Retirement Income
JOURNAL

NEST will lose its restrictions in 2017, not 2014

By Editor Test *Wed, Jul 10, 2013*

NEST is the UK's "public option" workplace retirement plan. It's intended to help solve a problem that the U.S. also faces: insufficient access to employer-sponsored retirement savings plans, especially among people who work at small companies, have modest incomes and belong to ethnic minority groups.

Putting to rest some uncertainty within the British retirement plan industry, the U.K. government announced that NEST, the publicly-backed, nationwide voluntary defined contribution plan designed for low- and mid-income workers, will shed its restrictions in 2017.

Until then, the restrictions will remain. Contributions to NEST will be capped and consolidation of other retirement accounts into NEST accounts will not be permitted. The news was issued by the Department for Work & Pensions—the English counterpart to our Labor Department—and reported by *IPE.com* this week.

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As in the U.S., where only about half of full-time private sector workers have access to a workplace retirement plans, Britain's private plan providers have difficulty offering plan services at prices that small employers can afford. (Lack of adequate economies of scale is often the reason given.) NEST was created so that small employers could give their workers a viable, low-cost retirement savings option.

When NEST was launched, restrictions on contributions and transfers were placed on it for two reasons: to ensure that it remained focused on its target market, and to allay concerns among private-sector plan providers that NEST might be robust enough to attract business away from them. The government had intended to review the restrictions in 2017 and possibly remove them then. The administrators and supporters of NEST had hoped that the restrictions might be lifted by as early as 2014.

The restrictions make NEST a kind of second-class plan, at least temporarily. There was some concern among retirement policymakers here that the restrictions on NEST might inhibit small employers from choosing it for their employees, and that private providers might not be able to give small employers a low-cost option. Both factors could make Britain's goal of getting the maximum number of workers auto-enrolled in some kind of plan by next year harder to achieve.

NEST officials claim not to be disappointed about waiting until 2017 for the removal of the restrictions. "The perception that our restrictions were a barrier in the early years of automatic enrolment haven't actually been borne out by reality," a NEST spokesperson said privately. "From our point of view we are very happy with the Government's decision and we welcome the certainty this announcement brings to employers and members.

"Our UK reforms are built on developing and maintaining a strong consensus across the full range of stakeholder groups, representing different interests and communities and this decision has been warmly welcomed by all of them. This consensus has got us to where we are today and we all work hard to maintain it.

"There had been concerns expressed from some other providers that once the restrictions on NEST are lifted it could monopolize the market. But over time we have developed very good relationships with other providers who generally do now accept that NEST is performing an important, specific role within the UK market."

According to a recent U.K. government report:

> Less than one in three private sector workers are saving into a pension, and around 11 million people are not saving enough to achieve the retirement income they would like. Without action, this would increase pensioner poverty, place unsustainable pressure on the state, or both.
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> The UK is tackling this through:
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> - Reforms to the State Pension – equalization of and increases in State Pension age and simplification of the State Pension system to provide a solid foundation for individual saving; and
> - A duty on all employers to automatically enroll eligible workers into a workplace pension with the incentive to save reinforced by a mandatory employer contribution.
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> Automatic enrolment commenced in July 2012 with the very largest employers and ends – with the very smallest employers – in April 2017. Around 11 million people will be eligible, with six to nine million people newly saving or saving more.
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> Reform on this scale will transform the UK's long-term savings culture, delivering social change on an unprecedented scale. Even under pessimistic assumptions about the number of people who might opt out of pension saving, automatic enrolment should lead to much higher participation in all workplace pensions than without the reforms. This will result in an extra £8 to 12 billion invested in pension saving each year once implementation is complete.