
A 'SideCar' Account for UK Plan Participants

By Editorial Staff Thu, Apr 12, 2018

NEST, Britain's public-option defined contribution plan wants to let participants people access some of their retirement money for emergencies more easily.

NEST, the workplace-based defined contribution (DC) plan sponsored by the British government, has announced the trial of a new savings model that would split retirement savings accounts into 'pension contributions' and an 'emergency fund' that participants could use to provide a quick source of cash at any time.

In short, NEST, which was created to serve the millions of middle-class and minority Britons whose employers didn't offer a DC plan, wants to do what "financial wellness" advocates in the US recommend: Let people access some of their retirement money without claiming a "hardship" or taking out a loan.



A relevant deadline is looming. Minimum contributions to NEST will rise to 5% this month and to 8% in April 2019, effectively locking more consumer earnings into a pension fund. If participants think these increases are unaffordable or don't want to tie up their money in this way, they might drop out of NEST (National Employment Savings Trust).

That's according to GlobalData, a UK data and analytics firm. "NEST is thinking about the customer by providing the best of both worlds," said GlobalData analyst Danielle Cripps, in a release. "Giving customers access to a small amount of their pension pot may well prevent some individuals opting-out."

"Sidecar" is the name for the proposed new savings model. Pension contributions will be split between a standard NEST pension pot, and a separate bank account or liquid fund with a set threshold. When the threshold is reached, all contributions will be allocated towards

pension savings.

The saver can withdraw money from the emergency fund at any time. However if they do so, contributions will then again be split between the pension pot and the emergency fund until the threshold has once more been reached. Still unknown: How NEST will control emergency fund withdrawals, so that access does not cause too much damage to the main goal of pension saving.

“NEST should help to educate customers so they understand how much they will need to contribute over time in order to reach a suitable level of savings for retirement, and how any emergency fund withdrawals will impact this,” Cripps said.

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