Summary
- The number of deferred members is likely to grow as DB schemes close and people increasingly move jobs.
- Deferred members 'drift away' from the scheme through lack of contact, often resulting in the scheme holding out of date information about the member.
- Holding inaccurate data on deferred members can lead to difficulties when the scheme does need to contact them, plus it risks adding to the fund's liabilities.
- Promoting the option for deferred members to transfer out of the scheme can remove the challenges of managing deferred members, but accurate data is required to conduct de-risking exercises.
- Upcoming regulations, such as GDPR and IORP II will help ensure schemes hold accurate deferred data, as will the pension dashboards.
- Proactively communicating with deferred members, through email and websites, can be a cost-effective way to keep deferred members engaged and their data up to date.

The forgotten masses

Laura Blows reveals why a greater focus will increasingly be placed upon deferred members

"Deferred members, especially in DB schemes, are often the ignored or forgotten masses."

Nearly 12 million pension schemes are deferred (11.8 million according to ONS' *Pensions Schemes Survey 2015*) – so there must be a lot of people to whom these schemes belong to 'forget' about, as Trafalgar House director Daniel Taylor states above.

Also, this figure is growing and is likely to continue doing so. The latest annual *Purple Book* from the Pension Protection Fund states that the number of s179 liabilities relating to deferred members rose from 27 per cent in 2010 to 39 per cent in 2016.

According to PLSA head of investment and governance Joe Dabrowski, as DB schemes close and the working habits of people evolve (such as having multiple jobs throughout their working life), so the proportion of deferred members will continue to rise.

And yet deferred members are "often a forgotten group", says JLT Employee Benefits head of trustee consulting James Auty, as does AHC head of client service UK and Australia Karen Partridge, both echoing Taylor's view. So why does this appear to be the case?

Drifting

In trustees' and pension managers' defence, deferred members are not deliberately treated differently, viewed as an irritant or treated as second class citizens, Quantum Advisory partner Phil Farrell says.

No, instead they just naturally 'drift away' from the scheme, as they move house, for example, and do not update previous pension schemes with their new address. (Deferreds are no worse than actives for keeping schemes informed, PTL managing director Richard Butcher clarifies).

However, unlike DC scheme management, annual benefit statements do not have to be sent to deferred members of DB schemes, minimising the incentive to ensure deferred members' details are correct. Decades could pass before the scheme would need to contact the deferred member when they approach retirement.

According to Taylor, Trafalgar House's research shows this is a key area of dissatisfaction for deferred DB members, "with a common complaint being that schemes are not engaging frequently enough, or to a sufficiently personalised level, to support their retirement planning".

Problems

It can even result in loss of income for the deferred member as they approach retirement. Farrell says that when a scheme undergoes a tracing process to find the deferred member approaching retirement, the member does not always respond, even when the pension is worth a significant amount.

The lack of up-to-date information can also cause issues for those running a pension scheme. For instance, Butcher gives the example of allocating death benefits on the demise of a deferred member.

He says: "With active members, or deferreds that are still employed, we *[trustees]* can ask their employer about their situation for guidance as to whom to distribute the benefits to. But it can be hard with deferreds, especially ones that were active a long time ago, to know about their life to make appropriate decisions."

While tracking down beneficiaries may be an inconvenience for trustees, the lack of accurate information can also generate additional risks for the scheme itself.

Dabrowski says the administrative cost of managing a small-value deferred over many years may actually total more than the actual pension itself is worth.

An even greater risk than this for a DB scheme is the additional value deferred members can add to a scheme's liabilities.

"Deferreds are an increasingly significant group because of the impact their combined accrued benefits adds to pension schemes' liabilities and the resulting funding requirements," Partridge states.

This risk continues, because, for instance, the market does not commonly use mortality screening services to check the continued existence of deferred members, Taylor says, meaning liabilities are often needlessly being carried forward.

Transfers

Encouraging deferreds to leave the scheme can be a solution to these issues.

As Auty says, the 'pure' deferreds, those that have left the employer, "are a real burden as the employer is still funding the deficit for their promised payments, yet they might be working for a competitor down the road. Most employers wish these members would transfer".

Employers may feel more 'paternalistic' towards deferreds that are still working within the company, Auty adds. "However, transfer options need to be offered with care to avoid poor outcomes for the employee or causing them to retire while they are still doing a valuable job for the company."

Extra care should also be taken, as transfer values can appear misleading. Pension schemes tend to quote the pension entitlement at the date the member left the scheme, which could have been a number of years ago, a recent paper from Wealth at Work states, adding "with deferred pensions benefiting from annual inflationary increases, the actual pension entitlement at the date of statement could in fact be a lot higher".

Deferred members are more likely to transfer out of the scheme compared to other member groups, thus reducing the liabilities of the scheme, SLI investment director for UK institutional business George Emmerson says.

Therefore, to assist this, "ETVs have been used in the past, plus pension freedoms have increased the number of deferred members transferring," he says.

"It's also feasible to look at buyouts for deferreds, although it's not been used much due to the cost," Emmerson adds.

With any bulk annuity contract, insurers are looking for a spread of risk across the scheme, so are likely to compete more enthusiastically where a random selection of liabilities covering pensioner and deferred members are packaged, Taylor says.

Data

As well as reducing liabilities, removing deferred members from the scheme would take away the need to keep accurate data on them. Ironically though, in order to achieve these exercises and remove the need to maintain accurate data, accurate data is firstly required.

According to ITM director Darran Blount, the standard of address records is still quite low – despite The Pensions Regulator's common and conditional data requirements.

Deferred pension details are also often not recorded in sufficient detail – for instance benefit tranches relating to equalisation may not be stored, he explains.

The risk of leaving poor quality deferred data until the member approaches retirement is the potential inability to accurately revalue benefits and a higher level of issues in reconciling GMP benefits with HMRC records, Blount explains. Less accurate valuations – both for the current scheme and for any bulk annuity options – can also occur, and even the possibility of fraud, in terms of identity theft.

However, Blount notes that it is historic record-keeping standards, inherited by today's administrators, which has caused many of these problems.

Changes

Hereditary or not, schemes are being pushed by The Pensions Regulator to tackle these data issues. And yet more of these types of shoves are due to come schemes' way in the coming years.

For instance, the pensions dashboards currently being created within the industry may face limitations if it cannot readily showcase deferred DB benefits, Blount warns.

Not enough motivation? More will come through the upcoming European GDPR regulation, focusing on data quality, along with the IORP II Directive; due to come into force in January 2019, which will mean that schemes will have to send all members, including deferreds, a personalised annual benefit statement.

Communications

These changes on the horizon all require improved data and communications for deferreds. However, there are also 'easy wins' to improve deferreds' data through the effective use of communication tools.

Aon UK Communication Practice's practice leader Anne Oliver has found some DB schemes segment its member communications by category of membership – active, pensioner, deferred – in order to provide more tailored information, compared to having just one mass effort.

Microsites that tailor the information presented according to the member can be particularly helpful when communicating to deferreds, as that's the audience that is easiest to 'lose' over time, Oliver says.

Partridge recommends collecting personal email addresses, which are much less likely to change than home addresses or work emails.

The use of email, or smartphone contact, enables a drip-feed approach, specific targeting and trigger mailings to take place without the cost of print and postage, Oliver adds.

These communications for deferreds usually centre on keeping addresses up to date, along with the expression of wish form, and encouraging thinking about retirement plans, she explains.

Even complicated pension arrangements can find ways to enable the member to communicate easily. For instance the Merchant Navy Officers Pension Fund (MNOPF), as an industry-wide arrangement, has many deferred members with multiple periods of deferred membership. "Add to this a number of de-risking exercises, including buyouts, and the impact on the end members could become confusing," MNOPF pensions director Ivan Laws explains.

To counter this, the myMNOPFpension portal was created, which consolidates all MNOPF pension information so the member has one point of contact, one tax code and one pension once in payment, despite possibly being an active member in one scheme, but deferred in others, and subject to various de-risking arrangements.

Benefits

Proactively communicating with deferreds in these ways can keep them engaged with their old scheme and makes them more likely to keep the scheme informed of any changes. This is beneficial for the scheme as it saves on the ad hoc costs of updating records as a deferred member comes to retire, or if a deferred member requests an up to date benefit statement.

Keeping deferreds' contact details up to date means that when the scheme does need to contact the member, they can easily do so without extra costs, Partridge says. Correct information also enables the scheme to promote transfer options to the deferred member, which if taken up helps to reduce the schemes' liabilities.

It also provides a win for the deferred member, enabling them to take "a more holistic view of their retirement plans", Farrell says, "as people may come to retire and have forgotten about an old pension they had".

Right now deferreds may not be at the forefront of trustees' minds. But, as a consequence of changing times, they will not be able to 'forget' these masses of deferred members for much longer.

Written by Laura Blows