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A Guide to the

National Employment Savings Trust

Helping an estimated seven million employee's who are not putting money aside for their retirement to start saving for tomorrow, today

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National Employment Savings Trust

Helping an estimated seven million employee's who are not putting money aside for their retirement to start saving for tomorrow, today

More than half of employees are not aware that they could be automatically enrolled into a new national pension scheme called the National Employment Savings Trust (NEST), with many likely to be surprised when employers start taking deductions from their pay, research from HSBC has found.

Employers can start using NEST from 2011 if they want to. However, they won't be required by law to enrol workers into a qualifying pension scheme until 2012 at the earliest.

NEST is being introduced by the government to help people save more for their retirement. Employees will have one NEST retirement fund for life, whether they change jobs, work for more than one employer at the same time, or leave employment.

Large employers will have to comply with the new workplace pension duties first, with medium and smaller employers having to comply over the following few years.

OPTION TO OPT OUT

NEST will involve employees who are not already a member of a recognised workplace pension scheme. Employees will be auto-enrolled by their employers but they will be given the option to opt out. However, employees should think very carefully before they do.

The employee's money as well as contributions from their employer and any tax relief from the government can be invested in different types of financial products such as company shares, property or loans to governments that pay interest.

MINIMUM NEST CONTRIBUTIONS

Initially the minimum NEST contribution will be 2 per cent of an employee's qualifying earnings. Of this, the employer will need to pay at least 1 per cent, though they can pay more if they want to.

The overall minimum contribution will rise gradually to 8 per cent by 2017, of which the employer will need to pay 3 per cent. The employee will have to pay 5 per cent (with 1 per cent of this coming from tax relief).

NEW AUTO-ENROLMENT

The new auto-enrolment obligations will affect employers of all sizes and will be phased in between 2012 and 2016. Employers will have responsibility for paying contributions into a pension – both from them and the employees – as well as communicating with staff and ensuring the pension scheme is compliant.

An employee's partner or other third party can also pay contributions into NEST on their behalf. These payments will count towards the employees annual contribution limit. The annual contribution limit is the maximum that can be added to the employee's retirement fund in one year. This includes contributions from them and their employer as well as tax relief from the government. The amount is currently £4,200 for the 2011/12 tax year. This figure is adjusted annually in line with average earnings.

TAKING MONEY OUT

Transfers in and out of NEST are not allowed (except in specific limited circumstances); however this will be reviewed in 2017.

Employees may be able to take their money out of NEST before they are aged 55 if they become ill and if they are seriously ill, they may be able to take their entire fund as tax-free cash.

If the employee dies prematurely prior to retirement their retirement fund will normally be given to the person or number of people they want to receive it. The beneficiary's details are provided on joining NEST.

NEST CHARGES

Employees will pay a small percentage charge of each new contribution that goes into their retirement fund.

- This contribution charge is set at 1.8 per cent, so from a contribution of £100, £98.20 goes into the employee's fund.
- There is also an annual management charge (AMC) of 0.3 per cent of the total fund each year. ■

THE AIM IS FOR THE NEW AUTO-ENROLMENT OBLIGATIONS IS TO HELP AN ESTIMATED SEVEN MILLION EMPLOYEE'S WHO ARE NOT PUTTING MONEY ASIDE FOR THEIR RETIREMENT TO START SAVING FOR TOMORROW, TODAY. FOR INFORMATION ABOUT NEST, PLEASE CONTACT US TO DISCUSS YOUR REQUIREMENTS.

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