Retirement saving in the UK 2021

Member experience from Nest, the National Employment Savings Trust

Invesco BlackRock

nestinsight.org.uk

Authored by

Richard Notley, Nest Insight, and David Mann, Nest Corporation, London

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 partners

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

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Foreword

Helen Dean, CBE
Chief Executive Officer, Nest Corporation

I take great pleasure in introducing 'Retirement saving in the UK 2021', Nest Insight's fourth annual research report describing the experience of people saving for their retirement through the Nest pension scheme.

In this year's report, Nest Insight presents fascinating evidence about the evolution of auto enrolment and Nest's membership. Rather than simply presenting analysis of administrative data from Nest's most recently completed financial year ending 31 March, Nest Insight has made wide use of Nest's own bespoke surveys of members as well as data from official organisations such as the Office for National Statistics (ONS). This has allowed them to paint a much richer portrait of the lived experience of Nest members and how pension saving is shaped by people's jobs, employers and careers. It also helps us to see with great clarity how Nest is serving the low and moderate income workers targeted by the government's auto enrolment reforms and highlights gaps in the overall pensions market that still need to be closed.

Of course, a report on Nest members' pension saving in 2020/21 cannot help but touch on the impact of the global coronavirus pandemic. Because the economic fallout of lockdowns and pandemic restrictions was so immediate and striking, Nest Insight chose to extend the reporting period for 'Retirement saving in the UK 2020', publishing last year's research report in February 2021 to include data through 30 September 2020. This allowed them to analyse how employers and members were coping with periods of lockdown and subsequent reopening of the UK economy. This has been an extremely turbulent time for the employers using Nest as well as Nest's members.

As we discovered through that research, government interventions such as the Coronavirus Job Retention Scheme (CJRS) appear to have softened the economic impact on employers and prevented many job losses. These interventions may have been critical in supporting the financial wellbeing of individuals whom Nest serves. One of the key findings of 'Retirement saving in the UK 2020' was that most of Nest's active members have continued to save into their Nest pension pot during the pandemic. Because the government's support programmes were in place for the entire 2020/21 financial year, the story presented here remains largely unchanged from the 2020 research report.

So, in Nest Insight's 2021 report, the context of the Covid-19 crisis is acknowledged but the focus is on our business as usual. For those interested in more information on how the pandemic has affected Nest's members and employers, Nest Insight has published a series of excellent blogposts on its website, **nestinsight.org.uk**, which I highly recommend.

With around one in three workers in the UK now having a Nest pot, we appreciate that Nest encompasses a diverse range of workers and employers. The research shared through publications such as the 'Retirement saving in the UK' series is vital to understanding the needs, priorities and behaviours of UK pension savers, most crucially as they age towards retirement.

Nest Insight could not do this work without the support of generous partners like their strategic partners, Invesco and BlackRock. Nest Insight's programme partners and research and delivery partners have also stepped up to assist with projects ranging from a trial of a 'sidecar savings' tool to foster greater financial resiliency among low and moderate earners to research on how responsible investment messages might be crafted to motivate members to become more engaged with pension saving. I'd like to thank all of these partners for their dedication to improving pension saving and financial resilience in the UK. There are many more avenues of research to explore as the auto enrolment generation matures into long-term pension savers.

Finally, I want to thank the Nest Insight team for the mammoth research, thought and effort put into the publication of this report for the wider pensions market. We look forward to hearing your response to this year's evidence and presenting more findings on the Nest customer experience next year.

Executive summary

This report examines the enrolment, working, saving and investment profile of workplace pension savers in the UK based on data from Nest, the National Employment Savings Trust. With almost 10 million members at the end of the 2020/21 financial year, Nest is one of the UK's largest multi-employer pension schemes.

Who are Nest's members?

Age

It was anticipated that Nest's membership would skew towards younger workers who were far less likely to be already saving in a workplace pension when auto enrolment was introduced, with around one third of Nest members expected to be aged 30 or younger. Nest's current age distribution very closely matches this.

Based on current population trends and internal modelling, however, by 2050 the age profile of members is expected to become more evenly distributed across age groups.

Of Nest members...

28% are 22 to 30 in 2021

14% are projected to be 22 to 30 in 2035

10% are projected to be 22 to 30 in 2050

12% are 56 to 65 in 2021

17% are projected to be 56 to 65 in 2035

24% are projected to be 56 to 65 in 2050

Gender

Because of the annual earnings threshold for auto enrolment, it was expected that more men than women, by a ratio of around 2 to 1, would be enrolled in Nest. However, the gender balance of Nest's membership has evolved to be more balanced.

47%

of Nest members are women

53%

of Nest members are men

0.008% of Nest members did not have a gender listed on their enrolment

Educational qualifications

It was expected that workers with higher levels of educational attainment were more likely to be already saving in a workplace pension when auto enrolment was introduced, and so Nest members would be more likely to have no more than A-Levels or GCSEs. However, in surveys many members report having higher qualifications.

38%

of Nest members have at least a degree-level qualification

Members with higher qualifications are more likely to be inactive, while those with lower qualifications are more likely to be active.

Home ownership

In surveys many people in the UK say that they expect to use the value of their home to help finance some of their cost of living in retirement. However, official statistics show that younger generations have increasingly lower levels of home ownership compared to the generations which preceded them. This trend data is mirrored by the home ownership rates among Nest members.

Of Nest members under 30...

42%

Rent privately

12%

Own with a mortgage or outright

Of Nest members 50 and over...

15%

Rent privately

56%

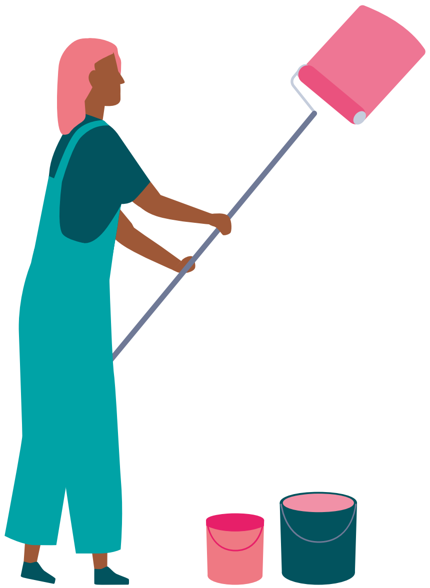
Own with a mortgage or outright

Members' working lives

Nest's membership was always expected to have significant numbers of the lower and moderate earners who had traditionally not been served by the existing pensions market.

Earnings

In 2011 Nest estimated that median (middle of the distribution) annual earnings for individuals then saving into a workplace pension was around £30,600, roughly equivalent to being in the top 25% of the distribution of earnings for all UK workers. The target group for pension reforms had median annual earnings of around £19,800, about 35% less.



£19.6k

Median annual earnings for active Nest members as at 31 March 2021

£28.2k

Median annual earnings for UK eligible employees in 2020

The difference in earnings between Nest members and UK eligible employees widens through the earnings distribution.

15%

Gap between earnings of Nest members in the bottom 10% of earners compared with the bottom 10% of UK eligible employees

38%

Gap between earnings for Nest members in the top 10% of earners compared with the top 10% of UK eligible employees

Working status

In surveys the majority of Nest members report they're working full-time (30 hours or more per week), with a clear majority working for an employer.

60%

of Nest members say they work full-time for an employer

14%

of Nest members say they work part-time for an employer

Gender pay gap

Across the entire UK labour market, women earn on average 16% less than men. A similar but wider gender pay gap exists among Nest members.

22%

Gap between women's median earnings and men's median earnings in Nest's membership

The gender pay gap for Nest members increases in the mid-30s, after which it essentially plateaus.

14%

Gender pay gap for Nest members 30 and younger

26%

Gender pay gap for Nest members 31 and older

Which employers are using Nest?

Volumes

Continuing growth in employer volumes is one demonstration that the government's interventions to support the economy through the pandemic were successful in supporting auto enrolment through the end of the financial year.

971k

Employers registered with Nest across life of scheme

11%

Increase from 2019/20

Employer size

Small employers are more likely to enrol most or all of their workers in Nest than larger employers, which tend to enrol a portion of their workforce.

7

Mean (average) current enrolments in Nest from small employers, with 5 to 49 workers, compared with 12 workers employed on average by UK businesses of this size

2,599

Mean current enrolments in Nest from large employers, with 5,000 or more workers, compared with 12,924 workers employed on average by UK businesses of this size

Evolution of auto enrolment

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

Enrolments

As at 31 March 2021 almost 15 million enrolments had been made into Nest.

15%

Increase in enrolments in 12 months ending 31 March 2021, compared with 2020

22%

Increase in enrolments in 12 months ending 31 March 2020, compared with 2019

Despite the significant slowdown in economic activity in 2020/21 due to the pandemic, this increase is not much different from the increase for 2019/20, the first financial year after staging was completed. This suggests that the labour market remained active throughout 2020/21, with workers taking or moving jobs and being enrolled, or enrolled again, in Nest in significant numbers.

Returning members

Because the choice of a workplace pension scheme is tied to the employer rather than the worker, job churn will naturally lead to members becoming inactive.

Nest operates a ‘one member, one-pot’ model, which means that whenever a worker is enrolled in Nest, the scheme checks for a match of identifying information with an existing account and merges the accounts of a worker who has been enrolled in Nest through a previous employment.

Nest enrolments that were returning members

30%

as at 31 March 2018

38%

as at 31 March 2021

50%

predicted around 31 March 2026

60%

predicted around 31 March 2036

Who is opting out?

Prior to the launch of auto enrolment, policymakers and researchers estimated that around 25% to 30% of workers would opt out of auto enrolment in a workplace pension. In practice, opt-out rates have been much lower, with Nest reporting an overall opt-out rate of around 8% over the life of the scheme.

Opt-out rates have varied over time, however, with a slight uptick in 2020/21. This increase should be considered in the context of the final rise in minimum pension contribution rates in April 2019 and workers’ financial concerns during the pandemic.

10.1%

Opt-out rate for all workers in 12 months ending 31 March 2021

9.9%

Opt-out rate for women

10.3%

Opt-out rate for men

Interestingly, across most age groups, opt-out rates for 2020/21 were slightly higher among men than women. This is a departure from what we’ve seen in previous years, where women across all age groups were slightly more likely to opt out.

Active members are unlikely to stop contributions after the opt-out window.

2.3%

of Nest members over the life of the scheme have chosen to stop contributions while still actively employed by the employer which enrolled them

How much is going into members' pension pots?

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

Contribution rates

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

Small and micro-sized firms tend to stick at the minimum rates, whereas larger firms are more likely to contribute more than the minimum. Some members contribute more too, and it appears they may do so where their employer offers a matching scheme.

85%

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

89%

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

13%

of employers contribute more than the minimum 3% to their workers' pension pots

Contribution amounts

There is a high degree of volatility in contributions as Nest members frequently move jobs, or move in and out of periods of contributing to their pot. Members who had contributions in every month of 2020/21 added nearly three times as much, on average, to their pot compared to members who had contributions in 11 or fewer months of the year.

£1,467

Mean value of pot contributions for members who contributed continuously in 2020/21

8%

Increase in mean contribution amounts for 2020/21, compared with 2019/20

Direct contributions

Nest members have the option to pay additional money into their pot via their online account, outside of normal payroll deductions.

134k

Number of members over life of the scheme who have made at least one direct payment into their pot

£370m

Total value of direct member contributions

How much is accumulating in members' pots?

Nest has been serving employers and workers for 10 years. Nest members' pot values are small compared with workplace pension schemes that have been serving the market for much longer.

However, since total minimum contribution rates were raised to 8% in 2019, pot balances for members who actively and regularly contribute to their Nest pot are increasing more rapidly.

Average pot balances

£701

Median pot balance for all Nest members as at 31 March 2021

£1,953

Median pot balance for active Nest members as at 31 March 2021

43%

of Nest members had a pot balance of £500 or less as at 31 March 2021

9%

of Nest members had a pot balance of £5,000 or more as at 31 March 2021

Gender pension gap

15%

Gap between median pot balance for women and median balance for men in 2020/21 – essentially the same as in 2019/20

Member pot balances by employer size

Median pot balances are highest for members working for employers with fewer than 50 employees. This may be because smaller employers have higher contribution levels on average.

£2,530

Median pot balance for active members whose employer has 5 to 49 workers

£1,379

Median pot balance for active members whose employer has 5,000 or more workers

When and how do members expect to retire?

The concept of retirement is changing, with people increasingly delaying retirement and working in retirement, with some seeing it as a positive to continue working for a variety of reasons, not all of them financial.

Expected retirement age

Many Nest members expect to delay their retirement beyond their State Pension age.

44%

of Nest members 40 and older expect to delay retirement

55%

of Nest members 60 and older expect to delay retirement

Reasons to continue working

40%

of Nest members 60 and older say the reason they would continue working in retirement is because they don't feel ready to stop working

24%

of Nest members 60 and older say the reason they would continue working in retirement is so they could pay for essential items

Working patterns in retirement

People often change their working patterns in the later years of their working life, for example, changing from full-time work to part-time work, particularly starting around age 55.

26%

of women 60 and older work for their employer part-time

12%

of men 60 and older work for their employer part-time

Transfers in and out of Nest

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

Value of transfers out

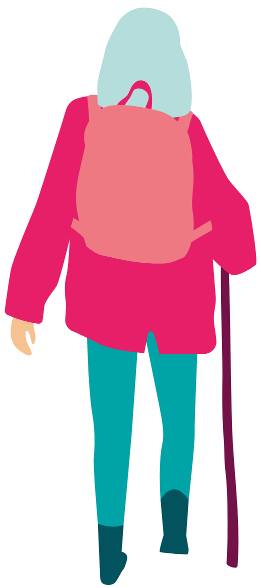
Nest members, like members of any defined contribution (DC) pension scheme in the UK, have the right to transfer the value of their pension pot into another qualifying scheme at any time and, from age 55, to access their pot as cash.

£1,800

Mean value of transfers out of Nest for 2020/21

£3,200

Mean value of transfers out of Nest among members 56 and older



Timing of transfers out

Members are, in the main, passive with respect to their pension saving, with many waiting several months between their final contribution to their Nest pot and their request to transfer money out.

11%

of Nest members request to transfer out within two months of their last contribution

70%

of Nest members request to transfer out more than six months after their last contribution

Transfers in

Nest also allows members to transfer in funds from pension pots they have at other schemes. This service enables Nest's members to consolidate their pots, if they so wish.

95k

Nest members have transferred balances in to Nest as at 31 March 2021

90%

Increase in transfers compared with 31 March 2020

£5,200

Mean value of transfers in to Nest for 2020/21

The UK's auto enrolment system

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

Under the legislation, workers must be automatically enrolled in a workplace pension if they earn salary from an employer equivalent to £10,000 or more a year, though workers can ask to be enrolled by their employer if they earn less. Employers may also choose to enrol those earning less as a worker benefit. Larger employers were brought into the programme first, with employers of all sizes participating by February 2018.

Employers make mandatory minimum contributions each pay period into a defined contribution (DC) pension scheme based on the worker's eligible earnings, with the worker making contributions to reach a mandatory minimum total contribution. The level of minimum mandatory contributions was increased in phases, starting with 2% of qualifying earnings with at least 1% contributed by the employer, rising in April 2018 to 5% with at least 2% contributed by the employer and rising again in April 2019 to 8% with at least 3% contributed by the employer.

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

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

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

Chapter 1

Introduction

This is the latest of Nest Insight's annual reports exploring data from the Nest workplace pension scheme, one of the largest pension schemes in the UK by membership.

With the 'Retirement saving in the UK' series we aim to understand the experience of both workers and employers in the UK's auto enrolment system for workplace pensions. The series follows on from two previous reports, published under the 'How the UK saves' banner, which we produced in partnership with Vanguard Asset Management.

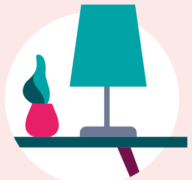
As with the 'How the UK saves' publications and 'Retirement saving in the UK 2020'[1], which was published in February 2021, in this report we share and analyse employer, enrolment and member data from Nest's most recent financial year, in this case covering the period from 1 April 2020 to 31 March 2021.

Some tables and figures in this report show only information for the preceding 12 months ending 31 March 2021. Others show cumulative activity since the inception of auto enrolment in 2012. Still others show snapshot data at the end of each financial year to provide a sense for how the auto enrolment system has matured over time.

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

This year, in addition to analysing Nest scheme data, we have included comparative national data from sources such as the Office for National Statistics (ONS). We have also drawn on Nest's own surveys of members and the employers choosing the scheme for their workers to better understand savers' situation, behaviour, attitudes and expectations.

Our aim is to provide a more rounded view of pension saving than in previous years' reports. This additional data allows us to tell the story of not only how employers and members are interacting with the Nest scheme, but also how Nest sits within the wider landscape of auto enrolment and the UK labour market.



Key phrases

Auto enrolment

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

Pension pot

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

Financial year

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

"This data allows us to tell the story of not only how employers and members are interacting with the Nest scheme, but also how Nest sits within the wider landscape of auto enrolment and the UK labour market."

The ongoing impact of Covid-19

Any analysis of people's saving in 2020/21 must begin by acknowledging that the financial year was dominated by the global coronavirus pandemic. Restrictions put in place to slow the spread of the virus, including lockdowns, business closures and social distancing, led to a sharp decline in economic activity, with the UK's gross domestic product (GDP) falling 9.9% between January and December 2020.[2] This was more than twice the fall recorded during 2009, at the height of the global financial crisis, and the largest fall since the ONS began collecting modern GDP data in 1955.

To offset the impact of pandemic restrictions, the UK government introduced a range of measures aimed at stabilising the UK labour market and preventing widespread business failures. For example, under the Coronavirus Job Retention Scheme (CJRS), many workers in the UK were furloughed from their jobs while receiving at least 80% of their salary, with the government reimbursing 80% of the wage bill to employers making claims. At its peak, on 8 May 2020, businesses made claims for 8.9 million jobs on furlough.[3]

Businesses which were unable to trade due to the restrictions were also offered business rates relief, business interruption loan support and a one-off 'restart' cash grant to help finance the costs of reopening safely when some restrictions were lifted. Small businesses could also apply for up to £50,000 in immediate finance, with no payments due in the first 12 months, through the Bounce Back Loan Scheme. The government also paid statutory sick pay for any employees on sick leave due to Covid-19.

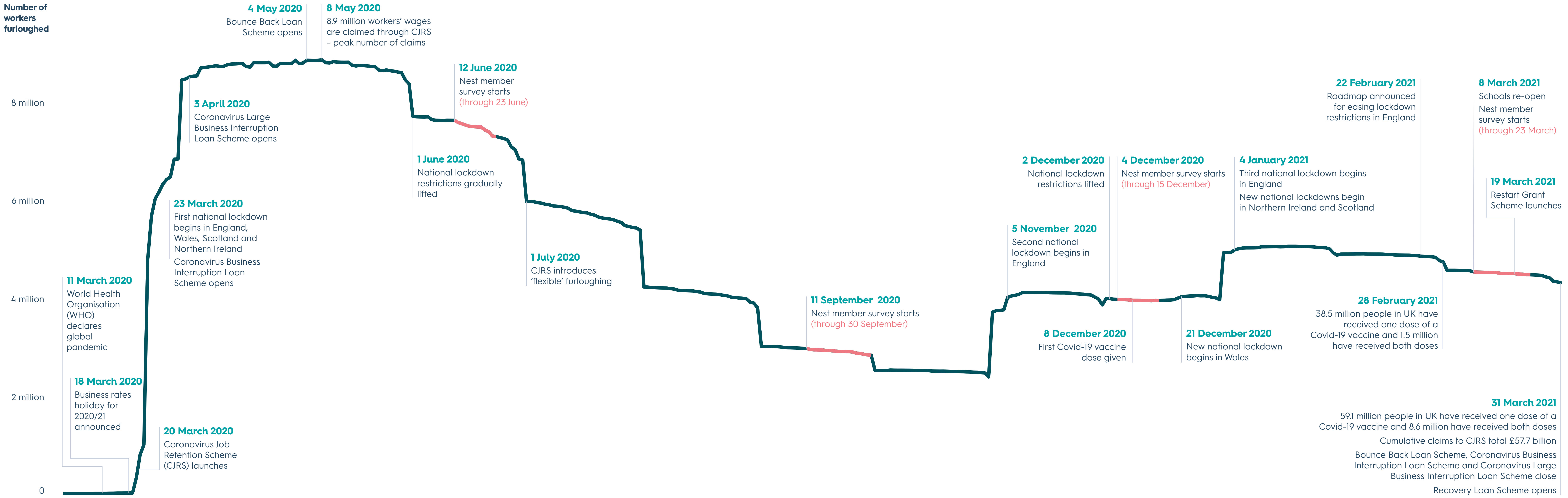
As we discussed in 'Retirement saving in the UK 2020' and Nest Insight's series of blogs on the pandemic's impact[4], the interventions put in place by the government helped to shore up jobs and ensured continuity of saving among Nest members. From 1 April 2020 through to 31 March 2021, Nest's membership volumes and pension contribution amounts remained stable.

2 Office for National Statistics (ONS), 'Coronavirus and the impact on output in the UK economy: December 2020' (12 February 2021), ons.gov.uk/economy/grossdomesticproductgdp/articles/coronavirusandtheimpactonoutputintheukeconomy/december2020

3 HM Revenue & Customs (HMRC), 'Coronavirus Job Retention Scheme statistics: March 2021' (25 March 2021), gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-march-2021/coronavirus-job-retention-scheme-statistics-march-2021

4 nestinsight.org.uk/impact-of-covid-19-blog-series

Figure 1. Timeline of coronavirus pandemic and government economic support programmes



Coronavirus Job Retention Scheme (CJRS)

Looking back to 1 March 2020, employers can claim for 80% of wage costs up to £2,500 per month for each worker put on furlough. The government also pays the employer's National Insurance (NI) contributions and 3% minimum auto enrolment pension contributions for furloughed workers. Claims must be made by the 14th day of the month following the payroll month. Employers can 'top up' wages above 80% at their own expense. Starting in July 2020, under 'flexible furloughing' employers could bring furloughed workers back to work part-time and claim for the wage costs of hours not worked.

Sources: HM Revenue & Customs, 'Coronavirus Job Retention Scheme statistics' (July 2021), gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-1-july-2021/coronavirus-job-retention-scheme-statistics-1-july-2021, Public Health England, 'Vaccinations in the UK' (July 2021), coronavirus.data.gov.uk/details/vaccinations, Department for Business, Energy & Industrial Strategy, Ministry of Housing, Communities & Local Government, and HM Revenue & Customs, 'Financial support for business during coronavirus (Covid-19)' (April 2021), gov.uk/government/collections/financial-support-for-businesses-during-coronavirus-covid-19

For more information about the UK government's business loan schemes and other economic support programmes, see gov.uk/government/collections/financial-support-for-businesses-during-coronavirus-covid-19

Members' views on the economic downturn

While we have seen minimal impact on pension contributions during the pandemic, Nest's surveys of members over the past year indicate that the Covid-19 crisis has indeed affected people's finances.[5] It's important to keep in mind, however, that member surveys only provide information at the snapshot in time during which they were conducted. Given the evolving nature of the pandemic and vaccination campaigns, as well as uncertainties about the length of time it will take for the economy to fully recover, the survey data presented in this report offer limited insights into the longer-term financial impact of the pandemic on members.

As can be seen in Figure 2, the proportion of Nest members reporting that they had been furloughed varied over the course of the year, mirroring different phases of restrictions and the overall claims made to the CJRS.

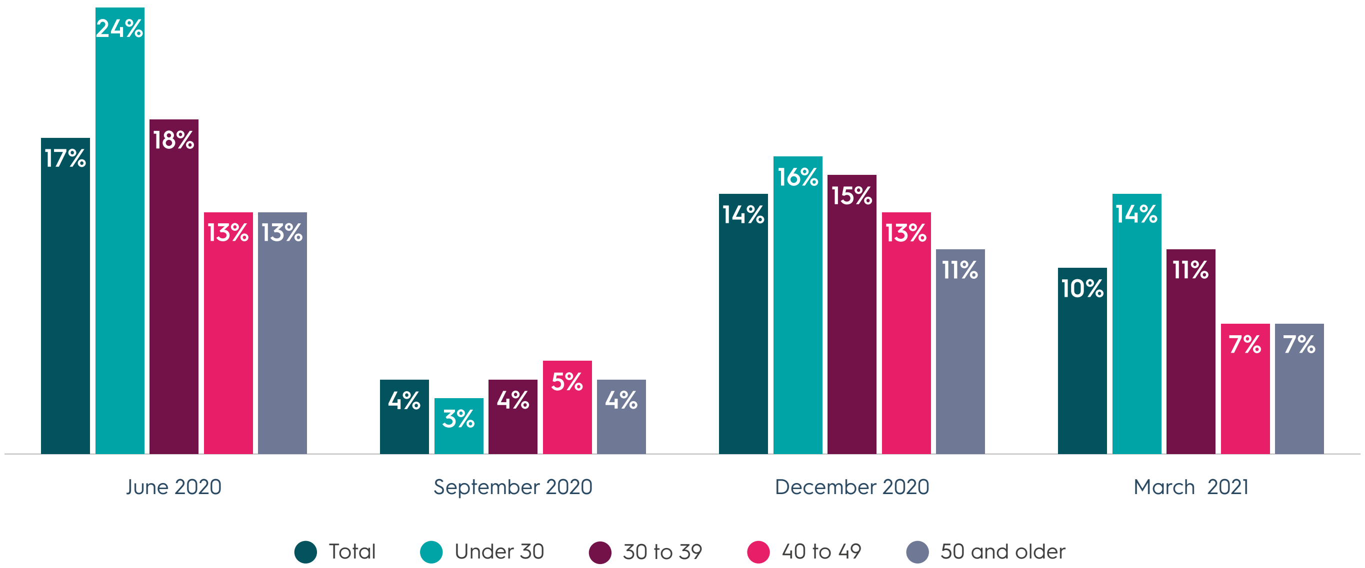
In the June 2020 survey, conducted shortly after the first national lockdown of England was lifted, close to one fifth (17%) of Nest members said they were then currently furloughed. By September 2020, after a summer largely free of lockdown restrictions, this figure had dropped substantially, to 4%. In December 2020, near the end of the second national lockdown of England and extensive restrictions in other parts of the UK, it had risen again, with 14% of members saying they were then furloughed. A third national lockdown began in January 2021, with a phased easing of restrictions from 8 March 2021 into summer 2021. Finally, in the most recent survey at the time of publication, conducted in March 2021, 10% of members said they were furloughed. This might reflect some non-essential businesses bringing workers back into part-time or full-time work as they prepared to reopen in April 2021 as part of the government's roadmap to easing restrictions.

Among Nest members, there was little difference in the proportion of men and women who reported being furloughed by their employer. However, age does appear to have been a factor. In June 2020 one quarter of members aged under 30 said they were furloughed, and in March 2021 these younger workers continued to be slightly more likely to be furloughed than members aged 30 or older. In addition, high-earning members were substantially less likely than low-earning members to be furloughed. In June 2020, 8% of those earning £40,000 or more annually were furloughed, compared with 19% of those earning less than £20,000 per year.

The significant impact of the CJRS on the financial wellbeing of Nest's membership is perhaps most evident in the stable proportion of members reporting that they were currently unemployed at the time of each survey. In both June 2020 and March 2021, 6% of members said they were unemployed.

Of course, people's employment status is only one aspect of their financial wellbeing. In 2020/21 Nest also surveyed members about how they felt the pandemic was affecting their finances. The June 2020 survey asked members about their expectations for the future while subsequent surveys also asked how the pandemic was already impacting them.

Figure 2. Nest members who reported being furloughed



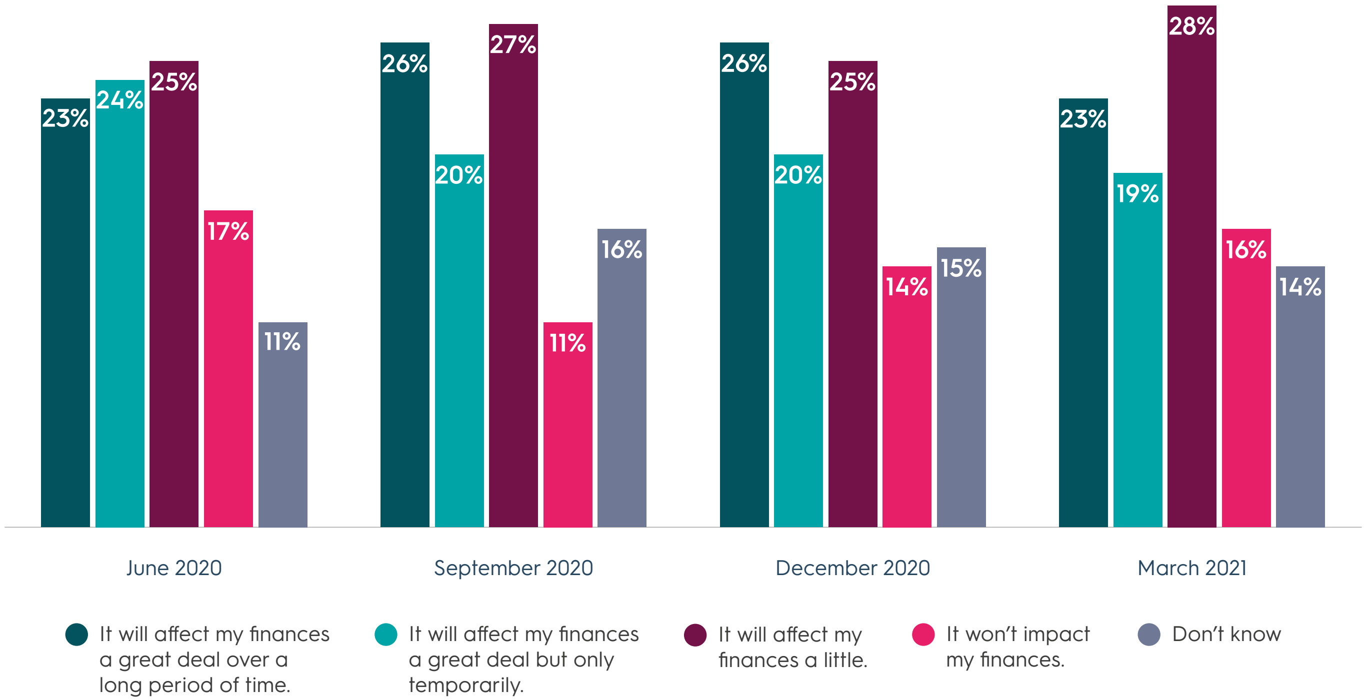
Source: Nest member surveys, 2020/21, all respondents. Question: Which of the following best describes your employment status?

5 In 2020/21 Nest surveyed members quarterly, including the larger annual survey in December, with surveys in field 12 to 23 June 2020 (1,737 total respondents), 11 to 30 September 2020 (1,434 respondents), 4 to 15 December 2020 (7,116 respondents) and 8 to 23 March 2021 (2,297 respondents). Unless otherwise noted, all survey data reported in this report are from these member surveys.

In June 2020 almost one quarter (23%) of members said they believed the pandemic would have a significant long-term impact on their finances. Another quarter (24%) believed the impact would be significant but temporary. As one might expect, those who were currently furloughed or unemployed were more likely to believe the pandemic would have a significant long-term impact – 38% of those furloughed and 51% of those unemployed said this.

By March 2021 there had been a slight reduction in the proportion of members thinking the pandemic would have either a significant long-term or a significant temporary negative impact, with 47% of members believing this in June 2020, compared with 41% in March 2021 (Figure 3).

Figure 3. Nest members' views on how the pandemic will affect their personal finances in the future



Source: Nest member surveys, 2020/21, all respondents. Question: And looking ahead, how do you feel the Covid-19 outbreak will affect your personal finances, if at all?

The proportion of members reporting that the pandemic was already having a negative impact on their finances peaked in December 2020 at almost half (47%), as shown in Figure 4 (next page). In contrast, in Nest's last member survey of the financial year, conducted in March 2021, 37% of members said the pandemic was having a negative impact on them.

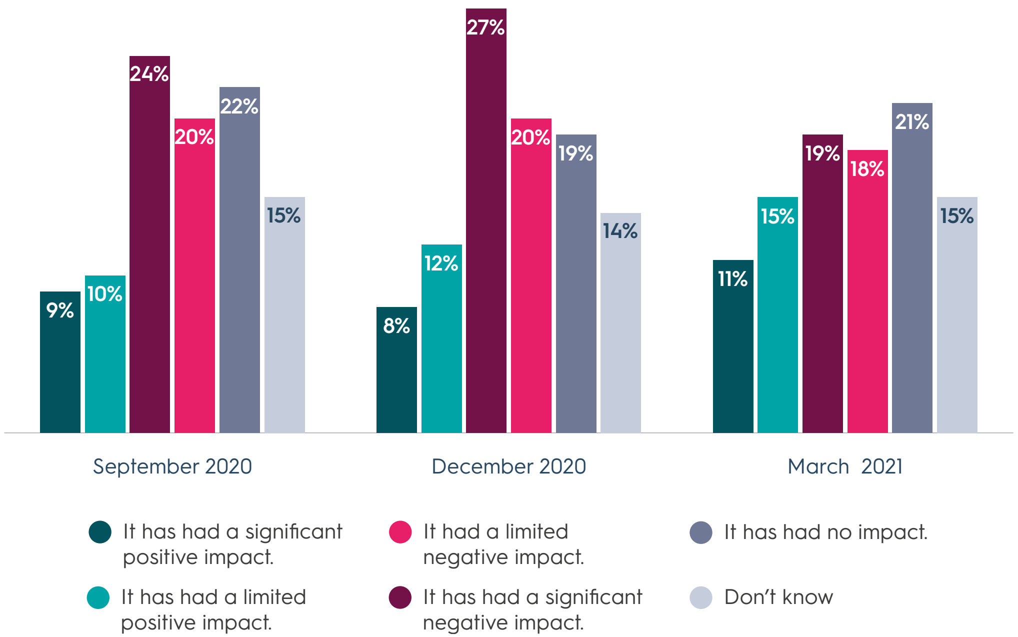
Throughout the year, however, some members reported that the pandemic was having either no financial impact on them or was actually making them better off financially. By March 2021, just over one quarter (27%) said they'd experienced a positive impact on their finances, up from one fifth on average in surveys conducted earlier in the year.

Perhaps unsurprisingly, members' responses to this question were correlated with their income. Those earning £40,000 or more per year were significantly more likely to say the pandemic was having a positive impact on their finances (36%) compared with those earning less than £20,000, who were more likely to say it was having a negative impact (41%). Yet, even among lower earners, around one fifth felt the pandemic was having a positive impact on their finances.

Although we haven't yet observed any significant change in Nest's membership or contribution volumes during the pandemic, this survey data suggests that the scheme's members have felt the sharp reduction in economic activity in 2020/21.

Significant numbers of Nest members have been furloughed. Younger members have been disproportionately affected. Many have felt a financial impact, with more feeling a negative impact than a positive one. What this will mean in the longer term remains to be seen. However, Nest's survey data suggests that around one quarter of the scheme's membership expect a long-term negative impact on their finances as a consequence of the pandemic.

Figure 4. Nest members' views on how the pandemic was currently affecting their personal finances



Source: Nest member surveys, 2020/21, all respondents. Question: And looking ahead, how do you feel the Covid-19 outbreak will affect your personal finances, if at all? Numbers may not total 100% due to rounding.

A story of continuity

For 'Retirement saving in the UK 2020' we extended our reporting period to include data from 1 April 2020 through to 30 September 2020 in order to consider preliminary findings about the pandemic's impact on pension saving. Here we consider full-year evidence for 2020/21.

Despite the uncertainties and concerns expressed by Nest members in surveys, pension saving has continued. In the final six months of the financial year, very little changed in the government's policies for mitigating the impact of the pandemic and Nest members continued to save as they had before. For these reasons, we have not elaborated further in this report on the effect of the pandemic or the economic downturn on Nest's employers and members except where it is especially pertinent.

Instead, in 'Retirement saving in the UK 2021', we've taken the opportunity to paint a fuller portrait of Nest's membership and reflect on the success of the UK's auto enrolment system in creating a new generation of pension savers who appear to continue to save in the face of short-term financial shocks. The contribution profiles and member behaviour in evidence in Nest's scheme and survey data suggest that auto enrolment will help to improve many people's pension saving and retirement outcomes over the long term.

> **"Nest's scheme and survey data suggest that auto enrolment will help to improve many people's retirement outcomes over the long term."**

Chapter 2

Nest employees and enrolments

Nest was created so that every employer in the UK, whether large or small, had access to a workplace pension scheme that could be used to fulfil their auto enrolment duties.

It was considered essential that a pension provider with a public service obligation was available from the first moment that large employers, and the significant volume of new pension savers employed by them, began to be brought into the system in October 2012.[6] And hundreds of thousands of workers have been enrolled in Nest by large employers. Yet as at 31 March 2021, the overwhelmingly majority of employers using Nest were small or micro-sized, with fewer than 50 workers.

"The overwhelming majority of employers using Nest are small or micro-sized."

Growth in employer participation

When auto enrolment was introduced, every UK employer which was operating in April 2012 was allocated a date between October 2012 and February 2018 by which they were required to fulfil their duties to enrol their workers in a pension scheme. Larger employers were brought into the system first, with medium-sized and then small and micro employers following them. This process of bringing employers into the auto enrolment system was called 'staging'.

Due to this staged approach, the number of employers using Nest was initially low. This was largely in line with expectations, since many larger corporations already had a workplace pension scheme in place for at least some of their workers. To fulfil auto enrolment duties, it was deemed more likely that these large employers would open up their existing scheme to all their workers, who were now required to be automatically enrolled in a pension.

Those large firms which did choose Nest as their pension provider during the early years of auto enrolment often did not enrol all of their workers in Nest. This was in part due to restrictions placed on the total volume of annual contributions that could be paid into Nest members' pots. These restrictions had been stipulated in the legislation creating Nest to prevent Nest from gaining a competitive advantage in the pensions market. As a consequence, larger employers with high-earning individuals on a more generous pension arrangement were unable to use Nest for their entire workforce.

Removal of the restrictions on Nest's annual member contribution limit was approved by the government in 2014, with the restrictions fully lifted in April 2017, when small and micro employers were being brought into the auto enrolment system. These smaller employers were far less likely to have an existing pension provision for their workers and most, it was believed, would be seeking a scheme for all their workers.

An estimated 98% of UK employers are small or micro-sized.[7] So it's not surprising that from January 2016, when smaller firms began to be staged into auto enrolment, the volume of employers using Nest quadrupled within the year.

6 Nest Insight, 'Pension reforms in the UK: 1997 to 2015' (2020), nestinsight.org.uk/uk-pension-reforms

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

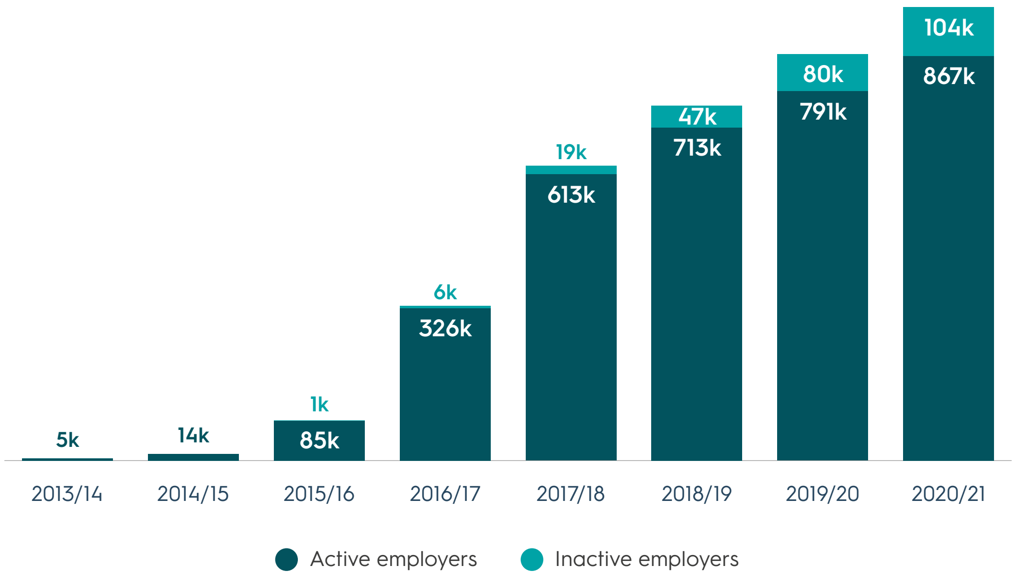
Key phrases

Large employers
250 or more employees

Medium-sized employers
50 to 249 employees

Small and micro employers
1 to 49 employees

Figure 5. Employers registered with Nest, year by year



Growth in employer volumes has continued since then, but at a slower pace, with around 971,000 employers having registered with Nest at some point by 31 March 2021 (Figure 5). This total represented an 11% increase over the 2020/21 financial year. Of these, around 867,000 employers had an active Nest account as at 31 March 2021. This is notable in the context of the pandemic. As noted in the introduction and reported in detail in 'Retirement saving in the UK 2020'[8], it appears that the interventions made by the government to secure the economy have had the desired effect of preventing mass business closures. In fact, the number of employers newly setting up to use Nest as their pension provider increased during 2020/21.

In addition, the proportion of businesses becoming inactive – for example, because they ceased operating, became insolvent or decided to switch to a different pension provider – was actually much lower than one might expect in such a challenging business environment. The number of inactive employers grew by only 30% over 2020/21, compared with 70% over 2019/20.

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

Employer characteristics

When employers register with Nest, they're asked to provide information about the size of their payroll. However, Nest does not require that employers update this data. So, although we expect that employers will grow and employ more workers over time, the employer size data available to us reflects snapshots taken at many different points in time, from when each employer joined Nest.

Setting aside these data limitations, it appears that the distribution by size of employers using Nest broadly mirrors the distribution seen across the entirety of the UK labour market, as seen in Table 1.

Nest does have a slight under-representation of medium-sized employers, possibly as a result of these employers being more likely to use one scheme for all of their workers compared to large employers, which may combine Nest with legacy arrangements provided to some of their workers before the introduction of auto enrolment.

Table 1. Size of employers using Nest as at 31 March 2021

Employer size	Nest employers	All UK employers
1 to 49 employees	98.2%	97.8%
50 to 249 employees	1.46%	1.73%
250 to 499 employees	0.14%	0.21%
500 to 999 employees	0.08%	0.11%
1,000 to 4,999 employees	0.08%	0.09%
5,000 or more employees	0.04%	0.03%

Source: Nest Corporation and ONS, 'Employers enterprises by size and broad industry' (April 2021), ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/adhocs/13112employersenterprisesbysizeandbroadindustry. ONS data is as at March 2020. Numbers may not total 100% due to rounding.

Growth in enrolments

The number of enrolments in the Nest scheme naturally increased as employers were staged into the auto enrolment system. But unlike with the number of employers using Nest, there was no striking acceleration in enrolment volumes at any point between October 2012 and February 2018. The staged approach resulted in enrolment volumes being much more evenly distributed, as Figure 6 (next page) shows.

As at 31 March 2021 almost 15 million enrolments had been made into Nest, an increase of around 15% compared with 31 March 2020. Despite the significant slowdown in economic activity due to the pandemic, this increase is not much different from the increase between 31 March 2019 and 31 March 2020, the first financial year after staging was completed. Then, enrolments increased by around 22%. This suggests that the labour market remained active throughout 2020/21, with workers taking or moving jobs and being enrolled, or enrolled again, in Nest in significant numbers.

The proportion of enrolments that are currently active has plateaued since the end of the staging period. As at 31 March 2018, soon after the end of the staging period in February of that year, Nest had around 3.9 million current enrolments.[9] As at 31 March 2021 Nest's current enrolments had only risen to around 4.5 million. Over the same period the number of previous enrolments rose from 3.8 million to just over 9 million individual events.

As workers change employers over the course of their lives, there is an increasing chance that they will at some point be enrolled in Nest. We expect the growth in previous enrolments to exceed that of current enrolments in the coming years.

9 Current enrolment counts are approximately equal to active member counts but members active in more than one job at the same time will be counted more than once in the current enrolment total.

Key phrases

Current enrolments

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

Previous enrolments

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

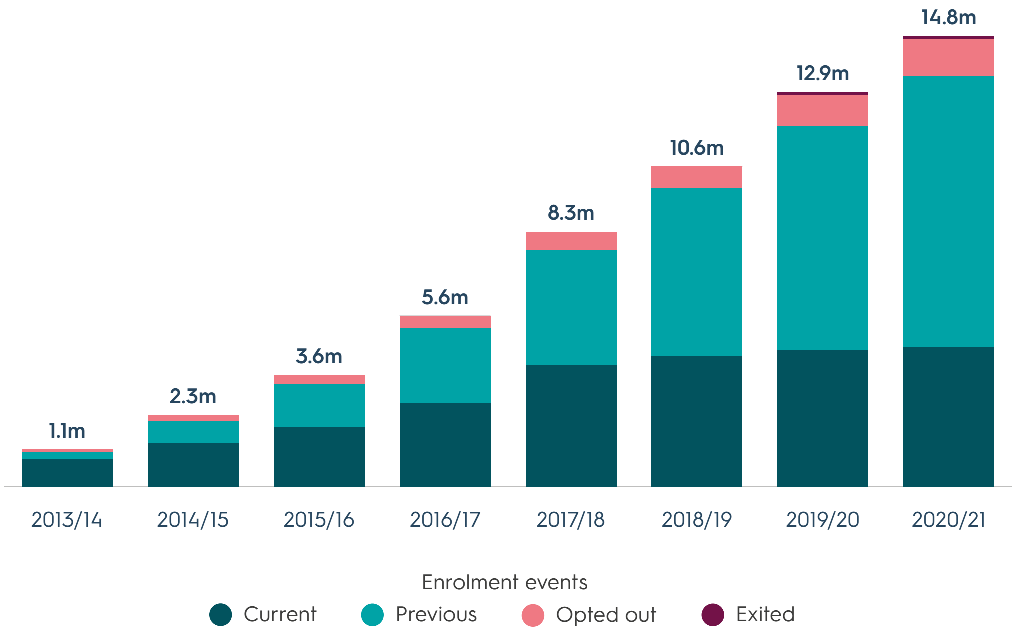
Exiters

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

Opt-outs

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

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



Returning members

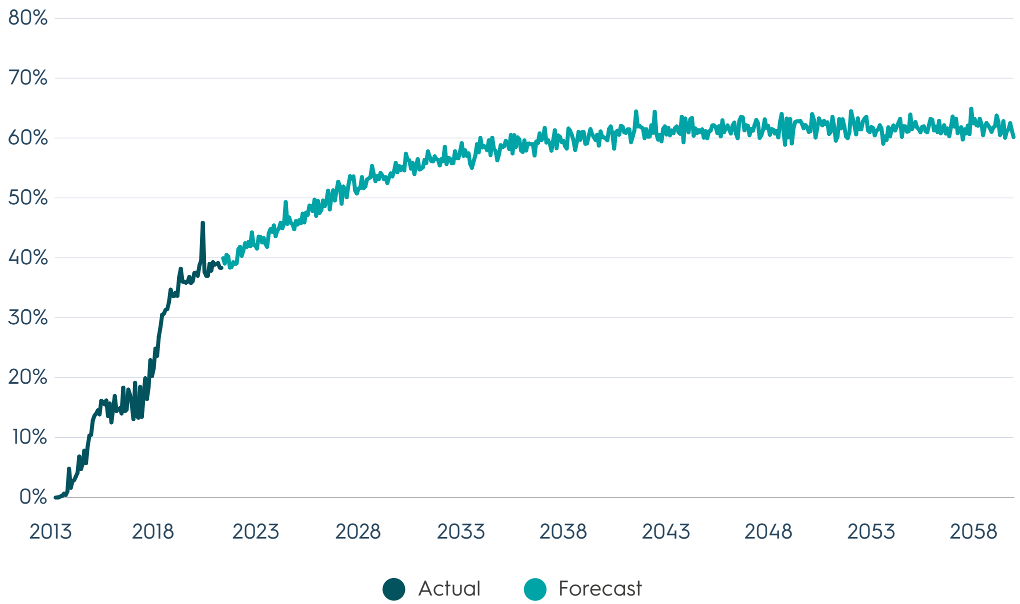
Nest operates a 'one member, one pot' model, which means that whenever a worker is enrolled in Nest, the scheme checks whether their identifying information matches an existing account and merges the accounts of any worker who has been enrolled in Nest through a prior employment.

Figure 7 shows that the proportion of matched enrolments has increased over time. As at 31 March 2018, around the end of the staging period, about 30% of enrolments in Nest were returning members. As at 31 March 2021 this proportion had increased to 38%.

Over time we expect the proportion of returning members being enrolled each month to continue to grow, with around half of all enrolments in 2025/26 predicted to be of returning members. By 2035/36 this proportion is expected to be approaching 60%, the level where we estimate a natural plateau will emerge.

This analysis only includes information on returners where a match can be made with a Nest account. It does not include individuals who opt out of Nest each time they're enrolled. We therefore presume that the number of enrolments made each month where the individual is being re-enrolled in Nest is higher than this data suggests.

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



Enrolments by employer size

We have shown that Nest is used by employers of all sizes in a very similar distribution as is seen in the overall UK labour market (see Table 1 on page 23). However, it is known that for some larger employers Nest will not be the only pension scheme that they operate.

To more fully understand the employers which Nest serves we consider the number of enrolments that employers have made into Nest relative to their reported number of workers.

Some employers, particularly large businesses employing 1,000 or more workers, may have initially used Nest for only a subset of employees, as described on page 22. Table 2 shows the mean number of enrolments by employer size for two points in time: the first month during which the employer started to enrol workers in Nest and current enrolments across 2020/21. We compare these initial and current enrolment metrics for employers against the most recently available mean number of workers employed by UK businesses reporting the same overall number of workers.

Table 2. Mean enrolments by employer size

Employer size	Mean initial enrolments in Nest*	Mean current enrolments in Nest*	Mean number of workers employed by UK businesses
1 to 49 employees	6	7	12
50 to 249 employees	41	56	99
250 to 499 employees	105	189	345
500 to 999 employees	167	369	689
1,000 to 4,999 employees	312	746	2,117
5,000 or more employees	679	2,599	12,924

* Mean initial enrolments are calculated from all enrolments made in the first three months following each employer's staging date. Mean current enrolments in Nest are as at 31 March 2021. Mean number of workers employed are as at March 2020, the most recent March data available.

Source: Nest Corporation and ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/adhocs/13112employersenterprisesbysizeandbroadindustry

Among micro firms employing four or fewer workers, there is very little difference between the initial worker enrolments made into Nest and the mean number of workers at UK employers of this size. We deduce from this that micro employers are more likely to adopt Nest as the scheme for their entire workforce. This is not surprising as employers of this size may have just one individual responsible for the administration of their business operations, including enrolling workers into a pension. Simplicity in administration may be a significant factor for them.

Among employers with five or more workers, however, current mean enrolments are lower than the mean number of workers employed at UK businesses of the same size. Partly this may be due to differences in the populations being compared. The Office for National Statistics (ONS) analysis of employer size includes all workers employed by the business, not just those workers who are eligible for auto enrolment. Evidence from the Labour Force Survey, a representative sample of households across the UK, suggests that approximately 82% of all UK employees are eligible for auto enrolment.[10]

10 Nest Insight analysis of Labour Force Survey, January to March 2021

Of course, the volume of current enrolments in Nest over the life of the scheme to date also does not include any workers who have opted out of their workplace pension. But opt-outs alone cannot explain the gap even among small and medium-sized employers, where current enrolments stand at around 54% to 58% of the ONS's mean employment figures.

It appears that across all UK firms other than the very smallest, Nest is only one part of an employer's workplace pension offering.

The fact that the mean number of current enrolments over the life of the scheme is larger than initial enrolments for all firms, regardless of size, may indicate employer growth. Some of the very largest employers using Nest have been using the scheme since they were first staged into auto enrolment in 2012/13. Alternatively, this difference may be due to a change in how employers use Nest to fulfil their obligations under auto enrolment. Some employers using the scheme may have increased the proportion of their workers enrolled in Nest as their default workplace pension.

Manner of enrolment

Nest has a public service obligation to accept any employer who wishes to use the scheme to fulfil their auto enrolment duties. Unsurprisingly, the majority of enrolments in the scheme are of workers who have been automatically enrolled by virtue of their age and earnings (Table 3). These workers are called ‘eligible jobholders’ in auto enrolment regulations.

Self-employed people are also able to join Nest. As at 31 March 2021, Nest had around 17,000 members who had joined on a self-employed basis. These individuals are not required to make contributions but they can do so if they wish, on either a regular or an ad-hoc basis.

Table 3. Nest enrolments by manner of enrolment

Enrolment method	**All workers enrolled in Nest** Cumulative through 31 March 2021*
Automatically enrolled (eligible jobholder)	94%
Opted in – with employer contribution (non-eligible jobholder)	3%
Opted in – without employer contribution (entitled worker)	0.1%
Voluntarily enrolled before employer staging date	1%
Self-employed and enrolled self	0.1%
Other	2%
Total	**100%**

* Numbers do not total 100% due to rounding.

Key phrases

Eligible jobholders

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

Non-eligible jobholders

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

Entitled workers

Non-eligible jobholders who earned less per pay period in 2020/21 than the equivalent of £6,240 annually (can opt in but their employer is not required to pay contributions)

Workers opting out

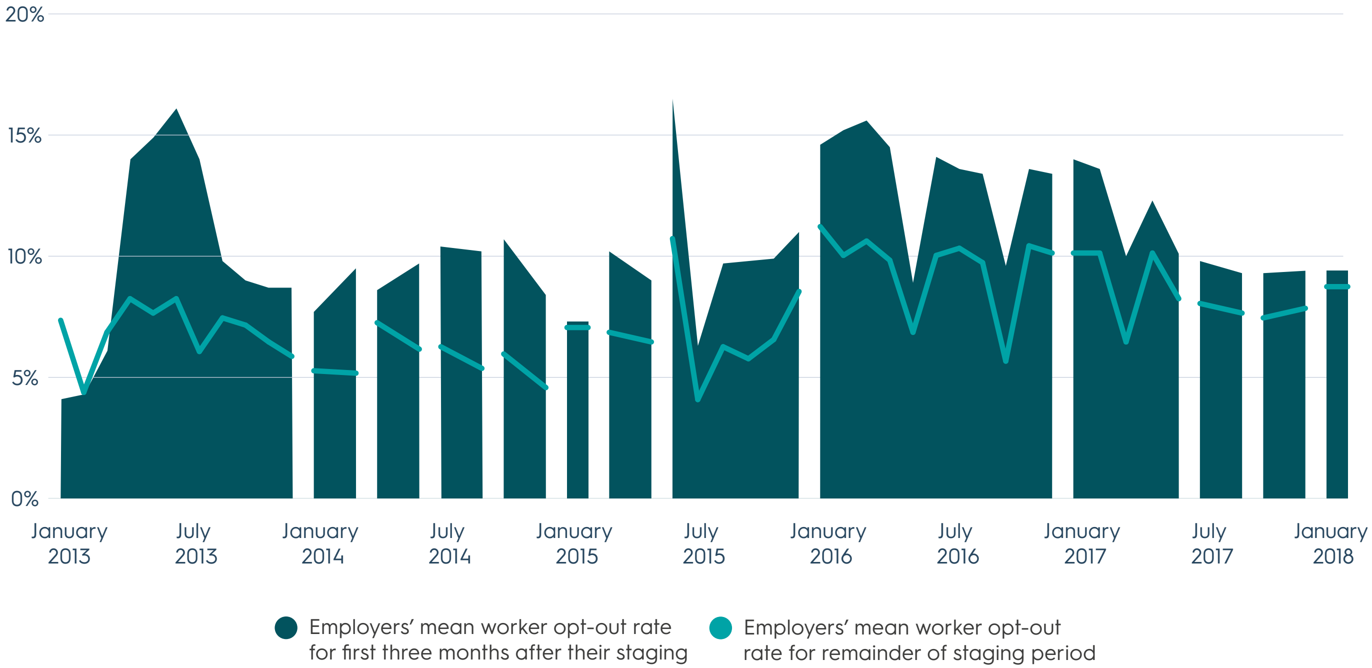
All automatically enrolled eligible jobholders, and non-eligible jobholders who have opted in, can opt out of pension saving. They must opt out, or submit notice to opt out, within one calendar month of being enrolled in a workplace pension.

Prior to the launch of auto enrolment, policymakers and researchers estimated that around 25% to 30% of workers would opt out of auto enrolment in a workplace pension.[11] In practice, opt-out rates have been much lower than this, with Nest reporting an overall worker opt-out rate of around 8% since the introduction of auto enrolment. Opt-out rates have varied over time, however.

Opt-out rates during staging

During the period when employers were being staged, opt-out rates varied month to month. Throughout staging, opt-out rates were higher where employers were enrolling all eligible jobholders for the first time than when enrolling new workers as part of their normal business activity, as seen in Figure 8.

Figure 8. Initial and ongoing opt-out rates, by staging date*



* Months where no employers were staged have been omitted from the figure. For information on staging breaks, see legislation.gov.uk/uksi/2010/4/regulation/4

11 This percentage was based on survey data where 15% reported they would probably or definitely opt out and another 14% said it would depend on the specifics, with the assumption being that some or all would opt out. Only 65% said they would stay in. Department for Work and Pensions (DWP), 'Attitudes to pensions: The 2012 survey' (2012), research report no. 813, gov.uk/government/uploads/system/uploads/attachment_data/file/193372/rrep813.pdf

It may be that in the period before each employer was brought into auto enrolment, workers were exposed to more information, over a longer period of time, describing the features of the new system, including information about the one-month window for opting out. Also, workers enrolled during an employer's staging period were in existing employment and thus more likely to see the effect of pension deductions from their pay, versus workers enrolled in subsequent periods who are less likely to notice these deductions because they've been enrolled as part of a new employment. This may have led to higher overall opt-out rates across employers' workforces in the first three months after they were staged compared with later.

Figure 8 also illustrates the difference in worker opt-out rates based on the size of the employer worked for. Larger firms, which were staged earliest, starting in October 2012, had higher numbers of workers opting out in the initial staging period than medium-sized employers, who were brought into the system in 2014 and 2015. Small and micro employers, which were staged later, starting in January 2016, also had higher opt-out rates.

Larger firms were more likely to have enrolled a subset of their workers in Nest at their staging date and these workers may have been lower paid compared to the overall workforce, perhaps making them more likely to opt out due to a perceived lack of affordability.

At small and micro firms, it was more likely that all workers, including higher earners, were enrolled. For this reason affordability may not have driven the decision to opt out. We hypothesise instead that workers at these firms may have more personal relationship with or empathy towards the owners or the overall financial position of their employer, particularly if their employer is a family-run business. In these cases, workers may be inclined to opt out at a higher rate to help reduce costs to the business. Although we don't know why these workers opt out at higher rates, it's noteworthy that the opt-out rate at small and micro employers continues to be highest by employer size as defined by the number of workers on the employer's payroll scheme.

Opt-out rates after staging

Since the end of the employer staging process in February 2018, virtually all new enrolments are made by existing employers who are enrolling workers through normal business processes. Most of these enrolments are newly employed workers but a percentage are workers who opted out (or ceased making contributions) previously. Each UK employer has been assigned a re-enrolment window, which falls every three years, where workers who have opted out of auto enrolment at least 12 months before, are automatically enrolled again. This auto re-enrolment policy aims to give non-participating workers an opportunity to revisit their decision.

Over the 12 months ending 31 March 2021 the opt-out rate for all enrolments in Nest was around 10.5%. This was slightly higher than the 10% opt-out rate seen over the 12 months ending 31 March 2020 and also higher than the overall mean opt-out rate of around 8% since the inception of the scheme.

The increase in opt-out rates in 2019/20 and 2020/21 should be considered in the context of higher minimum pension contribution rates of 8% total, including both the employer's minimum 3% contribution and tax relief for the worker's contribution, which came into effect starting in April 2019. At the 8% contribution rate, an opt-out rate of around 10% may be the new normal.

Profile of workers opting out

Before auto enrolment was launched, researchers and policymakers believed that opt-out rates might increase with age, with older workers more likely to opt out than younger ones. It was hypothesised that the decision to opt out would be driven, in the main, by a perception that it was too late to start saving through a new workplace pension.

Nest data backs this up. Table 4 shows that opt-out rates over the 12 months ending 31 March 2021 increased progressively with age. Interestingly, across most age groups opt-out rates for 2020/21 were slightly higher among men than women. This is a departure from what we've seen in previous years, where women across all age groups were slightly more likely to opt out.

Table 4. Opt-out rates by age and gender, 2020/21

Age*	Proportion of workers opting out	Women	Men
22 to 25	7.1%	7.1%	7.1%
26 to 30	8.5%	8.3%	8.7%
31 to 35	9.6%	9.0%	10.1%
36 to 40	10.3%	9.5%	10.9%
41 to 45	10.2%	9.2%	11.0%
46 to 50	10.8%	10.1%	11.4%
51 to 55	12.3%	12.0%	12.6%
56 to 60	15.8%	16.4%	15.1%
61 to 65	21.5%	23.3%	19.9%
All	10.1%	9.9%	10.3%

* Workers aged under 22 or aged 66 and older aren't subject to auto enrolment, so have not been included in this table.

Opt-out rates also vary depending on the size of the employer at which the worker is employed.

Small and medium-sized employers have the lowest opt-out rates. These businesses are slightly more likely to employ women and younger workers, so these lower opt-out rates may be a function of the fact that younger workers on average opt out less frequently than older workers (Table 4 on previous page).

As was the case during the staging period, opt-out rates are highest among workers at micro firms, as seen in Table 5. As mentioned earlier, it may be that workers at these very small employers have a greater affinity with their employer and choose to opt out to reduce business costs.

Table 5. Opt-out rates by employer's size, 2020/21

Employer size	Proportion of workers opting out
1 to 4 employees	12.8%
5 to 49 employees	9.4%
50 to 249 employees	9.1%
250 to 499 employees	8.1%
500 to 999 employees	10.9%
1,000 to 4,999 employees	10.0%
5,000 or more employees	10.0%

Workers' reasons for opting out

Where possible, Nest asks workers who opt out for the main reason behind their decision. The question is not mandatory, however, and only half of people who opt out of pension saving with Nest provide an indication of their thinking.

Among those answering, younger workers commonly cite lack of affordability while older workers commonly say that they're already saving into another pension scheme.

For enrolments made in 2020/21, the reasons given by workers opting out of Nest were largely the same as the cumulative results shown in Table 6, with one significant exception: a substantial increase in the proportion saying 'I can't afford it'.

In 2020/21, 37% of workers opting out gave this as a reason, with the increase distributed relatively equally across all age groups. This may reflect the higher minimum contribution rates which began in April 2019 or a general feeling of uncertainty about financial wellbeing during the pandemic.

Table 6. Workers' reasons for opting out, cumulative since start of auto enrolment

Reason for opting out	Total	22 to 25	26 to 30	31 to 35	36 to 40	41 to 45	46 to 50	51 to 55	56 to 60	Age 61 to 65
No reason given	50%	49%	50%	50%	50%	50%	50%	51%	51%	52%
Reason given (totalling 100%*)										
I already save in a pension scheme.	27%	10%	16%	21%	26%	32%	37%	38%	34%	31%
I can't afford it.	26%	45%	38%	34%	30%	25%	20%	15%	11%	8%
I don't trust pensions.	9%	11%	13%	13%	12%	10%	8%	7%	4%	3%
I have other sources of income for my retirement.	18%	11%	12%	13%	13%	14%	16%	21%	31%	36%
I plan to rely on the State Pension when I retire.	5%	3%	4%	5%	5%	4%	5%	5%	5%	8%
Nest isn't the right pension for me.	15%	19%	16%	15%	15%	15%	14%	14%	14%	14%

* Numbers may not total 100% due to rounding.

Workers stopping contributions

In addition to having an opportunity to opt out from auto enrolment during their first month, a Nest member has the option to cease making contributions to their pension pot at any point after they're enrolled. They can either do this themselves via their Nest account online or they can ask their employer to stop deducting contributions from their salary.

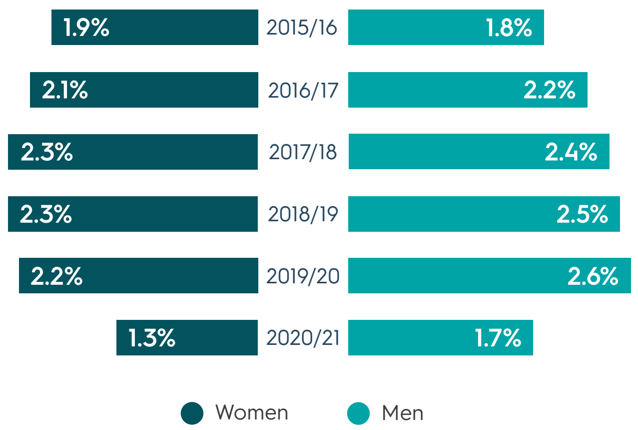
Nest is able to identify all members who have ceased making contributions where they've done this through their online account. However, Nest cannot differentiate members who have asked their employer to stop deducting contributions from those who have left their jobs. This is because, to simplify administration for employers, these two events have been coded together in Nest's data system since 2015.

The proportion of Nest members choosing to stop making pension contributions is quite small. Cumulatively, since the start of auto enrolment through to 31 March 2021, Nest has recorded around 335,000 member cessations, equating to around 2.3% of all enrolments in the scheme. This includes workers not represented in Figure 9 because cessations made through employers between 1 October 2012 and 31 March 2015 were recorded separately and can be counted towards the total.

There also does not appear to be a significant difference in cessation rates by gender, as shown in Figure 9. However, the cessation rate was noticeably lower in 2020/21 compared with recent years. While this will largely be a function of the shorter length of time since these enrolments were made, we can hypothesise that workers may have been reluctant to stop contributions during the pandemic. Many Nest members will have been furloughed from their employment and paid 80% of their usual salary through the government's Coronavirus Job Retention Scheme (CJRS). As part of the CJRS, pension saving contributions were protected, with employers still responsible for making their mandatory 3% minimum contributions. In addition, lower levels of cessation may reflect less job churn than usual, with employers incentivised to keep workers on despite the downturn because of the support provided by the CJRS. Our understanding of cessation during the pandemic is still evolving and more time needs to elapse before we can assess 2020/21 data against previous years' with more clarity.

The stability of cessation rates is interesting in light of the increased percentage of people who said they were opting out in 2020/21 because they felt pension saving was unaffordable for them. It suggests that auto enrolment has succeeded in getting people into the habit of pension saving and helping them stick with it through economic crises.

Figure 9. Proportion of enrolments in Nest ending in cessation*



* Cessations are accounted for at the date of the worker's enrolment, not the date when contributions were ceased. Data are shown only from 2015/16 due to a change in the way cessations were recorded starting in 2015.

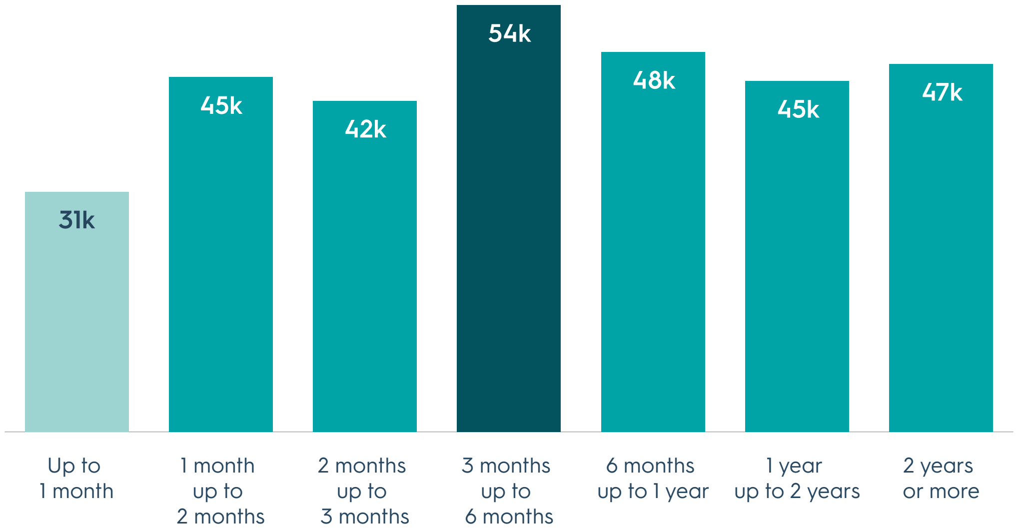
Timing of cessations

Around 10% of Nest members who stop making contributions have done so within the first month following their enrolment, as seen in Figure 10. For most workers this coincides with their opt-out window. Many of these workers may think that ceasing contributions is the same as opting out, not realising that if they opted out instead they would receive back any pension contributions deducted from their salary.

Around 30% of Nest members who stop making contributions do so in the second or third month following their enrolment. These workers may have intended or wanted to opt out but missed the window to do so.

When members cease making contributions through their online account, they're prompted to participate in a survey asking them why. The survey is voluntary, and so there may be a bias in the responses. However, around 1 in 2 people who do answer the survey say they're stopping their pension contributions because they have other financial priorities. The most common competing financial priority cited is 'I need money for bills and other everyday expenses'.

Figure 10. Members ceasing contributions, by length of time between enrolment and cessation



1 in 2

Members who stopped contributions and explained why, said they had other financial priorities

Chapter 3

Nest members

Nest Insight was set up to help better understand the challenges and needs of Nest members and people like them.

In Chapter 2 we presented data on enrolments in the Nest scheme, the volume and growth of which are good measures of the success of the UK's auto enrolment system as well as Nest's capacity to operate a workplace pension at mass scale.

Of arguably more importance is Nest's understanding of its members.

As at 31 March 2021 Nest had over 9.9 million members, representing a wide range of UK workers and providing a wealth of data about them. In this chapter we compare data from the scheme's management information system alongside Nest member surveys and official statistics to consider which individuals have been brought into pension saving and how this might shape the Nest scheme and the auto enrolment system in the future.

Nest's model

The Nest scheme was designed and developed prior to the launch of the UK's auto enrolment system. There were no existing employer or member accounts to analyse in order to understand members' needs, priorities and behaviour with respect to pension saving.

There was, however, a body of evidence to draw upon, including academic research, official statistics and surveys about the employers, predominantly in the private sector, and workers who were likely to be subject to auto enrolment because, on the whole, they were not then part of a workplace pension scheme. This research provided a base upon which to make assumptions about which employers might use Nest and who their workers – Nest's future members – were likely to be, within the age and earnings guidelines laid down in the auto enrolment legislation.

In the days before the first employers were staged, Nest focused in particular on understanding and serving those workers of special concern in the development of the auto enrolment reforms: low and moderate earners, defined as people with annual earnings of £35,000 or less, who were typically underserved by the financial industry in the past because their pension saving accounts were deemed less profitable.[12]

Nest conducted research to examine this target group of workers.[13] From the start, the purpose of such research has been to describe and anticipate not only the demographic profile of the current and future Nest membership but members' working lives – where they work, what experience they have of financial products and their attitudes towards pensions and saving. In Chapter 3 we look at the characteristics of Nest members – their age, gender, ethnicity, educational qualifications and household make-up. In Chapter 4 we explore their working lives in depth.

12 nestinsight.org.uk/uk-pension-reforms
13 Nest Corporation, 'Member research brief: Research to support the investment strategy' (2012), nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/member-research-brief,PDF.pdf

Key phrases

One member, one pot

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

Active members

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

Inactive members

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

Because Nest operates a 'one member, one pot' model, all contributions by a member who has been matched to a previous enrolment flow into a single, consolidated pension pot. This makes it easier for members to track the value of their retirement saving with Nest. It also enables Nest to better understand its membership, including who is actively making contributions, for how long on average they're active and how much is being contributed to their pot across their working life. Nest considers these factors, along with many others, when making decisions about how to design their pension investment products and help ensure that the scheme continues to operate in members' interests.

Following the one member, one pot model, if a worker doesn't opt out of auto enrolment within one calendar month of being enrolled in Nest, they are a Nest member until they exit the scheme. Members' accounts are closed only after they withdraw all of their pension pot for use in retirement, transfer out their pot value to another scheme or die and the value of the pot is bestowed on the member's beneficiary or beneficiaries.

Around 4.3 million (44%) of Nest's total membership were active and 5.6 million (56%) were inactive as at 31 March 2021. Approximately 300,000 individuals who were previously Nest members had exited the scheme by the end of 2020/21.

In this chapter, we consider all Nest members, both active and inactive, unless otherwise stated.

Member characteristics

The auto enrolment legislation took into account that very low earners might find auto enrolment unaffordable and might also have their working income adequately replaced in retirement by the State Pension, meaning they may not benefit from workplace pension saving.

Based on a total membership of around 9.9 million members as at 31 March 2021, we estimate that roughly 1 in 3 workers in the UK has a Nest pension pot.[14] Given the size of Nest's membership, one might expect that Nest members' characteristics closely resemble the overall working-age population of the UK. However, various eligibility thresholds for auto enrolment mean that Nest's membership differs from the overall labour force in important ways.

Gender and age

Although women are historically less likely to have been saving in a workplace pension than men, the annual earnings threshold set as a trigger for auto enrolment meant that the population of eligible jobholders under auto enrolment was made up of more men than women, by a ratio of around 2 to 1. This was because women tend to earn less than men and, in particular, are more likely to be in part-time employment. It was predicted that Nest's membership would be strongly skewed towards men.

In addition, prior to the first employers being staged into auto enrolment, research suggested that Nest's membership would be skewed towards younger workers, who were far less likely to be already saving into a workplace pension. It was estimated that around one third of Nest members would be 30 or younger.

As it turns out, the gender balance of Nest's membership evolved to be very different than anticipated, with around 53% of all Nest members being men and 47% women, with 0.008% of members having no gender listed on their enrolment. Among active members, the gender balance is closer to parity, with 51% men and 49% women.

In contrast, the age distribution seen to date very closely matches what was predicted, with around 30% of members being 30 or younger.

Figure 11 (next page) shows the age distribution of Nest's membership by gender.

The actual gender balance of the Nest membership is noteworthy. In this scheme data we may be seeing an interesting behavioural effect. Many employers, especially smaller employers, have a higher prevalence of non-eligible jobholders opting in to pension saving than was anticipated. Some of these workers may have been automatically enrolled by their employer in error, for example, if their employer was trying to eliminate the burden of pre-assessing the eligibility of their workers at the time of their enrolment. Other workers may have made an active choice to join their employer's pension scheme because it was available to them. Because women are over-represented at the lower end of the earnings distribution in many sectors, we see a higher volume of women opting in than men.

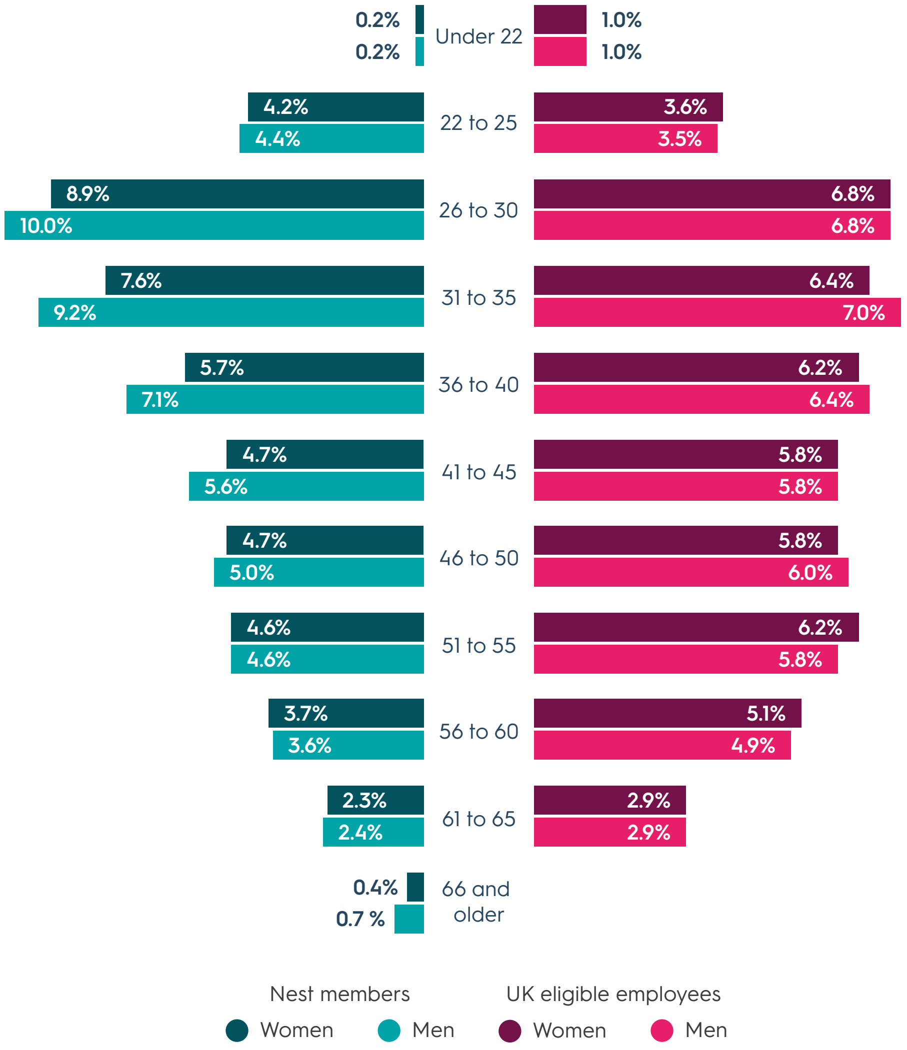
Key phrases

Earnings threshold

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

14 This is based on ONS statistics for June 2021, the latest release at the time of writing, which gave total payrolled employees in the UK as being 28.5 million. ONS, 'Labour market overview, UK' (15 June 2021), ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/june2021

Figure 11. Nest members compared with UK employees eligible for auto enrolment, by age and gender



Source: Nest Corporation and Labour Force Survey, January to March 2021

The age distribution of Nest's membership is in line with what was anticipated based on labour market dynamics. Nest has proportionally more workers aged 26 to 35 compared to the total universe of eligible jobholders in the UK. The proportions for workers 36 to 45 are roughly similar, while Nest has a much lower proportion of workers 46 and older than overall. Younger workers are more likely to be lower paid and to be employed in industries and jobs where a workplace pension scheme was not offered before the introduction of auto enrolment. In contrast, older workers are more likely to be in more established employment, including at employers which already offered the perquisite of a pension scheme.

Table 7 shows that more of the members currently enrolled in Nest by a small or micro employer are men while more of those enrolled by large employers are women. Members currently enrolled by small and medium-sized employers are marginally older on average than the rest of the membership when broken down by employer size.

Table 7. Active Nest members by gender and employer size

Employer size	Women	Men	Median age
1 to 4 employees	46%	54%	39
5 to 49 employees	47%	53%	40
50 to 249 employees	51%	49%	40
250 to 499 employees	52%	48%	39
500 to 999 employees	49%	51%	39
1,000 to 4,999 employees	52%	48%	39
5,000 or more employees	52%	48%	39
All active members	**49%**	**51%**	**39**

Membership projections

The goal of the UK's auto enrolment system was to bring into pension saving a large tranche of workers who were not currently saving in a workplace pension. Enrolling these unpensioned workers into a pension could be thought of as a 'big bang' event, albeit a big bang stretched out across a period of 5½ years due to the process of employer staging. Because a large proportion of the workers brought into pension saving were younger, younger workers were enrolled in Nest and schemes like Nest at greater volumes.

Now, in 2021, the only individuals being automatically enrolled for the first time are eligible jobholders entering the workforce who had not been subject to auto enrolment previously. These include those turning 22 (the bottom age threshold for auto enrolment) and those reaching the minimum earnings threshold for automatic enrolment (£10,000 in 2020/21). Most of these individuals are younger. Nonetheless, as Nest's membership ages, the relative proportion of younger members to older members will diminish.

Figure 12 (next page) shows the distribution of Nest's membership split by age and gender as at 31 March 2021. These are compared with Nest's estimates of the age and gender distribution anticipated for 2034/35 and 2049/50 based on current population trends and internal modelling.

By 2035 Nest expects that people in their 40s will comprise the largest age group among its members. These are the 25- to 30-year-olds of today who formed a large contingent in the initial 'big bang' of auto enrolment.

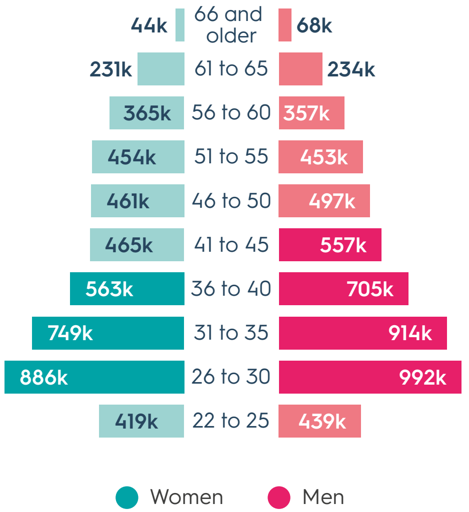
By 2050 Nest's age distribution is predicted to be much flatter, with no single age group over- or under-represented. By then, Nest expects to be serving workers in their 30s and workers in their late 50s in roughly equal proportions, and more in line with age distributions across the UK labour market.

At that point in the future, Nest also anticipates that it will be serving a much higher volume of members aged 66 and older. This will, in large part, be due to increases in State Pension age, from 65 at the launch of auto enrolment to 66 today and subsequently to 67 and then 68 in future years. People in the UK are also working longer in general, often past their State Pension age. In addition, Nest estimates that as member pot sizes become larger, there will be a greater take-up of the Nest Guided Retirement Fund product, in which members keep their pot in Nest after their retirement date, decumulating the balance in increments directly from Nest.[15] With these trends in mind, Nest estimates a greater proportion of its membership will be older than their State Pension age going forward.

15 nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/other-fund-choices/nest-guided-retirement-fund.html

These trends also raise fundamental questions about how auto enrolment schemes such as Nest view their membership base in the longer term. Nest understands that a large proportion of its current membership is young and new to pension saving. As the scheme matures alongside its initial cohort of members, the membership's priorities and needs may very well change.

Figure 12a. Age and gender distribution of Nest membership as at 31 March 2021



Source: Nest scheme data and Nest Corporation simulation modelling, 2021

Figure 12b. Nest membership, projected 2034/35

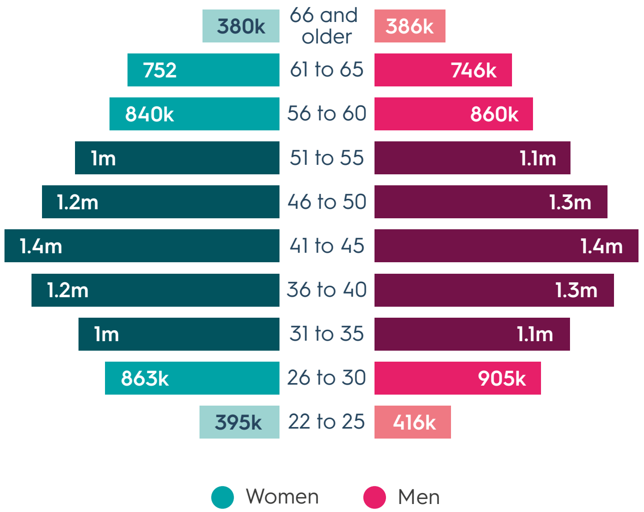
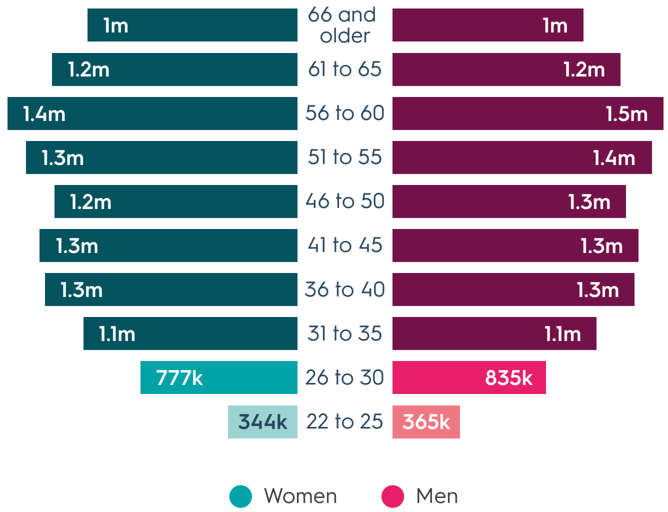


Figure 12c. Nest membership, projected 2049/50



Ethnicity

Before the scheme began to receive contributions, Nest's analysis suggested that people from a Black, Asian or another ethnic minority community would comprise a similar proportion of the target group for auto enrolment as they do in the UK's overall population.[16] So it was reasonable to expect similar proportions across Nest's membership.

16 nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/member-research-brief,PDF.pdf

Nest does not collect ethnicity data when individuals are enrolled in the scheme. This makes it difficult for us to conduct much in the way of detailed analysis of the number of members from a Black, Asian or another ethnic minority community, let alone uncover their differing experiences of pension saving through auto enrolment. In its surveys, Nest does, however, give members an opportunity to self-identify their ethnicity from among categories used in ONS studies, including the option of 'any other ethnicity'.

We combined several waves of Nest surveys to provide a larger base for analysis of the membership by ethnicity and compare this to Labour Force Survey data on the ethnicity of the overall working population eligible for auto enrolment.

At first glance, Nest's membership looks very much like the UK working population eligible for auto enrolment. Around 86% of Nest members identify as White, including White British, Irish, Gypsy and Irish Traveller (Figure 13).

Around 14% identified as one of 14 ethnicities that together make up the ONS's category of Black, Asian and Minority Ethnic communities. These include but are not limited to Black British, African, Caribbean, Indian, Pakistani, Bangladeshi, Chinese and mixed or multiple ethnicities. This closely mirrors the overall statistics for the working population eligible for auto enrolment, where around 88% of workers identify as a White ethnicity and 12% of workers identify as being from a Black, Asian or another minority ethnic community.

Figure 13a. Nest members by ethnicity

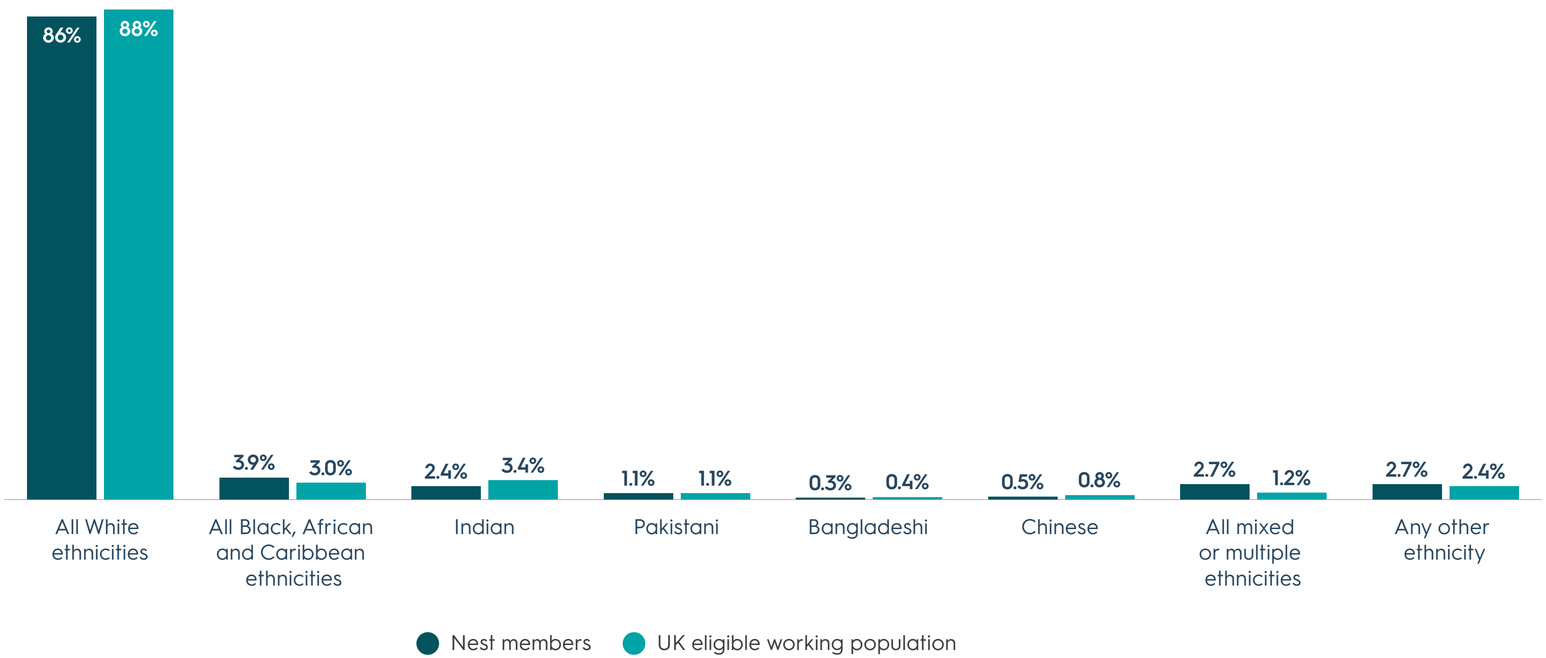


Figure 13b. Breakdown of White ethnicity

Source: Nest member surveys, 2017, 2018 and 2019, merged respondent base (9,199). Question: Which ethnic group do you identify with? Members who answered 'Prefer not to say' were excluded. Labour Force Survey, January to March 2021. A filter was applied to find those aged 22 to 65 and earning more than £7,500 annually as a proxy for auto enrolment eligibility. Self-employed individuals were excluded. Numbers may not total 100% due to rounding.

Looking more closely at people's ethnic identities, we see a slightly different picture. Only 69% of Nest members identified as White British, compared with 80% of the overall working population of the UK.

Much of the difference comes down to the fact that a far higher proportion of Nest members identify as 'White other' (16%) rather than as White British, Irish, Gypsy or Irish Traveller, compared with 8% of the overall working population who identify in this way. Because Nest collects information only about members' ethnicity and not their country of origin, we cannot say for certain what is driving this. But it seems reasonable to hypothesise that a substantial proportion of Nest members from another White ethnicity were likely to be European migrants.

The relatively small percentages of members identifying with each of the ethnicities mask the scale of diversity within Nest's membership. The 14% of members from Black, Asian and myriad ethnic minority communities equate to approximately 1.4 million individuals. The 16% selecting the 'White other' category equates to 1.6 million people.

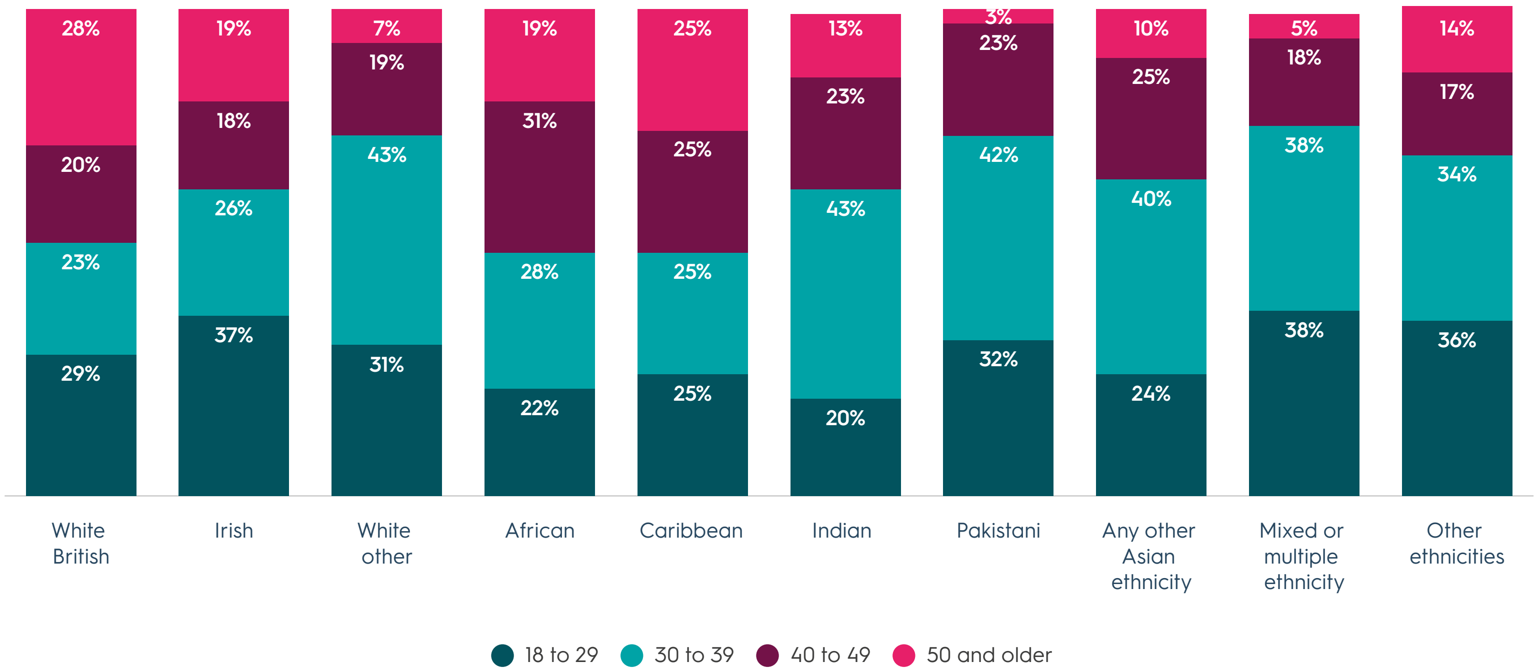
Gaps in pension saving appear to exist by ethnicity. Nest survey data indicates that members identifying as White British are more likely to have been active members than members from another ethnicity. Around 43% of White British members were currently contributing at the time of the survey in which they participated, compared with less than 40% for members from all other White and Black, Asian and ethnic minority communities. Among the groups with the lowest proportion of active versus inactive members were people identifying as 'White other' (32%) and those identifying as Pakistani (21%).

It is difficult to definitively tease out the reasons for these differences from the survey data. Age will likely have been one factor. White British members were more likely to be 50 and older (28%), and older workers are less likely to change jobs so frequently. In contrast, 'White other' and Pakistani members were under-represented among older members, with 7% and 3% of members in these respective ethnic groups aged 50 and older.

The age breakdown of Nest's membership by ethnicity may reflect migration trends as well as the general age profile of different ethnic groups within the UK population.

Figure 14 shows the distribution of Nest's membership by age and ethnicity where we had a large enough survey base to analyse age bands within the ethnicity. Here we see that 74% of Pakistani and 'White other' members are under 40. This is roughly 20% more than among members of a White British, African or Caribbean ethnicity.

Figure 14. Nest members' ethnicity by age



Source: Nest member surveys, 2017, 2018 and 2019, merged respondent base. Questions: Which ethnic group do you identify with? / Which of the following age groups do you fall into? Members who answered 'Prefer not to say' were excluded. Some ethnic groups have not been included in the figure because the base sizes were too small for analysis. Numbers may not total 100% due to rounding.

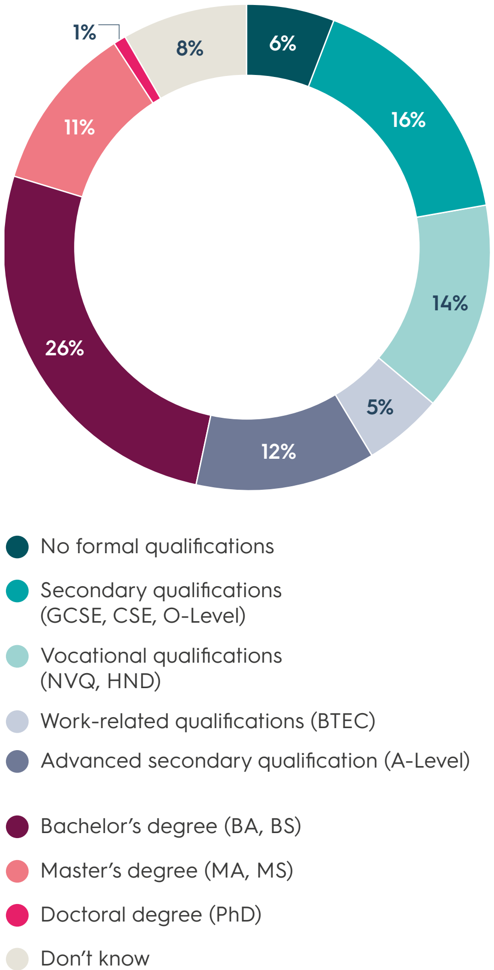
Education

In member research conducted before its launch, Nest also considered the likely levels of educational attainment across the target group of low and moderate earners.[17] It was evident that workers with higher levels of educational attainment were more likely to be already saving in a pension scheme, while among the target group for auto enrolment, only about one quarter had a degree-level qualification.

These assumptions helped to shape predictions about the career patterns that Nest members might have as well as their likely level of general and financial literacy.

Reviewing the data from Nest's member surveys we find a much higher proportion of respondents reporting that they have degree-level or higher qualifications than was originally expected. Nearly 4 in 10 (38%) said they had at least a degree-level qualification (Figure 15).

Figure 15. Nest members' highest level of educational qualification



Source: Nest member survey, December 2020, all respondents. Question: What is the highest level of qualification you have obtained? Numbers may not total 100% due to rounding.

17 nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/member-research-brief,PDF.pdf

When we consider these survey responses against the person's membership status, we discover that members with higher qualifications were slightly more likely to be inactive – that is, they were not currently contributing to their Nest pot – with 41% of non-contributing members holding a higher qualification, compared with 34% of contributing members. Conversely, those with lower qualifications were slightly more likely to be active members, with 25% of contributing members having no higher qualification than GCSE level, compared with 21% of non-contributing members.

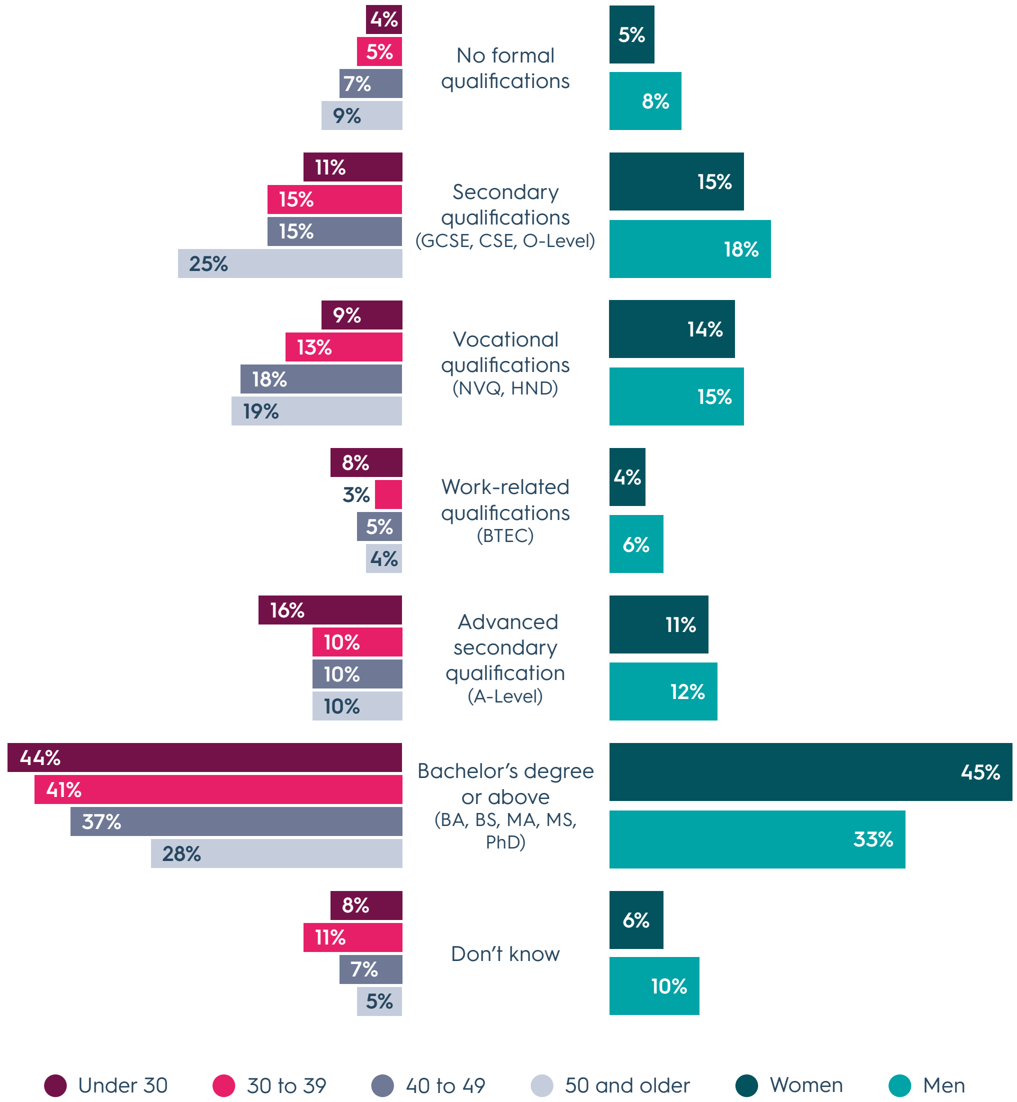
Of course, educational attainment is not an isolated factor in a person's life. A member's level of qualifications partly determines the jobs and careers open to them. So, the slight skew towards more consistent saving among Nest members with lower educational attainment may primarily be a product of career patterns, which in turn influence members' propensity to regularly contribute to their Nest pot for longer stretches of their working life.

Breaking down the data by age provides additional insights into Nest's membership, as shown in Figure 16. Members aged 50 and older (28%) were noticeably less likely to have a degree-level qualification, while those under 40 (40%) have at least a bachelor's degree. This is presumably a reflection of long-term societal changes which have seen many more people in the UK going on to further education over the past 25 years than had previously been the case.

It's also notable that Nest members 50 and older were much more likely than any other age group to have no more than a GCSE level or similar qualification. Around 25% said this was the case. However, both members in their 40s and those 50 and older were somewhat more likely (1 in 5) than members under 30 (1 in 10) to have a vocational qualification.

For additional context, Figure 16 looks at Nest members' educational attainment by gender. Women (45%) are more likely than men (33%) to have a degree-level qualification. As with educational attainment by age, this may reflect larger societal trends, with women for several years being more likely to go on to university than men. However, this may also be influenced by the types of employers using Nest for their workers.

Figure 16. Nest members' highest level of educational qualification, by age and gender



Source: Nest member survey, December 2020, all respondents. Question: What is the highest level of qualification you have obtained?

Life stages of members

Members' households

In the next chapter, we look at Nest members' working lives, including their earnings. To truly understand the financial position of members, we should consider their wider resources, social capital and lifestyle, including but not limited to the financial health of their whole household.

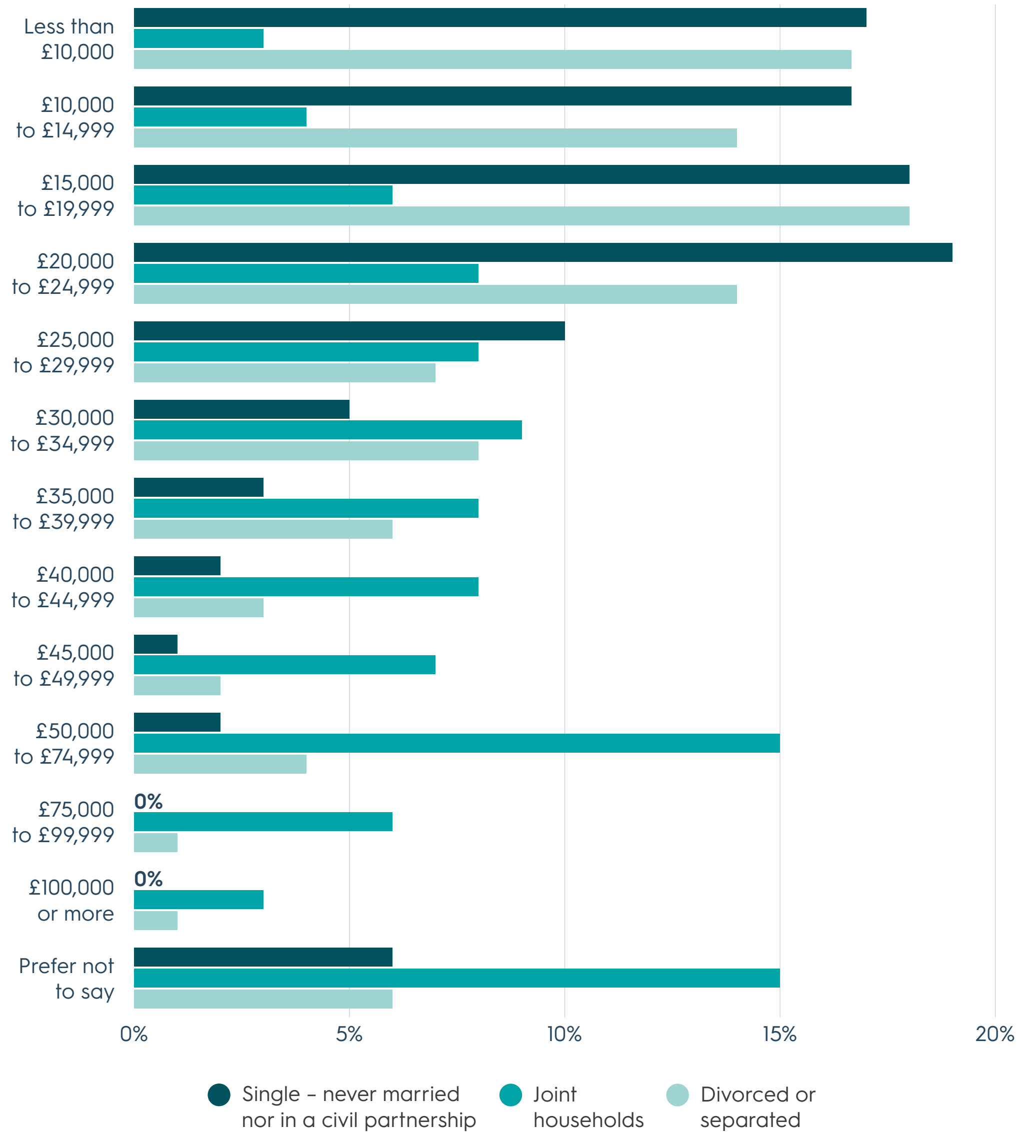
Nest scheme data only provides information on the individual enrolled in Nest. So we have used Nest's member surveys to gain a view into the relationship between a member's household composition and their household earnings.

In a 2020/21 survey of Nest members, almost 31% described themselves as single, 9% said they were divorced, separated or widowed, and 52% were either married, in a civil partnership or living with their partner. Nest then asked respondents who were in a couple about their joint household income. Figure 17 shows self-reported household income alongside the self-reported personal income of Nest's single and divorced members (due to small sample size, widowed members were excluded from the comparison).

The comparison demonstrates how looking merely at personal income can mask the potentially very different and improved circumstances for those members who have (or expect to have) access to a joint income, compared with those reliant only on their own income. Almost one quarter of members in a joint household have a household income of £50,000 or more, compared with 2% of single members and 5% of divorced members reporting personal income at this level. In fact, around half of single members and divorced members report having an income of less than £20,000 a year.

The importance of understanding members' financial circumstances at the household level is further demonstrated when we contrast the personal income data with the joint household income of Nest members who are living with a spouse or civil partner. Around 6% of members who were in a joint household said their personal income was £50,000 or more, while 24% said their joint household income was £50,000 more.

Figure 17. Nest members' household income, by marital or civil partnership status



Source: Nest member survey, December 2020, all respondents who were single, divorced or married, in a civil partnership or living with their partner (6,993). Questions: Which of the following bands best describes your joint total income with your partner per year before tax? / Which of the following best describes your current circumstances? Numbers may not total 100% due to rounding.

Presence of dependants

Children place an additional call on household finances. According to the Child Poverty Action Group's 2020 'Cost of a child' report[18], the cumulative cost of raising a child from infancy to age 18, including the costs of extra housing and childcare, was over £150,000. For single parents, the cost can be £35,000 higher, due to the need for more childcare provision.

In addition, joint households with children may see a fall in their household income during a child's early years if a parent reduces their working hours or stops paid work for a period to spend more time as a carer. Typically, women are more likely than men to do this. By the time they reach age 28, mothers spend 15 fewer hours per week in paid employment on average compared with fathers.[19] And after parental leave or time away from paid employment, 61% of mothers return to work part-time.[20]

Because of these and other financial costs, Nest asks members in its surveys if they have any dependent children living at home with them. Overall, 30% of members report having a dependent child or children at home, with those in their 30s or 40s being by far the most likely to say this.

For most members with children at home, their child or children are of school age. Among members 50 and older with children living at home, almost half (45%) said they had financially dependent children aged 18 or older living with them.

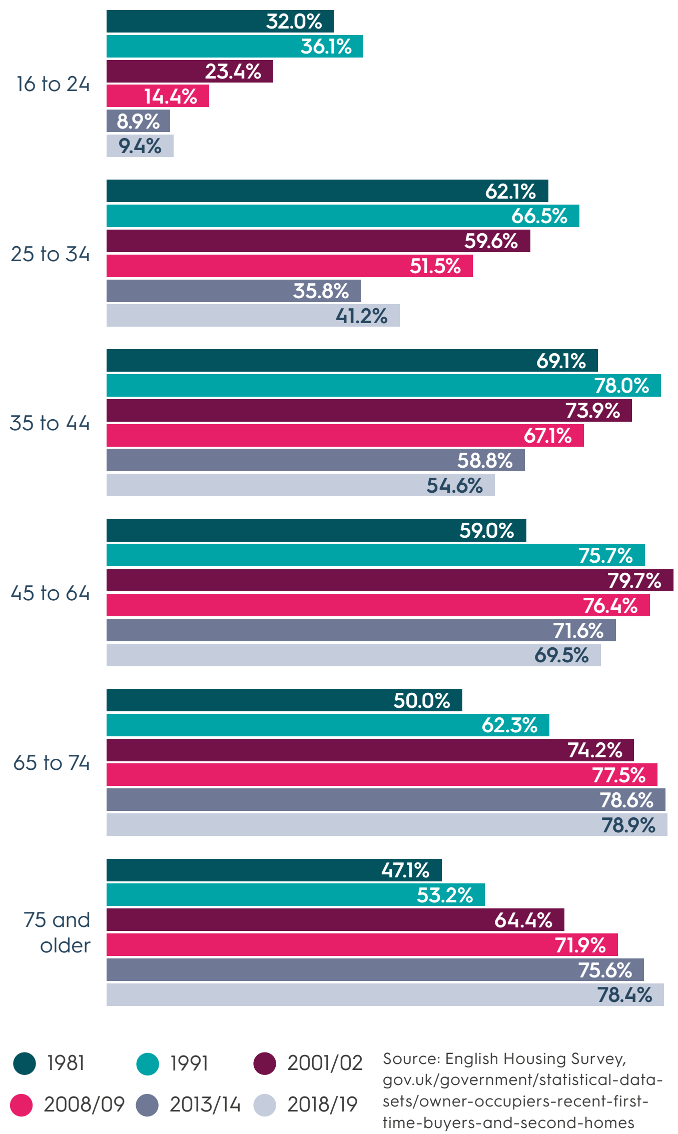
18 Child Poverty Action Group, 'Cost of a child' (29 October 2020), cpag.org.uk/policy-and-campaigns/report/cost-child-2020
19 Resolution Foundation, 'The times they aren't a-changin': Why working hours have stopped falling in London and the UK' (18 January 2020), resolutionfoundation.org/publications/the-times-they-arent-a-changin
20 Chartered Insurance Institute, 'Insuring women's futures' manifesto: The full report' (January 2020), insuringwomensfutures.co.uk

Home ownership

Over the past 20 years, house prices in the UK have increased significantly. This has had a detrimental effect on home ownership rates among younger adults, delaying the age when people move to owning their home. The percentage of people in the UK who never get on the housing ladder is likely to go up, despite a number of government initiatives over the decades to encourage home ownership. Figure 18 shows how home ownership rates have changed on an age cohort basis, from the early 1980s to the present.

In general, as generational cohorts have got older, the propensity to own their home has increased. For cohorts aged 65 and older, this pattern has held in every survey period. For people 45 to 64, it largely held until around the time of the global financial crisis in 2008/09, when home ownership began to decline slightly. For those under 45, the prospect of owning one's own home has been slipping away. In the early 1990s around 67% of 25- to 34-year-olds were homeowners, while in 2018/19 only 41% were.

Figure 18. UK home ownership rates by age, 1981 to 2018/19



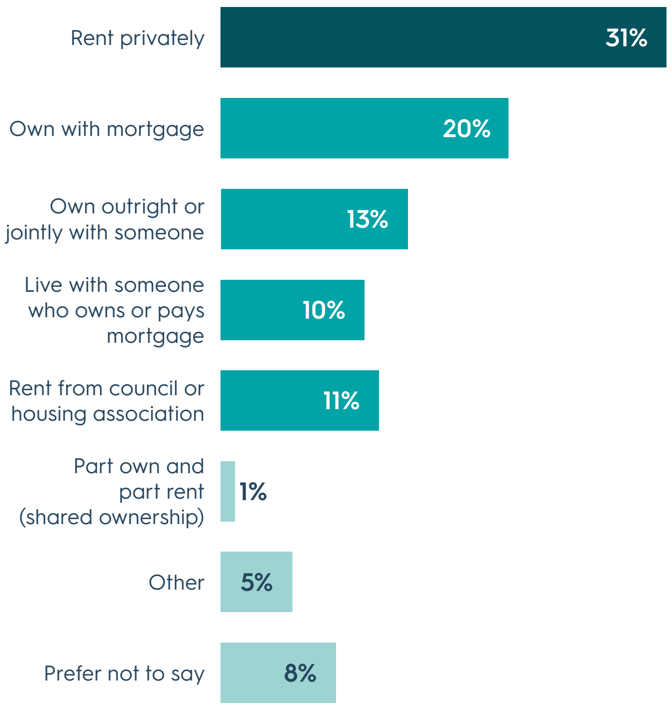
Source: English Housing Survey, gov.uk/government/statistical-data-sets/owner-occupiers-recent-first-time-buyers-and-second-homes

When asked on surveys about their plans for retirement, many members say they plan to rely on the value of their home to help finance living in retirement. While this is often an aspiration, it won't, in reality, be possible for many. Indeed, since today's younger generations appear unlikely to have the same levels of home ownership at any age compared with older generations, it is becoming an even more remote possibility for the majority of people.

More importantly, however, if these trends in home ownership continue, the proportion of people retiring who are in rented accommodation is likely to increase substantially. Because renting a home tends to be more expensive than owning, this could have a profound effect on the income members need in retirement.

This trend data from the English Housing Survey offers an indication of the challenges many of Nest's younger members could very well face in their efforts to own a property outright by the time they are retiring. The scale of this challenge is emphasised when we look at Nest survey data. Only one third of members said they currently own a property either outright or with a mortgage. Roughly another one third reported that they were renting privately, as shown in Figure 19.

Figure 19. Nest members' housing tenure



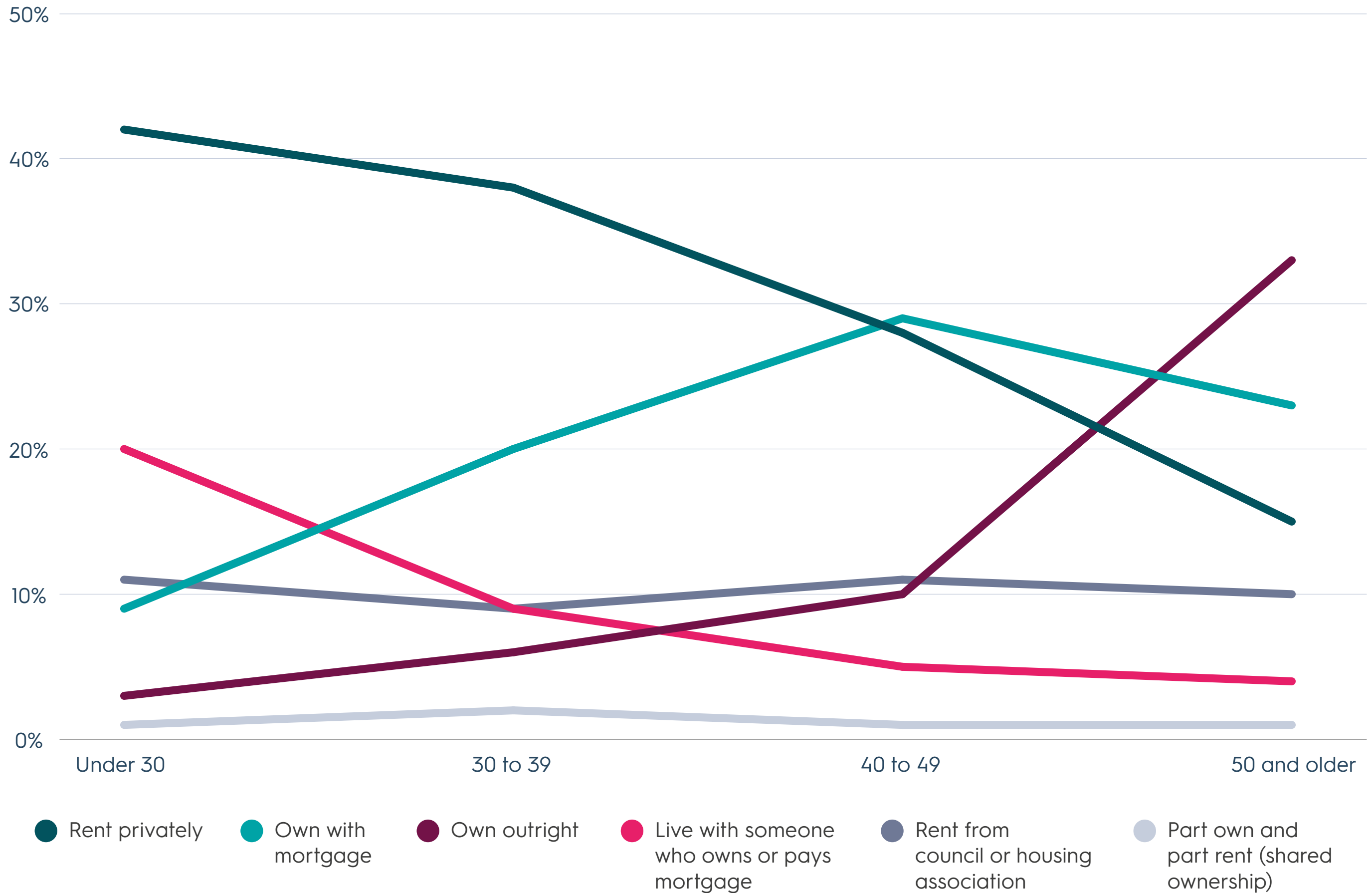
Source: Nest member survey, December 2020, all respondents. Question: Which one of these statements applies to the property you currently live in? Numbers may not total 100% due to rounding.

> **Many members say they plan to rely on the value of their home to help finance living in retirement. While this is often an aspiration, it won't, in reality, be possible for many.**

In Figure 20 we break this data down by age. The majority of Nest members aged 50 and older own the property they live in, whether owning it outright or paying towards a mortgage. Among members aged 40 to 49, around equal proportions rent their living accommodation privately as own one with a mortgage. Younger members are most likely to rent privately.

In light of the trends in home ownership revealed through the English Housing Survey, it's very likely that substantial numbers of Nest members will reach retirement still renting privately or, where they do own the property they live in, they'll still be paying towards an outstanding mortgage.

Figure 20. Nest members' housing tenure, by age



Source: Nest member survey, December 2020, all respondents. Question: Which one of these statements applies to the property you currently live in? Members who answered 'Other' or 'Prefer not to say' (13% total) have been excluded from the figure.

Chapter 4

Members' working lives

Nest was set up specifically to provide employers with access to a workplace pension scheme where workers had traditionally not been served by the existing pensions market.

Research conducted by Nest in 2011, prior to the launch of auto enrolment, suggested that those already saving into a workplace pension were earning more compared to the overall UK labour force. In 2011 Nest estimated that median annual earnings for individuals saving into a workplace pension was around £30,600, which was then roughly equivalent to being in the top 25% of the distribution of earnings for all UK workers. The target group for pension reforms, on the other hand, had median annual earnings of around £19,800, about 35% less. Auto enrolment was partly intended to redress this gap.

Restrictions placed on Nest's operations in the early years of auto enrolment were designed to ensure that the bulk of workers enrolled in Nest were part of the target group of low to moderate earners. These restrictions were removed in 2017.

Members' median earnings

Across the UK labour market, annual earnings are positively skewed. This occurs because very high salaries at the upper end of the earnings distribution have the effect of increasing the mean, or average, relative to the median, which is the middle point of the distribution when all the values are ordered, with 50% of people below the median and 50% above it. Looking at median earnings helps to give us a clearer picture of the earnings profile of the Nest membership.

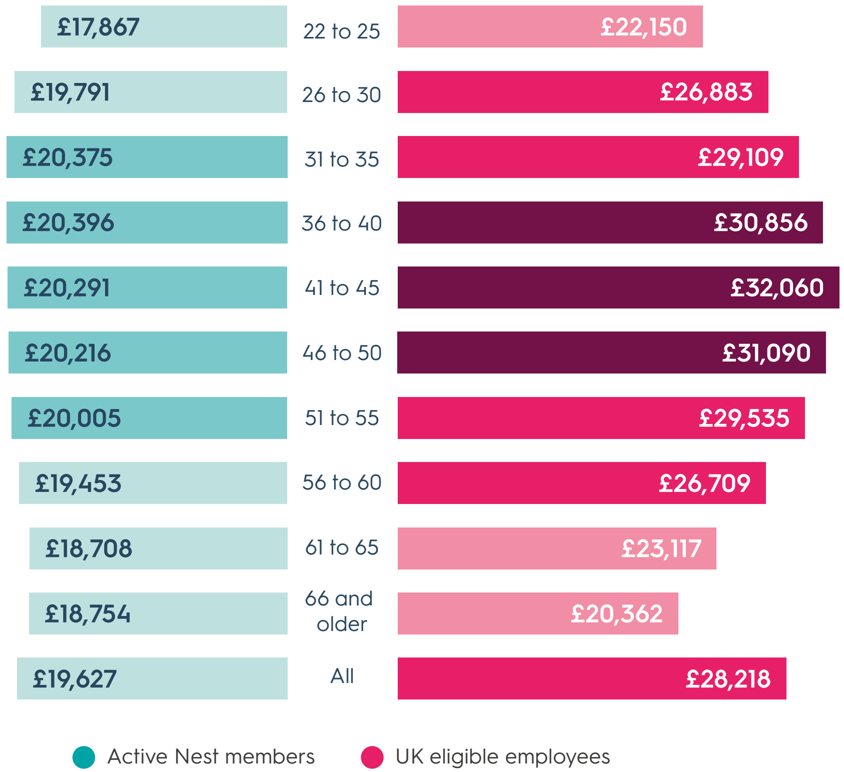
Using Nest scheme data, we can estimate members' gross annual earnings to see if, in practice, they remain in line with Nest's expectation of serving low to moderate earners. As at 31 March 2021, we estimate the median annualised income for all Nest members was £19,300. For active members it was only very slightly higher, at £19,600.

To see how this compares to the wider labour market, we have compared Nest scheme data with the Annual Survey of Hours and Earnings (ASHE).[21] We compared Nest members to a subset of all UK employees, specifically those workers who were members of a workplace pension scheme. We refer to this population from ASHE as 'UK eligible employees', although it should be noted that membership of a pension scheme does not necessarily mean the worker is eligible for auto enrolment. Among these UK eligible employees, the median annualised income was £28,200, roughly 44% more than the median for active Nest members.

In Figure 21 we consider median earnings by age for active Nest members compared with UK eligible employees. Median income was relatively flat across age bands for Nest's membership. In contrast, for UK eligible employees it followed a normal distribution, which means income increased by age in younger age groups, then started to decrease by age in older age groups.

21 ONS, Annual Survey of Hours and Earnings (ASHE), ons.gov.uk/surveys/informationforbusinesses/businesssurveys/annualsurveyofhoursandearningsashe

Figure 21. Median earnings of active Nest members and UK eligible employees, by age



Source: Nest Corporation and ONS, Annual Survey of Hours and Earnings, ad-hoc data service (2021), ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/adhocs/13317annualsurveyofhoursandearningsasheestimatesofgrossannualearningsofallemployeesandthosewithaworkplacepensionbyspecifiedagebandsapril2020

Distribution of earnings

Overall, the difference in mean earnings between Nest members and UK eligible employees widens through the earnings distribution. The bottom 10% of earners among Nest members earn on average 15% less than the bottom 10% of earners in the ASHE population of UK eligible employees. The top 10% of earners among Nest members earn on average 38% less than the top 10% of earners among UK eligible employees (Figure 22).

When comparing these earnings, a clear gender gap emerges. The earnings of active Nest members who are women are much closer, on average, to the UK eligible employees who are women than the corresponding comparison for men. However, the gap in earnings between active Nest members and UK eligible employees is relatively consistent for men across all deciles of the distribution, from the bottom 10% of earners through to the top 10% of earners. Therefore, we believe that Nest is serving a similar segment of men across the labour market – those earning around one third less than the overall population of men saving in a workplace pension.

For women the story is more complicated. Comparing the bottom 10% of women earners in the Nest membership to the same decile of UK eligible employees, the active Nest members were earning around 5% less. The gap for women earners widens through the distribution to around 35% when comparing the top 10% of earners in each population. We suspect that among the lowest earners, women who are active Nest members are effectively similar to all women who are saving in a workplace pension. In contrast, among higher earners, women who are Nest members earn significantly less, on average, than all women who are saving in a workplace pension.

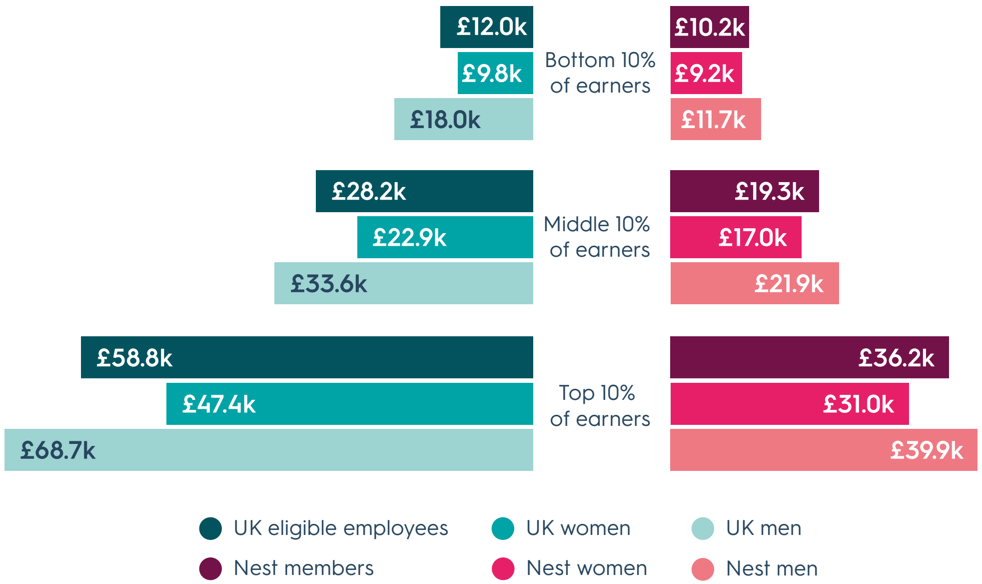
Nest member surveys provide another angle from which to consider the earnings distribution of the scheme's membership. Members self-report their personal income on these surveys, which can introduce a bias in the data, but it remains a useful check against the earnings reported in scheme data, which is supplied by the enrolling employer and may not capture all of a member's income. In addition, members are asked to select the closest £5,000 income band rather than disclose their exact annual income in the surveys. It's therefore not possible to make exact comparisons with the earnings data derived from scheme management information.

During the survey conducted in December 2020, Nest asked members for permission to match their survey responses to their scheme data. For those who granted this permission, we were able to compare their self-reported annual income with the income we had derived from scheme data. We observed similar patterns of income distribution in data from both sources.

At the individual level, members' self-reported personal income from the survey did not always match the gross annual income we derived from scheme data. However, in 8 in 10 cases the figure from Nest scheme data fell into either the same £5,000 income band as that reported by the survey respondents or the £5,000 income band above or below it. Any variance between self-reported personal income and our derived gross income figure was likely a result of one or more factors:

- some survey respondents may have 'inflated' their salary, for example, either giving a socially desirable answer or overstating the annual amount in error
- some survey respondents might have had personal income from jobs or sources other than the employment on which their Nest pension contributions are calculated
- our ability to generate a derived gross income for some members may have been limited by a lack of contribution data or sporadic contribution history

Figure 22. Distribution of earnings for Nest members and UK eligible employees

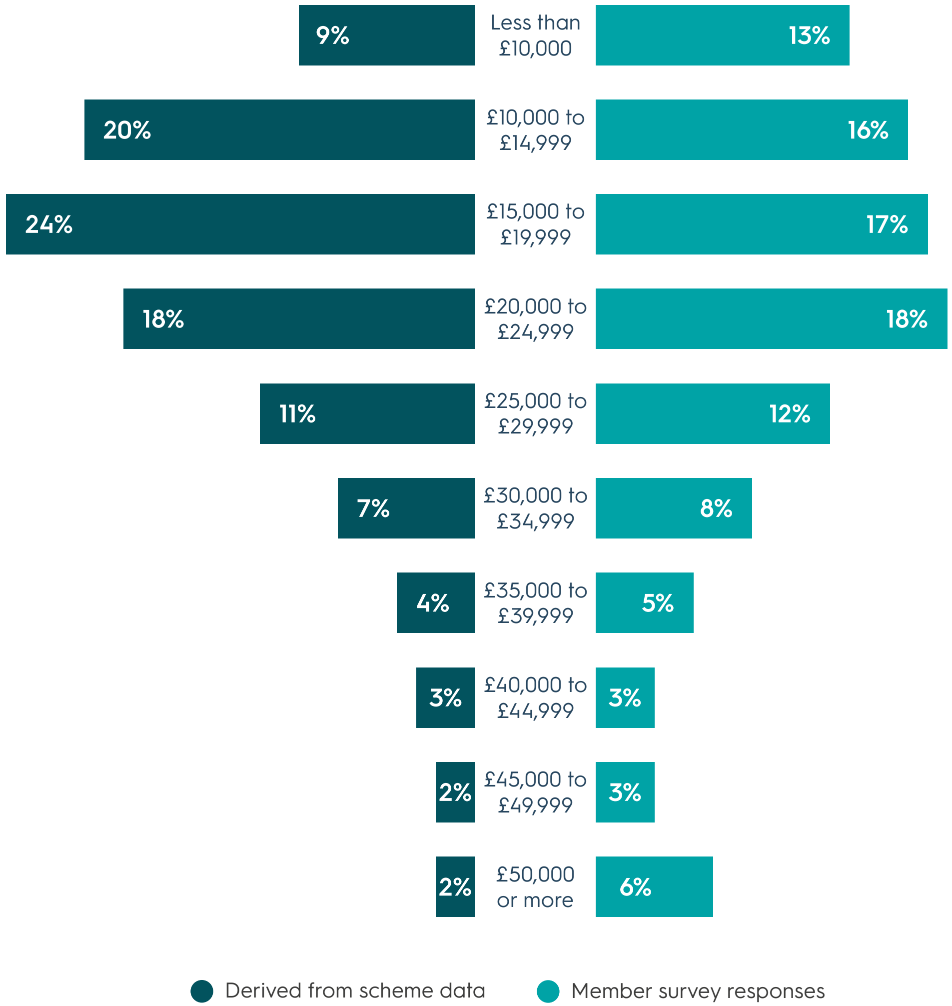


Source: Nest Corporation and ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/adhocs/13317annualsurveyofhoursandearningsasheestimatesofgrossannualearningsofallemployeesandthosewithaworkplacepensionbyspecifiedagebandsapril2020

In Figure 23 we compare Nest survey data with our derived income from scheme data, looking at the distribution of earnings across £5,000 income bands. As in our analysis at the individual level, the patterns of distribution for the survey and our derived income were similar. There were, however, some differences at the extreme ends of the income distribution scale.

Our analysis of Nest scheme data suggests a higher proportion of members have a personal income of less than £20,000 (53%) than the percentage of survey respondents reporting their income at this level (46%). Likewise, Nest survey data suggests a slightly higher proportion of members earn £50,000 or more (6%) compared to the income derived from Nest scheme data (2%). It may be that higher earners were more likely to respond to the survey or that lower earners were less likely to respond. Overall, while there are slight variations between the two data sets, the similarities between them provide a high degree of confidence in our analysis of members' personal income.

Figure 23. Nest members' personal annual income, scheme data versus survey data



Source: Nest scheme data and Nest member survey, December 2020, all respondents. Question: Please can you tell us in which of the following brackets your own total salary before tax per year falls into? Please include any bonuses but don't include any tax credits or benefits. Members who answered 'Prefer not to say' were excluded. Numbers may not total 100% due to rounding.

By analysing Nest survey data, we are able to break down income distribution by members' working status, something that it's not possible to do with scheme data only. This provides some additional context for understanding the patterns of income distribution across different types of Nest members. For example, in Figure 24 (next page) we look at personal income by whether the members reported being employed full-time or part-time, and in Figure 25 (next page) we look at it for the small segment of the Nest membership that describes themselves as self-employed.

Among members working for an employer, we see a stark divide in income distribution between those working full-time and those working part-time. Over half of Nest members employed part-time earn less than £15,000, compared with 12% of those employed full-time. The large majority of the part-time workers were women.

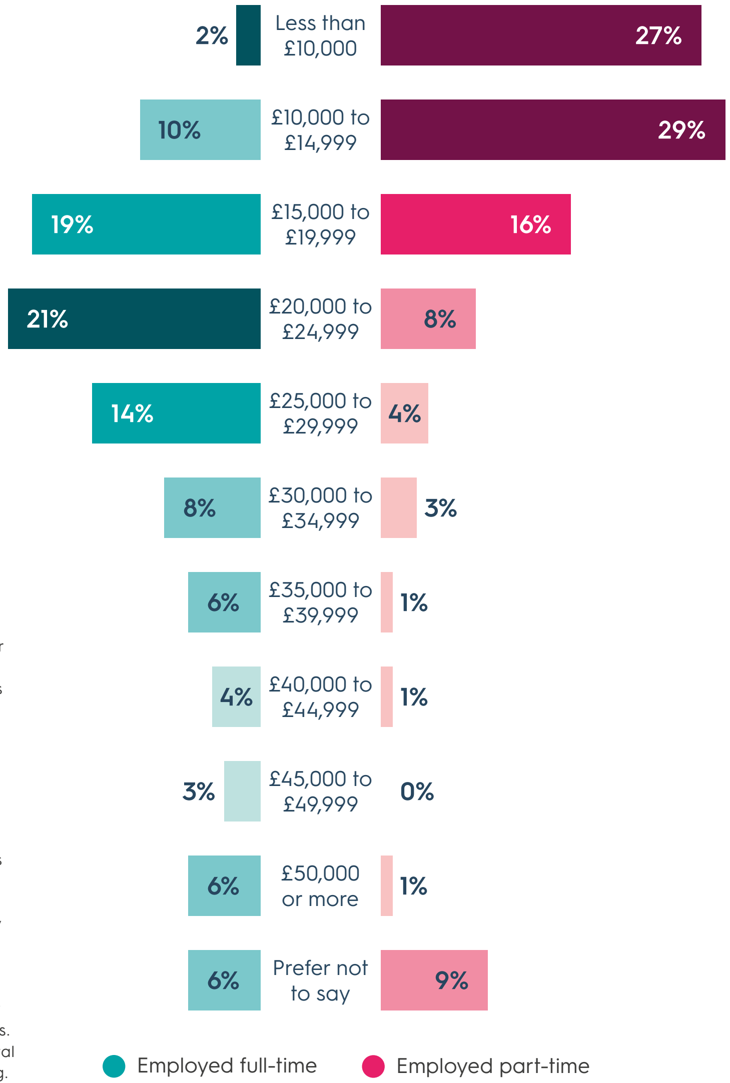
It's not possible for us to generate an accurate median income from Nest survey data because respondents are asked to select an income band rather than providing an exact figure. However, we can see in Figure 24 that over 60% of full-time workers say they have an income of £20,000 or more. This indicates that the median income for Nest members employed full-time is likely slightly higher than the £19,600 derived from scheme data. Regardless, this is lower than the median income of £32,400 for all full-time UK eligible employees.[22]

22 ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/adhocs/13317annualsurveyofhoursandearningsasheestimatesofgrossannualearningsofallemployeesandthosewithaworkplacepensionbyspecifiedagebandsapril2020

The majority of Nest members in the survey described their working status as employed, whether full- or part-time. A small minority, 7%, said they were self-employed. Within this group who self-identified as being self-employed there was an even greater skew towards the lower end of the income distribution scale, with 40% of members who said they were working on a self-employed basis part-time reporting annual earnings of less than £10,000 (Figure 25).

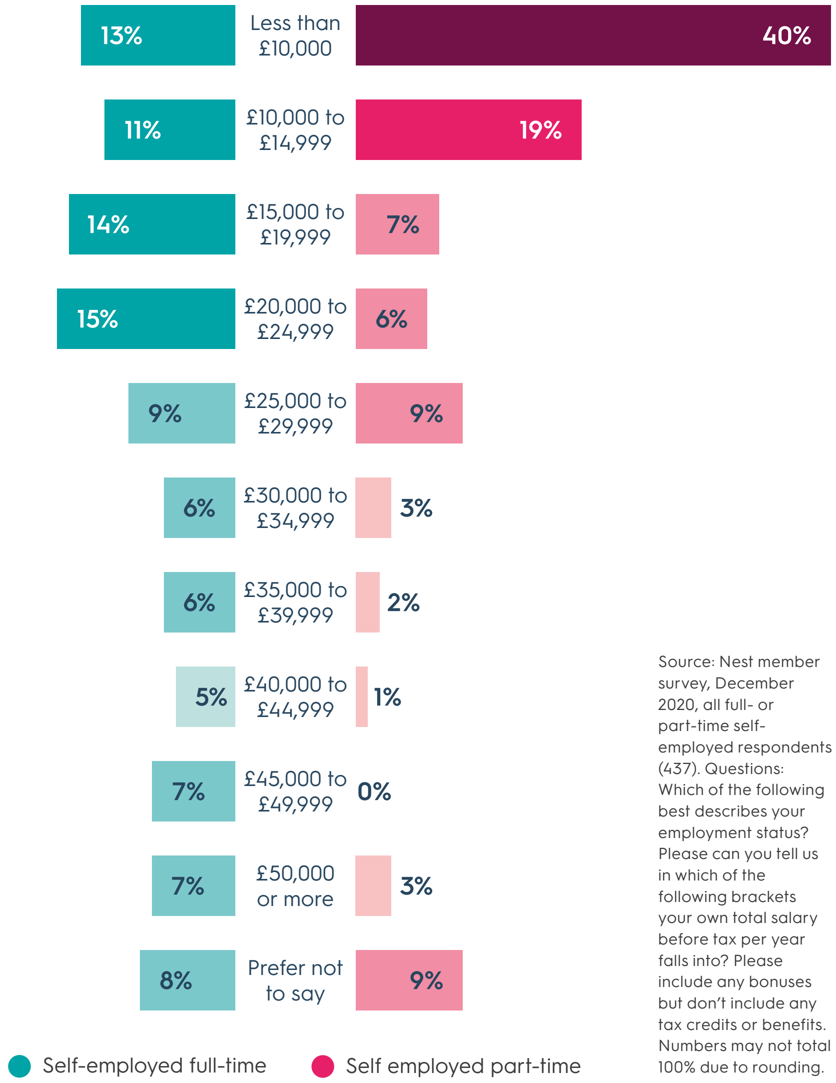
The income distribution for members who said they were working full-time on a self-employed basis also differs slightly from that for members working for an employer full-time. Fewer members who said they were self-employed for 30 or more hours each week reported personal income of £15,000 to £30,000 per year, and more said their income was less than £15,000, compared with full-time employed members.

Figure 24. Employed members' personal annual income, by working status



Source: Nest member survey, December 2020, all respondents working for an employer full- or part-time (5,219). Questions: Which of the following best describes your employment status? Please can you tell us in which of the following brackets your own total salary before tax per year falls into? Please include any bonuses but don't include any tax credits or benefits. Numbers may not total 100% due to rounding.

Figure 25. Self-employed members' personal annual income, by working status



Source: Nest member survey, December 2020, all full- or part-time self-employed respondents (437). Questions: Which of the following best describes your employment status? Please can you tell us in which of the following brackets your own total salary before tax per year falls into? Please include any bonuses but don't include any tax credits or benefits. Numbers may not total 100% due to rounding.

Earnings by gender

As noted in Chapter 3, it was presumed in the lead-up to staging the first employers into the auto enrolment system that, due to the earnings threshold for worker eligibility, proportionally fewer women would be enrolled in a workplace pension because women make up a greater proportion of workers at the lower end of the earnings distribution. But as we saw earlier, the Nest membership is nearly balanced by gender, with 53% men and 47% women.

That said, there is a clear differential in mean earnings between men and women who are members of Nest. Table 8 shows that for all Nest members, men's mean annual earnings were £24,300, around 28% higher than women's mean earnings of £19,000. Among active members, the difference is very slightly greater, with men's mean earnings at £24,800, around 29% more than for women at £19,200.

Across all UK eligible employees, median annual earnings are approximately 82% of mean earnings.[23] Nest members show a slightly narrower distribution than this, with median earnings about 90% of mean earnings for both women and men. This ratio is in line with the distribution of earnings for Nest members, as shown in Figure 22 (page 50). This means that there are proportionally fewer very high earners in the Nest membership.

23 ONS, Annual Survey of Hours and Earnings, 'Earnings and hours worked, age group: ASHE table 6' (3 November 2020), ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/agegroupashetable6

Table 8. Nest members' annual earnings, by gender and member activity, versus UK eligible employees

	All Nest members		Active members		UK eligible employees	
	Mean	**Median**	**Mean**	**Median**	**Mean**	**Median**
Women	£19,000	£ 17,000	£19,200	£ 17,225	£27,470	£ 22,850
Men	£24,300	£ 21,850	£24,800	£22,400	£41,050	£33,610

Gender pay gap

Across the UK labour market there exists a gender pay gap of around 16%.[24] This pay gap is calculated as the difference between mean hourly earnings (excluding overtime) for men and women as a proportion of men's mean hourly earnings (excluding overtime).

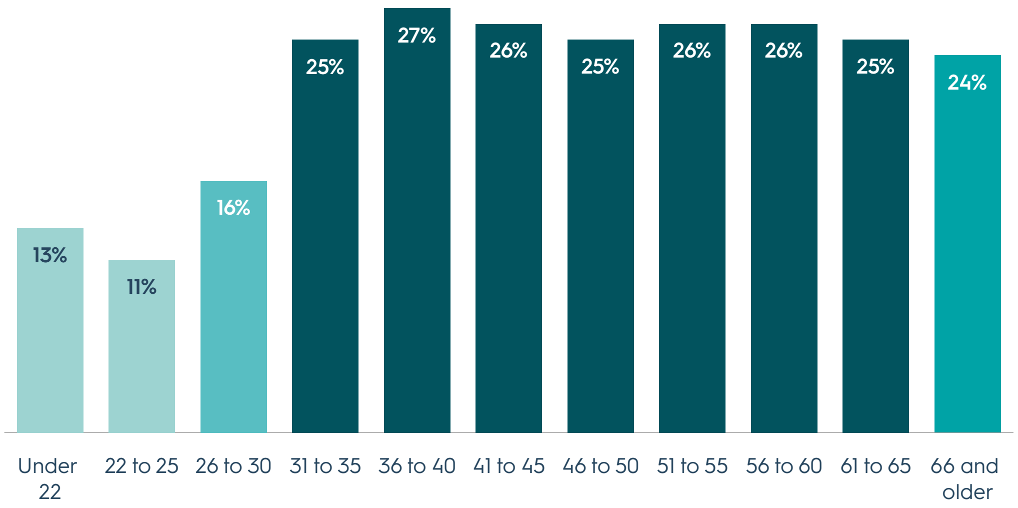
We don't have access to hourly earnings data through Nest scheme data, so making a direct comparison between Nest members and the larger universe of UK eligible employees is not possible. From the data shown in Table 8, however, we can assert that Nest members who are women have median earnings around 22% lower than for members who are men.

The UK's overall gender pay gap exists for various reasons. For example, some of the gap is attributed to number of hours worked, where women are more likely than men to work part-time. Nest's data does not include information about the number of hours worked. We can, however, look at the gender pay gap by age bands.

Figure 26 shows that the gender pay gap for Nest members appears to be consistent across all age groups from the mid-30s through to retirement, with a slightly greater gap for those aged 36 to 40. Women in middle age are more likely to be working part-time, and women workers in older age groups are more likely to be in lower-skilled and lower-earning jobs than men in their same age band. Only for Nest members under 30 is the gender pay gap materially smaller. We believe this is because these younger workers exhibit fewer differences in skill attributes and hours worked when comparing men and women.

While we don't have scheme data on members' occupations, we know from the 2020 ONS gender pay gap report that the gap is wider for skilled and semi-skilled professions.[25] We can assume these represent a large proportion of the jobs held by Nest's membership.

Figure 26. Gender pay gap within Nest membership, by age



24 ONS, 'Gender pay gap in the UK: 2020' (3 November 2020), ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/genderpaygapintheuk/2020

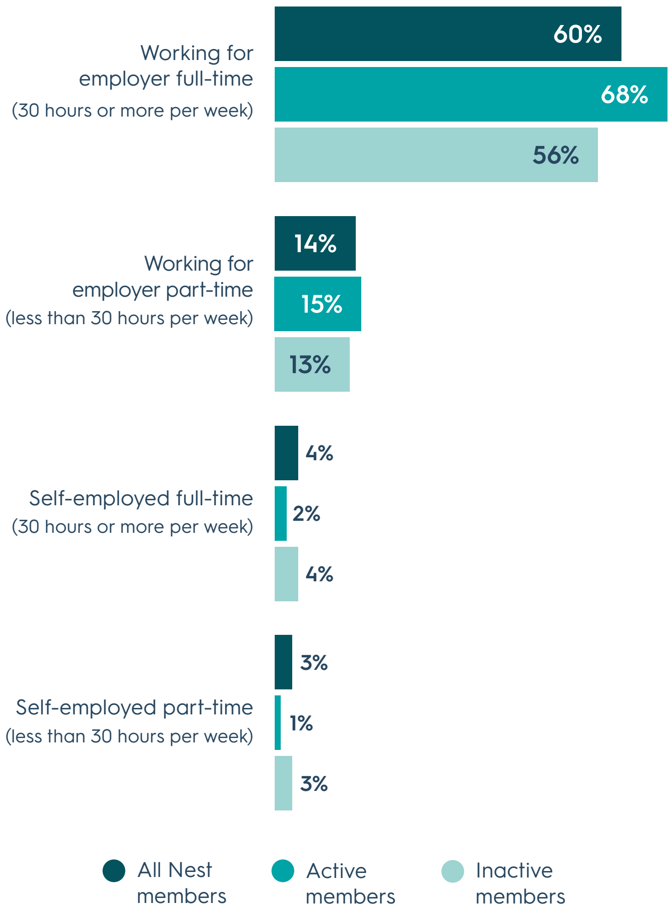
25 See Figure 5, ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/genderpaygapintheuk/2020

Types of working

Although we are unable to determine whether members work full-time or part-time from Nest scheme data, Nest's members have been asked in surveys about their employment status. Overall, 60% of members told Nest that they were working full-time, while 14% said they were working part-time (Figure 27). The remaining members described their working status as something else, such as being unemployed, fully retired or a full-time student.

A clear majority of members said they were working for an employer. Around 7% described themselves as self-employed. This is interesting because a tiny proportion of members – 17,000 people out of the total membership of 9.9 million – have proactively joined Nest as a self-employed member. The survey data suggests that Nest has many more self-employed members than suggested by this figure. We believe that either a significant number of members who were initially enrolled in Nest by an employer have since become self-employed on a part-time or full-time basis, or some workers see themselves as self-employed, perhaps because they're employed by an agency to do temporary work or they're employed at a micro employer that is essentially a small family business. They might combine employment and self-employment. It is notable that members identifying themselves as self-employed were more likely to have stopped making contributions. This underscores the importance of Nest Insight's research programme to encourage pension saving among self-employed people.[26]

Figure 27. Nest members' working status



Source: Nest member survey, December 2020, all respondents. Question: Which of the following best describes your employment status? Numbers do not total 100% because 14% of respondents described their working status as something other than working full-time or working part-time. These other answers included unemployed, fully retired, semi-retired, full-time student, apprentice or trainee, permanently sick or disabled, looking after home, not working for other reasons and don't know.

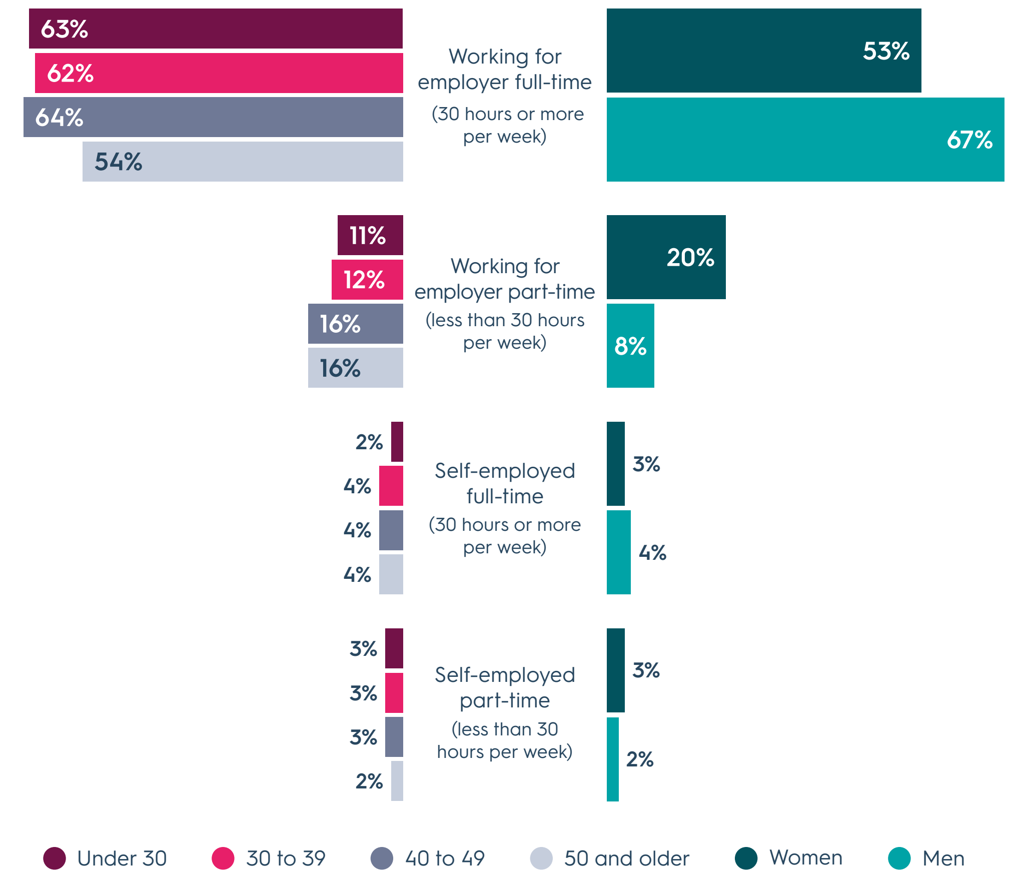
When we look at working status broken down by age and gender (Figure 28, next page), we can see some noticeable differences, providing additional evidence of the likely gender gap in pension outcomes. In surveys, men were three times as likely as women to say they were self-employed full-time. Conversely, over one fifth of women who are members of Nest said they were working for an employer part-time, significantly more than men reported this.

Indeed, women were more likely than men to be working part-time, whatever their age. One fifth of women aged under 40 were working part-time, rising to 27% of women 40 to 49 and then to one third of women 50 and older. In contrast, roughly 1 in 10 men under 50 reported that they were working part-time.

Among women aged 30 to 49 and working part-time, 62% said they had financially dependent children living at home with them, as discussed in Chapter 3.

26 nestinsight.org.uk/research-projects/self-employed-pension-saving

Figure 28. Nest members' working status, by age and gender



Source: Nest member survey, December 2020, all respondents. Question: Which of the following best describes your employment status? Numbers do not total 100% as 14% of respondents described their working status as something other than working full-time or working part-time. These included unemployed, fully retired and student.

Variability of earnings

Nest's original target group of low to moderate earners was spread across a diverse range of sectors. Low-paid work is typically less secure employment. Some of these jobs involves variable or zero-hour contracts, meaning that the worker doesn't receive a guaranteed income each pay period.[27] Uncertainties about income and cash flow could compound a worker's feelings that pension saving is unaffordable. Concerns about affordability could lead to more opt-outs and cessations from pension saving.

Employers using Nest don't report the number of hours worked alongside members' pension contributions. But we can derive members' variability of earnings from Nest scheme data.

27 Joseph Rowntree Foundation, 'What do low-paid workers think would improve their working lives?' (14 July 2015), jrf.org.uk/report/what-do-low-paid-workers-think-would-improve-their-working-lives

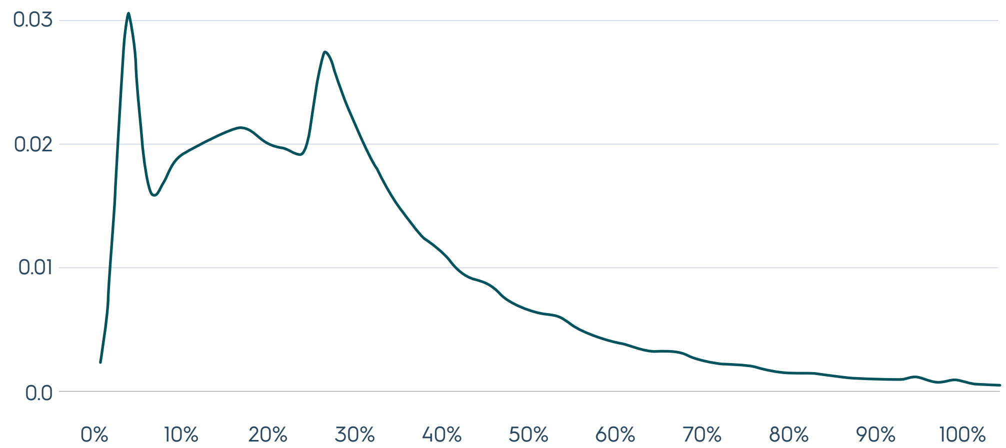
We first calculated monthly pensionable pay for each member. Many members are not paid on a monthly basis, however. In order to standardise our variation comparisons across all members in our sample, we calculated the coefficient of variation for each individual.

Coefficient of variation is a statistical measure of the dispersion of data points – in this case, the data we derived for pensionable pay – around the mean for each individual. It represents the ratio of the standard deviation to the mean. Figure 29 shows the distribution of the coefficients of variation for all active Nest members.[28]

We found that the coefficient of variation is mostly under 30% but there is a substantial proportion of Nest members who experience large variations in their earnings month by month.

28 Due to computational limitations in calculating the monthly amounts of members' pensionable pay, we used a random sample of 5% of members from Nest employers.

Figure 29. Distribution of coefficient of variation in pensionable pay, 2020/21



This distribution of the coefficients of variation might be driven by subsets of the Nest membership, for example, by workers in particular industries where work schedules are typically irregular or seasonal. So, we constructed three broad categories of employer sectors to see if we could identify sectors where workers' earnings vary:

- professional services, which included information and communication, scientific and technical, real estate, and administration and support services
- retail, wholesale and hospitality, which included arts, sports, and recreation, hire and repair, and catering and accommodation
- manufacturing, which included manufacturing, mining, energy and utilities

We found that members in manufacturing and the retail and hospitality sectors saw higher variations in their earnings (Figure 30). Differences might partly be explained by the nature of the jobs, contracts or groups of people working in these sectors.

Consistent with this, we learned that earnings vary more among women than men, as shown in Figure 31. This is in line with the fact that women disproportionately work in retail and hospitality (50%), compared with manufacturing (20%) and professional services (42%).[29] The variability in women's earnings may, of course, also be a product of a higher proportion of women working in part-time jobs.[30]

Given the nature of Nest scheme data, it is difficult to definitively identify what drives the observed variation in earnings – is it changes in hours worked or changes in hourly pay? Regardless, earnings variation is uneven across different groups of Nest members.

29 National Institute of Economic and Social Research, 'The dynamics of public and private sector wages, pay settlements, and employment' (2 March 2020), niesr.ac.uk/publications/dynamics-public-and-private-sector-wages-pay-settlements-and-employment

30 See Joseph Rowntree Foundation, 'UK poverty 2020/21' (13 January 2021), jrf.org.uk/report/uk-poverty-2020-21

Figure 30. Distribution of coefficient of variation in pensionable pay, by sector, 2020/21

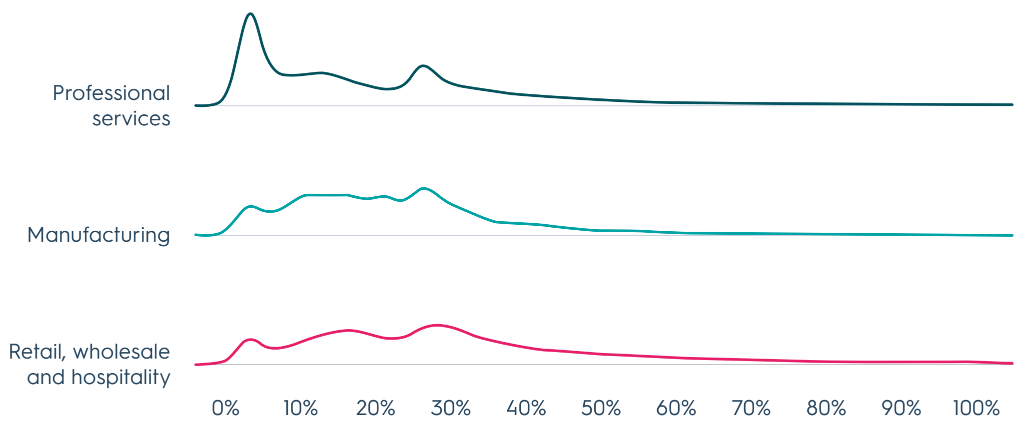
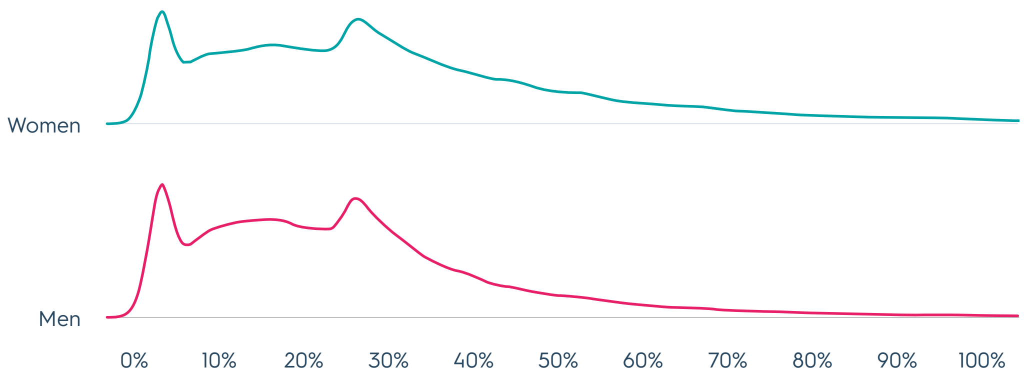


Figure 31. Distribution of coefficient of variation in pensionable pay, by gender, 2020/21



Career patterns

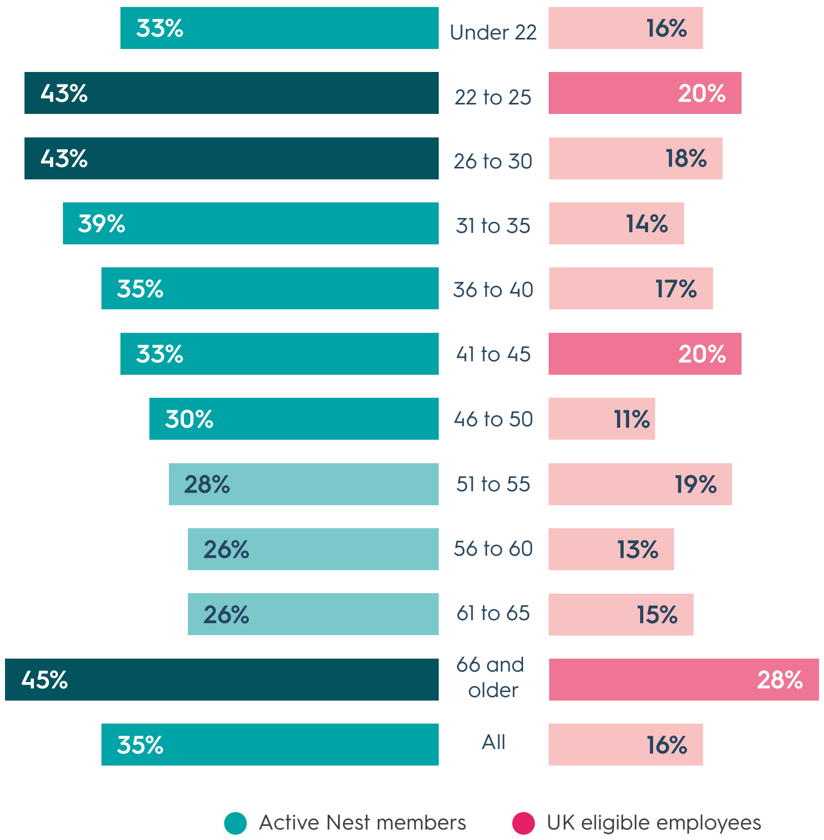
Members leaving their job

When Nest was set up, it was assumed that its target group of low to moderate earners would likely change jobs on a regular basis, in some cases frequently. Nest's 'one member, one pot' model was designed specifically with this job churn in mind. The rate at which members move jobs within the labour market will almost certainly have direct consequences on Nest, as the ratio of active to inactive members continues to fall over time. It will also help to inform the development of solutions to industry-wide challenges such as small and abandoned pots.

We chose to examine the rate at which Nest members shift from being actively employed to being inactive account holders by producing an annualised equivalent measure against which we could compare data from official sources.

Evidence from the Labour Force Survey suggests that, on average, around 16% of workers in the UK left their job in the 12 months ending 31 December 2020. Younger workers were more likely to move more often than older workers, as can be seen in Figure 32. The exception was workers who were 66 and older, where a higher proportion also reported that they were not at the same employer as they were 12 months previously. This could partly be explained by retirements.

Figure 32. Nest members and UK eligible employees leaving their job within 12 months, by age



Source: Nest Corporation and Nest Insight analysis of Labour Force Survey five-quarter longitudinal dataset, January 2020 to March 2021

From our analysis of Nest scheme data, we can see that Nest members tend to leave their jobs at a much higher rate than employees eligible for auto enrolment across the wider labour market. Currently, around 35% of all Nest members leave their jobs within any rolling 12-month period. As with the wider labour market, this dynamic trends up as age goes down, in both Nest scheme data and Labour Force Survey data. We believe that in some cases an employer notifies Nest that the worker has left their job where in reality the member has retired.

It should be noted that the annualised rate at which Nest members leave their jobs is not necessarily indicative of how long these members have worked for their employer. Most simply, during the staging period some Nest members were automatically enrolled by their employer and had worked for them for several years before leaving their job. We also know that many members leave one employer using Nest to join another employer using Nest and will therefore be automatically enrolled back into the scheme.

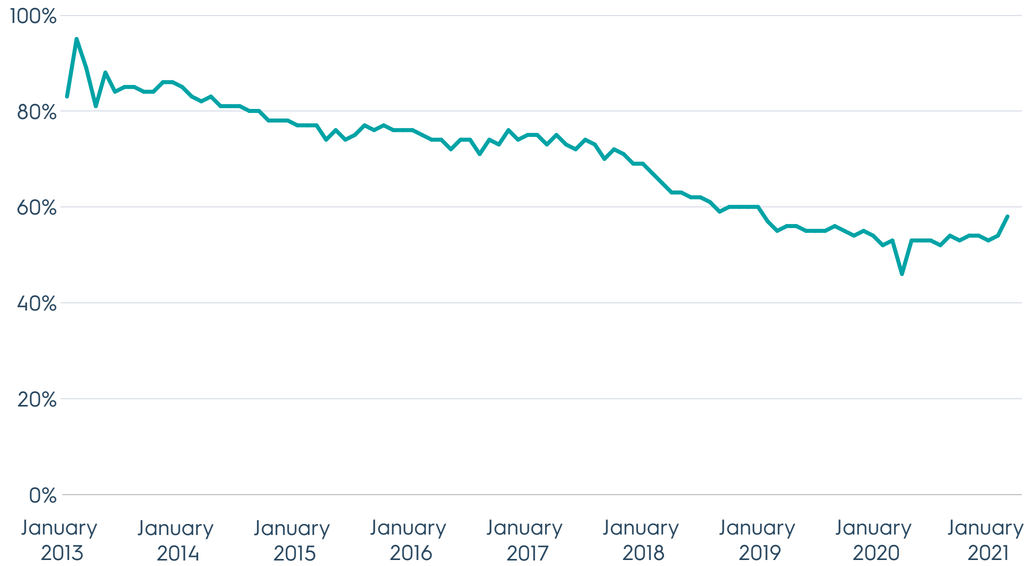
Members returning to Nest

A significant proportion of Nest members move jobs frequently, and more frequently than on average for all employees in the labour market. The transient nature of members' employment means that workers may only build small pots with Nest in a job. However, Nest's one member, one pot policy means that each time a worker is enrolled in Nest their account is matched.

Figure 33 shows the proportion of enrolments being made into Nest each month where the enrolment results in a new Nest member. By the end of the staging period this proportion was around 66% per month. In 2021, it was around 54%. As the scheme continues to mature, it will become increasingly likely that each new enrolment will involve an inactive Nest member.

As at 31 March 2021, just over 2.4 million unique members had been enrolled in Nest more than once. This is around one quarter of all Nest members.

Figure 33. Proportion of enrolments resulting in a new Nest member*



* This figure includes all enrolment events, even those which resulted in the worker opting out. For this reason the series does not start at 100%.

Persistency of saving

Although we can be confident that many Nest members will return to saving in Nest over the course of their working life, it's not possible for us to determine where they have been enrolled when their Nest account is inactive, or even if they are enrolled in a workplace pension at all.

It is reasonable to assume that most Nest members who leave their active employment with an employer using Nest will be enrolled in one of the various large pension providers, but this principally comes down to their new employer's choice. Our analysis clearly shows that Nest has a larger market share of small and micro employers than of large employers. If certain individuals tend to be employed within small or micro employers, they will be more likely to encounter Nest again when they move jobs.

We know from our analysis on pages 36 and 37 that Nest's membership is heavily skewed towards younger age groups. Younger workers are more likely to move jobs more often than older workers. Some of the younger members who were first enrolled in Nest during the staging period or in recent years will almost certainly become persistent Nest members, regularly returning to active membership in Nest following job moves, and this will give them an opportunity to accumulate a significant pension pot with the scheme. For these workers, Nest may well emerge as their dominant retirement asset.

However, younger members also have higher levels of educational attainment. Their job at the time of their enrolment in Nest may have been a 'starter' job or reflect trends in the labour market where younger workers have taken jobs for which they were overqualified. As they age, these workers may move to careers within industries served by the traditional pensions industry, in which case their Nest pot may be orphaned with a relatively small balance in it. For these workers, Nest may form only a very small part of their overall retirement provision.

While we can't be certain where or even if Nest members are saving when they're not contributing to Nest, member survey data offers some hints.

In Nest's December 2020 survey of members, 46% said that they were still working for the employer that had first enrolled them in Nest (Figure 34). A further 14% said they had left the first employer who had enrolled them but had since been re-enrolled in Nest by their new employer. This slightly under-reports the proportion of members who have been enrolled in Nest more than once, which, based on our analysis of scheme data, is in fact around one quarter of the membership.

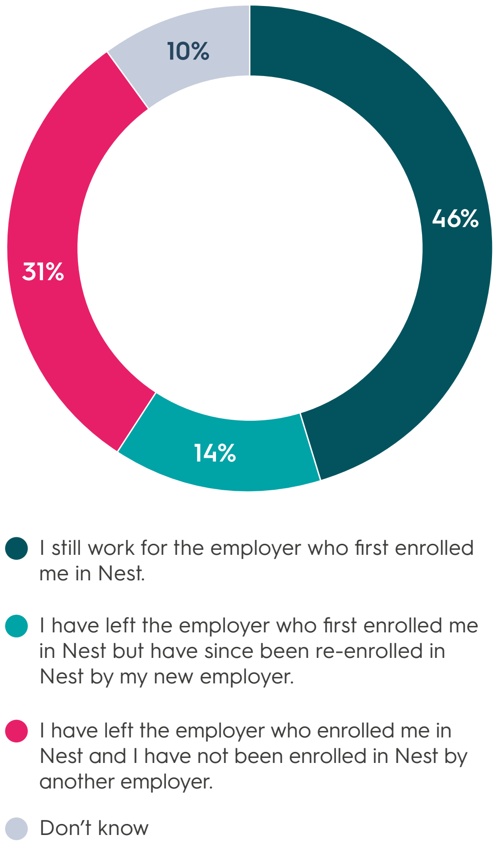
This under-reporting may be due to some members having been enrolled by the same employer for different stretches of employment. Other individuals may just not remember having been previously enrolled with Nest. Indeed 10% of Nest members said they didn't know how to answer the question of whether they were still with the employer who first enrolled them.

The remaining 31% in the survey said they had left the employer who first enrolled them in Nest and not been re-enrolled by another employer. Nest went on to ask this group whether they had been enrolled in a pension scheme elsewhere. In response, 47% said yes, 42% said no and 11% didn't know.

Individuals earning less than £20,000 were substantially more likely to say they hadn't been enrolled elsewhere. This may indicate that their earnings in their new job fall below the threshold to trigger auto enrolment. Additionally, as a member survey can only capture a snapshot in time, individuals working for an employer that has adopted a waiting period before auto enrolment might not yet have been enrolled in another pension at the time of the survey. And given that just under 1 in 10 survey respondents typically say they don't know if they are or were a member of any pension scheme, there is also the possibility that some respondents have in fact been enrolled elsewhere even though they said they hadn't been.

Taking into account the various caveats around using this survey data to consider the question of persistency of saving, these results suggest that at least a portion of Nest's membership will be saving for retirement on an inconsistent basis. Some inactive members with small pots may not be saving somewhere else. We discuss small pots in more detail in Chapter 7.

Figure 34. Members' relationship with Nest



Source: Nest member survey, December 2020, all respondents who knew they were a member of a pension scheme (6,853). Question: Which one of these statements best describes your relationship with Nest? Numbers do not add to 100% due to rounding.

Chapter 5

Contributions

After two years at which minimum contribution rates have totalled 8%, we are now seeing more significant amounts of money being saved into workplace pensions.

Contribution rates

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

For the first 5½ years of auto enrolment, the combined rate was set low, at 2%, to ease people into pension saving. Then, starting in April 2018, the minimum combined contribution rate was increased in two phases, to its current level of 8%.

We can see the proportion of contributions paid into Nest members' pension pots over 2020/21 in Tables 9 and 10 (next page).

Only the employer's and the overall pension contribution rate is set out under auto enrolment legislation. Employers can choose to offer a higher rate as a benefit of employment, and members must only make up the difference between their employer's contribution and the total 8% required. So, there are some members who make no personal contributions because their employer pays 8% of their qualifying earnings as a perquisite. However, as one might expect, the bulk of contributions paid are made at the legislative minimum rates.

Some employer and member contributions appear to be below the minimum rates. The legislation allows employers some flexibility in how contributions are calculated. For instance, they may pay contributions on all their workers' earnings starting from the first pound sterling rather than on only earnings between the lower and upper earnings limits. In these cases, despite appearing to have a contribution rate in Nest's system that is below the mandatory minimum, the employer will be satisfying their auto enrolment duties.

Key phrases

Qualifying earnings

Auto enrolment pension contributions are calculated per pay period as a percentage of pro-rated annual earnings between a lower earnings limit and an upper earnings limit. In 2020/21, the lower limit was £6,240 and the upper limit was £50,000.

Tax relief

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

Phasing in minimum contribution rates

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

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

Percentage of earnings contributed by worker to pension pot*	Percentage of contributions at rate
0%	2.9%
More than 0% and less than 5%	1.2%
5%	91.5%
More than 5% up to 8%	3.9%
More than 8%	0.6%

* Member contribution includes tax relief. Numbers do not total 100% due to rounding.

Table 10. Proportion of contributions paid, by employer contribution rate

Percentage of earnings contributed by employer to pension pot	Percentage of contributions at rate
Less than 3%	0.3%
3%	93.6%
More than 3% up to 5%	2.5%
More than 5%	3.6%

Link between member and employer contributions

While the majority of contributions are paid at the legislative minimum rates, it's interesting to consider the relationship between the contribution rate paid by members and the rate paid by employers.

Table 11 presents the proportion of employers using Nest in a number of bands based on their member and employer contributions together. We can see that as at 31 March 2021, 76% of employers had adopted a workplace pension scheme approach exactly following the minimum rates set out in the legislation – with a 3% contribution coming from the employer and a 5% contribution, including government tax relief, coming from the member.

Around 13% of employers contributed more than 3%. Among these employers, roughly one half have workers who were contributing less than 5% and the other half have workers who were contributing more than 5%. This suggests that there's an even mix of employers who offer either a contribution rate of 8%, so that their workers don't have to contribute anything from their pay to fulfil the 8% total mandatory minimum, or a matching scheme, where the employer contributes more if the member contributes more also. However, it must be stressed that it's not possible to accurately identify employers who operate a matching scheme from Nest scheme data.

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

		Percentage of employers					
		Member contribution rate*					
		0%	More than 0% up to 5%	5%	More than 5% up to 8%	More than 8%	Total
Employer contribution rate	Less than 3%	0.0%	0.2%	2.1%	0.4%	0.1%	**2.7%**
	3%	0.0%	0.5%	76.0%	6.5%	1.7%	**84.7%**
	More than 3% up to 5%	0.0%	0.7%	2.3%	4.4%	0.4%	**7.8%**
	More than 5% up to 8%	0.6%	0.4%	0.5%	0.5%	0.3%	**2.4%**
	More than 8%	0.5%	0.1%	0.9%	0.2%	0.6%	**2.4%**
	Total	**1.2%**	**1.9%**	**81.9%**	**12.0%**	**3.0%**	**100.0%**

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

Table 12 shows essentially the same analysis as Table 11, except that it looks at the proportion of members in each contribution rate band. As at 31 March 2021, around 86% of Nest members had contributions calculated at the legislative mandatory minimum rates – that is, an employer contribution of 3% and a total combined contribution of 8%. Overall, almost 9 in 10 members were making contributions of 5% of their earnings.

Among those members who were contributing either more or less than 5%, there was a roughly even split, as 5.9% were making contributions above 5% compared with 5.5% making contributions below 5%, the latter including 3.2% of workers who were making no personal contributions at all.

We know from exploratory analysis of scheme data that there are cases of employers paying the full 8% mandatory minimum contribution towards pension saving for their workers, thus accounting for the members who are paying 0%.

Among the members making personal contributions above 5%, around two thirds receive only the minimum 3% from their employer, so their increased pension saving has not been motivated by a match in their current employment. The remaining one third did receive an employer contribution above the minimum.

Table 12. Relationship between employer and member contribution rate, by percentage of members

		Percentage of employers					
		Member contribution rate*					
		0%	**More than 0% up to 5%**	**5%**	**More than 5% up to 8%**	**More than 8%**	**Total**
Employer contribution rate	Less than 3%	0.0%	0.0%	0.6%	0.1%	0.0%	**0.7%**
	3%	0.0%	0.4%	85.6%	3.6%	0.3%	**89.8%**
	More than 3% up to 5%	0.0%	0.9%	2.0%	1.4%	0.1%	**4.4%**
	More than 5% up to 8%	2.9%	0.9%	0.2%	0.1%	0.1%	**4.2%**
	More than 8%	0.4%	0.1%	0.3%	0.1%	0.1%	**0.9%**
	Total	**3.2%**	**2.3%**	**88.6%**	**5.3%**	**0.6%**	**100.0%**

* Member contribution includes tax relief. 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 2.95% to 3.05%.

Contribution rates by employer size

Contribution rates also vary by employer size. This may reflect differences in workforce recruitment and retention strategies, where some employers are able to offer a match, where they can increase their contribution rate towards a worker's pension when the worker increases their own contributions.

Between 80% and 90% of small and micro employers have set their contribution rates at the minimum of 3%. In contrast, larger employers have adopted a much wider range of contribution approaches. Only around one third of employers with more than 1,000 workers contribute 3% of worker earnings to their workers' pension pots (Table 13, next page).

There also appears to be some employers, with a higher proportion among medium-sized and large firms, that make contributions to their workers' pots of less than 3%. We should note that only a few hundred employers out of almost 600,000 currently contributing to Nest pots fall into this category, so this is very much a small proportion of the overall number of employers using Nest. These are likely to be employers that calculate contributions based on a worker's earnings in excess of qualifying earnings, perhaps to fit in with pre-existing arrangements at the business. This is far more common at larger employers than small ones. We know that some larger employers offer 'salary sacrifice' schemes, where the employee takes some of their salary in the form of a direct contribution to their pension before taxes and National Insurance (NI) contributions are paid. However, as shown in Table 10, the proportion of employer contributions of less than 3% is also very small.

Table 13. Employer contribution rate, by employer size

Employer size	Employer contribution rate				
	0%	More than 0% up to 5%	5%	More than 5% up to 8%	More than 8%
1 to 4 employees	2.1%	88.7%	5.1%	2.1%	2.1%
5 to 49 employees	3.2%	83.5%	8.7%	2.4%	2.3%
50 to 249 employees	5.6%	59.2%	22.0%	6.9%	6.2%
250 to 499 employees	10.3%	43.1%	27.5%	10.7%	8.4%
500 to 999 employees	11.5%	36.7%	28.3%	12.3%	11.2%
1,000 to 4,999 employees	10.4%	32.9%	28.5%	16.3%	11.9%
5,000 or more employees	12.2%	29.7%	28.4%	19.7%	9.9%

* 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%.

Contribution amounts

Contribution rates for different groups of employers and members give some indication of how auto enrolment has been implemented. To gain an appreciation of how much members are actually saving, we need to consider contribution amounts, which are a function of the contribution rate but also the member's earnings and the persistency of their contributions.

Key phrases

Continuous contributors

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

Part-year contributors

Member who had contributions in no more than 11 out of 12 months in the financial year

Annualised contributions

Mean and median annual contributions in 2020/21 for all Nest members are shown in Table 14. Mean contribution amounts increased by around 8% compared with 2019/20. The mean, being much higher than the median, illustrates the degree to which some members receive higher contribution amounts, due either to a higher contribution rate or, in greater likelihood, higher overall earnings.

We're aware that there is a high degree of volatility in contributions as Nest members frequently move jobs, or move in and out of periods of contributing to their pension pot. This happens for a variety of reasons, some of which are related to the worker's job, such as variability in their paid hours worked.

We have therefore categorised Nest members into two groups based on the regularity of contributions into their pot. Those members who have contributed at least once in every month across 2020/21 are grouped together as 'continuous contributors' and those who did not have contributions in at least one month of the year are called 'part-year contributors'.

In 2020/21 around 48% of Nest members were continuous contributors and 52% were part-year contributors.

In Table 14 we can see that median contributions for continuous contributors are almost four times those for part-year contributors. In addition, mean and median figures for continuous contributors are closer as a percentage of value, suggesting less variability in the distribution of this population's contribution amounts.

We believe that, in the main, continuous contributors are salaried workers, or workers that earn a very similar amount each pay period. They are also, on average, higher earners than part-year contributors: continuous contributors have median annual earnings of around £21,150, compared with around £17,725 for part-year contributors. This earnings gap is clearly also driving the significantly higher annual contributions figures for continuous contributors.

Table 14. Annual contributions per member, 2020/21

	All Nest members	Continuous contributors	Part-year contributors
Median	£719	£1,230	£320
Mean	£977	£1,467	£519

Distribution of annual contributions per member

Overall mean and median contribution amounts provide a limited view of how much members are saving with Nest. To gain an appreciation for the range of members' saving, here we consider the distribution of annual contribution amounts.

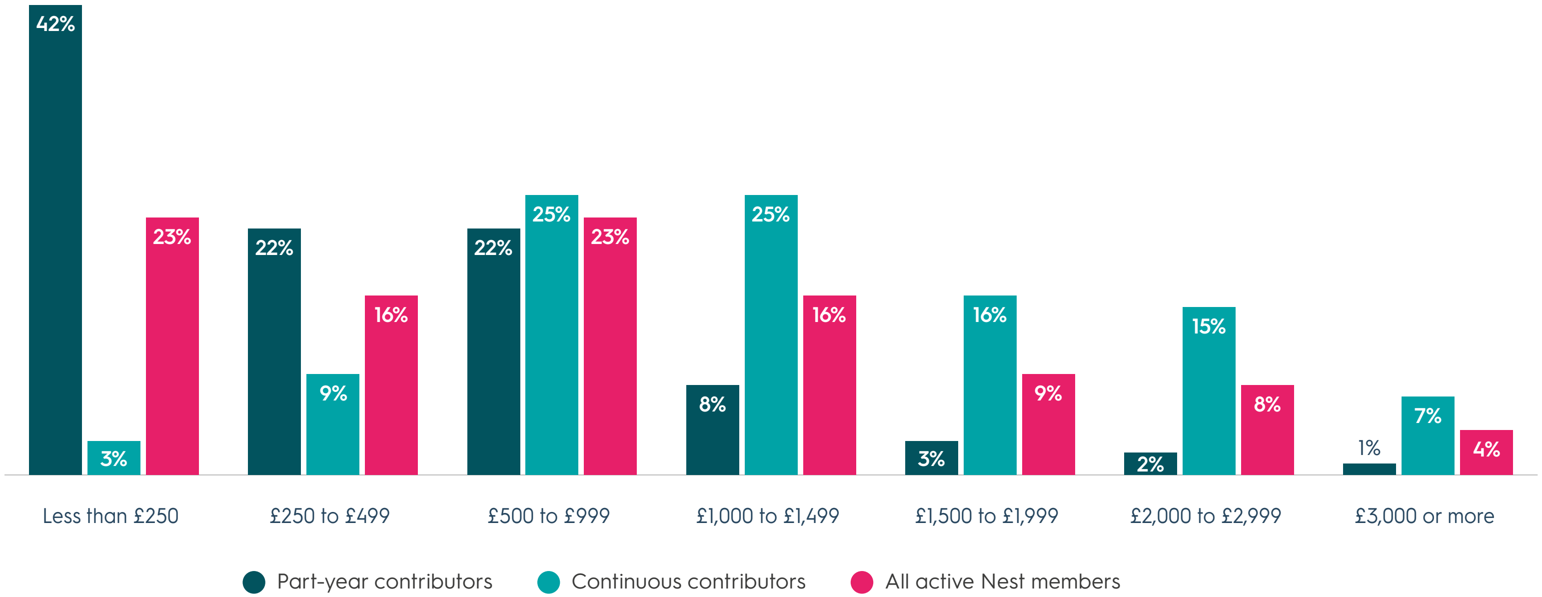
Figure 35 shows that for over 40% of part-year contributors, annual contributions total less than £250. Only 14% of this group have contributions totalling £1,000 or more.

In contrast, half of all continuous contributors have annual contribution amounts between £500 and £1,500, with over one fifth having more than £2,000 added to their pot each year.

This distribution of annual contributions per member illustrates the importance of sustaining continuous contributions in building a meaningful pension pot.

That said, there are two things to note here. First, Nest's one member, one pot model means that, although contributions flowing into part-year contributors' pots may be significantly less in the here and now, when these members start contributing to them again in the future, they can continue to build them up. Second, we know that Nest members are likely to be saving in other pension schemes when they're not actively saving with Nest. We believe that many part-year contributors are likely contributing to another pot or pots, either continuously or for a portion of the year.

Figure 35. Annual contributions by continuous or part-year contribution history



"The distribution of annual contributions per member illustrates the importance of sustaining continuous contributions in building a meaningful pension pot."

Contributions by member and employer characteristics

As discussed earlier, variation in contribution amounts is driven principally by contribution rates, the worker earnings against which these rates are applied, and the number and frequency of contributions.

Employers determine whether to provide or offer their workers more than the mandatory minimum contribution rate for pension saving. The other two factors, member income and persistency of saving, are largely determined by the nature of the member's job, and we know that people's jobs are shaped by the worker's age and gender.

Given what we know about income demographics, it is intuitive that men and older members have, on average, higher annual contribution levels, as shown in Table 15. But it's striking that there is a very similar spread between median and mean contributions across all age bands. For all Nest members, median contributions are roughly three quarters of the mean value.

We know from Chapter 4 that Nest members working at smaller employers tend to be older. Older workers tend to earn more than younger workers and they tend to be in more stable employment. Simply considering these variables, it's unsurprising that members working at smaller employers have higher contribution levels than those working at larger firms. Yet, at the same time, this finding is somewhat counterintuitive since smaller employers are more likely to stick to the minimum contribution rate. From the pattern in annual contributions by employer size, we can deduce that higher contribution amounts are driven more by higher incomes and more regular contributions than by contribution rates.

Table 15. Annual total contributions to pension pot, by gender, age and employer size

	Mean	Median
Gender		
Women	£813	£590
Men	£1,144	£895
Age		
Under 22	£547	£399
22 to 25	£627	£460
26 to 30	£880	£685
31 to 35	£997	£743
36 to 40	£1,063	£779
41 to 45	£1,098	£800
46 to 50	£1,114	£832
51 to 55	£1,107	£842
56 to 60	£1,070	£818
61 to 65	£1,027	£779
66 and older	£1,036	£700
Employer size		
1 to 4 employees	£1,086	£752
5 to 49 employees	£1,113	£855
50 to 249 employees	£1,005	£773
250 to 499 employees	£851	£622
500 to 999 employees	£803	£575
1,000 to 4,999 employees	£775	£572
5,000 or more employees	£747	£550

Direct member contributions

Nest members have the option to pay additional money into their pot via their online account, outside of normal payroll deductions. This is open to all members, regardless of whether they are in active employment with an employer using Nest.

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

Since the start of Nest in 2011, around 134,000 members have made at least one direct payment into their online account, equivalent to around 1.3% of all members who have ever been in the scheme as at 31 March 2021. Direct member contributions are therefore not common. However, around £370 million have been contributed to pots in this way. This is a significant amount of extra saving above that required by auto enrolment legislation.

Direct member contributions are the only way self-employed people who join Nest can pay into their account. From the launch of the scheme through to 31 March 2021, around 10,700 self-employed members had made direct contributions, equating to around 8% of all members who had made contributions in this way. The direct contributions made by self-employed people who have joined Nest totalled around £55 million by the end of the 2020/21 financial year, around 15% of all direct contributions received.

In Table 16 (next page) we can see that slightly more of these direct contributions came from women than men. This is interesting when we consider that the overall Nest membership is slightly skewed towards men, who represent 53% of all members. The mean value of men's direct contributions is higher than for women. If we only look at ad-hoc payments, we find an additional curiosity: women are less likely to make ad-hoc payments than men, but their ad-hoc payments are higher on average than men's.

Overall, regular payments are far and away the more common form of direct contribution. These show very little variation by age or gender. Women and younger members are more likely to make regular payments over ad-hoc payments.

As with the mean contribution amounts in Table 15, mean direct member contributions increase with age, whether the contributions are made on a regular or ad-hoc basis. And, as a proportion of total membership, the likelihood of making a direct contribution increases with age. Only around 0.7% of members aged 30 and younger have made direct contributions, compared with around 2% of those over 55.

Table 16. Direct member contributions, by age and gender

	Number of members	Number of contributions	Percentage regular contributions	Percentage ad-hoc contributions	Mean value of regular contribution	Mean value of ad-hoc contribution
All	**133,735**	**2,899,739**	**95.2%**	**4.8%**	**£79**	**£1,087**
Gender						
Women	67,378	1,465,584	96.5%	3.5%	£70	£1,224
Men	65,546	1,420,748	93.9%	6.1%	£87	£1,001
Age						
Under 22	320	3,042	94.5%	5.5%	£52	£573
22 to 25	4,004	47,232	96.1%	3.9%	£52	£362
26 to 30	15,076	268,315	97.1%	2.9%	£54	£490
31 to 35	20,214	408,065	96.7%	3.3%	£64	£645
36 to 40	18,607	405,129	96.0%	4.0%	£71	£795
41 to 45	16,599	376,175	95.6%	4.4%	£78	£905
46 to 50	15,777	369,986	94.9%	5.1%	£82	£1,041
51 to 55	15,118	356,642	94.8%	5.2%	£89	£1,265
56 to 60	13,843	324,346	93.5%	6.5%	£95	£1,338
61 to 65	9,966	245,858	93.2%	6.8%	£99	£1,569
66 and older	3,413	81,801	92.2%	7.8%	£119	£1,680

Chapter 6

Investment and switches

Nest's investment approach involves tailored default funds which match asset allocations to how far members are from retirement along with a select range of options for members with specific investment beliefs or risk appetites.

Default fund design and fund options

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

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

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

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

As at 31 March 2021, the life-styled glide path within the Nest Retirement Date Funds had four distinct phases:

- **Foundation:** For members under age 25, Nest's target-date funds include a modest allocation to growth assets (equities, growth credit and property). The rationale for doing this is to moderate the impact of any sharp market declines. Nest's behavioural research suggests such impacts could discourage younger members from saving for retirement altogether.
- **Growth:** The target-date funds' allocation to growth assets rises for members aged 25 to 28. It then remains in a steady growth position until their fund is 10 years from their expected retirement date.
- **Consolidation:** As members enter their mid-50s and progress towards their expected retirement age, their fund's growth allocation is reduced according to how far away they are from retirement, how their funds have been performing and overall market conditions. Close to retirement, their final allocation will represent a portfolio that aims to keep pace with inflation after charges.
- **Post Retirement:** Members who are close to retirement have been gradually de-risked into a portfolio with some growth assets with the aim of ensuring that their pot value keeps pace with inflation after charges. This is based on the premise that members who are retiring having saved with Nest for a longer period may wish to have their pot remain invested through some of their retirement. From 2020 onwards, members with pot values of at least £10,000 are automatically moved into a post-retirement fund that is partly invested for growth. Those with lower pot values have 0% allocation to growth assets.

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

Switching behaviour

Once enrolled in a Nest Retirement Date Fund, very few members switch to another fund. Around 99% of Nest members were invested in a Nest Retirement Date Fund as at 31 March 2021.

The high rate at which Nest members remain in the default Nest Retirement Date Fund 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 pot. At the same time, the evidence to date suggests 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.

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 2020/21, just over 1% of Nest's members changed their fund choice through either an automated or a member-directed switch, as shown in Table 17. This represents around 2% of Nest's total scheme assets. Less than one third of all switching activity was the result of a member-directed switch.

Table 17. Members' investment fund switching behaviour

	Switches 1 April 2020 to 31 March 2021
Total members with positive pot balance	**9,443,175**
Total assets in members' pots	£17,127,639,414
Number of switching members	109,695
Percentage of members switching	1.16%
Percentage of assets switched	1.88%
Active, member-directed switches*	
Total	**32.72%**
From default fund to higher risk fund	16.09%
From default fund to ethical fund	6.14%
From default fund to lower growth fund	0.24%
From higher risk fund to lower growth fund	0.28%
From lower growth fund to higher risk fund	0.36%
Other member-directed switches	9.60%
Automatic and age-based switches*	
Total	**67.28%**
Adjust default fund retirement target-date year	28.82%
Adjust glide path lifestyle	5.34%
From retirement to post-retirement	18.51%
From starter fund to retirement target-date fund	14.61%

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

Chapter 7

Pension pot values

Nest received its very first contribution into a member's pension pot just 10 years ago. With the government having set low minimum contribution rates for the first 5½ years of auto enrolment, Nest members' pot values are still small on average.

Members' pot values are also small compared with workplace pension schemes and providers that have been serving the market for much longer. However, since total minimum contribution rates were raised to 8% in 2019, pot balances for members who actively and regularly contribute to their Nest pot are increasing more rapidly.

Average pot values

When calculating mean and median pot balances for Nest members, we exclude pots where there is a zero balance. These can occur when a worker is enrolled but has not paid contributions for legitimate reasons, for example, having insufficient earnings to trigger a contribution amount. This might be due to the nature of the worker's employment schedule and the employer's pay periods, or perhaps because the worker left the employment quickly. Nest does not have pots with a negative balance because member charges are a percentage of pot value.

As at 31 March 2021 the mean pension pot value for all Nest members with a positive pot balance, whether the member was active or inactive, was £1,815. The median pot value for this population was £701.

There is a wide gap between active and inactive members, however, as seen in the mean and median pot values for active and all members (Table 18).

Table 18. Nest pot balances as at 31 March 2021

	All members*	Active members*
Median	£1,815	£3,038
Mean	£701	£1,953

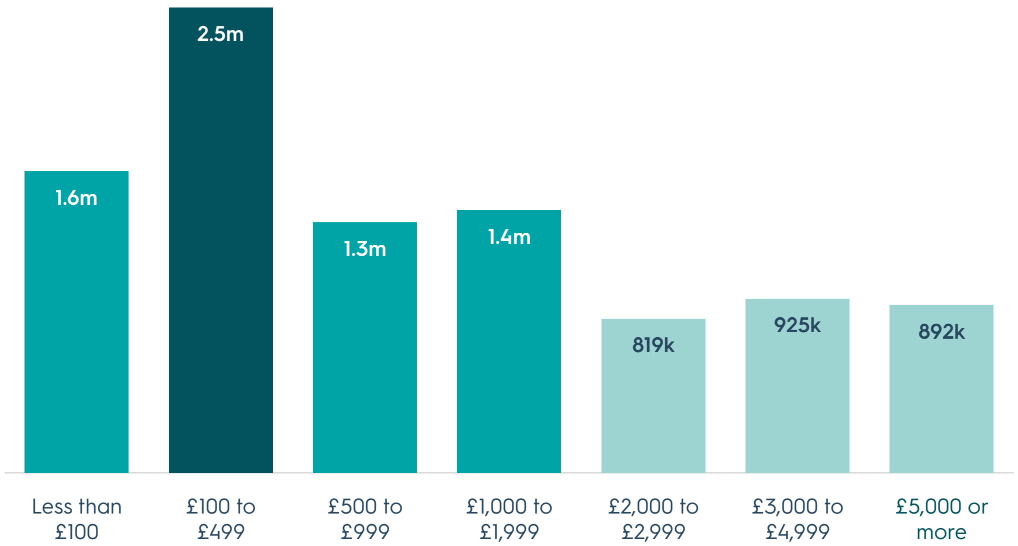
* These figures only include members with a positive pot balance – in other words, those where at least one contribution has been made.

Distribution of pot values

There are many different patterns of contributions across Nest's membership. Some members have been actively contributing to their pot for many years, either regularly or on a part-year basis, while others contributed briefly some years ago before becoming inactive or have only started contributing to a Nest pot quite recently. The upshot is that pot balances vary significantly.

In Figure 36 we see that Nest pots are skewed towards smaller sums. As at 31 March 2021 around 43% of all member pots had less than £500 in assets and around 9% of pots were worth £5,000 or more.

Figure 36. Distribution of Nest pots



A year earlier, as at 31 March 2020, 51% of pots had less than £500 and 3% had £5,000 or more. Much of the growth in the value of Nest pots can be attributed to additional contributions being made over the course of 2020/21. However, some of the difference is due to investment performance of the funds in which these pots are invested, since the start of the pandemic in March 2020 was marked by significant market volatility. By 30 September 2020, when many markets had recovered, 46% of pots had less than £500 and 6% had £5,000 or more.

Nest pots currently have low total values compared to many longer-standing workplace pension schemes. This is to be expected, because pot balances are partly a function of how long people have been accumulating contributions and investment returns in their pot. But pot values should also be considered within the wider context of the automatic enrolment system. As discussed in Chapter 4, Nest is very unlikely to be a worker's only form of pension saving. When members move jobs and join new employers, they'll be enrolled in a workplace pension. Often enough, that pension will be with another pension provider, so Nest's inactive members will be accumulating pots with other providers. These small Nest pots likely represent only a portion of the assets members are building to finance living in retirement.

Pot distribution in context of the wider market

Active Nest members' median pot value of £1,953 may seem to compare unfavourably with the median balances of defined contribution (DC) workplace pension schemes prior to the launch of auto enrolment. For the period July 2010 to June 2012, the median pension pot balance was around £10,500 for all DC scheme members, with higher total pot values among men and older workers, according to ONS data.[31]

As auto enrolment has brought more people into pension saving, median pot values have significantly decreased. From the same ONS data, it can be seen that between April 2016 and March 2018, median DC pot values fell to around £3,300. This continues to include schemes which predate auto enrolment. Due to the presence of these legacy schemes in ONS calculations, it is not helpful to compare Nest pot balances to overall DC scheme figures.

Nest is one of many master trusts set up specifically to serve workers newly brought into pension saving through auto enrolment. Data analysed in 2020 by the Pensions Policy Institute suggests that the mean pot size across master trust schemes was around £1,000.[32] Nest pot values are in line with this.

43%

of Nest pots had a balance less than £500 as at 31 March 2021

51%

of Nest pots had a balance less than £500 as at 31 March 2020

31 ONS, 'Pension wealth: Wealth in Great Britain' (5 December 2019), Table 6.3. 'Individuals with active occupational defined contribution pensions, summary statistics by age and sex', ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/pensionwealthwealthingreatbritain

32 Pensions Policy Institute, 'Policy options for tackling the growing number of deferred members with small pots' (23 July 2020), pensionspolicyinstitute.org.uk/sponsor-research/research-reports/2020/2020-07-23-policy-options-for-tackling-the-growing-number-of-deferred-members-with-small-pots

Pot values by member characteristics

Table 19 shows how mean and median pot values vary by member characteristics. As at 31 March 2021, the median balance for all Nest members who are women (£645) was around 84% of the median balance for all men (£761). This proportion was unchanged from 31 March 2020.

Mean pot balances also clearly increase with age, with members aged 46 and older having pot balances around 2.5 times greater than those for members under 26.

Pot values were much higher for active members compared with inactive members, regardless of age or gender. For those over 30, mean pot values were around £3,000 and median values were around £2,000 or more as at 31 March 2021. This almost certainly reflects higher earnings on average among older workers.

Table 19. Nest pot balances by member characteristics

	All members		Active members	
	Mean	**Median**	**Mean**	**Median**
Gender				
Women	£1,541	£645	£2,472	£1,599
Men	£2,058	£761	£3,581	£2,460
Age				
Under 22	£752	£365	£1,004	£603
22 to 25	£960	£497	£1,322	£859
26 to 30	£1,281	£489	£2,422	£1,777
31 to 35	£1,597	£584	£2,990	£2,043
36 to 40	£1,916	£733	£3,301	£2,159
41 to 45	£2,125	£835	£3,474	£2,202
46 to 50	£2,321	£971	£3,645	£2,364
51 to 55	£2,430	£1,064	£3,729	£2,466
56 to 60	£2,390	£1,101	£3,550	£2,411
61 to 65	£2,264	£1,068	£3,333	£2,312
66 and older	£1,943	£508	£3,730	£2,461

Pot balances by employer characteristics

Median pot balances also vary by the size of the member's employer (Table 20, next page). This reflects differences in the characteristics of the workers enrolled by micro, small, medium-sized and large employers. Member pot values are influenced by a mix of employer-based factors, such as workers' earnings level, the employer's pension contribution rate and whether the firm uses Nest for a subset of their workforce or for all of their workers. Pot values will also vary based on the length of time the member has been saving with Nest, which may reflect job churn in the employer's sector.

Median pot balances were highest for members working for employers with fewer than 50 employees. This is consistent with the observation in Chapter 5 that smaller employers have higher contribution levels on average.

Table 20. Nest pot balances by employer size

	All members		Active members	
Employer size	**Mean**	**Median**	**Mean**	**Median**
1 to 4 employees	£2,403	£1,259	£3,306	£2,169
5 to 49 employees	£2,363	£1,153	£3,573	£2,530
50 to 249 employees	£1,889	£714	£3,344	£2,227
250 to 499 employees	£1,401	£466	£2,536	£1,447
500 to 999 employees	£1,324	£436	£2,394	£1,346
1,000 to 4,999 employees	£1,221	£404	£2,324	£1,439
5,000 or more employees	£1,229	£420	£2,294	£1,379

Small pots

As discussed in Chapter 4, members of pension schemes like Nest will likely change jobs across their working lives. This means they're likely to flow in and out of active membership at various pension providers, since employers choose which pension scheme to use to fulfil their auto enrolment duties through the open market. Some workers may potentially spend only a short period of time with any one scheme and therefore accumulate a number of very small pots at each of them.

Nest data shows that members do flow in and out of active membership, with a growing number of accounts becoming inactive. As at 31 March 2021, around 4.7 million Nest member pots had not had a contribution made into them for over 12 months. More than 920,000 pots had not had a contribution for over five years.

As the Nest scheme matures, these numbers will continue to increase, meaning that a significant number of member pots will be inactive for many years. We anticipate that the longer an account is inactive, the greater the potential that the member will lose track of the account or decide that its value is too negligible to engage with it. This may increase the chance that these pots will go unclaimed when the member reaches retirement. The pensions dashboards being developed by the government may help to ensure that members are more aware of small pots tied to their past employment.

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

4.7m

Nest pots haven't had a contribution for over 1 year

920k

Nest pots haven't had a contribution for over 5 years

Chapter 8

Later life and retirement

Since Nest was launched in 2011, people's expectations for retirement have shifted. As more people are working past their State Pension age, they're also keeping their pension pot invested for longer.

Age at retirement

Working patterns have changed considerably over the last decade. Since the 'freedom and choice in pensions' reforms were introduced by the government in 2015, members of defined contribution (DC) pension schemes have also been given the right to access their pension pot from age 55 without being compelled to purchase a retirement income product such as an annuity. This could encourage some people to consider retiring earlier than their State Pension age, depending on how much money they have saved and their retirement income needs.

It's too early to know if this set of reforms is in fact changing people's decisions around when and how to retire. However, we believe it's reasonable to assume that the changes will have some effect in the future, particularly as auto enrolment has created a mass market of pension savers.

At the same time, people are working longer and delaying retirement. This trend in retirement ages can be seen in longitudinal data from the Labour Force Survey, in which respondents are asked to describe their labour market activity compared to 12 months previously. From this it is possible to deduce the age at which people switch from saying they are working to saying they are retired.[33]

Figure 37 (next page) shows that in 2008, this deduced age of retirement spiked at age 60 for women and 65 for men, corresponding to the age at which these groups became eligible for a State Pension at that time. Beginning in April 2010, the State Pension age for women was gradually increased to be the same as men's. By November 2018 both men and women had a State Pension age of 65.

33 Here we use 'retired' where the individual has self-reported themselves as 'retired from paid work'.

Key phrases

State Pension

The UK government's pension arrangement for workers with a minimum number of qualifying years paying National Insurance (NI) contributions. As at 31 March 2021, workers needed 35 years of NI contributions to achieve a full State Pension. A proportion of the full amount could be claimed with a minimum of 10 qualifying years of NI contributions.

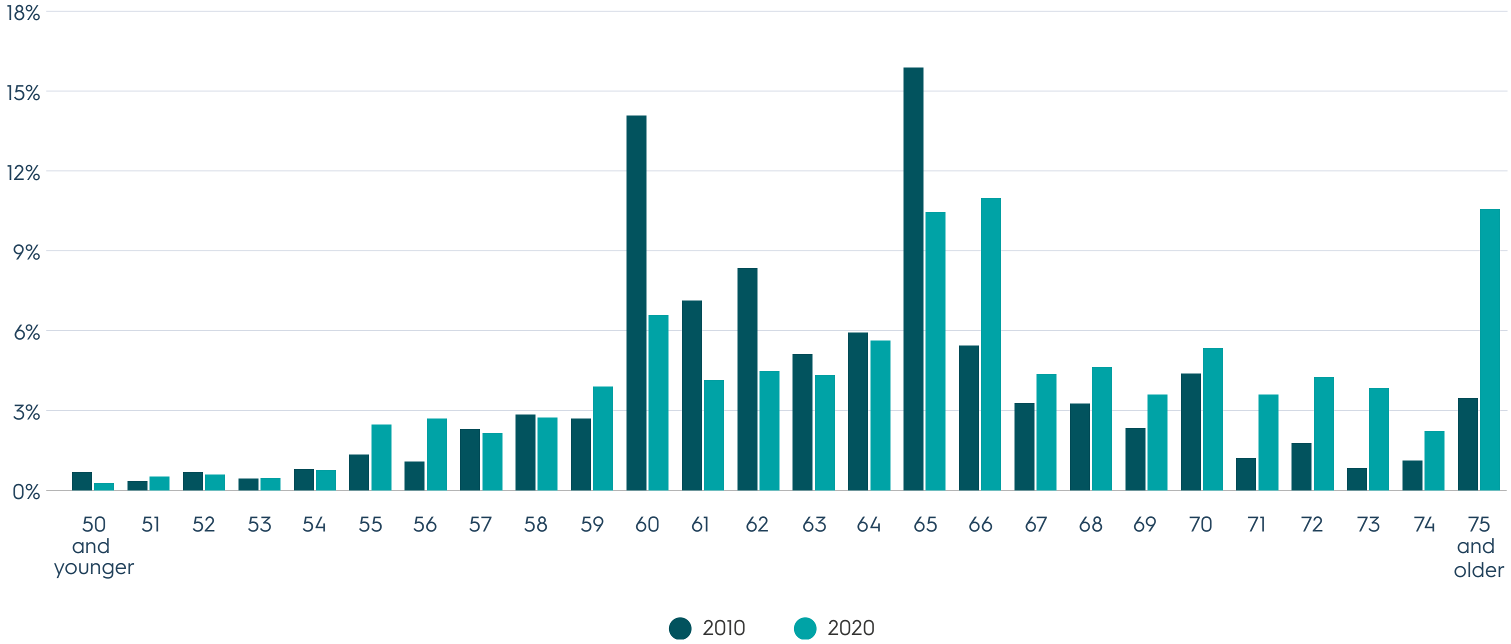
State Pension age

The earliest age at which a person in the UK can claim a State Pension. Until 2016, this was age 65. Between March 2019 and October 2020, it increased incrementally to age 66. It is scheduled to rise to 67 between 2026 and 2028, and again to 68 around a decade later.

Since then, the State Pension age has been scheduled to step up, first to age 66. The data for 2020 shows a second peak forming at age 66, coinciding with this first increase in State Pension age. The changes in State Pension age will affect the retirement plans of younger cohorts of workers.

Yet, a significant number of workers already appear to be retiring after their State Pension age, including many retiring after age 75. Working beyond the State Pension age is quite normal, with around 40% retiring at 67 or older in 2020.

Figure 37. Retirement age in 2010 and 2020



Source: Labour Force Survey, April to June 2010 and April to June 2020

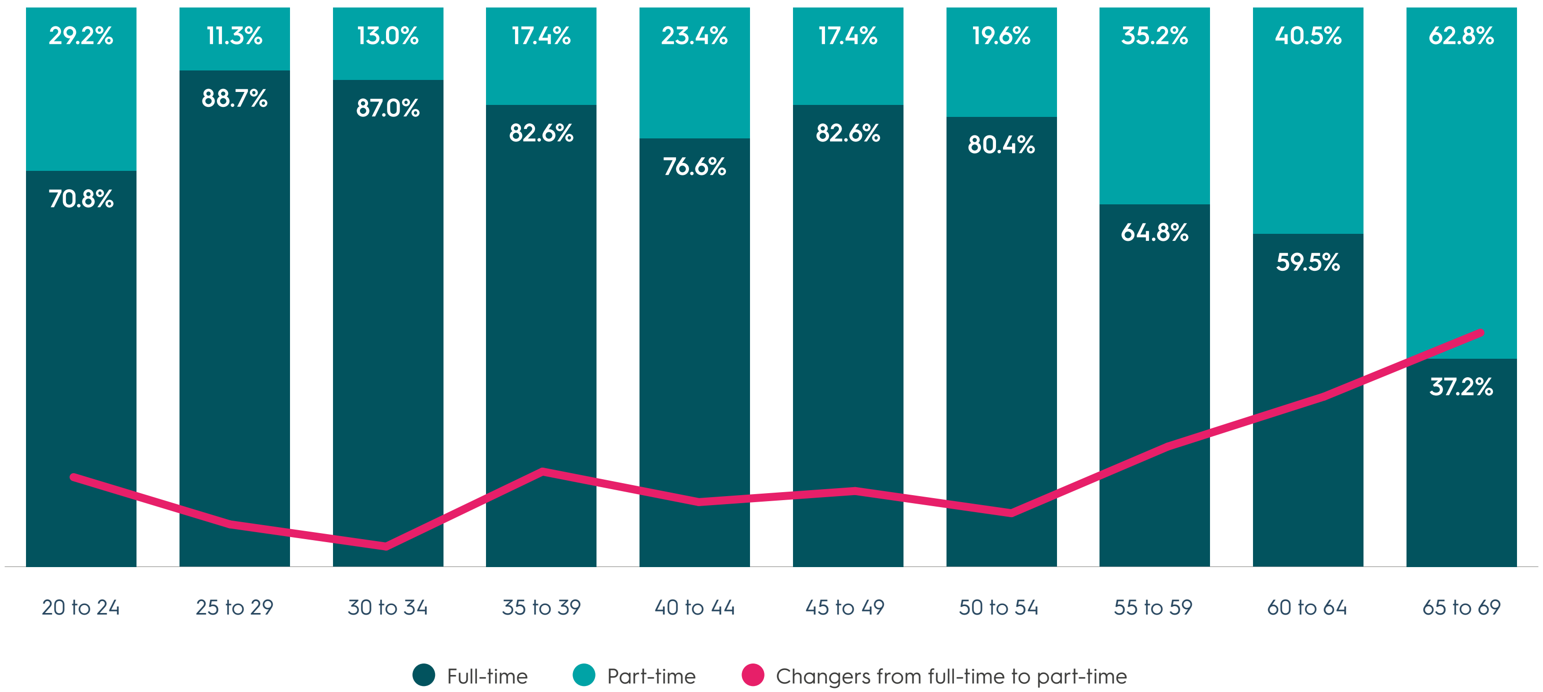
Working patterns in retirement

While the number of people working beyond their State Pension age is clearly increasing, this does not necessarily mean that people are working in the same way in the later years of their working life.

More workers work part-time after age 55. This suggests that individuals transition out of the labour force over time. Some perhaps retire from their main job and take a part-time job either to maintain their income or out of desire to continue working. Some may reduce the number of days they work in their main job, so it effectively becomes part-time employment.

What is interesting is the point at which people make this change. As shown in Figure 38, the percentage of people moving into part-time employment, having worked full-time in the previous 12 months, increases from age 55. There is also an uptick in transitions from full-time working to part-time working in people's late 30s, which, based on the data, is almost entirely driven by women changing their working status. This is likely to be mothers shifting to part-time working while caring for young children.

Figure 38. Working status and changes in working status across UK labour force, by age



Source: Labour Force Survey, five-quarter longitudinal dataset, April 2019 to June 2020

Working beyond State Pension age

The UK's Annual Population Survey explores why people have chosen to work beyond their State Pension age. The question is posed twice, once where the respondent can list as many reasons as they like and again where they have to pick their main reason only.

As can be seen in Figure 39, not wanting to stop working is by far the most cited reason people give for working beyond traditional retirement age. Almost 40% gave this as one of the factors in their decision, with nearly 60% saying it was their main reason.

Around 19% of people said that wanting to have income to pay for either desirable (7%) or essential (11%) items is a main motivator. This suggests that a low proportion of those currently working beyond their State Pension age are having to do so to have enough money to live.

Only around 7% said that wanting to boost the value of their pension pot was their main reason for continuing to work. A larger percentage, 12%, said this amibition was a factor.

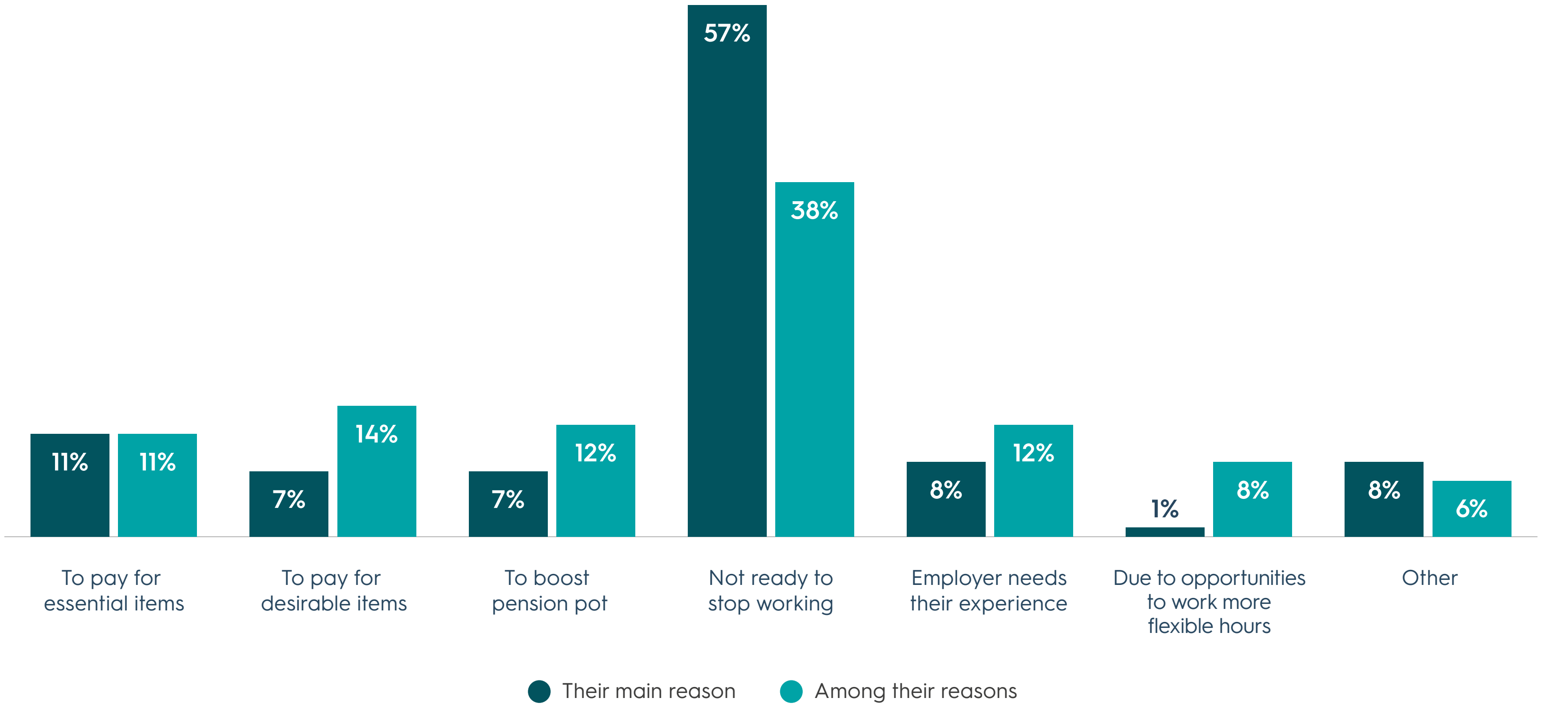
Nest scheme data also provides a window on the percentage of members working beyond State Pension age. As described in Chapter 6, the scheme's investment strategy defaults members into a target-date investment fund corresponding to their State Pension age. Around 99% of members remain in this default strategy.

Members are free to change their expected retirement age in line with their plans through their online account. This would automatically trigger a switch from their default target-date fund to a target-fund reaching maturity and closing in their chosen retirement year. However, very few members take this action.

When each Nest target-date fund closes, members in the fund who have not decumulated their pot are automatically moved into a post-retirement fund. As at 31 March 2021 approximately 80,000 members had pots invested in the Nest Post Retirement Fund. Around 30% of these menbers were active, suggesting that they were still in employment.

Of course, inactive members in this fund may have been in employment with an employer using another scheme, so this figure is a floor for the percentage of Nest members who are working beyond their State Pension age.

Figure 39. UK workers' reasons for working beyond State Pension age



Source: ONS, Annual Population Survey, January to December 2020

Retiring early

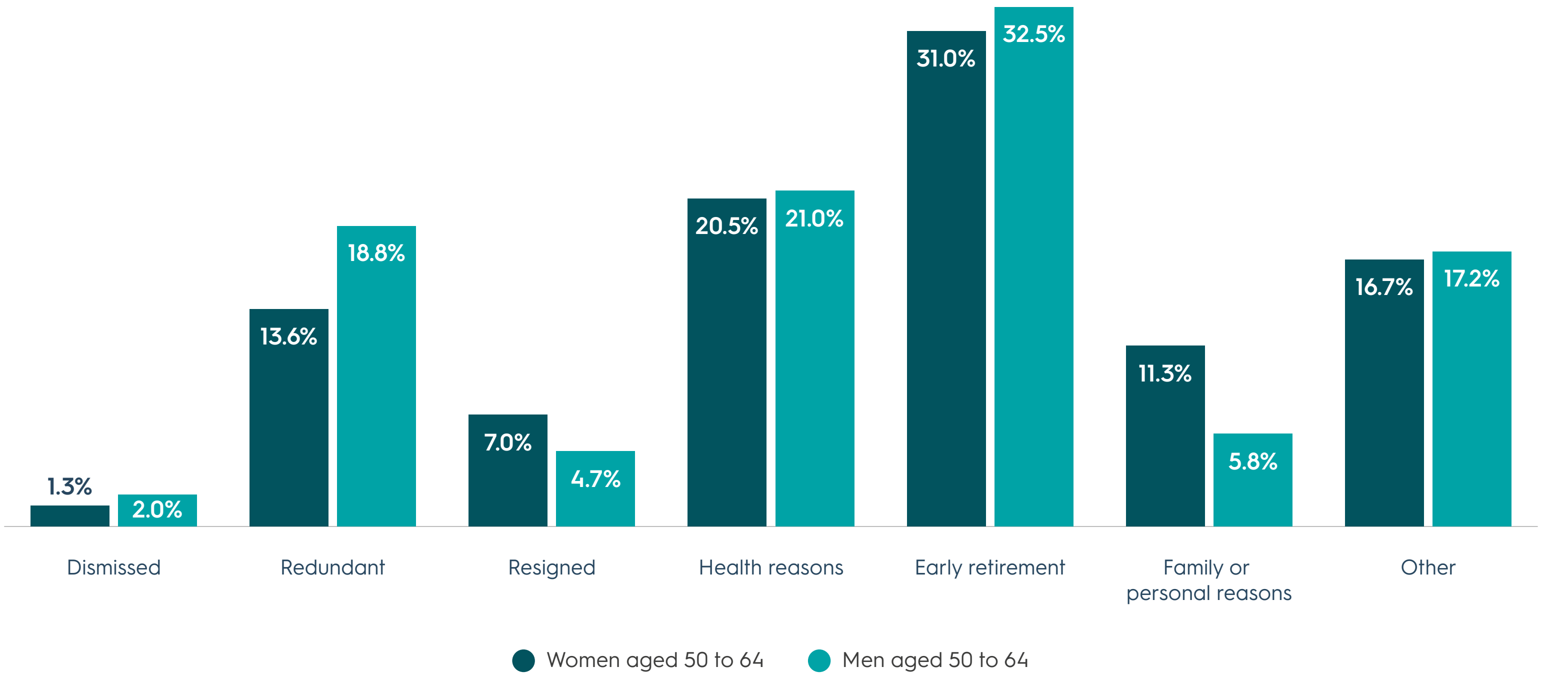
In the main, early retirement is either a voluntary personal choice or an involuntary response to factors limiting a person's ability to work.

Where a worker voluntarily leaves the labour market, it's often because they feel they have the financial resources to provide enough retirement savings or income to fund the remainder of their life. In these cases, stopping work can be beneficial to the person's health and wellbeing. Conversely, where a worker involuntarily leaves the labour market, retirement is strongly associated with poorer health and wellbeing, in large part because ill health is often a driver of the decision.

Indeed, we can see in Figure 40 that health was the second most common reason people aged 50 to 64 gave for leaving their last job. Only early retirement, which we assume were mostly voluntary actions, was cited more frequently. Further, evidence from the English Longitudinal Study of Ageing suggests that someone who considers their health to be good or fair is three times more likely to retire involuntary than someone who rates their health as excellent.[34]

There is no material difference by gender among those taking early retirement or leaving work for health reasons. However, men aged 50 to 64 who are not in work were more likely than women to have taken redundancy or been made redundant when leaving their last job, while women were more likely to say they left their job for family or personal reasons.

Figure 40. Reasons for leaving last job among people aged 50 to 64 not currently in work



Source: ONS, Annual Population Survey, January to December 2020

34 Institute for Fiscal Studies, 'The dynamics of ageing: Evidence from the English Longitudinal Study of Ageing 2002–15 (wave 7)' (13 October 2016), ifs.org.uk/publications/8696

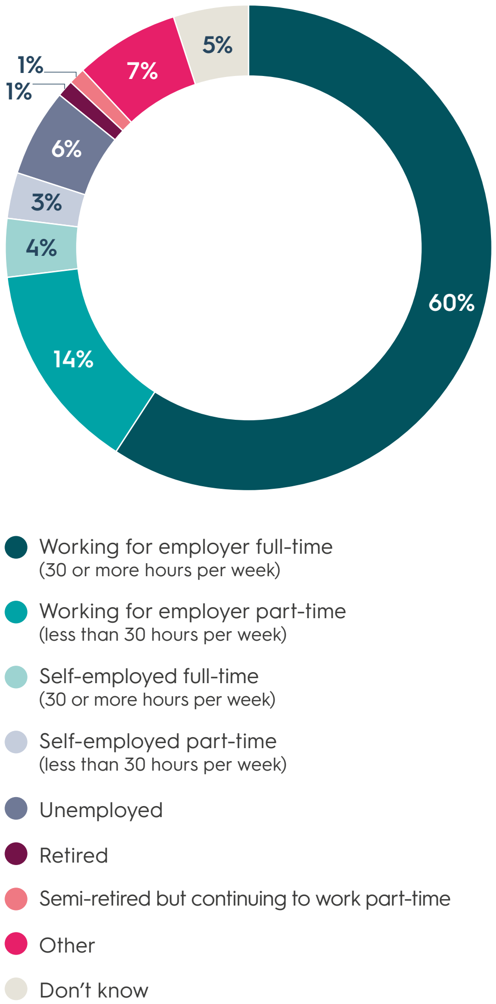
Nest members' retirement expectations

To date we have limited scheme data about the retirement patterns of Nest's membership. However, Nest survey data provides some sense for the changing nature of retirement.

In Nest member surveys, 1% of members reported that they were retired (Figure 41). Another 1% said they were semi-retired and working part-time. These retired and semi-retired members were mostly older, with 11% of members aged 60 and older saying they were fully retired and 9% saying they were semi-retired and working part-time.

> **Only one third of members said they expect to retire at their State Pension age.**

Figure 41. Nest members' working status



Source: Nest member survey, December 2020, all respondents. Question: Which of the following best describes your employment status?

Part-time working may be motivated by a range of factors, as discussed in Chapter 4. The proportion of people slowly transitioning into retirement through reduced hours at their employer is of interest here. Among members 60 and older, 18% said they were working for their employer part-time. This was noticeably more likely to be the case for women (26%) than for men (12%).

Nest has also asked members across all age cohorts to predict when they expect to retire, most recently in its annual survey conducted in December 2017 (Figure 42, next page). Of course, their ability to predict their correct retirement date is likely to be limited, particularly among younger members, who are more likely to be disconnected with retirement planning. This is reflected in the fact that around 1 in 4 members under 50 said they were unable to give an answer to this question ('Don't know'). Older members were more ready to provide an answer, with only 1 in 8 members not feeling able to give a view.

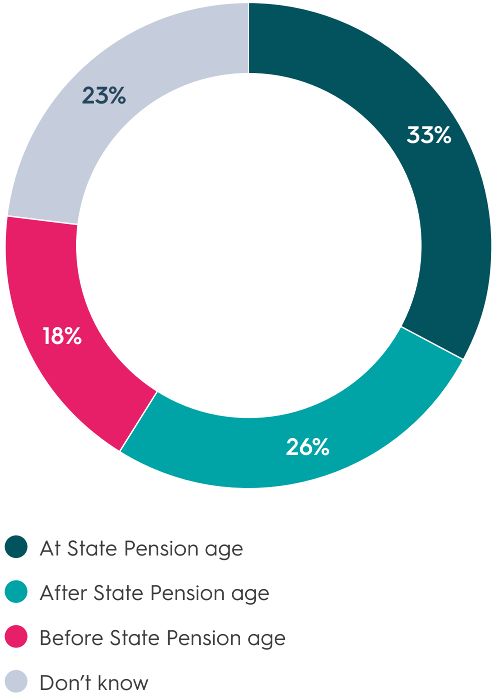
Among those members willing to make a prediction, their prediction does indicate that many expect to be retiring later, despite the anchoring point of the State Pension age. Only one third of members said they expect to retire at their State Pension age, with fewer members under 30 (28%) saying this than those 60 and older (41%). Younger members were less likely to say they expected to retire after their State Pension age (25%) than those 60 and older were (39%), because a significant proportion of younger members expected to retire before it. Time will tell whether these younger members are able to retire when they currently expect or ultimately will work longer.

We don't have survey data from before auto enrolment to directly compare to. However, findings from the Department for Work and Pensions (DWP) 2012 survey on attitudes to pensions[35] suggest that either people's expectations in this area have shifted over the last decade or Nest's membership expects to retire later than the public in general, for whatever reason. The DWP survey found that 50% of people expected to retire before their State Pension age, with this percentage falling to 36% after the respondent's State Pension age was presented to them. In contrast only 18% of Nest members said they expect to retire before their State Pension age.

35 assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/193372/rrep813.pdf

It is difficult to know why Nest members' expectations in 2017 differed so markedly from the general population's expectations in 2012. Increased awareness of the rises in State Pension age was likely a signficant factor.

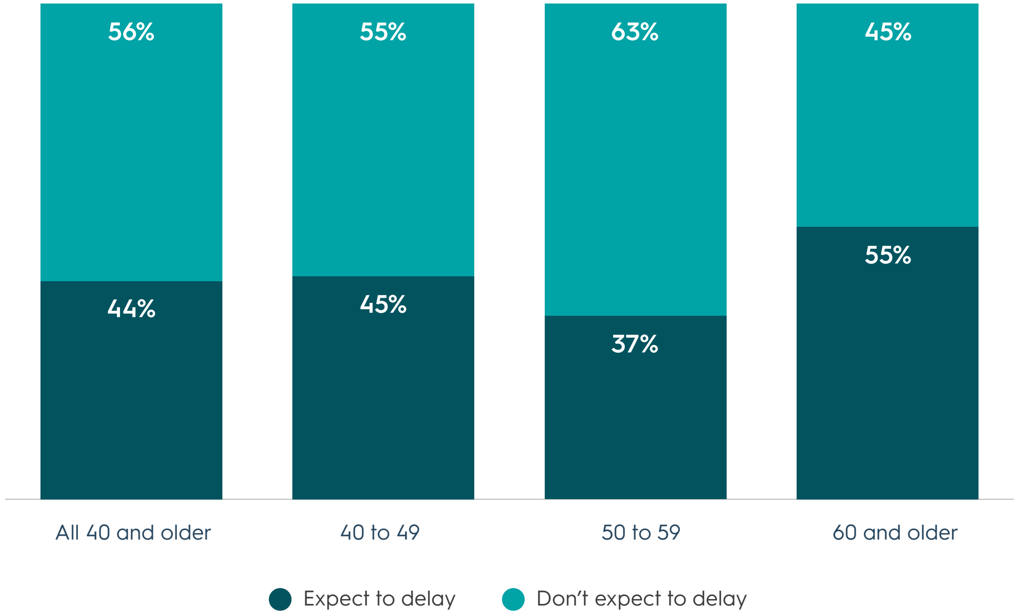
Figure 42. Nest members' expected retirement age



Source: Nest member survey, December 2017, all respondents (3,535). Question: When do you expect to retire?

In its 2018 member survey, Nest reframed the question and posed it only to members aged 40 and older, recognising how difficult it is for younger members to predict when they will retire. Rather than asking these older members whether they expected to retire before, at or after their State Pension age, Nest asked them whether they were considering delaying their retirement beyond their State Pension age. As shown in Figure 43, 44% said they were. Among members 60 and older, the proportion was even higher, at 55%. This is a very strong indicator that for many Nest members, retirement may not directly correlate with State Pension age.

Figure 43. Nest members 40 and older expecting to delay their retirement beyond State Pension age



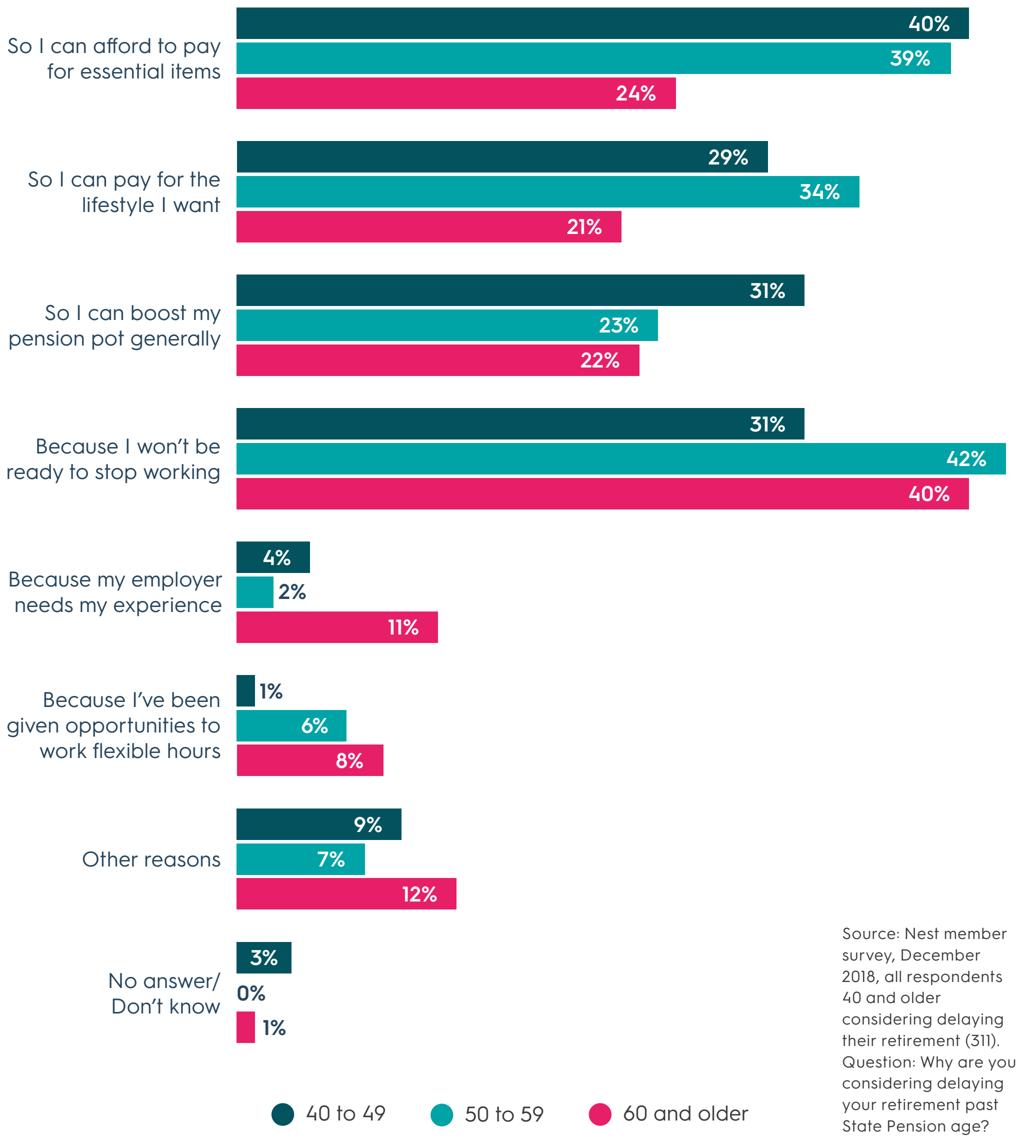
Source: Nest member survey, December 2018, all respondents 40 and older (811). Question: Are you considering delaying your retirement beyond the State Pension age, which is currently 65 for men and women?

Nest then asked these older members why they were considering delaying their retirement. Interestingly, Nest members aged 60 and older answered in ways that mirrored the Annual Population Survey data discussed on page 80, with the most common reason being that people felt they wouldn't be ready to stop working. Around 40% of members 60 and older said this, compared with 31% of those 40 to 49 (Figure 44).

Only around one quarter of members aged 60 and older said they were considering delaying retirement because they needed to pay for essential items, compared with around 40% of those 40 to 59. Women were more likely to say they would need to carry on working to pay for essentials (50%) than men (27%).

It may be that those aged 60 and older have more financial resources or have done more financial planning in preparation for retirement than those in their 40s and 50s, for whom retirement is still some distance away. The difference may also come down to changing concepts of retirement, with people increasingly seeing it as a positive to continue working for longer for a variety of reasons, not all of them financial.

Figure 44. Nest members' reasons for considering delaying retirement beyond State Pension age



Source: Nest member survey, December 2018, all respondents 40 and older considering delaying their retirement (311). Question: Why are you considering delaying your retirement past State Pension age?

Chapter 9

Transferring and retiring

Starting in 2015, the UK's 'freedom and choice in pensions' agenda has allowed members of defined contribution (DC) pension schemes to access funds in their pot from age 55. In addition, members of all ages appear to be transferring funds, presumably to bring together small pots from various employments.

Transferring funds out of Nest

Nest has been able to accept transfers of funds in and out of the scheme since a rule change in April 2017. Such transactions involve moving the money in their pot to a different pension provider rather than a decumulation of assets. As at 31 March 2021, around 111,000 Nest members had transferred funds out in this way. This represents just over 1% of all those who have ever had a pot with Nest.

The overall mean value of transfers out for 2020/21 was around £1,800. This figure is in line with the mean pot value of £1,815 for all members (see Table 18 on page 73).

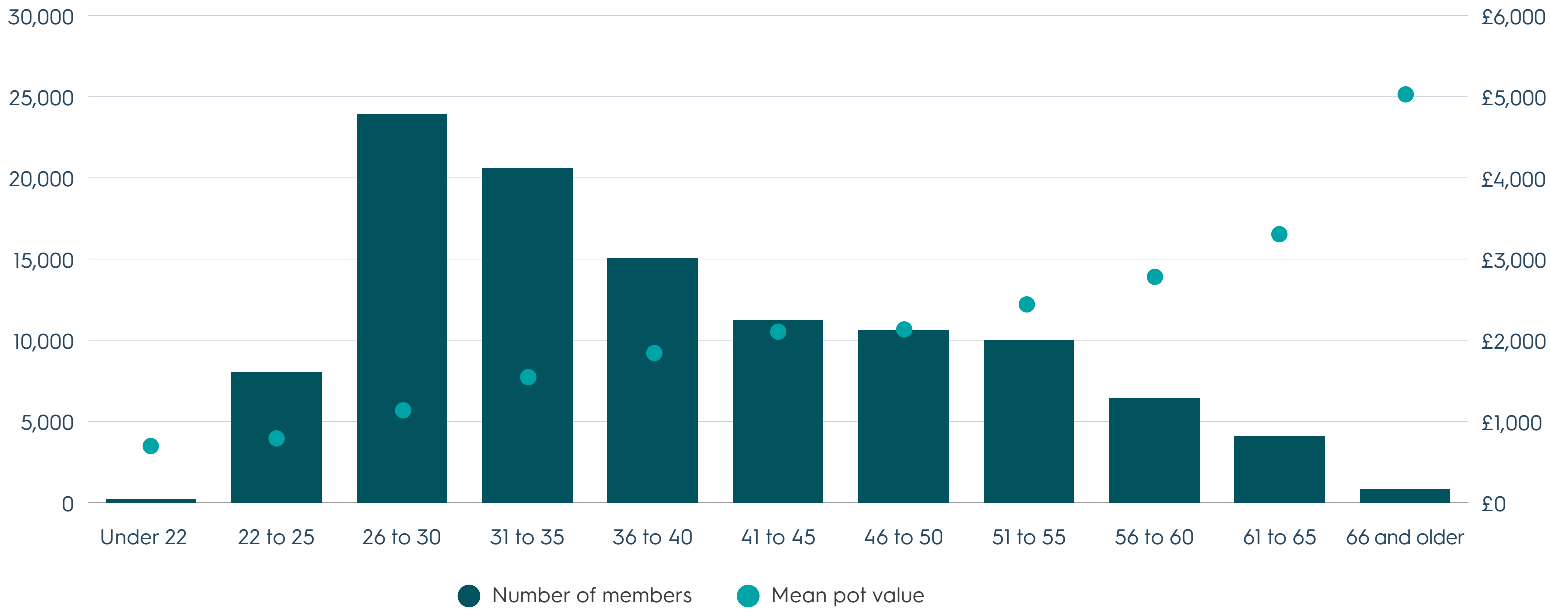
An intriguing pattern emerges when we look at the age of members who request to transfer the funds in their pot out of Nest (Figure 45, next page).

Nest members, like members of any DC pension scheme in the UK, have the right from age 55 to access their pension savings as cash. Although the transactions we are considering here are specifically transfers and not decumulations, we may speculate that members over 55 are transferring their Nest pot to another provider to consolidate their assets prior to retirement.

At the same time, half of all transfers out of Nest are initiated by members aged 35 and younger. This is slightly more than the proportion of Nest's membership (45%) in this age group. Because these members cannot yet access the funds in their pension pot except in situations of ill health, these transfers out very likely reflect a choice by the member to merge their Nest pot with a pot in another scheme following a job change. This active choice, though currently rare, illustrates that some members are engaging with their pension saving well in advance of their expected retirement age.

More striking is the value of members' transfers out by age. While pot values do not vary much by age for members aged 35 to 65, transfer-out values trend steeply with age starting from around age 50. This is likely because members with small pots who are nearing or at retirement tend to take their pot as cash rather than transferring it into their account with another provider – an option not available to many younger members.

Figure 45. Transfers out of Nest, by age and mean pot value



Timing of transfers out

Nest members can transfer out at any time, but typically there is a lag between the final contribution being paid into a member's Nest pot and their request to Nest to transfer the funds.[36] As shown in Figure 46, this timing lag follows a typical positive skew in that great numbers of members request a transfer out within a short number of days while progressively fewer take longer to request the transfer.

That said, proportionally very few members request a transfer out very soon after the final contribution to their pot. Only around 11% of members submit a transfer-out request within two months of their final contribution and only 30% submit their request within the first six months.

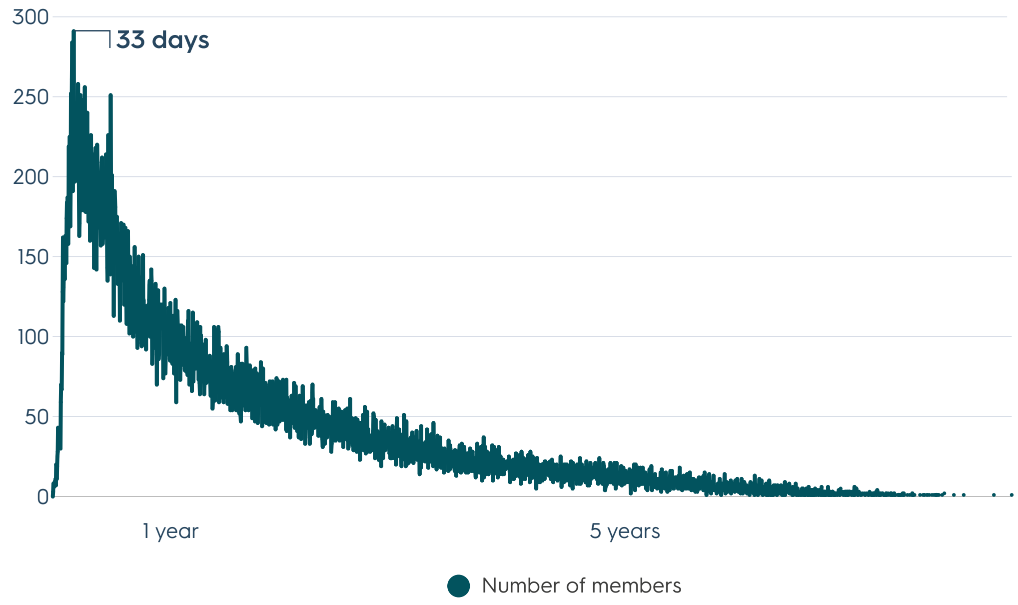
This once again demonstrates the power of the status quo. Members are, in the main, passive with respect to their pension saving. A small percentage have opted out, a small percentage stopped making contributions during pandemic lockdowns when many workers were furloughed and a small percentage have quickly transferred their funds to another provider after becoming inactive with Nest.

36 We have analysed the date of the transfer-out request rather than the date of the transfer completion because there is a wide range in the length of time it takes to process a transfer in at another pension provider.

This is true across all ages and pot sizes. Despite the uniform distribution of transfers out by age and pot size, we believe there must be some 'push' factor that encourages members who have left their job to initiate the transfer. The most obvious would be a new employment with an employer using a different pension provider, but this might be expected to occur soon after they become inactive with Nest. The fact that only 30% of members make a transfer-out request within six months of their final contribution suggests that most transfers out do not fall into this category.

Very few members request a transfer out very soon after the final contribution to their pot.

Figure 46. Time between member's final contribution and request to transfer out



* A tolerance of -30 days has been applied to capture those members who may have submitted their transfer-out request before their final contribution was paid.

Transferring funds in to Nest

Nest also allows members to transfer in funds from pension pots they have at other schemes. This service enables Nest's members to consolidate their pots, if they so wish, simplifying asset value tracking and management.[37]

As at 31 March 2021, around 95,000 members had transferred pots in to Nest. This represents around 0.9% of all members.

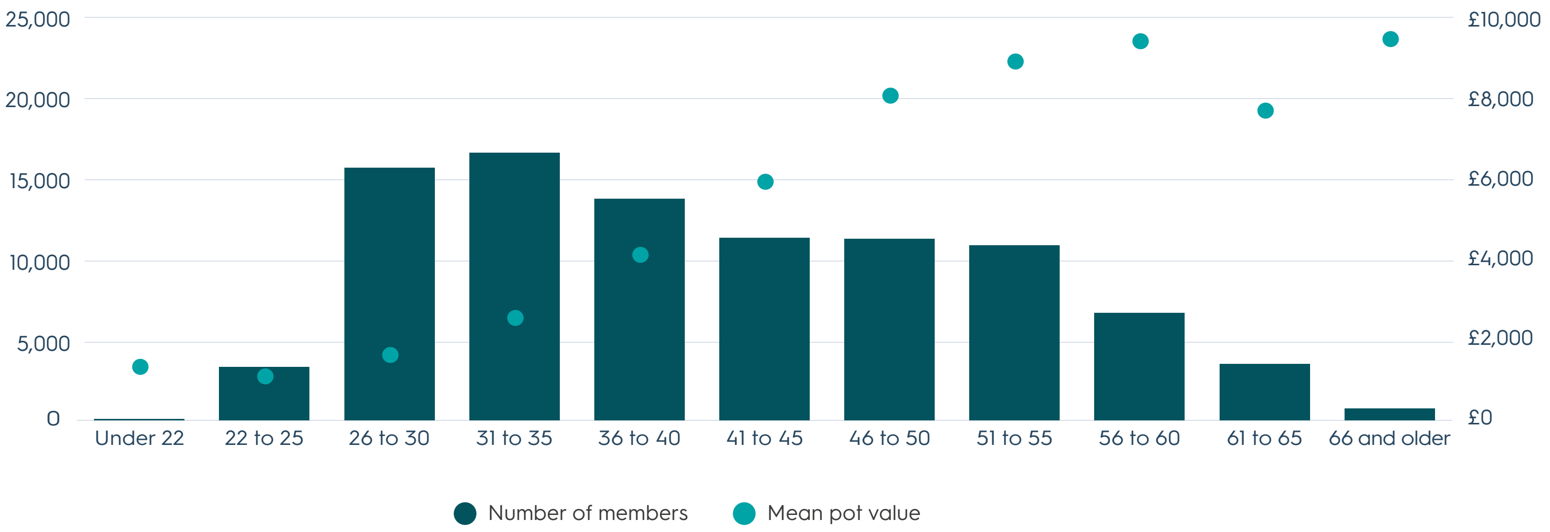
37 Prior to the rule changes in April 2017, there were two ways a member could transfer in to Nest: an ex-spouse or civil partner might receive part of a pension pot as the result of a divorce from a Nest member, or a worker could receive a transfer from an employer in exchange for rights in a defined benefit (DB) plan.

As one might expect, given that the Nest scheme is only 10 years old – the same age as the auto enrolment system – the overall mean value of transfers in to Nest is around £5,200, considerably higher than the mean value of transfers out.

Figure 47 shows how transfers in vary by age. As with transfers out, the vast majority of transfers in are conducted by members aged 25 to 45. However, there are proportionately significantly more transfers in than transfers out among members who are 46 to 55. These individuals are more likely to be in stable, longer-term employment. They are also fast approaching the age when they can start unlocking the funds in their pension pot. They may intend to use Nest to consolidate their pension pots in the lead-up to retirement.

Unlike with transfers out, the value of transfers in by age is linear until age 60. This goes hand in hand with the fact that pot values increase with age.

Figure 47. Transfers in to Nest, by age and mean pot value



Timing of transfers in

Rather like transfers out, one might expect a pattern where transfers in occur shortly after a member is initially or subsequently enrolled in Nest. We suspected that the process of being enrolled, and receiving a member welcome pack, serves as a prompt to the member to request the transfer in.

It's evident from the data presented in Table 21 that this is precisely what happens. A clear spike in transfer-in requests is seen in the first two months after enrolment, with 11% of all requests submitted across the life of the scheme through to 31 March 2021 occurring between days 45 to 50 after enrolment. This window may coincide with the arrival of the Nest member welcome pack, which is typically the first piece of literature which mentions transferring in other pots that a new scheme member encounters.

There is a very long tail to the distribution of transfer-in requests, with 46% of them submitted over a year after the member's enrolment in Nest. As shown in Figure 47 Nest members over 40 are proportionately more likely to have other pension pots transferred in. Again, it's reasonable to imagine that these members are more likely to be consolidating pots as part of near-term retirement planning, and these older members are more likely to make a transfer-in request long after their enrolment event. What nudges them to act is harder to identify since many external variables could be playing a role.

Table 21. Length of time between member's enrolment and request to transfer in funds

Time since enrolment	Proportion of transfer requests received
Less than 30 days	3%
30 to 60 days	16%
61 to 90 days	7%
91 to 120 days	5%
121 to 180 days	7%
180 to 365 days	16%
1 year or more	46%

Retirement and decumulation

When Nest was originally designed as an option for employers being staged into auto enrolment, it was expected that members with smaller pots would draw down their pot as cash using a tax-efficient tool called trivial commutation. Members with larger pots were expected to take the value of their pot to the open market and purchase an annuity or similar retirement income product because this was required for larger DC pots.[38]

Since the changes implemented under the government's 'freedom and choice in pensions' agenda in April 2015, members of DC schemes like Nest can access their pension pots in different ways.

That said, since most Nest members currently have relatively low pot values, 80% of members drew down their pot in 2020/21 using trivial commutation. Table 22 (next page) shows that the mean value of these decumulations was just over £1,100.

Around 12,500 members took either full or partial uncrystallised funds pension lump sum (UFPLS) payments to draw down their pot in 2020/21. The mean value of these decumulations was just over £2,000.

38 This was required for people with £18,000 in one pot or a combination of pots.

Key phrases

Trivial commutation

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

Uncrystallised funds pension lump sum (UFPLS)

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

Table 22. Nest retirement claims, by type and financial year

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Mean member volume*									
Full UFPLS	–	–	–	–	423	1,385	2,660	5,433	7,655
Partial UFPLS	–	–	–	–	23	172	510	2,559	4,919
Annuity	–	1	2	3	8	12	26	54	59
Trivial commutation	7	306	2,092	7,136	11,882	20,543	37,052	60,781	67,861
Death lump sum	2	73	354	737	1,022	1,443	2,066	4,754	5,196
Serious ill health	–	–	5	19	37	58	154	266	265
Mean pot value*									
Full UFPLS	£–	£–	£–	£–	£995	£1,033	£1,245	£1,507	£1,797
Partial UFPLS	£–	£–	£–	£–	£2,406	£3,448	£4,143	£2,836	£2,481
Annuity	£–	..	..	..	..	£3,426	£4,089	£6,438	£8,254
Trivial commutation	..	£209	£272	£408	£467	£510	£594	£838	£1,122
Death lump sum	..	£133	£221	£323	£469	£658	£737	£1,094	£1,628
Serious ill health	£–	£–	..	£646	£849	£981	£1,307	£1,727	£2,761

* For privacy disclosure reasons, (..) has been used where pot value data has been suppressed because the volume count is less than 10.

Of course, the volume of members taking any form of retirement from their Nest pot has been increasing each year as more members reach retirement age. Yet the number of members taking their pot at their State Pension age is significantly lower than the number of retirements one might expect from Nest's membership demographics.

As discussed on page 80, around 80,000 Nest members had been automatically transitioned into the Nest Post Retirement Fund. We know that around 30% of these members are active and suspect that a portion of the inactive members in the fund have probably retired and have yet to claim their Nest pot, perhaps either having lost track of it or decided that requesting the decumulation is more work than the pot's low value is worth.

As the Nest scheme matures and Nest pots become a more significant element in members' retirement portfolios, it's likely the scheme will see fewer of these unclaimed pots among member accounts.

Chapter 10

Conclusion

Auto enrolment has been established as the status quo, as seen in people's pension saving through the pandemic. Yet there are still areas where pension saving could be bolstered.

The 2020/21 financial year was marked by a host of public health and economic challenges. Many employers experienced great uncertainty and turmoil, with reduced or no trading, through a series of national and regional lockdowns and social distancing rules. Millions of workers spent long periods away from work.

Through all of these developments we've witnessed extraordinary resilience and persistence across much of the economy. The government's initiatives to protect businesses and jobs were a significant factor. They help to explain why Nest members continued to save into their pension pots with virtually no change despite the historic, sharp decline in economic activity.

One of the central aims of the auto enrolment reforms was to harness people's natural inertia. The phased rises in pension contribution rates were central to establishing auto enrolment and ensuring a low initial opt-out rate among people new to pension saving. We have seen that Nest members have remained in pension saving, through both contribution rate increases as well as the Covid-19 crisis. The evidence could not be more clear: members have accepted saving into a workplace pension such as Nest. This increased saving is vital to helping millions more people secure a better retirement.

Many of these new savers are younger and lower-paid workers, precisely those who were deemed to be most in need of workplace pension saving when auto enrolment was introduced.

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

From the research presented in 'Retirement saving in the UK 2021', we know that Nest members are diverse and spread across the entire UK labour market. Although many may plan to work in later life, in some cases well beyond their State Pension age, they have a wide range of retirement expectations.

Nest's default investment strategy has been designed with the power of the status quo mind. It recognises that many scheme members may not engage with their pension pot until they near retirement. The glide path aims to ensure they reap the benefits of increased saving and investment returns. Going forward, it will be essential to understand the range of members' lived experiences to help improve their retirement outcomes and also to expand the range of tools available to them for retirement planning. This is the purpose of the 'Retirement saving in the UK' series and Nest Insight's larger programme of research and analysis. We look forward to sharing further findings in the future.

Contact us:
insight@nestcorporation.org.uk

To find out more, visit our website:
nestinsight.org.uk

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