



Building Effective Retirement Savings - the UK experience

Georgetown CRI webinar, June 2016



What I'll cover



Quick overview of UK system - and how it's going

Uses of Behavioural Economics and mandates

The freedom and choice agenda and the transition to retirement



UK pension system - a quick summary

- 2006 reforms to address long-term sustainability and effectiveness of UK system
 - Changes to pillar one to make it simpler and more generous while keeping it sustainable over time - now effectively flat-rate £150 per week for all
 - Schedule of increases over time to the age of eligibility for pillar 1, in line with life expectancy
 - Introduction of 'mandatory automatic enrolment' to address coverage of private pension saving

All employers must enrol (most) workers into a 'qualifying' plan

Can set up own plan or 'buy' one

Employee can opt-out. If they don't, 8% minimum contribution of which at least 3% from employer

Phased roll-out - largest employers first, contributions start lower

NEST - one of the options for employers, legal duty to accept any business

What's working and what's not?

- Overall automatic enrolment policy extremely successful at addressing coverage:
 - Participation in a plan had fallen from c55% to c45% between 1995 and 2011, now c65% and rising, with 6m+ new savers
- Early signs from smaller employers very positive
- Inertia embeds saving, but also embeds other behaviours
 - People stick at the default contribution rate - is it enough?
 - Hard to move people from 'inert' to 'engaged' as they approach retirement



Use of mandates and nudges in UK

- Mandate on employers - to enrol members and to contribute
- Automatic enrolment of all eligible workers - opt-out in NEST c7.5% to date
- Phasing in of contribution levels leverages logic of auto-escalation
- Behavioural economics in the design of NEST processes...



Using behavioural biases in designing NEST processes

The screenshot shows the NEST website interface. At the top left is the NEST logo and navigation links: Home, My retirement pot, My details, and Mailbox. A search bar contains 'e.g. contrib' and a 'Need help?' link. The user is logged in as '111dw001W'. The main content area shows the 'Opt out' process for account '111dw001BS'. Step 2, 'Happy to lose out?', is highlighted. The text asks if the user is happy to lose out on money from their employer, providing an example based on earnings and contributions. At the bottom, there are three buttons: 'Cancel', 'Back', and 'Continue opt-out'.



20% drop-out rate among those who start the opt-out process online



‘Freedom and choice’

- Prior to 2014 - mandatory purchase of life annuity by age 75
- 2014 onwards - ‘freedom and choice’ reforms designed to give people more control and flexibility
 - Abolition of compulsory annuities - complete flexibility from 55
 - Introduction of a ‘lifetime ISA’ with a government match for ‘home ownership and retirement’
 - Consideration of changes to tax relief, early access to pension saving,
 - Creation of information and advice support services - Pensionwise, access to fund to pay for advice



‘Freedom and choice’

- Introduces new choices and some new risks for savers decumulating DC savings
- Potentially blurs shorter- and longer-term savings goals
- Too early to judge impact
- NEST focused on appropriate product design for our market
 - Combination of flexible draw-down, cash access and later-life insurance to guarantee an income



‘Freedom and choice’

- Puts significant emphasis on individual choice at retirement from a system that otherwise is very passive
- Creates a major challenge for providers in supporting savers to make the right decisions
- Still a role for defaults? But product innovation yet to really emerge

