Department
for Work &
Pensions

NEST: Evolving for the Future

Fairness, simplicity and confidence

A call for evidence

7 July 2016

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Foreword by the Minister of State for Pensions

Automatic enrolment is working. Already around six million people have been automatically enrolled; by 2018, more than nine million people will be newly saving or saving more into a workplace pension. The UK is starting to rebuild its savings culture for the future.

NEST continues to be critical to ensuring that automatic enrolment is introduced effectively. It has helped to advance significant change in the way pensions are delivered and communicated, and ensures that every employer in the UK with duties has access to a suitable scheme. By 2018, NEST will be one of the biggest pension schemes in the UK.

But it’s too early to say mission accomplished. For many, being automatically enrolled is just the start of a life time journey.

The pension freedoms introduced by the Government last year increased options as to what people can do with their Defined Contribution (DC) pension pots. People now have much greater choice about when and how they use their pension savings. Retirement should be a process, not a sudden event. Providers need to engage people with financial planning, and develop products that will better suit the changing nature of retirement, that don’t just provide low-cost flexible options for the few but offers solutions for the many, regardless of their total pension wealth.

Driven by automatic enrolment, we are moving into an era of mass-market DC pension provision. The number of people saving into large DC schemes has more than quadrupled since 2009, and consolidation of schemes is likely to become more prevalent in the next few years. New governance requirements and charge controls are protecting members and will ensure that schemes are well run and provide value for money. Employers will be attracted to those schemes that provide the best value for money for their workers.

To me, pensions are all about people. It is people at the end of the day that need to live on a pension. The future is about helping make pensions work better for everyone while they are working, earning, saving and when they want to access some or all of those savings.

This is why I think the time is right to consider how NEST might evolve to respond to wider pension reforms. NEST must continue to be a good quality, viable scheme that can meet the needs and aspirations of its members throughout their lives.

I look forward to views and evidence submitted in response to this call for evidence.

The Baroness Altmann C.B.E.

Executive Summary

The National Employment Savings Trust (NEST) was established in 2010 with a primary purpose to support the introduction of automatic enrolment by addressing a supply-side market failure. The roll out of automatic enrolment finishes in February 2018 by which point we expect NEST will be one of the biggest pension schemes in the UK.

NEST is subject to the same legal requirements as other trust-based, defined contribution (DC) arrangements. However, to ensure all employers had access to a low-cost, quality scheme to meet their automatic enrolment duties, a unique set of requirements was imposed on the scheme. For example, a public service obligation (PSO) to accept all individuals automatically enrolled by their employer, and a focus on a target market of smaller employers and low to medium earners – with a limit on annual contributions to a member's account, and restrictions on transfers into and out of the scheme.

Legislation was amended in 2015 to remove the annual contribution limit and restrictions on transfers into and out of NEST from April 2017. This was an important step in looking to the future, clarifying when NEST would be able to offer similar services as other providers, enabling it to serve the needs of its members and participating employers better.

However, since 2010 the pensions landscape has continued to evolve. The gradual move away from defined benefit (DB) provision continues, millions of savers are being automatically enrolled mostly into DC workplace pension schemes, and Government has made changes to how people can access their pension savings.

In addition, attitudes towards retirement are changing; rather than a sudden event, people are beginning to view it as a period of transition. Recent DWP research[1] explored people's attitudes to retirement and to working longer. This showed that: nearly half of respondents still want to be working between the ages of 65 and 70, and 39 per cent do not want to retire in the conventional manner but would prefer a period of part time work before fully retiring.

For the pensions industry as a whole, this means that new, innovative options and solutions are needed that are able to adapt to appeal to a mass market and suit consumers' needs, both while they are working and saving, and when they want to access some or all of their savings over time. The Government welcomes the positive response of the pensions industry to change, and recognises the important part that industry plays in ensuring credibility and confidence in transforming the UK's long-term savings culture. The reforms are intended to ensure that everyone,

[1] DWP (2015). Attitudes of the over 50s to Fuller Working Lives

including those with modest pot sizes, has freedom and choice to access their savings flexibly in a way that suits their needs and lifestyle.

However, legislation provides that NEST must be an automatic enrolment scheme and restricts the options its members - mostly low and moderate income savers - have in how they can access the savings they accumulate in NEST. This is because NEST's Order and Rules were written to reflect the legislation in 2010, which was prior to the introduction of the pension freedoms. NEST has been influential in the automatic enrolment marketplace, helping to drive up standards and best practice, and – as one of the biggest pension schemes in the UK – it needs to be able to respond to the Government's wider reforms, locking in confidence to the broader pension system.

As automatic enrolment starts to bed in, now is the right time to begin a discussion about what the next steps are in NEST's evolution. This call for evidence asks how it might adapt to meet the challenges and expectations of its members in the 21st century.

Chapter 1: sets out the background to NEST's policy framework, where it is today and a series of principles to consider in weighing up proposals for change to NEST's framework.

Chapter 2: explores how the pensions landscape has changed over the last decade, in particular:

- the market shift towards large, multi-employer, DC schemes alongside regulatory changes to ensure schemes are well run and provide value for money
- the impact of the new pension freedom reforms and how these are likely to stimulate change in both pension provision and consumer expectations in the future

Chapter 3: seeks evidence and views on a range of potential areas where Government might want to consider adapting NEST's policy framework to enable it to meet the needs and aspirations of pension savers in the future. This chapter looks specifically at:

- allowing NEST to provide decumulation services for its members
- whether there is a case for expanding the opportunities for individuals, employers and other schemes to access NEST's services

Chapter 4: summarises the consultation questions asked in this call for evidence and sets out the consultation process and procedures. The consultation closes on 28 September 2016. We will publish a summary of respondents' views and evidence, with our response within three months of the close of this call for evidence.

1 Introduction

Policy Background

1. The UK faces a significant challenge to provide income and security in retirement as we move into the 21st century. It is meeting this through:

   - reforms to the State Pension – simplification of the State Pension system to provide a solid foundation for individual saving
   - a duty on all employers to automatically enrol eligible workers into a workplace pension with the incentive to save reinforced by a mandatory employer contribution and tax relief from Government
   - reforms to how people can access their pension savings, giving people freedom and choice over when and how they want to access some or all of their savings.

2. The reforms to state and workplace pensions are designed to provide a sustainable basis for retirement incomes in the decades to come.

State Pension

3. The new State Pension was introduced on 6 April 2016. A key aim for the design of the new State Pension was to provide long term clarity for people on how much they can expect to receive in State Pension – for those newly entering the system, this would be over £8,000 a year, in today's terms when they reach State Pension age. The new State Pension system reduces complexity and will give everyone a clearer idea of the support they will receive from the State in later life. Importantly this will help people to better judge how much additional saving they will need to make to add to what they will receive from the State.

Automatic Enrolment

4. Automatic enrolment into workplace pensions started in July 2012 with the very largest employers, and its roll out ends – with new employers created since October 2012 – in February 2018. Around 10 million people are eligible, with 9 million people expected to be newly saving or saving more. Reform on this scale is transforming the UK's long-term savings culture.

5. At the end of May 2016, nearly 6.3 million employees had been automatically enrolled into a workplace pension by more than 143,000 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 out[2]. However, even under pessimistic assumptions about the number of people who might opt out of pension saving, DWP analysis suggested that automatic enrolment will lead to much higher participation in all workplace pensions than without the reforms[3]. This will result in an extra £14 to £16 billion[4] invested in pension saving each year once implementation is complete.

6. The Government always expected expansion in the market as a consequence of creating significant demand through automatic enrolment. The response by providers has driven significant changes to the market and in particular a recognition that building scale is a viable means of reducing the cost of supply. As a result, employers are benefitting from greater choice with good quality, low-cost automatic enrolment solutions available from a range of providers.

7. To protect automatically enrolled members from high and unfair charges, and to ensure Defined Contribution (DC) schemes are well run and providing value for money, the Government and Financial Conduct Authority (FCA) introduced in April 2015:

    - a charge cap of 0.75 per cent, or an equivalent combination charge, on member-borne charges for the default arrangements of qualifying schemes
    - minimum governance standards for workplace DC occupational schemes, including qualifying schemes
    - measures to strengthen the independent governance of relevant multi-employer occupational schemes including the requirement that there must be at least three trustees, the majority of whom are independent of the scheme's service provider
    - Independent Governance Committees to improve the governance of workplace personal pension schemes.

8. Additionally, from April 2016 a ban on active member discounts[5] (AMDs) and a ban on new commission arrangements came into force.

[2] DWP (2016) Employers' Pension Provision survey 2015. https://www.gov.uk/government/publications/employers-pension-provision-survey-2015

[3] 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

[4] DWP (2015) Workplace pensions: Update of analysis on Automatic Enrolment, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/460867/workplace-pensions-update-analysis-auto-enrolment.pdf

[5] An active member discount is said to be in place when a contributing member's funds under management face a lower charge than those funds otherwise would if the member were not contributing. Because members should not be penalised for leaving an employer by having to pay higher charges for their pension, AMDs were banned from schemes used for automatic enrolment with effect from 6 April 2016.

NEST's Role

9. The National Employment Savings Trust (NEST) was established to support the introduction of automatic enrolment. While employers do not have to use NEST to meet their automatic enrolment duty, NEST has a public service obligation (PSO) to admit any worker automatically enrolled by their employer, even if the cost of administering the member's account is greater than the revenue derived from member charges. NEST was necessary to ensure universal access to a workplace pension at acceptable cost to the member, with a focus on addressing a supply-side market failure, in particular for those who the pensions industry found it difficult to serve profitably:

- low to moderate earners
- smaller employers
- employers with a high labour-market churn

10. NEST is subject to the same legal requirements as other trust-based DC arrangements but, to keep NEST focused on the Government's primary aim of 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) to accept all 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 – with 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 – low-cost, delivered at nil-cost to taxpayers
- Simplicity – access only through automatic enrolment (except in very limited circumstances) and not able to offer other products

Pension Freedoms

11. 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. Supported by Pension Wise, a free, impartial guidance service, these reforms have given people with flexible benefits (DC and cash balance benefits) the freedom and choice over when and how they access their savings, subject to their marginal rate of tax.

12. The pension freedoms mean that the over 300,000 people who retire each year with DC pensions[6], now have greater choice over how they access their pension savings.

> "The Government is committed to ensuring that individuals have the freedom and choice to access their pension savings in a way that suits them best. We understand that some pension providers are still in the process of designing new drawdown products, and we will actively monitor the market as it develops, and hope that a strong and competitive market will emerge".
>
> *The Baroness Altmann CBE, Minister of State for Work and Pensions, July 2015*[7]

13. People saving into a pension can now access their savings more flexibly to suit their needs and lifestyle by:

- 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, or
- purchasing an annuity
- or a combination of the last three options

14. The pension freedoms mean that there is no longer such a clear divide between accumulation and decumulation of retirement savings, and pensions can be much more flexible and adaptable to individual needs. There is evidence to suggest that people value this choice and flexibility, and that industry is starting to develop products that offer this.

Current Position

15. Since July 2012, NEST has been successfully operating as a trustee-governed automatic enrolment qualifying scheme. NEST already has over 3.2 million members and over 125,000 participating employers. We expect NEST will continue to grow and become one of the biggest pension schemes in the UK.

16. The automatic enrolment programme has been a catalyst in the modernisation of the UK pensions industry for a mass market and NEST has played a key role in this. Its focus on a group previously underserved by other providers has been reflected in the development of its approach and its business strategy, including:

[6] Briefing note "Budget 2014: greater choice in pensions explained, (2014) , HMT, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/301563/Pensions_fact_sheet_v8.pdf

[7] Progress with automatic enrolment and pension reforms: Government and Financial Conduct Authority responses to the Committee's Fourth Report of Session 2014–15 (27 July 2015)

- an investment strategy specifically designed for automatic enrolment
- undertaking and sharing its research into the retirement saving needs of its target market to help other providers learn about and design suitable products for these customers
- a scheme vocabulary and approach to communications that is simple, free of jargon, and explains concepts in a manner that resonates with the target market

17. Legislation was amended in 2015 to remove the annual contribution limit and the restrictions on transfers into and out of NEST from April 2017. This was an important step in looking to the future for NEST. 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. It will also enable NEST members to consolidate their pension savings and will enable employers, who are using NEST for automatic enrolment, to consider consolidating their existing or legacy schemes in NEST. In lifting these two constraints, Government signalled that while it was critical that NEST focussed on getting people into saving during the roll out period for automatic enrolment, it was also important that NEST be able to innovate to serve the needs of its members in the future.

18. As the introduction of automatic enrolment comes to an end and the market settles into a new equilibrium, now is the right time to consider the next steps in NEST's evolution and how it might further adapt to meet the challenges and expectations of delivering pension savings that will meet the needs of its members.

Issues for Consideration

19. Getting people into saving is just the start. As it matures, NEST needs to continue to be a good and viable scheme that offers its members a comprehensive retirement savings solution. One important aspect of this is to look at evolutions in the market and memberships. This includes what other providers are able to offer in low-cost, high quality design and delivery for a mass market and changing savings behaviour.

20. For NEST to address these challenges, it may necessitate certain changes to NEST's policy framework. The rest of this document explores how pension provision, pension regulation and consumer attitudes are changing and seeks views and evidence on two areas:

    - enabling NEST to have more of a role to develop and offer decumulation services for its members

- whether there is a case for expanding the opportunities for individuals, employers and other schemes to access NEST's proposition

21. In undertaking this call for evidence, the Government recognises the unique status of NEST in the pensions market, and that its core business will remain serving those workers and employers that are in its target market.

22. To inform the debate, we have developed a series of principles to consider in weighing up proposals for change to NEST's policy framework.

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

Consultation Question

Do you agree these are the right principles to help Government weigh up proposals for changing NEST's policy framework?

23. This call for evidence seeks to inform Government's thinking on whether it continues to be relevant to impose the current constraints on NEST, once automatic enrolment has been rolled out to all employers by February 2018. Or if the legislative parameters – particularly those that inhibit NEST's Trustees from responding fully to the freedom and choice agenda on behalf of its members – should be relaxed.

24. The Government invites views and evidence from all interested parties including employers, pension providers, individuals and their representative groups.

2 A Changing Pension Landscape

Background

1. In 2005, the Pensions Commission proposed a package of reforms to both state and non-state pension provision[8]. In its first report, the Commission described how private pension provision had been in decline since the early 1980s, and how by 2003, 11.3 million people were not making any contributions to a private pension scheme. The Commission concluded that changes to the state pensions system would not be sufficient to provide an adequate pension income for individuals in the future and that increased private pension saving would be needed to avoid increases in pensioner poverty or unsustainable increases in taxation.

2. The Commission identified two main barriers to non-state pension saving:

    - demand side problems with barriers preventing individuals making rational savings decisions, including inertia, loss aversion and a lack of confidence in pension savings products, and
    - a supply side gap in the pensions market for those working for employers who were not well served by the existing pensions market, in particular low to moderate earners, those working for smaller firms, and employers with high staff turnover.

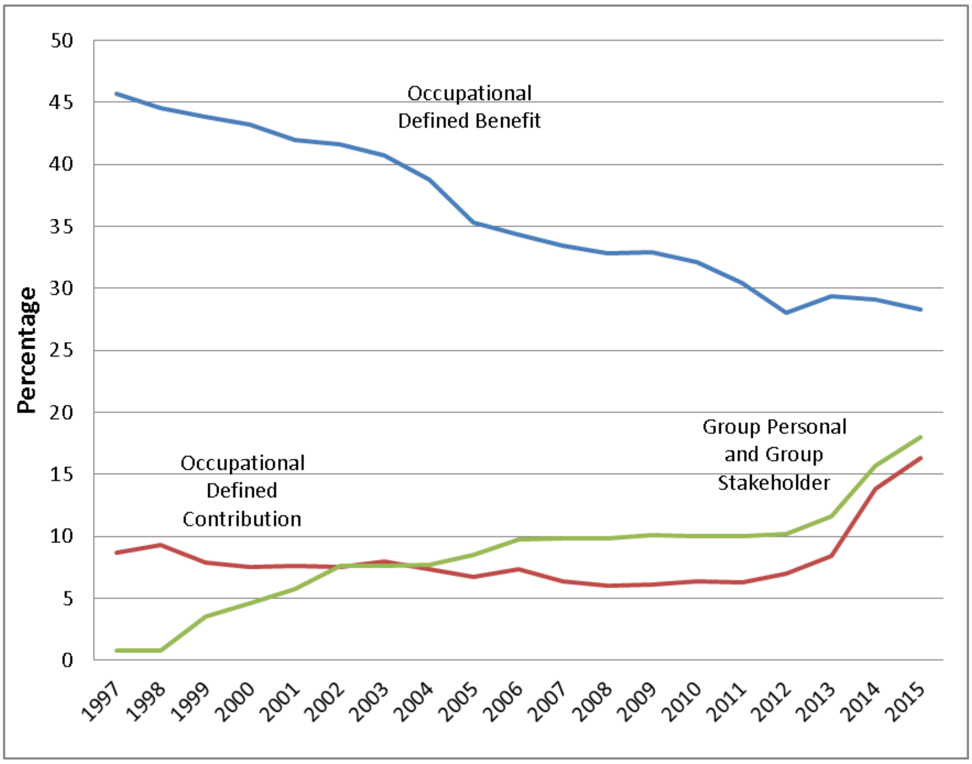
3. The Pensions Act 2008 introduced reforms to address these barriers:

    - a new duty on employers to automatically enrol all eligible workers into a workplace pension, intended to overcome barriers to saving by harnessing inertia. Rather than having to decide to save into a workplace pension, a worker has to make an active decision not to save. The incentive to save is reinforced by a mandatory minimum employer contribution and tax relief; and
    - a new pension scheme – now known as the National Employment Savings Trust (NEST) – established in 2010 to underpin the introduction of automatic enrolment and ensure that any employer is able to access a pension scheme, regardless of their size, or profitability of members.

4. Since the Pension Commission's report, participation in defined benefit (DB) schemes has continued to decline while participation in defined contribution (DC) and Group Personal Pension (GPP) schemes has increased. Figure 1 shows how workplace pension participation has changed over time.

[8] Pensions Commission, 2005, A New Pension Settlement for the Twenty-First Century The Second report of the Pensions Commission (ISBN 0 11 703602 1)

Figure 1: Proportion of employees with workplace pensions: by type of pension, 1997 to 2015



Impact of Automatic Enrolment

5. Automatic enrolment commenced in 2012 and the industry has responded positively – making automatic enrolment work through finding ways to develop and bring to market new propositions that serve a broad range of customers.

6. Both new entrants and some existing providers have demonstrated a willingness to supply workplace pensions to a more diverse portfolio of employers, including small and micro employers in many cases through the development and increasing use of multi-employer master trusts by employers.

7. Evidence from the Pensions Regulator's January 2016 DC trust annual statistics shows that schemes with fewer than 1,000 members are in decline, whilst membership of schemes with more than 5,000 members has increased by almost five-fold between 2009 and 2015.

8. It has been argued that, for automatic enrolment, larger schemes that enjoy the benefits of scale will be better able to meet the governance and low charge obligations. This is borne out in the Aon Defined Contribution Survey 2015[9] which asked schemes what structure they were expecting to have in five years' time. The survey found that most respondents who were expecting to change from an occupational trust-based scheme anticipated moving to a master trust, although

[9] http://images.respond.aonhewitt.com/Web/AonHewitt/%7B0b855205-a4bf-4088-b484-4d1916d469bc%7D_UK_DC_Survey_2015_FINAL.PDF

there were some sponsors of occupational trust-based schemes who expected to move to use a GPP. There were also some respondents with a GPP who wanted to move to a master trust arrangement.

> "70% of employers either support or see value in the Government encouraging employers with small defined contribution arrangements to merge into large multi-employer schemes"
>
> *The 2015/16 Association of Consulting Actuaries (ACA) Pension Trends Survey*[10]

9. However, evidence and examination of market trends set out in the DWP 2014 command paper *Better workplace pensions: further measures for savers*, suggested that medium and small sized schemes can also offer significant benefits from scale because they purchase services from large providers. It also found a significant amount of consolidation had already happened. In addition, the number of small schemes and members of those small schemes are likely to decrease. Given the complexity around setting up a new scheme, it is less likely that employers will establish new, small, individual trust-based schemes.

10. It is likely that regulatory requirements for minimum quality and charges standards mean that automatic enrolment continues to play a key role in driving consolidation. This is because, smaller schemes which cannot offer any funds or arrangements within the charge cap could not be used for automatic enrolment.

Pension Freedoms

11. The pension freedom reforms introduced in April 2015 were the most fundamental changes to how people access their DC pensions in nearly a century.

> "People who have worked hard and saved all their lives should have the freedom to decide what to do with their pension in retirement. April 6th marks the start of new freedom both for consumers and the industry and I'm excited about the range of new products pension providers will be developing over the next few months and years. Our freedoms offer a real opportunity for consumers to think hard about what they need during the course of their retirement and the pensions industry to respond to that need".
>
> *The Rt Hon George Osborne MP, Chancellor of the Exchequer*[11]

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[10] http://www.aca.org.uk/files/ACA_2015_-_16_Pension_trends_survey_-_final_report-3_February_2016-20160203084913.pdf
[14] https://www.fca.org.uk/static/documents/pension-freedoms-data-collection-exercise.pdf
[15] http://tpr.gov.uk/docs/flexible-pension-access-survey-2015.pdf

12. The principle behind pension freedoms is that people should be trusted with their own pension, and should have greater choice about how to access their pension savings and fund their retirement. Those who still want the security of an annuity are able to purchase one. Equally, those who want to access all of their pension savings at once can now take their pension pot as a lump sum. Those who do not want to purchase an annuity, or withdraw their money in one go, but would prefer to keep it invested and access it over time, are able to use uncrystallised funds pension lump sum payments[12] (UFPLS) or can purchase a flexi access drawdown product. Individuals can also opt for a combination of these options if they wish. Most eligible members have access to at least one flexible option from their current scheme or provider, with the majority being able to access UFPLS. Where this is not the case, individuals now have strengthened rights to transfer their pension savings to another scheme which offers flexible access if they wish.

13. Pension providers and schemes are not obliged to offer flexible access options to their members, but the new freedoms provide an opportunity for providers and pension schemes to develop new and innovative approaches that better reflect how savers experience work and retirement. There are some early signs that the pensions industry is responding, with many of the larger providers suggesting that they are intending to introduce flexible products in the near future. Both the FCA's pension freedoms data collection exercise and TPR's survey on Flexible Pension Access reported that providers were developing more options to make available as the reforms settle in.

14. However, the Pensions and Lifetime Savings Association[13] suggested that many are either waiting to develop products to be sure of demand or to see what products may be developed by other administrators, platforms and insurers.

[12] A UFPLS is a lump sum paid directly from uncrystallised funds
[13] http://www.plsa.co.uk/PolicyandResearch/DocumentLibrary/~/media/Policy/Documents/0564-Pension-Freedoms-no-more-normal-v3.pdf

"The reality is that to access pensions flexibly, most savers still need to transfer their DC savings to a retail drawdown product. We found limited evidence in our research of drawdown solutions designed for the mass market with low charges. However, there are welcome early signs of such products being developed and being made more widely available." *PLSA Jan 2016*[14]

"A quarter of schemes (24%) were planning to make decumulation options available in the future that were not currently available; three of the nine master trusts intended to make at least one decumulation option available that was not currently available; Drawdown and UFPLS were the options most likely to be introduced in the future". *TPR survey on Flexible Pension Access - Sept 2015*[15]

15. Although the industry is starting to develop products that offer greater choice and flexibility in response to these reforms, there may be barriers that prevent some members from accessing certain products. FCA Retirement Income Market Data (October to December 2015) found that 90 per cent of pension pots fully cashed out in the quarter were below £30,000, whereas 29 per cent of new drawdown policies entered and not fully withdrawn were below £30,000. As part of their better pensions campaign research Which?[16] highlighted that the costs of some drawdown products are typically geared to those with higher levels of pension wealth. In addition, some respondents to the *Independent Review of Retirement Income*[17] suggested that the mass market may fail to deliver high quality and good value products to consumers with smaller DC funds.

16. A further consideration is the impact of exit charges on members in contract based and trust-based schemes. The Government consultation concluded that these charges were presenting significant barriers to those who incurred them and had the potential to prohibit individuals from accessing their pension savings flexibly. In January 2016, the Government therefore announced that it would cap early exit fees to ensure that individuals can access the pension freedoms easily and at a reasonable cost.

Consumer Attitudes

17. Over the last decade there has been a shift in people's attitudes to pension saving and retirement and an increase in average retirement ages. Due to the increasing population of older people in the UK, and increasing employment rates of older workers, there are now more people aged 50 and over in employment

[14] ibid
[15] http://tpr.gov.uk/docs/flexible-pension-access-survey-2015.pdf
[16] http://press.which.co.uk/whichpressreleases/which-calls-for-additional-pension-reforms/
[17] http://www.pensions-institute.org/IRRIConsultation.pdf

than ever before, and the numbers are still increasing[18]. Today, the number of over 50s in employment is 9.7 million[19].

18. Research by the Chartered Institute of Personnel and Development (CIPD) in 2010[20] found that 60 per cent of over 55s intended to work beyond their State Pension age, with nearly a quarter intending to work part-time and 12 per cent intending to work full-time with their existing employer. Evidence gathered by DWP to support the *Fuller Working Lives – A Framework for Action*[21] publication in 2014 shows older people who are in work are more likely to work part-time or flexibly, or be self-employed.

19. Also in 2014, the European Commission reported[22] that 82 per cent of people in the UK were interested in the idea of taking a partial pension and working part-time, compared to two thirds of people in Europe supporting partial pension and part-time work. The International Longevity Centre, UK[23] found that nearly 4 in 10 of those aged 55 to 59 who are in work would prefer to reduce their working hours – 15 per cent of those would prefer shorter hours even if it means less pay.

20. Recent research[24] undertaken by NEST pointed to the importance of recognising retirement not as a one-off static event, and that retirement is frequently an on-going experience with a number of phases. This corresponds with DWP research in 2015 *Attitudes of the over 50s to Fuller Working Lives*[25] which found that:

- 39 per cent of workers over 50 said that working part time or flexible hours before stopping work altogether would be the best way to retire
- 17 per cent preferred a less demanding job before retiring altogether
- 48 per cent of those not currently retired and between 50 and 65 years old would like to still be in work either full time or part time between the ages of 65 and 70

21. The introduction of the pension freedoms has provided people with an opportunity to realise their aspiration to work and retire flexibly. Research

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[18] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/319948/fuller-working-lives-background-evidence.pdf
[19] ONS statistical bulletin 'UK Labour Market: June 2016' http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/february2016
[20] CIPD Employee Outlook: Focus on the ageing workforce – July 2010
[21] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/458861/fuller-working-lives.pdf
[22] Economist Intelligence Unit, 2014 - *Older but none the wiser – the implications of an aging workforce in the UK*
[23] The Missing Million: Illuminating the employment challenges of the over 50s http://www.ilcuk.org.uk/images/uploads/publication-pdfs/The_missing_millions_web.pdf
[24] http://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/The-future-of-retirement,pdf.pdf
[25] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/394642/attitudes-over-50s-fuller-working-lives.pdf

published by the Chartered Insurance Institute[26] found that 41 per cent of respondents said they expected to take advantage of the pension freedoms - with the most common intention (41%) being to use a combination of the options open to them.

22. The Institute and Faculty of Actuaries'[27] survey on the pension freedoms found awareness amongst respondents was high, with almost three-quarters being aware of the reforms. 44 per cent of those aware of the reforms viewed the pension freedoms as a good thing, whilst 29% considered the reforms a bad thing.

> "Two-fifths of savers aged 55 -70 wanted a pot of money they could access when needed" *PLSA Understanding Retirement, Wave 1*[28]
>
> "70% of members want an annuity style income – just don't call it an annuity" *Aon Defined Contribution DC survey*[29]

23. HM Revenue and Customs (HMRC) figures report[30] that 232,000 individuals have received a flexible payment since the pension freedoms were introduced in April 2015, with 516,000 payments made in total. The total value of all flexible payments reported to HMRC for this period was £4.4 billion[31].

> "On average (mean) 42% of scheme members with access to the withdrawal of a tax free lump sum had taken up this option. Lower proportions took UFPLS (20%), an annuity (15%) and drawdown (5%)."
>
> *TPR survey on Flexible Pension Access - Sept 2015*

24. NEST's research[32] found that where a DC pot is seen as a significant part of a person's overall wealth, they want to use this pot to provide a regular income rather than to draw cash from it in an ad hoc fashion. Further many people with pots under £50,000, and often with pots of lower values such as £20,000, favour some form of lifetime income, even when they see the relatively low level of income they might receive from a pot of this size.

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[26] The Chartered Insurance Institute, What Consumers Want, Pension Freedoms and a 'new normal' in retirement http://www.cii.co.uk/media/6763228/cii_pension_freedoms_research_report_feb2016.pdf
[27] Institute and Faculty of Actuaries (IFoA), Freedom and Choice: Public attitudes one year: onhttp://www.bing.com/search?q=ifoa+Freedom+and+Choice%3A+Public+attitudes+one+year+on&src=ie9tr
[28] http://www.plsa.co.uk/PolicyandResearch/DocumentLibrary/~/media/Policy/Documents/0564-Pension-Freedoms-no-more-normal-v3.pdf
[29] http://images.respond.aonhewitt.com/Web/AonHewitt/%7B0b855205-a4bf-4088-b484-4d1916d469bc%7D_UK_DC_Survey_2015_FINAL.PDF
[30] HMRC: Flexible Payments from Pensions, April 2016. HMRC figures only represent the taxable amount of the payment and do not include small pots payments or annuities.
[31] Ibid
[32] http://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/The-future-of-retirement,pdf.pdf

A New Landscape – means taking a different look at NEST

25. As the market continues to develop, it seems likely that there will be further consolidation within DC pensions.

26. The boundaries of retirement are becoming increasingly blurred and people are moving away from seeing retirement as a concluding chapter that starts at a single, fixed point in time. This means a move to more people working part-time and accessing some retirement income.

27. The pension freedoms have created a whole new landscape. This means we need to take a fresh look at whether or not the current framework for NEST means its Trustees can continue to provide the right offer for its members. There are a number of considerations including, whether the current framework accommodates the needs of a society with increasing life expectancy, the need for financial guidance and education, changing views towards work and retirement and differing levels of pension wealth.

28. We are also aware that the labour market has changed since the introduction of automatic enrolment, with more people in fluid employment circumstances than before. The 2017 Review of automatic enrolment will work with stakeholders and draw on the evidence to explore what more could be done to facilitate greater workplace pension saving for these individuals.

Consultation Question: Bearing in mind the principles set out on page 11:

Is there other evidence or factors about how the pensions landscape is changing that we should take into account in considering NEST's future policy framework?

3 Areas for Potential Change to NEST

Pension Freedoms

1. NEST has been set up as a trust-based pension scheme with the purpose of the trust being to provide pension 'benefits' to its members. NEST's original statutory framework allowed NEST to offer its members the following 'benefits' from age 55:

    - payment of a lump sum or the purchase of a lifetime annuity policy, or both, or
    - transfer of the cash equivalent of the member's pot to another pension scheme, subject to certain conditions.

2. In designing NEST, recognition was given to the existing rules on compulsory annuitisation. Given the target-market for NEST, it was unlikely NEST's members would build sufficient pots to take them above the threshold for compulsory purchase of an annuity, though a lifetime annuity was considered the best solution for most members. Therefore the primary focus for NEST was how to ensure members were able to access the best possible annuity products. It was decided that members who were not willing or able to use the open market option to select their own annuity should be supported through the process of choosing an annuity through a structured choice approach, with a panel to deliver a selection of annuities.

3. However, the provision of benefits for all pension savers now looks entirely different. Following the freedom and choice reforms, NEST has begun to adapt, within the legislative boundaries, what it offers in the retirement income phase.

4. NEST members retiring today can, subject to upcoming changes to the scheme rules, have more flexible access. In practice this will allow members to:

    - 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 save[33]
    - transfer of the cash equivalent of their pot to another pension scheme, subject to certain conditions.

5. NEST has also made changes to the consolidation phase (the years before Scheme Pension Age) of its investment strategy to reflect an expectation that fewer members will want to buy an annuity immediately at the point they want to take a retirement income. Like all other schemes NEST directs members who

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

are approaching retirement towards Pension Wise for free and impartial guidance on what they can do with their pension pot.

6. All of these changes will be positive steps by NEST to support members. However, due to legislative restrictions, NEST cannot offer the choice to its members that take full advantage of the pension freedoms-other than expecting/signposting members to transfer elsewhere.

7. In November 2014 NEST published a consultation on 'The Future of Retirement' for the automatically enrolled generation[34]. The intentions behind this consultation were to help NEST to understand:

   - what options might be available to their members in order to calibrate how their money should be invested in the latter years of the accumulation phase
   - how and what to communicate to members about their retirement options
   - the needs of members who might want to consolidate their NEST pots with other savings, and
   - how to provide employers and their advisers with a clear vision of how NEST intends to invest at the end of a member's savings journey and the options NEST members may have when it comes to accessing money from the scheme.

8. In February 2015, NEST's 'Guiding principles'[35] set out a number of product design and development themes where the consultation suggested an emerging consensus from industry and stakeholders on how the needs of the new mass market of defined contribution savers might be met.

9. There are three themes where agreement was near universal from respondents to the *Future of retirement* consultation. NEST believes these may become 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 ongoing 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.

10. More and more people will be dependent upon their DC pensions as a result of automatic enrolment. Finding the products that best meet their needs will be

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[34] The Future of Retirement. A consultation on investing for NEST's members in a new regulatory landscape. http://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/The-future-of-retirement.pdf
[35] http://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/guiding-principles.pdf] published *Guiding principles for the design of retirement pathways for the automatically enrolled generation*

vital. Government is keen to encourage the industry to harness the flexibility, freedom, and choice offered to consumers to create innovative new products and solutions that can meet a wide range of consumer needs.

11. The Government wants to understand the potential opportunities and the risks of amending legislation to give NEST – like other pension schemes - the ability to offer more flexible decumulation services. Without change, as other pension schemes develop and adapt their offerings, NEST members will not have the same opportunity as others to benefit from the pension reforms, without making the active choice to change scheme. It is vital that any change delivers the most effective outcomes for NEST members and employers, and has a positive impact more broadly for all pension scheme members.

Consultation Questions: Bearing in mind the principles set out on page 11:

Should NEST be able to develop and offer a range of decumulation services for its members?

What would be the impact on individuals, employers, NEST and other pension providers of this approach?

Extending Access

12. During implementation of automatic enrolment, NEST's clear focus is on a target group of low-to-moderate earners and smaller employers. To ensure NEST remained focused on its delivery challenge, Government placed a number of constraints on NEST's design and operation. Legislation to remove some of these constraints has already been made. Following consultation,[36] the Government announced in July 2013 that the annual contribution limit and restrictions on transfers will be lifted in April 2017.

13. Some restrictions remain, including restrictions on the ways in which employers, individuals and other schemes can join NEST and use the scheme to meet their DC saving and retirement income needs outside of the parameters of automatic enrolment.

14. The following methods of joining NEST are currently possible:

[36] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220474/nest-automatic-enrolment-call-for-evidence.pdf

- the vast majority of NEST's members join as a result of being automatically enrolled by their employer as an eligible jobholder or by opting in as an entitled worker or non-eligible jobholder – where the employer is using NEST
- people who are self-employed or single person directors (that is the sole director or a company that does not employ anyone else) do not have duties under automatic enrolment but can join NEST
- an individual may also become a member of NEST as a result of a pension sharing order
- from 2017, people will also be able to become members of NEST if they are deferred members of schemes transferred to NEST as part of a bulk transfer by an employer using NEST for automatic enrolment.

Potential options for expanding access

15. There are a number of scenarios where a traditional, multi-employer master trust or a contract-based arrangement might be open to people but where NEST currently is not. The Government wishes to understand whether the remaining restrictions on access to NEST are still appropriate or whether there is a case for expanding the options for employers, individuals and other schemes to join NEST and use the scheme to meet DC saving and retirement income needs.

Contractual enrolment

16. An employer cannot enrol a member of staff into NEST if that individual has no eligibility under automatic enrolment. Instead of automatically enrolling only eligible jobholders, some employers may choose to:

   - immediately enrol all workers into a pension scheme when they first start work with the employer
   - annually re-enrol workers back into the pension scheme if they have ceased membership in the year.

17. To do this, employers must obtain the worker's consent to deduct pension contributions. They often use contractual agreements with their staff (for example the contracts of employment) to obtain this consent. This is described as contractual enrolment. This means that 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, could not use NEST for all its employees.

18. This may be a barrier for some employers that want to choose NEST for their entire workforce, as well as a potential source of confusion and accidental non-compliance for employers who do not realise that contractual enrolment into NEST is not currently possible.

19. We are considering whether this framework is in keeping with the original policy intention of NEST being available to any employer and focused on low to moderate earners.

Bulk transfers

20. As automatic enrolment continues to roll out, smaller schemes (both open and closed book schemes) may consider transferring their members to larger schemes as part of a bulk transfer exercise. This can result in benefits from lower costs driven by scale, and in some cases improvement in quality due to well-established, trust-based governance structures.

21. Bulk transfers can take place with or without all scheme members consenting to the transfer, providing that certain conditions[37] are met. The conditions aim to ensure that members who are transferred to a new pension scheme receive broadly equivalent benefits.

22. Current legislation prevents NEST from accepting transfers in from schemes where the employer is not using NEST to meet their automatic enrolment duties. This barrier to accessing NEST was designed to keep NEST focussed on the introduction of automatic enrolment. Once roll out of automatic enrolment has ended, this would prevent many smaller schemes and some closed book schemes accessing NEST should they so wish. In line with the Government's broader objective of simplifying employer access to suitable workplace pensions, we want to understand the arguments for lifting the restriction on transfers into NEST from schemes where there is no participating employer.

Supporting the freedom and choice agenda

23. The freedom and choice agenda creates much wider opportunities for pension savers, but also potential challenges for the trustees of DC workplace pension schemes. Trustees of different schemes may interpret their obligations under freedom and choice differently, especially when there is no longer such a clear divide between work and retirement for their members. Some may require their members to exit the scheme at retirement and to seek a retirement solution on the open market. Others may conclude that their members' interests are best served by operating their own retirement products such as drawdown products. There may also be a middle group who wish to provide support and signposting to one or more 'suitable' products alongside other options.

24. If NEST could develop and offer retirement services designed for its members, it is likely that these would also be suitable for some members of other schemes,

[37] Conditions are set out in Regulation 12 of the Occupational Pension Schemes (Preservation of Benefits) Regulations (SI 1991/367)

including those whose trustees are looking to signpost retirement products to their members. People saving for their retirement through other products, such as the new Lifetime ISA, might wish to transfer their savings on the point of retirement to make use of a NEST decumulation service. We are therefore exploring the implications of allowing access to NEST solely for the purpose of using NEST's retirement options.

Access for individuals

25. At present, an individual cannot join NEST without either having a direct employment relationship with an employer choosing to use NEST, having self-employed status, or via a pension sharing order. This means that an individual cannot choose to use NEST in the same way as one might use a personal pension – for example as a private pension pot in addition to a workplace scheme provided by their employer, or if they wish to set up a pension when they are not working.

26. However, as NEST becomes more established and pension saving becomes the norm, there is the potential that some may want to save into a pension, but struggle to get access to one. There may therefore be a case, as we come to the end of the roll-out of automatic enrolment, to open up access to NEST for individuals, helping to maximise consumer choice.

27. Opening access to NEST for individuals may also better support the delivery of the freedom and choice reforms introduced in April 2015. There are some early signs that the pensions industry is intending to develop products that offer greater choice and flexibility in response to these reforms. However, there may be barriers that prevent some members from accessing some products, such as the costs of some drawdown products that are typically geared to those with higher levels of pension wealth as identified by Which?[38] as part of their better pensions campaign research.

28. If NEST were to offer more decumulation services, then they would only be available to an individual who was already saving in NEST. The Government wishes to understand what impact this may have on the ability of all pension savers to exercise their right to freedom and choice and to understand whether there might be a case for opening NEST up to individual consumers.

[38] http://press.which.co.uk/whichpressreleases/which-calls-for-additional-pension-reforms/

Consultation Questions: Bearing in mind the principles set out on page 11:

Once automatic enrolment has fully rolled out, should access to NEST be more flexible?

What would be the impact on individuals, employers, NEST and other pension providers of this approach?

Summary of Questions and Processes

In undertaking this call for evidence, the Government recognises the unique status of NEST in the pensions market and that its core business should remain serving those workers and employers in its target market. To inform the debate, we have therefore developed a series of principles to consider in weighing up proposals for change to NEST's policy framework:

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 services that helps to lock in confidence to the broader pension system

Summary of Questions

Chapter 1 – Introduction

- Do you agree these are the right principles to help Government weigh up proposals for changing NEST's policy framework?

Chapter 2 – A Changing Pension Landscape

- Is there other evidence or factors about how the pensions landscape is changing that we should take into account in considering NEST's future policy framework?

Chapter 3 – Areas for Potential Change

Pension Freedoms
- Should NEST be able to develop and offer a full range of decumulation services for its members?
- What would be the impact on individuals, employers, NEST and other pension providers of this approach?

Extending access
- Should access to NEST be more flexible?
- What would be the impact on individuals, employers, NEST and other pension providers of this approach?

Call for Evidence Arrangements

Who this call for evidence is aimed at

This call for evidence is aimed at employers, employee representatives and pension industry professionals, including occupational pension and workplace personal pension scheme administrators, payroll administrators, accountants, payroll bureaux, independent financial advisors, employee benefit consultants, and comments from workers and the general public are also welcome.

Purpose of the call for evidence

This call for evidence seeks evidence and views on a range of potential areas where Government might want to consider adapting NEST's policy framework to address the challenges of both protecting consumers and meeting the needs and aspirations of pension savers in the future. In particular:

- allowing NEST to provide decumulation services for its members; and
- whether there is a case for expanding the opportunities for individuals, employers and other schemes to access NEST's proposition.

Scope of the call for evidence

This call for evidence applies to the UK.

Duration of the call for evidence

The consultation period begins on 7 July 2016 and runs until 28 September 2016.

How to respond to this call for evidence

Please send your responses to:

Marie Walker
1st Floor
Caxton House
Tothill Street
London SW1H 9NA

Email: NEST.CALLFOREVIDENCE@DWP.GSI.GOV.UK

Please ensure your response reaches us by 28 September 2016.

When responding, please state whether you are doing so as an individual or representing the views of an organisation. If you are responding on behalf of an organisation, please make it clear who the organisation represents, and where applicable, how the views of members were assembled. We will acknowledge your response.

We have sent this call for evidence document to a large number of people and organisations who have already been involved in this work or who have expressed an interest. Please do share this document with, or tell us about, anyone you think will want to be involved in this call for evidence.

Government response

We will aim to publish the government response to the call for evidence on the GOV.UK website. The consultation principles encourage Departments to publish a response within 12 weeks or provide an explanation why this isn't possible. Where consultation is linked to a statutory instrument a response should be published before or at the same time as the instrument is laid.

The report will summarise the responses.

Queries about the content of this document

Please direct any queries about the subject matter of this call for evidence to:

Department for Work and Pensions
NEST Policy Team
Level 1, Caxton House,
Tothill St, London SW1H 9NA
Email: NEST.CALLFOREVIDENCE@DWP.GSI.GOV.UK

How we consult

Consultation principles

This consultation is being conducted in line with the revised Cabinet Office consultation principles published in January 2016. These principles give clear guidance to government departments on conducting consultations.

Feedback on the consultation process

We value your feedback on how well we consult. If you have any comments about the consultation process (as opposed to comments about the issues which are the subject of the consultation), including if you feel that the consultation does not adhere to the values expressed in the consultation principles or that the process could be improved, please address them to:

DWP Consultation Coordinator
2nd Floor
Caxton House
Tothill Street
London
SW1H 9NA

Email: caxtonhouse.legislation@dwp.gsi.gov.uk

Freedom of information

The information you send us may need to be passed to colleagues within the Department for Work and Pensions, published in a summary of responses received and referred to in the published consultation report.

All information contained in your response, including personal information, may be subject to publication or disclosure if requested under the Freedom of Information Act 2000. By providing personal information for the purposes of the public consultation exercise, it is understood that you consent to its disclosure and publication. If this is not the case, you should limit any personal information provided, or remove it completely. If you want the information in your response to the consultation to be kept confidential, you should explain why as part of your response, although we cannot guarantee to do this.

To find out more about the general principles of Freedom of Information and how it is applied within DWP, please contact the Central Freedom of Information Team:
Email: freedom-of-information-request@dwp.gsi.gov.uk

The Central FoI team cannot advise on specific consultation exercises, only on Freedom of Information issues. Read more information about the Freedom of Information Act.