TISA Response to

NEST: Evolving for the future

Call for evidence

September 2016

About TISA

TISA is a not-for-profit membership association operating within the financial services industry. The focus of our recommendations and actions is improved outcomes for consumers and UK plc with this approach leading to a stronger UK financial services industry.

TISA's growing membership comprises over 150 firms involved in the supply and distribution of savings and investment products and services. These members represent many different sectors of the financial services industry, including asset managers, insurance companies, fund managers, distributors, building societies, investment managers, third party administrators, consultants and advisers, software providers, financial advisers, pension providers, banks and stockbrokers.

TISA has a successful track record in working cooperatively with government, regulators, HMT, DWP and HMRC to improve the performance of the industry and the outcomes for the public. Effective policy and regulation and the creation of efficient industry infrastructure continues to be the major focus for our members. TISA is unique in that it represents the entire financial services industry, incorporating cross-sector policy, industry and technical expertise. Whilst we maintain a solid partnership with government, the regulators and wider industry, we remain independent and develop neutral views and opinions. This impartiality is reflected in our ability to drive development projects which improve industry performance and consumer outcomes, putting us in the unique position of being able to constantly challenge the status quo to bring about material improvement.

Summary

TISA welcomes the opportunity to offer evidence to assist the Department in considering how NEST develops for the future.

The pace of change in the industry landscape since the Pensions Commission findings were published in 2005 has been dramatic, we concur that automatic enrolment and retirement freedoms are having fundamental impacts on the industry and welcome the increase in membership and the instinct to trust members to make the right decisions with their own money.

We note that while automatic enrolment has been a policy success there is still much to do to complete the journey of staging all employers and increasing the contribution rates to a level where retirement outcomes are in line with objectives.

In particular the increases to contributions could be damaging to the membership rates and 'brand' of auto enrolment if not communicated effectively, the lessons of the State Pension changes should be heeded here.

We are conscious in our response that NEST will play a vital role in completing the auto enrolment journey and, at this stage of its development, ahead of financial self-sufficiency, needs to prioritise fulfilling its primary purpose of to providing value for money services, focussed on the needs of the target market of low to moderate earners in an easy to use way.

Opening access to contractual enrolment and allowing greater flexibility to transfer in non-participating employer legacy schemes we agree are sensible developments but are less convinced that developing a range of 'in house' decumulation products for members is a priority when government and regulators are trying to encourage 'shopping around' at retirement and NEST has so few members in that age range.

Call for evidence response

Chapter 1 – Introduction

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

We agree that continuing to provide value for money services, focussed on the needs of the target market of low to moderate earners in an easy to use way is the right set of aims for NEST. Given the remaining challenge of the vast numbers of small employers left to stage our members believe that NEST has a vital role providing capacity and a simple, trustworthy option for this cohort.

We are not sure that what you describe under the heading of Sustainability represents objectives of a similar priority or weight. We agree that the scheme has to provide long term security and relevance to its membership but reflect in the following sections of our response on some of the known challenges facing the scheme which we would suggest bear greater priority than expanding options and services.

We believe there is great merit in NEST retaining 'Simplicity' as one of its key principles as a carry-over from its initial remit.

Chapter 2 – A Changing Pension Landscape

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?

The pace of change in the industry landscape since the Pensions Commission findings were published in 2005 has been dramatic, we concur that automatic enrolment and retirement freedoms are having fundamental impacts on the industry and welcome the increase in membership and the instinct to trust members to make the right decisions with their own money.

We note that while automatic enrolment has been a policy success there is still much to do to complete the journey of staging all employers and increasing the contribution rates to a level where retirement outcomes are in line with objectives.

In particular the increases to contributions could be damaging to the membership rates and 'brand' of auto enrolment if not communicated effectively, the lessons of the State Pension changes should be heeded here.

We are also conscious that there are a number of potential threats to the successful completion of this journey, in particular:

> Lifetime ISA launch in April 2017 with early access provisions for House Purchase but also clearly labelled as an alternative retirement savings vehicle which younger employees may see as more attractive than their auto enrolment scheme, potentially triggering a rise on opt outs.
>
> Any conclusion to the outstanding pension tax incentives review which could impact the balance of relative attractiveness of various savings vehicles.

Our members also inform us that there are still practical operational issues employers using NEST experience which they view as an absolute priority to resolve ahead of any expansion of services. Examples of these issues are;

> 'If an employee does not have an NI number NEST treats them as a foreign worker thus not entitled to the Base Rate tax deduction on their source employee contribution however the payroll has been closed and the employee has had the employee contribution less base rate tax amount deducted. The only solution is to either use the auto calculate button in the contribution schedule to apply a higher employee contribution or add a NI number to the employees record. The contribution schedule then show on the system as overdue even though the contributions have been made.'
>
> 'The Web API works well but there is a huge stalling step where once the payroll provider sends in a new employer the user has to log into NEST and finalise setup, however the time it may take for the user to do this there is a not confirmation message from NEST that the user has finished setup.'

Chapter 3 – Areas for Potential Change

Pension Freedoms

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

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

Our members don't see the priority for NEST to develop a wide range of decumulation services at this stage when so few of its members will be over 55 and most that are will have very small pots for some while. Government and regulators are very keen to encourage members to 'shop around' at retirement so creating a range of in house options would seem to be travelling in the opposite direction.

We note that Government initiatives like the Financial Advice Market Review and Pensions Dashboard are focussed on encouraging the industry to develop digital delivery of useful information and guidance to consumers to enable them to make better informed decisions and we welcome NEST's participation in Industry initiatives in response.

Extending access

Should access to NEST be more flexible?

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

In principle we concur it could be helpful to some employers to allow all them to include all their employees in the NEST scheme whether they are auto enrolment eligible or not and extension of access to include contractual enrolment seems sensible.

We concur it was sensible to allow employers using NEST to consolidate previous arrangements into the scheme by means of Bulk Transfers, the 'tidy up' of legacy arrangements often benefits employers, members and providers. We recognise there could be a role for NEST to play in being a 'consolidator' for other legacy schemes for non-participating employers but are wary of the risks to members benefits from not getting 'like for like' treatment and the cost of transition of investment funds. Sometimes the cost of transition outweighs the benefit of consolidation, normally a benefit consultant and the provider involved undertake a careful analysis of the scheme and costs prior to transfer, and we would want to see strong guidelines to protect member's interests and assess the potential operational resource costs to guard against unadvisable transactions.

We are less convinced of the arguments to open up wider individual membership to NEST at this stage, your paper seems to make the case based on allowing consumers access to NEST's decumulation services, as stated earlier we believe there are greater priorities for NEST at this stage.