

Pensions Action Group

NEST briefing paper

Background

In order to increase the number of people saving for their retirement, the Government is making it compulsory for all employers, even the smallest, to provide a pension scheme for their workers. This is being introduced in stages, starting with the largest companies in October 2012 and completing by April 2017. The employers can choose a scheme run by one of the commercial pension providers, but the Government has set up its own scheme, the National Employment Savings Trust (NEST) which is aimed particularly at the low-paid. One of the key features of the regulations is that all workers will be enrolled (whether they want to be or not). If a worker wishes to opt out, they can do so within the first month. After that, they can stop making payments, but cannot get back the money which has been paid in until they retire.

Our objections

Lack of guarantees – All of the investment risk falls on the worker. There are no guarantees that they will even get back the money which they paid in.

Who wins? – The employer wins because his liability is limited only to his contribution, and that has been reduced; the financial services and professionals win because their fees are paid regardless of the performance of the funds; the Government wins, because it will save on benefit payments. All of the risk is piled onto the low-paid worker, who is least able to understand it, and least able to carry it.

Investment risk – NEST pensions are predicated on receiving an annual return of 3% over inflation from the equity market yet, taking 20-year investment periods, starting in 1984, the average FTSE100 return is just 0.13% p.a. above RPI. So the worker will be lucky to get his money back, in real terms.

Effectiveness – The low-paid cannot afford to save significant sums. At present rates, annuities are paying around £5k pa for every £100k of pensions saving. So if a worker saves £50k, she would only receive £48 per week in pension, before tax. Most pension pots are much smaller than this.

Benefit loss – The Government is worried at the cost of maintaining an increasingly elderly population and this scheme is intended to reduce the burden. It follows therefore that anyone who saves for a pension will see a reduction in their benefits, relative to someone who opted out.

Inflexibility – Once money has been paid into the scheme, it is locked up until the worker retires.

Better alternatives – For individual workers there may be better ways of providing for their old age.

Penalties – If a worker opts out, he loses the 'employer contribution'. As this is part of the money he has earned, it is basically a fine, which is handed to the employer as a subsidy.

Lack of balanced advice – Government is not providing impartial advice; it is selling a product.

Inertia selling – “Automatic enrolment” is a form of inertia selling which is normally associated with dodgy products or investments. If NEST (and similar commercial schemes) were any good, there would be no need to use underhand and discredited sales methods on the low-paid.

Financial services bonanza – The legislation will involve the setting up of a million new pension schemes. This will be a land grab for the financial services industry which will take vast sums in fees and commissions off the backs of the low paid.

Alternatives

Workers should be free to provide for their old age in whatever way they think most appropriate in a cost-neutral fashion, or to use the money for current expenditure if they wish. The employer’s contribution should be incorporated into the basic wage. If Government wishes to encourage particular forms of saving, then it should offer suitable incentives and guarantees, as well as providing neutral information on the costs and advantages of different options. And it must guarantee that these savings will not affect the workers’ benefits.

In countries where people don’t trust their governments or financial institutions, it is traditional to invest all of your income into your children and trust them to care for you in your old age. This is a valid option for individual workers in this country too.

Counter arguments

You are being irresponsible as people should save for their old age

We agree that people should provide for their old age but this system is unfit for purpose

This is just sour grapes because you lost some of your pensions

Our experience of Government deception over pensions makes us determined to warn the next generation so that they don’t fall into the same trap.

The Government has to raise savings rates to avoid a catastrophe later

Then they should design a system where the risk is shared fairly between all the participants and which is attractive to individual workers.

What we’re not saying

We’re not saying that the NEST organisation is evil – NEST personnel are doing their best to help people prepare for old age, but they can only sell the product which Government gave them within the framework which Government set, and they are both flawed.

Take-home message

Pensions cannot work without trust, but you can’t trust the Government on pensions.