

Consultation Response

NEST: Evolving for the future

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About this consultation

This Department for Work and Pensions consultation looks at the potential benefits and feasibility for the National Employment Savings Trust (NEST) to expand its remit to offer products to consumers in the retirement income marketplace. At present NEST operates only as a pensions saving scheme, and its members have to move to other providers when they want to access their pension pot.

Key points and recommendations

- NEST should be allowed to offer decumulation products. This will help a significant number of smaller savers access appropriate products and navigate what is currently a highly complex marketplace.
- These products should be available to all savers. This will provide an additional safeguard for smaller savers, as well as foster greater innovation and competition at this end of the marketplace.
- NEST could act as a conduit to advice and guidance, helping boost take-up of Pension Wise which has been low to date.
- While there has been some degree of innovation in products suitable for smaller savers, there still appear to be gaps in the marketplace that are unlikely to be filled in the near future. It is not appropriate to wait indefinitely for the market to take action – extending NEST’s remit may well be the kick-start that is needed.
- We agree with the principles listed, although we would also recommend an additional one about helping savers attain an adequate income throughout their later life. Also, there should be some emphasis on long-term outcomes of decisions and actions

and other issues in more detail, in particular how they affect smaller and mid-sized pension savers, and is available on the Age UK website.ⁱ

All these issues are exacerbated by the lack of a mass market financial advice offer, and low take-up of the Pension Wise guidance service. The fundamental issue is arguably the lack of engagement in and knowledge of pensions decumulation, and there is a clear need for improved access to advice and guidance.

This situation is leaving many consumers, particularly those with smaller pots for which regulated advice is not affordable, with a lack of understanding about the best course of action they can follow in the decumulation phase of their journey. There is likely to be a particular difficulty for automatically enrolled savers – inertia brought them in and built up their pot, but they are now required to be engaged at the point of decumulation and navigate a complex and substantial range of product choices and other options.

Savers in the NEST scheme have on average lower levels of pension wealth. Many NEST clients are therefore likely to be new to managing investments and require more support with their decision-making.

We believe there is a very strong case for NEST being allowed to move into this marketplace. Doing so will allow a provider with a universal service obligation and a public interest duty to help savers who are less engaged and not well served by the existing marketplace.

The development of new products has not catered for the smallest savers – it is not reasonable to leave smaller savers exposed to an unsuitable marketplace, especially when they are not equipped with the skills necessary to navigate it.

NEST may help to fill this gap. We do not believe that in reality other providers will move into this (less profitable) space, so the detriment to consumers of NEST being unable to offer decumulation products will be significant, while the detriment to competition within the product marketplace will be slight.

2. Consultation questions

Do you agree these are the right principles to help Government weigh up proposals for changing NEST's policy framework?

The four principles listed seem sensible and will help steer NEST towards filling the gap at the lower-value end of the marketplace. We believe it is worth including the following additional principle:

- Adequacy focussed – that the NEST offer should do everything possible to ensure that savers can maintain an adequate income throughout their later life.

We also feel that the principle about being 'consumer-focussed' should reflect that decisions and actions taken by the provider must be in consumers' long-term interests – for example including managing any longevity risk. It would also be prudent to reference signposting to appropriate advice or guidance in the principles, which might help encourage more smaller savers to use Pension Wise.

Is there other evidence or factors about how the pensions landscape is changing that we should take into account in considering NEST's future policy framework?

There are some speculative factors that are no doubt relevant, but are difficult to take into

decision-making process. The Government needs to consider what else can be done to 'aid and abet' disengaged savers, and conduct a comprehensive evaluation of the 'freedom and choice' reforms. Extending NEST's remit is one small but important part of this solution.

With the changed landscape of retirement, it seems unfeasible to restrict NEST by not allowing it to offer decumulation products.

What would be the impact on individuals, employers, NEST and other pension providers of this approach?

We believe that allowing NEST into the decumulation marketplace for its own clients would be widely beneficial:

Individuals – would benefit from a wider product choice, and the presence of a provider

trailblazer for good practice in terms of customer service and product transparency. Other providers will be able to benefit from NEST's innovation here.