Retirement saving in the UK 2022

Member experience from Nest,
the National Employment Savings Trust

Invesco BlackRock

Authored by

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About Nest Insight

Nest Insight is a public-benefit research and innovation centre. Our mission is to find ways to support people to be financially secure, both today and into retirement. We conduct rigorous, cutting-edge research, working collaboratively with industry and academic partners to understand the financial challenges facing low- and moderate-income households. We use these data-driven insights to identify and test practical, real-world solutions. Our findings are shared widely and freely so that people around the world can benefit from our work. For more information, visit: **nestinsight.org.uk**

About Nest Insight's strategic partners

Invesco is an independent investment management firm dedicated to delivering an investment experience that helps people get more out of life. Building on its strong track record in defined contribution research, and its existing partnership with the University of Cambridge Judge Business School, Invesco partnered with Nest Insight to support their ambitious programme of research, publications and events. For more information, visit: **invesco.co.uk**

NYSE: IVZ

BlackRock is a global investment manager serving the UK market for more than 30 years with a purpose to help more and more people experience financial wellbeing. BlackRock's Emergency Savings Initiative is made possible through philanthropic support from the BlackRock Foundation. The initiative brings together partner companies and non-profit financial health experts to make saving easier and more accessible for low- to moderate-income people across the US and UK, ultimately helping more people to establish an important financial safety net. For more information, visit: **blackrock.com/corporate/about-us/social-impact**

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Foreword

Helen Dean, CBE
Chief Executive Officer,
Nest Corporation

I'm proud to introduce 'Retirement saving in the UK 2022', the fifth annual research report in Nest Insight's series. This detailed analysis of Nest's membership continues to shed light on pension saving behaviours across the country.

In this series of reports, Nest Insight has continuously revealed significant trends about the development of the Nest pension scheme and the UK's auto enrolment system. This year is no exception. This report provides comprehensive commentary on emerging trends in Nest's data and is complemented by Nest member surveys and official data from organisations such as the Office for National Statistics (ONS).

The 'Retirement saving in the UK' series covers the largest section of pension savers in the country. Nest has over 11 million members – that's more than 1 in 3 UK workers. This scale means that the evidence from Nest's data and surveys really does reflect the wider labour market, particularly the low and moderate earners that the scheme was set up to serve.

This depth of research provides vital insight into pension saving in 2021/22, a year that was once again dominated by the effects of the coronavirus pandemic. As we saw in last year's report, the contribution levels paid by employers and members using Nest have largely remained stable. It has very much continued to be business as usual for Nest over the last year. This is despite the ending of government interventions such as the Coronavirus Job Retention Scheme (CJRS), which helped to soften the economic effect of lockdowns and restrictions.

This stability is evident in the volume of employers setting up with Nest. Approximately 1 million businesses have registered with the scheme, that's around a 10% increase from 2020/21. Despite a turbulent couple of years, this shows the continued strength of the UK labour market and the product that Nest offers to employers.

In terms of workers, there has continued to be impressive growth in the number of member enrolments. Pension pot values and contribution amounts have also steadily increased from 2020/21 levels and there has been a noticeable drop in opt-out rates. With the increases to mandatory minimum contributions that took place in 2019 and uncertain labour market conditions since 2020, the auto enrolment system and the Nest scheme are proving to be robust.

Of course, savers and employers now face a new set of significant challenges. Towards the end of 2021/22, the wider economic effects of the pandemic and global events contributed to a cost-of-living crisis. Rising prices, especially in the utilities and fuel sector, have put increased pressure on household finances. The effects of this are not apparent in Nest's data up to 31 March 2022. However, Nest has asked its members how they are feeling about their finances and these findings are presented in this report's introductory chapter. The cost-of-living crisis is an emerging issue which Nest Insight will continue to report on in future research, and in future editions of 'Retirement saving in the UK'.

Nest Insight's research programme is made possible by support from its strategic partners, BlackRock and Invesco, and by all its funding, research and delivery partners. Through these partnerships Nest Insight is able to conduct a wide range of research. In the past year this has included starting a trial to test how an opt-out joining mechanism could enable many more workers to save for the shorter-term through payroll, and analysing how language and message framing can help savers engage with their pension. I'd like to thank all of these partners – their collaboration helps Nest Insight work towards its mission: to find ways to support people to be financially secure, both today and into retirement.

Finally, I recognise the level of planning, research, and consideration that Nest Insight puts into producing this report. I would like to thank the whole team for continuing to create this valuable resource of data and analysis that's a real benefit to the industry and to policymakers and academics. We know there are further challenges for all pension savers in the near future and beyond – next year's report will be vital in helping the Nest scheme to understand and adapt to the experience of its customers.

Executive summary

This report examines the enrolment, working, saving and investment profile of workplace pension savers in the UK based on data from Nest, the National Employment Savings Trust. With over 11 million members, Nest is one of the UK's largest multi-employer pension schemes.

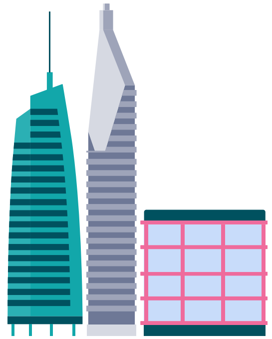
Who are Nest's members?

Gender

Women in the UK are more likely than men to earn less than the auto enrolment threshold. It was expected that Nest's membership would reflect this and have more men than women by a ratio of 2 to 1. However, the gender balance of the membership has evolved to be more even over time and matches the ratio seen in the wider UK labour market.

0.12% of Nest members did not have a gender listed on their enrolment.

Proportionally more Nest members employed in smaller firms are men, with women being more likely to work in larger businesses.



53%

of workers at smaller firms are men

52%

of workers at larger firms are women

Age

It was predicted that auto enrolment would bring more younger workers into pension saving as they were less likely to already be enrolled in a workplace pension. The proportion of Nest members aged 30 or younger is close to the one third figure that was expected.

27%

of Nest members are aged 30 and younger

23%

of Nest members are aged over 50

When compared to pension savers in the wider workforce, referred to as UK eligible employees, there are proportionally more younger workers and fewer older workers in Nest's membership. This is in line with the expectation that older workers were more likely to already be saving in a pension scheme.

Member characteristics

It was always expected that Nest's membership would largely be made up of low and moderate earners who were unlikely to be saving into a pension scheme before auto enrolment. This is borne out in Nest scheme data and in comparison to the wider UK workforce.

Earnings

The target group for auto enrolment was workers with median earnings just under £20,000. This is about 35% less than the earnings of individuals who were already saving in a pension scheme in 2011, before auto enrolment started.

£21.1k

Median annual earnings for active Nest members as at 31 March 2022

£28.2k

Median annual earnings for UK eligible employees in 2021

Men continue to have higher earnings than women among Nest's membership. Men and women in the wider working population, however, have much higher earnings than Nest members.

£24.3k

Median annual earnings for active Nest members who are men

£32.9k

Median annual earnings for UK eligible employees who are men

£18.4k

Median annual earnings for active Nest members who are women

£23.4k

Median annual earnings for UK eligible employees who are women

Part-time working

Men and women among Nest's membership are more likely to work part-time for an employer than men and women in the wider working population. Higher levels of part-time working go some way to explaining why median annual earnings are lower in Nest's membership compared to UK eligible employees.

21%

of Nest members say they work part-time

15%

of UK eligible employees say they work part-time

12%

of Nest members who are men say they work part-time

6%

of men among UK eligible employees who work part-time

27%

of Nest members who are women say they work part-time

25%

of women among UK eligible employees who work part-time

Which employers are using Nest?

Volumes

The number of employers setting up with Nest continues to increase. With Covid-19 causing a turbulent few years for businesses, this sustained growth shows the strength of the UK labour market and the product Nest offers to employers.

1 million

Approximate number of employers registered with Nest

10%

Increase from 2020/21

Employer size

Small and micro-sized firms account for the overwhelming number of employers using Nest.

98%

The proportion of firms among Nest's employer population with fewer than 50 workers. This aligns with the overall proportion of these firms in the wider UK labour market – a trend that's consistent across employers in all size bands.

Evolution of auto enrolment

With the staging of existing employers completed in February 2018 and the second phased increase in contribution rates completed in April 2019, the auto enrolment system has been in a steady state for the past four years.

Enrolments

As at 31 March 2022 around 17.25 million enrolments had been made into Nest. In the initial staging period of auto enrolment, growth in the number of workers being enrolled largely came through employers new to Nest. Today the growth mainly comes from movements in the labour market.

17%

Increase in enrolments in 12 months ending 31 March 2022, compared with 2021

Returning members

UK employers choose which pension scheme they use to meet their auto enrolment duties. With a large number of employers using Nest, it's increasingly likely workers will return to the scheme when they change jobs and move around the labour market.

Nest operates a 'one member, one pot' model. This means if a worker's been enrolled into Nest before and returns to the scheme, they'll pay into the same pension pot.

Nest enrolments that were returning members

30%

as at 31 March 2018

39%

as at 31 March 2022

50%

predicted around 31 March 2026

60%

predicted around 31 March 2036

Who is opting out?

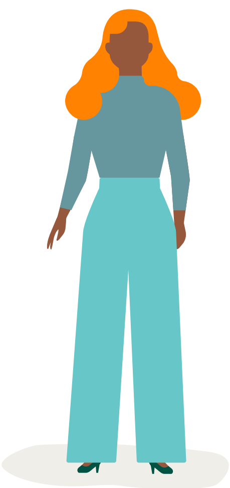
The rate at which workers have opted out of workplace pensions is much lower than predictions made before auto enrolment started. Over the life of the scheme, Nest reports an overall opt-out rate of around 8%.

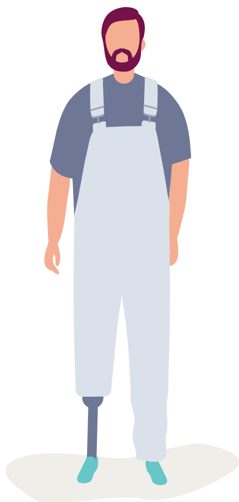
Opt-out rates decreased by around 2 percentage points in 2021/22 compared to 2020/21. This reduction could be due to the labour market disruption caused by Covid-19 easing slightly last year compared to the initial effects of the pandemic in 2020.

8.3%

Opt-out rate for all workers in 12 months ending 31 March 2022

Opt-out rates across most age ranges continue to be higher among men than women. This is a trend that started in 2020/21 and is a departure from previous years when women were slightly more likely to opt out.





7.9%

Opt-out rate for women in 2021/22

8.7%

Opt-out rate for men in 2021/22

Younger workers say that affordability is the main reason they opt out of Nest. For older workers, it's because they have other sources of income. Overall, older workers are more than twice as likely to opt out than younger workers, although this gap did narrow in 2021/22.

53%

of workers aged 30 and younger, who gave a reason for opting out, say they did so for affordability reasons

33%

of workers aged over 55, who gave a reason for opting out, say they did so as they have other income sources

How much is being contributed into members' pension pots?

Under the auto enrolment legislation, a minimum rate of combined contributions from the employer and the worker must be paid on the worker's qualifying earnings if a worker doesn't opt out of, or stop saving into, their pension pot.

Contribution rates

Most employers and members make contributions into pension pots at the minimum contribution rates – 3% for employers, with the remaining 5% to reach the total minimum of 8% coming from members and tax relief.

83%

of Nest employers contribute the minimum 3% of qualifying earnings to their workers' pots

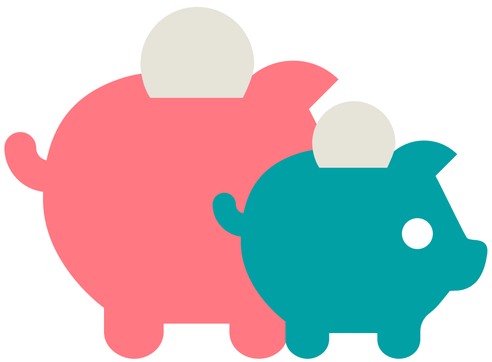
88%

of Nest members contribute 5% (including tax relief) of qualifying earnings to their pot

The very largest employers using Nest are most likely to pay above the minimum 3% contribution – around 60% choose to do this. In contrast, about 80% to 90% of small and micro-sized firms pay the minimum.

9.3%

of members receive more than the minimum contribution of 3% from their employers



Contribution amounts

The frequency at which Nest members pay into their pension pot varies greatly. Members can regularly change jobs and move in and out of periods of contributing. Across the year, members that contribute continuously build up around three times more in their pension pot than those that contribute less frequently.

Around 43% of Nest members contributed to their pot every month in 2021/22. That's a decrease from around 51% in 2020/21 when there was less job movement in the UK due to the Covid-19 pandemic.

£1,390

median value of pot contributions for members who contributed continuously in 2021/22 – this is an increase of around 11% from 2020/21

£350

median value of pot contributions for members who contributed on a part-year basis in 2021/22 – this is an increase of around 10% from 2020/21

Direct contributions

Outside of normal payroll deductions, Nest members can pay additional contributions directly into their pension pot. The volume and value of direct contributions significantly increased in 2021/22.

4 million

approximate number of direct member contribution payments made over the lifetime of the scheme, an increase of 36% on the previous 12 months

£550m

total value of direct member contributions, made over the lifetime of the scheme, an increase of just over 50% in the last 12 months

1.5%

of Nest members have made at least one direct payment into their pot

£85

the average amount of a regular direct contribution paid by a member into their pension pot

£1,235

the average amount of an ad-hoc direct contribution paid by a member into their pension pot

How much is accumulating in members' pots?

Auto enrolment minimum contribution rates have been set at 8% since 2019. Consequently, pot sizes are increasing more rapidly. However, Nest members' pots remain small overall in comparison to more established pension schemes.

£800

Median pot balance for all Nest members as at 31 March 2022

£2,210

Median pot balance for active Nest members as at 31 March 2022

40%

of Nest members had a pot balance of £500 or less as at 31 March 2022

14%

of Nest members had a pot balance of £5,000 or more as at 31 March 2022

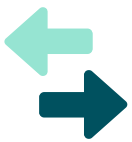
Fund switches

Nest designed its investment strategy with inertia in mind. It was expected that very few members would consider switching funds, and that has proven to be the case so far.

When members join Nest, their money is invested in one of the scheme's default target-date funds called the Nest Retirement Date Funds. Members can choose to switch to an alternative fund that Nest offers.

99%

of members were invested in the Nest Retirement Date Fund they were enrolled in, as at 31 March 2022



0.32%

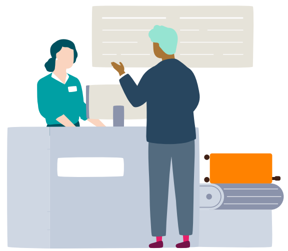
of members chose to switch funds in 2021/22 – over half of these switches were to the Nest Higher Risk Fund

Transfers in and out of Nest

Since April 2017, Nest has allowed members to transfer pension savings to and from other UK-based registered schemes.

Transfers out

Like members of any defined contribution (DC) pension scheme, Nest members can transfer the value of their pension pot into another qualifying scheme at any time.



£2,300

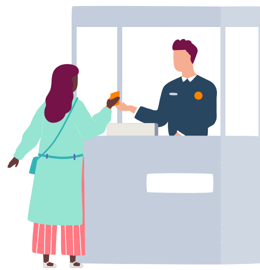
Approximate mean value of transfers out of Nest for 2021/22

180k

Approximate number of Nest members who have transferred funds out of Nest, as at 31 March 2022

Transfers in

It's also possible for members to transfer funds from other pension schemes into Nest, allowing members to consolidate their pots if they want to.



£5,400

Approximate mean value of transfers into Nest for 2021/22

150k

Approximate number of Nest members who have transferred funds into Nest, as at 31 March 2022

The UK's auto enrolment system

The UK government introduced workplace pensions auto enrolment in October 2012.

Under the legislation, workers must be automatically enrolled if they're aged between 22 and State Pension age and also earn a salary equivalent to £10,000 or more a year from their employer. Workers can ask to be enrolled by their employer if they earn less. Employers may also choose to enrol those earning less as a worker benefit. Larger employers were brought into the programme first, with employers of all sizes participating by February 2018.

Employers make contributions each pay period into a qualifying workplace pension scheme. For defined contribution (DC) schemes, the minimum level for these contributions is set out in legislation as a percentage of the worker's eligible earnings. The level of minimum mandatory contributions was increased in phases, starting with 2% of qualifying earnings with at least 1% contributed by the employer, rising in April 2018 to 5% with at least 2% contributed by the employer and rising again in April 2019 to 8% with at least 3% contributed by the employer.

Workers can receive tax relief from the government on their contributions, so that a gross contribution of 5% made by the employee currently involves a net contribution of 4% for most people.

Workers can opt out of auto enrolment within one month of being enrolled. They can also stop contributions at any time. However, they can't usually access the money in their pension pot until they reach age 55.

To learn more, see **Essentials of the UK retirement system**

Chapter 1

Introduction

This latest edition of 'Retirement saving in the UK' explores how trends in Nest's data have developed in the latest 12 months and how employers and members have coped with a turbulent two years.

The 'Retirement saving in the UK' series is now into its third year. The series follows on from two previous editions of 'How the UK Saves', which we produced in partnership with Vanguard Asset Management.

We use Nest's management information data to compile information on how employers and members interact with Nest, making it one of the largest studies of retirement saving in the world.

As with previous editions, we mainly concentrate on data from the latest financial year, in this case covering the period 1 April 2021 to 31 March 2022. However, some figures and tables show cumulative data since the start of auto enrolment in 2012.

In 'Retirement saving in the UK 2021'[1], we used external data from sources such as the Office for National Statistics (ONS) as well as Nest's own bespoke employer and member surveys.[2] This was used to produce a much richer picture of Nest's position within the wider auto enrolment landscape. We also included data and commentary on members' attitudes and expectations regarding their lived experience of savings and of retirement expectations.

With only one additional year of data, and little change in the overall circumstances of Nest members, we do not present an update to this analysis this year. However, we have retained and updated some analysis from external data that helps explain the position of Nest within the wider labour market.

1 nestinsight.org.uk/research-projects/retirement-saving-in-the-uk/
2 This included an analysis of Nest members' ethnicity. Nest does not collect ethnicity data when a member is enrolled in the scheme but does give members an opportunity to self-identify their ethnicity when completing a Nest survey. Please see the 2021 report for this analysis.

Key phrases

Auto enrolment

All eligible jobholders in the UK are automatically enrolled by their employer into a workplace pension scheme as a default for retirement saving

Pension pot

Retirement savings accumulated in a UK defined contribution (DC) workplace pension scheme like Nest

Financial year

Wherever years are mentioned, they refer to Nest's fiscal year, which runs from 1 April to 31 March

"We use Nest's management information data to compile information on how employers and members interact with Nest, making it one of the largest studies of retirement saving in the world."

The ongoing impact of Covid-19

In 'Retirement saving in the UK 2021', we shared research showing Nest members felt uncertain and concerned about the effect of the pandemic on their economic wellbeing. We also highlighted the significant proportions of Nest members who told us they were furloughed. Following the closure of the government's job and self-employment support schemes, Nest surveyed its members again and found that just over one third said they had been furloughed at any stage. This contrasts with 2020/21 survey results showing the highest proportion of Nest's membership furloughed at a particular stage of the pandemic was 17% in June 2020. This suggests that different groups of Nest members were furloughed at different times, resulting in the higher total proportion that were furloughed at any stage.

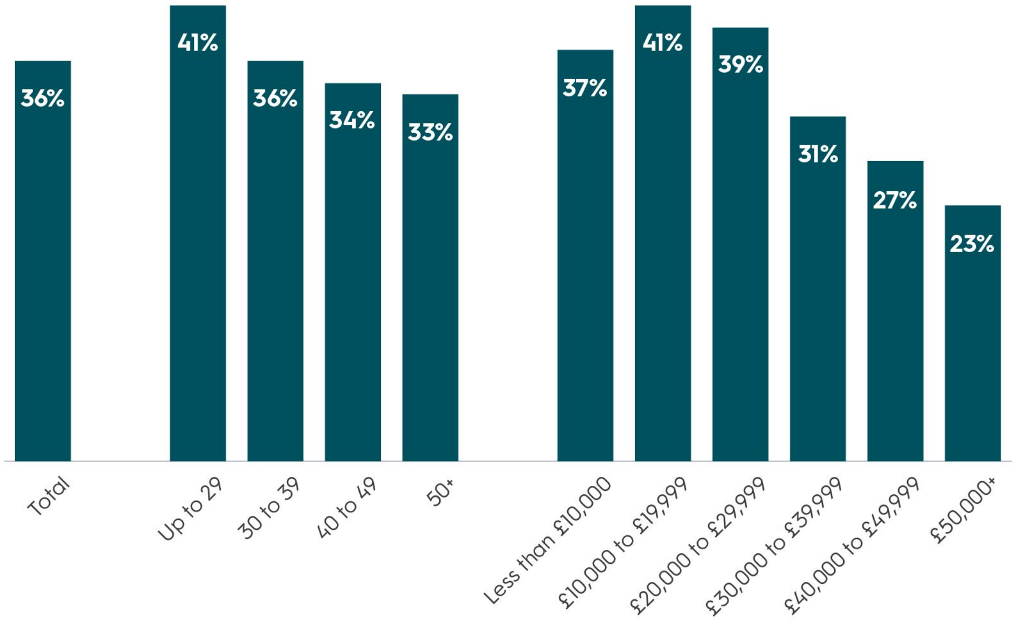
The proportion of Nest members who were furloughed also appears to be higher than the overall working population. ONS analysis[3] indicates that around one quarter (26%) of this population were furloughed, with those aged under 24 or 65 and older (30%) more likely to be impacted.

The higher proportion of Nest members being furloughed could reflect the membership's skew towards lower earners and younger workers, who were more likely to be affected. This is seen in Nest's survey results, with members aged under 30 the most likely to say they had been furloughed (41%), compared to 33% of those aged 50 and older.

There are also significant income differences in this cohort. Around one quarter of members earning £40,000 and above said they had been furloughed, compared to two fifths of those earning less than £30,000.

Although a significant proportion of Nest's membership were financially affected by being furloughed, in last year's report we noted there had been negligible impact on contribution patterns during the pandemic. This was almost certainly a direct result of the government's job retention schemes. In the early months of 2022, Nest has continued to see high levels of contributions paid into the scheme.

Figure 1. Proportion of Nest members furloughed at some stage, by age and income



Source: Nest member survey, December 2021. Base: 3,324. Question: During the Covid-19 pandemic (the past 18 months), were you at any point either on furlough (government Job Support Scheme, JSS), or using the government Self-Employment Income Support Scheme (SEISS)?

3 Office for National Statistics (ONS), **'An overview of workers who were furloughed in the UK: October 2021'** (1 October 2021)

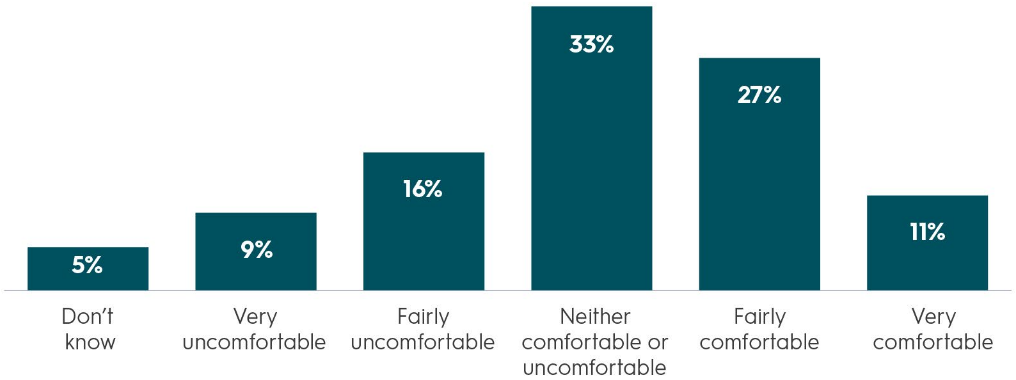
Members' views on the cost-of-living crisis

In the previous two reports in this series, we highlighted how significantly the pandemic had affected the lives of Nest members. Over the past six months, major world events have introduced a new set of challenges. This includes high levels of inflation that were initially driven by supply chain pressures and demand for resources as economies emerged from the pandemic. The Russian invasion of Ukraine exacerbated the issue. With much attention on a cost-of-living crisis, in March 2022 Nest asked its members how they felt about their financial situation.

One quarter (25%) of members described their situation as very or fairly uncomfortable. Those with lower incomes were more likely to feel this way. In a follow up question, Nest asked if members felt they were more or less comfortable than a year ago – it's interesting to note that a higher proportion (31%) said they were less comfortable. This could be an indication that inflationary cost rises were starting to be felt not just by those already struggling financially.

There is clearly a significant proportion of Nest members feeling the impact of the rising cost of living. However, not all members said they felt this way with 37% describing their situation as very or fairly comfortable. Among Nest members aged under 30, almost half (49%) said they felt more comfortable than a year ago. This could be because this age group was more likely to have been furloughed than older members and, after returning to work full time, they now feel slightly better off.

Figure 2. How Nest members feel about their financial situation, March 2022



Source: Nest member survey, March 2022. Base: 1,224. Question: Thinking about your overall personal financial situation currently – how comfortable or uncomfortable would you say you are generally? Numbers may not total 100% due to rounding.

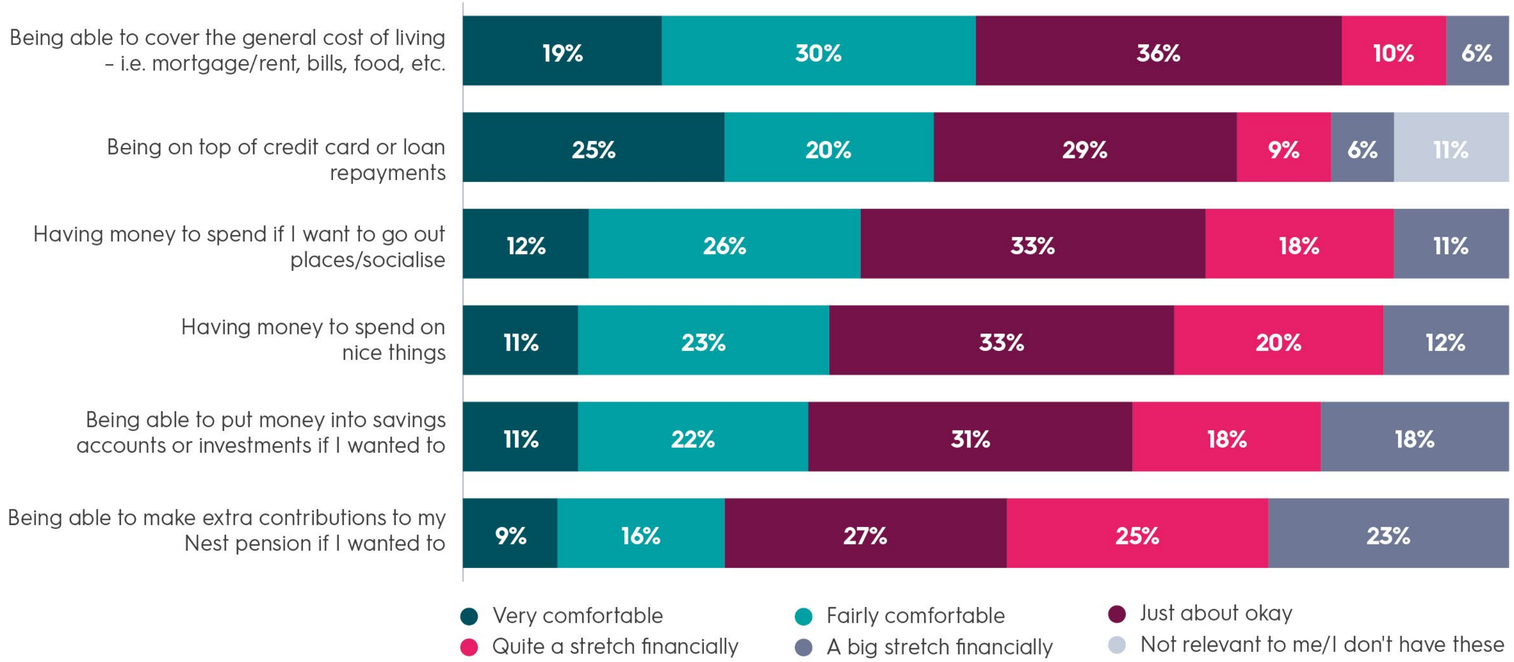
Figure 3. Nest members who feel uncomfortable about their financial situation by income, March 2022

Source: Nest member survey, March 2022. Base: 1,224. Question: Thinking about your overall personal financial situation currently – how comfortable or uncomfortable would you say you are generally?

In addition to asking members how financially comfortable they felt, Nest also surveyed its members in other specific areas. Overall, 16% of members felt that covering the general cost of living was a stretch financially, with 36% feeling it was just about manageable. A similar proportion (15%) felt that covering the costs of credit card or loan repayments was a financial stretch, with 29% saying it was just about manageable. Given the forecasted future energy cost increases in the autumn of 2022, this might indicate that a significantly higher proportion of Nest's membership will find it difficult to cope with day-to-day living expenditure by the end of the year. This is even after the recent announcements of government interventions, such as the £400 energy grant.[4]

A greater proportion of members said it would be a stretch to contribute towards their current and future financial resilience. This includes struggling to pay money into a savings product (37%) or making additional contributions into their Nest pension pot (48%). In addition to reflecting how members feel about their situation, these results are also in line with behavioural finance research[5] that highlights how individuals can find it hard to prioritise saving for the future.

Figure 4. Nest members' views on the affordability of specific issues, March 2022



Source: Nest member survey, March 2022. Base: 1,224. Question: And how would you describe your financial position currently in terms of…? Numbers may not total 100% due to rounding.

4 For information about the range of support being provided see, HM Treasury policy paper, 'Cost of living support factsheet: 26 May 2022' (15 June 2022), **gov.uk/government/publications/cost-of-living-support/cost-of-living-support-factsheet-26-may-2022**

5 There is a large range of literature on this topic, such as Frederick, S., Lowenstein, G., O'Donoghue, T., 'Time discounting and time preference: A critical review'(2002), Journal of Economic Literature, 40, pp. 351-401.

In Nest's qualitative research conducted in June 2022, a similar picture emerged. The vast majority of members surveyed felt that the cost-of-living crisis was having a negative impact on their household finances. Members feeling this way said that a combination of fuel, utility and grocery price increases was causing them to cut back on spending where they can. Some of those most significantly affected said they were already struggling to pay their bills, or feared that they'll struggle later in the year. Many said that they had started to budget more than usual and had to manage their expenditure to make sure they can afford their bills. Over the last two months a minority said they had started to use credit more or had borrowed from, or lent money to, family and friends.

"

I have to think about the costs. Everything is just more expensive. Luxuries have to go, as do unnecessary purchases.

"

Nest member, 2022

When Nest asked its members what could happen to their spending patterns in the next three months, the answers were in line with what we might assume. The majority expected household utility bills to become more expensive, and many anticipated an increase in their grocery spending. Significant proportions also expected to reduce expenditure on themselves and on socialising. Few members expected to face an imminent increase in their rent or mortgage payments. This could be due to many individuals either being tied into fixed-rate mortgages, that in the immediate term protect them from Bank of England interest base rate increases, or in the middle of a rental contract. Over the longer term this could be an area of concern when individuals' fixed-rate terms come to an end, or they have to renew their rental contracts.

Nest also asked members what impact they expected to see on their savings and pension contributions. Many felt they would be able to save less than they usually do, but only a small minority expected to decrease their contributions. Clearly many members didn't view their pension contributions as one of the items they might cut back on. As one individual put it, 'I consider my pension as compulsory saving for my retirement'.

"

Because of the rise in prices on everything, I have had to increase my working hours just to break even. I no longer have ANY disposable income for myself.

"

Nest member, 2022

Chapter 2

Nest employers and enrolments

For over 10 years, any employer has been able to use Nest to fulfil their auto enrolment duties and ensure their eligible employees have access to a workplace pension.

When auto enrolment started in October 2012, Nest had already been proving the capabilities of its systems by successfully working with employers for around 15 months. Since this soft launch, Nest's growth has been significant. In the last financial year, the scheme celebrated the tenth anniversary of accepting its first contribution.

Pre-existing UK employers had to comply with their auto enrolment duties by early 2018, and all new employers must now provide a workplace pension to eligible employees too.

Many employers have turned to Nest – as at 31 March 2022 around one million had registered with the scheme.[6]

Employer participation

The onboarding of UK employers into the auto enrolment system worked on a 'staging' basis, with the largest employers having to comply with their duties first.

Within the first two and a half years, only around 20,000 employers had signed up to use Nest. This was largely expected as overall volumes of the very largest employers in the UK were comparatively small. It was also widely accepted that these employers were more likely to be offering an existing pension scheme to at least some of their workers.

Around 98%[7] of UK businesses are small or micro sized, and they were less likely to have offered a workplace pension before auto enrolment. Once these businesses started entering the auto enrolment system from early 2016 onwards, the number of employers using Nest increased rapidly.

It should be noted that despite the onboarding of existing employers having finished in early 2018, the number of employers using Nest has continued to grow.

Year-on-year active employer volumes have increased by around 10% in each of the last three years. When this increase is considered in the context of the Covid-19 pandemic and the associated distress to UK businesses, it could be seen as surprising. It's impossible to tell what proportion of these firms starting to use Nest are new businesses and which ones are existing employers moving to the scheme. But, the increase shows the strength of both the UK labour market and the product Nest offers employers.

Key phrases

Large employers

250 or more employees

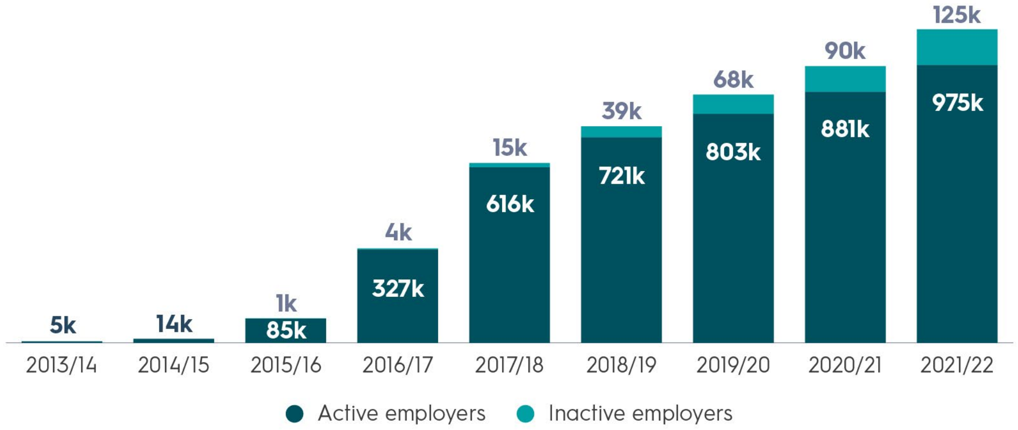
Medium-sized employers

50 to 249 employees

Small and micro employers

1 to 49 employees

Figure 5. Employers registered with Nest, year by year



Source: Nest scheme management information, 2022

6 This figure is based on all employers who have registered with Nest and are believed to be active. However, it also includes employers who have no current eligible workers enrolled and a small number who may have ceased trading or become insolvent which Nest is not yet aware of.

7 ONS, 'Employers enterprises by size and broad Industry' (9 April 2021), **ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/adhocs/13112employersenterprisesbysizeandbroadindustry**

Employer characteristics

When registering with Nest, employers must provide information about the size of their business. Most employers will grow or shrink in size over time but Nest does not require that employers update this information. So, when considering the relative size of employers, we must bear in mind that some employers using Nest for several years will have a different size today than the size they quoted when joining.

Despite having to factor in this divergence, it's still useful for us to understand the size of employers using Nest. In Table 1, we can see that roughly 98% of employers using the scheme had fewer than 50 employees at the point they registered with Nest. This aligns with the overall proportion of these employers in the wider UK labour market, a trend that's consistent across all size bands.

To understand in more detail how employers are using Nest, Table 1 shows the volume of workers they've enrolled relative to their size.

Firstly, to understand how each employer was using Nest from the start, we consider how many enrolments each employer made in their compliance window – this is the period of around three months following their staging date.

We can see that for employers of all sizes, initial enrolment volumes were low compared to their quoted size. For larger employers, we believe this could be because they initially only used Nest for a subset of workers.

We can compare these initial volumes against the mean number of active members as at 31 March 2022. Here we can see that for all employers, current active members are higher in number than initial enrolments. As referred to previously, some employers will have grown since they first started using Nest, which will explain some of this uplift. For others, it could be that they are choosing Nest for an increasing proportion of their workforce.

We can also see that small and micro firms have a mean active member number very close to the overall mean number of workers employed at UK businesses. This suggests that these businesses are using Nest solely for all their employees.

For medium and larger employers, however, the mean count of active members is below that of the mean number of workers employed by UK businesses. This could partly be due to some workers opting out after they've been enrolled. Current opt-out rates could add around 10% to the number of Nest members, but this doesn't explain the whole difference. It's much more likely that larger employers only use Nest as part of their workplace pension provision, for a subset of their employees.

Table 1. Employers using Nest and average members by employer size

Employer size	Active Nest employers	All UK employers	Mean initial enrolments	Mean active members	Mean number of workers employed by UK businesses
1 to 49 employees	98.27%	97.88%	3.1	4.5	3.9
50 to 249 employees	1.40%	1.69%	40	58	99
250 to 499 employees	0.14%	0.21%	103	196	346
500 to 999 employees	0.08%	0.11%	165	372	691
1,000 to 4,999 employees	0.07%	0.09%	307	734	2,121
5,000 or more employees	0.04%	0.03%	678	2,675	12,755

Notes: Mean initial enrolments are the sum of all enrolments made during the first three months following an employer's staging date.

- Mean active members is the count of all members who are active with their employer as at 31 March 2022.
- Mean workers employed by UK businesses is from ONS data correct to 31 March 2021.
- Totals may not sum to 100% due to rounding.

Source: Nest scheme management information, 2022 and ONS, 'Employers enterprises by Broad Industry and employee size' (26 May 2022), **ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/adhocs/14687employersenterprisesbybroadindustryandemployeesize**

Growth in enrolments

As we've seen, the volume of employers joining Nest naturally increased through the automatic enrolment staging period. However, the volume of worker enrolments didn't rise sharply and only increased steadily through the early years of the scheme.

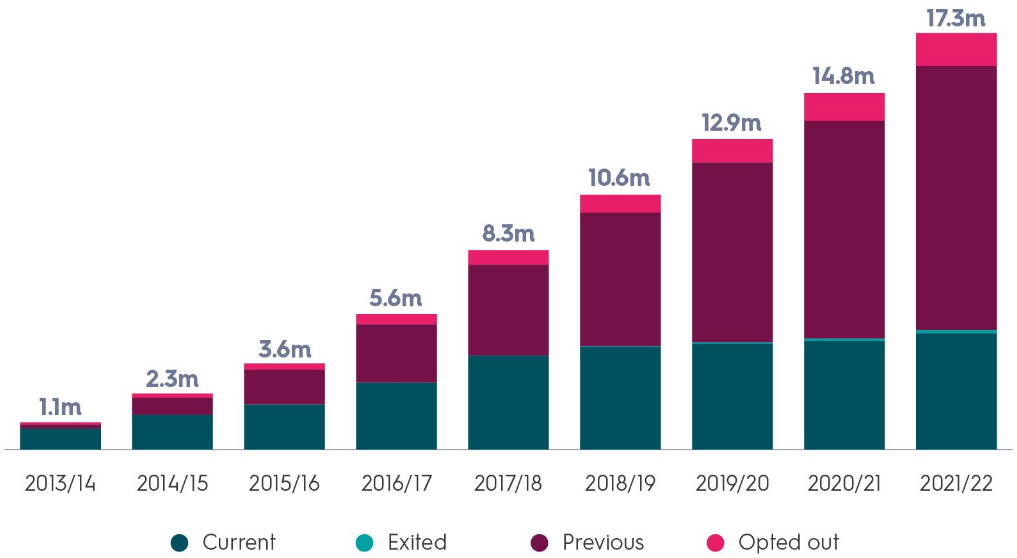
As at 31 March 2022 around 17.25 million enrolments had been made into Nest, an increase of around 17% on the previous twelve months.

In the staging period, growth in enrolments largely came from employers that were new to Nest. Today, the growth mainly comes from the enrolment of workers due to job movements in the labour market.

Since the end of the staging period in early 2018, the volume of active Nest members has increased only marginally. As at 31 March 2022, the number stood at around 4.8 million. This, in the main, represents the number of jobs at UK employers that use Nest as a workplace pension.

We expect this volume to increase through time. That's because the number of workers becoming eligible for auto enrolment and joining Nest should gradually outnumber those workers leaving the labour market through retirement or other reasons.

Figure 6. Status of cumulative enrolments in Nest, year by year



Source: Nest scheme management information, 2022

Key phrases

Current enrolments

Employed workers who have been enrolled in Nest by their current employer, or who are self-employed and have enrolled themselves in Nest. Workers may be enrolled in Nest multiple times through subsequent or simultaneous employments.

Previous enrolments

Workers enrolled in Nest who have not retired, died or opted out but have either chosen to stop contributing to their Nest pension pot, left their employer using Nest or been moved to another pension provider by their employer while leaving their legacy pot at Nest. Workers enrolled in Nest more than once are counted for each enrolment they've had.

Exiters

Workers enrolled in Nest whose account has been closed. This may happen either because they have retired and taken a lump sum or cash payment or series of payments until their pot balance is zero, transferred their money out of Nest into another pension scheme or died and their pot has been claimed by a beneficiary.

Opt outs

Workers enrolled in Nest who choose, within one calendar month of their enrolment, not to make contributions into their Nest pension pot.

Returning members

As workers move around the labour market through the normal process of changing jobs, it's increasingly likely that they will return to Nest at some point. This could be due to joining another employer, or re-joining a previous employer, that uses Nest.

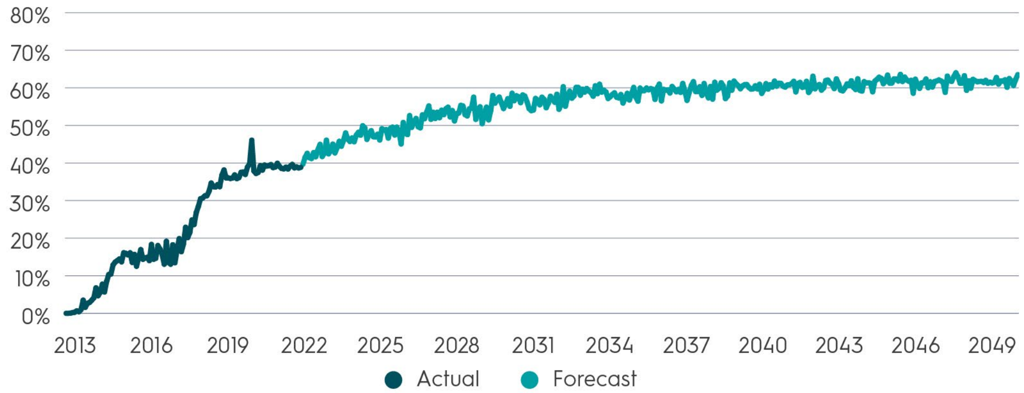
Through Nest scheme data, we can track returning members. That's because whenever a worker is enrolled in Nest a check is made to see if their information matches an existing account.

Figure 7 shows that the proportion of total enrolments that are returners to Nest has increased rapidly from the end of the staging period. As at 31 March 2022, roughly 39% of all enrolments were of a returning member.

Over time, we predict the proportion of returners to increase. Nest's modelling estimates that around half of all enrolments will be returning members by around 2026, and by 2035/36 it is expected to plateau around 60%.

It should be noted that inaccurate or incomplete data provided by an employer can affect Nest's ability to identify members as returners. This means that in some cases it's not always possible to match a returner to an existing account which affects Nest's ability to collate their pots. Therefore, the proportion of individuals being enrolled into Nest on subsequent occasions will be higher than reported.

Figure 7. Proportion of enrolments where the worker already has a Nest account



Nest scheme management information and modelling, 2022

Manner of enrolment

Nest has a public service obligation to accept any employer who wishes to enrol their workers in order to fulfil their auto enrolment duties.

The majority of enrolments into Nest are of automatically enrolled workers who meet the eligibility criteria based on age and earnings. Workers can also be enrolled under certain other circumstances.

There are also self-employed workers who may set themselves up with a Nest account and make contributions voluntarily. As at 31 March 2022, over 20,000 self-employed workers had a Nest account.

Table 2. Nest enrolments by manner of enrolment

Enrolment method	All enrolments	Enrolments in 2021/22
Automatically enrolled	93.1%	92.7%
Opted in with employer contribution (eligible jobholder)	3.3%	4.6%
Opted in without employer contribution (non-eligible jobholder)	0.7%	0.7%
Voluntarily enrolled before employer staging date	0.8%	0.1%
Self-employed	0.1%	0.2%
Other	1.9%	1.8%

Note: Totals may not sum to 100% due to rounding.

Source: Nest scheme management information, 2022

Key phrases

Eligible jobholders

Workers aged 22 up to State Pension age who earn the equivalent of £10,000 or more annually (automatically enrolled)

Non-eligible jobholders

Workers aged under 22 or over State Pension age, or who earn the equivalent of less than £10,000 annually (not automatically enrolled but can opt in)

Entitled workers

Non-eligible jobholders who earned less per pay period in 2021/22 than the equivalent of £6,240 annually (can opt in but their employer is not required to pay contributions)

Workers opting out

All workers who have been automatically enrolled, as well as non-eligible jobholders who have opted in, can opt out of pension saving.

The auto enrolment rules state that they must opt out, or submit notice to opt out, within one calendar month of being enrolled in a workplace pension.

Opt-out rates from Nest have been consistently low. Even the two periods of phased increases in mandatory auto enrolment contribution rates and the Covid-19 pandemic did not lead to a material change in the overall opt-out rate.

Profile of workers opting out

Over the 12 months ending 31 March 2022 the opt-out rate for all enrolments in Nest was around 8.3%. This was significantly lower than the 10.5% opt-out rate seen over the 12 months ending 31 March 2021.

Overall, a worker's age is the most prominent observable factor in the different rates of opt out among Nest members. As Table 3 shows, older workers are much more likely to opt out than younger ones.

Across the staging period as a whole, workers aged over 55 were around 3.5 times more likely to opt out than those aged 30 and younger.

In the most recent 12 months to 31 March 2022, the gap has narrowed to being just over twice as likely. While older workers are now opting out less often than they did during the staging period, younger workers are more likely to opt out today than they were before 2018.

The period since 2018 has seen two increases in the mandatory contribution rate as well as labour market uncertainty caused by the Covid-19 pandemic. This uncertainty was more likely to affect younger workers, so the slight uptick in these workers opting out in recent years is unsurprising. However, the rate still remains much lower than many predictions made before auto enrolment started.

Table 3. Opt-out rates by age and gender

Women	2012/13 to 2017/18	2018/19	2019/20	2020/21	2021/22
22 to 25	4.5%	4.5%	6.6%	7.2%	6.1%
26 to 30	5.5%	5.3%	7.8%	8.5%	6.8%
31 to 35	6.2%	5.5%	8.2%	9.2%	7.3%
36 to 40	6.7%	5.7%	8.5%	9.8%	7.4%
41 to 45	7.6%	6.0%	8.9%	9.6%	7.4%
46 to 50	9.1%	7.0%	10.4%	10.6%	7.8%
51 to 55	11.9%	9.1%	13.2%	12.5%	9.0%
56 to 60	18.3%	13.0%	18.6%	17.1%	12.9%
61 to 66	26.7%	19.2%	28.2%	24.1%	18.6%
All	**8.1%**	**6.6%**	**9.9%**	**10.2%**	**7.9%**

Men	2012/13 to 2017/18	2018/19	2019/20	2020/21	2021/22
22 to 25	3.5%	3.7%	6.1%	7.2%	6.4%
26 to 30	4.5%	4.5%	7.6%	8.9%	7.7%
31 to 35	5.6%	5.4%	9.0%	10.4%	8.5%
36 to 40	6.4%	6.0%	10.0%	11.1%	9.1%
41 to 45	7.5%	6.1%	10.7%	11.3%	9.2%
46 to 50	9.1%	6.9%	11.9%	11.7%	9.5%
51 to 55	11.8%	8.8%	13.9%	13.2%	10.0%
56 to 60	16.2%	11.5%	17.7%	15.7%	11.9%
61 to 66	25.1%	16.8%	23.7%	20.4%	15.5%
All	**7.3%**	**6.0%**	**10.0%**	**10.7%**	**8.7%**

Source: Nest scheme management information, 2022.

The quoted opt-out rate for 2012/13 to 2017/18 is an average taken across this period, which covers the staging years.

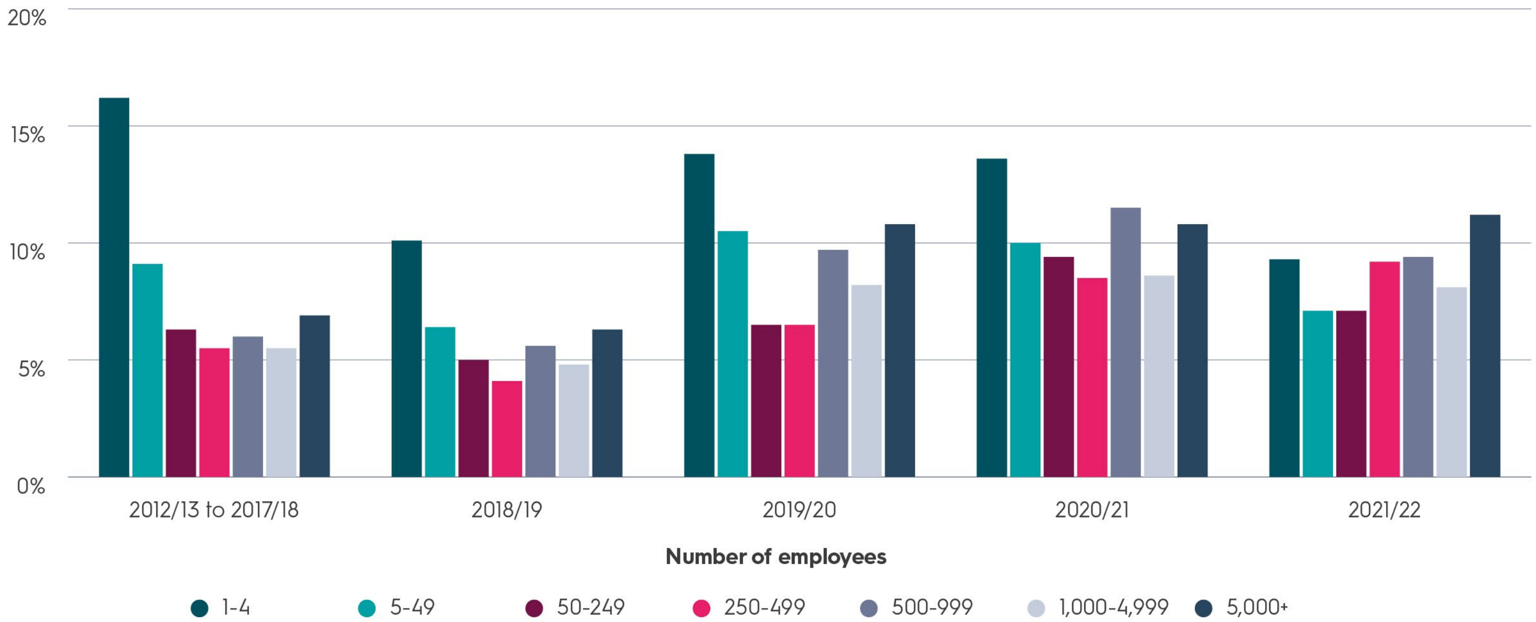
Opt-out rate by employer size

Aside from age, another driver of the difference in opt-out rates is the size of the employer. Micro-sized firms typically had far higher opt-out rates than small, medium or large firms during the staging period.

However, that trend seems to have changed in more recent years. In the year to 31 March 2022, it was the largest firms that had the highest opt-out rates.

Without further knowledge of the working conditions of employees at these larger firms, it's impossible to definitively say what caused this change. But, we hypothesise that workers recently enrolled at large firms have been employed on more flexible contracts due to the uncertain nature of employment following Covid-19 lockdowns. As a result, these workers may feel that staying in a pension scheme is less affordable or less worthwhile if they expect to stay in the job for a short period of time.

Figure 8. Opt-out rates by employer's size and by year



Source: Nest scheme management information, 2022.

Workers' reasons for opting out

When a worker opts out using their online account, Nest gives them the opportunity to state their reasons why. This is only a subset of all those opting out, but it provides crucial insight into who is doing it and why.

As to be expected, the overriding reason that younger workers gave for opting out was a lack of affordability. For those aged 30 and younger, this reason was given in more than half of responses, compared to around 16% for workers aged over 55.

Older workers are more likely to say they have other sources of income for their retirement, or that they already save into a pension. These workers may also feel that it's too late to start saving into a workplace pension.

Table 4. Workers' reasons for opting out in 2021/22 by age band

Reason for opting out	22 to 25	26 to 30	31 to 35	36 to 40	41 to 45	46 to 50	51 to 55	56 to 60	61 to 66
No reason given	44%	46%	47%	46%	46%	45%	44%	44%	46%
Reason given (totalling 100%)									
I already save into a pension	8%	13%	16%	20%	25%	31%	35%	32%	29%
I can't afford it	56%	51%	47%	43%	38%	32%	23%	18%	14%
I don't trust pensions	10%	11%	11%	10%	8%	6%	5%	3%	2%
I have other sources of income for my retirement	10%	10%	10%	11%	11%	13%	20%	30%	36%
I plan to rely solely on the State Pension when I retire	2%	3%	4%	4%	4%	4%	4%	4%	6%
Nest isn't the right pension scheme for me	13%	12%	12%	12%	13%	14%	13%	13%	13%

Note: Totals may not sum to 100% due to rounding.

Source: Nest scheme management information, 2022

Workers stopping contributions

Members who do not opt out during their opt-out window can still stop contributing at any time after being enrolled. These are referred to as 'cessations'. They can do this by using their online account, by contacting Nest, or by asking their employer to stop their contributions.

Nest can determine which members cease contributions through their online account as this is captured in Nest scheme data. However, it's not possible to determine which members cease contributions by submitting a notice to their employer. This is due to a change in the way these cessation events are reported by employers that dates back to 2015.

That's why we only consider member cessations made through the member's own account in Table 5.

We have seen little difference in cessation rates by gender. There has also been no noticeable change in the rate of cessation during recent years when events – such as the increase in contribution rates or the uncertainty in the labour market caused by the Covid-19 pandemic – could have caused members to stop contributing in large numbers.

It should be noted that cessations are attributed to the date of the original enrolment. This means that the lower level of cessation seen in 2021/22 is more likely due to the fact that these enrolments are more recent, rather than there being lower levels of cessations in previous years. The reported rates of cessation for the 2020/21 year in 'Retirement saving in the UK 2021'[8] were 1.3% for women and 1.7% for men, for example.

Table 5. Proportion of enrolments ending in a cessation by gender and year

Year	Men	Women
2015/16	1.9%	1.9%
2016/17	2.3%	2.2%
2017/18	2.6%	2.4%
2018/19	2.6%	2.4%
2019/20	2.9%	2.5%
2020/21	2.8%	2.3%
2021/22	1.5%	1.2%

Note: Cessations are accounted for at the date of the worker's enrolment and not the date when contributions were ceased.

Source: Nest scheme management information, 2022

8 **nestinsight.org.uk/research-projects/retirement-saving-in-the-uk/**

Chapter 3

Nest members

With more than one in three workers in the UK being a Nest member, the scheme is truly operating as a mass market pension saving solution.

In Chapter 2, we looked at the scale of Nest's operation with employers and the number of workers they have enrolled. We saw this as a good measure for the health of the UK's labour market and auto enrolment system.

However, the success of Nest itself depends on the relationship it has with its members. Under Nest's 'one member, one pot' model, whenever members re-join the scheme all their contributions will be paid into the same pot. This makes it easier for members to track their savings and for Nest to understand certain things, including who is actively contributing, how long they have contributed, and how much a member holds in total with Nest. It should be noted that inaccurate or incomplete data provided by an employer can affect Nest's ability to identify returning members and this impacts pot collation.

In this chapter, we present Nest scheme data alongside official statistics in order to compare Nest's membership to the UK labour market.

Key phrases

One member, one pot

A single pension pot, with the same online account and password, however many times a member changes jobs and makes contributions through an employer using Nest

Active members

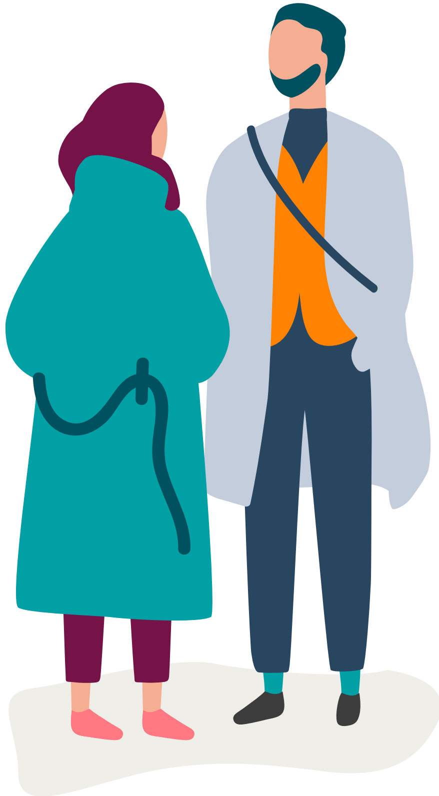
Unique individuals who have been enrolled in Nest by their current employer, or who are self-employed and have enrolled themselves in Nest

Inactive members

Nest members who have not retired or died but have stopped contributing to their pot, either because they've ceased contributions by choice, left their employment or been moved to another pension provider by their employer

Earnings threshold

The level of annual earnings triggering a worker's auto enrolment into their employer's pension scheme. The threshold is pro-rated, so that weekly, monthly and other payment schedules trigger auto enrolment too. At the launch of auto enrolment, this was £8,105 per year (£156 per week). Since 2014, it has been £10,000 per year (£192 per week).



Member characteristics

As at 31 March 2022, Nest had around 11 million members – this is more than 1 in 3 UK workers.[9] Given this scale, we might assume that Nest members have almost identical characteristics to workers across the UK's overall working population.[10] However, due to various auto enrolment eligibility conditions, and the types of workers with existing provision before auto enrolment started, Nest's membership differs from the wider labour force in many ways.

It's worth noting that, due to the movement of workers around the labour market, there's an ever-increasing proportion of Nest members who are 'inactive'. This means that, at any one point in time, they are not contributing to their Nest pension pot. This could be, for example, because they are working for an employer that does not use Nest as its workplace pension. As at the 31 March 2022, around 4.6 million (42%) of Nest members were active and 6.5 million (58%) were inactive.

9 This is based on 29.5 million payroll employees reported in the latest ONS statistics. ONS, 'Earnings and employment from Pay As You Earn Real Time Information, UK: June 2022' (14 June 2022), **ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/earningsandemploymentfrompayasyouearnrealtimeinformationuk/june2022**

10 The characteristics covered in this report are limited to the data fields that Nest collects when a member is enrolled. This is limited to age and gender. In 'Retirement Saving in the UK 2021' we included an analysis of Nest members' ethnicity – members have the opportunity to self-identify their ethnicity when completing a Nest survey. As mentioned in the introduction, survey analysis has not been updated this year as little change would be expected.

Gender and age

Proportionally, more women earn below the annual earnings threshold for auto enrolment. Therefore, it's expected that Nest's membership would be skewed towards men.

What we see in Nest scheme data is a more gender-balanced membership with roughly 53% of Nest members being men and 47% women. Less than 0.01% of members have no gender assigned to their Nest account.

Among active members, the ratio is even more balanced with 51% being men and 49% women. Interestingly, this shows that active membership more accurately reflects the balance of workers currently employed in the UK labour market.

We know that women are more likely to be non-eligible jobholders because, proportionally, more women earn less than the auto enrolment threshold. But, we've also seen in Table 2 that almost 5% of enrolments into Nest are opt ins from non-eligible jobholders. This shows that women are more likely to make an active choice to save with Nest.

It should also be noted that the earnings eligibility threshold has remained unchanged for eight years and with subsequent increases in average earnings, proportionally more women will have become eligible for auto enrolment.

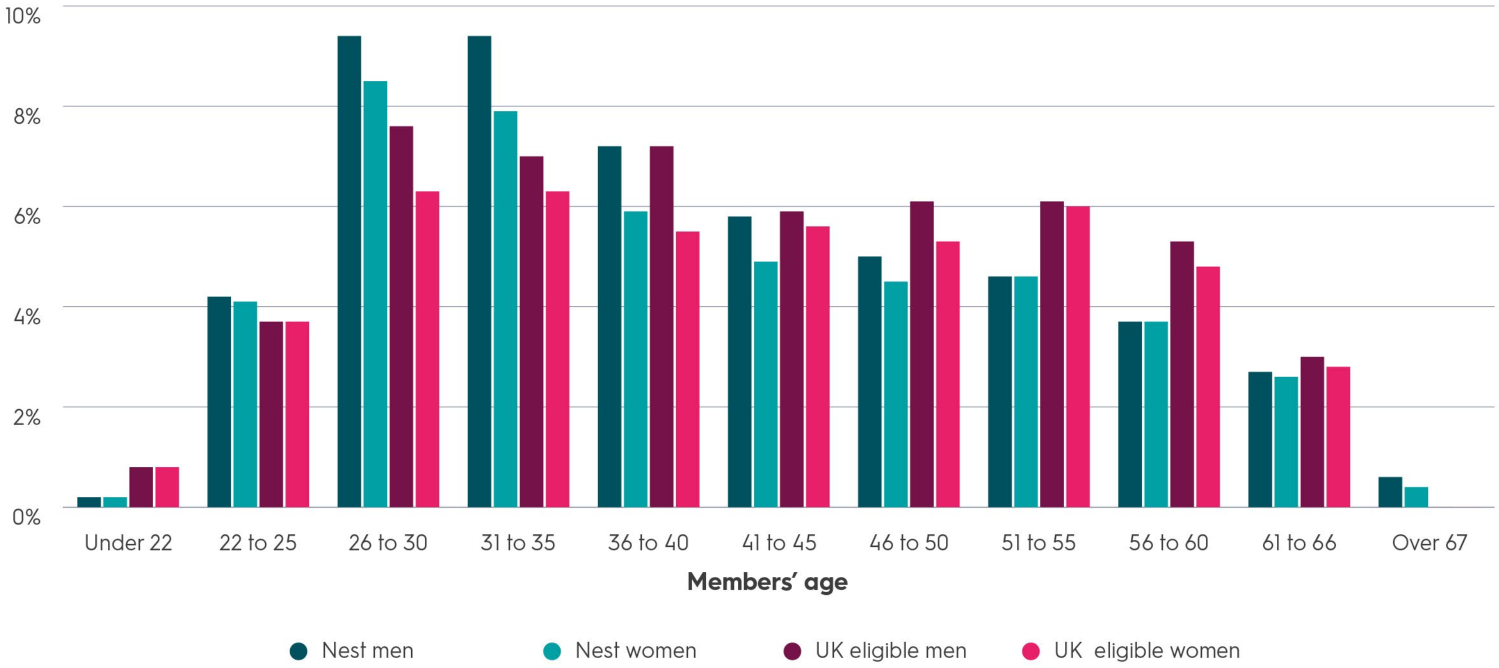
In terms of age, it was predicted that auto enrolment would bring more younger workers into pension saving and this would be reflected in Nest's membership. That's because this cohort were less likely to already be saving into a workplace pension.

The distribution of Nest members by age is more aligned to the expected younger skew. Around 27% of members are aged 30 and younger, compared to around 23% of those aged 51 and older.

Using the Labour Force Survey[11], we can generate estimates of the gender and age of UK workers eligible for auto enrolment. We base this eligibility on the auto enrolment age and income thresholds. These estimates show that the gender balance across eligible workers in the UK is precisely the same in the Nest membership, with 53% being men and 47% women. The distribution by age, however, is somewhat different.

11 ONS, Labour Force Survey – user guidance, **ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/methodologies/labourforcesurveyuserguidance**

Figure 9. Nest members compared to UK employees eligible for auto enrolment, by age and gender



Source: Nest scheme management information, 2022 and Labour Force Survey, January to March 2022

Proportionally, Nest has more members in the 26 to 35 age group and fewer above the age of 45 than the eligible UK workforce. This aligns with the presumption that older workers were more likely to already be enrolled into pension saving. The proportion of Nest members aged between 35 and 45 is similar to that seen in the population of eligible employees across the labour market.

Younger workers are more likely to be lower paid and therefore less likely to be enrolled into more established pension schemes, which were in place before auto enrolment. This is something we discuss in more detail in the next section.

Table 6 provides us with more insight about the gender and age profile of Nest members. We can see that when considering the gender breakdown by employer size, proportionally more active members employed at the smallest firms are men. Medium and larger firms, conversely, have proportionally more women. The median active member age is broadly flat across the employer sizes.

Larger firms were more likely to have already been offering pension provision before auto enrolment started. In many cases, however, this was only available to higher paid workers who are more likely to be men. This could help to explain why larger firms have a higher proportion of Nest members who are women.

Table 6. Active Nest members by gender and employer size

Employer size	Women	Men	Median age
1 to 4 employees	46.3%	53.7%	39
5 to 49 employees	47.1%	52.9%	40
50 to 249 employees	50.9%	49.1%	40
250 to 499 employees	51.2%	48.8%	40
500 to 999 employees	51.5%	48.5%	39
1,000 to 4,999 employees	53.6%	46.4%	39
5,000 or more employees	51.5%	48.5%	40
All active members	**49.1%**	**50.9%**	**39**

Note: Totals may not sum to 100% due to rounding.

Source: Nest scheme management information, 2022

Member earnings

Since the launch of auto enrolment, Nest's role was to provide a workplace pension solution to any employer and to accept any worker they enrol. Before the workplace pension reforms, it was accepted that higher-earning workers were much more likely to already be saving into a workplace pension. Higher earners not already saving were more likely to be automatically enrolled into existing schemes.

This meant that Nest was expecting to serve lower and more moderately paid workers. In 2011, Nest estimated median earnings for those eligible workers not saving into a workplace pension was around £19,800, compared to around £30,600 for those already saving.

Members' median earnings

Average annual earnings in the UK have a positive skew. This means there are a small number of very high incomes at the upper end of the earnings distribution that increase the overall mean, but the middle point of the distribution of all income values, the median, is lower. When considering average earnings, we typically look at the median rather than the mean for this reason.

Nest scheme data shows there has been significant growth in Nest members' median annual earnings over the past 12 months. As at 31 March 2021 median earnings stood at £19,300. As at 31 March 2022 this has increased by over 7% to £20,700.

For active members, the increase is slightly higher. At the end of March 2021 we estimated active Nest member earnings to be £19,600, by 31 March 2022 this rose by almost 8% to £21,100.

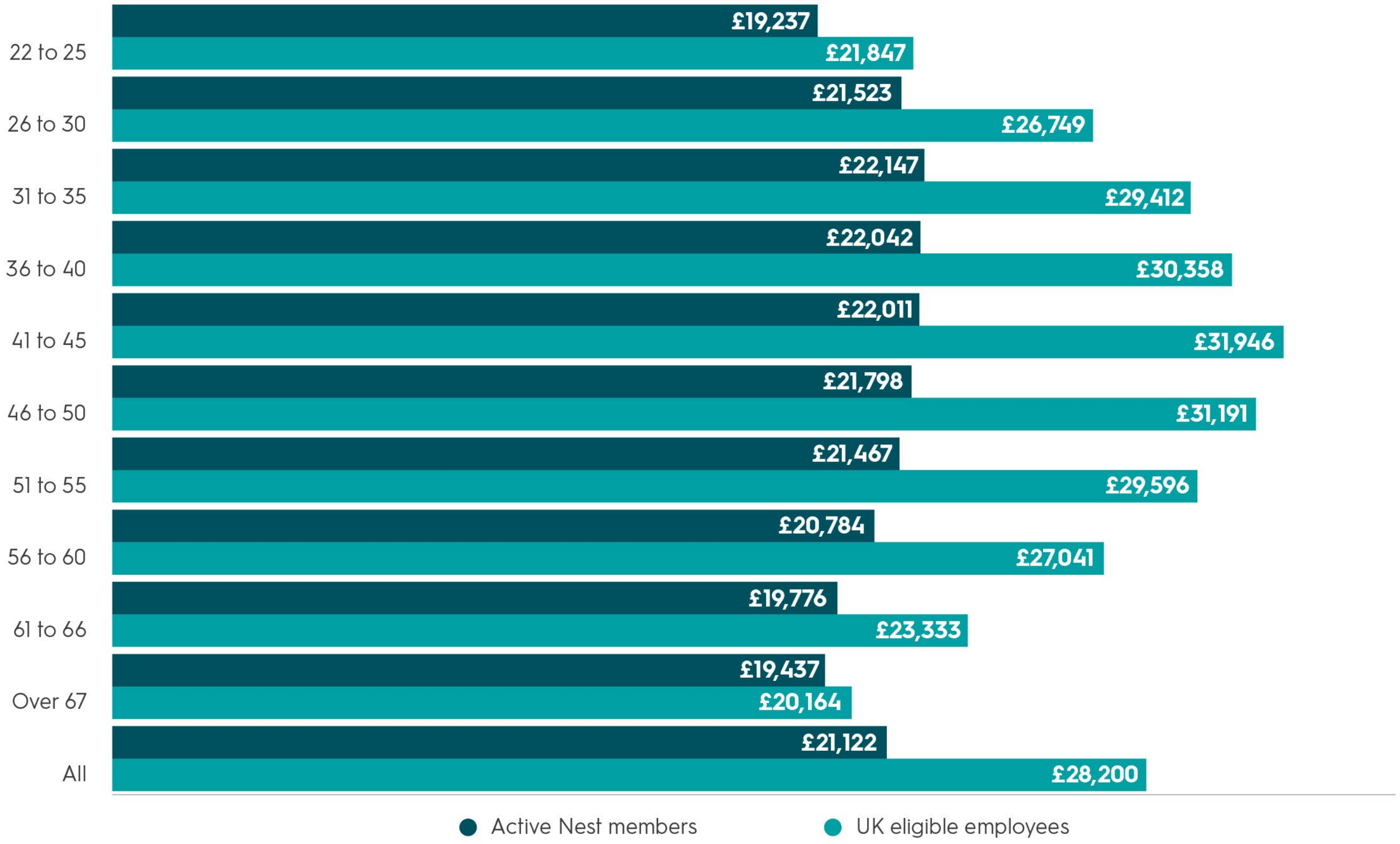
Using data from the Annual Survey of Hours and Earnings (ASHE)[12], we can compare Nest members' earnings to workers in the wider labour market. To account for auto enrolment eligibility thresholds, we only compare Nest members to workers who are saving into a workplace pension in the ASHE data. We refer to these as 'UK eligible employees'. However, it should be noted that workers can be a member of a pension scheme without necessarily being eligible for auto enrolment. For instance, an individual may earn less than the enrolment threshold but still opt to join a workplace pension.

The median earnings for all UK eligible employees in April 2021[13] was £28,200. This is roughly 33% more than the median for active Nest members.

12 ONS, Annual Survey of Hours and Earnings (ASHE), **ons.gov.uk/surveys/informationforbusinesses/businesssurveys/annualsurveyofhoursandearningsashe**
13 The latest available data from ASHE is as at April 2021.

In Figure 10, we consider median earnings by age for active Nest members and UK eligible employees. Median income for Nest members is broadly flat across the age bands. For UK eligible employees, however, median earnings increase with age up to the late forties before decreasing in older age groups.

Figure 10. Median earnings of active Nest members and UK eligible employees, by age



Source: Nest scheme management information, 2022 and Annual Survey of Hours and Earnings, ad-hoc data service 2022, **ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/adhocs/14727annualsurveyofhoursandearningsasheestimatesofgrossannualearningsofallemployeesandthosewithaworkplacepensionbyspecifiedagebandsapril2021**

Earnings by gender

Although median earnings for active Nest members are broadly flat across age ranges, there is a significant difference by gender. For all Nest members, men's median earnings are around 30% more than women's and for active members the difference is slightly higher at 32%. This compares to men's earnings being around 41% higher among all UK eligible employees.

While men earn more than women among Nest's membership, the difference is lower when compared to men and women in the wider population. This results in a flatter earnings distribution among Nest's membership.

Table 7. Nest member earnings by gender and member status compared to UK eligible employees

	All Nest members		Active Nest members		UK eligible employees	
	Mean	**Median**	**Mean**	**Median**	**Mean**	**Median**
Women	£20,220	£18,150	£20,490	£18,400	£27,580	£23,370
Men	£26,100	£23,580	£26,760	£24,320	£39,920	£32,910
All	**£23,250**	**£20,700**	**£23,670**	**£21,120**	**£33,830**	**£28,200**

Source: Nest scheme management information, 2022 and ONS, Annual Survey of Hours and Earnings (ASHE), **ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/adhocs/14727annualsurveyofhoursandearningsasheestimatesofgrossannualearningsofallemployeesandthosewithaworkplacepensionbyspecifiedagebandsapril2021**

Distribution of earnings and type of working

As mentioned, earnings are positively skewed for UK eligible employees with a higher mean relative to the median. For these employees, median earnings are roughly 82% of the value of mean earnings. The distribution for Nest members is much less narrow with median earnings around 90% of the mean. This is the same for men and women.

This means that, proportionally, there are fewer very high-earning members in Nest. Overall, the difference in median earnings between Nest members and UK eligible employees gets wider through the earnings distribution.

In the bottom 10% of the respective earnings distributions, active Nest members earn around 12% less than UK eligible employees. In the middle of the distribution the gap is around 25% but in the top 10%, it's 30%.

The demographics of the Nest membership goes some way to explaining the lower median earnings when compared to the UK eligible employee population. The Nest membership is made up of proportionally younger workers, who are lower earning – beyond this, however, there are differences in the types of workers enrolled into Nest and their conditions of employment.

Scheme data collected by Nest does not include information on the number of hours worked, or whether the member is part or full-time. Nest does, however, collect working status information by periodically surveying its members.

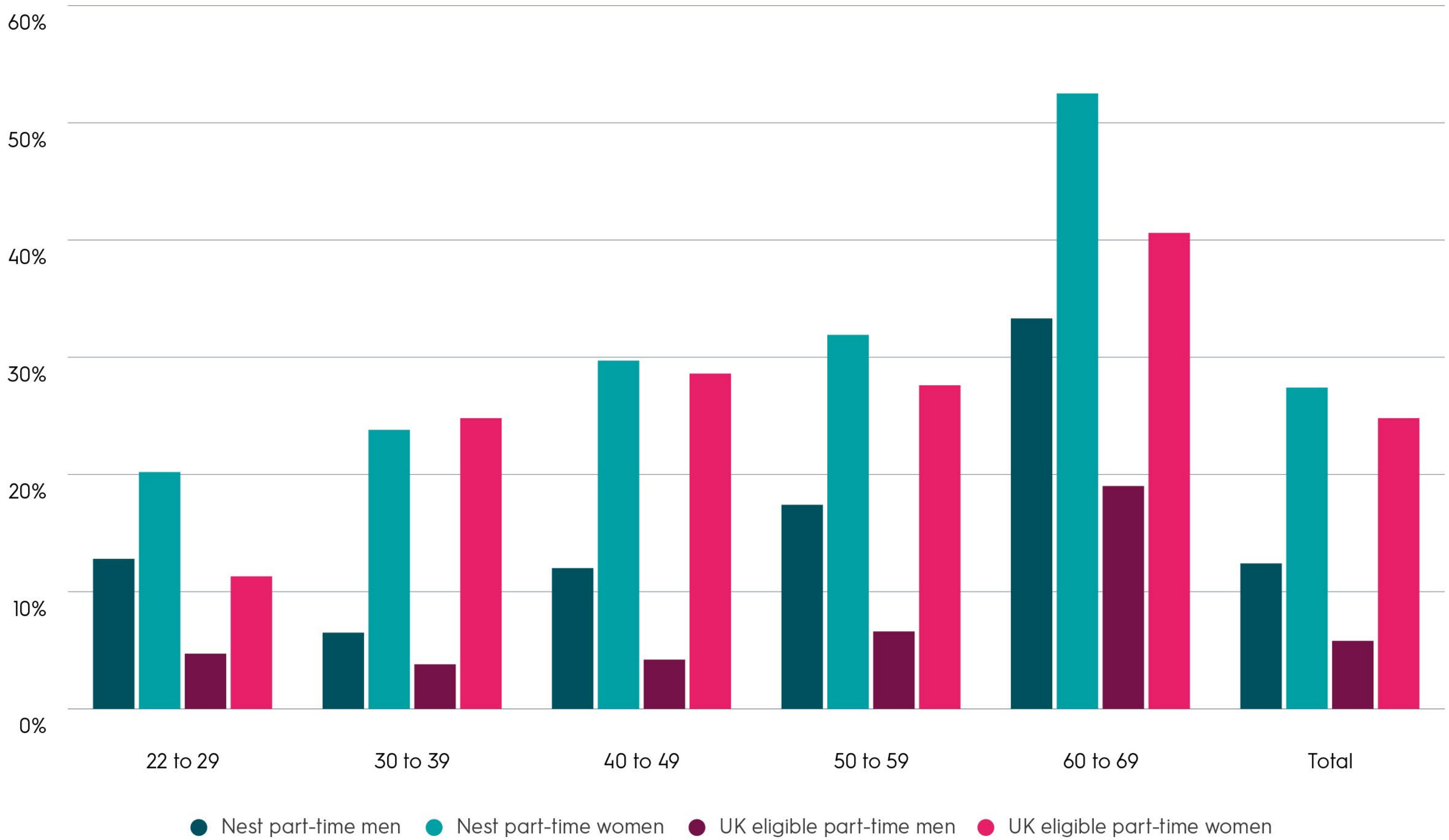
Figure 11 shows the proportion of Nest members who describe themselves as working part-time by age and gender. This information is compared to the same data among eligible employees in the Labour Force Survey. Overall, Nest's membership is more likely to state that they work part-time (21%) compared to UK eligible employees (15%).

There is a noticeable difference by gender. Among Nest's membership, men who are Nest members are much more likely to be part-time workers (12%) than men in the wider labour force (6%). For women the difference is much less stark with 27% of Nest members reporting themselves as part-time, compared to 25% among eligible employees.

The pattern by age suggests part-time working among women in Nest's membership is similar to that seen in the wider labour market. For men, there are much bigger differences. For example, men aged 40 to 49 in Nest's membership are three times more likely to work part-time than men of the same age in the UK eligible employee population.

The higher degree of part-time working among Nest's membership is significant. Especially in respect of middle-aged men, who are the highest earning cohort of workers in the wider labour force. It goes some way to explaining why median annual earnings are lower in the Nest membership than across the UK eligible employee population.

Figure 11. Nest members and UK eligible employees by working status, age and gender



Source: Nest Member Survey, Dec 2021 and Labour Force Survey, January to March 2022

Chapter 4

Contributions

Despite two years of uncertainty caused by the Covid-19 pandemic, contribution amounts have continued to increase and some members are saving considerable sums.

Contribution rates

Since April 2018, the total minimum contribution rate set out in auto enrolment legislation has been 8%, with at least 3% of this needing to be paid by the employer. These contribution rates are payable on all qualifying earnings.

In Table 8 and Table 9, we can see the proportion of all contributions paid into Nest members' pension pots. This is split by the employer and member contribution rate respectively.

The vast majority of contributions paid by employers are at the legal minimum rate of 3% with a corresponding member rate of 5%, to make the total of 8%. The member rate shown is inclusive of tax relief.

There is some flexibility in the way employers can pay contributions. For example, some choose to pay contributions on all earnings, rather than just on qualifying earnings. Due to this flexibility, a small minority may appear to make contributions below 3% but in total the amounts paid will at least satisfy auto enrolment legislation.

Some members make no contribution and this is because their employer pays the full 8% contribution, which may be a result of using a salary sacrifice scheme. Under this scheme, the employee takes some of their salary in the form of a direct contribution to their pension before taxes and National Insurance (NI) contributions are paid.

Table 8. Proportion of contributions paid, by employer contribution rate

Percentage of earnings contributed by employer	Percentage of contributions at rate
Less than 3%	0.3%
3%	93.6%
More than 3% up to 5%	2.5%
More than 5%	3.5%

Note: Totals may not sum to 100% due to rounding.

Source: Nest scheme management information, 2022

Table 9. Proportion of contributions paid, by member contribution rate

Percentage of earnings contributed by member	Percentage of contributions at rate
0%	2.8%
More than 0% and less than 5%	1.2%
5%	91.4%
More than 5% up to 8%	4.0%
More than 8%	0.7%

Note: Totals may not sum to 100% due to rounding.

Source: Nest scheme management information, 2022

Key phrases

Qualifying earnings

Auto enrolment pension contributions are calculated per pay period as a percentage of pro-rated annual earnings between a lower earnings limit and an upper earnings limit. In 2021/22, the lower limit was £6,240 and the upper limit was £50,000.

Tax relief

Pension scheme members who are eligible can claim tax relief from the government on their contributions at their marginal tax rate. For most Nest members this means a contribution of 5% involves 4% of their qualifying earnings being deducted from their salary and contributed to their pension pot while 1% comes in the form of tax relief.

Phasing in minimum contribution rates

	Total minimum contributions	Of which the employer must contribute at least	Balance usually contributed by the worker
Up until 5 April 2018	2%	1%	1%
From 6 April 2018 to 5 April 2019	5%	2%	3%
From 6 April 2019	8%	3%	5%

Link between member and employer contributions

In Tables 8 and 9 we considered the sum of all contributions paid to Nest over the 2021/22 year and the relative contribution rate split. This shows the majority of contributions are paid at the minimum rates set in legislation. However, there are subtle differences in how the mix of employer and member contribution rates are paid.

In Table 10 we see the relationship between member and employer contribution rates by the proportion of employers paying at those rates. Around three quarters of all employers mirror the minimum rates set out in legislation – that's a 3% employer contribution and a 5% member contribution, inclusive of tax relief.

Around 13% of employers contributed more than 3%. In around half of these cases the member contributed at or below the 5% rate and around half contributed more than 5%.

Those members contributing below 5% can do so because of the more generous offering by their employer. Those that contribute more than 5% may choose to do so because their employer offers an incentive, such as a matching scheme. Matching is where the employer will contribute more if the member agrees to do the same. Alternatively, some members paying over 5% may do so because their employer has chosen higher contribution rates and it might not be possible for the member to reduce their contribution rate down. It must be stressed that it's not possible to confirm contribution strategies used by employers, such as matching schemes, from Nest scheme data. For more information, see **Employer pension contributions in the UK: the current landscape and the potential for innovation**

Table 10. Relationship between employer and member contribution rates, by percentage of employers

		Member contribution rate*					
		0%	More than 0% up to 5%	5%	More than 5% up to 8%	More than 8%	Total
Employer contribution rate	Less than 3%	0.0%	0.5%	2.4%	0.5%	0.1%	**3.6%**
	3%	0.1%	0.6%	73.9%	7.0%	1.8%	**83.4%**
	More than 3% up to 5%	0.0%	0.7%	2.4%	4.2%	0.4%	**7.7%**
	More than 5% up to 8%	0.6%	0.4%	0.6%	0.5%	0.6%	**2.7%**
	More than 8%	0.6%	0.2%	0.9%	0.3%	0.7%	**2.6%**
	Total	**1.2%**	**2.4%**	**80.3%**	**12.5%**	**3.6%**	**100.0%**

*Member contribution rate includes tax relief. A rounding tolerance of ±0.05 has been applied to all contribution bands, for example a 3% contribution rate covers rates in the band 2.95% to 3.05%.

Source: Nest scheme management information, 2022

Table 11 shows the proportion of members in each contribution rate mix. Around 85% of members were in the minimum 3% employer and 5% member banding.

Around 6% of members paid contributions above 5%. One third of these did so and received a corresponding employer contribution amount that's above the minimum rate of 3%.

Almost 5.5% of members make contributions below 5%. This includes those working for employers who make a full 8% contribution but also those who pay a lower level as their contributions are calculated on a basis that's above their qualifying earnings.

Table 11. Relationship between employer and member contribution rates, by percentage of members

		Member contribution rate*					
		0%	More than 0% up to 5%	5%	More than 5% up to 8%	More than 8%	Total
Employer contribution rate	Less than 3%	0.0%	0.1%	0.8%	0.1%	0.0%	**1.0%**
	3%	0.0%	0.4%	85.1%	3.8%	0.3%	**89.6%**
	More than 3% up to 5%	0.0%	0.9%	2.1%	1.3%	0.1%	**4.4%**
	More than 5% up to 8%	2.6%	0.9%	0.2%	0.2%	0.1%	**4.0%**
	More than 8%	0.4%	0.1%	0.3%	0.1%	0.1%	**1.0%**
	Total	**3.1%**	**2.3%**	**88.5%**	**5.5%**	**0.7%**	**100.0%**

*Member contribution rate includes tax relief. A rounding tolerance of ±0.05 has been applied to all contribution bands, for example a 3% contribution rate covers rates in the band 2.95% to 3.05%.

Source: Nest scheme management information, 2022

Contribution rates by employer size

Despite most contributions being paid at the legislative minimum rates, there is significant variation in rates paid by different employers.

Table 12 shows that around 80 to 90% of small and micro firms pay contributions at the minimum rate of 3%. In contrast, medium and larger employers adopt much wider-ranging strategies.

Only just over one quarter (27%) of the very largest employers pay contributions at 3%, with around 60% paying more than this. However, it should be noted that in terms of volume, this equates to a very small proportion of all the employers using Nest. Additionally, these employers are likely to be using Nest in a way that fits with their existing pensions arrangements. This includes calculating contributions on full earnings rather than qualifying earnings, or using payment schemes such as salary sacrifice.

Table 12. Employer contribution rate, by employer size

Employer size	Employer contribution rate				
	Less than 3%	3%	More than 3% up to 5%	More than 5% up to 8%	More than 8%
1 to 4 employees	2.8%	87.5%	5.2%	2.2%	2.3%
5 to 49 employees	3.9%	82.6%	8.4%	2.6%	2.5%
50 to 249 employees	5.7%	56.8%	22.1%	8.1%	7.3%
250 to 499 employees	9.0%	42.2%	28.8%	10.9%	9.1%
500 to 999 employees	9.6%	35.8%	29.2%	14.2%	11.2%
1,000 to 4,999 employees	12.2%	30.8%	27.1%	17.3%	12.5%
5,000 or more employees	13.7%	26.8%	25.3%	20.0%	14.2%

Note: A rounding tolerance of ±0.05 has been applied to all contribution bands, for example a 3% contribution rate covers rates in the band 2.95% to 3.05%. Numbers may not sum to 100% due to rounding.

Source: Nest scheme management information, 2022

Contribution amounts

Employers can adopt different contribution rate strategies for various reasons. To understand what this means in terms of how much members are saving, we need to consider the actual contribution amounts paid into their Nest pension pot.

Contribution amounts are obviously a function of the contribution rate, but also of the members' earnings and the regularity of their saving.

Key phrases

Continuous contributors

Members who had at least one contribution into their Nest pension pot in every month in the financial year

Part-year contributors

Members who had contributions in a maximum of 11 months in the financial year

Annualised contributions

Table 13 shows that the median and mean annual contributions of Nest members in 2021/22 were £730 and £1,040 respectively. On the median measure this is an increase of around 2% on the previous 12 months and a 7% increase on the mean measure.

The higher mean value, and the larger increase in the mean from 2020/21, illustrates the fact that some members receive much higher levels of contribution. This is either due to higher contribution rates, higher overall earnings or a greater persistency of saving.

To understand the levels of persistency of saving among Nest members, we categorise the members as either continuous or part-year contributors. These categories are based on the number of calendar months in which a member has contributed across the year. In 2021/22 around 57% of Nest members were part-year contributors and 43% were continuous. This is a marked change from 2020/21 when the proportional split was much more even at 51% to 49%.

Table 13. Annual contributions per member, 2021/22

	All Nest members	Continuous contributors	Part-year contributors
Median	£730	£1,390	£350
Mean	£1,040	£1,660	£580

Source: Nest scheme management information, 2022

The 2020/21 year was heavily influenced by lockdowns and the furlough scheme. This saw a partial stagnation in job movements, meaning more workers probably stayed in their job for longer. Therefore, workers were more likely to be continuously contributing, albeit in some cases on a reduced income due to furlough. For this reason, we consider 2020/21 to be something of an outlier and this is backed up when we look at previous years. In 2018/19 and 2019/20, Nest was operating in a post-staging, steady-state environment and the proportional split of part-year to continuous contributors was equal to 2021/22, at roughly 57% to 43% respectively.

We can also consider the contribution amounts by the split in contribution persistency. This shows that the median value of annual contributions made by continuous contributors has increased by around 13% from the previous 12 months. The increase for part-year contributors is more modest, at 10%. Of course, the workers in these groups are not entirely the same ones who were in the same groups in 2020/21, so assessing the reasons for the respective increases is complex.

We know from **Member earnings** that median earnings for Nest members increased by around 8%, so it stands to reason that annual contribution amounts would be higher than the previous year. Continuous contributors are more likely to be in stable, salaried positions and may have experienced higher wage growth. Part-year contributors are more likely to have started new jobs, potentially with higher salaries, within the past year. This is due to labour market changes following the opening of parts of the economy after enforced closures in 2020/21.

However, we do know there are proportionally more part-year contributors in the past 12 months. This means there are a greater number of workers who are contributing less often than the previous year. Therefore, despite strong growth in median earnings and double-digit increases in median contributions for both continuous and part-year contributors, the increase in median contributions for all members is only 2%.

A significant reason for continuous contributors seeing a greater increase in their mean and median contribution amount over the past year is because they have higher average pay than part-year contributors. In 2021/22, continuous contributors had a median income of around £22,980 compared to £19,180 for part-year contributors.

Distribution of annual contributions per member

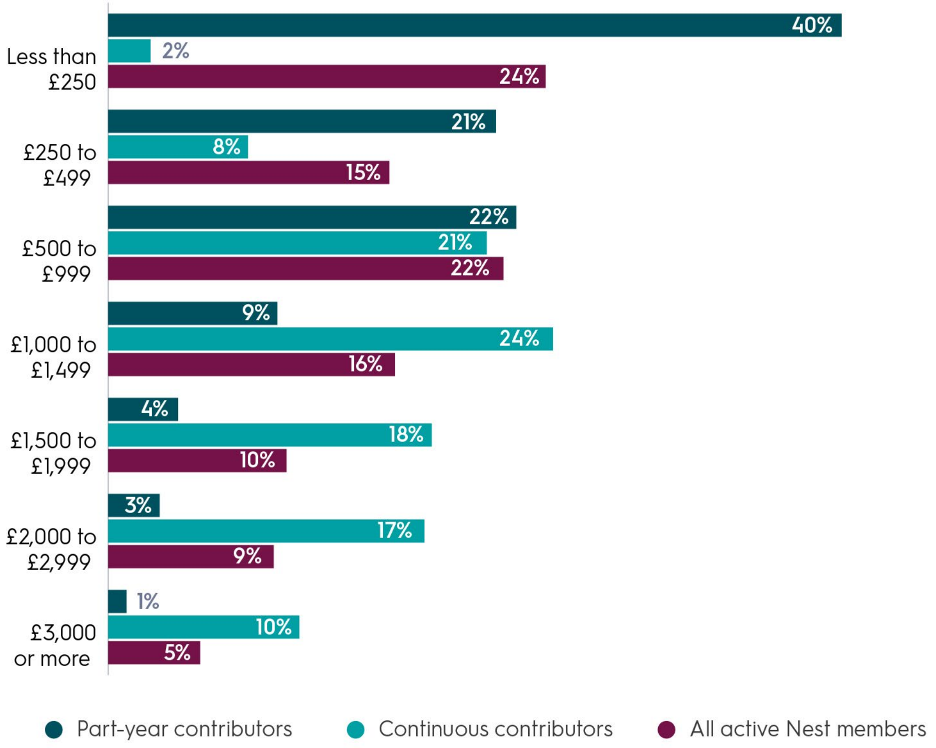
To understand the range of how much members are saving we can consider the distribution of annual contribution amounts.

Figure 12 shows that over 60% of part-year contributors have annual contributions of less than £500 and fewer than 4% contribute more than £2,000.

In contrast, 28% of continuous contributors have annual contributions totalling £2,000 or more and only around 10% contribute less than £500.

This distribution shows how important regular contributions are to building a meaningful pension pot in the longer term. However, it should be noted that Nest cannot determine if members are saving into other pension pots when they aren't contributing to their Nest pot.

Figure 12. Annual contributions by continuous or part-year contribution history



Source: Nest scheme management information, 2022

Contributions by member and employer characteristics

We've discussed how variation in contribution amounts is driven by the contribution rate, the earnings the contributions are calculated on, and the persistency of the contributions.

The contribution rate is predominantly determined by the employer. However, in Tables 10 and 11 we saw instances where members make contributions above the minimum level even though their employer does not.

The other driving factors – member earnings and the persistency of contributions, are largely determined by the member's job. This is influenced by several factors that are often shaped by experience and skill, which tend to trend with age.

We've already established that men and older workers have higher rates of pay on average. So, it's unsurprising that Table 14 shows men have higher median contribution levels than women, and workers aged over 40 have higher levels than those under 40.

The relationship between the mean and median contribution level is stable across age and gender – median contribution amounts are around 70% of mean levels. This is in line with the flat distribution seen in average earnings across the age groups. Nest's membership is characterised by a similar distribution of earnings and ultimately a similar contribution amount regardless of age. Much higher earners do not have a distorting effect at any point in the age distribution of Nest's membership.

Table 6 showed that proportionally more men work at the smallest firms. As we know that men earn more, it's understandable that annual contribution amounts are higher in smaller firms. However, this is somewhat counterintuitive when it's considered alongside the fact that smaller firms are less likely to contribute above the legislative minimum rates.

Table 14. Annual total contributions by gender, age and employer size

	Mean	Median
Gender		
Women	£870	£600
Men	£1,220	£920
Age		
Under 22	£530	£360
22 to 25	£630	£430
26 to 30	£920	£680
31 to 35	£1,060	£750
36 to 40	£1,130	£790
41 to 45	£1,180	£830
46 to 50	£1,210	£870
51 to 55	£1,220	£890
56 to 60	£1,190	£870
61 to 66	£1,130	£810
Over 67	£1,330	£880
Employer size		
1 to 4 employees	£1,170	£800
5 to 49 employees	£1,160	£860
50 to 249 employees	£1,050	£760
250 to 499 employees	£870	£600
500 to 999 employees	£840	£550
1,000 to 4,999 employees	£810	£570
5,000 or more employees	£820	£570

Source: Nest scheme management information, 2022

Direct member contributions

Outside of deductions made through an employer's payroll, Nest members can also pay additional contributions directly into their pot. Members do not need to be in active employment to make additional contributions.

Direct contributions from members can be regular payments, where the member has set up a direct debit to pay the same amount at a scheduled interval, or they can be ad-hoc payments, where the member makes one-off lump sum payments.

Table 15 shows all direct member payments that have been made since the start of the Nest scheme in 2011. In total around 165,000 members have made at least one direct payment, which equates to around 1.5% of Nest's membership as at 31 March 2022.

While direct contributions may only be paid by a small proportion of Nest members, they have increased significantly in volume and value in the past year. As at 31 March 2022 there have been almost 4 million direct member contributions, an increase of 36% on the previous 12 months. In total £550 million has been contributed by members directly, an increase of just over 50% on 12 months ago. This significant increase illustrates the importance some members are putting on saving for retirement and it's a positive sign given the recent financial uncertainty caused by the Covid-19 pandemic.

Direct member contributions are the only way the self-employed can pay into their Nest pot. As at 31 March 2022, Nest had around 21,000 members registered as self-employed. Since the inception of Nest, around 12,500 self-employed members had made direct contributions with a total value of over £83 million.

An interesting finding in Table 15 is that slightly more direct contributions come from women than men. Given the fact that Nest's overall membership is slightly skewed towards men, and that on average men earn more, this is not necessarily what we'd expect.

That said, in terms of the value of the direct contributions made, men do have a higher average regular contribution (£95) compared to women (£76). For ad-hoc payments the reverse is true with women contributing more than men on average.

Regular payments are the most common form of direct contribution with around 95% of all payments made in this way. There is very little difference in this by gender or age.

As with contributions paid through payroll, mean direct member contributions increase with age, whether regular or ad-hoc. The likelihood of making direct contributions increases with age too, with only around 0.7% of members aged 30 and younger having made them compared to around 2.2% of members aged over 50.

Table 15. Direct member contributions, by gender and age

	Number of members	Number of contributions	Percentage regular contributions	Percentage ad-hoc contributions	Mean value of regular contribution	Mean value of ad-hoc contribution
All	**164,846**	**3,954,972**	**95.2%**	**4.8%**	**£85**	**£1,235**
Gender						
Women	84,166	2,027,071	96.4%	3.6%	£76	£1,362
Men	79,479	1,904,869	93.9%	6.0%	£95	£1,155
Age						
Under 22	348	3,493	92.6%	7.4%	£59	£477
22 to 25	4,219	51,615	95.4%	4.5%	£61	£422
26 to 30	16,140	310,909	96.9%	3.1%	£58	£508
31 to 35	24,031	535,950	96.7%	3.3%	£67	£763
36 to 40	22,714	547,690	96.3%	3.6%	£75	£929
41 to 45	21,097	531,787	95.6%	4.4%	£81	£1,028
46 to 50	19,557	502,354	95.1%	4.9%	£89	£1,200
51 to 55	19,284	500,000	94.6%	5.4%	£96	£1,409
56 to 60	17,704	453,146	93.6%	6.3%	£106	£1,520
61 to 66	16,274	435,978	93.3%	6.7%	£108	£1,706
Over 67	2,297	59,400	91.2%	8.8%	£130	£1,692

Source: Nest scheme management information, 2022

Switches, transfers and retirements

Nest's default fund choice provides investments tailored to a member's age and aims to deliver the best possible retirement outcome. In addition, Nest has a modest range of investment options for members with specific investment beliefs or risk appetites.

Default fund design and fund options

The Nest default investment strategy is a range of target-date funds called the Nest Retirement Date Funds. At the time of enrolment, workers' contributions are directed to a target-date fund based on their expected age of retirement. This is assigned based on their date of birth and the age when they'll become eligible for the State Pension.

In total there are nearly 50 funds in the Nest Retirement Date Fund series. There is a distinct default fund for each year in which a member could retire, at present from 2022 up to 2068. There is also a starter fund for all workers under age 22 who ask their employer to enrol them.

The design of Nest's investment strategy was informed by international evidence of pension savers' behaviour when it comes to making fund choices as well as how opt-out systems lead to high levels of inertia. Considered together, this research strongly suggested that, whatever default strategy was set up, it would be the primary savings vehicle for the vast majority of members. This default investment strategy needed to consider how people's risk profiles typically change, both over the course of life and as they approach retirement.

The target-date funds in the Nest Retirement Date Fund series have been designed to follow a glide path that matches a set of investment objectives and portfolio risk levels appropriate for the cohort of individuals in the fund as they move through working life towards retirement. Asset allocations are managed dynamically along this glide path, so the specific asset allocation of each fund changes over time to match the life stage of the members in it as well as Nest's view of conditions in investment markets.

As at 31 March 2022, the life-styled glide path within the Nest Retirement Date Funds had four distinct phases:

Foundation: For members under age 25, Nest's target-date funds include a modest allocation to growth assets (equities, growth credit and property). The rationale for doing this is to moderate the impact of any sharp market declines. Nest's behavioural research suggests such impacts could discourage younger members from saving for retirement altogether.

Growth: The target-date funds' allocation to growth assets rises for members aged 25 to 28. It then remains in a steady growth position until their fund is 10 years from their expected retirement date.

Consolidation: As members enter their mid-50s and progress towards their expected retirement age, their fund's growth allocation is reduced according to how far away they are from retirement, how their funds have been performing and overall market conditions. Close to retirement, their final allocation will represent a portfolio that aims to keep pace with inflation after charges.

Post retirement: Members who are close to retirement have been gradually de-risked into a portfolio with some growth assets with the aim of ensuring that their pot value keeps pace with inflation after charges. This is based on the premise that members who are retiring, having saved with Nest for a longer period, may wish to have their pot remain invested through some of their retirement. From 2020 onwards, members with pot values of at least £10,000 are automatically moved into a post-retirement fund that is partly invested for growth. Those with lower pot values have 0% allocation to growth assets.

Nest also offers members a choice of other investment options, including the Nest Ethical Fund, the Nest Sharia Fund, the Nest Higher Risk Fund and the Nest Lower Growth Fund. The Nest Ethical Fund is also life-styled, with foundation, growth and consolidation phases. Members of the Nest Higher Risk Fund can choose a life-styled or a non-life-styled path.

Switching behaviour

Nest's investment strategy was designed to account for inertia, with an expectation that very few members would consider switching funds. This has proved to be the case so far – as at 31 March 2022 around 99% of Nest members were invested in the Nest Retirement Date Fund in which they were enrolled.

As pension saving becomes more normalised for the mass market over time, we may expect the proportion of members switching funds to increase. It should be noted that switches within Nest are limited to a small number of choices.

Members can change the target-date fund they are invested in by changing the age, or date, at which they expect to retire. As time goes on, we may see an increased instance of members delaying retirement, either through voluntarily continuing to work, or a perceived need to continue working for financial reasons. By formally changing their expected retirement date with Nest, members can benefit from an investment strategy aimed at producing returns in an optimal way for their retirement.

Members can also choose to move to a fund with a lower or higher risk profile by selecting the lower growth fund or the higher risk fund respectively. In addition, Nest also offers an ethical fund and a sharia compliant fund for members who may have personal beliefs which require a different way of investing.

There are also automatic switches where members are moved from funds at certain milestones. For instance, if a member reaches their retirement age and has not taken their assets, they are moved into a post-retirement fund before their target-date fund closes.

Table 16 shows that 1% of Nest members changed funds either through choice or through automated switches in the 2021/22 year. Less than one third of switches were a result of member choices.

The most popular member-directed switch was from a default fund to the higher growth fund. This accounts for over 15% of all switches and over one half of all member-directed switches.

Table 16. Members' investment switching behaviour

	Switches 1 April 2021 to 31 March 2022
Total members with a positive pot balance	**10,566,000**
Total assets in members' pots	£24,135,520,000
Number of switching members	105,600
Percentage of members switching	1.0%
Percentage of assets switched	1.8%
Active, member-directed switches*	
Total	**32.1%**
From default to higher risk fund	15.2%
From default to ethical fund	8.5%
From default to lower growth fund	0.2%
From higher risk fund to lower growth fund	0.3%
From lower growth fund to higher risk fund	0.3%
Other member-directed switches	7.7%
Automatic and age-based switches*	
Total	**67.9%**
Adjust default target-date fund	26.7%
Adjust glidepath lifestyle	2.4%
From retirement to post-retirement	22.8%
From starter fund to retirement target date fund	16.0%

* Types of switches are accounted as percentage of all trades involving a switch in funds. Numbers may not total to 100% due to rounding.

Source: Nest scheme management information, 2022

Transferring funds out of Nest

Since April 2017, Nest has been allowed to accept transfers of funds in and out of the scheme. As at 31 March 2022 around 180,000 members, roughly 1.6% of the whole membership, have transferred funds out of Nest to another pension scheme.

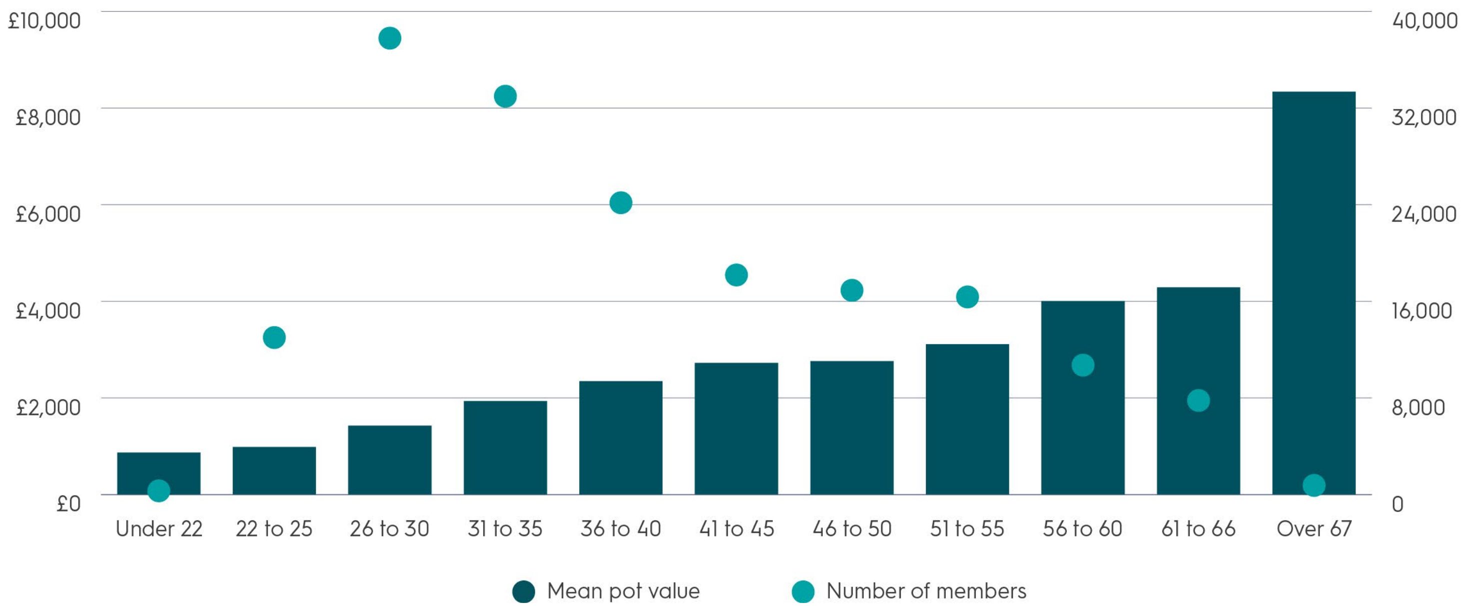
Overall, the mean value of transfers out of Nest was around £2,300. This is in line with the overall average pot value for all members (see Table 18).

When we consider transfers out by age, as in Figure 13, we see that far more younger workers make transfers out than older workers. This is not surprising as Nest's membership is skewed towards younger workers. However, if we consider the relative proportion of members making transfers out, younger workers are slightly more likely to transfer. Around 1.7% of members aged 30 or younger make transfers out compared to 1.4% of members aged over 50.

In terms of value, the average amount transferred out increases with age as we would expect. But it's striking to see this amount being much higher for those aged 67 and over. These members, who only make up a small cohort, could possibly have a higher average transfer out value as a result of transferring previous pots into Nest during the accumulation phase.

This would be an indication that these members are consolidating their assets into a retirement product elsewhere. However, we cannot tell from Nest scheme data what these members do after transferring funds out.

Figure 13. Transfers out of Nest by mean value and age



Source: Nest scheme management information, 2022

Transferring funds into Nest

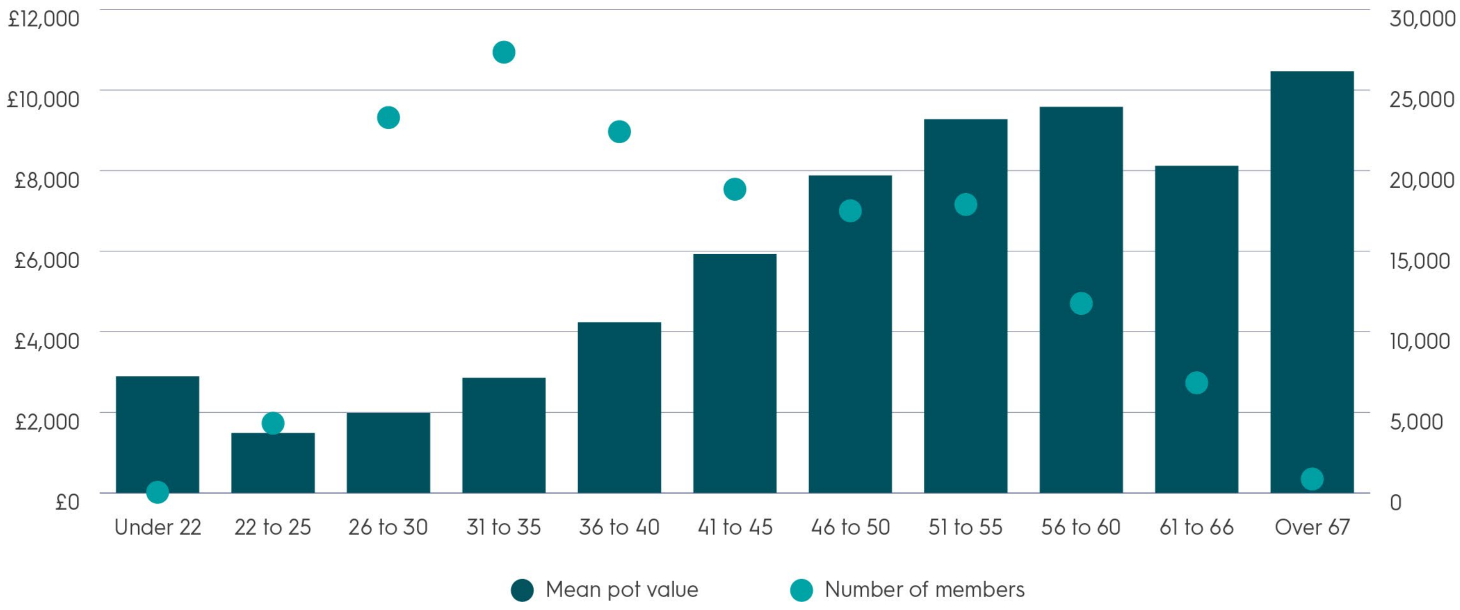
It's also possible for members to transfer funds from other schemes into Nest. As at 31 March 2022, around 150,000 members had transferred funds in. This represents around 1.4% of all members.

The overall mean value of transfers in is around £5,400 which is considerably higher than the mean value of transfers out. This is to be expected – in lots of cases these funds have been built up in other schemes over many years before auto enrolment started.

Contrasting to the pattern of transfers out, proportionally more older workers transfer funds into Nest. Around 1.5% of those aged over 50 have conducted transfers into Nest compared to around 0.9% of those aged 30 and younger. However, in pure volumes terms, younger workers still conduct the most transfers into Nest.

Older workers may consider using Nest to consolidate their pension pots as they approach retirement although this cannot be confirmed until they've made a decision to decumulate their Nest pot through one of the retirement mechanisms.

Figure 14. Transfers into Nest by mean value and age



Source: Nest scheme management information, 2022

Retirement and decumulation

At the start of the Nest scheme it was expected that members with small pots would take them as cash in a tax-efficient method at retirement. Members with larger pots were expected to purchase an annuity or income drawdown product from the open market as this was required for larger defined contribution (DC) pots.

When the government introduced the 'freedom and choice in pensions' agenda in 2015, it gave members of DC schemes like Nest many more options at retirement. Members can now take their pot as cash regardless of its size without the need to purchase an annuity.

Although these changes have been in place for a number of years, the majority of Nest pots are still relatively small. So it's not surprising that around three quarters of all pots taken in 2021/22 were by trivial commutation with a mean value of around £12,500 (see Table 17).

Around 23,000 members took either full or partial uncrystallised funds pension lump sum (UFPLS) payments to draw down their pot in 2021/22. The mean value of these decumulations was just over £2,500.

Key phrases

Trivial commutation

Taking a pension pot as cash where the total value of the pot is £10,000 or less

Uncrystallised funds pension lump sum (UFPLS)

Taking all or part of a pension pot as one or a series of cash lump sums with no requirement to use the money to buy a retirement income product such as an annuity

Table 17. Nest retirement claims by type and year

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Mean member volume										
Full UFPLS	–	–	–	–	423	1,385	2,660	5,433	8,640	12,280
Partial UFPLS	–	–	–	–	23	172	510	2,558	5,670	10,758
Annunity	–	1	2	3	8	12	26	54	67	107
Trivial commutation	7	306	2,092	7,136	11,882	20,543	37,051	60,780	74,749	83,971
Death lump sum	2	73	354	737	1,022	1,443	2,066	4,754	5,585	5,076
Serious ill health	–	–	5	19	37	58	154	266	278	258
Mean pot value										
Full UFPLS	–	–	–	–	£990	£1,030	£1,240	£1,510	£1,890	£2,610
Partial UFPLS	–	–	–	–	£2,410	£3,450	£4,140	£2,840	£2,490	£2,600
Annunity	–	..	..	..	..	£3,430	£4,090	£6,440	£8,300	£12,500
Trivial commutation	..	£210	£270	£410	£470	£510	£590	£840	£1,140	£1,420
Death lump sum	..	£130	£220	£320	£470	£660	£740	£1,090	£1,660	£2,350
Serious ill health	–	–	..	£650	£850	£980	£1,310	£1,730	£2,760	£4,110

Note: For privacy disclosure reasons, (..) has been used where pot value data corresponds to a member volume of less than 10.

Source: Nest scheme management information, 2022

Chapter 6

Pension pot values

Auto enrolment minimum contribution rates rose to 8% in 2019 and have stayed at this level. Consequently, pot sizes are increasing more rapidly. However, with the scheme still comparatively new compared to more established competitors, Nest members' pots remain small overall.

The low minimum contribution levels phased in during the early stages of auto enrolment meant that Nest members' pot sizes were very modest for several years. For some members who have contributed persistently, however, their pot is becoming a more significant part of an overall retirement portfolio.

Average pot values

When we explore mean and median pot values, we exclude members who have a zero balance. This can occur for several reasons. For example, a worker may be enrolled but not earn enough qualifying earnings in a pay period to trigger a contribution. Or, a member may be enrolled in error or leave their job shortly after being enrolled without receiving any earnings.

As at 31 March 2022, the mean pension pot value for all Nest members, whether the member was active or inactive, was £2,280. This is an increase of around 26% from 12 months ago. The median pot value for all members was £800, an increase of 15%.

However, there is a wide gap between active and inactive members. This is shown in the figures for active and all members in Table 18.

Table 18. Nest pot balances at 31 March 2022

	Mean	Median
All members	2,280	800
Active members	3,840	2,210

Source: Nest scheme management information, 2022

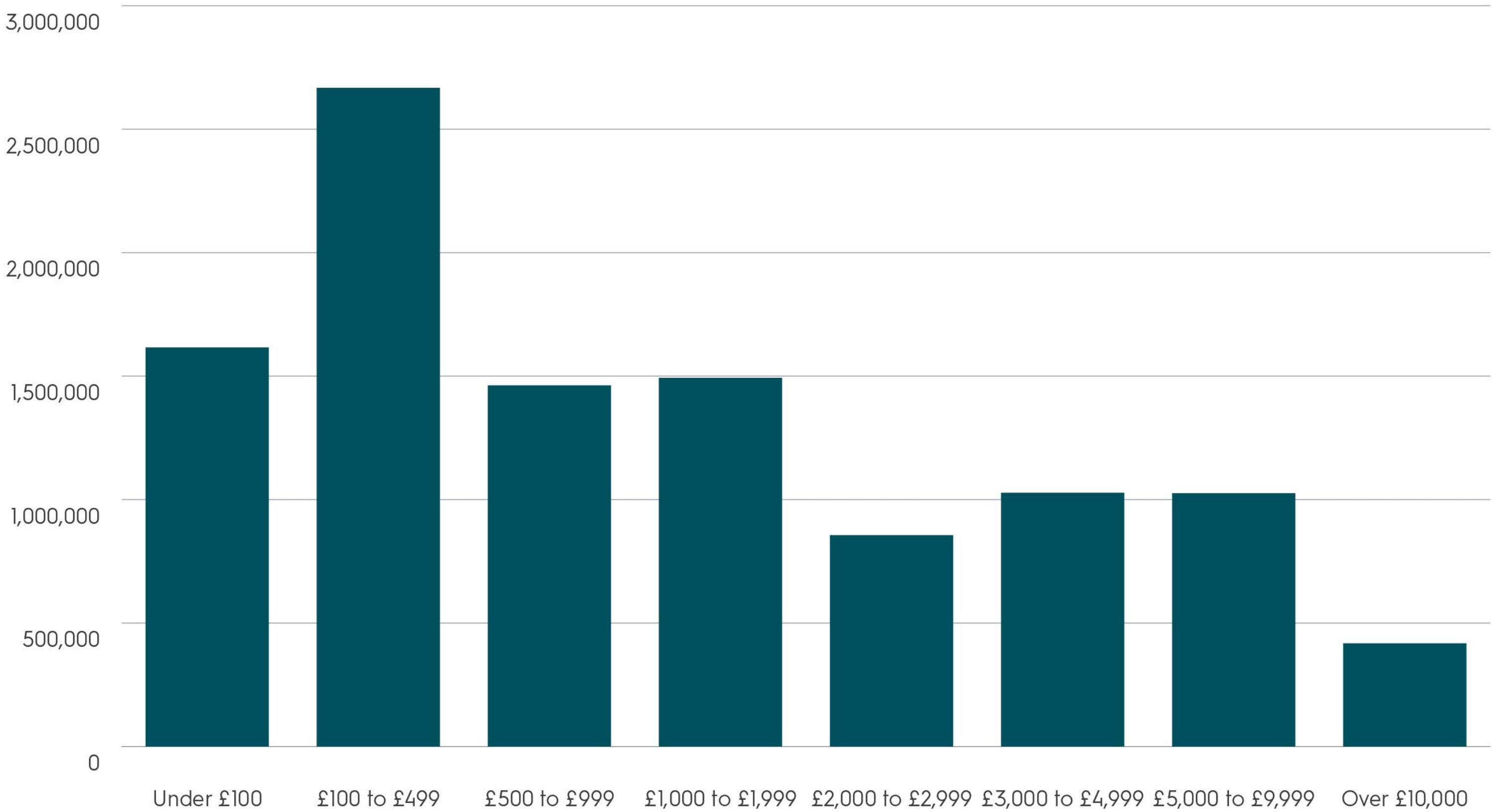
Distribution of pot values

There is a wide range of member types within the Nest membership. Some members have been persistently contributing for many years while others are new to the scheme. Some may only have briefly contributed in previous years when minimum contribution rates were lower. Therefore, pot balances have a high degree of variation.

Figure 15 shows that around 40% of Nest pots were valued at less than £500 as at 31 March 2022. This is a slightly lower proportion than 12 months ago (43%). Due to the constancy of new members being enrolled into Nest, there will always be a proportion of pots that are very small in value. Over time, however, as the relative volume of new members compared to the whole membership decreases, the overall proportion of small pots will decrease too.

Around 14% of pots were worth more than £5,000. This is an increase from the 9% seen 12 months ago. It should be acknowledged that the growth of pots isn't only determined by the contributions paid into them. The investment performance of the funds in which the pots are invested is also a factor. In fact, as pots mature over time, investment returns make up an ever-increasing proportion of the total pot value. Against a global backdrop of geopolitical uncertainty and financial markets volatility, the performance of the scheme's funds over the last year has been positive.

Figure 15. Distribution of Nest pot values



Source: Nest scheme management information, 2022

While Nest pots are relatively small compared to more established pension providers, it should be acknowledged that, for many members, Nest only forms a small part of their retirement saving. Older workers are more likely to have legacy pots from the period before auto enrolment. Workers of all ages are likely to save in other schemes when they move job and change from being an active to an inactive Nest member.

Pot values by member characteristics

The mean and median balances of Nest members' pots vary by age in the same way as average annual contributions (see **Contributions by member and employer characteristics)**. As at 31 March 2022, women had a median pot balance of around £740. This is roughly equivalent to 84% of the median total value for men (£870).

For active members the gap between women and men is starker. Active women had median pot balances of £1,840, which is 67% of those for men (£2,750).

Pot balances increase with age as older workers contribute higher amounts and are also more likely to contribute more persistently. Median balances for those aged 40 and older are around 70% larger than those aged under 40.

There is much less variation in pot balances by age for active members, however. Those aged 40 and older have median balances around 40% higher than active members under 40.

Table 19. Nest member pot balances by age and gender

	All members		Active members	
	Mean	**Median**	**Mean**	**Median**
Gender				
Women	1,940	740	3,110	1,840
Men	2,600	870	4,540	2,750
Age				
Under 22	750	360	940	520
22 to 25	1,050	520	1,370	770
26 to 30	1,600	600	2,910	1,910
31 to 35	1,980	660	3,750	2,320
36 to 40	2,380	830	4,180	2,470
41 to 45	2,680	960	4,460	2,590
46 to 50	2,940	1,110	4,700	2,810
51 to 55	3,120	1,230	4,870	3,020
56 to 60	3,070	1,260	4,660	2,950
61 to 66	2,810	1,180	4,270	2,840
Over 67	2,230	470	4,760	3,080

Source: Nest scheme management information, 2022

Pot balances by employer characteristics

We have explored how employers of various sizes use Nest in different ways and can have different strategies for how they pay contributions. This means member pot values are influenced by a mix of employer-based factors, resulting in pot balances varying across different employer sizes.

Members at smaller firms have higher median pot balances, as seen in Table 20. These workers are more likely to have been in their job for longer, meaning their contributions have built up persistently over a longer period. We also know from Table 14 that firms of this size have higher annual contributions, so this is an intuitive finding.

Table 20. Nest member pot balances by firm size

	All members		Active members	
Employer size	**Mean**	**Median**	**Mean**	**Median**
1 to 4 employees	£2,920	£1,350	£3,940	£2,240
5 to 49 employees	£2,910	£1,240	£4,430	£2,790
50 to 249 employees	£2,350	£800	£4,140	£2,470
250 to 499 employees	£1,770	£540	£3,190	£1,630
500 to 999 employees	£1,650	£490	£3,030	£1,490
1,000 to 4,999 employees	£1,490	£450	£2,870	£1,580
5,000 or more employees	£1,530	£490	£2,830	£1,510

Source: Nest scheme management information, 2022

Small pots

We have discussed Nest pot balances being comparatively low and that we expect these to increase to more significant amounts over time. This should occur through the normal process of members changing jobs and being enrolled into the scheme again when they join employers using Nest.

As members move around the job market and are automatically enrolled into different pension schemes, they can build up a number of small pots. This is especially the case if they only spend a short period of time enrolled in a scheme.

As members flow out of jobs and active Nest membership, their pots are left in a dormant state. As at 31 March 2022 around 5.1 million Nest pots had not had a contribution for over 12 months and around 1.5 million had not had a contribution for over five years.

As the Nest scheme matures these numbers will continue to increase, meaning that a significant number of member pots might be inactive for many years. It is possible that the longer an account is inactive, the greater the potential for a member to lose track of it or decide that its value is too negligible to engage with. This could potentially increase the likelihood of unclaimed pots in the future. We also know that when pots are dispersed across schemes, members are more likely to cash them out rather than convert them into a sustainable income.[14]

Nest is working with government, the Pensions and Lifetime Savings Association (PLSA), the Association of British Insurers (ABI) and industry peers to consider ways to address these issues.[15] Government initiatives like the pensions dashboard and pensions engagement season programmes are likely to help make some inroads into the problem by encouraging members to identify and in some cases consolidate their savings. There are also a number of activities, either planned or in train, that Nest is undertaking to help address the issue at a scheme level. This includes increasing prompts to update contact information, simplifying the process of updating contact data, and simply working harder to stay in contact with members – particularly those who are no longer actively saving with Nest.

Additionally, along with the Pensions Policy Institute and other UK master trusts, Nest Insight is working on a project to combine member data across the pensions market to understand the proliferation of small pots in the auto enrolment system. We will provide updates about this project on the Nest Insight website, **nestinsight.org.uk**

14 For example see ABI, '**Five years on: Future-proofing the freedoms**' (February 2022),
15 **plsa.co.uk/Policy-and-Research/Topics/Small-Pots**

Chapter 7

Conclusion

It almost goes without saying that 2021/22 was turbulent, both for the labour market and for households striving to balance their budgets. The year was once again dominated by further waves of Covid-19 and consequent lockdowns. And although the removal of restrictions brought relative buoyancy to the UK labour market, this was accompanied by a cost-of-living crisis and war on the European continent.

Yet throughout, the pensions auto enrolment system, as seen through the lens of Nest's administrative data, has remained remarkably stable. There are some exceptions, as this report makes clear. Upward trends in annual earnings for some Nest members have come alongside small but significant shifts in the number who are making their own additional contributions to their retirement pots, but also increases in the rate at which workers at larger employers are opting out.

These changes are currently small, and it's too early to say whether they represent meaningful trends. More analysis is needed, and the Nest Insight team will continue to monitor these and other changes throughout the ongoing difficulty in the national and global economies. Yet it does seem clear that there are exceptions to the rule that people who are auto enrolled into saving simply continue to follow the default settings they are given. It's certainly true that the great majority of Nest members continue to do this and, as a result, overall levels of retirement savings have continued to rise throughout these challenging times – supporting the objective of the UK's workplace pension reforms, helping millions more people secure a better retirement. Still, it's interesting to see exceptions to default behaviours, and this will continue to be a focus for future analysis.

Through the normal processes of job churn and employee turnover workers will continue to be enrolled in the scheme. This includes when a worker enters the labour market, or joins their first employer using Nest. But more and more enrolments in Nest over the next decade and beyond will be of workers who had previously been with Nest and are being re-enrolled after a change in employment. It's through repeated and consistent contributions that pension savers can start to see meaningful amounts of money build up in their pots.

For all these reasons, we expect that future editions of 'Retirement saving in the UK' will continue to demonstrate steady growth in the values of retirement pots, across the wide and diverse spectrum of Nest's membership.

"Yet it does seem clear that there are exceptions to the rule that people who are auto enrolled into saving simply continue to follow the default settings they are given."

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