



Department
for Work &
Pensions

NEST: Evolving for the Future

Government Response

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Executive summary

The National Employment Savings Trust (NEST), a trust based defined contribution pension scheme, was established in 2010 to support the introduction of automatic enrolment. Automatic enrolment into workplace pensions started in July 2012 with implementation by the very largest employers and its roll out ends in February 2018. By that time, the Government expects NEST will be one of the biggest pension schemes in the UK in terms of scheme members. NEST Corporation is the Trustee of the NEST pension scheme, and is accountable to Parliament. The trustee members are collectively responsible for running the scheme in the interests of its 4 million members and for promoting the purpose of the scheme, namely ‘to provide pensions and other benefits in relation to its members’¹.

Since the original policy framework for NEST was developed, there have been significant changes in the pensions landscape. The pension freedoms introduced by the Government in 2015 have enabled a greater choice and flexibility in how and when people use their defined contribution pension savings. Alongside this, attitudes towards pension saving are changing, in part due to the shift towards mass market defined contribution pension provision. More people are working flexibly in a more gradual transition to retirement.

For the pensions industry this means that new, innovative retirement solutions are needed that will meet consumers’ needs both whilst they are working and saving, and when they wish to access some or all of their savings.

On 7 July 2016, the Government published a Call for Evidence paper “*NEST: Evolving for the future*”. The Call for Evidence closed on 5 October 2016 and sought evidence and views from a wide range of stakeholders on:

- whether or not to allow NEST to provide additional decumulation services for its members; and
- whether or not there is a case for expanding the opportunities for individuals, employers and other schemes to access NEST’s services.

This response sets out the views gathered as result of the Call for Evidence, along with Government’s response.

Introduction

Chapter 1 sets out the policy background of NEST, alongside NEST’s current position. It describes how the pensions landscape has changed and why the Government wants to assess whether or not legislation should be amended to allow NEST to develop additional decumulation services and/or to extend access to the pension scheme.

¹ See article 3(2) of the National Employment Savings Trust Order 2010

Principles

Chapter 2 analyses the responses to the guiding principles. There was generally widespread agreement on the principles. One notable issue raised by respondents was that the principles should explicitly recognise the potential impact of NEST on the wider market. A new principle “Supporting Competition” has been added to guide our consideration of the issues.

Pensions Landscape

Chapter 3 sets out how the pensions landscape has changed since NEST was established in 2010. Respondents largely agreed that the landscape changes originally set out in the Call for Evidence were correct, but that it continues to evolve. The Lifetime ISA was seen as a factor that could have an impact on savings behaviour, and Master Trust Authorisation set out in the current Pensions Schemes Bill will further change the landscape. Respondents also referred to the 2017 Review of Automatic Enrolment the Government is conducting this year.

Decumulation services

Chapter 4 considers NEST’s ability to provide decumulation services for members. There is general consensus that NEST’s members should be able to access appropriate retirement products and NEST’s blueprint was viewed positively. Although there are some signs of industry innovation, there is little evidence of a product specifically suitable for those with smaller pension pots, including NEST members, becoming available to the mass market. However, pension providers and one consumer representative were of the view that the decumulation market needs more time to fully develop and NEST’s intervention at this point could be detrimental. Others considered that NEST’s entry would be a positive spur to innovation. The role of advice and guidance was often stated as important and some respondents argued that it is too early to assess consumer demand due to the current size of individual pension pots.

Extending access

Chapter 5 assesses the restrictions in place regarding access to NEST. Allowing NEST to permit contractual enrolment was seen by most contributors as a positive change for employers. Bulk transfers without the link to automatic enrolment received a mixed response with discussion focusing on the adequacy of the market in serving members with smaller pension pots. Likewise views on extending access to individuals attracted differing views on consumer need and the existing options available to savers.

Government Response

Chapter 6 sets out the Government's response to the evidence received.

Government considers that it is essential that NEST members should have access to appropriate, low cost retirement products that support the aims of automatic enrolment. However, we recognise that the retirement market is very young and we hope that development of new products will progress at pace now that the freedom and choice reforms are well established. NEST members currently have very small pot sizes although that will change rapidly once minimum contribution rates increase.

Given the reassurance we received from the industry their intention to innovate, Government does not propose that NEST should begin to offer additional decumulation services at this time. However, we will continue to monitor the market, including reviewing the conclusions of the FCA's Retirement Outcomes Review later this year. If it is clear that the market is not developing in line with the needs of NEST members, we will consider the most appropriate response, including enabling NEST to offer a fuller range of solutions in the future. In addition, we think it appropriate, where in the interests of its members, that NEST continues to develop the ideas behind its retirement blueprint, including working with partners in industry to drive innovation in the area.

The Government will take forward proposals to allow employers to contractually enrol workers into NEST. Other changes to extend access, including opening the scheme to individuals and transfers from other schemes without a link to automatic enrolment will not be pursued at this time.

1 Introduction

Policy background

1. The National Employment Savings Trust (NEST) was established in 2010 to support the introduction of automatic enrolment into workplace pensions. The NEST pension scheme is run as a Trust by NEST Corporation with the purpose of providing pensions and other benefits in relation to its members. There are no shareholders or owners and the scheme is run for the benefit of its members. To keep NEST focussed on ensuring that employers could meet the new automatic enrolment duties, a unique set of requirements was imposed on the scheme.
 - A public service obligation (PSO) – a requirement to accept all eligible individuals automatically enrolled by their employer, even if the charge income derived from the member does not cover the cost of administering their account
 - Focus on a target market – a limit on annual contributions to a member's account, and restrictions on transfers into and out of the scheme
 - Good value for members – a charge level comparable to those available to high earners and those working for large employers
 - Self-financing in the long term
 - Simplicity - access only through automatic enrolment (except in very limited circumstances) and not able to offer other products
2. Automatic enrolment into workplace pensions started in July 2012 with implementation by the very largest employers and its roll out ends in February 2018. It is estimated that 11 million workers will be in the eligible target group² for automatic enrolment and that around 10 million of these workers will be newly saving or saving more as a result of the reforms³. Reform on this scale is transforming the UK's long-term savings culture.

² The eligible target group is defined as workers who are aged between 22 and State Pension age, earning over £10,000 in at least one job and either (i) not currently saving in a workplace pension scheme; or (ii) saving in a workplace pension scheme where the employer contributions are less than 3% of the worker's salary, and is not a defined benefit scheme.

³ DWP (2016) Workplace pensions: Update of analysis on Automatic Enrolment 2016
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/560356/workplace-pensions-update-analysis-auto-enrolment-2016.pdf

Current Position

3. At the end of January 2016, over 7.3 million employees had been automatically enrolled into a workplace pension by more than 401,000⁴ employers. So far, opt out rates by individuals have been far lower than originally expected, and of those employers that had staged up to the end of August 2015, overall 9 per cent of workers had opted out⁵. Even using cautious assumptions about the number of people who might opt out of pension saving, DWP analysis suggests that automatic enrolment will lead to much higher participation in workplace pension saving⁶. This will result in an estimated £17billion extra workplace pension saving per year by 2019/2020⁷.
4. NEST successfully operates as a trustee-governed automatic enrolment qualifying scheme. NEST currently has over 4.4 million members and over 296,000 participating employers. We expect NEST will continue to grow and become one of the biggest pension schemes in the UK in terms of members.
5. Legislation was amended in 2015 to remove the annual contribution limit and the restrictions on transfers into and out of NEST from April 2017. Removing these two restrictions provided assurance to small and micro employers that were about to start automatic enrolment that NEST was a suitable scheme for all their workers. The removal of the restrictions will enable NEST members to consolidate their pension savings in the scheme or in another scheme. It will also enable employers who are using NEST for automatic enrolment to consider consolidating their existing or legacy schemes in NEST. NEST have announced that members will not be charged for transfers into the scheme, but have retained the discretion to charge employers for bulk transfers.
6. Attitudes towards pensions and retirement are also changing. People now have aspirations to work flexibly in later life and they increasingly see retirement as a period of transition, rather than a sudden event. In April 2015, as part of its commitment to provide greater freedom and choice for people at every stage of their lives, the Government introduced changes to how people could access their pension savings. These reforms have given people with DC pension pots greater freedom and choice over when and how they access their savings. The pension freedoms mean that there is no longer such a clear dividing line between

⁴ The Pensions Regulator (December 2016) Automatic Enrolment Declaration of Compliance Report. As at end January 2017: <http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-declaration-of-compliance-monthly-report.pdf>

⁵ DWP (2016) Employers' Pension Provision survey 2015.

<https://www.gov.uk/government/publications/employers-pension-provision-survey-2015>

⁶ DWP (2015) Automatic Enrolment evaluation report 2015

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/477176/rr909-automatic-enrolment-evaluation-2015.pdf

⁷ ⁸ DWP (2016) Workplace pensions: Update of analysis on Automatic Enrolment 2016

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/560356/workplace-pensions-update-analysis-auto-enrolment-2016.pdf

accumulation and decumulation of retirement savings with people able to access their DC pension pots from the age of 55 whilst having the flexibility to continue working and saving. This means pensions can be much more flexible and adaptable to individual needs.

7. In response to the Government's reforms, NEST published a consultation, '*The Future of retirement*', in November 2014. In June 2015, NEST's response to that consultation set out a proposed blueprint for a core retirement solution strategy that could meet the needs of mass market scheme members like those saving in a NEST pension scheme. This reflected three themes that respondents to NEST's consultation agreed should be central tenets of product development for large groups of savers in the future:

- The need for some form of core strategy for delivering retirement income solutions for large groups of savers – particularly those who are unwilling or unable to pay for on going financial advice
- The need for flexibility in the design of approaches
- The need to manage the risks of people exhausting their savings because they lived longer than they expected

The July 2016 Call for Evidence

8. The Government wanted to understand whether it remained relevant to continue to impose the remaining constraints on NEST, once automatic enrolment has been fully rolled out, or whether the NEST Trustee should be able to offer the full range of features open to other occupational pension schemes. Specifically the questions focussed on:

- whether or not to allow NEST to provide more flexible decumulation services for its members
- whether or not there is a case for expanding the opportunities for individuals, employers and other schemes to access NEST's services

9. We received 68 written responses from a range of providers, wider industry, professional bodies, employers, consumer groups and individuals. We also received responses from the NEST Trustee, the NEST Members' Panel and the NEST Employers' Panel. Alongside this we conducted a series of detailed discussions with stakeholders in order to further understand their views and probe for evidence. The Government is grateful to all respondents and would like to thank all those who took the time to respond or discuss the issue with us.

10. The following chapters set out the key findings from the Department's Call for Evidence and the Government's response.

2 Principles

1. The Call for Evidence set out a series of principles that Government proposed to consider when weighing up proposals for change to NEST's policy framework.
2. We asked whether these were the right principles to guide our analysis. Most respondents agreed that the principles were broadly correct although there was disagreement over the specifics of some definitions. The main suggestion that arose was that the principles did not factor in the wider impact of NEST's future strategy on the pensions industry as a whole. After assessing the responses we have now added an additional principle of '**Supporting competition**'.
3. We have also updated the principles to reflect feedback as follows:

Inclusiveness - focus on the benefits to NEST's target market – low to moderate earners, regardless of their total pension wealth

Consumer focused - ensure employers and consumers have choice and control, and that NEST is able to meet the needs and aspirations of its members

Value for money - NEST remains a viable, low-cost, well run scheme that is stable over the long term

Sustainability enable NEST to keep pace with the rest of industry, offering members comprehensive retirement saving solutions that helps to lock in confidence to the broader pension system

Supporting competition - for Government to assess and ensure NEST has an overall positive impact on a competitive pensions market for savers, promoting innovation, choice and value

4. **Inclusiveness:** Providing suitable retirement outcomes for NEST's members and its target market regardless of pension wealth, was seen as beneficial and a sensible principle. Some respondents stated that it was important to recognise that inclusiveness should not exclude consumers who want to use NEST who are not in their target market. Others saw inclusiveness as ensuring that the primary

goal of NEST's future strategy should be to focus on its target market of low to medium earners at smaller employers.

5. **Consumer Focused:** Being able to meet the needs of the consumer in a simple, understandable manner was seen as a key feature. There was agreement that the principle needed to address the long term interests of members, but that further engagement with consumers was needed to help them better understand their needs and options in the world of freedom and choice.
6. **Value for Money:** This was seen as fundamental, although there was discussion on how it should be defined. There was agreement that this principle is inherently about providing the consumer with good quality outcomes, although this could be achieved either by providing value through the appropriate cost level to deliver intended outcomes; or being able to deliver a product at a low cost to consumers that would otherwise not be served by the market.
7. **Sustainability:** Most respondents agreed that NEST should strive to be sustainable. Some stated that sustainability should encompass NEST developing a self-sustaining business model before entering the decumulation market. Others considered that in order for NEST to become financially independent, and continue to be seen as a viable option by members and employers, it should be able to offer products at retirement. Some respondents considered that NEST should not aim to 'keep pace with industry', as this would add to the expense of the scheme and would not necessarily be in the interests of members or the taxpayer.

3 A Changing Pensions Landscape

1. Since NEST was established in 2010, the pensions landscape has evolved. The industry has responded positively to these changes, in particular supporting the implementation of automatic enrolment. Both new entrants and some existing providers have demonstrated a willingness to supply workplace pensions to a more diverse portfolio of employers, in many cases through increased provision of multi-employer Master Trusts.
2. In April 2015 the pension freedoms were introduced, offering people greater freedom about how they access their pension savings and fund their retirement. This was a fundamental change in how people access their DC pensions. The freedoms have provided an opportunity for providers and pension schemes to develop new and innovative approaches that better reflect how savers now experience work and retirement.
3. Consumer attitudes towards pension saving and retirement have changed with fewer people seeing retirement as a cliff edge. Instead people are viewing it as a period of flexible transition, with flexible drawdown offering new opportunities to plan and phase their retirement. There are more people aged 50 and over in employment than ever before⁸.

*“1.1 million people are now both working past 60 and simultaneously receiving pension income, up by 0.5 million (and almost doubling) since 2004/05. This data covers the decade immediately before pension freedoms were introduced, so the recent rise is likely to be even sharper than this”.*⁹ **CAB**

4. Respondents to the Call for Evidence observed that the landscape is continuing to evolve. For example, some pointed to the development of hybrid products that aim to combine the guarantees of annuities with the flexibility of drawdown.
5. There was a widespread view that the introduction of the Lifetime ISA (LISA) from April 2017 could have an impact on savings behaviour if savers opted out of workplace pensions in favour of a LISA. The Government has been clear that the LISA is being offered as complementary to Automatic Enrolment, something that will be highlighted to individual consumers prior to opening a LISA.
6. Some respondents also mentioned the changing shape of the UK labour market with the growth of fixed term employment and self-employment, and suggested that the future policy framework for NEST should consider the implications of

⁸ LFS Q2 Analysis in Fuller Working Lives: A Partnership approach

⁹ Citizens Advice, [Life after pension choices](#), August 2016.

these changes to the labour market for those accumulating and decumulating assets. The Government recognises this and has commissioned an independent review on modern employment practices led by Matthew Taylor to consider this issue in more detail. The Government's Automatic Enrolment Review taking place this year, will also consider how these trends should be reflected in pensions policy.

7. Some respondents considered that it would not be appropriate at this point to make any changes to NEST's policy framework until the Automatic Enrolment Review has been carried out and its report published later in 2017. The Department for Work and Pensions will look at the existing coverage of the policy and consider the needs of those not currently benefiting from automatic enrolment. The Review will also look at whether the technical operation of the policy is appropriately targeted and working as intended. In addition, the Review will look at challenges around personal engagement with pension saving and seek to strengthen the evidence base around appropriate future contributions.

8. A number of respondents referred to the current Financial Conduct Authority (FCA) Retirement Outcomes Review, which is assessing how competition is developing in the retirement income market and will report later this year. Others pointed to the on-going developments originating from the Financial Advice Markets Review. There were also references to a number of other sources of evidence the Government could draw upon in future as the market matures and research and analysis develops.

4 Decumulation Services

1. The freedom and choice reforms in 2015 changed how people could access their defined contribution pension savings. The options available to consumers are:
 - taking the whole pot as a lump sum
 - taking a number of lump sums out of their pot
 - opting for flexible drawdown, where regular or ad hoc payments can be drawn
 - purchasing an annuity
 - a combination of the last three options
 - leave the pot until its needed
2. NEST members retiring today can:
 - access their full pot as cash
 - take a portion (or several lump sums, over time) of their pot as cash, keeping their accumulation pot open, and continuing to save¹⁰
 - transfer the cash equivalent of their pot to another pension scheme, subject to certain conditions.
 - purchase an annuity on the open market
3. The Government wanted to understand the potential opportunities and the risks of giving NEST the ability to offer more flexible decumulation services. The rest of this chapter summarises the responses we received.

NEST's blueprint

4. The majority of respondents stated that NEST members should have access to innovative, affordable products that fully engage with the freedom and choice reforms. Many respondents also recognised that it is important that NEST members are adequately served by the market when it comes to retirement and do not encounter barriers because they have saved with NEST.

"We are not opposed to this in principle. However, we see no immediate need for NEST to develop a complete suite of decumulation services. That said, we appreciate that NEST should be able offer at least some of the pension flexibility in retirement." **Standard Life**

¹⁰ https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/NEST-response-to-the-rules-consultation_2016.pdf

5. Some respondents agreed in principle that NEST's blueprint offered a good basis for an innovative product that could serve NEST members and others with similar characteristics. They agreed with the findings of NEST's *"Future of Retirement"* consultation and thought that NEST should be able to deliver decumulation services. Longevity protection and flexibility were two features that respondents highlighted as being particularly important to NEST's members. There was further awareness that NEST members were more likely to have smaller pots, be newer to pension saving and more reliant on the state pension. As a result many may be less equipped to navigate their retirement choices. They saw the simple set up and limited range of guidance decisions as attractive features of the blueprint.

Supply Side

6. A number of respondents from across the pension provider landscape and from consumer representative groups made the case that the post freedom and choice market is in its infancy. After meeting the basic requirements for pension freedoms, the industry is now focusing on developing innovative products for the mass market. Some also observed that suitable products are already available for NEST members and those with smaller pots, such as low cost annuities and drawdown products which can be accessed by transferring out of NEST.
7. Some respondents proposed that NEST could arrange a partnership with a third party or a panel of annuity and drawdown providers, similar to NEST's previous annuity panel, as an alternative way to serve their members without providing products directly.

"There are many product providers able to offer solutions, which are still evolving and adapting to changing consumer behaviour" **Legal and General**

8. Other respondents felt that there is little innovation likely to result in suitable products for NEST members, noting that there are currently no hybrid products marketed to low to moderate pot size. As savers with smaller pot sizes are typically less profitable, concern was expressed that the market would not prioritise these groups. Some believed it was unfair to let those with smaller pots be exposed to an unsuitable market, with the only products providing key features at a high cost.

"Other pension providers do not currently offer the sort of decumulation products that many people require or insist that the business is written through an adviser, which may not be commercially viable" **The Pension Advisory Service**

Demand

9. A number of respondents considered whether there was demand for these products, given the size of these pots. It was stated that given the current pot size of most NEST members, products utilising the full range of pension freedoms may not be necessary nor financially viable at this time. Some made the case that cash would be suitable for most NEST members until pot sizes were larger in value, potentially in a timeframe of 5-10 years. However, NEST submitted consumer research evidence that indicates demand for income solutions for savers with very small pots. The table below shows how people are currently accessing their savings.

Policies accessed for the first time between January and March 2016				
Pot size	Annuities	Starting Drawdown	Taking first UFPLS	Full Cash Withdrawal
Less than £10,000	5%	12%	1%	82%
£10,000 - £29,000	17%	31%	3%	49%
£30,000 - £49,000	25%	47%	5%	23%
£50,000 - £99,000	27%	57%	5%	10%
£100,000 +	17%	75%	5%	3%

Source: FCA data bulletin issue 7: <https://www.fca.org.uk/publications/data/data-bulletin-issue-7>

“Its [NEST] fund sizes are going to remain small for a number of years, and its members will more likely take their entire funds as cash. We estimate that it will take at least 10 years for the funds to reach a size where members would want retirement products.” **Now Pensions**

10. Alternatively, some respondents thought that leaving savers with smaller pots to take cash was not a suitable proposition. Evidence¹¹ was presented that certain groups of savers, such as those with no Defined Benefit pension savings, and moderate Defined Contribution pots are at particular risk from making poor decisions. The case was made that they could find it difficult to navigate their retirement options faced with complex decisions about withdrawal rates, investment growth and longevity and a highly differentiated market.

11. Having a more straight forward route into a flexible, guided product such as NEST’s blueprint was seen by some respondents as a safe way for NEST

¹¹ 11 English Longitudinal Study of Ageing, Wave 5

members to access their pension. Others went further and stated that savers would benefit from such products becoming a 'default' arrangement that can be opted out of.

"While "Freedom and Choice" can be of great benefit to 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". **NEST Members' Panel**

12. Those employers and employer representatives that responded were generally supportive of allowing NEST to offer a product in decumulation due to the increase in choice. Some felt it would also minimise the risk of dissatisfied employees who are unlikely to have been aware that NEST cannot offer a flexible drawdown retirement option. This could result in barriers to them finding a suitable retirement product and an increased propensity to cash out their savings.

"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." **NEST Employers' Panel**

13. Others felt that it was too early to make a decision on whether NEST needs to offer additional decumulation services. They stated that the Government should review the market at a later date when there is a more complete picture of how providers have responded to freedom and choice. It will then be easier for Government to assess whether NEST's members are adequately served and if there is a market failure.

Role of advice and Guidance

14. A number of respondents emphasised the importance of advice, guidance and shopping around in helping NEST members to achieve good retirement outcomes. Some respondents predicted that the rise of robo-advice would provide low cost online advice alongside further guidance to increase engagement. There was also interest in how the Financial Advice Market Review is looking to address gaps in provision of advice. However, the NEST Trustee said that it wants NEST members to engage with the broad set of choices available. It feared that NEST members will lack the confidence to shop around, and advice may be unaffordable, a view shared by some other consumer groups.
15. Some respondents considered that introducing a strong governance model, such as would be in place with products overseen by the NEST Trustee, would reduce the need for expensive financial advice. The strong governance model and cohort approach of a trust-based scheme would enable individuals to receive suitable, tailored retirement income products they would not be able to access without significant costs or regular financial advice.

“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. Governed products currently in the market focus on the governance of the investment decisions within funds. NEST proposes to look at using a similar model at retirement and reduce the need for advice by helping cohorts of members set and monitor access to sustainable levels of income.” **NEST**

16. The role of advice and guidance, alongside engagement of pensions is an issue that is currently under review by Government through its consultation on plans to create a single financial guidance body providing guidance and information on money, debt and pensions. The 2017 Automatic Enrolment Review is also looking at the challenges around personal engagement with pension saving. .

“Access to regulated financial advice is hard to come by due to the relatively small number of advisers in the market and is prohibitively expensive for many, especially those with smaller pots. It is therefore unlikely that any policy solution based on financial advice would succeed.” **TUC**

Impact on the market

17. Respondents discussed a range of impacts NEST could have on the retirement, life and investment markets. Some suggested that by encouraging people to keep their assets in their pension for longer, NEST could have a positive impact on the market, as well as provide a new stream of customers wanting later life income protection. In the retirement market, it was argued that NEST could prompt market change, as it did in accumulation, by leading a drive towards good practice and value.

“It is not appropriate to wait indefinitely for the market to take action – extending NEST’s remit may well be the kick-start that is needed” **Age UK**

18. Others were concerned about the potential distortionary effects that NEST could have on the market and thought that this could have a negative impact on consumer choice and value. One key concern expressed by a number of respondents was that if NEST provided retirement products, this could unduly distort competition and stifle innovation in an emerging area. There were additional concerns that the tax-payer funding NEST receives could allow it to develop a service that others could not compete with. Some providers felt that this would be an over extension of NEST’s role, which should be focused on supporting accumulation of savings through automatic enrolment, and that it would be inconsistent with the terms of the European Commission’s state aid decision.

“Particular attention should be given to the potential for NEST to hinder the development of new products. The scope for other businesses to develop new services that could target those who currently use NEST may be heavily affected by NEST being able to provide flexible draw down services.” **Which?**

19. Finally, some respondents also urged caution due to the costs associated with financing the development and delivery of a new retirement product, and questioned whether it would be commercially viable. Many respondents stated there was a potential for much higher costs in a retirement product due to the increased engagement with consumers, regulatory requirements and administration costs.

5 Extending Access

Introduction

1. Individuals can currently join NEST in the following ways:
 - By being automatically enrolled by an employer as an eligible jobholder or by opting in as an entitled worker or non-eligible job holder – where the employer is using NEST
 - By being self-employed
 - As a result of a pension sharing order
 - From April 2017, if they are deferred members of schemes transferred to NEST as part of a bulk transfer by an employer using NEST for automatic enrolment, with or without consent
2. There are still some restrictions on the ways in which employers, individuals and other schemes can join NEST. This is mainly in the context of use of NEST outside the parameters of automatic enrolment. The following chapter discusses the arguments presented from the responses.

Responses

Contractual Enrolment

3. Some employers use contractual enrolment to obtain consent to deduct pension contributions. An employer that uses contractual enrolment to put its entire workforce, some of whom may not be eligible for automatic enrolment, into a workplace pension can not currently use NEST for all its employees. Employers may not be aware of this restriction. There was an overall consensus from respondents that NEST's legislative framework should be adapted to allow employers to use it for contractual enrolment. Respondents felt it was important for employers to have a simple and easy way to meet their automatic enrolment duties, and that making this change would be a sensible simplification.
4. Other proposals to extend access received mixed views, centred on whether or not there was a need to provide access to NEST beyond automatic enrolment.

Bulk transfers

5. Respondents provided varying responses on whether NEST should be able to accept bulk transfers without consent as a means of employees joining the scheme where the employer is not using NEST for automatic enrolment. The main argument against this was that there is already a highly competitive market

for bulk transfers that meet the needs of smaller schemes (both open and closed) that may wish to consider consolidation.

6. Some respondents had concerns about NEST being allowed to accept such bulk transfers because, in their view, there is no current market failure. It was argued that there is already a highly competitive market for bulk transfers, including for smaller schemes looking to consolidate. Some felt this market would likely offer better value for members than NEST. We also received evidence that some schemes may struggle to access this market. In addition, a small number of respondents highlighted the potential benefits of NEST consolidating struggling schemes that were not attractive to the market.

“The ABI does not believe that a strong enough case for bulk transfers into NEST has been made – this would not necessarily be in line with the target market and would break the crucial employment link with NEST. This change should only be considered if there were a market failure” ABI

Supporting the Freedom and Choice Agenda

7. Trustees may require their members to exit the scheme at retirement and seek a retirement solution on the open market. If NEST developed retirement products for its members, it is likely that these would be suitable for some members of other schemes.
8. Some respondents thought that NEST should not be able to offer products to other consumers, at the point of retirement. They argued that as there is currently no clear evidence of a market failure this could distort a market that is already functioning. Others argued that trustees of schemes practically unable to provide retirement products should be able to transfer some or all members into NEST as they approach retirement, increasing security in the retirement income their savings will deliver.

Individuals

9. Respondents considered whether NEST should be able to serve individuals who may want to save into a pension, but struggle to get access to one, thus helping maximise consumer choice. Some respondents saw this as a clear example of NEST operating outside its original purpose highlighting that individuals already have access to a wide range of personal pensions and there is no obvious market failure. Some respondents also argued that NEST would have to become regulated under the Financial Conduct Authority rules, which would further shift it way from its original remit as a workplace scheme.
10. Others saw this as an opportunity to promote saving for some groups not covered by automatic enrolment with minimal impact on the existing industry, focused on

higher wealth individuals. NEST could increase consumer choice and provide these groups with a high quality and good value product.

“There is no evidence of any supply-side failure. Private providers offer savings products for individuals in all scenarios.” **Aviva**

6 Government Response

Decumulation Services

1. Given the reassurance we received from the industry regarding their intention to innovate, Government does not propose that NEST should begin to offer additional decumulation options at this time. However, given the significant lead-in time to enable retirement products to be developed and launched, the Government will continue to keep NEST's role in offering decumulation products under active review in light of market developments. We will continue to monitor the market, including reviewing the conclusions of the FCA's Retirement Outcomes Review later this year. If it is clear that the market is not developing in line with the needs of NEST members, we will consider enabling NEST to offer a fuller range of solutions. In addition, we think it appropriate, where in the interests of its members, that NEST continues to develop the ideas behind its retirement blueprint, including working with partners in industry to drive innovation in the area.
2. More and more people will be relying on their DC pension pots to fund their retirement. Government considers that it is essential that this group, which will include many NEST members, should have access to appropriate, low cost retirement products that support the aims of automatic enrolment. Trustees, including NEST Corporation, also have responsibilities to support their members to navigate these decisions and access their pension benefits.
3. Evidence is still emerging about what products will be suitable for this group, but many believe that a combination of flexibility, a regular income and longevity protection are most likely to deliver good outcomes. Similarly, financial guidance and, for some, regulated financial advice are essential. However, people will need products that can provide a retirement income and reflect their ability and appetite to make complex decisions on a regular basis.
4. Whilst providers are introducing new products, we received limited evidence that suitable hybrid products aimed at the mass market were available or in development at this stage. However, we recognise that the retirement market post 'freedom and choice' is very young and has to date focused on meeting the immediate requirements of the freedom and choice reforms. We heard that development of new products would progress at pace now that the reforms are well established.
5. At this point, NEST members - and the majority of members in other automatic enrolment schemes - typically have relatively low balances in those schemes, and are likely to choose to access their pots as cash at retirement. It is likely therefore that it will be several years before there is meaningful demand from newly automatically enrolled members. This will change over

time, particularly as minimum contribution rates increase in April 2018 and April 2019. The review of automatic enrolment the Government is carrying out this year will report on the framework to inform decisions on future contributions beyond 2019.

6. We also recognise that NEST, due to its scale and financial support from the Government, can have significant impacts on the wider pensions market. These impacts can be positive, as has been the case in automatic enrolment, where NEST has highlighted new ways of engaging with small employers and members. We would want to be sure that if NEST were to offer additional decumulation services this would have similar positive impacts, and not stifle innovation and competition.
7. At the same time, Government believes it is crucial that NEST can offer the general range of products members and employers expect from a workplace pension scheme. It would be unfair if NEST members, many of whom may be saving for the first time under automatic enrolment, do not have access to appropriate services. As employers and members expectations change, NEST will need to evolve too.
8. In preparation for the growth in consumer demand, we would hope to see a range of innovative new low cost decumulation products brought to market that provide an appropriate blend of simplicity, security and flexibility. They should provide a retirement income for those low to moderate income savers who are newly saving or saving more as a result of the introduction of automatic enrolment.

Opening up Access

9. The responses Government received to the question asked about opening up access to the scheme were mixed, with some stakeholders arguing that this could have significant benefits, whilst others questioned the need for change and the potential impact on the market. There was, however, broad support for allowing contractual enrolment by employers already using NEST, with no responses raising specific objections.
10. The Government will proceed to allow employers to contractually enrol workers into NEST. This is a technical change that will remove a source of confusion, administrative burden and non-compliance for employers already using NEST to meet their automatic enrolment duties.
11. Government does not intend to proceed at this time with a general easing of restrictions on bulk transfers without consent into NEST, where an employer is not using the scheme for automatic enrolment purposes.

12. NEST was established to support the introduction of automatic enrolment into workplace pensions. Whilst views were mixed, at this time we do not propose that NEST extends access to individuals without an employer link, but will keep this under review.

Next Steps

13. We intend to bring forward legislation to amend the NEST Order and allow contractual enrolment into the scheme. We will consult on the amendments later this year

14. NEST will continue to develop its retirement proposition to members, within the existing legislative framework. This includes offering guidance to members, offering benefits in the form of lump sums, and exploring potential links with providers of retirement products.

15. Government will keep the issues raised in this Call for Evidence under review, and welcomes further discussions with stakeholders as new evidence emerges.

Annex A: List of Respondents

Alliance Bernstein	Institute and Faculty of	Pensions Playpen
Association of British	Actuaries	Pensions Policy
Insurers	The Investment	Institute
Association of	Association response	The People's Pension
Consulting Actuaries	Investment and Life	Redington
Aegon	Assurance Group	Retirement Advantage
Age UK	Institute of Directors	Royal London
APG	JELF Employee	Royal Mencap Society
Aquila Heywood	Benefits	Salvus Master Trust
ARC benefits	JRP Group plc	Scottish Widows
Arun Muralidhar	Kingfisher	ShareAction
Aviva	K Kelleher	SimplyBiz Group
Blackrock	Simon Lake	Society of Pension
David Blake	The Law Society of	Professionals
Capita Employee	Scotland	Standard Life
Benefits	Legal & General	State Street Global
Capital Group	LV=	Advisors
Cardano	Mercer	Stepchange
Lawrence Churchill	Meredith Gibson	Tax Incentivised
Citigroup Pensions	Advisory Ltd	Savings Association
Trustees Limited	Miguel Curto	True Potential LLP
Citizens Advice	NEST Trustee	Trade Union Congress
Creative Benefits	NEST Members' Panel	UBS Asset
Group	NEST Employers'	Management
Rachel Cude	Panel	David Pitt-Watson
Fidelity	Newton Investment	Which
Financial Inclusion	Management	Whitbread Group plc
Centre	Nico Aspinall Limited	Ania Zalewska
Hargreaves Lansdown	NOW Pensions	
The Institute of	Nucleus	
Chartered Accountants	The Pensions Advisory	
in England and Wales	Service	