

# Right now it's a 3% extra pension tax for state employe...

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I suspect that there will be a lot of private sector employees, encouraged by the likes of the Daily Mail, who will complain about public sector strikes, the 'fat' pensions of state employees and the fact that they were a little inconvenienced for a day.

The truth is though that [as Polly Toynbee points out today](#) many of those who went on strike did so about a real 3% pay cut at a time when their pay was already frozen and inflation is running at 5% or thereabouts.

I suspect most of those complaining from the private sector also have no clue that in a years time they too are going to be asked to make an additional 3% pension contribution out of their pay. As the government appointed [National Employment Savings Trust \(NEST\)](#) says:

*From October 2012 the UK Government will introduce a new pension scheme to the UK as part of a bigger overall pensions reform strategy. Previously known as "personal accounts" or "personal account pensions", pensions minister Angela Eagle announced the new brand — The National Employment Savings Trust or NEST on 7 January 2010.*

*The full proposals include reforming the UK State Pension to make it simpler and more generous as well as formally extending people's working lives. The Government estimates that about seven million people are currently under saving for retirement and a major part of the reform is the Government's ideas for making it easier for these people to save for retirement.*

*The proposals will have wide ranging effects across every field of UK business as the onus will be put on employers to help encourage more people to save:*

*- From October 2012 UK employers will be required to automatically enrol employees into a 'qualifying workplace pension scheme'. This auto enrolment could be to your existing company pension scheme if it meets certain criteria. If it does not meet the criteria or if you do not operate a company pension scheme then your employees will be enrolled into NEST, a simple, low-cost pension scheme being introduced by the Government.*

*- Between October 2012 and 2017, depending on the size of company, all UK employers will be required to contribute a minimum of 3% of each employee's eligible earnings into a pension, assuming the employee does not "opt out". This is intended to incentivise them to start saving towards their retirement. Employees will need to pay a personal contribution of 4% with a further 1% tax relief being added to make the minimum contribution 8%.*

It all sounds voluntary, but using the 'nudge' principle anyone not in a pension scheme has to be enrolled in this scheme unless they positively opt out. And employers have no choice but enrol them until they do opt out.

The result is that millions of private sector employees will face a 3% net pay cut.

And their employers will face a 4% additional cost at the same time. Meaning that all hope of private sector pay rises might as well be forgotten in 2013, at least, and may be for some time beyond that.

And what will be the benefit of all this? Well, I've been to see NEST and having done so I can report the experience as profoundly depressing. The investment profile it will adopt will be cautious, but it seems likely to also be highly conventional. It will still be buying equities without any consideration as to whether they funds in question actually result in any new real investment in the UK economy. And gilts and others safe havens will be there simply for the benefit of those of near retirement age.

The net effect of this on the economy has to be considered. About one in four of the UK's employees will face real pay cuts. And their employees will face real increased costs. And all that will simply deliver something like £15bn a year to investment managers, mainly connected to the stock market.

So that money will come out of the productive economy and will instead be diverted into the City for it to speculate.

The rich will benefit.

Those who have been too poor to date will be those who will pay the price in real cuts in their wages, with the cut being invested by the clueless rich in media that have for the last decade produced no net returns so that after charges pension funds of this sort have by and large lost money for those who have supposedly save in them.

The result will be massively recessionary for the UK economy, will create real poverty by enforcing real pay cut for many now and for soem time to come and will inappropriately benefit the City.

Labour may have had its heart in the right place on this one - but times have changed since it was thought up - and surely we now know the stock market cannot deliver pensions? If not we should learn soon, and look again at this reform now because it's

going to be the next self imposed outright disaster for the UK economy.

PS - for those who ask the only right answer is a state earnings related pension scheme.