SECONDARY PENSIONS

FREQUENTLY ASKED QUESTIONS

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 can add some personal pension provision to the States old age pension. This will increase their income in retirement and also reduce the cost to the taxpayers of tomorrow in paying means-tested welfare benefits in old age.

It is estimated that around 40% of the working age population currently has access to an existing 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. Unless this 60% start saving for their old age, they will find themselves relying on the States old age pension funded by social security contributions, and possibly taxation financed benefits. In future this might not be enough to avoid a poor standard of living in their retirement.

When will the scheme start?

2020 is probably the earliest date for the scheme to start. The then Social Security Department reported to the States in February 2016 (Billet d'État III of 2016) on proposals for the implementation of a new system of automatic enrolment into private pension saving for working age residents of Guernsey and Alderney.

The report received strong support within the States and among private sector employers who were consulted during the development of the report. The States approved the principles for the introduction of a Secondary Pension Scheme, subject to further research and an economic impact assessment of the proposals.

A detailed set of proposals for the scheme's design and implementation now has to be developed and brought back to the States by September 2018. A new law would then need to be drafted and brought into force, together with all the necessary administrative arrangements.

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 have a legal duty to enrol you automatically into the new secondary pension scheme, or into another qualifying scheme. You can then decide to opt out and your employer will take you out of the scheme. The intention, and the experience from elsewhere, is that most people who have been enrolled into the pension scheme will stay in. That's what's needed to make a substantial difference in people's pension savings.

If you do decide to opt out, your employer will be required to re-enrol you into the pension scheme every two years. Again, you will be able to opt out, but it might be that your circumstances have changed and you are more able to remain in the scheme.

Self-employed and non-employed people under pensionable age who make Social Security contributions would also be auto-enrolled. As there is no employer in these cases, the auto-enrolment would be done by the Social Security Department. Self-employed and non-employed people who had been enrolled would be able to opt out.

Will my employer have to contribute?

Employers would be required to contribute at least minimum levels into either a qualifying pension scheme or into the new secondary pension scheme following automatic enrolment of their employees. If employers already contribute to an approved pension scheme for their employees then they do not have to contribute to the new secondary pension scheme 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 for eligible schemes have not yet been specified. For defined benefit schemes, there are likely to 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.

If you are not automatically enrolled into the new States scheme because you are already in an approved scheme, you will still be able to make savings in the new States scheme if you so wish. In this scenario, you would pay voluntary payments direct to the pension provider that will be contracted for the new scheme.

I work for the States, do I have to contribute?

The rules are the same for States of Guernsey employees as they are for all other private pensions and RATS. You do not have to contribute to the new scheme if you are already contributing to an eligible scheme. You will still have the option to further support your retirement by making contributions to the new scheme in addition to any scheme you already contribute to.

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 in the first few weeks (possibly 6 weeks), 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 your account. 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 to re-enrol you into the scheme every two years.

How much will I have to contribute?

The outline proposal is that you should start paying 1% of your earnings in 2020, increasing to 6.5% in 2030. These would be the amounts that you pay if you stay in the scheme and don't opt out. One of the main advantages in staying in the scheme as proposed is that your employer would also have to pay contributions into your account, starting at 1% in 2020 and increasing to 3.5% in 2030. Some people may want to pay more than these amounts into their personal pension account. This would be allowed by the person making payments directly to the pension provider. This could be weekly or monthly payments, or occasional lump-sum deposits. Such additional voluntary contributions would not be collected through the social security collection system. You employer would not need to pay anything relating to your additional voluntary contributions.

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.

How do I find out if I am eligible to contribute to the secondary pension scheme?

You will be eligible for auto-enrolment if you are registered to make social security contributions, are under pensionable age, and earn above the lower earnings limit (£134 per week/ £6,968 p.a. for 2017). There will not be a lower age limit. Self-employed and non-employed people will also be auto-enrolled in the scheme if they make social insurance contributions. People who are non-employed, not receiving any income, and are therefore not making any social security contributions, would not be automatically enrolled, but would be able to opt in to the Secondary Pension scheme on a voluntary basis. In this case they would make payments directly to the pension provider that will be contracted for the new scheme. People who are above pensionable age but wish to continue saving, may also opt in on a voluntary basis.

What happens to my money if I die before I reach retirement age?

The money in your account is yours. In the event of your death, whether before or after reaching pension age, your secondary pension savings will become part of your estate, to be distributed in accordance with your will or the laws of inheritance.

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 on leaving. This would apply to pension pots of up to, say, £15,000. 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 the Secondary Pension scheme by dealing directly with the organisation contracted to administer the scheme. 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.

I'm too young to think about my pension, why should I care?

The demographic challenges facing Guernsey and Alderney will mean that fewer people of working age will be supporting larger numbers of retired individuals in the future. This trend will pose significant risks to public finances, unless more residents of working age start to take greater responsibility for saving for their own retirement. If people are not encouraged to do so, then there will be an increasing number of people who will need to rely on assistance from taxation-financed welfare benefits to fund their retirement. Another reason why younger people should care about saving for their retirement is that the earlier you start saving, the more money you will have to live on in your retirement, as your contributions will have longer to generate a return on the investment made. Put simply, contributing a small amount earlier in life will be worth far more to the individual than contributing a larger amount later in life.

I'm a University student, will I have to contribute?

While you are studying outside Guernsey, you will not be paying employed or self-employed contributions and therefore will not need to contribute. If you are employed in the Islands during your holidays, your employer may need to enrol you. Further thought needs to be given to the rules around very short periods of employment.

Can I withdraw a lump sum when I reach pension age?

It is envisaged that individuals would have some flexibility in how they are able to access the Secondary Pension fund on retirement. There will need to be rules around how much could be taken as a lump sum and rules on the rate of weekly or monthly withdrawals. Some people may wish to use their fund to purchase an annuity. This might be from the provider of the Secondary Pension, but might be from another provider.

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 before you reach pension age. This scheme is all about increasing people's incomes in retirement, not for other purposes. The exception to the rule is where people are leaving the Island permanently and they have a relatively small amount in their pension pot. In these cases, the value of the pension pot would be paid to the individual. This would apply to pension pots of up to, say, £15,000. The pension pots of people who die before reaching pension age will form part of the estate to be distributed in accordance with the individual's will and inheritance laws.

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 standard scheme 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. This will be a large scheme, so the fees should be competitive. For a long-term investment, studies show that a real return is achievable. This means that the value of your pension pot is 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, but not elsewhere. There may be exceptions, e.g. if you are on a secondment to another jurisdiction but continue to pay Social Security contributions to Guernsey.

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

You won't have to contribute and no deductions will be made from your earnings in respect of your private pension. But you can make voluntary contributions, paying directly to the pension provider.

I am already over pension age, can I contribute?

Yes. The proposal is that the pension provider that will be contracted to administer the secondary pensions will have to allow people already over retirement age to open up accounts.

I do not work, will I have to contribute to the new scheme?

Non-employed individuals who do not receive an income and do not make social security contributions would be able to open a Secondary Pension account on a voluntary opt-in basis, but would not be automatically enrolled in the scheme.

Will my contributions be exempt from taxation on payment into the scheme?

This is yet to be decided, although it is likely that the taxation model will follow the present system where contributions are exempt from tax on payment, but taxed when the pension is drawn. Decisions will be made on this when the proposals for implementation are reported back to the States.

How and when will my pension contributions be taxed?

This is yet to be decided. At present, there is tax relief on pension contributions to approved schemes, up to a contributions limit of £50,000 per year by the individual. Tax is paid when you draw your pension, although you can take up to 30% of your pension as a tax-free lump sum. The limit for the cash-free lump sum is currently £188,000. Similar tax rules may apply to the proposed new secondary pension scheme. This has to be decided in the next stage of detailed design.

Can I set up a secondary pension pot for my children?

The main focus is to get adults enrolled into secondary pensions. The plan is to contract with a major private sector pension provider in order to administer the personal accounts. The extent to which additional services can be offered by the contractor will be for detailed discussion. Pension accounts for children may be one such additional service.

Can I transfer my secondary pension pot to someone else?

No. Your pension pot must remain your asset in order to help finance your retirement. But when you die, the remaining funds in your account will be part of your estate for distribution in accordance with your will or the laws of inheritance.

Can I transfer my secondary pension pot to another private pension provider?

If you leave Guernsey, it may be possible to transfer your pension pot to another provider. Again this is a matter for detailed design. It is likely that a transfer would be allowed if the receiving scheme met required standards.

What will the States do with my money?

The States will collect your money along with the existing social security collections, but would then transfer the part for secondary pensions across to its contracted pension provider. The pension provider would invest your money on your behalf. It is envisaged that the provider will offer a range of pension investments that you can choose from. There will be a standard pension investment scheme for people who don't wish to make the choice.

Who will be looking after my money?

The detailed design of the proposals will need to establish the governance arrangements. The States may decide to establish a Trust to govern these private pension assets and to hold them quite separate to States assets. If this form of structure were pursued, the Trustees of the funds would also be responsible for holding the pension provider to account and for selecting the standard pension plan for people not wanting to make their own choice.

Who decides how will my money be invested?

The contracted pension provider will invest your money in accordance with the pension investments that you have chosen, or in accordance with the standard pension investment if you do not want to make a choice.

How and where will my money be invested?

This will depend on the pension investment that you have chosen. Most of the investment choices will include a range of UK and overseas equities (shares), bonds and other investment opportunities. Different pension investment choices will hold those investments in differing proportions.

How much of my money will be spent on fees?

We will not know the fees until the new system has been designed in detail and an agreement has been reached with a selected pension provider. Because it will be a large scheme with thousands of members, we expect to be able to negotiate better fees than are offered to individuals and most employers.

Who will manage the secondary pension fund?

If the States approve the outline proposals, we will develop detailed proposals including the selection of a pension provider through a competitive tender exercise. That pension provider will manage the secondary pension fund.

Will I get a statement telling me how much is in my pension pot?

The intention is that you would get an annual statement specifying the amount in your pension pot. We would also expect the pension provider to offer online access to savers.

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 supplementary benefit?

If you are on supplementary benefit 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. Any contributions you make will be ignored for the purpose of calculating your benefit.

Who decides how much I contribute?

The States will set the contribution rate. The outline proposal is that you should start paying 1% of your earnings in 2020, increasing to 6.5% in 2030. It’s proposed that your employer should start paying 1% in 2020, increasing to 3.5% in 2030.

How much of this is a done deal?

The States have approved the introduction of a Secondary Pensions Scheme in principle. However, detailed proposals have yet to be developed and taken back to the States by September 2018. Part of those detailed proposals will involve a pension provider, selected through a competitive tender exercise. The proposals that return to the States for approval may in part depend on the arrangements that Social Security can negotiate with the chosen pension provider.