

# Consultation Response

## NEST: Evolving for the future

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## **About this consultation**

This Department for Work and Pensions consultation looks at the potential benefits and feasibility for the National Employment Savings Trust (NEST) to expand its remit to offer products to consumers in the retirement income marketplace. At present NEST operates only as a pensions saving scheme, and its members have to move to other providers when they want to access their pension pot.

## **Key points and recommendations**

- NEST should be allowed to offer decumulation products. This will help a significant number of smaller savers access appropriate products and navigate what is currently a highly complex marketplace.
- These products should be available to all savers. This will provide an additional safeguard for smaller savers, as well as foster greater innovation and competition at this end of the marketplace.
- NEST could act as a conduit to advice and guidance, helping boost take-up of Pension Wise which has been low to date.
- While there has been some degree of innovation in products suitable for smaller savers, there still appear to be gaps in the marketplace that are unlikely to be filled in the near future. 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.
- We agree with the principles listed, although we would also recommend an additional one about helping savers attain an adequate income throughout their later life. Also, there should be some emphasis on long-term outcomes of decisions and actions included in the ‘consumer focussed’ principle.
- NEST should operate under a duty to provide good quality products and act in the interests of the individual as it assists its clients find the most suitable options.

## **1. Introduction**

The Freedom and Choice reforms have shaken up the retirement income product marketplace, creating a ‘brave new world’ for pension decumulation. Many savers now have the opportunity to attain better outcomes than under the previous system, with more flexibility over how they spent their defined contribution pension pots.

However, there is also a greater opportunity for people to make poor decisions. This includes withdrawing savings too quickly (or too slowly); buying poor quality and unsuitable products; facing an unexpected tax bill; unknowingly losing means-tested benefits; and losing money in a scam. The Age UK report ‘Dashboards and jam-jars’ describes these

and other issues in more detail, in particular how they affect smaller and mid-sized pension savers, and is available on the Age UK website.<sup>i</sup>

All these issues are exacerbated by the lack of a mass market financial advice offer, and low take-up of the Pension Wise guidance service. The fundamental issue is arguably the lack of engagement in and knowledge of pensions decumulation, and there is a clear need for improved access to advice and guidance.

This situation is leaving many consumers, particularly those with smaller pots for which regulated advice is not affordable, with a lack of understanding about the best course of action they can follow in the decumulation phase of their journey. There is likely to be a particular difficulty for automatically enrolled savers – inertia brought them in and built up their pot, but they are now required to be engaged at the point of decumulation and navigate a complex and substantial range of product choices and other options.

Savers in the NEST scheme have on average lower levels of pension wealth. Many NEST clients are therefore likely to be new to managing investments and require more support with their decision-making.

We believe there is a very strong case for NEST being allowed to move into this marketplace. Doing so will allow a provider with a universal service obligation and a public interest duty to help savers who are less engaged and not well served by the existing marketplace.

The development of new products has not catered for the smallest savers – it is not reasonable to leave smaller savers exposed to an unsuitable marketplace, especially when they are not equipped with the skills necessary to navigate it.

NEST may help to fill this gap. We do not believe that in reality other providers will move into this (less profitable) space, so the detriment to consumers of NEST being unable to offer decumulation products will be significant, while the detriment to competition within the product marketplace will be slight.

## **2. Consultation questions**

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

The four principles listed seem sensible and will help steer NEST towards filling the gap at the lower-value end of the marketplace. We believe it is worth including the following additional principle:

- Adequacy focussed – that the NEST offer should do everything possible to ensure that savers can maintain an adequate income throughout their later life.

We also feel that the principle about being ‘consumer-focussed’ should reflect that decisions and actions taken by the provider must be in consumers’ long-term interests – for example including managing any longevity risk. It would also be prudent to reference signposting to appropriate advice or guidance in the principles, which might help encourage more smaller savers to use Pension Wise.

**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?**

There are some speculative factors that are no doubt relevant, but are difficult to take into account for these purposes. For example, robo-advice may achieve a mass-market breakthrough and make advice accessible even to the smallest savers – but equally this may not happen and savers may continue to be bereft of advice well into the future.

It is not appropriate to make policy on speculation alone. Doing so will expose many savers to undue risk while they wait for the market to develop new products, if indeed it ever does. At present we do not believe the market is delivering for typical NEST clients, but we think that NEST is well-placed to deliver a decumulation solution. There is no evidence the market will tackle this problem, and it cannot be assumed that it will deliver either in the short or longer term.

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

Yes. Clients of other pension schemes have the choice to stay with their existing provider in many cases. At present NEST clients either have to take a cash lump-sum or navigate their way through the product marketplace themselves. This is likely to inappropriately encourage people to take cash, make them more susceptible to poor product choices or fall victim to scams.

NEST – with a duty to provide good quality products and act impartially in assisting its clients find the most suitable options – would be highly likely to have a positive impact for the decumulation market.

More generally, there has not been sufficient support put in place by government to assist disengaged savers. Pension Wise take-up is low, while regulated advice is largely unaffordable. There are no ‘default pathways’ to steer people through the (on going)

decision-making process. The Government needs to consider what else can be done to 'aid and abet' disengaged savers, and conduct a comprehensive evaluation of the 'freedom and choice' reforms. Extending NEST's remit is one small but important part of this solution.

With the changed landscape of retirement, it seems unfeasible to restrict NEST by not allowing it to offer decumulation products.

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

We believe that allowing NEST into the decumulation marketplace for its own clients would be widely beneficial:

**Individuals** – would benefit from a wider product choice, and the presence of a provider that would be aimed at improving product quality and finding consumer-focussed solutions. With a focus on its own typical client profile, it would help address competition concerns for the smaller end of the marketplace. NEST could also assist with efforts to improve Pension Wise take-up.

**Employers** – many small employers using NEST might find themselves facing questions about decumulation from their employees. Research by the Pension and Lifetime Savings Association paints an interesting picture about how this might change in future<sup>ii</sup> – people that have already used the flexibilities were quite unlikely to turn to their employer for help, with only six per cent doing so; however among those that are considering using the freedoms, this rises substantially to 36 per cent, suggesting that a high burden of employee enquiries might fall on smaller employers. NEST's presence in the decumulation marketplace – with some form of public interest duty – may be a good opportunity to provide help to employers.

**NEST** – will be able to provide a better offer for its clients, and help people avoid some of the pitfalls of the retirement income marketplace. This does, of course, require robust governance procedures, and the DWP will have to ensure that the NEST trustees are fully equipped to meet the challenges arising.

**Other pension providers** – the industry has so far failed to deliver a suitable range of products for lower-value potholders. If NEST can successfully fill this space, other providers can then focus on their core consumer groups, and the industry can enjoy a reputation boost for serving the needs of all consumers. In addition NEST can be a

trailblazer for good practice in terms of customer service and product transparency. Other providers will be able to benefit from NEST's innovation here.

### **Extending access - should access to NEST be more flexible?**

Age UK believes NEST should also be open to the wider marketplace. Allowing savers in other schemes to access NEST products will improve the range of products available to smaller savers. If NEST operates under a duty to deliver good outcomes for its typical client group, then smaller savers across the marketplace, who are less profitable for providers, can be re-assured that there is a back-stop provider able to service their requirements.

As mentioned earlier, we think NEST could act as a conduit to improve take-up of advice and guidance. This impact would be extended if non-NEST savers are able to approach NEST about decumulation products.

Allowing open access will also encourage other providers to be more innovative, and potentially improve competition. Far from hindering competition, we believe it will actually have the opposite effect and be beneficial for all consumers. If the limited innovation for products aimed at smaller savers continues, the industry as a whole will benefit as it will avoid the reputational damage for failing to successfully deliver the freedom and choice agenda.

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<sup>i</sup> [http://www.ageuk.org.uk/Documents/EN-GB/For-professionals/Policy/money-matters/dashboards\\_and\\_jamjars\\_helping\\_modest\\_savers\\_December\\_2014.pdf?dtrk=true](http://www.ageuk.org.uk/Documents/EN-GB/For-professionals/Policy/money-matters/dashboards_and_jamjars_helping_modest_savers_December_2014.pdf?dtrk=true)

<sup>ii</sup> Pensions and Lifetime Savings Association (2016), 'Pension freedoms: no more normal', Understanding Retirement Wave 2