ST. KITTS BRANCH
Financial Services Regulatory Commission

NewsLetter

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FINANCIAL WELLNESS: PENSION PLANS

DEFINITIONS

- Financial Wellness— refers to programs designed to assist persons in managing their finances for the short and long term and guide retirement savings.
- Pension Plan—is an investment plan in which one allocates a portion of their salary or savings to accumulate over a period of time to benefit him/her post retirement.

INTRODUCTION

In celebration of Financial Information Month 2017 and its topic (Retirement Planning: Making Your Golden Years Golden), the focus of this month's newsletter is financial wellness through pension plans. Studies have shown that businesses benefit by employing financial wellness programs as these reduce the impact of financial stress on employee productivity and drive retention. As a result, most companies establish financial wellness plans such as retirement saving plans to assist their employees in managing their finances.

In St. Kitts and Nevis, the Government provides a pension plan for civil servants and several Statutory Corporations and Private Institutions also offer this benefit to their employees. In most cases, employees are required to contribute a portion of their pre-tax salary . The employers usually then match the contributions made for each employee and, in some instances, their contributions are larger.

The Financial Services Regulatory Commission (FSRC) is the authority responsible for registering private pension plans under the Insurance Act Cap 21.11. The FSRC is also responsible for regulating the private pensions industry in St. Kitts and Nevis. All privately administered pension fund plans are required to be registered with the FSRC in accordance with Section 186 (2) of the Insurance Act. To date, there are 14 pension plans registered with the FSRC. The FSRC is currently putting in place systems to effectively supervise registered pension plans to ensure that contributions are properly documented and accounted for by pension plan administrators and the investments of members are duly protected. **Is the pension plan that you contribute to registered?**

BENEFITS OF JOINING A PENSION PLAN

Post retirement persons generally experience a reduction in income. A pension substitutes for some of this loss of income due to retirement. Pension plans can also provide protection in the form of payments to dependants in the event of a member's death.

TYPES OF PENSION PLANS

There are two types of pension plans:

1. **Defined benefit plans** provide members with a level of retirement income based on a calculation that typically considers years of service to the employer and salary earned. The employer guarantees that the employee will receive a definite amount of benefit upon retirement, regardless of the performance of the underlying investment pool.

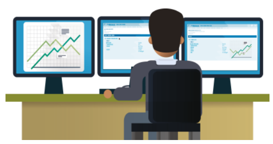
2. **Defined contribution plans** allow organizations to sponsor plans without bearing the investment risk inherent in a defined benefit plan. Each member has his or her own account. Employer and member contributions are invested, usually based on investment options selected by the member. The final amount of benefit received by the employee depends on the investment's performance.

Topics Discussed:

PENSION PLAN ADMINISTRATION

Each pension plan must have a fund administrator — the entity or person(s) that is/are ultimately responsible for the oversight, management, administration and investment of the pension fund on the directions of the trustee(s). The administrator is usually an insurance company, a trust company or a pension committee (for those companies which perform in-house administration). The administrator has a duty of care and owes fiduciary duties to plan beneficiaries. Some other responsibilities of a fund administrator include:

1. ensuring that the pension plan and pension fund are administered in accordance with pension laws and regulations;
2. ensuring that the plan information is available to those who are entitled to receive it, and that the information is accurate and complete;
3. Enrolling employees into the pension plan;
4. Making payments to plan beneficiaries when they are due; and
5. Responding to inquiries or complaints from plan beneficiaries.



RECORD KEEPING

In addition to the records kept by the plan administrator, the company must also keep their own records to reflect all contributions made. An accurate recordkeeping system will track and properly account for contributions, expenses, and benefit distributions. In addition, a record-keeping system will help with the preparation of the plan's annual report that must be filed with the FSRC.

RESPONSIBILITIES OF A TRUSTEE

A trustee is an individual appointed to act on behalf of the Company on matters related to the pension plan. Companies should at least appoint three (3) trustees. Trustees should:

- Have knowledge and understanding of pension laws;
- Be conversant with the trust deed and investment policies and act in accordance with these documents; and
- Act prudentially, responsibly and in the best interest of the members of the pension plan.

The roles and responsibilities of a trustee include:

1. Ensuring that the annual balance sheet and statement of accounts of the pension plan are audited and prepared in accordance with the Fifth Schedule of the Insurance Act. These statements should be submitted to the FSRC in a timely manner;
2. Ensuring that proper records are kept;
3. Administering the pension plan rules;
4. Appointing an actuary to make an investigation into the financial condition of the pension plan;
5. Determining the plan's investment strategy and overseeing the investments of the plan assets by the fund administrator;
6. Registering the pension plan annually with the FSRC; and
7. Requesting information from the fund administrator and providing the plan members with relevant information.

WITHDRAWAL FROM A PENSION PLAN

There are cases where an employee may withdraw from his/her employer's pension plan before retirement due to resignation or termination. In some instances the membership of that individual in the pension plan ceases after he/she leaves the company. That individual should receive a refund of the value of his/her contributions.

Some pension plan rules also stipulate that employees are entitled to the portion of the employer's contribution if the employee has worked with the company and was a member of the pension plan for a specified number of years. Therefore, the employee should also receive that portion of funds if he/she meets this requirement.

In other cases, some pension plan rules specify that if an employee has more than two (2) years (this time period may vary depending on the Company's pension plan rules) of Qualifying Service, that employee has the option to:

- Leave his/her benefit in the plan until retirement (known as a deferred or preserved benefit);
- Move or transfer the value of the pension benefits to another pension arrangement; or
- Request a refund of the value of his/her contributions.

PENSION PLANNING TIPS

1. Do some research! — Research the pension industry to ensure that you choose the most suitable product and fund administrator.
2. Understand the needs of the pension plan members and take them into consideration — the amount contributed into the pension plan by each employee should be adequate to sustain them during retirement while still allowing them to cover their present day-to-day expenses.
3. Ensure that the insurance company or trust company you choose to be the fund administrator is financially sound and stable.
4. Appoint a trustee(s) who is/are knowledgeable on pension fund planning and investment strategizing.
5. Provide regular pension training to your trustee(s).
6. Ensure that your pension plan operates in accordance with pension laws and regulations at all times.
7. Keep accurate, complete and updated records for your plan.
8. Review the company's investment strategy and pension plan rules regularly and update them where necessary.
9. Inform the FSRC of any amendments to the pension plan and/or changes of trustees in a timely manner.

For further information on private pension plans please visit our website.

Reference:

- Insurance Act, Cap 21.11
- https://www.forbes.com/sites/nextavenue/2017/05/18/why-workplace-financial-wellness-programs-are-hot/#6a8eecba13f8
- https://www.sunlife.ca/ca/Learn+and+Plan/Money/Retirement+savings/How+do+employee+pension+plans+work?vgnLocale=en_CA

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