How the UK Saves 2018

Member experience from the National Employment Savings Trust (NEST)

The data in this report are as at the end of January 2018. This means they capture all but the very final part of the staging process, and include re-enrolment data for the earlier-staging employers. But they do not include any data since the first phased increase in contributions, which took place in April 2018. This is important context for reading and interpreting the data, especially in relation to fund balances and contributions data, and to inferences from these about future retirement income adequacy. This will become more apparent through subsequent versions of the report.

Contents

Helen Dean
Chief Executive, NEST

We're delighted to have been able to partner with Vanguard to produce this research.

One of the key drivers behind establishing the NEST Insight unit was to find ways to enable access to our data and the insights they might present. This publication is a huge step towards realising that vision, and we're grateful to Vanguard for working with us to bring it to fruition, as well as for their broader support for NEST Insight.

NEST has grown, from taking our first contributions in 2011, to representing nearly 6.5m members and more than 616,000 employers today. Crucially, many of those members are people who have historically been left behind or ignored by workplace pension saving. One of the really gratifying things for me about the insights and data in this report is how strongly they tell us that NEST is fulfilling the mission for which it was established.

We also know that this report will be of interest beyond purely a UK audience, as others around the world seek to use similar approaches to tackle similar challenges of populations underserved by traditional retirement provision. We've learned a lot from the experiences others have had around the world and are delighted if some of what we share can now be similarly useful to others.

Some really interesting themes emerge from this report. Some are well-known: automatic enrolment has transformed participation rates, but because initial contributions were deliberately kept low, absolute balances for many are still small. With the first increase in contributions now delivered and another to come next year, people will start to build savings more quickly. Discussions are now inevitably turning to what represents an 'adequate' outcome for people in retirement. We expect this to be a theme of future versions of this publication. But there are also some new stories emerging from the data, such as the relatively high absolute number of 'opt-in' savers, many on very low incomes, disproportionately women. The NEST Insight team will be looking at this, and some of the other themes generated by this report, in the year to come.

For now, we hope that people find the research interesting, useful and thought-provoking. NEST Insight is a collaborative endeavour – everything we deliver is done in partnership with others, and much of our work is funded through grants and sponsorship. We hope, among other things, that presenting this report will stimulate more of these partnerships in the future.

Helen Dean

Sean Hagerty
Head of Europe,
Vanguard

I'm delighted to co-present the inaugural edition of *How the UK Saves*.

This research is the product of fruitful collaboration between Vanguard and NEST – two organisations with a shared goal of helping people plan for a better future.

The report will be useful to anyone interested in learning the key features of the defined contribution system in the UK and how policy, engagement and product design flow through to members' outcomes. It may also prove to be a useful yardstick for end-investors themselves in the UK, for understanding the pension system that so many will heavily rely upon in retirement.

A global view of pensions

Vanguard has produced a major annual study entitled *How America Saves* since 2000 and added *How Australia Saves* to our publications list in 2017. This year, we're expanding the roster to cover the UK. Our goal is to provide comparable data points across multiple pension systems worldwide. This global comparison should help the pensions industry to capture the best – and avoid the worst – features of pension systems around the world. The result, I hope, will be better outcomes for millions of investors.

Robust data set

The researchers have analysed choices, demographics, employers, member behaviours and outcomes at an individual level and aggregated them into meaningful cohorts. The resulting analysis spans hundreds of millions of individual data points – a scope that differentiates this research from other publications based on small sample sizes or top-down aggregations.

We are indebted to NEST for making all of these data available. In particular, we greatly appreciate the work of NEST Insight and Helen Dean. The NEST team have willingly provided a vast amount of data gathering and analysis alongside Vanguard's Centre for Investor Research, plus a great deal of help with the writing and editing of this final report.

Expanding the scope of the research

We're proud of this first edition of *How the UK Saves*, but we're already planning ahead. We look forward to extending the scope of the analytics undertaken with NEST, as well as capturing the effects of future evolutions in pensions and savings, including the phasing up of minimum contribution rates.

We also hope to add more partners who are willing to share their data to broaden the coverage of the demographic base. As such, we are committed to assisting NEST in informing pension policy through research informed by high-quality data and analysis.

I hope you enjoy the report. We'd love to hear your feedback, and we look forward to answering any questions that arise.

Sean Hagerty

Executive summary

Prior to the 2012 introduction of mandatory auto enrolment, workplace pension participation had dropped to just 55% of eligible workers. Since that time, retirement saving through workplace pensions has increased significantly, to more than 75% of eligible workers.[1]

This publication examines the enrolment, savings and investment activity of workers using data from the National Employment Savings Trust (NEST). With membership exceeding six million across more than 600,000 employers, NEST is one of the UK's largest multi-employer pension plans.[2]

Legislative foundations

The 2008 Pensions Act requires employers to enrol eligible employees automatically into a qualifying workplace scheme. Over the period covered by this report, minimum contributions for auto-enrolled employees were 2%, including at least 1% from the employer.

Composition of NEST employers

NEST's employer relationships are dominated by small firms, with 97% of employers having fewer than 50 employees. However, a large percentage of its membership works for mid-sized and large firms. Although fewer than 1% of NEST employers employ 250 or more workers, these firms account for 40% of NEST members.

Employers using NEST span the UK, both geographically and by industry type. The highest concentration of employers is in the major metropolitan areas, such as London and Birmingham, and in Northern Ireland. Retail, Construction, Health & Social Care and Catering & Accommodation are the top industry sectors, together representing 28% of employers.

Composition of NEST members

NEST membership skews modestly towards younger, low-to-moderate income workers. Nearly half of all members are below the age of 35 and more than half have annual earnings of less than £20,000.

This member composition and geographical spread reflects progress towards fulfilling the original objective of mandatory auto enrolment, namely to ensure that younger and lower-income workers at risk of inadequate retirement savings have access to straightforward pension provision.

Dominance of automatic enrolment

The overwhelming majority of active members (92%) are automatically enrolled into NEST.

Although only 8% of members have actively chosen to participate in NEST, they still represent more than a quarter of a million people, many of whom have very low incomes and previously might not have saved for retirement at all. This cohort of active enrollers is skewed towards women, to those earning less than £10,000 and to those under the age of 25.

Opt-out rates by enrolment type

Opt-out rates are significantly lower than expected, both during the staging enrolment and ongoing enrolment phases. Reasons for opting out amongst younger employees are typically affordability or distrust of pensions, while older workers identify other existing pensions or other sources of retirement income.

Few of those who have opted out state that they plan to rely on the State Pension in retirement.

Contributions

As at 31 January 2018, 93% of employers had enrolled workers at the then-statutory minimum 2%

1 Department for Work and Pensions (2016) *Workplace pensions: update of analysis on automatic enrolment 2016.*

2 All NEST data in this section are as at 31 January 2018.

total contribution rate. Small and micro employers dominate the 7% of companies enrolling workers at a higher rate.

Members who have remained with NEST for the full 12-month period to 31 January 2018 have a median total contribution, net of fees, of £300 and an average of £394. As annual mandatory minimum contribution rates increase, these numbers are likely to rise.

Account balances

Median and average balances are £200 and £450 respectively. Balances are expectedly higher amongst active members, at £278 and £563 respectively.

Predictably, balances rise with income and scheme tenure, while workers aged 55 to 64 have balances nearly three times greater than their counterparts below the age of 25.

Gender and income differences

The median balance for females (£174) is 76% of the median balance for males (£228), driven by female average earnings being lower than males in aggregate. However, after adjusting for earnings, women have higher median contributions and higher median account balances in all but the highest earnings band, where the difference was negligible. For workers earning between £10,000 and £14,999 annually, female median contributions and account balances were 26% and 20% greater than males respectively.

Thus, after controlling for earnings, women are found to be better retirement savers than men within the NEST arrangement.

Adequacy

Since auto enrolment is in its infancy, current contributions and account balances are insufficient guides to future retirement income adequacy. Our projections suggest that, through participating in NEST, a typical low-income 22-year-old might generate annual retirement income of £3,000 in today's money, amounting to a replacement rate of 15%. Combined with the State Pension, this represents a projected total income replacement rate of approximately 55%.

This projected NEST retirement income compares to the average payment to pensioner beneficiaries of the Pension Protection Fund (PPF) of £4,309.[3] This suggests considerable progress on the challenge of retirement adequacy, while also highlighting that further progress is needed on minimum contribution rates in years to come.

Assets under management and investment returns

Assets invested through NEST total £2.6 billion. These assets are allocated 49% to equities, 24% to investment-grade bonds, 13% to property, 8% to growth credit and 6% to short-term reserves.

Three-year annualised returns for both the default NEST Retirement Date Funds and other investment options are generally well above their benchmarks, reflecting strong performance from some asset classes.

Member asset allocations and investment choices

Ninety-nine per cent of members are invested in NEST's default investment strategy, a range of retirement-date funds that are designed to change members' asset allocations as they progress through working life to retirement.

As expected, switching activity is low, with fewer than 1% of members changing their investment options in 2017.

Transfers

The overwhelming majority of NEST members are in the accumulation phase of retirement savings. Of the 1% that have retired, two-thirds have withdrawn money from their accounts.

Finally, since 2017 NEST has allowed members to transfer pension savings from other UK-based registered schemes. In the first ten months of this option being available, nearly 1,000 members transferred assets into NEST, representing over £7 million in assets.

3 The Pension Protection Fund (PPF) 2017 report shows that approximately 90% of PPF members are either in receipt of, or have accrued, a benefit that is less than 25% of the PPF compensation cap (currently £9,600 of annual retirement income). The breadth of the PPF beneficiary base and the majority of members being unlikely to be subject to compensation limits, suggests benefits paid by the PPF may be considered a reasonable proxy for comparable benefits from the corporate DB system.

Industry milestones infographic

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
UK Prime Ministers		John Major Conservative						Tony Blair Labour					
Secretaries of State with responsibility for pensions			Peter Lilley Conservative					Harriet Harman	Alistair Darling				

Major Events

- Government announces that BSE, or 'mad cow disease', can be transmitted to humans
- Death of Diana, Princess of Wales
- Referendums in Scotland and Wales back the creation of separate assemblies
- Good Friday Agreement on a political settlement for Northern Ireland
- War in Yugoslavia and Kosovo
- September – 9/11
- Air strikes on targets in Afghanistan

Industry / Regulatory Milestones

- Welfare Reform and Pensions Act introduces Stakeholder Pensions and pension sharing on divorce
- Child Support, Pensions and Social Security Act replaces SERPS with the State Second Pension (S2P)
- Pension Credit Act replaces income support for people aged 60+ with a guaranteed minimum income
- Pensions Act, one of the most influential pieces of primary legislation for pensions, provides a stronger regulatory framework for private pensions and increases the State Pension age for women from 60 to 65 between 2010 and 2020

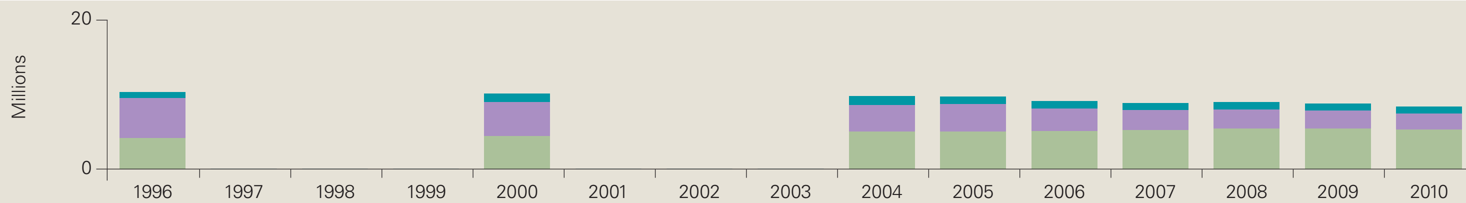
Mandatory minimum contribution rates to UK defined contribution schemes

Member | Employer | Total

	2012			2013			2014			2015			
	Member	Employer	Total	Member	Employer	Total	Member	Employer	Total	Member	Employer	Total	Member
	1.0	1.0	2.0	1.0	1.0	2.0	1.0	1.0	2.0	1.0	1.0	2.0	1.0

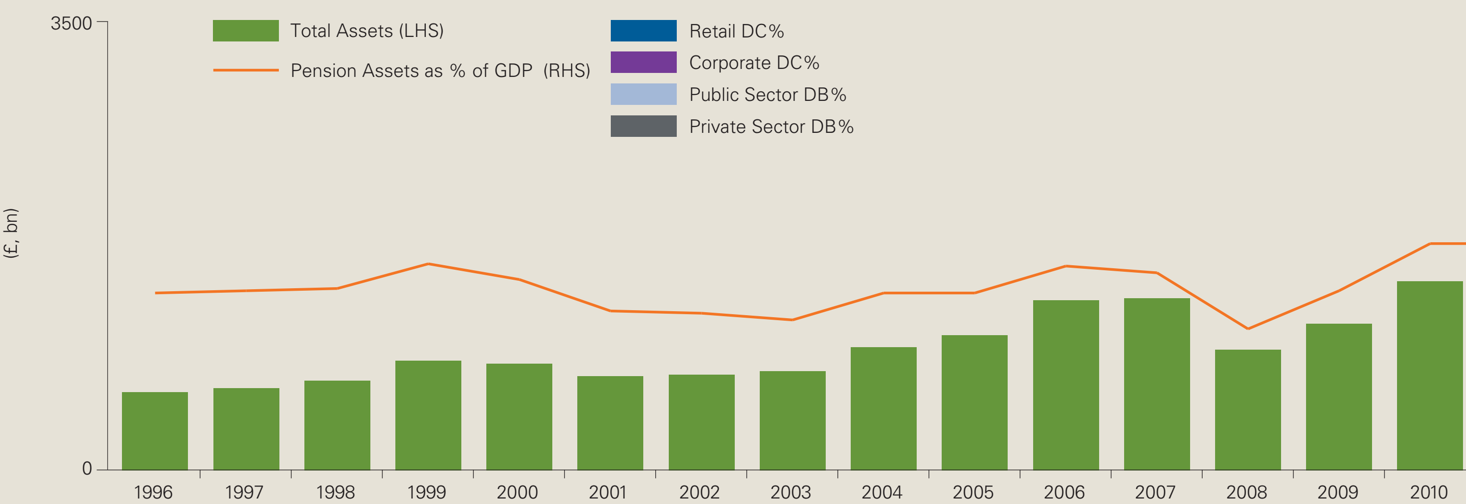
Source: Office for National Statistics, the Pensions Regulator, Vanguard estimates.

Number of active members of occupational pension schemes (millions)



Source: Office for National Statistics.

Industry Growth



Source: Willis Towers Watson Global Asset Study, IMF, Hymans Robertson, Spence Johnson, Vanguard estimates.

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018

Gordon Brown Labour | David Cameron (Conservative) and Nick Clegg (Lib Dem) (Coalition (Cameron–Clegg) 2010-15) | David Cameron Con. | Theresa May Conservative

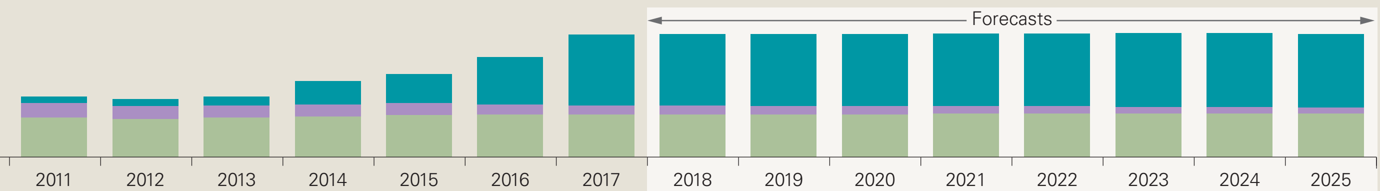
Andrew Smith | Alan Johnson | David Blunkett | John Hutton | Peter Hain | James Purnell | Yvette Cooper | Iain Duncan Smith | Stephen Crabb | Damian Green | David Gauke | Esther McVey

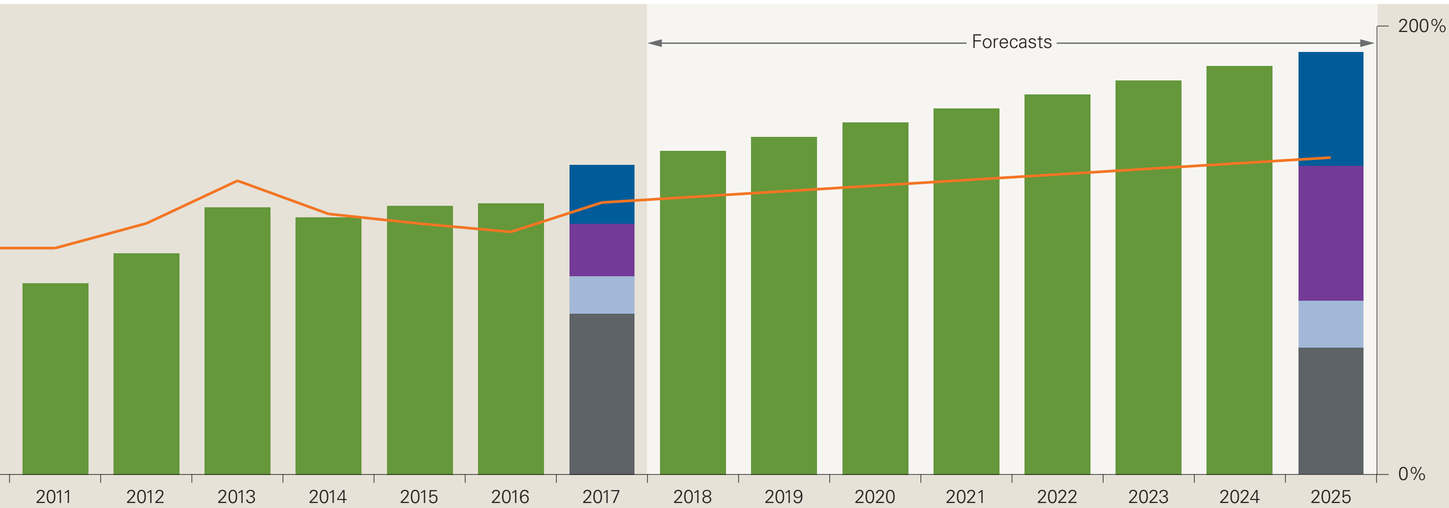
- UK joins US-led military campaign against Iraq
- UK government part-nationalises three leading banks following the global "credit crunch"
- Britain withdraws bulk of its remaining troops in Iraq
- Suicide bomb attacks on London's transport network
- Large-scale public spending cuts aimed at reducing UK's budget deficit
- International intervention in the conflict in Libya
- Irish Republican Army (IRA) announces formal end to its armed campaign
- David Cameron proposes a referendum on whether to leave the European Union
- London hosts the 2012 Summer Olympics and Paralympics
- Birth of Prince George of Cambridge, who is third in line to the throne
- Voters in a referendum in Scotland reject independence, by 55% to 45%
- UK voters in a referendum opt to quit the European Union. David Cameron resigns
- Formal negotiations begin to end Britain's membership of the European Union

- Pensions Act introduces workplace pensions reform including requirement for auto enrolment from 2012
- FCA introduces a ban on differential charging and DC commissions in workplace personal pension schemes
- Pensions Act establishes a new Pensions Regulator and Pension Protection Fund
- Employment Equality (Age) Regulations prohibit unjustified direct and indirect age discrimination
- Finance Act simplifies tax regimes for pensions
- Pensions Act increases state pensions age for men and women to 66 by 2020, and amended elements of 2008 Pensions Act
- Finance Act changes rules on annual contribution and lifetime balance allowances, annuities and income drawdown rules
- Budget Statement introduces "Pensions Freedoms" from 2015, allowing individuals to withdraw money from pension schemes as they pleased, and requires advice for DB to DC transfers
- Pension Schemes Act establishes a new regulatory regime for Master Trusts that includes an authorisation requirement

Percentages

2016		2017			2018			2019			2020			2021			2022			2023			2024			2025		
1.0	2.0	1.0	1.0	2.0	3.0	2.0	5.0	5.0	3.0	8.0	5.0	3.0	8.0	5.0	3.0	8.0	5.0	3.0	8.0	5.0	3.0	8.0	5.0	3.0	8.0	5.0	3.0	8.0





Essentials of the UK pension system

To provide context for international readers, this chapter summarises the structure of the UK retirement system and its recent evolution.

The global retirement savings challenge

Ageing populations, driven by declining birth rates and longer life expectancy, are shifting the balance between those of working age and retirees. People are working longer, but not by enough to maintain the balance between those who are net producers of wealth and those who depend on the wealth produced by others.

Few workers can now expect the traditional pattern of 40 years of work for an established employer, with income steadily increasing over time. New forms and patterns of work are emerging – for example, around five million UK workers are now in some form of self-employment.

Meanwhile, the outlook for retirement security is challenged by low expected investment returns alongside weaker economic and productivity growth.

The challenge in a UK context

The UK system has traditionally relied on a mix of tax-payer-financed pay-as-you-go elements and funded provision. The latter comprises a blend of both workplace and personal provision across pension and non-pension saving. The main components of the system have historically been:

- The State Pension, comprising a basic flat-rate element and, at times, earnings-related supplementary elements;
- Voluntary occupational pension schemes, traditionally final-salary Defined Benefit (DB) schemes covering a large but declining portion of the workforce as illustrated in the industry milestones infographic on pages 5 and 6.

This system has come under increasing pressure in recent decades:

- The basic State Pension, linked to prices, has become progressively less generous relative to earnings;
- A variety of earnings-linked additional benefits have suffered from many revisions to their underlying calculations, leading to complexity;
- Means-tested 'minimum income' benefits have proved an effective way of targeting pensioner poverty despite their complexity. However, eligibility criteria have led to a reduction of the value of pensioners' savings and have been seen as a disincentive to save;
- Funding pressures, revisions to actuarial assumptions and regulatory changes have made guaranteed pension incomes more costly. Employers have moved away from offering DB in favour of Defined Contribution (DC);
- Uptake of personal pensions has risen significantly. Bundled as 'group personal pensions' (GPPs), these have increasingly been used by employers to step away from occupational provision, allowing employers to outsource pure DC provision.

The parallel decline in worker participation in both occupational and personal plans may have been a consequence of these changes, or it may have contributed to them. Provision was concentrated among employees of larger firms and workers on relatively higher incomes – with many schemes including service or income eligibility rules – but, by the turn of the millennium, it was in decline across all groups.

By the early 2000s, the situation was becoming critical. The Government brought forward measures to improve access to workplace pensions by requiring employers to designate a pension for employees. They sought to address complexity and cost through the introduction of 'stakeholder pensions', a simple, price-capped personal or group personal pension product. While expanding access, these measures were largely unsuccessful in expanding coverage.

In 2002, the Government set up the independent Pensions Commission to consider the case for introducing compulsory retirement saving. In 2005, the Commission brought forward a comprehensive set of recommendations, which were largely adopted by the Government and implemented from 2010. The key features of this programme of reforms were:

First Pillar

To ensure a simple State Pension that would retain its value and act as a stable foundation for supplementary saving, at a sustainable cost to taxpayers:

- Simplifications to the State Pension to make it a flat-rate, near-universal benefit indexed to earnings.
- Changes to the age of eligibility for the State Pension to ensure the pension age would move broadly in line with future increases in life expectancy, alongside an existing plan to align male and female State Pension age by 2025. Thereafter the age of entitlement would increase by one year in ten, reaching 68 by 2045.

Second Pillar

- Introduction of mandatory automatic enrolment, requiring all employers regardless of size to enrol eligible workers into a qualifying workplace pension. Employees would retain the right to opt out but, where they did not exercise that right, employers would be required to make a minimum contribution towards their employees' pensions.

- Creation of the National Employment Savings Trust (NEST) – a qualifying workplace pension scheme with a statutory obligation to accept any employer wishing to use it to meet its automatic enrolment obligations. NEST was designed to ensure that a high-quality, low-cost option was available to everyone irrespective of their commercial 'value' to pension providers.

Establishing NEST

NEST is a trust-based, occupational pension scheme, set up by act of Parliament and run by a non-departmental public body. As an occupational trust, NEST is governed by a body of independent trustees, though it is also accountable to Parliament through the Secretary of State for Work and Pensions. Uniquely, NEST's constitution places on it a public service obligation to provide a qualifying plan to any employer and to accept any eligible worker that the employer enrols. As a consequence, its growth has been significant, as can be seen from the statistics in this report. The scheme will ultimately be self-funded through member charges but, until that point, it receives an interest-bearing loan from the Government.

Subsequent reforms: 2008-2018

While implementing the Pensions Commission's proposed reforms, two further changes were made:

- The Government reinforced how the State Pension retains its value; the 'triple lock' mechanism ensures State Pensions are indexed to the better of prices, earnings or a minimum annual increase.
- The 2015 'freedom and choice' agenda abolished a previous regime of mandatory annuitisation from DC schemes by age 75, allowing savers to access to their money in whichever form they prefer from age 55.

The system as at 2018

Today, the core components of the UK retirement system are as follows, using the updated world bank 'five pillars' conceptual framework:[4]

Zero Pillar

In addition to the reformed State Pension, some situation-specific, means-tested benefits such as housing benefit and council-tax benefit remain available to pensioners. For those whose total income in retirement is below £159.35 per week, Pension Credit is available to bring their income up to this level.

4 *Old Age Income Support in the 21st Century: An International Perspective on Pension Systems and Reform*, World Bank, 2005 and subsequent enhancement *The World Bank Pension Conceptual Framework*, World Bank 2008.

Worker eligibility and contribution levels

Worker eligibility is a function of age and income, with the following main categories of worker allowed for within the regulations (figures shown are for the 2018-2019 tax year).

Eligible worker: Workers aged between 22 and State Pension age, with pro-rated annual earnings of at least £10,000, must be enrolled automatically into a qualifying workplace scheme. Where the worker chooses to stay enrolled, the employer must make on their behalf a contribution totalling at least 5% of their earnings, subject to minimum and maximum earnings levels that were £6,032 and £46,350 respectively in 2018. At least 2% of this contribution must come from the employer. Individual contributions are made on an *Exempt-Exempt-Taxed* (EET) basis, meaning that the contributions made by individuals are partly offset by tax relief. In April 2019, these minimum contribution levels will increase, to at least 8% of the band of earnings in total, of which at least 3% must come from the employer. At this point, in the minimally compliant case, contribution rates will effectively be 3% employer, 4% employee and 1% from the Government as tax relief.

Non-eligible jobholder or opt-in worker: These workers may either be:

- Aged between 16 and 21 with pro-rated annual earnings of at least £10,000;
- Aged above State Pension age with pro-rated annual earnings of at least £10,000;
  or
- Aged between 16 and 74 with pro-rated annual earnings between £6,032 and £10,000

The employer must enrol the worker if asked to. Itmust also make the same contributions as though the worker had been automatically enrolled.

Workers without qualifying earnings or entitled workers: Aged between 16 and 74 with pro-rated annual earnings no higher than £6,032. Employers do not have to enrol these workers automatically, but they do have to enrol them if they ask to join. Employers are not obliged to make contributions on behalf of these workers, though they can choose to.

Qualifying scheme rules

Qualifying workplace pension schemes must meet the following conditions:[5]

- Use automatic enrolment and offer a default fund so that no active choice is required by the saver to begin saving for retirement;
- Offer contributions consistent with the minimum contribution rules;
- Have annual management charges no higher than 0.75% or equivalent;
- Comply with relevant regulatory criteria, dependent upon scheme structure.

First Pillar

Since 2016, those reaching retirement do so under the new flat-rate system. Eligibility is based on retirees' years of National Insurance contributions or credits. To receive the full State Pension, a retiree must have accrued 35 qualifying years.

The full State Pension amount is currently £159.55 per week, equating to £8,296.60 per year, which is approximately 35% of median earnings. Any individual can increase their entitlement by deferring their claim; an increase of 1% for every nine weeks deferred, plus any indexation during the deferral period, to a maximum of five years.

Eligibility for the State Pension currently starts at 65 for men, and will be 65 for women from 2020. The next proposed increase in the State Pension age will take place from 2024-6.

5 The Pensions Regulator, *Detailed Guidance for Employers vol. 4*

Second Pillar

There is no compulsory funded/occupational tier in the UK. Workplace pension saving is voluntary for individuals, but subject to a mandate on employers to enrol eligible workers into a qualifying scheme automatically. Employers are also obliged to make contributions on behalf of any employee who remains enrolled. Workers who have opted out of saving are automatically enrolled again on a three-year cycle.

Third Pillar

Individuals are entitled to make additional contributions to their workplace pension scheme. They can also separately open a personal pension and make contributions to that, subject to tax constraints. In addition, various other products exist that can be considered as contributing to retirement provision in a third pillar:

- Stocks and shares Individual Savings Accounts (ISAs) offer a tax-incentivised wrapper for investments. These accounts are structured on a Taxed-Exempt-Exempt (TEE) model – i.e. savers contribute from post-tax income, but returns and withdrawals are tax-free. Individuals can save up to £20,000 into an ISA per tax year.
- Lifetime ISA (LISA) launched in 2017 to help people either saving for a first home purchase or supplementing retirement savings. LISAs have an annual contribution limit of £4,000 and include a 25% match from the Government. They are open to those aged between age 18 and 40 and, once started, investors can contribute every year up to the age of 50. Withdrawals can be made to fund a first home purchase at any time from one year after opening, or for any reason from age 60 onwards. Withdrawals at any other time are subject to a 25% penalty (in effect, removing the matching incentive). Contributions to a lifetime ISA count towards the overall annual ISA limit.

Pensions taxation

All pension saving in the UK is done on an EET basis.[6] Contributions are made from pre-tax income, so are subject to tax relief. Investment growth is also tax-free. From age 55, savers are also eligible to take 25% of their retirement savings tax-free. All other withdrawals are subject to the marginal rate of income tax.

Contributions in a given year are capped at £40,000. This annual limit also applies to the value of benefits accrued in a DB plan. Above that limit, contributions no longer attract tax relief and a charge may be due. Once an individual accrues benefits worth £1.03m (the 'lifetime allowance' limit), they can no longer make additional contributions without triggering a tax charge.

Unlike in some other systems – for example, the Roth IRA in the USA – there is no TEE retirement product in the UK, although ISAs work on a similar basis and lifetime ISAs even more so.

The shape of the UK retirement saving market

The legacy of DB schemes still dominates for many of those approaching or recently having entered retirement, with only 10% of those currently reaching retirement relying solely on DC provision.[7] Moreover, the majority of UK retirement system assets are still in DB schemes.

However, the UK has a higher proportion of its assets in DC than many other developed nations: a recent study[8] found it to be the third-largest DC system globally by AUM. Once minimum contributions to DC rise to the full 8% in April 2019, total annual contributions to DC schemes are expected to increase by £17 billion[9] per year.

With almost all active contributions to workplace pensions in the private sector now going to DC, and with most DB schemes closed to new members, the balance in the UK should now shift considerably towards DC.

6 Exempt-exempt-taxed (EET), a term describing the UK's system of pensions tax relief, in which the three letters correspond to the three stages in the taxation of pension schemes. The first E relates to the contributions stage, the second E to the investments stage and the T to the taking benefits stage.

7 Pensions Policy Institute (2018): The evolving retirement landscape at http://www.pensionspolicyinstitute.org.uk/publications/reports/the-evolving-retirement-landscape

8 Willis Tower Watson (2017) Global Pension Assets study 2017 at https://www.willistowerswatson.com/-/media/WTW/PDF/Insights/2017/01/global-pensions-asset-study-2017.pdf

9 DWP (2016) Workplace pensions: update of analysis on automatic enrolment 2016. At https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/560356/workplace-pensions-update-analysis-auto-enrolment-2016.pdf

Compliance with the requirement to auto-enrol eligible employees has been extremely high – at the last regulator's report,[10] the figure for small employers was 95% – so scheme access is near-universal at the employer level. As can be seen from the infographic on pages 5 and 6, the impact on workers saving into pensions has been profound.

Government estimates suggest that the automatic enrolment mandate covers around 10m eligible jobs, and the growth in this number throughout the roll-out of automatic enrolment has frequently been used interchangeably to represent the number of *people* automatically enrolled. In practice, with a 5.5-year roll-out, job churn within the eligible population means that enrolment events in this period will have been much higher. Opt-out rates have been consistently low across the industry at less than 10%, and so a reasonable estimate is that as a result of automatic enrolment, around 9m people *at any given moment* are saving for their retirement who might not otherwise have been doing so.

The at-retirement market

Since the 'freedom and choice' agenda came into effect on 6 April 2015, drawdown plans have gained significantly in popularity. Based on data gathered by the regulator,[11] twice as many pots are moving into drawdown as into annuities.

It is too early to assess the 'normal' behaviours that may emerge as early demand to take advantage of pension freedoms subsides. However, initial observations are:

- Accessing pots early is attractive: 72% of pots had been accessed by consumers under the age of 65, with most taking lump sums;
- 53% of pots accessed have been fully withdrawn, with the vast majority (90%) of these being under £30,000. Many pots were moved into other savings or investments rather than spent outright;
- Many of those withdrawing pension pots had other forms of retirement income – often including DB pensions providing a guaranteed income in retirement.

The new landscape has presented several challenges for policymakers and the pensions industry:

- A perceived underlying lack of trust in pensions;
- The low propensity to shop around that was a feature of the annuity market also characterises the drawdown market, with many taking drawdown from their existing provider as a result of member inertia;
- The tendency for many customers to buy drawdown plans without advice raises concerns about their ability to maintain their income throughout retirement.

As DB incomes and home ownership continue to decline in the at-retirement population, there is a need for further innovation in the UK retirement sector. This may come in the form of 'guided retirement pathways' available to support good member outcomes, and lower-cost advice solutions. It is likely that the UK at-retirement market will remain in a state of flux for some time as these challenges are addressed.

10 See *High compliance rates underpin success of automatic enrolment* at http://www.thepensionsregulator.gov.uk/press/pn16-39.aspx

11 Financial Conduct Authority (FCA), *Interim Outcomes Review, July 2017*, https://www.fca.org.uk/publication/market-studies/retirement-outcomes-review-interim-report.pdf

Data and commentary

This inaugural publication evaluates the impact of mandatory auto enrolment among employers across the UK who use NEST as their defined contribution pension provider. This report evaluates the behaviour of employers and members who engaged with NEST from 1 April 2013 to 31 January 2018.

The requirement on the largest firms to begin enrolling workers launched in the UK in October 2012. From October 2012 to March 2013, only limited data for NEST employers and members were available. For this report, we therefore determined that data from April 2013 onwards provided a more robust picture of trends.

The statistics reported in this publication reflect various parts of this 5-year period. Some tables and figures represent cumulative activity. Others report either specific "as at 31 January 2018" statistics or yearly numbers aggregated for each fiscal year (FY) spanning 1 April to 31 March. Specific time periods are noted throughout the text and displayed on all the figures.

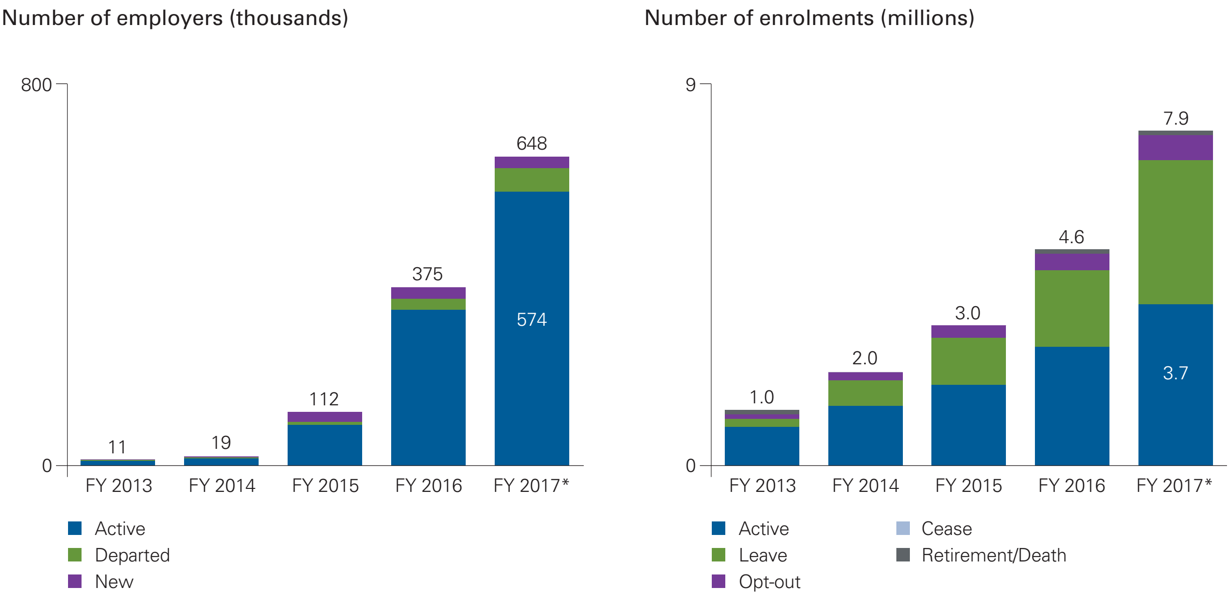
NEST employers and members

The data in this section reflect cumulative employer and member data to 31 January 2018 except where noted.

Growth in membership

Initially, employer obligations under mandatory automatic enrolment were phased in by firm size, starting with the largest employers and then turning to mid-sized and small employers. Over this period, employers were required to choose a 'qualifying workplace pension scheme', with NEST as one option available to all employers. From FY 2013 to FY 2017, a total of 612,000 employers and over 6 million unique members joined NEST (see Figure 1).

Figure 1. Yearly adoption since NEST inception



*Partial year – 10 months to 31 January 2018

Note: Departed includes employers who cancelled their enrolment or became insolvent.

Source: NEST, Vanguard, 2018.

As at the end of FY 2017, NEST managed active relationships with a total of 574,000 employers and 3.7 million members. Active employers have a DC pension administration relationship with NEST; active members are actively employed workers enrolled into NEST by their employer or self-employed workers who have enrolled themselves into NEST and not yet retired or died.

In any given year, a significant portion of NEST members, around four in ten, leave their employer, so they no longer contribute to their NEST retirement pots. A small percentage either opt out (currently 6% among new employees) or cease contributions (<2% of current members). Even fewer leave due to retirement or death.

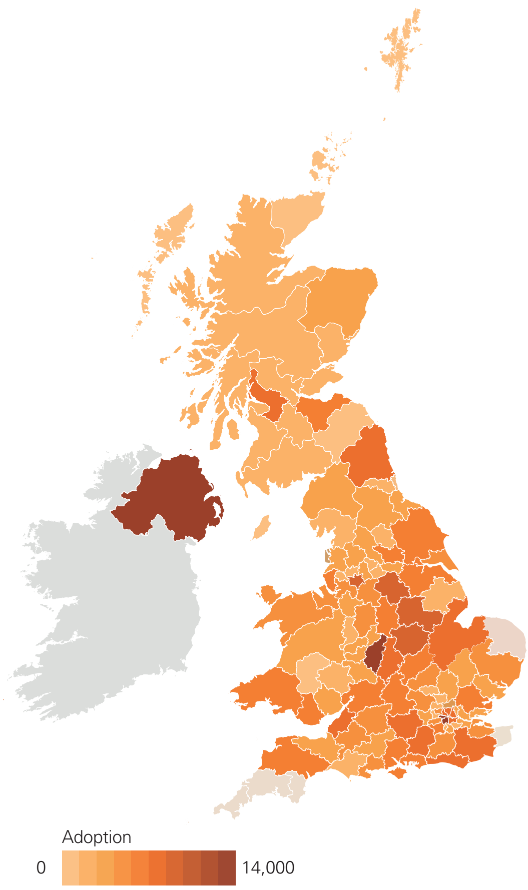
While NEST has experienced rapid growth in employer and member adoption over the past five years, the rate of growth will slow considerably now that mandatory automatic enrolment staging under UK pension law is complete.

Employer characteristics

NEST employers are located across the UK in major cities, suburban areas and rural communities, as shown in Figure 2. The highest concentrations of NEST employers (measured by count) are in the major metropolitan areas, including London and Birmingham, and in Northern Ireland.

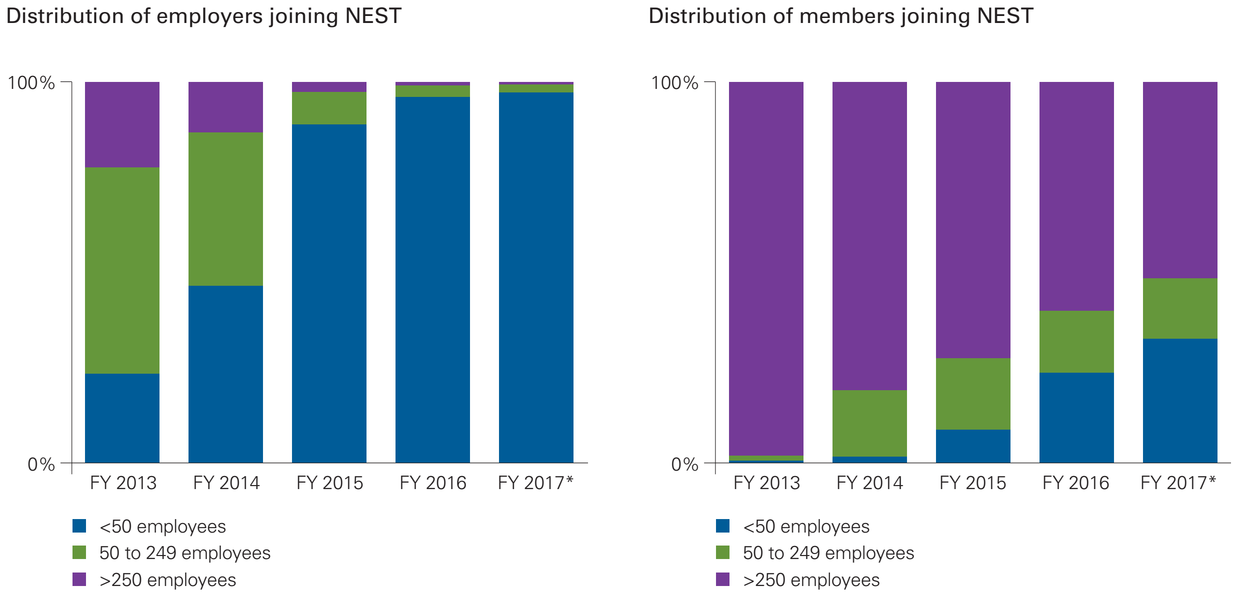
Reflecting the gradual phase-in of the employer mandate for automatic enrolment, the composition of NEST employers was dominated by mid-sized firms with 50 to 249 employees and larger firms with 250 or more employees in FY 2013, as shown in Figure 3. By 31 January 2018, virtually all employers joining NEST were firms of fewer than 50 employees. Yet when viewed in terms of total members, the overwhelming majority of members joining NEST in FY 2013 were from larger firms with more than 250 employees. As of the most recent fiscal year, a large proportion of NEST's members come from larger firms.

Figure 2. Count of employers by post code



Source: NEST, Vanguard, 2018.

Figure 3.	Employers and members joining NEST over time



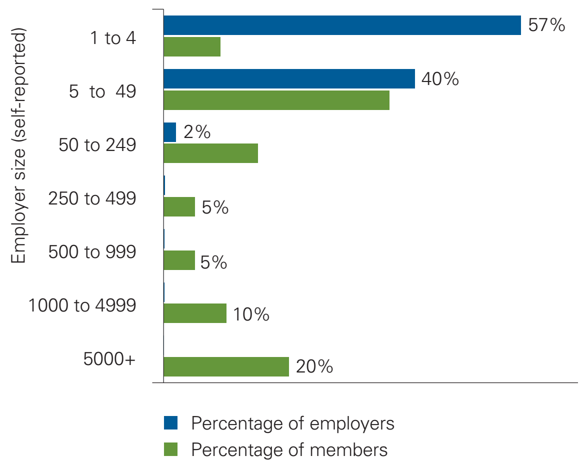
*Partial year – 10 months to 31 January 2018

Source: NEST, Vanguard, 2018.

These findings underscore an important point: although NEST's employer relationships are dominated by small firms (consistent with the fact that 99% of all UK employers are small and medium-sized enterprises), its member relationships reflect a large percentage of employees at mid-sized and large firms. As at 31 January 2018, fewer than 1% of NEST employers were firms with 250 or more workers. Yet these firms accounted for 40% of NEST members, as shown in Figure 4. The remaining 99% of NEST employers accounted for the remaining 60% of members. Importantly, these results are consistent with the policy ambitions underpinning NEST – that it should be a tool of universal availability and usage, which can be used by all employers, especially smaller and mid-sized firms, to discharge their auto enrolment duties.

Figure 4.	Distribution of NEST membership by employer size

Active members enrolled with active employers as of 31/01/2018



Source: NEST, Vanguard, 2018.

NEST employers represent an exceptionally wide variety of industries (see Figure 5). Just under half of NEST employers are divided among the top ten industry classifications, with the largest being Retail, Hire and Repair (8%), Construction (8%), Health and Social Care (6%), Catering and Accommodation (6%) and Professional, Scientific and Technical (4%). Despite the numerous options available to categorise firm industry, nearly four in ten employers are either classified as Other (25%) or are not reported (13%).[12]

Figure 5. Active employers by industry category

Top 10 categories	%	Cumulative %
Retail, Hire and Repair	8%	8%
Construction	8%	16%
Health and Social Care	6%	23%
Catering and Accommodation	6%	28%
Professional, Scientific and Technical	4%	32%
Manufacturing	4%	36%
Charity	3%	39%
Agriculture, Forestry and Fishing	3%	42%
Personal Services	3%	45%
Financial and Insurance	2%	47%
Next 11 categories		
Arts, Sports and Recreation	2%	50%
Education	2%	52%
Transportation and Storage	2%	54%
Information and Communication	2%	56%
Administration and Support Services	2%	57%
Real Estate	2%	59%
Wholesale	2%	61%
Employment	1%	61%
Mining, Energy and Utilities	0.2%	62%
Public Administration	0.2%	62%
International Councils and Bodies	0.02%	62%
Top 21 categories	*62%*	
Not categorised		
Other	25%	87%
Not reported	13%	100%

Source: NEST, Vanguard, 2018.

Member characteristics

The data in this section reflect member characteristics as at 31 January 2018.

Figure 6 shows that NEST's membership, including both active and inactive members,[13] skews to the younger, lower-to-moderate income workers. The typical NEST member was 38 years old and earned £18,534 per year. Fifty-four per cent were male and 46% female. Nearly half of all members were below 35 years old. Over half earned less than £20,000 annually. However, there is a wide variance in member characteristics: nearly 15% of members are 55 and older, and over a quarter earn more than £25,000 annually.

There are slight demographic differences between active and inactive members (see Figure 7). Active members are slightly older and have slightly higher income, consistent with the primary driver of inactivity being job churn. Among active members, the majority have held a pension account with NEST for less than one year, emphasising both the recency of NEST's creation as well as the significant workforce turnover among the NEST population.

NEST members work across a variety of industries, as also shown in Figure 7. The best-represented industries, accounting for nearly half of NEST members, were Employment (14%), Health and Social Care (14%), Retail, Hire and Repair (9%), Catering and Accommodation (9%) and Manufacturing (6%).

12 Note 'Personal Services' includes sub-industries such as hairdressing, gyms, dry cleaners, launderettes and membership of organisations such as trade unions. It also includes employment within domestic households.

13 Inactive members have either left the employer who enrolled them, chosen to stop contributing or have been transferred to a different provider by their employer.

Figure 6. NEST member demographics

	All members	Active members	Inactive members
		54%	37%
	average (median)	average (median)	average (median)
Age	39.9 (38.0)	40.2 (39.0)	37.8 (35.0)
Tenure	1.9 (1.5)	1.4 (1.0)	2.5 (2.4)
Annual earnings (where reported)	£20,927 (£18,534)	£21,310 (£18,922)	£19,289 (£17,099)
Gender			
Female	46%	48%	44%
Male	54%	52%	56%
Member age			
Less than 25	8%	10%	8%
25 to 34 years	35%	32%	44%
35 to 44 years	22%	22%	22%
45 to 54 years	20%	22%	17%
55 to 64 years	14%	14%	9%
Greater than 65	1%	1%	1%
Scheme tenure			
Less than 1 year	37%	51%	17%
1 to <2 years	24%	25%	24%
2 to < 3 years	14%	10%	20%
3 to < 4 years	14%	8%	22%
4 to < 5 years	10%	6%	16%
5 to <6 years	0.4%	0.2%	0.6%
6 or more years	0.01%	0.01%	0.01%
Annual earnings			
£5,876 to £9,999	8%	8%	11%
£10,000 to £14,999	23%	22%	26%
£15,000 to £20,000	26%	25%	27%
£20,000 to £25,000	17%	17%	16%
> £25,000	26%	28%	20%

NOTE: Active members are either having NEST contributions managed by their employer or are self-employed. Inactive members have either left the employer who enrolled them, chosen to stop contributing or been transferred to a different provider by their employer. Active and inactive members do not sum to 100% because of members who exited or opted out.

Source: NEST, Vanguard, 2018.

Figure 7. NEST membership by industry

	All members	Active members	Inactive members
		54%	37%
Industry category			
Top 10 categories			
Employment	14%	9%	22%
Health and Social Care	11%	13%	9%
Retail, Hire and Repair	9%	11%	8%
Catering and Accommodation	9%	9%	11%
Manufacturing	6%	7%	5%
Construction	4%	5%	2%
Administration and Support	3%	2%	4%
Education	3%	3%	2%
Charity	2%	3%	2%
Transportation and Storage	2%	3%	2%
Next 11 categories			
Financial and Insurance	2%	2%	2%
Professional, Scientific	2%	2%	1%
Arts, Sports and Recreation	2%	2%	1%
Wholesale	1%	2%	1%
Agriculture, Forestry and	1%	1%	1%
Information and Communication	1%	1%	1%
Real Estate	1%	1%	1%
Personal Services	1%	1%	1%
Mining, Energy and Utility	0%	0%	0%
Public Administration	0%	0%	0%
International Councils and Bodies	0%	0%	0%
Not categorised			
Other	21%	22%	21%
Not reported	5%	1%	4%

NOTE: Active members are either having NEST contributions managed by their employer or are self-employed. Inactive members have either left the employer who enrolled them, chosen to stop contributing or been transferred to a different provider by their employer. Active and inactive members do not sum to 100% because of members who exited or opted out.

Source: NEST, Vanguard, 2018.

Impact of automatic enrolment

The section reflects cumulative enrolment data as at 31 January 2018.

Auto enrolment versus active choice

The formation and growth of NEST were direct outcomes of the new UK policy on automatic enrolment. During the auto enrolment staging period, firms auto-enrolled existing workers into a 'qualifying workplace pension scheme', which could be either DB or DC but in practice has been largely the latter. After their staging period, firms auto-enrol new workers into the pension scheme. In both of these instances, workers have the right to opt out or quit the savings programme. And finally, every three years, employers are required to re-enrol or sweep non-saving workers into the pension scheme. At that point, workers again have the right to opt out of the scheme.

Given the central role of auto enrolment, the overwhelming majority of active NEST members (92%) were automatically enrolled into the NEST pension scheme, as shown in Figure 8.

Figure 8. Methods of enrolment – all active members

Automatic enrolment	92%
Opt in with employer contribution	3%
Opt in without employer contribution	0.7%
Voluntary enrolment before duty date	2%
Self-Employment	0.1%
Other	2%

Source: NEST, Vanguard, 2018.

Meanwhile, another 8% enrolled via 'active choice' – a voluntary decision to contribute to NEST. In total, 3% of members fell below the minimum earning limit for automatic enrolment (less than £10,000) but actively enrolled in the scheme; and just under 1% fell below the limit to receive a minimum employer contribution but also chose to enrol.

Two per cent of members were enrolled by employers who voluntarily met their mandatory pension obligation prior to their assigned duty date. Only 0.1% of members are self-employed and chose to enrol in NEST. While active choice is small as a percentage of NEST's total membership, it is significant in absolute terms – representing around 280,000 workers in total, many of whom have very low incomes.

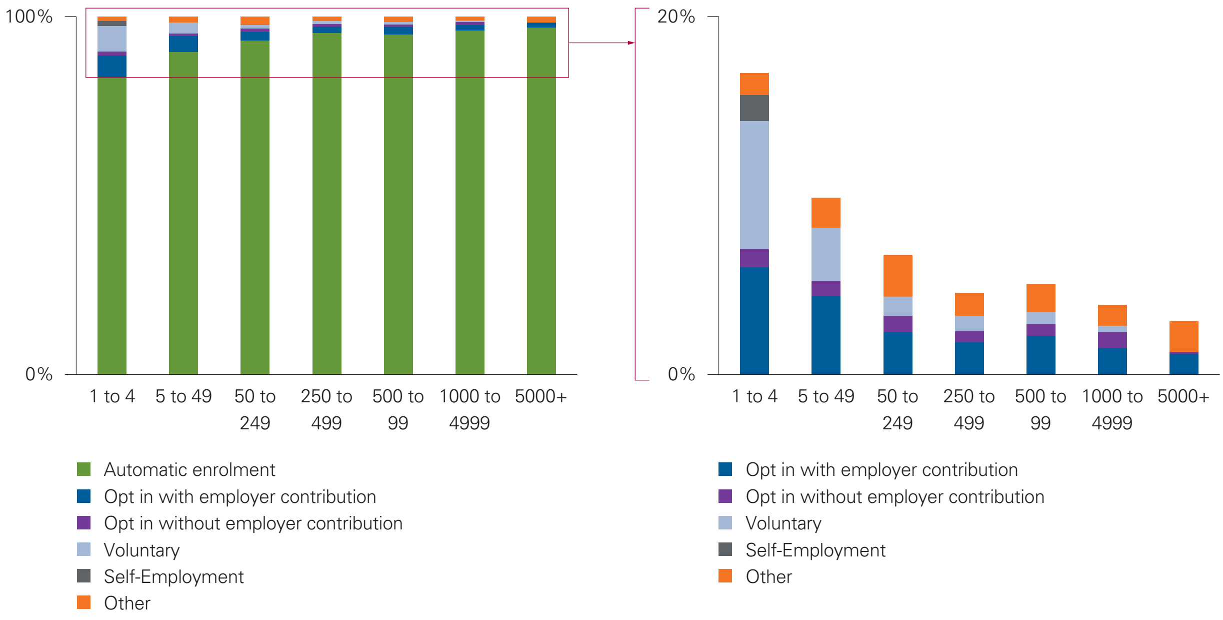
Finally, 2% of enrolments are classified as 'Other'; typically where a member had previously been enrolled and then their enrolment was cancelled in error.

Regardless of employer size, the overwhelming majority of members were automatically enrolled. However, most of the members who actively opted into NEST are employed by smaller firms. Interestingly, micro employers (7%) were the most likely to meet their obligations voluntarily prior to their mandatory dates (see Figure 9).

There are distinct differences between those members who were automatically enrolled and those who actively chose to participate in NEST (see Figure 10). Members who actively chose to enrol were more likely to be women and to be under the age of 25. They were also more likely to be earning incomes below £10,000 per year (but above the minimum earning level). This is of course intuitive since those earning below £10,000 per year represent the group eligible to opt in; were their incomes higher, they would have been automatically enrolled.

Figure 9. Methods of enrolment by employer size

Percentage of active members enrolled



NEST, Vanguard, 2018.

Figure 10. Demographics and method of enrolment

Percentage of active members enrolled

	Auto enrolment	Active choice
% of active members	92%	8%
Female	47%	54%
Male	53%	46%
Age		
Less than 25	9%	19%
25 to 34 years	32%	24%
35 to 44 years	23%	21%
45 to 54 years	22%	21%
55 to 64 years	14%	13%
Greater than 65	0%	0%
Annual earnings		
£5,876 to £9,999	7%	17%
£10,000 to £14,999	22%	22%
£15,000 to £20,000	26%	22%
£20,000 to £25,000	18%	15%
> £25,000	28%	25%

Source: NEST, Vanguard, 2018.

Opt-out rates by method of auto enrolment

Automatically enrolled members join NEST in one of three ways:

- Staging enrolment, during the initial roll-out of auto enrolment requirements for employers;
- Ongoing enrolment, when they join a new employer; or
- Mandatory re-enrolment as a result of the requirement to re-enrol opted-out workers every three years.

There are distinct differences in opt-out rates among these various groups and so behaviour under auto enrolment must be evaluated separately.

During the staging of mandatory automatic enrolment, existing workers were automatically enrolled at 2% of eligible earnings. The opt-out rate among this group was 11%. Newly hired workers, by comparison, had a much lower opt-out rate at 6%. Since staging enrolment is now complete, future opt-out rates are expected to be closer to the ongoing enrolment rate of 6%, although they are likely to be impacted by individuals' enrolment experiences.

In terms of member demographics and enrolment method, during staging enrolment there was no difference in opt-out rates between men and women (see Figure 11). During ongoing enrolment, women were only slightly more likely to opt out than men, a difference of just two percentage points. In both groups, opt-out rates increase with age, are significantly higher among older workers and the highest among workers at or near retirement age.

Employers have the option of auto-enrolling workers above the statutory 2% minimum. Opt-out rates are higher among plans that choose higher initial contribution rates. For example, opt-out rates among firms enrolling workers directly at or just below the eventual full contribution rate (those enrolling at 6%–8% of salary) were around 15%.

This statistic needs to be interpreted with caution. It is drawn from a very small number of firms. Moreover, these firms are largely among the smallest and therefore represent a much lower proportion of total enrolments. When minimum contributions rise, most workers will already be saving or have some experience of saving. This might make them less likely to cease contributing in response to rates increasing over time. However, it is noteworthy in that, while higher than the comparable overall rate for other firms (8%), this rate is nonetheless still significantly below the projections of the overall opt-out rate prior to 2012.

Figure 11. Opt-out rates by enrolment group

	Staging enrolment	Ongoing enrolment
Percentage of members	29%	71%
Overall opt-out rate	11%	6%
Gender		
Female	11%	7%
Male	11%	5%
Age		
Less than 25	5%	3%
25 to 34 years	7%	4%
35 to 44 years	9%	5%
45 to 54 years	12%	7%
55 to 65 years	19%	14%
65 to 70 years	34%	28%
Greater than 70	30%	22%
Total scheme contribution		
2%	8%	5%
3% to 5%	11%	9%
6% to 8%	15%	12%
More than 8%	17%	12%
Employer size		
1-4	18%	13%
5-49	11%	7%
50-249	8%	5%
250-499	8%	5%
500-999	8%	5%
1000-4999	8%	5%
5000+	9%	6%

	Staging enrolment	Ongoing enrolment
Nature of business		
Public Administration	19%	23%
Other	19%	23%
Personal Services	9%	14%
Agriculture, Forestry and Fishing	13%	13%
Construction	20%	13%
Manufacturing	18%	10%
Employment	15%	10%
Wholesale	16%	9%
Information and Communication	13%	8%
Charity	12%	7%
Mining, Energy and Utilities	10%	7%
Real Estate	12%	7%
Administration and Support Services	10%	7%
Arts, Sports and Recreation	10%	7%
Financial and Insurance	12%	6%
Professional, Scientific and Technical	9%	6%
Health and Social Care	9%	6%
Transportation and Storage	11%	6%
Missing	13%	6%
Catering and Accommodation	11%	6%
Education	10%	5%
Retail, Hire and Repair	11%	5%
International Councils and Bodies	6%	3%

Source: NEST, Vanguard, 2018.

Opt-out rates also depend on plan size and industry. They are highest among small and micro employers and lowest among the largest employers. Among ongoing enrolments, opt-out rates are highest among workers in Public Administration who are most likely to have access to other pension schemes.

In terms of mandatory re-enrolment, around 110,000 members were re-enrolled under the three-year rule. These members had an opt-out rate of 13%, representing just 0.2% of total opt-outs from NEST (see Figure 12). This can be explained by the fact that only some firms reached the three-year date within the period in question, and relatively few of those who originally opted out were still at the same firm three years later. This group had an opt-out rate of 13%.[14] Similar to the other groups, opt-out rates on re-enrolment increase with age, plan size and total contribution amount.

The re-enrolment figures are interesting in the sense that 100% of these workers initially chose to opt out of the NEST pension scheme or ceased contributing. Three years later, 87% of these re-enrolled workers stayed enrolled. This statistic underscores the effectiveness of the three-year mandatory rule in encouraging those who opt out to resume saving in the pension scheme, suggesting that for many, the drivers of opting out on any given occasion are temporary and circumstantial rather than any systematic objection to retirement saving.

Figure 13 shows that over half of these re-enrolled members work for larger employers and only 2% work for small employers. This pattern is due to the fact that the smallest employers were staged last during the roll-out of auto enrolment, and insufficient time has passed for the three-year rule to take effect.

Figure 12. Mandatory 3-year re-enrolment – opt-out rate

	3-year re-enrolment
Percentage of members	0.2%
Overall opt-out rate	13%
Gender	
Female	13%
Male	13%
Age	
Less than 25	3%
25 to 34 years	6%
35 to 44 years	10%
45 to 54 years	15%
55 to 64 years	32%
Greater than 65 years	52%
Total scheme contribution	
2%	12%
3% to 5%	20%
6% to 8%	35%
More than 8%	33%*
Employer Size	
1-4	7%
5-49	9%
50-249	9%
250-499	13%
500-999	14%
1000-4999	10%
5000+	17%

*Majority from micro employers

Source: NEST, Vanguard, 2018.

Figure 13. Mandatory 3-year re-enrolment by employer size

Distribution of employer size	
1 to 4	<0.5%
5 to 49	2%
50 to 249	29%
250 to 499	11%
500 to 999	10%
1000 to 4999	18%
5000+	29%

Source: NEST, Vanguard, 2018.

14 This rate is not comparable to prior opt-out rates because of the different nature of the automatic re-enrolment population.

Figure 14. Reasons members opt-out

All enrolled employees who opted out

		Member age							Enrolment type	
		<25	25-34	35-44	45-54	55-64	65-70	>70	Staging	Ongoing
No reason specified	56%	55%	56%	55%	55%	57%	61%	67%	52%	59%
I already save in a pension scheme	14%	4%	8%	15%	19%	16%	12%	8%	17%	12%
I can't afford it	7%	15%	12%	9%	6%	3%	1%	1%	7%	7%
I don't trust pensions	4%	5%	6%	5%	4%	2%	1%	1%	4%	4%
I have other sources of income for my retirement	9%	7%	6%	7%	8%	13%	16%	15%	9%	9%
I plan to rely on the State Pension when I retire	2%	2%	2%	2%	2%	3%	4%	2%	2%	2%
NEST isn't the right pension for me	7%	12%	10%	8%	7%	6%	6%	5%	7%	8%

Source: NEST, Vanguard, 2018.

Rationale for opting out

Figure 14 examines the reasons workers gave for opting out. Just under half (44%) of workers provided a reason for opting out and, of those, one in three workers indicated that they were already contributing to another pension. Another one in five workers stated they have other sources of income for retirement.

Reasons varied by age. Older workers were more likely to be saving in another scheme or indicate that they have other sources of income for retirement. Younger workers were more likely to indicate that they cannot save for retirement or do not feel NEST is the right pension scheme for them. Younger workers were also more likely to mistrust pensions in general. These findings suggest an opportunity to position workplace pensions and their benefits better to workers across the age spectrum.

Finally, even though there is a difference in opt-out rates between staging and ongoing enrolments, the reasons given for opting out of a pension were very similar among the two groups.

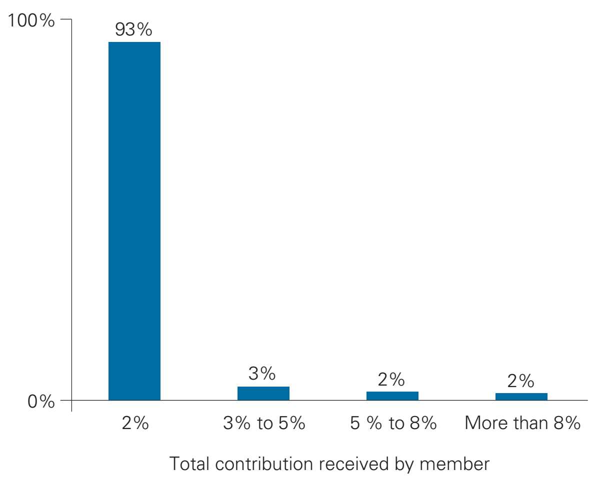
Contributions

The data in this section reflect cumulative employer and member data to 31 January 2018 except where noted. It is important to note that these data pre-date the phasing of increased minimum contributions, taking effect in April 2018 and again in April 2019.

Contribution schemes

During the initial roll-out of mandatory automatic enrolment, the required minimum total contribution to DC pension accounts was 2% of pensionable earnings, including employer and employee contributions and tax relief. As at 31 January 2018, fully 93% of employers enrolled workers at the statutory minimum of 2% total contribution, with the remainder using higher worker and/or employer contributions. (Figure 15 shows the full breakdown.)

Figure 15. Distribution of total contribution rates by employer – active employers



Source: NEST, Vanguard, 2018.

As at January 2018, the majority of employers, covering the vast majority of members, were using a 1% employer/1% employee scheme design – in line with the then-minimum levels required by law. The remaining employers, covering 7% of employees, had elected schemes that exceed the minimum requirement. Meanwhile, 2% of employers had elected schemes that exceeded the mandated minimum of 5% scheduled for implementation April 2019.

While some 6% of employers offered more than the then-minimum contribution of 1%, nearly all were small and micro employers, as Figure 17 shows. Micro employers are also the most likely to enrol workers above 8%. Of the small percentage of employers (0.6%) offering contribution rates greater than 8%, nearly all employ fewer than 50 workers.

A very small fraction of employers (3%) pay for both the employer and employee components of the total contribution.

Figure 16. Overview of employer contribution schemes

Active employers and contributing members

	Percentage of employers					Percentage of members				
	Member contribution rate*					Member contribution rate*				
Employer contribution rate	1%	2 to 5%	6 to 8%	More than 8%	Total	1%	2 to 5%	6 to 8%	More than 8%	Total
1%	93%	1%	0.1%	0.2%	94%	92%	1%	0%	0%	93%
2 to 5%	2%	3%	0.1%	0.1%	5%	5%	1%	0%	0%	7%
6 to 8%	0.3%	0.1%	0.1%	0.0%	1%	0.1%	0.1%	0%	0%	0%
More than 8%	0.3%	0.1%	0.0%	0.2%	1%	0.1%	0.1%	0%	0%	0%

*Member contribution rate includes tax relief contribution rate.

Source: NEST, Vanguard, 2018.

Figure 17. Employer contribution rate by employer size

Percentage of active employers

	Employer contribution rate			
Employer size	1%	2% to 5%	6% to 8%	More than 8%
1 to 4	49%	58%	64%	82%
5 to 49	48%	38%	35%	16%
50 to 249	2%	3%	1%	1%
250 to 499	0.2%	0.3%	0.2%	0%
500 to 999	0.1%	0.2%	0%	0.1%
1000 to 4999	0.1%	0.2%	0%	0%
5000+	0.1%	0.1%	0%	0%

Source: NEST, Vanguard, 2018.

Contributions by member characteristics

Median and average NEST member annual contributions were £142 and £223, respectively (see Figure 18). This includes those members who contributed over only part of the year. Since the primary driver of departure from the scheme is job churn, and since most people who move job will continue to contribute to another scheme, it is also informative to look at average contributions for the subset of members who remained with NEST for the full 12 months (which we refer to as Continuous in Figure 18). The equivalent figures for this group are £300 and £394 respectively. It is also worth noting that, in the context of phased contribution increases, total contributions should increase fourfold by April 2019.

Figure 18. Annual contributions per member

Net of contribution fees, over the year to 31 January 2018

	All	Continuous	Partial
Median	£142	£300	£79
Average	£223	£394	£131

Source: NEST, Vanguard, 2018.

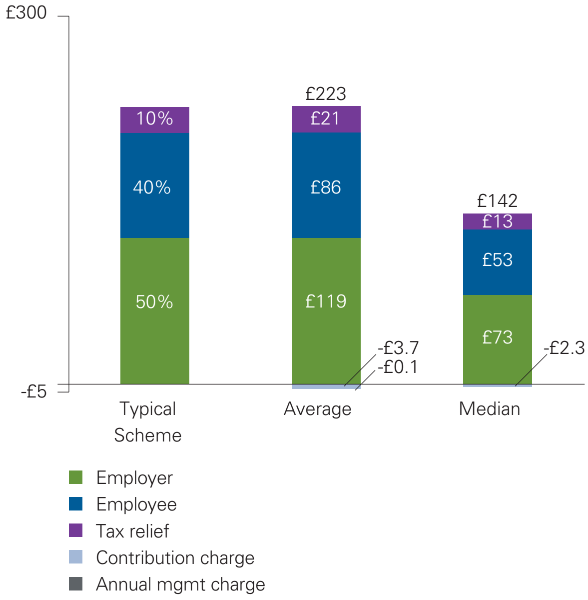
These figures include employer contributions, employee contributions and tax relief. All contributions are net of contribution fees of 1.8% charged by NEST and a 0.3% annual management fee charged on pot balances charged through the year. Employer contributions account for 50%, while employee contributions and tax relief make up the remainder.

Like the distribution of balances, the distribution of NEST contributions is skewed. Seventy per cent of NEST member annual contributions fell below £250 in 2017. While the median contribution represents the worker at the central percentile of the distribution, the average is more typical of a worker at approximately the top 35th percentile of the distribution.

Figure 19. Composition of total contributions per member

Net of contribution fees, over the year to 31 January 2018

All contributing members

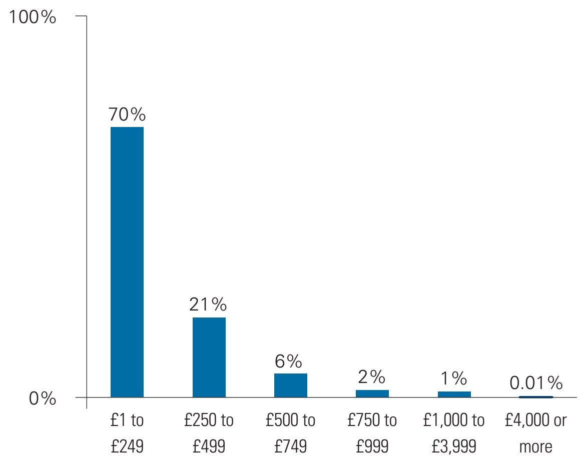


Source: NEST, Vanguard, 2018.

Figure 20. Distribution of annual contributions per member

Net of contribution fees, over the year to 31 January 2018

All contributing members



Source: NEST, Vanguard, 2018.

Figure 21 shows how net member contributions vary by demographic groups. The median contribution for women was 65% of the median contribution of men in 2017. This difference is likely to be due to factors other than gender (see the discussion of gender differences in the account balance section below). Net contributions of workers near retirement, aged 55 to 64, at £174 per year, were almost double the contributions of workers under the age of 25, at £91 per year. Contributions rose sharply with income.

Workers at smaller firms also had generally higher contributions, which is reflective of NEST's mix of employers and the wage characteristics of the covered workers. This also reflects the trend that smaller employers often use NEST universally, enrolling staff ranging from senior executives to the most junior of employees. Larger employers, by contrast, may use NEST more tactically to meet the needs of certain workers, while maintaining alternative plans for higher earners.

Cessation of contributions

At times, a NEST member may decide to cease contributions for a variety of reasons. They may experience competing financial priorities or short-term economic hardships that may require more take-home pay. It is important to distinguish between cessation rates and opt-out rates. A member can only opt out during a specified window of time during the enrolment process. After this time, members that stop contributing to their retirement pots are considered 'ceased' until they leave employment or are re-enrolled into the scheme at some future date.[15]

As reported earlier, the incidence of cessation is very low, currently less than 2% of active members.

Employers may voluntarily choose to report the reasons members stop contributing to their NEST accounts, and we have captured these data in Figure 22. The majority, 60%, report 'no further contributions payable', which can reflect either cessation or employee departure. Another 20% indicate that a member had insufficient earnings in a given pay period.

Figure 21. Contributions by member characteristics

Net of contribution fees, over the year to 31 January 2018

	All contributing members	
	Average	Median
Overall	**£223**	**£142**
Gender		
Female	£193	£121
Male	£268	£185
Age		
Less than 25	£136	£91
25 to 34 years	£203	£136
35 to 44 years	£251	£161
45 to 54 years	£265	£173
55 to 65 years	£261	£174
65 to 70 years	£310	£194
Greater than 70	£418	£181
Scheme tenure		
Less than 1 year	£159	£92
1 to <2 years	£298	£210
2 to < 3 years	£305	£217
3 to < 4 years	£314	£238
4 to < 5 years	£278	£227
5 to <6 years	£383	£269
6 or more years	£2,729	£1,308
Annual earnings		
< £10,000	£35	£23
£10,000 - £14,999	£88	£76
£15,000 - £20,000	£160	£155
£20,000 - £25,000	£246	£252
> £25,000	£472	£413
Employer size		
1 to 4	£265	£157
5 to 49	£173	£119
50 to 249	£210	£133
250 to 499	£269	£181
500 to 999	£243	£162
1,000 to 4,999	£194	£125
5,000+	£171	£119

Source: NEST, Vanguard, 2018.

15 Prior to October 2015, it was possible to distinguish employees who stopped contributing but continued to work with an employer versus those who changed employment. After that date, the reporting distinction was eliminated to simplify recordkeeping and reduce the reporting burden on employers. Members may voluntarily report cessation online but the vast majority do not.

Figure 22.	Reasons for contribution cessation

	March 2013	March 2014	March 2015	March 2016	March 2017	January 2018*	All
No further contributions payable	54%	63%	63%	71%	71%	47%	60%
Member has insufficient earnings	2%	6%	14%	17%	18%	28%	20%
Member has chosen to stop contributing	3%	1%	1%	1%	0.3%	0.2%	0.5%
Reason Unknown	40%	28%	21%	10%	11%	24%	18%
Other	0.3%	1%	1%	1%	1%	1%	1%

*Partial year – 10 months to 31 January 2018

Source: NEST, Vanguard, 2018.

Account balances and adequacy

The data in this section reflect member retirement pot characteristics as at 31 January 2018.

Account balances

For all NEST members with a positive balance, median and average account balances were £200 and £450, respectively, as at 31 January 2018. Balances of active members were higher, reflecting their more regular contributions to NEST, among other factors.

Figure 23.	Member account balances

Members with a positive balance	
Median	£200
Average	£450
Active members	
Median	£278
Average	£563

Source: NEST, Vanguard, 2018.

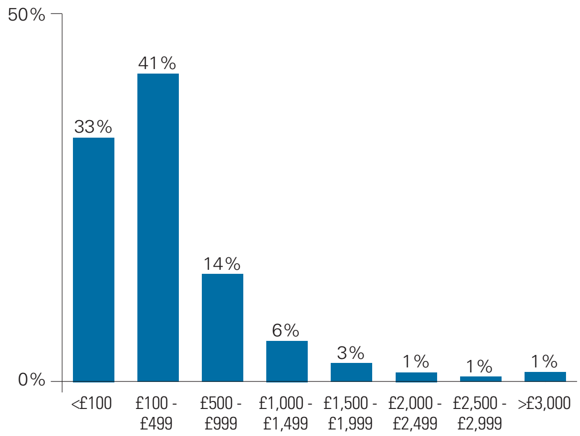
Balances have grown since the inception of NEST, but remain low for several reasons: the newness of auto enrolment and the resulting short scheme tenure; the low wages of many NEST members; and, perhaps most importantly, the fact that minimum contributions started out low and only began to rise in April 2018, after the end of the period covered by this report.

Importantly, as with average contribution levels, these data also need to be seen in the context of members moving between different schemes as they move employers. It is reasonable to assume that those who choose to remain in NEST when enrolled once will also tend to do so when enrolled into other schemes in the future. Therefore, the average pot sizes for savers with any one provider are likely to represent only a partial picture of the assets they are building up in total under the automatic enrolment framework.

Similar to total contributions, it is important to note that the distribution of NEST account balances is skewed (see Figure 24). Seventy-four per cent of NEST members with a positive balance had account values below £500 as at 31 January 2018. While the median balance represents the worker at the central percentile of the distribution, the average balance is more typical of a worker at approximately the top 30th percentile of the distribution.

Figure 24. Distribution of member account balances

Members with a positive pot balance



Source: NEST, Vanguard, 2018.

Balances by member characteristics

Median and average pot balances vary considerably by member demographics, as shown in Figure 25. The median balance for women (£174) was 76% of the median balance for men (£228). Workers aged 55 to 64 had balances that were nearly three times those of workers under the age of 25. Balances rose predictably with income and scheme tenure.

Differences in retirement wealth between men and women illustrate a broader point: certain demographic factors such as gender may be a proxy for other factors such as income. Controlling for income, the median balances for women were higher than those for men for nearly all wage categories (see Figure 26). For incomes below £10,000, women's median balances were 13% higher than men's. For incomes between £10,000 and £14,999, women's balances were 20% higher. Even at higher income levels, there was negligible margin between male and female account balances.

Similarly, controlling for income, median total contributions also vary by gender. Median total contributions are higher in each income category for women below £25,000 a year. Again, as with account balances, at the highest income levels male contributions exceeded females, albeit not significantly.

Figure 25. Account balances by member demographics

Members with a positive pot balance

	Average	Median
Overall	£450	£200
Gender		
Female	£394	£174
Male	£498	£228
Age		
Less than 25	£178	£100
25 to 34 years	£370	£178
35 to 44 years	£512	£226
45 to 54 years	£561	£258
55 to 65 years	£579	£276
65 to 70 years	£680	£290
Greater than 70	£729	£189
Scheme tenure		
Less than 1 year	£222	£114
1 to <2 years	£420	£262
2 to < 3 years	£527	£275
3 to < 4 years	£689	£334
4 to < 5 years	£800	£440
5 to <6 years	£1,567	£863
6 or more years*	£10,832	£6,167
Annual earnings		
< £10,000	£155	£60
£10,000 - £14,999	£232	£122
£15,000 - £20,000	£383	£231
£20,000 - £25,000	£565	£353
> £25,000	£1,035	£612

*Represents 0.1% of NEST members with positive pot balances.

Source: NEST, Vanguard, 2018.

Figure 26. Contributions and pot balances by gender

Members with a positive pot balance

Median account balances	Female	Male	All	Female/male (%)
< £10,000	£62	£55	£60	13%
£10,000 – £14,999	£130	£109	£122	20%
£15,000 – £20,000	£240	£223	£231	7%
£20,000 – £25,000	£363	£346	£353	5%
> £25,000	£603	£615	£612	-2%
Median total contributions (active members)				**Female/male (%)**
< £10,000	£26	£20	£23	31%
£10,000 – £14,999	£86	£68	£76	26%
£15,000 – £20,000	£173	£153	£155	13%
£20,000 – £25,000	£270	£260	£252	4%
> £25,000	£409	£429	£413	-5%

Source: NEST, Vanguard, 2018.

This highlights that the difference in median retirement wealth between men and women, for all but the highest earners, is influenced by differences in savings behaviour and not necessarily wage differences. Having controlled for earnings, women tend to be better retirement savers than men in all income cohorts but the highest earners.

Balances by employer characteristics

Median pot balances also vary by employer size and industry, representing differences in the characteristics of employers choosing NEST – particularly the wages of the firm, whether the firm enrolled at contribution rates above 2% and scheme tenure with NEST.

Figure 27. Account balances by industry

Members with a positive pot balance

Industry	Average	Median
Top 10 categories		
International councils and bodies	£2,810	£910
Mining, energy and utilities	£954	£543
Information and communication	£809	£349
Real estate	£706	£352
Charity	£713	£312
Professional, scientific and technical	£684	£314
Manufacturing	£671	£392
Transportation and storage	£637	£359
Financial and insurance	£553	£202
Wholesale	£558	£309
Next 11 categories		
Construction	£529	£323
Public administration	£559	£165
Arts, sports and recreation	£490	£228
Retail, hire and repair	£462	£232
Education	£460	£156
Health and social care	£453	£223
Agriculture, forestry and fishing	£417	£231
Catering and accommodation	£390	£172
Administration and support services	£366	£151
Personal services	£295	£134
Employment	£214	£94
Not categorised		
Other	£421	£197
Not reporting	£428	£167

Source: NEST, Vanguard, 2018.

By industry, International Councils and Bodies and Mining, Energy and Utilities had the highest median balances, at £910 and £543 respectively, while Personal Services and Employment had the lowest median balances, at £134 and £94 respectively (see Figure 27).

By firm size, as illustrated in Figure 28, the median balance was highest for firms with 50 to 249 workers, at £243.

Figure 28. Pot balances by employer size

Members with a positive pot balance

Employer size	Average	Median
1 to 4	£384	£176
5 to 49	£410	£219
50 to 249	£561	£243
250 to 499	£486	£190
500 to 999	£442	£175
1000 to 4999	£408	£169
5000+	£447	£187

Source: NEST, Vanguard, 2018.

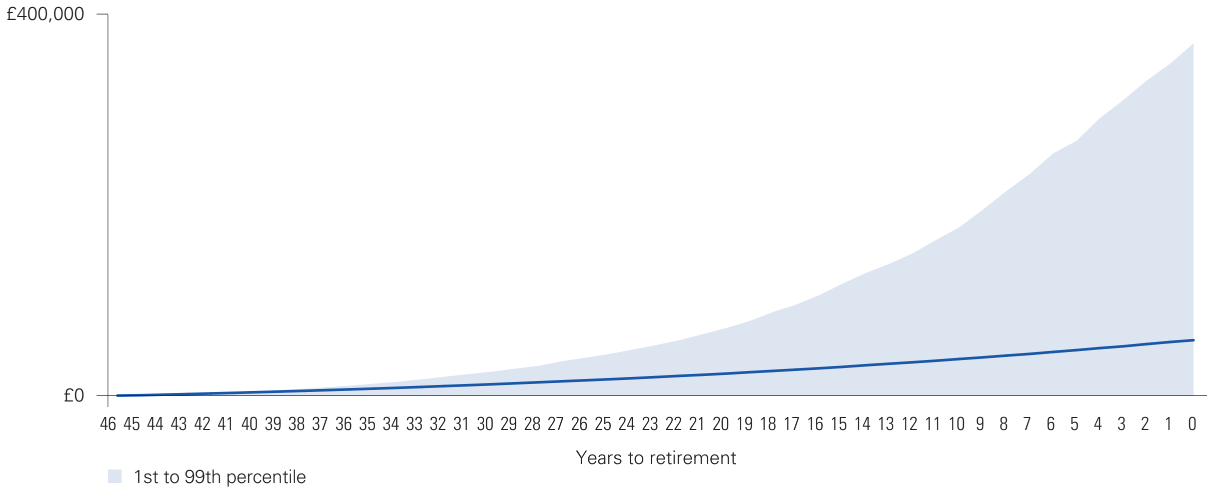
Retirement adequacy

Given that the UK's mandatory auto enrolment policy is in its infancy, current contributions and balances are an imperfect guide to whether NEST will help its members achieve adequate future retirement incomes.

In a forecast of projected pot balances, a 22-year-old with pensionable earnings of £9,187 today might be expected to accumulate a pot balance of around £50,000 in today's money by retirement age (see Figure 29). This might generate an income in retirement of roughly £3,000 per year – a replacement rate of approximately 15%. This represents a significant uplift in income compared to a scenario in which they had not saved at all – which, for many, was the case prior to the introduction of automatic enrolment. Coupled with the State Pension, this represents a total income replacement rate of approximately 55%.

Figure 29. Distribution of retirement pot balances

Projected pot balance for a 22-year-old member with pensionable earnings of £9,187 annually enrolled in 2018



Note: See Method section for more detailed description of projection.

Source: NEST, Vanguard, 2018.

Pension investments

The data in this section reflect member investments as at 31 January 2018.

NEST asset allocation

Assets invested in NEST investment options totalled £2.6 billion as at 31 January 2018. In aggregate these assets were allocated 49% to equities, 24% to investment-grade bonds, 13% to property, 8% to growth credit and 6% to short-term reserves (see Figure 30). This aggregate allocation is the sum of the individual asset allocation of all NEST members, which is largely reflective of the design of NEST's default investment strategy.

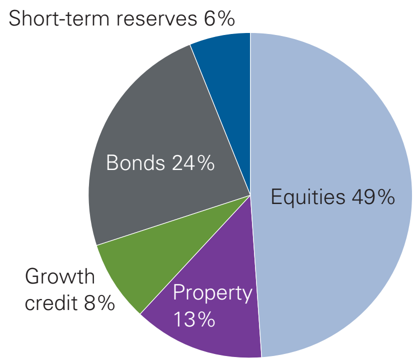
Default fund design and usage

The NEST default investment strategy is a range of age-specific retirement-date funds. At the time of automatic enrolment, workers' contributions are directed to a retirement-date fund based on their expected age of retirement (by default, their expected State Pension age). There is a separate fund for each year in which a member could retire – for example, for 2020, 2021, and so on, up to 2064 at present. In total there are nearly 50 funds in the retirement fund series.

Just over 99% of NEST members were invested in the default investment scheme as at 31 January 2018. NEST's investment menu also includes a lifestyled ethical option, higher-risk and lower-growth options, a pre-retirement option and a sharia option. In total, 1% of members had actively chosen to use these options.

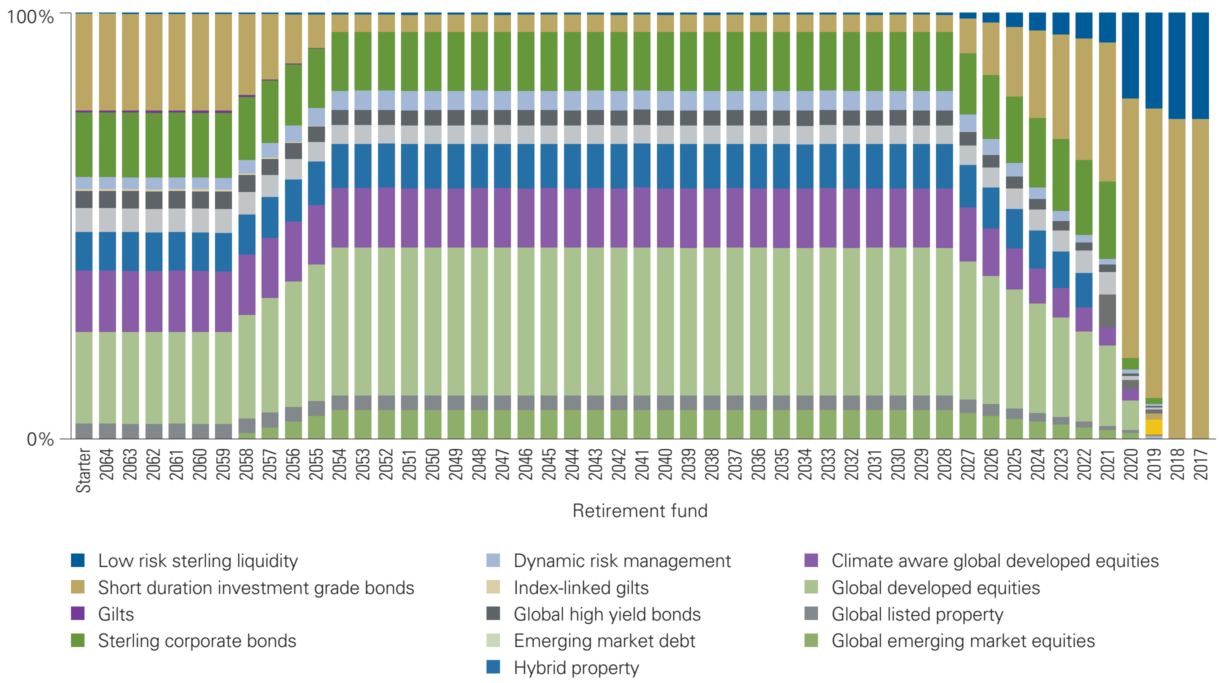
Figure 30. NEST asset allocation

Distribution of member assets



Source: NEST, Vanguard, 2018.

Figure 31. Age-based glide path of NEST retirement funds



Source: NEST, 2018.

Default fund glide path

The NEST retirement funds have a distinctive glide path that underpins how member investment objectives and portfolio risk levels vary with age. We illustrate this glide path in Figure 31.

Asset allocation by member characteristics

Given the importance of the default fund to member portfolios, there is very little variation in asset allocation by member demographics except for age. The spread of assets by age follows the glide path shown in Figure 31.

The distribution of growth allocations across members also reflects the importance of the default fund. Most members had growth allocations in the 50% to 80% range (see Figure 32).

Figure 32. Distribution of growth allocations

Members with positive pot balance

Growth allocation (%)	% of members
0%	1%
1-9%	1%
10-19%	<0.5%
20-29%	0%
30-39%	0%
40-49%	2%
50-59%	20%
60-69%	15%
70-79%	61%
80-89%	0%
90-99%	0%
100%	<0.5%

Source: NEST, Vanguard, 2018.

NEST’s investment approach and rationale

NEST’s investment strategy was designed around international evidence of pension plan savers’ behaviour when it comes to making fund choices, as well as behavioural science evidence of how auto enrolment or ‘opt out’ systems lead to high levels of inertia. The investment approach is based on the expectation that the default strategy would be the primary savings vehicle for the vast majority of members. NEST has designed the structure of the default and additional investment options, and the underlying asset allocation processes, accordingly.

The NEST default investment strategy is a range of age-specific retirement-date funds. Each has a glide path designed to reflect the investment objectives appropriate for the age of individuals in that fund, as they move through working life towards retirement. The asset allocation is managed dynamically as funds move through this glide path so, while the investment objectives are set, the specific allocation of each fund will vary, both through time and as a result of NEST’s investment views.

As at 31 January 2018, the NEST glide path within the retirement-date funds had three distinct phases:

- A foundation phase for members with more than 40 years to retirement (typically those in their early 20s), which includes a modest allocation to growth assets (equities, growth credit and property). The rationale for this modest weighting is to moderate the impact of sharp market declines, which NEST’s behavioural research suggests could discourage younger members from saving for retirement altogether. The objective of this phase is to outperform the CPI measure of inflation after all charges.

- A growth phase with a higher allocation to growth assets for members with between 10 and 40 years to retirement. The objective of this phase is to outperform the CPI measure of inflation by 3% after all charges.

- A retirement phase as members enter the final ten years before their retirement, where the growth allocation is reduced according to how far away members are from retirement, how their funds have been performing and market conditions. For those close to retirement today, their final allocation will constitute 0% growth assets, while members reaching retirement from 2021 onwards will be gradually de-risked into a portfolio with more growth assets which aims to keep pace with inflation after charges. This is based on the premise that members retiring in the short term, having saved with NEST for a short period of time and therefore only built up small pots, are likely to take their money as cash. Members who are retiring having saved with NEST for longer may wish to remain invested through retirement and therefore an inflation-plus objective is more appropriate for them.

The current high rate of default fund usage was expected to be a function of the recent implementation of auto enrolment. It may also reflect the small amounts of wealth accumulated so far. NEST expects the number of members choosing to invest outside of the default investment strategy to increase over time, albeit remaining a small proportion of the overall membership.

Switching behaviour

The data in this section reflect behaviour during the ten-month period from 31 March 2017 to 31 January 2018

Once enrolled into a NEST retirement fund, very few members switch to another fund. Figure 33 shows that, in 2017, fewer than 1% of NEST members changed their investment fund, representing only 1% of overall NEST scheme assets. This muted level of member switching was anticipated and likely reflects the inertia typical of default automation, along with other factors including small account sizes and low engagement levels with pensions in the UK.

Among all investment switches, nearly two-thirds were active, member-initiated choices with the remainder being automatic due to age-based transitions in the default option. Most member-initiated choices led to increased risk-taking. Among members making active choices, one-third of active switchers chose a different NEST retirement fund, and these tended to be longer-dated funds. Most of these switches were within the same glide path phase. Therefore, while their current risk profile was not impacted, their investment risk might have increased by virtue of being invested in the growth phase for longer. Another 19% switched to a higher-risk option other than the default fund.

Regardless of this switching behaviour, on balance over 99% of NEST Retirement Date Fund holders are in the funds they were defaulted into based on their age. Fewer than 1% had switched to funds dated ten years or more from their expected retirement date.

Figure 33. Member investment switching behaviour

Activity between 1 April 2017 and 31 January 2018

Members with a balance	5,784,560
Total assets	£2,603,218,545
Switching members	39,187
Percent of members switching	0.68%
Percent of assets switched	1.15%

Type of switch	Percent of trades
Active: member directed	
Adjust Retirement fund year	32%
From Retirement to High Risk	19%
From High Risk to Retirement	1%
Other member-directed switches	10%
Total active: member directed	*62%*
Automatic: age-based transitions	
From Retirement to Post Retirement	24%
From Starter to Retirement	14%
Total automatic	*38%*

Source: NEST, Vanguard, 2018.

Fund returns

Three-year annualised returns both for NEST retirement-date funds and for other fund choices were generally well above those of the funds' benchmarks as at 31 January 2018 (see Figure 34). This reflects a period of strong global growth and an allocation to asset classes, such as property, that have performed particularly well at certain times within that period. NEST's default investment strategy seeks to manage risk across all phases of the glide path and to avoid unnecessary volatility in members' funds.

Figure 34. Three-year annualised returns

	3-year return	Benchmark return	Benchmark
NEST 2020 Retirement Fund	3.87%	1.71%	CPI
NEST 2040 Retirement Fund	10.05%	4.77%	CPI + 3%
NEST 2060 Retirement Fund	7.60%	1.71%	CPI
NEST Ethical (growth) Fund	11.75%	4.77%	CPI + 3%
NEST Higher Risk Fund	12.44%	13.50%	88% global equities/12% global bonds
NEST Lower Growth Fund	0.57%	0.26%	7 day sterling LIBID rate
NEST Sharia Fund	14.34%	14.65%	Dow Jones Islamic Titans World Index
NEST Pre-retirement Fund	2.02%	1.71%	CPI

Note: CPI = consumer price inflation

Source: NEST, Vanguard, 2018.

Pension transfers

The data in this section represent all pension transfers into and disbursements from NEST accounts as at 31 January 2018 unless otherwise noted.

Moving money out of NEST

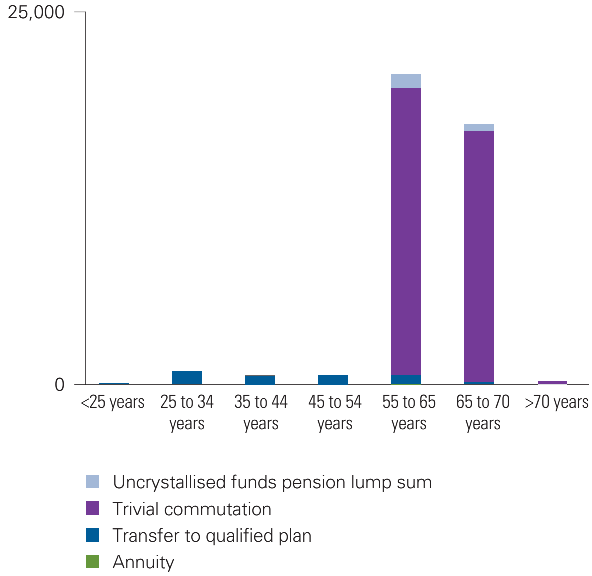
The overwhelming majority of NEST members are in the accumulation phase of retirement saving. As a result, only a small number of NEST members are at or near retirement age and need to use the funds in their NEST accounts. As at 31 January 2018, fewer than 1% of active NEST members had retired, two-thirds of whom had withdrawn money from their accounts.

Regardless of age, members may transfer their accounts to other qualified pension schemes. Members aged 55 and older may also take a lump sum, purchase an annuity or do a combination of the two. In terms of volume of transactions, it is not surprising to find that most disbursements were completed by members between ages 55 and 70.

Trivial commutations (small-balance lump sums) were the dominant form of disbursement. In total, 89% of the members leaving NEST took a trivial commutation, averaging £580 as at 31 January 2018. These lump sums accounted for 77% of monies withdrawn from NEST.

Figure 35. Member disbursements by age

All disbursements from inception to 31 January 2018



Source: NEST, Vanguard, 2018.

Figure 36. Member disbursements by type

All disbursements from inception to 31 January 2018

Total disbursements from NEST

	Assets	Members
Trivial commutation lump sum	77%	89%
Uncrystallised funds pension lump sum*	8%	4%
Transfer to qualified scheme	14%	7%
Annuity	0.3%	0.1%

Disbursements 2013-2017

	March 2013	March 2014	March 2015	March 2016	January 2018*	Total
Trivial commutation lump sums						
Assets	£57,727	£529,993	£3,128,140	£6,189,885	£9,085,358	£18,991,103
Member accounts	246	1,832	6,767	11,475	15,665	35,985
Average	£235	£289	£462	£539	£580	£528
Uncrystallised funds pension lump sum						
Assets				£402,007	£1,549,640	£1,951,647
Member accounts				354	1,136	1,490
Average				£1,136	£1,364	£1,310
Transfer to qualified schemes						
Assets	£510	£3,873	£111,796	£317,269	£3,112,862	£3,546,310
Member accounts	2	15	114	208	2,510	2,849
Average	£255	£258	£981	£1,525	£1,240	£1,245
Annuity						
Assets	£6,389	£395	£2,271	£28,463	£24,090	£61,609
Member accounts	1	2	2	9	9	23
Average	£6,389	£198	£1,136	£3,163	£2,677	£2,679
Total						
Assets	£64,627	£534,262	£3,242,206	£6,937,625	£13,771,950	£24,550,669
Member accounts	249	1,849	6,883	12,046	19,320	40,347
Average	£260	£289	£471	£576	£713	£608

*Partial year: ten months to 31 January 2018
Source: NEST, Vanguard, 2018.

Meanwhile, 4% of members received an uncrystallised funds pension lump sum (UFPLS), with an average UFPLS of £1,310 as at 31 January 2018. The majority of members took the payments in full, but 8% elected to receive partial payments. Ninety per cent of payments were under £3,000 as at 31 January 2018.

Another 7% of members moved money to other qualified schemes, representing 14% of assets, with an average transfer out of £1,245. The use of annuities was virtually zero.

Moving money into NEST

Beginning in 2017, NEST allowed members to transfer pension savings in from other UK-based registered schemes. This scheme feature enables members to consolidate retirement pots for simplified tracking and management.[16]

The change has had a significant impact on the number of transfers as well as the monies transferred into NEST. From FY 2015 through to the first ten months of FY 2017, there was a nearly threefold increase in the number of NEST members transferring funds into their NEST pension accounts, as shown in Figure 38. The value of assets transferred in rose from less than £1 million in FY 2015 to over £7 million in the ten months to 31 January 2018. In the same period, the average transfer in was £7,199.

Figure 37. Uncrystallised funds pension lump sum disbursements

Amount (£)	%
Less than £1,000	67%
£1,000 to £1,900	16%
£2,000 to £2,999	7%
£3,000 or more	10%

Source: NEST, Vanguard, 2018.

Figure 38. Member transfers to NEST

Fiscal year	Assets	Members	Average
2013	£51,712	19	£2,722
2014	£292,877	138	£2,122
2015	£551,670	325	£1,697
2016	£941,972	473	£1,991
2017*	£7,169,999	996	£7,199
	£9,008,229	**1951**	**£4,617**

*Partial year: ten months to 31 January 2018.

Source: NEST, Vanguard, 2018.

16 Prior to the rule changes, there were two reasons why a member could transfer into NEST: an ex-spouse received part of a pension pot as part of a divorce from a NEST member or a worker received a transfer from an employer in exchange for rights in an occupational DB plan.

Conclusion and a look ahead

We hope that this publication will contribute to a better understanding of NEST, its members and the UK policy of automatic enrolment. We anticipate that our findings will be of interest not only in the UK but in a number of other jurisdictions concerned with expanding retirement savings opportunities to lower-wage workers such as those served by NEST.

We expect to issue this publication annually and to expand our longitudinal look at key metrics shaping the system. These include the earnings and demographic characteristics of members; opt-out and cessation behaviours and the impact of auto enrolment; the evolution of contributions and balances over time; changes in investment allocations; and the nature of pension transfers.

The team has also identified a number of other important research questions for the future – either within future iterations of this report or alongside it. These include:

- The effect of the April 2018 (and April 2019) increases in minimum pension contributions;
- Insights on gender differences in retirement scheme behaviour;
- A deeper dive into the drivers and characteristics of those outside the scope of automatic enrolment who nonetheless voluntarily opt in;
- Digital behaviour of NEST members – namely how members interact with their pensions in electronic form;
- Ongoing enrolment and re-enrolment rates and the interaction between labour-market churn and pension scheme coverage – and what this means for the numbers and scale of pots that members hold;
- A deeper exploration of the reasons that lead people to opt out.

We would welcome a collaborative effort between providers of major DC schemes in addressing these topics in the future.

Method

The data included in this report are derived from NEST employer and member activity and are managed by the NEST scheme administrator, TCS. The data are split into three main areas: employer, member and monetary. However, there is a great deal of crossover between these three areas as each member has a relationship with the employers that enrol them and with each monetary transaction that is made by them or on their behalf.

Since the NEST scheme 'soft launched' in 2011, NEST analysts have developed methodologies for defining key events and concepts as described below.

NEST members

This universe consists of over 600,000 employers and six million workers who had joined NEST up to 31 January 2018. A worker becomes a member when they join the NEST scheme through automatic or self-enrolment. A worker will cease to be a member if they opt out during their initial opt-out window or they die or retire.

Members may be classified as active or inactive. Active members are employed with the employer who enrolled them or they are a self-employed person who has not retired or died. They may or may not be making contributions. Inactive members have either left their employer, ceased contributions or moved to a different pension scheme.

NEST enrolment

An enrolment event is an independent event whereby a worker joins NEST through their employer or self-enrolment. In the case of error, enrolments can be cancelled by an employer and are removed from the overall enrolment count. There are different types of enrolment events:[17]

- Automatic enrolment – an eligible job holder is enrolled automatically by their employer.
- Opt-in – an ineligible job holder asks to be enrolled.
- Worker without qualifying earnings (WWQE) – a worker who doesn't have sufficient earnings to meet the contributions threshold asks to be enrolled.
- Voluntary – a worker enrolled through their employer before the employer's automatic enrolment duties begin.
- Self-employed – a self-employed person manually enrolling.
- Other – a worker who has previously been enrolled. This could be because their enrolment has been cancelled in error.

Enrolment types are defined by the timing of enrolment. There are three main types:

- Staging enrolments – enrolments made by an employer when they first became subject to mandatory auto enrolment, i.e. they are enrolling workers for the first time. Employers have a three-month window from their staging date to enrol workers, known as the 'waiting period'.
- Ongoing enrolment – enrolments of newly hired workers made by NEST employers who are beyond their waiting period.
- Automatic re-enrolment – enrolments made by an employer under the legal requirement to re-enrol workers every three years following their staging date.

Each of these enrolment types can include workers who have been enrolled into NEST previously and those who are new to NEST. If a worker has been enrolled into NEST previously we call them a 'returning member' or a 'returning enrolment'. It should be noted here that, due to legal constraints on retaining personal data, workers who opt out of NEST upon enrolment cannot be matched if subsequently enrolled at a later date. It is therefore impossible to identify enrolments of previously opted-out workers.

Opt out and cessation

Both concepts result in a worker not participating in NEST but they are defined differently based on their timing. A worker may choose not to participate in NEST by opting out during the opt-out window, typically one calendar month after enrolment. The choice not to participate after the opt-out window is considered cessation.

17 Enrolment types are described in full here https://www.nestpensions.org.uk/schemeweb/NestWeb/public/helpcentre/contents/what-are-the-different-enrolment-types.html.

Cessation is the termination of contributions to a NEST account. A worker who wants to stop contributing to NEST will either do so using their online NEST account or by informing their employer that they intend to stop contributing. Because of a simplification of reporting requirements, employers are no longer required to report cessation activity to NEST. Therefore, it is not possible to distinguish workers asking their employers to cease contributions from those leaving employment. In some cases, cessation occurs because a worker falls below the earnings requirement.

Deriving member earnings

Member earnings are calculated using data provided by employers on pensionable pay each time a contribution is made. This analysis provides an average annualised pensionable pay metric for each member weighted to the timing of the contributions they have made. Gross annual pay is approximated by the addition of the lower earnings threshold for contributions (£5,876 in 2017–2018).

Modelling investment performance

To address the issue of retirement adequacy, the investment team at NEST regularly prepares forecasts of future retirement wealth for members in the scheme. These forecasts take into account a variety of member characteristics, including age, income and scheme turnover, along with projections of future investment returns.

The probabilistic distribution of future pot sizes provided in Figure 29 was calculated using projections of investment returns over the indicated time horizon for the sample member listed. The projections were generated using an economic scenario generator based upon a number of economic assumptions. The distributions provided in the report are based on 10,000 generated scenario paths.

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