HOW THE UK SAVES 2019

MEMBER EXPERIENCE FROM THE NATIONAL EMPLOYMENT SAVINGS TRUST (NEST)

Vanguard nest insight

Contents

Helen Dean
Chief Executive, Nest

We're delighted to share this second *How the UK Saves* report in partnership with Vanguard.

2019 marks a significant milestone in the UK workplace pension reforms. In April, statutory minimum contributions for automatically enrolled workers rose to 8%, marking the completion of a six-and-a-half-year journey. At the end of October 2012, Nest had 2,000 members enrolled by 175 employers, and minimal assets under management. As this report shows, by the end of March 2019, these numbers had risen to nearly 8 million members, working for over 800,000 employers, and £5.7 billion in assets.

Below the headline figures, this report contains a wealth of insights, derived from many billions of data points. For the first time, you'll find here a comprehensive picture of how the whole automatic enrolment roll-out has impacted millions of UK workers. These members are largely – though by no means exclusively – on low to middle incomes, reinforcing the fact that Nest is doing the job it was set up to do. As the report shows, their savings rates have accelerated as the mandatory contributions rates have risen.

This is a measure of the success already achieved by auto enrolment. Yet Nest, and its members, are only at the start of a long savings journey. In the years to come, we will continue to share data and insights as we see people's savings grow and, perhaps, through future developments in pensions reform. Thanks to Vanguard's parallel reports in the United States, Australia and elsewhere, we'll be able to compare UK savers' experiences to those of people in other pension systems. We're grateful that Vanguard has enabled us to join this international initiative, as we are for the wider support they provide for the Nest Insight programme.

Much of this report updates the data we published in the 2018 edition, but you'll also find new insights as we start to expand the types of data covered by these reports. In these pages you'll find more analysis of gender differences in participation and savings rates, providing further evidence that the gender pensions gap is driven not by people's individual choices, but by deep-rooted characteristics of the labour market. We hope these findings will contribute to the ongoing and important debate about this topic.

You'll also find further data on the Nest Investment experience, and a new section exploring the various ways our customers contact us. Nest was built to make it straightforward for workers to save, and for employers to comply with their new duties, regardless of their level of pensions expertise. It can be hard to visualize the sheer scale involved in bringing on board over three-quarters-of-a-million organisations but, as these data show, we've achieved this with many never needing to pick up the phone to call us. It's hard to overstate what a new and radical model this is for workplace pensions.

I trust that you will find this report to be valuable and thought provoking. Nest Insight is a collaborative endeavour – everything we deliver is done in partnership with others, and much of the team's work is funded through grants and sponsorship. We hope, among other things, that presenting this data will stimulate further partnerships in the year to come.

Helen Dean

Sean Hagerty
Head of Europe,
Vanguard

I'm pleased to co-present the second edition of *How the UK Saves*.

Defined contribution (DC) plans are fast becoming the centrepiece of the workplace retirement savings system of the United Kingdom. More UK workers are now participating in retirement savings than at any point in our history, and assets in the system are accumulating rapidly. At Vanguard, we have a duty to champion personal retirement outcomes: our mission is to help investors save and plan for a better future. I'm pleased that the series of *How the UK Saves* research publications is the result of an ongoing collaboration between Vanguard and Nest, an organisation of similarly noble intent.

Over the course of 2019 we have published research into the effects of raising minimum contribution levels on workplace retirement saving, and the impacts of gender on savings behaviours. Alongside these publications, this year's report will be useful to anyone interested in understanding how the key features of the DC system in the UK flow through to members' engagement, activity, behaviour and outcomes. For end-investors themselves, it may also help them understand the auto enrolment pension system in which so many now participate.

A global view of pensions

Vanguard has produced a major annual study entitled *How America Saves* since 2000, and we added *How Australia Saves* and *How the UK Saves* to our publications list in 2017 and 2018 respectively. This year, we also expect to add Canada to our roster of global thought leadership. I hope that not only will such global comparisons help practitioners to enhance pension systems around the world, but that, as a result of doing so, millions of investors will achieve better retirement outcomes.

Robust data

The researchers have again analysed choices, demographics, employers, member behaviours and outcomes at an individual level, and aggregated them into meaningful cohorts. This year, we have added greater depth on investment outcomes and provided some insight into how members engage with Nest. Our analysis spans billions of individual data points from the inception of Nest to March 2019. Such wide scope differentiates this research from other publications based on small sample sizes or top-down aggregations and, as such, we believe this to be one of the largest longitudinal studies ever undertaken in the UK.

We greatly appreciate the work of the Nest Insight research unit, the support of the Nest board of trustees, and Helen Dean in making all of the data underlying this report available. The Nest team has worked tirelessly alongside Vanguard's Centre for Investor Research on the production of this final report.

In future publications we hope to add more data sources to broaden the coverage of the demographic base. In doing so, we shall continue to assist Nest in influencing pension policy through research informed by high-quality data and analysis.

I am confident this report will serve as a valuable reference for all those interested in the UK retirement savings system, and I hope you enjoy reading it.

Sean Hagerty

Executive summary

This publication examines the enrolment, savings, investment and engagement activity of workers using data from the National Employment Savings Trust (Nest). With membership nearing 8 million across more than 800,000 employers, Nest is one of the UK's largest multi-employer pension plans.

Legislative foundations

The 2008 Pensions Act requires employers to enrol eligible employees automatically in a qualifying workplace scheme. In the first part of the period covered by this report, from 1st April 2013 to 5th April 2018, minimum contributions for auto-enrolled employees were 2%, including at least 1% from the employer. From 6th April 2018, the minimum contributions increased to 5%, including at least 2% from the employer.

Composition of Nest employers

Nest's employer relationships are dominated by small firms, with 98% of employers having fewer than 50 employees. However, a large percentage of its membership works for mid-sized and large firms. Although only 0.6% of Nest employers employ 250 or more workers, these firms account for 36% of Nest members.

Employers using Nest span the UK, both geographically and by industry type. The highest concentration of employers is in the major metropolitan areas, such as London and Birmingham. Retail, construction, health and social care and catering and accommodation are the top industry sectors, together representing 27% of employers.

Composition of Nest members

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

This member composition and geographical spread suggests that the original objective of mandatory automatic enrolment has largely been attained: namely to ensure that all workers, including those who are younger and earning modest incomes, have access to straightforward pension provision.

Dominance of auto enrolment

The overwhelming majority of active members (92%) are automatically enrolled in Nest.

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

Opt-out rates

The opt-out rates under ongoing enrolment remains low at just 7%, with little impact having resulted from the phased increase in minimum contribution rates in April 2018. Reasons for opting out amongst younger employees are typically affordability or distrust of pensions, while older workers cite existing pensions or other sources of retirement income. Few of those who have opted out state that they plan to rely on the State Pension in retirement.

The requirement every three years for employers to re-enrol employees who are not participating in retirement saving is proving to be an effective behavioural mechanism, as 43% of re-enrolled workers remain active members.

Contributions

As at 31 March 2019, 84% of employers had enrolled workers at the then-statutory minimum 5% total contribution rate. Small and micro employers dominate the 13% of companies enrolling workers at a higher rate.

Members who have remained with Nest for the full 12-month period to 31 March 2019 have a median total contribution, net of fees, of £702 and save an average of £837. As annual mandatory minimum contribution rates increase, these numbers are also likely to rise.

Account balances

Median and average balances are £368 and £760 respectively. As might be expected, balances are higher amongst actively contributing members, at £708 and £1,104 respectively.

Equally predictably, balances rise with income and scheme tenure, while workers aged 55 to 64 have balances more than two-and-a-half times greater than their counterparts below the age of 25.

Gender and income differences

The median balance for females (£327) is 79% of the median balance for males (£415), driven by female average earnings being lower than males in aggregate. However, after adjusting for earnings and continuous contributions, differences in account balances and annual contributions are negligible.

Assets under management

Assets invested through Nest total £5.7 billion. These assets are allocated 48% to equities, 23% to investment-grade bonds, 10% to property, 9% to growth credit, 4% to commodities and 6% to money markets.

Member asset allocations and investment choices

As at 31 March 2019, 98% of members are invested in Nest's default investment strategy, a range of retirement date funds that are designed to change members' asset allocations as they progress through working life to retirement.

As expected, switching activity is low, with just 1% of members changing their investment options in the preceding 12 months.

Investment returns

Five-year annualised returns for both the default Nest Retirement Date Funds and other investment options are generally well above their benchmarks, reflecting strong performance from asset classes such as property and growth credit.

The median member estimated total rate of return on a five-year annualised basis was 9.5%, as at 31 March 2019. Dispersion of member returns was compressed for members invested in the default retirement date funds, while there was much wider dispersion of returns for members invested in self-directed options.

Transfers and disbursements

The overwhelming majority of Nest members are in the accumulation phase of retirement savings. For the relatively few members withdrawing assets from Nest, the majority of disbursements are small lump sums on members' retirement.

Since Nest began allowing members to transfer pension savings from other UK-based registered schemes in 2017, transfers into Nest have grown, exceeding £70 million from nearly 14,000 members in the 12 months to 31 March 2019.

Member engagement

Since the launch of Nest, approximately a quarter of active members have registered to access their account via the website.

Web chat is becoming an increasingly popular method of interaction with Nest amongst members, with three times as many webchats taking place in the 12 months to 31 March 2019 than in the 12 months to 31 March 2017.

Members are increasingly using mobile and tablet devices to interact with their accounts. Since January 2019, mobile and tablet devices have become the dominant channel for members' digital interaction with Nest.

Finally, members' log-on activity tends to coincide with the issuance of annual benefit statements, and on average, active members are twice as likely to log on to their account than the membership as a whole.

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003

UK prime ministers

John Major, Conservative (1991–1997); Tony Blair, Labour (1997–)

Secretaries of state with responsibility for pensions

Peter Lilley, Conservative; Harriet Harman; Alistair Darling; Andrew

Major events

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

Industry / regulatory milestones

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

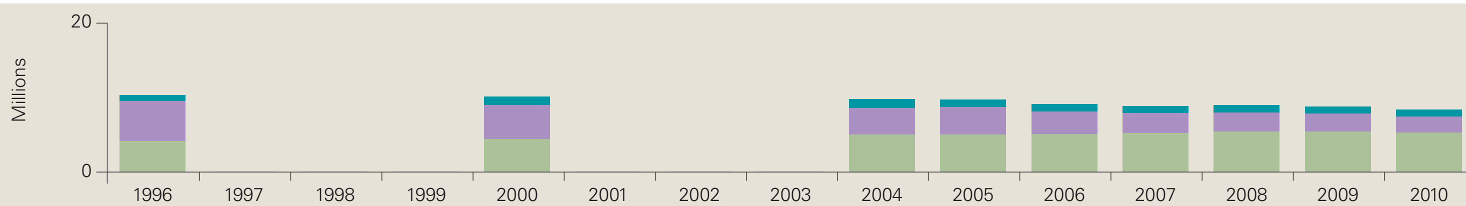
Mandatory minimum contribution rates to UK defined contribution schemes

Member | Employer | Total

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

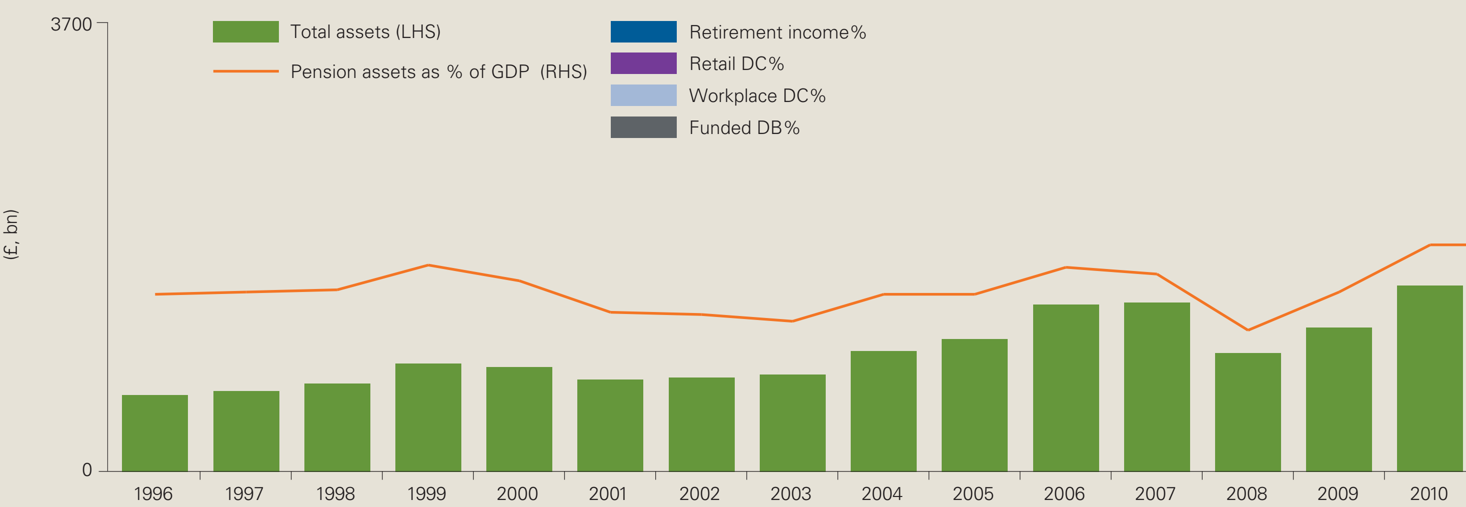
Source: Office for National Statistics, the Pensions Regulator, Vanguard estimates, 2019.

Number of active members of occupational pension schemes (millions)



Source: Office for National Statistics, Vanguard estimates, 2019.

Industry growth



Source: Willis Towers Watson Global Asset Study, IMF, Hymans Robertson, Spence Johnson, NMG, Vanguard estimates, 2019.

2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019

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

Smith | John Hutton | James Purnell | Yvette Cooper | Iain Duncan Smith | Damian Green | Esther McVey | Amber Rudd

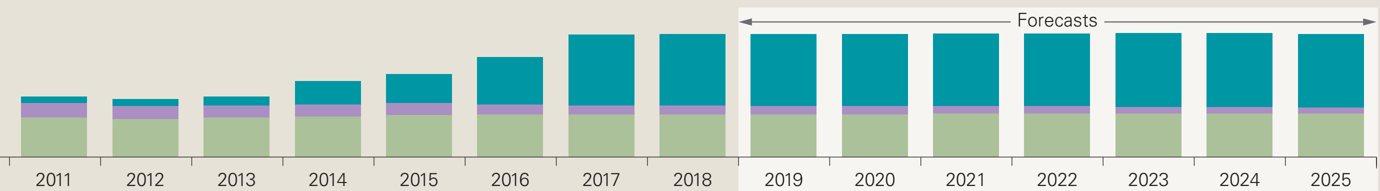
Alan Johnson | David Blunkett | Peter Hain | Stephen Crabb | David Gauke | Thérèse Coffey

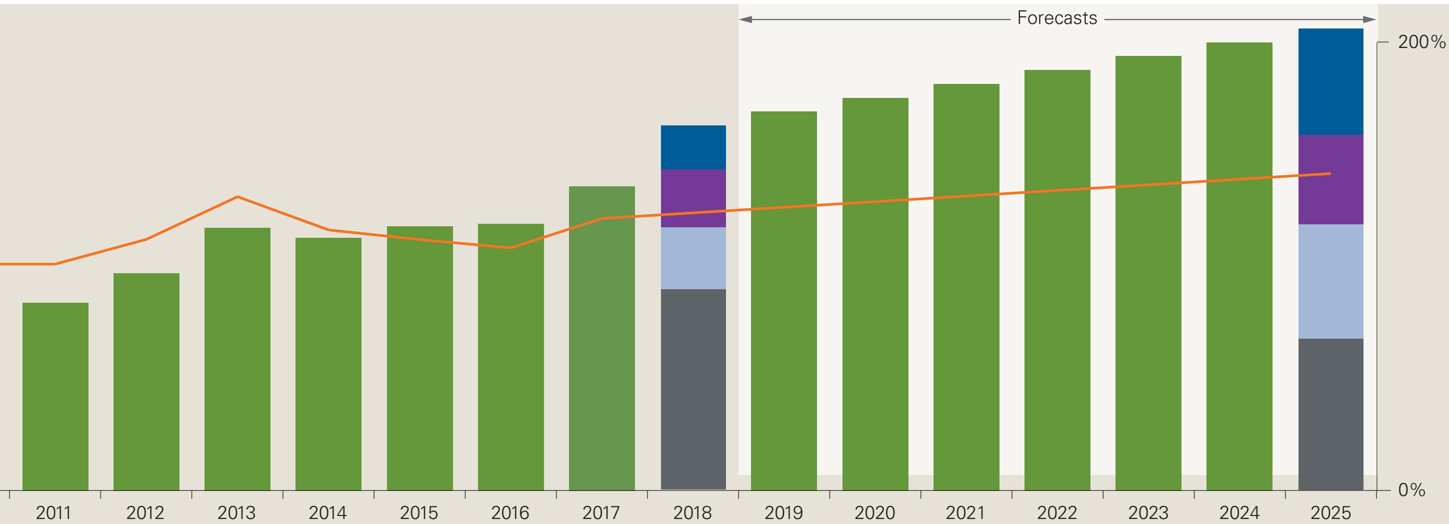
- UK government part-nationalises three leading banks following the global "credit crunch"
- Article 50 deadline for leaving the European Union extended to October 31, 2019
- Britain withdraws bulk of its remaining troops in Iraq
- Suicide bomb attacks on London's transport network
- Large-scale public spending cuts aimed at reducing UK's budget deficit
- International intervention in the conflict in Libya
- Irish Republican Army (IRA) announces formal end to its armed campaign
- David Cameron proposes a referendum on whether to leave the European Union
- London hosts the 2012 Summer Olympics and Paralympics
- Birth of Prince George of Cambridge, who is third in line to the throne
- Voters in a referendum in Scotland reject independence, by 55% to 45%
- UK voters in a referendum opt to quit the European Union. David Cameron resigns
- Formal negotiations begin to end Britain's membership of the European Union

- Pensions Act introduces workplace pensions reform including requirement for auto enrolment from 2012
- FCA introduces a ban on differential charging and DC commissions in workplace personal pension schemes
- Pensions Act establishes a new Pensions Regulator and Pension Protection Fund
- Employment Equality (Age) Regulations prohibit unjustified direct and indirect age discrimination
- Finance Act simplifies tax regimes for pensions
- Pensions Act increases state pensions age for men and women to 66 by 2020, and amended elements of 2008 Pensions Act
- Finance Act changes rules on annual contribution and lifetime balance allowances, annuities and income drawdown rules
- Budget Statement introduces "pensions freedoms" from 2015, allowing individuals to withdraw money from pension schemes as they pleased, and requires advice for DB to DC transfers
- Deadline for Master Trust Authorisation applications, March 2019
- Pension Schemes Act establishes a new regulatory regime for master trusts that includes an authorisation requirement

Percentages

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





Data and commentary

This second publication evaluates the impact of ongoing participation by UK employers who use the National Employment Savings Trust (Nest) as their defined contribution pension provider. This report evaluates the behaviour of employers and members who engaged with Nest from 1 April 2013 to 31 March 2019.

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

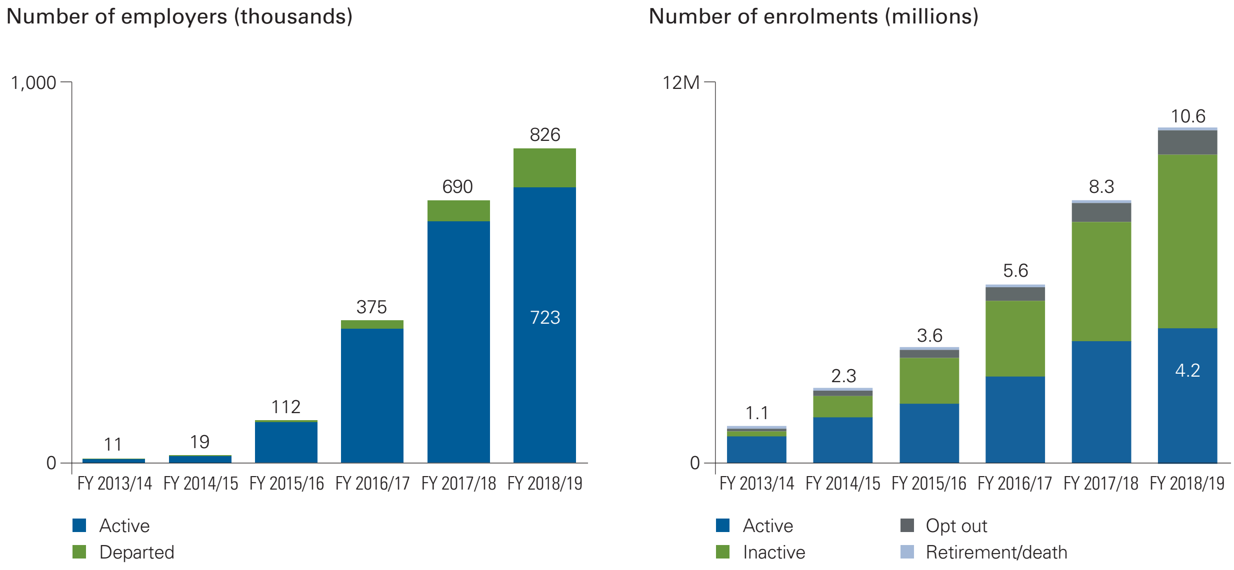
The statistics reported in this publication reflect various time periods over this six-year period. Some tables and figures represent cumulative activity. Others report either specific statistics as of 31 March 2019 or yearly numbers aggregated for each fiscal year (FY) spanning 1 April to 31 March. For example, FY 2018/19 denotes the 12 month period of 1 April 2018 to 31 March 2019. Specific time periods are noted throughout the text and displayed on all the figures.

Nest employers and members[1]

Growth in membership

Employer obligations under mandatory auto enrolment have been brought in gradually according to firm size, starting with the largest employers and then turning to mid-sized and small employers – a process known as staging. Over this period, employers were required to choose a qualifying workplace pension scheme, with Nest as one option available to all employers. The last group of employers was brought into auto enrolment staging in February 2018. By the end of fiscal year 2018/19 (FY 2018/19) on 31st March 2019, there was a total of 826,000 employers and 10.6 million enrolments (see **Figure 1**) covering nearly 8 million unique members.

Figure 1. Yearly adoption since Nest inception



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

Source: Nest, Vanguard, 2019.

1 The data in this section reflect cumulative employer and member information to 31 March 2019, except where noted.

Over the course of FY 2018/19, the number of employers to have ever used Nest grew by 20%, while the number of members to have ever used Nest grew by 28%. As of the end of FY 2018/19, Nest managed active relationships with a total of 723,000 employers and 4.2 million members. Active employers are those who have signed up to Nest and have a live employer account with the scheme. Active members are actively employed workers enrolled in Nest by their employer, or self-employed workers who have enrolled themselves. Inactive members have either left the employer who enrolled them, chosen to stop contributing or have been transferred to a different provider by their employer. Throughout the report, tables and commentary on inactive members reflect their last reported data.

In any given year, a significant portion of Nest members, around 4 in 10, leave their employer or choose to cease contributions, and so no longer contribute to their Nest retirement pots[2]. A small percentage opt out (currently 7% among new employees) and an even smaller percentage leave due to retirement or death.

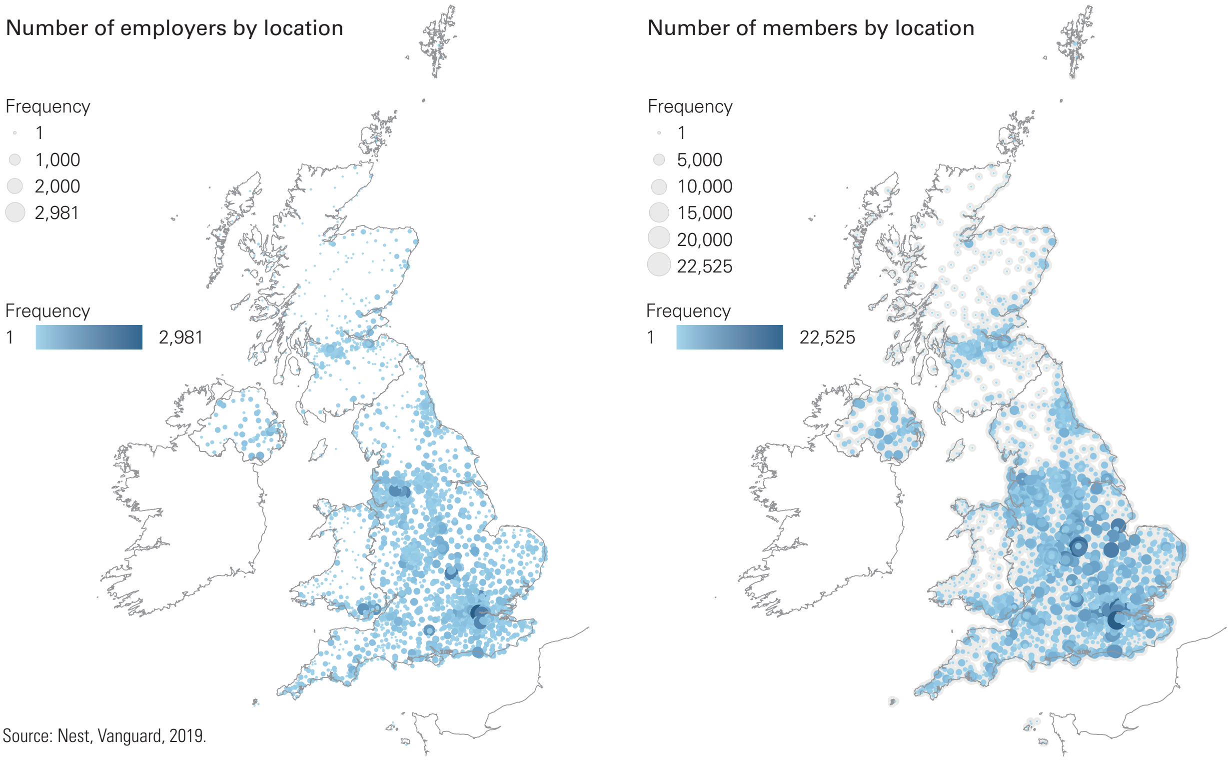
Of all enrolments made to the end of March 2019, 40% are still active members. A further 51% are those who have either left their employer or remain with their employer but have ceased contributions. However, it should be noted that continuing employees who cease contributions are a very small proportion of the total. The high percentage of leavers reflects a significant labour turnover rate amongst workers on low to moderate incomes in the UK.

Nest has experienced rapid growth in employer and member adoption over the past six years. In common with other schemes operating in the automatic enrolment market, Nest's rate of growth will slow considerably now that mandatory automatic enrolment staging under UK pension law is complete.

Employer characteristics

Nest employers are located across the UK in major cities, suburban areas and rural communities, as shown in **Figure 2**. The highest concentrations of both Nest employers and their members (measured by number) are in the major metropolitan areas, including London, Cardiff, Birmingham and Manchester, along with the south of Scotland and Northern Ireland.

Figure 2. Employer and member geographic distribution



Source: Nest, Vanguard, 2019.

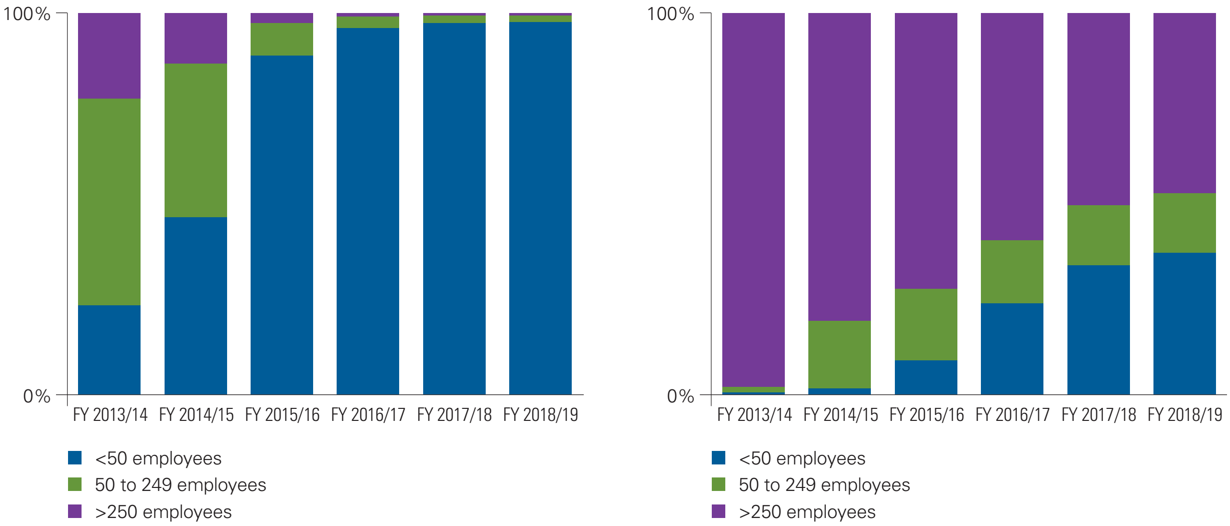
2 Due to the limitations of the administration data collection, it is difficult to accurately determine members who have left an employer and those who remain employed but choose to cease contributions.

The composition of Nest employers was dominated by mid-sized firms with 50 to 249 employees and larger firms with 250 or more employees in FY 2013/14, reflecting the gradual phase-in of the employer mandate for automatic enrolment. By the end of FY 2018/19, virtually all new employers joining Nest were small or micro employers – firms of fewer than 50 employees (see **Figure 3**). Given the effects of auto-enrolment staging, it is not surprising that the overwhelming majority of members joining Nest in FY 2013/14 were from larger firms with more than 250 employees. Nor that, over the course of staging, the percentage of members joining from small or micro employers grew substantially. As of the most recent fiscal year, approximately half of Nest's new members come from larger firms.

Figure 3. Employers and members joining Nest over time

Distribution of employers joining Nest

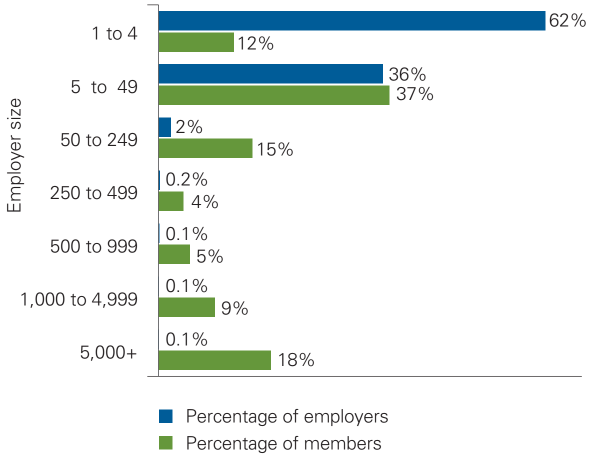
Distribution of members joining Nest



Source: Nest, Vanguard, 2019.

Figure 4. Distribution of Nest membership by employer plan size

Active members enrolled with active employers as of 31 March 2019



Source: Nest, Vanguard, 2019.

These findings continue to underscore an important finding: although Nest's employer relationships are dominated by small firms (consistent with the fact that 99% of all UK employers are small-to-medium enterprises[3]), its member relationships reflect a large percentage of employees at mid- and large-sized firms. As of 31 March 2019, less than 1% of Nest employers had 250 or more workers, yet these firms employed 36% of Nest members. Indeed, the share of large employers in the total amounts to tenths of a decimal point and so does not show up in the chart in **Figure 4**.

The remaining 99% of Nest employers accounted for the remaining 64% of members. Importantly, these results remain consistent with the policy ambitions underpinning Nest – that it should be a tool of universal availability and usage, which can be used by all employers, especially smaller and medium-sized firms, to discharge their auto enrolment duties.

Figure 5. Active employers by industry category

Top 10 categories	%	Cumulative %
Retail, hire and repair	8%	8%
Construction	7%	16%
Health and social care	6%	21%
Catering and accommodation	6%	27%
Professional, scientific and technical	4%	31%
Manufacturing	4%	35%
Charity	3%	38%
Agriculture, forestry and fishing	3%	40%
Personal services	3%	43%
Financial and insurance	2%	45%
Next 11 categories		
Arts, sports and recreation	2%	48%
Transportation and storage	2%	50%
Education	2%	52%
Information and communication	2%	53%
Administration and support services	2%	55%
Real estate	2%	57%
Wholesale	1%	58%
Employment	1%	59%
Mining, energy and utilities	0.20%	59%
Public administration	0.17%	59%
International councils and bodies	0.02%	60%
Top 21 categories	*60%*	
Not categorised		
Other	25%	85%
Not reported	15%	100%

Figures may not sum due to rounding.

Source: Nest, Vanguard, 2019.

Nest employers represent an exceptionally wide variety of industries, as we show in **Figure 5**. Just under half of Nest employers are divided among the top 10 industry classifications, with the largest being retail, hire and repair (8%), construction (7%), health and social care (6%), catering and accommodation (6%), and professional, scientific and technical (4%). Despite the numerous options available to categorize firm industry, nearly four in ten employers have classified themselves as other (25%) or are not reported (15%)[4]. Relative to 2018 data, we see no material change in the distribution of Nest members by industry.

3 https://www.gov.uk/government/statistics/business-population-estimates-2018

4 Note: "Personal services" include sub-industries such as hairdressing, gyms, dry-cleaners, launderettes, and membership of organisations such as trade unions. It also includes employment within domestic households.

Member characteristics[5]

As we show in **Figure 6**, Nest's membership, including both active and inactive members[6], remains skewed towards younger, lower-to-moderate-income workers. The typical Nest member was 37 years old and earned £18,563 per year. 53% were male and 47% female. Nearly half of all members were less than 35 years old, and more than half earned less than £20,000 annually. However, there is a wide variation in member characteristics: more than 15% of members were 55 and older, and over a quarter earned more than £25,000 annually. Relative to 2018 data, median member earnings were unchanged, while median member age has decreased by one year.

Figure 6 also shows that there were slight demographic differences between active and inactive members. Active members were slightly older and had slightly higher income. Among active members, two-thirds had held a pension account with Nest for more than one year, but median scheme tenure remained low at 1.5 years, emphasizing both how recently Nest was created, as well as the significant workforce turnover among the Nest population.

Figure 6. Nest member demographics

	All members	Active members	Inactive members
		48%	43%
	average (median)	average (median)	average (median)
Age	39.6 (37.0)	39.9 (38.0)	37.8 (35.0)
Tenure	2.4 (2.0)	1.8 (1.5)	2.5 (2.4)
Annual earnings where reported	£20,876 (£18,563)	£21,190 (£18,887)	£19,289 (£17,099)
Gender			
Female	47%	48%	45%
Male	53%	52%	55%
Member age			
Less than 25	8%	9%	7%
25 to 34 years	35%	31%	43%
35 to 44 years	22%	23%	23%
45 to 54 years	19%	21%	17%
55 to 64 years	14%	14%	10%
Greater than 65	2%	1%	1%
Scheme tenure			
Less than 1 year	24%	35%	13%
1 to <2 years	26%	28%	24%
2 to < 3 years	19%	18%	20%
3 to < 4 years	11%	8%	14%
4 to < 5 years	10%	6%	15%
5 to <6 years	9%	5%	12%
6 or more years	0.7%	0.4%	1%
Member annual earnings (where reported)			
£6,032 to £9,999	9%	9%	10%
£10,000 to £14,999	22%	21%	25%
£15,000 to £20,000	25%	25%	27%
£20,000 to £25,000	17%	17%	16%
> £25,000	26%	28%	22%

NOTE: See footnote 6 below for definition of active and inactive members.

Source: Nest, Vanguard, 2019.

5 The data in this section reflect member characteristics as at 31 March 2019.

6 Active members are either having Nest contributions managed by their employer or are self-employed. Inactive members have either left the employer who enrolled them, chosen to stop contributing or have been transferred to a different provider by their employer. Inactive members reflect last reported earnings.

Nest members were employed in a variety of industries, as shown in **Figure 7**. Nearly half of Nest members were employed in the employment (13%), health and social care (11%), catering and accommodation (9%), retail, hire and repair (9%), and manufacturing (6%) sectors. The material difference in active versus inactive membership for the employment sector is intuitive given the higher labour turnover seen in temporary and agency employment relative to other sectors.

Figure 7. Nest membership by industry

	All members	Active members	Inactive members
		48%	43%
Industry category			
Top 10 categories			
Employment	13%	8%	19%
Health and social care	11%	12%	9%
Catering and accommodation	9%	8%	11%
Retail, hire and repair	9%	10%	8%
Manufacturing	6%	6%	5%
Construction	4%	4%	3%
Administration and support services	3%	3%	3%
Education	3%	3%	2%
Charity	2%	3%	2%
Transportation and storage	2%	2%	2%
Next 11 categories			
Financial and insurance	2%	2%	2%
Professional, scientific and technical	2%	2%	1%
Arts, sports and recreation	2%	2%	2%
Wholesale	1%	2%	1%
Agriculture, forestry and fishing	1%	1%	1%
Information and communication	1%	1%	1%
Personal services	1%	1%	1%
Real estate	1%	1%	1%
Mining, energy and utilities	0.4%	0.4%	0.4%
Public administration	0.1%	0.1%	0.1%
International councils and bodies	0.01%	0.01%	0.01%
Not categorised			
Other	21%	21%	22%
Not reported	6%	7%	5%

NOTE: Active members are either having Nest contributions managed by their employer or are self employed.
Inactive members have either left the employer who enrolled them, chosen to stop contributing or been transferred to a different provider by their employer. Inactive members reflect last reported earnings.

Source: Nest, Vanguard, 2019.

7 This section reflects cumulative enrolment data as at 31 March 2019.

Impact of auto enrolment[7]

Auto enrolment versus active choice

The formation and growth of Nest were together a direct outcome of the new UK policy of auto enrolment. During the staging period, firms auto enrolled existing workers in a qualifying workplace pension scheme, which could be either defined benefit (DB) or DC, though in practice has been largely the latter. After their staging month, firms auto enrol new workers in the pension scheme. Auto-enrolled workers then have the right to opt out or quit the savings programme. Every three years, employers are required to re-enrol or sweep non-saving workers back into the pension scheme. Employers are not required to re-enrol workers who have ceased contributions or opted out within the previous 12 months, however they are permitted to do so for administrative ease if they wish. At that point, workers again have the right to opt out.

The overwhelming majority of active Nest members (92%) have become members of Nest as a result of auto enrolment, as shown in **Figure 8**.

Figure 8. Methods of enrolment – all active members

Automatic enrolment	92%
Opt in with employer contribution	3.6%
Opt in without employer contribution	0.7%
Voluntary enrolment before duty date	1.5%
Self-employment	0.2%
Other	2.1%

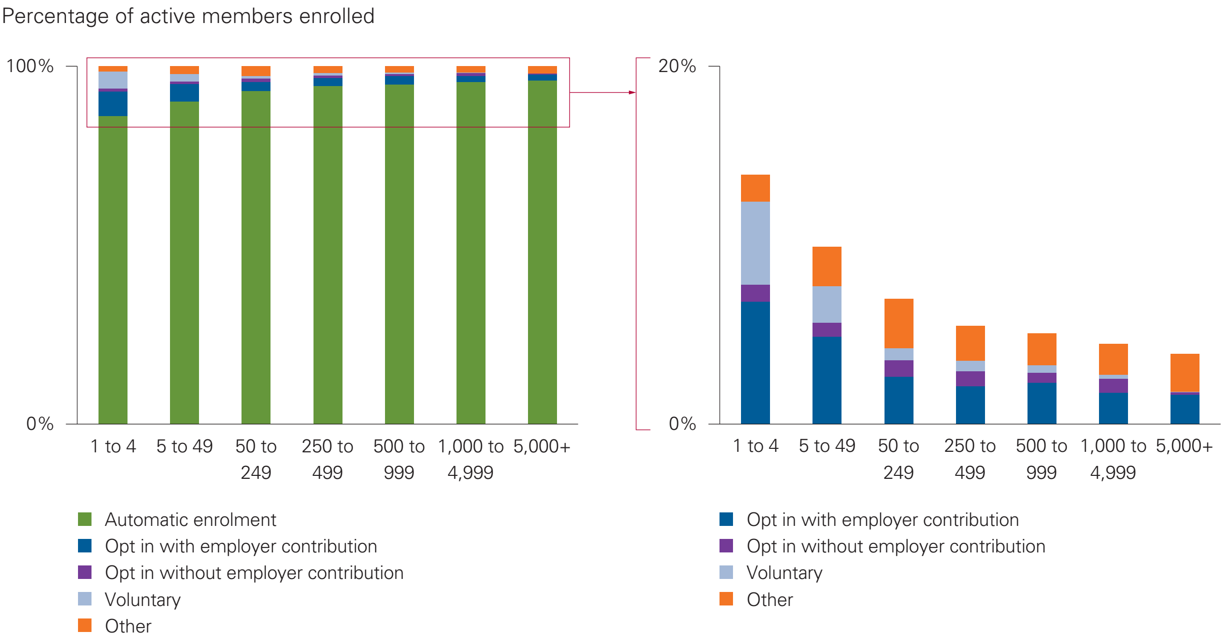
Source: Nest, Vanguard, 2019.

The other 8% enrolled by "active choice" – a voluntary decision to contribute to Nest. Of this percentage, just under half (3.6%) fell below the minimum earning limit for automatic enrolment (£10,000), but still actively decided to enrol in the scheme with an employer's contribution, and just under 1% fell below the limit to receive a minimum employer contribution but also chose to enrol. 1.5% of members were enrolled by employers who voluntarily met their mandatory pension obligation prior to their assigned "staging" date. Just 0.2% of members were self-employed and chose to enrol in Nest although this percentage has doubled in comparison to data we reported in 2018. While active choice is small as a percentage of Nest's total membership, the numbers are significant in absolute terms – around 250,000 people in total, many of whom are on very low incomes. Finally, 2% of enrolments are classified as "other": typically where a member had previously been enrolled and their enrolment was cancelled in error.

Despite the notable increase in self-employed enrolment, these data have remained largely stable. Since the 2018 data were published, minimum contributions have increased. Vanguard and Nest Insight have undertaken further quantitative research[8] and a qualitative survey[9] to investigate the characteristics of these savers and what drives them.

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

Figure 9. Methods of enrolment by employer size



Source: Nest, Vanguard, 2019.

8 See *How the UK Saves: The effects of phasing,* Vanguard & Nest Insight, 2019.

9 http://www.nestinsight.org.uk/wp-content/uploads/2019/02/The-auto-enrolment-experience-over-time.pdf

The differences between those members who were automatically enrolled and those who actively chose to participate in Nest do not stop at employer size (see **Figure 10**). Members who actively chose to enrol continued to be more likely to be women and under the age of 25. They were also more likely to be earning below £10,000 per year (but above the minimum earning level of £6,032). This is of course not surprising since those earning below this figure represent the group who are only able to join Nest by opting in: were their earnings higher, they would have been automatically enrolled.

Figure 10. Demographics and method of enrolment

Percentage of active members enrolled

	Auto enrolment	Active choice
% of active members	92%	8%
Female	48%	54%
Male	52%	46%
Age		
Less than 25	8%	19%
25 to 34 years	32%	24%
35 to 44 years	23%	21%
45 to 54 years	21%	21%
55 to 64 years	15%	13%
Greater than 65	1%	0%
Annual earnings		
£6,032 to £9,999	8%	17%
£10,000 to £14,999	21%	22%
£15,000 to £20,000	25%	22%
£20,000 to £25,000	17%	15%
> £25,000	28%	25%

Source: Nest, Vanguard, 2019.

Opt-out rates by method of auto-enrolment

With staging (the initial roll-out of auto-enrolment requirements for employers) complete for more than a year and therefore no longer relevant, we now expect automatically-enrolled members to join Nest in one of two ways:

- ongoing enrolment, when they join a new employer; or
- mandatory re-enrolment as a result of the requirement to re-enrol opted-out workers every three years.

The overall opt-out rate for workers automatically enrolled in Nest remained low at just 7% (see **Figure 11**). Under ongoing enrolment, women continued to be slightly more likely to opt out than men, however the difference was just under one percentage point. As we observed in 2018, opt-out rates increased with age, becoming significantly higher among older workers and highest of all among workers at or near retirement age.

Employers have the option of auto-enrolling workers above the statutory 5% minimum contribution rate that applied at 31 March 2019. Opt-out rates were higher among plans which choose higher initial contribution rates. For example, opt-out rates among firms enrolling workers in excess of the eventual "full" contribution rate (those enrolling at >8% of salary) saw an opt-out rate of around 12%. This statistic needs to be interpreted with caution. It is drawn from a very small number of firms (around 7% of firms, but largely found among the smallest and therefore representing a much lower proportion of total enrolments) choosing to go straight to higher contribution rates.

Figure 11. Ongoing enrolment opt-out rates

Overall opt-out rate	7%
Gender	
Female	8%
Male	7%
Age	
Less than 25	3%
25 to 34 years	5%
35 to 44 years	6%
45 to 54 years	8%
55 to 64 years	15%
65 to 70 years	28%
Greater than 70	30%
Total scheme contribution	
Less than 5%	6%
5%	6%
6 to 8%	8%
More than 8%	12%
Employer size	
1-4	14%
5-49	8%
50-249	6%
250-499	5%
500-999	6%
1,000-4,999	6%
5,000+	7%

Nature of busines	
Public administration	22%
International councils and bodies	15%
Agriculture, forestry and fishing	14%
Professional, scientific and technical	13%
Information and communication	12%
Education	12%
Charity	10%
Construction	9%
Wholesale	9%
Real estate	9%
Manufacturing	9%
Personal services	8%
Transportation and storage	8%
Health and social care	8%
Mining, energy and utilities	8%
Other	7%
Administration and support services	7%
Arts, sports and recreation	6%
Retail, hire and repair	6%
Employment	6%
Catering and accommodation	4%
Financial and insurance	2%

Source: Nest, Vanguard, 2019.

Opt-out rates also depend on company size and industry. They were highest among small and micro employers and lowest among the largest employers, with workers from micro employers twice as likely to opt out as those working for mega employers (5,000+ employees). Among ongoing enrolments, opt-out rates were highest among workers in public administration.

Re-enrolment

Pensions legislation requires employers to undertake a re-enrolment of certain employees within a window three months either side of the third anniversary of the employer's previous enrolment or re-enrolment date. The employees who are required to be re-enrolled are those who meet the eligibility criteria and have previously either opted out, ceased contributing, or reduced their level of contributions to below the minimum level required by legislation.

However, in order to comply with data protection regulations, Nest is not permitted to retain records for workers who opted out within 30 days of their original automatic enrolment. This means that, although employers are bound by law to re-enrol those same workers within three years of the employer's staging date, it is not possible to identify them because of the lack of their original enrolment record. Therefore, in order to assess members' behaviour under re-enrolment, we have chosen to consider a specific subset of members, which we believe provides a reasonable proxy for re-enrolment behaviour.

The following analysis considers members who can be identified as having experienced two auto-enrolment events with the same employer, and where a record has been retained due to either their previous membership of Nest or their having departed after the 30-day opt-out window. In other words, these re-enrolled members need to satisfy the following re-enrolment criteria:

- they were automatically enrolled by an employer and,
- they "departed" from the first enrolment (defined by either opting out, ceasing contributions or leaving employment) and,
- they automatically enrolled a second time by the same employer within a 90-day window either side of that employer's three-year re-enrolment date (driven by their original staging enrolment date).

Across the entire Nest membership, we identified 306,245 members as having two enrolments with the same employer. Of those members, 34,307 experienced their second enrolment event within a 90-day window either side of their employer's three-year mandatory re-enrolment date. We therefore consider this sample as a good proxy for reassessing re-enrolment behaviour.

Following the second auto-enrolment event with the same employer, 56% of those members departed retirement saving a second time, while 43% remained active. This highlights the behavioural power of the re-enrolment mechanism: without it, 100% of those 34,307 members would have remained outside of the retirement savings system.

For the 56% of members who departed from Nest after both automatic enrolment events, we have considered the time that passes between members' automatic enrolment and their subsequent departure from that enrolment, as we show in **Figure 12**. We see that across the sample, members who are re-enrolled depart the Nest scheme earlier. On average, automatically re-enrolled members depart three months earlier than their first departure.

Figure 12. Distribution of time between enrolment and departure

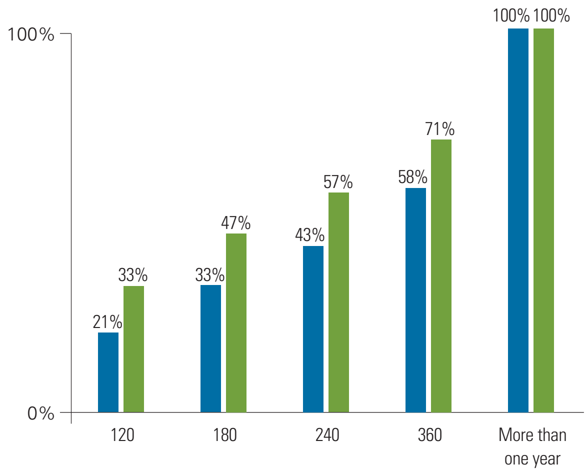
Members satisfying re-enrolment criteria and departing after both enrolments

	Percentile					Average
	10th	25th	50th	75th	90th	
Days between 1st enrolment and departure	75	139	287	556	835	387
Days between 2nd enrolment and departure	54	97	198	404	663	285

Source: Nest, Vanguard, 2019.

Figure 13. Cumulative days between enrolment and departure

Members satisfying re-enrolment criteria and departing after both enrolments



Source: Nest, Vanguard, 2019.

This point is illustrated further in **Figure 13**. One third of members departed within six months of their initial automatic enrolment, whereas this percentage increases to nearly half for their subsequent re-enrolment. Importantly, while the time taken to depart a second time is shorter, this is not necessarily a "knee-jerk" reaction to being re-enrolled. Some of the departure activity following re-enrolment will no doubt be as a result of job churn alongside aversion to retirement saving. Unfortunately, the restrictions on enrolment data described above mean that it is not possible to identify members who persistently opt out within 30 days of their automatic enrolment.

Figure 14. Reasons for members opting out

All enrolled employees who opted out

		Member age						
		<25	25-34	35-44	45-54	55-64	65-70	>70
No reason specified	55%	51%	55%	55%	55%	57%	60%	64%
I already save in a pension scheme	13%	4%	7%	13%	18%	16%	12%	11%
I can't afford it	9%	24%	15%	11%	7%	3%	1%	1%
I don't trust pensions	4%	5%	6%	5%	4%	2%	1%	1%
I have other sources of income for my retirement	9%	5%	6%	6%	7%	13%	16%	15%
I plan to rely on the State Pension when I retire	2%	1%	2%	2%	2%	2%	4%	3%
Nest isn't the right pension for me	7%	10%	9%	7%	7%	6%	6%	6%

Source: Nest, Vanguard, 2019.

These data demonstrate that employers have a window of opportunity to educate their workers on the benefits of retirement saving before they depart Nest. As retirement saving becomes increasingly embedded as a normal behaviour across the national workforce – reinforced by both employer and government education initiatives – it will be important to track whether these departure patterns change. Specifically, whether the proportion of re-enrolled workers who choose to remain active increases, indicating a burgeoning savings culture driven by behavioural mechanisms embedded in retirement legislation.

Rationale for opting out

Figure 14 examines the reasons workers gave for opting out. Just under half (45%) of workers provided a reason and, of those, one in three indicated they were already contributing to another pension. Another one in five stated they had other sources of income for retirement.

Reasons varied by age. Older workers were more likely to be saving in another scheme or indicate they had other sources of income for retirement. Younger workers were more likely to indicate they could not afford to save for retirement, or did not feel Nest was the right pension scheme for them. Importantly, when compared with rationales provided for our 2018 report, we observe a nine percentage point increase in the youngest workers saying that retirement saving is unaffordable. These observations spanned the period in which minimum contribution rates increased from 2% to 5% in total.

Across the range of reasons for opting out, there continues to be scope for further research, experimentation and investigation. For example, it would be interesting to find out what alternative arrangements may be perceived as better ("Nest isn't the right pension for me"), or to assess the viability of alternative strategies for funding retirement ("I have other sources of income for my retirement"). Younger workers also continued to display a general mistrust in pensions, relative to their older counterparts. These findings suggest an opportunity to better position workplace pensions and their benefits to workers across the age spectrum. The Department for Work and Pensions (DWP) has recently attempted to boost engagement with a communications campaign for workplace pensions, which included television advertising[10].

10 https://www.yourpension.gov.uk/get-to-know-your-workplace-pension/#1

In 2019, Nest Insight undertook survey-based research[11] to further understand members' retirement savings experiences. Specific to opt-out behaviours the research showed that:

- the April 2018 contribution rise did not cause a significant increase in Nest member opt-out or cessation rates
- very few members (1 in 20) think too much of their income goes into their pension
- most members (69%) did not consider changing their contributions. Only 4% considered decreasing or stopping their contributions altogether and over a quarter (28%) actually considered increasing them.

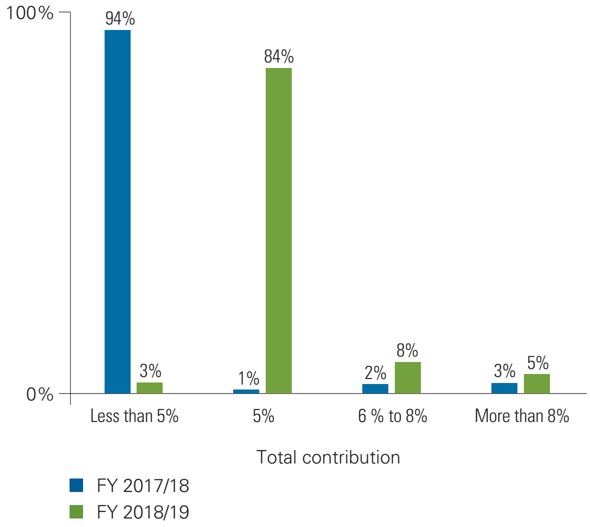
Contributions[12]

Contribution schemes

During the initial roll-out of mandatory auto enrolment, the required minimum total contribution to DC pension accounts was 2% of pensionable earnings, including employer and employee contributions and tax relief. This increased to 5% in April 2018. As of 31 March 2019, 84% of employers had enrolled workers at the statutory minimum of 5% total contribution, while a further 13% of employers had enrolled members with higher worker and/or employer contributions (**Figure 15** shows the full breakdown). The proportion of active employers in which members received a total contribution in excess of the mandatory minimum has nearly doubled compared with 2018. Some of this change was likely as a result of certain employers implementing an increase in contribution rates in advance of the mandatory increase to 8% in April 2019. A small number of employers are identified as having members who received a total contribution less than the mandatory minimum. This is as a result of some employers using a different contribution basis upon which they pay contributions. For example, some employers pay contributions on whole earnings rather than qualifying earnings. This may result in the stated percentage rate being less than the mandatory minimum, but when the contribution is considered in relation to the member's qualifying earnings, the mandatory minimum would be met.

Figure 15. Distribution of active employers by total contribution rate

By fiscal year



Source: Nest, Vanguard, 2019.

As of the March 2019 cut-off for the data in this section, a majority of employers, covering the vast majority of members, were using a 2% employer/3% employee scheme design, in line with the then-minimum levels required by law (see **Figure 16**). An additional 6% of employers, covering 8% of employees, had elected to use schemes that exceeded the minimum requirement for employers. As of 31 March 2019, 4.9% of employers had elected to use a contribution structure that exceeded the mandated minimum total contribution of 8% scheduled for implementation in April 2019.

As at March 2019, some 6% of employers offered more than the then-minimum employer contribution of 2%, nearly all were small and micro employers, as **Figure 17** shows. Micro employers were also the most likely to enrol workers at contribution rates of more than 8%, and the likelihood of them doing so has more than trebled since 2018. Of the small percentage of employers (2.1%) that offered contribution rates of greater than 8%, nearly all (98%) employed fewer than 50 workers.

11 https://www.workplacepensions.gov.uk/

12 The data in this section reflect cumulative employer and member information to 31 March 2019, except where stated. It is important to note that the data include the first increase in minimum contributions (phasing) to 5% in April 2018, but exclude the second increase to 8% in April 2019.

Figure 16. Overview of contribution schemes

Employer contribution rate	Percentage of employers: Member contribution rate* Less than 3%	3%	4 to 5%	More than 5%	Total	Percentage of members: Member contribution rate* Less than 3%	3%	4 to 5%	More than 5%	Total
Less than 2%	0.6%	0.0%	0.0%	0.0%	1%	0.2%	0.0%	0.0%	0.0%	0%
2%	1%	86%	6%	0.5%	93%	0.6%	85%	6%	0.1%	92%
3 to 5%	0.7%	0.3%	0.7%	0.9%	3%	3%	0.2%	0.5%	0.7%	5%
6 to 8%	0.3%	0.1%	0.1%	0.7%	1%	0.2%	0.1%	0.1%	0.8%	1%
More than 8%	0.3%	0.2%	0.1%	1.5%	2%	0.1%	0.0%	0.1%	2%	2%

*Member contribution rate includes tax relief.

Source: Nest, Vanguard, 2019.

Figure 17. Employer contribution rate by employer size

Employer size	Employer contribution rate: Less than 2%	2%	3 to 5%	6 to 8%	More than 8%
1 to 4	68%	53%	65%	65%	65%
5 to 49	31%	44%	32%	34%	33%
50 to 249	2%	2%	2%	1%	2%
250 to 499	0.1%	0.2%	0.2%	0.1%	0.1%
500 to 999	0.0%	0.1%	0.1%	0.1%	0.1%
1,000 to 4,999	0.0%	0.1%	0.2%	0.0%	0.1%
5,000+	0.0%	0.1%	0.1%	0.1%	0.1%

Source: Nest, Vanguard, 2019.

Contributions by member characteristics

As of 31 March 2019, median and average Nest member annual contributions were £345 and £499, respectively (see **Figure 18**). These figures include those members who contributed over only part of the year. Since the primary driver of departure from the scheme is job churn, and since it is reasonable to assume that members who move job will continue to contribute to their next employer's scheme, it is also informative to look at average contributions for the subset of members who remained with Nest for the full 12 months (which we refer to as "continuous" in **Figure 18**). The equivalent figures for this group were £702 and £837 respectively. These figures were significantly greater than the equivalent measures in 2018 and total contributions should rise by a further 60% following the final phased increase in minimum contribution rates in April 2019.

Figure 18. Annual contributions per member

Net of contributions fees, fiscal year

		All	Continuous	Partial
Median	FY 2018/19	£345	£702	£175
	FY 2017/18	£137	£229	£133
	Per cent change	152%	207%	32%
Average	FY 2018/19	£499	£837	£285
	FY 2017/18	£219	£313	£203
	Per cent change	128%	167%	40%

Source: Nest, Vanguard, 2019.

The figures quoted include employer contributions, employee contributions, and tax relief. All contributions are net of contribution fees of 1.8% charged by Nest and 0.3% annual management fees charged on pot balances through the year. Employee contributions account for 48%, while employer contributions and tax relief comprise the remainder, as we demonstrate in **Figure 19.** These ratios persist across partial and full-year contributions, with those who remained with Nest for a full 12 months garnering some four times the median contributions of those who only made partial contributions.

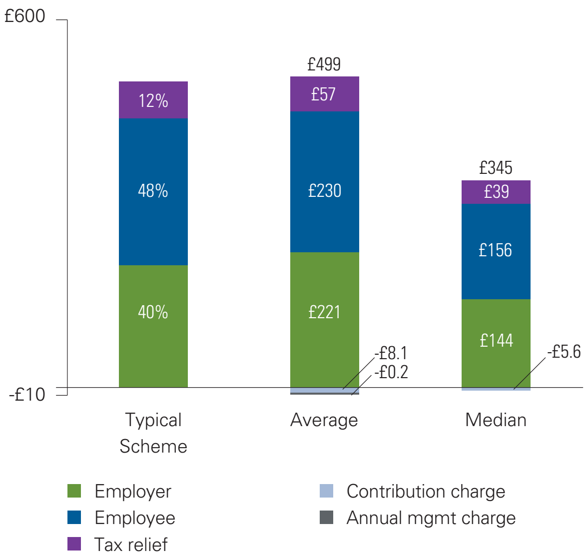
Like other wealth and income statistics in this report, the distribution of contributions to Nest is skewed towards smaller payments, however, the degree of skew has lessened relative to previous observations. As we show in **Figure 20**, 41% of Nest member annual contributions fell below £250 in FY 2018/19 compared with 70% the year before, while 37% had contribution amounts of £500 or more in FY 2018/19, four times the previous level.

Again adjusting the lens to consider the subset of members who remained with Nest for a full 12 months, just 30% of contributions were less than £500 in FY 2018, compared with 78% in the previous year.

Figure 19. Composition of total contributions per member

Net of contribution fees, FY 2018/19

All contributing members

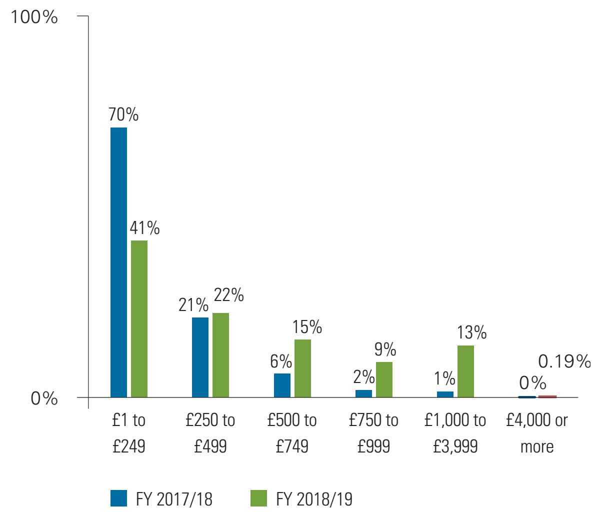


Source: Nest, Vanguard, 2019.

Figure 20. Distribution of annual contributions per member

Net of contribution fees, by fiscal year

All contributing members



Source: Nest, Vanguard, 2019.

Figure 21 shows how net member contributions varied by demographic groups. The median contribution for women remained at 65% of the median contribution for men, a phenomenon we also observed in 2018. We published supplementary research in 2019 showing that this difference was driven largely by earnings factors rather than gender[13]. In other words, where women's earnings are similar to men's, their pension contributions are also comparable. The median for women is dragged down by the fact that they tend to be over-represented in low-paying occupations and roles. Not surprisingly, the net contributions of workers near retirement, aged 55 to 64, at £432 per year, were almost double the contributions of workers under the age of 25, at £212 per year. Contributions rose sharply with income.

Workers at smaller firms also generally had higher contributions, as was previously observed, which is reflective of Nest's mix of employers and the wage characteristics of the covered workers. This also continues to reflect the trend that smaller employers often use Nest universally, enrolling employees ranging from senior executives to the most junior of employees. Larger employers, by contrast, may use Nest for only a part of their workforce, while maintaining alternative plans for others, typically higher earners or longer-tenured staff.

13 See *How the UK Saves: Effects of gender on retirement savings behaviour,* 2019, Nest Insight, Vanguard

Figure 21. Contributions by member characteristics

Net of contribution fees, FY 2018/19

	All contributing members	
	Average	Median
Overall	£499	£345
Gender		
Female	£424	£298
Male	£600	£456
Age		
Less than 25	£309	£212
25 to 34 years	£470	£339
35 to 44 years	£564	£398
45 to 54 years	£593	£434
55 to 65 years	£575	£432
65 to 70 years	£594	£421
Greater than 70	£700	£440
Scheme tenure		
Less than 1 year	£283	£169
1 to <2 years	£592	£468
2 to < 3 years	£723	£596
3 to < 4 years	£728	£596
4 to < 5 years	£730	£617
5 to <6 years	£666	£574
6 or more years	£716	£573
Annual earnings		
< £10,000	£77	£57
£10,000 - £14,999	£208	£204
£15,000 - £20,000	£376	£423
£20,000 - £25,000	£571	£664
> £25,000	£1,085	£1,045
Employer size		
1 to 4	£563	£389
5 to 49	£576	£419
50 to 249	£508	£358
250 to 499	£437	£294
500 to 999	£398	£260
1,000 to 4,999	£375	£255
5,000+	£382	£269

Source: Nest, Vanguard, 2019.

Cessation of contributions

A Nest member may decide to cease contributions for a variety of reasons. They may face competing financial priorities or short-term economic hardships that require more take-home pay. Members who stop contributions to their retirement pots (via any of the methods described in more detail in the section of this report focusing on the effects of phasing) are considered "ceased" until they leave employment or are re-enrolled in the scheme at some future date.

Relative to the number of members who leave or opt out of the pension scheme, incidences of cessation are relatively minor. They total approximately 2% of active members. However, the actual percentage will be somewhat higher as some of those classified as ceasing contributions but staying with their employer are now included amongst those leaving[14].

Employers report the reasons members stop contributing to their Nest account, and we have captured these data in **Figure 22**. The majority, 54%, report "no further contributions payable", which can reflect either cessation or employee departure. A further 26% indicate that a member had insufficient earnings in a given pay period. We acknowledge that the use of these two reasons by employers may be ambiguous and is also affected by changes in reporting methods used by Nest. As a result, when considered in aggregate we may not garner any meaningful insight from the changing composition of these data relative to previous years.

14 Prior to October 2015, it was possible to distinguish between employees who stopped contributing but continued to work with an employer and those who changed employment. After that date, the reporting distinction was eliminated to simplify record-keeping and reduce the reporting burden on employers. Members may use their online account to facilitate the cessation process, and those doing so are recorded as "ceased". Those ceasing via a request to their employer are recorded as "leavers".

Figure 22. Reasons for contribution cessation

	March 2013	March 2014	March 2015	March 2016	March 2017	March 2018	March 2019	All
No further contributions payable	54%	63%	63%	71%	73%	74%	54%	64%
Member has insufficient earnings	2%	6%	14%	17%	15%	14%	26%	19%
Member has chosen to stop contributing	3%	1%	1%	1%	0.3%	0.2%	0.2%	0.4%
Reason unknown	40%	28%	21%	10%	9%	10%	19%	15%
Other	0.3%	1%	1%	1%	2%	1%	2%	1%

Source: Nest, Vanguard, 2019.

Effects of phasing

We published a research supplement in 2019 examining the impact of the first step in raising contributions from 2% to 5% by analysing the five-month period prior to phasing and comparing it with the five months after[15]. Our analysis found that the initial increase in minimum contributions had no material impact on retirement savings behaviour. In the five months after the initial phasing in April 2018, member-led cessations barely rose compared with the preceding five months. The total proportion of members ceasing payments (member cessation) increased by a mere 1.5 percentage points, only some of which was likely attributable to the increase in contributions. With the final phasing event having taken place in April 2019, the data are not available in time to be examined in detail for this report. Instead, we will again publish supplementary research examining the phasing experience over time for Nest members, including analysis of the impacts of phasing on members of differing demographics, industry and so on.

Account balances and adequacy[16]

Account balances

For all Nest members with any savings, median and average account balances were £368 and £760, respectively, as at 31 March 2019 (**Figure 23**). The pot balances of active members were higher, reflecting their more regular contributions to Nest, among other factors.

Balances have grown since the inception of Nest but remain low for several reasons: the newness of auto enrolment and the short scheme tenure of members, their lower than average wages and, perhaps most importantly, the fact that minimum contributions started out low and only began to rise in April 2018. Nonetheless, the effect of rising contribution rates is clearly discernible, with median account balances for all members being 85% higher than a year previously, and 150% greater when controlling for members who remain active with the scheme.

Figure 23. Member account balances

Members with a positive balance	FY 2017/18	FY 2018/19	Percent change
Median	£199	£368	85%
Average	£446	£760	70%
Active members			
Median	£283	£708	150%
Average	£565	£1,104	95%

Source: Nest, Vanguard, 2019.

15 See *How the UK Saves: The effects of phasing*, Vanguard & Nest Insight, 2019.

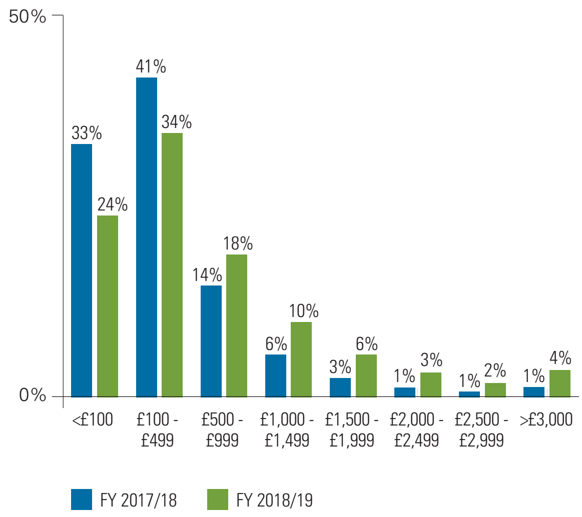
16 The data in this section reflect member retirement pot characteristics as of 31 March 2019.

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

As with total contributions, it is important to note that the distribution of Nest account balances is skewed towards smaller sums, but this skew is becoming less marked (see **Figure 24**). Thus, as at 31 March 2018, 74% of Nest members with savings had account values below £500. A year later, at the end of FY 2018/19, this had fallen to 58%. Nearly a quarter of all Nest members with any retirement savings now have in excess of £1,000.

Figure 24. Distribution of member account balances

Members with a positive balance



Source: Nest, Vanguard, 2019.

Balances by member characteristics

Median and average pot balances vary considerably by member demographics, as shown in **Figure 25**. The median balance for women (£327) was 79% of the median balance for men (£415). Workers aged 55 to 64 had balances that were nearly two-and-a-half times those of workers under the age of 25. Predictably, balances rose with income and scheme tenure.

Figure 25. Account balances by member demographics

Members with a positive balance

	Average	Median
Overall	£760	£368
Gender		
Female	£652	£327
Male	£854	£415
Age		
Less than 25	£365	£220
25 to 34 years	£598	£295
35 to 44 years	£845	£406
45 to 54 years	£967	£496
55 to 64 years	£993	£536
65 to 70 years	£995	£413
Greater than 70	£1,116	£302
Scheme tenure		
Less than 1 year	£468	£259
1 to <2 years	£706	£447
2 to < 3 years	£890	£498
3 to < 4 years	£869	£342
4 to < 5 years	£939	£340
5 to < 6 years	£1,025	£437
6 or more years*	£1,515	£632
Annual earnings		
< £10,000	£254	£136
£10,000 - £14,999	£440	£329
£15,000 - £20,000	£726	£315
£20,000 - £25,000	£1,092	£957
> £25,000	£2,093	£1,679

Source: Nest, Vanguard, 2019.

As we examined in a research supplement in 2019[17], differences in retirement wealth between men and women show that demographic factors such as gender mask primary factors that drive differences in account balances, mainly earnings. Controlling for earnings and active scheme membership, the

17 See *How the UK Saves: Effects of gender on retirement savings behaviour,* 2019, Nest Insight, Vanguard

Figure 26. Contributions and balances by gender and earnings band

All actively contributing members with positive balances

Earnings band	Female	Male	All	Female/male (%)
		Median account balances		
< £10,000	£220	£219	£220	0%
£10,000 – £14,999	£467	£445	£460	5%
£15,000 – £20,000	£812	£830	£820	-2%
£20,000 – £25,000	£1,184	£1,202	£1,195	-1%
> £25,000	£2,029	£2,139	£2,108	-5%
		Median total contributions		
< £10,000	£137	£134	£137	2%
£10,000 – £14,999	£307	£304	£306	1%
£15,000 – £20,000	£531	£547	£539	-3%
£20,000 – £25,000	£757	£770	£764	-2%
> £25,000	£1,195	£1,282	£1,257	-7%

Source: Nest, Vanguard, 2019.

median balances and contributions for women and men were equivalent (see **Figure 26**). Even at higher income levels, there were negligible margins between male and female account balances.

As we concluded in previous research[18], these data show that the difference in median retirement wealth between men and women is influenced by differences in earnings – and the distribution of earnings – rather than savings behaviours driven by gender. This is borne out by the analysis, which reveals that, of all actively contributing members with any savings, 47% of males earn in excess of £25,000 per annum, compared with 22% of females.

Balances by employer characteristics

Median pot balances also vary by employer size and industry, reflecting differences in the characteristics of the employers choosing Nest. Distinguishing factors include whether the firm uses Nest only for certain segments of its workforce, the wage levels of its employees, whether the firm enrolled at contribution rates above mandatory minima, and scheme tenure with Nest.

By industry, international councils and bodies, and mining, energy and utilities had the highest median balances, at £1,426 and £938 respectively, while administration and support services, and employment had the lowest median balances, at £245 and £126 respectively (see **Figure 27**).

18 Ibid.

Figure 27. Account balances by industry

Members with a positive balance

Industry	Average	Median
Top 10 categories		
International councils and bodies	£3,674	£1,426
Information and communication	£1,539	£859
Mining, energy and utilities	£1,464	£938
Professional, scientific and technical	£1,439	£823
Real estate	£1,216	£725
Construction	£1,180	£833
Manufacturing	£1,159	£794
Charity	£1,150	£597
Transportation and storage	£1,098	£722
Wholesale	£1,040	£676
Next 11 categories		
Financial and insurance	£945	£410
Public administration	£922	£302
Agriculture, forestry and fishing	£864	£517
Arts, sports and recreation	£836	£449
Retail, hire and repair	£763	£431
Education	£739	£330
Health and social care	£723	£406
Personal services	£600	£330
Administration and support services	£593	£245
Catering and accommodation	£584	£292
Employment	£304	£126
Not categorised		
Other	£744	£366
Not reporting	£749	£359

Source: Nest, Vanguard, 2019.

By firm size, as illustrated in **Figure 28**, median balances were highest for firms with fewer than 49 workers, a contrast to 2018 where firms of 50 to 249 workers had the highest median balances. Employees of smaller firms having higher pot balances is consistent with the earlier observation that smaller firms have higher contribution levels.

Figure 28. Balances by employer size

Members with a positive balance

Employer size	Average	Median
1 to 4	£885	£510
5 to 49	£894	£531
50 to 249	£850	£394
250 to 499	£690	£279
500 to 999	£623	£251
1,000 to 4,999	£580	£242
5,000+	£609	£255

Source: Nest, Vanguard, 2019.

Pension investments[19]

Nest asset allocation

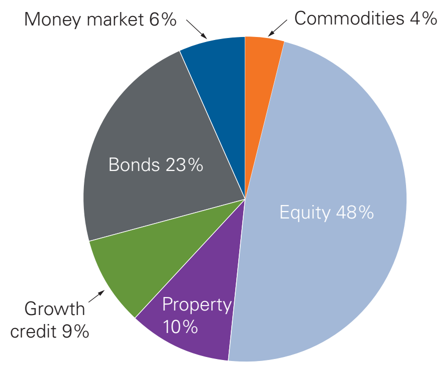
Assets invested in Nest investment options totalled £5.7 billion as at 31 March 2019. In the aggregate, these assets were allocated 48% to equities, 23% to investment-grade bonds, 10% to property, 9% to growth credit, 6% to money market and 4% to commodities (see **Figure 29**). This aggregate allocation is the sum of the individual asset allocations of all Nest members, which largely reflects the design of Nest's default investment strategy.

Default fund design, usage and glidepath

The Nest default investment strategy is a range of age-specific retirement date funds, often known as "target date funds". At the time of automatic enrolment, workers' contributions are directed to a retirement date fund based on their expected age of retirement (by default, their expected state pension age). There is a separate default fund for each year in which a member could retire—for example, for 2020, 2021, and so on up to 2065 at present. In total there are nearly 50 funds in the retirement fund series.

Just over 98% of Nest members were invested in the default investment scheme at 31 March 2019. Nest's investment menu also includes a life-styled ethical option, higher-risk and lower-growth options, a pre-retirement option and a Sharia option. In total, 1.9% of members had actively chosen to use these options, nearly twice as many as a year previously.

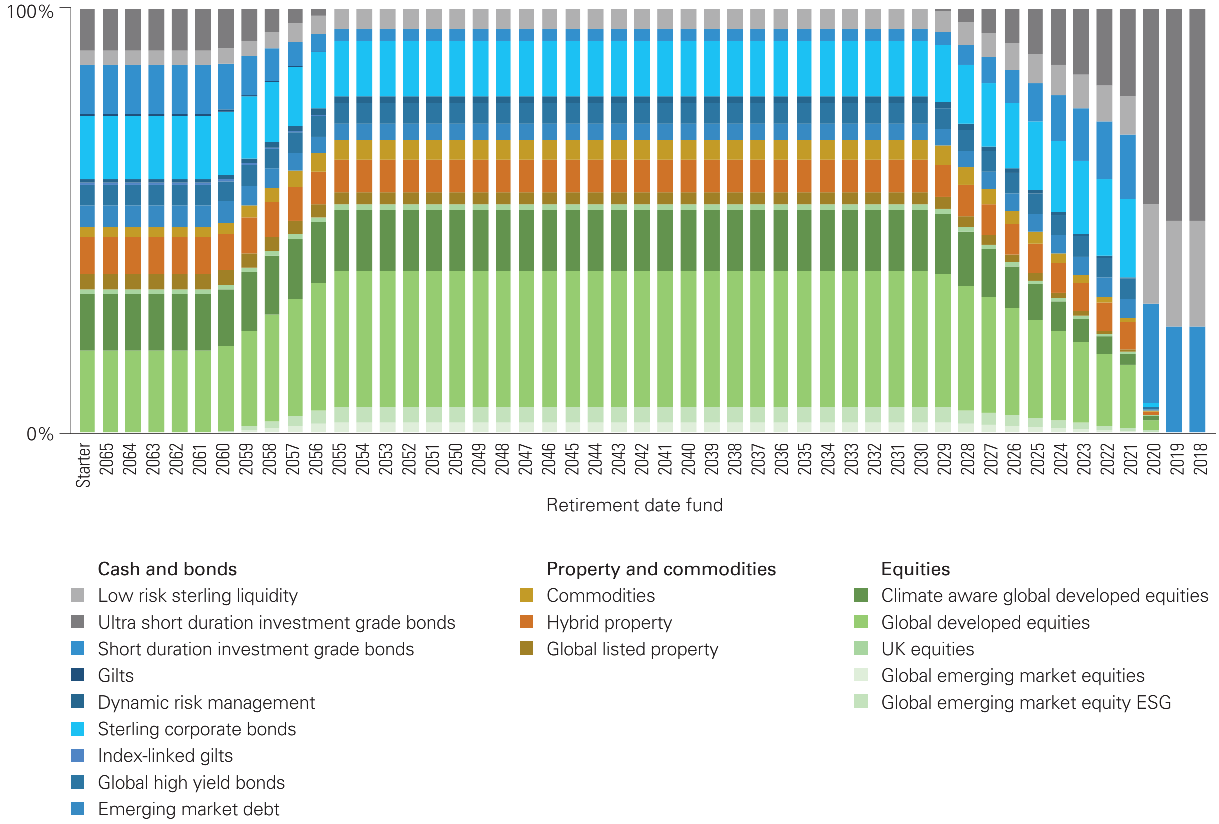
Figure 29. Nest asset allocation



Source: Nest, Vanguard, 2019.

19 The data in this section reflect member investments as at 31 March 2019.

Figure 30. Age-based glide path of Nest retirement date funds



Source: Nest, Vanguard, 2019.

The Nest retirement date funds have a distinctive glide path that underpins how member investment objectives and portfolio risk levels vary with age. We illustrate this in **Figure 30**.

Asset allocation by member characteristics

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

The distribution of growth allocations across members also reflects the importance of the default fund. Most members had growth allocations in the 50% to 80% range (see **Figure 31**).

Figure 31. Distribution of growth allocations

Members with positive balance as of 31 March 2019

Growth allocation (%)	% of members
0%	1%
1-9%	0%
10-19%	0%
20-29%	0%
30-39%	1%
40-49%	2%
50-59%	19%
60-69%	10%
70-79%	66%
80-89%	0%
90-99%	0%
100%	0%

Source: Nest, Vanguard, 2019.

Nest's investment approach and rationale

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

The Nest default investment strategy is a range of age-specific retirement date funds. Each has a glidepath designed to reflect the investment objectives appropriate for the age of individuals in that fund as they move through their working life towards retirement. The asset allocation is managed dynamically as funds move through this glidepath, so while the investment objectives are set, the specific allocation of each fund will both vary through time and in respect of Nest's view of medium-term conditions in investment markets.

As at 31 March 2019, the Nest glide path for the retirement date funds had three distinct phases:

- A foundation phase for members in their early to mid-20s, which includes a modest allocation to growth assets (equities, growth credit and property). The rationale for this is to moderate the impact of sharp market declines which Nest's behavioural research suggests could discourage younger members from any retirement saving.

- A growth phase where the allocation to growth assets rises for members from around the age of 27, and then remains consistent for all funds in the retirement date range that are between 10 and 35 years from maturity.

- A consolidation (risk-reduction) phase as members enter their mid-50s, and progress towards retirement age, where the growth allocation is reduced according to how far away members are from retirement, how their funds have been performing and market conditions. For those close to retirement, their final allocation will have reduced to 0% growth assets, while those reaching retirement from 2021 onwards will be gradually de-risked into a portfolio with more growth assets which aims to keep pace with inflation after charges. This is based on the premise that members retiring in the short term, having saved with Nest for a short period of time and therefore only built up small pots, are likely to take their money as cash. Members who are retiring having saved with Nest for longer may wish to remain invested through retirement and therefore an inflation-plus objective is more appropriate for them.

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

Switching behaviour[20]

Once enrolled in a Nest retirement date fund, very few members switch to another fund. Automatic fund switching can take place through either age-based transitions as a result of moving from the starter fund to the retirement date funds, or from retirement to post-retirement funds. Where a member manually updates either their date of birth or desired retirement age, an automated switch between retirement date funds may also take place. Member-directed switches occur when a member chooses to alter their investments by either moving out of a retirement date fund into one of the self-selected fund options (and vice versa) or moving between self-select options. **Figure 32** shows that as a result of both automated and manual switches, in fiscal year 2018/19, fewer than 1% of Nest members, representing little more than 1% of overall Nest scheme assets, changed their investment fund. Within these figures, member-directed switches represent less than one-third of all switching activity. While switching is anticipated to continue at this muted level, there has been a marginal increase in total switching activity relative to 2018. Even so, the overall level of activity remains very low and is likely to reflect the inertia typical of default "automation" and low engagement levels with pensions in the UK, while the modest uptick in activity may be attributable to growing pot sizes and greater awareness of retirement saving.

Figure 32. Member investment switching behaviour

Activity during FY 2018/19

Members with a balance	7,450,415
Total assets	£5,663,047,589
Switching members	73,951
Percent of members switching	0.99%
Percent of assets switched	1.41%

Type of switch	Percent of trades
Active: member-directed	
From retirement date fund to high risk	19%
Other member-directed switches	12%
Total active/member-directed	*31%*
Automatic: age-based transitions	
Adjust retirement date fund year	26%
From retirement to post retirement	22%
From starter fund to retirement date fund	21%
Total automatic	*69%*

Source: Nest, Vanguard, 2019.

Among all investment switches, 31% were active, member-directed choices, with the remainder being automatic age-based transitions in the default option. Most member-directed choices led to increased risk taking, as two-thirds switched to a higher-risk option. Among automated switches, just over one-third of switches resulted in a different retirement date fund, and these tended to be longer-dated funds, i.e. those that assumed a later retirement date. Most of these switches were within the same glide path phase. Therefore, while the member's current risk profile did not change, their investment risk might still have increased by virtue of their being invested in the growth phase for longer.

Regardless of this switching behaviour, over 99% of Nest retirement date fund holders remained in the funds they were initially defaulted into based on their age.

20 The data in this section reflect behaviour and activity during the fiscal year 2018/19.

Figure 33. Five-year annualised returns

Five-year annualised returns as of 31 March 2019

	5-year return	Benchmark return	Benchmark description
Nest 2020 Retirement Fund	5.12%	1.43%	CPI
Nest 2040 Retirement Fund	9.55%	4.47%	CPI + 3%
Nest 2060 Retirement Fund	7.51%	1.43%	CPI
Nest Ethical Fund (growth phase)	11.26%	4.47%	CPI + 3%
Nest Higher Risk Fund	11.01%	5.48%	CPI + 4%
Nest Lower Growth Fund	0.75%	0.33%	7-day Sterling LIBID rate
Nest Sharia Fund	14.20%	14.64%	Dow Jones Islamic Titans World Index
Nest Pre-retirement Fund	4.11%	1.43%	CPI

Note: CPI = consumer price inflation; LIBID = London Interbank Bid Rate

Past performance is not a reliable indicator of future results.

Source: ONS, Dow Jones, Nest, Vanguard, 2019.

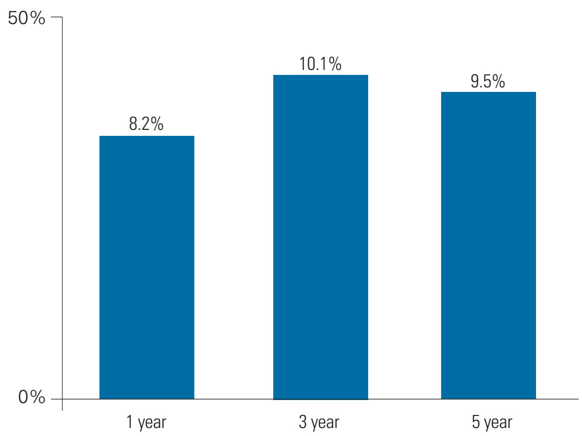
Investment returns[21]

Five-year annualised returns for both Nest Retirement Date Funds and other fund choices were generally well above their benchmarks as at 31 March 2019 (see **Figure 33**). This reflects a period of strong global growth and an allocation to asset classes, such as property and growth credit, that have performed particularly well at certain times within that period. Nest's default investment strategy seeks to manage risk across all phases of the glide path and avoid unnecessary volatility in members' funds.

Due to generally rising markets, members in aggregate experienced positive total returns over one-, three- and five-year periods to 31 March 2019. Reflecting strong global equity returns and the diversified nature of Nest's investment funds, annualised returns for the median member were 10.1% and 9.5% over three- and five-year periods respectively (see **Figure 34**).

Figure 34. Median member estimated annualised total rate of return

Annualised returns for periods ended 31 March 2019



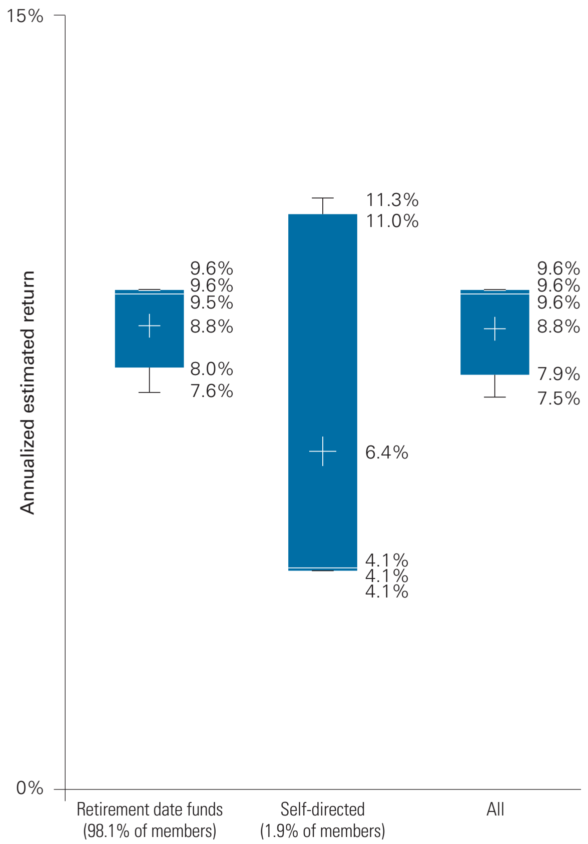
Past performance is not a reliable indicator of future results.

Source: Nest, Vanguard, 2019.

21 The data in this section reflect investments returns as at 31 March 2019.

Figure 35. Distribution of five-year annualised total returns by strategy

Annualised returns for the five-year period ended 31 March 2019



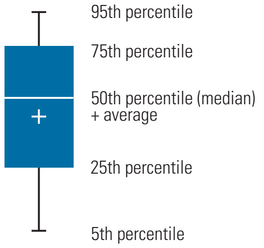
Note: Based on 943,000 observations for retirement date funds and 18,000 observations for self-directed members.

Past performance is not a reliable indicator of future returns.

Source: Nest, Vanguard, 2019.

Distribution of returns

As at 31 March 2019, five-year annualised returns were positive for all members of Nest. For members in the default retirement date funds, where allocations are managed on their behalf, dispersion of returns was muted. As we show in Figure 35, total five-year returns for members in the retirement date funds ranged from 7.6% for the 5th percentile to 9.6% for the 95th percentile, a difference of just two percentage points. There was much wider dispersion of returns amongst members invested in self-directed options. Members in the 5th percentile had five-year annualised returns of 4.1%, compared with returns of 11.3% for those in the 95th percentile.



How to read a box and whisker chart:

This box and whisker chart shows the range of outcomes. Plot values represent the 95th, 75th, 50th, 25th, and 5th percentile values.

The average value is represented by a white + and the median value by a white line.

An example of how to interpret the data in Figure 35 is: for the retirement date fund members 5% of members had estimated total return rates (ETRR) greater than 9.6%; 25% also had ETRRs greater than 9.6%; half had ETRRs greater than 9.5%; 75% had ETRRs greater than 8.0%; 95% had ETRRs greater than 7.6%; and 5% had ETRRs less than 7.6%. The average ETRR was 8.8%.

Dispersion of outcomes

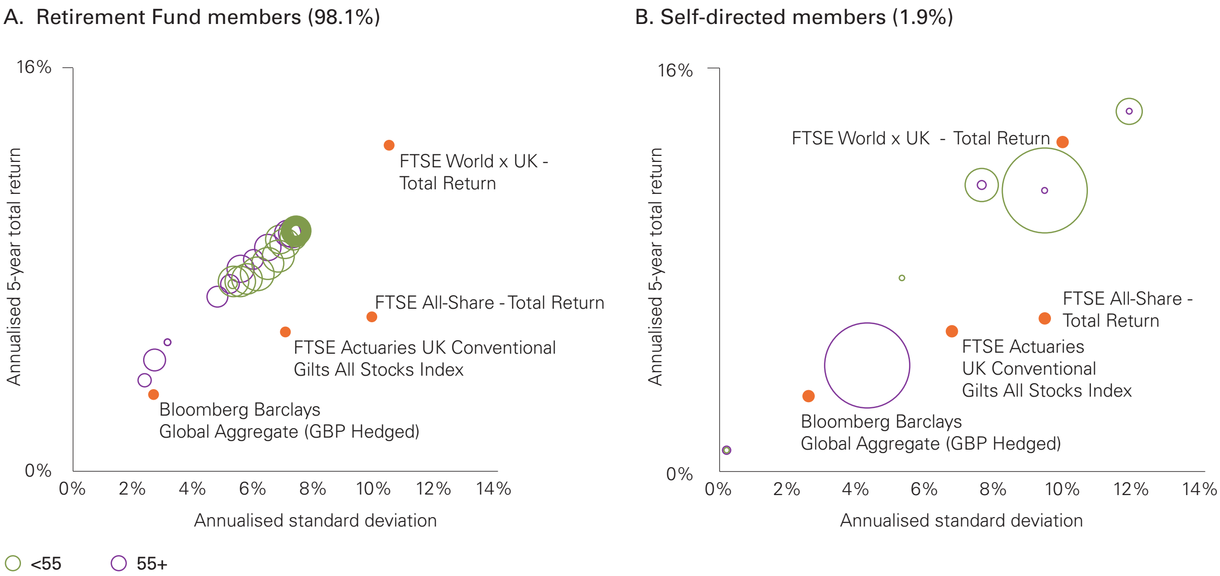
The differences observed above are also apparent when examining risk and return outcomes in scatter plots. For ease of presentation, we have created random samples of 1,000 records for each of a representative group of retirement date fund members and a representative group of self-directed members, with the outcomes plotted in **Figure 36.** Younger members are represented by green bubbles, and older members by purple bubbles. The size of the each bubble represents the relative number of members in each fund.

The left-hand chart (**Figure 36A**) shows the distribution of outcomes for the 98.1% of members in the retirement date funds during the five-year period ended 31 March 2019 compared with those for the major market indices, with the upward slope reflecting a positive equity risk premium. These results are consistent with the principles and construction of the Nest retirement date funds. Younger members are to the right of the chart, reflecting the fact that they still have many years to go before retirement. Older members are more dispersed across the chart, with those to the left being in retirement date funds in the consolidation phase of the glide path. As expected, there are relatively fewer members over the age of 55 in the retirement date funds compared with members under 55, but otherwise members appear to be evenly distributed across the funds.

The results shown in the right-hand panel (**Figure 36B**) cover a representative sample of the 1.9% of members invested in self-directed investment options. As expected, given the earlier distribution of returns analysis, we observe a greater dispersion of returns amongst the representative sample compared with those invested in single retirement date funds. As the usage of self-directed investments modestly grows over time, this effect may be expected to become more pronounced. Again, the size of the bubbles represents the relative number of members in each fund. We see greater concentrations of older, self-directed members in funds of relatively lower risk and, conversely, younger self-directed members more likely to be in higher risk and return funds.

Figure 36. Risk and return characteristics, 2014-2019

For the five-year period ended 31 March 2019



Past performance is not a reliable indicator of future results.

Source: Nest, Vanguard, 2019.

The reason the charts appear to include far fewer than 1,000 observations is that, while there are many observations in our sample, they are all invested in a limited set of retirement date funds, meaning that the range of portfolio outcomes is also limited. In other words, each bubble represents multiple member outcomes overlaid one upon the another.

Includes random sample of 1,000 member accounts drawn from respective samples.

Transfers and disbursements[22]

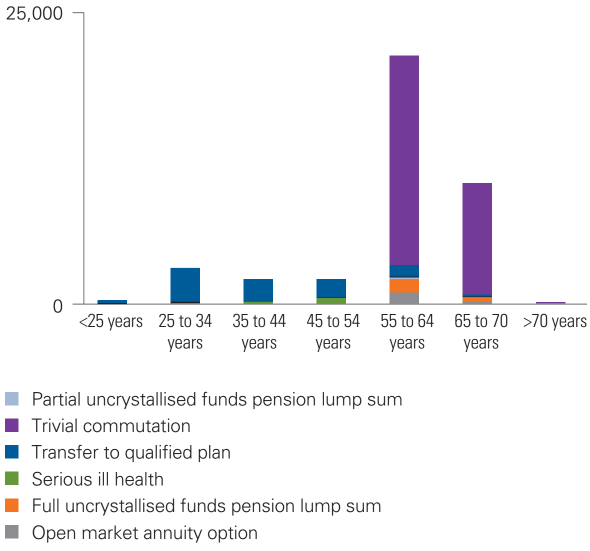
Moving money out of Nest

The overwhelming majority of Nest members are in their working years and in the accumulation phase of retirement saving. As a result, only a small number of Nest members are at or near retirement age and need to utilise the funds in their Nest accounts.

Regardless of age, members may withdraw their assets to transfer their accounts to other qualified pension schemes, or their assets may be withdrawn from the pension scheme in the event of serious ill health or death. Members aged 55 and older have various retirement options, including taking out a cash lump sum, purchasing an annuity, moving assets to an income drawdown arrangement, or a combination of some or all of these options. As would be expected, nearly three-quarters of disbursements were related to retirement by members aged between 55 and 70 (see **Figure 37**).

Figure 37. Member disbursements by type

Number of all disbursements from inception to 31 March 2019



Source: Nest, Vanguard, 2019.

Figure 38. Member disbursements by type

All disbursements from inception to 31 March 2019

Total disbursements from Nest

	Assets	Members
Trivial commutation lump sum	61%	67%
Full uncrystallized funds pension lump sum	7%	4%
Transfer to qualified scheme	28%	23%
Death lump sum	4%	6%

Disbursements FY 2013/14 to FY 2018/19

	March 2014	March 2015	March 2016	March 2017	March 2018	March 2019	Total
Trivial commutation lump sums							
Assets	£59,352	£544,069	£3,175,944	£6,289,653	£11,522,930	£24,125,423	£45,717,371
Member accounts	212	1,502	5,810	9,339	15,045	26,487	58,395
Average	£280	£362	£547	£673	£766	£911	£783
Full uncrystallized funds pension lump sum							
Assets				£357,441	£1,418,316	£3,501,718	£5,277,475
Member accounts				293	1,040	1,949	3,282
Average				£1,220	£1,364	£1,797	£1,608
Transfer to qualified schemes							
Assets	£510	£3,873	£111,796	£317,269	£4,150,805	£16,714,790	£21,299,043
Member accounts	2	15	112	207	3,456	15,865	19,657
Average	£255	£258	£998	£1,533	£1,201	£1,054	£1,084
Death lump sum							
Assets	£5,302	£73,535	£207,364	£442,034	£857,752	£1,417,143	£3,003,131
Member accounts	46	345	693	972	1,303	1,867	5,226
Average	£115	£213	£299	£455	£658	£759	£575
TOTAL							
Assets	£65,164	£621,478	£3,495,104	£7,406,398	£17,949,802	£45,759,074	£75,297,020
Member accounts	260	1,862	6,615	10,811	20,844	46,168	86,560
Average	£251	£334	£528	£685	£861	£991	£870

Source: Nest, Vanguard, 2019.

22 The data in this section represent all pension transfers to and disbursements from Nest accounts to 31 March 2019, unless otherwise noted.

Trivial commutations (small balance lump sums) were the dominant form of disbursement. As we show in **Figure 38**, more than two-thirds of members have taken a trivial commutation since FY 2013/14, with an average value of £783. This represented 61% of all monies disbursed from Nest. A further 23% of those members making withdrawals moved their assets to another qualified plan, which represented 28% of all disbursements in asset terms. In FY 2018/19 we observed a significant increase in the number of members transferring to another qualified scheme. This activity represented 34% of disbursements by number of members, and 37% by assets, for the year.

Figure 39. Uncrystallised funds pension lump sum disbursements

Amount (£)	%
Less than £1,000	63%
£1,000 to £1,900	19%
£2,000 to £2,999	7%
£3,000 or more	11%

Source: Nest, Vanguard, 2019.

As was the case in the previous year, the use of annuities was virtually zero. However, some 4% of members took a full "uncrystallised funds pension lump sum"[23] from their account, with an average value of £1,608 as at 31 March 2019. This average value was approximately £300 greater than the equivalent measure a year previously. As at 31 March 2019, 89% of payments were under £3,000, as we show in **Figure 39**.

Moving money into Nest

Beginning in 2017, Nest allowed members to transfer pension savings from other UK-based registered schemes. This feature enables members to consolidate retirement pots, simplifying tracking and management[24].

This change had a significant impact on the number of transfers, as well as the monies transferred into Nest. From FY 2015/16 through to FY 2018/19 the number of members transferring funds into their Nest pension accounts multipled by 28 times (**Figure 40**) The value of assets transferred-in rose from a little over £2 million in FY 2015/16 to 32 times that value in FY 2018/19. Over the course of FY 2018/19, the average transfer-in was £5,354.

Figure 40. Member transfers to Nest

Fiscal year	Assets	Members	Average
2012/13	£73,145	19	£3,850
2013/14	£582,838	146	£3,992
2014/15	£992,991	338	£2,938
2015/16	£2,309,571	490	£4,713
2016/17	£13,309,210	1,642	£8,105
2017/18	£69,489,275	11,612	£5,984
2018/19	£73,831,154	13,790	£5,354
	£160,588,184	**28,037**	**£5,728**

Source: Nest, Vanguard, 2019.

Member engagement[25]

With retirement savings participation benefiting from the automatic features examined in previous chapters, we now turn our focus to members' engagement with their retirement saving. Members and employers can interact with Nest through either the website or the call centre.

On average since 2012, approximately a quarter of active members been registered to interact with their account via the website. Data from the US suggest that members' tendency to interact with their account via the website increases in line with scheme tenure and account balance[26]. With the phasing-in of higher minimum contributions now complete, account balances of Nest active members are likely to grow substantially. In future iterations of this report, we shall seek to study whether web registrations amongst UK retirement savers remain at current levels or grow alongside account balances, as well as the interaction of members' enrolments relative to their web registration dates.

23 An uncrystallised funds lump sum is paid in cash and is taxed at the member's marginal rate once the 25% tax-free cash allowance has been deducted.
24 Prior to the rule changes, there were two ways a member could transfer into Nest: an ex-spouse might receive part of a pension pot as the result of a divorce from a Nest member, or a worker could receive a transfer from an employer in exchange for rights in an occupational DB plan.
25 The data in this section reflect cumulative member engagement statistics as at 31 March 2019 unless otherwise noted.
26 See *How America Saves*, Vanguard, 2019.

Members can also interact with Nest via the more traditional means of the call centre. As we show in **Figure 41**, approximately half of all calls received by the call centre in FY 2018/19 were member enquiries, while a quarter were from employers and a minority from third party administrators (TPAs) such as payroll providers. Calls from employers in FY 2018/19 have fallen as a percentage relative to previous years, likely as a result of the completion of auto enrolment staging in February 2018. The category 'other' represents either general enquiries or instances where it has not been possible to determine whether the caller is a member or an employer.

Figure 41. Sources of calls to Nest

Source	FY 2016/17	FY 2017/18	FY 2018/19
Employer	48%	42%	26%
Member	36%	46%	52%
Third party administrator (TPA)	7%	7%	5%
Prospect	1%	0%	0%
Other	7%	4%	17%

Source: Nest, Vanguard, 2019.

Calls from employers to Nest are entirely administrative in nature, such as addressing payroll or enrolment workflow queries. By contrast, the reasons that members call Nest are more diverse, as shown in **Figure 42**. Calls involving account administration are consistently most common, typically covering topics such as changes of personal details and account activation, or less often, resolving problems logging in. Retirement was the second most common reason for member calls in FY 2018/19, and while opting out was the third most common reason for members calling, the percentage of calls involving opt out has dropped steadily since FY2016/17.

Figure 42. Reasons for calling Nest

Top reasons - member	FY 2016/17	FY 2017/18	FY 2018/19
Administer account	32%	34%	32%
Retirement	16%	18%	20%
Opt out	24%	18%	15%
Contributions	14%	12%	15%
Transfers	6%	11%	11%

Source: Nest, Vanguard, 2019.

Alongside the call centre, Nest members and employers can interact via live web chat through the Nest website. This is an increasingly popular method of interaction, with the number of web chats having grown 60% between FY 2016/17 and FY 2018/19. Employers made up approximately one-third of web chats in FY 2018/19, while members accounted for a little under a quarter (see **Figure 43**). The increasing popularity of web chats is particularly evident amongst members: in FY 2018/19 more than three times as many member web chats took place compared with FY 2016/17. The category 'other' represents either general enquiries via web chat, or instances where either a member or employer identifier could not be tagged to the interaction.

Figure 43. Sources of web chats with Nest

Source	FY 2016/17	FY 2017/18	FY 2018/19
Employer	49%	45%	34%
Member	11%	15%	23%
TPA	5%	5%	5%
Other	35%	34%	38%

Source: Nest, Vanguard, 2019.

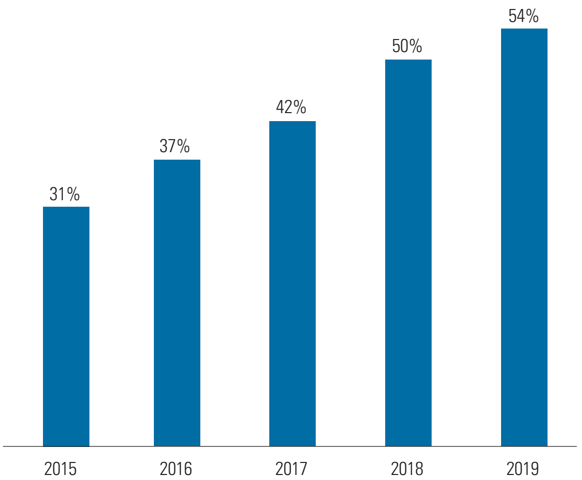
As with calls, employers' use of web chats with Nest can be entirely considered administrative in nature. Again, similarly to calls, the reasons members interact with Nest via web chat is more diverse (**Figure 44**). Account administration was again the most popular reason for using web chat, while retirement and scheme transfers represented approximately a quarter of all web chats with members.

Figure 44. Reasons for web chats with Nest

Top reasons - member	FY 2016/17	FY 2017/18	FY 2018/19
Administer account	27%	33%	31%
Contributions	19%	17%	19%
Transfers	9%	11%	13%
Retirement	10%	9%	13%
Opt out	14%	9%	10%

Source: Nest, Vanguard, 2019.

Figure 45. Percentage of member log-ons via mobile or tablet



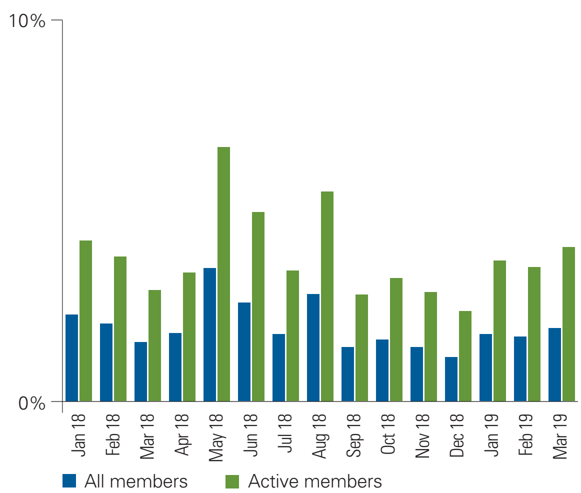
Data to 30 June 2019
Source: Nest, Vanguard, 2019.

Nest members are increasingly choosing to conduct digital interactions via either mobile or tablet devices. The proportion of member log-ons to the website via mobile and tablet devices has been steadily increasing since data began being tracked in 2015, as shown in **Figure 45**. Since the end of calendar year 2018, mobile and tablet devices have become the dominant channel for members' digital interaction with Nest.

When tracking members' log-on activity over time, we observe significant surges in activity in the months immediately following the conclusion of the fiscal year each March (see **Figure 46**). This is to be expected, not least due to the timing of phased increases in minimum contributions, but member log-on activity also correlates strongly with the issuance of members' annual benefit statements. Not surprisingly, active members have higher levels of digital interaction than their inactive counterparts. On average, the active membership base is approximately twice as likely to log-on than the membership as a whole.

Figure 46. Nest member log-on activity over time

Percentage of all members who log-on per month



Source: Nest, Vanguard, 2019.

Conclusion and a look ahead

We hope that this publication will contribute to a better understanding of Nest, its members and the UK policy of auto enrolment. We anticipate that our findings will be of interest not only in the UK but in a number of other jurisdictions concerned with expanding retirement savings opportunities to workers whose earnings are at or below the median, such as those served by Nest.

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

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

- With the final "phasing-up" of minimum contributions having taken place in April 2019, we shall seek to publish supplementary research examining the phasing experience over time for Nest members, including analysis of the impact of phasing on members of differing age, earnings, gender and industry.
- Ongoing study of differences in retirement scheme behaviour driven by gender, age and earnings.
- A deeper dive into the drivers and characteristics of those outside the scope of auto enrolment who nonetheless voluntarily opt in.
- Digital behaviour of Nest members – in particular, how members interact with their pensions in electronic form.
- Ongoing enrolment and re-enrolment rates and the interaction between labour-market churn and pension scheme coverage, and what this means for the numbers and scale of pots that members hold.
- A deeper exploration into the reasons that lead people to opt out.

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

Methodology

The data included in this report are derived from Nest employer and member activity and are managed by the Nest scheme administrator, TCS. The data are split into three main areas: employer, member and monetary. However, there is a great deal of crossover between these three areas as each member has a relationship with the employer that enrols them and with each monetary transaction that is made by them or on their behalf. Since the scheme "soft launched" in 2011, Nest analysts have developed methodologies for defining key events and concepts as described below.

Nest members

This universe consists of over 800,000 employers and ten million workers who had ever joined Nest up to 31 March 2019. A worker becomes a member when they join the Nest scheme through auto or self-enrolment. A worker ceases to be a member if they opt out during their initial opt-out window, transfer their entire pot balance to another qualifying scheme, or they die or retire.

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

Nest enrolment

An enrolment event is an independent event whereby a worker joins Nest through their employer or through self-enrolment. In the case of error, enrolments can be cancelled by an employer and are removed from the overall enrolment count. There are several different types of enrolment events[27]:

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

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

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

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

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

Opt out and cessation

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

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

Deriving member earnings

Member earnings are calculated using data provided by employers on pensionable pay each time a contribution is made. This analysis provides an average annualised pensionable pay metric for each member, weighted by the timing of the contributions they have made. Gross annual pay is approximated by the addition of the lower earnings threshold for contributions (£6,032 in FY 2018/19).

Acknowledgements

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Will Allport, Vanguard
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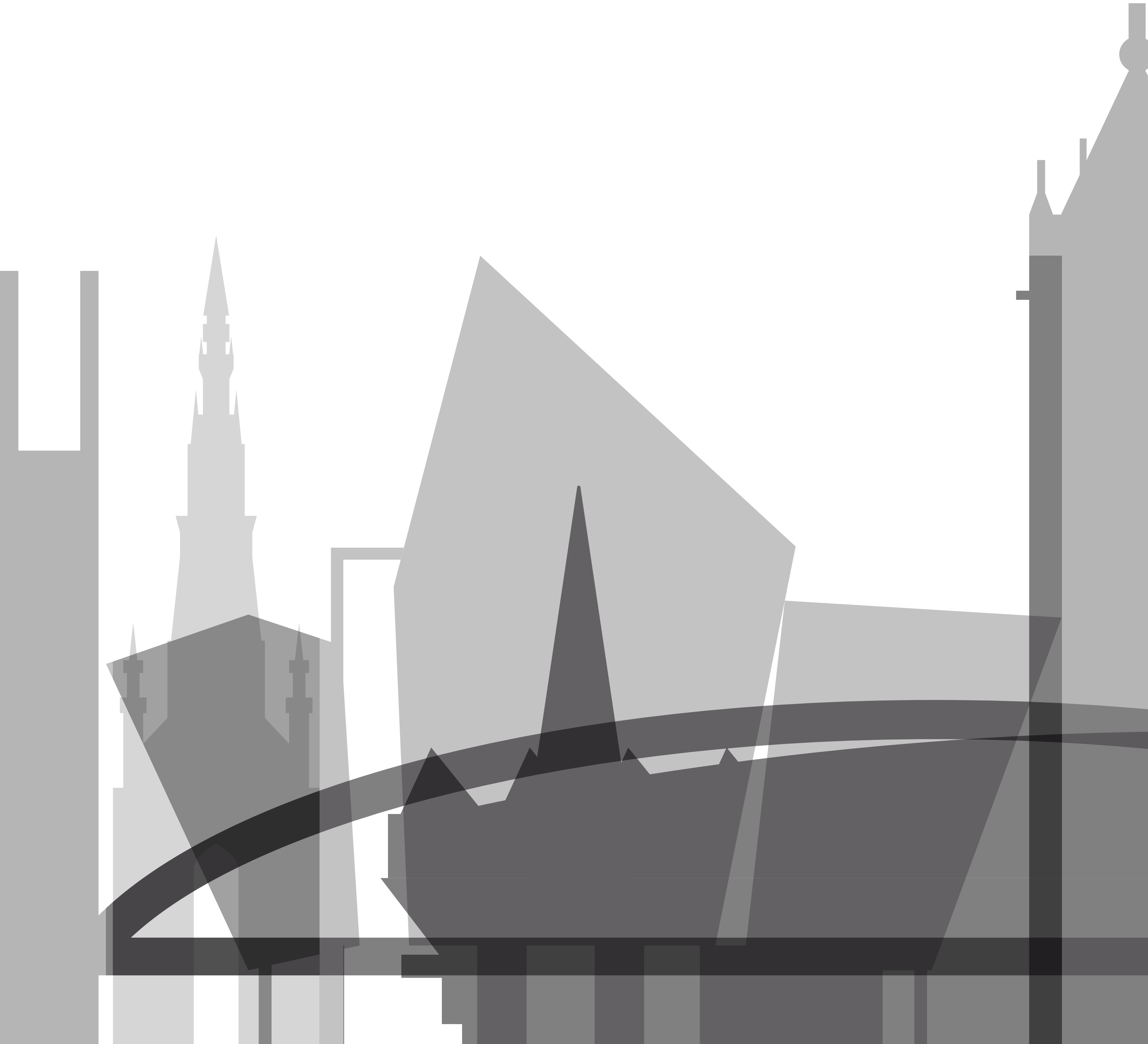
Data analysis:
Cynthia Pagliaro, Vanguard
John Lamancusa, Vanguard
Richard Notley, Nest Insight

Marketing and public relations support:
Kate Vasquez, Vanguard
Caroline Hancock, Vanguard
Michelle Cremin, Nest Insight
Clare Hodgkinson, Nest Insight

The authors would also like to thank Garym Evans of Vanguard, the Nest Insight team and Nest colleagues for their support.



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