



NEST Corporation
Corporate Plan
2012 - 2015

Contents

Foreword

Page 3 >>

Introduction

Page 4 >>

Background 4

Purpose 4

High-level framework

Page 5 >>

What is NEST here to do and what does success look like?

Page 6 >>

The vision 6

The mission 6

Success factors 6

What will NEST deliver?

Page 8 >>

Our strategic objectives 8

Delivering our strategic objectives

Page 9 >>

2012/13 business plan 9

Summary of objectives, business activities and key indicators 13

How will NEST deliver?

Page 15 >>

NEST people - value statements 15

Resource summary

Page 16 >>

Funding 16

Financial resources 17

Foreword

The next three years will be crucial to the success of NEST. This year we'll start helping employers meet their new duties and take on our first automatically enrolled members.

Through 2012 and 2013, the new employer duties will be rolled out for the largest employers. Our public service obligation requires NEST to be available to all employers affected by the duties and we anticipate that many will want to use NEST for some or all of their workers. Over this period, we'll continue to gain practical experience of how the largest firms fulfil their new duties.

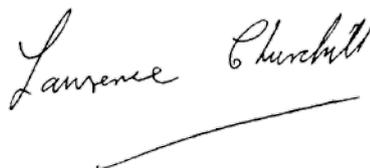
Our vision is to help millions to save confidently for their retirement. By the end of the period covered by this corporate plan we'll have made significant steps towards achieving that vision.

NEST Corporation is the Trustee established to deliver and run the NEST scheme. It was formed in July 2010 with the winding down of our predecessor body, the Personal Accounts Delivery Authority (PADA), and has now been operating for nearly two years. In our second year we've achieved a number of major milestones. Among other achievements, we've accepted our first employers and members, invested our first contributions, signed up to the United Nations-backed Principles for Responsible Investment and updated our guide to simplifying the language of pensions.

As we step up our operations, this year we'll continue to evolve our Corporation so that it continues to be fit for purpose. This evolution will happen over several years, alongside the staging period for the employer duties.

Our third corporate plan, which incorporates our 2012/13 business plan, reflects that transition. While our immediate focus is on shorter-term objectives, we've set longer-term objectives appropriate for a successful and vibrant business.

The next three years will see significant and exciting changes to the retirement savings landscape. Everyone at NEST Corporation stands ready to play their role in developing and operating a trusted, well-run and well-used pension scheme.



Lawrence Churchill CBE
Chair
NEST Corporation
June 2012

Introduction

Background

The National Employment Savings Trust (NEST) is a low-cost, occupational pension scheme. It's run as a trust-based scheme, on a not-for-profit basis in the interests of its members. NEST Corporation is the Trustee of the NEST pension scheme and currently has a governing body of 11 Trustee Members. They're responsible for taking decisions based on established principles of trust law and for setting the strategic direction and objectives of the organisation.

NEST Corporation was established by government and is a non-departmental public body. It operates at arm's length from government. NEST is an essential component of the Department for Work and Pensions' (DWP) Enabling Retirement Savings Programme (ERSP), which is leading the delivery of the government's workplace pensions reform agenda.

Purpose

This is NEST Corporation's third corporate plan. It covers the period from April 2012 to March 2015 and includes details of our business plan for April 2012 to March 2013.

The plan identifies those areas where we'll need to be successful if we're to achieve our vision of helping millions to save confidently for their retirement. It sets out the specific business activities and indicators through which we'll measure our progress over the financial year 2012/13.



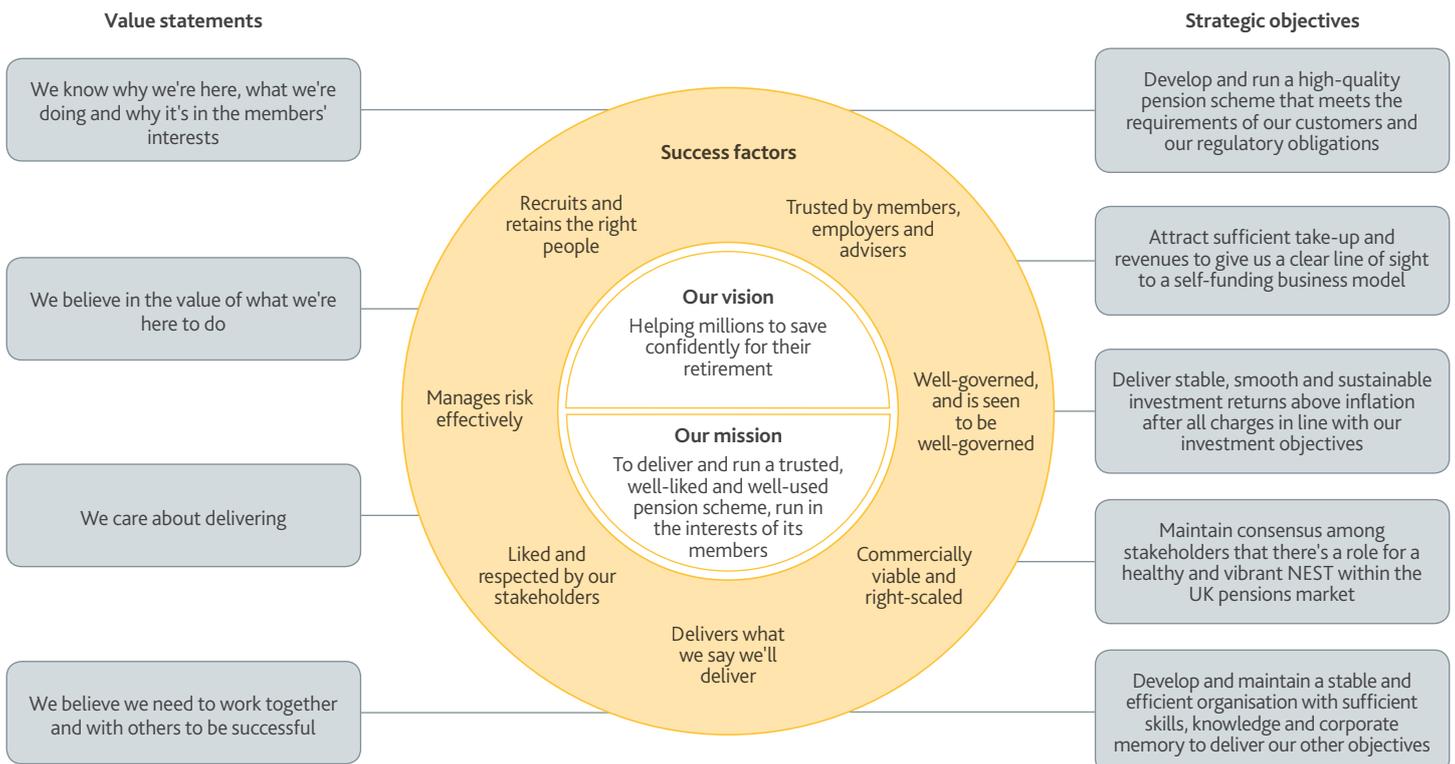
High-level framework

The Trustee Members have agreed a strategic framework for NEST. It sets out our vision, our mission and the success factors that define what we think success for the scheme looks like. The strategic objectives set out what we aim to achieve over the next five years to meet our vision and mission. Our specific business objectives for 2012/13 and a set of activities to deliver these objectives flow from these.

NEST's people are central to our ability to deliver success. How we work as an organisation and as individuals is therefore vital. NEST's value statements set out what we look for in our people and how we expect them to deliver against our vision and mission.

The framework is summarised in the diagram below and explained in more detail over the pages that follow.

Figure 1 Summary of NEST's strategic framework



What is NEST here to do and what does success look like?

The vision

NEST Corporation's vision is to help millions to save confidently for their retirement.

NEST is designed to provide a high-quality, low-cost pension scheme for the millions of people not currently saving for their retirement. Many of these people have limited or no experience of investment products or pensions and low levels of trust and confidence in pension saving and financial services. As retirement saving becomes more commonplace and as savers have the opportunity to engage directly with the scheme our long-term aim is for members to have the confidence to take the decisions that will lead them to the outcomes they want in later life.

The mission

To achieve this vision NEST will need to be trusted. We'll need to become a respected part of the UK's financial system. Reflecting this trust, we'll need to deliver the volume of members required to build scale. Underpinning all of this, we must deliver on the intent behind our formation as a pension scheme run in the interests of its members on a trust basis.

Our mission summarises these challenges – to deliver and run a trusted, well-liked and well-used pension scheme, operated in the interests of its members.

Success factors

Our success factors provide context to our vision and mission and help shape our thinking of where NEST will need to excel in order to achieve our mission. NEST will be successful if it ...

... is trusted by members, employers and advisers

Our research shows us that trust in financial services, and pensions in particular, is usually low in our target market. Additionally, NEST is a new entrant in the pensions market with only a short operational track record to demonstrate our trustworthiness.

To build trust NEST will need to continue to build a reputation for delivery, ease of use, and high-quality service to our members and the employers that choose to use us. This starts with our first interaction with a member, employer or adviser, and is something that NEST will build on throughout our relationship with a customer.

... is well-governed, and is seen to be well-governed

A transparent and member-focused approach to governance can play a role in sustaining trust. We need to be able to demonstrate that we have the people, expertise, structures and processes in place to run the scheme successfully in the interests of our members.

... is commercially viable and right-scaled

It's important to NEST achieving a self-funding business model that we successfully enrol a large number of members. Over the next five years more than a million employers, employing around 21 million private and public sector workers eligible for automatic enrolment, will be subject to the new employer duties. We expect a significant number of these employers to use NEST, resulting in several million members saving in NEST by the end of staging.

By being ready for these employers, and the significant increase in scale of operations that this will require, we'll ensure we maintain the quality of service our customers expect while achieving the scale required to ensure we're commercially viable.

... delivers what we say we'll deliver

To build our operational reputation and trust in the scheme we must deliver on our promises. A good experience for new employers and members when they join as well as a high-quality operation that delivers accurately and on time will demonstrate the quality of our scheme. This will be the basis of trust between NEST and its customers.

... is liked and respected by our stakeholders

No institution can be successful in the long run without the support of its major stakeholders. This is all the more true for NEST, the creation of which was supported by a consensus involving a majority of stakeholders who agreed that there was a need for a national low-cost pension scheme to enable the pension reforms to be a success.

... manages risk effectively

We have to manage the significant delivery and operational risks associated with an operation of this scale, while keeping focused on our longer-term strategic risks. By proactively identifying and managing our risks we'll ensure that we remain focused on the delivery of our strategic objectives.

... recruits and retains the right people

NEST is committed to attracting and developing the highest quality staff as we ramp up our operational capacity alongside the significant ongoing delivery challenge that we face. By ensuring that we continue to have in place high-calibre people with the skills to run a fast-growing business, we'll ensure that we can deliver the strategic objectives.

What will NEST deliver?

Our strategic objectives

Our strategic objectives set out what we think we need to deliver in order to achieve our long-term vision and mission.

We successfully launched NEST in low volumes in July 2011. In a sense, that could be seen as the end of the first phase of our existence. The strategic objectives set out below relate to the next phase of our existence, during which we'll enter the new era of employer duties and deliver the scheme at scale. At the end of this phase, all UK employers should have been staged into their new duties.

While we'll no doubt want to review them on an ongoing basis, we see the following objectives as the basis for our strategy over the next five years.

- Develop and run a high-quality pension scheme that meets the requirements of our customers and our regulatory obligations.
 - Attract sufficient take-up and revenues to give us a clear line of sight to a self-funding business model.
 - Deliver stable, smooth and sustainable investment returns above inflation after all charges in line with our investment objectives.
 - Maintain consensus among stakeholders that there's a role for a healthy and vibrant NEST within the UK pensions market.
 - Develop and maintain a stable and efficient organisation with sufficient skills, knowledge and corporate memory to deliver our other objectives.
-

Delivering our strategic objectives

2012/13 business plan

Our business plan for 2012/13 flows from our strategic objectives. It outlines what we need to do this year to progress towards the achievement of our strategic objectives and helps us to target resources at the appropriate priorities. This section sets out the business objectives we aim to deliver in 2012/13 and the key business activities and indicators we'll be using to track our delivery.

1) Deliver a compliant scheme that meets the needs of major corporate employers

NEST's role in delivering a public service obligation means that we must accept any employer wishing to use us to meet their duties. This in turn means we must be ready with a pension scheme that complies with the relevant legislation when employer duties begin in October 2012. We've also learnt a great deal about what employers want and need from us from working with volunteer employers during the scheme launch phase.

Because of this, we've decided to deliver two major service updates this year in addition to a number of minor releases. The first will put a compliant scheme in place in time for the onset of the employer duties (OED), while the second will build in additional enhancements to the service for employers and members. Key activities and indicators for this objective are to:

- deliver the OED service release by 1 October 2012
- deliver the first enhanced functionality service release in March 2013 and have plans in place for a further release in June 2013.

2) Maintain a high-quality operational service to our members as volumes increase

NEST has been live with a small number of volunteer employers since July 2011 and so we're already focused on delivering a high-quality operational service to our members. To support this we have a number of service delivery agreements with our key suppliers and we monitor any complaints we receive closely. This year we'll also carry out customer satisfaction research to test our members' early experiences of the scheme.

Key activities and indicators for this objective are:

- availability of web and interactive voice recognition (IVR) services 24 hours a day, 365 days a year, except for during planned maintenance
 - contact centre availability in line with advertised hours
-

-
- calls to the contact centre answered within 60 seconds, and five seconds for the IVR system
 - written acknowledgement of all complaints within five working days and responses to complaints within eight weeks
 - deliver the first phase of customer satisfaction research and incorporate findings into our service improvement plan by the end of September 2012.

3) Deliver sufficient scale into the scheme

It's not possible to say exactly how many members would be 'sufficient' this year. In any case, our long-term viability will depend on our ability to bring in members through medium-sized and smaller employers later in staging.

However, we do recognise that the spotlight will be on NEST and how it's perceived to be doing, including the number of employers signing up to the scheme. There's already demand from large employers in the first year who'll be looking to NEST to enable them to meet their employer duties. This scale will boost our credibility and give us confidence in our own viability. To this end we'll continue – in partnership with other providers – to raise awareness of NEST in the market and to support employers as they decide whether or not NEST is appropriate for some or all of their workforce.

We've invested a lot of time developing our opt-out process to make sure people understand what it really means for them. We hope it will help members make an informed decision on opting out. However, we need to bear external factors in mind, such as the economic climate and personal circumstances that may affect opt-out rates.

Key activities and indicators for this objective are:

- enrol at least 250,000 workers from employers whose duty date falls before the end of March 2013
 - opt-out rates no higher than the government's estimates
 - at least a further 250,000 workers in the pipeline from signed-up employers for the first six months of 2013/14
 - 95 per cent awareness of NEST among employers coming into the duties in 2013/14 and at least 50 per cent reporting a positive overall perception.
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4) Invest our members' savings in line with our investment strategy

2012/13 will be the first full financial year in which we've been investing members' money. The majority of our members have a long-term investment horizon. We've set clear risk budgets on our retirement funds to help us consistently deliver our investment objective of returns in excess of inflation over an economic cycle. For the Foundation and Growth phases of saving within the NEST Retirement Date Funds and for most of our fund choices we'll actively manage the risk our portfolios are exposed to and report quarterly on their performance. By managing within these risk budgets we are likely to deliver on our additional investment objectives to reduce short-term volatility and extreme downside risk.

For members close to retirement and for members in the NEST Pre-retirement and NEST Lower Growth Funds our objectives are to manage conversion risk in accordance with how our members wish to take their incomes in retirement and/or provide capital protection.

Key activities and indicators for this objective are:

- all NEST retirement funds are invested according to their risk budgets
- our fund managers perform in accordance with the mandates set for them
- the NEST Ethical Fund and NEST Sharia Fund remain invested in accordance with our policies for ethical and sharia investing
- our responsible investment policy is applied effectively and proportionately.

5) Continue to build our reputation for fulfilling our remit and for demonstrating improvements in the way pensions are run

The stakeholder consensus around the government's pension reforms and the creation of NEST has been a crucial component in helping to build trust in the future pensions landscape. As we approach the onset of employer duties it's important that stakeholders are able to see NEST operating as part of a healthy and vibrant pensions market. They need to be able to trust its capacity to deliver and know it's being run in the interests of its members.

Key activities and indicators for this objective are:

- results from NEST's annual stakeholder survey indicate that at least 80 per cent of stakeholders agree NEST is delivering its remit effectively
- active engagement in the debate with policymakers in the UK and in Europe on developing best practice around the governance of DC pensions.

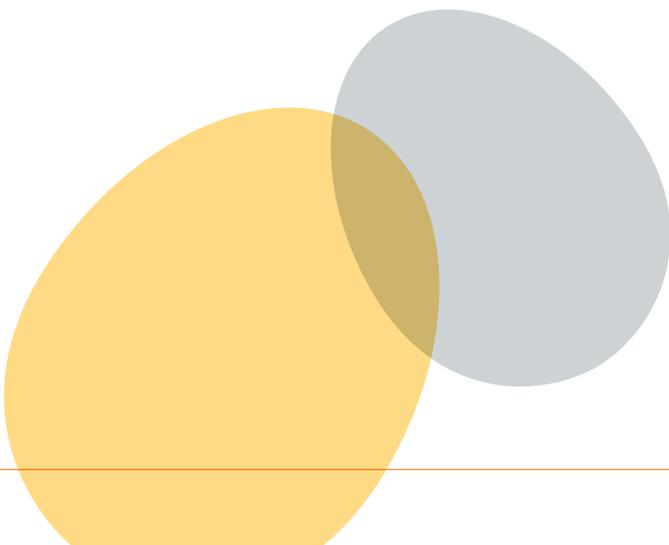
6) Deliver a comprehensive people policy and corporate responsibility strategy

NEST continues to evolve, having carried over many of its people and much of its culture from its predecessor body, PADA. This year we'll rapidly increase the scale of our operations while continuing to face considerable delivery challenges. This will put ongoing pressure on our ability to bring in and retain the right people.

As we grow in scale and people become more aware of us as an organisation, we'll also need to make our position on corporate responsibility clear and consistent across all aspects of our business. This includes our policies for our own people and organisation, and how we apply these further on down our supply chain.

Key activities and indicators for this objective are:

- reduce staff turnover so that it's in line with industry averages – around 15 per cent – by the end of March 2013
- publish a corporate responsibility strategy and begin to implement the delivery plan by March 2013.

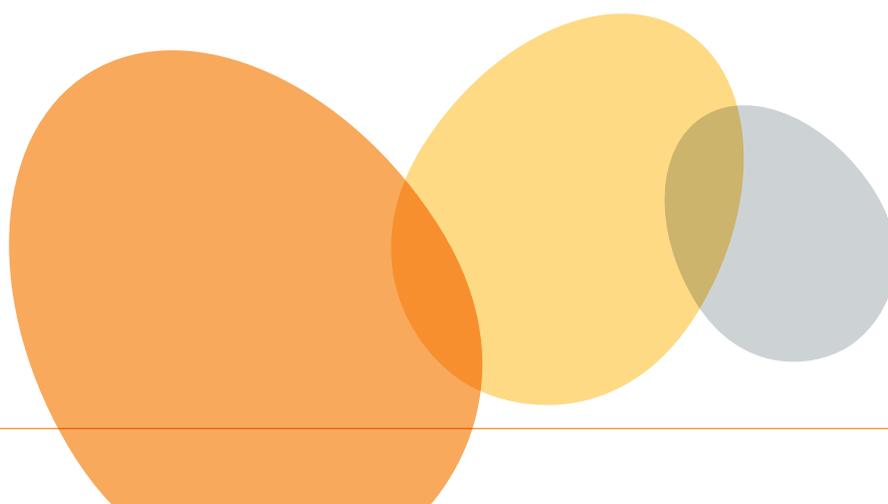


Summary of objectives, business activities and key indicators

The table below provides a summary of the business activities and key indicators for the 2012/13 year.

Strategic objective	2012/13 business objectives	2012/13 business activities and key indicators
Develop and run a high-quality pension scheme that meets the requirements of our customers and our regulatory obligations	Deliver a compliant scheme that meets the needs of major corporate employers	<ul style="list-style-type: none"> • Deliver the OED service release by 1 October 2012 • Deliver the first enhanced functionality service releases in March 2013 and have plans for a further release in June 2013
	Maintain a high-quality operational service to our members as volumes increase	<ul style="list-style-type: none"> • Availability of web and interactive voice recognition (IVR) services 24 hours a day, 365 days a year except for during planned maintenance • Contact centre availability in line with advertised hours – currently 8am to 8pm Monday to Sunday and 10am to 4pm on bank holidays. Closed on Christmas Day, Boxing Day, New Years Day and Easter Sunday and Monday • Calls to the contact centre answered within 60 seconds, and five seconds for the IVR system • Written acknowledgement of all complaints within five working days and responses to complaints within eight weeks • Deliver the first phase of customer satisfaction research and incorporate findings into our service improvement plan by the end of September 2012
Attract sufficient take-up and revenues to give us a clear line of sight to a self-funding business model	Deliver sufficient scale into the scheme	<ul style="list-style-type: none"> • Enrol at least 250,000 workers from employers whose duty date falls before the end of March 2013 • Opt-out rates no higher than the government's estimates • At least a further 250,000 workers in the pipeline from signed-up employers for the first six months of 2013/14 • 95 per cent awareness of NEST among employers coming into the duties in 2013/14 and at least 50 per cent reporting a positive overall perception
Deliver stable, smooth and sustainable investment returns above inflation after all charges in line with our investment objectives	Invest our members' savings in line with our investment strategy	<ul style="list-style-type: none"> • All NEST retirement funds are invested according to their risk budgets • Our fund managers perform in accordance with the mandates set for them • The NEST Ethical Fund and NEST Sharia Fund remain invested in accordance with NEST's policies for ethical and sharia investing • Our responsible investment policy is applied effectively and proportionately

Strategic objective	2012/13 business objectives	2012/13 business activities and key indicators
Maintain consensus among stakeholders that there's a role for a healthy and vibrant NEST within the UK pensions market	Continue to build our reputation for fulfilling our remit and for demonstrating improvements in the way pensions are run	<ul style="list-style-type: none"> • Results from NEST's annual stakeholder survey indicate that at least 80 per cent of stakeholders agree NEST is delivering its remit effectively • Active engagement in the debate with policymakers in the UK and in Europe on developing best practice around the governance of DC pensions
Develop and maintain a stable and efficient organisation with sufficient skills, knowledge and corporate memory to deliver our other objectives	Deliver a comprehensive people policy and corporate responsibility strategy	<ul style="list-style-type: none"> • Reduce staff turnover so that it's in line with industry averages – around 15 per cent – by the end of March 2013 • Publish a corporate responsibility strategy and begin to implement the delivery plan by March 2013



How will NEST deliver?

NEST people - value statements

NEST's people are the key to delivering its mission. NEST's value statements capture what it means to be part of NEST. They're intended to be complementary to our brand values of ease, transparency and empowerment.

1) We know why we're here, what we're doing and why it's in the members' interests

Acting in the interests of members is a fiduciary duty of NEST Corporation, but more than this it needs to be at the heart of our corporate culture if we're to be successful.

2) We believe in the value of what we are here to do

The government's pension reforms will revolutionise the pensions landscape and NEST has a key role to play as part of those reforms. It's important that our people are passionate about the role they'll play in delivering the scheme and can relate this back to how it fits to the success of NEST and the difference this will make to members of the scheme.

3) We care about delivering

For the scheme to be a success we need our people to care about delivering a service to our members that's high quality, delivered with integrity and contributes to members' confidence in how the scheme is run.

4) We believe we need to work together and with others to be successful

NEST people work collaboratively – both with internal colleagues and external stakeholders. The diversity of experience and knowledge we can draw on will help us to deliver innovative solutions that are designed with our members or employers in mind.

Resource summary

While we work to deliver our strategic objectives, it's essential to keep a clear line of sight between our spending and the interests of our members. When we spend money in pursuit of these objectives we must do so prudently, and recognise that most of our costs are ultimately borne by members. The following section sets out all of our planned resource commitments for 2012/13.

It provides information on the resources required to deliver business activities for 2012/13 as well as information on resource planning for the period April 2012 to March 2015.

Funding

NEST Corporation is funded principally by a series of loans from DWP and also by grant-in-aid in respect of activities required due to its status as a public body. Annual budget allocations are agreed before the start of the financial year and NEST Corporation's funding requirement is kept under review throughout the year.

The loans and accumulated interest will be repaid through income generated from members' charges. NEST pays a rate of interest on each loan that's intended to reflect the rate of borrowing that would apply were the loan issued on a commercial basis. Separately, in recognition of the public service obligation that NEST has, DWP pays a grant to NEST sufficient, in effect, to reduce the rate of borrowing to the government rate.

Financial resources

The key elements of the financial plan are set out below:

	Budget for 2011/12 £(m)	2011/12 provisional outturn (subject to audit) £(m)	2012/13 plans £(m)	2013/14 plans £(m)	2014/15 plans £(m)
Income					
Income from member charges	0	0	0.3	4.9	8.4
Grant in respect of public service obligation	11.1	10.8	7.1	9.2	11.9
Grant-in-aid for non-chargeable expenditure	1.0	1.0	1.0	1.0	1.0
Total income	12.1	11.8	8.4	15.0	21.3
Expenditure					
Scheme administration (including change requests, fund admin, fund management, and TPR levy)	19.0	11.9	22.8	35.2	41.9
Costs of running NEST Corporation	32.1	32.1	33.5	33.0	33.0
Depreciation	7.2	5.7	8.8	9.8	9.8
Interest on loans	10.2	9.6	13.2	18.1	24.5
Total running costs	68.5	59.3	78.3	96.2	109.1
Capital expenditure	11.3	16.8	10.3	-*	2.8*

* The medium-term financial planning process has not yet identified the capital expenditure for the 2013/14 financial year. As we move closer to agreeing the budgets for this year it's anticipated that expenditure will be identified. £2.8m of known expenditure is included for 2014/15.

2011/12

Income in 2011/12 has been broadly in line with expectations. When finalised and formally reported, the actual costs of administering the scheme are expected to be lower than budgeted. This is primarily because about £4m of expenditure on amending the scheme administration system is now expected to be incurred in 2012/13 rather than 2011/12. The classification of expenditure between running costs and capital is also slightly different from that expected. Interest on loans from DWP has been slightly lower than expected, reflecting movements in interest rates.

2012/13

The grant in respect of the public service obligation for 2012/13 is expected to be lower than that received in 2011/12, mainly because the grant we received in 2011/12 included a back payment relating to the period of time before scheme launch.

Total forecast costs for 2012/13 are £78.3m. This is an increase from 2011/12 due to higher scheme operating costs (the scheme launched in July 2011 and therefore operating costs were only applicable for part of the year) and higher costs relating to changes to the scheme administration system. The costs remain within the provisions of the loan agreement between DWP and NEST.

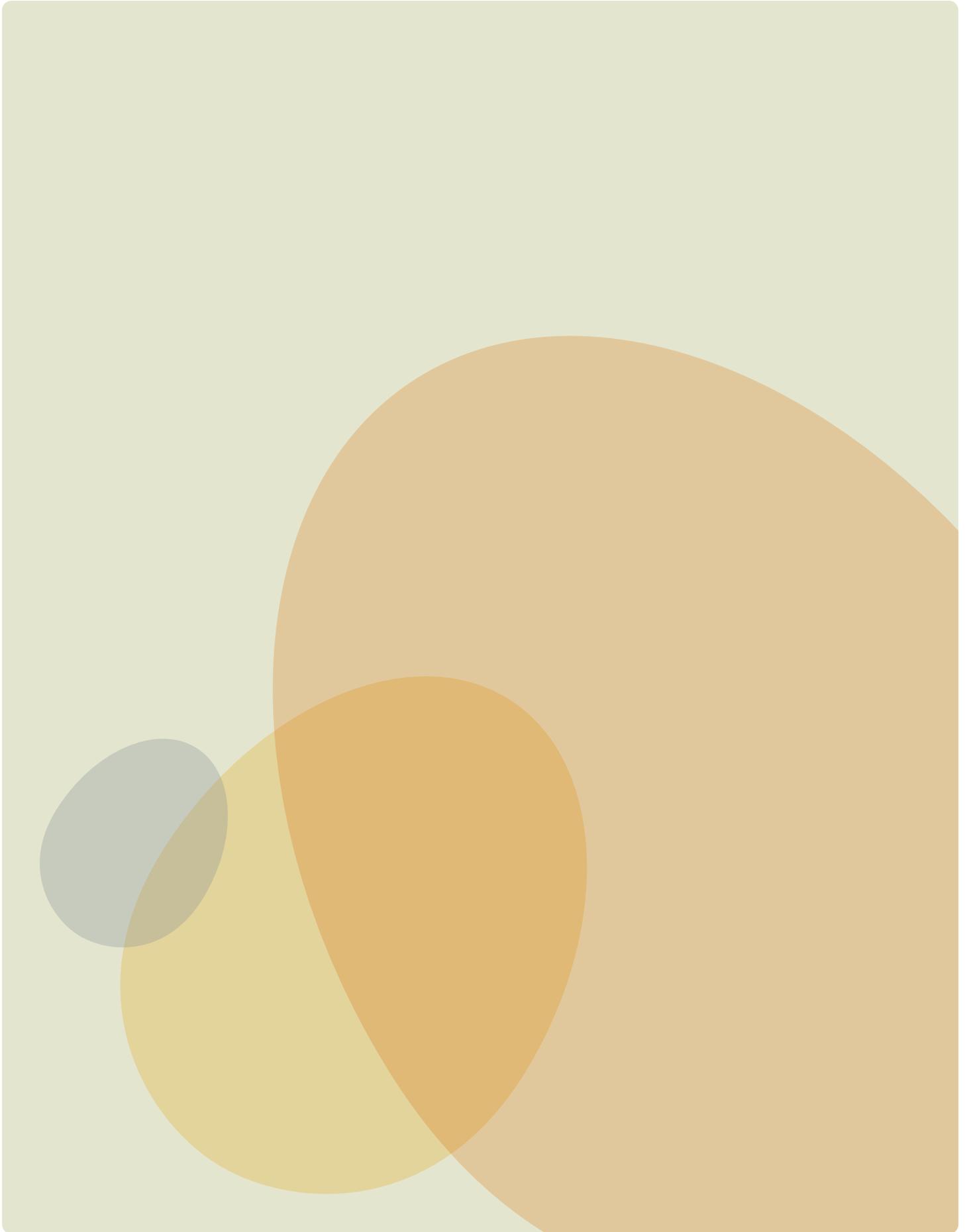
Forecasts for 2013/14 and 2014/15 are NEST's best estimate based on the current available information. However, given the range of factors that can affect NEST's revenues and costs, including for example, opt-out rates, employer choice of scheme and levels of contributions, they remain subject to revision in future years as more reliable information becomes available.

Annual average full-time equivalents were 240 in 2011/12 and we expect the equivalent number to be 270 for 2012/13. This reflects the increase in activity relating to the introduction of employer duties from October 2012.

The Pensions Act 2008 requires NEST Corporation to produce an annual report and accounts, which must be sent to the Comptroller and Auditor General, who then examines, certifies and reports on each year's financial statements. They are then submitted to the Secretary of State who lays them before Parliament.

Financial control is supplemented by the terms of the framework document between NEST Corporation and the Department for Work and Pensions, which outlines the delegated spending authorities and reporting requirements.

We've developed budgetary controls in order to manage our costs within our funding limits. NEST Corporation regularly reviews current financial performance and the impact of current developments on future years' expenditure.

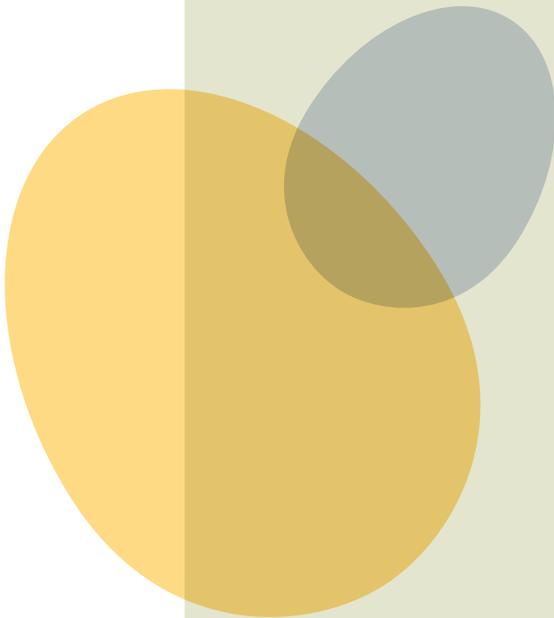


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