Stephanie Ortblas-Tibbs: What better place to get fresh perspective on the changes in the UK retirement market and the growing use of funds in DC plans than in Tokyo, Japan at ICI’s Global Retirement Savings Summit, where I spoke with the head of NEST, Tim Jones, about the latest on his programme and the market overall.

Tim Jones: So I think the first learning is that certainly in the context of the UK, automatic enrolment is very powerful. Trying to encourage people to voluntarily join the workplace pension plan just didn’t work. Putting them in the plan, even though they can jump out if they wish, so far has worked incredibly well. We thought that maybe up 25 or 30 percent of people would opt out, leaving 70 percent in, and that would have been great. But so far, only eight percent have opted out, so of all the people put in, 92 percent have stayed in, even though they could have jumped out if they wished.
Stephanie Ortbals-Tibbs: That really is an astonishing number, and I’m curious if in addition to the many successes that NEST has had, if we could also touch upon some things that, in the end, you might have considered differently?

Tim Jones: There are some. I think some of the complexities of who should be contributing, how you compute the actual amounts, they’re a little bit complicated in our system, and I think we maybe could simplify that. My sense is that that should be done now, after we finish the roll-out. Let’s not disturb the roll-out in the UK. We’re halfway through it. It started in 2012. It will finish in 2018. But then we’re going to have a review of the whole policy in 2017, and that will give us a chance to make those changes.

But there is one other thing that was very amusing that we found out early on was the jargon that the pensions industry had created. A word like “annuity,” we’re very familiar with it in the industry. When we started to research people, and we said, “Well, how about buying an annuity?”, they said, “What?” And then there are other phrases, some of them particular to the UK, one called “trivial commutation,” which means taking your pot as cash. And we have developed a vocabulary, the NEST vocabulary, so we take phrases like “annuity,” and we never use it. We say “retirement income,” because that’s what it is. We don’t say “trivial commutation.” We say “taking your pot as cash,” because that’s what it is. And so demystifying the products, using plain English and using a tonality which says, “This is for you. Come and enjoy this product. Don’t feel that it’s not for you. Don’t feel sort of bad about–don’t feel this is a complicated thing you shouldn’t understand. This is something you should understand. Come and work with it.
Stephanie Ortbals-Tibbs: You know, it’s really been fascinating to watch the evolution of NEST, and now it’s taking place in the UK amidst this sea change overall in the use of retirement savings and of the growth of defined contribution plans. And I’m just curious, your insights on how these things fit together, is this, in fact, a sea change, and what do you see going on in the landscape in the UK?

Tim Jones: I think it is a sea change, so the changes are that having built up this pot of money, under the old regime, by law, most people had to buy a retirement income, an annuity with three-quarters of that fund, and then they could take up to a quarter as tax-free cash. Now that’s gone, and people can do whatever they wish. As they take the money out, it’s subject to income tax at their marginal rate. Now this opens a new set of opportunities. People can take a lump sum as cash, but they’ll have to pay tax on it. They can take it in smaller pieces, draw down bit by bit, like an income. They can still buy a retirement income, a guaranteed product, an annuity. And so there’s a big debate going on now in the UK, and the interesting thing about this debate, of course, is that for every household, the finances of that household make a material difference to what is the right thing to do with the wealth you’ve built up. So if you’re going into retirement with debt, as more people in the UK are, maybe paying off some of that debt is a high priority. And if your tax circumstances mean you can take some lump sum and pay down that debt, that may be a very efficient way of using the money. But other people without debt, then maybe that’s a bad way of doing it, and they should use another route. So it’s a really big debate now, which I think is going to expand the notion of a workplace savings product
from being just something that builds a pot of money up into being something that helps you manage your wealth into and through your later life.

**Stephanie Ortbals-Tibbs:** So here we’ve been talking about the importance of simplicity, and then, all of a sudden, we’re discussing something where there’s some new complexity. Do you have concerns about that?

**Tim Jones:** I would be, unless I felt that there was time in the strategic context to deal with it, and I think there is time. So our learning so far in the UK are people in their 20s and 30s, they’ll stay in. They won’t opt out. So older people opt out more than younger people. The opt-out rates for people in their 20s and 30s are three, four percent, so that’s great. They’re in. But they’re not interested. They won’t engage with the product. In their 40s and 50s, we believe they will engage with the product. The amount of money they’ve got by then, because they haven’t opted out, will be enough to draw them in. And then we can say to them, “Look at this wealth you’re building up. We better talk about how you’re going to get the best value, the best use out of that wealth.” But we’ve got at least two, two and a half decades, their 40s, their 50s and their 60s before they need to then act on that as they go into their late 60s or their early 70s. So the plan will be to grab them in their 40s, when they start to get interested, and then take them on a journey with their peers. I think a lot of it will be done through social media and groups online. It won’t be sort of a patronising weird club of people telling you what the answer is. It will be them talking amongst themselves about what the answer is and working it out, and by the time
they get to their later lives, they should then be in a position to make best use of that
wealth.