

DWP call for evidence on NEST: Evolving for the Future

Response from the NEST Trustee



About NEST

NEST was established in 2010, with a public service obligation (PSO) to accept any employer wishing to use the scheme to discharge their automatic enrolment duties.

From a standing start, NEST has grown into one of the key providers of DC retirement savings provision in the UK, with millions of members already auto enrolled into the scheme. NEST is successfully fulfilling its PSO of accepting any employer, creating an infrastructure and customer journey that is allowing the scheme to successfully enrol upwards of 1,000 employers in a single day.

NEST has won multiple awards for its innovative online service design and highly successful investment approach. At the same time, as the call for evidence acknowledges, NEST has helped to drive up standards and best practice across the industry.

At this point in our evolution, most of our members have relatively small funds invested in the scheme. The scheme has a low median age with the majority of members under 40. The average earnings of NEST members are below the national average, and our members are more likely than the population as a whole to transition between employments.

Introduction

1. The NEST Trustee welcomes the Government's call for evidence on the future of NEST, and its acknowledgement that consideration should be given to enabling NEST to respond fully to the changing pensions landscape, on behalf of the market we were set up to serve.
2. We believe that means both:
 - enabling NEST to consider a range of options for how we might support members looking to access their pension savings; and
 - removing remaining restrictions on the way employers and members can access the scheme.
3. It is important to be clear that the Trustee has not yet made a decision on how to proceed with delivering further options for NEST members when they want to access their pension pots.
4. The Trustee has considered advice from both the NEST Member and Employer Panels in forming its view (annexed to this response).

NEST's role in helping members achieve a good retirement

5. It has always been NEST's mission to help millions achieve a good retirement. Offering members suitable retirement options has always been part of that mission.
6. NEST was set up at a time when the vast majority of pension scheme members wishing to access their pension savings would have taken an annuity. As Trustee we provided for that retirement journey by establishing an annuity panel which ensured members with smaller pots could still annuitise and access a range of products that may not have been available to them on the open market. This panel allowed our members with pots as low as £1,500 to access annuities at similar market rates to those with larger pots.
7. The Freedom and choice reforms introduced by Government mean that our members' options at and during retirement are vastly broader and more complex than they were when the scheme was established. We believe the Trustee's responsibility also encompasses a longer period during which members may keep funds invested well into retirement, taking cash or drawing down income payments in ways that best fit their needs.
8. NEST has a broad membership, but the particular characteristics of that membership mean any retirement options we create must work - in terms of both design and cost - for members with pots well below the level the industry traditionally targets for drawdown products.
9. We recognise the innovation underway in the industry to develop products for mass market savers in the light of Freedom and choice. But when the wider pensions industry considers the mass market, very often they are focussed on 'mass affluent' savers: those who may not have traditionally been consumers of complex investment products like many of the drawdown products on the market, but who nevertheless have pot sizes of £100k or more.
10. NEST has a different and quite specific challenge: how to offer retirement options that work for all our members, many of whom will reach retirement with pot sizes as low as £10k. We believe it is essential that our members should be able to take full advantage of the new pension flexibilities, whatever their pot size. NEST consumer research evidences clear demand for income solutions for savers with very small pots¹.
11. We expect that without the development of such solutions for our members they are more likely to take their pension savings as cash, effectively creating a 'two tier' retirement system and negating some of the positive impacts we would have expected to see on retirement income adequacy as a result of automatic enrolment.
12. An income solution aimed at a DC saver using a small pot to supplement their state pension is necessarily a very different proposition to drawdown products being developed in the pensions industry at large.

¹ Ignition House Research for NEST, 2014

Design features for accessing pension savings

13. We believe there are several design features which, based on an understanding of our members' characteristics as well as detailed research with individuals in NEST's demographic², should underpin any retirement options offered by the scheme for its members.

A simple guidance process

14. We believe any options must be accessible via a simple guidance process.
15. We want our members to engage with the broad set of choices available to them as they look to draw their savings out, and to help them to do that as part of any customer journey we might put in place.
16. But from the weight of evidence on how members tend to behave when they come to access their pension pots, we know that many will lack confidence to shop around. This may also be because formal advice is inaccessible or unaffordable. In its 2015 report 'No More Normal', the PLSA noted a correlation between low DC pension wealth and low levels of confidence in accessing advice³. Language can also be a barrier, not only because of jargon and complexity. If we consider that there has been a significant rise in foreign-born workers working in lower-skilled sectors over the last decade⁴, we would expect this to be an issue for a subset of our members as they approach retirement.
17. We would expect, then, that for a proportion of our members, any retirement pathway requiring them to look outside the scheme may present them with choices they find complex to negotiate. We would want to present members with a range of choices: to take cash and to provide routes through to formal advice, annuities and other 'at retirement' products. However where a member's preference is not to look outside the scheme, we believe the absence of an income option may lead them into taking cash where they may not otherwise have chosen to do so and where to do so is not in their best interest. For this reason, we believe there is benefit in considering a specific solution for NEST members.

The role of governance

18. The advice requirement associated with retail drawdown products (which commonly requires individuals to take several advice sessions across their retirement) is likely to be inaccessible to many NEST members. Significantly, such advice would often carry disproportionate cost in relation to the pension pot size of the member.
19. Setting a member's income level is one of the most important decisions involved in drawdown, given the risk of detriment if members run out of income too early, or if they sacrifice consumption by spending their income too slowly (see Australian example, paras 27-31). Fear of running out of money was a significant factor in decision making for those involved in NEST's 2014 research⁵.
20. 'Governed' products currently on the market focus on the governance of investment decisions within funds. NEST proposes to look at using a similar model at retirement

² Ignition House Research for NEST, 2014

³ <http://www.plsa.co.uk/PolicyandResearch/DocumentLibrary/~//media/Policy/Documents/0564-Pension-Freedoms-no-more-normal-v4.pdf>

⁴ Rienzo, Cinzia. Migrants in the UK Labour Market. 2013

⁵ Ignition House Research for NEST, 2014

and reduce the need for advice by helping cohorts of members set and monitor access to sustainable levels of income.

Retirement income sustainability

21. We believe it is important that a non-advised retirement pathway should build in later life protection, in order to 'lock in' income sustainability for the final period of retirement. An example is the retirement journey described in the NEST blueprint⁶, which combines drawdown, access to 'rainy day' cash lump sums and putting money aside to purchase a deferred annuity or equivalent.

Maximising the benefits of scale

22. Price is a particularly important factor when looked at from the perspective of a DC saver with a relatively small pot. It is crucial that flexible income options aimed at members with small pots do not carry fees that erode those pots at a disproportionate rate. One of the key reasons for the establishment of NEST was to enable it to serve its market at a proportionate price, using the long term benefits of scale.
23. NEST was set up for scale: we have the infrastructure to deliver accumulation services to our many millions of members at low cost. This would apply equally were we to continue offering services into retirement. We would do this largely though drawing on infrastructure already in place. Economies of scale would be driven through efficient processes and reduced customer acquisition costs. We would also seek to reduce or remove costs associated with tailored advice and investment management by applying a common investment and governance approach.

Interaction with the current market

24. Whilst considering NEST's role in delivering retirement options for members, we are watching developments in the market to see whether external providers are developing products that might combine the features we have described here, aimed at the specific profile of our members - those with pot sizes well below those normally catered for in the drawdown market. We have seen no evidence yet that the industry is looking to develop products for individuals with smaller pot sizes.
25. In the absence of such innovation, if NEST decides to proceed with delivering retirement options for its members it is likely we would need to assemble the component parts of a solution that meets the requirements of our members, drawing on industry to deliver each of those parts (for example, administration services, fund management, legal advice and insurance) with NEST acting as the 'wrapper' and providing the required governance.
26. Providing a simple, affordable, way for members to access an income would reduce the proportion of members taking cash. This in turn would help to promote retirement income adequacy for members - one of the positive impacts intended by the introduction of automatic enrolment. And by aggregating member assets NEST would effectively be facilitating the retention of these assets in the current market, either with asset managers or insurers.

⁶ [The future of retirement: A retirement income blueprint for NEST members](#)

Lessons from Australia

27. Developments in the Australian pension system are a useful reference point in respect of NEST's role in supporting its members into retirement.
28. Australians have never been compelled to turn their retirement saving into an income stream, with savers able to access their funds in the form of cash and ABPs (account-based pensions): effectively, self-managed drawdown products.
29. Over time, the consequences of this policy have become clear: Australians tend to either take cash (in roughly half of cases) or enter an ABP. In the latter case, they are vulnerable to spending their money too fast or, more often, too slowly.
30. A 2010 review of the system recommended a clear role for trustees in helping savers manage this risk, by creating and overseeing retirement options that manage inflation and longevity risk on behalf of members. A 2014 enquiry into the financial system went further, recommending that Government require all schemes to offer 'comprehensive income products' for members - which are very similar to the type of retirement income options NEST would like to offer for its members. A key recommendation of the Financial System Inquiry 2014⁷ reads:

Government should require superannuation fund trustees to pre-select an option for members to receive their superannuation benefits in retirement. Details of the pre-selected option would be communicated to the member during their working life. At retirement, the member would either give their authority to commence the pre-selected option or elect to take their benefits in another way. This approach would simplify decisions at retirement and deliver better outcomes for retirees. No income stream would commence without the member's instruction.

The pre-selected option should be a comprehensive income product for retirement (CIPR) that has minimum features determined by Government. These features should include a regular and stable income stream, longevity risk management and flexibility. CIPRs would be low-cost and include a 'cooling off' period. Their design could vary with the member's known characteristics, such as the size of their superannuation benefits, and take account of the possibility of cognitive impairment at older ages.

A combination of underlying products would likely be required to provide these features; for example, an account-based pension paired with a pooled product that provides longevity risk protection. To offer these products, funds may need to partner with another provider, such as a life insurance company.'

31. The Australian Government has only partially enacted this recommendation - enabling rather than requiring trustees to preselect CIPRs on behalf of members.

⁷ <http://fsi.gov.au/publications/final-report/chapter-2/retirement-phase/>

Response to questions posed in the call for evidence

Do you agree these are the right principles to help Government weigh up proposals for changing NEST's policy framework?

Yes.

Is there other evidence or factors about how the pensions landscape is changing that we should take into account in considering NEST's future policy framework?

NEST is watching the development of the market in response to *Freedom and choice* changes with interest, as well as directly engaging with providers. We have not seen evidence to suggest that the wider market currently has any plans to deliver a product that combines the features we know from research our members need, aimed at the pot sizes that our members will have and at a price point they can afford.

We agree with the PLSA's analysis in their 2015 report 'No More Normal' that, whilst early adopters of the pension freedoms tend to be relatively financially confident:

'The group that will shortly follow them into retirement and making decisions about their pensions are more dependent upon their DC pensions and generally have less pension wealth (although some have time to accumulate more). It is unlikely that a DIY or adviser-led drawdown solution will meet the needs or capabilities of many of them.'

More specifically, we believe many NEST members may fall into the 'DC inactive group' identified in the same report, which the PLSA describes as having:

*'the lowest levels of financial confidence of the three groups [...] they may struggle to get access to financial advice or to navigate their way through their own research of the market. On the plus side, the market may have evolved ways to help this group by the time they come to access their pensions.'*⁸

We believe enabling NEST to deliver retirement options for its members is an important part of the market evolution this refers to.

Should NEST be able to develop and offer a full range of decumulation services for its members?

Yes - for the reasons set out in the introduction to this response.

What would be the impact on individuals, employers, NEST and other pension providers of this approach?

For individuals, we would expect a positive impact on retirement income adequacy where the availability of NEST-delivered retirement options enables members to take a flexible income instead of cash, at low cost, with built-in longevity protection.

⁸ <http://www.plsa.co.uk/PolicyandResearch/DocumentLibrary/~//media/Policy/Documents/0564-Pension-Freedoms-no-more-normal-v4.pdf>

We would expect employers to be provided with greater assurance that where they use NEST as their provider, the input they have made into employees' retirement saving is more likely to improve the adequacy of their retirement income rather than being cashed out - in line with the policy intent of auto enrolment.

Employers with in-house pension funds may also look to transfer members to NEST where they want to give them access to suitable flexible income products. We know that single employer schemes looking for solutions for members reaching decumulation with relatively small pots are unable to find schemes on the open market willing to turn those pots into income.

If NEST is enabled and chooses to deliver a full range of decumulation services for its members, the primary effect will be to enable it to provide our members with a suitable and well-priced retirement journey. NEST may take in additional assets as a result of delivering retirement solutions, by way of transfer from funds into the scheme by people wishing to access retirement solutions, and would retain member assets in the scheme for longer.

As stated earlier in the response, it is likely we would draw on industry to deliver the component parts of any solution (for example, administration services, fund management, legal advice and insurance) with NEST acting as the 'wrapper' and providing the required governance. By aggregating member assets, NEST would effectively be facilitating the retention of these assets in the current market - either with asset managers or insurers. And by providing a simple, affordable way for members to access an income, it appears likely that NEST would be reducing the proportion of members taking cash, again flowing those assets to asset managers and insurers.

Should access to NEST be more flexible?

Yes.

What would be the impact on individuals, employers, NEST and other pension providers of this approach?

Government has already enabled the lifting of major restrictions on NEST, from April 2017: the annual limit on contributions into the scheme; and the restriction on transfers in and out.

The rationale for removing those restrictions applies equally, we believe, to the remaining more minor restrictions on the scheme, which:

- prevent employers from enrolling employees into the scheme via their contract of employment
- prevent individuals from joining the scheme to save independently of their employer
- prevent bulk transfers from schemes where the employer is not using NEST to fulfil their automatic enrolment duties
- could, in the event that we deliver decumulation options for NEST members, prevent transfers in by employers or individuals for the purpose of accessing NEST retirement option services.

We know that some employers fulfil their automatic enrolment duties using 'contractual enrolment' - so enrolling all employees into a scheme at the point they sign their contract of employment. The fact employers are not allowed to use NEST in this way can be a source of confusion and frustration. We would see enabling contractual enrolment into NEST as a

‘tidying up’ measure to correct an unintended consequence of the original legislation underpinning NEST.

We also believe it is right that employers who do not use NEST for their automatic enrolment duties but still wish to access the scheme on behalf of employees past or present - perhaps because they have a closed book scheme - should be able to do so. Giving employers access to NEST in this way would increase employer choice. Some single employer schemes have already told us that they are unable to find schemes that will accept their members with smaller pots for the purpose of decumulating into income products.

In the case of individuals, as the Government seeks to encourage individuals to take greater personal responsibility for their retirement saving, it would seem appropriate that those wishing to take advantage of the low charges and quality investment services provided by NEST should be allowed to do so by joining the scheme individually outside the process of automatic enrolment. We already allow self-employed individuals to join the scheme on this basis; we think it is appropriate this should be extended to any individual wishing to take responsibility for their saving outside or in addition to contributions made via automatic enrolment.

And for all the reasons set out above, if Government decides that NEST should be enabled to deliver more retirement options for its members. It would follow that individuals and employers should not be prevented from accessing the scheme.

The main impact on NEST of lifting these remaining restrictions would be to enable us to offer our services to the market we were set up to serve, without barriers being placed in the way of individuals and employers who cannot or do not wish to join via the process of automatic enrolment itself. We see this as a natural part of enabling us to develop as a maturing scheme, particularly looking ahead to the period after the initial staging of employers is complete.

We would expect the impact on member volumes of lifting these specific restrictions to be relatively small and that as a consequence any impact on other providers would be limited.



Annex A: Members' Panel

Response to the Department for Work and Pension's call for evidence on the evolution of NEST

Members' Panel response

About the NEST Members' Panel

We are the NEST Members' Panel. Our role, as set out in legislation (Pensions Act 2008) is to provide an advisory role to NEST Corporation and the Trustee of NEST, on the operation, development or amendment of the scheme from a member's and potential member's perspective.

This response has been previously submitted to the NEST Trustee in line with our advisory capacity, and we have asked that the Trustee share it with DWP alongside their response.

Introduction

Our view is that:

- NEST should be able to develop and offer a full range of decumulation services for its members; and
- The remaining restrictions on the way employers and members access the scheme should be removed.

The NEST Members' Panel therefore welcomes the Government's call for evidence on the evolution of NEST.

Since the creation of NEST there have been big changes in the pensions landscape. In our considered view, these make NEST's role even more necessary. To continue to serve our members, the employers who rely on NEST to fulfil their auto-enrolment duties and the wider interests of low to moderate earners we believe that these changes need to be made.

A new type of DC saver

Automatic enrolment has brought more people into DC pension saving than ever before, and in doing so has opened up pension saving to millions of people on lower incomes who may not have saved in the past. Prior to the introduction of automatic enrolment, the average salary of those actively saving into a workplace pension was around £35k - at the time, more than £10k above the UK average and demonstrative of the fact that pension saving was largely a higher-income pursuit.⁹ The purpose of automatic enrolment was to extend pension provision further down the income distribution, with the average salary of those in the 'target market' for automatic enrolment more like £20,000 in 2011 terms.

NEST was established because Government rightly judged that there was likely to be a market failure at the lower end of the market, and wanted to ensure every employee had access to a low cost, value for money scheme. NEST has proved a highly effective operation, helping to drive up standards, lower charges and spread best practice across the industry.

NEST's members are diverse in terms of income and characteristics, but most have low or moderate incomes and consequently are less likely to have experience of either saving or long-term financial planning.

NEST has been able to drive economies of scale to keep costs low even for those saving small amounts, and through both good governance and a commitment to thinking through the needs and aspirations of those who the pensions industry has not targeted in the past has developed an innovative approach to default investment that gives our members the best chance of saving towards an adequate retirement income.

But this group will have distinct needs at retirement too, and therefore the panel believes that in the light of "Freedom and Choice", NEST should be allowed to broaden its scope to provide a range of services for members looking to withdraw their funds, as it previously did through its annuity panel.

It would be odd indeed if the one pension scheme set up specifically to serve those on lower incomes and with the least experience of financial decision making was the one scheme prevented by misguided concerns about the perceived extension of NEST's role from providing its members with a post-retirement income. Our members - and their employers - think that they are joining a pension scheme - a mechanism to turn their working life savings into post-retirement income.

The financial services market has not traditionally been focussed on consumers with below average earnings. Levels of engagement and understanding of financial matters tend to be lower among this group than among the general population, which means we face a challenge in turning this group into informed consumers of financial services products. NEST's own research, *'Improving consumer confidence in saving for retirement'*, into its membership found that NEST members¹⁰:

- **Have low confidence in the financial services sector** - while optimism is growing, they retain very little trust. Memories of the 2008 financial crisis remain relatively recent and genuine concern remains about what happens to money invested in a

⁹ NEST analysis of eligibility for automatic enrolment based on ASHE 2011

¹⁰ <https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/improving-consumer-confidence-in-saving-for-retirement,PDF.pdf>

pension scheme. In particular, poor investment performance is often associated with embezzlement, and market downturns are blamed on bad fund management.

- **See saving and investing as very different things.** While saving in a bank is considered safe, investing is dismissed as something ‘rich’ people do with money they can afford to lose. Pensions are seen as a half-way house that provide higher returns to a saving account but with none of the volatility associated with investing.
- **Feel more disconnected from their money in a pension than they do in other savings vehicles** - i.e. a cash ISA or a bank account. The information asymmetry that exists between providers and consumers further distances members from their pension. As passive users, pension savers tend to think they can’t take any action to affect what happens to their money.
- **Are prudent and conservative in their attitude to retirement planning.** Most people do not understand the basics of investment. They tend to shy away from anything that can fall in value, while failing to understand how inflation can eat away at their savings. Research shows that short term falls in the value of investment can make people angry and confused. Most people are uncomfortable exposing their retirement savings to investment risk.
- They understand that a savings account, for example, is likely to provide lower returns than money invested in financial markets over the long term. Despite this, **the desire for stability in a pension is so strong that they’d rather face a lower, more certain outcome than go through the ups and downs on the way to higher returns.**

In this context, it is important that NEST is enabled to develop retirement options for its members that will provide them with a way to convert their, usually modest, savings into income in a way that is tailored to their stated needs: a sustainable income, that reflects a limited appetite for risk, with the trust that strong, member focussed governance can provide.

While “Freedom and Choice” can be of great benefit for those who do not wish to purchase a traditional annuity, there are also more opportunities for people to make poor choices or even fall victim to scams. NEST members -and others - need simple pathways into well governed products. If NEST can only act as a vehicle for pensions saving, we are particularly concerned that our members will face a difficult choice when they want to use their pot in retirement. Faced with complex and unfamiliar decisions about what to do with what for them could well be a considerable sum of money, we worry that many will make poor choices such as taking their pot as cash while others will fail to engage and leave their pot untouched for fear of making the wrong choice.

Of course NEST members should have the same rights and choices as other pension savers under ‘Freedom and Choice’ but this should include using their own scheme to provide their post-retirement income.

The ‘halo’ effect of NEST

NEST has not just been good for its own members. It is widely recognised that NEST has helped drive up standards across the pensions market with a demonstrably positive impact on member charges¹¹ and communications¹².

NEST is also widely praised for its new thinking on default fund investment. It has won awards for its innovative and successful approach - and more importantly, it has delivered strong returns for members. NEST’s trust based governance provides the assurance that members’ interests are paramount and its scale and the seriousness with which its Trustee takes governance is helping to shape the regulatory regime that will ensure automatic enrolment works for savers.

We believe that NEST can have the same impact in the decumulation market. It is important that those who may be unable or unwilling to grapple with the full complexity of the choices presented to them by Freedom and Choice are nevertheless able to benefit from the flexibility on offer to provide a decent retirement.

Most importantly this is a market that cannot rely on “buyer beware”. Our members - and many others - need products that are:

- delivered within a framework of strong and member focussed governance, and
- similarly to NEST’s accumulation offering, can use economies of scale to deliver at low cost.

NEST has shown it can deliver pensions accumulation for this group, and we believe it is right to start work to develop retirement options now, in order that NEST can continue to serve our members as they begin approaching retirement in large numbers.

Questions:

- 1. Do you agree that these are the right principles to help Government weigh up proposals for changing NEST’s policy framework**

Yes.

In particular we would like to draw attention to the principle of inclusiveness. The overriding principle behind the creation of NEST is one of inclusiveness - the ability for anyone who is eligible to save for a pension to have access to one of high quality and value for money. Our members - and others - in the light of “Freedom and Choice”, should also be able to access suitable products in retirement.

It is this principle of inclusiveness - manifest in NEST’s Public Service Obligation - that we believe has been a key driver in the success of automatic enrolment for members right across the income distribution.

¹¹

http://webarchive.nationalarchives.gov.uk/20131101164215/http://www.ofst.gov.uk/shared_ofst/market-studies/ofst1505

¹² <http://www.publications.parliament.uk/pa/cm201213/cmselect/cmworpen/768/768.pdf>

2. Is there other evidence or factors about how the pensions landscape is changing that we should take into account in considering NEST's future policy framework?

We believe that it is important to consider how the pensions landscape has changed when considering what role NEST should play in the private pensions market. NEST has previously been able to provide a retirement income for its members through the NEST Annuity Panel, but changes in the pension landscape have rendered this obsolete.

The history of pensions provision shows that it would be unwise to believe the market will provide good value and appropriate decumulation products for those with smaller pots and little financial experience. The recent OFT study of private pensions is damning. Market failure in relatively simple annuity products was one driver of "Freedom and Choice".

'Simpler' drawdown products on the market still tend to require consumers to take ongoing financial advice, and have charges attached that will be disproportionate for people with relatively small pots. It is not just appropriate that NEST should be allowed to innovate to deliver a retirement journey that specifically tailored to its members needs, but given the reasons NEST was set up by government in the first place, it would be counter to the public policy to prevent it when there are no guarantees that good alternatives will be on offer, and plenty of historical experience to suggest that without this intervention the market will not provide.

3. Should NEST be able to develop and offer a range of decumulation services for its members?

Yes: for the reasons set out in the first section of this response.

4. What would be the impact on individuals, employers, NEST and other pension providers of this approach?

We believe that the overall impact of allowing NEST to develop and offer a range of decumulation services for its members would be positive.

In particular we see this as a necessary step forward to support individuals who currently save with the NEST scheme and will be brought into saving as the next period of staging progresses. A large proportion of the current and potential membership base for NEST may remain inert in relation to their pension saving, throughout their working life. We have significant concerns that without adequate support, they will find themselves ill-equipped to navigate a retirement income market which is not set up to meet their needs.

As set out above, we would expect the expansion of NEST's role into decumulation to have a positive impact on the wider market, just as it has driven up standards in the accumulation market.

5. Once automatic enrolment has been fully rolled out, should access to NEST be more flexible?

Yes. NEST should be made available as a viable option for any saver wishing to access a high quality, low cost savings vehicle. Artificially restricting access to NEST in order to “help” other providers favours producers over the consumer interest.

6. What would be the impact on individuals, employers, NEST and other pension providers of this approach?

Most of NEST’s restrictions have already been removed. Removing remaining restrictions will further strengthen the message that NEST is open to all, increasing employer and consumer choice and continuing to drive up standards across the industry.



Annex B: Employers' Panel

Response to the Department for Work and Pension's call for evidence on the evolution of NEST

Employers' Panel response

About the NEST Employers' Panel

We are the NEST Employers' Panel. Our role, as set out in legislation (Pensions Act 2008) is to provide an advisory role to NEST Corporation and the Trustee of NEST, on the operation, development or amendment of the scheme from an employer's and potential employer's perspective.

This response has been previously submitted to the NEST Trustee in line with our advisory capacity, and we have asked that the Trustee share it with DWP alongside their response.

This response addresses the question of the impact on employers of NEST being able to develop and offer a range of decumulation services for its members; and flexible access to NEST for employers, for the purposes of accessing those decumulation services.

Introduction

The NEST Employers' Panel welcomes the Government's call for evidence on the evolution of NEST. We believe that, that in a changing pensions landscape, the role of NEST and how it serves its membership should be examined. In light of this call for evidence we believe that:

- NEST should be able to develop and offer a full range of decumulation services for its members; and
- For the remaining restrictions on the way employers and members access NEST should be removed.

The role of employers in supporting good retirement outcomes

Employers have an important and well-recognised role in supporting their employees to achieve good retirement outcomes. A key party in the pensions consensus built on the

back of the automatic enrolment pension reforms; employers have taken a central role in making automatic enrolment work.

It makes sense for employers to do this: both out of a duty of care to staff, and by providing a benefit we know employees value. We hope automatic enrolment will help to normalise DC pension saving, and create an environment in which, over time, more employers choose to contribute above minimum levels as a way of attracting and retaining staff.

Creating a system in which the 'default' is to save, by harnessing inertia, remains in our view the most effective way to get people saving, and to keep saving over time. However, we are also aware that a reliance on inertia during the accumulation phase can make it harder for consumers reaching retirement, who may have given little thought to their pension as they saved. The new choices offered to consumers as a result of the pension freedoms are to be welcomed, but of course add to this challenge, by presenting a range of choices to savers which most will need support to navigate.

The Panel believes that employers have a duty of care to help employees meet this challenge. If we accept we have a role in helping employees build strong retirement savings, we must also take a role in helping employees to convert that saving into retirement income.

The conversion to income is a critical point here. Given that a key driver of the original automatic enrolment policy consensus on the employer side was an acceptance of a role in supporting employees to build an adequate retirement income, we expect many employers to be keen that saving is used - at least in part - to provide for a regular income. At the time of the reforms, it was not envisaged that those employees would be able to use the money employers have contributed to fund one-off purchases, from age 55, should they choose to do so.

This is not to suggest individuals should not be given the choice to manage their money how they wish - rather that, in the view of the Panel, it is important that individuals are supported with simple ways to turn those savings into income to supplement their state pension, alongside good guidance to help them understand how that income might impact on their lifestyle and financial resilience in retirement.

So how should employers discharge this duty of care to support employees approaching retirement?

Some will provide advice and guidance to employees in the workplace. We know that employees value this kind of in-house support, and it certainly has a role to play in helping people understand their options. But provision of advice is costly, and in itself carries risk to the employer, should it result in employees making decisions they come to regret. In addition, the type of detailed advice required for employees entering into flexible income products on the open market is likely to be beyond the means of most employers to provide.

As a result, we believe that scheme choice will become increasingly important for employers. We believe that employers will look for schemes that offer a smooth transition between accumulation and decumulation, supported by simple guidance, in order that

they can be assured their members are being supported to convert their saving into an income should they choose to do so.

They will also look for schemes that are well-governed, and manage risk in a way that suits their membership. A retirement pathway in which member income is managed dynamically over time, to mitigate the risk of running out of money too early, is likely to be attractive to employers looking for comfort that the money they have contributed to their employees' savings will be used to deliver a sustainable income.

We believe the retirement options described by NEST in its Retirement Blueprint will be attractive to employers for all these reasons.

Following this logic, the Panel believes it is also important that NEST is enabled to accept transfers in from employers for the purposes of accessing retirement options. We are aware of the fact that not all schemes will choose to expand into the decumulation market. Single employer trusts, for example, will almost certainly maintain their focus on their accumulation duties. We would expect employers behind these trusts to have similar aspirations for their members in decumulation as the broader employer community - so it is right that they should be given access to NEST in order to discharge their duties to members.

A note on contractual enrolment

DWP's call for evidence also asks whether employers should be enabled to enrol their employees into NEST via contractual enrolment. NEST employer panel agrees that this type of enrolment should be allowed, as an administrative simplification for employers wishing to use NEST to discharge their automatic enrolment duties.