Guernsey Secondary Pensions

"every employer would need to automatically enrol their staff"
Michelle Galpin

Early January 2016 saw the publication of the long-awaited proposals for the introduction of a secondary pensions system in Guernsey. The proposals, which are scheduled to be debated by the States at their February meeting, would provide a retirement income in addition to the existing old age pension.

How we got here

It was back in 2013 that the Treasury and Resources and Social Security Departments first launched a joint consultation, as part of its wide-ranging review of personal tax, pensions and benefits.

"Ensuring private pension provision" was subsequently identified as one of the tools available to mitigate the financial strain on the States of the effect of Guernsey's ageing population.

Secondary Private Pension Provision

In August 2015 the Social Security Department launched its own consultation on secondary pensions; views were invited on whether a secondary pension system be introduced, the extent to which it should be compulsory and how it should be delivered.

This consultation closed in October 2015 and the 222 responses have formed the basis of the current proposals.

What is proposed?

At 68 pages, the policy letter and its supporting appendices provide the background to why the system is being proposed, as well as a summary of the feedback from the public consultation. The main proposals are summarised in the box (right). In this article we focus on who would be affected and the costs involved.

The key proposal is that from 2020 every employer would need to automatically enrol their staff into either the Secondary Pension, or a "qualifying" pension arrangement.

Who's affected?

To keep things simple, every employee paying Social Security contributions would be included. In 2016 terms, this is everyone who is earning more than the Lower Earnings Limit of £6,916pa. Unlike the UK, no minimum age limit is proposed, so all employees under State pension age (currently age 65, but increasing to age 70 by 2049) would need to be automatically enrolled.

Employees have a choice

Whilst staff would be automatically enrolled, the system is described as "semi-compulsory" as employees would have the choice to opt out. However, their employer would need to re-enrol them again every 2 years. This is similar to the approach taken in the UK, except that re-enrolment is only once every three years.

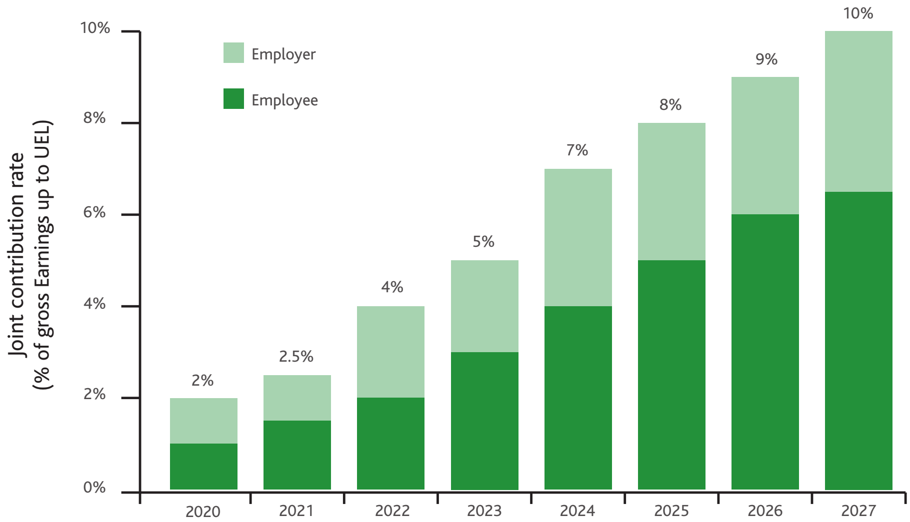
How much will it cost?

Contributions would be calculated as a percentage of "Gross Earnings" up to the Upper Earnings Limit (£137,592 in 2016).
The long term contribution rates proposed are 3.5% for the employer and 6.5% for the employee. However, the employer would only have to contribute for employees who had not opted out of the secondary pension system. In 2016 terms, the maximum employer contribution for an individual earning in excess of the Upper Earnings Limit would be £4,816pa; the maximum employee contribution would be £8,943pa.

Phased contributions

It is recognised that these contribution rates could have a significant impact on the finances of both employers and employees; for this reason it is proposed that the contributions be phased in over 7 years. Details of how the phasing in would work is illustrated in the chart below.

Phased Employer and Employee Contributions



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Conclusions

Guernsey is not alone in tackling the financial challenges of an ageing population. Encouraging people to take more responsibility for their own financial circumstances in later life is a key part of the strategy to address the problem.

The UK began its auto enrolment journey in 2012 and every employer will have had to have implemented auto enrolment by 2018. Guernsey is already several years behind, with the Secondary Pension system not scheduled to be introduced until 2020.

However, this delay has provided an opportunity for Guernsey to take stock of what the main problems have been in the UK and seek to avoid them, with a simpler system more appropriate to its working age population of around 43,000.

Assuming that the States approve the proposals in principle at their February meeting, we will be considering different aspects of the proposals in more depth in subsequent editions of Bandwagon.

Summary of Proposals

- A new Secondary Pension ("SP") system would be established in 2020. This would be in addition to the existing Old Age Pension arrangements.
- All employers would be required to automatically enrol their staff, either into the SP or a "qualifying pension scheme".
- Employees would have the right to opt out of automatic enrolment, but would have to be re-enrolled by their employer every two years (but could then opt out again).
- Except where an employee had opted out, the employer and the employee would be legally required to contribute to the scheme.
- The joint employer/employee contribution rate would be split roughly 1/3rd employer and 2/3rds employee; the proposed long-term employer and employee rates are 3.5% and 6.5% of gross salary respectively.
- Employees could pay in additional contributions, but this would not affect the amount the employer was required to pay.
- It would be illegal for an employer to offer employees inducements to opt out.
- Self-employed and non-employed people who are paying social security contributions would be automatically enrolled, but could opt out.
- Non-employed people who are not paying social security contributions could opt in to the SP.
- Parents or other relatives would be able to open a SP account for their dependants on an opt-in basis, provided that they were willing to contribute to the scheme.
- The SP would provide benefits on a money-purchase basis, with an individual's "pension pot" forming part of their estate on death either before or after retirement.
- Contributions to the SP would be collected through the Social Security system, but the administration and investment of the SP would be contracted to another party (to be appointed by competitive tender).

Timetable

January 2016
Proposals published

February 2016
States debate high level proposals

December 2017
Deadline for detailed proposals to States

2020
Launch of automatic enrolment and Secondary Pensions

2027
Phasing in employer and employee contribution rates complete