Guernsey Secondary Pensions Update

"the project is running behind its original schedule"

Michelle Galpin
mgalpin@bwcigroup.com

It is a little over three years since we first reported on the proposals to introduce a secondary pension system in Guernsey. Shortly afterwards the high level secondary pensions framework was agreed, in principle, at the States meeting in February 2016. At that stage it was acknowledged that further work would be needed and it was anticipated that more detailed proposals would be available by December 2017, with a target launch date in 2020. Since then, work has been going on behind the scenes.

A report on the wider economic impact of secondary pensions was published at the end of 2017. This identified that there was expected to be a reduction in tax revenue (due to the pension tax relief granted on the contributions made to secondary pensions). This was acknowledged and it was recognised that the financial implications would need to be factored into the States Medium Term Financial Plan.

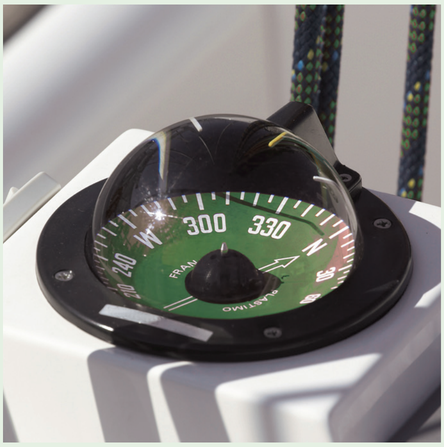
In addition to progress on the economic implications, the tender process to identify and appoint an administrator for the default secondary pension arrangement was launched in the summer of 2018; this is understood to be close to completion.

At the end of January 2019 the President of the Committee for Employment & Social Security provided an update on the status of some of the Committee's current projects, including secondary pensions. It had previously been indicated that employee and employer secondary pension contributions would be collected through the Social Security system. However, it is now expected that the contributions will be collected directly by the scheme's administrator. This is to speed up the process of collecting and investing the contributions.

A Policy Letter is due to go before the States later in 2019. We hope that this will provide details about the requirements for qualifying schemes for the purposes of secondary pensions and when the system is likely to be introduced. However, the President did note that the project is running behind its original schedule. At this stage it is not clear if the original implementation date of 2020 will be put back.

In contrast to Guernsey, secondary pensions are now well-established in the UK, having been gradually phased in from 2012. "Workplace pensions" as they have come to be known, require everyone over age 22 earning a minimum level of income to be auto-enrolled into a pension scheme. Although employees can opt out if they wish to, most have not done so and the take up rate has been higher than expected at the outset.

A recent UK survey* suggests that the opt out rate is dependent on the size of the employer, with the largest employers having the lowest opt out rates as illustrated in the table below. The median initial opt-out rate for all UK employers was in the range 6-10%, but this has increased to 11-15% currently. With 64% of Guernsey's employers employing less than 6 people, it will be interesting to see what the take up rate for secondary pensions will be locally.



BWCI

Location PO Box 68, Albert House
South Esplanade, St Peter Port
Guernsey, GY1 3BY
Tel +44 (0)1481 728432
Fax +44 (0)1481 724082
Web www.bwcigroup.com

Guernsey Employers
Number of employees

Source: Guernsey Facts and Figures 2018

UK's median employee opt out rates under auto enrolment

Number of employees	1 - 9	10 - 49	50 - 249	250 - 499	500 - 999	1000 - 4999	5000+
Opt out rate initially	26 - 30%	11 - 15%	6 - 10%	6 - 10%	6 - 10%	1 - 5%	1 - 5%
Current cessation rate (includes initial opt outs)	31 - 35%	16 - 20%	11 - 15%	11 - 15%	6 - 10%	6 - 10%	1 - 5%

* Association of Consulting Actuaries 2018 Pension Trends Survey