

What is NEST?

Basically, it means that all companies who aren't exempt will have to offer staff a company pension scheme. It is a new scheme aimed at increasing the level of retirement saving in the UK by requiring both employers and employees to contribute to a pension scheme. Employers may be exempt if they already contribute to a pension scheme for employees at a level at least equivalent to the NEST requirements. It used to be called the Personal Accounts Pension Scheme.

Why is it being introduced?

The government has developed NEST to encourage more low and middle income earners to pay into a pension. At present, it is estimated that 10 million people in the UK have inadequate pension provision and this could lead to pensioner poverty when they retire.

How will it work?

The scheme will be established on a defined contribution basis, where employees will build up a pot of money over their working life and use this to fund retirement. The money is invested in pension funds that will hopefully grow over the length of time until retirement.

It will be established on an auto-enrolment basis. This means that employees will automatically join the pension scheme shortly after commencing employment. Employers will have to provide a pension scheme for their staff. NEST is one of the options they can choose.

Who pays into NEST?

Both employers and staff will pay into it. Employers will pay 3% for the majority of staff, Employees will pay 1%. The employee contribution is expected to rise to 3% over future years.

How much will I have to pay in?

Up to 2016, employees and employers will each have to contribute the equivalent of 1% of the employee's salary, and another 1% will be contributed through tax relief.

This will rise in October 2016, when a total of 5% of the employee's salary will need to be contributed, with at least 2% coming from the employer. The full contributions will come in 2017, when a total of 8% of the employee's salary

needs to be contributed: 4% from the employee (with added tax relief) and 3% coming from the employer.

What happens at retirement?

The pension fund can be drawn from the age of 55, with the option of taking a 25% tax free lump sum.

When will it happen?

Implementation of NEST will be rolled out from October 2012 to September 2016 starting with businesses with a large number of employees.

Please contact us if you have any queries with regards to how and when you may be affected by these changes.