# What the U.S. Can Learn from the UK's National Employment Savings Trust

## Webinar

**September 18, 2024**

NATIONAL INSTITUTE ON
Retirement Security
Reliable Research. Sensible Solutions.

# Agenda

- Logistics and Introductions
- Presentation
- Q&A

# Speakers

**Tyler Bond**

Research Director

National Institute on Retirement Security

**Will Sandbrook**

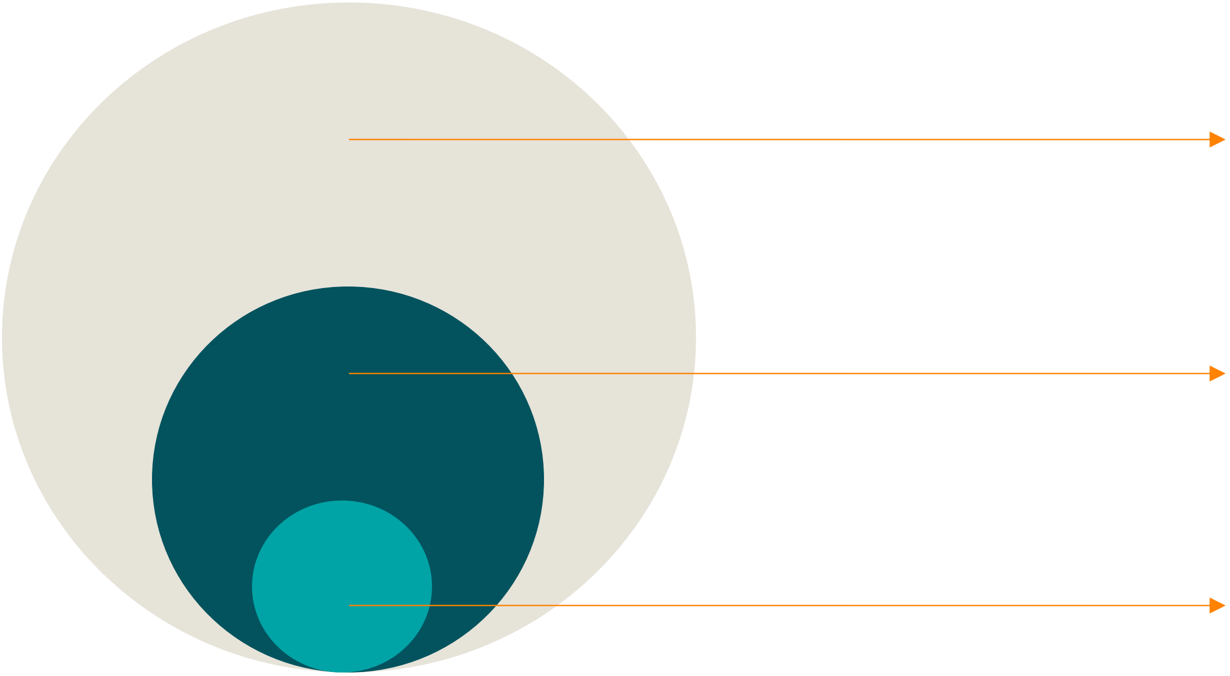
Executive Director

NEST Insight Unit at National Employment Savings Trust

# UK auto enrolment and Nest

## NIRS webinar, September 2024

# Auto enrolment, Nest and Nest Insight – a primer



**Automatic Enrolment:** A mandate on all UK employers to automatically enrol eligible workers to a qualifying workplace pension plan

**Nest:** A qualifying workplace pension plan, open to any employer wishing to use it, statutory obligation to accept all business

**Nest Insight:** A public benefit research and innovation centre, set up by Nest to explore ways to support improved financial security for low- and moderate-income workers.

# What is Nest Insight?

Nest Insight is a **public benefit research and innovation centre**, set up by and housed within Nest Corporation

Our work is about finding better ways to support people's **financial peace of mind, now and in later life**.

We focus on understanding the **lived experience** of people on low, moderate and volatile incomes, learning about their financial needs, challenges and goals through rigorous and thoughtful analysis.

We work with employers, product providers, academics and policymakers in the UK and around the world to **identify, invent, test and evolve practical solutions** and see what works best for people in the real world. This builds the case for systems-level change.

Our findings are **shared widely and freely** so that people around the globe can benefit from our work.

# Origins and ‘why’?

Nest Insight was **originally established in 2016** based on a mix of proactive and reactive logic

- **Ethos**: Nest was born out of a public policy programme and the application of academic insight. We have an interest in working on the system, as well as in the system, and a value of transparency. And we recognise our members won’t always be saving with us. So we believe we should do this work, and share it, if we can.

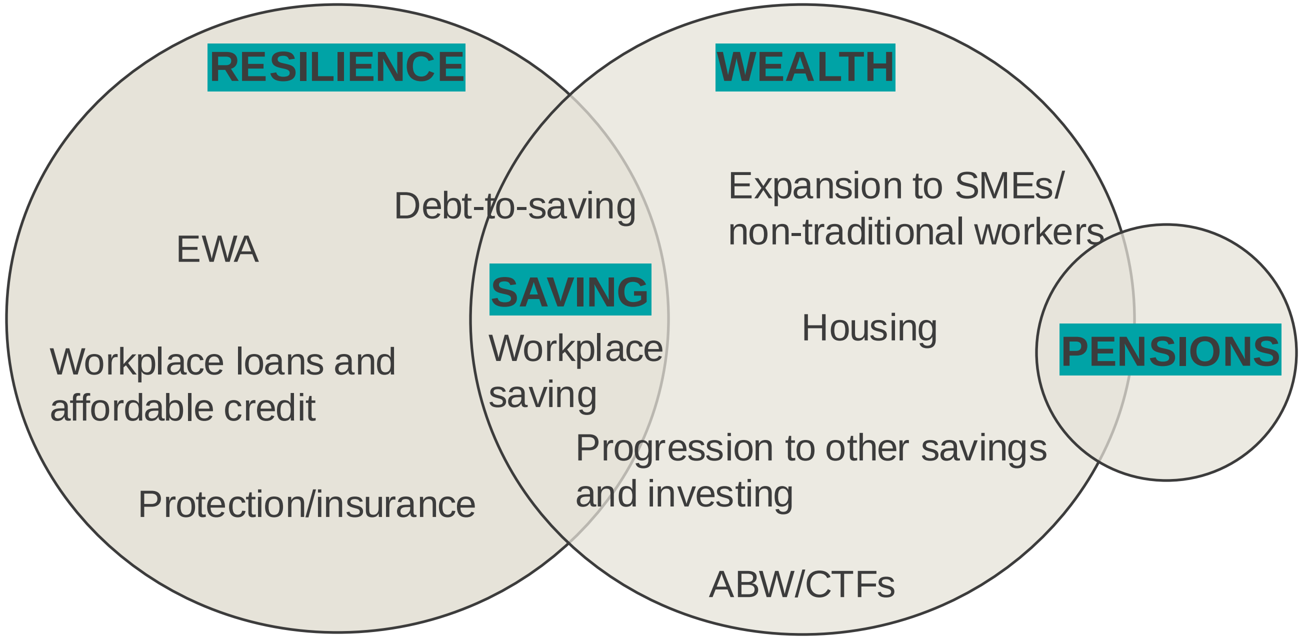
- **Demand**: People approach us because they are interested in what we’ve done and in ways we could work together in future – our saver population is unusual and under-researched in a pensions context, and our data has significant research value. Since launch we have also established a very strong reputation, in particular around delivery of real-world trials and evaluations, adding to this demand.

- **Reputation**: We believe It enhances Nest’s reputation and builds trust in the brand to do this kind of work.

- **Insight**: We believe that Nest Insight enables research and insight work that is of use to the whole sector, Nest included, and which wouldn’t otherwise happen.

# Our work programme

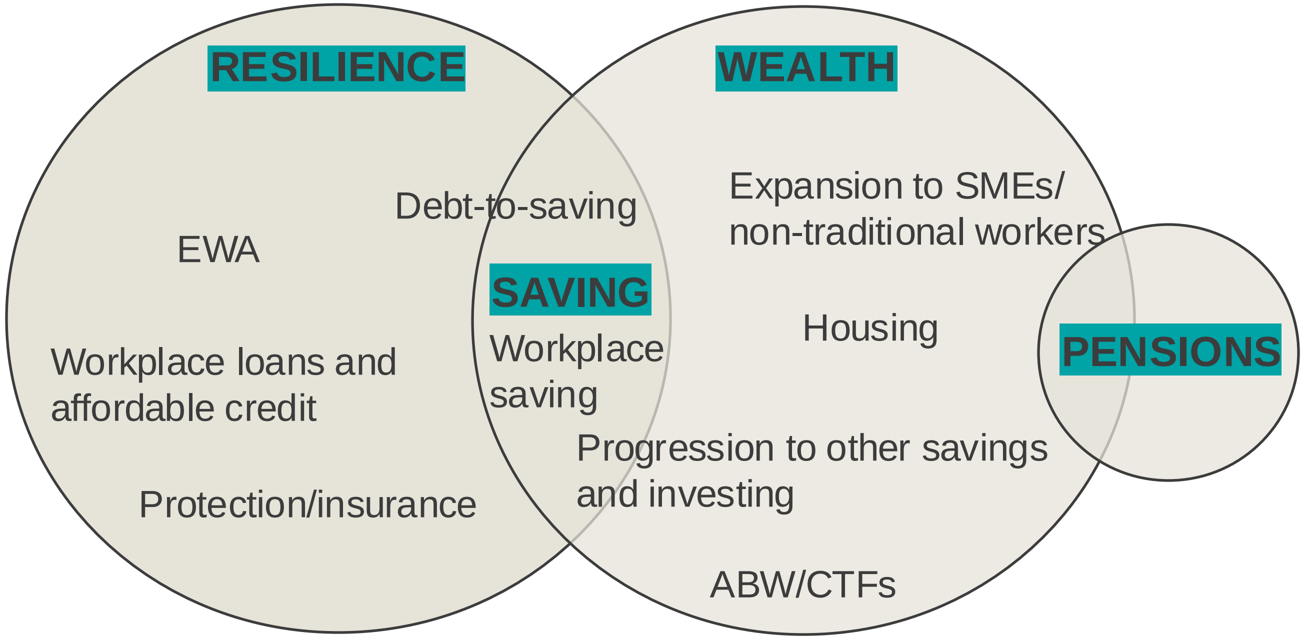
Solutions focus




- Much of our work is focused on identifying, developing and testing real-world solutions to support LMI workers in building resilience, including savings, and progressing to building wealth and assets

# Our work programme

Solutions focus




Foundational research

Real Accounts, integrating consumer financial data

- This is supported by more foundational research which helps illuminate the nature of the challenges faced by LMI households and to more rigorously evaluate previous interventions (including pensions auto-enrolment
- Broad mixed-method approach incorporating ethnography and other qualitative methods right through to development and analysis of new large-scale data sets

# Work delivered with a wide range of partners and funders

As well as academics based a Harvard and Yale

# Income volatility represents a significant challenge

Insights from Real Accounts

# What we learn from Real Accounts households

Income volatility…

Impacts more people than we think

Creates a focus on today

Makes informal savings and credit solutions a lifeline

Forces people to innovate

# Volatility creates a mentally exhausting focus on today

## And planning for tomorrow becomes even more difficult

› **Many Real Accounts households are constantly managing**: moving money between accounts in ad hoc pots for future needs, prioritising bills, borrowing to cover gaps, drawing on savings and replenishing savings

› To stay in control, they make frequent decisions about where to put and how to use money, for example:

- Moving very small amounts between accounts, as many as 150 transfers in one month
- Deciding whether to accept a lower income in exchange for less income volatility
- Avoiding setting up direct debits, manually paying every bill
- People with more stable incomes covering costs for their partners with more volatile pay
- Scaling their use of different credit sources up and down in line with their income

› Yet, individual efforts to stay in control can only go so far: one event, one unexpected expense, one drop in income can have devastating ripple effects

**How might we…**

Reduce the mental load households face when making decisions about certainty today and security in the future

# Volatility makes informal savings solutions a lifeline

## Because formal solutions can feel too limiting, rigid and impersonal

- **Real Accounts households are avid savers**, but often choose non-traditional forms of saving
- Many use custom solutions that **keep savings accessible**, and provide some **savings accountability**, for example frequently transferring money into different accounts or asking friends for help to save
- These custom strategies fit well into people's lives, yet require **constant decision making under pressure** and ultimately for many don't result in saving accumulation

**Sadie's saving pattern**


**How might we…**

Support savers' needs for trustworthy solutions that feel relevant for their lives, and enable them to build short- and long-term savings

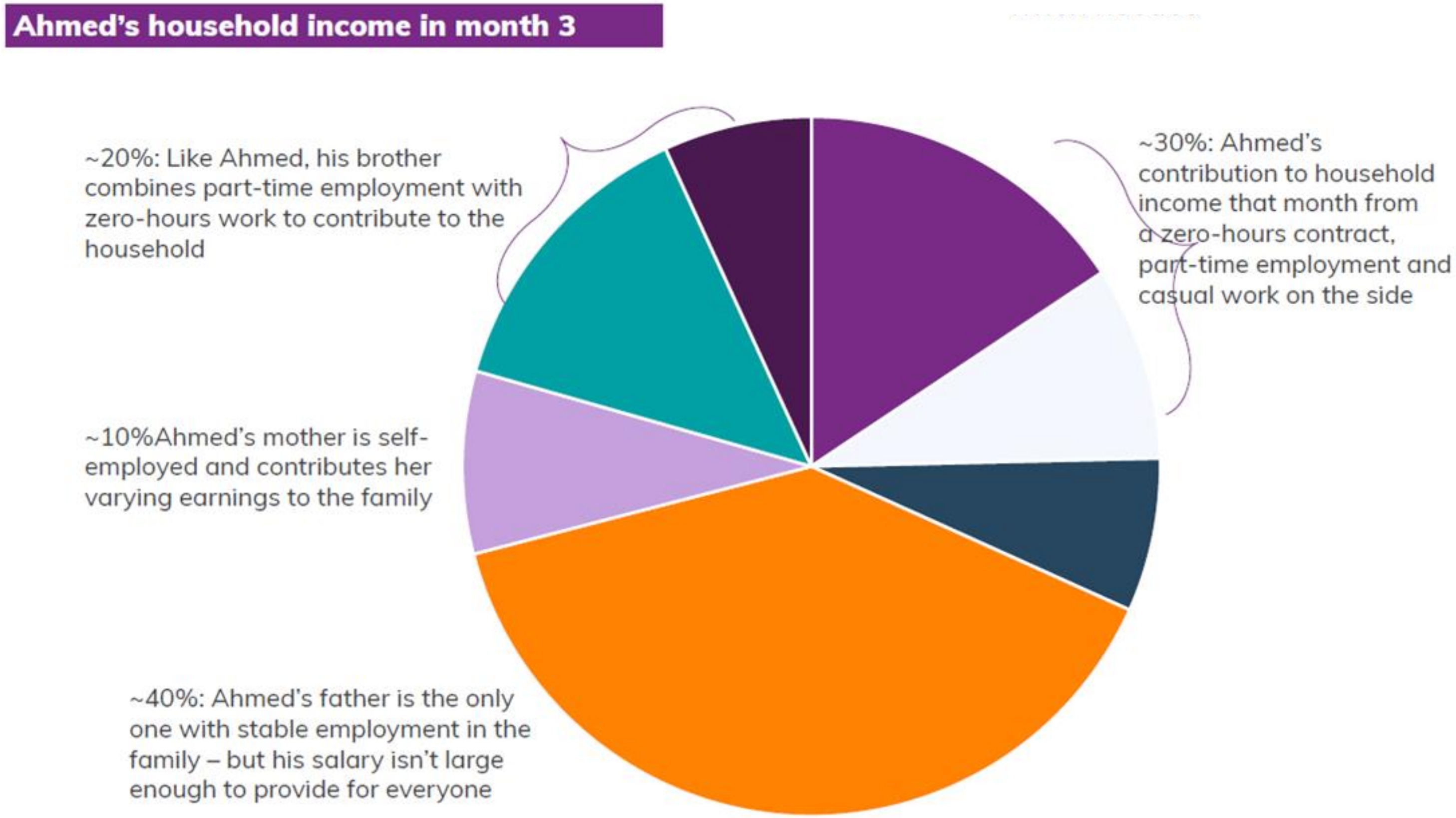
# Volatility forces people to innovate

## But they can’t get every aspect of managing their finances right, especially when dealing with scarcity

- Ahmed (mid 20s) is the designated money manager in an inter-generational household with many sources of variable pay.
- Despite moving £20,000 into savings over a 6 month period, Ahmed’s household ended the study with £0 saved and ongoing issues with unpaid debt

**How might we…**

Remove the burden of navigating complexity from households managing on low and volatile incomes



# Workplace/‘sidecar’ savings

# Having a savings buffer is good for financial security and wellbeing, both in the short-term and into retirement

## Having even low-level accessible savings is a driver of better overall financial health on a range of measures…

Significantly **reduces risk of problem debt** at all income levels[1]

Is a predictor of increased capacity to **save more for the longer-term**[2]

**Protects people** from the need to draw on retirement savings to fund emergencies or unexpected expenditure[3]

1. StepChange, 2015; 2. Suh, 2020; 3. Morningstar, 2021

## As well as broader wellbeing and productivity at work…

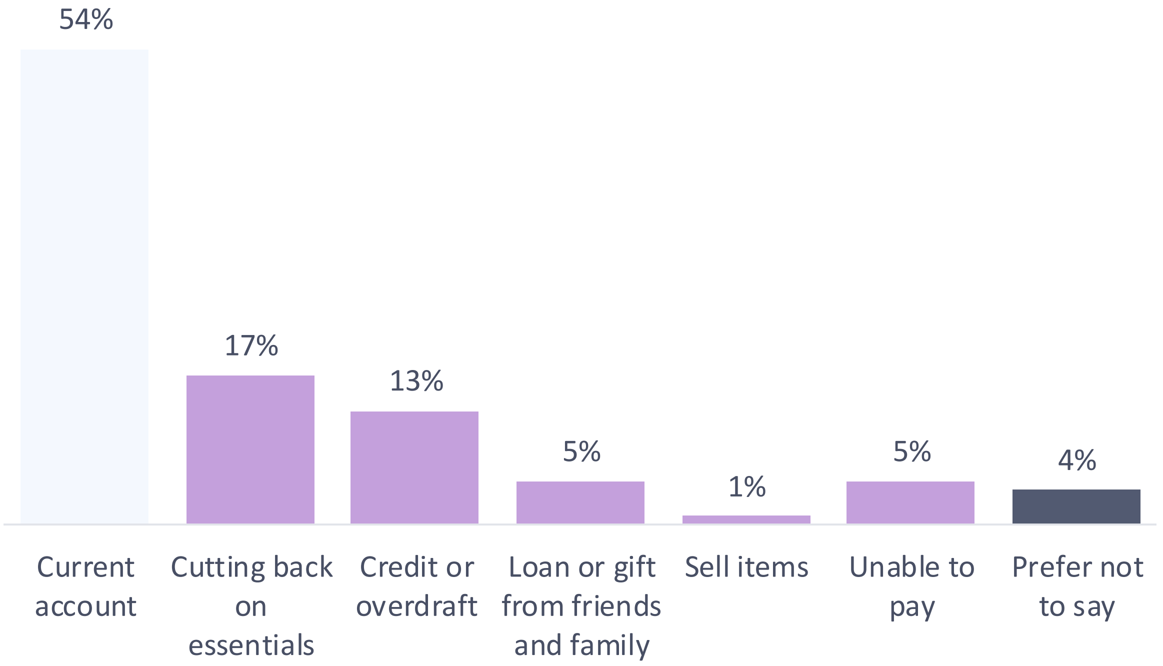
- **Happiness:** People who have no savings buffers are 3x more likely to report very low levels of happiness compared with those who do[4]
- **Productivity:** Over 1 in 4 employees say money worries affect their ability to do their job[5]

4. Resolution Foundation, 2023; 5. CIPD, 2022

# But people in our target market really lack financial resilience

- A **quarter** of UK adults have **less than £100 in savings**[1]
- Almost **half** of UK households would **struggle to cover a £300 bill**[2]

The Money and Pensions Service's Financial Wellbeing Strategy identifies a goal of **2 million more** working age people on low and moderate incomes **saving regularly by 2030**




Source: Nest Insight surveys of employed UK adult comparison groups and employees at participating employers (n across surveys = 39,072), July 2020 to December 2022 . Question: Thinking about an unexpected bill of £300 that you have to pay within seven days from today, which of the following would you do? The figure combines 'Don't know' and 'Prefer not to say'.

1. Money and Pensions Service 2022, 2. Nest Insight 2023

# Over 5 years, Nest Insight has been exploring and testing innovative workplace saving solutions grounded in behavioural insight

**4 trials, 8 large employers, 4 savings providers, covering around 150,000 employees, world-renowned academic partners**

Opt-in hybrid payroll saving product known as Jars – combines short-term and retirement saving in one product

Payroll savings go to an emergency savings account, then divert to become additional pension contributions once a savings target is reached

Trialled at BT, ITV, StepChange, Timpson + University of Glasgow

## Opt-out payroll saving: new worker trial

Opt-out approach to support short-term accessible saving alongside retirement saving

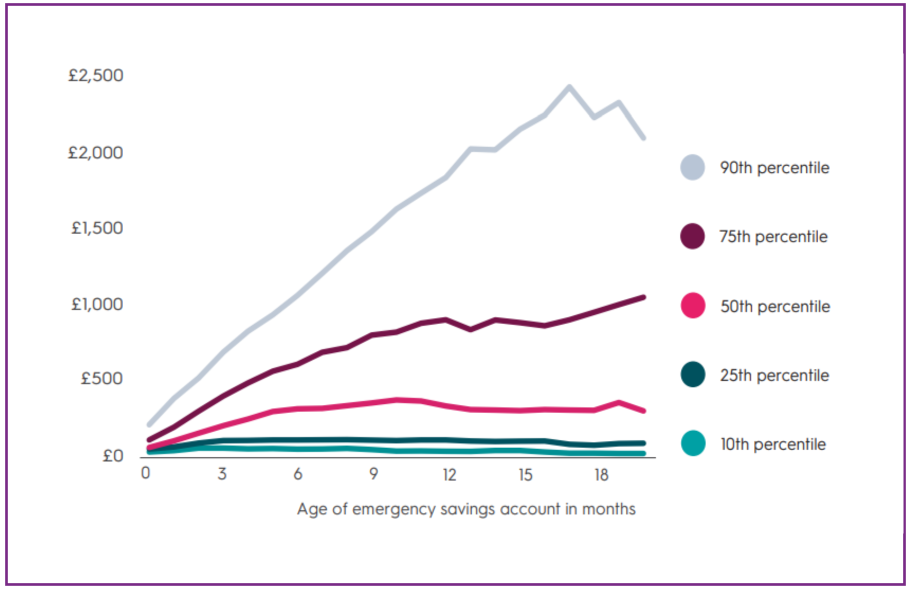
Employer automatically enrols new workers into a credit union savings account if they don't opt out

Trialled at SUEZ

## Opt-out payroll saving: benefits app user trials x 2

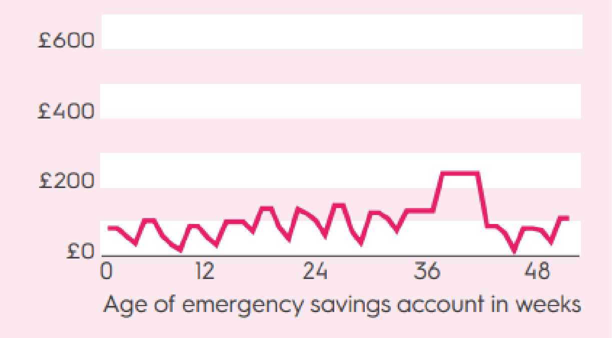
- Opt-out approach to support short-term accessible saving alongside retirement saving
- Benefits app provider automatically enrols new users into a savings pot if they don't opt out
- Trialled at the Co-operative group and an employer in the care sector

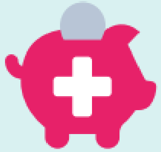
# Those who save demonstrate a range of use-cases all of which support better financial wellbeing



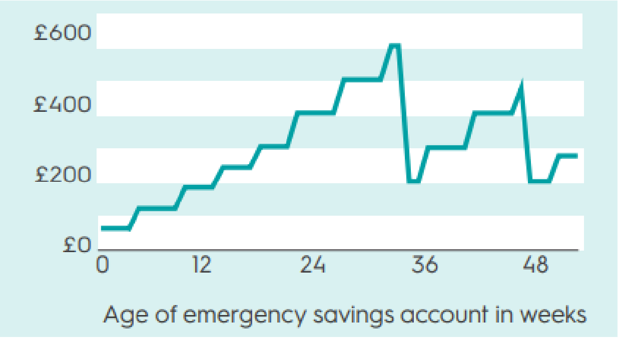

Source: Analysis of Jars administrative data provided by Salary Finance and Yorkshire Building Society

**1 Budgeting and cashflow management**



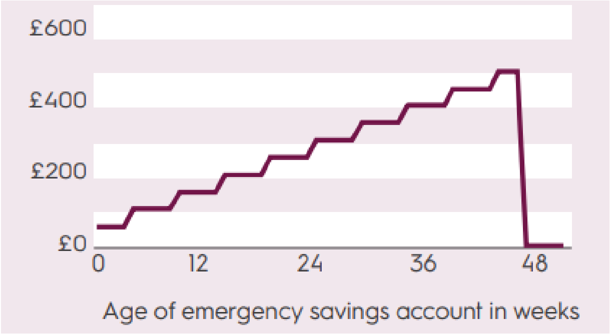



**2 Building a safety net**





**3 Working towards future goals**



# Opt-out approaches dramatically boost participation – without them take-up is low

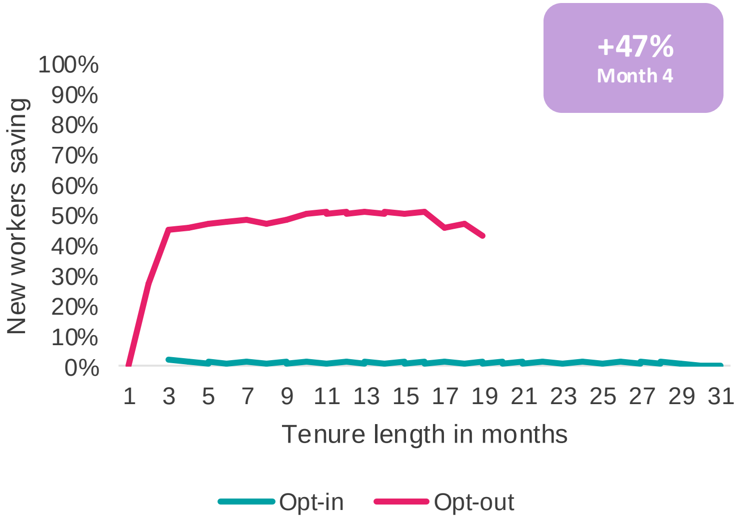
**Out of every 100 eligible employees –**

46 say
'I think Jars would help me.'

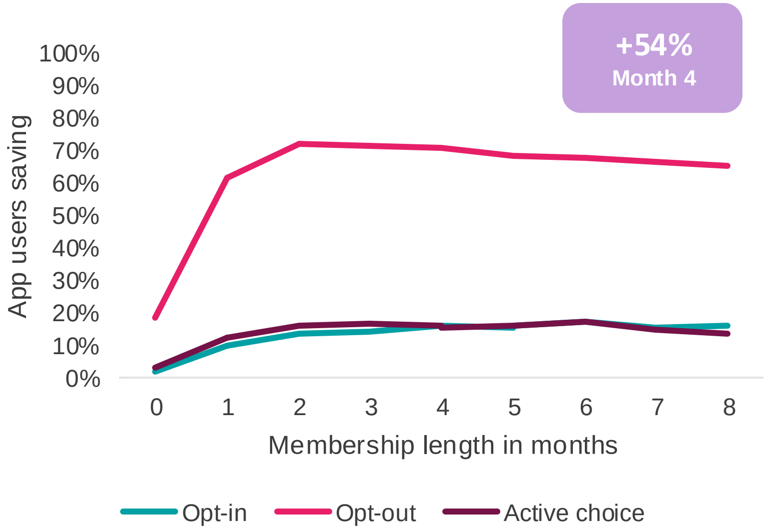
14 say
'I'm likely to sign up now
or in the future.'

Just 1
follows through.

## Opt-out payroll saving: new worker trial



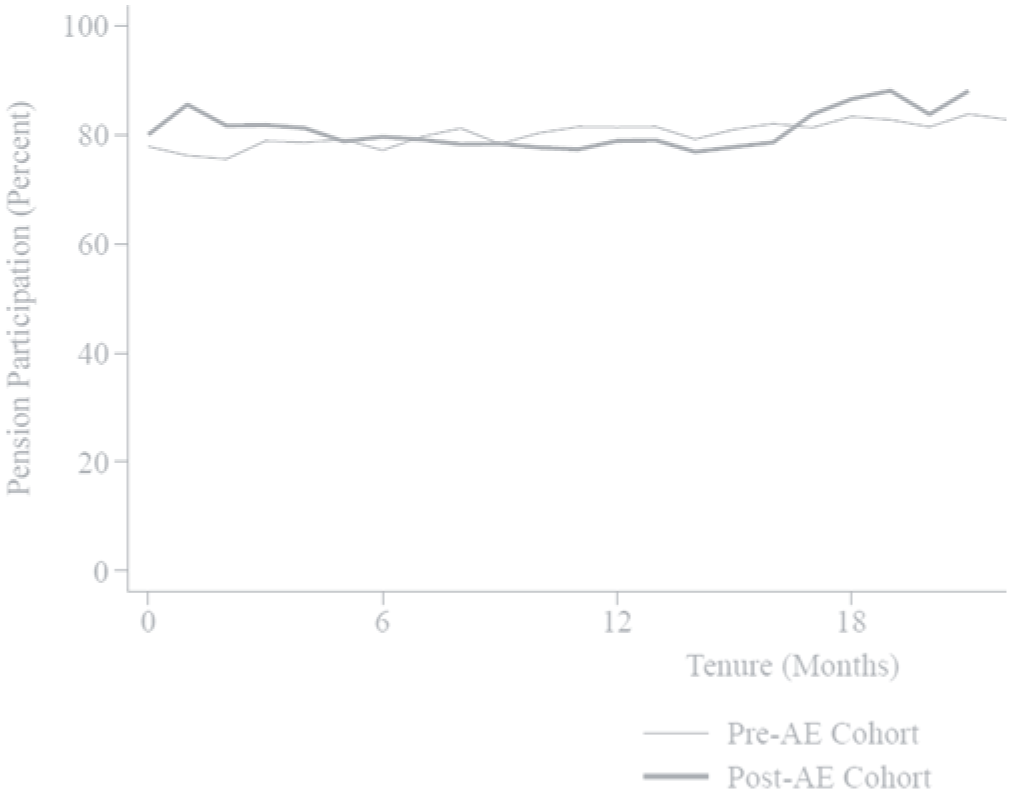

## Opt-out payroll saving: benefits app user trials x 2



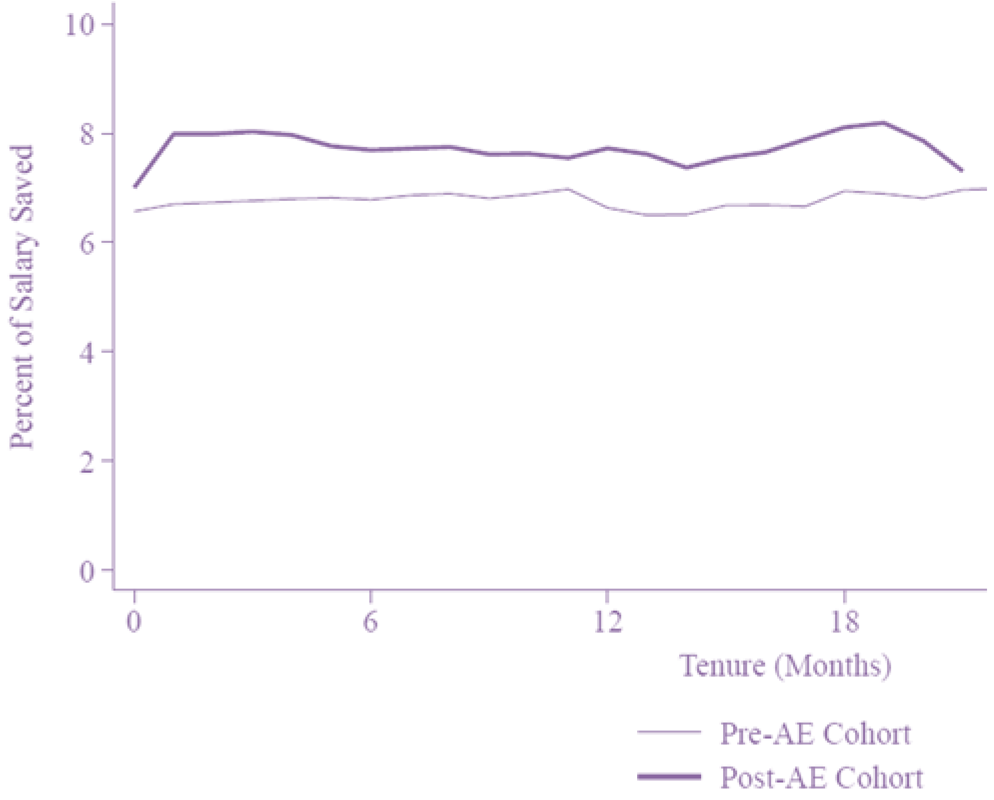

**In opt-out models, participation increases by around 50 percentage points – achieving savings participation levels much more in line with need and intent**

# Emergency savings are supportive of retirement saving

## Pension opt-outs do not change when an opt-out emergency savings tool is offered alongside




## Emergency savings are additive to pension contributions when an opt-out emergency savings tool is offered



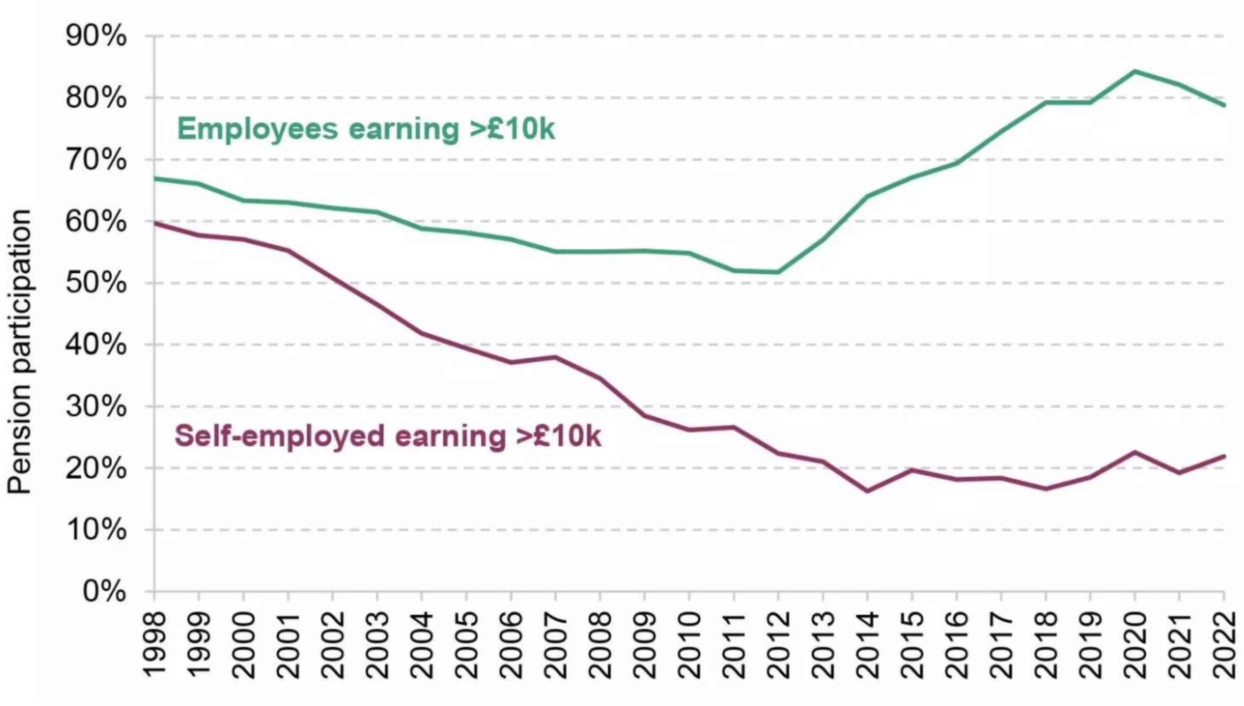

Source: Berk et al 2023 analysis of Nest Insight new worker opt-out payroll savings trial (SUEZ)

# Increasing long-term saving among the self-employed

# The underlying problem

- Automatic enrolment has addressed participation rates among private sector workers
- But over the same period, participation in pension saving among the self employed has cratered
- Offset to some degree with other wealth, but on average, SE less likely to be on track to meet retirement income adequacy benchmarks

**Figure 1.1. Share currently saving into a pension among employees and the self-employed aged 22–59**




Source: Authors' calculations using the Family Resources Survey, 1998–2022. People with strictly positive earnings are defined as employees or self-employed based on their own self-reported main economic activity.

# What we've learnt

- The self employed are an extremely heterogenous group and generalised conclusions are hard
- On the whole, doesn't appear to be an attitude question – Self Employed people want to be making provision for retirement, but face many of the same behavioural and psychological barriers that others do (and that AE overcame)…
- Though there is some evidence that income volatility creates a preference for more liquidity than a traditional (UK) pension offers
- Mechanisms to encourage opt-in take-up (message-based, testing different messages, timing of messages) are ineffective, and tools to make contributions more flexible appeal to those already saving but don't affect take-up
- Focus is therefore on:
  - How to create a version of auto-enrolment that works without an employer (tax system, accounting software, payments platforms), and
  - Product design to test whether liquidity/access boost participation levels
- Experimental study now in the field, real-world trials to follow

# Pensions and housing

# What we’re doing

- Housing security – ownership or affordable secure private rental – is a critical component of financial security in retirement

- Home ownership rates in the UK are falling dramatically for younger cohorts as demand outstrips supply, incomes stagnate and other financial priorities compete

- There are products in the UK to support home ownership – LISA – but they compete with saving for retirement

- We’re planning some work to explore closer integration between the pensions and housing systems across two dynamics:

    1. Can retirement savings be used to support home purchase, e.g. through early access of pension pledging models?

    2. Can retirement assets be used to support supply-side improvements (e.g. investment in house-building, build-to-rent etc?)

# What’s next for AE and Nest?

# What’s coming next in the UK system?

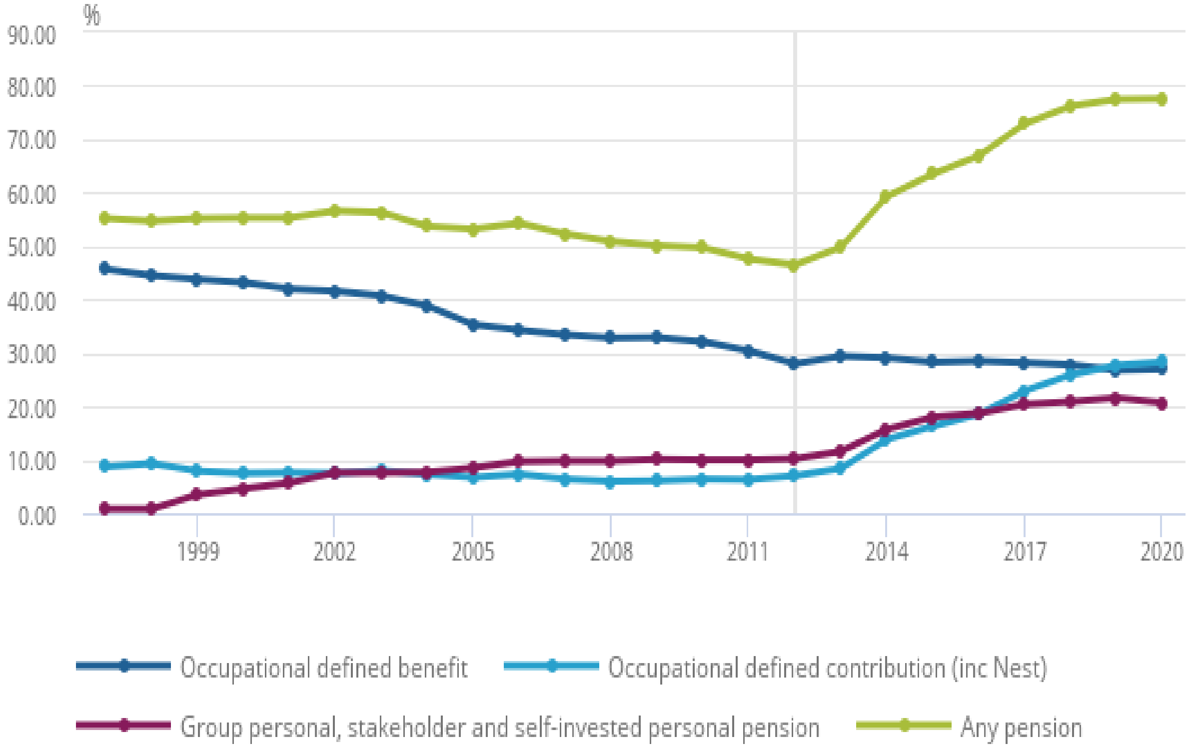
- New government has announced a two-stage review of the pensions system
- Stage one is exploring how to drive more UK pensions assets into UK growth assets – in effect, seeking to use retirement savings to support an economic growth agenda
- Stage two will address the broader retirement savings system and how to ensure people are on track for an adequate standard of living in retirement
- Likely to consider:
    - Increases to default contributions
    - Measures to ensure those increases are targeted or the risks to lower earners otherwise mitigated: ‘opt down’, differential contribution rates, severing the employer contribution conditionality, incorporating sidecar savings

# ADDITIONAL SLIDES

# Stickiness of defaults

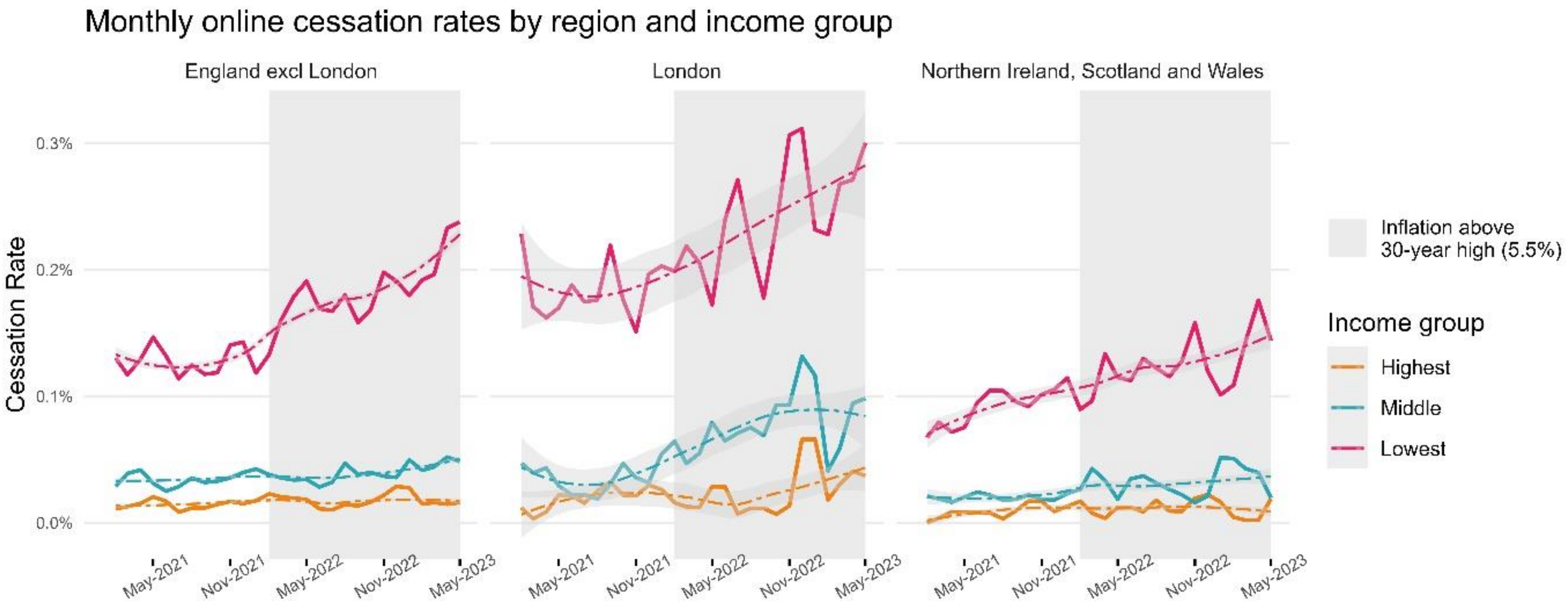
# Stickiness of defaults under AE is the basis for its success

Participation in workplace pensions before and after the introduction of AE




- Auto enrolment has more than reversed the decades-long pre-retirement trend in workplace pension saving
- It's done this in part due to lower-than-expected (<10%) opt-out rates and extremely low cessation rates
- Low opt-out and cessation persisted throughout the phased increases in contributions and then the pandemic and furlough

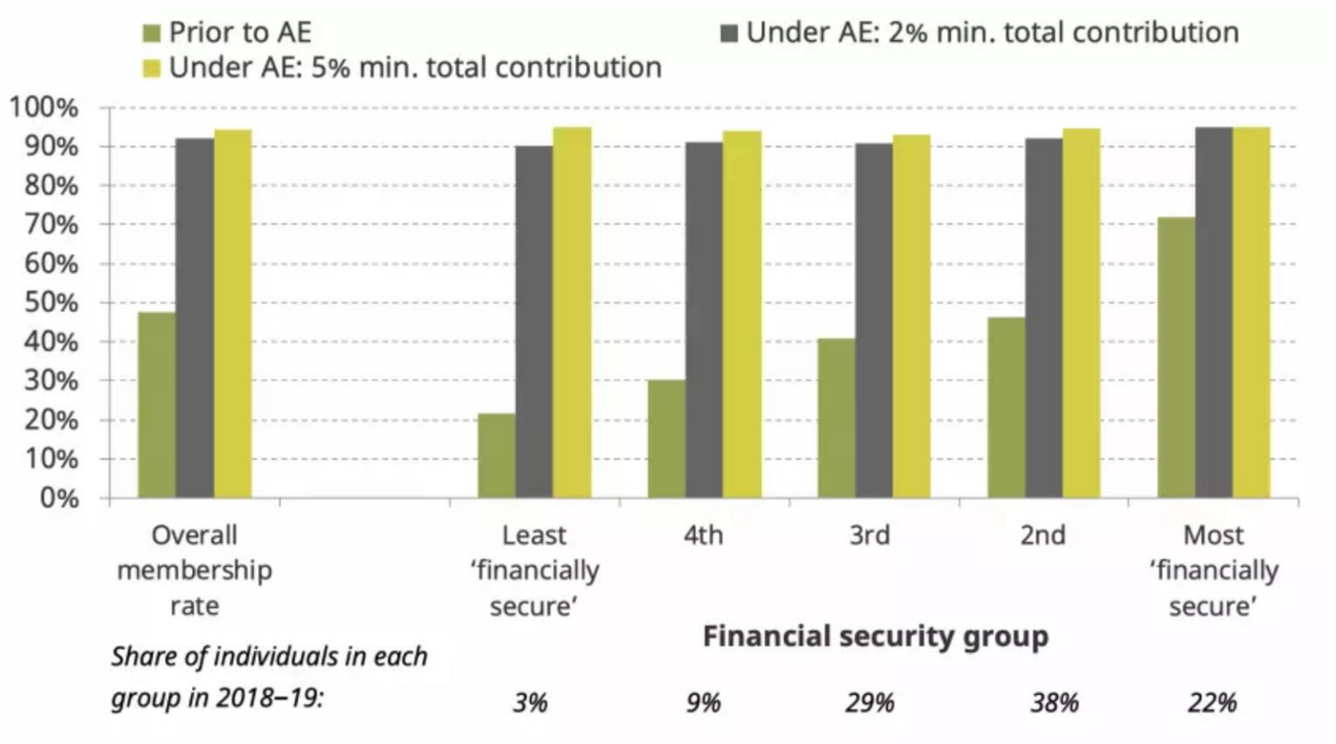
# But that stickiness also persists under conditions where perhaps it shouldn't…




- Cessations saw a statistically significant, but nonetheless only small, increase at the height of the Cost of Living crisis

# …and doesn't vary even vs characteristics where you might expect it to

**Figure 1: Workplace pension participation of eligible employees**




*Source: IFS, 'Automatic enrolment: Too successful a nudge to boost pension saving?'*

# Other financial behaviours do shift – but not always in positive ways

# What happens to debt when we nudge people into pension saving?

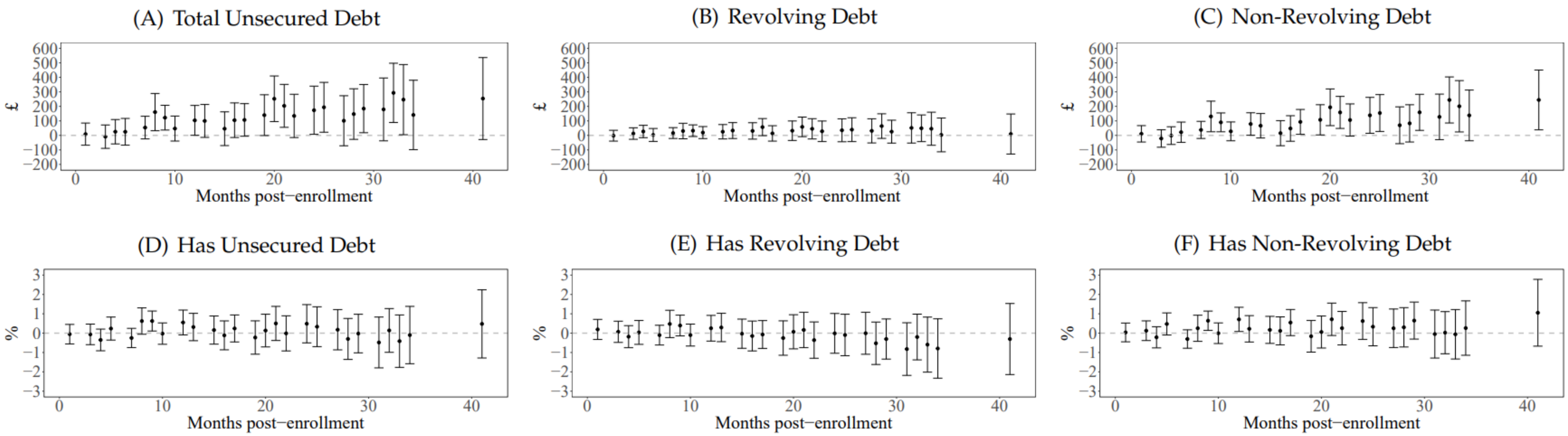
- Point of interventions to increase retirement saving are to increase wealth – move income from spending to savings/wealth

- Great unanswered question for AE policy – (to what extent) does it actually achieve this?

- Tested this by exploiting the natural experiment of the randomised roll-out of AE to small firms, combining Nest data on pension saving with Experian credit data

# Introducing automatic enrolment resulted in a small but significant increase in unsecured debt for savers…

**Figure 2:** Automatic Enrollment Treatment Effects on Unsecured Debt



# Questions