

# Introducing a Pensions Advice Allowance: consultation



Response from NEST

## About NEST

NEST was established in 2010, with a public service obligation to accept any employer wishing to use the scheme to meet their auto enrolment duties.

From a standing start NEST has grown into one of the key providers of defined contribution (DC) retirement savings provision in the UK, with millions of members already auto enrolled into the scheme. NEST is successfully fulfilling its public service obligation (PSO) of accepting any employer, creating an infrastructure and customer journey that's allowing the scheme to successfully enrol upwards of 1000 employers in a single day. In line with the original policy intent, NEST makes no charges to participating employers.

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 auto enrolment, 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 years old. The average earnings of NEST members are below the national average, and our members are more likely than the population as a whole to change jobs.

## Summary response

NEST welcomes the government's continued recognition that consumers will need greater access to advice and guidance to help them make the most of the choices open to them as a result of the pension freedoms. Research with NEST members, and groups fitting a similar profile, suggests there are multiple barriers to accessing advice, of which cost is one. Our members may also lack the confidence to access advice independently and, if they do access it, may find that advice difficult to understand and act on<sup>1</sup>. The ability to put £500 from a pension pot towards the cost of advice is likely to make advice feel more accessible to some consumers.

The cost of advice, even at £500, may be disproportionate to the size of some members' savings, and may not be required to support decision making where choices are relatively simple. We expect that guidance, accessed online or in person through services like Pension Wise, may be sufficient for many of our members and we'll signpost towards sources of advice should members wish to access it.

NEST does not currently experience demand from members to access their pots to pay for advice. We expect this is both a function of the characteristics of our membership and the fact that pot sizes of those reaching retirement are still relatively small, particularly in the light of the restrictions on NEST. However these restrictions, which mean members cannot currently consolidate other savings in NEST, are due to be lifted in April 2017.

NEST does not currently have the functionality in place to offer early access to pots to pay for advice. We recognise that when this policy is implemented it's possible some of our members will wish to access their pots for the purpose of funding advice, particularly where they have the bulk of their pension savings in other schemes and want to use their NEST pot for this purpose.

<sup>1</sup> NEST, *The future of retirement*, chapter 4 <https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/The-future-of-retirement.pdf>

However, NEST may determine that the cost of developing the functionality to enable this access is disproportionate to the number of members seeking to use it. Initial estimates suggest we'd need to spend a substantial amount to establish the functionality in the scheme, with additional spend applied to re-working scheme communications.

## Questions

1. How widely are the existing provisions for facilitated adviser charging used? The government welcomes evidence from pension providers and advisers on the types of products and transactions which use adviser charging.

NEST does not currently offer members the option to withdraw funds from their account to pay for advice.

7. The government invites comment on the proposed scope of the Pensions Advice Allowance

NEST agrees that the allowance should be limited to advice, not guidance, for the reasons set out in the consultation document.

9. How could the government maximise access to the Pensions Advice Allowance?

While NEST recognises that government will want to raise awareness of this new policy, we'd hope that any communications surrounding the advice allowance do not imply that formal, regulated advice should be accessed by everyone. There's a risk of member detriment if members are encouraged to spend money on advice that's disproportionate to the size of savings, or where guidance may have been more appropriate to support a relatively simple decision, such as a choice to cash in a small pot.

10. How much of the pension market would be likely to offer the Pensions Advice Allowance to their customers?

The NEST Trustee will need to consider this issue in the round in accordance with its duty of care to members.

13. The government welcomes views and evidence on any difficulties in offering the Pensions Advice Allowance presented by scheme rules or more generally in respect of members of occupational pension schemes.

Depending on how the legislation is implemented, giving effect to this policy may require a change to the NEST's constitutional documents the NEST order and rules<sup>2</sup>. NEST is different from other occupational pension schemes in that it has an order and rules rather than a trust deed and rules. This means that in the case of the NEST order, which is a statutory instrument, secondary legislation must be passed by Parliament in order for a change to be made. Other schemes can change their trust deed by a deed of amendment. This may not be a difficulty in itself but we are flagging here for information.

The NEST Trustee will need to consider this issue in the round in accordance with its duty of care to members.

<sup>2</sup> NEST, *Order and rules of the National Employment Savings Trust* <https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/NEST-Order-and-Rules.PDF.pdf>