



Aquila Heywood

Aquila Heywood's response to DWP call for evidence on NEST: Evolving for the Future



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1 Introduction

We welcome the opportunity to respond to the DWP call for evidence on NEST: evolving for the future.

Details of our response are set out in the following sections. To put our response in context, Aquila Heywood is the leading supplier of life and pensions administration software solutions in the UK. The pension schemes for ten million members in more than 200 major organisations are run using our administration software solutions. These solutions cover DB, DC, hybrid, career average, cash balance and stakeholder, as well as a full range of other workplace and individual products including protection, SPPs, Wraps, Income Drawdown and Annuities. We provide solutions across a diverse range of markets including Private and Public Sector schemes, Financial Services and Third Party Administration. Our customers include Fidelity, Irish Life, Scottish Widows, Guardian Financial Services, British Airways, BBC, Asda, Diageo, Tesco, Aon, most local authority schemes and a number of Central Government schemes.

2 Our response to the questions and processes in the call for evidence

Chapter 1 – Do you agree these are the right principles to help Government weigh up proposals for changing NEST's policy framework?

<p>Inclusiveness – focus on the benefits to NEST's target market – low to moderate earners , regardless of their total pension wealth</p> <p>Consumer focused – ensure employers and consumers have choice and control, and that NEST is able to meet the needs and aspirations of its members</p> <p>Value for money – NEST remains a viable, low-cost, well run scheme that is stable over the long term</p> <p>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</p>
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We support the idea of having a set of principles to shape future NEST developments. Principles will not only help to shape changes to NEST's future policy framework but remind everyone what NEST stands for.

In terms of the principles proposed in the consultation we would suggest the following changes

Inclusiveness – we would suggest the phrase 'regardless of their total pension wealth' is not necessary to define NEST's target market.

Consumer focused – while focusing on the end consumer is a worthy ideal, we would suggest that making consumers more engaged with saving is a better principle that all pension schemes, NEST included, should be striving for. We would suggest that this principle be updated to - ensure employers and consumers are engaged with their pensions and make informed choices, and that NEST strives to meet these needs and aspirations.

Value for money – we would suggest that, in line with NEST being a provider of workplace pensions and to ensure focus on their core market, this be updated to reflect that NEST remains a viable, low-cost, well run **pension** scheme that is stable over the long term. This will ensure that NEST focuses on changes to pensions and how this may affect it or its members, rather than the wider long-term savings market in general.

Sustainability – the use of the phrase 'lock in' has negative connotations, so we would suggest that this be re-worded to 'build and retain'.

The consultation document mentions a number of requirements imposed on NEST. While some of these have changed or been removed, we would like to see the simplicity requirement added as a principle for shaping future policy changes. Any changes to NEST should not deviate from the main principle that what NEST does should be simple and easy for the public to understand.

In line with all other trust boards, we would expect to see that NEST will also be taking steps to ensure good member outcomes in any future changes.

Chapter 2 – 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?

When NEST was founded, the pension and economic landscape was significantly different from today, so to forecast how the landscape may change is fraught with difficulties. That being said, there are numerous potential areas of which NEST should be aware when determining any future direction.

From 2018, employers and employees will start to see their contributions to workplace savings schemes increase until they reach 8% in 2019. While 8% is a good start, there is evidence to suggest that contributions will need to increase beyond this to ensure that savers can have the retirement they expect. NEST should therefore be factoring in to any future policy discussions how contributions may increase and to what level.

The pension dashboard initiative that is currently being driven by the pension industry is another area in which we would like to see NEST participating. Ideally, we would like to see the government mandating that NEST supports the dashboard, with all NEST memberships being viewable on the pension dashboard.

In addition to the pension dashboard, workplace savings providers are looking at other ways to increase engagement with their savers and help them understand their investment and retirement choices. Some of this is through improved digital communications, ensuring that members are given information in clear and concise terms, with as little jargon as possible, and signposting people to the Government advice service, be this the Money Advice Service or Pensions Wise. One area of engagement that will see increasing take up, and one NEST will need to consider as part of the consumer-engagement principle, is the use of automated advice and tools to help to direct members to a better retirement outcome than a simple default. NEST may need to consider if and how it may wish to make use of the same tools.

NEST will need to be aware of the downward pressure on costs and charges if it is to remain sustainable. Aligned with this is the drive to increase transparency of costs and charges that NEST will need to address if it is to keep members engaged.

One final area of the pension landscape that NEST will need to address in the future is to ensure a sustainable approach to the changing nature of retirement. The introduction of pension freedoms and increases to State Pension Age is changing people's approach to retirement. Instead of one fixed age at which someone stops working and drawing a pension, they will increasingly adopt a more flexible approach to retirement. In this world, Nest's default options for savers who are automatically enrolled, the Retirement Dated Funds may not be the most appropriate choice, as there will not be a specific retirement target date. NEST will need to continually review the investment options it offers to members to ensure they remain appropriate for the changing pension investment landscape.

Chapter 3 – 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?

At the current time, we believe that NEST should focus its resources on engaging and educating its members on pension savings rather than building decumulation services, as this will potentially defocus NEST from its public service remit.

The current average fund size for members in NEST would imply that regular drawdown is not the most appropriate retirement choice. NEST needs to take account of the fact that drawdown will be expensive to design and implement and that members will probably not understand the risks associated with this choice. We do still support the flexible access currently provided by NEST.

There may be individuals in NEST who build up significant pots in the next few years through transfers and one-off contributions. For these people, drawdown is an option that might be appropriate. NEST should consider developing a panel of drawdown providers in the same way that it offers a panel of annuity providers. Providers on NEST's drawdown panel should be low-cost providers that are able to demonstrate good value for members.

Once NEST has a significant proportion of members approaching retirement with funds able to support drawdown (current ABI statistics show an average drawdown pot is around £67,000), then it may be appropriate for NEST to offer a decumulation service of its own. In time, the market will develop retirement solutions and methods of delivering these, such as auto-advice, that NEST can then use to deliver its own regular drawdown service.

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

As the provider of last resort, NEST should be able to take on bulk transfers of deferred members where there is no ongoing relationship with the employer. NEST should look at existing services and standards such as the Origo Bulk Transfer standard to simplify and speed up the process.

We do not support access to NEST for individuals other than self-employed people. The personal pension market is a functioning market that is already well served by commercial businesses who, as a result of stakeholder regulations, are already obligated to provide access to a low-cost pension product. Opening up NEST to individuals will present NEST with other challenges, such as FCA compliance and Know Your Customer, and will de-focus NEST from its public service remit. Allowing access to NEST for individuals will cause confusion with employers and the public as to what NEST is actually for.

3 In conclusion

NEST is not currently self-sufficient, and some of the proposals would appear to conflict with its public service obligation. There are numerous employers still to go through auto-enrolment, and contribution percentage is due to increase over the next three years, so dedicating resources to future projects at the current time may not be the best use of resources.

We support the idea of having a set of principles for NEST to frame its future direction. We would like to see the principles also capture simplicity and engagement while ensuring NEST focuses on pension savings. In respect of the proposed changes, we support the idea of opening NEST up more, but only to the extent that it supports its core business of supporting employers in meeting their auto-enrolment duties.

While the future is difficult to predict, there are a number of ways in which the pension landscape may change in the next few years of which NEST needs to be aware and have contingencies for, as highlighted in our response. One particular area with which we would like to see NEST positively engaged is the pension dashboard.

We do have some concerns over the proposed changes. While the average pot size for NEST savers is small, its members will not be best served by building solutions to support regular drawdown. If there is demand for this from savers in NEST, it could build a panel of providers in the same way that it currently provides a panel of annuity providers. Allowing access to NEST for individual savings is also not a proposal we would support currently. The individual savings market is well served and able to provide low-cost solutions for personal pensions.

We do think that NEST should be able to take on business where the employer does not have a current link to NEST. Opening up NEST in this way will allow NEST to comply with its duty to take on any employer and also cope with the expected consolidation in the master trust market expected as a result of the new Pensions Bill.

We thank you for the opportunity to respond to this call for evidence. If you would like to discuss any of the points that we have raised in our response, then please feel free to contact me.

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