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Dear Sir

**Letter of Comment – Committee for Employment & Social Security – P.2019/147
Secondary Pensions: Detailed Proposals for the Introduction of Automatic Enrolment into
Private Pensions and the Establishment of "Your Island Pension"**

The Policy & Resources Committee recognises that the issue of secondary pensions is a complex area and that the Committee for Employment & Social Security has undertaken a significant amount of detailed research and consultation in developing these proposals. The Committee for Employment & Social Security is commended for producing this high quality policy letter which is extremely comprehensive and comprehensible.

The Policy & Resources Committee continues to support the principle of second pillar pension schemes, both as a mechanism to correct a market failure and to mitigate the evident risk of a long-term under-provision of personal pension savings for future retirees. The Committee sees both the legislation mandating employers to provide access to a suitable workplace pension and the creation of a low cost, accessible scheme which employers and individuals can utilise as key to promoting islanders' financial independence in their retirement and mitigating long-term risks of increasing pensioner poverty.

The Committee supports the basic elements of the legislation: compulsory for employers with a minimum level of contribution; and auto-enrolment of employees, albeit with an opt-out provision. It recognises that these provisions are necessary to encourage enhanced uptake of secondary pensions. The intention to mitigate the impact on employers, the economy and States' finances by phasing the minimum contribution rates is considered to be pragmatic.

The Committee notes there will still be a sustained period over which the economy and States' finances adjust to an increased level of pension saving which, given the potential scale of the long-term benefit for islanders, it considers to be justified.

However, the introduction of secondary pensions will present significant fiscal challenges which will accumulate over time and peak at a negative impact on General Revenue of in excess of £9m per annum (predominantly lost income tax revenue [due to income tax relief being generally available on contributions to approved pension schemes, subject to certain limits and exemptions] but also income support expenditure and additional staff costs for enforcement).

The financial impact will recede in the very long-term as pensions will be taxable once drawn-down and the increase in retirement income will reduce later life dependency on income support. However, the lost tax revenue will need to be replaced and additional expenditure funded over a substantial period if we are to balance the budget. These requirements were included as a developing fiscal pressure within the *"Review of the Fiscal Policy Framework and Fiscal Pressures"* policy letter which was recently approved by the States.

The Committee notes the proposals to implement a governance structure for the scheme with a statutory corporate trustee supported by private sector corporate service provider in order to meet its day to day requirements. It is recognised that the trustees will ultimately be responsible for the governance of a significant proportion of islanders' savings and that ensuring good, independent and professional governance is essential. This structure will require a significant level of financial support in the first ten years until it reaches a self-funding position. The Committee supports the recommendation to provide financial support for the trustee function in the form of a loan which will be repayable once the scheme is operating at a sufficient scale.

The Committee notes that the cost of the trustee is funded by contributors within the Annual Management Charge (AMC). While the total AMC proposed is low, the Committee suggests that consideration be given as to whether a statutory corporate trustee is the most appropriate model – for example, setting up a non-statutory corporate body would provide greater flexibility to amend the governance structure as the scheme evolves should the need arise.

The Committee recognises the importance of providing a modern, flexible and accessible solution in order to achieve value for money and to make the scheme appealing for contributors. Whilst a young company, Smart Pension Ltd is developing rapidly and would appear capable of delivering a highly automated service. The Committee considers that the loan to Smart Pension Ltd in order to finance the set-up costs and the intention to extend the contract period to 15 years to ensure that the scheme is able to offer a return to the provider

under an affordable charge structure are pragmatic approaches to ensuring that the costs associated with establishing and operating the secondary pension scheme are as low as possible.

Yours faithfully

A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke at the end.

Deputy G St Pier

President

Policy & Resources Committee

