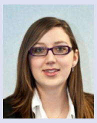
Updated Guernsey Pensions Regulations



"general principle around the fair treatment of members is being introduced"

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Introduction

The Guernsey Financial Services Commission ("GFSC") have released the third version of the pension regulation rules; their official title is the Pension Scheme and Gratuity Scheme Rules and Guidance, 2020 ("the 2020 Rules"). When they come into force on 31 December 2020 they will supersede The Pension Licensees (Conduct of Business) & Domestic and International Pension Scheme and Gratuity Scheme Rules (No. 2) 2017 ("the No. 2 Rules").

Guidance notes have also been added, providing examples of how licensed fiduciaries could demonstrate compliance with the rules. These guidance notes do not form part of the rules and appear in shaded boxes to distinguish the guidance from the rules.

There are a number of differences between the 2020 Rules and the No. 2 Rules. A fundamental change is that all of the conduct of business sections have been consolidated into the new Fiduciary Rules and Guidance. That document replaces and builds on the existing Codes of Practice.

The other changes to the rules fall into three areas:

- New requirements
- Modifications to the existing requirements
- Relaxation of some requirements

New requirements

An overarching general principle around the fair treatment of members is being introduced across all types of pension arrangement. In addition, there are also new requirements for specific types of pension schemes.

Defined benefit ("DB") pension schemes will need to have an actuarial valuation at least once every 3 years. In practice this may have little impact, since most occupational pension schemes' trust deed and rules will specify a requirement for a valuation within this timescale anyway. However, unlike the position in the UK, the requirement does not specify a timeframe for completing the valuation; the UK deadline is 15 months after the valuation date, including agreement with the sponsoring employer over the rate and timing of any contributions required.

A change to the requirements for defined contribution ("DC") schemes will see members informed if there is a reasonable likelihood that the value of their account will be exhausted by member borne charges before retirement age. Clearly assessing this will be subjective, since it will depend on the both the rate of return achieved on the funds and the expenses. However, it should help to highlight to members the impact of fees and charges on their pension savings – we may see members looking to consolidate a number of small pension pots to take advantage of economies of scale.

Changes to existing requirements

Benefit statements

Members of DB schemes will now need to be provided with an annual benefit statement; previously these only had to be provided on request. The statements should include benefit illustrations to assist members with their retirement planning.

Service providers

More detailed records on the terms of appointment of service providers will need to be kept, including their terms and regulatory status.

Transfers

The governance around transfer values is being updated. Licensees must not impose unreasonable conditions on members wishing to transfer to another arrangement; the 21 day limit for providing transfer value quotations is being replaced with a requirement for it to be provided as soon as reasonably practicable. Only transfer values in excess of £50,000 will require a transfer analysis report before the transfer can take place; the limit has been updated from £30,000, bringing it into line with the triviality limit. It is now also the responsibility of the transferring licensee to obtain this report if the receiving trustee or administrator is not regulated by the GFSC.

Some relaxations

The requirement for a governance committee has been relaxed, as long as a scheme can demonstrate good governance. In addition, members no longer need to be provided with details of the complaints procedure every year. Instead they just need to be informed of any changes to the procedure.

The requirement to produce a statement of investment principles no longer applies to member-directed schemes.

Next steps

We have provided an overview of the key changes. Trustees and other pension providers will now need to take an in depth look at their existing processes and procedures to check if there are any areas where changes need to be made to remain compliant with the forthcoming rule changes.

How we can help

BWCI is offering a "gap analysis" service to highlight the areas where changes may need to be made. We can also provide generic or bespoke training in this area for pensions administration staff.

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