Rule Change Consultation



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Foreword

Amendments to the Nest Order, which provide a specific power for Nest to offer flexi-access drawdown (FAD), and other relevant options, as benefits to its members, have been laid before Parliament. This consultation sets out proposed changes to the Nest Rules, which will sit alongside the Order changes and provide additional detail and a broad framework for FAD and those other benefits.

FAD is a form of retirement income option introduced by the UK government in 2015. It allows members to crystallise part or all of their pension savings and draw income directly from those funds, taking up to 25% as a tax free lump sum, while the remaining balance is invested. FAD offers members flexibility over the timing and amount of withdrawals, as well as the potential for investment growth post-retirement. However, members also bear the associated investment and longevity risks.

Due to our inability to offer FAD, Nest members can currently only withdraw regular amounts from the scheme in retirement by using a mechanism known as uncrystallised funds pension lump sums (UFPLS). This has the consequence that they cannot access 25% of their pot as tax-free cash at the start of their retirement, if they remain with Nest, because with UFPLS 25% of each withdrawal is tax free instead.

Our members, who are low to median earners, may need access to tax-free cash early in retirement to pay for essential needs, like home repairs, or to support them with other costs like paying down debt.

The proposed Order and Rule changes will allow Nest to offer the full range of retirement options and death benefits that other pension schemes can offer. This makes sense in a context where all occupational DC schemes will soon be required by Government to design and make available appropriate default pension benefit solutions to their members.

In line with the proposed changes to the Nest Order, these Rule changes also make provision for an additional retirement option and additional death benefits, alongside FAD. The additional retirement option is a scheme pension and the death benefits are dependant's / nominee's / successor's drawdown and dependant's scheme pension.

We are not seeking views on whether Nest should offer FAD or these additional benefits; that decision has already been taken and will be given effect to by the Order changes. Rather, we are consulting on whether the Rule changes we propose will provide sufficient flexibility and legal clarity to allow drawdown (and the other) benefits to be introduced and administered effectively within the existing scheme infrastructure.

We would welcome your views as to whether the changes we're proposing achieve their goal or may have unforeseen consequences. We'd also welcome opinions on whether the drafting of the rule changes generally achieves the desired outcome, as articulated in this document. We have also set out some specific questions.

Background

The Legal Structure of Nest

The National Employment Savings Trust ('Nest') was established by a piece of legislation known as an Order. Nest is a trust-based occupational pension scheme and the Nest Order is the equivalent of a trust deed, the legal document which is used to establish trust based schemes.

The Order sets out Nest's legal structure and can only be amended by Parliament. It defines the role and powers of the Trustee and includes details about how the scheme works, such as who's eligible to join and how employers can use the scheme. The Order is supported by a set of scheme rules. The Nest Rules provide more detail about the Trustee's powers and how the administration of Nest works in practice.

As the Nest Rules aren't a statutory instrument, they don't need to be amended by Parliament if any changes have to be made.

Power to change the rules

Article 15 of the Nest Order gives Nest Corporation (the trustee of Nest) the power to make, cancel, change or re-introduce any rules made by it or the Secretary of State. The procedure for publishing and consulting on proposed changes to the scheme rules, which this consultation will follow, is set out in section 72 of the Pensions Act 2008.

This section of the Pensions Act 2008 also provides that the Trustee of Nest must consult its Members' Panel and Employers' Panel before making, cancelling or re-introducing any rules.

The Members' Panel and Employers' Panel have been consulted on these Rule changes. To find out more about how the panels work, please go to **nestpensions.org.uk/panels**.

1 The Nest Order and Rules can be found here **www.nestpensions.org.uk/schemeweb/nest/nestcorporation/how-nest-is-run/order-and-rules.html**

The consultation process

Structure of the consultation document

This consultation is set out in two sections. The first provides an explanation of the proposed Rule changes to introduce FAD and the additional benefits. The second section sets out the proposed draft changes to the Nest Rules, in the form of a marked-up version of the relevant part of the Nest Rules.

How to respond

This consultation will begin on 4 March 2026 and run until 29 April 2026.

You can submit your response by email or by post.

Email:

rulesconsultation2026@nestcorporation.org.uk

Post:

Legal Team
Nest Corporation
1st Floor, 10 South Colonnade
London E14 4PU

When you respond, please let us know whether you're doing so as an individual or as the representative of an organisation.

If you're responding on behalf of an organisation, then please make it clear who the organisation represents.

How we deal with consultation responses

In line with section 72 of the Pensions Act 2008 we'll carefully consider your responses before deciding how we amend the Nest Rules.

We'll publish a summary of respondents' comments together with our response to them within three months of the end of the consultation period.

If the amendments we make are different from the amendments proposed, we'll publish details of any significant differences.

Confidentiality

Please be aware that we may share the information you send us with the Department for Work and Pensions (DWP). Under the Freedom of Information Act 2000, we could publish or disclose all of the information contained in your response, including personal information. We accept the information you provide for this public consultation exercise on the understanding that you consent to it being disclosed and published.

If you want us to keep the information in your response to the consultation confidential you should explain why as part of your response. However, we can't guarantee that it will be possible to do this.

Further questions and feedback

If you have any comments on the consultation process in general or if you want clarification on any of the issues raised, you can get in contact through the email or postal address on the previous page.

We have paper copies of this consultation available on request and will also consider any requests for alternative formats. Please send your request to the postal address on the previous page. You can download a copy from **nestpensions.org.uk**.



Chapter 1

Introducing the proposed new provisions

1.1 Background

Nest already offers members the ability to access their pension savings flexibly through Uncrystallised Funds Pension Lump Sums (UFPLS). This allows members to withdraw part or all of their pension pot without the need to move into drawdown or purchase an annuity.

The Government is in the process of amending the Nest Order to give Nest a specific power to offer flexi-access drawdown (FAD) as an additional retirement benefit. It will also allow for a scheme pension and additional death benefits to put Nest in the same position as other occupational pension schemes. This aligns with their policy, set out in the Pension Schemes Bill, that occupational DC schemes should design and make available a default decumulation solution, as it will facilitate Nest in offering such a solution. The Order changes have been laid before Parliament. Nest is now proposing to amend the Scheme Rules, which sit alongside the Nest Order, to provide additional detail about how FAD, and the other benefits, will operate.

FAD is a form of retirement income option introduced by the UK government in 2015. It allows members to crystallise part or all of their pension savings and draw income directly from those funds, while the remaining balance stays invested. Unlike traditional annuities, which provide a fixed income for life, FAD offers members more flexibility over the timing and amount of withdrawals, as well as the potential for investment growth post-retirement. However, members also bear the associated investment and longevity risks.

1.2 Overall approach

The approach we've taken to these Rule changes is to create a framework for the provision of FAD which is not overly prescriptive. Instead, it allows the trustee to determine the terms and conditions which will apply from time to time in relation to FAD (such as minimum amounts that can be withdrawn, frequency of withdrawals and costs and charges), rather than setting this all out in a prescribed form in the Rules. This provides flexibility and gives Nest the ability to change these features in the future without having to change the Nest Rules. It is also consistent with the way other benefits are provided under the scheme e.g. the terms on which lump sums are paid are determined by the trustee from time to time. We believe it is also consistent with the approach other pension schemes in the market take in relation to their Rules and governing documentation. The applicable terms and conditions for FAD would of course be made available to members before entering into the FAD arrangement, so they could make an informed decision and be able to compare the option with others available to them in the market.

1.3 Drawdown account

The primary change is to introduce the concept of a drawdown account. At the moment the member has a pension account (already defined and provided for in the Order and Rules). This will continue to be used for accumulation, but when the member decides to crystallise some or all of their pot into drawdown, there will be a transfer of funds from their 'pension account' into a 'drawdown account.' This will allow the member to continue to have a 'pension account' which will be their ongoing accumulation arrangement and which will hold any funds they do not crystallise into drawdown and/or any amounts they and/or their employer subsequently contribute e.g. as a result of a separate employment.

An addition to Rule 11 (the Rule that requires the establishment of the member's pension account) provides for the trustee to establish a drawdown account. New Rule 16.8 then provides for monies designated to drawdown to be credited to the drawdown account, and enables the member to express a choice as to which funds they wish to be invested in – with the trustee determining the number and types of investment funds that will be available in drawdown.

Rule 1 (Definitions) has also been updated to include a definition of 'drawdown account' and Rule 16.4 (Benefits) has been updated to include flexi access drawdown as a benefit the member may choose.

Finally, a number of Rules which refer to the member's 'pension account' have been updated to also refer to their 'drawdown account' where appropriate – namely Rule 4 (administrative provisions); Rule 11 (see above) and Rule 16.5 (authorised lump sums).

1.4 Benefit age

The definition of Benefit Age in Rule 1 has been amended to make it clear that the concept does not apply in relation to the drawdown account. This is because monies in a drawdown account have already been turned into a benefit and the benefit age under the Rules is the date the member intends to take benefits.

Minor consequential changes have also been made to Rules 16.1 (determination of benefit age) and 16.2 (commencement of benefits at benefit age).

1.5 Scheme pension and new death benefits

Rule 16.4 (Benefits) has been updated to include the other new benefit which the Order change allows for – a scheme pension as defined by the Finance Act 2004. This has been included in the Nest Order to make sure we have the ability to offer the same range of benefits as any other pension scheme. However, we do not have any immediate plans to offer benefits through a scheme pension. Therefore, rather than the new wording providing that the member may choose a scheme pension, it provides that "if and to the extent that the Trustee determines to provide the option to receive a scheme pension, the member may choose it". Again this option would be subject to such terms and conditions as the trustee determines from time to time (if and when introduced) to maintain flexibility.

New Rule 18.4 refers to the new death benefit of a dependant's scheme pension as an option for paying out any monies remaining in the member's pension account following their death. Again we have no immediate plans to offer this so have caveated the provision to make it clear that only "If and to the extent that the Trustee determines to provide the option of a dependant's scheme pension…" may the monies be paid out in this way.

New Rule 18.5 sets out the death benefits available for the drawdown account. These are the same as for the pension account – a lump sum paid out in line with a nomination form, expression of wish form etc. – or a dependant's scheme pension, but with the latter subject to the "if and to the extent…" wording. However, they also include the new death benefits of dependant's/nominee's/successor's drawdown, the concepts of which are provided for in the Order changes. Again these are subject to the "if and to the extent…" wording because we have no immediate plans to offer them.

1.6 Partial/discretionary transfers out

The final change is to the rule concerning transfers out (Rule 23). This has been amended to allow for the drawdown account to be transferred (as crystallised monies do not come within the ambit of statutory transfers so a separate discretionary power is required for them) and for the pension account to be transferred independently of the drawdown account. It also allows for a partial transfer of the pension account. Any such transfers will always be subject to legislation and not enable a payment which would not be authorised for tax purposes under the Finance Act 2004.

Question 1

Do you agree that the proposed Rule changes provide an appropriate legal and operational framework for the introduction of flexi-access drawdown and the other benefit options?

Question 2

Do you have any other comments on the drafting approach or the interaction between the pension account and drawdown account?

Question 3

Do you believe there are any other additional rule changes in respect of the introduction of these benefit options we should be considering?

Technical Appendix

Proposed Rule Changes

Please note the red text is a new insertion and any crossed out text is a deletion. The current version of the full Nest Rules can be found **here**.

Nest Rules

Rule 1: Definitions

"benefit age" means in relation to a member, the date for the time being determined in accordance with rule 16.1 as the date on which the member intends, or is deemed to intend, to take benefits from their pension account under the Scheme. There will be no benefit age in relation to the member's drawdown account;

"drawdown account" means an account maintained by the Trustee for a member comprising:

(a) the sums or assets which the member has designated as available for the payment of drawdown pension; and

(b) investment returns in relation to such sums or assets,

less any expenses and outgoings properly deducted by the Trustee from the drawdown account;

Rule 4: Administrative Provisions

4.3.2 Rule 4.3.1 is without prejudice to the provisions of the rules permitting a member to decide how an amount equal to the value of the member's pension account and/or drawdown account is to be applied to provide benefits to or in respect of the member or permitting the commutation of the member's pension account and/or drawdown account.

4.4.3 If the Trustee forfeits any entitlement to any benefit under the Scheme or any right to any future benefit under the Scheme in accordance with rule 4.4.2, the Trustee may deduct from the member's pension account and/or drawdown account (as applicable) an amount equal to the value of the forfeited entitlement or right and transfer such amount to the general account, except that if the forfeiture is in the circumstances set out in section 93 of the 1995 Act and the Trustee determines under section 93(5) that an amount not exceeding the amount forfeited is to be paid to the participating employer, the Trustee shall pay the amount in question to the participating employer instead of crediting it to the general account.

Rule 11: Pension accounts, drawdown accounts, general account and excess contributions account

11.2 The Trustee may make any other entry or deduction in respect of the pension account and/or drawdown account of any member as it may consider necessary or desirable in order to account for any other change in the value of the Scheme assets which is attributable to the member's interest in the Scheme. This shall include, for the avoidance of doubt, but without limitation:

(a) any deduction under article 27 of the Order;

(b) any deduction which the Trustee determines is required to be made as a result of or in connection with:

i. a void transaction (including under the Insolvency Act 1986 (as amended from time to time);

ii. the insolvency of the employer or other party which has paid contributions in respect of the member;

iii. compliance with any order of a court of competent jurisdiction or the rules of any governmental or regulatory body; and

(c) any entry or deduction (as applicable) to correct any error relating to a member's pension account and/or drawdown account.

11.3 Each member's pension account and (where applicable) drawdown account shall be maintained by the Trustee solely for the purpose of calculating the benefits payable to and in respect of the member concerned, and no member shall have a proprietary right to any of the investments for the time being representing the balance of the member's pension account and (where applicable) drawdown account).

11.4 The Trustee shall establish and maintain an account, to be known as the general account, to which Scheme monies not attributable to a member's pension account or a member's drawdown account shall be allocated. The Trustee may transfer an amount from a member's pension account or drawdown account (as applicable) to the general account in such cases as may be provided for in these rules or where the Trustee determines that such a transfer is appropriate in order to correct any error giving rise to a windfall gain in a member's pension account or drawdown account (as applicable). The general account shall be used for such purposes of the Scheme as the Trustee may determine.

11.5 The Trustee may transfer such amount as the Trustee determines from the general account to a member's pension account and/or drawdown account for such purposes and in such circumstances as the Trustee from time to time determines are appropriate and not otherwise contrary to the Order or these rules (including, but without limitation, in order to compensate a member for or in respect of any shortfall or discrepancy in their pension account or drawdown account, to meet costs or liabilities arising in respect of the member's pension account or drawdown account as determined by the Trustee, and any other circumstances which the Trustee determines are concerned with the administration and management of the Scheme).

Any transfer from the general account under this rule 11.5 shall be on such terms and subject to such conditions (if any) as the Trustee may determine. The Trustee may treat such amounts as general costs of administering and managing the Scheme under rule 4.5.1.

11.7 The Trustee shall establish and maintain a drawdown account for each member who has, subject to the agreement of the Trustee, designated all or part of their pension account as available for the payment of a drawdown pension, to which the designated amount shall be credited from the member's pension account.

Rule 16.1: Determination of benefit age

16.1.4 If a member attains benefit age without the member's pension account being applied or having by that date been applied in full to provide benefits under rule 16, then unless the benefit age is the day immediately before the member attains age 105, benefit age for the member in relation to their pension account will become:

(a) in the case of a member who was born on or before 5 December 1953 and whose benefit age is under 65, the date the member attains age 65; or

(b) in the case of a member who was born on or before 5 December 1953 and whose benefit age is on or after the date the member attains age 65, but before the date the member attains age 75, the day the member attains age 75; or

(c) in the case of a member who was born on or before 5 December 1953 and whose benefit age is on or after the date the member attains age 75, the day immediately before the member attains age 105; or

(d) in the case of a member who was born after 5 December 1953 and whose benefit age is under State Pension age, the date the member attains State Pension age; or

(e) in the case of a member who was born after 5 December 1953 and whose benefit age is on or after the date the member attains State Pension age, but before the date the member attains age 75, the day the member attains age 75; or

(f) in the case of a member who was born after 5 December 1953 and whose benefit age is on or after the date the Member attains age 75, the day immediately before the member attains age 105.

Rule 16.2: Commencement of benefits at benefit age

On reaching benefit age and subject to such terms and conditions as the Trustee may determine from time to time, a member shall be entitled to have ~~an~~ such amount as they may direct ~~equal to the value of the member's pension account~~ applied from their pension account to provide benefits for or in respect of that member in accordance with rules 16.4, 16.5, ~~or~~ 16.6 or 16.8.

Rule 16.4: Benefits

16.4.1 Subject to rule 16.6, a member who becomes entitled to have their pension account applied under rules 16.1 to 16.3 shall have the following options:

(a) the member may direct the Trustee to pay a cash equivalent transfer value in accordance with rule 23.2; ~~or~~

(b) the member may direct the Trustee to apply the member's pension account to purchase a (but only one) lifetime annuity policy in the member's own name, such lifetime annuity policy to be selected by the member;

(c) if and to the extent that the Trustee determines to provide the option to receive a scheme pension, the member may choose to apply the member's pension account to provide a scheme pension on such terms and conditions as the Trustee shall from time to time determine; or

(d) the member may designate all or part of their pension account as available for the payment of a drawdown pension from a drawdown account under the Scheme subject to Rule 16.8 and such other terms and conditions as the Trustee shall from time to time determine.

16.4.3 A member may immediately before exercising the options at rule 16.4.1(b), (c) or (d) above elect in such form and manner as the Trustee may determine to commute part of the member's pension account (not exceeding the permitted maximum) for a lump sum.

Rule 16.5: Authorised lump sum payments

The Trustee may make such lump sum payments from a member's pension account and/or a member's drawdown account, subject to such terms and conditions as it shall from time to time determine, provided that any such payments must be authorised for the purposes of Part 4 of the Finance Act 2004.

New Rule 16.8: Drawdown account

16.8 Drawdown account

16.8.1 Where a member has designated that all or part of their pension account shall be available for the payment of a drawdown pension, such funds designated by the member shall be credited to their drawdown account.

Where a member has a drawdown account which has not been discharged in full, their pension account shall not be considered to be fully discharged for the purposes of the Order and the rules.

16.8.2 The terms and conditions on which a member may designate sums or assets as available for the payment of a drawdown pension (including, without limitation, any minimum amounts, the frequency of such designations, the costs and charges applicable to the drawdown account and the notice requirements applicable to the designation to the drawdown fund) shall be determined by the Trustee from time to time subject to Rule 16.8.6 below.

16.8.3 The level of income payments which a member may elect to receive from their drawdown account and the frequency of such payments shall be subject to such terms and conditions as the Trustee shall from time to time determine provided that if the member's drawdown account is reduced in value to a level which shall be determined from time to time by the Trustee, the member may be required to withdraw the total remaining amount in their drawdown account as a single lump sum.

16.8.4 Where a member expresses a choice as to where assets of the Scheme attributable to their drawdown account are to be directed:

(a) the Trustee may determine –

i. the form in, and method by, which a member expresses that choice;

ii. any limits on the number of occasions on which a member may express that choice; and

iii. the number of investment funds to which assets of the Scheme may be directed, having regard to the value of the assets of the Scheme attributable to a member's drawdown account; and

(b) subject to the member's choice complying with any determination made by the Trustee for the purposes of sub-paragraph (a), the Trustee must accept that choice unless the Trustee is of the opinion that in doing so it would breach any of its legal obligations.

16.8.5 Where a member does not express a choice as to the investment fund(s) to which assets referable to their drawdown account are to be directed, the assets in the member's drawdown account shall be invested by the Trustee in at least one default investment fund. The provisions of Article 29 shall also apply to the assets held in a member's drawdown account.

16.8.6 When determining the terms on which costs and charges are applied to the drawdown account from time to time, and any changes to those costs and charges, the Trustee:

(a) shall have regard in particular to the costs of administration and management of the Scheme as well as the other sources of income to, and costs payable from, the Scheme; and

(b) shall consult with the members' panel before making such determination or changes.

18. Death benefits

18.1 Death of a member

This rule 18.1 shall apply on the death of a member unless either (a) the member has completed, and submitted to the Trustee, an expression of wish form for the purposes of rule 18.2 or (b) a dependant's scheme pension is payable in respect of the member under rule 18.4.

New Rule 18.4: Dependant's scheme pension

18.4 Dependant's scheme pension

If and to the extent that the Trustee determines to provide the option of a dependant's scheme pension, the value of the member's pension account may be applied to provide a dependant's scheme pension on such terms and conditions as the Trustee shall from time to time determine, which the Trustee may secure through the purchase of an insurance policy or annuity contract.

New Rule 18.5: Death of a drawdown member

18.5 Death of a member – drawdown

Where any unused funds in a person's drawdown account remain in the Scheme at the time of their death, an amount equal to the value of such unused funds will be applied by the Trustee in accordance with this Rule 18.5.

18.5.1 On the death of a member with a drawdown account unless rule 18.5.2 below applies, the provisions of rule 18.1 and rule 18.2 shall apply to such drawdown account in the same manner as they apply (or would have applied) to the member's pension account such that:

(a) where a member has completed and submitted to the Trustee either a nomination form or an expression of wish form, such form shall also apply in relation to the member's drawdown account;

(b) the value of the member's drawdown account shall be aggregated with the pension account (if any) in respect of the member when determining whether the relevant threshold in rule 18.1.4, 18.2.3 or 18.2.4 (as applicable) is met; and

(c) on payment of a lump sum from the member's drawdown account following the member's death in accordance with this rule 18.5, the Trustee shall be discharged from all further liability to provide benefits from the drawdown account in respect of the member on whose death the benefit was paid.

18.5.2 If and to the extent that the Trustee determines to provide the options set out in this Rule 18.5.2 and subject to such terms and conditions as the Trustee shall from time to time determine, all or part of the unused funds in a person's drawdown account may be:

(a) applied for the provision of a dependant's scheme pension; or

(b) designated as a dependant's, nominee's or successor's flexi-access drawdown fund (as appropriate and in each case as defined in the Finance Act 2004) to provide the relevant dependant, nominee or successor for whom it is designated with benefits in the form of a drawdown pension or a short-term annuity.

18.5.3 If the death benefit payable under this rule 18.5 is not claimed within six years of the date of the member's death, that benefit shall be forfeit and the remaining balance in the member's drawdown account shall be transferred to the general account.

Rule 23: Transfers out

23.2 Subject to rules 23.3 to 23.5:~~,~~

23.2.1 at the request of a member who has a right to a cash equivalent transfer under section 94(2) of the 1993 Act and has notified the Trustee of their intention to exercise that right in one of the ways listed in section 95(2) of the 1993 Act, the Trustee will transfer the cash equivalent of the entirety of that member's pension account to a registered pension scheme or a qualifying recognised overseas pension scheme nominated by the member, in accordance with the provisions of Chapter 1 of Part 4ZA of the 1993 Act; or

23.2.2 in circumstances where a member does not have a right to a cash equivalent transfer under section 94(2) of the 1993 Act, the Trustee may agree to a request of the member to transfer the entirety or part of that member's pension account and/or, where applicable, drawdown account, to another registered pension scheme or a qualifying recognised overseas pension scheme nominated by the member.

23.5 Subject to rule 23.2.1, t~~T~~he Trustee ~~shall only~~ may effect a transfer under this rule 23 in respect of the entirety or part of a member's pension account (including any part of that pension account attributable to a pension credit) and/or, where applicable, the entirety or part of a member's drawdown account.

23.6 Following completion of a transfer from the Scheme under this rule 23, and in addition to an applicable statutory discharge, the Trustee is discharged from any further liability in respect of the benefits transferred.

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