States of Guernsey
Social Security

Secondary Pension Scheme - Frequently Asked Questions

What is the secondary pension scheme?

The secondary pension scheme is a policy which requires employers to provide occupational pensions for their employees. Employers would be required to enrol their staff into these pensions and contributions would be made from both the employer and employee. This would make saving into a pension the default option for many working age people. A similar system has been operating in the UK for a number of years.

In order to support the scheme the States will also be facilitating the establishment of Your Island Pension. Which will be a pension scheme obliged to take contributions from all bailiwick residents. This means that everyone will have access to an affordable pension scheme. Your Island Pension will be separate from other States functions and governed independently.

What is the aim of the secondary pension scheme?

The main aim is to make sure that people of working age are saving more for their retirement. This is so that they have additional funds on top of the States' old age pension. This will increase their income in retirement and also reduce their need to claim benefits such as income support.

It is estimated that around 40% of the working age population (16 to 65 year old) are currently contributing to an occupational or personal pension scheme. This includes the private and public sectors. The implication of this is that approximately 60% of the working age population, currently around 25,000 people, are not making any personal pension provision. If individuals do not save for their retirement they are likely to find themselves without enough money to live comfortably in later life. They may also need to access income support.

When will the scheme start?

The original aim was for the legislation, which is currently being drafted, to come into effect from January 2022, but this had to be re-evaluated and adjusted due to the effect that the pandemic had on the timeline of all aspects of the project. Given the need to provide employers and pension providers with adequate lead-in time to prepare, January 2023 is now being targeted for implementation.

The proposals included a phased introduction. This means that it will apply to larger employers (25+ employees) first, smaller employers will be phased in over the following 15 months.

The scheme will require that a certain amount is contributed based on a percentage of the employees earnings. This will also be phased in over a period of 8 years so that the impact on household budgets and employers can be more easily managed.

Is the Secondary Pension Scheme compulsory?
No, the scheme is not compulsory for individuals, but if you are of working age and employed, your employer will usually have a legal duty to enrol you automatically into Your Island Pension or into another qualifying scheme. There will be some exceptions to this.

You can then decide whether you would like to opt out. If you opt out contributions will no longer be deducted from your wages and your employer will no longer be required to make contributions on your behalf. If you do decide to opt out, your employer will be required to re-enrol you into the pension scheme every three years on the anniversary of the date your employer became obliged to enrol staff. Again, you will be able to opt out, but it might be that in the intervening time your circumstances have changed and you are more able to remain in the scheme.

There will be no requirement for self-employed and non-employed individuals to be enrolled onto the scheme, but they will be able to contribute voluntarily into Your Island Pension.

Will my employer have to contribute?
Employers would be required to contribute at least minimum levels into either a qualifying pension scheme or into Your Island Pension following automatic enrolment of their employees. If an employer already contributes to a qualifying pension scheme for their employees, then they do not have to contribute to the Your Island Pension as well, although they would be able to switch if they wished to do so. Employers would not have an obligation to make contributions for individuals who have opted out of the new scheme.

What happens if I already contribute to a private pension or Retirement Annuity Trust Scheme (RATS) through my work?
As long as the scheme you already contribute to is recognised by the States of Guernsey as an eligible scheme, then you will not have to contribute to the new scheme as well. The qualification criteria are principally that the scheme is an 'approved scheme' for Guernsey Income Tax purposes. For defined benefit schemes, will be tests on minimum levels of benefits. For defined contribution schemes, there are likely to be tests on minimum contributions levels from employers and minimum levels of total contributions. Multi-member Retirement Annuity Trust Schemes (RATS) may qualify as eligible pension schemes, but single members RATS will not.

Single Member RATS may be used as an alternative to a qualifying scheme if both the employer and employee agree to use this arrangement.

If you are not automatically enrolled into the new States facilitated scheme because you are already in a qualifying scheme, you will still be able to make savings in the new States scheme if you wish. In this scenario, you would pay voluntary payments directly into Your Island Pension.

I already have an occupational pension, do I have to contribute?
If you or your employer is already contributing to an occupational pension at or above the relevant contribution rates, it is likely that this arrangement can continue as a 'qualifying scheme'.

I don't want a secondary pension, can I opt out?
You will be able to opt out of the scheme after your employer has enrolled you. If this is done soon enough you and your employer will have your contributions reimbursed to you. If you decide to come out of the scheme at a later stage, you can do so but your contributions and those of your employer, will remain invested in the scheme. Once you have opted out of the scheme, you will not get the benefit of your employer's contribution going into your account. Your employer will be required periodically re-enrol any staff who have opted out.

How much will I have to contribute?
It is proposed that the employees contribution would be 1% of their earnings in the first year, increasing to 6.5% over a period of seven years. If your employer chooses to pay more than their minimum contribution, it may reduce your liability to pay.

Is this scheme just another tax?
No, this scheme is not a form of taxation. It's a savings scheme designed to provide better incomes in retirement and to reduce people's future reliance on taxation-financed welfare benefits. The money in your account remains yours and after your death the benefits can transfer to your dependants.

How do I find out if I am eligible to contribute to the secondary pension scheme?
If you are an employed person, paying social security contributions, then you will probably be automatically enrolled into the scheme. Exceptions apply for people in full time education, and people of pensionable age.

Self-employed and non-employed people will have no obligation to contribute but they will be entitled to make voluntary contributions to Your Island Pension.

What happens to my money if I die before I reach retirement age?
If you're using Your Island Pension the money in your account is yours. In the event of your death, whether before or after reaching pension age, the benefits transfer to your dependants. Other schemes may have different rules and if you decide to purchase an annuity, any benefits will be subject to the terms of that annuity.

What happens to my pension pot if I leave Guernsey?
People who leave the Island after having contributed to a private pension for a relatively short length of time will be able to cash in their pension pot. People with larger pension pots who were leaving the Island would be required to leave their money invested in the

scheme until retirement, or perhaps transfer it to an approved pension in their new country of residence.

Can I make additional payments to make my pension pot bigger?
Individuals would be able to add additional contributions or lump-sum investments into Your Island Pension. Employers would have no liability for such additional voluntary contributions.

Is there an upper limit on the amount I can pay into my secondary pension?
All individuals, whether employed, self-employed, or non-employed, would be able to make additional voluntary contributions and would be able to pay in lump sums into their pension funds. There would be limits as to the amounts that would be eligible for tax relief.

Can I withdraw a lump sum when I reach pension age?
If you are in a qualifying scheme, your access to benefits will depend on the rules of that scheme. If you are in Your Island Pension, then it is expected that there will be some flexibility in how you can access your fund.

Can I withdraw any money before I reach retirement age?
The general rule is that you would not be able to withdraw any money from your pension pot until you reach a certain age. This age will depend on the scheme you are enrolled in, and in line with Income Tax rules, will not be younger than 50 and in many cases will be later than this. This scheme is all about increasing people's incomes in retirement, not for other purposes.

Will I get all my money back?
Your contributions, and those of your employer, will be invested by the pension provider in the pension investment that you have chosen, or in the default investment option if you have not made a choice. The value of your investment may go up or may sometimes go down, depending on the type of investment that you have chosen and the movement in markets. The pension provider's fees for administration and investment will be deducted from your pension pot. For a long-term investment, studies show that a real return is achievable. This means that the value of your pension pot should be at least equal to the total of the contributions that you have paid plus the movement in inflation (RPIX) throughout the time that you've been investing.

I don’t live in Guernsey, can I contribute to the secondary pension scheme?
The proposed scheme will be available to people living in Guernsey, Alderney, Herm and Jethou. There may be exceptions, e.g. if you are on a secondment to another jurisdiction but continue to pay Social Security contributions to Guernsey. Sark residents will not be subject to auto-enrolment but could make voluntary savings into the scheme. Alderney residents would only be subject to the scheme if the States of Alderney choose to extend the scheme.

If I continue to work beyond retirement age, will I still have to contribute?

If you are above pensionable age but still working, you may be able to request that your employer makes deductions from your salary and pays those contributions into a pension scheme. If you are 75 or older, you will not be able to opt in. It is unlikely that it would be financially advantageous to make contributions from age 75 as tax exceptions for pension contributions, do not apply for those over the age of 74.

Will my contribution be exempt from taxation on payment into the scheme?
The taxation model will follow the present system where contributions are exempt from tax on payment, but taxed when the pension is drawn.

Can I transfer my secondary pension pot to someone else?
An exception may be given in the case of a divorce where part of your pension is transferred to your former spouse's pension. Your pension pot must remain your asset in order to help finance your retirement. But when you die, the remaining funds in your account can transfer to your dependants.

Can I transfer my secondary pension pot to another private pension provider?
Within Guernsey, transfers to other qualifying schemes will be permitted. If you leave Guernsey, it may be possible to transfer your pension pot to another provider.

Will I get a statement telling me how much is in my pension pot?
Pension providers should offer an annual statement to scheme members. In the case of Your Island Pensions, it is expected that you will be able to access an up to date statement whenever you wish via a website or app.

If I don’t have enough money to live on will I still have to contribute to a secondary pension?
No, although your employer will be obliged to enrol you into a pension, you have the right to come out of it.

Will I have to contribute to a secondary pension if I am on Income Support?
If you are on Income Support and are in paid work, your employer will have to enrol you into a qualifying pension scheme. You will have the choice as to whether to stay in the scheme or come out of it. The contributions you make are likely to be ignored for the purpose of calculating your benefit, so it is probably to your advantage to continue contributing.