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# **NEST Corporation corporate plan 2016-2019**



### **Cautionary statement**

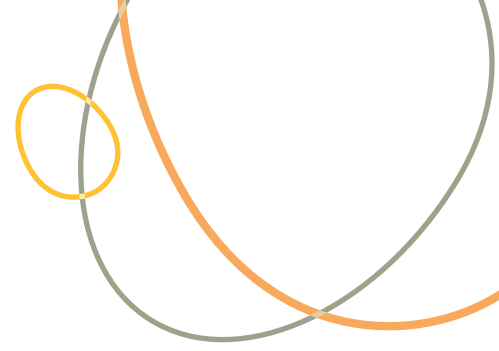
This document contains statements that are, or may be deemed to be, 'forward-looking statements' with respect to NEST Corporation's financial condition.

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' and 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.



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# Foreword

In this corporate plan, we set out what we intend to do with our resources over the next planning period.

## About us

NEST is a trust-based multi-employer defined contribution (DC) pension scheme, run in the interests of its members. NEST Corporation is the Trustee of the NEST scheme. It's made up of a Chair and 11 Trustee Members, appointed by the Secretary of State for Work and Pensions in line with public appointments guidance. They're supported by an organisation, comprising an executive team and a range of specialists, the resources of which are discussed in this document. We also work closely with Tata Consultancy Services (TCS) and State Street Bank who provide all of the day to day administration of the NEST scheme.

At NEST, we play an important role in the implementation of the government's auto enrolment programme. The workplace pension reforms, introduced following the Pensions Act 2008, require all UK employers to automatically enrol their eligible workers into a qualifying workplace pension scheme. We've a public service obligation (PSO) to accept any employer, of any size, that wants to use the NEST scheme to meet their auto enrolment duties.

## The next three years

Over the next three years, both staging and phasing periods of the auto enrolment programme will continue. Staging is the process of getting UK employers involved in auto enrolment. This was launched in stages, beginning in October 2012, with the largest employers starting first. By the end of 2018, all UK employers will have to give their workers access to a workplace pension scheme that meets certain standards. Now in the fourth year of the programme, we're seeing high volumes of the smallest employers starting to automatically enroll their eligible workers.

Phasing means increasing the minimum contribution gradually until it meets a level of 8 per cent. This includes the employer and worker contributions and tax relief from the government. Until March 2017 the minimum contribution level will be 2 per cent, followed by a 12 month period at 5 per cent, finally reaching 8 per cent in April 2018.

The continued roll out of auto enrolment is set against the backdrop of the rapidly changing landscape of pensions. We're focused on getting on with our key role of ensuring that any employer that wants to use NEST for their employer duties can do so quickly and efficiently. To underpin our vision, this year we've revised our strategic priorities for NEST. These reflect our focus on what we need to achieve during staging and our determination to keep developing NEST so that we remain relevant for our members.

NEST is a rapidly growing scheme. The number of employers signed up to use NEST increased from 14,000 at 31 March 2015 to over 86,000 12 months later. For the year 2016/17 we could see employer numbers increase to over 170,000.

At peak times over the next two years we anticipate over 24,000 employers will sign up to NEST in the space of one month. In contrast, during our most active month of the 2015/16 period 9,000 employers signed up to NEST.

This continued growth will carry on being a key focus for us at NEST. The preparations we've made in the past year will create a solid foundation for the remainder of the staging period.

Though still small relative to other schemes our assets under management are growing quickly. As at 31 March 2016, assets under management (AUM) were in the region of £825m. In 2015/16 AUM grew by over £400m. We'll continue to ensure that NEST is well governed and effectively operated to safeguard this money and work in the interests of our members.

In the 2016 to 2019 period, there'll be significant changes that will affect our scheme. In April 2017, the ban on transfers will be lifted and the contribution limit will be removed.

The Freedom and choice reforms are likely to cause a significant shift in how individuals access their retirement savings in the coming years. At NEST, we're developing our systems to allow members who have reached their NEST retirement date to access smaller lump sums as they continue to save. In the medium term, as members' pots increase in size, we'll continue to research our members' needs. This will mean we can develop the right support packages to help their decision making when accessing their money. We'll also continue our work with the industry and international peers to provide suitable retirement options to our members who want a retirement income from their savings, building on the work published in our retirement income blueprint last year.

Our vision is to be a safe and trusted provider for millions to save for their retirement over their working life. By focusing on our new strategic objectives over the next three years, we'll be able to continue to deliver good outcomes for our employer customers and our members. Ultimately, we want to play our part in making auto enrolment a success.



Otto Thoresen  
Chair  
NEST Corporation

July 2016

# What's the purpose of the corporate plan?

As part of our obligations as a public body, we produce a corporate plan to let the Department for Work and Pensions (DWP) and interested parties know how we're meeting our objectives. It sets out what we'll be focusing on in the financial year 2016/17. The contents of our plan have not been independently checked or approved. The figures referred to in this document are not audited, however audited information is available in our annual report and accounts.

This is our seventh corporate plan. It includes our business plan and covers the period from April 2016 to March 2019. It identifies what we believe we'll need to achieve if we're going to be successful in helping millions to save confidently for their retirement.

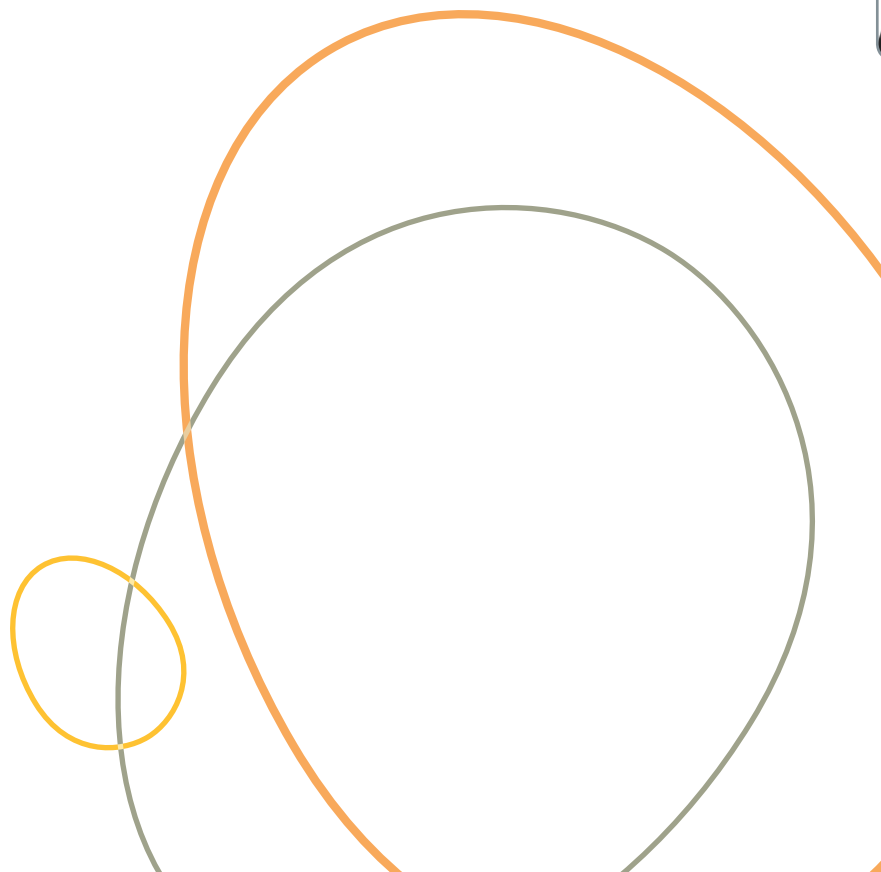
# The value we deliver

## To our members

As the Trustee of a trust-based pension scheme, our role includes administering, safeguarding and investing the pension contributions we receive for our members. We aim to provide everyone who's enrolled with a high-quality, great-value pension scheme.

## To taxpayers

Because NEST has a public service obligation, and is free for employers to use, every employer has access to a high quality pension scheme for their workers. This is vital to the success of auto enrolment which is helping to boost the retirement pots of millions of workers.



# Our priorities for 2016 to 2019

We refreshed our strategic objectives in June 2015 so we could make the best use of our resources and maximise our members' investments. They highlight what we believe we'll need to focus on for the next three years to successfully achieve our goals and overcome challenges. Our new objectives are to:

- deliver a good service through staging
- be sustainably low cost
- drive up scheme revenue
- develop retirement options for our members
- build corporate capability.

In the rest of this document, we'll set out how we plan to take each priority forward in this period.

## Deliver a good service through staging

By 31 March 2016, we had over 86,000 employer accounts set up and over 3 million members.

The expected rapid growth in the numbers of employers setting up a scheme, and managing their arrangements day to day, is part of the backdrop to this strategic priority. We need to continue the good work we've delivered over the past few years. To be successful, we need our scheme and the underlying operations to work effectively and efficiently on a large scale. Over the past year we've demonstrated the resilience of our core service and systems, even at significant volumes. However the nature of the staging profile means that volumes will continue to grow. In 2017, we'll see peak numbers of employers joining.

We're currently entering our busiest period to date in terms of the numbers of employers looking to set up their schemes with us. Between mid-2016 and 2018, 85 per cent of all employers affected by the auto enrolment legislation are due to stage.

We'll continue to learn from the experiences of our members, employers and their advisers and listen to what they need from NEST. We'll then use this feedback to improve our service.



We've already taken on significant numbers of small and micro employers. In doing so, we're able to learn from our experience. We now have a better idea of expected small and micro employer volumes as well as how much support they'll need throughout the rest of staging. We'll continue to refine our capacity plans in this way as more data emerges.

In the past year, we've worked with payroll providers, accountants and other intermediaries to improve our accessibility for small and micro employers. In November 2014, we introduced our NEST Connect service which enables third parties to manage NEST on behalf of multiple employers from one personalised dashboard. As at 31 March 2015, over 8,900 intermediaries had signed up to NEST Connect. This enhanced service is starting to drive operational efficiencies. We'll continue to monitor this and make sure that our service carries on meeting the needs of intermediaries as we move into the final periods of staging.

We also launched NEST web services, a technology that allows a seamless data flow from payroll software to NEST. This enables employers, or third parties acting for them, to manage their NEST account from within their payroll software. We expect this to reduce the amount of time needed to administer auto enrolment, as well as reduce data errors and the need for help. In order to improve this service and the user experience, we'll continue to monitor how many people take this up and how they use it.

## Sustainably low cost

At NEST we're in a unique position. We're both a non-departmental public body (NDPB) and a trust-based pension scheme. This means that we need to be low cost for our members and offer value for money to the tax payer who funds NEST through the loan.

As we grow, we'll ensure that we drive down our running costs and continue to get the best possible value from our contracts. This will mean carefully defining our future administration requirements and deciding how we deliver them. We'll also focus on delivering successful changes to the scheme to ensure good value for money.

## Drive up scheme revenue

It's important for all our members for NEST to be financially independent. So we'll ensure that we're continuing to drive revenue into the scheme, without increasing charges, as we move through staging in a constantly evolving savings market.

To achieve this objective, we need to focus on the proposition for our customers.

Firstly, we'll ensure that our overall proposition remains attractive to employers of any size and type by:

- continuing to evaluate and enhance our scheme so it meets the needs of all employers and the professionals that support them
- providing suitable support to larger employers and those that support them to help manage the more complex nature of their arrangements
- renewing awareness of our scheme in an environment where our restrictions are lifted.

We'll also continue work to ensure our scheme provides good outcomes for our diverse membership by:

- reviewing our whole of life offering to ensure that we're providing suitable options for our members as they build up their pension pots and when they reach their NEST retirement date
- learning from our experiences so far so we can improve our scheme
- reviewing our investment approach to maintain its suitability for our members.

We believe that by ensuring we provide a high quality scheme to employers and members, and raising awareness of this, we'll be able to generate enough revenue to continue to make NEST sustainable.

## Develop retirement options for our members

Developing retirement options refers to how we meet our members' short, medium and longer-term needs in light of the Freedom and choice pension reforms.

In terms of members' likely short-term needs, we changed our systems in April 2015 so all NEST members aged 55 and over could access 100 per cent of their pot as cash, with 25 per cent tax free. They can also transfer their pot at retirement out of NEST if they want to consolidate it with a different savings pot elsewhere. The changes we made to cash access reflect that only around 10 per cent of our membership is aged 55 or over. As members haven't been saving with us for very long, average pot sizes are relatively modest.

At NEST, we've consulted on rule changes so members can take further advantage of these freedoms with the proposal to offer uncrystallised funds pension lump sums (UFPLS). This is where a member takes a series of smaller lump sums of cash from their pension pot with a tax free amount as part of each separate withdrawal. Our future benefits will reflect the outcome of this consultation as appropriate to meet members' needs as they evolve.

When considering members' longer-term needs, in June 2015 we published our blueprint for a retirement income strategy suitable for our members as their pots grow. We developed this following our far-reaching consultation, *The future of retirement*. This gathered evidence from around the world on the needs of defined contribution savers in light of the new pension freedoms. The consultation found that inertia and a lack of confidence in constructing retirement portfolios influence members at retirement, in a similar way as they did when they start to build their savings. For a large proportion of savers, constructing a strategy to take their money out that manages their own longevity, inflation and market risk is likely to be extremely challenging.

Over the next three years, we'll continue to develop the support packages that we provide to members as they come to access their savings in light of the new regulatory regime. Our goal is to help our members make good decisions about accessing their savings and give them access to high quality, good value retirement options that meet their needs. Those needs could include accessing cash, purchasing an annuity, keeping their savings invested or taking their money out via new retirement income journeys that may be developed over the coming years.

## Build corporate capability

The scale of the NEST scheme continues to grow rapidly. We'll continue to devote resource to make sure our organisation has the right capabilities and controls and we'll continue to maintain and improve our control framework.

### Control framework

We'll continue to follow our guidelines of processes and procedures with a focus on getting it right first time. With this in mind, we've carried out a range of internal and external assurance reviews. This includes completing the AAF 02/07 master trust assurance framework. Our key supplier, TCS, has also completed the AAF 01/06. In addition, we've finished a risk-based compliance monitoring programme to provide assurance to the Trustee and senior management on the ongoing suitability of key processes and on their outcomes. All of this is with a view to building a sustainable business model.

### Governance

We'll continue to make sure that NEST is run according to best practice. This means ensuring that all decision making and processes are made robustly, tested against value for money and carefully recorded. We'll also continue to make sure that we have the right processes in place for robust decision making.

### Staff engagement

We'll continue to raise our levels of staff engagement through training, supporting colleagues to develop in their roles, improving our internal communications and strengthening our management and leadership capability. We've developed a people strategy which reflects the changing demands on our organisation. This will ensure we have the right people with the right skills. Our strategy provides the framework to align the key people related tools, and priorities, needed to deliver the business plan and strategic priorities for NEST.

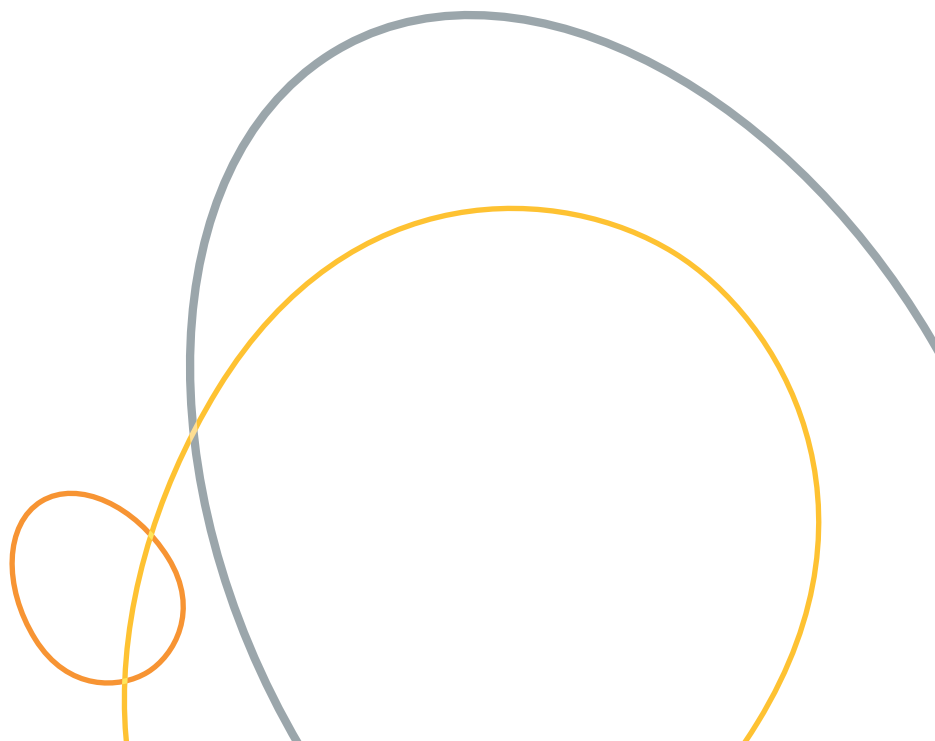
# Monitoring progress

The following table summarises what our priorities mean for our activities over the next year and sets out some examples of our monitoring framework.

Actions we'll undertake	What we'll monitor
Deliver a good service through staging	
<p>Ensure our service is capable of meeting the demands of the high volume staging period.</p>	<ul style="list-style-type: none"> <li>• Overall volumes choosing NEST</li> <li>• How customers are behaving, including how they use the system, error rates, how often they call the contact centre and what about.</li> <li>• Performance against our expectations of the service, including:               <ul style="list-style-type: none"> <li>- system performance - website availability and response times</li> <li>- IT operations – the handling of incidents, system defects and changes</li> <li>- contact centre – availability, response times, types of queries, quality, complaints</li> <li>- scheme administration back office – manual checks and reconciliations</li> <li>- fund administration services – unit reconciliations and cash reconciliations.</li> </ul> </li> </ul>
<p>Implement an appropriate operational assurance framework.</p>	<ul style="list-style-type: none"> <li>• Analysis and documentation of automated and manual controls within scheme processes.</li> <li>• Identification and escalation of control risks and gaps in design and requirements.</li> <li>• Evidencing and frequently reviewing the operational effectiveness of key controls.</li> </ul>

Actions we'll undertake	What we'll monitor
Sustainably low cost	
Drive down the running costs of our scheme administration and other contracts.	<ul style="list-style-type: none"> <li>• Medium and long term cost of running scheme administration and of NEST Corporation.</li> </ul>
Get the most out of our contracts. Ensure we get what we pay for through good contract management.	<ul style="list-style-type: none"> <li>• The obligations of the contracts and periodically report on value for money.</li> </ul>
Define our future scheme administration requirements and how we deliver them.	<ul style="list-style-type: none"> <li>• Industry innovation developments as well as procurement best practice. We'll evolve with the best practice that we determine is in the best interests of our members.</li> </ul>
Ensure NEST is the right shape to deliver the scheme in the post-staging world.	<ul style="list-style-type: none"> <li>• Operating efficiencies covering all areas of the business.</li> </ul>
Deliver successful scheme change, in agreement with the wider business, ensuring best possible value for money and improving our pace where possible.	<ul style="list-style-type: none"> <li>• The benefits realisation analysis on all of the scheme changes and where required carry out further work.</li> </ul>
Drive up scheme revenue	
Continuously evaluate our offering for the remaining small and micro employers, the large employers revisiting their scheme selection and the professionals that support them.	<ul style="list-style-type: none"> <li>• The effectiveness of our offering using website analytics, customer satisfaction surveys and research to understand any areas of our overall proposition that need development.</li> </ul>
Review our offering to members in a post-restrictions, pensions freedoms environment to ensure we're offering suitable options for our membership while they're saving and when they reach their retirement.	<ul style="list-style-type: none"> <li>• The effectiveness of our offering using website analytics, customer satisfaction surveys and research to understand any areas of our overall proposition that need development.</li> </ul>

Actions we'll undertake	What we'll monitor
Develop retirement options for our members	
<p>Plan and deliver retirement options that meet the needs of our members. This is applicable to both the long and short term options.</p>	<ul style="list-style-type: none"> <li>• Consumer perceptions of appropriate retirement options.</li> <li>• Member needs and to what extent they are met by existing arrangements as their pot sizes grow.</li> <li>• Market innovation.</li> </ul>
Build corporate capability	
<p>Enable NEST to make good decisions with a clear evidence base, supported by a robust governance structure.</p>	<ul style="list-style-type: none"> <li>• Annual governance effectiveness and analysis of best practice.</li> </ul>
<p>Ensure internal controls are in place to make sure NEST Corporation and scheme are run safely, and the right choices are made in maintaining NEST's compliance.</p>	<ul style="list-style-type: none"> <li>• Findings from various audit programs.</li> </ul>
<p>Define and implement a people strategy that enables NEST to attract, retain and develop the talent and skills we need.</p>	<ul style="list-style-type: none"> <li>• The yearly and mid-point staff survey results. The progress against key metrics defined in the people strategy and delivery against the associated plan.</li> </ul>



# How we'll deliver our priorities

This section talks about our values and our code, which underpin the culture we're continuing to build within our organisation in order to be successful.

## NEST code

Our *Code of conduct* goes further than the requirements placed on us by law and regulatory compliance. It clearly outlines the ethical principles that help define who we are and what we're about as employees of NEST. This code, first implemented in 2013/14, is now widely recognised and adopted at NEST. It applies to all our employees, secondees and interims, at all levels of seniority. Our code is:

- do the right thing
- don't walk by
- learn from our mistakes.

This complements the NEST value statements of:

1. we know why we're here
2. we believe in the value of what we do
3. we care about delivering
4. we know we can only be successful by working together and with others.



# Resource summary

When spending, we must always bear in mind the interests of our members. We must be careful when spending money to achieve our objectives.

The following section provides information on the resources we need to deliver business activities for 2016/17, as well as information on resource planning for the period April 2017 to March 2018. This is consistent with the new rules that are laid out in the Financial Reporting Manual (FRM) for disclosure of similar information in NDPB annual report and accounts.

	Actual 2011/12 £'000	Actual 2012/13 £'000	Actual 2013/14 £'000	Actual 2014/15 £'000	Actual 2015/16 £'000	Forecast 2016/17 £'000	Forecast 2017/18 £'000
<b>Expenditure</b>							
Staff costs	18,793	20,956	22,645	20,399	18,877	19,527	18,967
Depreciation and amortisation	5,667	10,146	11,544	13,517	14,192	11,746	12,828
Other expenditure	25,308	24,888	33,418	43,028	45,124	63,046	82,550
Interest payable	9,597	13,080	17,145	21,748	25,556	29,751	35,599
<b>Total expenditure</b>	<b>53,375</b>	<b>69,070</b>	<b>84,752</b>	<b>98,692</b>	<b>103,749</b>	<b>124,070</b>	<b>149,944</b>
<b>Income</b>							
Grant income	(10,832)	(7,944)	(10,245)	(12,685)	(15,066)	(18,024)	(22,142)
Other income	(28)	(76)	(1,957)	(5,857)	(9,021)	(12,676)	(19,258)
<b>Total income</b>	<b>(10,860)</b>	<b>(8,020)</b>	<b>(12,202)</b>	<b>(18,542)</b>	<b>(24,087)</b>	<b>(30,700)</b>	<b>(41,400)</b>
<b>Net expenditure after interest</b>	<b>48,515</b>	<b>61,050</b>	<b>72,550</b>	<b>80,150</b>	<b>79,662</b>	<b>93,370</b>	<b>108,544</b>

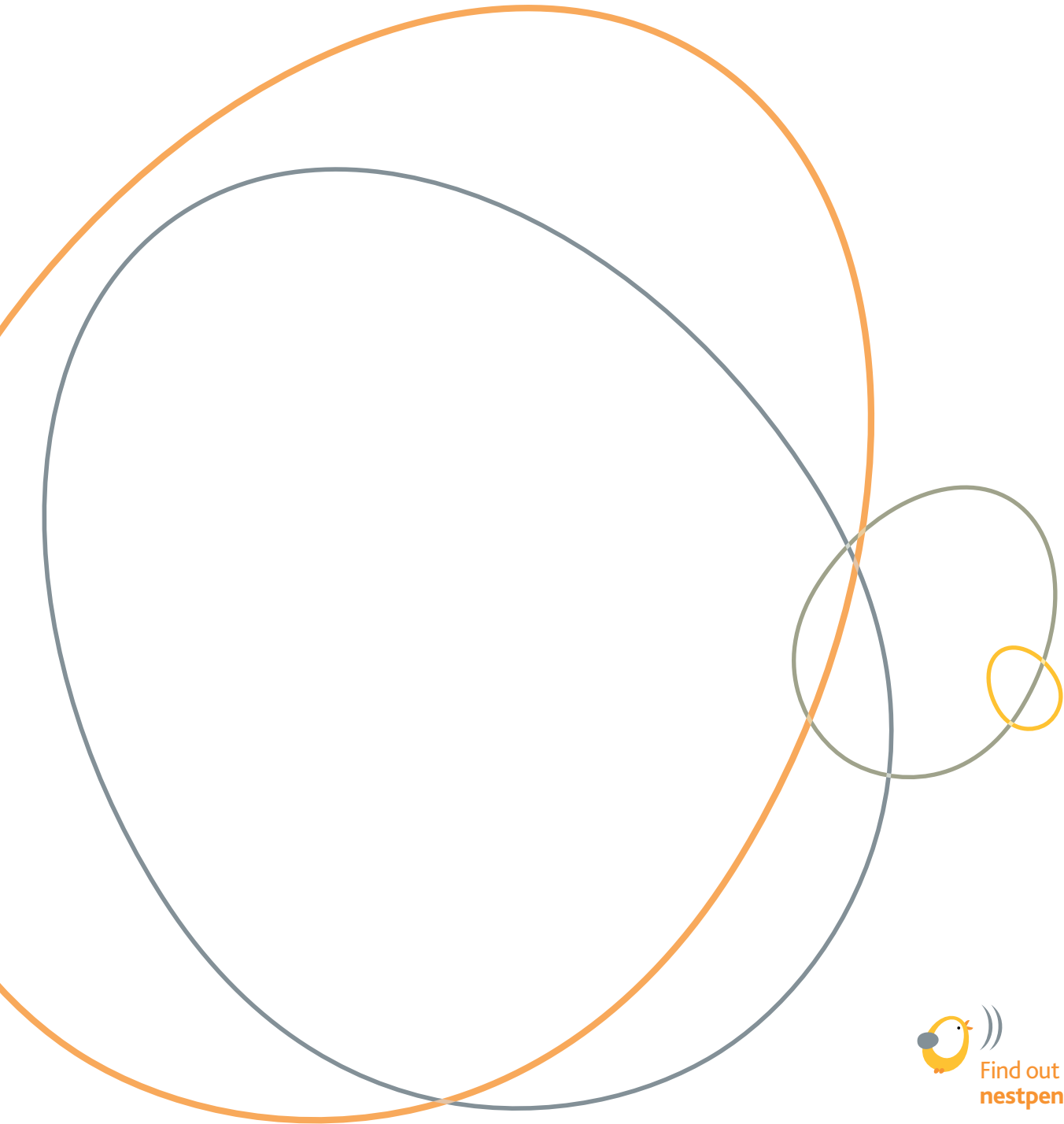
## Analysis

Total comprehensive expenditure for 2015/16 was lower than anticipated at £79.6 million compared with £80.1 million in 2015/16. This is due to savings on NEST staff costs offset by an increase in scheme administration costs as our membership increases.

Total comprehensive expenditure for 2016/17 is expected to increase to £93.4 million. The increase in expenditure is due to the expected rise in the cost of running the scheme administration because of our growth in membership. The increase in costs will therefore put up the amount of money we need to borrow and the amount of interest we need to pay back. Our scheme income continues to grow as our membership base and AUM increases rapidly.

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