

Consultation on Revised Pension Rules



"designed to ensure members are better informed"

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The Guernsey Financial Services Commission ("GFSC") published draft revised pension rules for consultation in September. The proposed changes clarify the existing requirements as well as reducing the current overlap and duplication of requirements placed on licensed pension providers. A key change is that the conduct of business provisions (covered by chapters 2 to 9 of the current rules) have been absorbed into the new draft Fiduciary Handbook. Some new requirements are also proposed.

The consultation closed on 7 November 2019 and the draft handbook and rules can be found at:

<https://consultationhub.gfsc.gg/fiduciary-supervision-policy-and-innovations/consultation-paper-revised-pension-rules/>

Proposed Changes

Defined contribution ("DC") schemes

Licencees of DC schemes would need to notify members where there is no reasonable likelihood that, after member-borne charges are applied, the member's account will be sufficient to achieve capital growth in current or future market conditions. This is designed to ensure members are better informed and aware of the value of their account and the fees charged.

Defined benefit ("DB") schemes

DB schemes would need to have an actuarial valuation once every three years. This is already standard practice for many schemes, but not all will have previously adhered to this timeline if it is not specified in a scheme's rules. A three yearly valuation cycle has been a requirement in the UK for some time.

However, unlike the UK, where there is a 15 month statutory deadline for finalising the valuation, the GFSC's new rules do not impose any time limit for completing the exercise.

Other amendments affecting DB schemes include an increase in the minimum transfer value triggering a transfer value analysis report, from £30,000 to £50,000. This change is expected to make it easier to transfer small benefit amounts.

General

A new rule covering the fair treatment of members has been proposed. The current version of the rules includes this within the general principles, at the start of section 10, but there is currently no explicit rule. In a further simplification, a Statement of Investment Principles is no longer required for member-directed schemes. In addition, the draft rules include guidance notes throughout to assist the user.

Timescale

At this stage there is no firm date for when the revised rules will be finalised, but we expect this will be in 2020.



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Guernsey Budget: Pension Changes

Guernsey released its 2020 budget proposals in October and these were debated by the States on 5 November. The table summarises the agreed changes that will affect pensions.

Aspect	Detail
Tax-free element of lump sums	After age 50 a person may take a cash lump sum of up to 30% of their pension fund value; the lump sum is tax-free up to a monetary limit. The 2019 limit is £198,000. The limit will be increased to £203,000 for 2020
Triviality provisions - aggregation	Following consideration of the 2019 Budget Report, the States resolved that, for members aged 50 or over, the limit for triviality payments was to be raised to £50,000 per scheme rather than in aggregate. However, the Income Tax Law was not fully updated to reflect this intention. The Law is being amended this year, as part of the budget process, to remove the aggregation requirement.
Triviality provisions - taxation	Some high earners in Guernsey are able to benefit from one of Guernsey's income tax caps, whereby tax is not charged on income above the relevant cap. The 2019 Budget Report included the intention that triviality payments would be excluded from the income tax cap. However, no proposition was included to this effect. It has been agreed that the Income Tax Law be amended to exclude from the tax cap the following payments, if they derive from Guernsey tax-relieved contributions: <ul style="list-style-type: none"> ■ triviality payments; and ■ lump sum payments from pension schemes or annuity schemes which are chargeable to tax as being over the tax-free limit