Bandwagon

The BWCI Group Newsletter

Issue 2
2024

Secondary Pensions

Deadline for employers with 26+ employees:
1 July 2024

Inside this issue:

BWCI

Welcome to Bandwagon.

With the introduction of Secondary Pensions now imminent in Guernsey, Claire Du Feu takes at look at its objectives and what the long-term impact might be for retirement savings.

As well as significant changes in Guernsey's pensions landscape this year, here at BWCI we are delighted to announce the appointment of Michael McKay as our new Managing Partner.

BWCI Group announces the appointment of *Michael McKay* as *Managing Partner*

Michael joined the BWCI group in 2016 and was appointed a partner in 2017. He takes over from Diana Simon who has recently retired.

He will continue in his role as CEO of the BWCI Group fiduciary business which focuses on the administration and trusteeship of domestic and international pension plans and will now take on a wider role with responsibility for the management of the whole of the BWCI Group.

Michael said “I am delighted to take on this additional leadership role at an exciting time for the BWCI Group. Our main business areas in fiduciary and actuarial consultancy have seen significant growth in recent years as clients have recognised our in-depth expertise in these areas, and we continue to develop additional services in our research and insurance management businesses. I look forward to helping our teams to develop and to grow our reputation and service across these key areas.”

Stephen Ainsworth, the Senior Partner of the BWCI Group said “I am very pleased that Michael has agreed to accept this well-deserved appointment and to lead the business in the next stage of its development, I must also take this opportunity to express my gratitude to Diana Simon who has been Managing Partner for the past 8 years and was part of BWCI for over 40 years. Her leadership has helped us achieve a great deal in that time and I wish her a long and happy retirement.”

Happy *retirement,* Diana!

At the end of April, we said a fond farewell to our Managing Partner Diana Simon, after 43 years of service with us.

Diana was the first person to train and qualify as an actuary with BWCI in Guernsey. She became a partner in 1991 and latterly, Managing Partner. Senior Partner, Stephen Ainsworth said:

“

Diana's dedication and commitment to BWCI will be valued and remembered, and we'd like to wish Diana all the best in her retirement, and good luck with all of her future endeavours!

”

EMPLOYERS BEWARE!

The Secondary Pensions deadline for Guernsey companies with 26+ employees is soon.

Non-compliance can be a ***criminal offence*** leading to a **fine**.

Don’t leave it until the last minute, contact BWCI now to get it sorted.

Get in touch with us today:
pensions@bwcigroup.com
01481 728432

Pension solutions are provided by BWCI Pension Trustees Limited which is regulated as a pension provider by the GFSC

What can *Guernsey* expect from *secondary pensions?*

Claire Du Feu
claire.dufeu@bwcigroup.com

> *the hope is that it will engender a similar pensions savings culture on the island*

As 1 July 2024 approaches, the secondary pensions compliance deadline for employers in Guernsey and Alderney with at least 26 employees, what can we expect from the introduction of the new legislation?

What's been happening?

The last few months has seen a flurry of preparatory activity from all stakeholders; employers, the States of Guernsey, the Guernsey Revenue Service, pension providers and industry bodies. The jargon associated with putting the legislation into operational practice has now entered the vernacular... "designated" and "non-designated employees", "operative dates" and "approbated schemes".

In addition, the operational processes which employers and pension providers need to be put in place are now much clearer. The Guernsey Revenue Service has published a number of Statements of Practice, which provide guidance on various questions that have cropped up so far as stakeholders work through their implementation plans.

Why are secondary pensions being introduced?

The States of Guernsey's website says:

> *The Secondary Pensions Law was introduced to enable islanders of working age to save more for their retirement so that they won't have to rely solely on the States Pension and tax-funded welfare benefits later in life.*

The intention all along has been that the regime must be simple to operate and that employers should not have to worry about pensions becoming an administrative burden to their businesses.

The UK's experience

In November 2022, 10 years after the introduction of auto-enrolment in the UK, the UK Department for Work and Pensions published a press release stating:

"Ten years of Automatic Enrolment achieves over £114bn pension savings.

In 2021, employees across the UK saved £114.6 billion into their pensions. This is a real terms increase of £32.9 billion compared to 2012, when Automatic Enrolment was introduced.

The figures reveal how the policy has transformed pensions saving over the last ten years for people from Sterling to Southend, by normalising workplace pension saving, establishing a culture of retirement saving for a new generation, and helping foster a greater sense of security in later life."

Guernsey's politicians must be hopeful that the introduction of an auto-enrolment regime will bear similar fruits to those in the UK's well-established pension saving regime.

Jargon Buster

Term	Explanation
Approbated scheme	An occupational scheme, a retirement annuity trust scheme (RATS) or a retirement annuity contract (RACS) which has been structured to ensure that it satisfies the secondary pensions requirements.
Designated employee	An employee satisfying the criteria to be automatically enrolled under secondary pensions.
Non-Designated employee	An employee who is not a designated employee.
Operative date	The latest date by which an employer must be compliant with the secondary pensions' requirements.

Creating a savings culture

As all Guernsey employers will be required to comply with the legislation at some point over the next 15 months, the hope is that it will engender a similar pensions savings culture on the island. Employers will be legally obliged to enrol their employees into a pension and many are making membership of the pension scheme a condition of employment to minimise the administrative burden of dealing with opt-outs and the requirement to re-enrol those who have opted out every three years.

Helen Dean CBE, who has been involved with the UK's auto-enrolment regime since it was implemented, and who now chairs the Governance Committee of Guernsey's "Your Island Pension" (YIP) scheme, commented at a recent Guernsey Chamber of Commerce meeting:

"As we get more people into the habit of saving, there is a cultural shift in attitudes towards pension provision. As account balances grow, they get a sense of pride and curiosity in what they're saving for."

The States estimated that around 60% of the working age population did not have any personal pension provision at all when the secondary pensions policy was first proposed. Currently, those without any retirement savings will be relying on income from other sources including the States Pension. However, as it stands, three out of four people in Guernsey do not qualify for the maximum States Pension as they do not have a full social security contributions record.

It will be interesting to see how the percentage of the working age population with private pension provision changes over time. This will be a key indicator to help assess both the cultural change and financial impact of the new regime for the island's ageing population.

Climate Change Scenarios for Insurers

Ryan Hardiman
ryan.hardiman@bwcigroup.com

> *"guidance aims to bridge the gap between regulatory expectations and current practice"*

EIOPA[1] provided guidance on running climate change materiality assessments and using climate change scenarios in the Own Risk and Solvency Assessment (ORSA) process in mid-2022. However, the timing coincided with a particularly busy period for many European insurers, as their main focus over the last 2 years has been on the implementation of the new accounting standard, IFRS 17.

As the dust begins to settle on accounting issues, we thought it would be a good idea to revisit the climate change guidance, which is consistent with international commitments under the Paris Agreement to limit global temperature increases to well below 2°C and pursue efforts to limit it to 1.5°C. Whilst this guidance is aimed at Solvency II insurers, the same principles can also be applied in other areas where there is less guidance available.

Importance of Climate Change Risk Management

Climate change represents a significant risk to the insurance and reinsurance sectors. The increasing frequency and severity of climate-related events can have a material impact on underwriting processes, asset values and overall business strategies. As global temperatures rise, both physical and transition risks increase, potentially leading to higher underwriting risks and asset devaluation.

Overview of the Guidance

The guidance builds on the framework established by EIOPA's 2021 Opinion on integrating climate change risk scenarios into the ORSA. It includes supervisory expectations for forward-looking management of climate risks and detailed steps for incorporating these risks into the ORSA. However, few insurers currently perform comprehensive, long-term quantitative analyses of climate change risks. This guidance aims to bridge the gap between regulatory expectations and current practice, by providing structured methods for both materiality assessment and scenario analysis.

[1] The European Insurance and Occupational Pensions Authority

Materiality Assessment

The detailed approach to materiality assessments helps insurers identify and evaluate their exposure to climate-related risks. Key aspects covered include:

- **Physical Risks:** Direct impacts from climate events such as floods, storms, heatwaves and rising sea levels. The assessment involves identifying vulnerable regions and understanding how these physical risks could affect insured assets and liabilities.
- **Transition Risks:** Indirect impacts from the transition to a low-carbon economy, including regulatory changes, shifts in market demand, technological advancements and changes in consumer behaviour. The guidance emphasises assessing how new policies, carbon pricing and evolving technologies might affect the company's investment portfolio and underwriting processes.

Insurers are encouraged to analyse both short-term and long-term impacts of these risks and integrate their findings into their ORSA report. This ensures a comprehensive view of how climate change might affect their risk profile and business strategy.

Climate Change Scenarios

For material risks identified, the guidance outlines a robust scenario analysis framework. Insurers should consider at least two long-term climate scenarios:

- **Below 2°C Scenario:** A scenario where global temperatures increase by less than 2°C. It involves evaluating the potential impacts of stringent climate policies, rapid technological innovation and significant changes in energy systems.
- **Above 2°C Scenario:** A scenario where global temperatures increase by more than 2°C. It includes assessing the physical impacts of more severe weather events, increased frequency of natural disasters and the resultant economic and social disruptions.

The guidance provides step-by-step instructions on defining these scenarios, translating them into specific climate change risks and quantifying the potential financial impacts. It also highlights the importance of using both qualitative and quantitative data to enhance the accuracy and reliability of the scenario analysis.

Practical Examples and Tools

To facilitate implementation, the guidance includes practical examples using "dummy" life and non-life companies. There are also tools and templates to support the systematic analysis of climate-related risks and their integration into the ORSA process.

Conclusion

The guidelines provide a clear pathway to identify, assess and mitigate climate-related risks. This will help insurers to enhance their resilience to climate change, ensure regulatory compliance and contribute to global efforts in mitigating climate impact.

For more information on how BWCI can help you manage climate-related business risks, please contact Clair Le Poidevin (clair.lepoidevin@bwcigroup.com) or Jonathan Kemp (jonathan.kemp@bwcigroup.com).

Avoiding Pensions Poverty

- Secondary pensions is not a panacea

Anthony Brewer
anthony.brewer@bwcigroup.com

> *“an opportunity to refine and improve pensions provision”*

Guernsey’s secondary pensions, which is analogous to auto-enrolment introduced in the UK back in 2012, is being phased in from 1 July 2024. This notable change in the obligations for employers is expected to expand the scale of personal pension saving in the Island significantly. Unfortunately, the risk of pensions poverty for the Island’s population is not immediately swept away by this new framework. Pensions is also not an area blessed with the luxury of quick-fixes, and if a problem appears (i.e. increasing poverty in retirement) it is likely to be too late to find a palatable solution for an entire generation.

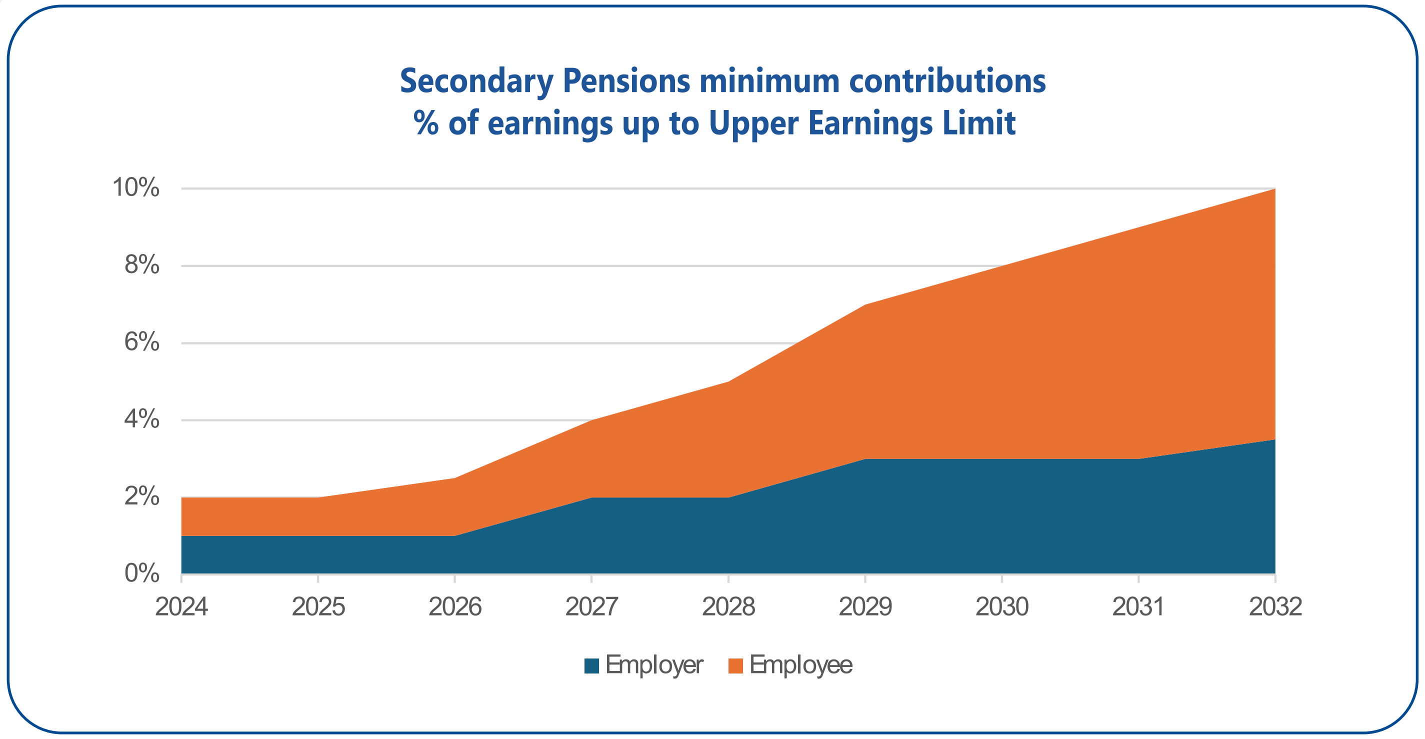
Whilst pensions risk notionally sits with individuals, they may lack the expertise or time to give this important area sufficient consideration. Therefore, the onus often falls to employers and the government to ensure that general or default provisions are adequate. Employers and individuals could consider the expected pension outcomes, in terms of retirement incomes, from their current arrangements to ensure society is not sleepwalking into a crisis. Given the increased public attention on pensions currently, employers should also consider using attractive pensions provision as a valuable staff recruitment and retention tool.

What are the typical sources of income in retirement?

Glancing over the key sources of retirement incomes highlights some of the potential challenges which lie ahead.

- **States Pension –** This provides the cornerstone of many retirees’ pensions[1]. However, this benefit is being eroded given the gradual move in the relevant retirement age to 70 by 2049 – this represents a double whammy for individuals who both need to pay in for longer and receive benefits for a shorter period.
- **Occupational/Personal pensions –** Secondary pensions should provide a boost to this pot. However, the specified minimum contributions rise slowly to 10% of earnings in 2032; in many cases 10% annual contributions alone are unlikely to be sufficient to achieve comfortable incomes in retirement.

  This also needs to be set against the decline of defined benefit (“DB”) arrangements, which are now almost completely replaced by defined contribution (“DC”) schemes in the private sector. DB tended to be more generous and far less risky for individuals. This is because an individual could predict what income they would receive in retirement. In addition, they were not exposed to investment or longevity risk as these were pooled with other individuals and then ultimately borne by their employer instead.
- **Personal savings/investments –** The lack of capital gains tax makes investments a potentially tax-efficient method of financing retirement in Guernsey. However, in practice, there are many who can not afford to save, or do not wish to do so, in case it reduces any top-up State benefits. This savings pot may therefore be close to non-existent for those most at risk of pensions poverty.



What can employers do?

Whilst crystal balls are not available, it is possible to model outcomes for employees based on their current arrangements. This can either be done using actual member data, or a simplified analysis based on “average” or typical employees, to see what range of retirement incomes is expected and how this compares to their requirements and aspirations.

Where this analysis suggests employees need to change something to improve their retirement outcomes, there is a range of options the employer can explore to help, for example:

- Contribution matching, either by promoting it more, if already available, or by offering it if not.
- Nudging employees towards contributing more – e.g. highlighting the option to increase pension contributions at pay-rise time.
- Reviewing investment strategy and costs of current pension arrangements.
- Reviewing compensation packages and tilting them towards a higher pension contribution component.
- Increasing general pensions engagement and by running employee education sessions, either on a one-to one or group basis.

Given the changes associated with secondary pensions, pensions are already on agendas. Employers can use this as an opportunity to refine and improve pensions provision more broadly. There are widespread challenges associated with recruiting at present; generous and well-articulated pension provision can act as a differentiator to help employers attract and retain the best staff. It should also be remembered that not all actions to help employees come with material costs for employers.

Please contact Anthony, or your regular BWCI consultant, if you wish to discuss this topic or explore projected member outcomes from existing arrangements.

[1] up to £267.23 per week currently available

Diary of Events 2024

- **6-7 JUL** — *BWCI Mini Soccer Festival*
- **11 AUG** — *BWCI Open Castle Swim*
- **13-19 OCT** — *The BWCI International Chess Festival*
- **30 NOV/ 01 DEC** — *BWCI Camerata Weekend*

BWCI is **PROUD** to be *sponsoring...*

Jayden Tucknott

Golf

After a fantastic 2023 season, the 17-year old is now stepping up a grade in the golf competitions. Last year, Jayden won seven out of nine junior open events, narrowly lost the final of the Island Men's Championship, became Guernsey and CI junior champion, gained top 30 status in the European Junior Open in Spain, as well as getting his handicap to below scratch.

This year, he is travelling off-island on 25-plus trips to step up the competition standard by entering the Clutch Pro Golf Tour.

Good luck Jayden! We look forward to hearing about your progress.

"I'd like to thank BWCI for their generous support; without their help, I wouldn't be able to travel off-island to compete in such high quality events so I'm extremely grateful for their backing."

"I'm really looking forward to competing on the world stage. Thank you to BWCI for sponsoring me for this opportunity."

Rebecca Toll

Touch Rugby World Cup

BWCI is pleased to be sponsoring Becca for a second year running as she has qualified to play for Guernsey in the Touch Rugby World Cup 2024.

The Guernsey team have been training hard in preparation for the World Cup, and Becca has been putting them through their paces with twice weekly running sessions. The team are looking forward to some competitive games and will face Lebanon, Malaysia, Papua New Guinea, Portugal, Samoa and Wales during the round robin in the first stage of the tournament.

Becca is a trainee actuary at BWCI in our investment team and last year, went to France to compete at the Touch Rugby Euros. The World Cup is being held in Nottingham on the 15th-21st July and will be livestreamed on YouTube - good luck Becca!

James Webber
and the 'Boules of Steel'

Pétanque

Following his move to BWCI in November 2023, James (pictured left), was keen to continue running his Pétanque team, "Boules of Steel", following promotion to Division 1 after a successful summer season in 2023. James recognised that it would be a considerable challenge competing at the high end of the business league bearing in mind the lack of Pétanque experience in the office, however, "Boules of Steel" have successfully managed to fight off the threat of relegation during the Spring season, achieving 3 wins out of 7 games in the process. James has captained the side throughout the season and fielded several players from BWCI, including Kevin McLagan, Kian Langlois and Holly Steel, all of whom have performed above expectations in light of their respective lack of experience.

James is now looking forward to further developing the squad in a bid to achieving a successful summer season, which runs from July through to September.

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Guernsey	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
Jersey	Kingsgate House 55 Esplanade, St Helier Jersey, JE2 3QB
Tel	+44 (0) 1534 880112
Fax	+44 (0) 1534 880113
Web	www.bwcigroup.com

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