Is NEST the Right Choice?

Workplace Pensions need to be arranged by all employers but many businesses are assuming that all they have to do is sign up to the Government’s default scheme; NEST and the job will be done. They believe that NEST will take care of all their reporting responsibilities and will handle all their employee communication.

Unfortunately this is not the case as NEST only provides a minimal level of support to employers. But how does NEST compare to traditional pension providers on the other issues?

In this guide we look at some of the key considerations.

Charges

Compared to a scheme charging 1% pa the 0.3% pa NEST charge seems low, but there is a 1.8% charge on every contribution, which may be applied until the cost of introducing NEST has been recovered. In comparison, most traditional pensions do not make any contribution charge.

Contribution Limits

NEST has a contribution cap of £4,400 gross per annum per member, which may prove problematic for anyone seeking or eligible for higher levels of contribution, as these will need diverting elsewhere. There are no contribution caps on traditional schemes.

Transfers

No transfers in or out of NEST are allowed. This could cause problems if a new employer isn’t using NEST for its scheme as the pot from the former employment would be stuck. Equally for any workers seeking to move abroad, the NEST scheme is inflexible and could lead to trapped funds.

Specifying Spouses Benefits

An expression of wish can be completed online, but given that NEST is likely to capture individuals who are not in receipt of advice about their options, it is unlikely that this will be completed regularly. Unlike traditional pensions NEST is not subject to a master trust arrangement and therefore upon death, pension entitlement shall be returned to the estate, potentially becoming liable to Inheritance Tax.

Reporting Support

NEST do not offer any ongoing reporting support to employers. The onus is on the employer to keep track of everything. At the moment a minimal telephone support service is available to the largest employers, but it is anticipated that this won’t have sufficient resources to support the huge raft of employers with staging dates from next year onwards. NEST are driving employers towards reading the online modules to work it out for themselves. NEST is run by TATA from India, and has a small call centre in Peterborough. NEST will not notify employers of ongoing reporting requirements, nor will they assist with payroll uploads or calculations. It is simply a pension wrapper facility.

Investment Options

There are minimal investment options within NEST, but the lifestyling options work on the basis of a retirement date. For the first 5 years the value of the pension shall be quoted as being the same as the contributions which have been paid in and the funds are invested in cash like assets. This is to avoid the issue of the value falling even though that may well happen in real terms when inflation is taken into account. Traditional pensions are normally invested in equities from day one. After 5 years the funds are then invested in a range of equities, before converting back to cash type assets for the final 5 years ahead of retirement.

Whether or not this low growth strategy is suitable for an employee will not be considered under NEST. It doesn’t replicate standard UK pensions legislation such as contribution limits, treatment of death benefits or portability, but this is due to it being a facility rather than a pension arrangement requiring advice.

UK Government’s IT Track Record

The Government has agreed a £600 million IT contact with TATA Group from India who also own CORUS and Jaguar. Whilst we wouldn’t want to predict that there may be problems with NEST, the government’s track record in introducing new technology has not been good. With tried and tested technology support and experience behind them, traditional providers pensions may be the prudent route for employers to take.

Fines

As discussed, NEST represents the non-advice option and so those taking that route need to be aware that there are some hefty penalties if you get it wrong.

If you fail to comply with the auto-enrolment regulations, the Pensions Regulator will issue a warning then: fixed fine of £400 + another warning then:

<table>
<thead>
<tr>
<th>No. of Employees</th>
<th>Amount of Daily Fine</th>
</tr>
</thead>
<tbody>
<tr>
<td>500+</td>
<td>£10,000</td>
</tr>
<tr>
<td>250 - 499</td>
<td>£5,000</td>
</tr>
<tr>
<td>50 - 249</td>
<td>£2,500</td>
</tr>
<tr>
<td>5 - 49</td>
<td>£500</td>
</tr>
<tr>
<td>1 - 4</td>
<td>£50</td>
</tr>
</tbody>
</table>
The Benefits of Our Proposition

When it comes to selecting a suitable scheme for your business we are agnostic. As fully independent Chartered Financial Planners, we work for you and we will ensure that you and your employees end up with the right scheme.

Whatever your circumstances, our modular approach will make sure that you don’t end up paying a fortune in professional fees to set up your scheme. Whether you need a basic audit of your existing arrangements, advice on setting up a suitable scheme or full scheme implementation, we will be there to help you make the right choice.

Deadline Approaching

Your planning for how to deal with workplace pensions needs to be in place at least 6 months ahead of your staging date.

Please note that we may not be able to accept new schemes within 6 months of your staging date for the following reasons:

- If a statutory consultation period is required should the auto-enrolment scheme involve changes to contracts of employment.
- Multi-Site schemes that require face to face staff meetings.
- Demand during 2014 is likely to be very high and there is going to be a “tsunami” of employers all seeking new schemes at the same time.

Don’t Rely on Opt-Outs

The other key message is not to rely on staff opting out. Throughout the UK an overall 20% opt out rate has been factored in. Some employers have so far met this expectation, but others such as Morrisons have only seen a 5% opt out rate. It may be assumed that staff won’t be interested, but early indications so far suggest that the take up rate has been higher than expected.

Advice and Support

The implementation process covers all aspects of setting up the scheme, from guidance on contribution limits, payroll databases, dialogue with employers and full data support. Our proposition ensures all records for existing schemes are noted with your staging date to assist in converting the scheme into the auto-enrolment version for free at the appropriate time.

Charges

Some providers are quoting an initial fee of £5,000 - £10,000 to convert existing schemes onto their auto-enrolment platforms, with a further fee of £2,500 per annum for allowing employers to access the system ongoing. We believe these costs are opportunist and can be avoided. Our fees are time costed and we will provide you with an estimate of total costs before we commence any work for you.

Practical Help

All existing schemes need reviewing to ascertain what the switchover may cost. You can add value to your pension proposition by not just allowing the minimum contribution based upon qualifying earnings, but by using total earnings instead as an example. NEST will not provide guidance on these matters, but we shall be able to provide costings and options to suit you and your staff.

Ongoing Support System

Under our solution, an ongoing workforce management system is provided to you free of charge. This will cover all staff and not just those in the pension scheme at any given time. The system will assess total pay and is designed to assist you in ensuring that everyone who is eligible at any time is added to the pension scheme. The workforce management system will provide full ongoing support in terms of reporting requirements, opt in/out notifications and online alerts to ensure, as far as possible, that no deadlines are missed and no fines incurred.

Conclusions

In essence, pensions auto-enrolment is not going to go away. One option is NEST, but this will prove expensive in terms of time spent trying to navigate the system and there are the potential fines for getting it wrong.

The alternative is to accept the inevitable and use the change in legislation to implement a well thought through pension offering to your staff, communicate the value of the scheme to your employees so that they see it as a real benefit and remove the worry about trying to manage this change alone by seeking advice from Moore Stephens well in advance of the deadline.

The message across the UK is simple, there are not enough advisers to advise all employers at the last minute, so if you want to be safe rather than sorry, act now or take your chances with NEST and hope for the best.
Moore Stephens in the UK

Moore Stephens is currently the UK’s 11th largest independent accounting and consulting association, comprising over 1,500 partners and staff in 39 locations.

Our objective is simple: to be viewed by clients as the first point-of-contact for all their financial, advisory and compliance needs. We achieve this by providing sensible advice and tailored solutions to help clients achieve their commercial and personal goals.

Clients have access to a range of core and specialist services including audit and tax compliance, business and personal tax, trust and estate planning, wealth management, IT consultancy, governance and risk, business support and outsourcing, corporate finance, corporate recovery and forensic accounting.

Our success stems from our industry focus, which enables us to provide an innovative and personal service to our clients in our niche markets. Specialist sectors include energy and mining, financial services, insurance, not-for-profit, pensions, professional practices, real estate, shipping, transport and public sector.

Moore Stephens globally

Moore Stephens International Limited is a global accountancy and consulting association with its headquarters in London.

With fees of US$2.24 billion and offices in 98 countries, you can be confident that we have access to the resources and capabilities to meet your needs. Moore Stephens International independent member firms share common values: integrity, personal service, quality, knowledge and a global view.

By combining local expertise and experience with the breadth of our UK and worldwide networks, clients can be confident that, whatever their requirement, Moore Stephens will provide the right solution to their local, national and international needs.

Who to contact

Corby
Oakley House
Headway Business Park
3 Saxon Way West
Corby
NN18 9EZ
Tel: 01536 462700
enquiry@msfs.co.uk

Peterborough
Rutland House
Minerva Business Park
Lynch Wood
Peterborough
PE2 6PZ
Tel: 01733 397300
enquiry@msfs.co.uk

This document is provided for information purposes only and does not constitute any form of financial or investment advice. Past performance is not a guide to future investment performance. The value of your investments as well as any income derived from them can fall as well as rise and you could get back less than the amount invested. We believe the information in this brochure to be correct at the time of going to press and is based on our current understanding of legislation and tax allowances which may change in the future. As such changes can’t be foreseen we cannot accept responsibility for any loss accessioned to any person as a result of action or refraining from action of any item herein. Printed and published by Moore Stephens Financial Services (East Midlands) Limited. Authorised and regulated by the Financial Conduct Authority.

July 2013