



Institute
and Faculty
of Actuaries

NEST: Evolving for the future

IFoA response to the Department for Work and Pensions

14 September 2016

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.



Marie Walker
Department for Work and Pensions
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14 September 2016

Dear Ms Walker

IFoA response to NEST: Evolving for the future

1. The Institute and Faculty of Actuaries (IFoA) welcomes the DWP's continued focus on saving for retirement. Automatic enrolment has been successful to date in increasing the number of people saving into a workplace pension. We agree it is important to capitalise on this momentum to ensure the pensions industry is meeting the UK's long-term savings needs. As the Government established NEST, and it is expected to be one of the UK's biggest pension schemes by 2018, it is right that DWP and NEST continue to assess whether it is meeting society's needs.
2. NEST has a challenging time ahead with the staging of many of the smallest employers still to take place. We think it is important to identify the most urgent issues to ensure that NEST prioritises its next steps. Whilst NEST will rightly have its members' interests in mind, due to NEST's unique position it is important that DWP has the broader public interest in mind. As far as possible, members of other schemes should not be disadvantaged by any changes to NEST's remit. We appreciate that it is also important that NEST members are not disadvantaged compared to members of other schemes, and striking the right balance could be challenging.
3. This response has been prepared with members of our DC Sub-committee and Pensions Board. We have only answered those questions where we have relevant expertise.

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

4. We agree with DWP's principles. The focus of our comments is on the practicality of achieving them. As NEST's loan from the Government has increased, we recommend that the cost of NEST, and its ability to repay this loan, is listed here in order to assess the sustainability of the NEST model. It is not clear from the consultation how much more additional funding DWP envisages NEST will require if it were to move ahead with these proposals. The sustainability of NEST's funding model could also be affected by the review of automatic enrolment scheduled for 2017, particularly if it results in the introduction of capital standards for master trusts. We recommend that any evolution of NEST is mindful of, and perhaps even delayed until after, the 2017 review.

Question: 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?

5. In addition to the factors highlighted, again we suggest that the 2017 review of automatic enrolment and the potential implications on capital adequacy are considered in NEST's future policy landscape.

Pension Freedoms

Question: Should NEST be able to develop and offer a full range of decumulation services for its members?

6. We agree that a logical next step for NEST would be to offer decumulation services for its members. However, we would ask whether now is the right time for NEST to be considering decumulation products if it is to achieve its principle of value for money. Last year, 1,554 of NEST's members retired, of whom 1,522 exercised the cash-out option and only three opted to take a retirement income. The wider market is also seeing low volumes of members retiring with sufficient defined contribution savings to warrant the range of non-advised options that it is anticipating will develop as demand increases. We therefore question whether this should be a priority for NEST over the next couple of years, particularly if it will require a further loan from the Government.
7. As the pensions industry is already seeing post-freedom and choice, offering a full range of decumulation services will not be straightforward and development is ongoing in a number of areas. We note just a few areas still developing here to highlight the magnitude of the task at hand should NEST decide to offer decumulation services:
 - a. Platforms for income drawdown that are available to any individual on either an advised or non-advised basis
 - b. Income drawdown on workplace pension platforms to give members a straightforward route for this option
 - c. Uncrystallised Fund Pension Lump Sums, both full and partial, being made available on workplace pension platforms
 - d. Default investment solutions in retirement
 - e. Support and advice services

Whilst we commend NEST's desire to be a market-leader in terms of governance and charges, we ask NEST to consider whether acting ahead of market development, and potentially ahead of a critical mass of market need, will offer members and taxpayers value for money.

8. A further consideration is whether the Government think that better outcomes could be best achieved by either encouraging shopping around, or by encouraging providers to put appropriate defaults in place. If NEST's current model of having a panel for annuities were widened to other products, this could encourage more people to shop around. Whereas if NEST were given the remit to establish default options for decumulation, this would allow people to remain inert as they transition into retirement. We would ask DWP to consider which of these models would be of greater benefit to NEST's members.

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

9. If NEST were confident that it could achieve this and adhere to all four principles then it could have a positive impact on individuals, employers, NEST and other pension providers.

However, we are not clear from the current call for evidence that this would be achieved as noted in paragraph 4 of our response.

Extending Access

Question: Should access to NEST be more flexible?

10. Helping people to save adequately to meet their retirement income needs is an essential part of public policy if people are going to live comfortably in retirement. We therefore believe that removing barriers to accessing NEST should be removed. In particular, the removal of restrictions on bulk transfers could have the additional benefit of increasing NEST's assets to a level where it is able to pay back its Government loan more quickly. We would recommend that NEST prioritise these changes above pursuing decumulation at this time.

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

11. For those members where more than one of the smaller schemes they are a member of transfers to NEST, there could be an additional benefit if NEST were able to deliver a means of consolidating those pots.
12. There could be an adverse impact on those individuals on the lowest incomes if they are contractually enrolled as a small amount of additional savings could mean that they are no longer eligible for means-tested benefits, the value of which may have been greater than the amount they were able to save. We suggest that the potential impact on their overall level of wealth in retirement should be considered.
13. The removal of any access restrictions should be the same across all providers so that all savers can benefit equally.

Should you wish to discuss any of the points raised in further detail please contact Rebecca Deegan, Policy Manager (rebecca.deegan@actuaries.org.uk / 02076322125) in the first instance.

Yours sincerely



Fiona Morrison
Immediate Past President, Institute and Faculty of Actuaries