



Institute
Fiscal Studies

Fund holdings in defined contribution pensions

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<http://www.ifs.org.uk/bns/bn127.pdf>

NAPF and IFS research event on small pots, 17th May 2012

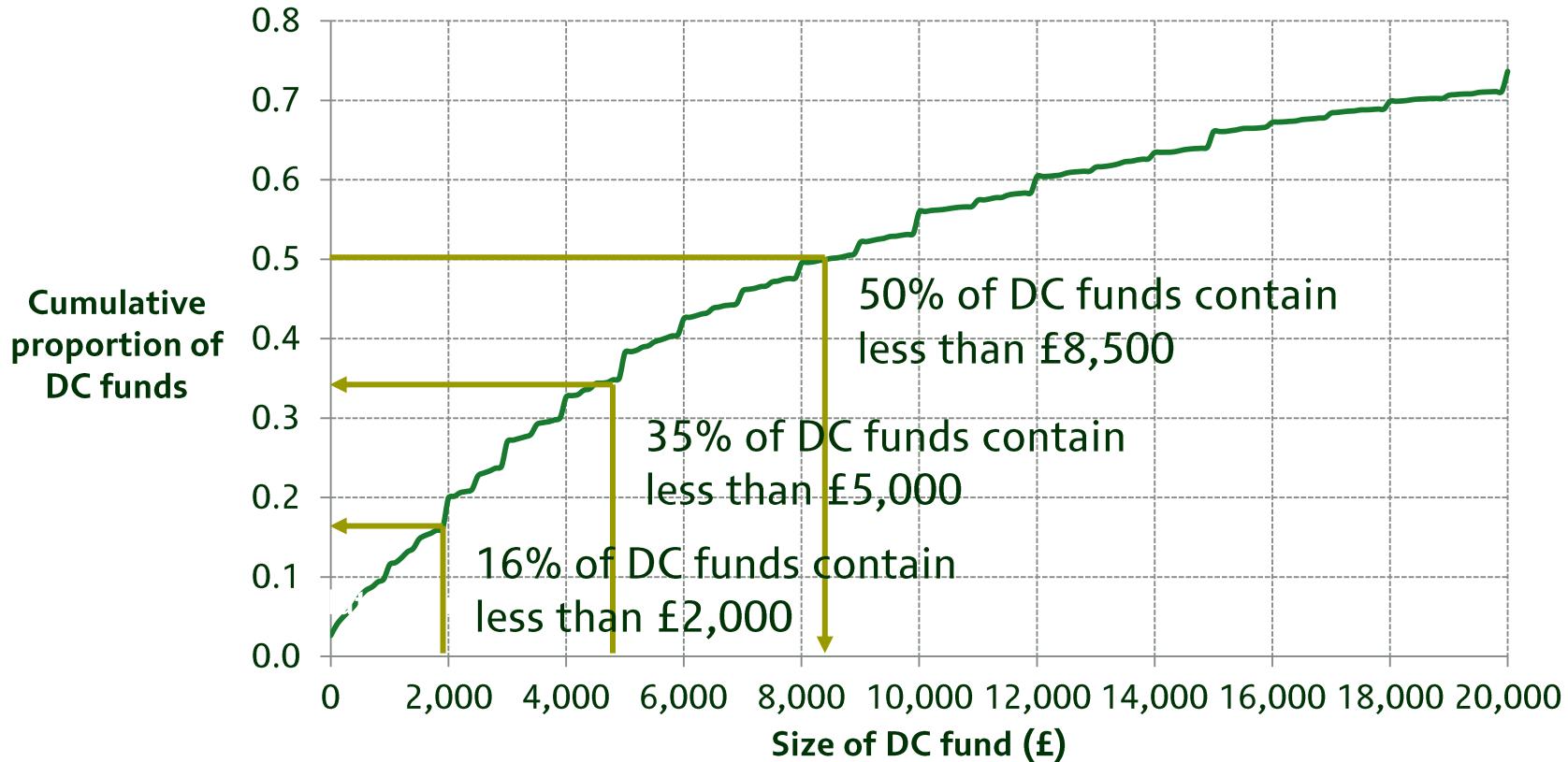
Research funded by the NAPF with co-funding from the ESRC

Introduction

- Look at holdings of DC pensions and provide evidence on
 - Current number of small pots
 - Scope for consolidation if transfers were made easier
- Use survey data from the Wealth and Assets Survey 2006/08
 - Representative sample of the GB population
 - Enables us to look at all DC fund holdings of each individual

How common are small pots?

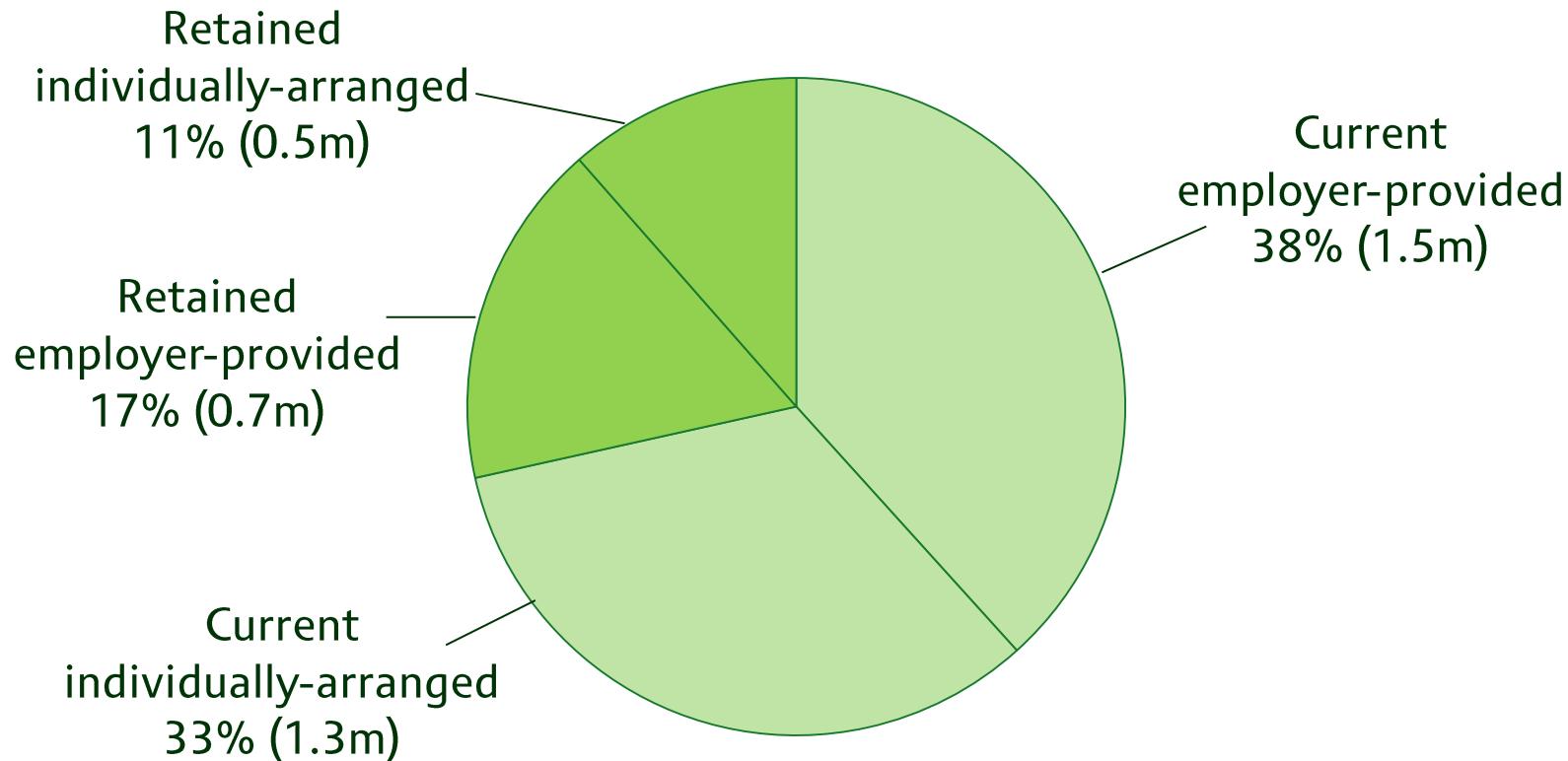
The distribution of DC fund values



How common are small pots?

Types of small pots

3.9 million DC pots contain <£5,000



Employer-provided: ‘Employer/occupational scheme’ and ‘Group personal or Group Stakeholder pension’

Individually-arranged: ‘Private personal or Private Stakeholder pension’

Current: Individual (or employer) is making contributions

Retained: Individual (and employer) is no longer making contributions

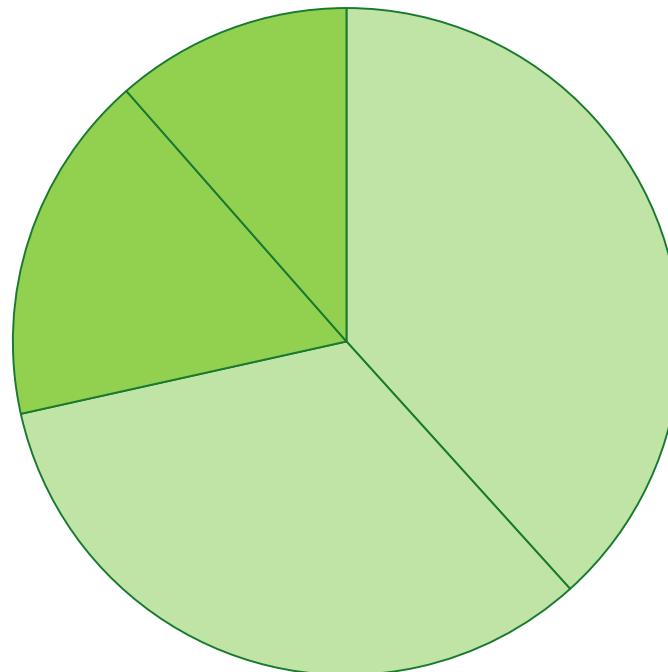
How common are small pots?

Types of small pots

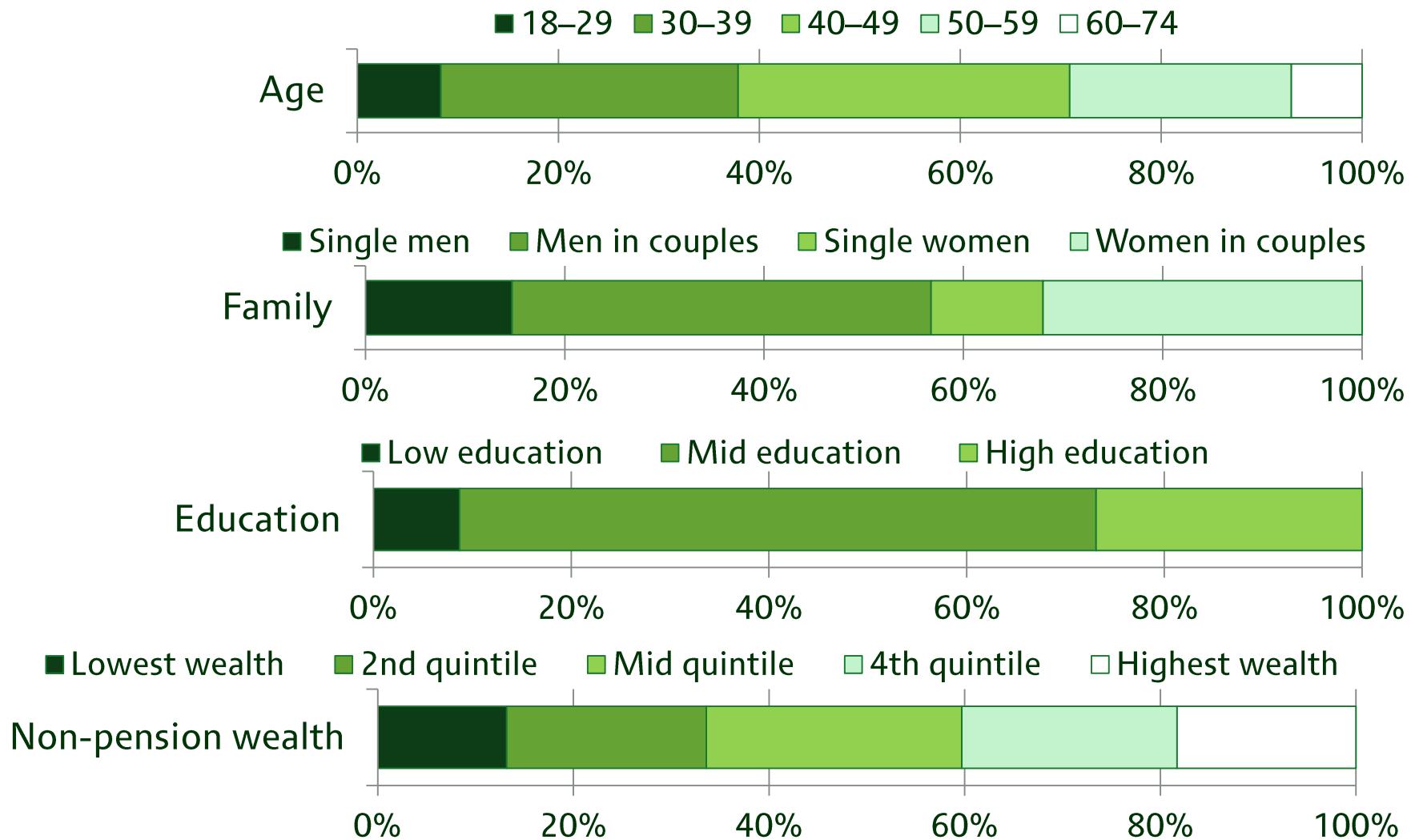
3.9 million DC pots contain <£5,000

1.1 million “retained”
DC pots containing
less than £5,000

Collectively these
funds are worth
~ £2.3 billion



Who holds small retained pots?

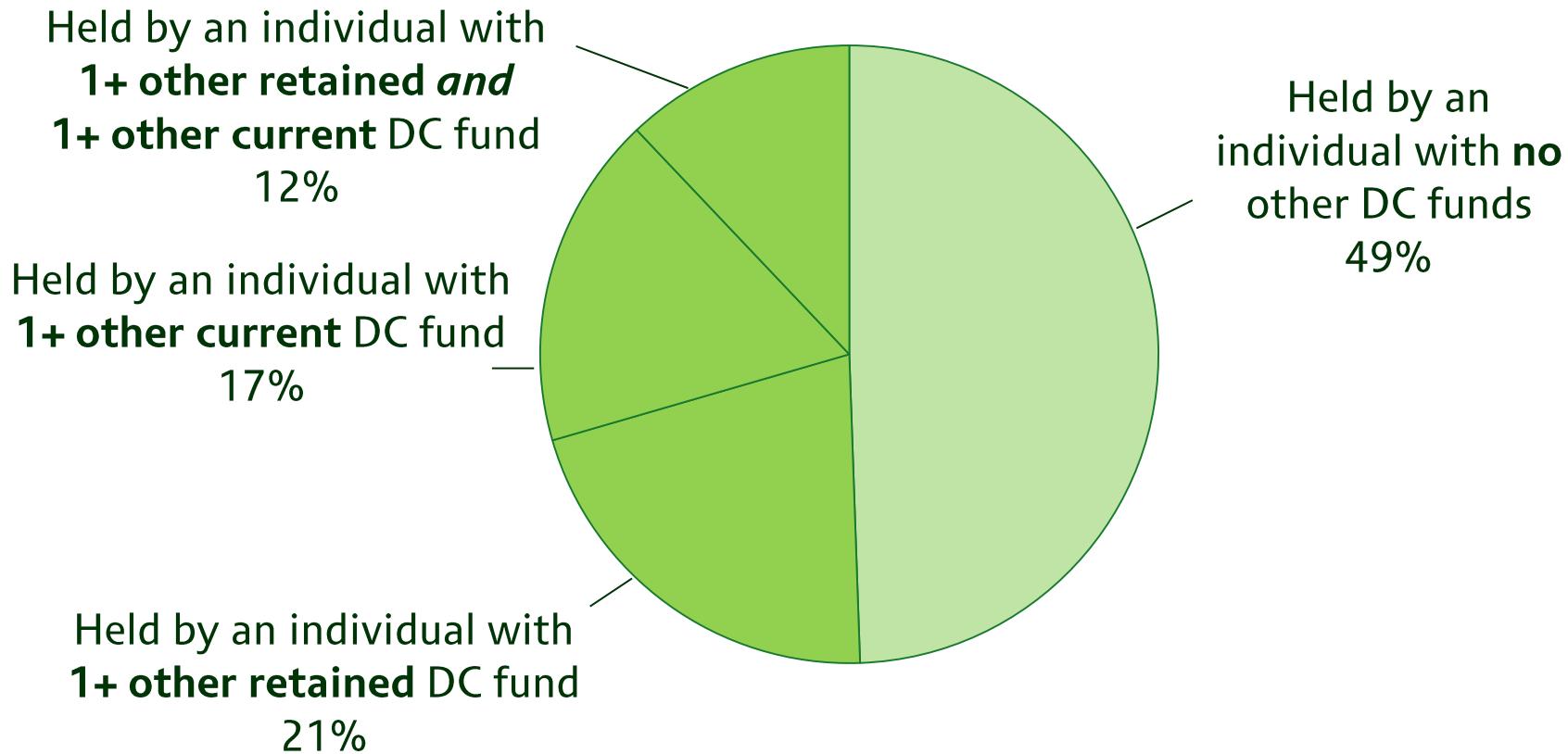


Education is defined as: High – degree level qualification or above, Mid – other qualification, Low – no qualifications

How much scope is there for consolidation?

Do the holders of small retained pots hold other DC funds?

1.1 million retained pots contain <£5,000



How much scope is there for consolidation?

Do the holders of small retained pots hold other DC funds?

1.1 million retained pots contain <£5,000

51% of small retained
DC pots held by an
individual with at least
1 other DC pot



76% of these
(or 39% of all small retained funds)
are held by an individual whose total
DC wealth exceeds £5,000

How much scope is there for consolidation?

- Potential ‘gains’ if all DC pots were consolidated:

	% reduction	# before	# after	# reduction
Small retained pots	39	1.1m	0.7m	0.4m
People with small retained pots	35	1.0m	0.6m	0.3m

- Potential ‘gains’ if all *employer-provided* DC pots were consolidated:

	% reduction	# before	# after	# reduction
Small employer-provided retained pots	30	0.7m	0.5m	0.2m
Small retained pots	18	1.1m	0.9m	0.2m
People with small retained pots	21	1.0m	0.8m	0.2m

How much scope is there for consolidation?

- This may underestimate the ‘gains’ from consolidation in future...
1. 41% (73%) of DC funds held by an individual with only 1 DC fund are held by an individual aged under 40 (50)
 - plenty of time before retirement to save additional DC funds
 2. Decline of DB pensions
 - DC pensions are more prevalent and individuals are more likely to accumulate >1 DC fund than in the past
 3. Auto-enrolment
 - Is expected to increase the number of individuals contributing to a DC fund at some point *and* the number of individuals contributing to >1 DC fund

Summary

- There are currently 1.1 million retained DC pension funds containing less than £5,000
 - Collectively these hold £2.3 billion of pension assets
- Of these, 0.4 million (39%) are held by individuals with more than £5,000 in total DC pension funds
 - Suggests there could be significant scope for consolidation if transfers improved
 - Would be smaller if only transfers of employer-provided DC funds were improved
- Small pension pots will become an increasingly important issue in future
 - Continued decline of DB and auto-enrolment in particular are likely to increase the number of people who contribute to multiple DC funds during their working lives



DWP

Department for
Work and Pensions

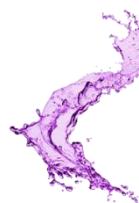
The customer experience when transferring pension pots

17 May 2012



Research objectives

In Autumn 2011, we conducted research for DWP examining the costs and processes involved in transferring a pension scheme from one provider to another

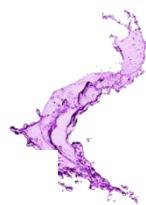


Research aims:

- To understand the process of transferring a pension pot from the providers' point of view, in particular:
 - ◆ The process of interaction between 'ceding' and 'receiving' providers
 - ◆ The process of ensuring the correct member data is sent and received
 - ◆ The different systems used by different providers
- We conducted face-to-face interviews with:
 - ◆ All of the Top 10 pension providers, and several smaller providers
 - ◆ Third party administrators responsible for processing transfers for providers
 - ◆ Several members of the Options Steering Group, responsible for improving the functioning of the pensions transfer process on behalf of the pensions industry



The average pension transfer time has dropped dramatically since 2008



- Within most providers, an estimated 60-80% of pension to pension transfers are processed through the **Options** platform
 - Options was designed by the pensions industry in 2008, with the primary objective of improving the transfer time and process, as perceived by the customer
 - Options unifies the transfer processes used by all providers, creating a web-based method of communication and a common set of information requirements for transfers
- It has reportedly reduced the typical transfer time from up to 50 calendar days before 2008 to an average of 8-9 calendar days in Q3 2011



Pre-2008

50 calendar days



2008

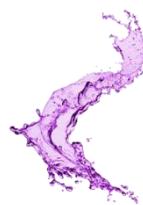
Introduction of
Options
from ORIGO

2011

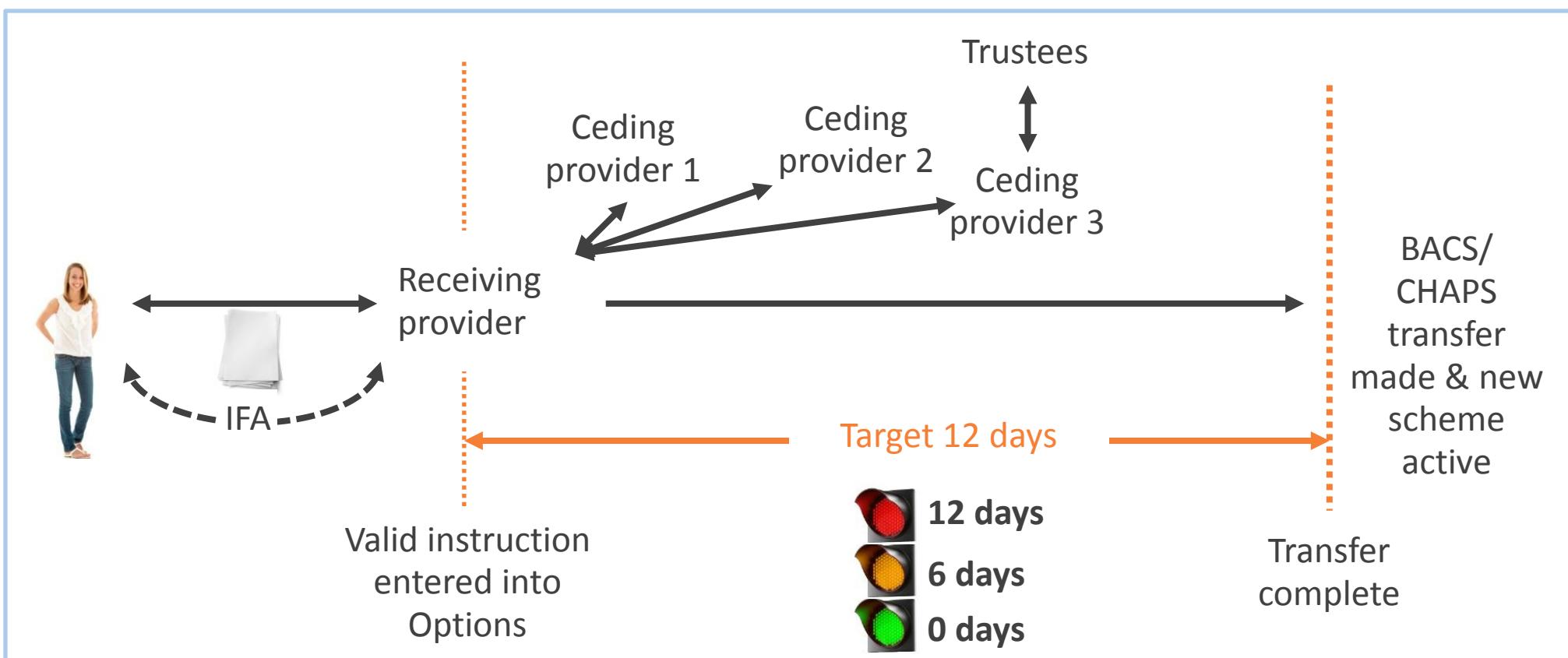
8-9 calendar days



If you are consolidating pension pots, the transfer time is only as fast as the slowest provider involved



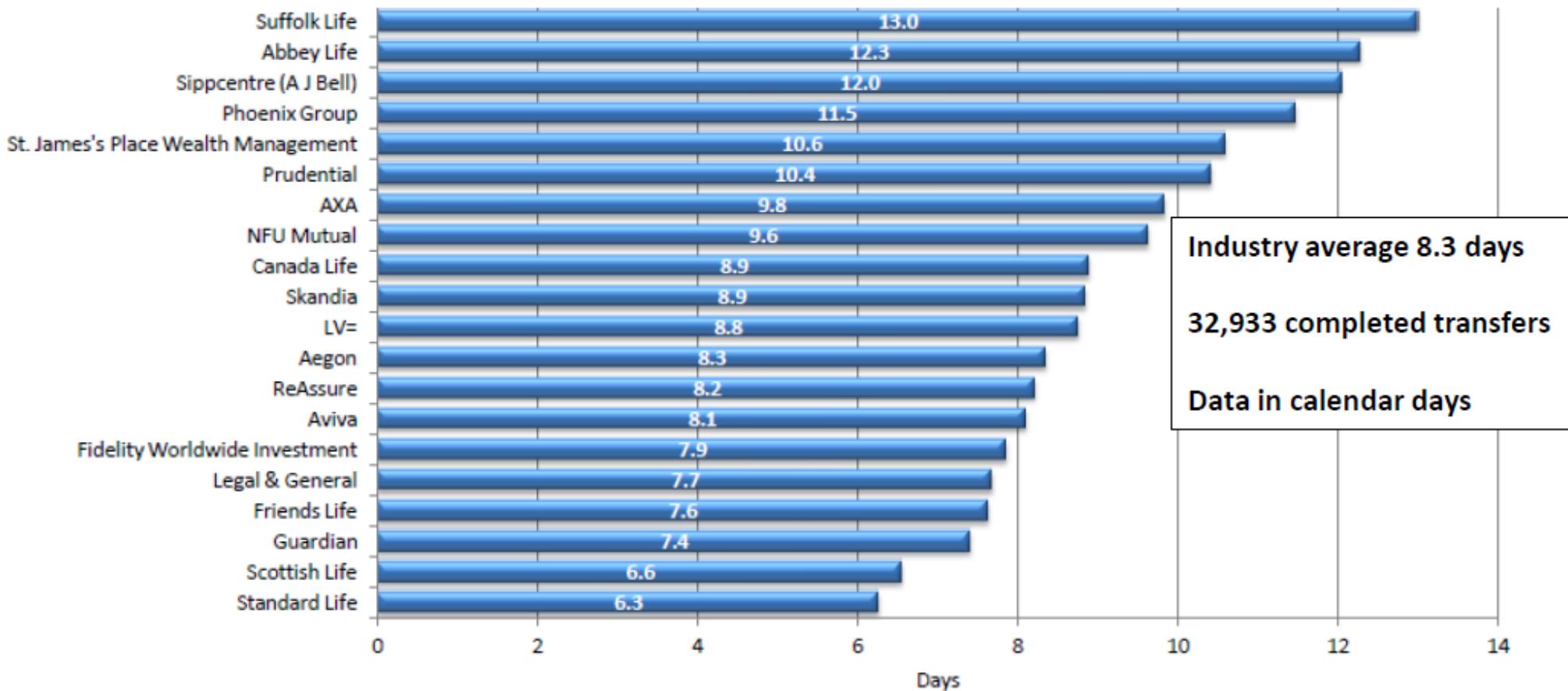
The process for a typical Options transfer:



Provider performance is published on the Options website

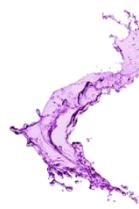


Individual providers: Average time from activation on Options to funds received by receiving provider



Source:

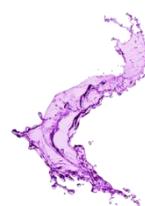
There are several reasons why transfers might not be as straightforward as this



- Transfers can take longer, or even fail, becoming costly for the provider, for several reasons:
 - ◆ The customer not completing the form correctly
 - ◆ Differences in the information requirements of different providers
 - ◆ Complex rules, legacy systems and the required involvement of trustees in transfers from older occupational schemes
 - ◆ Data entry errors by providers/ TPAs
- Typically transfer teams spend most of their time on such ‘problematic’ cases, even though they represent a minority of the total number of transfers
- Even where transfers are complex or fail, the cost is not passed onto the customer
 - ◆ The costs of transfers are factored into the annual management charges paid all by members



Occupational scheme transfers are complex because of the time needed to obtain the trustee assent



Occupational scheme complexities:

1. Trustee assent

2. Complex scheme rules
3. Legacy systems

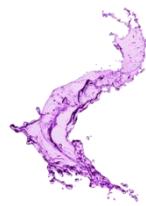
- Under current rules, trustees have a legal obligation to authorise transfers out of occupational schemes, which they must do as long as there is no detriment to remaining members of the scheme
- The onus is on the ceding provider to obtain this authorisation from the trustees, to allow the transfer to proceed
- This cannot be done via Options, so it can add a significant delay to the process



"You can't always get hold of the individual trustees to sign a discharge form, or in the case of a corporate trustee sometimes the company has been getting dissolved so there is no one to sign."

"Trustees only hold meetings every so often and if you miss a trustees' meeting and you have a question, you have to wait for the next one, so that can cause a delay."

Occupational scheme rules may make a transfer more complex, or prevent a receiving provider from accepting a transfer



Occupational scheme complexities:

1. Trustee assent
2. **Complex scheme rules**
3. Legacy systems



- Because of individual scheme rules that apply to some (usually older) occupational schemes, the transfer process can be far more complex
- This contrasts with contract-based pensions (group SIPP, GPP or GSHP), which are typically seen as unproblematic to transfer

“Occupational schemes are more difficult to calculate the benefits, because they have entitlement to protected tax-free cash, which is a manual calculation to be done at point of claim, which takes the extra time. There may be additional documentation prescribed by the trustees. So you can have quite a lot of up-front complexity there.”

Occupational schemes are often run on older computer systems, meaning that the data is difficult to manage



Occupational scheme complexities:

1. Trustee assent
2. Complex scheme rules
- 3. Legacy systems**

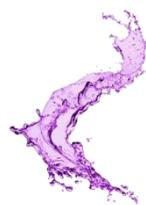


- Systems are often 'archaic': more steps must be completed manually to access the required data
- Many pots often in separate funds: can take the ceding provider time to collate them
- All schemes must be checked to ensure they are in accordance with current legislation

"It is archaic. Sometimes they don't have computer systems and they don't know what they are doing. They need to refer to external trustees and actuaries, and that is where it becomes sticky."

"Less than 1% of cases will be impacted by this thing, but to some extent you have to apply a test to every single case to see whether it does apply."

Providers with large back books that were closed to new business were far slower at processing transfers

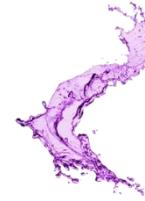


- Providers pointed out that where their peers had schemes that were closed to new business, they were often far slower at processing transfers
- It was suggested that they might have little interest in using Options to improve the transfer process, because this would entail spending money, in order to speed up the process through which they lose business



"Speeding up the process for people to transfer out because you are not writing new business, means that every time a client rings you up and says they want to transfer out, from your perspective it's admin cost and lost funds, so two very negative things."





ATTACK OF THE PENSION ZOMBIES: HOW DEAD INSURANCE FUNDS ARE HOLDING YOUR LIFE SAVINGS HOSTAGE

Thousands of pensioners are being deprived of as much as £11,000 each by 'zombie' insurance companies which hold their savings hostage for up to four months...

Some of these closed funds are dallying for a whole month before replying to savers who, desperate for a better deal, ask to transfer their pension to a new provider. It can then take another three months before the cash is released. Yet we can reveal the paperwork to transfer a pension fund can take as little as two hours to complete...

A Government-commissioned report accuses closed pension firms of deliberately dragging their feet in a last-ditch bid to fill their coffers with fees taken from their customers' savings. The flopped firms can rake in as much as £100,000 for every 100 customers who want to move their savings elsewhere, Money Mail research estimates...

One pension firm, which wished to remain anonymous, in the DWP report told investigators "If they can hang on to it for another three or four months, then that's all well and good in their book..."



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What NAPF members think about transfers and small pots

Richard Wilson
DC Policy Lead, NAPF

Small pots challenge

- Central to long-term success of auto-enrolment
- Workers have 11 jobs
- UK has lots of small schemes
- NAPF wants to rise to challenge



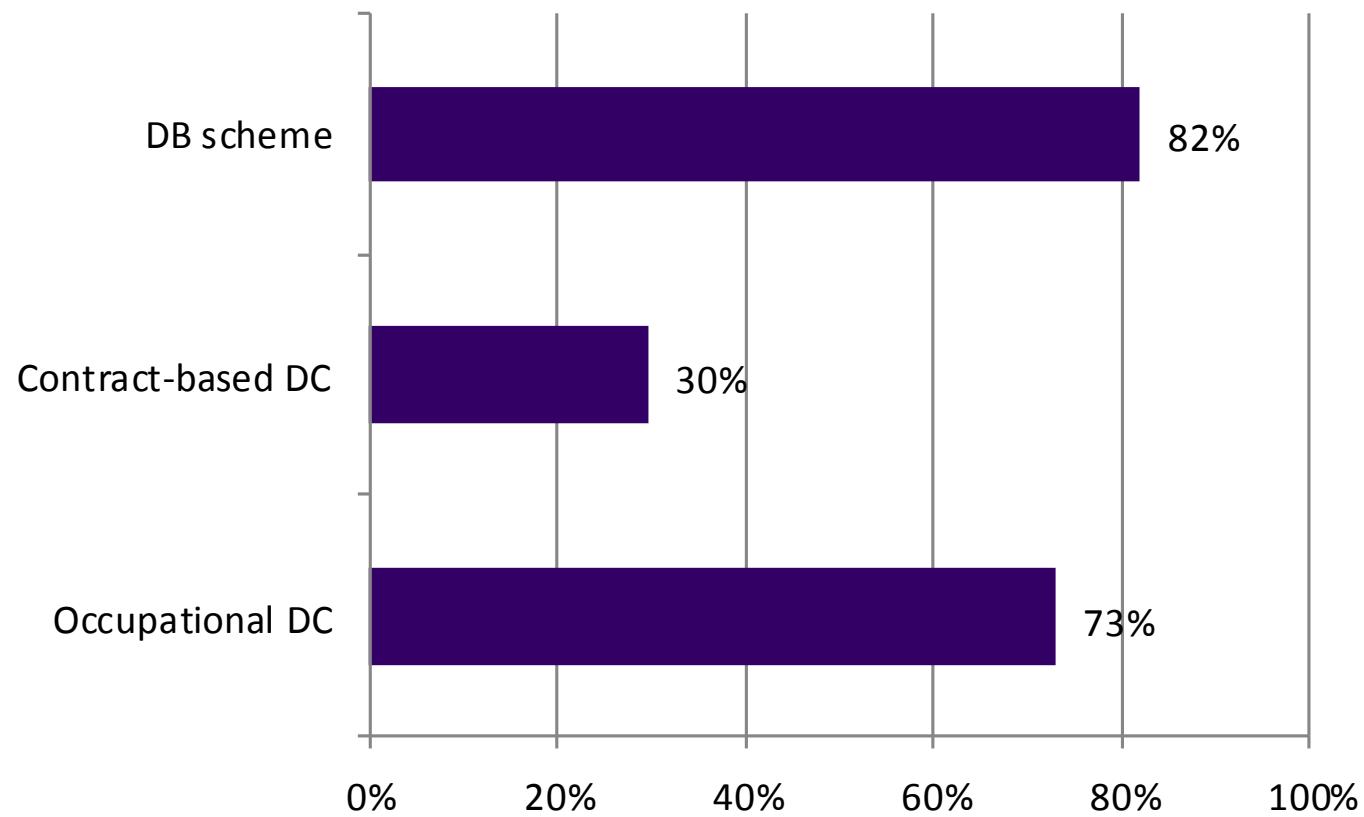
NAPF small pots survey



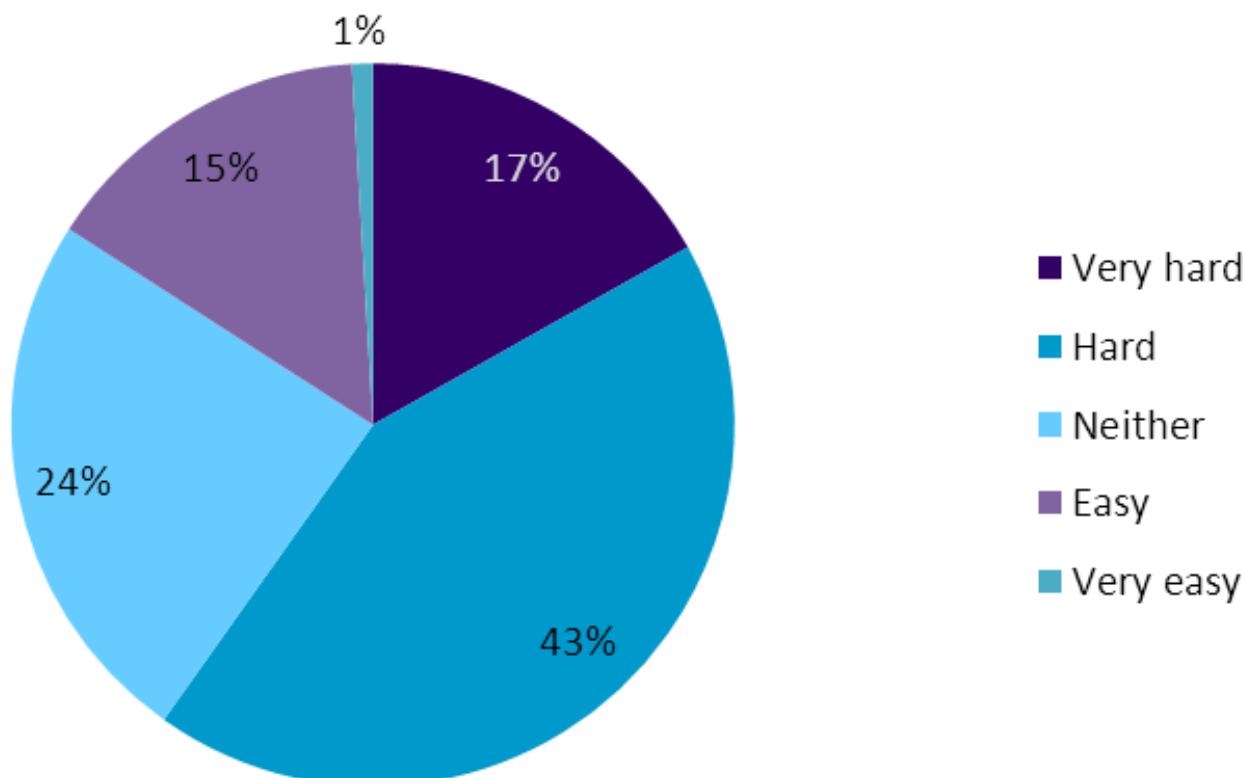
PensionsConnection
Putting the pieces together

- 15 question survey
- 113 responses from schemes, trustees and pension professionals

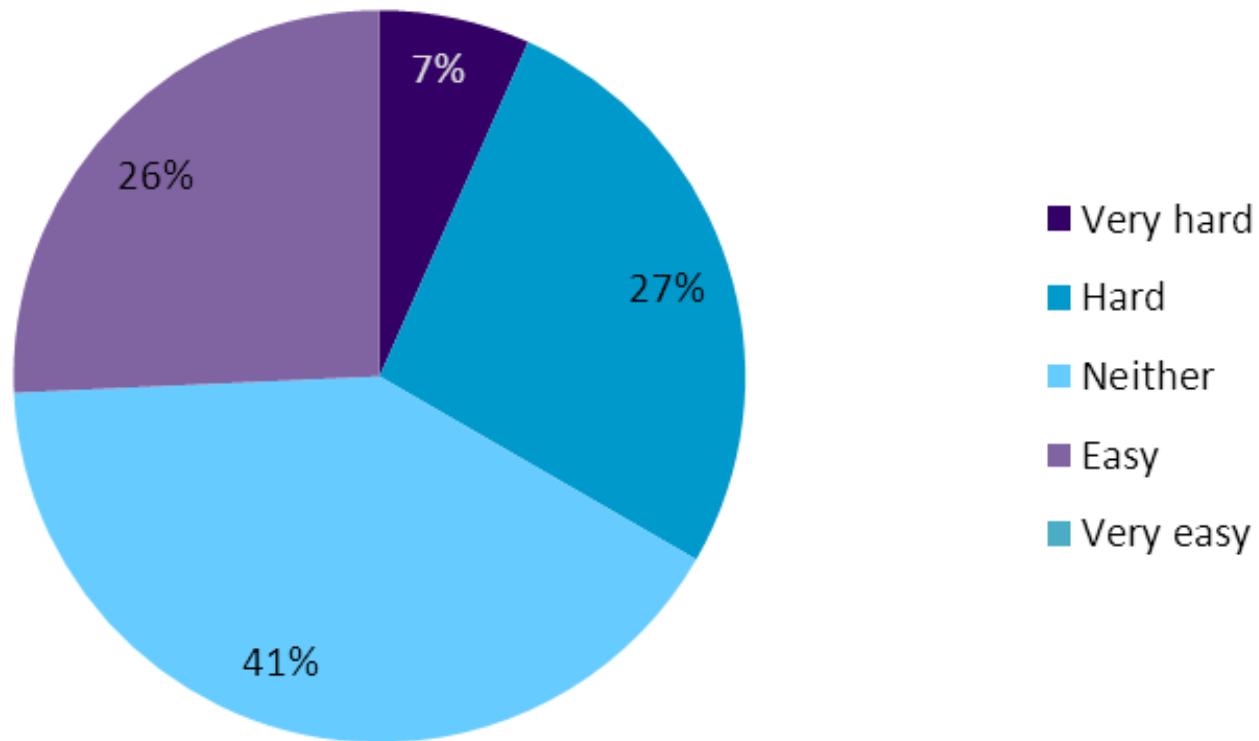
Who responded



How easy do members find transfers?



How easy do schemes find transfers?



What makes transfers hard?

“so many requirements before the receiving scheme will accept the transfer”

“tremendous amounts of paperwork”

“complexity of process for members creates confusion and questions”

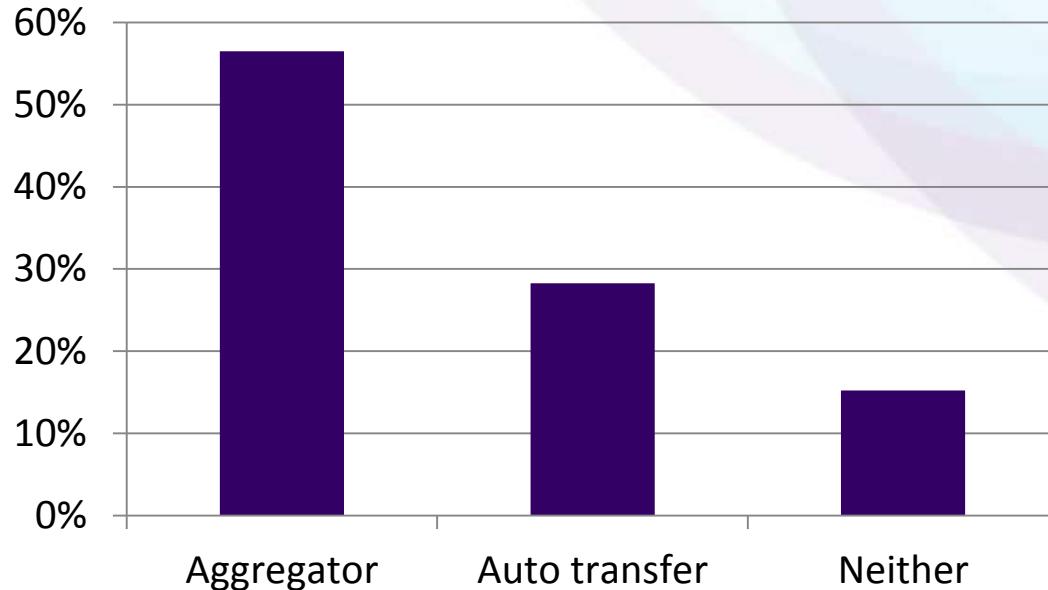
“delays with involvement of IFAs”

“different pension fund providers have different rules”

“required checks to ensure transfer is to registered scheme”

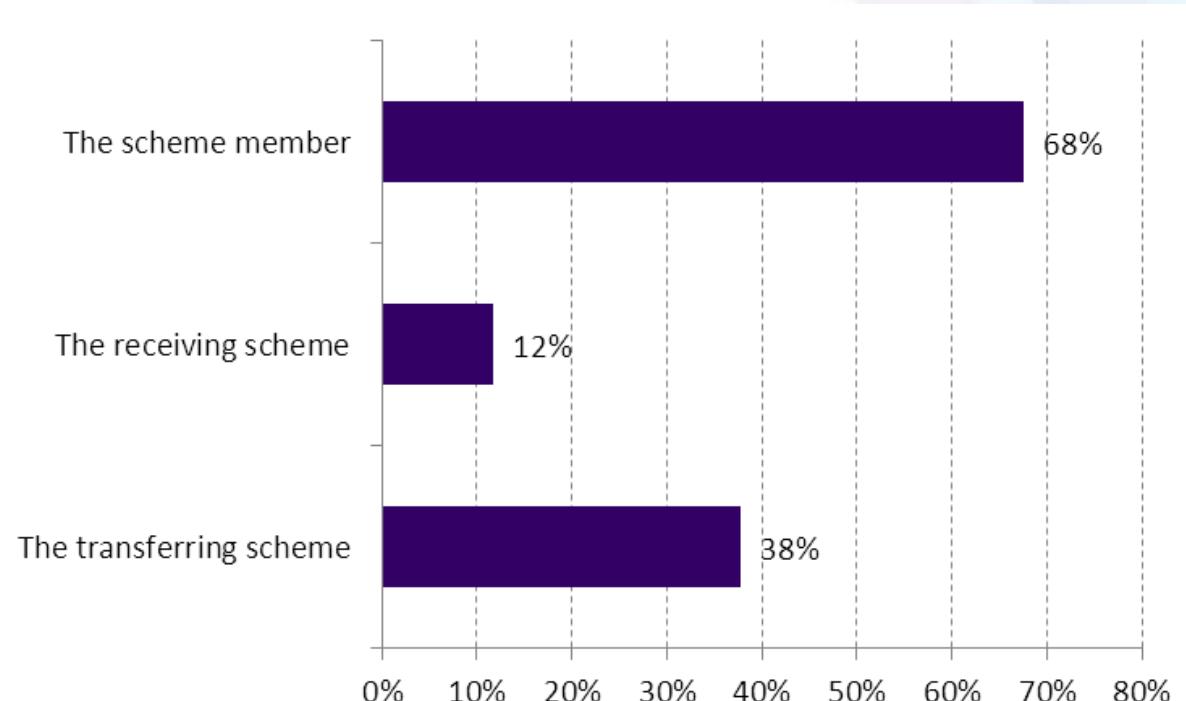
“just complicated!”

Which solution is best?



- 87% believe it is essential that small pots are transferred into quality schemes with low charges
- 80% thought that there was a role for NEST

Who should pay?



- 76% think there should be a de minimis level below which pots should be transferred

Conclusions

- Must be automatic and easy to administer
- Got to work for all types of schemes
- Protect members
- Protect scheme and trustees