Summary
• Deferred membership continues to grow, placing a cost on employers and a risk on individuals.
• Left unchecked, an increase in deferred membership will result in greater savings fragmentation.
• The pensions dashboard is expected to resolve many challenges for deferred members.

Deferring responsibility

As the number of deferred pension scheme members grows, Gill Wadsworth explores how they may no longer be poor relations to their active counterparts

Deferred members are something of a thorn in the side of UK pension schemes. The basis for success of workplace retirement provision lies in its symbiotic relationship between employer and employee. The employer takes care of staff by offering benefits and in return – in theory at least – the worker is loyal and motivated.

That critical link is broken once the employee leaves and goes from active to deferred pension scheme member. While the employee's relationship with the employer dissolves, the workplace continues to take responsibility for managing the former employee's future pension.

Furthermore, once a member is deferred, the costs to the scheme increase since they have to keep tabs on a transient membership, while individuals risk losing track of what they have saved and where; a lose/lose scenario.

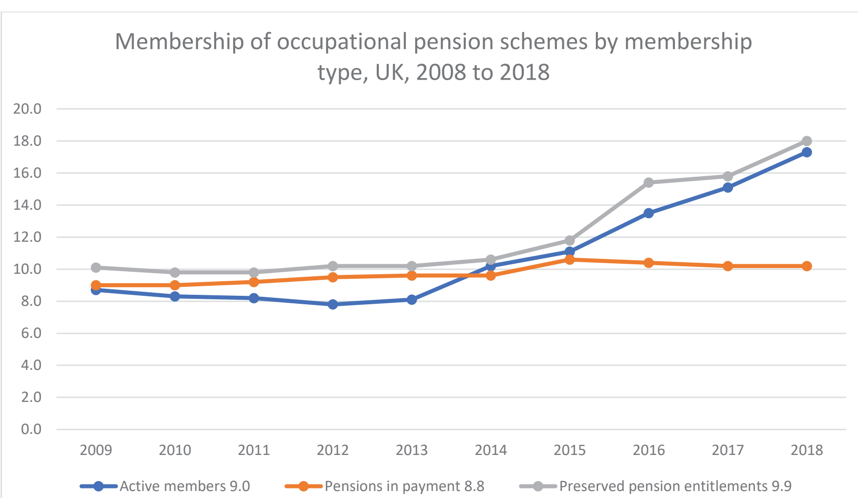
B&CE's head of pension policy, Tim Gosling, says: "Deferred members can increase admin overheads and there is a difficulty for deferred members to keep track of their pots."

A growing problem

What is worse, this unrewarding membership is growing. In the decade between 2008 and 2018, deferred membership of occupational pension schemes almost doubled from 9.9 million to 18 million. Meanwhile, active membership trails at 17.3 million *[see chart]*.

The number of deferreds was given a boost – rather unintentionally – by 2012's auto-enrolment legislation, which successfully saw millions more UK workers saving into a workplace scheme, but simultaneously saw many millions also defer.

Former Now Pensions CEO, Troy Clutterbuck, says: "This spike *[in deferred membership]* is mainly a result of auto-enrolment and people moving jobs more often than previous generations. With each new job comes a new pension pot, and this proliferation shows no sign of slowing."



Source: Office for National Statistics

Clutterbuck does not hide his irritation with two missed policy opportunities by the government, which he believes would have gone some way to limiting the fragmentation of pension saving.

He says: "The government left a gaping hole when it abolished short service refunds in 2015 *[those with fewer than 30 days service could reclaim their pension contributions]* and then subsequently decided not to give the green light to an automatic pot-follows-member transfers system."

He continues: "This has left the industry with a growing problem that can only be resolved by the government and industry working together to streamline pension savings."

Pot-follows-member was a 2015 coalition government initiative. The idea was simple: since employees rarely stay in a job for life, their workplace pension should go with them when they changed employer.

The idea was ditched in 2018 and has since made no reappearance.

Barnett Waddingham senior client relationship manager, Andy Parker, says: "The pot-follows-member proposals were abandoned since they were considered too difficult. Instead transferring a pension is down to members to make it happen."

So, unless people want to end up with multiple pension schemes dotted around various employers from whom they are estranged, they will need to take responsibility for transferring their pot themselves.

Given the success of auto-enrolment was based on inertia, it seems something of a stretch to expect members to take control for transferring their schemes. In response, several providers offer pension consolidation services, but these are not free and again require the member to actively approach the provider themselves.

Lights on the dashboard

The proposed pensions dashboard – which got a much-needed shot in the arm from the latest Queen's Speech, which reaffirmed government support for the idea – may offer more hope for the deferred member.

The dashboard will allow individuals to see all their retirement savings in one place, which Parker says gives individuals the chance to take control of their pensions.

"Lots of people forget their benefits with employers from years ago, so the pension dashboard – as and when it comes along – will help them see if consolidating their savings is the right thing to do," he says.

The challenge for the dashboard – and those expected to populate it – will be in ensuring member data is correct and current.

Many of the risks to the deferred member, and the root driver of expense for providers and employers, lies in incomplete data.

Gosling points out schemes are most likely to have accurate data on active members and existing pensioners, rather than deferred.

"People move, change name and change email address. Schemes have processes for updating their data, but these have varying effectiveness. *[Dashboard]* will depend on members choosing to interact with it rather than happening automatically for them."

However, Gosling says it seems rather unfair to expect deferreds to develop a sense of engagement once they are no longer active.

"The industry tends to load a lot on to the individual and I don't think we can rely on disengaged members to make the sector's life easier," he says.

Consequently, Royal London head of pension policy, Steve Webb, predicts that "providing information about the rights to date of deferred members to a central dashboard could involve such schemes a considerable additional cost".

Poor relations

The fact that deferred members are more likely to fall out of the process due to a lack of up to date information means they may receive a worse service than their active neighbours, argues Webb.

He explains: "On communications, deferred members do get a raw deal and they are bottom of the queue on engagement. Consolidation will be the answer to this because if members have more in one place they will be motivated to engage."

Parker says that *[DC]* deferreds may experience a lesser service if employers currently paying the members' administration fees cut costs by moving deferreds to an alternative provider, where members pick up the tab.

"Some occupational schemes with a very large deferred population and a smaller number of actives, they might ask 'why do we pay admin costs for those who don't work for us anymore'? They can move them to a different plan, such as a master trust, where the members pick up all the costs of running it."

However, this does not mean that the deferred receives an inferior service simply because their costs increase. Parker notes that a move to a master trust would see the deferred member protected by robust regulation and may even see them receive a superior outcome than expected from their workplace plan.

Indeed, Gosling says: "We offer exactly the same service to our active members as to our deferred. It is increasingly difficult in a trust and contract-based world to discriminate against the two."

More than three years ago the government demonstrated its commitment to helping deferreds receive equal treatment by banning active member discounts. From April 2016, it was no longer legal to increase pension charges for those who stopped contributing to the scheme or changed employer.

Webb – who oversaw the ban during his time as Pensions Minister – says: "At some point a deferred member may take their eye off the ball and won't realise the charges have changed at a scheme run by a company you no longer work for. Some providers were taking advantage of this inertia."

He adds that protection for all scheme members – whether deferred or active – relies on transparency and fairness.

There is no evidence to suggest that deferred members are intentionally treated as poor relations to their active counterparts. It is understandable that employers bearing escalating admin costs may be resentful of forking out for ex-employees, but that resentment does not necessarily translate into unfair process.

However, as the number of deferred members grows, the industry has a tremendous amount of work to do to ensure this sector does not fall completely out of control. A lot of onus is on the dashboard to resolve the deferred member challenges, but it will take a concentrated and shared effort to make this a success.

Written by Gill Wadsworth, a freelance journalist