Money Advice Liaison Group (MALG) Group discussion

25th January 2018

NATIONAL EMPLOYMENT SAVINGS TRUST

1 Introduction

Zoe Alexander and Olivia Duncan gave an introduction to NEST, automatic enrolment and the recent review of the policy. They talked about the phasing up of contributions, and Government aspirations to push levels higher in the longer term. Whilst many are likely to benefit, rises in default contribution levels carry a risk of oversaving for some members with persistently lower incomes.

They went on to describe how NEST has been considering how the inertia principle could be applied to help people build up liquid savings alongside their pension in order to increase their financial resilience. In a ‘sidecar’ model, savings would accrue to a liquid account first (up to a certain level), before rolling into an illiquid DC pension.

They asked MALG members for their feedback on this idea:

1. Would MALG member clients (many of whom earn towards the bottom of the income scale and may be experiencing financial difficulties) find a savings buffer useful?
2. How might they respond to saving for this alongside a pension?
3. How would they design the product to work for their customers?

2 MALG member feedback

Would MALG members’ customers (many of whom earn towards the bottom of the income scale and/or may be experiencing financial difficulties) find a savings buffer useful?

- Members commented that many clients will be oversaving at 8% - saving additional to this would push them further into oversaving. Some members felt that if a liquid element is introduced it should be accompanied by a lower level of pension contribution.

How might they respond to saving for this alongside a pension?

- The idea of mechanisms to encourage more systematic saving using inertia was generally welcomed, but there was concern that people may not want this linked to a pension (which they may not trust/understand) – and that the concept felt difficult to understand and communicate to people
- One member wondered whether it would be more effective to consolidate Gvt products intended to help people save – help to buy etc – into a single, more simple savings product

How would they design the product to work for their customers?

- There was agreement that the design should reflect who this product is aimed at. If it is aimed at low to medium earners who have the capacity to save, but currently don't, then perhaps restrictions on the liquid fund are justifiable. If it is aimed at low earners who are on the borderline of financial hardship with fluctuating ability to save, then there should not be restrictions on the liquid fund.
- Rather than restricting levels of withdrawal or reasons for them, it would be better to incentivise non-withdrawal – eg through higher interest rates, bonuses or entry into prize draws

Other issues raised

- There was concern about who administers the scheme and takes the money. Would the employer have to take some of the burden? If so how do you stop the employer skimming some off the top (as seen recent DB scheme scandals)?
- If participants keep taking out small amounts might the scheme become ineffective cost-wise?
- What return rate or additional incentives would there be on the rainy day fund?
- Will consumers be put off because they feel like money is being taken away from them – particularly where there are restrictions on withdrawal? Might that make them more likely to opt out of both the sidecar and the pension?
- There was concern that this product may be too sophisticated to appeal to the target audience
- How does this tie into:
    - tax relief?
    - The benefit system?