nest insight

Retirement saving in the UK 2020

Member experience from Nest, the National Employment Savings Trust

February 2021

Invesco

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About Nest Insight

Nest Insight is a collaborative research unit set up by Nest Corporation to help understand and address the challenges facing Nest members and other defined contribution savers. For more information, visit: **nestinsight.org.uk**

About Nest Insight's strategic partner

Invesco

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

Helen Dean
Chief Executive Officer, Nest Corporation

I'm delighted to introduce the third in our series of annual data reports covering members' experiences of saving in the Nest pension scheme. This report covers the fiscal year 2019/20.

This was an eventful year. It began, on 1 April 2019, with the second phased increase in minimum contributions through auto enrolment, raising members' contributions into pension pots to a total of 8% of band earnings. It ended with the announcement of a global pandemic on 10 March 2020 and, less than two weeks later, on 23 March, a nationwide lockdown that saw all but essential services shut and non-essential workers sent home. Each of these events had a profound effect on the saving behaviours and financial wellbeing of people in the UK. In both cases, many observers predicted that significant numbers of people would stop saving for retirement. Yet to date, the evidence suggests otherwise.

Given that the lockdown was only a week old when our fiscal year came to an end, we chose to extend our reporting period by six months for this year's report. In these pages you'll see data from September 2020 alongside many of the March 2020 results, enabling us to make observations about the impact of the early months of lockdown measures on people's saving behaviours. These data show that, in spite of the significant disruption created by the pandemic, the overall story of saving in Nest is one of continuity. Most members continued to save in the same way, with the default options still overwhelmingly the most used.

We recognise that this continuity owes much to the buffering effect of the UK government's Coronavirus Job Retention Scheme (CJRS). The first two phases of this programme were in place throughout the period from March to September 2020 and we believe that millions of Nest members benefitted from it. Yet although the overall picture remains very stable, we are now starting to see early signs of changes in members' saving. The commentary in this report will draw your attention to these. Nest Insight will also put out supplemental reports to explore these effects in more detail as early trends become clearer in our data.

It's too early to tell the full story of how the Covid-19 crisis will impact the pension saving behaviours of our members. We hope this account will nonetheless be informative, providing a window into how the CJRS helped to support long-term saving in the midst of this crisis. We're also proud that we continue to provide a safe harbour for our members' retirement savings, even through turbulent times.

Finally, I would like to thank Vanguard for working with us to produce our first two yearly reports looking at the experience of Nest savers as part of their series entitled 'How the world saves'. This year the Nest Insight team, along with other Nest colleagues, has taken over production of the report. I want to thank all of them for the significant effort involved in putting it together.

The change in title to 'Retirement saving in the UK' reflects the move to producing these reports in-house. We look forward to bringing you further updates on the experiences of Nest's millions of members under this new banner.

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Executive summary

This report examines the enrolment, savings and investment experience of workplace pension savers in the UK based on data from Nest, the National Employment Savings Trust. With over 9.5 million members, Nest is one of the UK's largest multi-employer pension plans.

Legislative foundations

The Pensions Act 2008 requires employers to automatically enrol eligible employees into a qualifying workplace pension scheme. From 1 October 2012 through 5 April 2018, minimum contributions for automatically enrolled employees were 2% of band earnings, with at least 1% being contributed by the employer. By April 2019, minimum contributions had increased to 8%, with at least 3% being contributed by the employer.

Composition of Nest employers

Over 916,000 employers have chosen Nest to provide their workplace pension scheme at some point since auto enrolment was introduced through to 30 September 2020. The employers choosing Nest are predominantly small firms or micro enterprises, with 98% of employers using Nest having fewer than 50 employees.

However, more than half (51%) of Nest's membership works for mid-sized or large employers. Although less than 1% of Nest employers employ 250 or more workers, over one in three Nest members were enrolled by firms of this size.

These employers span industries. Top sectors are retail, construction, catering and accommodation, and health and social care. Together over one in four Nest employers are in one of these four sectors.

1 in 3

Workers in the UK has a pension pot with Nest

Composition of Nest membership

Nest's membership skews modestly towards younger workers on low to moderate incomes. Nearly half of all members are aged under 35 and more than half have annual earnings of less than £20,000. This, along with the diversity of the industry sectors where Nest members work, suggests that the original objective of auto enrolment has largely been attained, namely, to ensure that all workers, including those who are younger and earning modest incomes, have access to a workplace pension.

Key phrases

Pension pot: retirement savings accumulated in a UK defined contribution (DC) workplace pension scheme like Nest

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

Active members: employed workers who have been enrolled in Nest by their employer, or who are self-employed and have enrolled themselves in Nest

Inactive members: Nest members who have not retired, died or opted out but have either left their employment or have chosen to stop contributing

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

Dominance of auto enrolment

Over nine in ten active members (91%) were automatically enrolled in Nest.

Although only 9% of members have actively chosen to participate in pension saving with 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. People who have chosen to enrol in Nest are slightly more likely to earn less than £10,000, be women and be under age 25.

Opt-out rates

Opt-out rates under auto enrolment remained low in 2019/20, at under 8%. As noted in our 2020 supplemental report, this indicates that the most recent increases to minimum contribution rates had only a very minor impact on opt-out rates.[1]

There was a slight rise in the overall opt-out rate from April to September 2020, during the early months of the Covid-19 crisis, which were marked by significant changes in the labour market. We will continue to analyse opt-out rates and related behaviours as impacts of the pandemic on the UK workforce continue to unfold.

1 Vanguard and Nest Insight, 'How the UK saves: effects of the second savings rate increase (2020)', **nestinsight.org.uk/wp-content/uploads/2020/06/How-the-UK-Saves-the-effects-of-the-second-savings-rate-increase.pdf**

Contributions

As at 31 September 2020, around four in five employers had enrolled workers at the statutory minimum 8% total contribution rate. Small and micro-sized firms tend to stick at these minimum rates, whereas larger firms are more likely to contribute more than the minimum.

Members who were saving with Nest for the full 12-month period from 1 April 2019 to 31 March 2020 had a median total annual contribution of £1,231 and a mean (average) contribution of £1,448. This represented a significant increase over the previous year and was a result of the phased increase in statutory minimum contributions in April 2019.

Looking at figures on a monthly basis, Nest members' median and mean contribution levels did not change significantly between April 2020 and September 2020. However, in these months there was less of a difference between the mean contribution amount for members who made contributions in every month compared to those who only made contributions for part of the period.

Account balances

At the end of September 2020, the median pension pot balance in Nest was £606 and the mean was £1,475. As might be expected, balances are higher among members who are still actively contributing into their accounts, with a median of £1,614 and a mean of £2,440.

The median pot balance for women is 83% of the median balance for men. This is a slightly smaller difference than in previous years but still a sign of systemic differences in the earnings and working patterns between the genders.

Pot balances increase significantly with age, with those 45 and older having pot balances around 2.5 times those of workers under age 25.

Predictably, balances also rise with income and length of time as a member in the Nest scheme.

Investment approach

Assets invested through Nest totalled £9.5 billion as at 31 March 2020. These assets were allocated 49% to equities, 23% to investment-grade bonds, 13% to growth credit, 9% to property, 3% to short-term reserves and 3% to commodities.

Slightly more than 99% of members are invested in Nest's default investment strategy, a range of target-date funds, the Nest Retirement Date Funds, which are designed to change members' asset allocations as they progress through working life to retirement. Switching activity is low. Just over 1% of members changed their investment options in the fiscal year. More than two thirds of these were automatic switches between funds within the default strategy, for example, members moving into a post retirement fund upon reaching their retirement age.

Investment returns

In spite of a downturn in equity markets in March 2020, five-year annualised returns for Nest Retirement Date Funds were only marginally behind their benchmarks, with all alternative fund choices ahead or in line with benchmarks or historical market returns. As at 30 September 2020, all Nest funds were performing above their benchmarks – some significantly so.

7.8%

Overall opt-out rate through 31 March 2020

Transfers and retirements

The overwhelming majority of Nest members are still accumulating retirement savings. For the approximately 140,000 members who have withdrawn assets from their Nest pot, the majority have taken small lump sums.

Since April 2017 Nest has enabled members to transfer pension savings to and from other UK-based registered schemes. Around 50,000 members have transferred balances into Nest, with a mean value of £5,300. Around 60,000 members have transferred out, with mean values ranging from below £2,000 for those aged under 45 to over £7,000 for those aged 70 and over.

The UK's auto enrolment system

The UK introduced workplace pensions scheme auto enrolment in October 2012. Under the legislation, employees and employers make mandatory minimum contributions each pay period into a pension based on the employee's eligible earnings. Workers must be automatically enrolled if they earn £10,000 or more a year with an employer, though they can also ask to be enrolled by their employer if they earn less. Larger employers were brought into the programme first, with employers of all sizes participating by February 2018.

The level of minimum mandatory contributions into defined contribution (DC) pension schemes was increased in phases, starting with 2% of band earnings with at least 1% contributed by employers, rising in April 2018 to 5% with at least 2% contributed by employers and rising again in April 2019 to 8% with at least 3% contributed by employers.

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

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

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

Chapter 1

Introduction

This is the latest of Nest Insight's yearly reports evaluating the progress of the UK's auto enrolment system. It uses data from the Nest workplace pension scheme to explore the experience of employers and workers using Nest.

It continues on from the two major reports on Nest's membership, published under the title 'How the UK saves', which were done in partnership with Vanguard Asset Management for the 2017/18 and 2018/19 fiscal years. As with those previous reports, we'll provide evidence from a full fiscal year in the life of the scheme – in this case, from 1 April 2019 to 31 March 2020.

It goes without saying that March 2020 was not a normal month for workers, employers or the investment world. The fiscal year came to an end just one week after the UK government announced a nationwide lockdown in response to the rapid escalation in the spread of the novel coronavirus and Covid-19 cases. The month also ended in a severe and rapid downturn in many investment markets around the globe. The markets went on to recover somewhat, but there has been increased volatility, with some investments performing extremely well and others suffering. In addition, many workers in the UK were furloughed from their jobs as part of the government's Coronavirus Job Retention Scheme (CJRS). We have therefore made the decision to include six months of additional data, from 1 April 2020 to 30 September 2020, as part of the report on the 2019/20 fiscal year. These data offer a view of Nest members' experiences and saving behaviours during the early months of the crisis.

Some tables and figures in this report reflect cumulative activity since the beginning of auto enrolment in October 2012. Others show annual activity for fiscal years spanning 1 April to 31 March. The specific time period of statistics is noted in the text and displayed in figures.

About the Coronavirus Job Retention Scheme

During the pandemic, the UK government has taken a number of measures designed to keep as many employers trading, and as many employees in work, as possible. Most pertinent to this report is the Coronavirus Job Retention Scheme (CJRS) announced on 20 March 2020.

The CJRS was rolled out in two main phases in the period from March to September 2020:

Phase one

- Looking back to 1 March 2020, employers could claim for 80% of wage costs up to £2,500 per month for each employee put on furlough. A furloughed worker was anyone who remained employed but was not provided with work. Employers could pay the remaining 20% of wage costs for furloughed workers but were not required to do so. The government paid the employer's National Insurance (NI) contributions and 3% minimum auto enrolment pension contributions on qualifying earnings for furloughed employees.
- From 1 July 2020, 'flexible furlough' was launched. Employers could bring furloughed employers back to work part-time and still claim for the wage costs of hours not worked.

Phase two

- From 1 August 2020, CJRS continued to pay 80% of wage costs up to £2,500 per month for each employee on full or partial furlough, but the employer paid their NI and auto enrolment pension contributions for these employees, both for hours worked and hours furloughed.
- From 1 September 2020, CJRS began to taper reimbursements, paying 70% of monthly wage costs up to £2,187.50, while the employer paid at least 10%, up to £312.50. The employer continued to pay their NI and pension contributions.
- From 1 October 2020, CJRS continued to taper reimbursements, paying 60% of wages costs up to £1,875, while the employer paid at least 20%, up to £625. The employer continued to pay their NI and pension contributions.

CJRS was scheduled to wind down on 31 October but was extended from 1 November 2020 through to 31 March 2021. This coincided with the announcement of a nationwide lockdown in England lasting four weeks and the continuation of restrictive measures across parts of the UK.

Under the extended CJRS, employers can once again claim 80% of wage costs up to £2,500 for furloughed employees. Any employees made redundant (laid off) after 23 September 2020 could be rehired and furloughed with their wages eligible for claim.

Chapter 2

Nest employers, enrolments and members

Nest was created so that every employer in the UK, large or small, would have access to a workplace pension scheme that could be used to fulfil their new duties under auto enrolment. As at 31 March 2020 about one in three workers in the UK has a pension pot with Nest.

Growth in membership

Auto enrolment of eligible employees in workplace pension schemes was done in stages, beginning in October 2012 and continuing through February 2018. Every employer in the UK was assigned a date by which they had to enrol their employees based on the size of their payroll (PAYE) scheme. The first employers required to take part were the largest, with progressively smaller-sized employers enrolling their workers. From February 2018 all newly eligible jobholders must be enrolled and all newly formed businesses with employees must enrol their eligible workers.

While Nest has experienced rapid growth in employer numbers each year since October 2012, the rate of growth slowed considerably in 2019/20, now that the staging of all existing employers into auto enrolment has been completed.

In contrast, member enrolments continue to grow significantly year on year. This is due to the higher than average turnover of jobs in parts of the economy served by the Nest scheme.

From Nest's inception through to the end of the 2019/20 fiscal year, a total of 871,000 employers had used the Nest scheme at some time to fulfil their auto enrolment duties, a 15% increase in the total universe of employers compared to the end of the previous year. Across these employers there have been 12.9 million separate occasions of a worker being enrolled in the scheme, a 22% increase in total enrolments over the previous year.

It should be noted that this number is considerably higher than the number of individual workers who we know have been enrolled in Nest. This is because many workers are enrolled more than once, often by multiple employers. As at the end of 2019/20, the Nest scheme had active relationships with 791,000 employers and 4.4 million members.

Active employers are those who have signed up to use the Nest scheme and have an active employer account. A small proportion of employers have departed the scheme, either because they have chosen to move to a different provider or have ceased trading.

Active members include:

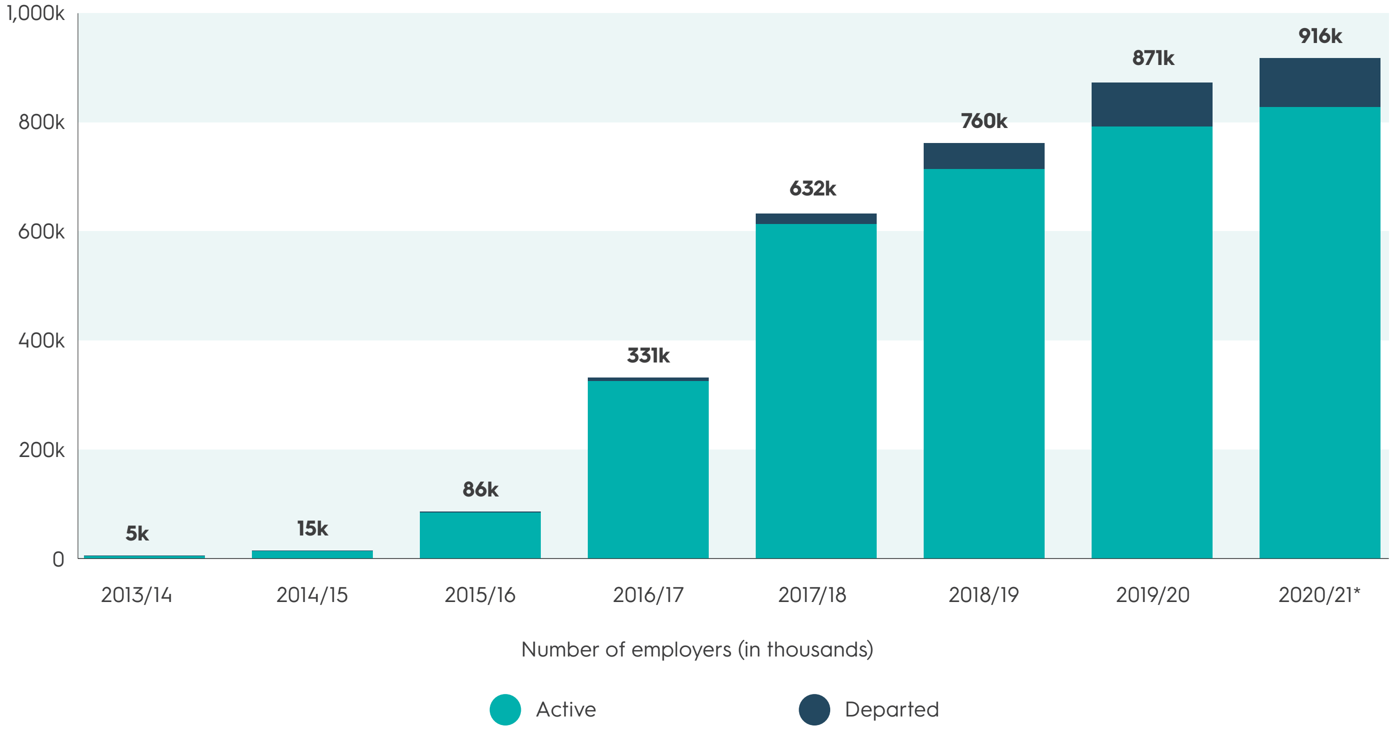
- workers enrolled in Nest by their employer who are currently in active employment
- self-employed workers who have enrolled themselves in Nest

The start of 2020/21 coincided with lockdown restrictions put in place to combat the spread of the coronavirus in the UK. During the first six months of 2020/21, which are covered in this report, the impacts of lockdown and, later, the social distancing, venue closures and other measures affecting economic activity, were dampened by measures put in place by the government, notably the Coronavirus Job Retention Scheme (CJRS) and a range of financial support packages for businesses. It's already clear that these significantly reduced the number of workers who might have lost employment and the number of businesses that might have failed.

871k

Employers had used Nest through 31 March 2020

Figure 1. Employers using Nest, year by year

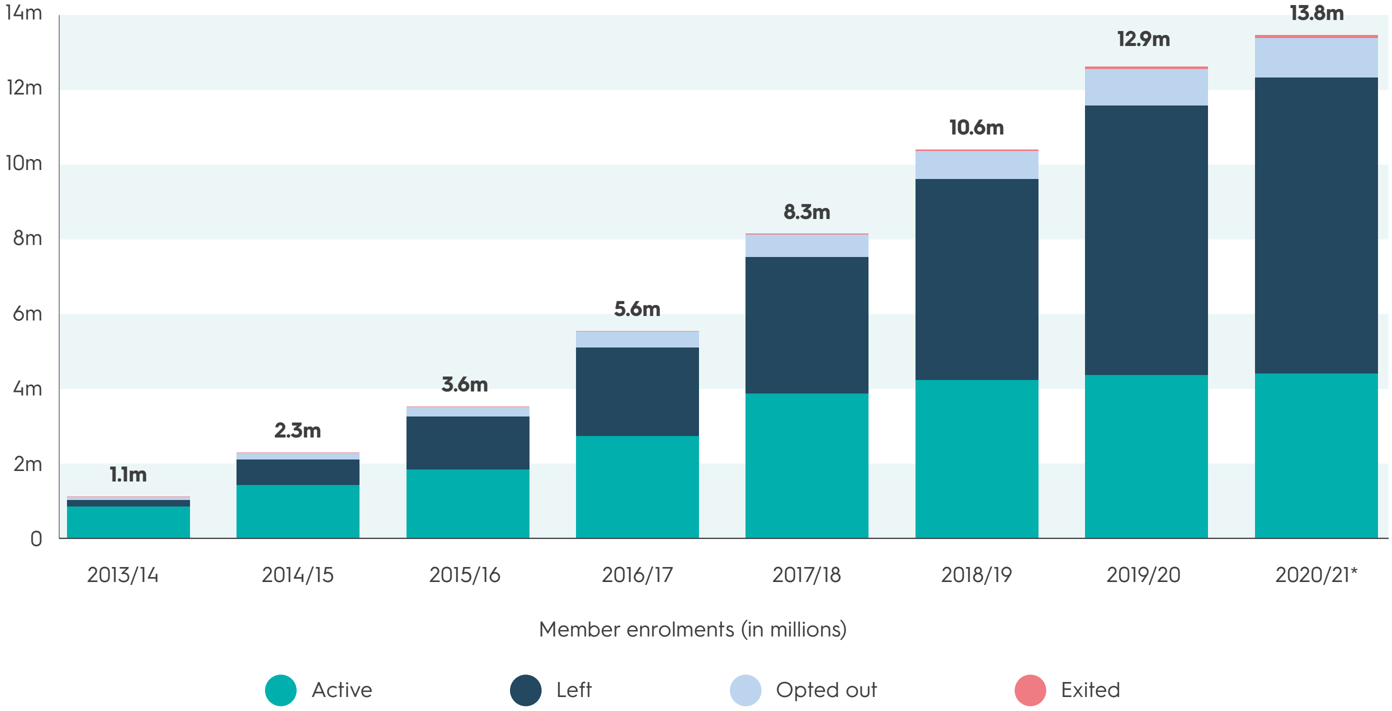


* **2020/21 figures are for 1 April 2020 to 30 September 2020.**

From 1 April 2020 through 30 September 2020, the number of employers using the Nest scheme and the number of new enrolments increased in comparison to 31 March 2020 (Figure 1). However, the rate of this growth was muted by the economic effects of the pandemic: the total number of employers using Nest increased by 5% between April and September 2020. At the same time, the proportion of employers leaving Nest for any reason, including ceasing to trade, did not increase as much as might have been expected. Around 12% more employers departed Nest in the first six months of 2020/21 compared to 2019/20. This is a small increase, given that 70% more employers left Nest in 2019/20 compared to the previous year.

New enrolments have noticeably slowed in the first six months of 2020/21, with only a 7% growth in total enrolments since 1 April 2020. This suggests that although employers may be holding up, they have not been taking on new employees at the rates seen in the recent past. As at 30 September 2020, overall job numbers have been stable, however, which may be due to job-protection interventions such as the CJRS.

Figure 2. Enrolments made into Nest, year by year



*** 2020/21 figures are for 1 April 2020 to 30 September 2020.**

Since the start of auto enrolment, many individuals will have changed employment and may have been enrolled in more than one pension scheme as a result. Some will have been enrolled back into the same scheme more than once.

Nest operates a 'one pot for life' scheme, which means when it knows that a person already has a pension with the scheme, it combines the accounts into one. When we remove multiple counts for individuals enrolled in Nest more than once, we find that Nest had 9.2 million members at the end of 2019/20.

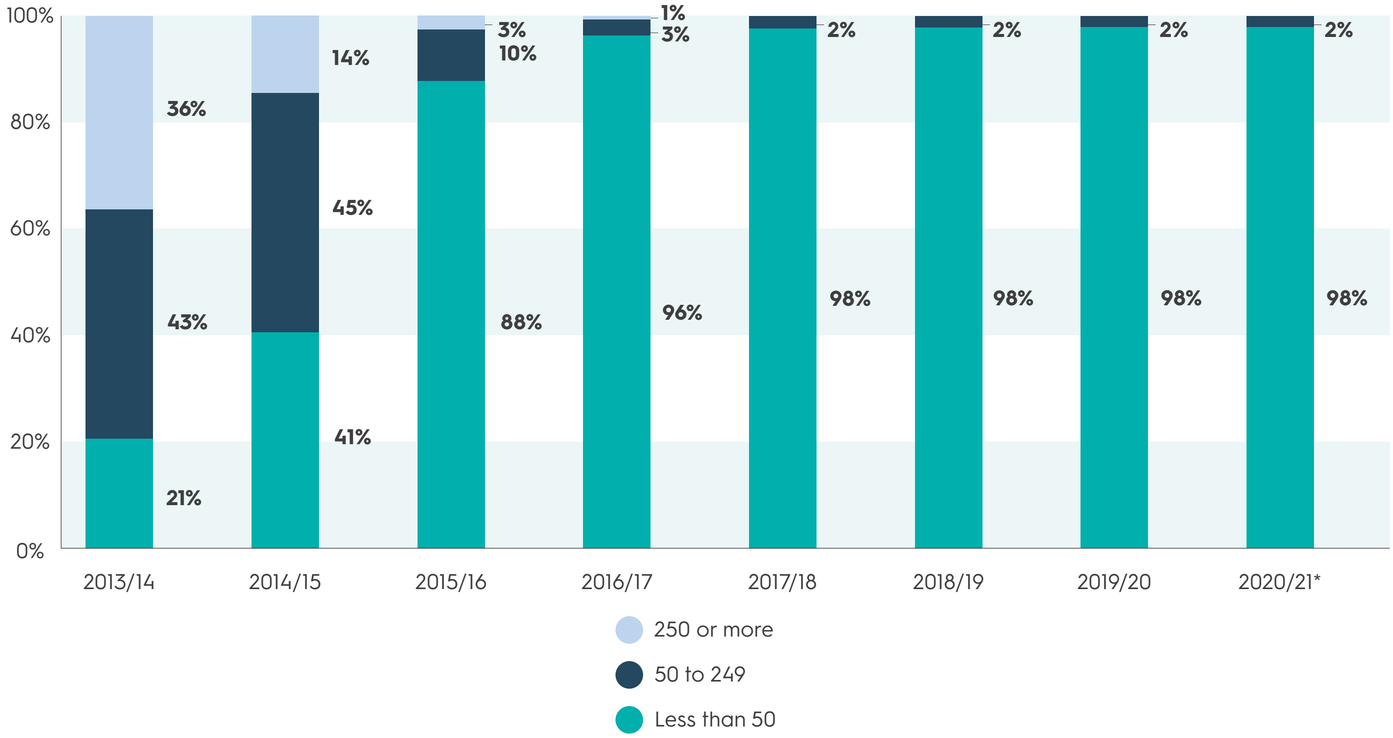
9.2m

Total Nest members at 31 March 2020

In any given year, around four in ten Nest members leave their employer or choose to cease making contributions to their Nest pension pot. Over time, the cumulative effect is that the ratio of active to inactive members has become smaller. Of all members who had been enrolled at any point through 31 March 2020, 47% were active and 51% were inactive, having left their employer or ceased contributing. The remaining 2% had either died, retired or transferred out of Nest and so are no longer considered to be Nest members.

Since 1 April 2020, the rate of increase in Nest's membership has slowed, as it has for enrolments. There were only 4% more members at 30 September 2020 compared to 31 March 2020 (Figure 2). The balance of active to inactive membership has shifted slightly, with 45% active and 53% inactive. The rate of change in this ratio is in line with the trend seen in recent years.

Figure 3. Size of employers using Nest, year by year



* **2020/21 figures are for 1 April 2020 to 30 September 2020.**

Employer characteristics

The phased approach to rolling out auto enrolment across the UK can be seen in the changing proportion of larger firms using Nest. In 2013/14 around 80% of employers using Nest as their workplace pension scheme were mid-sized or large organisations. By 2019/20 these employers accounted for only 2% (Figure 3).

This breakdown of firm sizes is based upon the employer's own reporting of their size at the point of registering with Nest. Over time, employers may grow and hire more staff, or be taken over and merged with different-sized enterprises. They may also scale back their operations and reduce the size of their payroll.

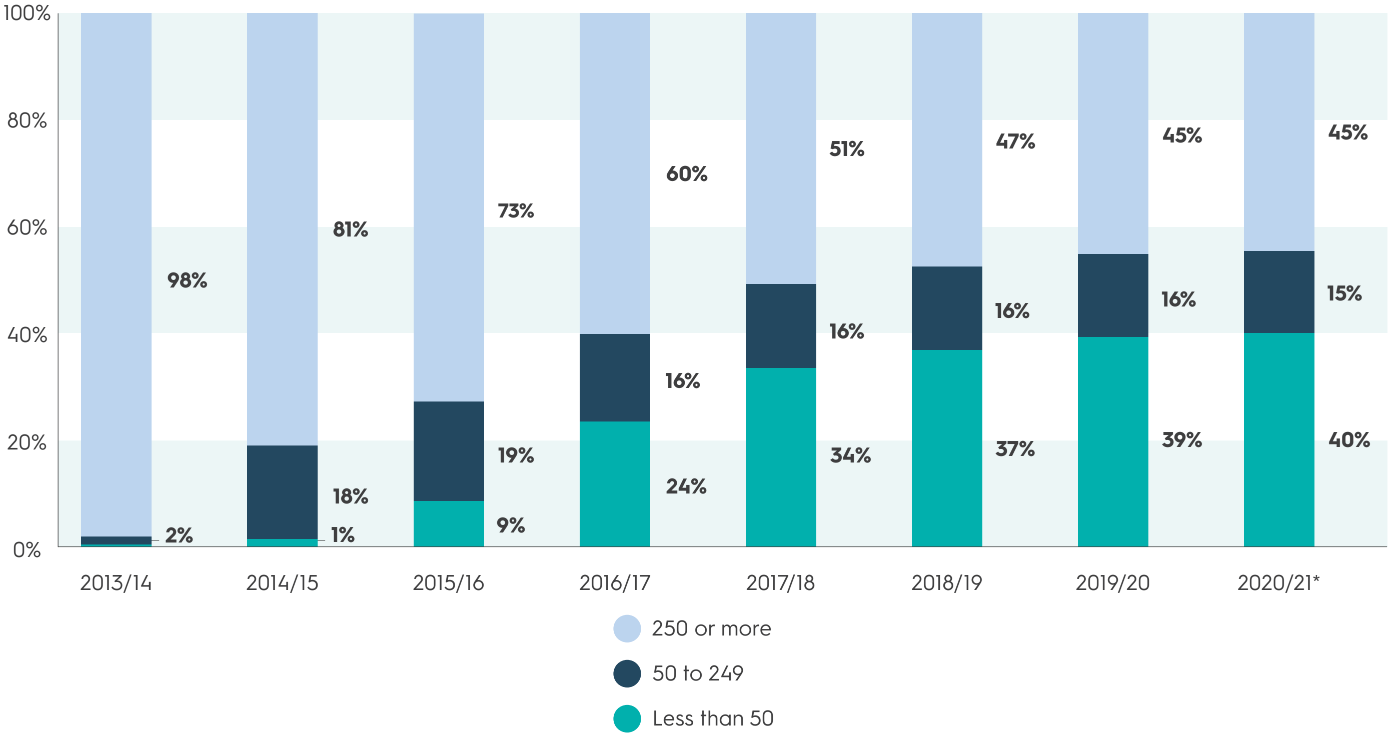
Key phrases

Large employers:
250 or more employees

Mid-sized employers:
50 to 249 employees

Small and micro employers:
1 to 49 employees

Figure 4. Workers enrolled in Nest by their employer's size, year by year



*** 2020/21 figures are for 1 April 2020 to 30 September 2020.**

Now that all newly formed businesses must enrol all workers from the point when workers become eligible for auto enrolment, we expect virtually all new employers registering with Nest to be small or micro-sized firms. We therefore expect the proportion of small and micro employers using Nest to trend towards 100%.

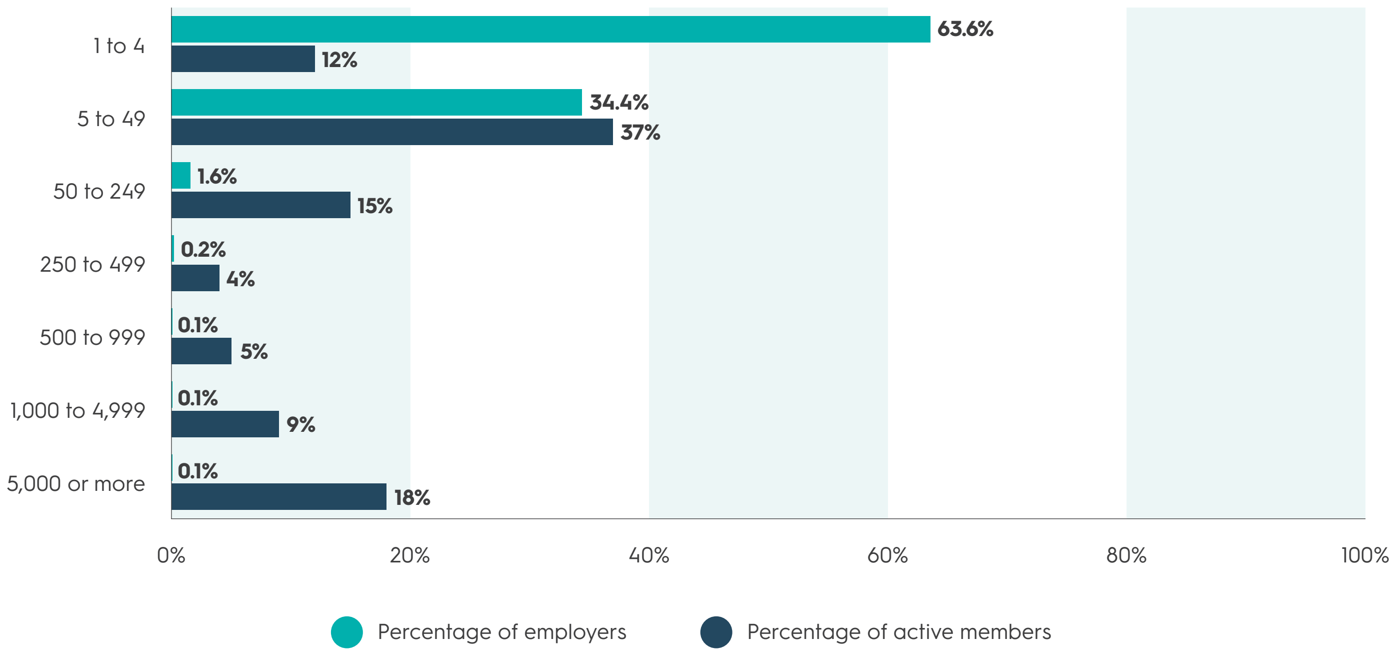
4.4m

Active Nest members at 31 March 2020

The number of Nest members has grown more steadily than the number of employers using Nest. Between 2015/16 and 2019/20, the number of registered employers grew by more than 10 times, whereas member numbers grew by just over three times. The difference is, of course, a function of employer size. Figure 5 shows that despite making up less than 1% of all employers, those with 250 or more employees account for well over one third of active Nest members. Again, this analysis is based on employer size as self-reported to Nest by employers.

Figure 5. Distribution of Nest's membership by employer size

Firm size	Employers	Members
Less than 250	99.6%	64%
250 or more	0.5%	36%



This distribution of Nest's membership by employer size illustrates the importance of auto enrolment in expanding pension provision to workers in the UK as well as the role of Nest in being available for every UK employer, large or small, so that they can fulfil their auto enrolment duties to employees.

Employers using Nest are operating across a wide range of industries, as shown in Table 1 (next page).[2] The top three industry classifications account for over one fifth of Nest employers.

The sector composition of Nest's employers will be important to track as the effects of the Covid-19 crisis continue into 2021 and beyond. Two of the top three industries for employers registered with Nest – retail (8%) and catering and accommodation (6%) – are known to be suffering higher numbers of employer failures and job losses compared to other industries.

2 Industry classification is self-reported by employers when registering with Nest. Employers can select 'Other' in addition to a menu of category options. The field is not required as part of registration, and some employers do not provide a response. These employers are coded as 'Not reported'.

Table 1. Employers using Nest, by industry

Industry (self-reported)	Percentage of employers as at 31 March 2020
Retail, hire and repair	8%
Construction	7%
Catering and accommodation	6%
Health and social care	6%
Professional, scientific and technical	4%
Manufacturing	3%
Charity	3%
Personal services	3%
Agriculture, forestry and fishing	3%
Financial and insurance	2%
Arts, sports and recreation	2%
Transportation and storage	2%
Administration and support services	2%
Information and communication	2%
Education	2%
Real estate	2%
Wholesale	1%
Employment (includes temporary agency work)	1%
Mining, energy and utilities	0%
Public administration	0%
International councils and bodies	0%
Other	24%
Not reported	17%

Member characteristics

As shown in Table 2 (next page), Nest's membership as at 31 March 2020 was close to being half active and half inactive members, with slightly more inactive members. Male members slightly outnumbered female members, with this difference more marked in the population of inactive members. This may suggest that men are more likely to be in more transient employment and therefore more likely to stop contributing to their Nest pot because they have left the employer who enrolled them in Nest.

A typical Nest member is just under 40 years old with a median gross annual income of around £19,000. Nest was set up to ensure there was a pension scheme in the UK market that was open to all employers, including those with a high proportion of low and moderate earners. It's therefore not surprising that the median income of Nest members is lower than the median for all UK employees of £24,900.[3] However, nearly 30% of Nest members earn above the national median income. This suggests that Nest also serves a significant number of higher-earning employees.

Nest's membership is skewed towards younger generations with around 44% of members under age 35, compared with 37% of employees in the UK labour market.[4] This higher proportion of younger workers is to be expected as, prior to auto enrolment, this population was far less likely to be saving into a workplace pension than older generations.

On average, members' accounts have been active for around three years.

Table 2 shows how Nest's active and inactive member populations differ. Active members tend to be slightly older, perhaps because younger workers are more likely to be in more transient employment. Active members are also more likely to have slightly higher earnings. This is almost certainly because workers in more transient employment are generally lower paid.

3 Office for National Statistics (ONS), 'Employee earnings in the UK' (2019), **ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2019**

4 ONS, Labour Force Survey, January–March 2020. Summary statistics are available at ONS, 'Labour market overview, UK' (May 2020), **ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/may2020**

Table 2. Nest member characteristics

	All members as at 31 March 2020	**Active members***	**Inactive members***
Total membership	**100%**	**48%**	**52%**
	Mean (median)	**Mean (median)**	**Mean (median)**
Age	39.2 (37.0)	40.4 (39.0)	38.2 (35.0)
Scheme tenure	3.2 (3.0)	2.7 (2.6)	3.6 (3.4)
Member's annual earnings, where reported	£21,300 (£18,900)	£21,600 (£19,200)	£20,300 (£18,000)
Gender			
Female	47%	49%	45%
Male	53%	51%	55%
Age			
Under 25	7%	9%	6%
25 to 34	36%	30%	42%
35 to 44	23%	23%	24%
45 to 54	19%	21%	17%
55 to 64	13%	15%	10%
65 and older	1%	1%	1%
Scheme tenure			
Less than 1 year	14%	22%	7%
Less than 2 years	16%	17%	15%
Less than 3 years	21%	22%	21%
Less than 4 years	17%	17%	17%
Less than 5 years	11%	8%	13%
Less than 6 years	11%	7%	14%
6 or more years	11%	7%	14%

	All members as at 31 March 2020	**Active members***	**Inactive members***
Member's annual earnings, where reported			
Less than £10,000	9%	9%	10%
£10,000 to £14,999	21%	21%	23%
£15,000 to £19,999	24%	24%	26%
£20,000 to £24,999	17%	17%	17%
£25,000 to £34,999	17%	18%	15%
£35,000 or more	11%	11%	8%

* **Active members are either actively employed by an employer who has enrolled them in Nest or are self-employed. Inactive members have either left the employer who enrolled them in Nest, chosen to stop contributing or been transferred to a different provider by their employer.**

Nest members by industry

Nest's members are employed in a wide variety of industries, as shown in Table 3 (next page). Over one third of members are employed in the top three industries ranked by percentage of members working in them – employment (13%), health and social care (11%) and catering and accommodation (10%).

When we compare this to Table 1, we see that four of the top six industries in employer volume are also in the top six for member numbers. The most notable exception is employment, which accounts for just 1% of Nest employers but 13% of members. This industry encompasses temporary agencies and recruitment firms, which often have large numbers of workers on their books at any one time.

The employment industry also has the highest proportion of inactive members to active members. This is unsurprising as workers on temporary agency-style contracts are likely to leave employment at more frequent intervals than those in other industries.

£19k

Median Nest member's annual income

Table 3. Nest members by industry of their employer

Industry (self-reported by employer)	**All members** as at 31 March 2020	**Active members***	**Inactive members***
Employment (includes temporary agency work)	13%	7%	18%
Health and social care	11%	12%	9%
Catering and accommodation	10%	9%	10%
Retail, hire and repair	9%	9%	8%
Manufacturing	5%	6%	5%
Construction	4%	4%	3%
Administration and support services	3%	2%	4%
Education	3%	3%	2%
Charity	2%	3%	2%
Transportation and storage	2%	2%	2%
Financial and insurance	2%	2%	2%
Arts, sports and recreation	2%	2%	2%
Professional, scientific and technical	2%	2%	1%
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%	0%	0%
Public administration	0%	0%	0%
International councils and bodies	0%	0%	0%
Other	21%	21%	22%
Not reported	7%	8%	6%

* **Active members are either actively employed by an employer who enrolled them in Nest or are self-employed. Inactive members have either left the employer who enrolled them in Nest, chosen to stop contributing or been transferred to a different provider by their employer. Totals may not add to 100% due to rounding.**

Manner of enrolment

Nest was primarily set up to ensure that every employer could meet their legal duty to automatically enrol eligible workers. However, other types of worker can be, and are, enrolled in Nest by employers.

Workers under age 22 and those over their State Pension age fall outside of the legislative mandate to be automatically enrolled by their employer. So too do those workers whose earnings are below the earnings threshold for automatic enrolment, currently £10,000 per year. All of these 'non-eligible jobholders' can opt in to Nest and ask their employer to make payroll contributions into a pension pot for them. They may also be eligible to have pension contributions made into their pot by their employer if they earn enough.

Non-eligible jobholders, who earn less than the lower limit for contributions, currently £6,240 per year, are able to opt in to workplace pension saving but their employer does not have to contribute to their pot. These non-eligible jobholders are called 'entitled workers' because they are entitled to save into their employer's workplace pension scheme but are not eligible for employer contributions.

Key phrases

Eligible jobholders: workers aged 22 up to State Pension age who earn £10,000 or more annually (automatically enrolled)

Non-eligible jobholders: workers aged under 22 or over State Pension age, or who earn less than £10,000 annually (not automatically enrolled but can opt in)

Entitled workers: non-eligible jobholders who earn less than £6,240 annually (can opt in but their employer is not required to pay contributions)

Nest has also seen a small number of so-called voluntary enrolments. These took place during the staging period, when employers were being brought into the auto enrolment system at different dates based on the size of their payroll. In these cases, the employer needed explicit consent from workers to enrol them before the employer's mandated staging date. Because these workers had opted in, they were not offered the chance to opt out in the first month after their enrolment.

Finally, Nest can be used by self-employed people as a workplace pension scheme. There is a dedicated enrolment category for these individuals. Under auto enrolment legislation, they are not required to contribute a set percentage of their income or profits. They can make contributions into their pot on a regular or ad hoc basis.

As shown in Table 4, the overwhelming majority of active Nest members (91%) have been automatically enrolled. The remaining 9% actively chose to be enrolled, with just under half of these opting in through an employer and entitled to employer contributions, meaning they earn at least £6,420 but less than £10,000 a year with the employer that enrolled them.

As at 31 March 2020, only 0.3% of Nest's active members had enrolled themselves as a self-employed worker.

Although this is a small percentage of the active membership, the proportion of self-employed members increased by almost 50% over the previous 12 months. While a tiny proportion of Nest members have joined as self-employed workers, in a Nest member survey conducted in November and December 2020, 6% of members described themselves as self-employed. However, this status does not show up in the scheme's administrative data because these individuals were enrolled by employers rather than self-enrolling as self-employed members.

Manner of enrolment by employer size

As seen in Table 4, over nine in 10 Nest members have been automatically enrolled in the scheme by their employer. To gain a greater understanding of those Nest members who have made an active choice to contribute to a workplace pension, we looked at how members' manner of enrolment varied by their employer's size.

Figure 6 shows that smaller organisations are much more likely to have active members who have enrolled in Nest as an active choice. This may be a sign that some employers seek to reduce the time and effort involved in pensions administration by choosing not to conduct eligibility assessments for staff and instead enrol all workers, regardless of earnings level. It may also be that small and particularly micro employers are more likely to adopt a paternalistic stance towards their workers and actively chose to invite all staff to enrol in Nest.

Members who enrolled voluntarily, before their employer's staging date, were also far more common among micro employers. This finding is perhaps explained by the fact that often the very smallest employers are directly administered by the business owner. In this scenario the employer may have chosen to enrol at a more convenient time than their allocated enrolment date.

Table 4. Nest members by manner of enrolment

	Active members as at 31 March 2020
Automatically enrolled (eligible jobholder)	91%
Opted in – with employer contribution (non-eligible jobholder)	4%
Opted in – without employer contribution (entitled worker)	1%
Voluntarily enrolled before employer staging	1%
Self-employed and enrolled self	0.3%
Other	2%
Total	**100%**

Figure 6. How active members were enrolled, by employer size

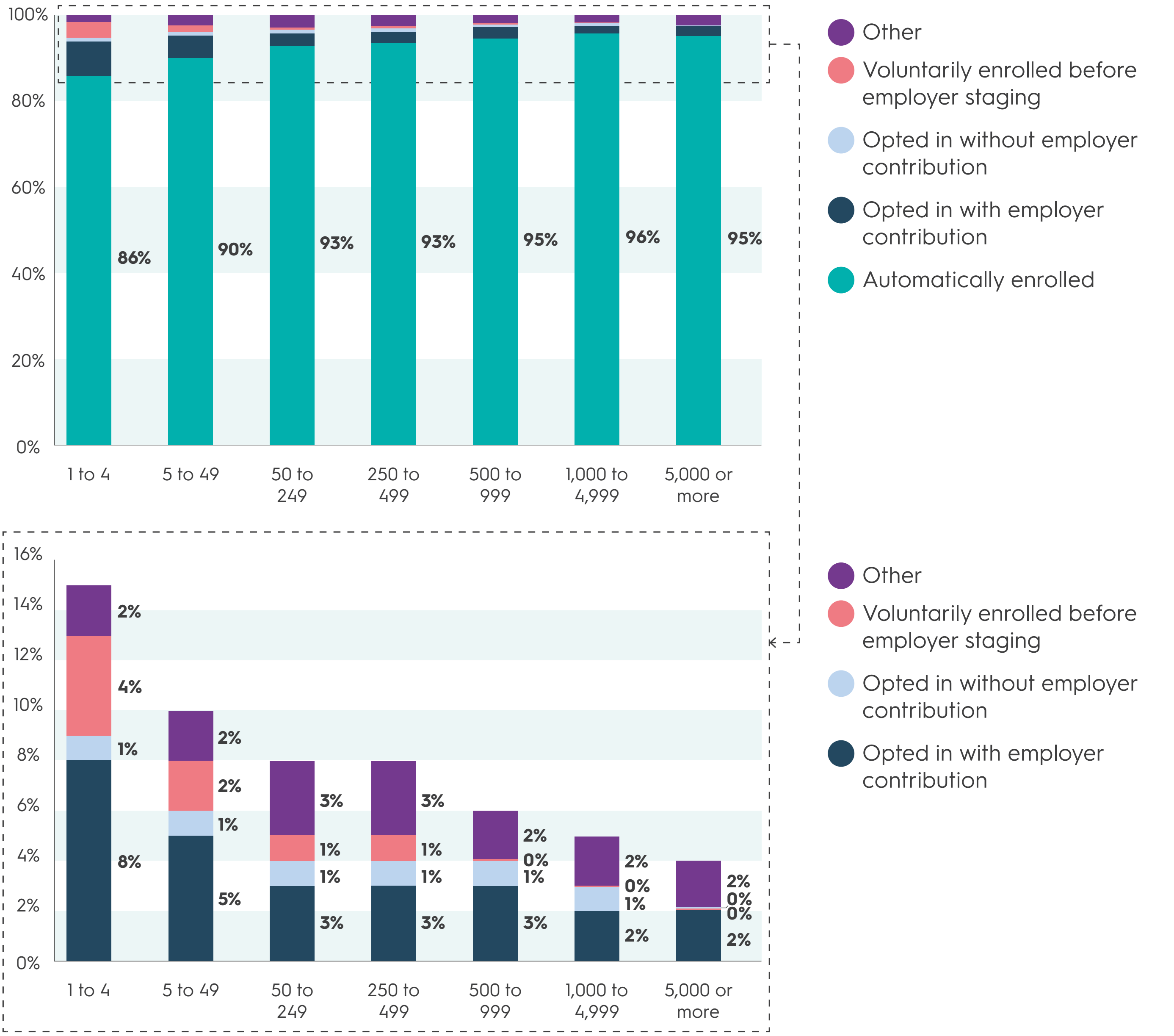


Table 5. How active members were enrolled, by member characteristics

	Automatically enrolled	Active choice
All active members as at 31 March 2020	91%	9%
Gender		
Female	49%	53%
Male	51%	47%
Age		
Under 25	8%	18%
25 to 34	31%	23%
35 to 44	23%	21%
45 to 54	21%	21%
55 to 64	15%	15%
65 and over	1%	2%
Member's annual earnings (where reported)		
Less than £10,000	9%	15%
£10,000 to £14,999	21%	21%
£15,000 to £19,999	24%	22%
£20,000 to £24,999	18%	16%
£25,000 to £34,999	18%	16%
£35,000 or more	11%	10%

Manner of enrolment by member characteristics

Members choosing to opt in to Nest are slightly more likely to be lower earners and women than Nest's automatically enrolled membership, as shown in Table 5. This is unsurprising since the opt-in process is primarily used by those whose earnings are below the threshold for mandatory auto enrolment and women are more likely to be in this group.

Member opt-out rates

Under the UK's auto enrolment system, eligible jobholders can opt out of their employer's workplace pension provision within the first month after their auto enrolment. After this opt-out window, they can choose to stop making contributions, but they usually cannot access the savings in this pension pot until they reach age 55. Here, we look specifically at rates of opting out in the first month.

Through the employer staging period, which was completed in February 2018, opt-out rates were well below initial projections. This can be seen in previous research by Nest Corporation and Nest Insight,[5] alongside evidence from other auto enrolment pension providers and official sources such as the Department for Work and Pensions (DWP) and The Pensions Regulator (TPR).[6] Low opt-out rates were a significant early indication of the success of the UK's auto enrolment system.

During the staging period, opt-out rates varied as each new cohort of employers was brought into the system. Rates were higher around assigned staging dates, when many employers enrolled all of their existing staff at once. When employers later enrolled new or newly eligible workers on an ongoing basis, opt-out rates were lower.

In our 'How the UK saves' series of reports with Vanguard, we looked at how opt-out rates had changed since the end of the employer staging period.[7] In Table 6 (next page) we look at opt-out rates through the end of 2019/20, compared to those for the first six months of 2020/21, during the Covid-19 crisis.

Before the Covid-19 crisis, opt-out rates were slightly higher for women than men. They were also higher among older workers, many of whom explained this choice at the time by saying one of two things – that they had other savings in place for retirement, or that it was too late for them to start saving into a pension.

Opt-outs were also much higher among workers at micro employers. Speculatively, this might be because workers felt a greater degree of empathy with the owners of these businesses and are opting out to save costs to the employer. This might be especially true at family-run firms, for instance.

In the first six months of 2020/21, opt-out rates have increased significantly, to almost 11%. Virtually all demographic groups have seen an increase in opt-outs. Proportionally, opt-out rates have increased the most for those under age 35 and those employed in mid-sized and large firms.

5 Vanguard and Nest Insight, 'How the UK saves: the effects of phasing' (2018), **nestinsight.org.uk/wp-content/uploads/2019/03/How-the-UK-Saves-the-effects-of-phasing.pdf**

6 Department for Work and Pensions, 'Automatic enrolment evaluation report' (2019), **gov.uk/government/publications/automatic-enrolment-evaluation-report-2019/automatic-enrolment-evaluation-report-2019**

7 Vanguard and Nest Insight, 'How the UK saves', 2019, **nestinsight.org.uk/wp-content/uploads/2019/11/How-the-UK-saves-2019.pdf**

Table 6. Member opt-out rates by member and employer characteristics

	Cumulative opt-outs as at 31 March 2020	**Opt-outs** 1 April 2020 to 30 September 2020
All newly enrolled members	7.8%	10.8%
Gender		
Female	8.1%	10.5%
Male	7.5%	10.9%
Age		
Under 25	4.2%	6.3%
25 to 34	5.6%	9.0%
35 to 44	7.1%	10.7%
45 to 54	9.8%	12.3%
55 to 64	18.3%	19.4%
65 to 69	23.4%	27.2%
Employer size*		
1 to 4 employees	14.0%	13.4%
5 to 49 employees	8.8%	10.5%
50 to 249 employees	6.1%	10.6%
250 to 499 employees	5.4%	9.2%
500 to 999 employees	6.3%	12.1%
1,000 to 4,999 employees	6.1%	10.3%
5,000 or more employees	7.1%	9.5%

	Cumulative opt-outs as at 31 March 2020	**Opt-outs** 1 April 2020 to 30 September 2020
Industry*		
Public administration	21.9%	17.5%
Financial and insurance	15.9%	22.6%
Agriculture, forestry and fishing	15.5%	29.7%
Professional, scientific and technical	14.4%	20.3%
Information and communication	13.2%	15.9%
Education	12.1%	13.5%
International councils and bodies	11.7%	12.9%
Charity	10.2%	12.6%
Wholesale	9.9%	12.5%
Construction	9.8%	13.1%
Real estate	9.7%	13.2%
Manufacturing	9.1%	12.3%
Personal services	8.8%	9.1%
Mining, energy and utilities	8.3%	12.0%
Transportation and storage	8.2%	8.5%
Health and social care	8.0%	8.9%
Administration and support services	7.3%	10.2%
Arts, sports and recreation	6.9%	8.3%
Retail, hire and repair	6.7%	8.9%
Employment (includes temporary agency work)	6.4%	8.7%
Other	7.5%	9.4%
Unknown	7.5%	11.4%

* **Employer size and industry are self-reported by the employer at the time of registering with Nest.**

Table 7. Workers' reasons for opting out

					Age		
	Total	Under 25	25 to 34	35 to 44	45 to 54	55 to 64	65 to 70
No reason given	51%	50%	51%	51%	51%	52%	59%
Reason given (totalling 100%)							
I already save in a pension scheme.	28%	9%	18%	29%	38%	33%	28%
I can't afford it.	23%	44%	34%	26%	17%	9%	8%
I don't trust pensions.	9%	11%	14%	11%	8%	4%	2%
I have other sources of income for my retirement.	19%	11%	13%	14%	17%	32%	38%
I plan to rely on the State Pension when I retire.	5%	3%	4%	5%	5%	6%	9%
Nest isn't the right pension for me.	16%	21%	17%	15%	14%	14%	15%

Rationales for opting out

When workers opt out of being enrolled in Nest, they are asked why they have done so. This question is voluntary, and around half of those opting out do not provide an answer, as shown in Table 7.

Among those who do provide a reason, the most popular is that they already save into a pension. The frequency of this answer trends upwards with age.

Affordability is the next most popular reason for opting out. This is also far and away the most common answer given for opting out among those under 35.

Older age groups also tend to say they have other sources of income for their retirement. These individuals may already be drawing down on existing retirement provision and have opted out so as not to accumulate another pension pot.

Chapter 3

Contributions

Minimum contributions into workers' pension pots were gradually increased after auto enrolment was introduced in the UK. This report covers the first full fiscal year for which the minimum contribution rates have totalled 8%, the highest rate set out under current auto enrolment regulations.

Contribution rates

The UK's auto enrolment regulations set out the minimum contributions to be made into workers' pension pots. To ease employers and workers into pension saving, mandatory rates were initially set very low. They were then phased up, over two rate increases at 12-month intervals. This process of escalating the minimum contributions gradually is referred to as 'phasing'.

Phasing in minimum contribution rates

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

* Workers can receive tax relief from the government on their contributions, so that a gross contribution of 5% typically means making a net contribution of 4%.

Table 8. Employer contribution rates

Percentage of band earnings contributed by employer to pension pot	Percentage of employers contributing at rate
Less than 3%	2.1%
3%	91.9%
More than 3% up to 5%	2.7%
More than 5%	3.3%

Tables 8 and 9 show the proportion of contributions paid over 2019/20 by Nest employers and members. With phasing of minimum contributions now complete, we can see that the vast majority of employer contributions into Nest are made at the minimum rate of 3%.

It's noteworthy that a small proportion of employers appear to be contributing less than the 3% legislative minimum. This is likely because some employers use an alternative, legally permitted basis to calculate the contributions they make towards their workers' pension pots. For example, some contribute a percentage of their workers' total earnings rather than only contributing 3% of qualifying band earnings. This can result in a reported rate that appears to be below the mandatory minimum but in reality often involves a greater gross contribution from the employer.

The vast majority of member contributions into Nest are made at the rate of 5% of earnings, which makes up the balance to the overall minimum of 8% when an employer is contributing 3%. Of particular interest are the members saving at less than 5%. This includes 2.6% of members who are contributing zero percent into their pot. It's likely that these members are having their entire 8% minimum contribution paid by their employer, since only the total minimum contribution and the employer minimum contribution are specifically mandated in the UK regulations.

Table 9. Nest members' contribution rates

Percentage of band earnings contributed by worker to pension pot*	Percentage of members contributing at rate
0%	2.6%
More than 0% and less than 5%	3.0%
5%	89.6%
More than 5% up to 8%	4.2%
More than 8%	0.6%

* Member contribution includes tax relief.

In our previous yearly reports we showed how the proportion of Nest employers and members paying at or over the legislative minimums changed over the course of the first period of phasing.[8] Around 86% of employers contributed the minimum rate at the time to members' pension pots. On the same measure, around 84% of Nest members were receiving minimum contributions from their employer.

"The vast majority of employer contributions are made at the minimum rate of 3%."

8 nestinsight.org.uk/wp-content/uploads/2019/10/How-the-UK-saves-2019.pdf

With phasing completed in April 2019, we can now assess the degree to which employers stick with the minimum rates. As shown in Table 10 the proportion of employers contributing 3% of the total 8% mandatory contribution to the pension pot has fallen to around 76%. It would appear that, as the auto enrolment system continues to mature, employers are being more generous, with almost 13% paying above their required 3% rate.

The member experience has seen less change, with the proportion contributing 5% while their employer contributes 3% remaining steady, at around 85%.

Table 10. Relationship between member and employer contribution rates

Percentage of employers

Employer contribution rate	Member contribution rate*: 0%	More than 0% up to 5%	5%	More than 5% up to 8%	More than 8%	Total
Less than 3%	0.0%	0.2%	2.2%	0.4%	0.1%	**2.9%**
3%	0.1%	0.5%	75.7%	6.5%	1.6%	**84.4%**
More than 3% up to 5%	0.0%	0.7%	2.4%	4.6%	0.4%	**8.0%**
More than 5% up to 8%	0.6%	0.4%	0.5%	0.5%	0.4%	**2.4%**
More than 8%	0.5%	0.2%	0.9%	0.2%	0.6%	**2.3%**

Percentage of members

Employer contribution rate	Member contribution rate*: 0%	More than 0% up to 5%	5%	More than 5% up to 8%	More than 8%	Total
Less than 3%	0.0%	0.7%	0.1%	0.0%	0.0%	**0.8%**
3%	0.0%	0.4%	85.0%	3.8%	0.3%	**89.4%**
More than 3% up to 5%	0.0%	0.9%	2.0%	1.8%	0.1%	**4.8%**
More than 5% up to 8%	2.8%	0.9%	0.2%	0.1%	0.1%	**4.1%**
More than 8%	0.4%	0.0%	0.2%	0.1%	0.1%	**0.9%**

* Due to the time lag in receiving contributions and the methodology employed to calculate weighted annualised member contribution rates, data in this table is as at 30 September 2020.

A rounding tolerance of 0.05% has been applied to all contribution bands so, for example, a 3% contribution rate covers contribution rates in the band from 2.95% to 3.05%.

Note that table 10 shows the proportion of employers contributing at different rates, whereas tables 8 and 9 compare the proportions of all contributions that were paid at these rates. As a result, the total percentages do not match.

Table 11. Employer contribution rates by employer size*

Employer size	Employer contribution rate				
	Less than 3%	3%**	More than 3% up to 5%	More than 5% up to 8%	More than 8%
1 to 4 employees	2%	89%	5%	2%	2%
5 to 49 employees	3%	83%	9%	2%	2%
50 to 249 employees	6%	59%	22%	7%	6%
250 to 499 employees	11%	43%	28%	11%	8%
500 to 999 employees	12%	36%	29%	12%	10%
1,000 to 4,999 employees	12%	31%	29%	16%	12%
5,000 or more employees	11%	27%	26%	21%	15%

* Due to the time lag in receiving contributions and the methodology employed to calculate weighted annualised member contribution rates, data in this table are as at 30 September 2020

** A rounding tolerance of 0.05% has been applied to all contribution bands so, for example, a 3% contribution rate covers contribution rates in the band from 2.95% to 3.05%. Totals may not add to 100% due to rounding.

Contribution rates by employer size

To understand these differences in employer contribution rates we looked at the distribution of rates by employer size.

Table 11 shows that small and micro employers tend to stick to the minimum rate set out in the auto enrolment regulations while larger employers have a range of contribution rates, with a greater proportion contributing more than the minimum.

Members' contribution amounts

The average contribution each member pays into their Nest pot has increased over the past three years. This is primarily due to the mandatory increases in minimum contributions set out under auto enrolment regulations. Now that this phasing of contribution rates has been completed, we can consider the amounts contributed by members and employers in 2019/20 as typical of those they would make in future years in the absence of changes in the regulations or member behaviours.

Annual contribution

The total annual contributions for all active members in 2019/20 are shown in Table 12. The mean total contribution is around 40% higher than the median, suggesting that while most members currently have small pots, some have already accumulated a significant amount of retirement saving after less than a decade of saving with Nest.

This difference between the mean and median annual contributions is far less stark if we look only at continuous contributors, those members who have made at least one contribution in each month of 2019/20. For this group, the mean and median are much closer. This is likely to be a function of lower variability in the incomes of salaried workers who contribute every month.

Key phrases

Continuous contributors: members who have made at least one contribution into their Nest pension pot in every month in the period

Part-year contributors: members who have made contributions in no more than 11 out of 12 months in a year (5 out of 6 months in part-year analysis)

Table 12. Members' annual contributions*

	All members as at 31 March 2020	Continuous contributors	Part-year contributors
Mean total contribution	£917	£1,448	£493
Median total contribution	£664	£1,231	£306

* These annual contributions are before deduction of Nest's per-contribution charge (1.8%) and annual management charge (0.3%).

Table 13. Members' monthly contributions*

	All members	Continuous contributors	Part-year contributors
1 April 2019 to 31 March 2020			
Mean	£101	£120	£86
Median	£83	£103	£69
1 April 2020 to 30 September 2020			
Mean	£103	£112	£99
Median	£85	£94	£80

* These average monthly contributions are before deduction of Nest's per-contribution charge (1.8%) and annual management charge (0.3%).

Monthly contributions

In Table 13 we show the average monthly contributions per member using the same breakdowns as in Table 12. We then compare these monthly figures from 2019/20 with those in the first six months of 2020/21, during the Covid-19 crisis.

What is striking is that a 'Covid-19 effect', where average contributions per month have been reduced, is observed in continuous contributors more than in part-year contributors during the first six months of 2020/21. Among continuous contributors, average monthly contributions were down around 9%, while among part-year contributors they were up around 15%.

"

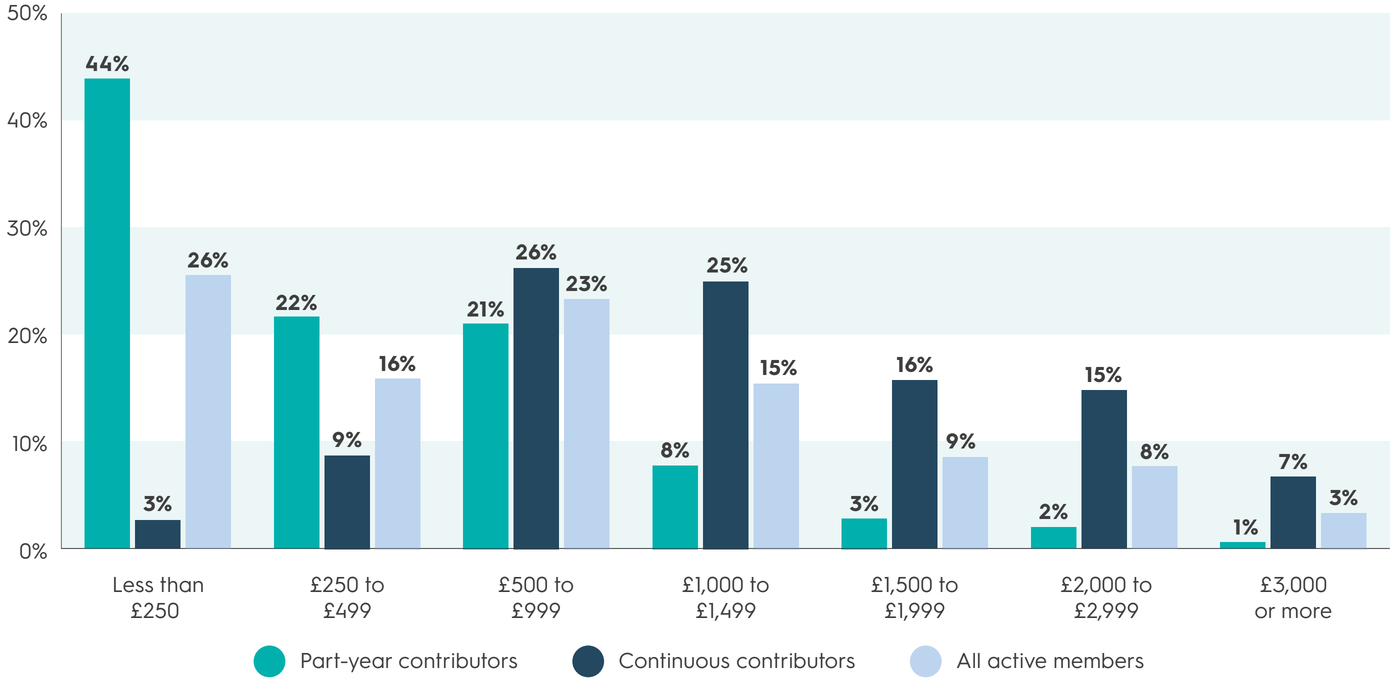
A 'Covid-19 effect', where average contributions per month have been reduced, seems to have affected continuous contributors more than part-year contributors.

"

Of course, these two groups are not homogeneous. Members who we identified as part-year contributors in 2019/20 may have pension contributions in up to 11 months of the year, while those identified in 2020/21 may have contributions in up to five months. A member who had contributed for eight months over 2019/20 would be a part-year contributor, but if six of those eight months all fell within April and September 2019 we would have classified them as a continuous contributor over the first half of the year – which is how we are analysing 2020/21 data for the purposes of this report.

Equally, workers may have been less likely to move to new jobs following the start of the pandemic because of labour market stagnation. The CJRS appears to have played a part in reducing job turnover alongside other factors. This could mean that workers in traditionally more transient employment became more likely to be continuous contributors during the early months of the crisis.

Figure 7. Annual contributions by continuous or part-year contribution history



Distribution of annual contributions per member

Member contributions are heavily skewed towards small annual amounts, particularly where members are only making contributions for part of the year.

Among those not contributing in every month, 44% have contributions that amount to less than £250 for the year. This reflects the relatively short job tenures and moderate earnings of a portion of Nest's membership.

It should be noted that Nest operates a 'one pot for life' system where members' pots are consolidated together whenever the member is identified as having been enrolled through more than one employer. So, over the course of any particular year, small amounts may be added to a pot by a member employed for only a few months. Then, in subsequent years, this pot may be added to when the member is once again enrolled in Nest by their new employer or employers.

For continuous contributors, annualised contributions are much higher. Over 60% of continuous contributors had more than £1,000 in total contributions over 2019/20, as shown in Figure 7.

"

Men contribute around 40% more than women on average.

"

Contribution amounts by member characteristics

Annual contributions vary across Nest's membership in other ways. Table 14 shows the distributions of contribution rates across a number of demographic characteristics.

Men contribute around 40% more than women on average. There is also less spread in men's annual contribution rates. The median annual contribution for men is around 78% of their mean, whereas for women it's around 73%.

Age also has a strong effect on contribution levels, with significantly lower annual contributions made by those aged under 35 compared to those 35 and older.

"

Employees at smaller firms generally have higher contributions than those at larger firms.

"

A similar story emerges for scheme tenure. Those who have saved in Nest for less than two years have much lower annual contributions than those with longer tenure. This is most likely driven by the higher incomes associated with more stable, long-term employment.

Annual contributions clearly trend up with earnings. But it's interesting to note the distribution of contributions for people earning in excess of £15,000 per year. Income clusters around the lower end of each income band. This creates a negative skew, where the median value exceeds the mean.

Employees at smaller firms generally have higher contributions than those at larger firms. In Nest's membership, these employees are more likely to be older and longer-serving, so this is likely due to the relationship between contribution levels, age and employment stability rather than something linked purely to the employer's characteristics.

Table 14. Annual contributions by member characteristics

	Mean	Median
Gender		
Female	£760	£553
Male	£1,073	£836
Age		
Under 25	£556	£393
25 to 34	£852	£633
35 to 44	£1,003	£724
45 to 54	£1,048	£789
55 to 64	£1,006	£775
65 to 69	£978	£721
70 and over	£1,113	£753
Scheme tenure		
Less than 1 year	£473	£277
Less than 2 years	£877	£643
Less than 3 years	£1,079	£866
Less than 4 years	£1,208	£1,005
Less than 5 years	£1,142	£939
Less than 6 years	£1,122	£944
6 or more years	£1,078	£924
Member's annual earnings (where reported)		
Less than £10,000	£181	£112
£10,000 to £14,999	£378	£359
£15,000 to £19,999	£656	£736
£20,000 to £24,999	£974	£1,141
£25,000 to £34,999	£1,455	£1,624
£35,000 or more	£2,474	£2,562
Employer size		
1 to 4 employees	£1,001	£708
5 to 49 employees	£1,049	£803
50 to 249 employees	£944	£714
250 to 499 employees	£796	£567
500 to 999 employees	£754	£529
1,000 to 4,999 employees	£728	£530
5,000 or more employees	£712	£517

Chapter 4

Pension pots

As Nest matures, the pot balances members hold with Nest become an ever more significant part of their retirement portfolio. With the phasing-up of contributions now complete, pot balances are growing more rapidly each year for those contributing continuously. That said, pot balances for Nest members at this stage are still relatively small.

15%

of Nest members' pots are worth more than £3,000

Current pot balances

For all Nest members with a positive balance in their pot, the mean and median account values were £1,106 and £477 respectively as at 31 March 2020 (Table 15). Pot balances for active members were considerably higher, reflecting their more regular saving into Nest, among other factors.

Mean and median pot balances for both all members and active members increased between April and September 2020 at a rate that might be expected if contributions were continuing to flow regularly into members' pots. If we consider the average monthly contributions for continuous contributors (£112) in the first six months of 2020/21 from Table 13, then we may expect around a further £670 added to pots between April and September 2020, which roughly equates to the increase in mean pot value observed for active members.[9]

9 The average monthly contributions presented in Table 12 are before deduction of Nest's per-contribution fee (1.8%) and annual management charge (0.3%).

Table 15. Member pot balances

	All Nest members*		Active Nest members	
	As at 31 March 2020	As at 30 September 2020	As at 31 March 2020	As at 30 September 2020
Mean	£1,106	£1,475	£1,783	£2,440
Median	£477	£606	£1,188	£1,614

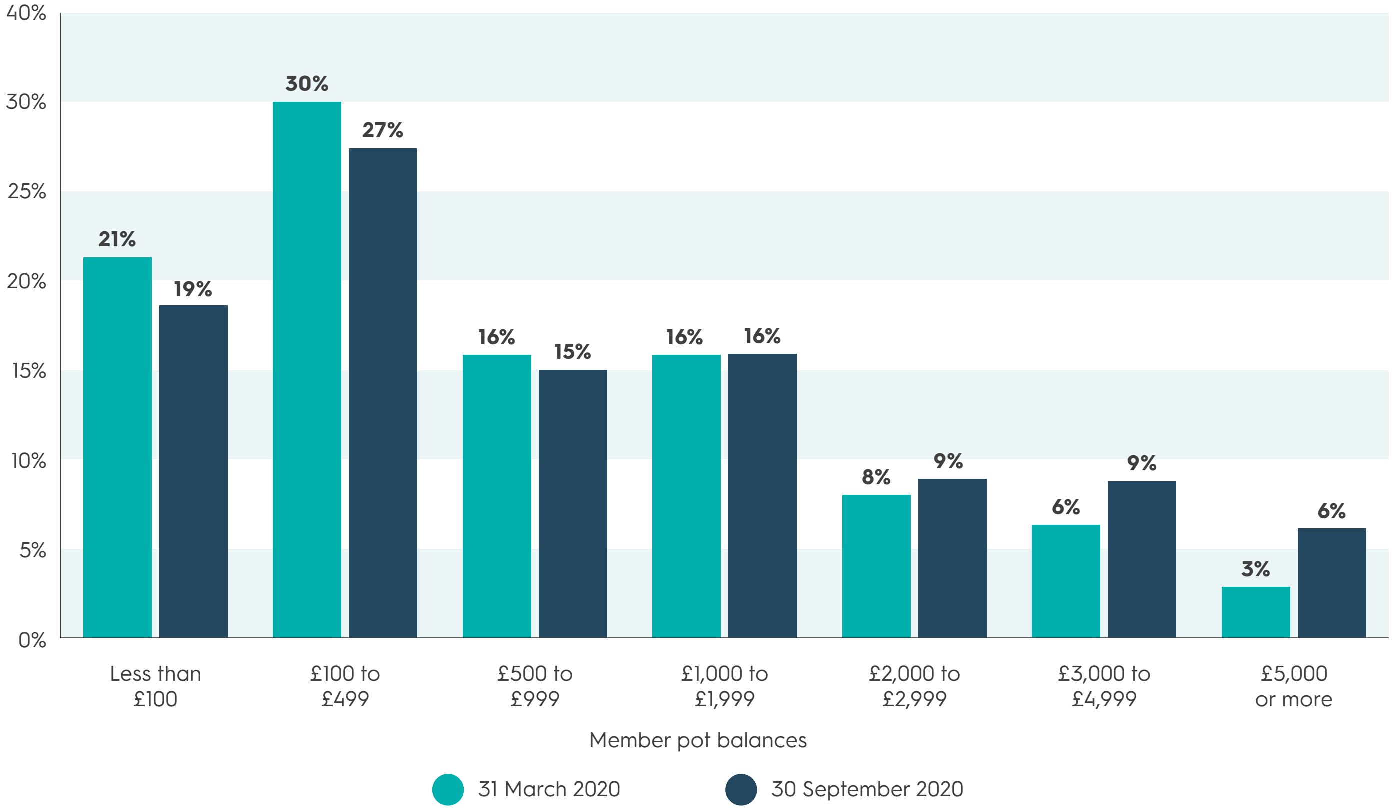
* **These figures only include members with a positive pot balance – in other words, those where at least one contribution has been made.**

Average figures can disguise the level of variation between those with higher and lower balances. It is therefore important to understand the distribution of pot sizes across Nest's membership. Figure 8 (next page) shows that Nest pots are skewed towards smaller balances.

As at 31 March 2020 about half of all member pots had less than £500 in assets in them, and only 3% were worth more than £5,000. Pots are growing, however. By 30 September 2020, about 15% of Nest pots were worth more than £3,000 and the number of pots worth in excess of £5,000 had more than doubled from six months earlier.

These pot values should be considered within the wider context of the UK's auto enrolment system. While many Nest members' pots currently have low balances compared to longer-standing workplace pension schemes, Nest's members are more likely than average to change employers, meaning they are very likely to be accumulating pension pots with other providers too. Their savings with Nest are therefore likely to represent only a portion of the overall assets they are building up for their retirement.

Figure 8. Distribution of Nest pots*



* Totals do not add to 100% due to rounding.

Balances by member characteristics

In Table 16 we can see how mean and median pot balances vary by member characteristics. As at 31 March 2020, the median balance for women (£433) was around 83% of the median balance for men (£525). This gender ratio was virtually unchanged at 30 September 2020.

Average pot balances increase significantly with age, with those aged 45 and over having pot balances around 2.5 times those of workers under 25. Predictably, balances rise with income and scheme tenure.

Table 16. Pot values by member characteristics

	Pot balance as at 31 March 2020		Pot balance as at 30 September 2020	
	Mean	**Median**	**Mean**	**Median**
Gender				
Female	£940	£433	£1,254	£555
Male	£1,252	£525	£1,671	£661
Age				
Under 25	£583	£336	£754	£432
25 to 34	£851	£359	£1,127	£452
35 to 44	£1,194	£511	£1,594	£647
45 to 54	£1,406	£659	£1,890	£847
55 to 64	£1,474	£745	£1,935	£940
65 to 69	£1,461	£574	£1,757	£664
70 and over	£1,452	£307	£1,641	£303
Scheme tenure				
Less than 1 year	£459	£256	£568	£310
Less than 2 years	£849	£481	£1,077	£597
Less than 3 years	£1,173	£641	£1,381	£698
Less than 4 years	£1,395	£685	£1,866	£967
Less than 5 years	£1,216	£423	£1,773	£657
Less than 6 years	£1,246	£453	£1,406	£425
6 or more years	£1,377	£605	£1,785	£705
Member's annual earnings (where reported)				
Less than £10,000	£399	£227	£560	£341
£10,000 to £14,999	£681	£545	£990	£815
£15,000 to £19,999	£1,127	£1,033	£1,622	£1,518
£20,000 to £24,999	£1,689	£1,647	£2,400	£2,384
£25,000 to £34,999	£2,602	£2,550	£3,684	£3,681
More than £35,000	£4,545	£4,144	£6,367	£5,924

Table 17. Pot values by employer size

Employer size*	Pot balance as at 31 March 2020		Pot balance as at 30 September 2020	
	Mean	Median	Mean	Median
1 to 4 employees	£1,391	£761	£1,887	£1,016
5 to 49 employees	£1,397	£747	£1,892	£973
50 to 249 employees	£1,176	£492	£1,549	£620
250 to 499 employees	£916	£334	£1,198	£416
500 to 999 employees	£833	£303	£1,094	£380
1,000 to 4,999 employees	£775	£285	£1,009	£354
5,000 or more employees	£792	£300	£1,021	£371

* Employer size is self-reported by the employer.

Balances by employer characteristics

Median pot balances vary by the member's employer size. There are a number of factors influencing this. The average wages in the employer's industry, whether the organisation contributes to workers' pots at a rate above the employer minimum and the length of time the employer has been using Nest for its workplace pension scheme shape the pot balances accumulated by an employer's workers. In addition, some employers use Nest only for certain segments of their workforce.

Looking at employer size, median balances were highest for members working for firms with fewer than 50 employees, as shown in Table 17. This is consistent with the earlier observation that employees at smaller firms make higher contributions on an annual basis (see Table 14).

Chapter 5

Pension investments

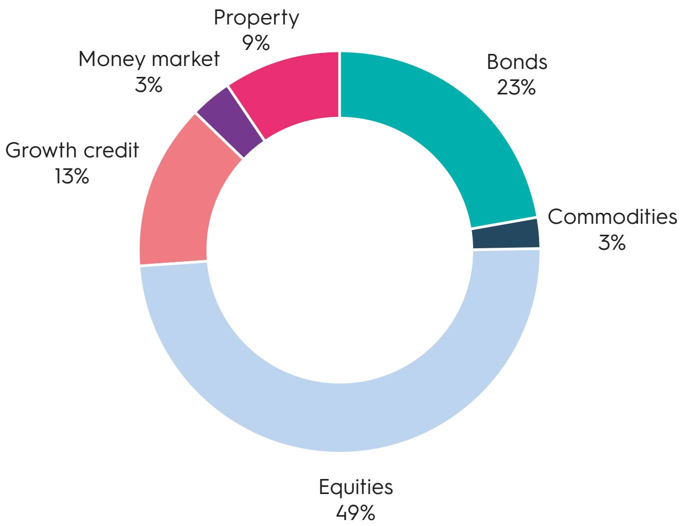
Periods of volatility are to be expected in defined contribution (DC) retirement saving. To help reduce the impact of volatility on members' pension pots, Nest's approach to investing involves maintaining a diverse portfolio and designing funds to match how far members are from retirement.

Nest's asset allocations

Assets invested in Nest member fund options totalled £9.5 billion as at 31 March 2020. In the aggregate, these assets were allocated 49% to equities, 23% to investment-grade bonds, 13% to growth credit, 9% to property, 3% to short-term reserves and 3% to commodities, as shown in Figure 9. This aggregate allocation is the sum of the individual asset allocations for all Nest members, which largely reflects the design of Nest's default investment strategy.

> **"The Nest Retirement Date Funds are life-styled to match investment objectives and portfolio risk levels with how far away the member's expected retirement date is."**

Figure 9. Asset allocations across Nest's portfolio



As at 30 September 2020, all investments in developed market equities were in climate-aware holdings, in line with Nest's climate change policy.[10]

10 Nest, 'How climate change could impact your pension' (2020), nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/How-climate-change-could-impact-your-pension.html

Default fund design and usage

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

In total there are nearly 50 funds in the Nest Retirement Date Fund series. There is a distinct default fund for each year in which a member could retire, at present from 2021 up to 2066. There is also a starter fund for all workers under age 22 who ask their employer to enrol them.

Just over 99% of Nest members were invested in a Nest Retirement Date Fund as at 31 March 2020.

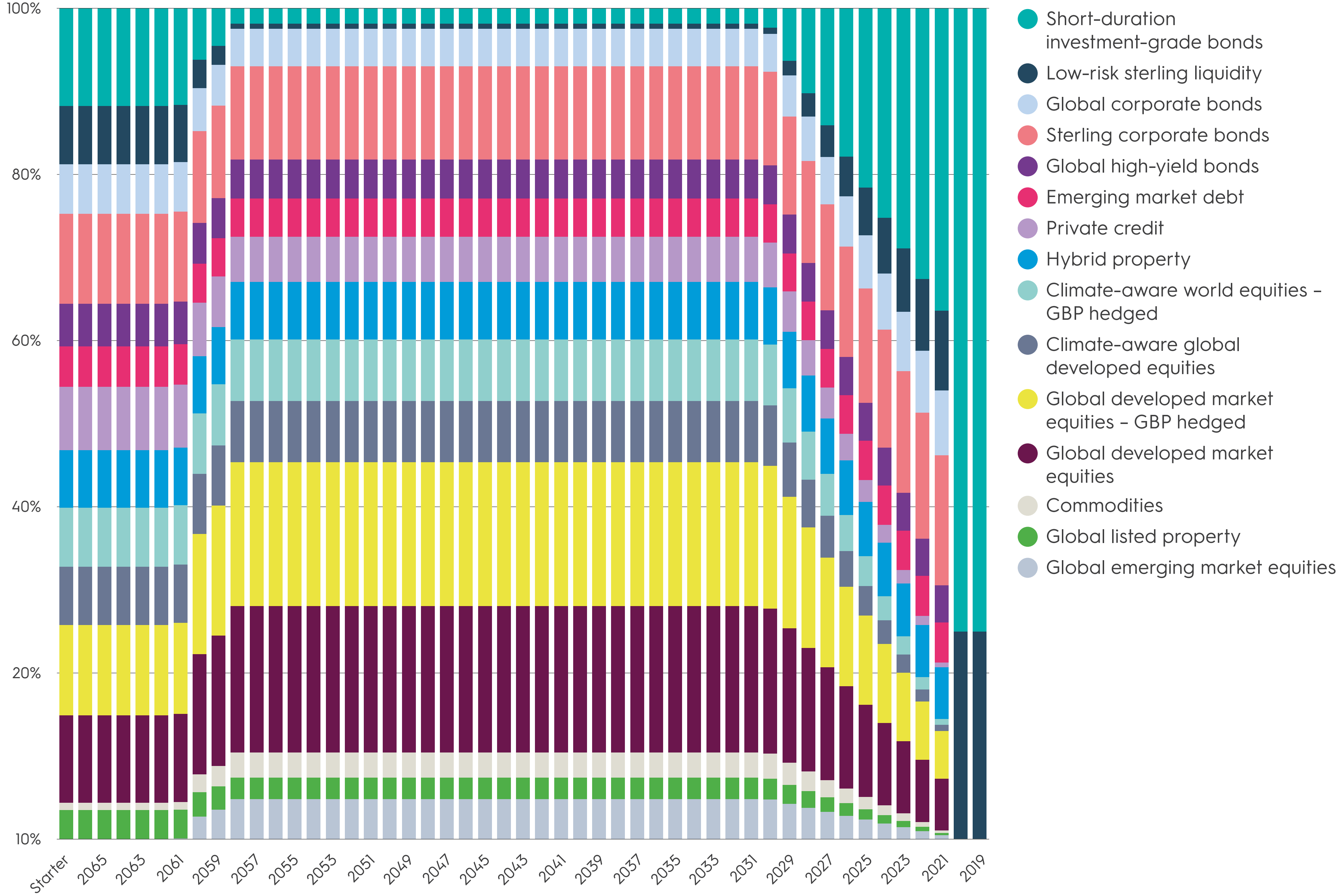
Nest also offers members a choice of other investment options, including the Nest Ethical Fund, the Nest Sharia Fund, the Nest Higher Risk Fund, the Nest Lower Growth Fund and the Nest Pre Retirement Fund.

In 2019/20, just over 1% of members moved their pot to a different investment option. However, more than two thirds of these were automatic switches between funds within the default strategy.

Default fund glide path

The Nest Retirement Date Funds are life-styled along a glide path to and through retirement that aims to match investment objectives and portfolio risk levels with how far away the member's expected retirement date is. We illustrate this in Figure 10.

Figure 10. Nest Retirement Date Funds' asset allocations



* Asset allocations for the Nest Retirement Date Funds as at 31 March 2020. As at 30 September 2020, all developed market equities holdings have been moved to climate-aware investment funds.

Nest's investment approach and rationale

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

Asset allocations are managed dynamically along the life-styled glide path, so the specific asset allocation of each fund changes over time to match the life stage of the members in it as well as Nest's view of conditions in investment markets.

As at 31 March 2020, the life-styled glide path within the Nest Retirement Date Funds had four distinct phases:

– **Foundation:** For members under age 25, the target-date funds include a modest allocation to growth assets (equities, growth credit and property). The rationale for doing this is to moderate the impact of sharp market declines. Nest's behavioural research suggests such impacts could discourage younger members from saving for retirement altogether. In this report, the 2061 Nest Retirement Date Fund is representative of the foundation phase.

– **Growth:** Target-date funds' allocation to growth assets rises for members aged 25 to 28. It then remains in a steady growth position until their fund is 10 years from their expected retirement date. In this report, the 2040 Nest Retirement Date Fund is representative of the growth phase.

– **Consolidation:** As members enter their mid-50s and progress towards their expected retirement age, their fund's growth allocation is reduced according to how far away they are from retirement, how their funds have been performing and overall market conditions. Close to retirement, their final allocation will represent a portfolio that aims to keep pace with inflation after charges. In this report, the 2020 Nest Retirement Date Fund is representative of the consolidation phase.

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

The high rate at which Nest members remain in the default Nest Retirement Date Funds series was anticipated. Nest expects the number of members choosing to invest outside of the default strategy will increase over time, as people become more familiar with pension saving and accumulate greater balances in their pots. However, it is believed that only a small proportion of the overall membership will actively switch from the default strategy to one of the other fund choices being offered due to the power of inertia.

Switching behaviour

Once enrolled in a Nest Retirement Date Fund, very few members switch to another fund. There are some exceptions, however.

Automatic fund switches can take place as a result of age-based transitions, for example moving from a target-date fund to a post-retirement fund. Where a member manually changes either their date of birth or expected retirement age, an automated switch between retirement funds may also take place.

Member-directed fund switches occur when a member chooses to alter their investments by either moving out of their Nest Retirement Date Fund into one of Nest's other fund options (or vice versa) or moving between Nest's other fund options.

In 2019/20, just over 1% of Nest's members changed fund through either an automated or a member-directed switch, as shown in Table 18 (next page). This represents little more than 2% of Nest's total scheme assets. Less than one third of all switching activity was the result of a member-directed switch.

It's worth bearing in mind that by 31 March 2020, the global pandemic had been confirmed by the World Health Organization, the UK was in the midst of its first nationwide lockdown and asset values had fallen severely. Yet, even in the context of the early weeks of the Covid-19 crisis, with so much unknown, the level of member-directed switching activity in Nest remained very low.

"

Nest expects only a small proportion of members will actively switch funds due to the power of inertia.

"

Nor did it increase as might have been expected during subsequent months, as the crisis continued into April, May and June 2020, the period when Nest members received their annual statement for 2019/20 and could have been spurred to consider a fund switch. In fact, fewer members switched funds between 1 April 2020 and 30 September 2020 (0.68%) than in the same period in the previous year (0.74%). In both cases, the number of members is minuscule, and the percentage of members who made an active choice rather than being automatically switched remained steady, at just over one third.

Further analysis is now under way to understand the full dynamics of member behaviour during the Covid-19 crisis, the results of which will appear in supplemental reports. However, it's already clear that the level of switching activity in Nest remains very low overall. Again, this almost certainly reflects the power of inertia – not just in getting workers to start saving through defaults, but also in getting them to continue saving even in the face of significant upheaval in both investment and labour markets.

Table 18. Members' investment fund switching behaviour

	Switches 1 April 2019 to 30 March 2020	**Switches** 1 April 2020 to 30 September 2020
Total members with positive pot balance	8,630,679	9,009,020
Total assets in members' pots	£9,539,068,271	£13,280,440,679
Number of switching members	100,147	61,340
Percentage of members switching	1.16%	0.68%
Percentage of assets switched	2.25%	1.62%
Active, member-directed switches*		
Total	30%	34%
From default fund to high risk fund	20%	17%
Other member-directed switches	10%	16%
Automatic and age-based switches*		
Total	70%	66%
Adjust default fund retirement target-date year	29%	27%
Adjust glide path lifestyle	4%	5%
From retirement to post retirement	22%	34%
From starter fund to retirement target-date fund	16%	0%

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

Investment returns

The 2019/20 fiscal year was punctuated by an uncertain investment landscape. This was precipitated by the pandemic and restrictions put in place by governments around the world to slow the spread of the coronavirus, prevent greater numbers of Covid-19 cases and reduce the strain on health services. In this context it's relevant to compare investment returns at the end of 2019/20 with those six months later, once the first shocks of the Covid-19 crisis had been absorbed by markets. It's also appropriate to look at five-year annualised returns rather than shorter-term returns, particularly in light of the longer time horizon of most Nest members' retirement saving.

"As at 30 September 2020, all Nest funds were performing above their benchmarks – some significantly so."

Member returns

Nest's diversified investment strategy helped to reduce the impact of market volatility at the end of 2019/20 on members' pot balances.

In spite of the downturn in equity markets in March 2020, five-year annualised returns for the Nest Retirement Date Funds series were only marginally below their benchmarks as at 31 March 2020, while all of Nest's other fund choices were above or in line with their benchmarks or historical market returns, as shown in Table 19.[11] By 30 September 2020, many investment markets had recovered and all Nest funds were performing above their benchmarks – some significantly so.

11 The Nest Higher Risk Fund, Nest Lower Growth Fund and Nest Sharia Fund are managed in line with their stated objectives, which can be found in Nest's 'Statement of investment principles', **nestpensions.org.uk/schemeweb/dam/nestlibrary/SIP-Mar20-Mar23**.

Table 19. Five-year annualised returns

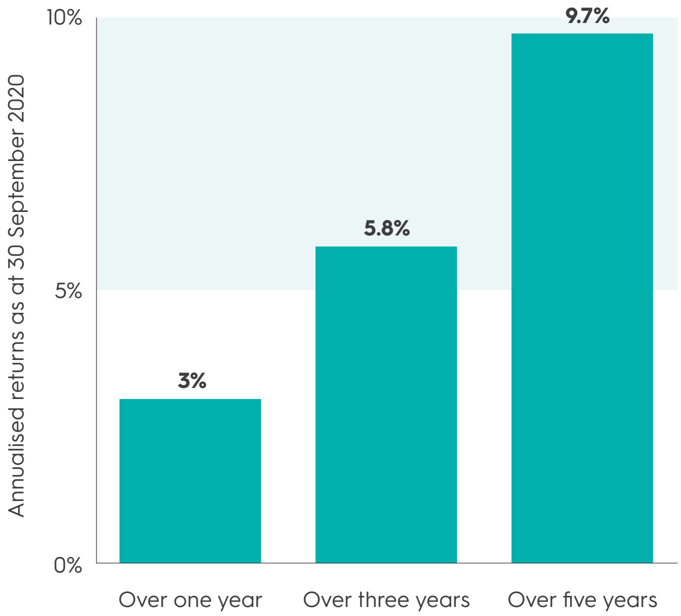
Member fund	Benchmark*	Fund performance as at 31 March 2020		Fund performance as at 30 September 2020	
		Benchmark return	**5-year return (gross)**	**Benchmark return**	**5-year return (gross)**
2020 Nest Retirement Date Fund (consolidation phase)	CPI	1.75%	2.63%	1.74%	3.56%
2040 Nest Retirement Date Fund (growth phase)	CPI + 3%	4.80%	4.89%	4.77%	9.74%
2061 Nest Retirement Date Fund (foundation phase)	CPI	1.75%	4.30%	1.74%	7.77%
Nest Ethical Fund	CPI + 3%	4.80%	7.49%	4.77%	12.44%
Nest Higher Risk Fund**			5.30%		11.49%
Nest Lower Growth Fund**			0.78%		1.25%
Nest Sharia Fund**			11.32%		20.08%
Nest Pre Retirement Fund	CPI	1.75%	3.13%	1.74%	4.45%

* CPI is the consumer price index, a measure of inflation used as a benchmark to grow assets at or above the increasing cost of living.

**The Nest Higher Risk Fund, Nest Lower Growth Fund and Nest Sharia Fund are managed in line with their stated objectives, which can be found in Nest's 'Statement of investment principles' (March 2020), nestpensions.org.uk/schemeweb/dam/nestlibrary/SIP-Mar20-Mar23.

Annualised returns for the median Nest member were 5.8% and 9.7% over three and five years respectively, as shown in Figure 11. Five-year annualised returns through 30 September 2020 were on par with this measure as at 31 March 2019 (9.5%), reflecting strong returns in climate-aware equities and other diversified holdings.

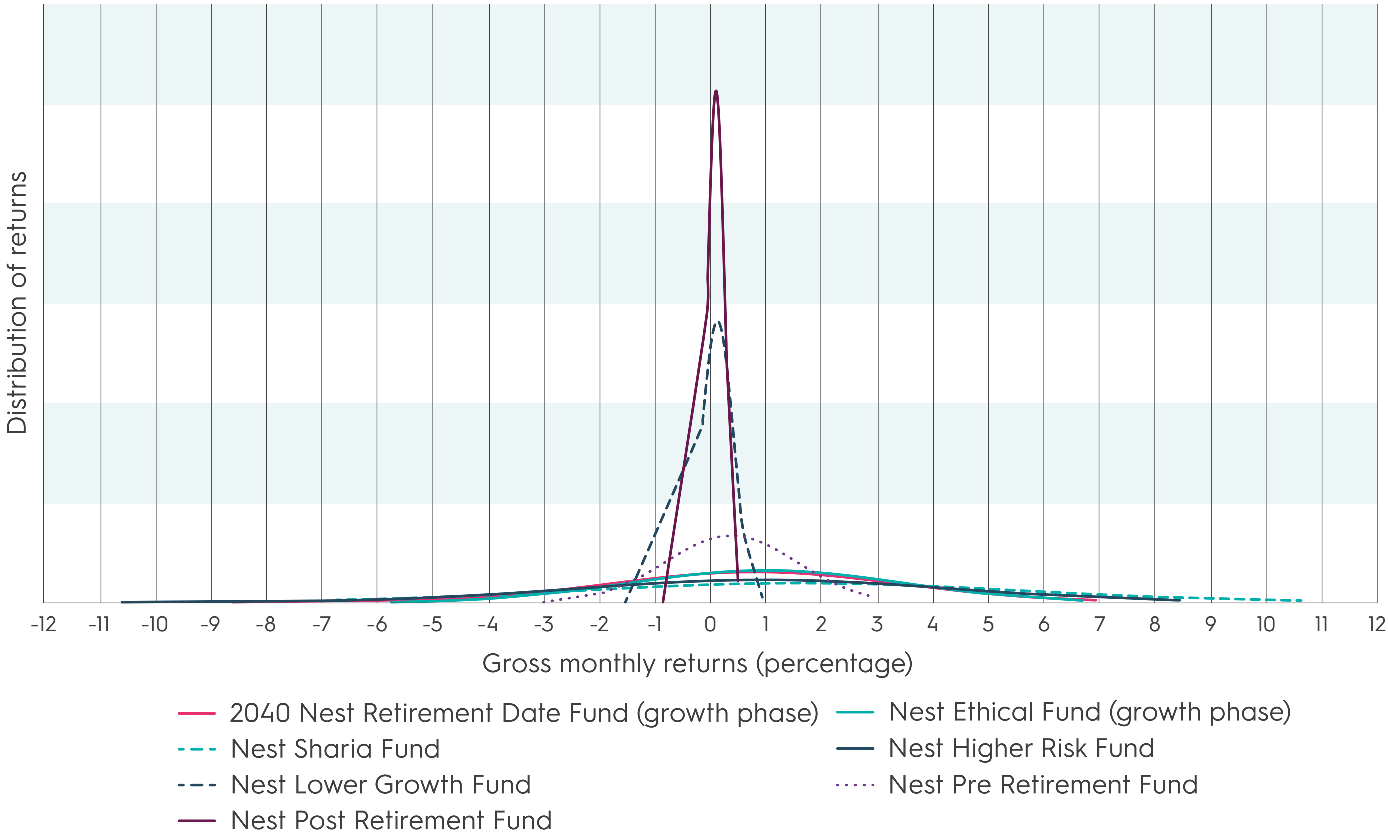
Figure 11. Median member's estimated annualised total rate of return



9.7%

Median Nest member's five-year annualised return on investments

Figure 12. Distribution of gross monthly returns for all Nest funds



Distribution of returns

As at 30 September 2020, five-year annualised returns were positive for all funds in which Nest members' pots are invested, reflecting recovery in investment markets. The distribution of members' returns varied from fund to fund in line with each fund's investment objectives and risk profile.

Figure 12 illustrates the distribution of monthly gross returns for the five years ending 30 September 2020. In this figure, funds with a flatter curve saw more variation in members' monthly returns. The peak of each fund's curve reflects the average monthly return, so the further right this peak appears in the figure, the higher the average return for the fund.

Figure 13. Distribution of gross monthly returns for Nest Retirement Date Funds life-styled glide path

Figure 13 shows the distribution of returns for the Nest Retirement Date Fund series, where the overwhelming majority of members are invested, using three funds in the series to be representative of the series' life-styled phases on the path towards retirement: the 2061 fund (foundation phase), the 2040 fund (growth phase) and the 2020 fund (consolidation phase). The shape of the distribution curves is in line with the investment objectives and risk profiles along the glide path to retirement.

For example, the 2020 fund has the tightest curve and narrowest distribution of returns. Members in this fund are nearing their retirement date and likely to want to protect pot value and take on much less investment risk. The 2061 fund has a flatter profile. It is for young workers just starting to save for retirement and has been designed to seek growth with limited risk, so as not to discourage these members from saving. The 2040 fund has the flattest curve and widest dispersion of returns, matching the investment objectives and risk profile of the growth phase. These members are invested with more risk relative to the consolidation and foundation phases in order to seek higher returns over the long term. For this reason, the peak of the 2040 fund, showing the average return, is the furthest to the right in the chart.

Figure 14. Distribution of gross monthly returns for Nest's other fund choices

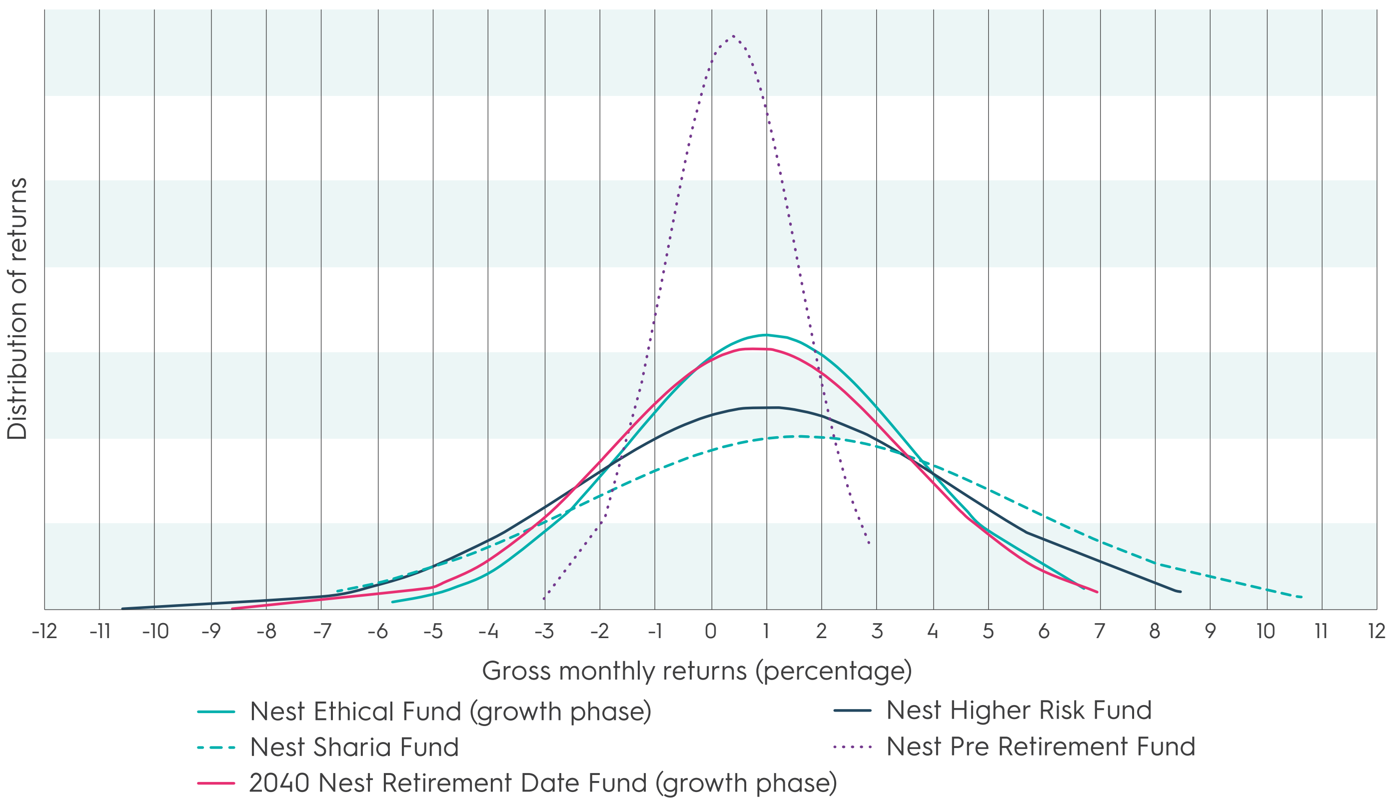


Figure 14 zooms in on the distribution of returns for some of Nest's other fund choices, removing the Nest Lower Growth Fund and Nest Post Retirement Fund shown in Figure 12 for easier comparison.

Here it is possible to see that the Nest Ethical Fund, which is also life-styled, has a returns distribution for its growth phase similar to the distribution for the growth phase of the default strategy as represented by the 2040 Nest Retirement Date Fund. However, the growth phase of the Nest Ethical Fund has a higher average monthly return and tighter range of returns than the 2040 fund.

The Nest Higher Risk Fund and the Nest Sharia Fund have the greatest levels of returns dispersion of all Nest funds. The Nest Higher Risk Fund targets higher risk investment strategies to gain higher returns. The Nest Sharia Fund is invested entirely in equities in compliance with sharia principles, which means it experiences higher levels of investment volatility compared to more diversified funds in Nest's portfolio.

Both of these higher volatility funds have delivered higher average monthly returns for members over five years compared to the 2040 fund.

In contrast, the Nest Lower Growth Fund and Nest Pre Retirement Fund exhibit very tight curves with little variation in returns across the members invested in them. This is because both of these funds take very low investment risk to preserve members' pension pots. Nest offers the Nest Lower Growth Fund as a choice for risk-averse savers. The Nest Pre Retirement Fund is for members enrolled in Nest close to their expected retirement date who may want to preserve the cash value of their pot for access in the near term.

In 2020, Nest opened a post-retirement fund called the Nest Guided Retirement Fund for members who have reached their expected retirement date and wish to keep some of their money invested for growth. Members with a pot valued at £10,000 or more are automatically moved into this fund if they do not withdraw the money in their pot at retirement. Because the fund has been so recently established, it is premature to chart five-year annualised returns for it.

Distribution of outcomes

The majority of Nest's investment funds have performed favourably compared to several of the major publicly traded indices. Figure 15 (next page) plots five-year annualised volatility against returns for all of Nest's funds as at 30 September 2020 with market indices included for comparison. Funds plotted in the top left are achieving a higher return with lower volatility while those in the bottom right are achieving a lower return with higher volatility.

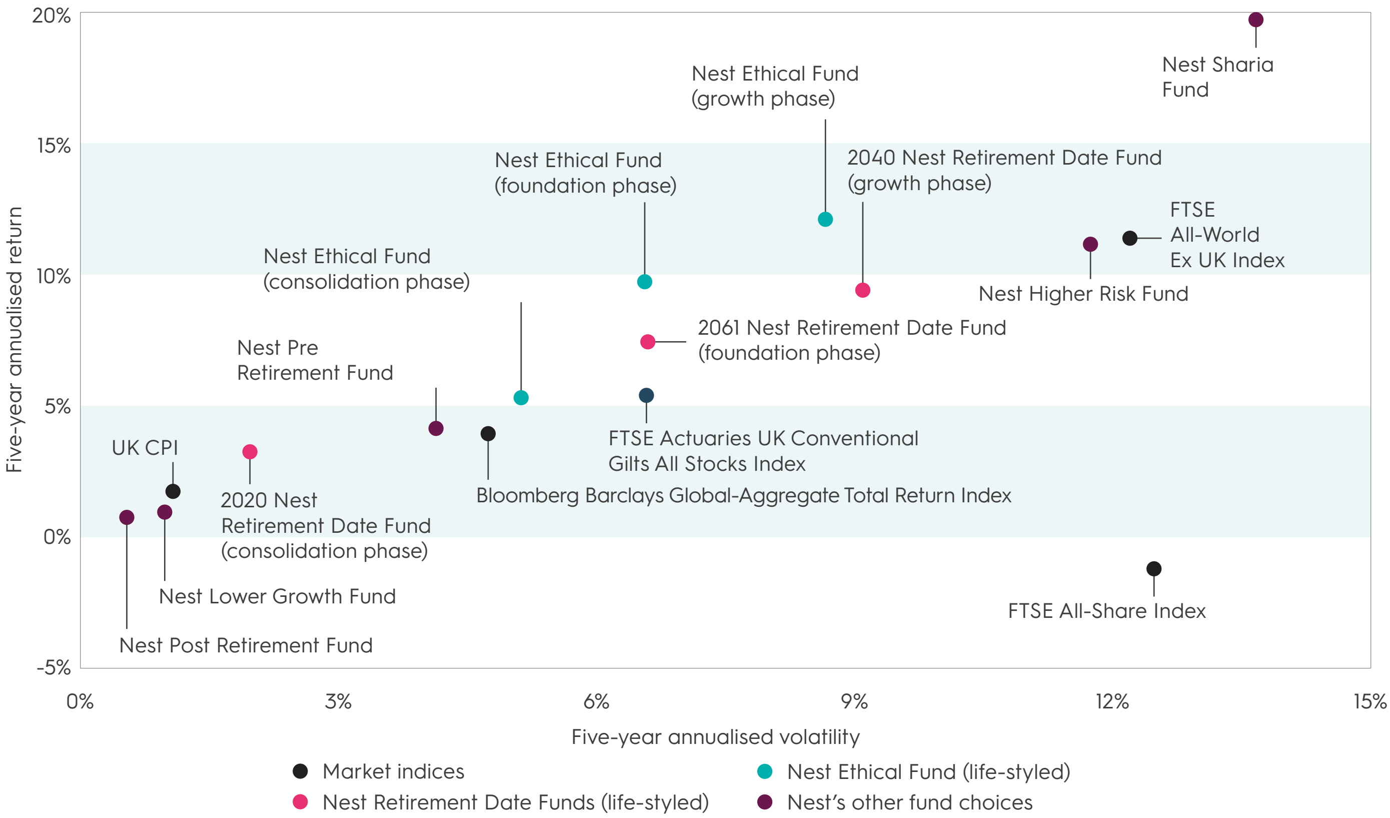
For example, the 2040 Nest Retirement Date Fund, which is representative of the growth phase of the default strategy, as well as the Nest Higher Risk Fund and the Nest Ethical Fund in the growth phase, have each delivered higher five-year annualised returns for less volatility when compared to the FTSE All-Share Index and the the Nest Ethical Fund in the growth phase has also achieved better risk-adjusted returns than the FTSE All-World Ex UK Index. These funds' risk-adjusted returns suggest that Nest members are benefiting from the scheme's diversified investment strategy.

The risk-adjusted returns for some of Nest's other fund choices emphasise the returns distributions (see Figure 14). Here, in Figure 15, we can see that the five-year annualised risk-to-returns ratio for the Nest Ethical Fund in the three accumulation phases – foundation, growth and consolidation – is higher than for the comparable phase in the default Nest Retirement Date Funds series. This ratio is also higher for the Nest Sharia Fund and the Nest Higher Risk Fund than for the growth phase of the Nest Retirement Date Funds. These other fund choices are clustered in the top middle and top right of the chart.

As noted above, the Nest Higher Risk Fund has a stated investment objective to take on a greater level of investment risk in seeking higher returns over the long term than the default strategy. The risk-adjusted returns for the Nest Ethical Fund and Nest Sharia Fund reflect relatively better market performance of equities that met each fund's criteria. Because the Nest Sharia Fund is exclusively invested in equities, it has had the highest volatility over the period (top right of chart).

Funds that aim to minimise risk and protect the value contributed to members' pots are clustered more towards the bottom left of the chart, where there is lower risk and lower return.

Figure 15. Five-year annualised risk-to-return ratios for Nest's funds



Finally, the glide path to retirement can be seen in the two Nest funds that are life-styled – the Nest Retirement Date Fund series and the Nest Ethical Fund. For both of these, the consolidation phase is more towards the bottom left, indicating the shift of investments away from growth-seeking assets towards those with lower risk for conversion into income at retirement. The foundation phase is plotted to the right and higher on the chart, reflecting the lower risk profile taken in the first years of pension saving for members under age 25. The growth phase is then again higher and more to the right. This shows how Nest scales investment risk relative to members' likely risk profile over their working life.

Chapter 6

Transferring and retiring

The vast majority of Nest members are still in their working years, and most of those who have reached retirement age so far have only built up relatively small pots with Nest. However, in recent years the UK has introduced increasing flexibility about how these members can transfer and access their pension pots.

60k

Number of Nest members who have moved money out of their Nest pot into another pension scheme

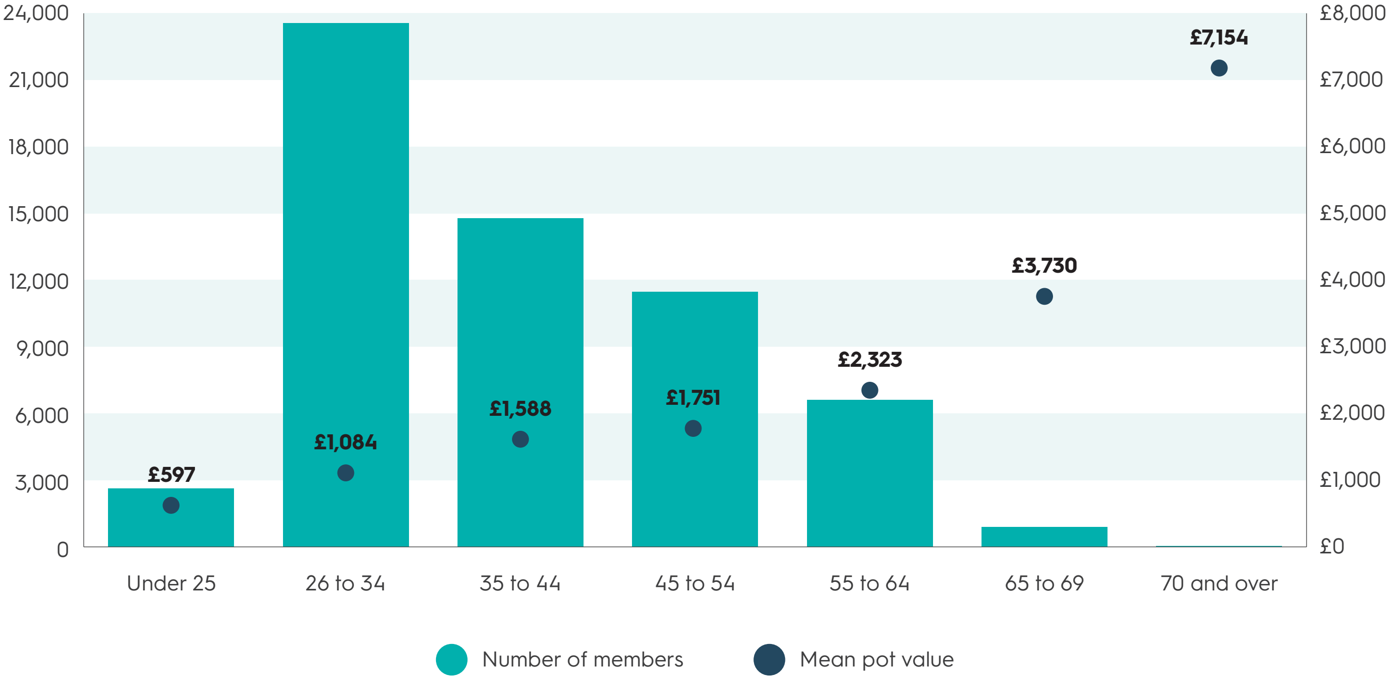
Transferring funds out of Nest

Since April 2017 Nest members have been able to transfer the value of their pension pot to other providers, for example, if they have changed employer and wish to consolidate their retirement saving. As at 31 March 2020 around 60,000 Nest members had moved their pot in this way. This represents just over 0.6% of all those who have ever had a pot with Nest.

Figure 16 (next page) shows the age breakdown of those transferring out of Nest and the average amount of each transfer. The majority of transfers out have been made by members aged 25 to 44. These members are more likely to be frequent job movers and may have a desire to avoid accumulating multiple pots. The value of their pot transfers is relatively small, however. In contrast, Nest members aged 65 and over are relatively few in number but they have moved larger pots, on average. These older members may be consolidating assets prior to taking a retirement option with another provider.

By 30 September 2020, the volume of transfers out of Nest had increased by around 37% compared to 31 March 2020. This was relatively consistent across all age groups, with those under 45 only marginally more likely to have made a transfer out than those aged 45 and older.

Figure 16. Transfers out of Nest, by age and average amount



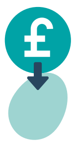
Transferring funds in to Nest

Nest also allows members to transfer assets in from other pension schemes. This feature enables members to consolidate pension pots, simplifying tracking and management.[12]

As at 31 March 2020 just under 50,000 Nest members had moved money into their pot in this way. This represents around 0.5% of Nest's membership.

The average value of all transfers in was around £5,300. As at 30 September 2020 the volume of these transfers had risen by over 40% compared to 31 March 2020.

Transfers vary by age, as shown in Figure 17. As with transfers out, the bulk of transfers are conducted by those aged 25 to 44. However, those aged 45 to 54 are also making a significant number of transfers in. These individuals are more likely to be in stable, longer-term employment and may have a desire to consolidate pots in the lead-up to retirement.

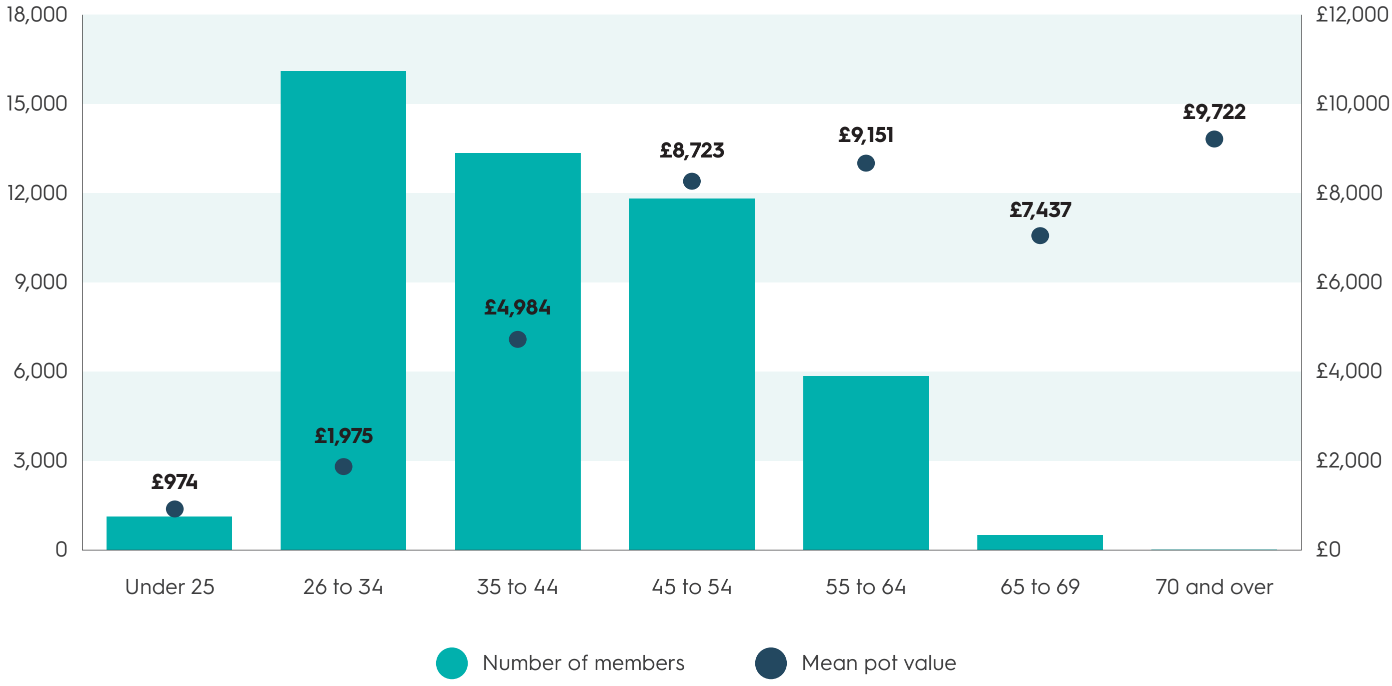


50k

Number of Nest members who have moved money into their Nest pot from another pension scheme

12 Prior to the rule changes, there were two ways a member could transfer into Nest: an ex-spouse or ex-civil partner might receive part of a pension pot as the result of divorce from a Nest member, or a worker could receive a transfer from an employer in exchange for rights in a defined benefit (DB) workplace pension plan.

Figure 17. Transfers into Nest, by age and average amount



Retirements

In the UK members of workplace pension schemes cannot usually access money in their pension pots before age 55. At this point or later, they can begin to take funds, either by withdrawing cash or buying a retirement income product. While 25% of the value of their pension pot is tax-free, they sometimes have the option of taking the tax-free amount as one lump sum with subsequent withdrawals completely subject to tax ('crystallising' their pension).

To date, the most common method for members to take their Nest pot at retirement is through a one-time full cash withdrawal known as a trivial commutation. This is available when members have no more than £30,000 across all of their pension pots, with 75% of the withdrawal subject to the member's marginal tax rate.

As shown in Table 20, through 30 September 2020 almost 130,000 members have taken their Nest pots in this way.

Around 10,000 members have withdrawn money from their pots using another, more flexible option known as an uncrystallised funds pension lump sum (UFPLS). This allows members to withdraw all or a portion of their pension pot when they want, with 75% of withdrawals subject to the member's marginal tax rate. Members withdrawing funds in this way tend to have larger than average pots than those withdrawing funds through trivial commutation.

The number of members taking an annuity option with a guaranteed lifetime income is very small. This option is only accessible to Nest members with more substantial pot sizes.

Table 20. How members take their Nest pot at retirement

	2013/14	2014/15	2015/16	2016/17	2017/18
Trivial commutation lump sums					
Total assets**	£59,352	£544,935	£3,173,694	£6,291,431	£11,602,326
Number of members	212	1,503	5,810	9,339	15,127
Mean value	£280	£363	£546	£674	£767
Full uncrystallised funds pension lump sum (UFPLS)					
Total assets**				£357,441	£1,424,107
Number of members				293	1,042
Mean value				£1,220	£1,367
Annuity options* **					
Total assets**					
Number of members					
Mean value					

	2018/19	2019/20	2020/21*	Total
Trivial commutation lump sums				
Total assets**	£24,301,496	£58,179,917	£41,496,988	**£145,650,139**
Number of members	26,643	44,063	26,079	**128,776**
Mean value	£912	£1,320	£1,591	**£1,131**
Full uncrystallised funds pension lump sum (UFPLS)				
Total assets**	£3,599,375	£8,696,801	£7,733,393	**£21,811,118**
Number of members	1,975	3,817	2,742	**9,869**
Mean value	£1,882	£2,278	£2,820	**£2,210**
Annuity options* **				
Total assets**				**£784,751**
Number of members				**117**
Mean value				**£6,707**

* 2020/21 figures are for 1 April 2020 to 30 September 2020.
** Total assets, and thus also mean value, are provided before applicable taxes.
*** As transaction volumes are small for annuity options, these are shown in total and not split by year.

As can be seen in Table 20, the number of members taking any form of retirement option has been increasing each year as more Nest members reach retirement age. However, the number of members taking their pots at retirement, or transferring their pot to another provider at or after age 55, is significantly lower than the number one might expect from the age distribution of Nest's membership.

As at 30 September 2020, around 131,000 members were aged 65 and over yet remained members of Nest. Around 72,000 of these members were not currently employed by an employer using Nest. Some of these members have very small pot values, and it's possible they may have forgotten they have a pot with Nest, particularly if they have other retirement provision or income.

As the Nest scheme matures, and Nest pots become a more significant part of members' retirement portfolios, it's likely we'll see fewer pots go unclaimed.

Chapter 7

Conclusion

We have seen the success of auto enrolment in increasing how many people are saving for retirement. And so far, these nudges appear to stick across a range of contexts.

Over the past eight years, and particularly since the end of employer staging in February 2018, auto enrolment into workplace pensions has brought many millions more people into retirement saving in the UK. Since April 2019 workers and employers have together been contributing a minimum of 8% of earnings into a pension pot, and yet only a small minority of workers are opting out of saving in Nest once they've been enrolled in the scheme.

The experience of Nest members through the end of 2019/20 and into the first half of 2020/21 shows the staying power of making saving the default for people. Even through significant market volatility, most Nest members kept saving for their retirement. And this was true for a population with a higher proportion of both lower earners and workers in transient employment than the overall UK labour force.

The government's decision to support auto enrolment during the pandemic probably played a significant role. By paying the employer's share of pension contributions as well as 80% of worker wages in the first months of the Covid-19 crisis, the government signalled that building more retirement security for people in the UK remained a high priority alongside preserving businesses and jobs. So far, Nest has seen only a small increase in the number of workers opting out of new pension enrolment.

We know that, over the long term, people will have more money in retirement if they continue to contribute to their pension pot, whether markets go up or down. Securing better retirement outcomes for workers who weren't previously served by workplace pensions was one of the central goals of auto enrolment and the design of Nest.

It is, of course, too early to analyse the full effects of the Covid-19 crisis on people's attitude towards saving for retirement. This will be greatly influenced by how quickly the economy and markets recover. We look forward to sharing our observations of the Nest member experience over the second half of 2020/21 and beyond in future reports in our series 'Retirement saving in the UK'.

nest insight

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