Guernsey Pocket Pensions

The 2019 Handbook

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BWCI'S POCKET PENSIONS

Welcome to the second edition of Pocket Pensions. We hope that you will find it a useful source of information for answers to your pensions questions.

The 2019 edition outlines details on the pension changes following the new budget including an in depth look at the tapering of tax allowance for high earners. 2018 has also seen the full implementation of Pensions Regulation in Guernsey along with General Data Protection Regulations.

Following the first edition of Pocket Pensions no more details on the Secondary Pensions proposals have been released. However we are expecting information to be published during the course of 2019.

As a new article, we outline the options employees have when they leave an employer sponsored defined contribution scheme and wish to establish individual pension arrangements.

The Pocket Pensions guide is designed to provide employers and professionals with details on the current pensions landscape in Guernsey. We hope you will find it useful.

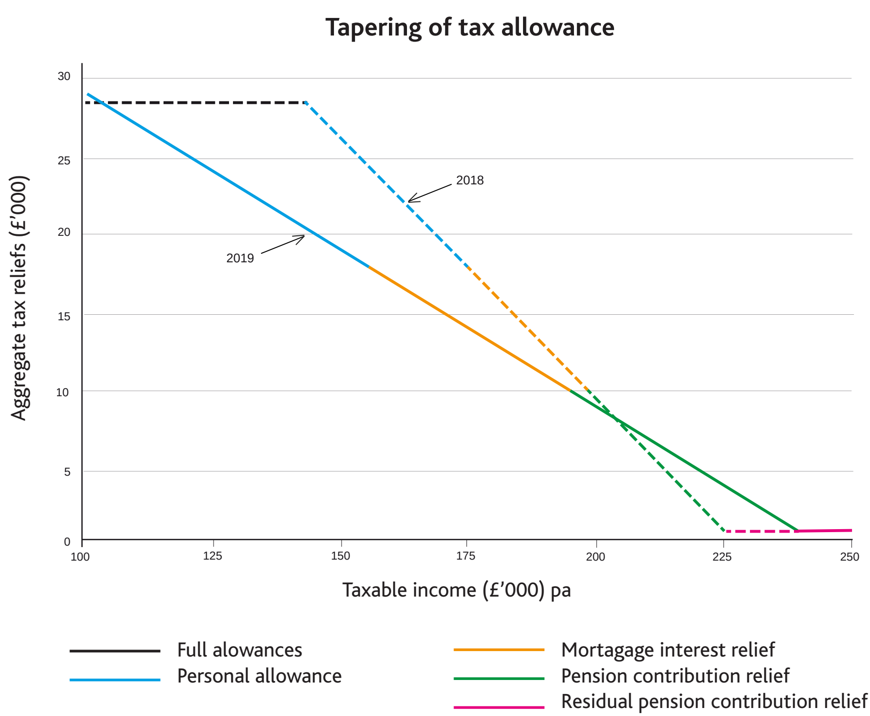
If you have any feedback on this guide, or have any questions about anything in it, please email: pocketpensions@bwcigroup.com

TAPERING OF ANNUAL ALLOWANCE

In 2018 the States agreed that personal allowances and other allowances/deductions would be withdrawn at a rate of £1 for every £3 that a person's income exceeds the Upper Earnings Limit for social security contributions (£142,896 pa in 2018).

The 2019 budget lowered the withdrawal threshold to £100,000 and the withdrawal ratio decelerated to a rate of £1 for every £5 a person's income exceeds withdrawal threshold.

The impact of this will depend on an individual's income and their starting tax allowances. Below is an illustrative example. The 2018 position is shown as a dotted line and the solid line shows the 2019 position.



The chart considers the impact of the change in the threshold and rate of withdrawal of allowances for an individual who pays £8,000 mortgage interest and £10,000 pension contributions. The chart shows that, in these circumstances, if the individual had an annual income of between £103,000 and £203,000 they would have lower aggregate tax reliefs in 2019 (after allowing for the £500 increase in personal allowance) compared to 2018.

However, if they had income above £203,000 they would have higher aggregate tax reliefs in 2019 compared to 2018. The exact cross over point will depend on the individual's starting allowances (which are dependent on various factors, including whether they are paying mortgage interest and pension contributions), but the Budget report expects that:

- A further 1,050 individuals will see their allowances reduced as a result of the lowering of the threshold; and
- 150 individuals will have less allowances withdrawn in 2019.

The allowances are withdrawn in a specific order, with the personal allowance withdrawn first. In this example, mortgage interest relief is next and pension contributions (other than a small limit of £1,000 which is not withdrawn).

These elements of the relief are shown in different colours on the chart opposite.

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GUERNSEY PENSIONS REGULATION

Pensions regulation was first introduced in Guernsey on 30 June 2017. However, in view of the speed at which it was implemented, there was a transitional period up to 30 September 2018 before full compliance was required. With the end of the phasing in period, pensions legislation is now fully in force.

The pensions legislation primarily relates to the practical operation and governance of pension schemes. Key areas covered include:

- Governance and internal controls
- Record keeping
- Provision of information to members
- Statement of Investment Principles
- Limitation on employer-related investments
- Contribution schedules

If your pension arrangement is externally provided it is the provider's responsibility to comply with the regulations. We have been assisting a number of providers to ensure the schemes they run are compliant.

We have had a number of requests to provide training on the ongoing practical application of the new Guernsey Pensions Regulations. We have developed a training course that can be tailored to the specific needs of an organisation's team working in this area.

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ISLANDS UPDATE

If you would like more frequent updates on employee benefits and other legislative issues why not subscribe to our Islands Update publication.

Islands Update is a quarterly publication with the latest employee benefits news from Guernsey, Jersey, Isle of Man and Gibraltar.

You can purchase individual islands or subscribe to all 4 for a discount.

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AFTER THE EMPLOYER SCHEME: INDIVIDUAL ARRANGEMENTS

When an employee leaves service from an employer sponsored defined contribution (DC) scheme (either due to retirement or after leaving employment) one of the options they may have is to transfer their benefits to an individual pension arrangement.

What is an individual pension arrangement?

An individual pension arrangement is set up by a local provider. The value of their DC pot within their current scheme would be transferred into the individual pension arrangement and invested. When they reach retirement (be it immediately or in the future) the value of the investments in the arrangement is used either to purchase an annuity with an insurance company or "drawdown", essentially paying an annual pension directly from the assets.

How are the assets invested?

Most individual pension arrangements will offer similar investment options as an employer sponsored scheme including equities, corporate bonds, government bonds and cash. They can choose which of the options to invest in. More complex arrangements allow for investment in other assets such as property.

What does this cost?

Depending on the provider there is generally an initial set-up charge along with an annual charge for the administration. The annual charge can vary greatly depending on the complexity of the arrangement and investment options.

Is there an easy option?

Yes. BWCI offers a low cost individual arrangement as part of the Blue Riband products for both Guernsey and Jersey residents. It's easy to set up and offers low annual management charges.

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YOUR GUIDE TO SECONDARY PENSIONS IN GUERNSEY

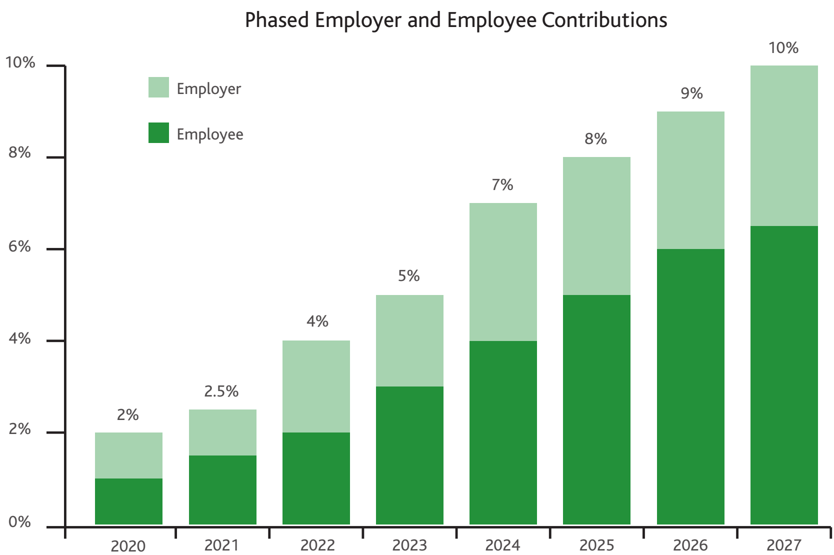
Summary of 2016 Proposals

- A new Secondary Pension System would be established, probably from 2020
- Employers must automatically enrol staff into a qualifying pension scheme
- Employees could opt out
- Contributions to be collected by the Office for Employment & Social Security
- It would be illegal for an employer to offer employees inducements to opt out

This is what we know so far about what the new secondary pension system is likely to look like. However, until the more detailed proposals are published and have been debated by the States, please bear in mind that some aspects could change.

What do you need to do now ?

It is important to plan ahead for this change, so that you are well prepared. As well as financial implications, the changes might also require changes to payroll and HR systems.



How much will it cost ?

Employer and employee contributions are expected to be based on gross salary, up to the upper earnings limit (£146,328 in 2019). Contributions are expected to be phased in. Initially employers and employees will each pay 1%. This will gradually increase to the long term rates by 2027. The graph shows how the phasing in would work.

Impact on employers ?

In the long term employers' operating costs could increase by up to 3.5% of payroll, unless they seek to adjust other elements of their remuneration package. However, the impact will also depend on what proportion of their employees choose to opt out.

What if you already offer a pension scheme ?

If an employer's existing scheme is deemed to be a "qualifying pension scheme" then the employer can choose to use this scheme, rather than the secondary pension, to meet their obligations.

Will your scheme qualify ?

We do not know the exact requirements yet. However, what we do know so far is that, as well as satisfying minimum benefit or contribution levels, qualifying pension schemes would need to be able to evidence "good scheme governance".

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Secondary Pensions Timetable

February 2016
States debate high level proposals

During 2019 (expected)
Deadline for detailed proposals to States

2020 (expected)
Launch of automatic enrolment and Secondary Pensions

2027
Phasing in employer and employee contribution rates complete

2018 CHANGES

Transfers to UK Schemes

Currently all transfers to UK approved schemes are exempt from income tax, regardless of where the individual is resident.

It is proposed to restrict this tax exemption on transfer to the UK to just those individuals resident in the UK at the time of the transfer (unless the individual has not at any time been resident in Guernsey).

Tax-free element of lump sums

After age 50 a person may take a cash lump sum of up to 30% of their fund value; the lump sum is tax-free up to a monetary limit. The 2018 limit is £194,000 and historically has been set by reference to Civil Service pay scales. This linkage caused problems this year as the pay award had not been agreed at the start of the year and a retrospective increase had to be applied.

To avoid this going forward, it is proposed that the limit will in future be set annually as part of the Budget process; an increase in the limit to £198,000 is proposed for 2019.

Triviality provisions

An increase in triviality limits is proposed as follows:

- increasing the limit from £30,000 to £50,000 for members aged 50 or over
- introducing triviality limits for funds in drawdown where the fund is less than
    - £50,000 or
    - £100,000 and the individual has a guaranteed minimum retirement income of £20,000 pa

We await further details as to what will constitute "guaranteed minimum retirement income".

Definition of acceptable pension contribution for tax relief

Guidance on what pension contributions will be eligible for tax relief applicable from 2019.

Contributions that will receive tax relief

- A monetary amount must be paid into the scheme to be eligible for tax relief

Contributions that will not receive tax relief

- Transfers from other pension arrangements
- Contributions that derive from benefit payments from approved pension schemes
- In-specie contributions will not receive tax relief.

GUERNSEY'S OLD AGE PENSION

When is it paid from?

The old age pension is payable in Guernsey when a person reaches their States Pension Age ("SPA"). This is currently age 65 for both men and women. However, for those who were born on or after 1 January 1955 their pension will not be payable until after their 65th birthday. In some cases it may not be payable until age 70.
You can find out when your old age pension will be paid in the overleaf.

How much will it be?

In 2019 the full rate old age pension for a single person is £217.36 per week (£11,302.72 pa). However not everyone is entitled to the full rate; it depends on how many Social Security contributions you have paid or been credited with during your working life. To qualify for any pension you need to meet two separate conditions:

1 You must have paid contributions that count for benefits for at least 156 weeks.

2 For a full rate pension you need to have paid at least 50 contributions in each year during your working life for a minimum of 45 years.

Women who were married on or before 31 December 2003 can count part of their husband or ex-husband's contributions towards their own pension.

People who have paid an average of less than 50 contributions a year will be entitled to a reduced rate pension. The amount of pension depends on the average number of Social Security contributions paid. Some examples are provided in the table.

Average number of annual contributions	Pension £ per week	Pension £ per annum
50	217.36	11,302.72
40	173.89	9,042.28
30	130.42	6,781.84
20	86.94	4,520.88
10	43.47	2,260.44
less than 10	None	None

Claiming an old age pension

The Office for Employment & Social Security will contact an individual around 3 months before their SPA with details of how to claim their pension.

Need more information?

Please contact the Social Security Department's Pensions & Allowances helpline on 01481 732506

States Pension Age Calculator

When were you born?			States Pension Age Years	Months	Year in which pension first paid
Before		31 December 1954	65	0	No change
1 January 1955	to	31 October 1955	65	2	2020
1 November 1955	to	31 August 1956	65	4	2021
1 September 1956	to	30 June 1957	65	6	2022
1 July 1957	to	30 April 1958	65	8	2023
1 May 1958	to	28 February 1959	65	10	2024
1 March 1959	to	31 December 1959	66	0	2025
1 January 1960	to	31 October 1960	66	2	2026
1 November 1960	to	31 August 1961	66	4	2027
1 September 1961	to	30 June 1962	66	6	2028
1 July 1962	to	30 April 1963	66	8	2029
1 May 1963	to	29 February 1964	66	10	2030
1 March 1964	to	31 December 1964	67	0	2031
1 January 1965	to	31 October 1965	67	2	2032
1 November 1965	to	31 August 1966	67	4	2033
1 September 1966	to	30 June 1967	67	6	2034
1 July 1967	to	30 April 1968	67	8	2035
1 May 1968	to	28 February 1969	67	10	2036
1 March 1969	to	31 December 1969	68	0	2037
1 January 1970	to	31 October 1970	68	2	2038
1 November 1970	to	31 August 1971	68	4	2039
1 September 1971	to	30 June 1972	68	6	2040
1 July 1972	to	30 April 1973	68	8	2041
1 May 1973	to	28 February 1974	68	10	2042
1 March 1974	to	31 December 1974	69	0	2043
1 January 1975	to	31 October 1975	69	2	2044
1 November 1975	to	31 August 1976	69	4	2045
1 September 1976	to	30 June 1977	69	6	2046
1 July 1977	to	30 April 1978	69	8	2047
1 May 1978	to	28 February 1979	69	10	2048
1 March 1979		onwards	70	0	2049

PENSION JARGON BUSTER

Annuity	This is like a pension. It's a regular series of payments payable over a particular period of time. Sometimes it's payable for a specific number of years, but usually it is payable throughout a person's life. An annuity is bought from an insurance company.
Automatic enrolment	This is the process whereby an employer enrols an employee into a pension arrangement. The employee does not need to take any action to join the pension scheme.
Cash equivalent	Another name for a transfer value or a transfer payment. Sometimes it is abbreviated to CETV (cash equivalent transfer value).
Commutation	The process of turning part or all of a pension into a cash lump sum.
Deferred pensioner	A member of an employer's pension scheme who has either left employment or is no longer accruing any benefits in the scheme, but has not yet retired.
Defined benefit scheme	Often shortened to "DB Scheme" A scheme where the benefits are calculated by applying a formula. A typical pension would be calculated as: 1/60 * years of service * final pensionable salary.
Defined contribution scheme	Often shortened to "DC Scheme" A scheme where the benefits depend on the amount of contributions paid in and the investment return achieved on those contributions. The resultant pot of money at retirement can be used to provide retirement benefits.

Expression of wishes form	The form completed by a member of a pension scheme to advise the trustees of a pension scheme of their wishes regarding the payment of any discretionary death benefits. It is important that this form is kept up to date each time personal circumstances change.
Final Pensionable Salary	The salary that is generally used to calculate the retirement pension in a DB scheme. Often it is basic salary averaged over one or three years.
Flexible retirement	A process whereby retirement is phased, for example a person could start to take part or all of their pension benefits, while remaining in employment. Often flexible retirement coincides with a reduction in working hours.
Funding level	In a DB scheme, the assets of the scheme expressed as a percentage of the liabilities. If the funding level is below 100% then the scheme will have a deficit; if it is over 100% funded it will have a surplus.
Hybrid scheme	A scheme that has a combination of DB and DC type benefits.
Money purchase scheme	Another name for a DC scheme.
Normal Pension Age	Also known as Normal Retirement Age (NRA)
Normal Retirement Date	The date at which a member reaches NRA and sometimes expressed as Normal Pension Date (NPD)
Occupational pension scheme	A pension scheme set up by an employer to provide pension benefits for its employees.

Open market option	The option to use the funds in one insurance company's pension scheme to buy an annuity with a different insurance company.
Pension sharing order	A UK court order which shares pension rights in the event of divorce. It is unlikely to be enforceable outside of the UK.
QROPS	Qualifying Recognised Overseas Pension Scheme. An overseas pensions scheme (which could be a Guernsey scheme) that meets HMRC's criteria and can accept transfers of benefits from UK pension schemes.
RATS	A retirement annuity trust scheme. A RATS is either an individual or a multi-member arrangement which can be used to amalgamate pension arrangements and to provide retirement benefits through drawdown from the RATS as opposed to purchasing an annuity.
States Pension Age (SPA)	Currently age 65 in Guernsey, but increasing for those born after 1955. See page 2 for further details.
Transfer payment	Another term for a cash equivalent transfer value or a CETV.
Trivial pension	A very small pension that can be commuted for a lump sum.
Winding up	The legal process whereby a pension scheme's liabilities are discharged and the scheme ceases to exist. Winding up would generally be achieved through a combination of trivial commutation,

If you would like an explanation of a pension term that is not listed above, please email pocketpensions@bwcigroup.com

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