



Guernsey Pocket Pensions

The 2020 Handbook

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BWCI'S POCKET PENSIONS

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

The 2020 edition focuses on the introduction of "Secondary Pensions". This is the most radical change in the Guernsey pension landscape this generation and has been about 10 years in development.

We consider what was covered in the policy letter and steps businesses may wish to take, including using our Blue Riband range of pensions products to provide a local pension solution for employees.

2020 also marks the beginning of increases to the States Pension Age with those born between 1 January 1955 and 31 October 1955 being those first affected. Further details on the States Pension can be found on page 7.

We have also made key facts of Social Security and Revenue Services easy to find as well as highlighting the importance of members engaging in retirement saving.

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.

GUERNSEY SECONDARY PENSIONS











On 27 December 2019 the Committee for Employment & Social Security published more details of their proposals to introduce “Secondary Pensions” in Guernsey. The proposals were agreed at the States’ meeting on 5 February 2020.

In a nutshell - What’s happening?

All Guernsey employers will need to automatically enrol “eligible employees” into a “qualifying pension scheme”. This could be either the employer’s own scheme or the new default States’ scheme “Your Island Pension”. Employers will be required to contribute, unless an employee has chosen to opt out. The long-term joint employer/employee contribution rate is 10%, with a minimum rate of 3.5% of earnings from the employer.

When will it happen?

Employers’ new auto-enrolment duties will be phased in over a 15 month period, expected to start in January 2022; employers will be divided into five size categories, with only the largest employers being required to comply initially. Further details are provided below.

EMPLOYER TIMETABLE	
Auto enrolment date	Number of employees on 1 January 2022
	 26+
	 11 - 25
	 6 - 10
	 2 - 5
	 1

Secondary Pensions are on their way

WHAT DOES THIS MEAN FOR YOU AND YOUR BUSINESS?

ARE YOU AFFECTED?

- ✓ existing pension scheme
- ✓ no pension scheme
- ✓ payment to employees' RATS
- ✓ cash in lieu of pension



**BWCI can help you
find a local solution**

Trustee and administration services are provided through BWCI Pension Trustees Limited, which is regulated and licensed by the Guernsey Financial Services Commission under The Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law, 2000.

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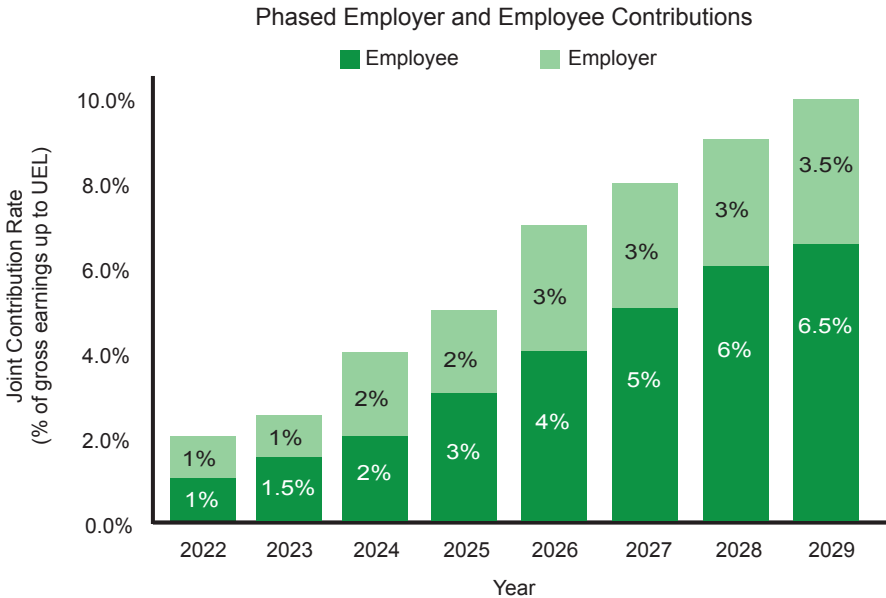


How much will it cost?

Contributions will be based on the same earnings as those on which Social Security contributions are paid, ie salary plus overtime and bonuses etc, up to the Upper Earnings Limit (£149,760 in 2020). However, the full rate contributions will be phased in, over 7 years, as illustrated in the graph below.

Initially the minimum joint employer/employee contribution rate will be 2% of earnings, rising to 10% after 7 years. Employers can opt to pay more than the minimum rate (with employees paying less), provided that the joint employer/employee rate is not less than the minimum required in any particular year.

In current terms, the ultimate maximum employer contribution for an individual earning in excess of the Upper Earnings Limit would be £5,242pa; the maximum employee contribution would be £9,734pa.



Exemptions and flexibility

There is expected to be some flexibility to reduce the administrative burden on employers.

This includes:

- The option to defer auto enrolment of an eligible employee for up to 3 months
- Those in full time education will be exempted
- It will be possible to auto enrol/re-enrol employees in “batches”, at least quarterly.

Eligible employees - who's included?

The starting point is that every employee paying Social Security contributions will be included. This means that all employees resident in Guernsey¹ aged between 16 and State Pension Age², earning more than the Lower Earnings Limit (£7,488 pa in 2020) would need to be automatically enrolled, unless they are covered by one of the exemptions.

Employers' considerations

The most suitable pension arrangement for a particular employer to select to fulfil their new auto-enrolment obligations will depend on various factors, such as their existing remuneration package, the size and nature of their workforce and staff turnover. Employers will have a choice of options:

- Use their existing pension arrangements, (with minor modifications if required);
- Establish their own separate qualifying pension scheme;
- Use a qualifying pension scheme provided by a local third party provider; or
- Use Your Island Pension.

¹ and potentially Alderney if the Alderney States agree

² which is increasing from age 65 to 70 between 2020 and 2049



Your Island Pension

The States will make available a default scheme “Your Island Pension” or “YIP” which will be administered by a UK company, Smart Pensions Limited. YIP will be obliged to accept any employer wishing to use it for auto enrolment, as well as any voluntary contributions from individuals. The YIP fees will be based on an asset management charge (AMC), which is expected to be between 0.85% and 0.95%pa for funds invested in the default investment option. Part of this charge will cover the cost of YIP’s governance structure, which will include an independent trustee board.

Qualifying schemes - what do we know?

Based on the information available in the policy letter, at this stage, the requirements for a scheme to be qualifying appear to be:

- Approved by the Revenue Service under section 150 or 157A of the Income Tax (Guernsey) Law, 1975
- Rules must enable auto enrolment
- Established in Guernsey, Jersey, the Isle of Man or the UK
- Regulated by the appropriate financial services regulator
- For Defined Contribution arrangements, the employer must contribute and the minimum contribution requirements must be met
- RATS³ must be employer-facilitated
- For a Defined Benefit scheme, it must be continuing to accrue benefits and be independently certified by an actuary as providing at least an equivalent level of benefits.

³ Retirement Annuity Trust Scheme

SOCIAL SECURITY BENEFITS 2020



LOWER EARNINGS LIMIT

£7,488 pa

Minimum earnings to be included for Social Security contributions.



UPPER EARNINGS LIMIT

£149,760 pa

Maximum earnings to be included for Social Security contributions.



EMPLOYEE'S CONTRIBUTION RATE

6.6%



EMPLOYER'S CONTRIBUTION RATE

6.6%



SINGLE PERSON STATES PENSION

£11,574.16 pa



MARRIED COUPLE STATES PENSION

£17,371.64 pa



FROM 2020, THE "OLD AGE PENSION"
WILL BE RENAMED THE "STATES PENSION"

STATES PENSION

When is it paid from?

The States Pension is payable in Guernsey when a person reaches their States Pension Age ("SPA"). The increase in States Pension Age has now begun with those born between 1 January 1955 and 31 October 1955 receiving their pension aged 65 years and 2 months.

You can find out when your States Pension will be paid in the table overleaf.

How much will it be?

In 2020 the full rate States Pension for a single person is £225.58 per week (£11,574.16 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's 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	222.58	11,574.16
40	178.06	9,259.12
30	133.55	6,944.60
20	89.03	4,629.56
10	44.52	2,315.04
less than 10	None	None

Claiming a States 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		Year in which pension first paid
		Years	Months	
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

Engaging members

For many employers, contributions to their pension arrangement represents a significant financial and HR commitment. Despite the financial commitment and the time and effort to administer the arrangement, members often do not appreciate the value of their retirement provision and risk a poor outcome in retirement.

Lack of retirement planning

Many members do not fully appreciate the size of the pension pot required to deliver the desired level of income in retirement and so do not start contributing until later in their careers or at too low a level. This results in some members having to defer retirement and/or having a lower standard of living in retirement than they expected.

Regular reporting of projected benefits at retirement and access to an online projector tool can assist members with retirement planning. This is particularly effective when combined with regular member presentations, to remind members of the importance of planning for the future.

Under appreciation of pension benefits

Lack of a clear understanding of how the pension scheme operates and the value of the benefits provided can result in members opting out of membership of a contributory scheme or members not appreciating the value of their pension benefits when considering the overall value of their total employee benefits package.

Total reward statements and improved member understanding of their retirement benefits through member presentations can go a long way to improve a member's appreciation of these benefits.

Selecting wrong benefit options

Whether at retirement or on leaving service, members have important decisions to make about how they take their benefits. The timing and content of member communications and signposting members to additional guidance at these times are extremely important to ensure good outcomes.

Reviewing current communication materials to ensure they are clear, engaging and signpost to quality guidance will help members make positive decisions when they come to take their benefits.

The table overleaf looks at actions that can be taken to promote member engagement.

BWCI can provide easily understood and accessible communications for pension scheme members. We regularly provide presentations to members, communication materials for members and our online platform helps members plan for the future.

Actions to Promote Member Engagement

	Lack of retirement planning	Under appreciation of pension benefits	Selecting wrong benefit options
Review communication material	✓	✓	✓
Ensure engaging, clear, accurate and up to date			
Signpost members to additional advice			
Timing of member communications during career			
Provide benefit illustrations	✓	✓	✓
Total reward statements			
Annual benefit projection statements			
Access to online pension projector tool			
Analysis to identify members with low projected benefits			
Regular Member presentations covering	✓	✓	✓
What the employer pays			
Review of benefit options			
Retirement planning awareness			
Demonstration of online tools			

TAX LIMITS 2020



MAXIMUM TAX FREE LUMP SUM

£203,000

That can be taken from a Guernsey approved pension arrangement.



TAX FREE EMPLOYEE CONTRIBUTIONS INTO PENSION ARRANGEMENTS

£35,000

For those earning less than £100,000 pa. Tax relief is phased out for high earners.



HIGH EARNERS TAX RELIEF

£100,000

For those earning more than £100,000 pa, tax allowances are withdrawn at a rate of £1 for every £5 of earnings that exceed the threshold.

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 enrolls 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	<p>Often shortened to "DB Scheme"</p> <p>A scheme where the benefits are calculated by applying a formula. A typical pension would be calculated as:</p> $1/60 * \text{years of service} * \text{final pensionable salary.}$
Defined contribution scheme	<p>Often shortened to "DC Scheme"</p> <p>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.</p>

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, transfer payments and purchasing annuities.

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

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