Statement to parliament: Departmental contingent liability notification: National Employment Savings Trust (NEST)

National Employment Savings Trust (NEST)

It is normal practice, when a government department proposes to undertake a contingent liability in excess of £300,000 for which there is no specific statutory authority, for the Minister concerned to present a departmental minute to Parliament giving particulars of the liability created and explaining the circumstances; and to refrain from incurring the liability until 14 parliamentary sitting days after the issue of the minute, except in case of special urgency.

Background

NEST was established by government to support the policy of all employers being obliged to automatically enrol their eligible staff into a workplace pension scheme. NEST ensures that all employers have access to a low cost, high quality pension scheme.

The Pension Schemes Act 2017 introduced the definition of a 'Master Trust' and the introduction of a robust new authorisation and supervision regime to ensure that Master Trusts being used for automatic enrolment are safe for the nearly 10 million people now saving in these schemes. To be able to operate in the pensions market as a Master Trust, schemes, of which NEST is one, are required to meet 5 authorisation criteria prescribed in the Pension Schemes Act 2017.

One of the criteria is that the scheme must be financially sustainable and that in the event of a triggering event, an event that would put the scheme at risk of needing to wind up, the scheme must hold sufficient financial reserves to cover its gradual closure without putting these additional costs onto the scheme members. Due to the nature of its financial arrangements with government, NEST is unable to build up the financial reserves needed to meet an aspect of the financial sustainability criteria.

Contingent liability

If a triggering event was to occur, then the maximum size of the contingent liability required to be made available to NEST would be £329 million. This is the amount estimated by NEST and accepted by The Pension Regulator during a pre-authorisation readiness review. The Department for Work and Pensions has estimated that the risk of full crystallisation as remote; less than 5%. The contingent liability is comprised of 24 months of operational costs and the fees required to comply with the triggering event to completion as prescribed in regulations. Member revenues and charges, interest payments due in respect of the existing loan and the Public Service Obligation Offset Payment have been modelled into the calculation. The amount of the contingent liability will be reviewed annually for the period it is required. This is currently expected to be until 2034 at which point NEST will not require this indemnity.

The contingent liability is required as a consequence of needing to provide a ‘Letter of Comfort’ in order that NEST can secure Master Trust status. Failure to secure Master Trust status will mean the closure of NEST. Specifically, without the letter, NEST, will be unable to meet the financial sustainability criteria.

The expected loss as calculated by the department is £16.45 million which is based on the liability multiplied by the risk of crystallisation. If the liability is called, provision for any payment will be sought through the normal supply procedure.

HM Treasury has approved the proposal in principle. If, during the period of 14 parliamentary sitting days beginning on the date on which this minute was laid before the House, a member signifies an objection by giving notice of a parliamentary question or motion relating to the minute, or by otherwise raising the matter in the House, final approval will be withheld pending an examination of the objection.