Mandatory ethnicity and disability pay gap reporting consultation

Response from Nest Corporation

About us

Nest was established in 2010 as part of the auto enrolment programme to help people save for retirement. Unlike any other pension scheme in the UK, Nest has a legal obligation to accept any employer that wishes to use us to discharge their auto enrolment obligations. Over one million employers have signed up to use Nest.

Over the last decade, Nest has grown to be one of the largest pension schemes in the UK, with nearly £50bn in assets under management. We are operating at scale as a high-quality, low-cost pension scheme helping over 13 million members save for their retirement. Many are low to moderate earners who may be saving into a pension for the first time.

Nest is built around the needs and behaviours of our members, from our approach to responsible investment to our focus on customer service. We now occupy a place in the market as a major Master Trust, helping to drive up standards and best practice across the industry. Nest has great potential for delivering pensions to mass market consumers for many years to come, leveraging our scale to deliver value through the combination of low costs, our market leading investment strategy and modernised services all overseen by strong trustee governance.

Response

Do you agree or disagree that large employers should have to report their ethnicity pay gaps? (Q1)

We agree that ethnicity pay gap reporting should be mandatory for large employers. Nest has voluntarily reported on our ethnicity pay gaps for six years. We have also engaged with many of our portfolio companies to encourage them to collect and publicly disclose their own ethnicity pay gaps.

Diversity, equity and inclusion (DEI), and pay fairness are important topics for Nest, both as an employer to approximately 360 employees and a pension provider to over 13 million members, managing around £50 billion worth of assets on their behalf.

We believe that taking care of employees, including ensuring pay fairness, directly impacts company performance, productivity, business resilience and reputation. A well-treated, fairly paid workforce is likely to have positive staff morale and satisfaction - with lower turnover rates, making a company more likely to be successful over time.[1] In addition, as outlined by the Principles for Responsible Investment,[2] strong DEI

[1] SASB Standards, **Materiality Finder**; Cardiff Business School (2021), **The study: Twenty years of the Living Wage - The Employer Experience**; Ingolf Dittmann et al, (2018), **The Real Cost of CEO Compensation: The Effect of Behindness Aversion of Employees**; Principles for Responsible Investment (2022), **How investors can advance decent work**; Harvard Business Review (2019), **The Financial Case for Good Retail Jobs**

[2] Principles for Responsible Investment (2022), **Diversity, equity & inclusion: Key action areas for investors**

within a company can positively affect decision-making, levels of employee engagement, reputation amongst stakeholders, innovation and access to untapped markets. There are also significant risks and implications to failing to address issues related to equality and fairness, including compliance and reputational risks, both of which can impact our – and our investee companies' – abilities to attract and retain workers, as well as build trust with diverse customer bases.

Measuring and publishing pay gap reports is an important first step in addressing and understanding corporate performance on racial equality and pay fairness. It allows organisations to monitor the effectiveness of their inclusion strategies and ensures they are held to account by their relevant stakeholders.

At Nest we began reporting on our ethnicity pay gaps in 2019, along with other measures to strengthen our approach to inclusion. Since then, we have seen some benefits. It has encouraged us to review our data in more detail, allowing us to explore where pay gaps exist within the organisation and potential causes for any gaps. Insights from our pay gap reports have also helped us to shape our DEI strategy, including actions aimed at addressing identified pay gaps. This has partly resulted in the percentage of colleagues from ethnically diverse backgrounds at our director grade double from April 2024 to March 2025. We have also seen an increase in applications, recruitment and retention of candidates from ethnically diverse backgrounds, contributing to us attracting top talent from all backgrounds and industries. Whilst this alone is not the main reason for the increase, some candidates have mentioned that by publishing our ethnicity pay gap reports, we had demonstrated a greater commitment to inclusion than other potential employers.

As investors, we would also welcome further high-quality, comparable data from our portfolio companies. Having access to such information would allow us to effectively monitor companies' performance and progress on the topic, and hold them to account, whilst also allowing for dialogue and engagement with lagging companies.

In addition, we believe that the quality of engagement between investors and reporting companies would greatly improve. The standardised reporting of ethnicity pay gaps would allow for conversations to move beyond asking for enhanced disclosures, to discussing actual insights from company pay gap reports, company performance and action plans.

There are qualities of ethnicity pay gap reporting that we find especially valuable:

- The quantitative aspect: corporate disclosures on human capital tend to centre on qualitative data, such as examples of initiatives or success stories. While qualitative analysis is essential to capture the nuances amongst different practices, investors also need more standardised quantitative metrics to assess and compare company performance.
- Output-orientated: many company disclosures focus on inputs, such as their policies, processes and activities targeted at issues such as diversity and inclusion. Pay gap reporting is an important data point for us as it focuses on an output. It helps companies and other stakeholders to assess the effectiveness of their policies and practices.
- Company-wide insights: reporting on diversity to date tends to focus on representation at senior levels. Although this and company-wide pay gaps are interrelated, representational diversity does not necessarily mean equality of pay outcomes.

Do you agree or disagree that large employers should have to report their disability pay gaps? (Q2)

We agree that disability pay gap reporting should be made mandatory for large employers. (See Q1 outlining our views on the importance of inclusion, pay gap reporting and quality data.)

The benefits of gender pay gap reporting are evident, and we are beginning to see the benefits - internally and across other organisations, such as our portfolio companies - of voluntarily reporting on ethnicity pay gaps. Whilst this is positive, inclusion and pay fairness in the context of disability has sometimes been overlooked.

Mandating disability pay gap reporting will ensure that inclusion in terms of disability is a focus for large organisations. It will allow employers to understand common barriers to recruitment, progression and interventions required to make the workforce more inclusive for disabled employees. The data and insights reported by companies collectively may also help interested actors such as governments and thinktanks to identify common challenges and interventions required to improve disability inclusion more generally.

Do you agree or disagree that ethnicity pay gap reporting should have the same geographical scope as gender pay gap reporting? (Q3) [AND] Do you agree or disagree that disability pay gap reporting should have the same geographical scope as gender pay gap reporting? (Q4)

Yes. We agree that ethnicity and disability pay gap reporting should have the same geographical scope as gender pay gap reporting.

While pay gap reporting would apply solely to UK-based employees, it would likely prompt UK companies with international operations to become more aware of potential disparities across their global workforces. As investors in FTSE 100 companies with global presences, we welcome the broader positive impact this could have on our investments.

Do you agree or disagree that employers should report the same 6 measures for ethnicity pay gap reporting as for gender pay gap reporting? (Q5) [AND] Do you agree or disagree that employers should report the same 6 measures for disability pay gap reporting as for gender pay gap reporting? (Q6)

Yes, we agree that ethnicity and disability pay gap reporting should align to gender pay gap reporting. We believe that a consistent approach to reporting should minimise any additional resource required to collect and analyse this data. We also support the proposals in this consultation to require reporting on:

- The breakdown of a company's workforce by ethnicity and disability status
- The percentage of employees who did not state their ethnicity or disability status
- Action plans

In addition, we recommend that employers be explicitly required to publish a supporting narrative alongside an action plan, which outlines the nature and causation of any pay gaps by ethnic groups and disability status.

Do you agree or disagree that large employers should have to report on the ethnic breakdown of their workforce? (Q7)

Yes. We agree that this additional context could build a clearer picture about an employer's overall commitment to inclusion and pay fairness. It can also help to address some of the additional complexities of ethnicity pay gap reporting, such as the broad number of potential ethnicity categories.

This information would allow for more nuanced dialogue between reporting companies and investors (and other stakeholders, such as employees) on company performance and steps the company has taken to narrow the gap which may not be immediately reflected in the ethnicity pay gap measures, and may even undermine the measures in the short-term (for example, an increase in more junior employees from ethnically diverse backgrounds could lead to a more diverse pipeline of talent, but may initially widen the ethnicity pay gap).

Do you agree or disagree that large employers should have to report on the breakdown of their workforce by disability status? (Q8)

We agree that employers should report on the breakdown of their workforce by disability status. (See response to Q7.)

However, the number of employees that disclose that they have a disability will likely be far smaller than that of gender or ethnicity. Companies should exercise caution, especially if the number of employees that disclose that they have a disability is too low to protect the identity of those individuals. Guardrails should be put in place to ensure that confidentiality and safeguarding of personal information is prioritised.

Do you agree or disagree that large employers should have to submit data on the percentage of employees who did not state their ethnicity? (Q9)

We agree. This data can give an insight into the culture within an organisation. Low self-disclosure rates can indicate a larger problem, such as a fear to disclose or a lack of buy-in into a company's inclusion efforts.

We also believe that this percentage should be broken down further into those not known or not asked to provide their ethnicity, and those who have given a 'prefer not to say' response. For example, in situations where the data shows a high percentage of employees simply not answering the question(s), this could suggest a lack of employee engagement and necessitate further internal comms and awareness raising on the importance of collecting this data.

Do you agree or disagree that large employers should have to submit data on the percentage of employees who did not state their disability status? (Q10)

We agree. (See our reasoning in Q9.)

However, we would advise caution on how this is rolled out to prevent driving the wrong behaviours. Many employees feel uncomfortable disclosing such sensitive information and as a result, many companies often have low response rates on the question of disability or may have far more employees with disabilities than that disclosed. Reporting expectations and guidance issued by the government should ensure that companies are not incentivised to put undue pressure on employees to disclose their disability status.

Do you agree or disagree that employers should have to produce an action plan about what they are doing to improve workplace equality for ethnic minority employees? (Q11) [AND] Do you agree or disagree that employers should have to produce an action plan about what they are doing to improve workplace equality for disabled employees? (Q12)

We agree. We believe that action plans should be produced to demonstrate how companies aim to close any identified pay gaps for employees of different ethnicities and disability statuses. We believe this disclosure can be as important as the pay gaps reported, as they provide the context to the data, and can give investors, customers and current and potential employees an insight into the level of corporate commitment to addressing pay gaps. It also allows organisations to be held accountable to their commitments by their relevant stakeholders, drive tangible action to close pay gaps, and prevent pay gap reporting from being treated as a tick-box exercise.

In addition, we recommend that employers be explicitly required to publish a supporting narrative alongside an action plan, which outlines the nature and causation of any pay gaps identified.

Do you agree or disagree that ethnicity pay gap reporting should have the same reporting dates as gender pay gap reporting? (Q19) [AND] Do you agree or disagree that disability pay gap reporting should have the same reporting dates as gender pay gap reporting? (Q20)

Yes, we agree that ethnicity and disability pay gap reporting should have the same reporting dates as gender pay gap reporting.

From the perspective of an employer, we think that collecting and reporting on these three pay gaps at the same time will be far more streamlined and efficient than going through the process multiple times at different points in the year.

In addition, from the perspective of an investor, we would find it beneficial to be able to review the ethnicity pay gap reports of our portfolio companies at the same time as their gender pay gap reports. This timeline also corresponds well with the UK annual general meeting season which would allow us to use the published reports to help inform our engagement and voting decisions with investee companies.

Reporting on gender, ethnicity and disability pay gaps simultaneously also allows us and others to identify possible trends and synergies across the three groups, which may share similar root causes and potential interventions and action plans. It also allows organisations to view this data through an intersectional lens.

Do you agree or disagree that ethnicity pay gap data should be reported online in a similar way to the gender pay gap service? (Q21) [AND] Do you agree or disagree that disability pay gap data should be reported online in a similar way to the gender pay gap service? (Q22)

We agree that all pay gaps should be reported in the same form for ease and consistency.

Do you have any feedback on our proposal to use the Equality Act 2010 definition of 'disability' for pay gap reporting? (Q31)

We recommend that guidance is provided to employers on how to ask about a person's disability status when collecting this data. Clarity for employees on how disability is defined could encourage greater response and self-disclosure rates. For example, we decided to include wording reiterating that many neurodivergent and long-term conditions count as a disability under the Equality Act 2010. As a result, we observed a greater response rate in our employee surveys.

Question 29. Is there anything else you want to tell us about ethnicity pay gap reporting? (Q29) [AND] Question 33. Is there anything else you want to tell us about disability pay gap reporting? (Q33)

Future proofing the bill

Over the last year DEI has become a focal point of cultural debates, and we have seen growing anti-DEI sentiment. This opposition to DEI initiatives has been most prevalent in the US, but similar dynamics are emerging in other parts of the world, including Europe. It is important that the government find ways to future proof the bill, especially in turbulent times, such as periods of increased political polarisation and politicisation of topics such as DEI. We believe the following considerations may help to protect the bill in the long-term:

- Clearly outline that pay gap reporting is important to businesses – not just because it's the right thing to do, but because it can help to create more inclusive workplaces, which in turn can lead to better decision making, more engaged workforces, and ultimately, more resilient and successful businesses.
- Emphasise that this is also matter of pay fairness for *all*, and completely consistent with the principle of meritocracy. This may help to dispel misconceptions that DEI is about quotas or affirmative action, or that it gives certain groups unfair advantages in the workplace.

- Ensure that the reporting burden for companies is minimised where possible. For example, aligning reporting requirements, mechanisms and deadlines for gender, ethnicity and disability pay gap reporting (where practical and reasonable to do so), can help to streamline the process.

Reporting under one framework

We would support the introduction of a unified pay gap reporting framework that encompasses gender, ethnicity, and disability. Reporting on these areas simultaneously would not only streamline the process but also provide organisations with a more coherent and insightful picture of pay gaps. A single framework would encourage organisations to take a holistic view of pay equity, helping to avoid a siloed or compliance-driven approach. It would also allow organisations to identify common underlying causes and more effective, intersectional interventions, ultimately driving more meaningful progress on workplace inclusion and fairness.

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