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# Corporate plan 2018 - 2021

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Helping millions enjoy a  
better retirement

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# Cautionary statement

This document contains statements that are, or may be deemed to be, forward-looking statements with respect to NEST Corporation's financial condition.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'would', 'should', 'expects', 'intends', 'plans' or comparable terminology.

Forward-looking statements are not guarantees of future performance and no assurances can be given with regards to their accuracy. Forward-looking statements may not be realised due to factors including, but not limited to, changes in the economies and markets in which NEST Corporation operates, changes in the regulatory and competition frameworks in which it operates or the impact of legal or other proceedings against NEST Corporation.

All forward-looking statements made in this document or made subsequently, which are attributable to NEST Corporation are expressly qualified in their entirety by the factors referred to above.

Nothing in this document should be regarded as a forecast of future financial performance.

All figures used throughout this document are as of 31 March 2018.

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# Contents

Cautionary statement	2
Chief Executive's review	4
2017 highlights	6
Key numbers	8
NEST's strategy	10
NEST's social purpose	11
Our strategic priorities	13
What we'll do to deliver our strategic priorities	14
Financial summary	20



# Chief Executive's review

Helen Dean

## 2018-2021: the next stage in the journey

### NEST's mission is to help millions enjoy a better retirement

We were established in 2010 to support the government's auto enrolment policy, which requires all employers to enrol their staff into a pension scheme. Since 2012, every employer has gradually been brought into auto enrolment through a process known as staging.

The end of staging is a big moment for us because it means we've delivered on our first big challenge: to be open to any employer that wishes to use us during the peaks of staging.

Since 2012, more than 600,000 employers have joined NEST, bringing 6.4 million employees into the scheme. Many of those will not only be new to NEST, but also to pensions saving in general.

Small and micro-sized employers signed up under auto enrolment legislation in 2017 and 2018, making this our busiest year to date. At the peak of staging, that meant enrolling over 1,800 employers in a single day.

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**6.4 million** people now have an account with NEST

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Successfully delivering staging is a great achievement. It has been achieved as a result of collaboration between government, employers, the pensions industry and many other groups. At NEST we work with a number of key partners who I would like to thank for the vital role they have played in helping us through this first part of our journey.

### Looking to the future

The end of staging is also a good opportunity for us to think about what more we can do to help members save for their retirement.

This year, and again next year, the government is increasing the minimum level of contributions that employers and employees must make under auto enrolment. As our members start contributing more to their pensions, we want to do more to empower them to take control of their future. That means thinking about the way that we communicate with them and the tools we provide to support them to make good decisions.

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It's essential that our members have access to a retirement solution that meets their needs. Our research shows that our members want to use their pension pot to draw an income that's managed for them and is paid out in a sustainable way. We're continuing to develop our proposition to achieve this and will be working with government and industry to ensure our members have access to a full range of retirement solutions in the future.

### What's next for NEST?

We're unlike all other pension schemes in the UK as we have a legal duty to accept any employer who wishes to use us, regardless of how attractive they are from a financial perspective to the scheme.

That background has given us a strong set of principles which inform the way we work for our customers as well as our staff. These principles have always been part of who we are and what we stand for, but this year, with staging complete, we're taking the opportunity to share them for the first time.

This year we've also refreshed our strategic priorities, which describe our business focus over the period of the corporate plan. We use our strategic priorities to guide our business planning for the next three years, which we talk about in more detail later on in the corporate plan.

As well as being a pensions trust, NEST is a Public Corporation overseen by the Department for Work and Pensions (DWP). NEST's work contributes directly to the delivery of the DWP's strategic objective to 'ensure financial security for current and future pensioners'. Playing our part in delivering this policy objective gives us a broad focus on the financial wellbeing of both our membership and potential future members. It also provides the basis for our values as an organisation.

In the short time that NEST has existed we've played an important role in the success of the government's auto enrolment policy. That past speaks to an exciting future. We're just at the beginning of our journey, and as we grow as a scheme, we hope to deliver even greater value for our members. We're unashamedly ambitious for a future in which we help millions enjoy a better retirement.

In the rest of this corporate plan we describe our principles and our strategy for the next three years to deliver our mission.

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Over **600,000** employers now have an account with NEST

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# 2017 highlights

## Outcomes



### Investment returns

**8.8%** annualised returns to 31 March 2018 in the NEST 2040 Retirement Fund

Beginning of April 2013 to end of March 2018, after annual management charges (AMC). The fund objective is CPI + 3% after charges. CPI + 3% equated to 4.4% annualised over this period.

## Service



### Availability of the NEST website, web services and contact centre

Scheme services available **99%** of the time in 2017/18

## Growth



### Annual employer growth

**289,000** in 2017/18

### Annual member growth

**1,900,000** in 2017/18

## Sustainability



### Assets under management

**£2.7 billion** at 31 March 2018

### Total annual contributions

**£1.1 billion** in 2017/18

## Corporation



### NEST's employees

**82%** of employees feel NEST is committed to being an inclusive workplace

**87%** of employees care about the future of NEST



# Key numbers as at 31 March 2018

## Active\*/inactive members\*\*

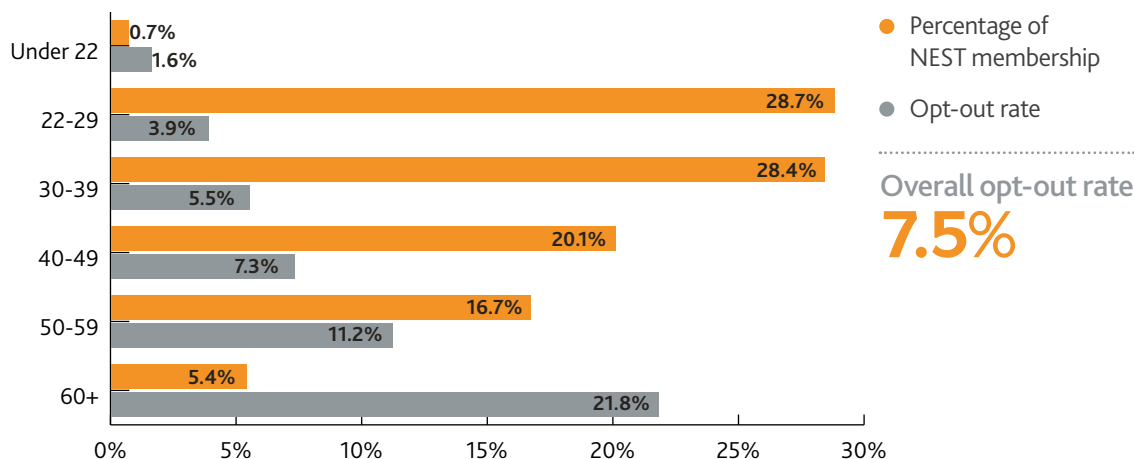
31 March 2018



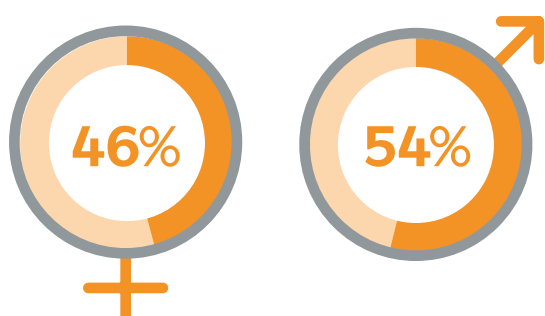
31 March 2017



## Member opt-out rates (split by age)



## Gender split



## Assets under management

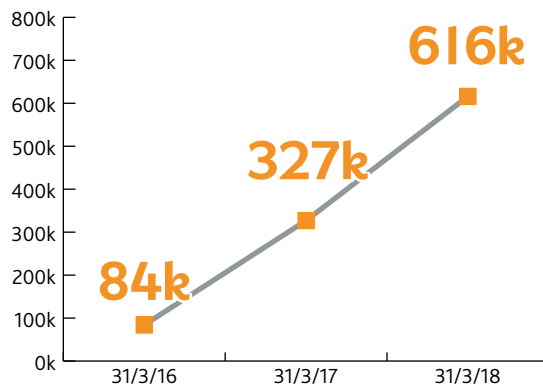


\* Active members are actively employed workers enrolled into NEST by their employer or self-employed workers who have enrolled themselves into NEST.

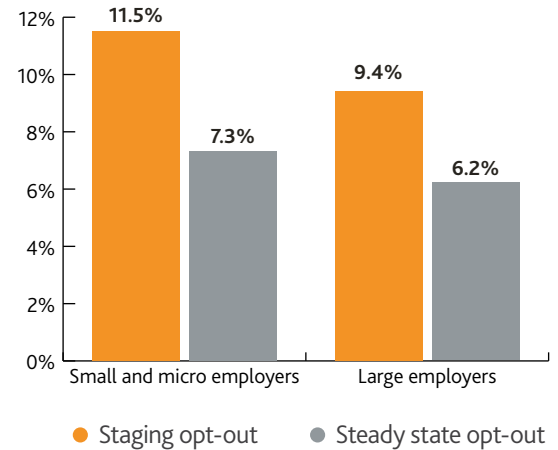
\*\* Inactive members have either left the employer who enrolled them, chosen to stop contributing or have been transferred to a different provider by their employer for future contributions.



## Number of employers using NEST

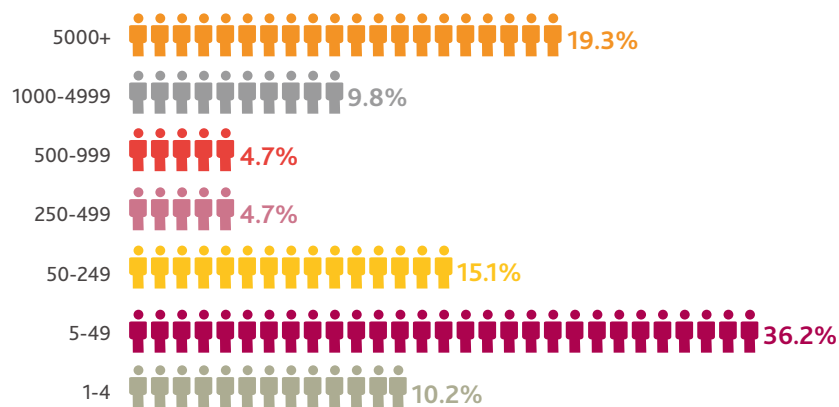


## Opt-out during staging period compared to opt-out since\*

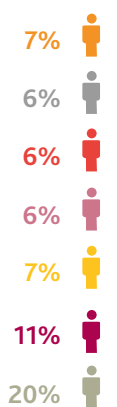


\*Members opting out in the first six weeks after being auto enrolled

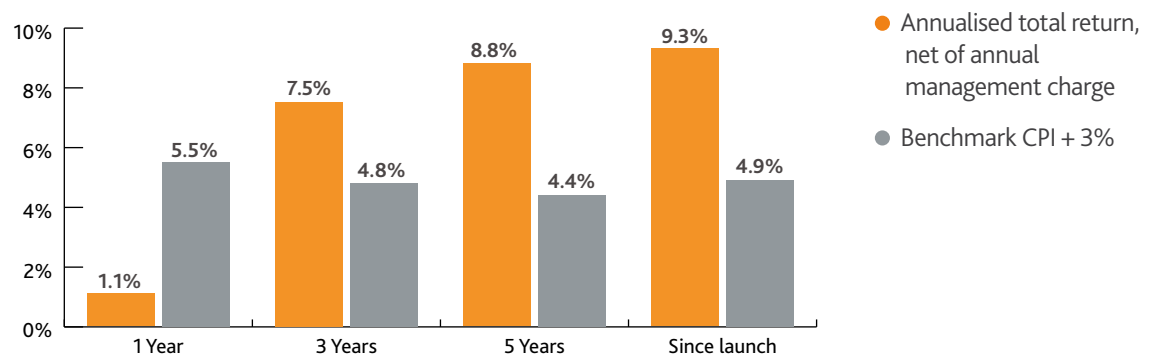
## Members by employer size



## Opt-out rate by employer size



## Fund performance for the NEST 2040 Retirement Fund to 31 March 2018



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# NEST's strategy

## What NEST stands for

We're unlike all other pension schemes in that we have a legal duty to accept any employer that wants to use us.

That background has given us a strong set of principles which inform the way we work for our customers and our staff.



### Built around customers' needs and behaviours

We'll always build products based on research and an expert understanding of customer needs and behaviours. We'll use technology and best in class communication techniques to engage our members in a timely, relevant and personal way.



### Excellence in investments and governance

We'll always provide excellence in investment practice and governance. We'll design and oversee expert investment strategies, and we'll invest responsibly and sustainably.



### Low charges, and open to all employers

We'll always leverage our scale to keep charges to members as low as possible, and we'll be open to any employer that wants to use us.



### Not for profit

We aspire to operate as a not-for-profit business over the long term. Once the loan from government is repaid, it's NEST's aim that any surpluses generated should be reinvested in the interest of members.



### A broader social purpose

We're here to help millions enjoy a better retirement. That responsibility is to our members, but also to a broader population of mass market defined contribution savers and those who could benefit from saving but may currently fall outside of auto enrolment.



### An organisation that lives our values

We'll always show the same level of care to our employees as we do to our customers, championing our scheme values of ease, transparency and empowerment and making NEST a great place to work.

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# NEST's social purpose

We're here for one reason and one reason only:  
to help millions enjoy a better retirement.

We know many of our members are saving because they've been auto enrolled, and have not made an active choice to save. And we know that the money they save comes out of a limited budget.

That gives us a huge responsibility.

A responsibility to continue to be open to everyone and to support our members, through high-quality services, low charges and expert governance, to achieve a better later life.

This is what we were set up to do, it's what motivates us, and it'll always be the most important part of our mission.

But our social purpose extends beyond our current membership.

We believe we also have a responsibility to a broader group of defined contribution (DC) savers with similar characteristics to our members.


We want to promote best practice and value for money, to help improve the way that the pensions industry works for everyone.

And we want to consider how to help people who may not currently be auto enrolled but who might benefit from saving, like people on irregular incomes or the self-employed, to get into the habit of saving for a pension.

We're developing a better understanding of these groups to help solve some of the challenges they face. We've set up NEST Insight, which uses anonymised data to carry out research in collaboration with international partners. Our findings are made freely available to the global academic and public policy communities, to help improve the retirement outcomes of pension savers worldwide.

And we work with the government and public policy community to advise on policy and regulatory changes that would benefit mass market savers.

By delivering on our social purpose, and our responsibility to our members and others like them, we'll fulfil our mission to help millions enjoy a better retirement.



“A good retirement, for me,  
would be being comfortable  
in my own home, eating  
good food and being  
around the people I love -  
maybe a holiday every now  
and again.”

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**Perry Goodwin**

Veterinary Care Assistant, Spring Lodge Veterinary Hospital

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# Our strategic priorities

Our strategic priorities describe how we'll work towards our mission over the next three years and guide our business planning.



## Support strong member outcomes

We'll grow members' assets sustainably and keep their assets and data safe. We'll deliver a targeted approach to increasing their engagement, including at retirement, while continuing to focus on ensuring the right retirement products exist to meet their needs.

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## Deliver a good service to our customers

We'll deliver a sustainable, high-quality service to our customers - members, employers and intermediaries.

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## Grow the business, in the right way

We'll ensure we have a broad customer base while remaining fully focused on the needs of our low to moderate income target market.

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## Deliver a sustainable business model

Following the expiry of our scheme administrative contract we'll implement an outsourced administration service that balances quality with affordability.

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## Deliver a corporation fit for the future

We'll develop the corporation to ensure we continue to have highly skilled and motivated employees, as well as strong standards of governance and management.

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# What we'll do to deliver our strategic priorities

Our strategic priorities guide our business planning decisions. In this section, we outline what we'll do over the next three years to achieve each of our strategic priorities.

## Support strong member outcomes

### Grow members' assets in a manner fit for our membership

Our investment performance has exceeded objectives. The performance of NEST Retirement Date Funds in the growth phase, after annual management changes, over five years to 31 March 2018 was approximately 8.8 per cent annualised. The objective for these funds was to exceed CPI + 3 per cent. CPI + 3 per cent equated to 4.4 per cent annualised over this period.

We'll be investing in new asset classes over the next three years. We've recently completed the addition of a commodities mandate and will be considering private markets, including private credit and infrastructure equity, next. As our assets under management grow we'll be able to take advantage of our scale, to access new opportunities for growth in a cost-effective way. Markets are also set to become more challenging, and these new asset classes will help us to continue to manage investment risk effectively on behalf of our members.

One of our central investment beliefs is that as a long-term investor, it's important that we incorporate environmental, social and governance factors into the investment management process. We've recently been recognised for our approach to responsible investment by ShareAction. Over the coming years we'll continue to build on our proactive approach to sustainable investing via our climate aware fund and increasing the allocation to that fund over time. We'll also be looking carefully at the investment risks of tobacco stocks and working to understand how cybersecurity and the dominance of digital technology may change the risk and return profile of our portfolio.

Our approach to investment has always been based on a thorough understanding of our members' characteristics, their circumstances and their attitudes to saving. Over the next three years we'll conduct further research into our members' needs, to make sure that our investment strategy remains right for them.

### Deliver a targeted approach to member engagement

With staging complete and contributions rising this year and next, we want to do more to empower our members to take control of their future and to start thinking about the level of saving that will allow them to achieve a good quality of life in retirement.

We'll build personalised tools using the latest behavioural research and best practice from consumer brands to engage our members. This will include allowing members to set their own personalised retirement goals, and issuing personalised videos with tailored calls to action on key events such as joining, annual statements and retirement wake up packs.



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## Ensure members have access to an appropriate retirement solution

Our members should have access to a retirement income solution that's managed for them, and provides an income from their assets in a sustainable, life-long way, while giving them the flexibility to take their money out of the scheme if they wish to.

We'll continue to develop our existing proposition to achieve this. We'll also be working with government and industry to ensure our members have access to the full range of retirement solutions in the future.

## Keep members' assets and data safe

We'll continue to reinforce our control frameworks as the nature of the external threats we face develops, to protect our members' data and assets.

From October 2018, the government will bring in a new regime for the authorisation and supervision of Master Trusts, to ensure that all members using Master Trusts have suitable pension schemes to save with under auto enrolment. NEST already operates to very high standards of governance and administration and fulfils many of the requirements. We'll be working with the Pensions Regulator over the next year to achieve authorisation.

## Research and policy work that supports members' needs

We've established NEST Insight, our in-house research unit, which uses anonymised member data to develop a better understanding of the challenges DC savers face. Over the next three years NEST Insight's programme of research will include projects on:

- combining emergency savings and pensions
- testing interventions which could help increase pension saving among the self-employed
- the role of life events, emotions and beliefs in increasing engagement with pensions.

We will also continue to contribute to consultations to help policy makers support our members and those like them to achieve strong retirement outcomes.

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## Deliver a good service to our customers

We've successfully delivered on our obligation to accept any employer that wishes to use NEST through staging. At peak times this has meant enrolling up to 1,800 employers in a single day. The rapid growth of NEST in 2017/18 means that we now provide a service to 6.4 million members and 616,000 employers.

We've been able to handle these very high volumes due to the innovative design of the NEST scheme. We have an online, self-service model which reduces operational costs. In the final most intense periods of staging, 85 per cent of employers successfully enrolled with NEST without having to contact the scheme administrator for help. To support small and micro-sized employers we developed NEST Connect, which allows intermediaries, such as accountants, payroll providers or independent financial advisers, to enrol their employer clients on their behalf.

With staging complete, our focus over the next three years will be on making further improvements to our services, to ensure they remain easy to use and fit for our increasing size and evolving customer requirements.

We'll be reviewing the end-to-end customer experience and developing a rolling programme of enhancements to our services. We plan to introduce new technologies such as artificial intelligence to help customers find the information they want, when they want it.

We'll continue to develop our web capability and ensure our mobile-optimised site keeps pace with customer trends. We'll make our content available via the third parties that our customers use on a regular basis, to improve the customer experience.

On 1 April 2017 the government lifted restrictions on NEST accepting transfers. It's important that members can consolidate their pension pots into NEST if they wish to, and we're working to make this process simpler.

## Grow the business, in the right way

Over the next three years we'll continue to focus on developing a sustainable revenue model, while retaining our central focus on serving the needs of those not traditionally well served by the pensions industry.

This will involve evaluating and enhancing our proposition, raising awareness of the NEST scheme, and strengthening our relationships with our employers and the intermediaries that support them.

We're confident this will allow us to achieve our goal of delivering a sustainable corporation while fulfilling our statutory duty to be open to any employer who wishes to use us.

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## Deliver a sustainable future business model

### Procure future scheme administration services

In 2010, we entered into a contract with Tata Consultancy Services (TCS) to implement and run pension administration services on behalf of NEST. Our contract with TCS comes to an end in 2023. To provide enough time for both a business transformation and fully transitioned services by 2023 we've begun plans for future scheme administration contracts.

In 2019 we'll be issuing our contract notice in the Official Journal of the European Union (OJEU) and inviting formal bids, and expect to select our supplier or suppliers in 2020. This is a critical contract for us and gives us an opportunity to reimagine how the scheme should be run over the next decade, applying the latest technology and research to better serve our members.

## Maintain a cost efficient business model

We're in a strong position to repay our loan from the government within the parameters set out in the state aid case.

Over the next three years, we'll continue to focus on delivering cost efficiency through our business model, to allow us to operate sustainably at scale. We'll achieve this by harnessing technology to provide easy to use, cost-efficient services to customers. We'll also monitor the impact of the phased increase of minimum pensions contributions on our financial performance.

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## Deliver a corporation fit for the future

### Maintain strong standards of governance

NEST operates to the highest standards of governance. Each year we review the effectiveness of the Trustee Board and its committees. In 2017/18, this review was carried out by an external facilitator, OE Cam, which concluded that the Board is well run. DWP also carried out a Tailored Review of NEST, which recommended that NEST move to a unitary board, incorporating both executive and non-executive trustee members. We've already taken this recommendation forward.

We conduct an annual skills and experience assessment of all of our Trustee Members. This ensures we have the right range of experience and knowledge on our Board to continue to govern NEST effectively. We have used the results to update our training plan for existing Trustee Members, our induction plan for new Trustee Members, and refine our skills and experience requirements for the future.

### Ensure staff have the right skills to deliver for our members, supported by a diverse, inclusive and positive working culture

Alongside the growth of the NEST scheme, it's important that we evolve the corporation so that our staff continue to be able to deliver for our customers supported by our scheme values.

We'll continue to provide staff with access to a range of learning and development opportunities, to develop the skills they need to progress in their careers.

We're developing leadership and mentoring programmes for future leaders at NEST, including a specific programme for future female leaders. Our aim is that this will enable us to progress towards our target, as a signatory of the Women in Finance Charter, for 30 per cent of our executives and directors to be women. We're also developing a diversity and inclusion strategy for NEST.

Since we were set up, we have developed a positive working culture at NEST. We recognise there are areas where we can improve, and will be focussing on those over the next three years. However, we are starting from a strong base. In last year's staff survey, 87 per cent of our staff said they care about the future of NEST and 82 per cent feel NEST is committed to being an inclusive workplace.



“Saving is something I didn’t do before. Being automatically enrolled into NEST made it easy.”

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**Terry Rodgers**

Area Manager, Little Acorns and Stepping Stones Ltd



# Financial summary

The following table provides information on past performance, the resources forecast to deliver business activities for 2018/19, as well as information on resource planning for the period 2019/20.

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
<b>Expenditure</b>							
Staff costs	22.6	20.4	18.9	18.5	20.8	25.9	27.4
Depreciation and amortisation	11.5	13.5	14.2	10.9	10.9	9.6	12.4
Other expenditure	33.4	43.0	45.1	61.4	75.3	109.8	121.3
Interest payable	17.1	21.7	25.6	29.1	32.2	35.5	38.2
<b>Total expenditure</b>	<b>84.6</b>	<b>98.6</b>	<b>103.8</b>	<b>119.9</b>	<b>139.2</b>	<b>180.8</b>	<b>199.3</b>
<b>Income</b>							
Grant income	(10.2)	(12.7)	(15.1)	(17.7)	(20.0)	(22.5)	(23.6)
Other income	(2.0)	(5.9)	(9.0)	(15.2)	(42.7)	(63.8)	(107.3)
<b>Total income</b>	<b>(12.2)</b>	<b>(18.6)</b>	<b>(24.1)</b>	<b>(32.9)</b>	<b>(62.7)</b>	<b>(86.3)</b>	<b>(130.9)</b>
<b>Net expenditure after interest</b>	<b>72.4</b>	<b>80.0</b>	<b>79.7</b>	<b>87.0</b>	<b>76.5</b>	<b>94.5</b>	<b>68.4</b>

Net expenditure after interest for 2017/18 was £76.5 million compared with £87 million in 2016/17. The reduction is mainly due to increased income from more members, growth in assets under management and an historical VAT recovery from the scheme administrator<sup>1</sup>.

Between 2018/19 and 2019/20 minimum contributions will increase to 8 per cent as a result of phasing. However, due to the cost associated with procurement of a new service for scheme administration, net expenditure after interest is expected to increase to £94.5 million in 2018/19. It is then expected to fall to £68.4 million in 2019/20, when higher member contributions take effect.

<sup>1</sup> In 2014 the European Court of Justice ruling in the ATP (Danish pension fund) case concluded that for VAT purposes DC pension schemes with certain characteristics should be treated as a 'Special Investment Fund' and therefore all costs associated with the management of those funds should be exempt from VAT. Consequently NEST Corporation should be treated as a Special Investment Fund and all UK based scheme administration services (provided by TCS), investment funds administration (provided by State Street) and fund managers fees are now treated as exempt from VAT. In 2017/18 the Corporation received a historical reclaim of VAT for its fund administration charges, and the reclaim has been classified as income.



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NEST's loan liability to the Department for Work and Pensions (DWP) at 31 March 2018 was £623 million compared to £539 million as at 31 March 2017.

## Expenditure

- Staff costs increased by £2.3 million between 2016/17 and 2017/18, to £20.8 million. They will continue to increase to £27.4 million by 2019/20. This is mainly due to the procurement process for a new scheme administration service. Staff costs other than those associated with this procurement are not expected to materially increase during this period.
- Depreciation and amortisation remained the same between 2016/17 and 2017/18 but is expected to grow in 2018/19 and 2019/20. This is in line with the average over the last five years. Recent depreciation and amortisation has been lower as some assets have lasted longer than originally envisaged.
- Other expenditure increased by £14 million between 2016/17 and 2017/18. It will continue to increase in 2018/19 and 2019/20. This is mostly due to higher scheme administration and fund manager fees driven by the increase in scale of the scheme. Expenditure will also increase due to costs associated with the procurement of a new scheme administration service.
- The associated net expenditure will result in a higher loan base and as a consequence an increase in interest payable in 2018/19 and 2019/20.

## Income

- Other income grew by £27.5 million in 2017/18. Of this, £16.9 million is the recovery of historical VAT from the scheme administrator<sup>1</sup>, and there is an increase of £10.4 million in annual management charges and contribution charges. This reflects a 1.9 million increase in member numbers and the growth of assets under management (AUM) to £2.7 billion. In 2018/19 and 2019/20 other income will increase to £63.4 million and £107.3 million respectively in line with the increased statutory contribution rates to 8 per cent and associated growth in funds under management.

NEST Corporation spending decisions are made prudently and it recognises that costs are ultimately borne by scheme members.

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