



Automatic enrolment and the employer duties

National Employment Savings Trust (NEST) factsheet

NEST is a pension scheme set up by the government that is aimed at a target market of workers and employers who are mainly new to pension saving. NEST can be used to help you meet your employer duties. This factsheet will explore some of the areas you should consider.

We've based this factsheet on our current understanding of the NEST rules and relevant legislation and regulations (including drafts) which might change in the future.

What is NEST?

NEST is a pension scheme that employers can use to help meet their employer duties. The NEST Corporation has a public service obligation to run NEST so it's open to any employer that wants to use it.

NEST Corporation is a non-departmental public body (NDPB) that operates at arm's length from government and is accountable to Parliament through the Department for Work and Pensions (DWP).

When deciding whether or not to use NEST, it's important to consider the rule restrictions that apply.

- There is a general ban on transfers in or out of NEST. The ban on transfers is expected to be reviewed at the statutory review date in 2017.
- There is an upper contribution limit which is currently £4,400 for the 2012/13 tax year.
- Retirement options are limited to annuity, triviality, or open market option which will result in less choice and flexibility for workers.
- There will be limited investment choices. Workers will be automatically invested in a default fund depending on their chosen retirement date. These default funds are based on the time to retirement date and are not based on the individual's attitude to risk. There are other funds available for workers with certain preferences, however these are currently limited to Ethical, Sharia, Higher Risk, Lower Growth and Pre-retirement funds.
- The NEST trustees have no discretion over the payment of death benefits and so they could be subject to inheritance tax.

When can NEST be used?

There are a number of ways NEST can be used:

- as the only scheme for all the workers in an organisation, if for example, there is no current pension provision in place
- for a particular group of workers alongside an existing scheme already in place for a different category of worker
- as an entry level scheme where there is an existing scheme that has a waiting period
- as a base scheme to ensure compliance with the new employer duties, using another scheme to pay additional contributions.

Consideration for employers

If you're thinking about using NEST there's lots for you to consider. You should speak to your adviser to make sure you understand the implications.

The implications of using NEST for all workers

- NEST is not the only option available for automatic enrolment. You can use any pension provider to supply a pension scheme to meet your automatic enrolment requirements including meeting the contribution quality requirements.
- Some employers think that because their existing pension scheme doesn't meet the contribution quality requirements they will have to close their existing scheme and use NEST. Employers can continue to use their existing pension scheme and can introduce different categories to cater for different sections of the workforce if they want.

Using an existing group personal pension scheme for automatic enrolment – A simple example

- Health and beauty chain Supercrimpers currently have a group personal pension where they contribute 2.5% of pensionable salary and workers contribute 2.5% of pensionable salary.
- The employer has been reading about automatic enrolment and NEST. The employer is happy with their existing pension scheme but is concerned that they will have to close the scheme and use NEST for automatic enrolment.
- Supercrimpers decided to consult their financial adviser who confirmed that there was no need to close their existing scheme. However, changes will have to be made to their scheme so they meet their employer duties. The employer has requested that their financial advisers carry out a scheme review to confirm what changes should be made to the scheme to ensure they meet their employer duties.

- You will need to ensure that the pension scheme you choose is suitable for all members. For example, contributions and investment options are limited with NEST which may make it unsuitable for certain workers.
- Some providers may offer bespoke member communications for larger schemes, however member communications material from NEST is likely to be generic.
- NEST offers an employer toolkit which provides templates for employers to use when providing information to workers about NEST, however NEST won't provide advice.
- If you're considering using salary exchange NEST is unlikely to offer you support. Other providers normally provide support, such as helping to communicate the changes to workers and salary exchange calculators.
- Workers will not be able to transfer benefits in or out of NEST to start with so there will be limited flexibility for them.

The implications of using NEST alongside an existing pension scheme

- Some employers may be looking for a single solution for their workforce. Having one scheme will cut down on administration and will offer employers a consistent member experience in terms of benefits offered and the way they are communicated.
- There will be some circumstances where pension providers may not take on a whole scheme. For example, a pension scheme may have a category made up of large numbers of low paid workers with a large turnover of workers. NEST has a public service obligation to provide a service to all employers and so would have to accept such workers.
- You will need to communicate the different charging structures for each scheme to different groups of workers.
- You will need to have different joiner processes in place for each scheme.

- You will need to be able to deal with different processes and rules applying to each scheme.
- It's likely you'll have to process two sets of contributions.
- In the absence of software from a commercial provider or third party, you will not have all the information in the one place.

Combining NEST and a group personal pension scheme – A simple example

Media provider Easy Communications Ltd. has introduced a group personal pension scheme (GPP) for 80 permanent employees. This scheme will be used to automatically enrol workers at the employer's staging date of 1 October 2013.

Easy Communications Ltd. have decided to use NEST for 2000 agency workers. There's a large volume and turnover of agency workers and the GPP provider was unable to offer terms for this section of the business.

How Scottish Life can help

As you can see there is a lot for you to consider if you're thinking about using NEST for automatic enrolment. Scottish Life are pension experts and we can help you prepare for automatic enrolment and the employer duties. To find out more speak to your adviser or visit the automatic enrolment area of our website at www.scottishlife.co.uk/empAE

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