

Contractor guide to UK state-backed pension: National Employment Savings Trust (NEST)

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Contractors who work for [umbrella companies](#) or through their own [contractor limited company](#) will potentially be affected by the state-backed top up pension, the [National Employment Savings Trust \(NEST\)](#).

This came into being in 2012 and contractors who have not chosen to opt out are automatically enrolled on the scheme as part of [pensions auto-enrolment](#).

[Angela James](#) of [Contractor Wealth](#), a financial advisor who specialises in contractor financial advice, says: "Umbrella company contractors not operating an existing salary sacrifice pension will be automatically enrolled in NEST by their umbrella. As for limited company contractors, they may have to create their own NEST scheme, if they choose not to opt out of the scheme."

And opting out is not a once-only activity, as all contractors who opt out will have to confirm their opt-out status every three years.

James warns that NEST may not be the best solution for many contractors, and she advises them to sort out their own pensions solution. "NEST is an expensive pension choice because the start-up costs are high," she explains. "So contractors should ideally [start their own private pension](#) as soon as possible and make full use of the tax breaks available."

NEST - how does it work?

The idea behind NEST is that the scheme bridges the funding gap between what retired contractors and others can expect from the state pension in future and what the state will realistically be able to afford. That is why an estimated 6m UK workers will eventually be automatically be enrolled in NEST, unless they choose to opt out and continue to do so every three years.

"Under NEST, workers build their retirement fund as a result of shared contributions," continues James. "The employer contributes 3% and the employee 4% of the worker's salary, and the government contributes 1%."

If one-person limited company contractor firms decide to implement such a scheme, rather than opting out, they will have to fund the entire pension themselves, as they are both the employer and employee.

For umbrella company contractors, James says they can expect to contribute employer and employee contributions. The good news for all contractors is that in almost all cases the pension contributions are tax deductible.

Contractor pensions - don't wait for auto-enrolment into NEST

James urges contractors without a pension to act now. "Early contributions can have a far greater impact on the size of your overall retirement pot and pensions are still highly tax-efficient methods of extracting earnings from contracting income for contractors."

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Angela James, Contractor Wealth



[Angela James](#)

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Angela is a qualified Senior Financial Planner at Contractor Wealth and specialises in pension advice and financial planning for contractors.

Contractor Wealth are a specialist in offering tailored financial solutions for contractors, together with the building of excellent client relationships. [Read Full Profile...](#)

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James concludes: "Given the unique nature of a contractors employment status and the realities of freelance working anyone unsure of which option is best

when planning for a comfortable retirement should speak to a contractor specialist financial adviser, as these choices require expert professional input that ultimately could lead to a much larger 'pot' for the same overall investment."

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