The United Kingdom’s New Retirement Savings Program

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On October 1, 2012, the United Kingdom launched a new retirement savings program. The new program has two parts. First, all employers will be required to offer retirement plans meeting minimum requirements for their employees and to contribute to those plans. Second, all employers who do not sponsor pension or retirement savings plans meeting specified requirements will be required to automatically enroll their employees in a new program. As discussed below, once enrolled, the employees will have the option of withdrawing from the program.

The automatic enrollment requirement applies to workers earning more than a minimum amount, who are at least age 22. There is a maximum age of 65 for men; the maximum of 65 for women is being phased in. The maximum age for both men and women is set to rise in the future in line with the age at which workers can access their social security benefits. Employees outside those age ranges but in the age range 16 to 75 can ask to be enrolled. Self-employed persons are not required to be enrolled but may do so.

The requirement for automatic enrollment into a qualifying retirement plan began being phased in on October 1, 2012 and will continue to be phased in through 2016. It applies first to large companies, and over time will apply to all others. Eventually automatic enrollment will apply to all employees who do not have another pension or retirement savings plan.

Mandatory contributions will be made by employers, employees, and the government. When fully phased in contributions will be 4% of pay for employees, 3% for employers, and a 1% government subsidy, making a total contribution of 8% of pay. Initially, contributions will start at a total of 2 percent of pay, reaching 8 percent by 2018. Rules will be developed so that defined benefit pension plans meeting specified requirements will also qualify.

Companies can choose a qualifying investment vehicle to receive the contributions. One of these investment vehicles is sponsored by the government and is called NEST. It is a jointly trusted fund. NEST stands for the National Employment Savings Trust. Employees whose plan is NEST will have the option of choosing among a number of investments or having a default investment chosen for them if they do not make an active choice. The default investment will be a retirement date fund based on what the employee indicates is his or her expected retirement date.

NEST trustees, representing employers and employees, are appointed by the Pensions Minister. The trustees select the funds to be offered to participants.

Unless employees opt out within the first month, money contributed to the fund stays in NEST until retirement (unless it is transferred to the fund of another employer). There are no cash outs and no loans. However, employees can opt out after the first month for future contributions. Employees who opt out are automatically re-enrolled into NEST every three years.
At retirement, employees receive one-fourth of their accumulated amounts as cash, and the rest is paid as an annuity.

Contributions are limited to $5,000 a year (and no transfers from pre-existing pensions are allowed into NEST).

There is no requirement for spousal consent to payouts to retirees. Spouses merely have to be notified that they will not receive widow or widower benefits if the retirees have not chosen joint and survivor protections.

NEST is intended to supplement the UK’s social security type programs. These include a flat rate means tested social security-type benefit of about $8,000, plus an earnings related second type of social security benefit. (Consideration is being given to substituting a higher $12,000 flat rate benefit for the earnings related social security benefit.)

Additional information about the UK’s new system is available on the NEST website.

Note: To help ensure that individuals receive the retirement benefits they have earned the UK also has a Pensions Advisory Service (PAS), an Ombudsman program, and a lost pension plans registry. PAS is a volunteer system of actuaries with offices all around the UK. Everyone with a retirement plan problem can get help. If an issue cannot be resolved with the help of PAS (through the plan’s claims procedure), participants can have their disputes resolved by the Ombudsman, a government-run program. Although individuals can choose to go to court rather than the Ombudsman, few do. That is because the Ombudsman is an expert in pensions and is a neutral adjudicator. Read about the UK’s lost pension plans registry here.

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Read a paper prepared by John Turner on the Division of Regulatory Authority for Pensions in the United Kingdom