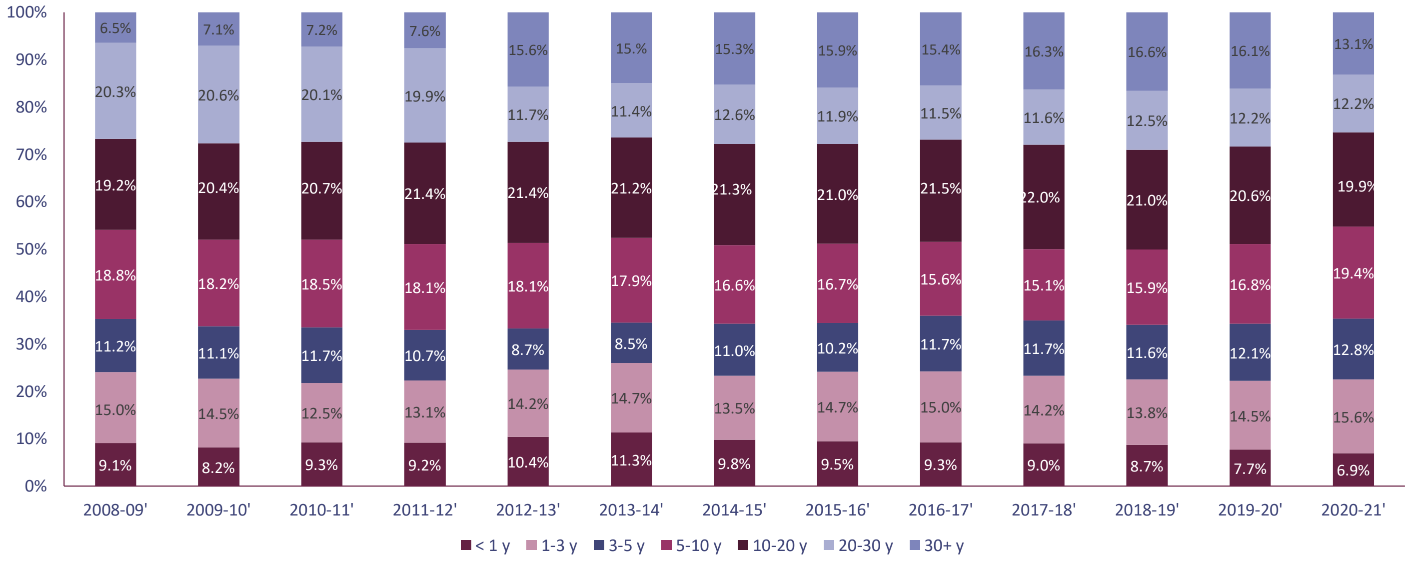


Figure 2[3]: Following the start of the COVID-19 lockdowns, the job-to-job move rate has reached rates higher than have been seen since before the beginning of automatic enrolment

Proportion of employees making job-to-job moves in the United Kingdom from Q4 2001 to Q2 2022

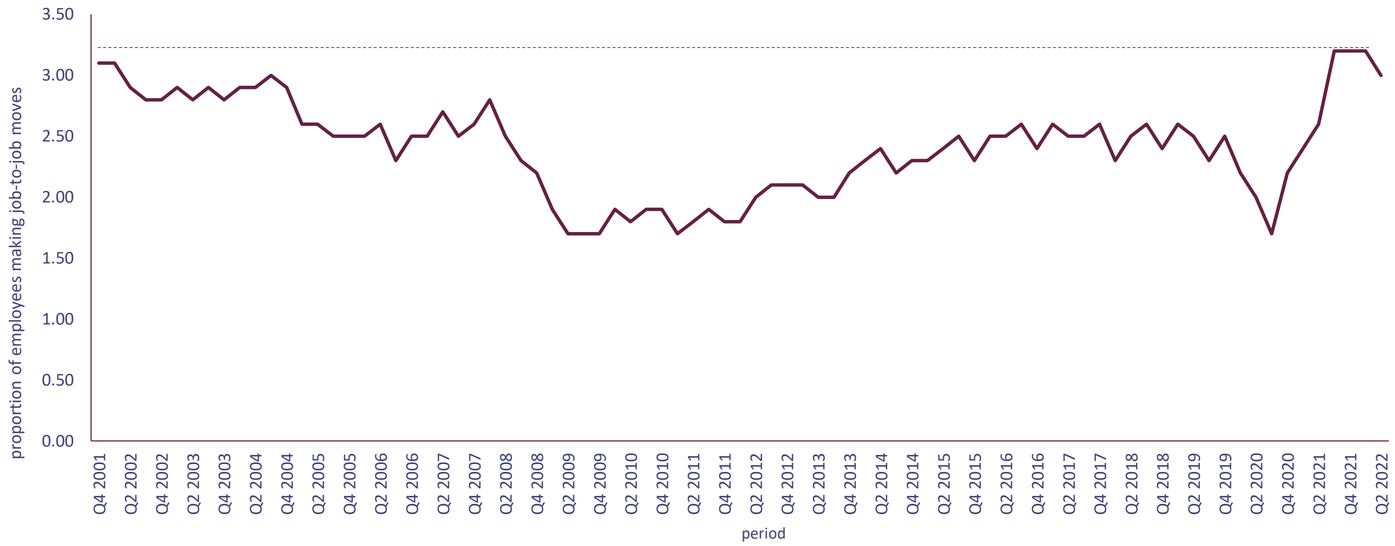


Figure 3[4]: Men's employment rates were more severely impacted by the pandemic

Changes in employment by gender (December 2019 – November 2021)

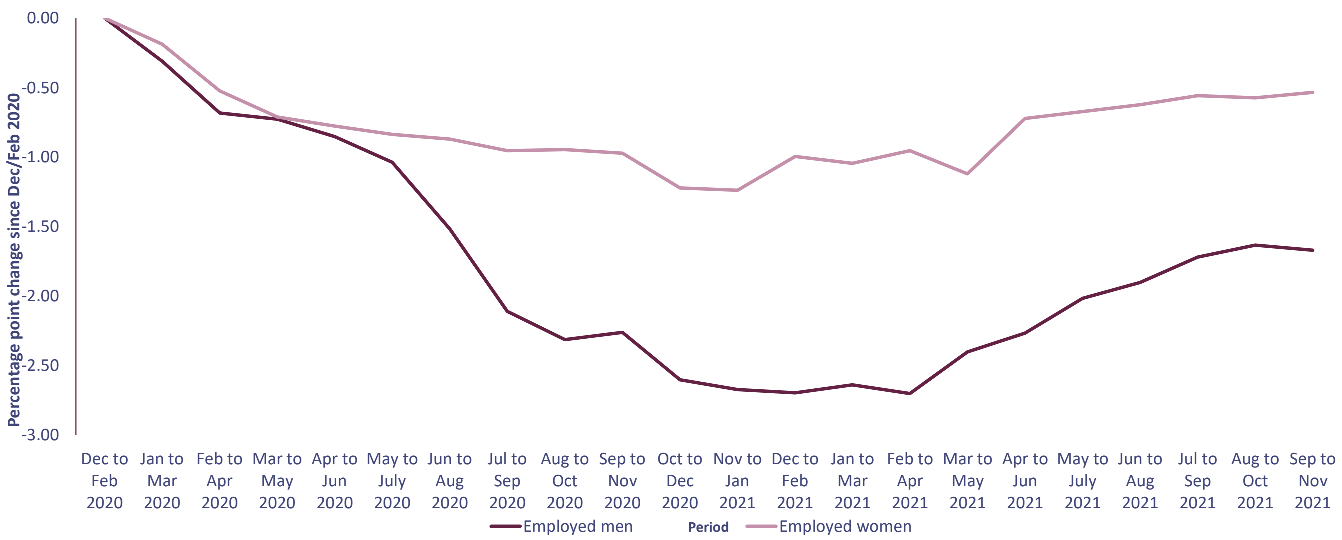
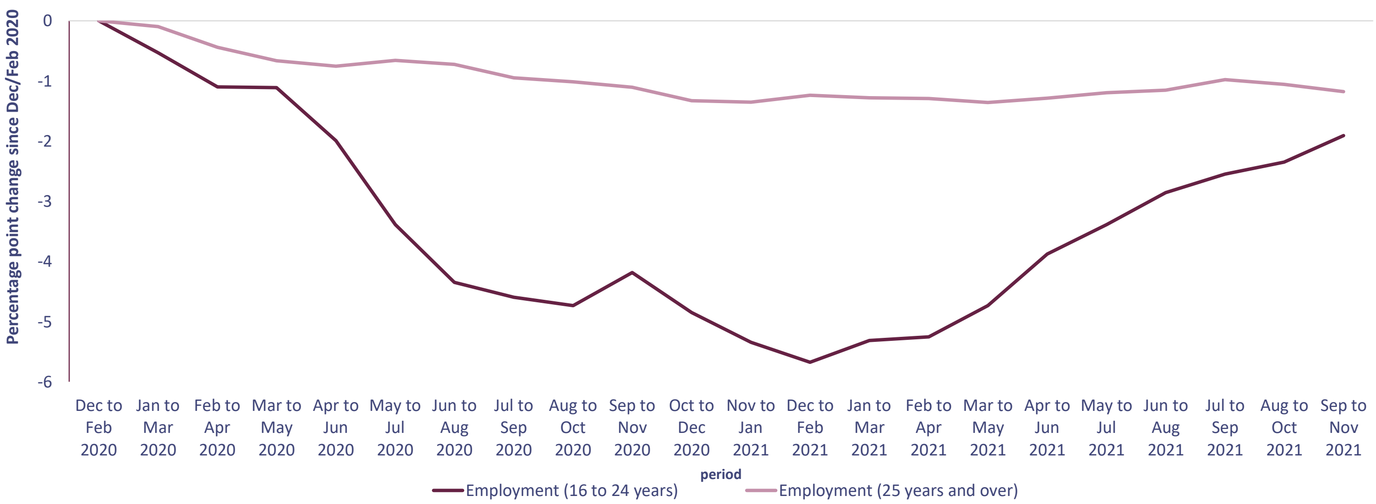


Figure 4: Change in employment by age

Employment rates of younger workers (16-24) were more severely impacted by the pandemic compared to workers aged over 25

Changes in employment by age (December 2019 – November 2021)



Men's employment rates were more severely impacted during the pandemic than women's (Figure 3), falling to -2.7%, between 2019 and 2020 before rising by 1.1 percentage points, while the percentage change for women was -1.2% before rising by 0.5 percentage points. This suggests that men are more likely to be affected by the COVID-19 related job loss, and therefore to acquire a deferred pot that might become lost.

There was also a disparity between the employment effects of the pandemic on people aged over and under 25. Younger people were significantly more affected by this rise in unemployment, and may have created an extra wave of pots that might get lost. There was a sharp rise in employment rates for people aged 16 to 24 between late 2020 and 2021 (Figure 4). On the one hand, some of these people will be too young or may not earning enough to have been automatically enrolled into a pension scheme through these jobs (employees must be 22 years of age and earning over £10,000 to be eligible for automatic enrolment). On the other hand, those that do have pensions in these jobs may be more likely to lose track of them, as the potholders are further from retirement, and the value of the pot is likely to be smaller, making it easier to forget about the pot over the course of their working life, while some may not be aware that they were enrolled into a pension at all.

How many lost pensions are there currently and what is the value? How has this changed since 2018?

The number of lost pots is expected to grow because the Defined Contribution (DC) market is growing, the membership of master trusts grew from 3.9 million in 2015 to 8.7 million in 2021, but also because the problem naturally worsens over time, as many people are unaware they have pension savings, and events that may cause people to lose track of their pension pots take place.[5]

Though these figures are estimates, it appears that the number of lost pots has increased by nearly three quarters (73%) between 2018 and 2022 and that, proportionately, they are growing faster than the total number of pots, from 5.9% to 9.3%.

Table 1: Numbers of gone away pots in 2018 and 2022

Age group	Percentage of pots considered gone away (%) in 2018	Number of gone away pots in 2018	Percentage of pots considered gone away (%) in 2022	Number of gone away pots in 2022
under 55	6	1,050,760	9	1,836,160
55-74	5	432,080	8	743,350
55-65	--	--	8	561,000
66-74	--	--	12	182,360
75+	6	137,340	19	93,060
all	5	1,620,180	9	2,803,650

The aggregate value of assets held in lost pension pots has also risen, though not as significantly as the number of pots, increasing by around a third (37%) over the last four years, with lost pension assets making up 4.7% of total assets, compared to 4.5% in 2018 (Table 2). This suggests that there could be a link between the increasing number of small pots and the growth in lost pots between 2018 and 2022. Deferred pots in the master trust market are projected to grow to around 27 million by 2035 if no changes are made to address this problem.[6] This growth would likely further exacerbate the lost pensions challenge.

Table 2: assets held in gone away pots in 2018 and 2022

Age group	Proportion of assets held by uncrystallised gone away pots in 2018 (%)	Total value of gone away pots in 2018 (£Bn)	Proportion of assets held by uncrystallised gone away pots in 2022 (%)	Total value of gone away pots in 2022 (£Bn)
under 55	4.0	9.96	4.8	13.6
55-74	5.2	6.54	4.3	11.9
75+	5.5	2.9	14.4	1.1
all	4.5	19.4	4.7	26.6

Average lost pension pot size

Despite aggregate assets having risen since 2018, the average value of individual lost pots has declined. Gone away pots may be smaller because of more frequent job changes among younger age groups. Smaller pots are also likely to be accrued by those who have been brought into saving through automatic enrolment, which is dependent on inertia and correlated with lower levels of engagement and higher likelihood of being unaware of having a pension pot. On the other hand, the value of lost pots has increased in the 55-74 age group. This is likely because of pots created via automatic enrolment in this older, and generally higher earning, cohort having had time to grow. This is especially concerning in relation to the impact that lost pots could have for those who are closer to retirement. The overall proportion of the value of lost pots to the value of all pots is 50%, lower than any of the other groups quoted, as sub-groups within these have much lower proportions, such as the 18-34 group where the proportion is 36%.

Table 3: average values of gone away pots in 2018 and 2022

Age group	Average value of gone away pots in 2018	Average value of gone away pots as a proportion (%) of average value of all pots in 2018	Average value of gone away pots in 2022	Average value of gone away pots as a proportion (%) of average value of all pots in 2022
under 55	£12,570	84	£7,400	54
55-74	£13,160	65	£16,000	52
75+	£7,080	50	£12,190	76
all	£12,670	78	£9,470	50

The PPI Lost Pensions Survey (2022) included an exploration of potential differences in lost pots between men and women. This is partly because there are other gender-specific issues that might lead to an imbalance in lost pots, such as women changing their surnames, or the career breaks and part-time working patterns that women are more likely to experience. The average size of men's lost pots is larger than women's lost pots. However, this is primarily because men's pension pots in general are larger than women's, known as the gender pensions gap, rather than differences that are specific to lost pots.[7] The ratio of women's average lost pot value comparative to their overall average value is broadly the same as the ratio of men's (Table 4).

Table 4: proportion of assets lost by gender

Gender	Average pot size	Average lost pot size	Average lost pot as a proportion (%) of average pot
Male	£14,779	£10,715	72.5
Female	£8,594	£6,441	74.9

What is the impact of lost pensions?

Impact before retirement

Members can lose potential value from lost pots, even after they are reunited, as they temporarily forgo the opportunities of choosing newer products, more appropriate investments, or consolidating pots to take advantage of lower fees, particularly for pots predating automatic enrolment, which may be more expensive.[8]

Impact after retirement

In order to estimate the impact of lost pots on retirees, PPI Modelling (based on round 7 of the Wealth and Assets Survey) looked at all households with some amount of DC savings and increased their DC pension wealth by 4.7%, to reflect the proportion of assets lost identified by the PPI Lost Pensions Survey (2022).

If retirement income was drawn down by a rate of 3.5% after taking a 25% tax free lump sum, a household with DC savings would have an average of £446 extra per year.

In reality, lost pots will not be distributed so evenly, both in terms of their spread in the population and the value of those pots. To model this more precisely, it would be necessary to conduct further research into which people are more likely to lose their pots. Given the link between lost pots and changing jobs, it is likely that there is a link between lost pots, working patterns and income. Examining the link between lost pots and income, especially through the lens of living standards, could provide further insight into the dangers of lost pots to individuals as well as the market as a whole.

What is currently being done to tackle the lost pensions challenge?

Industry

The pensions industry is working to improve the situation, from tracing exercises carried out by providers as part of their day-to-day administration, to awareness campaigns and trialling solutions based on consolidation.

When members are identified as being 'gone away', usually as a result of communications being returned to sender, pension providers carry out regular tracing exercises aimed at reuniting with the member. The responses from the PPI Lost Pensions Survey (2022) demonstrated a range of approaches to tracing exercises. They all involved repeating tracing exercises, either indefinitely with frequencies ranging from quarterly to biannually, or at fixed points in the member's life. The success rate of tracing exercises varies and many respondents to the Survey were unable to provide specific data on the proportion of lost customers that re-engage with the scheme annually. Among those respondents who were able to provide this data, success rates were thought to be around 25% each year. It should be noted that members are more likely to re-engage as they approach or enter retirement. Developing a consensus around clearer definitions of when assets should be considered "lost", or what exactly a provider's responsibility is surrounding tracing, could alleviate some of the administrative burden upon providers.

In recent years, awareness campaigns have been created in an attempt to increase engagement and tackle the lost pensions challenge. **National Pension Tracing Day (30 October 2022)** is an initiative that helps raise awareness and provide guidance for savers who may have lost pots. This campaign was launched by Punter Southall Aspire in 2021, with the support of four large pension providers : Aegon, Legal & General, Standard Life, and Scottish Widows. In addition to Pension Tracing Day, which focuses specifically on lost pensions, ABI and the PLSA have co-ordinated a cross-industry collaboration on the Pension Attention campaign which aims to increase awareness and engagement of pensions more broadly, which could help to encourage savers to trace their lost pots and potentially reduce the prevalence of lost pots going forward.

As part of the ABI / PLSA small pots cross-industry co-ordination group initiative, a number of Master Trust providers are progressing a member exchange pilot, specifically tackling the growth of deferred small pots. Once implemented, this could provide useful learnings specifically as to how the member responds to having their pot exchanged, and the impact that it may have in addressing deferred small pot consolidation.

There are also private services offered by companies specifically targeted at savers with multiple pots, some of which may be lost. Their services, which may be free for the customer, can range from tracking down lost pots, to providing transfer and consolidation services. Some pension providers also provide a 'pot for life' design, which consolidates the pot for a returning member auto-enrolled into that scheme.

Government

The government continues to operate their Pension Tracing Service, which has seen some success and is one of the first steps recommended by other initiatives and services. The Pension Tracing Service holds information on the pension providers of many employers. In the event that an ex-employee has lost contact with their old employer, they can use this service to find out who their employer's pension provider was at the time, and then contact the pension provider themselves.

DWP is working to reduce the prevalence of small, deferred pots, which contribute significantly to the lost pensions challenge. This work is currently being led by the Small Pots Cross Industry Co-ordination Group, established by the ABI and PLSA.

Pensions dashboards

One of the most interesting and ambitious developments, however, is pensions dashboards – a government initiative which aims to provide a single point of access for people to be able to see all their pension pots, and their State Pension, in one place. In order to achieve this, schemes and providers are making significant efforts towards digitising their processes and getting their member's data dashboard-ready so that the scheme can readily provide, when requested by the individual, relevant pensions information to the pensions dashboards service. Pensions dashboards have the potential to help reduce the number of lost pots.

The PPI Lost Pensions Survey (2022) data provides a snapshot of the lost pensions challenge before the introduction of pensions dashboards, not only in terms of the prevalence and value of lost pensions, but also expected outcomes and challenges of the introduction.

In terms of the expected benefit of dashboards, there was consensus among all respondents that the effect would be positive, with more members reuniting with their lost pots as a result. Some respondents also stated that they believed a sustained campaign promoting dashboards would be needed for there to be a permanent, long-term reduction in lost pots from the introduction of dashboards.

In terms of the expected administrative burden of dashboards, there was consensus that there would be a significant increase following an initial surge in member engagement after the introduction of dashboards. Some respondents also stated that they expected an increase in pension engagement from dashboards generally, rather than just in the context of lost pots, which would further increase the administrative burden.

Revisiting the PPI Lost Pensions Survey again following the introduction of dashboards could provide some crucial evidence by which to measure their success.

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Conclusions

The lost pensions challenge has continued to grow since 2018. In particular, the number of lost pots has increased by around three quarters in four years, giving new urgency to the problem. Despite the average size of a lost pot reducing since 2018, the aggregate value has increased from an estimated £19.4 billion to **£26.6 billion.**

The lost pots challenge has also potentially been exacerbated by the pandemic. While the issue of lost pots has always been present and growing as people change jobs, the COVID-19 lockdowns saw the largest rate of job changes since the introduction of automatic enrolment, giving the potential for a large proliferation in lost pots.

The oncoming introduction of pensions dashboards provides a more positive view of the lost pensions challenge. Conducting the PPI Lost Pensions Survey (2022) at this point in time provides a view of the situation before dashboards are phased in, which means their success in reuniting individuals with their lost pots could be gauged by revisiting the Survey again following their introduction. With providers expecting a wave of members engaging with their pensions, an associated administrative burden, and uncertainty about whether the project will bring lasting improvement, pensions dashboards are currently the biggest deciding factor in the future of this problem. Ongoing work to reduce the number of small, deferred pots is also likely to be crucial to overcoming the lost pensions challenge.

References

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2. English Housing Survey (EHS) – Live table FA4131 [Accessed September 2022)
3. ONS – Labour Force Survey [Accessed September 2022)
4. ONS – Labour Force Survey [Accessed September 2022)
5. Responses to the PPI Lost Pensions Survey (2022) cover 16.5 million members with uncrystallised pots. The total number of members that were eligible for the Survey was 30.2 million . Consequently, the results of the Survey have been scaled, to make them comparable with the estimates from the PPI Lost Pensions Survey (2018) which were calculated in a similar way. The figures relating to the number and value of lost pots set out in this Briefing Note provide a conservative estimate, as some DC members may have multiple pots represented in the Survey, but provide a lower bound for the true figures. The comparison between the 2022 and the 2018 Survey allows us to estimate the rate at which the problem of lost pots is growing across the industry, and estimate the number of pots, value of the assets, and value per-pot figures. The estimated number of eligible members is based on the following statistics: https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/2022-press-releases/tpr-and-fca-in-push-to-drive-pensions-value-for-money#:~:text=The%20FCA%20regulates%20the%20provider,are%20in%20workplace%20pension%20schemes
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This Briefing Note is authored by:
John Upton (Policy Analyst)
e: johnupton@pensionspolicyinstitute.org.uk
w: www.pensionspolicyinstitute.org.uk

For more information please contact John.

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