NEST’s research into retirement decisions

NEST carries out a wide variety of research projects to better understand the decisions that members of our target group make, and the factors that influence them. For this topic, we’ve drawn on our in-depth research. This included 40 qualitative interviews with consumers, user testing of NEST’s retirement tool, a recent online consumer study and NEST’s 2011-12 consumer survey of around 1,900 individuals in our target market.

We should be under no illusions that this is a niche group. In fact it comprises the ‘new majority’ of UK savers. Figures from the ONS show that over 85 per cent of the target group, defined as those who are eligible to be automatically enrolled but currently un-pensioned, earn up to £35k per annum. This is a population that NEST has concentrated on researching.

Three main themes emerged from these research pieces regarding: diversity, background attitudes, and members’ ‘trigger points’.

We need to work hard to understand their needs in order promote the best possible decisions. In practice this means considering a variety of questions.

> How does a group of new savers behave when it comes to decisions about retirement?
> What influences those decisions?
> What are the trigger points on their decision-making journey?

Trying to answer these questions has been a vital part of NEST’s thinking in preparing our customers for retirement.

The lessons of research

The hard work has only just begun, and there are few easy answers. We are mindful that NEST’s ‘target group’ is not homogenous. We have found that individual circumstances vary widely within this group.

Importantly, we only have part of the picture - none of our customers has yet bought a retirement product – and we don’t have all the answers. We have, however, spent some time thinking about how the target group might approach retirement, and we would like to share those findings to stimulate wider discussion. In order to understand consumers, we can group them according to shared characteristics. In doing so, however, we must take a cautious approach to applying broad brushstrokes to entire groups. The work summarised below should be seen in light of these caveats.

Our research has emphasised three key lessons:
• there’s an engagement challenge
• ‘social proofing’ is vital
• we need ‘different strokes for different folks’.

Pre-retirement creates an engagement challenge

For providers, it’s a rare opportunity to engage consumers. Our research shows that members who are generally unengaged in pension saving may want, or feel the need, to engage pre-retirement. For members, we found evidence of a need for support and information. As they begin the process of retirement, consumers need information, perhaps earlier than the industry has previously provided it.

Key life events experienced both directly and in a peer group will bring pensions into people’s minds. Our research shows that post-55, people have talked about redundancy, paying off the mortgage and the kids leaving home as crucial points where they will start thinking about reviewing their retirement provision.

‘Social proofing’ is vital

Supportive background messages are crucial to ensuring that consumers are ready to think about retirement at critical moments.
Peers, friends and family, employers, the press and government are all involved in bringing pensions to the front of people’s minds. People will seek advice from ‘significant others’ in their peer group. These may include friends who are about to draw a pension, or partners for couples who plan to pool their incomes.

Our research has also shown that people often talk about ‘financially astute friends’ to whom they refer. These may include friends who were accountants or worked in financial services and are not qualified to give financial advice but can provide explanations of processes and services. Often, contact with these people provokes consumers to undertake further research.

Different strokes for different folks

Our research of the ‘new majority’ of savers suggests that four identifiable groups of members will approach retirement with quite different needs. As a result, members will require a flexible response from NEST. Our target market is diverse.

Members will have very individual ‘backstories’ and financial portfolios – retirement means different things for different people, but the older people are, the more they will have thought about retirement and what it means for them.

Diverse groups

We used data from our 2011 consumer survey to look for distinctive types of people across our diverse target group. This research identifies shared characteristics across the target group which allow us to think more clearly about members’ needs and behaviours. It’s been useful to balance some of these findings against what the needs of these different groups might look like when approaching retirement. From this work, it became clear that four groups in particular will have distinctly different needs when approaching retirement.

These groups pick out some of the needs that members will have when approaching retirement. It’s clear that a uniform level of engagement for every member will not work. Something more

<table>
<thead>
<tr>
<th>Table 1: Four groups of retirees</th>
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</thead>
<tbody>
<tr>
<td><strong>Attitudes to automatic enrolment</strong></td>
</tr>
<tr>
<td>Working family of average income. Willing to juggle finances to make automatic enrolment work for them.</td>
</tr>
<tr>
<td>Established, comfortably off. Have disposable income and will compare with returns against other products.</td>
</tr>
<tr>
<td>Closer to retirement. Contented, have modest lifestyle.</td>
</tr>
<tr>
<td>Squeezed financially. Manage money on day-to-day basis, relatively little put by for retirement.</td>
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</table>
tailored is required in order to combine the
simplicity of an appropriate level of choice with
helpful guidance that prompts good decisions.

**Early conclusions**

Our early thinking and research on this issue
prompted some important conclusions. NEST
itself is not an annuity provider. Some members
may need, or want, to turn even small retirement
pots into a retirement income. While members
will be able to search for a retirement income by
shopping around using the open market option
(OMO), many members, especially those with
small pots, may need an alternative to this.

In response, we established a panel of annuity
providers to make it easier for members to get a
good outcome when they take their money out of
NEST. In order to feature on the panel, providers
need to be:

- registered and authorised to provide retirement
  income products in the UK
- committed to meeting NEST’s business
  requirements including:
  - providing quotes and products for pots of
    £1,500 and above
  - being able to communicate with NEST’s
    scheme administrator online to enable quotes
to be provided in real time
  - committed to transferring data securely.

NEST does not pay providers for being on the
panel and will not receive any form of payment for
retirement income products sold through it. This
means that we can act as an ‘honest broker’ to
help members to purchase a product that meets
their needs.

**Choice architecture**

We believe that offering some choice between
providers serves this aim better than simply
defaulting everyone into a single option,
particularly given the diversity of NEST’s target
market. This principle applies beyond choices
between annuity providers. By prompting choice
between a select number of annuity types, we
believe we can encourage members to consider
which option best suits them, rather than
defaulting them into a single product type.

Our research with members indicated that many
of them would not feel comfortable with using
a third party provider through NEST’s website.
Similarly, some members may not want to
talk directly to an annuity provider that will be
selling them the final product. The use of a panel
therefore created a need to help members interact
with it effectively.

Many consumers are used to using websites like
moneysupermarket.com. They like the idea of
having a tool to help them compare different
products, but also have an instinct to validate their
choices further by exploring some more detail.
Side-by-side comparisons help them to do this.

With these early insights in mind, we created a
prototype of an online retirement tool, designed
to guide members through the process of taking a
retirement income.

**Background attitudes**

The prototype tool that we developed used
simple, familiar online shopping and product
comparison concepts to present the full range
of options available to the member:

- a retirement income from the NEST
  Retirement Panel
- shopping around for an income (the OMO)
- cash
- transferring to another pension scheme
- choosing a later retirement date.

Its main design concepts were:

- to show only the options that are relevant to
  the current user based on factors such as age
  and level of retirement savings
- to provide pounds and pence valuations of the
  current set of options.

The tool takes the member right through from
assessing their various options, through getting
direct quotes from providers on our Retirement
Panel, through to completing the retirement
decision. It seeks to guide the member through key
decisions, asking them appropriate questions at
each stage, for instance around health or whether
they want to share the annuity with their spouse.
The prototype was tested with seven women and eight men aged between 56 and 64 years with a range of incomes between £8K and £50K per annum. Each of these participants was in the 'target group'. They said they were close to retirement and around half had already had some experience of getting a retirement income. This project produced some interesting insights.

For many savers, retirement doesn't necessarily mean stopping working.

• Saving a total of 12 per cent of band earnings (rather than the 8 per cent of band earnings minimum under automatic enrolment, and above the current averages for a DC occupational scheme of 6 per cent employer contributions and 3 per cent employee contributions) into your private pension can increase private pension income by 50 per cent.

• Retiring two years after state pension age and continuing to save in that time has a positive two-fold effect through saving more and deferring annuity purchase and can enhance private pension income by 20 per cent.

• Opting out between the ages of 30 and 40 and starting to save ten years later can reduce private pension income by 32 per cent. Retiring two years before State Pension age and starting to draw down your pension can reduce private pension income by 18 per cent.

In a survey in 2011 we found that when we asked: ‘If you did have more money available than you do today, which areas would you prioritise to spend more on?’ ‘Saving for retirement’ was mentioned by only 12 per cent. When we asked the same question in 2013, 42 per cent said they would prioritise this.

The 2013 survey indicated that only 13 per cent of the population as a whole are confident that they have sufficient money to provide for themselves in retirement. This figure rises to 20 per cent for the over 40s. So four-fifths of people who are in the age group where they will start thinking about retirement really aren’t confident about what they have put in place. This gives us all the more reason to help them to make the right choices to get the best possible outcomes for their future.

Key decision-making and trigger points

These background attitudes become particularly relevant to consumer decisions at particular moments. In our consumer qualitative study we found that there could be a number of points where pensions become ‘front of mind’. These ‘trigger points’ emerged from in-depth qualitative interviews and reflect the fact that the retirement process is, therefore, quite different from earlier
What are other people doing? Can I do that?

Friends my age

Key experiences

<table>
<thead>
<tr>
<th>Triggers after 55yrs</th>
<th>Research options</th>
<th>State pension</th>
<th>Get annuity quotes</th>
<th>Arrange contract</th>
<th>Receive money</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children move out</td>
<td>Friends my age</td>
<td>Financial friend</td>
<td>Talk to providers</td>
<td>Lump sum</td>
<td></td>
</tr>
<tr>
<td>Investment matures</td>
<td>Online</td>
<td>It’s an income - but I’ve paid for it</td>
<td>Pay and post certified ID</td>
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<tr>
<td>Redundancy</td>
<td>IFA</td>
<td>Bombarded by offers</td>
<td></td>
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</table>
| Children move out    | Friends my age   | IFA
| Investment matures   | Financial friend | It’s an income - but I’ve paid for it |
| Redundancy           | IFA

Triggers after 55yrs include:
- Redundancy
- Children gain independence
- Mortgage paid off
- Investment matures (ISA, endowment, pension)
- Pension statement

What are other people doing? Can I do that?
- Friends my age

What’s ‘it’ worth?
- Compare options
  - Online - Money Supermarket, Martin Lewis’ Money Saving Expert
  - IFA
  - Financially qualified friends

Defer or withdraw state pension
- Talk to providers
- Review offers

Get annuity quotes
- Talk to providers

Buy an annuity
- ID certified
- Medical certification
- Transfer pots

Spend or reinvest
- Lump sum or cashed-in
- Annuity first payment

Figure 1: The journey to retirement

Figure 2: Moments of truth

Context for moments of truth
- Approaching retirement letter
- Research/IFA
- Family/adviser conference
- Decision and executing plan
- Close account

Desired outcome
- Reflective
- Empowered
- Focused
- Decisive
- Empowered

During stages in a member journey. At each of these trigger points, members who otherwise do not engage with pension savings are more likely to do so.

Each of the ‘trigger points’ on a member’s journey is an opportunity to help them make choices which are going to benefit them in later life. By thinking about these key points, and what they might mean for the member in the context of NEST, we get a sense of how it might be possible to help consumers experience the best possible retirement outcomes.
Based on this evidence, we get a sense of the decision-making influences and the mindsets in which people will find themselves on the journey. We can’t guess when an individual will start thinking about retirement, but we do know that some people will be further through this journey than others. It’s vital, therefore, to encourage members to engage as early as possible.

Since people start thinking about retirement at different stages in their saving, we need to be flexible and provide the level of information and detail that they feel comfortable with.

How we applied it

Together, our research suggests that members need some guidance in order to make appropriate choices about their retirement. They are likely to be seeking information more actively than at the other end of their savings careers and it seems that the majority of members will overcome the inertia they are likely to have displayed at earlier stages.

In this context, our prototype tool tested well because of the simplicity of the options it presented, the product comparison approach taken to the quotes from our annuity panel and the fact that NEST was presenting these options as an ‘honest broker’ rather than seeking to profit from the products being presented. Equally, they seemed comfortable with our choice not to default them into a retirement option, instead encouraging them to take an appropriate decision. This level of choice was only possible because NEST selected a panel of retirement income providers.

The testing of the prototype has enabled us to refine the design of the tool and tailor the information to suit individuals who are at this transition stage. For instance, we had previously found that, among our target group as a whole, understanding of terms like ‘annuity’ was very low. People in the transition phase, by contrast, expected to see this term, having already carried out research or discussed their choices with a friend or family member. On the other hand some topics such as the relationship of NEST to the annuity providers required more explanation.

We’ll be launching our online tool soon, but ahead of that we wanted to share our progress so far with you and welcome any feedback you have.

Conclusion

Of course there is much more to learn.

Significant numbers of NEST members will not take a retirement income for some years, and until they do, the insights from our research can only be provisional. As that process starts, we will continue to learn from our members’ experiences.

In the meantime, NEST will continue to apply our existing research by responding to the opportunity and need created by pre-retirement, acknowledging the importance of social proofing and responding flexibly to the needs of different groups of consumers.

We have shared these principles to start a conversation. Through the NEST forum 2013, and our other work, we hope to learn more by cooperating with researchers and practitioners across the industry and beyond. Today, and in coming years, we welcome your contribution to that conversation.

Moment of truth examples

Receiving an ‘approaching retirement’ letter

At this point members are reflective about their futures. People want to understand options that they have and the processes they will need to engage with. At this point it can be useful to provide real life case studies and testimonies that can be tailored to the level of savings they have, with suggestions to top up potential in the closing years to accelerate final pay-out.

Researching options

Our research suggests that people will weigh up the value of their pot against the cost of professional advice. They will do some research themselves before seeking professional advice.

There are a variety of sources for research including Google searches, MoneySupermarket, MoneySavingExpert, providers and Gov.uk. Informal advice which they get from their peer group at this stage is vital in helping them formulate their views and make them feel empowered.

Family/adviser conference

If there is a ‘financially astute friend’ this is where he or she might come in. Talking through the issues with an adviser in a family conference can cause a sense of focus and is a key trigger point for decision making.

Decision and executing plan

NEST is not an annuity provider, but we are here to help individuals transition to a retirement income. Our research at this point suggests that what members require is both simplicity and reassurance at this decision point.