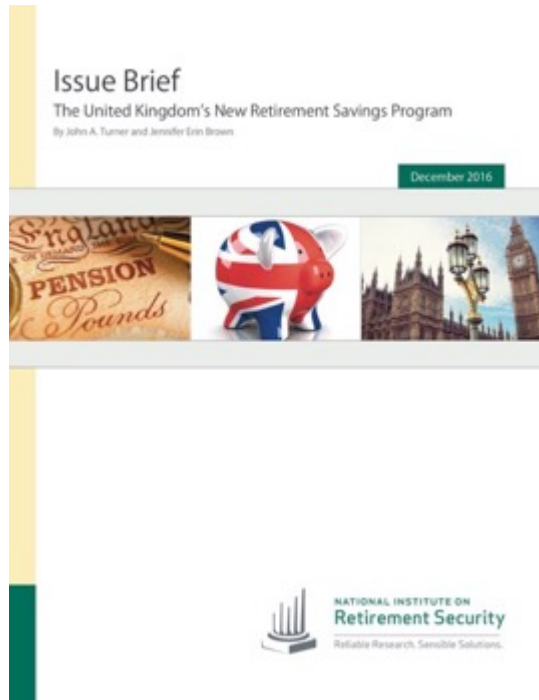


NEW Research

Issue Brief: The United Kingdom's New Retirement Savings Program



NIRS Members Webinar

Monday, November 21, 2016
1 PM ET



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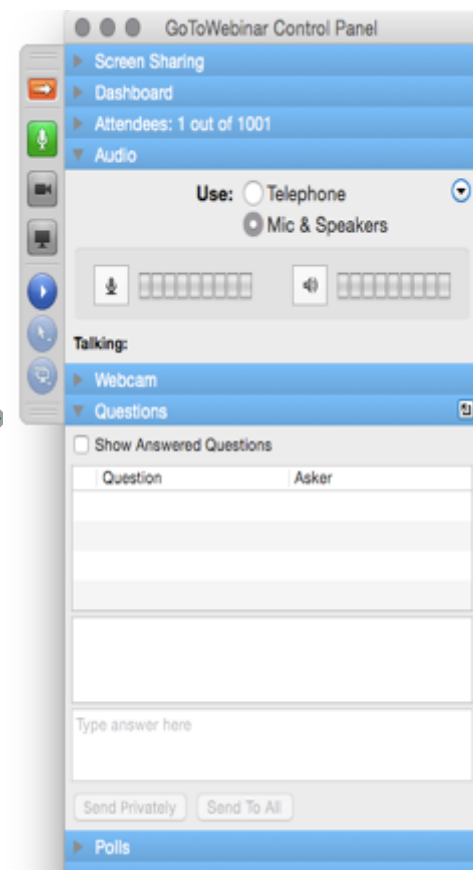
Agenda

- Introductions
- Why This Paper
- Key Findings
- Questions



Webinar Logistics

- Attendees in listen only mode.
- Questions welcome. Type in using “Question” function on control panel and we will read aloud, respond.
- Audio, technical issues during webinar, call GoToWebinar at 1-800-263-6317.
- Replay will be posted in Members Only section of NIRS web site.



Speakers



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Why This Paper, Now?

- The U.K., realizing that it had a serious retirement savings problem, instituted a series of retirement programs that sought to expand pension coverage.
- U.K. efforts included mandatory employer participation, automatic enrollment, employee contributions matched by employers and the government, and a government sponsored retirement program – NEST.
- What can the U.S. learn from experience in the U.K. to help address our lack of retirement savings?



The U.K. & the U.S.'s Shared Demographic Challenge – Aging Population

The demographic shift to an older population will increase demands upon social safety net programs, while decreasing household wealth.

Table 1: **Demographic trends in the United States and United Kingdom**

Trend	Year	US	UK
Birth Rates (per 1000)	2005	14	11
	2025	13	11
Life Expectancy	2005	77	79
	2025	79	81
Median Age	2005	37	38
	2025	38	41



The U.K. & the U.S.'s Shared Retirement Problem, Continued

- In the U.S. only 50% of individuals are covered by a retirement plan. The typical American household has a minimal amount of retirement savings.
 - Median retirement savings is \$2,500 among working age households.
 - Median household retirement savings for near-retirement households is only \$14,500.
- The U.K. has the similar problem, as half of households have nearly no retirement savings or investments.



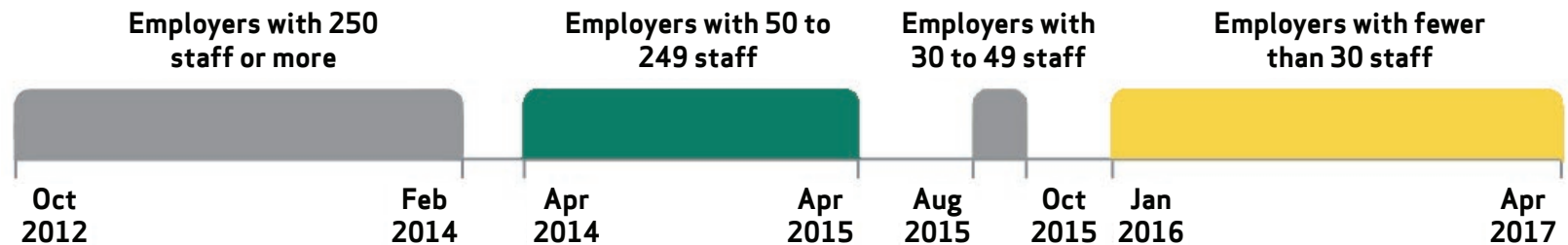
A Short History UK Retirement Plan Reforms

- In 2001, the U.K. required all employers with five or more employees to begin offering pension plans to their employees, but employers were not required to contribute.
- In October 2012, the U.K. launched a new retirement savings program that
 - mandates all employers, by February 2018, to offer a retirement plan;
 - requires employers to automatically enroll their employees into plans; and
 - requires mandatory employer and employee contributions to the plan.



UK NEST Phase In of Automatic Enrollment

- Six year phase-in of automatic enrollment started in 2012 and continues according to the size of the employer.
- From the beginning of 2016 through April, 2017, employers with less than 30 employees will be enrolled.
- The phase-in will end in February 2018, when all new employers since October 2012 (who were not previously enrolled) will be required to participate.



Requirements for Auto Enrollment

Requirements

- Age 22 or older earning more than £10,000 (\$12,000) annually
- Maximum age for requirement is 65; women's age requirement is lower but is phased in with state pension.
- Employees age 16-75 can ask to be enrolled

Age 22 to State Pension age



Eligible jobholder
Earnings from £10,000



Non-eligible jobholders
Earnings between £5,824 and £10,000



Workers without qualifying earnings
Earnings up to £5,824



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Types of Plans Used for Auto Enrollment

- Most of the plans used for automatic enrollment are defined contribution plans
- The majority of automatically enrolled workers are in trust-based plans.

Table 2: **Types of Plans Used for Automatic Enrollment, 2015**

Plan type	Percent of workers automatically enrolled
Defined benefit	6%
Hybrid	5%
Defined contribution	88%
Trust	53%
Contract	35%
Unknown	1%
Total	100%



Opting-Out

- After being auto enrolled, workers can opt-out at any time.
- Overall opt-out rate was 12% of automatically enrolled participants.
- Opt-out rates vary considerably by age:
 - 23% of participants over the age of 50
 - 9% of those ages 30 to 49
 - 7% of those under the age of 30



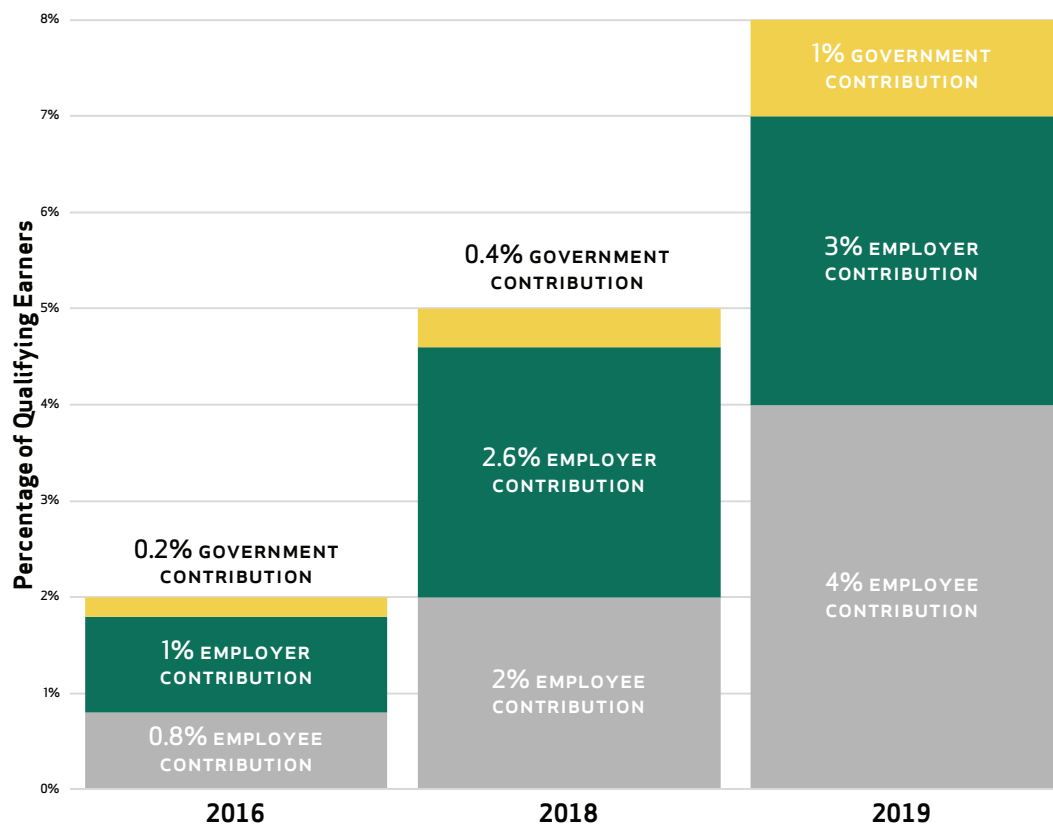
Opting Out, Continued

- Main reasons given for opting out:
 - Can't afford contributions
 - Already have adequate retirement savings
 - Close to retirement
 - Employer contribution rate is too low
- Opt-out rate will likely rise as:
 - Minimum contribution rate increases over phase-in period moves up to four percent for employees.
 - Auto enrollment requirement begins to cover smaller firms with lower income workers.



Phase-In of Required Contribution Rates

Figure 2: **Phase-In of Required Contribution Rates as a Percent of Pay**



Fees

- UK government put a cap on fees charged to workers on default investment funds of 0.75 percent.
- The cap on fees has caused fees to cluster around the cap – creating little incentive to establish lower fees.
- The auto enrollment system is weakened by a lack of transparency about fees.



Overview of nest

NATIONAL
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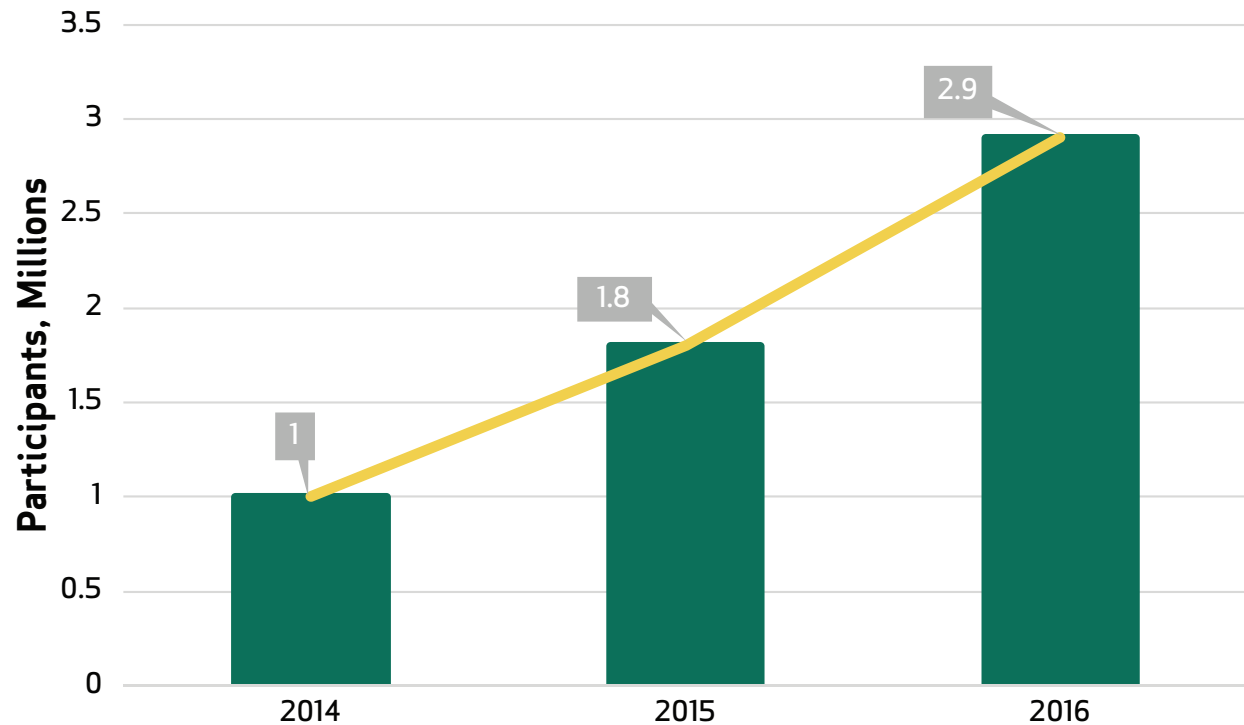
Companies must choose a qualifying pension fund to receive the contributions made to auto enrollment pensions

- One option is a non-profit, multi-employer pension fund established by the government in 2010 called the National Employment Savings Trust (NEST)
- NEST serves workers who do not have access to a pension plan
 - Small employers with low-paid workers are less attractive to for-profit pension providers
- NEST targets those smaller employers and low-to-medium income workers



NEST Participants Have Grown Since 2014

Figure 3: **NEST Participants Have Grown Over Time**



Employers can use NEST as:

- the sole plan for all their workers;
- an additional plan, to an existing plan, for a particular group of workers;
- an entry-level plan that covers the waiting period of an existing plan;
- a base plan to make additional voluntary contributions; or
- a catch-all plan for all eligible workers who have not joined an existing plan.





How Works, Continued

NEST currently charges no fees to employers who wish to use it as the pension plan for their employees.

- Costs of NEST are picked-up by participants through higher fees.
- NEST is not completely free to employers because they must purchase appropriate payroll software.





Contributions

- 2016 - 2017: contribution limit of £4,900 a year
- April 2017 - future: no contribution limit
- Workers can temporarily suspend their contributions and later restart them





Investments

A worker enrolling in NEST is automatically put into a retirement date fund (similar to a Target Date Fund) based on the year he/she will be eligible to receive their State Pension benefits

- NEST has 47 retirement date funds corresponding to each calendar year
- Workers can notify NEST if they wish to have their investments in a different retirement date fund or in a non-retirement date fund





Investments, Continued

NEST investment classes include:

- international and U.K. large-cap stocks
- developed country small-cap stocks
- emerging market stocks
- U.K. and international government bonds
- high-yield bonds
- U.K. investment-grade corporate bonds
- inflation-linked bonds
- money market investments
- U.K. and domestic real estate
- emerging market bond fund



Investments: Glide Path

- First 5 years: conservative investments
- Next 30 years: aggressive investments
- Final 10 years: conservative investments





Management

NEST is a master trust managed by as many as 14 trustees as a jointly trustee fund.

- Trustees are appointed by governmental official.
- Trustees select the funds to be offered to participants.
- NEST outsources the management of its investment funds.



Management Fees

NEST charges the same fees to all size participants and for all of investment options.

The NEST fees are

- 0.3 percent of assets
- 1.8 percent of contributions

The charge is made on all contributions, including those by employers and the government.



Changing Jobs Before Retirement

If an employee:

- loses their job, they can continue contributing to NEST if contributions are at least £10 per contribution, or
- changes jobs, the employee can continue in the plan, regardless of whether the new employer participates.

NEST does not allow money to be transferred out to an employer-sponsored pension plan.





Withdrawing Prior to Retirement

Unless employees opt-out within the first month of participation, money contributed to the fund stays in NEST until retirement, with a minimum age of 55.

- pre-retirement cash outs, hardship withdrawals, and loans are not permitted
- workers with serious medical conditions or workers who are unable to work due to a disability may be able to take an early withdrawal.



Consequences of



- Positive:
 - Workers are placing a higher priority on saving for retirement.
 - Saving for retirement has risen to the third priority for saving in the U.K.
 - Auto enrollment is viewed as a good idea.
- Negative:
 - Women still lag behind men in access to retirement savings plans.



Conclusions

- U.K.'s efforts to expand pension coverage have gone beyond those in the U.S., as the U.K. required:
 - all employers with 5+ employees offer a pension plan;
 - automatic enrollment into a plan; and a
 - mandatory level of matching employer contributions.
- Furthermore, the U.K. created a government-sponsored plan which accepts all employers.



Conclusions, Continued

- The U.S. approach to lack of retirement savings has been incremental as opposed to a sweeping initiative like the U.K.
- The U.S. efforts include: voluntary auto enrollment, the Saver's Credit, introduction of myRA, and state efforts to create retirement savings programs.
- The U.K. is on track to expand enrollment in plans and boost retirement savings, through mandating employers offer plans, automatically enrolling employees, and establishing mandatory contributions.
- Without such reforms, which some view as controversial, the U.S. will likely lag behind the U.K. in retirement security for workers.



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Questions?



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