



Investments

**Structuring defaults to take advantage of
behavioural finance learnings**



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Investments

**How do you
get people to
save?**



Workplace pension reforms in UK – What's changed?



Before auto enrolment

Active choice often
needed from worker

Behavioural barriers
to take-up



**Saving was a
'minority sport'**



After auto enrolment

Employers have to
offer a contribution

Do nothing = save in a
pension scheme



Saving is the norm



What do workers think of auto enrolment?

- 77 per cent agree it's a good idea
- Fewer than 10 per cent of workers have opted out
- 50 per cent say 'not wanting to lose contributions from their employer' is an important factor



NEST in numbers

- We have over **3.4 million members**
- Our opt-out rate is **7 per cent** on average and lower for younger members
- There are over **150,000 employers** signed up to NEST
- Assets under management over **£1 billion**

Supporting saving – opt-out process



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nest NATIONAL EMPLOYMENT SAVINGS TRUST

What is NEST? NEST for savers NEST for employers NEST for advisers About us My account

Opt out: [Employer A]

1. Can you afford it? 2. Happy to lose out? 3. Confirm opt out 4. Opt out complete

You are logged in as [Member A]
Last login: [17 September 2011, 17:35]

1. Not sure you can afford it?

You might be wondering if you can afford to save in a pension scheme.

Why not give it a go and get into the savings habit? The earlier you start, the better your chance of a bigger retirement income. You can always take a break from making contributions later if you want.

If you want to opt out of NEST with this employer, click on **Continue opt-out**.

Cancel Continue opt-out

Affordability message responds to procrastination bias and myopic thinking

Supporting saving – opt-out process 2



Opt out: [Employer A]

You are logged in as
[Member A]

Last login: [17 September 2011, 17:35]

1. Can you afford it? 2. Happy to lose out? 3. Confirm opt out 4. Opt out complete

2. Are you happy to lose out on money from your employer ?

If you opt out now you'll lose out on money from your employer.

As an example, based on earnings of £ and the rate your employer has agreed to pay, you could lose out on as much as...

£ [xxxxx]

...in the first year if you opt out.

Over the next few years as minimum contributions increase, you could get at least...

£ [xxxxx] per year. 

If you're happy to keep saving and get extra money from your employer click on Cancel to leave the opt-out process.

If you want to opt out of NEST with this employer, click on Continue opt-out.

Cancel

Back

Continue opt-out

Wording
targets
loss
aversion

How do you
get people to
invest
properly?



NEST Retirement Date Funds – unique single year target date funds



NEST 2058
Retirement
Fund



NEST 2039
Retirement
Fund



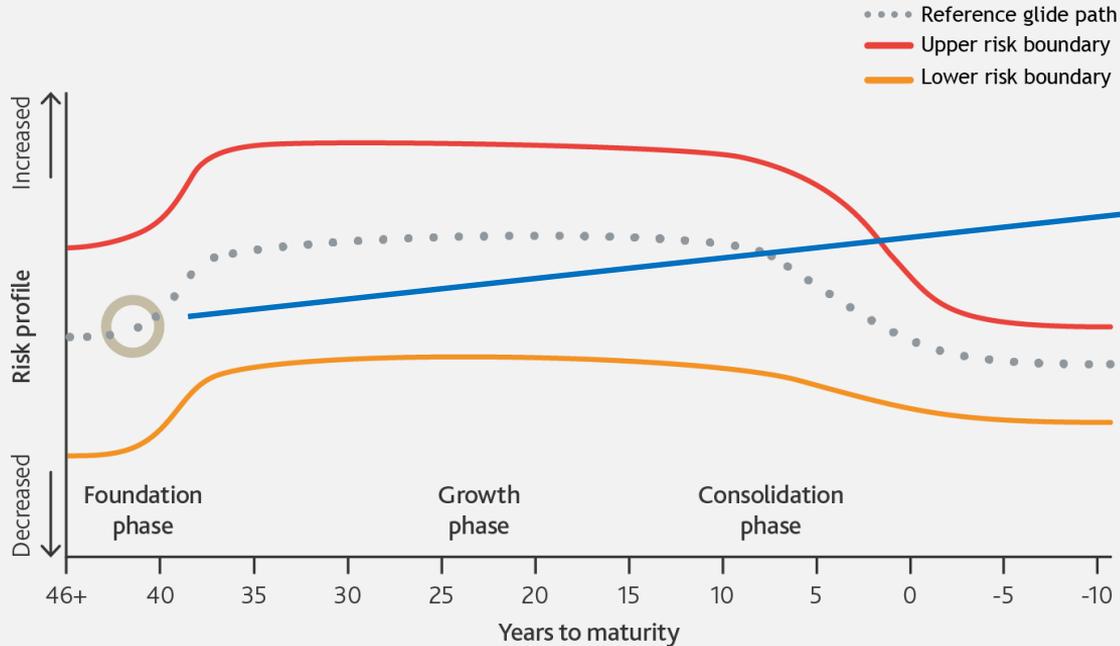
NEST 2022
Retirement
Fund



‘...loss in the value of a pension fund prompted such strong negative feelings that participants thought they would take loss avoidance action if such a loss were to occur.’

*NEST Member Research Brief
2012*

Working with attitudes to volatility and loss



Reduce risk of sharp losses in member's early years

NEST Retirement Date Funds – phased risk management



Foundation phase
(approx 5 years)

**Outperform
inflation (after
charges)**

Lower risk to
minimise impact of
investment shocks



Growth phase
(approx 30 years)

**Target inflation +3 per cent
(after charges)**

Diversified multi asset funds
to reduce impact of
investment shocks



**Consolidation
phase**
(approx 10 years)

**De-risking to
cash or CPI+
portfolio**

Reduce drawdown
risk as retirement
approaches

Addressing the tyranny of choice



Funds (2241) View only **The Select list (232)**

Hide filters

1 - 10 of 2241 funds

Current filters
Edit filters

Asset class

- UK equity (195)
- Mixed Assets - Balanced (193)
- Global equity (190)
- Mixed Assets - Growth (186)

Show all

Lipper consistent return

5 4 3 2 1

Your shortlist (max 8) No funds

- Aberdeen Asia Pacific and Japan Equity Fund I Acc**
- Aberdeen Asia Pacific Equity Fund I Acc**
- Aberdeen Asia Pacific Equity Fund I Inc**
- Aberdeen Diversified Growth Fund Class I Acc**

- Savers can't be locked into default
- Savers empowered by choice (even if they don't use it)
- But how do you empower without overwhelming?

NEST funds – clearly explained diverse options



**NEST
Sharia
Fund**

**NEST
Higher
Risk Fund**

**NEST
Ethical
Fund**

**NEST
Lower
Growth
Fund**

**NEST Pre-
retirement
Fund**



**How do you get
people into the
right retirement
income
arrangements?**



Freedom and choice reforms – what's changed?

Before freedom and choice

Obligation to buy an annuity

Savers object to lack of flexibility

But solutions aimed at savers with big pots, paying for advice



After freedom and choice

No obligation to buy an annuity

Savers welcome flexibility

But many unwilling or unable to take advice



What do DC retirees want in the new framework?



Regular fixed income



Lump sum access



Certainty income won't run out



Pass on money



Protection from stockmarket falls



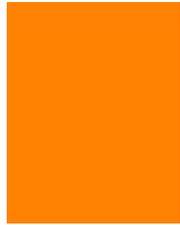
Flexibility to change



Why don't people choose annuities?



Limited
time
horizon



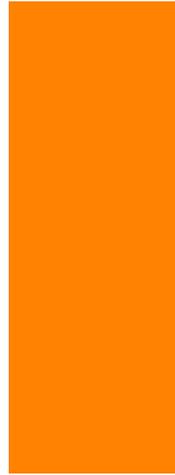
Regret
avoidance



Unpredictable
consumption



Uncertain
longevity



What drives choices in retirement?

Behavioural biases still apply:

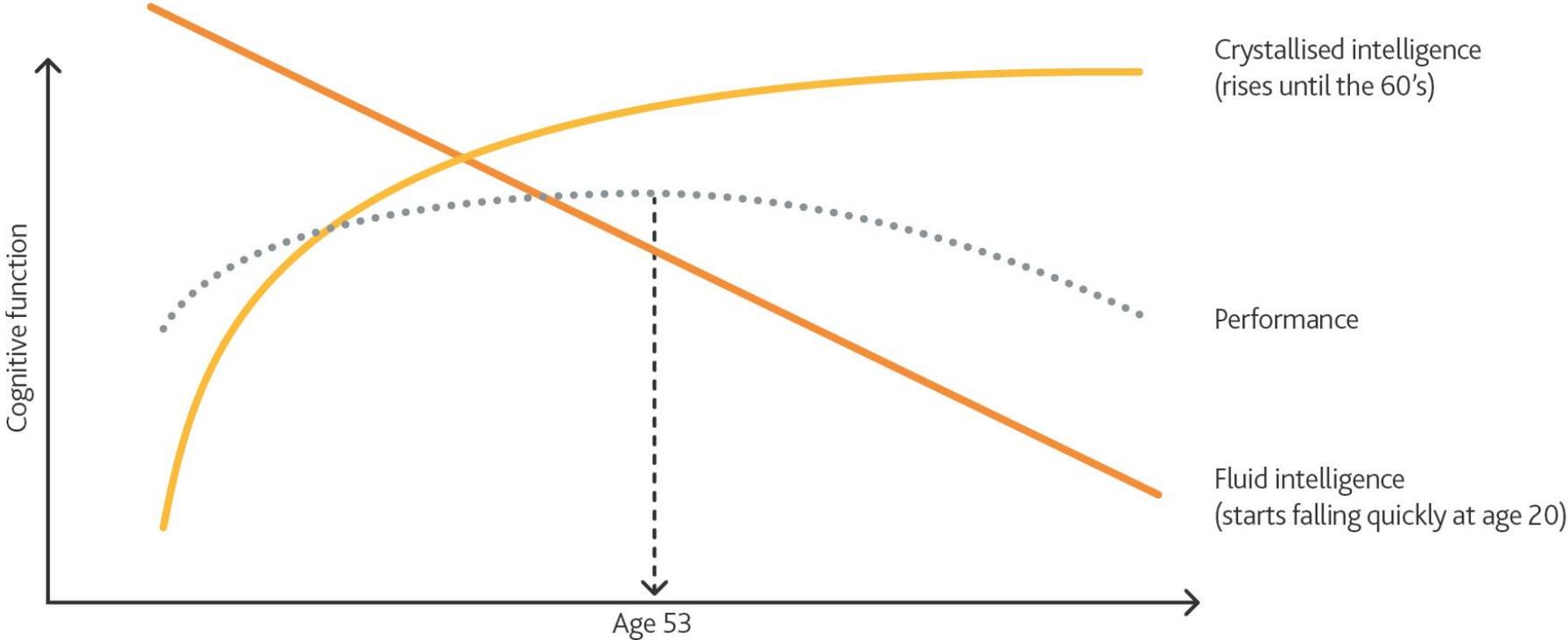
- status quo bias
- present bias
- loss aversion
- difficulties in probabilistic thinking
- mental accounting



People want certainty *and* flexibility



Impact of age on financial decision making

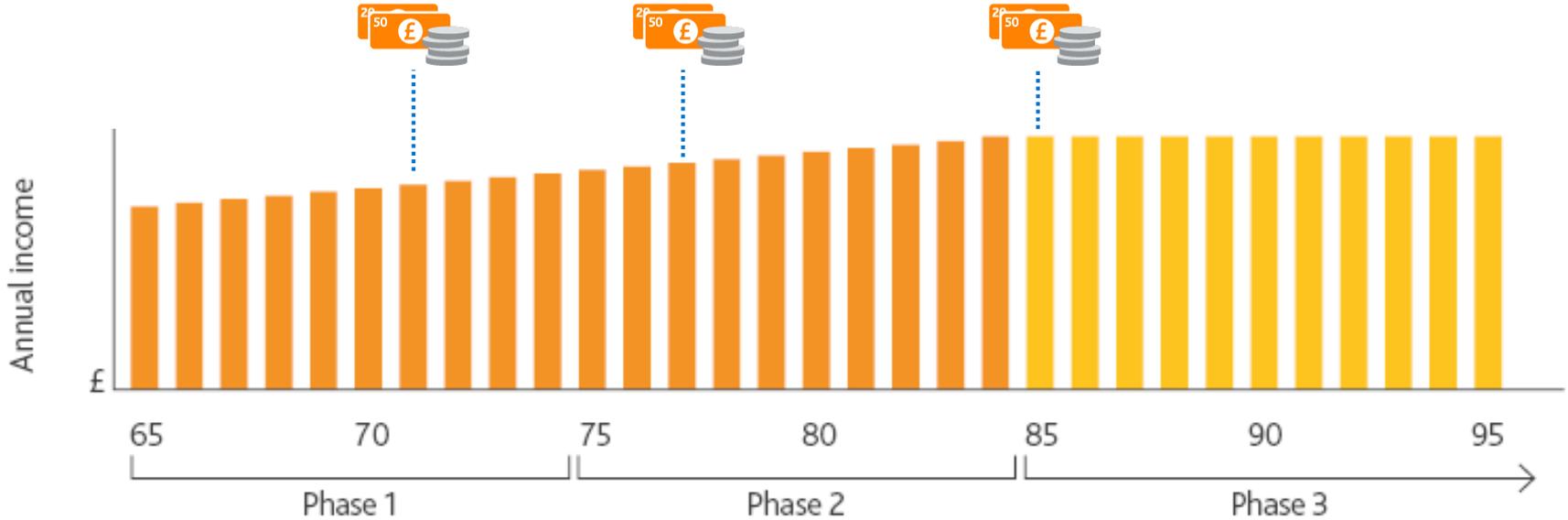


Guiding principles for core pathways

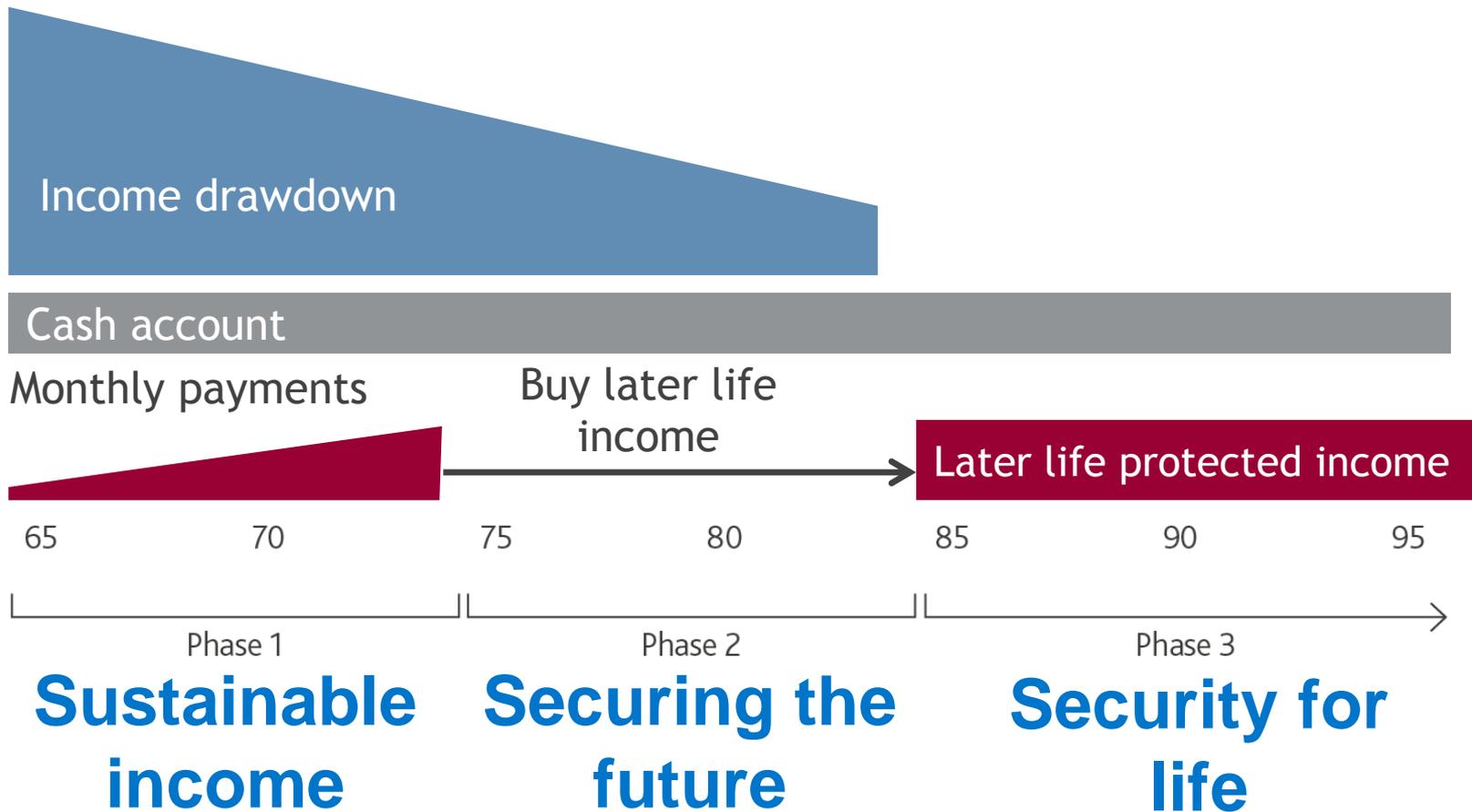
- Sustainable income
- Manage investment risk
- Manage inflation risk
- Spend pots
- Longevity protection
- Offer flexibility

NEST blueprint core strategy - what a saver sees

Regular secure income with ad hoc access to cash



NEST blueprint - three-phase strategy



questions 



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