

TECHNICAL BRIEFING NOTE

Workplace pension reform – NEST (the National Employment Savings Trust)

This information is intended for HR professionals, pension trustees and individuals responsible for decision making on corporate pension schemes, and must not be relied upon by anyone else.

What is the NEST pension scheme?

Under the government's workplace pension reforms, employers must auto-enrol certain employees into a qualifying pension scheme within a strict timescale.

The National Employment Savings Trust (known as **NEST**), is a centralised registered occupational pension scheme established by statute specifically for this purpose and is open to any employer. It is intended to be a simple, low cost pension scheme primarily aimed at low to moderate earners. As such, it has some special rules and restrictions that mean it is not as flexible as most other pension schemes.

NEST, however, is just one of the qualifying pension schemes that employers can use to fulfil their new pension obligations. They can choose the scheme(s) and structure they think are most appropriate to meet the needs of their workforce. This could be NEST, their own good quality pension scheme(s) or a combination of both.

Who runs the NEST pension scheme?

The NEST Corporation, a statutory not-for-profit trustee corporation, is the trustee of the NEST pension scheme with legal responsibility for running the scheme. The NEST Corporation is independent of the government and regulated by the Pension Regulator.

The day to day administration of the scheme will, however, be sub-contracted to the private sector. Tata Consultancy Services, a subsidiary of a multi-national conglomerate based in India, has been awarded the initial administration contract.

Are there any special rules for the NEST pension scheme?

The NEST pension scheme is intended to be a simple, low cost qualifying pension scheme to help employers meet their pension obligations under the government's workplace pension reforms.

Although NEST largely works in the same way as any registered pension scheme (for example, in relation to pension ages and benefits), to help achieve these key aims NEST is subject to some special rules and restrictions that mean it is not as flexible as most other pension schemes. For example:

- **Contributions:** There is a cap on the yearly contributions that can be made to the scheme for, or by, any employee. This cap was set as £3,600 a year in 2005, but will be reviewed each tax year in line with the increase in average earnings. It is expected to be around £5,000 a year by the time NEST starts accepting members in 2012. This cap is expected to be removed in 2017.
- **Investment:** Like any qualifying pension scheme, NEST will have a default investment fund for members who don't make their own investment choice. This is likely to be a cautious tracker fund with built-in life styling. In the interests of simplicity, it is likely that any additional investment choice will be fairly limited. However, details of the investment options have yet to be published.
- **Pension income:** The only option for providing an income from NEST is to buy a lifetime annuity from an insurance company.
- **Charges:** To support the aim of making NEST a low cost pension option, there will be a cap on the charges under the scheme. The stated long-term aim is for an annual management charge of 0.3% to be the only charge against members' funds. However, at least in the early years of NEST, there will also be a 1.8% initial charge taken from every contribution paid to the scheme.
- **Transfers:** Initially, there will be restrictions on transfers in and out of NEST.
 - **Transfers-out:** Members will not be allowed to transfer their pension rights out of NEST, unless they are in ill-health or have reached the normal minimum pension age of 55. Where, however, a member's rights under NEST are made subject to a pension sharing order as part of a settlement on divorce (or dissolution of civil partnership) their former spouse (or civil partner) can choose to transfer their pension credit rights to another pension scheme.
 - **Transfers-in:** NEST will not normally accept transfers of pension rights from other pension schemes. The only exception is that NEST members will be able to transfer pension credit rights received as part of a pension sharing settlement on divorce (or dissolution of civil partnership) into the NEST scheme.

The transfer restrictions are expected to be removed by 2017.

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