



AUTO ENROLMENT AND THE EMPLOYER DUTIES – NATIONAL EMPLOYMENT SAVINGS TRUST (NEST) FACTSHEET

NEST is a pension scheme set up by the Government that's aimed at a target market of workers and employers who are mainly new to pension saving. NEST can be used to help them meet their employer duties. This factsheet will explore some of the areas you and your clients 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 helping employers decide whether or not to use NEST, it's important to consider that 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. These are currently Ethical, Sharia, Higher Risk, Lower Growth and Pre-retirement funds.

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 employer duties, using another scheme to pay additional contributions.

THIS IS FOR FINANCIAL ADVISER USE ONLY AND SHOULDN'T BE RELIED UPON BY ANY OTHER PERSON.

CONSIDERATION FOR EMPLOYERS

If the employer is thinking about using NEST, there's lots for them to consider and they'll need your help to make sure they understand the implications.

The implications of using NEST for all workers

- NEST is not the only option available for auto enrolment. Employers can use any pension provider to supply a pension scheme to meet their auto 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'll 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 auto 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 auto enrolment and NEST. The employer is happy with their existing pension scheme but is concerned that they'll have to close the scheme and use NEST for auto 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.

- Employers will need to ensure that the pension scheme they choose is suitable for all members.
- 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 the employer is considering using salary exchange, NEST is unlikely to offer them support. Other providers normally provide support, such as helping to communicate the changes to workers and salary exchange calculators.
- There are certain restrictions when people want to take their benefits from NEST, so there will be limited flexibility for workers.

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're 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.
- The employer will need to communicate the different charging structures for each scheme to different groups of workers.
- The employer will need to have different joiner processes in place for each scheme.
- The employer will need to be able to deal with different processes and rules applying to each scheme.
- The employer is likely to have to process two sets of contributions.
- In the absence of software from a commercial provider or third party, the employer 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 2017.

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 ROYAL LONDON CAN HELP

As you can see, there's a lot for your clients to consider if they're thinking about using NEST for auto enrolment. Royal London are pension experts and we can help you and your corporate clients prepare for auto enrolment and the employer duties. To find out more, speak to your usual Royal London contact or visit the auto enrolment area of our website at adviser.royallondon.com/autoenrolment.



Royal London
1 Thistle Street, Edinburgh EH2 1DG
royallondon.com

All literature about products that carry the Royal London brand is available in large print format on request to the Marketing Department at Royal London, 1 Thistle Street, Edinburgh EH2 1DG.
All of our printed products are produced on stock which is from FSC® certified forests.

The Royal London Mutual Insurance Society Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The firm is on the Financial Services Register, registration number 117672. It provides life assurance and pensions. Registered in England and Wales number 99064. Registered office: 55 Gracechurch Street, London, EC3V 0RL. Royal London Marketing Limited is authorised and regulated by the Financial Conduct Authority and introduces Royal London's customers to other insurance companies. The firm is on the Financial Services Register, registration number 302391. Registered in England and Wales number 4414137. Registered office: 55 Gracechurch Street, London, EC3V 0RL. Royal London Corporate Pension Services Limited is authorised and regulated by the Financial Conduct Authority and provides pension services. The firm is on the Financial Services Register, registration number 460304. Registered in England and Wales number 5817049. Registered office: 55 Gracechurch Street, London, EC3V 0RL.