Bandwagon

The BWCI Group Newsletter

Issue 4
2023

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BWCI

Welcome
to Bandwagon.

With less than 7 months to go before the launch of Secondary Pensions in Guernsey, we have seen a flurry of activity in recent weeks, both from the States and employers, to make sure that everything is in place by 1 July 2024.

We provide an update on the latest developments on page 3, as well as a summary of the measures that the Guernsey Revenue Service has at its disposal to police the Secondary Pensions regime on page 8.

Anthony Brewer's article on page 4 looks at the reasons why so many defined benefit schemes now find themselves in surplus and the different ways that schemes may want to take advantage of this.

Blue Riband
ESG Update

As part of BWCI's commitment to tackling climate change we have pledged to achieve net-zero greenhouse gas emissions by 2030, by considering how we can be more sustainable in every aspect of the business.

As part of our commitment to sustainability and responsible investing, we have recently introduced some changes to our Blue Riband range of pension products. These changes mean that members of Blue Riband can now access "Green" or "Sustainable" funds, which incorporate sustainable investing principles, through both Blue Riband's Lifestyle Strategy and Self Select options.

Three new investment funds have also been introduced for those who have opted for a self-select option. These new funds offer a unique combination of broad market exposure and a commitment to ESG[1] principles. They track the Solactive ESG indices, which set stringent global criteria for companies to meet. This approach ensures that companies committed to low carbon transition and strong corporate governance are prioritised.

Stephen Ainsworth,
Senior Partner at BWCI, said:

"*The journey to net-zero emissions is not an individual effort; it's a collective journey that involves businesses and individuals. We're proud to be making these changes and to be leading in this area locally.*"

[1] Environmental, Social and Governance

Secondary Pensions
- what's new?

The States of Guernsey have recently issued more information[1] on the practical aspects of the introduction of Secondary Pensions. A pension scheme which meets the requirements will be known as an "Approbated Pension Scheme".

We now know:

- How to determine your number of employees for phasing-in purposes
- That it is possible to make membership of a company pension scheme compulsory
- In what circumstances an employer must make membership of Your Island Pension ("YIP") available
- When and the content of notices which employers need to send to staff
- The restrictions on refunds of contributions, vesting periods, trivial commutation and transfers

When will the changes happen?
The phasing in of Secondary Pensions will begin on 1 July 2024, starting with the employers who have 26 or more employees. It will be rolled out to smaller employers over the following 15 months. Consequently, all employers will need to be compliant by 1 October 2025. The date by which an employer needs to be compliant is their "Operative Date".

How do you count the number of employees?
An employer's size is determined based on the number of employees at 30 June 2024 included in the quarterly employer schedule submitted to Revenue Services.

What notices must an employer issue?
This will depend on whether or not pension scheme membership is compulsory in a contract of employment. If it is compulsory then no notices need to be issued. However, where members can opt-out, employers will need to issue either a:

- Notice of Immediate Enrolment or
- Notice of Deferred Enrolment (if the employer does not auto-enrol from day one of employment)

What must a notice contain?
The notices will need to include:

- Confirmation of when an employee will be auto enrolled
- High level features of their company scheme
- High level features of YIP
- The option to opt out

Restrictions on refunds / vesting periods
No refunds of member contributions will be permitted if the individual has been a member of an Approbated Pension Scheme for more than 3 months. Furthermore, vesting periods of more than 3 months will not be permitted.

Restrictions on trivial commutation
No trivial commutation will be permitted before age 50, unless the individual has left the Bailiwick of Guernsey for a period of two consecutive calendar years.

Restrictions on transfers
Transfers will generally only be permitted between Approbated Pension Schemes. However, if an individual has left the Bailiwick of Guernsey for a period of two consecutive calendar years then a transfer may be made to a non-Approbated Pension Scheme.

If you would like any further information about Secondary Pensions, please contact John Martin (john.martin@bwcigroup.com)

[1] Secondary Pensions (Guernsey and Alderney) regulations, 2023 and Statements of Practice which supplement The Secondary Pensions (Guernsey and Alderney) Law, 2022

Pension surpluses
- what now?

Anthony Brewer
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> *"The priority for many schemes has become protecting their improved funding positions"*

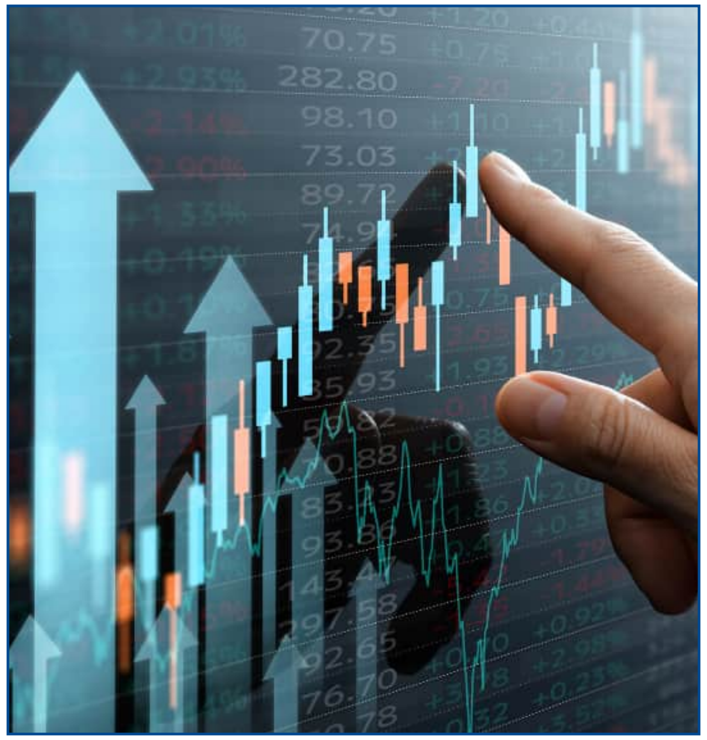
A rapid rise in yields has changed the funding picture for many Defined Benefit ("DB") pension schemes dramatically over the last couple of years.

It is hard to exaggerate the speed at which the yields on UK Government bonds ("gilts") have risen since the start of 2022, completely unwinding over a decade of persistent falls. The chart shows how yields on 20 year gilts had been falling since 2008, until a rapid turnaround in 2022.

Why yields fell

During the environment of weak economic growth and low inflation following the 2008 global financial crisis, policymakers attempted to stimulate economies with ultra-low interest rates and "Quantitative Easing", often referred to as "QE".

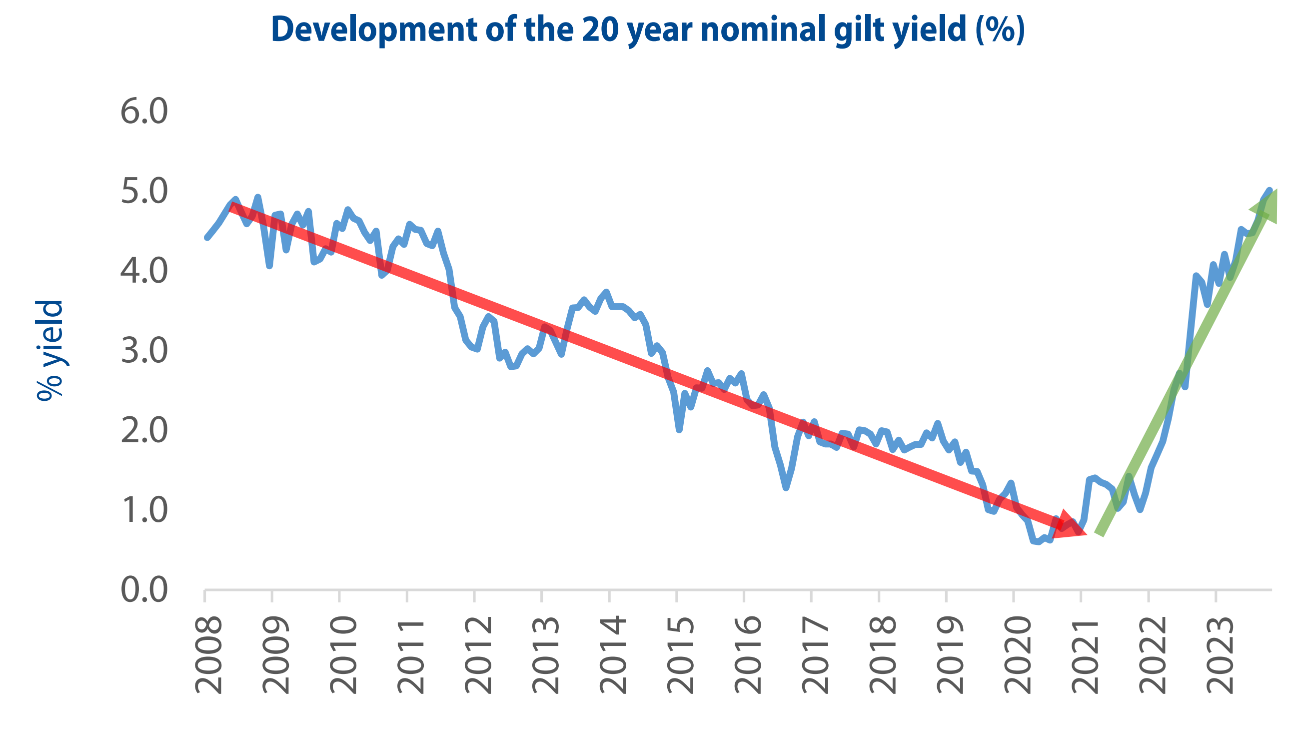
QE saw the Bank of England buying bonds in the market to reduce supply. The impact of this squeeze on availability pushed up the price of gilts. Consequently, as the income from the gilts was unaffected, the yields available to investors fell. Ultimately the outcome of QE was to make long-term lending cheaper in an attempt to stimulate investment and boost the economy.



So what changed?

In short - Inflation reached levels not seen for decades.

Demand and supply became imbalanced during (and following) covid, particularly as a result of the associated stimulus measures taken by governments around the globe. Quantitative Easing has been reversed and become "Quantitative Tightening". This has had the opposite effect on yields, and bank rates have risen to levels not seen since 2008.



Why are yields so important for DB schemes?

The yield on long-dated gilts is often used by actuaries as the starting point for setting the discount rate when calculating the present value of a pension scheme's liabilities. The higher the yield, the lower the present value of these liabilities. This means that you need a lower value of assets to invest today to meet the future projected cashflows, as you can now expect to receive a higher investment return in the intervening period.

The sharp increase in yields has seen the value of some pension scheme liabilities fall to around half what they were when yields on gilts were at their lowest. This change has led to funding levels increasing dramatically.

This seismic shift in market conditions in 2022 has put some DB pensions schemes into unfamiliar territory: surplus! This has led to a lot of de-risking of their investment strategies in order to maintain their strong funding level and minimise the risk of deficits emerging again in future.

Jargon Buster

Term	Explanation
DB pension scheme	Defined benefit pension scheme – a scheme where the benefits are linked to an employee's period of service and salary at a point in time
De-risking	Reducing the volatility of the funding level in a DB scheme by investing in assets which generate cashflows that closely match the scheme's expected pattern of benefit payments
Gilts	UK Government bonds, often viewed as the long-term "risk-free" asset (with cash being the equivalent short-term risk-free asset)
QE	Quantitative easing - a monetary policy tool used by central banks with the aim of reducing long-term interest rates by increasing money supply in the economy with the goal of stimulating economies
QT	Quantitative tightening - a monetary policy tool which is the opposite of QE, designed to reduce money supply in the economy to put downwards pressure on inflation and economic growth

Why have DB schemes been de-risking?
The priority for many schemes has become protecting their improved funding positions from two key risks.

- Growth assets falling in value (e.g. an equity market crash) *This has been protected by selling out of growth assets.*
- Yields falling back (e.g. as a result of a significant recession where both growth and inflation return to the doldrums). *This can be protected, to some extent, by buying gilts of the appropriate term (in which case, the assets are expected to increase in value in lockstep with the liabilities, ensuring no deficit arises).*

Many well-funded schemes have therefore moved to a largely gilts strategy to better secure their funding position as an interim measure, whilst they consider their preferred long-term strategy.

Should schemes hold gilts long-term?
Whilst only holding gilts does tend to minimise risk versus the actuary's assessments of the value of the liabilities, it is reasonable to explore other investment options as well, due to the potential downsides of investing entirely in gilts.

Rate of return
A gilts-only strategy generates very low returns, limiting the opportunity for the scheme's surplus position to improve further. For schemes that still have very long investment horizons, this strategy may actually add more risk than it removes. This is because there may be unexpected demands on benefits that gilts investment would struggle to fund: for example, increasing longevity of pensioners, unanticipated State action on pensions and imperfect cashflow matching.

Paying benefits
The actuary's basis is fundamentally a tool used to calculate the assets, and therefore contributions, a scheme is expected to need today to meet its future liabilities; it does not attempt to define the optimal investment strategy for a scheme.

For a well-funded, closed scheme, there are unlikely to be any further contributions required and therefore the actuarial basis is now less relevant to decision-making than it may have been previously. The focus for schemes which find themselves in surplus should be on meeting the benefits promised to members, including ensuring sufficient liquid assets are available to meet the benefit cashflows when they need to be paid.

What about "buy-out"?
To remove the ongoing funding risks from the sponsoring employer, a target for some well-funded schemes is to buy-out the benefits with an insurer. This is where a premium is paid to the insurer, which then invests the assets (not necessarily in gilts) and pays the benefits directly to members over the long term, whilst also generating a profit for the insurer. Simple in theory, but many (particularly smaller) schemes may find the cost and complexity of a buy-out to be a significant barrier. A buy-out would also result in the permanent loss of the potential opportunities associated with a scheme in surplus.

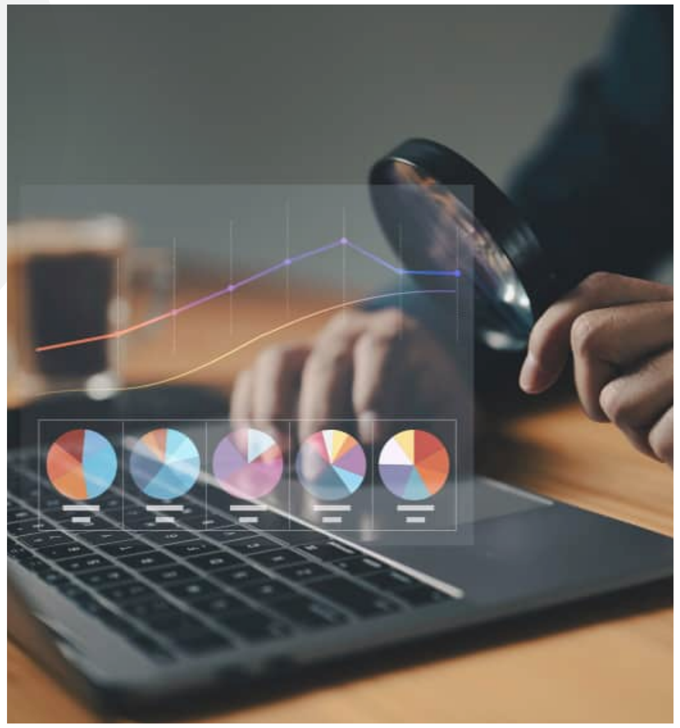
Making use of the surplus

There are a number of reasons why a scheme might maintain a long-term investment strategy with some upside potential. A strong funding position provides an excellent buffer for some modest investment risk to be taken. This can typically be done without any detrimental impact on the security of members' benefits; in fact, over the long-term, it may improve the security of members' benefits given the expectation of higher asset growth. There are several potential flexibilities such an approach may unlock:

Members' benefits enhancements
Surplus assets can be used to provide discretionary increases during periods of high inflation when caps on annual benefit increases often bite.

Return of surplus
Sponsors have often put a lot of money into a scheme, particularly so in recent years during the period of falling gilt yields. Where the rules of the scheme permit, there may be reasonable opportunities to return some of this value, allowing them to reinvest in their business or enhance benefits provided to current employees in Defined Contribution schemes, so helping to narrow the inter-generational gaps and inequalities when it comes to pensions provision.

Directing capital to productive investments
Subject to consideration of their fiduciary duties, schemes could invest in assets aligned with societal, sponsor and members' best interests. For example, these could include funding key infrastructure projects associated with decarbonising the economy, building affordable housing, improving core infrastructure. Not only can a scheme maintain high security of members' benefits, it can also improve the world the members live in, potentially on both a global and local scale!



Long-term strategy
There is a wide range of assets that may be appropriate for a pension scheme to invest in long-term, particularly those assets which generate predictable cashflows, to ensure members' benefits are met with a high degree of certainty. These asset classes include corporate bonds, private credit and infrastructure debt (alongside gilts). A modest allocation to growth assets may also be attractive; the larger the surplus, the more flexibility here.

Ultimately a mind-set change may be warranted, as we move from an environment where schemes presented seemingly ever-growing liabilities, as yields fell, to one where they present opportunities to generate value for members and sponsors and even the broader society.

If you would like to discuss your DB scheme's long-term investment strategy, please get in touch with either Anthony or your usual BWCI contact.

Employers beware: *secondary pensions enforcement*

Anna Gray
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"a range of sanctions, including substantial fines and imprisonment for criminal offences."

This is a summary only. Legal advice should be sought to understand the position in relation to any specific circumstances.

The new duties on employers to auto-enrol staff into a pension scheme are set out in our basic guide to secondary pensions. However, it is not always appreciated that, for those with existing pension schemes, this is not simply about checking that the contributions satisfy the minimum requirements.

Changes are likely to be needed around how and when employees are enrolled into a pension scheme, as well as some other more technical aspects. Not complying with the new requirements can lead to enforcement action. The Guernsey Revenue Service (GRS) has a suite of powers it can use. This note looks at some of the potential consequences.

- New GRS powers allow it to:
  - obtain information,
  - direct steps to achieve compliance/prevent recurrence of non-compliance,
  - require payment of unpaid contributions (plus interest), and,
  - impose a fixed fine (max £50,000) and escalating daily fines (max £10,000 per day) to ensure compliance.
- Additionally, non-compliance with the enrolment duties or penalty notices can be a criminal offence leading to imprisonment, a fine or both.
- It is also an offence to provide false or misleading information or for employers to omit relevant information.

The consequences are not just relevant to employers:

- third parties causing the employer to be non-compliant can receive a "third party compliance notice".
- where an employer is a legal person (e.g. company, partnership or even unincorporated body), directors or equivalent officers might be subject to enforcement (for non-compliance with enrolment duties and non-payment of penalties) if the non-compliance was carried out with the officer's consent, connivance or neglect.
- Information notices may be sent to employers, but also employees or pension scheme administrators

Time will tell how often the GRS will need to use its powers, but the very similar regime in the UK has led to a number of high profile fines and prosecutions.

It is important that employers understand how the new requirements will affect them so that they can prepare well in advance. BWCI can assist in providing a pension scheme that meets the new requirements.

If you would like information, please get in touch with Anna Gray **anna.gray@bwcigroup.com**

Summary of enforcement powers

Power	When it can be used	What it means
Penalty - failure to submit return	Compliance return not submitted	Maximum £300 plus daily penalty (max £50 per day)
Information notice	GRS requires information on compliance	Requirement to provide information. Fixed/escalating penalty notices might apply if not complied with.
Compliance notice	Where employer has not complied with a provision of the law	Direction to take/refrain from taking specified steps in order to remedy a breach. May involve: • putting the employee in the position they should have been in • interest for unpaid contributions Fixed/escalating penalty notices might apply if not complied with.
Third party compliance notice	To a third party that is the cause employer being non-compliant	Direction to third party to take/refrain from taking specified steps in order to remedy a breach. Fixed/escalating penalty notices might apply if not complied with.
Unpaid contributions notice	Contributions due are unpaid	Direction to pay a specified amount and related steps to remedy breach. Possible interest on unpaid contributions. Fixed/escalating penalty notices might apply if not complied with.
Fixed penalty notice	Non-compliance with: • information notice • compliance notice • third party compliance notice • unpaid contributions notice • other provisions of the law	Fixed penalty, max £50,000
Escalating penalty notice	Non-compliance with: • information notice • compliance notice • third party compliance notice • unpaid contributions notice	Daily penalty max £10,000 per day
Criminal offence	• Failure to enrol relevant employees • Non-submission of return • Non-compliance with penalty notices • Providing misleading/withholding relevant information to mislead	Summary: max 6 months imprisonment and/or fine twice level 5 on the uniform scale Indictment: max 2 years imprisonment and/or fine

Celebrating *diversity*

Diversity
Inclusion
Fairness
Equality
Respect
Acceptance

BWCI has been a member of DIFERA since 2018. This is Liberate's employer accreditation scheme which awards organisations with a quality mark to demonstrate that the six principles of Diversity, Inclusion, Fairness, Equality, Respect and Acceptance are at the heart of what the organisation does.

This year BWCI appointed a group of DIFERA "champions" to help raise awareness and promote equality in the workplace. Our champions have been working together to raise awareness of a range of topics. We recognise that it is important to talk openly about the challenges and lived experiences of our colleagues and friends as this helps challenge stigma, creating a safe environment at work and learning about "allyship". All employees, regardless of how they identify, should feel respected and safe in the workplace.

Our champions are keen to spread awareness of topics that others may have limited knowledge about or are just not sure about how to approach the subject. Small changes can help and support individuals who may be LGBTQ+, have a disability or just struggle generally in the workplace.

Making small gestures of allyship could be as simple as leaving the coffee in the same place so that a person who is visually impaired can find it easily, or adding pronouns to your email signature.

Each month our DIFERA champions select a theme or event to help raise awareness of a particular topic. Here are some of the initiatives that our DIFERA champions have been highlighting in recent months:

1

Pride Month

We launched a staff quiz with all questions relating to LGBTQ+ for colleagues to enter with a chance of winning a voucher.

2

Disability Pride Month

Promoting simple ways to support people with disabilities at work include keeping paths free of obstacles, being patient, avoiding offensive language, not patronising. Focus on the person, not their disability.

3

World Suicide Awareness Day

Suicide is the single biggest killer of men under the age of 45 in the UK, and suicides among teenage girls and young women have almost doubled in recent years.*

4

International Day of Persons with Disabilities

This United Nations day is celebrated on 3 December. The day is about promoting the rights and well-being of persons with disabilities at every level of society and development. It also aims to raise awareness of the situation of persons with disabilities in all aspects of political, social, economic, and cultural life.

What is allyship?

This is a relatively new concept of supporting a marginalised group by someone who is not part of that group.
Allyship in the working environment promotes staff equality and inclusion.

Statistics sources* LGBTQ+ facts and figures | Stonewall World Suicide Prevention Day - Mental Health UK (mentalhealth-uk.org)

Charity *Update*

GUERNSEY WELFARE SERVICE

Each year we run a staff poll to select a charity to support for the following two years. In this way we are able to provide practical and financial help for two local charities each year. During 2023 we have been supporting the winner of last year's vote, Man Club, as well as providing a second year of assistance to the Guernsey Welfare Service.

As our 2 years of support for the GWS draws to a close, we have recently taken part in their Reverse Advent Calendar initiative. This aims to provide boxes of 25 Christmas-related food and other items to be distributed by the GWS in December.

Looking ahead to 2024, we will continue to support the Man Club for a further year, as well of the winner of this year's staff vote, the Guernsey Alzheimer's Association.

Diary *of* Events *2024*

- **3 FEB** — *Thirst Music School's 'Battle of the School Bands'*
- **6/7 JUL** — *BWCI Mini Soccer Festival*
- **6 AUG** — *BWCI Open Castle Swim*
- **30/1 NOV/ DEC** — *BWCI Camerata Family Concert*

2023 BWCI International *Chess Festival*

We were delighted to be able to sponsor Guernsey's 47th International Chess Festival which welcomed over 60 individuals from 10 different countries, including an international master and two grandmasters. This is the first year that BWCI has supported this historic festival which provides Guernsey's chess community with an internationally recognized and well-regarded event.

The week of chess began with a simultaneous grandmaster exhibition by Daniel Gormally, followed by the one day Blitz Tournament. The remaining five days of competition saw two separate tournaments; the Open Tournament and a Challengers Tournament.

The culmination of a week of intense competition saw BWCI's Matt Stanbury congratulate all of the winners at the prize-giving dinner.

THE BWCI GUERNSEY INTERNATIONAL CHESS FESTIVAL

BWCI Actuaries | Consultants | Pensions specialists

Winners

The Open Tournament was won by English international Master **Harry Grieve** and the Challengers Tournament was won by Guernsey's **Gerda Nevska**.

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