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Communicating NEST Pensions for "New" DC Savers in the United Kingdom

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Abstract: All UK employers now offer a pension scheme including the use of automatic enrollment. More than 9 million people have started saving into a workplace pension as a consequence. NEST is a pension scheme that any employer can use to meet its auto enrollment obligations. It was set up to serve those traditionally poorly served by commercial pension provision. NEST is built around features tested and seen as important and motivating for potential members and employers, underpinned by extensive research with future members and analysis of feedback from existing customers. The communications approach had a major focus on providing reassurance that saving is a "good" thing and NEST will look after one's money.

Key words: Pensions, Communications, Trust

JEL codes: H55, M31

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Abbreviations and Acronyms

DC	Defined Contribution
DWP	Department for Work and Pensions
NEST	National Employment Savings Trust

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1. Introduction

In 2011, 69 percent of UK employers in the private sector offered no workplace pension for their workers (DWP 2011). Those offering a scheme were concentrated among larger employers, but people working for smaller firms, on lower incomes, or in higher-turnover sectors were particularly poorly served. As of 2018, all UK employers offer a pension scheme meeting a set of legal standards, including the use of automatic enrollment, and with a mandatory employer contribution for those employees choosing to remain enrolled (Box 1.1). More than 9 million people started saving in a workplace pension through auto enrollment. Not only was the introduction of automatic enrollment successful, it is also popular – 77 percent of consumers think it is a good idea (NEST 2015). Annual saving in workplace pensions is estimated to increase by £17 billion by 2019/20 as a consequence of these changes (DWP 2016).

Box 1.1: About NEST and UK's auto enrollment

The United Kingdom introduced mandatory automatic enrollment for all employers, starting with the largest in 2012 and reaching all firms by early 2018. Employers must enroll all eligible workers – those between 22 and State Pension Age, and earning at least a certain level (£10,000 per year in 2018, though eligibility is calculated pay period to pay period). Workers have the right to opt out – but where they remain in, the employer is required to make a contribution. Overall, contributions must be at least 8 percent of a band of earnings (currently around £6,000–£46,000 per year), of which at least 3 percent must come from the employer.

Employers can comply by using any pension scheme meeting a minimum prescribed set of standards – known as a "qualifying workplace pension scheme." The National Employment Savings Trust (NEST) is one scheme available to employers – no employer has to use it, but any employer can. NEST differs from other schemes in that is has a statutory obligation to accept any firm, irrespective of the commercial profile of its business.

NEST was set up this way to ensure that all employers had at least one high-quality, low-charge scheme available through which to meet their duties, with a particular focus on those customers previously poorly served by private pension provision – those on low and moderate incomes, in higher job-churn sectors of the labor market, or working for smaller firms. As a consequence, NEST has grown rapidly since it launched in 2011, to over 7 million members[1] from 650,000 firms in 2018, meaning that around 20 percent of UK workers have an account with NEST (NEST Insight and Vanguard Asset Management, 2018). With an average income of £18,000, these members have lower incomes (and are slightly younger) than the average UK worker.

This paper briefly describes the background to the UK's reforms and the advent of the National Employment Savings Trust (NEST). It then describes the evidence base NEST has gathered on its members and how this evidence has informed its communications approach with members to support their retirement saving.

2. Background to the UK reforms and NEST

Prior to 2006, the UK pension system comprised a State Pension that shifted between poverty alleviation and income replacement objectives. It was overcomplicated and did not provide benefits at a sufficient level to meet most people's income needs or expectations in retirement. Second-pillar provision[2] was primarily through defined benefit workplace pension schemes but, as elsewhere, these were in decline. The defined contribution (DC) schemes that replaced them were often less generous, and participation rates in DC were significantly lower. By 2011, only around 32 percent of private sector workers were saving into a pension (ONS 2011). Importantly, those not saving for retirement were not only those not offered the opportunity

[1] Note that this includes those who enrolled and then subsequently ceased contributions, usually because they moved to a different employer offering a different scheme. The 7 million NEST members and the 9 million new savers cited above are therefore not directly comparable.
[2] Using the World Bank classification; see Holzmann and Hinz 2005.

through work. While coverage was a problem, 41 percent of unpensioned workers had turned down the opportunity to save through work when offered it, and a further 33 percent had started saving but then stopped on one or more occasions (NEST 2013).

Attempts to reverse the decline by encouraging saving on a voluntary basis were not successful. The Welfare Reform and Pensions Act 1999 introduced legislation that required employers with more than five employees to set up a "stakeholder" pension scheme open to all workers. The government also ran a number of pilots of workplace pension information and guidance under the banner of the "informed choice" program. The combination of simpler products and better information was intended to increase voluntary retirement saving but had little impact on participation levels, particularly among lower earners. In 2005, the final report of the Pensions Commission recommended a new system for workplace pension saving intended to turn this situation around. This report set out the basis of a new pension settlement for the United Kingdom.

For second-pillar pensions, the Commission was particularly attracted to the results of behavioral economics and evidence highlighting the impact of simple shifts in default options for workers, especially shifting from an "opt-in" system to one requiring people to actively "opt out" (Madrian and Shea 2001; Thaler and Benartzi 2004). Evaluation of these programs showed that they could dramatically increase participation across all social classes. Originating in individual occupational plans, this approach, known as automatic enrollment, was beginning to be adopted at the public policy level, either through enabling/encouraging legislation such as in the United States, or as a mandatory requirement at the employer level such as in New Zealand.

Based on a broad consensus across the political spectrum, consumer groups, employer bodies, and the pensions industry, the government proposed a set of reforms (DWP 2006a, 2006b) based on the Commission's recommendations, which would require all UK employers to automatically enroll "eligible" workers into a scheme meeting certain qualifying standards, and requiring those employers to make contributions to the pensions of those workers electing to remain in their scheme. At the same time, the Commission proposed changes to the State

Pension to make it a simpler, flat-rate benefit focused primarily on poverty alleviation. Pension saving through automatic enrollment would therefore be the primary mechanism for earnings replacement, to help workers achieve their aspirations to maintain their quality of life into retirement. The workplace provided a convenient way of reaching almost everyone in employment and of providing them with an accessible way to save. As the place where people earn money, it also meant that it was easier for employees to make contributions at source, and easier for employers to contribute.

Following extensive public consultation, the government enacted the main proposals of the Commission through legislation passed in 2007 and 2008. One concern was that some individuals – those on lower incomes, and/or in higher job-churn professions – would remain commercially unattractive to existing providers. It was generally agreed that some form of additional provision was needed to ensure that all employers had access to a suitable workplace scheme, at a suitably low member charge. NEST was established for this purpose, as a multi-employer scheme providing all aspects of a traditional workplace pension: contribution collection and reconciliation, account administration, member and employer support, and investment of assets. NEST would be run as a “Mastertrust” – a structure similar to the “profit-for-members” industry superannuation funds in Australia or to an “open Multi Employer Plan” in the United States – and would be available to employers of any size to fulfill their new duties under the Pensions Act 2008. Crucially, NEST has a statutory obligation to accept any employer, irrespective of commercial profile. This is part of what characterizes NEST’s unique role within the pension industry.

NEST is run in the interests of its members by a Trustee – the NEST Corporation. It does not have shareholders and does not distribute a profit. It has a 0.3 percent annual management charge and 1.8 percent charge on contributions, roughly equivalent to a 0.5 percent annual management charge over the long term.[3]

3. Understanding the "at-risk" population – NEST's evidence base

As a new organization that would also be managing retirement savings for millions of people, an important consideration was to understand where existing approaches to DC design could be replicated, and where the needs of a – largely new to pension saving – population might require something different. NEST therefore drew heavily on research – both primary and secondary – in developing the overall proposition for members, employers, and their advisers. This research program ensures the decisions made reflect the characteristics, circumstances, and attitudes of the members and employers who use NEST's service. Over the course of developing and operating the scheme, NEST conducted research using large-scale quantitative studies (on occasion merging the results with third-party datasets), depth interviews, focus groups, and more recently, behavioral experiments and trials. NEST also makes extensive use of third-party datasets such as the UK government's Wealth and Assets survey and the longitudinal "Understanding Society" database, as well as literature reviews and direct analysis of NEST's administrative data to inform understanding of members' characteristics and needs.

More recently, the NEST Insight Unit was established; it works in collaboration with academics and other partners to explore mechanisms for improving the retirement income adequacy of NEST members and those like them. The Insight Unit is particularly focused on behavioral research (**Error! Reference source not found.**Box 3.1) and on digging more deeply into what can be learned through NEST's administrative data.

The remainder of this paper describes key research insights to date and sets out how these have been translated into NEST's communication approach.

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[3] The exact "equivalent" reduction in yield depends on an individual savings history, but averages out to around 0.5 percent annual management charge-equivalence across the NEST membership.

3.1. Characteristics and attitudes among unpensioned workers

Auto enrollment was expected to bring around 10 million people into workplace pensions (DWP 2006a). Importantly, those saving in a pension prior to auto enrollment were not highly representative of the population as a whole, with average incomes around £30,000 compared to around £23,000 for the broader population (NEST 2013). This meant that auto enrollment would bring a more diverse audience into the pensions market than before.

These previously unpensioned workers represented the 68 percent of private sector workers not paying into a workplace pension (ONS 2011). Given the size of the group, it was not surprising that unpensioned workers had similar characteristics to the working population generally (and dissimilar to the pensioned group).

Unpensioned workers existed across the range of gender, age, earnings, and social class. Within the eligible group, those not in a pension – known as the target group – were more likely to be:

- Male – around two-thirds of the target group were men. The smaller proportion of women in the target group was due to fact that a greater number of women earn less than the earnings threshold and were therefore ineligible for auto enrollment.

- Younger – almost one-third of the target group was under the age of 30. A vast majority of this age group was unpensioned.

- Working full-time – full-time workers accounted for 91 percent of the target group. The majority of part-time workers were ineligible for auto enrollment due to not earning in excess of the earnings threshold.

Pensioned workers tended to earn more than the working population generally. Higher earnings are linked with higher educational attainment, higher occupation levels, and higher financial literacy. Pensioned workers, then, were not the average and differed in a number of important ways from most people. Rather than being a niche minority, those coming into pensions as a result of auto enrollment represented mainstream society.

These unpensioned workers could be found in all types of employment, from small organizations to large. Approximately two-fifths of them worked for employers with no more than 49 workers. One-third worked for organizations with 1,000 or more workers. Unpensioned workers could be found across all sectors, but some sectors had a much lower proportion enrolled in a pension scheme than others. For example, the hospitality sector had the lowest level of pension scheme membership as a proportion of workers (84 percent), but the sector only constituted 6 percent of the target group. Around 60 percent of employees in the target group were employed in just three industries: wholesale, retail, and motor trade; real estate and business activities; and manufacturing.

Box 3.1: Support from behavioral economics

Much of NEST's research was based on new, primary activity through surveys, focus groups, and qualitative interviews. But with NEST stemming from a behavioral intervention in the form of auto enrollment, research also drew on the broader insights of behavioral economics, both directly in designing the approach but also to generate hypotheses and areas of focus for further research. The major insights relating to savings behavior in NEST's target market are as follows:

- People exhibit a strong preference for the present over the future (Laibson 1997). Retirement saving represents the deferral of consumption today for a future benefit, but people tend to view the value of that benefit at a heavily discounted rate.

- This can help encourage procrastination and status quo bias (Samuelson and Zeckhauser 1988) – if unsure what to do or unconvinced of the value of (deferred) benefits, it is easier for people to take no action.

- As set out in Prospect Theory (Kahneman and Tversky 1979), losses loom much larger than gains. In the case of saving, this can mean people will focus on the downsides – the “loss” of current consumption or the risk of investment loss – and that they will place a higher “value” on those losses relative to the equivalent potential for gains.

- Paradox of choice (Iyengar, Huberman and Jiang 2004) – above a certain number of options, people find more choice paralyzing, especially where the choices are complicated or poorly understood, and this can exacerbate the status quo bias.
- Regret theory and omission bias (Loomes and Sugden 1988) – people fear taking a proactive course of action and it turning out to be wrong or to cause regret, further exacerbating the status quo bias.

As well as informing research hypotheses, these themes return frequently and are reinforced in the outputs of NEST’s research and therefore feature heavily in the findings described in this paper.

Unpensioned workers displayed a mixed picture in terms of financial confidence. For example, they were often skilled domestic budgeters who creatively managed very tight budgets to cover all essentials and spending priorities (NEST 2013). Some adopted a mental accounting approach, applying different rules to different mental pots of money. In some cases, these pots might be physical too, such as cash put to one side to cover an expense expected in the short term.

However, confidence was lower in relation to longer-term financial planning. Three-quarters (74 percent) said they were confident handling day-to-day financial decisions, while only 39 percent were confident handling long-term decisions. About four out of five (82 percent) of pensioned workers felt confident with short-term planning, and 57 percent felt confident with long-term planning, notably more than among unpensioned workers (NEST 2013).

Long-term financial planning was also seen as a low priority for many. This group had far less in savings than pensioned workers did, with 38 percent having less than £5,000 in savings, compared with 20 percent of pensioned workers. When asked about retirement plans, 80 percent stated that they planned to work as long as they could, while 70 percent mentioned the State Pension.

Many of the reasons for this lack of long-term planning are provided by the evidence from behavioral economics leading to the concepts described in Box 3.1. Crucially for NEST's target group, there is some evidence that present bias becomes stronger when people feel short of money (Carvalho, Meier, and Wang 2016). This is perhaps in part because of the real-world financial environments within which these groups plan. NEST research showed that many people felt that they had no option but to focus on the present due to tight budgets.

One-third of unpensioned workers said that all the money they earned was typically spent on the basics. When pressed to give a figure on what they had to spend after living costs, over one-quarter of unpensioned workers said they had less than £50 a week, and three in five said that this totaled less than £100 per week. Pensions, therefore, could be considered a luxury for these people rather than a necessity.

The economic climate also exacerbated this tendency. Many unpensioned workers were feeling the squeeze more than ever. For example, around 20 percent reported that their income had decreased over the previous five years.

The level of confidence in retirement plans was relatively low, with nearly one-half having put off saving for fear of making the wrong decisions. However, even those who appeared to have rejected pensions in the past still generally supported the reforms. One-half of unpensioned workers claimed to have only a basic knowledge of pensions. Both those with and without previous experience shared a number of common misunderstandings, mostly related to investment and outcomes.

When asked about their retirement, most unpensioned workers pointed to some sort of retirement plan. Seventy percent mentioned the State Pension, 49 percent planned to downsize their home, and 26 percent expected an inheritance to help them. However, only 14 percent were reasonably confident that their retirement plans would be adequate. This perhaps accounts to a large extent for the support of the reforms, with two-thirds believing automatic enrollment to be a good idea (NEST 2013).

In spite of this, prior to automatic enrollment, many had failed to take action toward their retirement. Again, much of this intention–behavior gap can be explained by concepts such as procrastination and status quo bias. But NEST research highlighted additional attitudinal factors.

First, while pensions were simultaneously dull and complicated, they provoked a negative emotional response from some people. The responsibility of making the right decision about something so important can be daunting and many simply do not have the confidence to act. The concepts and language generally used in the pensions industry did not help people understand what they were getting involved with, or communicate the information they needed to take control.

Second, pensions were often simply not on people's minds most of the time. This was especially, but by no means exclusively, the case for younger people. People struggled to imagine themselves in the future and this potentially deterred them from doing anything about it.

Despite pensions not being front of mind for many people, 63 percent overall agreed with the idea of auto enrollment. Fifty-nine percent of those that had been offered a pension at work before and refused it, or had started but then stopped contributions, agreed with the principle.

One-half of unpensioned workers claimed to have only a basic knowledge of pensions. NEST research suggested that even this basic knowledge was likely to be flawed and based on misunderstandings and misconceptions. In fact, NEST's research showed that even people who have contributed to a workplace pension make fundamental errors and have gaps in their understanding (NEST 2014). Most of these concern investment and outcomes. Those experienced with pensions were more likely to be familiar with defined benefit schemes. This means they usually think that their employer is responsible for managing the pension and will turn their pension fund into an income for them at the end.

People were keen to know more. While they were not interested in detailed information on pensions, there was an appetite to have clear answers to two central questions: (i) What happens to my money – where does it go and how safe is it?; and (ii) How much will I get at the end?

3.2. Understanding of investment

NEST's research on investment communications started with a foundation qualitative study in 2010 (NEST 2010). This research made it clear that not everyone understood that money contributed to a pension is invested. Many of those who did understand this were unclear about what investment actually meant. Everyone understood that the goal of a pension was to grow their contributions so that they would have more money in retirement. People were less clear about where this growth would come from. Some expected that growth would simply come from employer contributions on top of theirs, plus interest. As such, they expected their pensions to grow in a uniform upward fashion.

People are used to the term "investment" and often feel they know what it means. However, they struggle to picture what happens to their money or where it actually goes. The concept was intangible, even for people who felt familiar with the term. There was reasonable awareness that investment has something to do with the stock market. Media coverage and discussion of the financial crisis and related slumps and crashes conjured up negative connotations of the financial sector. Similarly, although people were generally familiar with the phrase "the value might go down as well as up," few understood how or why this could be. Many imagined that it referred exclusively to their final outcome, rather than any fund value variance along the way, and to their contributions, rather than fluctuations in the level of growth achieved.

There was a general sense of unease around pensions. Many people – both with and without any previous experience of pensions – were concerned about how safe their money was. News stories of pensions being raided and savers losing all of their money still lingered in the collective memory. It seemed to them that investment contributed to and exacerbated this.

For unpensioned workers, retirement planning was all about being prudent, sensible, and conservative. It was implicitly about safety and securing the future, and therefore at odds with chance, risk, and uncertainty. Respondents saw the decision to give up money now, to have money in retirement, as a protectionist course of action on both an emotional and practical level. That is, they felt better knowing that they were taking these steps and expected that they would have at least the equivalent of their contributions to spend in retirement.

For the auto enrolled member, risk was inherently negative and had more to do with the chance of making a loss than the chance of making a gain. Similarly, uncertainty was always perceived in a negative light and suggested a disappointing or worst-case scenario, rather than the possibility of getting a better outcome than expected or even slightly less.

Many unpensioned workers imagined an “all or nothing” scenario. This was largely based on their understanding of investment and seen as a consequence of the economic context and erosion of faith in the financial sector. The global economic events since 2008 had reaffirmed their conviction that anything can and does happen. Most people tended to focus their response to risk on the downside – the chance of losing.

3.3. Expected opt-out behaviors

The policy driver for introducing auto enrollment in the United Kingdom was clear. But based on this evidence base, it was less clear how individuals might react. The experience of the United States suggested that following auto enrollment, workplace pension participation would stabilize at around 85 percent. Department for Work and Pensions (DWP) research showed that 70 percent of those eligible for auto enrollment said they would probably or definitely stay in. Fifteen percent were undecided and the same percent said they would definitely opt out. But all countries differ in terms of their policy environment and culture, and stated intentions in surveys often do not translate to actual observed behaviors. It was therefore very uncertain what the overall opt-out rate might be once the reforms were implemented, or what other behaviors might be seen in terms of additional contribution levels or degrees of member engagement with their accounts.

NEST's research asked a sample of unpensioned workers to consider what would influence them to opt out of the scheme. Affordability was the top reason given, cited by 82 percent of those surveyed. A similar proportion (79 percent) said that a lack of information at the time that they were automatically enrolled could influence their decision to opt out. Almost two-thirds (61 percent) expressed a high level of concern about automatic deductions taking place at source (NEST 2013).

However, triggers to opt out were more immediate and practical than motivators to stay in. Evidence suggested that motivators to stay in the scheme were more emotional. The knowledge that their pension was being taken care of through a low-maintenance approach driven by their employer gave savers peace of mind. Flexibility was also a strong message, considering the history among qualifying members of taking breaks in pensions and employment throughout their lives.

Perceptions of affordability remained a clear potential trigger to opt out and a front-of-mind concern for the majority. More than one-half, however, thought that not missing the money taken out before they were paid would be something that would motivate them to stay in the scheme (NEST 2013). This suggested that if the initial possibility of opting out was overcome, retention could be easier once the savings habit was acquired.

3.4. Summary

The overall conclusions from the program of research described here can be summarized as follows. Auto enrollment created a new target market for retirement saving – much more representative of the general population than those previously well-served by the industry. This new group was likely to exhibit many of the behavioral biases and barriers to saving well documented in the behavioral literature. They were skilled short-term money managers but much less skilled, prepared, and confident when it came to longer-term financial decisions. Many were supportive of the reforms and recognized the need to take action to prepare for retirement. But they lacked knowledge and a sense of self efficacy, were fearful of pensions and of the possibility of error, and were highly risk- and loss-averse. They were perhaps particularly unclear and lacking in confidence when it came to the question of how their money might be invested.

The clear expectation for the policy of automatic enrollment was that inertia would lead many more people to save for retirement, irrespective of many of the psychological, attitudinal, and knowledge barriers described in this paper, often without much conscious thought or any direct engagement as such. Nonetheless, the communications approach developed by NEST was predicated on addressing many of these issues, for three main reasons. First, because for the (unknown) number who might be inclined to opt out, NEST believed that addressing them would help to minimize those doing so for the "wrong" reasons. For example, some would be likely to opt out due to fear and uncertainty. Second, the goal over time was to build trust in NEST among members of the scheme, as a necessary precondition to greater engagement in the future. And third, because for the minority who initially seek more active engagement or who are inclined to use the choices available to them around, for example, fund choice or contribution level, addressing potential emotional issues, and structural ones around such as the number of fund choices on offer, should enable this group to make better decisions in line with their own needs.

The next section explains NEST's approach – specifically around communications – in more detail.

4. Developing NEST's communication approach

Many of the challenges facing consumer confidence in DC schemes centered on people's understanding – or rather misunderstanding – of pensions and investment. A natural response, therefore, was to explore how to improve understanding. This path had been trodden by many providers before, although more with the intention of improving financial literacy or capacity than boosting consumer confidence (de Meza, Irlenbusch, and Reyniers 2008). While no one could reasonably question the good intention of improving consumer fluency with financial products and pensions in particular, evidence from behavioral sciences and impact analyses of financial education projects suggested that gains in financial understanding did not necessarily improve financial decision making (Choi, Laibson, and Madrian 2010).

This indicated that it may not be enough to just create communications that members could easily understand. NEST also needed to be aware of the human capacity for cognitive bias and the tendency to adopt mental shortcuts (Benartzi and Thaler 2001). If one of the communication goals is to lessen the possibility of poor financial decision making – because people are not always rational decision makers – correcting their understanding will not always be enough to make a difference.

Furthermore, NEST research showed that learning about pensions did not necessarily give people peace of mind. Instead, in many cases it put the spotlight on features they did not know about and would rather not see, namely risk. Given the goals of NEST's communications approach, described in the previous section, the focus was therefore on identifying the best ways to explain unfamiliar concepts and bolster confidence in the path down which savers were being defaulted.

Where members do engage, framing information carefully can make a difference to both comprehension and behavior. People tend not to proactively engage with pension communications. When they do, it is often driven by concern. Communications need to be sympathetic to this. For most people, the starting point with pensions is negative. Communications need to reassure, not just inform.

This paper sets out some high-level guidance on what NEST believes works when talking to members about investment, risk, uncertainty, and outcomes. It uses as its main evidence base two additional, more specific NEST research projects. One sought to identify ways in which to communicate investment to members. The other explored responses to deterministic and probabilistic retirement projections.

4.1. What members need from a communications approach

DWP research (2011a) identified a number of key information needs of new members. These center on workplace pension schemes and auto enrollment generally. For example, “When can I take my money out?,” “How much do I have to contribute?,” and “What happens to my money if I die before I retire?” NEST undertook in-depth interviews with people who matched the demographic characteristics of the unpensioned, and asked them to imagine they had been enrolled in a workplace pension scheme and what their first questions would be (NEST 2014). Almost everyone wanted to know: “What happens to my money?”, “Is my money safe?,” and “What will I get in the end?” While none of the people interviewed said they were interested in investment, it is notable that these three questions do ultimately concern investment.

As set out previously, the demographic make-up of the unpensioned is extremely diverse. It includes different levels of education, a wide range of life stages, and varying knowledge of pensions: around two-thirds have some experience of a pension. All this has an effect on where members start from, what they want to know, and how much detail they expect, meaning people have very different communications needs. However, some commonality of themes emerged through the depth interviews, enabling the following loose clustering of attitudinal groups.[4] These themes are used by NEST when developing a communications approach:

*The cynica*l: This group is the most distrusting of pension providers and the financial sector generally. They are aware that risk is taken and that outcomes are not certain in DC pensions. This group’s views will generally be very difficult to change. People in this group tend to have

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[4] As the research was qualitative and small-scale, it was not possible to validate or size these as formal “segments” in the traditional sense. Separately, NEST does use geodemographic segmentation to underpin analysis within its communications approach.

been in a pension before or know a friend or family member who is disappointed with his/her pension.

The compliant: This group is the least likely to show any interest in the scheme or any member communications. They share the lack of understanding of the curious group but openly declare lack of interest in finding out more. Some in this group defer to the better judgement of professionals, even if they do not trust those in the financial sector. There is an implicit notion that they do not need to concern themselves with the product and that those running the scheme will know best. Although this group appears to be fewer in number than the cynical and cautious groups, its members present an interesting challenge through their deference. As in more traditional doctor–patient relationships, these members trust that the experts will take care of everything and so even though they are in the scheme, it is not really their concern.

The cautious: People in this group are keen to engage to get answers to their questions and are the most likely to become more positive in their view of workplace pensions on learning more. The sense here is that the pension is not as bad as they imagined based on, for example, the NEST proposition and outcome scenarios of a modelled member.

The curious: This group is the most likely to be shocked at what they find out from investment-related communications. They do not know how workplace schemes grow their money, they do not know about uncertainty and volatility, and they are shaken when they find out. This group tends to be younger and has the least experience of pensions, whether directly or indirectly through a family member, partner, or friend.

Given the different starting positions of these groups, they each go on different communication journeys and do not necessarily end up in the same place, despite being exposed to the same material. Some people will remain unconvinced by the DC proposition, no matter how it is framed. The qualitative nature of NEST's research meant it could not be said with confidence what percentage of the unpensioned would exhibit each of these characteristics. The view was that communication strategies should focus on reaching the compliant, the cautious, and the curious groups, while recognizing members' different journeys.

For workers, auto enrollment was an unprecedented event. The newness and strangeness of how auto enrollment worked presented a real opportunity for engaging workers in planning and saving for later life if they had not done so before. However, the newness of auto enrollment also presented a threat to worker engagement. DWP research (2011a) found that there was a danger that communicating how it will happen could overwhelm communication of its benefits. People had lots of questions and, in particular, some people were worried about the impact of auto enrollment on their employer – "Why would they do it?," "Can they afford it?" – and on their job – "Will it mean reduced hours or pay, or lead to redundancies?"

4.2. Designing NEST communications

If information addresses some of the questions people have in response to auto enrollment and gives them the facts they need to feel reassured, they are more likely to feel confident about staying in. Information content and tone has the power to make people feel in control or, if the emphasis is not right, it can result in people feeling forced and dictated to. Information can have an important emotional, as well as rational, impact and can help to address anxiety and confusion. Real potential exists for information around auto enrollment to have a far-reaching and positive impact on people's confidence to make plans for their own futures.

As a result, one area of focus was on the language and vocabulary traditionally used to describe pensions. Based on an extensive program of market research, NEST began replacing words such as "annuity" with phrases that people find more understandable, such as retirement income. Over time NEST built up a "dictionary" of approved words and phrases that it knows works with its target market (NEST 2016).

NEST also focused on developing a framework within which to think about communicating with members, described as the "Golden Rules" in the following section. For example, research revealed that people wanted to feel in control, even though the process of being enrolled would be a passive one. (One application of this was in the design of the opt-out process, which had to be easy and front and center in communications to new savers. Knowing they can get out when they want to may, paradoxically, make people more willing to accept auto enrollment.)

The third step was the market testing of NEST's operational communications. NEST's annual statement, for example, was designed, tested extensively with potential customers for ease of understanding, and then redesigned. A similar process was used for the transactional area of the website.

Finally, a brand was developed for NEST – based on evidence – with a name and logo that would resonate with a potentially large and diverse range of audiences. Specific objectives considered included: conveying the scheme as a vehicle for retirement savings; creating a brand that would help to build trust and credibility in the scheme; representing the focus of the scheme on low-to-moderate earners; and encapsulating all of these in a clear identity that would engage a socially and culturally diverse audience.

5. Implementing the approach

5.1. "Golden Rules" of communications

Talking about pensions with a new generation of savers required a different framework to guide NEST's communications. The evidence base suggested that NEST should communicate with members in a clear, meaningful, and reassuring way. Essentially, NEST members wanted to know that their money was safe and was being managed for their benefit. The challenge was how to put this into practice. This led NEST to some key principles for communicating to members, based on qualitative research with members of the NEST target market (NEST 2012). These principles are used when NEST designs any new piece of communications and are the basis for all member communications.

5.1.1. Keep it real

Pensions communications should be as practical as possible and use examples people can relate to. Theoretical concepts are harder to grasp and should be avoided. The “Golden Rules” research suggested people respond well to familiar descriptions of what they need to save. This means using examples of everyday shopping items, goods, or services, and expressing values such as contribution levels in pounds and pence, not percentages. When using examples of individuals, using people they will identify with also works much better than anything invented or exaggerated compared to their life experiences.

5.1.2. Rights not responsibility

People respond more positively to language that focuses on their entitlements rather than what they ought to be doing. Messages emphasizing an “obligation” to save for the future performed poorly and were seen as threatening, whereas messages stressing an entitlement or potential benefit were received more positively.

5.1.3. Out with the old

Communications about the advantages of being in a pension scheme should not focus on the details of retirement. It is not an idea people like to think about. Many feel it is too far away to be relevant to them. This is consistent with the literature on psychological distance (Hershfield et al. 2011). Thus it is important to engage with people as they are now and bring messages about pensions into their current working lives. Equating the benefits of saving with positive experiences today, for example, can help to overcome this distance.

5.1.4. One for all

Those people who are likely to be affected by pension reform and auto enrollment take comfort in numbers. They like to know that what is happening to them is also happening to lots of other people. For communications that means reassuring people that they are part of a group of people affected by the changes. People are less keen to think of themselves as a special case even though they can feel strongly about being an individual. Evidence for this can be found in the literature on social norming effects (Schultz et al. 2007). DWP research also suggests that knowing auto enrollment is happening to lots of people, and is official, helps people to view it as legitimate and understand it is something their employer has to do. NEST research shows that while people do not respond well to assumptions about their lives and circumstances, they do feel safer knowing they are part of something larger.

5.1.5. Tell it like it is

NEST should present the facts and let people reach their own conclusions. People do not want pensions information to be dressed up. They want information expressed in plain language so they can form any value judgements for themselves. This was a key driver behind NEST’s phrasebook, and behind its approach to naming fund choices (for example, the “higher risk” fund).

5.1.6. Give people control (even if they do not use it)

It is known that the people in NEST’s target group like to feel in control, even if they choose not to exercise it. For example, the message that people can opt out works much better if it is delivered sooner in the enrollment process rather than later. For example, the Golden Rules research suggested people respond badly to messages suggesting everything is “taken care of for them.”

5.1.7. Take people as you find them

Communications should be designed to fit with where people are in their understanding. New savers might have quite different levels of understanding from each other and from existing scheme members. For this reason communications should cater to all appetites and keep up with where people are.

5.1.8. Be constructive

People who are likely to be affected by pension reform and auto enrollment often want to see any problems as something they can put right. Even when they have worries about how financially prepared they are for retirement, they want to focus on what can be done about it and how they can be helped. Communications should emphasize the constructive aspects of saving in a pension scheme.

5.2. NEST's brand values

It is important to communicate with everyone who uses NEST in a way that works for them. NEST's brand values also provide a very strong framework for its communications. The values are based on research and insight and respond to specific customer needs. These are:

5.2.1. Ease

Communications with members and employers are as jargon-free as possible so that NEST is easy to understand. Pensions have traditionally been viewed as complicated and difficult to understand.

5.2.2. Transparency

NEST is open about what the scheme is, how it is run, where funds are invested, and how members will get their savings. NEST has a single charge, irrespective of a member's earnings profile. All communications are also as clear as possible. The pensions industry has traditionally been seen as opaque.

5.2.3. Empowerment

NEST's aims to give its audiences all the information they need to understand NEST and make decisions about their pension saving. NEST thinks carefully about how much and what kind of information it provides. It is important that members feel that they are in control of the key decisions that affect their life.

5.3. Communicating through their journey

Throughout a member's journey, NEST provides a range of communications, using the NEST brand, "NEST's Golden Rules of Communication," and the NEST phrasebook as a guide. This includes information on costs and charges, investment choices, and when and how members can access their retirement savings. Once enrolled, members can select to have communication sent to them in electronic format via their secure mail box or in paper format.

5.3.1. Pre-enrollment communications

NEST's research showed that providing good-quality information to workers at this stage is important and may influence a member's decision to opt out or stay with an auto enrollment scheme. NEST aims to communicate with workers at this stage to explain what auto enrollment is, how it works, and what NEST is. NEST believes that by providing this information in an easy-to-understand format, potential members can make an informed decision about how auto enrollment will affect them personally and if saving with NEST is the right thing for them. Because NEST cannot communicate directly with prospective members, NEST provides employers with a set of communication tools designed to meet both statutory and nonstatutory communication requirements. (Though there is in theory some incentive for employers to encourage opt-out among members, this is carefully controlled through a compliance and enforcement regime and so in practice, such inducement or encouragement is rare.)

5.3.2. Statutory communications

NEST provides guidance and letter templates for employers to meet their legal duty to inform their workforce about their new pension rights. This guidance explains the statutory information employers will need to give their workers in straightforward terms. Letter templates can be downloaded from the NEST website. The templates can be edited by employers with their own additional content.

5.3.3. Nonstatutory communications

These communications can be used by an employer to provide an overview of NEST and how auto enrollment works to potential members. They contain information on workers' rights, the joining and contribution processes, how to opt out and how and when they can take their money out of NEST. Employers can download these tools from NEST's website. Information is presented in a variety of formats to cater to different learning styles and communication preferences, including presentations, PDFs, pay slip messages, and existing member case studies.

5.3.4. Line manager and HR communications

NEST believes that clear and concise communications are important for all those impacted by auto enrollment, importantly line managers and human resources (HR) departments. These key members of staff will be communicating the most with members prior to being enrolled with NEST. NEST developed communication materials for these audiences, aimed to make understanding auto enrollment and the communication of auto enrollment to their workers as simple as possible. These materials include presentations, PDF guides, videos, posters, and FAQ sheets, all available for download on the NEST website.

5.3.5. Welcome communications

When members are enrolled into NEST they receive a welcome pack. The welcome pack is an important piece of communication as it contains information about why the worker was enrolled into NEST, opt-out rights, and a Member ID to register and activate an online account. For most members, this is the first interaction they will have with the NEST brand.

The pack was specifically designed using insights from NEST's member communication research, and provides workers with key information about the scheme and their retirement savings. The "Quick Guide to NEST" document included in the pack informs members how to make the most of saving for their future with NEST. The information contained in this document was determined from a combination of regulatory requirements, guidance from the Pensions Regulator and DWP, and NEST's own research and insight into information that members want to know. It provides an overview of: how to activate an account with NEST; how NEST works; how to make the most of saving with NEST; charges members pay; and how NEST invests their money.

5.3.6. Ongoing communications

Members receive a benefit statement each year from NEST. For a large majority of NEST's membership, this will be the only engagement they have with NEST until retirement. The benefit statement uses plain language and graphical representation to explain: how much is in their retirement pot; an estimate of what their pot might be worth in the future given their current retirement date; a breakdown of contributions made by the member, his/her employer, and tax relief collected from the government; the contribution charge applied to the pot; the annual management charge applied to the pot; what the change in pot value was because of investment returns and after changes have been applied; any nominated beneficiaries; and information on assumptions that NEST made when calculating retirement income. The provision of an annual benefit statement containing this information not only meets regulatory requirements, but also reassures members that their contributions are being collected and invested appropriately.

Should members make any changes to their account with NEST (for example, switch from the default fund or nominate a beneficiary), they receive written confirmation of this change through their preferred communication channel. These "operational communications" are designed to provide members with a record of changes they make. NEST also communicates any system changes that might impact a member's experience on NEST's website. This occurs via either email or pop up communication channels when a member logs in.

NEST also provides help and support communications with members via an online member help center, designed to be self-service so that members can quickly locate information. Members not able to resolve issues or questions using the help center can communicate with NEST via the contact center, web chat, or email channels.

5.4. "At retirement" communications

NEST communicates with members in the lead up to their specified retirement date. The contact strategy in this period includes a pack sent six months, three months, and three weeks prior to the member's intended retirement date.

As a consequence of reforms in 2015, savers are now faced with a greater range of choices and decisions about when and how to access their retirement savings.[5] The pack provides a clear and easy-to-understand overview of the different options that members have available to them. It also highlights the fact that should members wish to continue working and contributing to NEST, that is also possible. Members are signposted to view the online booklet "Taking your money out of NEST," which contains more detailed information.

"At retirement" communications encourage members to get professional independent financial advice and signposts them to free government services, including The Money Advice Service and Pension Wise. They also point out other things members should consider when determining what to do with their retirement pot, including tax implications and being wary of pension scams.

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[5] Whereas prior to 2015 most people had to buy a life annuity with their DC savings, DC assets can now be accessed in any form, including cash, from age 55.

Further communications are sent six weeks after the retirement date, if members have taken no action on their account.

6. Summary and conclusions

6.1. The impact of NEST communications

At this stage of development, it is arguably too early to come to definitive conclusions about the impact of NEST communications. As described above, the drivers behind NEST's approach to date have been to cater to – and reassure – those who seek more active engagement with NEST, either because they are considering opting out or for some other reason.

In practice, the dominant finding from NEST's experience so far is the overall strength of inertia. Only around 7 percent of people enrolled into NEST have opted out, a number that has fallen to 6 percent for those now being enrolled in "steady state" through the flow labor-market churn. This bears out previous evidence that default-based choice structures can be powerful in changing behavior – and in NEST's case, coupled with other aspects of the evidence base presented, suggests this is true even in the presence of, for example, relatively low levels of understanding of core aspects of pensions and investment and a relatively high risk of negative affective responses to some of that detail (such as the concepts of risk and volatility) when presented.

At the same time, this inertia acts powerfully in other ways once a member is saving. Only around 16 percent of NEST members have registered their online accounts. Fewer than 10 percent try to opt out when first enrolled, and much smaller numbers still cease contributions for a reason other than moving to a different employer with a different scheme in place. Fewer than 1 percent of members make an active investment choice of something other than the default fund and a similar percentage choose to make additional contributions above their default rate (NEST Insight and Vanguard Asset Management 2018, and internal NEST data). This passivity on the part of members makes strong conclusions about the impact of NEST communications difficult, and any initial conclusions only tentative.

For example, the very low opt-out and “voluntary cessation” rates might suggest that NEST has successfully reassured some of those who sought additional information. NEST also seeks direct feedback for its approach via surveys, drawn from a random sample of members, with results weighted back to the known age and gender profile of its membership. Previous research[6] indicated that only a minority (13 percent) of NEST members surveyed felt that its communications were unclear or unhelpful. However, this survey evidence also confirms that overall engagement levels are very low: approximately two-thirds of recently enrolled members state they have at least skimmed their welcome pack, but one-fifth do not even recall receiving it; less than one-third of members report that they have visited the NEST website.

In truth, much of NEST’s approach has not yet been tested in any depth. This is not unintentional: in the first years of its existence, NEST was focused on the massive operational challenge of onboarding nearly 700,000 employers and almost 7 million new members. At the same time, with initial contribution rates set at a low rate, and increasing automatically in April 2018 and April 2019, much of NEST’s focus and that of the broader policy was to allow the policy, and the act of saving regularly for retirement, to bed in and normalize. Poorly designed communications risked disrupting this bedding in process, and the natural inertia of NEST customers, and avoiding this negative outcome is a further, modest, sign of success in the approach.

The real test of the approach is yet to come. From April 2019, minimum contributions will reach the full statutory rate of 8 percent of (a band of) earnings. For many in the lower-to-moderate income member population, this will likely be enough, coupled with a relatively full savings career and their state pension entitlement, to generate a decent level of income replacement in retirement. But for others, it will likely be within their capacity and best interests to contribute more. Even without focusing on contribution levels, there will be other benefits to greater engagement from members, both in terms of helping them to understand to what degree they

[6] NEST member surveys from 2014 onward.

are on track for their retirement goals and as an enabler for decisions they will need to make later – for example, how to convert their assets into an income in retirement, something that now requires a much more active and less constrained choice since the abolition of compulsory annuitization in 2014.

Promisingly, in this regard, a difference is observed between the attitudes of NEST members surveyed who had activated their NEST account and logged on compared to the majority of unregistered members. Almost one-half of them (49 percent) compared to just under one-third of all members (31 percent) gave a satisfaction rating of 8 or higher out of 10 for NEST providing clear and helpful communications. Within this group only 6 percent felt NEST communications were unclear and not helpful. The potential impact of communications to act as a trigger for engagement can also be observed, with the welcome guide all members receive cited as by far the most likely cause of their decision to visit the NEST website or activate their account. In some respects this may be the biggest challenge – how to create the triggers, but also the underlying motivation, for people to seek out more information, which will allow NEST's approach to come into its own. A much greater focus on personalization of user experiences is anticipated to be a key element of addressing this challenge.

The evolution of the NEST approach will enable more evaluation of its effectiveness, using a number of elements. The greater use of A-B tests, discussed below, will enable evaluation of the effectiveness of interventions before they are rolled out. NEST's ongoing program of tracking research enables monitoring of overall customer satisfaction, including with aspects of the communications approach, and that program is supplemented through ad hoc quantitative research. NEST is also setting up an online community of members that will enable monitoring of attitudes among members to the experiences of NEST. Most importantly, as the scheme matures, NEST will be able to evaluate the impact of its communications on member outcomes, via monitoring key behaviors such as contribution levels over time.

6.2. Where NEST will go next

As saving for retirement normalizes among the previously unpensioned population, NEST's focus will shift toward supporting members through more proactive choices that they face – such as whether and how much more to contribute, and how to access their savings once they reach retirement. This will present more rigorous opportunities to evaluate the approaches described in this paper and to test the effectiveness of more focused interventions.

Crucially, NEST's intention is to do this through the increased use of A-B testing and randomized control trial methodologies. As outlined many times in this paper, communicating with members in an automatic enrollment context carries risk as well as opportunity – for example, of triggering a negative affective response and prompting "undesirable" behavior such as cessation of contributions. People's behavior can be hard to predict in response to communications interventions and can depend on preexisting attitudes and dispositions – rolling out large-scale interventions based on theoretical frameworks, however well-researched, therefore carries a significant downside risk. The use of appropriately developed trials with subsets of members will therefore allow NEST to robustly test interventions and roll out only those that are effective, for those for whom they are effective. NEST has already begun to use this approach, with the field stage of a trial testing different forms of the opt-out journey just concluded and further trials planned for 2019. Publishing the results of these trials will also help inform the approach that others in the industry might take to improving member outcomes.

One particular area of focus may be to interrogate further the interaction between overall default structures and individual barriers to saving. On the face of it, automatic enrollment is sufficient to overcome otherwise significant barriers, such as low understanding of how pension savings are invested. At the same time, NEST wants to help members to understand these things better – a "test and learn" approach will help to understand the tipping-points and tradeoffs between addressing these individual knowledge gaps and barriers and the overall effectiveness of a default.

6.3. Conclusions

The approach to developing NEST was based on a comprehensive program of primary and secondary research. NEST's communications approach led to outputs such as its "phrasebook" and "Golden Rules," with a major underlying focus on providing reassurance – for those who seek it – that saving is a "good" thing and that NEST will look after one's money. This approach was built on harnessing inertia and responding to behavioral biases in the target group, while recognizing that this same inertia means that many will in practice have little or no interaction with NEST in the early years of their participation.

As retirement savings become the norm, contribution rates increase through phasing, and more people actively engage with the choices they now have at retirement, NEST's approach will need to evolve. Technology is transforming the way members are consuming everyday financial services, therefore their expectations of their pension providers are also shifting.

In this new world order, NEST's communication message will need to evolve to more actively engage members through their life stages to ensure members are saving adequately for retirement. It will need to build on lessons learned and use these as a foundation for its future approach. While, for example, the effectiveness of traditional education and capability programs might be questioned, more targeted "just in time" education approaches might be explored, while also moving toward more personalized approaches that support more individualized decisions, building on the foundation created by automatic enrollment. Crucially, these approaches will need to be empirically tested before they are rolled out at scale, to ensure that NEST's communications with members help them to achieve their goals in saving for retirement.

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ABSTRACT

All UK employers now offer a pension scheme including the use of automatic enrollment. More than 9 million people have started saving into a workplace pension as a consequence. NEST is a pension scheme that any employer can use to meet its auto enrollment obligations. It was set up to serve those traditionally poorly served by commercial pension provision. NEST is built around features tested and seen as important and motivating for potential members and employers, underpinned by extensive research with future members and analysis of feedback from existing customers. The communications approach had a major focus on providing reassurance that saving is a "good" thing and NEST will look after one's money.

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