



April 2, 2026

From: Mark Fawcett
To: Pension Policy Watchers
Re: HOW UK REFORMS ALMOST DOUBLED PENSION PARTICIPATION

In the early 2000s, there was a major pension savings gap for workers in the United Kingdom. Around 50 percent of people had no pension savings. And the government decided it must do something about it.

Various options were considered. One was to boost the state pension through higher taxes. The other was to increase the retirement age to offer higher pensions later in life at a reasonable fiscal cost. Both were deemed politically unpalatable.

The government of the day formed a cross-party Pension Commission in 2002 to help build support behind pension reform. One recommendation was automatic enrolment in employer pensions, as policymakers examined ways to encourage more private saving.

Behavioral economics drove much of the thinking as decisionmakers sought the best policy and to boost participation rates. The general framework of behavioural economic theory is that people do not always act rationally; they are busy, not always perfectly informed, and approach decisions with biases. Therefore, pension policy had to be designed to “nudge” people. Subsequently, the UK implemented an auto-enrollment scheme where employees are opted into a pension plan by their employer.

Under this plan, an employee contributes at least 5 percent of their earnings towards their pension; the employer a minimum of 3 percent of individual employee earnings. Further, the government adds 1 percent in tax relief. If a member opts out, they lose the matching contributions. That creates incentives to stay in and has kept the opt-out rate to just over 10 percent, allaying fears that reforms would drive mass opt-outs.

Previously, the government tried opt-in approaches, such as stakeholder pensions, where employers had to provide access but did not contribute. Employees were invited to opt in, and generally they didn't.

Prior to 2012, when auto-enrollment began, pension provision had been declining as defined benefit schemes wound up and people were not joining alternatives. Auto-enrollment significantly increased coverage. In 2021, participate rates in employment pensions grew to around 88 percent up from 47 percent a decade earlier. In Canada, meanwhile, the number is 48 percent.

Contribution rates started low and were phased in, and the rollout moved from large employers to medium, then small and micro-employers. There was discussion about exempting very small employers, but that was rejected because it would distort hiring incentives.

Avoiding thresholds, such as those that would require a small business to have a minimum number of employees before they would be required to enroll employees, was important. Even if a family employs a single person for full-time support services in their house, they must be enrolled. This avoided distortions, and the risks of encouraging businesses to remain small, or change the way they are designed to avoid automatic enrolment.

Nest was created because the government was concerned that employers of low-paid or minimum wage workers would not be able to access a suitable pension scheme for their employees. Many private pension providers were not willing to accept every employer, and those with lower-paid employees and higher turnover may not offer sufficient revenues to cover costs. Nest was established as a trustee-based, defined contribution, not-for-profit pension fund, financed by government loans that are being repaid.

Nest now covers roughly a third of the UK private-sector workforce, with nearly 14 million members and more than £62 billion in assets, growing by roughly £6 billion per year. Scale has enabled us to deliver a quality product. We operate target-date funds for each retirement year, with a diversified multi-asset portfolio, not a pure equity exposure, and a glide path that shifts from growth and illiquid assets early in the savings journey to more income and capital preservation as retirement approaches.

Nest is also focused on decumulation, designing retirement products that aim to deliver sustainable pension income for life, particularly for members who do not seek or cannot afford financial advice. Determining withdrawal rates is extremely difficult for individuals, so Nest aims to solve that problem for them. The *Pension Bill*, currently passing through Parliament, will require all pension providers to offer guided retirement products to better support the translation of a pension pot into a retirement income.

The key lesson from these reforms is the importance of getting the nudges right. The UK experience does not rely on employers or employees to make decisions when they do not have all the required information. People are often too busy and focused on other things.

A system that defaults them in, while allowing opt-outs, preserves choice but produces better outcomes. That balance between mandate and flexibility has been critical to success, and it is a central lesson to draw from the UK experience.

Mark Fawcett is the CEO of Nest Invest.

To send a comment or leave feedback, click [here](#).

The views expressed here are those of the author. The C.D. Howe Institute does not take corporate positions on policy matters.