



## Key facts and myth buster

**nest**

NATIONAL  
EMPLOYMENT  
SAVINGS TRUST

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The Government initiated a review of automatic enrolment and the role of NEST in June 2010.

Find out more here

[www.dwp.gov.co.uk/policy/pensions-reform/workplace-pension-reforms](http://www.dwp.gov.co.uk/policy/pensions-reform/workplace-pension-reforms)

## Background to the pension reforms

Government estimates suggest that around seven million people are not saving enough to give them the retirement income they want or expect. The Pensions Act 2008 introduces new duties on employers that start to be introduced from 2012.

These duties mean that for the first time employers will have to enrol their workers into a workplace pension arrangement. Some of these workers will be enrolled automatically into this arrangement and others only if they ask to be enrolled.

If jobholders are aged between 22 and State Pension Age, work or ordinarily work in Great Britain or Northern Ireland and earn more than £5,034 and not more than £33,540<sup>1</sup> a year, they are eligible to be automatically enrolled into their employer's pension scheme. These people are known as eligible jobholders. Their employer has to make a minimum contribution.

Jobholders who have been automatically enrolled into a pension scheme can choose to opt out if they wish.

Other individuals will have the right to be enrolled into their employer's pension scheme if they are:

- jobholders aged between 16 and 22, or aged between State Pension Age and 75, with earnings in the qualifying earnings band. If these individuals ask to be enrolled, their employer has to make a minimum contribution
- workers aged 16 and 75 who do not have earnings in the qualifying earnings band. If these individuals ask to be enrolled, their employer does not have to make a minimum contribution, but it can if it chooses.

Whether you are an adviser, employer, jobholder, or worker, the reforms are likely to affect you. This leaflet provides you with the key facts about the reforms and NEST (National Employment Savings Trust), a new low cost pension scheme any employer can use to meet their duties.

<sup>1</sup> In 2006/07 terms. These figures will be updated for 2012.

## Workplace pension reform

# 15

## key facts<sup>2</sup>

1. The Pensions Act 2007 reformed State Pensions and introduced arrangements to increase the State Pension Age. The Pensions Act 2008 reformed workplace pension provision.
2. The reforms aim to make saving for retirement the norm.
3. The workplace pension reforms mean that starting from 2012 employers will have to automatically enrol all eligible jobholders, and when asked by them, any jobholder, into a pension scheme that meets or exceeds certain legal standards. These standards include the minimum employers have to contribute to jobholders' retirement savings pots.
4. Automatic enrolment is being designed to overcome the inertia that currently prevents many people from saving. Automatic enrolment will make it easy for individuals to save for retirement.
5. The total minimum contribution to all jobholders' retirement savings pots will have to equal 8 per cent of their qualifying earnings. Of this 8 per cent the employer will have to contribute a minimum of 3 per cent. The rest will be made up of tax relief and the jobholders' contribution.
6. Contributions will be phased in and increase gradually to the minimum level to help employers and jobholders adjust.
7. The employer duties and how they are implemented are specified by secondary legislation. The reforms will be introduced in stages from 2012 with the largest employers affected first.
8. All jobholders will be able to opt out of the workplace pension scheme their employer has provided if they choose.
9. Three organisations will work together to implement the planned reforms – the Department for Work and Pensions (DWP), the Pensions Regulator and NEST Corporation, which is responsible for overseeing NEST.
10. NEST is a new low cost pension scheme any employer will be able use to meet new legal duties that start to be introduced from October 2012. It is being designed specifically to meet the needs of low-to-moderate earners and their employers.

<sup>2</sup> Information provided by the DWP, the Pensions Regulator and NEST Corporation. For further information about Government policy go to [www.dwp.gov.uk/policy/pensions-reform](http://www.dwp.gov.uk/policy/pensions-reform). For information about compliance with the employer duties contact the Pensions Regulator at [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

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## key facts continued

11. NEST has been set up to help millions of people who currently don't have access to a workplace pension – typically those on low-to-moderate incomes.
12. Employers can choose NEST or another qualifying workplace pension scheme to meet their new duties.
13. NEST Corporation is the trustee body that has overall responsibility for running NEST. It is a non-departmental public body (NDPB) that operates at arm's length from government and is accountable to Parliament through the DWP. On 5 July 2010 NEST Corporation took over from the Personal Accounts Delivery Authority, which was wound up.
14. The DWP is responsible for co-ordinating activity for the reform programme, including agreeing policy with ministers and overseeing delivery.
15. The Pensions Regulator is a NDPB and the UK regulator of workplace pension schemes. Under the reforms it has a new role to maximise employers' compliance with the duties set out in the Pensions Act 2008. It will also work to ensure that the safeguards protecting workers are being met. It will provide information to employers on how to fulfil their duties and on good standards of pension scheme administration.

**NEST**  
will be open  
to employers of  
any size  
or sector

# Simple and easy to administer

## The main features of NEST

- It will be simple and easy to administer with straightforward and convenient online services and tools.
- It will offer flexibility over contribution levels and the way these are calculated.
- An individual's membership of NEST is portable – it can travel with them throughout their working life. This is why there will be no continuing administration for employers when a NEST member leaves their employment. For new joiners who are already members of NEST, all contributions made on their behalf can be added to their existing retirement savings pot. Also more than one employer can contribute to a member's NEST retirement savings pot.
- NEST Corporation will set an investment approach for NEST that's specifically designed for the needs of low-to-moderate earners.





## NEST's unique features

- NEST Corporation has a public service obligation to run NEST so it's open to any employer that wants to use it to meet the new duties. This means that employers of all sizes and sectors can use NEST.
- Up to £3,600<sup>3</sup> per year can be paid into each member's retirement savings pot.
- NEST Corporation can only accept transfers in and out of the scheme only in very limited circumstances.
- NEST Corporation is legally bound to run NEST in the interests of scheme beneficiaries.

<sup>3</sup> The contribution limit is £3,600 in 2005 terms. This limit will be adjusted in line with earnings growth before the reforms are introduced in 2012.

## Flexibility within the contribution cap

In most cases there will be room within NEST's £3,600 annual contribution limit for employers and/or members to contribute more than the legal minimum contribution.

For example, an 8 per cent contribution on qualifying earnings for an average earner, which according to ONS figures for 2009 is around £25,100<sup>4</sup> a year, would be £1,605 per annum. This means the employer and/or member could double their contributions without breaching the contribution cap.

Within the contribution cap there is also flexibility around how contributions are structured. For example, an 8 per cent contribution on a wider band of earnings, such as on the first pound of pay, would be approximately £2,008. Again this would leave room for additional contributions by both the employer and member.

<sup>4</sup> Average refers to median earnings – Source: ONS (ASHE) March 2009 Economic and Labour Market Review, Vol 3, No.3.

## Uses for NEST

Employers can use NEST in a variety of ways. It could be the only scheme an employer offers their workers or sit alongside another scheme they already have. For example, they could use NEST as a foundation scheme on top of which they offer other schemes.

Alternatively employers could use NEST for a certain category, grade or group of workers. This might be seasonal workers, new joiners or staff who take career breaks.



An individual's  
membership pot is  
**portable**



Myth buster:  
**putting  
the record  
straight**

**750,000  
employers  
currently offer  
no workplace  
pension provision**



**Myth:** All workers will be automatically enrolled into NEST.

**Reality:** Under the Pensions Act 2008 employers will be required to automatically enrol all eligible jobholders<sup>5</sup> and, when asked by them, any jobholder, into any workplace pension scheme that meets or exceeds certain legal standards and make a minimum contribution to that arrangement. Other workers are also eligible to be enrolled into a workplace pension scheme but they must ask their employer to enrol them.

These other workers are not entitled to have their employers make minimum contributions on their behalf as they don't have qualifying earnings. However an employer may make contributions if they choose to do so.

It will be up to employers to choose a suitable pension scheme. This may mean using existing schemes, setting up a new one, using NEST, or choosing a combination of options.

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<sup>5</sup> Eligible jobholders are aged between 22 and State Pension Age, work or ordinarily work in Great Britain or Northern Ireland and earn more than £5,034 and not more than £33,540 a year in 2006/07 earnings terms. These figures will be updated for 2012. Total earnings include an individual's salary, wages, overtime, bonuses and commission, as well as statutory sick pay and statutory pay he or she receives during maternity, paternity or adoption leave.



**NEST** will be  
high quality,  
low charge  
and **easy**  
to access

**Myth:** Automatic enrolment means employers no longer have the freedom to choose the best pension scheme for their workers.

**Reality:** Employers can choose the pension scheme they believe is most appropriate. However the new laws include certain minimum standards that schemes must meet to comply with the legislation.

NEST will be one of the schemes that meets these standards.

**Myth:** NEST is a pension scheme that's run by the Government.

**Reality:** NEST Corporation is the trustee body that has overall responsibility for running NEST. It is a non-departmental public body that operates at arm's length from government and is accountable to Parliament through the Department for Work and Pensions (DWP).

NEST Corporation is overseen by a Chair and up to 14 Trustee Members. Together they form the trustee of the scheme. Trustees of pension schemes have an over-riding legal duty to act in the best interests of scheme beneficiaries.

As with other workplace pension schemes, NEST will be regulated by the Pensions Regulator.



**NEST can  
be used in  
a variety  
of ways**



# NEST

can be used  
either as the sole  
scheme or  
alongside other  
pension provision



**Myth:** NEST is only suitable for small companies.

**Reality:** NEST Corporation has a public service obligation to run NEST so it's open to any employer that wants to use it to meet the new duties. This means that employers of all sizes and sectors can use NEST.

NEST could be the only scheme an employer offers their workers or sit alongside another scheme they already have. Employers could use NEST as a foundation scheme on top of which they offer other schemes.

Alternatively employers could use NEST for a certain category, grade or group of workers. This might be seasonal workers, new joiners or staff who take career breaks.

**Myth:** NEST will be a poor relation to other workplace pension schemes.

**Reality:** NEST will be high quality, low charge, easy to access and simple to use for both members and employers. It will also have high standards of governance and an investment approach specifically designed for its members.



**Myth:** NEST will compete with existing pension schemes.

**Reality:** NEST is being designed to complement existing workplace pension provision. It is being specifically designed to meet the needs of low-to-moderate earners who are not currently served by existing pension providers.

Currently 750,000 employers in the private sector offer no workplace pension. NEST together with the reform programme will increase access to workplace pensions for millions of people.

**Myth:** The annual contribution limit of £3,600 for NEST will deter potential members.

**Reality:** In most cases there will be headroom under the limit for employers and/or members to pay more than the legal minimum.



# NEST

will have high standards of governance

**Myth:** NEST will be difficult to administer.

**Reality:** NEST is being designed so employers can provide access to a pension scheme to their workers simply and easily.

The scheme will need little administration and will be set up so that employers can appoint someone else to manage their participation for them if they wish.

A workers' membership of NEST is portable – it can travel with them throughout their working life. This means there will be no continuing administration for an employer when a NEST member leaves their employment. For new joiners who are already members of NEST, all contributions made on their behalf can be added to their existing retirement savings pot. Also, more than one employer can contribute to a member's NEST retirement savings pot.

**Myth:** NEST can only be used to meet the legal minimums required.

**Reality:** Employers can decide to offer more than the minimum requirements if they choose NEST or any other occupational scheme.

NEST allows employers the freedom to choose the level of contributions they and their workers pay and the way these contributions are calculated.

Employers that choose NEST will have the option of either using the scheme to simply meet their minimum legal duties, or using a more customised approach that meets their specific business needs.

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