
As UK's annuity mandate ends, NEST weighs alternatives

By Editorial Staff Thu, Mar 19, 2015

The National Employment Savings Trust (NEST), Britain's public workplace retirement plan option, believes that despite the end of forced annuitization, middle-class retirees will still need a default mechanism for converting savings to lifelong income.

With Britain about to end its policy of forced annuitization of tax-deferred savings by age 75—the new policy was announced in 2014 and takes effect this April—the leaders of the National Employment Savings Trust (NEST) have concluded that “a need exists for a new default solution” for turning DC savings into pension income.

NEST is an auto-enrolled, nationwide, mandatory defined contribution plan designed for uncovered low- and middle-income workers. Its conclusion, it said, reflected a consensus based on six months of “consultation responses and external research.”

NEST, which is about to become the largest DC provider in the UK, said the general consensus among consultation respondents was that individuals “valued the choices provided” by the Budget that the Chancellor of the Exchequer revealed in May 2014, but “many would not want to make specific decisions.”

NEST drafted six principles that it believes default retirement solutions should encompass, although it accepted that “many of the principles cause tension with one another at different stages.”

A paper from NEST listed its concerns, including:

- The tendency to underestimate longevity should be taken into account. It noted that future solutions must adapt to, and account for, changes to longevity.
- Solutions should be designed to ensure DC savings are spent in their entirety, and provide incomes that are stable and sustainable, but still offer flexibility where possible.
- The harmful nature of volatility in income-drawdown solutions needs to be addressed.
- Investment risk needs to be managed to reflect the DC savers desire for investment growth while minimizing the likelihood of running out of money in drawdown solutions.

Despite the expected decline of annuity conversion after 6 April, Mark Fawcett, chief investment officer at NEST, said the evidence indicated that mitigating the risk of outliving ones savings should be a key feature in its default solution.

“What we are seeing is a strong consensus emerging on good quality default retirement income solutions playing a central role in helping these savers achieve better retirement outcomes,” he added.

NEST said that, without a default solution, conservative savers might not use up their savings, which suggested that a relatively low-risk investment solution and then annuitization would have value for them.

It also suggested the people might buy deferred income annuities so that they could avoid handing over of a large sum of savings at once, a psychological barrier to annuity purchase.

NEST is also considering the possibilities of providing an in-house decumulation method to its members or offering them so-called collective DC solutions. NEST said it will publish its conclusions this summer.

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