

Testimony Before the ERISA Advisory Council

Locating Missing and Lost Participants

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“Lost Pensions: Lessons from Australia and the United Kingdom”

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Good morning. My name is John A. Turner. I am Director of the Pension Policy Center. I commend the ERISA Advisory Council for addressing the issue of lost pensions. This is an area where government policy can improve the retirement income security of American workers. I and my coauthors have published a number of papers on this topic, which I have included in the list of references at the end of this testimony, some of them containing a more detailed and wider ranging discussion of the issues (e.g., Blake and Turner 2001, Bruce and Turner 2004).

Although we live in the Information Age, the problems discussed here are largely problems of information management. With electronic filings of Form 5500 returns by employers and income tax forms by workers, information management should be considerably easier now than in the past.

The American workforce is mobile, many workers holding more than one job providing pensions over their careers. Many retirees face great difficulties in locating their former employers from years in the past in order to apply for a pension to which they are entitled. At the same time, pension plans have trouble locating prospective pensioners who have moved and with whom they have lost contact.

The problem of lost pensions and lost pensioners was also prevalent in the United Kingdom and Australia, but these countries have established national pension registries. These registries have helped thousands of people receive their pension entitlements. I will discuss what lessons we can learn from their experience. I will then discuss how New Zealand’s pension system has greatly reduced the problem of lost pensions. Lastly, I will present a proposal for sending lost defined contribution pension funds to the Social Security OASI Trust Fund so that they can be used for their designated purpose of providing retirement security.

Lost Pensions in the United Kingdom

¹ I have received valuable comments from Bryn Davies (UK) and Ross Clare (Australia).

Since 1991, the United Kingdom has had a national pension plan registry so that workers need only contact a single source to trace a lost pension (Government of the United Kingdom 2013). Workers can request assistance by telephone, mail or the Internet. The location of this registry within the government has changed with various reorganizations. Since 2005, the Pension Tracing Service has been part of the Department for Work and Pensions, under The Pensions Regulator. This Department corresponds to the Employee Benefits Security Administration under the Department of Labor.

The Pensions Regulator has responsibility for the Pension Schemes Registry, which maintains a record of the addresses and other basic details of all pension plans in operation in the UK. The term scheme is used in the UK to refer to a pension plan. Pension plan administrators are responsible for registering pension plans with The Pension Regulator and notifying that agency of changes in the status of the plan, including terminating the plan. The registration with The Pension Regulator is used for maintaining the Pension Schemes Registry. All plans registering are given a Pension Schemes Registry number, which they use in communications with The Pension Regulator.

The Pension Tracing Service in The Pensions Regulator helps workers find a pension even if the workers are not sure of the contact details. It has access to information on over 200,000 pension plans, primarily through the Pension Schemes Registry. The Pension Tracing Service uses this database, free of charge, to search for a person's pension.

Workers in the United Kingdom filing a tracing request form with the Pension Tracing Service are asked information such as the full name and last known address of the former employer. The tracing service then tries to find a current address for the pension fund. A copy of the form can be found at the end of this paper as Appendix 1.

The British government maintains the Pension Tracing Service without charging a fee to its users on the grounds that it provides an important social service. The cost of the service averages out to be about \$0.20 per participant per year (Blake and Turner 2001). Using that as the basis for a cost estimate for the United States, with 130 million total participants in 2010 (US DOL 2012), the total cost would be about \$26 million a year.

The tracing service does not contact pension plans on behalf of workers, but instead provides contact information. It is up to the individual to then contact their former pension plan provider. A weakness of this approach is that 28 percent of users in a recent survey did not follow up and make contact with their former employer, the most common reason stated being that they were too busy (Shury and Koerbitz 2010).

The Pension Tracing Service provides this service both for employer-provided plans and for individual account plans, which would correspond to Individual Retirement Accounts (IRAs) in the United States. More than 90 percent of the users of the service, however, use it to contact employer-provided plans (Shury and Koerbitz 2010).

Most persons using the service are near retirement age or older. A survey conducted in 2009 found that nearly half (48 percent) of the users of the Pension Tracing Service were ages 55-64,

and an additional 16 percent were ages 65 and older (Shury and Koerbitz 2010). That survey found a rate in providing contact information of 75 percent. Of those provided contact information, 28 percent had not followed up as of the time of the survey and actually made the contact.

Among workers who did make contact, respondents reported in 80 percent of cases that the contact details provided by the Pension Tracing Service were correct. Of those persons with correct contact information, respondents were able to establish their eligibility to access the pension in 43 per cent of cases.

In the fiscal year 2009-2010, the Pension Tracing Service received 83,000 requests. A survey of 2,000 users of the service found that 7 percent had received lump sums of more than £20,000 (BBC 2010).

Based on all inquiries processed by the Pension Tracing Service, the outcome for around one in five of pensions (19 per cent) is that the respondent's eligibility to draw the pension had been confirmed. The low success rate may be due in part to the fact that 64 percent of the searches were for a job ending between 20 and 40 years previously. A reason for the long lag is that often people initiated searches when they were preparing to retire. Another reason for the low success rate, which would not apply to the same extent in the United States, is the historical development of vesting requirements in the United Kingdom. There was no compulsory vesting until the early 1980s, when five-year vesting was instituted. Thus, many of the people recalling pension coverage early in their careers may not have been vested.

Lost Pensions in Australia

For more than a decade, the Australian Tax Office (ATO) has maintained a Lost Members Register. All pension funds are required to provide details of members with whom they have lost contact. Providers of individual retirement savings accounts are also required to register the names of account holders whom they are unable to contact because they no longer have a valid address for them, and who have not contributed within a specified period of time. That information is required to be provided to the government within four months of the end of each half year (www.ato.gov.au). If the pension fund has one piece of mail to a member returned unclaimed, it may report the member as lost. If it has two pieces of mail returned unclaimed, it is required to report the member as lost.

If a worker is unable to contact a former pension plan, the worker can contact the Australian Tax Office using a service called SuperSeeker (Australian Tax Office 2013). Super refers to superannuation, which is the Australian term for an employer-provided pension. Workers need to register online to use SuperSeeker. They provide identifying information, including their tax identification number (called the tax file number TFN), and date of birth.

For workers using this service, the worker's plan will presumably have contacted the Australian Tax Office because of the inability of the plan to contact the worker, so that through the Lost Members Register a connection can be made between the worker and the plan through tracking by the tax identification number.

If the government, the person's employer, or their pension fund are unable to find a participant, the participant has not made a contribution for 12 months, and the amount in the fund is A\$2,000 or less, the money is transferred to the Australian Tax Office, where an account is established for that person. (Australian dollars are roughly equivalent in value to U.S. dollars.) The Government will further increase the account balance threshold to A\$2,500 from 31 December 2015, and to A\$3,000 from 31 December 2016. Subsequently in August 2013 the government has announced these thresholds will actually increase to A\$4,000 for 31 December 2015 and A\$6,000 by 31 December 2016, but these changes have not yet been enacted into law. Part of the motivation for this aspect of the program is to protect small accounts from being eroded by fees charged by financial institutions.

The government pays interest on these accounts at a rate equal to the inflation rate as measured by the Consumer Price Index, but does not charge a fee for managing the accounts. If the government subsequently is able to contact the person through their tax identification number, the person is notified of the account. In the future, probably within a year or two, if the person has changed jobs and has established a new pension account, the government notifies the person that the funds will automatically be transferred to that account unless the person requests otherwise.

The Lost Members Register database originally was searched by government employees on behalf of persons making an inquiry. Now individuals have four options. They can search online, with the possible matches reported back to them online. The search is based on the person's name, date of birth, and tax filing number. They can search using a self-help telephone number. They can search by calling a telephone number and speaking to a government representative. They can search by printing off information from the website and mailing in a request. Similarly to the program in the United Kingdom, it is then up to the individual to follow-up.

The Australian government also provides a tool for obtaining contact information for pension funds, called the Super Fund Lookup. That tool can be used online by keying in the name of a pension fund (Australian Government 2013b).

Many of the lost accounts without proper identification originated during the time when individuals did not have to quote a tax file number when opening an account. Now there is a substantial tax penalty if no TFN is quoted.

For a lost member's register to be successful people need to be aware of it. When a person searches for the Australian Tax Office using Google, one of the subheadings that appears under the Australian Tax Office is Super Seeker. In addition, when a person leaves Australia for a trip out of the country, he or she is given a form that includes information for finding a lost pension. If the person is not an Australian or New Zealand citizen, they may claim their account when they leave the country. If they do not make a claim, the money goes to the Australian Tax Office as unclaimed money.

The cumulative effect of various Australian government initiatives to reduce the number of lost pensions is that over the 18 months ending at the end of 2012, the number of lost pensions was reduced by 30 percent, from 5.0 million to 3.5 million (Australian Government 2013a).

New Zealand

In New Zealand, the problem of lost pensions is addressed proactively through portability of pensions. If a worker who changes jobs maintains the same pension service provider, the likelihood of a lost pension is virtually eliminated. In the defined contribution Kiwi Saver program, when a worker changes jobs, the worker takes the pension to the new job. The problem of employers having pensions from different service providers is solved by the government providing a pension clearinghouse. The employer transmits the pension contributions for the worker to the government clearinghouse, along with identifying information about the worker. The government then transmits the worker's contributions to the appropriate service provider.

A new agreement, starting July 1, 2013, allows transfer of pension balances to and from Australian superannuation funds and New Zealand Kiwisaver accounts.

A Proposal for the Ultimate Disposition of Lost Pension Funds

I conclude this testimony by drawing attention to a proposal I made a decade ago with Ellen A. Bruce for the disposition of lost pension funds in defined contribution plans and Individual Retirement Accounts (Bruce and Turner 2003). Because the lost pension funds have benefited from tax expenditures that were intended to encourage retirement income security, we propose that the lost pension funds eventually revert to the Social Security Administration OASI Trust Fund. For example, funds that had not been claimed by age 75 would be sent to the Social Security Administration, with provision that they could be claimed at a later date from Social Security if the claimant was found. This proposal would strengthen the funding of Social Security, and it would assure that the funds were used for their intended purpose of enhancing retirement income security. It would also provide a central place for people to contact when looking for lost accounts.

Lessons for the United States

Finding a lost pension is much more difficult in the United States than in the United Kingdom or Australia. In the United States with decentralized records that are not designed for tracing pensions, workers and people searching on their behalf may need to contact a number of different sources of information and ultimately fail to find a lost pension. In the United Kingdom and Australia, by contrast, workers need only contact a single source specifically designed for assisting them in finding a lost pension. The Australian approach maintains a central registry, as in the United Kingdom, but the registry contains information about workers as well as information about plans.

Although we live in the Information Age, the problems discussed here are largely problems of information management. The experience of the United Kingdom and Australia suggests the following lessons.

Lesson One. A centralized system for tracking pension plans needs to be established to help all pension participants.

Lesson Two. The Form 5500 could be modified to include a lost participant form that would be the basis for a lost participant registry. Plans could be required to indicate as lost participants for whom it has had two mailings returned.

Lesson Three. In Australia, the government is instituting a system where it will contact workers with lost accounts. Such a system could be instituted in the United States with the IRS contacting workers with lost accounts who had filed income tax returns.

Lesson Four. The search approach in Australia provides the worker four search options, including searching on-line.

Lesson Five. Based on the experience in the United Kingdom, the annual cost of maintaining a tracing service for finding pension plans and assisting participants would be about \$26 million. This is a rough estimate that does not take into account cost savings that would occur due to efficiencies in replacing search activities that already occur. A lower-cost option would be to use the approach in Australia, where workers have the option of searching on-line.

Lesson Six. Having lost pension accounts sent to the Social Security Administration would assure that the money was used for the purpose of providing retirement security. It would also facilitate people looking for lost accounts finding the money, since they would have a central place to contact.

Lesson Seven. Effort should be made to prevent lost pensions from occurring. For example, when W2 tax forms are sent out from former employers, there could be the requirement to also provide information about pensions with former employers.

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Trace a pension

About the scheme you are trying to trace

Name of employer or pension scheme you are trying to trace *

Employment start date (dd/mm/yyyy)

Employment end date (dd/mm/yyyy)

Date you joined the pension scheme (dd/mm/yyyy)

Last known address for the employer or the pension scheme you want traced

If you know any more addresses for this employer please enter them here

If you know any more addresses for this employer please enter them here

Occupational (employer) schemes

If you were in an occupational scheme please give as much information as you can

Employer's type of business, e.g. manufacturing, retail

Your job title

Trading name of the employer, and any other names they have been known by, if applies

If the employer's company was part of a large organisation or group, please give the name and address, if known

Personal pension schemes

If you were in a personal pension scheme please give as much information as you can

Name of insurance company who administered the scheme

Please use this space to give any other information you think might help to trace the pension scheme, for example, any previous addresses