Report on Financial Independence in Later Life

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Executive Summary

This report sets out analysis and ideas to improve financial independence for old age in Jersey[1]. It identifies the key evidence, highlight gaps, and then reviews a range of ideas that could improve the situation – summarized in Box 1 below. The publication comes after profound impact of the Covid pandemic on the economy and society in the past 20 months. Covid has raised issues in relation to resilience to shocks and the ability of government, business and workers to adapt. However, despite the huge dislocations and tragic loss of life, the pandemic has not changed the long-term challenges caused by an aging society. The pandemic has sharpened the focus on how all sectors of society can take action now to provide for the future, whilst retaining flexibility to respond to shocks. It emphasizes the need to balance preparation for an uncertain future whilst ensuring a strong environment for businesses and workers to thrive.

The report and recommendations have been updated to reflect the lessons from the pandemic so far– and a summary provided of the impact of Covid on pensions globally[2]. The global lessons of Covid for pensions shows that the countries most affected are likely to be those where governments allowed significant withdrawals from pension pots during the pandemic – something which did not happen in Jersey. Countries will also face bigger challenges where output and employment do not recover quickly. Again, Jersey has seen a strong bounce back in employment levels from the historically high falls caused by Covid. This is not to minimise the impact of the pandemic, but does highlight that Jersey is emerging in a stronger position than many other economies in the world. But despite these short-term shocks, it must still deal with the long-term challenges to ensure financial independence in old-age.

The report sets out a framework of potential pension outcomes by which to judge the system. The right balance for Jersey will ultimately depend on economic and political judgements about key aspects of a future system – and these are highlighted throughout. **<u>The key outcomes for an old age retirement income system are:</u>**

- **Coverage** – the coverage of people contributing to and receiving pensions - overall and by age, income and gender as well as other groups of particular interest;
- **Efficiency** – the administration and investment costs of the system and its investment returns – both gross and net of costs. It also includes the impact on labour market efficiency with incentives to move jobs, set up a business and extend working lives;
- **Adequacy** – income received in old-age in absolute and relative terms and by gender;
- **Sustainability** – whether the system can be funded over time including across generations, whether it is politically sustainable and the impact on environment, social and governance (ESG) factors through investment strategies; and
- **Security –** ensuring that the system is well-regulated and that promises and investments made now will be delivered in decades to come – and that people have some insulation against shocks – whether from the market, health or other risks.

For all these outcomes, fairness and equity are important features - so that the system delivers on average but also for different groups. These include fairness in relation to gender,

[1] The report was written by D3P Global to support the analysis of the Government of Jersey.
[2] Key data points are updated to the latest available as appropriate.

self-employment, those with irregular income and those with disabilities. A central political consideration is the balance between government, employer and individual contributions, rewarding hard work and savings and ensuring a decent old age for all. This is more achievable with a diversified range of retirement income sources. This ensures a balance of inputs, but also hedges potential shocks that could have different impacts on public or private pensions. These factors play into the principles for government policy discussed during the consultations under the 'Living Longer: Thinking Ahead' banner. They tie into the Government's common strategic priorities, in particular improving Islanders' wellbeing, creating a vibrant economy, reducing income inequality and improve the standard of living. [3].

<u>Current retirement income provision in Jersey has many strengths when compared to other countries</u>. Employment rates are high - 75% of the working age population – in a largely formal workforce. This supports high levels of Social Security coverage, underpinned by income support as a floor for all. Social Security is backed by significant assets – which is unusual internationally. The Government makes an annual grant into the Fund (often described as "supplementation") to ensure a standard contribution income is received for each active contributor above the lower earnings limit (£980 per month in 2021). Years are credited for people taking time out of the labour force for caring responsibilities, or full-time education, for example. The Government as an employer is a major source of additional occupational pensions – which are funded. Data available centrally on private pensions is poor – but from the evidence available from surveys and income tax claims suggest around 30%-35% of people have occupational or private pensions. These receive income tax relief from the government but are entirely voluntary. Jersey also scores very well in the OECD Comparison of the 'Better Lives Index' in the access older people have to support from family and community and other aspects.

<u>Despite current strengths, there are some key barriers to greater financial independence in later life</u>. The requirements for full payment of Social Security pensions are strict compared internationally, with 45 years needed currently, rising to 47 years for those set to reach pension age at 67 by 2031. Only 56% of people receiving their pension in Jersey in 2019 got 80% or more of the pension of £224.35 a week for single people (£11,666 a year) or £372.47 a week (£19,368 a year) for a married couple. Only 24% got 100%. An important reason for this is that many people move to and from Jersey during their working lives and end up with a less than full entitlement to the Social Security pension. These people may also be entitled to some State pension from another country. Looking at 75% of full pension as the median experience of a person of pension age in Jersey gives a figure closer to £8,750 for a single person and around £14,500 for a couple on 2019 figures[4].

Perhaps the biggest challenge relates to the cost of housing and the very different retirement income experiences by housing tenure before and after housing costs. Overall,

[3] The Government Plan was published in July 2019 and passed by the States Assembly in December 2019.

[4] As discussed in more detail below, the average entitlement to Social Security is lower than the figures given above – because they relate only to those people who receive their pensions in Jersey. There are many people who receive their pension in a different country who typically have much lower years of contribution and hence entitlements. For example, for people receiving their pension outside Jersey, only 6% receive 80% or more of the full entitlement, compared to 56% of those receiving the pension in Jersey based on 2019 experience.

housing costs accounts for 25% of income – above the OECD average of 20%[5]. Pensioners who rent spend a higher proportion of their income on housing costs than pensioners who own their own home. However, the group that faces the biggest challenge are those in the social rented sector who spend 36% of their income on housing costs (even using a narrower definition of housing costs than the OECD figures above)[6]. Future policy on housing will hence have an impact on pensions and vice versa. Likewise, a key consideration for the next generation is how far those on low-incomes during their working life – who may well be renting in old age and potentially on income support – should be expected to make contributions to private pensions in the future.

A key recommendation from this report is to deepen the discussion and conclusions on what success looks like for Jersey in relation to the current performance and future aspirations for coverage, adequacy, sustainability, efficiency and security. Emerging conclusions for current outcomes based on discussion so far are:

- **Coverage**: High coverage of Social Security but low coverage of private pensions means there is clearly a gap to fill if people are to have a mix of public and private provision to support financial independence in old age. The focus of coverage expansion is likely to be for those working and retiring in Jersey. This will require a flexible approach that could collect contributions in a simple way for all workers, but allow easy return of assets to those who leave Jersey quickly, or have a simple way to exclude some temporary workers, without repeatedly excluding workers who may have multiple short jobs but live and work in Jersey for decades.
- **Adequacy:** In addition to the safety net provided by income support, Social Security will remain the foundation of retirement income. The full Social Security old age pension provides around 29% of mean earnings and 37% of median earnings for an individual[7] [8] [9]. A common aim is for people to have between 50% and 70% of working age income in retirement. So, depending on the measure chosen, reforms could be looking to provide between 20% - 30% additional income relative to a social security-only income level. Those on lower incomes would need to target a higher replacement rate than those on average earnings given their lower absolute income – and the likelihood that they rent rather than own their home so have much lower income after housing costs. For example, households renting social housing have 60% of average income before housing costs but only 46% after housing costs. Final targets should be the outcome of political discussions and external consultations as well as additional modelling.
- **Sustainability**: Social Security provides a Defined Benefit (DB)[10] and there are no plans or need to change this. Some of the occupational and private plans are also Defined

[5] Jersey Statistics Jersey Better Life Index 2018
[6] Jersey Statistics Household Income Distribution, 2014/15 – where a narrower definition of housing costs is used than the Better Life Index that uses national accounts data for comparability with other OECD countries.
[7] This rate is the full pension as of November 2019 divided by median average earnings as reported for June 2019 Average Earnings statistics.
[8] One of the potential ideas examined below looks at increasing contributions and income from social security – which is always a possibility – and something that the Canadians have recently started to implement.
[9] Jersey Statistics Better Life Index 2018, Jersey Social Security and Jersey Household Income Survey
[10] A pure Defined Contribution pension does not promise a final pension amount – members get whatever balance results from the contributions made plus investment returns. A Defined Benefit pension gives promises in relation to a final pension linked typically to years of service and salary level, with rules for how a pension will

Benefit final salary, but the trend is now to have Career Average (CARE) accrual (in the public sector) and Defined Contribution (DC) plans (in the private sector). If broader pension provision is pursued then Defined Benefit, risk sharing, and Defined Contribution options could be explored – and rated relative to whether there is a fair balance between the government, employer and employee in terms of who bears investment, inflation and longevity risk across the pension system as a whole. Many jurisdictions rule out new DB plans for reforms due to concerns over long-term funding issues. Innovative new solutions for the payout phase of pensions can give income until death at lower cost than traditional annuities and should be explored in follow up work after a broad political steer on leading options[11].

- **Efficiency:** Jersey is a small island with only around 62,500 workers and 108,000 residents in 2021. Therefore, leveraging huge economies of scale that typically exist in administration and investment management in pension schemes may seem to be difficult. However, Jersey could have more capacity and experience to implement solutions with its legal and financial services sector than other jurisdictions of a similar size (for example, Jersey has over £440bn in assets under management in collective investment funds for residents and (mainly) non-residents[12]). Leveraging scale for any additional pension provision is vital because in a world where real returns may be 3% a year or lower for the next 30 years, fees of 1.5% of assets each year take 50% of real returns. Fortunately, the existing Social Security Fund, Public Employees Plans and Jersey Teachers Superannuation Fund along with the Common Investment Fund show that reasonably low-cost provision is possible – whilst still potentially accessing best in class asset management. Some large employer-sponsored private plans in Jersey may offer similar efficiencies – though data is not yet available on them – but some current private pension providers have fees that are at 1.5% -2% or higher. The UK and Hong Kong have both recently introduced a cap of 0.75% per year for standard or 'default' provision and the UK backstop workplace pension provider NEST is required to charge no more than 0.5%, a level matched or improved upon by pensions in countries as diverse as Sweden, Macedonia, Kosovo and Malaysia.
- **Security:** Jersey is committed to follow leading international standards and codes of conduct in financial services provision – as set out by both the Government of Jersey and Jersey Financial Services Commission. So, any expanded provision should fully adhere to global standards on pension provision[13]. It is essential that any expanded pension provision, if adopted, happens after comprehensive pension regulation has been established. Investment strategies should be 'life cycled' to reduce risk as retirement is approached and payouts overall for individuals deliver sufficient income until death not just at 65.

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be increased once in payment. Risk-sharing or hybrid schemes can combine features of both DB and DC – such as providing an investment return floor to Defined Contribution pensions, or only paying an annual pension increase if there are sufficient assets in a DB plan.

[11] See for example D3P Global and US Society of Actuaries report on Variable Life Uninsured Annuities or Value Annuities published in 2022.

[12] https://www.jerseyfsc.org/industry/sectors/funds/funds-statistics/

[13] The standards covering the public sector are developed by the International Social Security Association Guidelines. Workplace and private plans follow OECD and International Organisation of Pension Supervisors (IOPS) standards. The public and private standards have a different focus but many common elements – for example the importance of governance.

Turning to the potential solutions, there are a range of ideas reviewed in this report. A considerable amount of focus is placed on the 'how' to deliver various options – not just on the 'what'. There is usually a great deal of attention on what type of saving or pension plan or other option to introduce. There is often insufficient focus on the mechanics of delivery – both the value chain for a pension for example - but also on the delivery and programme management challenge for the government. As the report highlights, the payoff to good design and delivery can be very large – and can help government, employers and individuals save significant resources to reach a given retirement income goal.

Some ideas are reviewed but not recommended for deeper consideration as a viable way to deliver the main policy objectives. They include financial education – which should be seen as a supporter to other more effective interventions rather than a lead option. There is no evidence globally that even a very intensive (and expensive) financial education initiative can create significant enough improvements in financial independence in old age. This is not to say that financial literacy is not important – it is just that it is typically low in most countries and the many interesting experiments and initiatives internationally have not been seen to reliably and persistently influence large changes across a population.

Another idea that is identified but not recommended for deeper consideration is home-equity withdrawal. In theory allowing asset rich, cash poor, individuals to unlock the value of their homes to increase income in retirement is a good one. In practice the products and delivery mechanisms have not worked well internationally, and the markets have often been subject to significant consumer protection issues.

The final area where change is possible - but the evidence suggests that it will not be sufficient - is to continue the purely voluntary approach to saving but to increase tax incentives or have more flexible product rules. Again, incentives should be seen as supporting other approaches. If incentives were sufficient, most voluntary pensions systems in the world would see much higher coverage, because most already have significant tax incentives. Further work would be needed in Jersey to uncover the current returns to tax-relief – but internationally the evidence is that tax-relief alone is not hugely effective. It is a necessary rather than sufficient factor for a strong private pension market. Excessive regulation can be a problem, but greater flexibility in product rules can be counterproductive. People may like the ability to withdraw money and take 100% lump-sums but if the policy objective is greater income throughout old age such withdrawals make the central policy objective more difficult to achieve. A number of countries allowed access to pension saving during the Covid pandemic, which is perhaps understandable given the scale of the crisis. But the net effect is that retirement security has suffered. Offering access to loans secured on pension assets may be better as this means withdrawals may be paid back. However, the issue does not need to be either or, as you can combine locked-away pensions with accessible short-term savings in a single vehicle. Using financial technology (FinTech) can help target workers in the informal sector or with short-term contracts with such options. This area could be given more focus working together with Digital Jersey – to explore ways to link contributions to points of consumption rather than only in relation to income. working together with

The most promising ideas set out in this report relate to changes to Social Security and different ways to introduce a mandatory or auto-enrolment workplace private pension. Within these broad ideas there are a host of important issues in relation to delivery – the 'how' part of the question - as well as in relation to design. These include: the nature of the product; incentives; contributions and other issues identified below. At this stage the range of ideas is too broad to do an impact analysis on each, but this would be an important part of follow-up work once initial strategic and political steers have been provided.

An expansion of Social Security in a balanced and funded way is an obvious option to improve pension outcomes. It is part of the solution to the challenges of aging being introduced in Canada. The (funded) Canada Pension Plan is being extended with higher contributions so that it replaces 33% of average earnings rather than the current 25%. This still leaves a large gap to fill relative to a typical objective for 50%-70% replacement of working income in old age. Moreover, relying on a single pillar creates a single point of failure for a system. As outlined below, different pension pillars face some similar and some different risks – and a robust solution is one that has a diversified source of retirement income sources – much like a diversified portfolio mitigates risk by investing in a range of assets. However, investigating if an enhanced Social Security can play some part of the solution seems sensible.

In addition to a potential extension of Social Security, it could be improved as part of the overall policy mix. One option is to provide incentives to delay claiming the Social Security old age pension. Another is to restrict claiming the old age pension early. Encouraging delayed claims occurs in the US, UK and Canada among many other countries. In Jersey, rules requiring 45 years of contributions for a full record could be reviewed as they are very tough to meet for many – although contributions credits for carers and time looking after children mitigate some of the typical inequalities caused by long contribution periods. Voluntary contributions are possible, but few make them as they are relatively expensive. Moreover, the policy for contributions below the Lower Earnings Limit appears unfair to people with low earnings or income from self-employment. Finally, the profile of Social Security payments could be 'tilted' so that pension increases focus on the older age group 75 or 80+ for whom savings may have been exhausted, rather than paying the same rate for all ages.

A number of ideas are then investigated in relation to expansion of workplace pensions. There are no international examples of purely voluntary pension provision, even with very strong financial education and tax incentives, filling the coverage gaps seen in Jersey. In a previous survey 66% of Jersey respondents supported a States plan for expanded voluntary pensions, with 51% supporting a compulsory plan. Using auto-enrolment, with compulsory employer provision but a worker opt-out, is an obvious way to leverage the support for voluntary measures with the greater effective of compulsory or quasi-compulsory solutions. This was the option in the UK, where coverage of workplace pensions has risen from 46% of employees pre-2012 reform (above Jersey now) to 78% in 2020. It was also adopted in New Zealand and Turkey and has been accepted for the future by Guernsey and Ireland. More information is provided on all these countries throughout the report.

In terms of delivery options to expand workplace pensions, different ideas are reviewed – followed by a separate discussion on scheme parameters. The most promising delivery options leverage providers with scale, expertise and good governance. Even if Social

Security is not extended or reformed, the collection, administration and investment management capacity could be leveraged to deliver a low-cost and well-managed workplace pension. This would use existing systems but draw in private sector expertise for investments – potentially using the Common Investment Fund model. To have a Defined Contribution add-on to the current Defined Benefit Social Security plan would require the addition of some DC account management capability, but that is a relatively commoditized functionality.

Another approach is to leverage large good-quality low cost pension plans: The Public Employees' Pension Plans (both the DB and CARE plans) and the Jersey Teachers plans both have large existing operations already – managing around £2.1bn and £500m respectively. Each has good governance and relatively low-cost administration. Whilst data is not yet available, there may be similar performance and some scale in some of the larger private pension plans. Smaller existing private workplace plans would not be relevant unless they had very good outcomes. It would be possible to approach external providers – such as the UK's NEST which provides workplace pensions at high quality for 0.5% a year - if they were interested and legally permitted to extend their services to Jersey. There is also the option of tendering for a provider – as Guernsey has done with its selection of SMART pensions - and the Dubai International Financial Centre has done with a combination of providers for a single scheme.

There are then hybrid options which would have a default provider (perhaps Social Security or a backstop provider as with the UK's NEST) operating alongside other pension plans which met tests for good quality and delivery of good member outcomes. All options can be made very simple for employer – who need only be a channel for payments as for Social Security unless they actively wanted to deliver a bespoke workplace pension plan. Workers could be allocated to a default provider via a simple platform (as in Sweden[14]) and like any standard asset management platform, where workers could also make a choice of another provider if they wanted to.

For all of the delivery ideas, there are then a range of other decisions that would need to be taken about the core parameters of the plan that need to cover:

- eligibility and coverage;
- opt-out and re-enrollment (if the plan is not compulsory);
- the level of contributions;
- incentives;
- the type of product and the nature of the payout phase;
- regulation and supervision; and
- programme management.

[14] Note that for Sweden these arrangements are for the mandatory Defined Contribution 'second pillar' private pensions. They are in the process of being simplified because the platform was seen to offer too many funds in addition to the default fund. In addition, Sweden also has occupational pensions 'third pillar' that are negotiated between the social partners. Around 90 percent of wage earners are covered across the public and private sectors. However, the Swedish system emphasizes multiple sources of pension income across public and private provision to ensure diversification as well as sharing of responsibility between the government, individuals and employers.

For eligibility the best coverage expansion will be achieved with a relatively low entry point which could map on to a figure such as the lower earnings limit for Social Security (£980 a month, £11,760 a year in 2021)[15]. This is partly for efficiency and simplicity reasons, so that small employers can comply as easily as possible. But it is also because ultimately the workers will be best placed to decide if they can contribute or not. By providing an opt-out, workers then have that choice. There are many reasons why that level of income may be too low to support additional pension contributions – from student and other debt through to childcare and housing costs through to personal factors. Moreover, politically it may seem unattractive to seek additional pension contributions from current low-earners and potential future old-age Income Support recipients. Efforts to make systems too clever and responsive also make them complicated and exclude lots of people who may ultimately be able to contribute. Decisions on the age of workers have a similar logic. Starting at 18 may seem too young – particularly with people who are in education. But on the other hand, saving or building up social security contributions early could be very useful for some people. In New Zealand people contribute from age 18 and a salary of NZD$1 – an approach which could also be considered. In New Zealand and the UK, it is possible to open pension accounts for children.

Finally, in terms of coverage there is issue of seasonal and temporary workers. This is closely related to discussions on migration policy and housing status. Jersey has the advantage that there is an existing system to classify workers and identify them. Using these classifications to apply different treatment to workers would not introduce costly new administration. The key risk in excluding registered workers, is if they then become entitled and ultimately retire on the island. In these cases, workers could have big gaps in provision. How likely this would be is an empirical issue. But one option is to cover all workers, then ensure that the first few years of investment was in more liquid and lower risk assets. These could be returned to workers if they definitively left Jersey. But a worker who came to Jersey for 3 months for 5 years in a row could begin to build up a saving pot that would be useful in future years if they then gained more long-term employment. On the other hand, it may be simpler to exclude them – and New Zealand exempts people coming in for a seasonal job of under 3 months.

Decisions on contribution levels (and government incentives) of course flow from the desired outcome for adequacy. So, a final decision cannot be taken before that is determined. Overall, a contribution of around 8% of wages could deliver around 25%-30% of wages as an income stream in retirement using standard OECD assumptions on returns and costs and a full career of contributions but 10%-12% would give more certainty. This is a significant increase in combination with existing Social Security Contributions – so the ambition on adequacy needs to be developed iteratively in relation to its implications for labour market efficiency (see Annex D for contribution rates across the EU for public pensions and Annex E for a comparison of public and private pension combinations). Who pays what share of the total contribution is clearly a contentious issue. When Turkey introduced autoenrollment in 2017 there was no employer contribution because the minimum wage had recently been increased by 30%. But, partly for this reason, opt-out rates were much higher than in the UK or New Zealand – at over 50%. With Australia's compulsory private pensions (superannuation)

[15] From 1 Jan 2022 Jersey will have a new "minimum earnings threshold" in place of the previous 8 hours rule, which determines when an employer will collect Social Security contributions. It will be £438 per month or £101 per week for weekly paid.

only the employer pays the compulsory 9.5% contributions (due to rise to 12%) for historical reasons linked to the creation of the system.

The Government will need to decide how to incentivize contributions to the new workplace pension plan. The standard approach is to use the tax system with contributions, investment gains and payouts either taxed (T) or exempt (E). If this is used, then the current 'EET' approach should continue. But the cost efficiency of existing incentives of around £10m a year should be explored to see if more effective options are possible. A more innovative approach is to use matching contributions which can be simpler to understand and provide a greater incentive for those on relatively low income. However, one option is to use Jersey's supplementation approach – which is an innovative way to support workers who cannot make sufficient contributions to get a full record. With a workplace plan the government could also contribute a flat rate for all workers which will be a higher percentage benefit for lower income workers, plus have a match of say 25% of all contributions. This gives incentives for those workers who do not pay (sufficient) tax and focuses benefits on those most likely to have gaps in provision – whilst giving an incentive for all (up to a total contribution limit). Finally, the Government could use the New Zealand 'kick-start' model with a lump-sum payment for joining the system to make contributing part of the custom and practice of working and saving life in Jersey[16].

A final area of consideration is what type of pension product and payout or decumulation phase a new workplace pension should deliver There is no right or wrong answer between Defined Benefit pensions and Defined Contribution. They have different risk-sharing features and should be seen in the context of the total pension offer. Jersey has funded Defined Benefit pensions for Social Security, which reduces the risk for pensioners but places risk on future taxpayers and future contributors if there are funding issues. Many countries (and companies) choose a pure DC system partly due to very high costs from unfunded and unsustainable public Defined Benefit pensions. So, Jersey has more flexibility than most countries for this key political decision. However, given an internationally exposed economy and with a mobile workforce, some form of Defined Contribution accumulation phase or risk sharing could best fit recent trends and experience in partner and competitor countries.

The decision on the decumulation phase does not need to mean that workers and savers are exposed to all risks – including the risk of outliving their savings. Giving full access to lump-sums will likely see gains in asset building rapidly lost for many. If saving is needed for housing or education, then a separate (or additional) account should be created. Ideally payouts would operate automatically with a default product – so that people did not have to choose at retirement unless they actually wanted to. This matches the 'old' approach of DB plans with an integrated accumulation and decumulation phase. Three main ideas are recommended for a default retirement product – that would see Jersey move to the forefront of the debate on pensions. The first is to combine a phased withdrawal between say 65 and 80 with a deferred annuity to protect against very long life. The second option is to have a non-insured variable annuity as in Sweden and Singapore, where workers would be guaranteed an income until death but with a rate that would adjust automatically as life expectancy adjusted – and reflect underlying investment returns. The final option is the

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[16] Starting with a lumpsum gave workers a tangible amount in year one to encourage them to keep saving because they could see a significant balance rather than only 2 years of contributions relative to their wages.

standard annuity that is often the text-book recommendation, but they can also struggle to gain broad acceptance by members and to be delivered at acceptable cost.

The decision on regulation and supervision is simple in the sense that any new workplace plan should have pension regulation and supervision that meets international standards. In addition, the new proposals should not be implemented without this regulation in place.

The final area to stress is the importance of programme management for the kind of reforms being considered, where there are likely to be significant operational considerations. These reform programmes are not simple and need a complex mix of political, policy, economic, IT and operational input. Securing the skills and establishing the programme early are critical for success.

Box 1: Summary of Key Conclusions

Some ideas should be rejected as potential lead options. These include:

- Financial education and literacy initiatives (although they can support other policies);
- Home equity release; and
- Enhanced tax incentives or looser product rules for pension access.

There are more powerful options related to Social Security such as:

- Enhancing or extending Social Security;
- Improving incentives to delay taking Social Security in order to increase future payouts and restricting early old age pension claims;
- Improving incentives for low value (below LEL) contributions to Social Security;
- Potentially shifting the profile of Social Security payments so that they are higher for 'older' old age when people are more likely to have exhausted savings – and correspondingly relatively lower at 'early' old-age;
- Reviewing the number of years required to achieve a full contribution record; and
- Reviewing voluntary contributions given that few make them.

Key ideas to enhance private pension savings focus on:

- Mandatory or auto-enrollment into a workplace pension – which could be a Defined Benefit, a risk sharing or a Defined Contribution product – with different implications for the relative balance of risk between the Government, employers and individuals;
- Changes to the value chain for delivering pensions so economies of scale in administration and investment can be leveraged to reduce costs whilst still getting best in class asset management which will boost pensions for a given contribution. Options include:
    - Leveraging Social Security Infrastructure, tendering for a large single provider with fee controls or leveraging existing large and good quality providers in the public and private sectors with a backstop or default fund like the UK's NEST;
- Enhanced digital enrolment that can improve workplace pensions but also offer new options for lower cost voluntary savings for (informal) workers without employers
- Improved delivery of incentives through matching member contributions rather than only using tax relief
- Improved default payout options that can help to deliver income until death but incorporate risk sharing to improve the payouts relative to current annuities.

Box 2: The Impact of Covid on pensions globally (see also Box 3 on Covid and Jersey)

Few, if any, countries have escaped the impact of the covid pandemic on their economies – and Box 3 below highlight the impacts on Jersey. The combination of sharp falls in employment, output and stock markets from January 2020, along with the mental and physical health impacts have been profound. However, the long-term impact is likely to be very variable on pensions in different countries. In all cases, where employment and contributions were lower, then pension plans will have received fewer contributions which can contribute to lower funding for Defined Benefit plans and lower balances for Defined Contribution plans. But, in countries like Jersey there has been a rapid bounce back in key metrics after the very rapid falls. Global stock markets, after facing dramatic falls at the outset of the crisis in many cases recovered relatively rapidly. Some, like the FTSE 100 were still down overall in 2020 but others like the S&P500 were up strongly for the year – posting an 18% gain. Overall, global pension assets at the end of 2020 were 11% higher than the end 2019 figure (OECD 2021).

So, the longer term impact on pensions from the labour and capital market perspective might be less than would be imagined. From a mortality perspective, Covid 19 certainly increased the mortality rate above historical trends. However, so far, there is no evidence that this will lead to a permanent shift in the life expectancy trends driving pension reform.

Perhaps the most important determinant of whether there will be a long-term impact on pension systems comes from policy decisions in different countries. The most important is whether members were allowed access to their funds. Australia, Peru and Chile all had some form of exceptional access to pension plans typically locked away until retirement under most circumstances. Access in the Australian case was limited to AUS $10,000 per withdrawal with 2 allowed and for people who met certain criteria such as being unemployed. In the Peruvian and Chilean case access was much broader and for amounts up to 10% of balances in Chile (repeated 4 times in 2020 and 2021) and up to 25% in Peru). Whilst around 20% of pension members in Australia made some withdrawal the amounts on average compared to total assets were small (under 5%). However, in Chile and Peru over 20% of assets have been withdrawn, which will have a significant impact on retirement security in countries which had been amassing private pension savings for decades. Access was allowed in a number of other countries, and some like the UK already allowed full access from age 55 without the need to take an income from the pension assets.

Early withdrawals are very unlikely to be repaid – hence in countries in which they were significant the impact of Covid will be seen for many decades to come. For other countries, the memories of Covid may last for many decades but the impact on pensions may be less persistent.

For these, and other reasons, discussion and progress on pension reforms continues in many countries around the world. These range from Sweden and Switzerland, Mexico and Uruguay and China and Vietnam.

Introduction

This report sets out analysis and options to understand:

- The environment in Jersey in which people can (and do) make provision for old age;
- How the Government of Jersey can bring about greater financial independence for old age so that fewer people need to rely on (or rely less on) means-tested Government support in old age.

The report first sets out the overall context for assessing well-being in old age – and the particular focus of this work on the financial dimensions. Some issues, for example the importance of health and related expenditures, or the role of active aging and increasing labour market participation for people 50+, are clearly vital to both well-being and public policy. However, they are not within the scope of this report. They are however, linked, since longer working lives can improve financial well-being - including pension saving - and mental and physical health. Public policy needs to have good pathways for people who are unable to work longer due to physical or mental health – or for those who face a lack of employment opportunities - although this latter factor is a much smaller consideration in Jersey than in many other counties.

The report then sets out the current pension system in Jersey – using publicly available material but also informed by many interviews with current and potential players in pensions in Jersey. This section draws on the series of consultations by the Government of Jersey under the 'Living Longer: Thinking Ahead' banner – and the very useful summary of the views of hundreds of Jersey residents on how to improve the retirement system.

The report then sets out the key outcomes that a retirement system should aim to meet. They can help guide a reform programme – tailored to the needs of Jersey now and in the future. The outcomes, and measures associated with them, provide clarity to understand current performance and guide future reforms. They were developed in partnership with the Government of Jersey staff and informed by the evidence reviewed and interviews conducted. They are only a first attempt to set out clear outcomes. Further discussion and political direction will be very valuable to revise and refine them – for example principles in relation to which population group are the primary focus of government retirement policy.

Given the current Jersey pension system, and the outcomes that policy makers might seek, the report then looks at how Jersey can meet these outcomes. It gives lessons from international experiences. Jersey combines some very specific characteristics that need to be addressed if potential reforms are to be successful. These include the mix of a small population size but a relatively large financial market. Jersey has relatively well-funded Social Security and Government employee pensions and good employment rates but very high costs of homeownership. It has a concentrated geographical area, but a mobile workforce with people moving in and out of the island over their working life – and a wide range of countries in which people receive their Social Security payments.

The context for financial well-being in old age

There are many definitions for financial independence in old age. They often highlight how it fits with a range of broader aspects to independence or well-being in old-age in general.

The US Consumer Financial Protection Bureau asks if individuals *"Have control over day-to-day, month-to-month finances; Have the capacity to absorb a financial shock; Are on track to meet …financial goals; Have the financial freedom to make the choices that allow [you] to enjoy life"*[17].

From a social or public policy perspective there are a range of factors that need to be delivered. At their most basic, are the need for adequate food, shelter and clothing. For most these will be taken for granted, but without some form of income support as in Jersey there will be some people who will struggle to have the income to fulfil these basic needs. In some cases, this will be due to dramatic life changes, perhaps due to illness, but in others there will be people who have struggled with the ability to access basic needs for much of their life.

Beyond the basic physical needs there is the need for safety and security – both personal but also financial independence and protection against and treatment for adverse health events. This brings together a mix of issues related to crime and policy, access to health care, and the element of financial security that is a core focus of this report. As highlighted in part by Jersey's performance against the 'Better Life Index[18]', the country fares relatively well in terms of crime and health care.

There are then of course a wide-range of other dimensions used in the literature and by different countries related to well-being that are vitally important but beyond the scope of this report. These are mainly focused on issues related to social interaction and family, a sense of worth and belonging and the ability to pursue new goals and focus on 'spiritual' elements of life (both religious and non-religious)[19].

There is clearly an interaction between some of these broader issues and the 'narrow' question of financial independence. For example, the strengths of family bonds will affect intergenerational transfers, which could go from children to support parents or from grandparents to support their children and grandchildren and hence enable their children to continue working. Social interaction, including paid and voluntary work, can help physical and mental health – helping to sustain income earning and reducing the need for social services and medical interventions for longer.

Before looking at the details of the retirement income system in Jersey, Box 3 sets out the impact of Covid-19 and the government response which has received so much focus and attention in the recent period.

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[17] https://files.consumerfinance.gov/f/201501_cfpb_report_financial-well-being.pdf

[18] The Better Life Index was created by the Organisation for Economic Cooperation and Development (OECD) and aims to compare countries not only in relation to GDP and earnings but in terms of a range of quality of life indicators. It splits categories between **material conditions** (broadly mapping onto the financial independence issues covered in this report) and **quality of life** which maps on to the wider dimensions of well-being discussed in this introduction. In relation to personal safety for example, Jersey has a very low homicide rate compared to 39 countries covered by the OECD and also scores well on whether people feel safe walking home at night.

[19] See for example the well-known framework of Maslow (1954, 1971) which has been very influential in social science and development as a starting point for setting out the broad range of factors required beyond income in order to achieve well-being. The UN Social Development Goals or Human Development Index among other approaches aims to combine the range of factors that are important for a strong society and good lives.

Box 3: The Impact of Covid – 19 on Jersey

In March 2020, shortly after COVID arrived in Jersey, the Government of Jersey introduced significant public health measures to control it. The Government expanded its capacity to help deal with the health and social consequences. At the same time, the Government announced measures worth £180 million to provide financial support to Islanders and businesses. This included business loan and loan guarantee schemes, the deferral of GST and Social Security contributions for two years, a payroll co-funding scheme and an emergency support scheme for Islanders who have worked in Jersey for less than five years who have lost their jobs due to COVID.

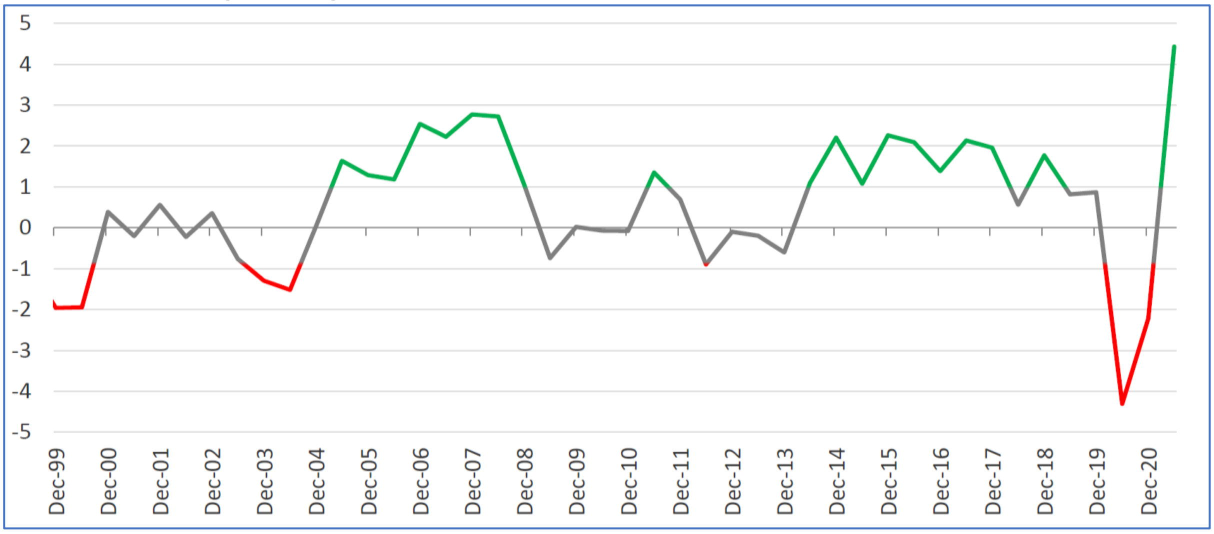
In July 2020, the Government announced further measures to support the economy, including:

- *£100 for every Islander to spend, supporting local businesses*
- *2% reduction in social security contributions for 9 months*
- *Another £100 for individuals with a low income*
- *£50 million fiscal stimulus fund for smaller capital projects in the community*

Since then, alongside the vaccination programme, the Government's financial support focused more on the individuals and businesses most affected by COVID, for example, in tourism and events. The effects of COVID on the Government's income and expenditure has been estimated to reach £600 million between 2020 and 2025, before agreed funding measures. The Government is now preparing for a period of recovery and renewal in 2022.

COVID created the biggest fall and biggest rise in workforce jobs for over 20 years as shown in the first chart. Total employment now is higher than it was pre-covid at nearly 62,500 jobs.

Annual Percentage Change in Workforce Jobs 1999 to 2021



Source: Statistics Jersey

The impact of Covid on business perceptions has been even more extreme in terms of the very steep falls in confidence and the size of the bounce back. Looking at the Business Activity Index in the quarterly Business Tendencies Survey for the whole economy there was a net positive balance of 6 in December 2019. This became -11 in March 2020 and -62 by June 2020. However, by June 2021 it had rebounded to positive 20 before falling back to positive 9 in September 2021. The picture for particular sectors is even more extreme. The Hotels and Catering Sector went into the pandemic with a business activity indicator at -9 in December 2019. This fell to -42 in March 2021 and then to -100 in June 2020. By June 2021 the indicator was at -15 and by September 2021 it was positive 40.

Current retirement income and pension system in Jersey

This section reviews the current retirement income and pension system in Jersey. It is based on official data and surveys and discussions with government officials, industry providers and employers, plus the results from previous consultations. There are some areas where there are significant gaps in data – most importantly in the current coverage, assets, income and governance of private occupational and personal pension plans. This report uses survey data to try and fill in the gaps. It presents conclusions based on a best interpretation of the data. Going forward, a step-change in data frequency and quality will be essential for the safe regulation and supervision of the current and any expanded private pension provision – and some very useful plans are being developed to help achieve this.

The Retirement Income and Pension System in Jersey

A broad overview of the pension system in Jersey can be given using a five-pillar framework set out by the World Bank in 2005[20]. This is followed by a detailed review of each pillar. It spans the sources of retirement income from non-contributory poverty avoidance payments through public and private pensions to other sources of retirement income (see Figure 1). The basic or zero-pillar comes in the form of payments to older people that are not related to any contributions but are to deliver a minimum level of income. First pillar pensions are contributory public or social security pensions (often Defined Benefit). Second pillar are mandatory private pensions (typically DC but not necessarily). Third pillar pensions are voluntary pensions. The fourth pillar encompasses other forms of saving for retirement, including homeownership. For Jersey at a high-level the current picture is:

Zero pillar Income support provided for over 65s (and others) paying £16.9m to 2,053 old-age individuals in 2019, making around 3% of total income for the 65+ group[21].

First pillar Contributory social security with 53,787 active contributors, paying £179.4m to 31,880 pensioners in 2017. Active contributors are close to 90% of total employment and 75% of the current working age population[22]. Estimate suggest this makes up 26% of total income for the 65+ group.

Second pillar Does not exist for all workers as there are no Jersey-wide mandatory provisions (or use of auto-enrolment) that requires all employers to provide pensions. The Government as an employer has decided to offer pensions and made them mandatory for most staff in addition to Social Security. This can be considered to be a first step in terms of mandatory provision – which would be completed

[20] See Holzmann and Hinz (2005). This five-pillar framework updates the original World Bank three-pillar framework from 1993's 'Averting the Old-Age Crisis'. Both differ from the three pillars commonly used in European debates where the first pillar is social security, the second pillar is occupational and the third pillar is voluntary private pensions. The five pillar World Bank framework is preferred because it includes an explicit role for income support that is often lost in other approaches. Moreover, it focuses on the key distinction between mandatory and voluntary private provision between pillars two and three which is a more critical distinction than whether pensions are employer provided. Within two employer provided regimes the coverage will typically be different depending on whether the system is mandatory or voluntary.

[21] Jersey Statistics Household Income Distribution Survey 2014/15 for percentage of income.

[22] Figures for total employment are taken from Jersey Statistics Labour Market releases and figures for the employment rate from the Jersey Better Living Index and Jersey Population Statistics.

if such requirements were extended to the private sector (as in many countries)[23].

Combined, the Public Employee Pension Fund and Jersey Teachers Superannuation Fund collected £78m from 8,226 active members, had £2.6 bn in assets under management and paid £101m to 6,215 pensioners in 2018[24]. Active members are hence 14% of the employed and 11% of the working age population. Pensioners are equal to 20% of the Social Security recipients but 50% of the value of receipts.

Third pillar There are around 800 tax registered voluntary occupational or superannuation pension schemes, but no aggregate data current accessible on coverage, assets or pension payments. Provision, including for individuals, is via occupational pensions schemes, Retirement Trust Schemes (RTS) and Retirement Annuity Contracts (RAC)[25]. Using survey data, approximately 36% of people say they have a good occupation pension and 28% as having a good private pension or other income[26], with around 24% who say they are relying on the States to look after them in retirement. One-third of the current employed would be around 20,000 people and of the current workforce, would be around 25,000 people. This is close to the figure of around 23,500 people each year claiming pension tax relief (noting that some people with occupational pension plan may have built these up overseas). Other data suggest that occupational and private pensions make up some 30% of total income for the 65+ age group[27].

Fourth Pillar Data on sources of income in retirement shows that 25% comes from 'unearned income' meaning returns on savings or rental income from property[28]. Employment levels are much lower for the 65+ age group as expected but still 16% of total income is reported for the group to be from employment. Finally, homeownership is 58% on average[29] and 72% for pensioner household[30]. Given the high housing costs in Jersey, homeownership v renting makes a very substantial difference in the income distribution before and after housing costs.

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[23] The position of pensions for government workers is often not well-defined. They should not be classed as first pillar Social Security pensions (unless they are substitutes for the first pillar) because they are provided by the Government in its role as an employer not through its role in delivering a social security system. Strictly speaking it is a voluntary decision for the government to provide pensions, although it is often compulsory for workers in the public sector to contribute. So, Government as an employer pensions sit between the second and third pillars – forming either the first part of a mandatory system, or a core part of the existing voluntary pension system.

[24] Annual Report of the respective pension funds.

[25] Retirement Annuity Contracts are approved under Article 131B of the Income Tax (Jersey) Law. Plans called 'SIPPs' locally include structures which are unlike SIPPs in the UK because they are run by individuals who are also the beneficiaries and use local corporate vehicles. This, and other issues, are investigated in more detail in a separate report produced by D3P Global on current and future private pension regulation.

[26] The survey question from the 2015 Jersey Opinions and Lifestyle Survey essentially combines both third pillar (voluntary private pensions) and fourth pillar (non-pension forms of saving).

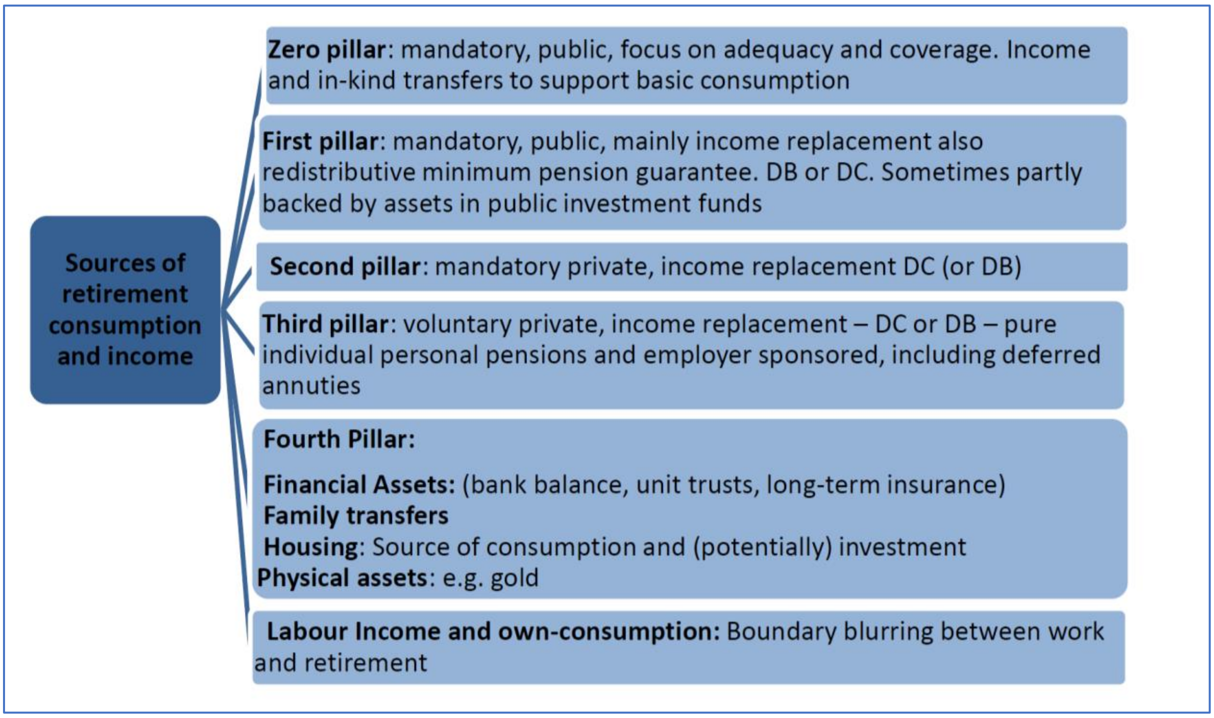
[27] Statistics Jersey Household Income Distribution Survey 2014/15 and Finance and Legal Sector Survey.

[28] Statistics Jersey Household Income Distribution Survey 2014/15.

[29] 2015 Health and Life Opportunity Survey

[30] 2014/15 Household Income Distribution Survey.

Figure 1: An overview of different parts of a retirement income system



Source: Authors based on World Bank 2005 framework

Detailed picture of the current retirement Income system

Income Support – Zero Pillar

Income support can be paid to people over 65 and in 2019 there were 1,754 households aged 65+, with 2,053 individuals, who were in receipt of income support. This is some 11% of total pensioners living in Jersey. In 99% of cases the household was also in receipt of at least one pension – with average pension income equal to £11,911 – of which 26% is disregarded when calculating eligibility for income support[31]. Total payments to the 65+ group in 2019 were £16.9m – or 8% of the total paid to pensioners from Social Security. It made up 24% of total payments for income support with the balance going to families under 65+ with and without children. To put these figures into context the Minimum Wage in Jersey in April 2019 was £7.88 per hour for an adult (with lower rates of £5.91 and £6.90 for trainees). At the full rate 20 hours a week would give £8,195 in income a year and 40 hours a week would provide £16,390 (assuming both received paid holiday). The total Income Support received by a household will also depend on the size of the required rental payments.

Social Security – First Pillar

Contributions for Social Security are made in relation to the lower, standard and upper earnings limits for Class 1 (employed) and Class 2 (self-employed and other non-employed) Contributions. There is a lower earnings limit (LEL, £11,760 in 2021), a Standard Earning Limit (SEL, £55,320 in 2021) and an Upper Earnings Limit (UEL, £252,360 in 2021). Standard contributions are 10.5% for pensions and benefits (5.3% employer and 5.2% employee) and 2% for health (1.2% employer and 0.8% employee) making 6.5% for employers and 6% for employees[32]. Above the SEL, contributions of 2.5% are made up to the UEL for pensions costs and parental benefits and only paid by employers. Class 2 contributions for the self-employed follow a similar pattern but the self-employed worker must pay the combined employer and employee contributions – thus making 12.5% up to the SEL and 2.5% between the SEL and UEL. Employees drawing their social security pension can still work but do not need then to pay the 6% contributions for social security and health.

Jersey has an approach known as 'supplementation'. This provides an annual grant into the Fund, based on the actual contribution levels of high, low and middle income earners in order to ensure that the Fund receives a standard contribution each year from each active contributor. The shortfall in low and middle earning contributions in 2017 was £80.9m – indicating that it is a significant factor in total annual social security contributions. The cost of supplementing these contributions is met by a direct States Grant (grant from tax revenue as part of the budget) and the revenues from the now 2.5% contribution that employers of higher earners make over the Standard Earnings Limit. This measure clearly helps to make funding of old age pensions from Social Security more progressive. To the extent that the

[31] A review of Income Support provisions is outside the scope of this report. However, a key consideration for whether to require people on low incomes to contribute to workplace pensions will be the likely impact on any future income support payments in old age. If there is only a 26% disregard for pension income when calculating Income Support, then a pension contribution from a current worker who receives Income Support in the future would effectively face a 74% marginal 'tax' or withdrawal rate. This could be controversial – even if the logic for the pension provision is partly to protect the future public finances from old-age Income Support claims. Either way, this is an area that is important for political debate and discussion.

[32] Contributions were temporarily reduced for 6 months as part of the Covid response package.

lower and middle income earners are more likely to come from one group rather than another it will also help to reduce inter-group inequality. However, the approach only applies to contributions above the Lower Earning Limit. Contributions below that level do not create a full entitlement to pension or benefit and are only credited with pension entitlements based on the actual rate of contributions.

Jersey also has a system of Contribution Credits that counteract the loss of contribution record in certain cases – mainly for people caring for a child at home and people over 18 in full-time education. The allowance for people at home caring for a child (Home Responsibility Protection (HRP)) is available for up to 10 years – and was received by 1,170 people as at end 2017. 744 people were in receipt of the credit for full-time education. So, this effectively increases the number of annual contributors to the social security pension by nearly 2,000 people a year – or around 4% of total contributors. The likely impact will be to improve gender equality given that the majority of those looking after a child are still women. However, even in a labour market as in Jersey with high rates of formality, attaining 45 years of contributions is challenging is clearly not simple given the low current figures for how many people reach a full contribution record. If there are any moves to greater informality and/or a rise in 'gig' economy workers, the likely impact on contribution records will be negative – reducing the numbers who will achieve with a full old-age pension[33].

Payments from Social Security

Full eligibility for social security payments comes after 45 years of contributions. The right to receive a pension anywhere in the world is attained after 4 ½ years of payments (a record of 10%). A full pension as of December 2021 was paid at £235.27 a week (£12,234 per year). Couples married before 2001 can claim 166% of the single person rate on the contribution record of the husband – or £390.60 per week (£20,311 per year). People married after 2001 have separate contribution records. As highlighted below under the discussion of coverage and adequacy goals, a significant majority of people do not get to the full entitlement. In addition, there are very large differences between those that end up retiring in Jersey and those that claim a pension off-island.

Pensions are uprated in line with average earnings and at least retail price inflation each year. The new 'double-lock' was introduced in 2013 in response to the post financial crisis experience (seen in a number of countries) of average earnings growth being below retail prices more often than in the past. This is an important feature supporting adequacy. Without it, the replacement rate would gradually fall over time (assuming real earnings growth). Other benefits are still uprated with earnings in which case the real level of benefits will rise over time, but only keep pace with average earnings.

The current pension age is 65, rising to 67 between 2020 and 2031. There is an option to take a pension from 63 at a reduced rate (rising to 65 years by 2031) – which is popular

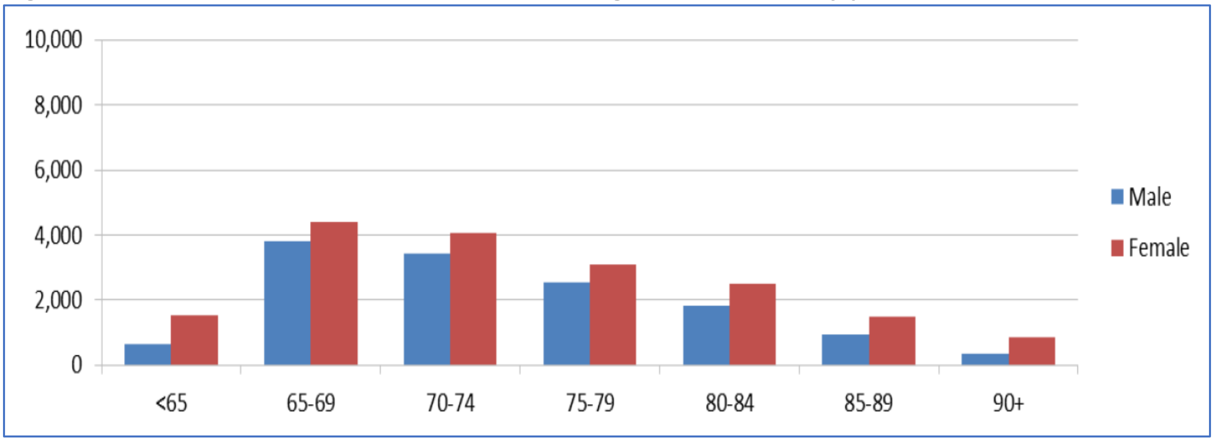
[33] There is a significant academic and policy literature of the problems of informal labour market and contribution records for public and private contributions. See for example Rofman et al, 2014. The debate is usually focussed on developing countries (where labour markets have not formalised as hoped over the past 20 years) but is increasingly relevant for developed countries seeing increases in self-employment and contract work as part of the 'gig; economy.

because receipt of a pension does not prevent work (as in some countries) but does allow employees to stop paying their social security contributions of 6%.

One aim for pensions overall in Jersey is that they are broadly fair between generations. This is a key concern in many countries – particularly those where there are large PAYG public or Social Security pensions, with rapidly aging populations. At a high-level, Jersey will be more intergenerationally fair given that its Social Security first pillar pension is backed by significant assets. The regular actuarial reports identify the required contribution level for steady-state funding. In some countries, this kind of actuarial analysis will identify very large increases in contribution levels for the fund to remain sustainable. This indicates that the current generation of pensioners and older workers are likely to be receiving benefits significantly in excess of their 'fair' cost. In Jersey, the latest actuarial report identifies a much more stable picture, with the current and the required contribution levels for long-run balance being very close[34]. To the extent that a funded pension pillar is added, or extended, this will be intergenerationally fair – but may well fail to meet other objectives as discussed elsewhere. To do a full analysis of intergenerational fairness is however a demanding and technical exercise going well beyond even a detailed actuarial evaluation of the social security pillar.[35]

More women receive pensions than men in all age-brackets. The relative preponderance of women increases at older age-brackets in line with their higher longevity than men. The breakdown by age is shown in Figure 2.

Figure 2: Number of men and women receiving a social security pension, end 2017



Source: Social Security Department Ministers Report 2017

[34] GAD (2019)

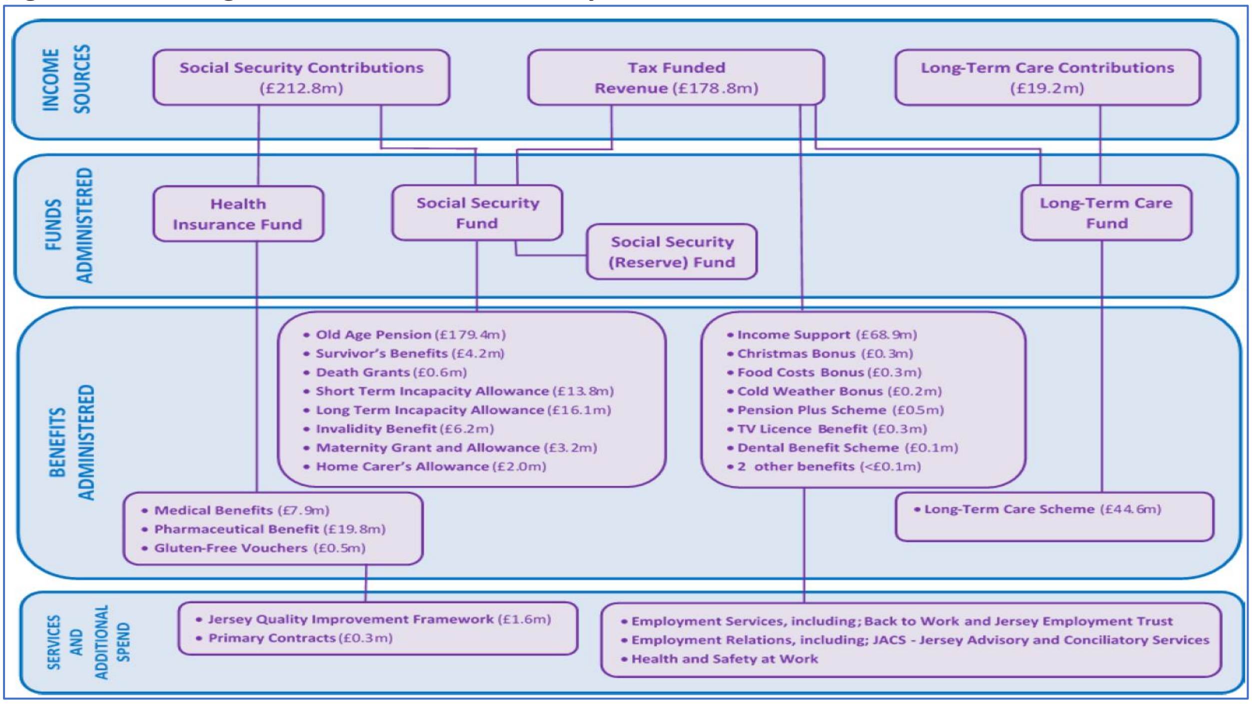
[35] Intergenerational accounting is an important but technically demanding tool – both in terms of data and analytical requirements. The EU conducts regular studies among members – see for example Arévalo et al 2019. This shows that for current generations – those aged under 43 will face a net tax cost (tax to pay will outweigh benefits including pensions) and those 44 and older will be net recipients. This is as might be expected given that the younger generation has more of their working life to pay taxes. More informative are estimates for the full lifetime of coming cohorts. For children born in 2016 they are estimated to have a net tax to pay over their lifetime of €174,000 as they pay for the relatively higher costs of current pensions relative to the ones that they will receive in the future. For the 2040 new-borns the net tax figure is €122,000 and for the 2060 new-borns it is €94,000 – with the declining profile being significantly related to planned reforms in most countries to reduce the costs of pensions - through later retirement ages, lower relative benefits and other measures. From a gender perspective, women have a much lower net tax to pay figure. This is a mirror image of labour market status – since lower employment rates and a gender gap in earnings translates to lower tax paid. However, the analysis does not include any valuation of non-market labour inputs such as caring for children or relatives.

In addition to Income Support there are some additional benefits that pensioners can claim – including Pension Plus and free TV licenses for the over 75s. Overall expenditure on Pension Plus – for optical, dental and chiropody – is under £1m for around 2,500 claims. There were 1,730 claims for the free TV license that cost around £0.25m. Whilst these benefits are valuable for those claiming them, they do not make a significant impact on the total value of pensions and benefits paid to those over 65 in Jersey. This does not make them unimportant – but it means they are not likely to make a big impact when looking at overall flows of income and costs of contributions to the age group.

The Social Security pillar is backed by assets rather than following the unfunded Pay-As-You-Go model seen in many countries. This has created a growing pot of assets that were £2.3bn in the October 2021 valuation. The decision to move to a partially funded model in the late 1990s has obviously made the overall pension system in Jersey more sustainable than in other countries. It has also created a very significant stock of assets. This gives a valuable insight into the benefits of scale even in a relatively small economy. It also provides experience in investment governance, strategy and execution. This is important for potential options to improve the system. It highlights the benefit that Jersey has relative to other jurisdictions in having large asset pools and expertise in managing and administering them in both the public and private sectors.

The management of the assets for Social Security is undertaken by the Common Investment Fund of Jersey – rather than being wholly contained within the Social Security agency. This mirrors somewhat the approach in Singapore where their Social Security pillar – the Central Provident Fund – has its assets managed by a very large common government asset-manager called the GIC. Figure 3 shows the combined span of programmes of old-age support including Income Support and Social Security, health and long-term care. It also shows programmes provided for non-pensioners to highlight that relative priorities among different groups are always an important factor when making policy changes.

Figure 3: Full range and cost of social security and other benefits 2017



Source: Social Security Department Ministers Report 2017

Public Sector Occupational Pensions

There are two main public sector pension plans – the Public Employees Pension Fund and the Jersey Teachers Superannuation Fund. Details of each are given below. There appear to be other plans, sometimes on the balance sheet of the States of Jersey for legacy reasons. One example is the legacy pension plan for Jersey Post as opposed to its current plan on which it reports in its annual accounts. Discussions so far indicate that there are unlikely to be any large funds or large fund balances among this legacy group.

The Public Employees Pension Fund (PEPF) manages two plans on behalf of public sector workers in Jersey. It had a total of £2,062m in assets under management at the end of 2018. One scheme is the older final salary Defined Benefit plan known as the Public Employers Contributory Retirement Scheme or PECRS[36]. The second is the newer Career Average Defined Benefit scheme called the Public Employees Pension Scheme (PEPS). In 2018 in total there were £65m in contributions (£48.5m employer and £16.5m employee) and £78.7m in total pension payments (£69m in pension income payments and £9.7m in lump-sum commutations and death payments). There were 7,005 active members, 3,466 deferred members and 5,126 pensioners. Lump sum payments appear high and the plan is investigating this.

The PEFP has internal investment governance, assisted by advisers, to create its investment strategy. It then executes that strategy using a range of external asset managers. The total costs for administration in 2018 were £2.13m and for investment management were £13.56m. This makes total costs as a share of assets under management 0.76%.

The Jersey Teachers' Superannuation Fund (JTSF) is a statutory final salary scheme for teachers in Jersey. People employed as full-time teachers automatically become members. Part-time or supply teachers need to complete a form[37]. Teachers pay 5% of salary and their school pays 16.4% of core (e.g. non-overtime) salary. Teachers who joined before 2007 have a retirement age of 60 and those after 2007 have a retirement date of 65. For the post-2007 teachers they can commute up to 30% of their pension into a lump-sum.[38] Its last three-yearly actuarial valuation was in 2016. It concluded the fund has a funding ratio of 106% - which meant that it could still increase pensions in payment by the full permitted rate of retail prices. The next valuation was expected in early 2020.

[36] There are some interesting details below the headline numbers to investigate. For example, Jersey Financial Services Commission Annual Report and Accounts highlights that staff hired before 1999 are members of the (Final Salary DB) Public Employees Contributory Retirement Scheme (PECRS). Staff since 1999 are members of the 'Jersey Financial Services Commission 2012 Staff Pension Scheme'. In 2018 JFSC made £771,000 in contribution to staff pensions of which the vast majority was for the new pension plan rather than PECRS. The notes to the accounts also highlight that they cannot identify their share of the underlying assets and liabilities of the PECRS scheme – which had an actuarial deficit of £68.5m in the 2016 valuation. Because they cannot identify their share of the deficit they account for the scheme as a DC scheme even though it is a DB scheme. Similarly, Jersey Electricity contains pension provisions in its accounts. To support the new regulation and supervision of pensions for Jersey it would be useful to undertake a review of the accounts of all major firms for pension disclosures.

[37] Though not the subject of this review – to the extent that JTSF wanted to increase coverage of pensions for teachers, auto-enrolling all teachers but allowing an opt-out for supply teachers would likely increase coverage. It is not clear why part-time teachers are not automatically added into the plan as for full-time teachers. Inclusion of teachers at independent schools and further or higher education institutions depends on the institution.

[38] The method to do this translates each £1 of pension income commuted into £13.50 of lump-sum. It is not clear how good a deal this is for members relative to existing annuity rates, but this has not been investigated.

The Jersey Teachers plan had assets of £517.4m as of 31 December 2018. It received £13m in contributions (£9.6m from employers and £3.4m employees). It had 1,221 active (contributing) members, 507 deferred members and made payments to 1,089 pensioners. The payment to pensioners totalled £22m, with £19.9m in pension income payments, and £2.1m in lump sum commutation payments. From the accounts, the total costs for administration were £0.57m, with £4.3m on investment management – mainly for the services provided by the Common Investment Fund. This equates to total costs of 0.93% as a share of assets under management – which includes allocation to a range of actively managed funds including hedge funds – which partly accounts for the higher costs.

It is possible to buy Additional Voluntary Contributions for both the Public Employees Pension Fund and the Jersey Teachers Superannuation Fund. This can counteract the effect of lacking years of contributions or offset a decision to take the pension earlier than the standard retirement age**.** Retirement impact calculators are provided for the different schemes[39]. However, the returns on AVCs in the Career Average plan of the Public Employees Pension Plan for example, will depend on the overall funding level of the plan. This is particularly in relation to whether there will be annual increases in pensions in line with RPI or lower. This uncertainty may well be a barrier to many people contributing. A Defined Contribution workplace scheme would remove this uncertainty – but at the cost of exposing members to investment risk. So, there are no completely risk free options.

Taking the two largest public pension funds together indicates that there are £2.6 bn in asset under management, with annual pension payments of £101m to 6,215 pensioners. This is over 50% of the total value of Social Security Payments. So, they are clearly material in terms of the overall retirement income story in Jersey. The combination of salary and years of service mean that the pensions are on average higher than those paid from Jersey Social Security. In terms of the overall coverage picture for Jersey it is clear that the average public sector worker will already have both Social Security and occupational pensions – meaning that the gaps in coverage will be for those without a public sector (or good private sector pension). In many countries there are often large classes of public employees who have different contracts that exclude them from generous pensions allocated to the salaried and management employees. In Jersey it is compulsory to join the Public Employees' Pension Fund for permanent employees and optional for fixed term employees. Employees on zero hours contracts – for example some bank nurses - are not eligible to join the scheme. For the Jersey Teachers Superannuation Fund, it is compulsory for full time teachers and optional for part time and supply teachers. Internal estimates suggest around 1,000 workers may be either ineligible to join the two schemes – or have opted not to join. Auto-enrolling workers with the option to join but for whom it is not compulsory would be one way to boost coverage.

Voluntary Occupational and Individual Pensions – Third Pillar

There is no specific pension legislation, regulation or supervision in Jersey, albeit the retail provision of pension products overlaps into different classes of regulated financial service business. Part 19 of the Income Tax Law contains the tax arrangements for pensions, pensions schemes and annuities in Jersey[40]. To gain advantage of the tax reliefs available a

[39] See https://www.gov.je/Working/WorkingForTheStates/Pensions/Pages/PurchasingAdditionalPension.aspx
[40] The 1961 Income Tax Law as amended can be found via the Jersey Legal Information Board. The version as at 1 January 2019, accessed 15 November 2019 is at: https://www.jerseylaw.je/laws/revised/Pages/24.750.aspx

pension scheme needs to obtain approval from the Comptroller of Taxes. The key provisions in the Income Tax Law on approvals for pensions are[41]:

- Article 131: **Approval of occupational pension schemes** as a trust for people employed in Jersey-these can be held in trust or as a "scheme bona fide established"[42];
- Article 131A: Approval of occupational pension schemes as a trust for a trade or undertaking operating outside Jersey and for people not resident in Jersey;
- Article 131B: Jersey **retirement annuity contracts** (personal pension plans) for people ordinarily resident in Jersey, with any annuity paid to be from an authorized insurance company and established with a company carrying on annuity business or a trust;
- Article 131C: Retirement annuity contracts for people ordinarily resident and employed (if applicable) outside Jersey
- Article 131CA: **Jersey retirement trust schemes** (open to local residents and non-Jersey residents) which is a trust where any corporate trustees must be regulated by the JFSC;

Tax relief is available for 'approved Jersey schemes' - the collective term for the Occupational Scheme, Retirement Annuity Contracts and Retirement Trust Schemes – subject to a range of detailed rules and procedures. Employer contributions to approved pension schemes are tax exempt, as are employee contributions up to £50,000 a year minus any income earned above £150,000 a year. Gains made whilst the assets are invested within the fund are tax-free. Pension income received from approved schemes is subject to tax but with up to 30% available as a tax-free lump sum. Hence, as in the UK, the overall tax arrangements are EET (or technically 'EEt' - exempt-exempt-taxed but with a tax-exempt lump-sum). The tax authorities produce a 'Pension Administrator Tax Guidance Note' that sets out the key requirements for their activities[43].

There are relatively complex rules allowing lump-sum withdrawals from pension schemes for 'trivial pensions' and small pots – although for amounts that can be quite substantial for people with multiple different pension schemes. An approved Jersey scheme can allow someone to take their fund balances from age 60 if the total is less than £35,000 (Article 131CE(1)) after they have taken the tax-free lump sum of 30%. So, in practice this appears to mean that a pension fund of £50,000 or lower can be taken in full from age 60 (£50,000 – 30% = £35,000). However, if the fund is above £50,000 then it would be above £35,000 after the 30% lump sum were taken. In that case none of the money could be accessed, even if the fund were £35,001. Moreover, triviality rules apply to an individual not a pension plan - so an individual cannot use them multiple times for multiple pots – and increased since 2018 from £30,000)[44].

[41] Article 131 gives the Minister broad order-making powers that can require additional 'information and particulars' to be delivered for the approval process or over time.
[42] This distinct category is known to include closed contract-based pension schemes that were operated by UK insurers before they left this market, but could also include a scheme established not in trust by an employer. It also includes public sector schemes and might also include employer sponsored schemes not held in trust, although it is not known whether these exist. Revenue Jersey believes that relatively few schemes fall under this heading.
[43] The guidance note can be found at: https://www.gov.je/TaxesMoney/IncomeTax/Pension/pages/pensionadministratortaxguidancenotes.aspx
[44] The scope of the project does not include changes to the tax rules. It is noted here that the rules on lump-sums and withdrawals combined could mean that a substantial amount of money could be withdrawn from a

In addition, Article 131CE(3) allows the full balance of a pension scheme to be withdrawn at any point – including before 60 - if the balance is below £19,000. This operates in addition to the 'triviality' rules outlined above, subject to a requirement that the total of the balances that the pension holder has previously commuted does not exceed £50,000. The money would then be paid gross and declared in their tax return and taxed at their marginal rate. A person could also amalgamate their small pots to have one larger pension pot if they wanted to rather than withdraw the money. Revenue Jersey do manual checks to see that pension funds liquidated under the small pots rule are declared on the annual tax return - something that will be more automatic in the future with the new IT system.

The tax authorities can withdraw approval – subject to certain conditions - and with a right of appeal (Articles 131P and 131Q). The Comptroller may withdraw approval if it appears that: "the facts concerning the approved scheme, contract or trust, or its administration, do not warrant the continuance of approval". The grounds for withdrawal must be given. If approval is withdrawn, then tax at a maximum of 50% becomes liable on the market value of the assets or contributions or income accrued – whichever is greater. A person "aggrieved by the decision of the Comptroller" can appeal to the Commissioners. It should be noted that this power is permissive and vague – it is far from clear that it would remove unacceptable schemes from the market.

A condition of continuing registration is that schemes are required to submit annual data returns covering contributions, payments and transfers, as well as annual scheme accounts. Analysis of this data would help fill many of the informational gaps referred to below. There is currently, however, no explicit gateway to enable other government departments or agencies involved in pension scheme regulation to receive or analyse this data. It is not clear that the data is readily accessible in electronic form. Provision of an explicit gateway would be of considerable value. Requiring that the data instead be provided directly to a specific regulator of pension schemes would be better still.

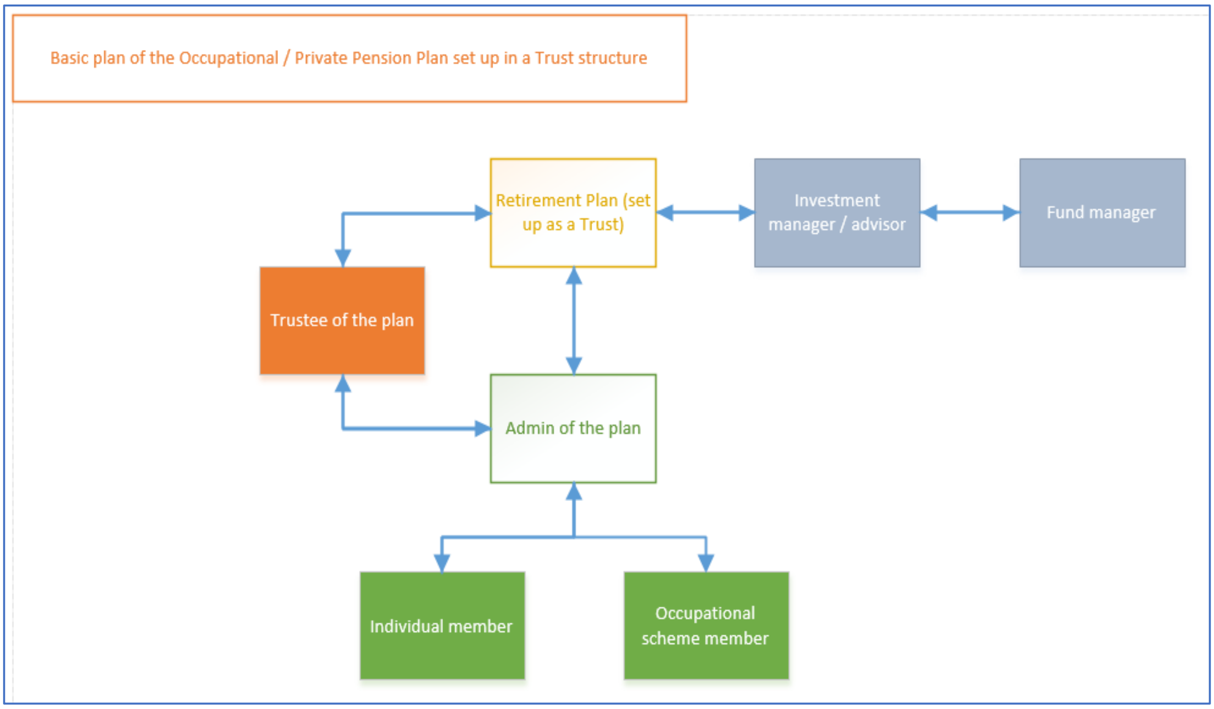
Consequently, there is no current published source for the number of occupational and private pension plans – or indeed any headline details such as members, assets, investment strategies, costs and pensions in payment. This is very unusual internationally. The only records that could be comprehensive are held by the Tax Authorities by virtue of their role in the authorisation process. The annual tax returns for authorised plans ultimately contain information on the total contribution on which tax relief is sought. But an additional data collection exercise is needed to get the normal headline data on pension plans – let alone to get to the point that would allow effectively regulatory and supervisory scrutiny. Discussions with market participants did not yield any other source of current data or previous studies on the market. The tax office was seen as the best potential source. But representatives of

pension pot at a very early 'old-age'. £50,000 at age 60 say may not appear substantial enough to dramatically alter retirement income since if the person lived to 85 it would only deliver £3,000 a year as a drawdown assuming a rate of interest of 4%. However, at 4% interest a year if someone left a balance of £50,000 untouched at 60 until 75 it would have reached £90,000 and then could deliver nearly £9,900 a year between 75 and 85. This could make a meaningful difference, particular to a worker who had used up other forms of saving and had little or no ability to work. This discussion is relevant to the payout phase product to be discussed later in the document.

employers made very helpful offers to survey their members in the interim in order to get a better picture.

There are a range of providers in the personal and occupational pension space – typically providing pensions as part of a broader range of financial services for individual and corporate clients. Whilst they have their differences, the core structure is generally similar, with a trustee providing overall governance on behalf of the members, an administrator collecting payments and administering accounts and potentially offering financial advice and an investment provider offering a range of core funds and in some cases a wider range of other funds. Some of the key local providers include Vantage, Rossborough, BWCI and Alexander Forbes among others. Figure 4 sets out a simplified overall structure for these types of plans. It should be noted that the scope exists within some of the retirement products, notably RAC's for individuals to create their own portfolio.

Figure 4: An overview of private pension provider structures



Source: Government of Jersey

The occupational trust structure can work well for large employers with many members – but can be costly and complex for smaller employers. In these cases, employers can facilitate access to a personal pension for their workers (to which the employer can contribute). In this model the employer connects with a provider who may make presentations or offer financial advice to the workers who would then decide if they took out a personal pension plan. The employer plans a role as facilitator but is not setting up the 'XYZ Company Pension Trust' for their workers. When the workers leave their employer the pension plan remains with the worker as a personal financial product, rather than the worker becoming a deferred member of an occupational pension plan as they would if they left the government service for example.

Defined Benefit and Defined Contribution plans exist in the private sector. The Defined Benefit plans are thought to be all or nearly all closed to new members – although there is no reliable data accessible centrally[45]. Given, the absence of any pension legislation or legal duties on employers in relation to funding – if a Defined Benefit plan were to be underfunded the employer could close the plan and members would not receive all the promised benefits. The priority order for payments would be set out in the specific plan Trust Deed and Rules. If current pensioners were required to be paid in full, this could leave a large financing gaps for members who had not yet reached retirement age. This has happened in many countries worldwide.

The absence of a funding liability on employers and the risk of large shortfalls in the case of employer bankruptcy or wind-up is a common risk such plans. There were major scandals in the past in the UK with the Allied Steel and Wire (ASW) plan and the Waterford Crystal plan in the Republic of Ireland where members short of retirement lost very large percentages of their expected pension. In the Waterford Crystal case, the pre-retirement members were left with 20% of the necessary funds. After a very long and politically contentious debate the Government of Ireland bailed out those that had suffered a loss – even though it was a private voluntary pension plan. This is another reason why it is vital that Jersey has a robust pension regulatory and supervisory framework.

No data on investment returns has been identified – making it impossible to comment on the net of fee returns from different providers. Examples were found of providers quoting potential returns in nominal terms and identifying potential fees in relation to a reduction in overall nominal returns e.g. a 1% AUM fee would reduce returns from 6% to 5%. But ultimately it is real returns that the member needs for their funds to grow in real terms. Assuming an inflation rate of 2%, then 6% nominal returns would be 4% real returns and a 1% AUM charge would reduce fees to 3% - or rather take 25% of real returns. From the investigations so far, it appears that fees are significantly above 1%. Moreover, the likelihood of getting 4% real returns over time may be quite low based on the most rigorous dataset on long-run global returns across 21 countries[46]. In the likely event that fees are at least 1.5% of AUM and real returns are 3% then of course the fees take 50% of real returns. As outlined above some examples were seen of fees that would be 2% of AUM or even more – taking 67% or more of real returns.

The cost structure of the main plan types includes some combination of an administration fee, investment fee and trustee services fee – although the terminology can differ. Administration fees and investment management fees tend to be set as a share of assets under management. They can include payments for both the investment management and access to a fund 'platform' offered by an external investment manager. These fees are combined with some one-off charges for set up for an employer plan (although not in all cases) and typically a per-member annual fee for trustee services that is a nominal figure per person rather than a share of assets under management. This creates a problem to see clearly the overall impact of the fees – and their different incidence by the size of contributions. Clearly, an annual fee of £200 per person has a much bigger impact on a person saving £1,500 a year than someone saving £15,000.

[45] Although the underlying data should be held by Revenue Jersey.
[46] See the Credit Suisse Global Investment Yearbook.

The percentage fees can be combined with the nominal fees to provide an estimate of the percentage of assets under management equivalent. For example, in the UK, NEST has to charge less than 0.5% as a share of assets under management a year. But it actually charges 1.8% on contributions and 0.3% on assets under management. Combined, the fee meets the 0.5% requirement. This example illustrates a more general rule of thumb whereby a fee on contributions can broadly be interpreted as a share of assets under management of one-tenth the size. So, a 10% charge on contributions is broadly equivalent to a 1% fee as a share of asset under management over time for contributions at relatively normal rates. The initial analysis of real pricing offers made by current providers suggests that the total AUM fees charged have a broad range from around 0.9% to 2.5% as a share of assets under management. The final fee depends on the choice of investment funds. Annual trustee fees of £150 a member which are common (and even below some of those charged) would obviously make 10% of contributions of £1,500, 5% of contributions of £3,000 and 1% of contributions annually of £15,000. So, the existing market is tailored to higher income individuals with larger annual contributions, or people who want to transfer in larger lump sums into a pension – rather than the average or below average earner that would be the potential target market for reforms to expand coverage.

Available records suggest that there may be up to 800 approved pension plans. Many of these are thought to be very small legacy plans – with under 20 members. But there will be some larger plans linked typically to the larger (often internationally distributed) employers. The pension providers and/or the Jersey Pension Association have not come together as yet to produce a combined overview of the current market. Services in relation to account management and record keeping are delivered in Jersey to many financial services clients including pensions. There are also a concentration of companies providing services in relation to governance, investment strategy development and investment management to execute those investment strategies.

Some pension schemes in Jersey will be 'Qualifying Recognised Overseas Plans' (QROPS). This means they can take transfers from UK registered pension schemes. This designation may be useful for data collection since the schemes in question are likely to be larger than the average scheme in Jersey and are more used to providing regular regulatory data as part of obtaining and maintaining their status. As set out by HMRC, every pension scheme seeking to be a QROPS must first be a 'ROPS' or recognized overseas scheme. This is a factual test about the nature of the scheme. If a pension scheme that meets the ROPS requirements wants to become a QROPS, they need to notify HMRC and provide certain information including a commitment to provide information in the future. There are currently around 60 Jersey Pension Schemes that are on the published HMRC list of Recognised Overseas Plans[47]. Changes in 2017 mean, in general, that the pension member has to be resident in the country to which the transfer is made unless it is to a European Economic Area country (which Jersey is not), or it is their employer's occupational pension plan.

The 2015 Jersey Opinions and Lifestyle Survey included a question on whether people had good occupational pension coverage (which 36% of people said they did) and separately if they had good private pension or other income to use in retirement (which 28% of people

[47] The list can be found at: https://www.gov.uk/guidance/check-the-recognised-overseas-pension-schemes-notification-list#jersey

said they did). Around 24% say they are relying on the States to look after them in retirement. One-third of the current employed would be around 20,000 people and of the current workforce, would be around 25,000 people.[48]. The difference between the answers of 8% could be taken to be an indication of those with government occupational plans as opposed to private pension plans. As a share of total employment, 8% is only 4,800 and of the working age population is 6,000. This would underestimate both current active members of the Public Sector and Teachers plans (8,226) but be closer to pensioners (6,215). One explanation is obviously that surveys have a margin of error. Another is that the figure of 28% for people with private and other income to use in retirement obviously overstates the private pension-only group. Hence the difference of 8% between the private and the occupational pension coverage is a minimum figure since there will be some people with no private pensions but a source of other retirement income for example from other savings or renting out a house.

Information available from the 2016 Statistical Digest on claims for tax relief on pension payments indicates that there were claims in 2016 from 23,483 individuals who made some £46m in total contributions. 15,106 were married or in civil partnerships and 8,401 were unmarried. 23,483 individuals makes around 31% of the working age population. This matches quite closely the 28%-36% of people who claim to have a good workplace or private pensions – noting that some of these people could have acquired pension rights in other countries before moving to, and retiring in, Jersey. Other data suggest that occupational and private pensions make up some 30% of total income for the 65+ age group[49].

The Jersey Finance and Legal Survey[50] also includes some data on pension contributions. It gives a good insight into the pension activity of employers in the sector – but does not provide individual-level data. In the survey 87% of the Finance and Legal sector firms had some form of private pension (meaning that they paid a minimum of 1% of their total employment costs into a pension scheme). The mean average pension contributions from the firms that have a pension scheme was 8.6%[51].

There is some variation across the sector, with larger firms more likely to have a pension scheme and more likely to pay higher contributions. Banking paid the highest contributions into pension schemes for workers, of 10.7% on average, followed by fund management at 7.6% and accountancy the lowest in the sector at 4.6%. For the Finance sector as a whole, total pension contributions are estimated at £46m[52]. This makes it similar in size to the government sector for the Public Employees Pension Fund which had £48.5m in employer contributions in 2018 (and £65m including employee contributions), and larger than the Teachers Superannuation Fund which had £9.6m in contribution from employers in 2018 (and £13m in total including employee contributions). **The patchwork of accessible data provides**

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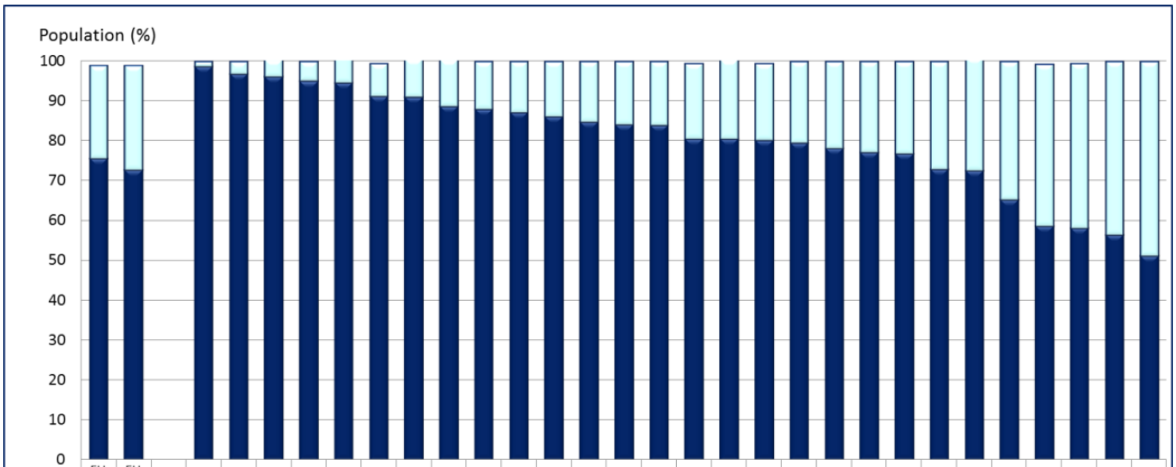
[48] The survey question from the 2015 Jersey Opinions and Lifestyle Survey essentially combines both third pillar (voluntary private pensions) and fourth pillar (non-pension forms of saving).
[49] Statistics Jersey Household Income Distribution Survey 2014/15.
[50] https://www.gov.je/Government/JerseyInFigures/BusinessEconomy/Pages/FinancialInstitutions.aspx
[51] Average pension contributions are the amount paid into a pension fund as a percentage of total employment costs, minus any amounts paid as bonuses, social security contributions, less amount paid in into pension funds.
[52] These figures and definitions come from additional analysis by Statistics Jersey for which the team are very grateful.

an overall picture where private pensions are clearly an important part of the overall story of the existing pension landscape but very far from ubiquitous.

Other savings, assets and income – Fourth Pillar

Fourth Pillar Data on sources of income in retirement shows that 25% comes from 'unearned income', meaning returns on savings or rental income from property[53]. Many of those with additional savings are likely to the same as those with good occupational or private pension plans. Employment levels are much lower for the 65+ age group as expected, but still 16% of total income is reported for the group to be from employment. Finally, the 2015 Jersey Health and Life Opportunity Survey put homeownership at 58%. Given the high housing costs in Jersey, homeownership v renting makes a very substantial difference in the income distribution before and after housing costs. Figure 5 shows home ownership and tenancy rates across the EU for households with one member over 65. It shows there is very significant variation across countries. However, nearly all countries have over 60% of older households as homeowners and an EU average of over 70%. This is close to the Jersey figure of 72%.

Figure 5: EU, home ownership and tenancy rates for households with one member 65+ 2016



	EU 28	EU 19	RO	HR	LT	SK	IE	HU	ES	BG	EL	SI	LU	LV	PL	IT	FI	EE	UK	CZ	FR	PT	BE	MT	SE	DK	CY	NL	DE	AT
tenant	23	26	1	3	4	5	9	8	10	12	12	13	14	15	16	16	19	20	19	21	22	23	23	27	28	35	41	41	44	49
owner	76	73	99	97	96	95	95	91	91	89	88	87	86	85	84	84	81	80	80	79	78	77	77	73	73	65	59	58	56	51

Source: Eurostat.

Pension Regulation and Supervision

The development of regulation of private pensions in Jersey is the focus of a separate project of the Government of Jersey. This is a positive development since one of the greatest risks to retirement income security is a failure in a private pension plan due to fraud or underfunding or low pensions due to unnecessarily high fees or poor investment strategies. The biggest scandals faced by other countries in relation to pension policy in general have stemmed from high-profile failures of company pension plans as highlighted above. So, one of the benefits of the development of pension regulation will be more stability and less risk for consumers and also to the government and its pension policy across all the pillars.

[53] Statistics Jersey Household Income Distribution Survey 2014/15.

Given there is no pension legislation, there are obviously few provisions similar to those in countries with Defined Benefit pensions in the UK. For example, there is no legal requirement for an employer to meet any shortfall in a DB pension plan – known in the UK as a Section 75 debt. If there were to be a shortfall in assets, the requirements on the employer would be set out in the specific scheme Trust Deed and Rules. So, workers could face little protection against a substantial shortfall in assets affecting their 'DB' pensions, although it is recognised that this is in the most part a legacy issue. The greater part of defined benefit schemes which still operate in Jersey are either closed to further accrual or to new members, and in the main, are attached to multi-jurisdictional plans, predominantly UK schemes.

This picture is seen in many countries where there is no similar legal liability on the employer as in the UK, or the absence of a pension shortfall backstop fund like the UK Pension Protection Fund or the US Pension Benefit Guarantee Corporation. That said, some well-respected systems like the Netherlands do not have either provision – but in their case they have funding rules that aim to build up a solvency buffer above 100% funding to prevent the risk of a shortfall.

One question for the financial security agenda is whether the scope of any new pension regulation should extend to public sector employer plans and to social security. In most countries, social security does not face the same type of regulatory scrutiny as private plans. Neither do public sector plans. But there are good reasons to include them, since the potential problems in governance and expertise that can affect private plans can also affect public plans. Public plans can use overly optimistic assumptions about mortality or discount rates or rates of return. The fact that the Social Security Plan has an external actuarial valuation is positive, but not a substitute for full oversight. Likewise, with the Public Employee Pension Plan. It is recommended that any new Pension Regulator be given a role in supervising governance and the setting of assumptions, at the very least, as part of the new reforms.

Current role of Jersey Financial Services Commission

The Jersey Financial Services Commission (JFSC) is the financial services regulator for Jersey. It aims to: *"deliver balanced, progressive, risk-based financial services regulation for the Island, built on insight, integrity and expertise"*.[54] Its Statutory responsibilities are set out in the 1998 Financial Services Commission (Jersey) Law. The JFSC identifies its mission as being: "to maintain Jersey's position as a leading international finance centre, with high regulatory standards". The Regulator aims to ensure it meets the relevant international standards for banking, securities, insurance and trust company business[55]. The JFSC has four guiding principles from Article 7 of the 1998 Financial Services Commission Law:

- Reducing risk to the public of financial loss due to dishonesty, incompetence, malpractice or the financial unsoundness of financial service providers;
- Protecting and enhancing the reputation and integrity of Jersey in commercial and financial matters;
- Safeguarding the best economic interests of Jersey; and

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[54] Financial Services Annual Report 2018 https://beta.jerseyfsc.org/media/1294/2018-jfsc-annual-report.pdf

[55] The core supervisory remit of the JFSC from the 1998 Act is given in relation to:
(i) banking and other categories of deposit-taking business under the Banking Business (Jersey) Law 1991;
(ii) insurance business under the Insurance Business (Jersey) Law 1996; and
(iii) collective investment funds and functionaries of such under Collective Investment Funds (Jersey) Law 1988.

- Countering financial crime both in Jersey and elsewhere.

The JFSC recently expanded the scope of its advice regime to regulate advice given on transferring out of defined benefit pension schemes. This was historically a gap in the regulation of activities involving the retail side of pension business. Pensions as such do not presently constitute an 'investment' for the purposes of Jersey's investment business regime.

The change made by the JFSC was to incorporate defined benefit schemes into the definition of investment for the purposes of investment business. The Channel Island Ombudsman has enhanced this position by recent case law by creating a common understanding that the investment business codes apply when advice is given on pensions even if it is not a formal regulatory requirement. This addressed a gap in regulation as to the wider advice given to consumers in the retail space about their pension arrangements.

The Government of Jersey has recently lodged pension legislation to address this gap in the regulation of advice given to consumers by financial service providers so that any advice given in relation to a tax approved pension arrangement will now be regulated and part of the investment business regime. It is widely acknowledged however that there remain significant gaps in relation to the regulation of private employer pension arrangements.

Financial institutions in Jersey, as in many other jurisdictions are implementing the OECD 'Common Reporting Standards' (CRS)[56,57]. The Government of Jersey has been working closely with the EU and OECD processes on unfair tax competition to keep their rules in line with the developing international rules and standards in this area. Again, this is principally related to the saving, corporate and trust activity in relation to non-resident income and assets, so is not considered as part of the narrative for improving retirement security for Jersey-residents.

[56] Taxation (Implementation) (International Tax Compliance) (Common Reporting Standard) (Jersey) Regulations 2015 (Amendment) (Jersey) Order 2016 https://www.oecd.org/tax/automatic-exchange/crs-implementation-and-assistance/crs-by-jurisdiction/legislation/Jersey-Secondary-legislation.pdf
[57] https://www.oecd.org/tax/automatic-exchange/

Jersey Economic and Demographic Context that impact retirement outcomes

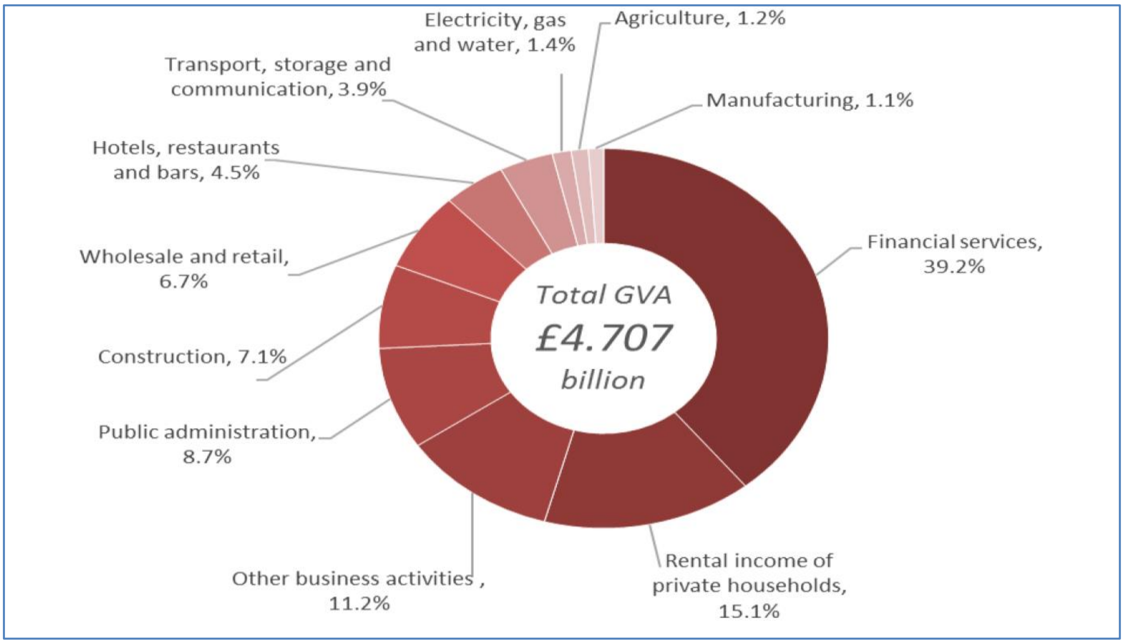
This section sets out the economic and demographic context in Jersey that will affect and be affected by reforms to deliver financial independence in old age. Any option or options chosen will need to be reviewed further for their impact on a range of factors. These include the direct impact on retirement income of course. But it also includes thinking through the impacts on the labour and capital market, on the public finances and the environment where relevant. At this stage the range of ideas is too broad to do an impact analysis on each, but this would be an important part of follow-up work once initial strategic and political steers have been provided. However, some likely impacts are identified at a high level. For example, changes to Social Security that provided an incentive for taking the benefit later may improve incentives to work for older workers between 65 and 70. Or introducing matching for savings rather than using tax relief may increase take up of pension incentives and increase the short-term fiscal needs but with the benefit of lower longer term pressures on public finances.

Total gross value added for the Jersey economy in 2019 was £4.972 bn – and a similar £4.885 bn in terms of Gross Domestic Product[58]. Compared to the population size in Jersey this leads to GDP per capita of £45,320 in 2019 – compared to £52,530 in Guernsey and £31,860 in the UK. However, according to past surveys the price level in Jersey relative to the UK is about 20% higher – meaning that the apparent 25% higher GDP per capita may in fact be much closer in purchasing power terms compared to the average in the UK.

The economy has a mix across industrial sectors, but the largest sector by far at 40% of gross value is the financial sector. Public administration is next at 9%, Construction 7%, Wholesale and Retail at 7% and Hotels, Restaurants and Bars close to 5%. The full breakdown is shown in Figure 6 - noting that the sector 'Rental Income of Private Households' at 15% is a national accounts protocol where the value of the housing consumption that owner-occupiers have is valued, so that countries can be compared that have large differences in owner occupation rates. So, this is not a sector like the others with real activity – but the size does indicate how important housing and its costs are in terms of the overall Jersey economy.

[58] Figures are given for 2019 since the 2020 figures are heavily impacted by Covid. Given the significant bounce back in employment in 2021 the 2021 GVA and GDP figures will very likely show a similar response – and make 2021 more comparable to the 2019 figures in terms of understanding long-term trends.

Figure 6: Gross Value Added per sector 2018



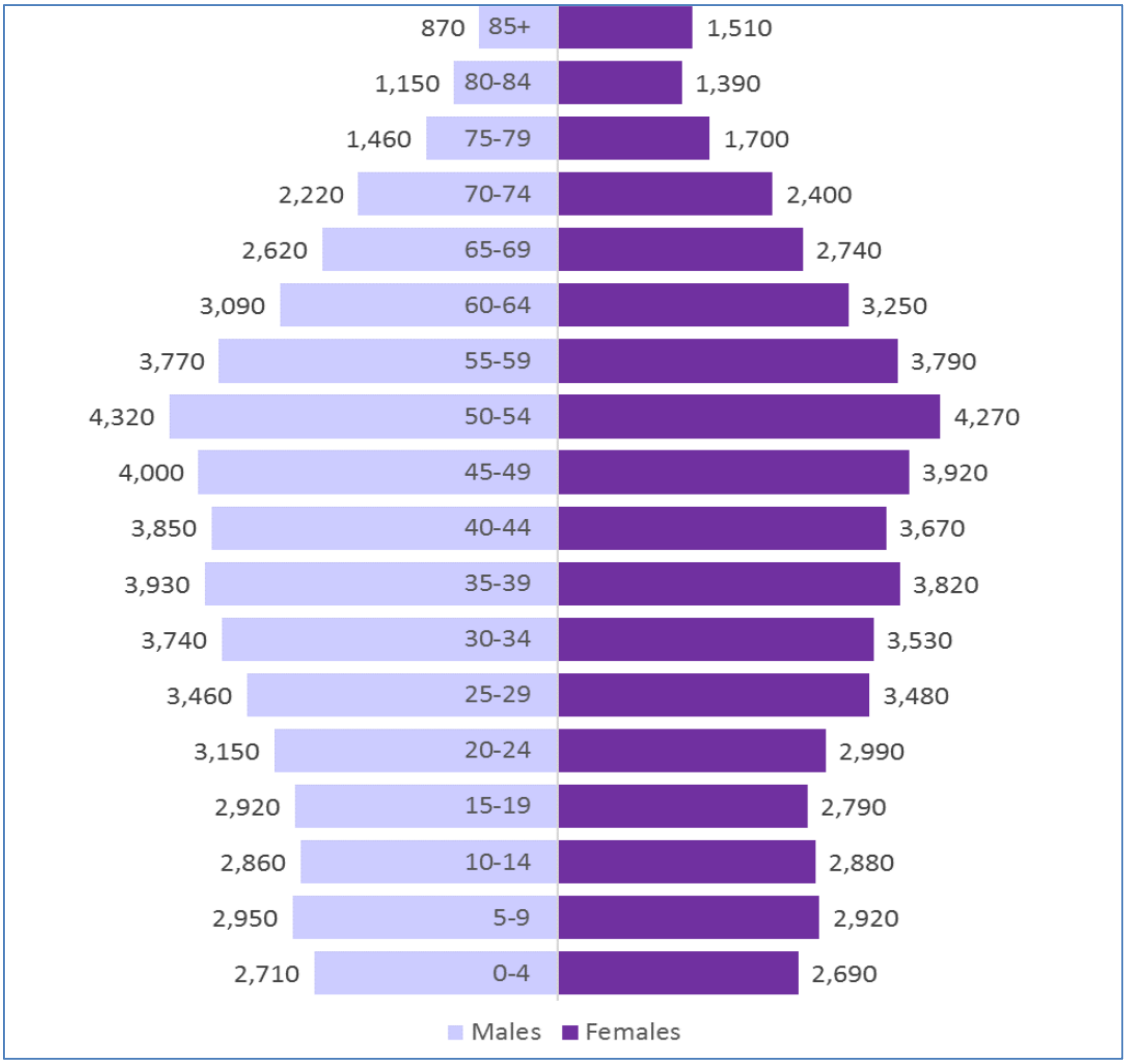
Source: Statistics Jersey GVA and GDP 2018

The total population at the end of 2019 is estimated as 107,800[59]. It has grown at roughly 1,000 a year on average since the year 2000, when the total population was 88,400, with somewhat higher average growth in the past four years. Overall, nearly 80% of the population growth in the past 10 years has been due to net inward migration, as opposed to the excess of domestic births over deaths.

The population 'pyramid' showing population by age and gender shows the global pattern of becoming flatter as the numbers living to older ages increases and the relative number of children and young people falls along with declining birth rates. As expected, significantly more women than men reach very old age. Of the 3.8% of the current population who are above 80 years old, 72% are women. The full figures are shown in Figure 7.

[59] Statistics Jersey 'Jersey Resident Population Estimate 2019'
https://www.gov.je/Government/JerseyInFigures/Population/Pages/Population.aspx#anchor-0

Figure 7: Population by age and gender in Jersey 2015



Source: Statistics Jersey

There were 62,430 jobs in June 2021 with 53,640 in the private sector and 8,790 in the public sector[60]. Three-quarters (76%) of total jobs were full-time. 13% were part-time and 10% were filled on zero-hours contracts. Part-time and zero hours contracts are more likely to have lower overall income and hence be more at risk of being excluded by a high threshold for inclusion in additional savings – or to impose financial hardship on workers if they are included at too low a level. An approach that tends to have a lower threshold to support broader coverage but with the option to opt-out allows the workers themselves to take the view as to whether they can currently afford to be included. There has been a slight trend to an increase in zero hours contracts over the past five years – rising from 9% to 11% for private sector employment but largely due to reallocation from the part-time category rather than from full-time employment.

[60] Jersey Labour Market Report June 2021 https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/R%20Jersey%20Labour%20Market%20Jun%2021%2020211028%20SJ.pdf

Figure 8: Percentage of workers in each sector according to housing status

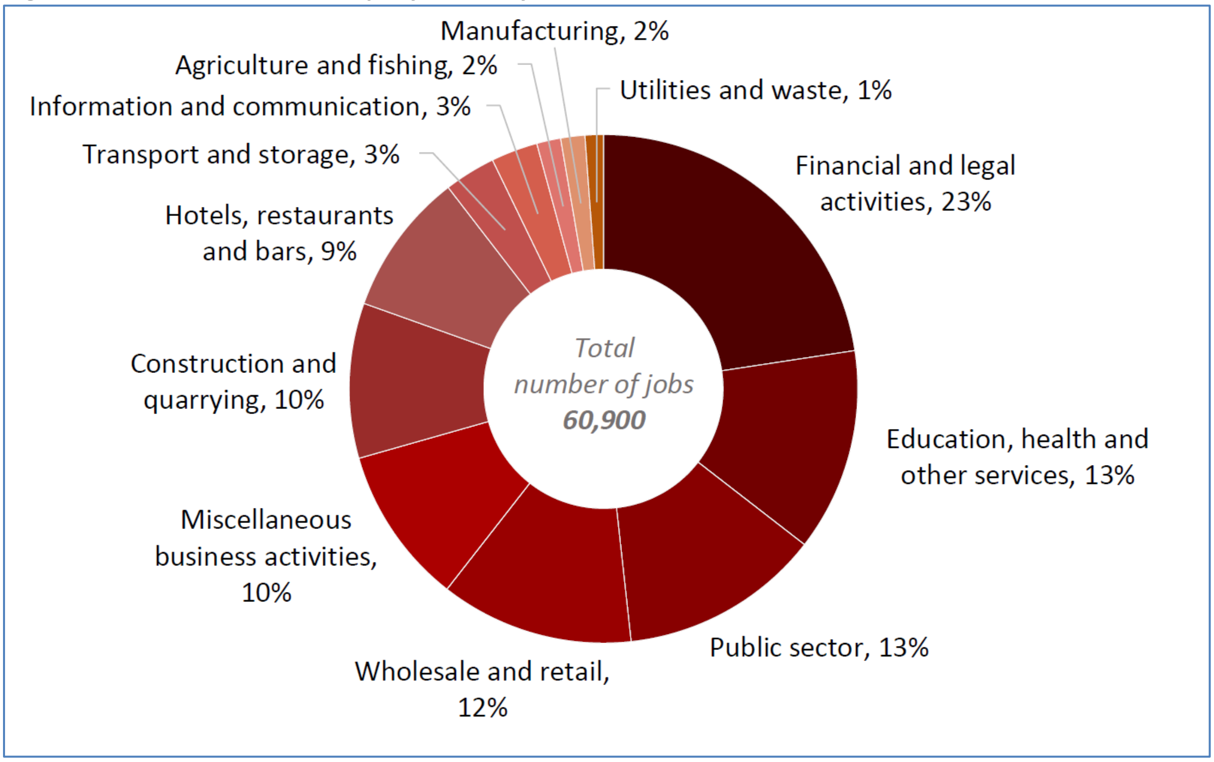
Sector	Entitled / entitled to work	Licensed	Registered	Exempt	All residential statuses
Private	87%	3%	10%	0%	100%
Public	91%	8%	1%	0%	100%
Total jobs	**88%**	**3%**	**9%**	**0%**	**100%**

Source: Statistics Jersey

The distribution of employment by sector broadly follows the size order of value-added by sector, but with the share of the financial services sector in employment only 23% compared to close to 40% of gross value added. Education, health and other services are now 13%, the public sector 13%, wholesale and retail 12% (compared to 7% of gross value added), construction 10% and Hotels, Bars and restaurants 9% (compared to under 5% of gross value added) as shown in Figure 9.

The difference between the share of output and the share of employment flows through into the value added per job in each sector – and hence to average profits and earnings per worker which will both be relevant to the ability of employers and employees to pay for any increase in pension provision. As Table 1 shows, the financial services sector has the highest productivity per full time employee (FTE) at £143,000 per FTE. On the other hand, the figure for construction is £59,000, for Wholesale and Retail £46,000 and for hotels, restaurants and bars £38,000. The lowest figure is for agriculture at £37,000.

Figure 9: Distribution of employment by sector, 2018



Source: Statistics Jersey

Table 1: Jersey productivity in 2018 prices per sector

Sector	Productivity per FTE (£ thousand)
Agriculture	37
Manufacturing	47
Electricity, gas and water	142
Construction	59
Wholesale and retail	46
Hotels, restaurants and bars	38
Transport, storage and communication	65
Financial services	143
Other business activities	44
Public administration	59
All sectors	**72**
Non-finance sectors	51

Source: Statistics Jersey GVA and GDP 2018

As in most economies, the smaller undertakings are vastly more numerous than the larger – but the larger have a significant share of total employment (see Figure 10). 56% of the undertakings in Jersey have only a single person – compared to 77% in the UK of 'total businesses and other organisations' with 0 or 1 employee[61]. In Jersey in 2018, 97.6% of undertakings had fewer than 50 employees compared with 99.1% in the UK. In the UK, 39% of employment was in organisations with fewer than 50 employees, but 48.6% of employees were in those organisations with over 250 employees – despite these making up only 0.2% of organisations in total. That left 12% of employees in organisations with 50-249 employees. In Jersey there were only 20 organisations (rounded to the nearest 10) employing over 250 people. This is 0.26% of all undertakings similar to the 0.2% in the UK. However, Jersey does not have any employers with over 10,000 workers as in the UK and other larger economies. So, there is still a significant skew towards employment being located in larger firms – but without quite the degree of skew seen in the UK.

[61] These figures include all sectors, private, public and not-for-profit. The public sector has some very large organisations by employee size, so the skew towards larger organisations is less strong for the private sector only in the UK – although still large. For example, among private sector organisations the share of employment in organisations with over 250 employees is 40% compared to 49%. See Department for Business, Energy and Industrial Strategy Business Population Estimates for the UK and regions, 2019 published 10 October 2019

Figure 10: Distribution of undertakings by sector and employee numbers, 2018

Sector	1	2–5	6–9	10–19	20–49	50+	Total
Agriculture and fishing	80	50	10	20	+	+	170
Manufacturing; utilities and waste	210	60	20	20	10	10	320
Construction and quarrying	730	390	100	70	50	10	1,340
Wholesale and retail	440	290	90	50	30	20	930
Hotels, restaurants and bars	140	200	70	50	30	20	520
Transport and storage	220	30	10	10	10	10	290
Information and communication	220	80	10	10	10	10	330
Financial and legal activities	240	180	60	40	50	60	620
Miscellaneous business activities	940	360	90	60	30	10	1,500
Education, health and other services	1,080	310	90	60	60	30	1,630
Total private sector undertakings	**4,300**	**1,950**	**550**	**380**	**270**	**180**	**7,640**

+: non-zero less than 5

Source: Jersey Statistics

The size of employer to be covered in any expansion of pension coverage will of course have important implications for the logistical challenges for the institutions involved. An obvious dividing line could be the exclusion of undertakings with only 1 worker – who will tend to be the owner director. This would cut the number of undertakings that would need to be covered by more than half – from 7,640 to 4,300. But the group of self-employed/owner-directors may be just the ones that are most vulnerable to income shortfalls in old age (whilst also containing some who will be very wealthy) so would need to be able to be included at least voluntarily.

Sectors with a lot of job turnover can face an administrative problem with any form of pension system, but particularly if auto-enrolment were considered since there will be a continual flow of short-term employees being enrolled. The data in Jersey give some insight into the degree of seasonality, which is one driver of job turnover, and its concentration into two main sectors. The stability in total employment in other sectors between the summer and winter suggests both less seasonality but also more stability in employment than might normally be expected – driven in part by the link to employment status – see Table 2.

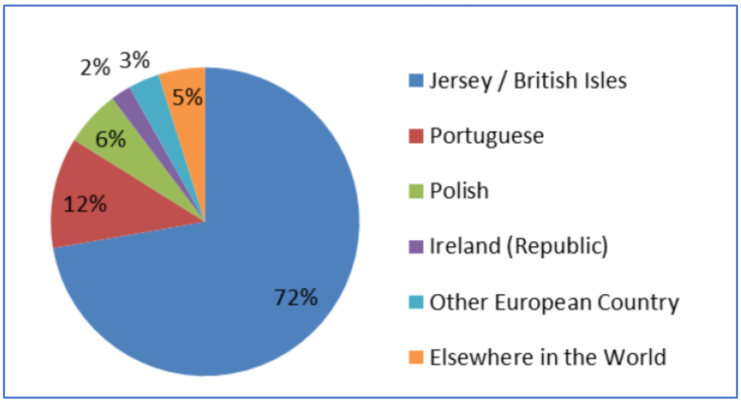
Table 2: Employment by type, sector and season, June and December 2018

Sector	June 2018								December 2018							
	Full time			Part time		Zero Hours		Exempt	Full time			Part time		Zero Hours		Exempt
	Entitled / entitled to work	Licensed	Registered	Entitled / entitled to work	Registered	Entitled / entitled to work	Registered		Entitled / entitled to work	Licensed	Registered	Entitled / entitled to work	Registered	Entitled / entitled to work	Registered	
Agriculture and fishing	470	+	580	90	10	60	130	+	450	+	250	100	+	60	70	+
Manufacturing	620	10	40	180	+	90	10	0	610	10	40	180	0	90	10	+
Construction and quarrying	4,370	50	480	360	20	590	130	10	4,520	40	390	360	10	530	130	20
Utilities and waste	560	10	20	50	+	50	+	10	570	10	30	50	0	50	+	+
Wholesale and retail	4,870	50	420	1,540	60	370	40	20	4,880	60	420	1,590	40	450	30	20
Hotels, restaurants and bars	2,390	30	1,910	710	200	810	350	20	2,220	20	1,360	700	210	710	300	20
Transport and storage	1,440	50	80	240	10	270	20	+	1,380	50	50	210	10	290	10	+
Information and communication	1,310	80	90	160	10	100	+	+	1,350	80	100	170	+	90	+	+
Financial and legal activities	10,970	870	550	890	10	130	+	40	11,150	890	580	880	10	210	20	30
Miscellaneous business activities	2,990	130	250	1,080	200	1,180	250	10	3,060	130	180	1,120	180	1,120	320	10
Education, health and other services	4,100	190	360	1,830	60	1,410	70	30	4,020	200	340	1,820	40	1,360	50	30
Private sector jobs	**34,100**	**1,460**	**4,780**	**7,120**	**580**	**5,050**	**1,010**	**140**	**34,190**	**1,500**	**3,710**	**7,180**	**500**	**4,950**	**940**	**150**

Source: Statistics Jersey

Jersey's reputation as a location for both inward and outward migration for work and, ultimately, for retirement, has a significant impact on entitlement to pensions (and other benefits) and where they are ultimately paid. Over 25% of the working age population in 2017 had a different nationality than Jersey or the British Isles. The most significant individual groups were Portuguese (12%) and Polish (6%).Other countries, and even the rest of the EU, or Rest of the World did not register above 3% - see Figure 11.

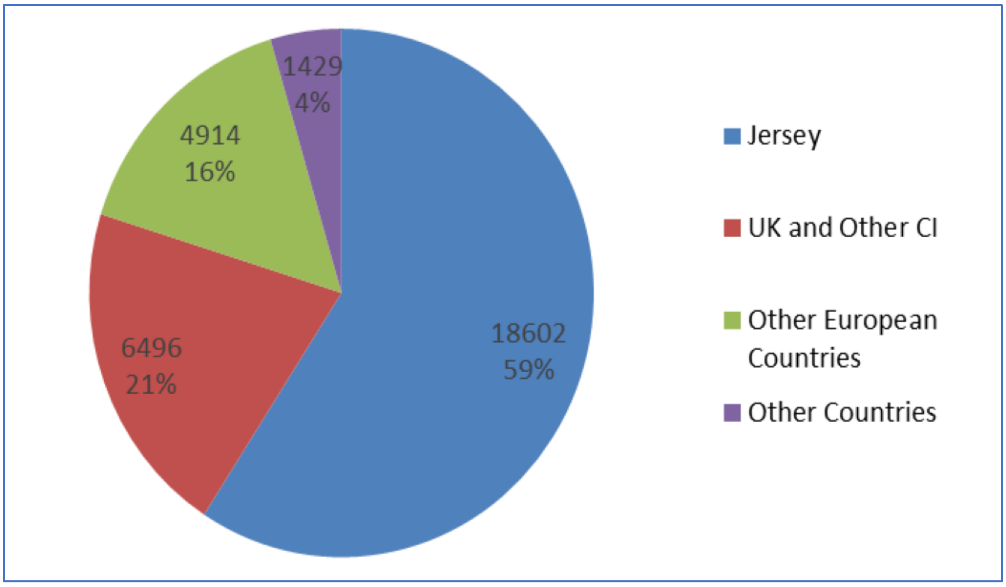
Figure 11: Nationality of working age population as of 31 December 2017



Source: Social Security Department Ministers Annual Report 2017

Given this diversity in the Working Age Population, it is not surprising that there is diversity in where people ultimately take their retirement income. This is a specific feature of Jersey that needs to be considered as part of the discussion on outcomes. Which group are the key focus of public policy? For the discussion on design options – what features would any potential solution need to have to deal with the level of inward and outward migration? 59% of pensions are paid to Jersey residents, 21% to those in the UK or other Channel Islands, 16% in other European countries and only 4% outside Europe (see Figure 12). These figures reflect the patterns of migration over the past 50 years and so may change in the future.

Figure 12: Location of Pension Payments and % of full payments received



Source: Social Security Department Ministers Report 2017

Those taking the pension as a Jersey resident have far higher average years of contributions than those that take the pension overseas. This would be expected if the overseas group only came to Jersey for a limited number of years. 86% of Jersey residents receive a pension of 50% or more of the full pension (currently requiring 22.5 years or more contributions) compared to only 16% of non-Jersey residents at retirement. 56% of Jersey residents at State Pension Age have 80% or more entitlement compared to under 6% for the non-Jersey residents. Taking a proactive approach to make pension contributions and transfer of pensions simpler for migrants could be increasingly important for Jersey domestically, but also in its role as financial sector. The United Nations Capital Development Fund (UNCDF) is leading work on how to expand the coverage of pensions (and insurance) to the world's 272 million migrants. These migrants collectively remit around US $1 trillion a year back to their 'home' country, supporting 800 million people. Hence, the flows and the scale of activity for a country that could help deliver international solutions to the group are potentially very significant[62].

The data on years of contributions – which in other countries is often referred to as the 'density of contributions' - has a profound impact on the income received in old age Whilst there is a large difference between the Jersey and non-Jersey residents at retirement, there is also a large range of experience between the Jersey residents themselves. This needs to be taken into account when understanding current and future potential income in retirement and prospects for financial independence in old age (see Rofman et al, 2014).

The Impact of Disability on employment and pensions

One of the key groups to consider when looking at labour market or pension data are individuals with a disability. The issue impacts a significant number of people in Jersey – with 14% of residents and 26% of households identifying as having someone with a disability (using the definition from the UK Equality Act, 2010). Having a disability can impact life chances in a number of ways[63]. For example, only 36% of people with a disability report no problems with getting the type and amount of work they would like – and 26% report some or a lot of problems. For people without a disability, 70% report no problems and only 9% report some or a lot of difficulty finding the right type or amount of work. Table 3 shows the employment status of the total adult population and that for people with a disability or without a disability. It shows clearly that people with a disability have lower employment rates, higher unemployment and unable to work rates. This will impact their pensions negatively.

Table 3: Employment status for those with and without a disability

Employment Status	Total adult population	With a disability	Without a disability
Working for employer	60%	35%	65%
Self employed	8%	6%	9%
Retired	20%	33%	17%
Unable to work	3%	15%	1%
Unemployed	2%	9%	1%
Full time employment	3%	1%	4%
Other	3%	2%	4%

Source: Jersey Health and Life Opportunities Survey (note column totals may not sum to 100% due to rounding).

Future Data availability

There is mixed picture in relation to data availability to support reform proposals and implementation. Data on employment and individual status is good whereas that for the existing private pension sector, particularly occupational pensions is very poor. Since July

[62] https://migrantmoney.uncdf.org/migration-remittances-the-big-picture
[63] Figures for this section are taken from the 2015 Jersey Health and Life Opportunities Survey

2013, the Control of Housing and Work Law (CHWL) requires all undertakings to report individual employee-level information to the Government twice a year. Employment status and residential status are reported for every employee. Employment status includes information on full time and part time status but also on zero hours contracts. Residential status is provided in relation to the main categories, namely: "entitled" and "entitled to work" (both formerly "locally qualified"), "licensed" (formerly "J-category"), and "registered" (formerly "non-qualified") in descending order of housing and residential rights (see Annex 3 for the definitions of housing and employment categories).

For this report the best data available was used for the existing pension system including private pensions. Ultimately, if the pension sector becomes a formally regulated sector, then much better data will be needed. But because it is impossible to regulate effectively without good data, it is strongly recommended to use the powers in the existing Income Tax Act to start building a full picture of existing private and occupational pension provision in Jersey.

Useful discussions have been held with Statistics Jersey and the local business community. A range of extra data and insights were helpfully provided for this report. Plans are being developed to add questions on pensions into various surveys to increase the evidence base – and importantly provide a baseline and regular updates to monitor the impact of any policy changes. The Chamber of Commerce has offered to develop a survey of its members to get a better sense of coverage of pensions outside the traditionally well-covered sectors such as Finance. But even within the finance sector there are more insights that can be developed, and this is being discussed with the relevant employer bodies.

Developing Outcomes for pension reform in Jersey

Looking at outcomes in terms of assets and income forces a country to take an integrated view of the accumulation and decumulation phase. This is because final pension outcomes for members cannot be determined without being clear about what actually happens to them and their accumulated assets in the pay-out phase. It also gives clarity about what the different parts of the pension system can and should deliver. For example, how large a role are private funded pensions intended to take relative to contributory Social Security and non-contributory income support type assistance?

There are different ways to specify the desired outcomes, but a focus on <u>coverage</u>, <u>adequacy</u>, <u>sustainability</u>, <u>efficiency</u>, and <u>security</u>[64] were advocated in our work on Outcomes Based Assessments[65] after a detailed review of a wide-range of other frameworks and approaches. One reason for the focus on these five outcomes is that they are broader and more comprehensive than some other frameworks. In many approaches there will only be a focus on pension coverage, adequacy and sustainability – something that some authors call the 'iron triangle' -since each element can usually be increased but only at the expense of the other. For example, increased adequacy comes at the expense of sustainability. We include all five measures – including efficiency and security – because it matters to governments, employers and workers how well the system translates contributions into final retirement income. It matters whether fraud and malpractice – or a government policy reversal – can take assets and claims away from people. The trust in a system is inseparable from the ability to expand coverage or create political sustainability and so should be thought of as a 'front-line' objective rather than a contributory one. As Covid shows it also matters how well as system deals with shocks, and whether short-term setbacks, even when very large, will lead to permanent negative impacts.

There is also a practical reason to think about all 5 outcomes as a group. If only the three 'core' ones are considered then issues of efficiency and security after often an afterthought. Many countries have not considered pension regulation and supervision until far too late in the process of reforming public and private pensions. Hence it is encouraging that in Jersey these issues are potentially being considered alongside each other on a complementary timeline.

The full definitions of each of the outcomes is set out below at a general level – and then followed by what they could mean in a Jersey-specific context. Issues in relation to governance and equity are centrally important. These are reflected across the outcomes – so that adequacy is not just the average pension but how this is distributed. This is important given the GoJ Common Strategic Priority 4 from the Government's Proposed 2020-2023 Plan on reducing income inequality and improving the standards of living.

- **Efficiency**: Maximising net-of-fee returns for Jersey by further improving investment and cost performance subject to acceptable risks. Efficiency also relates to the efficiency of the labour and capital markets, as each interacts with the pension system through direct contributions to pensions (through longer working lives and

[64] Other organizations have created similar outcome-based frameworks including the team behind the Melbourne-Mercer Global Pension Index or the US Society of Actuaries – all have a critical focus on the importance of good governance and fairness – which runs through all of the outcomes listed above.
[65] Price, Ashcroft and Hafeman (2016)

contributions, lower costs of capital, or greater financial inclusion) as well as through indirect contributions to jobs and investment[66]. For labour markets, this includes removing disincentives for formal work caused by excessive contributions or contributing to growth by increasing labor market participation at older ages. For capital markets, it relates to market depth through the development of non-bank capital to fund productive investment and maximize the benefits of wider capital market reforms—for example, in securities markets and infrastructure financing.

- **Sustainability**: Ensuring that the promised retirement income will be delivered for this and future generations without placing undue burdens on government, employers, or workers for financing that will not be met. Sustainability is inherently improved by a diversified set of pillars or tiers so that one part of the system, public or private, does not have to bear all of the weight of long-run demographic trends. Jersey is fortunate in that it has a state pension supported by substantial reserves – which sets it apart from most European countries – including the UK. Sustainability also relates to political and individual support—with a technically viable reform having sustainability challenges if political consensus is weak, public expectations are not realistic, the system is not equitable, or intergenerational inequity is high. Hence plans to consult on potential options are important. Finally, sustainability increasingly includes the impact of the investment of the assets on environment, social and governance (ESG) outcomes.

- **Coverage**: Maximising for Jersey the proportion of the working-age population that is accumulating retirement income entitlements and the proportion of retirees receiving income in retirement. Coverage encompasses measures to include informal and other difficult-to-reach workers within retirement benefit accumulation. This includes building on innovations in Identification (ID) and Information Technology (IT)[67] and having multiple channels into contributory pensions. The coverage outcome includes the impact of a wide range of policies, including broad eligibility rules, tax relief, educational support, and improved compliance and formality. Coverage needs to consider different groups in a country. So, the outcome would typically be considered by gender and also key groups such as informal workers or seasonal workers, people with a disability and any special groups. The key is to ensure the right groups are covered and where data does not exist to put in place a plan to create and monitor the data.

- **Adequacy**: Ensuring people accumulate retirement benefit entitlements that protect them from poverty, allow them to share in increased prosperity, and that people are protected against a severe drop in living standards at retirement, taking account of other sources of financial support. This needs to recognise the big differences

[66] 18% of those receiving a pension from a former employer are also still employed or self-employed – indicating some scope for mixing longer working life with existing pension entitlements that should help improve income in old age. Likewise, 15% of those receiving the Jersey old age pension are still working.

[67] Leveraging a good ID and modern developments in IT would be critical for example if there were to be a Digital Jersey Initiative to help grow coverage of the future seeking to focus on the point of consumption as a source for contributions pensions and saving rather than only income flows where workers do not have a regular contract.

between some very wealthy citizens, and people transferring to Jersey, and the 'average' workforce. In contributory systems, adequacy involves ensuring sufficient and equitable contributions during retirees' working careers in order to generate adequate retirement benefits. It can be measured in a range of ways, which include retirement income as a percentage of average wages, poverty levels, and own (career) earnings. It also relates to outcomes immediately after retirement and, as people age, to reflect the impact of inflation on retirement income over time. And it is essential to see who has inadequate pensions—for example, to include the distribution by gender, income, and other characteristics. Adequacy also depends on what the pension income needs to cover – if major health costs or housing costs are required then income levels need to be higher. Long-term care is another important issue – but one where Jersey is perhaps ahead of the curve with its funding model.

- **Security**: Ensuring the security of assets to minimize the risk that funds that have been accumulated to provide retirement benefits are lost or misappropriated before the benefits are delivered. The importance of long-run growth in assets is central to the promise of pensions. But this is of no use if the assets are not there in 50 years when they are needed to generate income. So, security covers a wide range of elements, including basic conditions, such as the enforceability of law; accounting, actuarial, and auditing capacity; data and payment systems; valuations and risk management; and control frameworks. It also covers the processes to ensure the recovery of any permitted shortfalls in assets (for example, in Defined-Benefit plans). Security relates to the performance of the supervisor as well as compensation mechanisms and protection of assets from government or employer expropriation.

These five outcomes (along with the consideration of equity or fairness within each one) provide the key objectives in the latest OECD Core Principles for Private Pensions Regulation – forming the first part of the first paragraph of OECD Core Principle 1[68]. This provides a nice potential complement between the work on Independence in Later Life and that on Pension Regulation. Many countries have introduced risk-based regulation, but it can sometimes be difficult to understand how tackling the risks they identify will help to achieve the outcomes that the government and ultimately the citizens would like to see in terms of better coverage of decent pensions delivered in a sustainable way. As highlighted in the Executive Summary, the new approach to financial security should not be implemented without new pension regulation in place.

This clarity on objectives is particularly important for the pay-out phase because it is so fundamental to specify what the system is trying to achieve for the adequacy of pension income. The dissonance between the assumption that pension contributions are designed to deliver income in old-age and policies that fail to translate retirement assets into income can be very stark. Indeed, given the number of countries that permit lump-sums, early access and other withdrawals, it could be considered that the implicit objective for many pension pillars is to deliver assets at age 55 or 60 to be used rapidly, rather than income in old-age. If the authorities aim to deliver income in old age, then the framework adopted must work back from this objective and make changes to make it more likely to happen.

[68] OECD Principles for Private Pensions (2016)

A critical part of the exercise is then benchmarking where the country is relative to the long-run outcomes it has chosen[69]. This helps to set the timeline and agenda for action going forward. This could be on relative poverty for a particular group, on average expected retirement income or costs or net of fee returns relative to international comparators. Table 4 gives some examples which have been used as an initial starting point for the outcomes discussion for Jersey. They have been adapted to reflect the realities of Jersey's policy discussion and economic environment. For some indicators, this may be a multi-year, even multi-decade exercise. The work so far has identified significant data gaps. Progressively filling these gaps can help set the agenda on data, analysis, and risk assessment for the Department and for the regulation and supervision of pensions for the next few years. A full list of recommended indicators and outcomes and associated measures is set out in more detail in the Outcomes Based Assessment Handbook – and has been used in a number of countries including by the IMF in some of their country-diagnostic work.

Table 4: Examples of outcome indicators relevant to pension reforms

Outcome	Potential indicators for the Payout Phase
Efficiency	• Growth in average size of pension funds (to release economies of scale) • Net of fee returns for accumulation phase and phased withdrawals • Costs of accumulation and pay-out products (e.g. sales loads & AMCs) • Employment rates for older workers
Coverage	• Coverage of people contributing to a pension • Coverage of people receiving a pension (at retirement age and 80) • Gender gap in coverage of pensions during accumulation and payout • Density of contributions by age and gender
Adequacy	• Initial income at (early) retirement versus income when 80 or 85 • Gender differences in income level • Relative income from pensions compared to poverty and average earnings – from private pensions and from all pension sources
Sustainability	• Funding levels for Defined Benefit Pensions • Rate of change of longevity for men and women • Expected years of employment relative to expected retirement years • % pension funds with Environment, Social and Governance issues identified in investment strategy
Security	• Number of international (OECD/IOPS) standards fully met • % of Occupational Defined Benefit assets legally separated from employer • % Governing boards meeting good governance requirements

Source: D3P Global

[69] Different countries may have a mix of different outcomes on which to focus. Some may be relative – for example measures of poverty relative to national poverty lines or average income. Some may relate to the whole population groups – for example the percentage of workers contributing to pensions or the percentage of old people receiving pension income. Some may be absolute, for example the level of costs – or may be relative to other countries – for example aiming to have below average costs relative to regional or international peers.

Taking into account the current retirement income and pension system in Jersey and the discussion of the key features so far, the key emerging conclusions on outcomes that could provide a starting point for the choice of reform options is so far:

- **Coverage**: High coverage of Social Security but low coverage of private pensions means there is clearly a gap to fill if people are to have a mix of public and private provision to support financial independence in old age. The focus of coverage expansion would be for those working and retiring in Jersey. Achieving this will require a flexible approach that could collect contributions simply for all workers but allow easy return of assets to those who leave Jersey quickly, or have a simple way to exclude some temporary workers, without repeatedly excluding workers who may have multiple short jobs but live and work in Jersey for decades.

- **Adequacy:** In addition to the floor provided by income support, Social security will remain the foundation of retirement income. It currently provides around 29% of mean earnings and 37% of median earnings for an individual[70] [71] [72]. A common aim is for people to have between 50% and 70% of working age income in retirement from core public and private pensions. So, depending on the measure chosen reforms could be looking to provide between 20% - 30% additional income relative to a social security-only income level. As shown in Figure 13 this would put Jersey around the OECD average, but with a bigger contribution from private pensions than most OECD countries. Those on lower incomes would need to target a higher replacement rate given their lower absolute income – and the likelihood that they rent rather than own their home so have much lower income after housing costs. How high this needs to be depends on political decisions in relation to a minimum acceptable income level – and how that compares to their current income. Clearly if the minimum acceptable income level is equal to a person's previous income the replacement rate would be 100%.

- **Sustainability**: Social Security provides a Defined Benefit and there are no plans or need to change this. Some of the occupational and private plans are also of the Defined Benefit final salary kind, but the trend is now to have Career Average accrual (in the public sector) and Defined Contribution plans (in the private sector). If broader pension provision is pursued then Defined Benefit, risk sharing, and Defined Contribution options could be explored – and rated relative to whether there is a fair balance between the government, employer and employee in terms of who bears investment, inflation and longevity risk. Innovative new solutions for the payout phase of pensions can give income until death at lower cost than traditional annuities and should be explored.

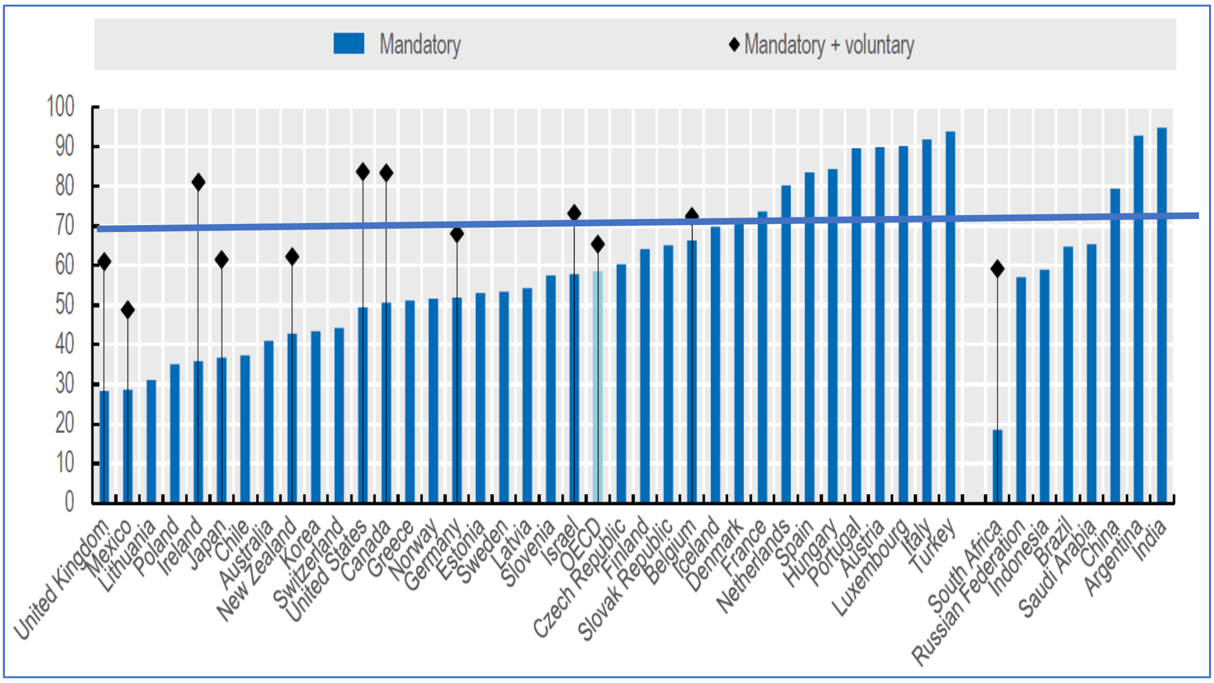
- **Efficiency:** Jersey is a small island with only around 62,500 workers and 108,000 residents. Therefore, leveraging the significant economies of scale that exist in administration and assets management in larger markets may seem to be difficult. However, Jersey could have more capacity and experience to implement solutions with its legal and financial services sector than other jurisdictions of a similar size (for example, Jersey has over £440bn in assets under management in collective investment

[70] This rate is the full pension as of November 2019 divided by median average earnings as reported for June 2019 Average Earnings statistics.
[71] One of the potential ideas examined below looks at increasing contributions and income from social security - which is always a possibility - and something that the Canadian's have recently started to implement.
[72] Jersey Statistics Better Life Index 2018, Jersey Social Security and Jersey Household Income Survey

funds for residents and (mainly) non-residents[73]). Scale for any additional pension provision is vital because in a world where real returns may be 3% a year or lower for the next 30 years, fees of 1.5% of assets each year take 50% of real returns. Fortunately, the existing Social Security Fund, Public Employees Plans and Jersey Teachers Superannuation Fund shows that reasonably low cost provision is possible – whilst still accessing best in class asset management. Large private plans could also offer similar efficiencies – though data is not yet available on them. Some current private pension providers have fees that are at 1.5% -2% or higher. The UK and Hong Kong have both recently introduced a cap of 0.75% per year for standard or 'default' provision and the UK backstop provider NEST is required to charge no more than 0.5%, a level matched or bettered by pensions in countries as diverse as Sweden, Macedonia, Kosovo and Malaysia.

- **Security:** Jersey is committed to follow leading international standards and codes of conduct in financial services provision – as set out by both the Government of Jersey and Jersey Financial Services Commission. So, any expanded provision should fully adhere to global standards on pension provision[74]. It is essential that any expanded pension provision, if adopted, happens after a pension regulator has been established. Investment strategies should be 'life cycled' to reduce risk as retirement is approached and payouts overall for individuals deliver sufficient income until death not just at 65.

Figure 13: Future Net Replacement Rates for full-career average-wage workers in the OECD



Source: OECD Pensions At A Glance, 2019[75]

[73] https://www.jerseyfsc.org/industry/sectors/funds/funds-statistics/

[74] The standards covering the public sector are developed by the International Social Security Association Guidelines. Workplace and private plans follow OECD and International Organisation of Pension Supervisors (IOPS) standards. The public and private standards have a different focus but many common elements – for example the importance of governance.

[75] Note: OECD calculations based on the pension model. Pension entitlements are based on current legislation in OECD countries. The values of all pension system parameters reflect the situation in 2018 and onwards. The

Potential Ideas and recommendations for further investigation

The main part of this section focuses on ways to improve the design and delivery of funded pensions – whether from social security or private pensions. But there is an obvious and 'simpler' option which is just to increase the basic non-contributory pension. In many countries around the world a wave of reforms in the 1980s, 1990s and early 2000s focused on reforming social security to make it financially sustainable and expanding private pensions – usually making them mandatory. These reforms were often successful, in hindsight, in terms of delivering more diversified and more sustainable pensions system, but they were also often unrealistically optimistic about what they could achieve for coverage and adequacy.

In countries with high rates of labour market informality, even if 100% of the formal labour market participants have social security and private pensions, there will still be a significant part of the population with neither public nor private coverage. In these situations, if the goal is delivering income in old age to all then the government needs to have a non-contributory 'social' pension or an old-age component to income support (see Rofman et al, 2014).

Jersey already has a 'zero' or foundational pension pillar that ensures that everyone will have some income in old age. A 'simple' way to boost incomes for the current recipients and the group that is currently just above the eligibility thresholds is to have a progressive (or even one-off) boost to the income floor. Clearly, this 'simple' approach comes with very rapid and direct fiscal consequences. It would also be seen by some to fail to achieve the right balance between government, individual and employer responsibility. But as the most direct and comprehensive anti-poverty tool the level of income support, and the disregard rules in relation to other income, should always be under review relative to the overall objective for a government on income inequality.

Early decisions will be needed about the interaction between pension income and income support eligibility. An obvious question from relatively low-income savers will be whether their new savings will reduce their entitlement to income support which plays in to whether they gain much benefit in the future from sacrificing scarce current consumption now. This is an area where the potential fiscal cost of different options should be investigated to understand whether the pathway from low-income during the working life to low-income (and Income Support) in old-age is very direct, or whether there is significant turbulence up and down in people's life courses.

Making all <u>income</u> from a new private pension tax free for low-income contributors would create a large contingent risk and change the current EET system into an EEE one for some people. This could be expensive, and also unfair, because some people currently on relatively low-income will have an improvement in earnings going forward. Making no allowance risks the (legitimate) fear that a lot of extra income in the future would be lost through the claw back of other benefits meaning scare income now is foregone for little benefit later. An intermediate option is to exempt a certain level of additional income so that people are

calculations show the pension benefits of a worker who enters the system that year at age 22 and retires after a full career. The baseline results are shown for single individuals.

guaranteed full returns from the first slice of future pension income. The Government is likely to want to protect future taxpayers from increasing claims for Income Support as the numbers of old-age residents increases. Hence, this is an area on which political discussion is important to strike the right balance.

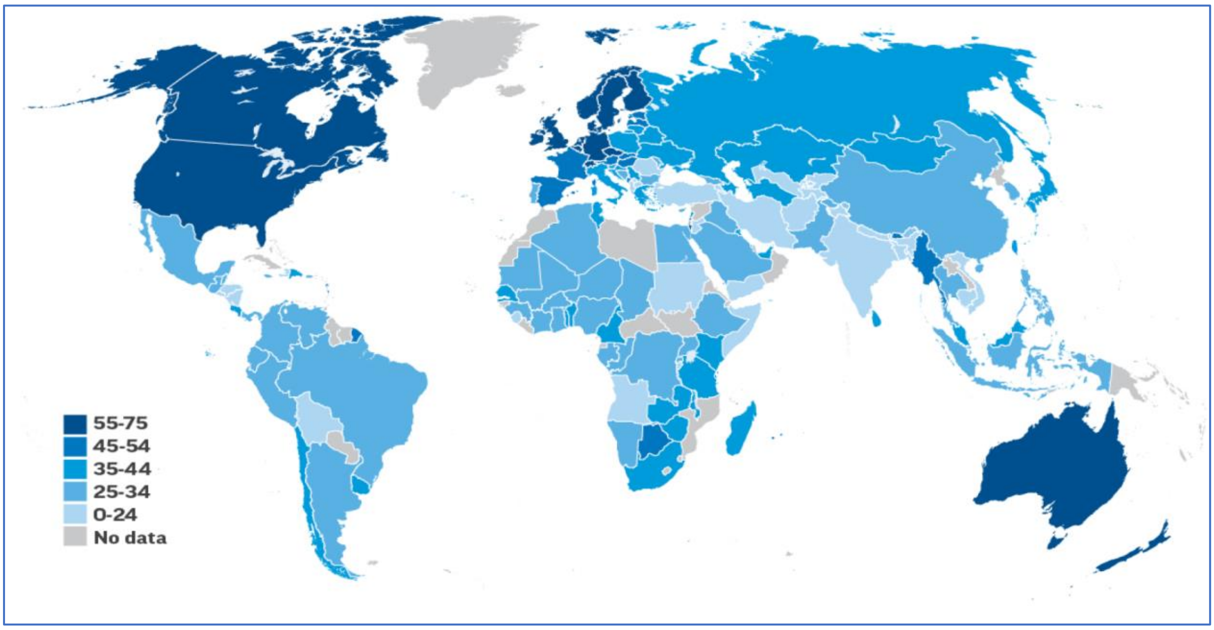
Before turning to the main ideas, it is worth noting some additional options. These are often raised in debates such as that underway in Jersey. They are not recommended for detailed investigation as standalone options – particularly at the expense of more promising ideas. The common denominator is that there is no evidence that any have achieved the kind of impacts that Jersey is seeking to attain. Moreover, a number of countries have spent many years – even decades – pursuing these ideas without success before finally deciding to move towards the main ideas presented below. Acting faster to introduce mitigations to future pension income risks means that changes can be more gradual and less disruptive than rushed reforms after a long policy delay.

Why Financial Education is not the answer (on its own)
The first idea that sounds very attractive but for which there is no evidence of a major impact at a national level is adopting an intense campaign of financial education to boost voluntary savings. This is not to say that financial communication and education are unimportant – but that there is no known example of them making a substantial difference to pension coverage alone in a country.

One of the reasons that mandatory requirements or auto-enrolment into pensions are so effective is due to well-known behavioural biases against making decisions – allied to very low levels of financial literacy. As Figure 14 shows, the percentage of the population that can answer 3 out of 4 simple questions on financial literacy correctly is low globally. Even in the 'high' countries, figures are often only a little over 50%. Moreover, the questions only relate to basic concepts like whether people understand the impact of inflation or interest rates over a 2 year period. Even if all countries scored 100% on the test it would not mean people were equipped to deal with complex decisions on an individual basis to take proactive control over voluntary pensions.

In addition, financial education in not new in the sense that it has always been used to try and expand coverage. All the existing providers have an incentive to increase their market – all of them have parts of their websites or communication materials that help to explain pensions and saving in a simple way. Financial education has faced renewed interest because of Financial Technology (FinTech) developments which allow the greater use of app-based approaches and gamification. These can allow providers (and regulators) to embed well-known behavioural economics concepts into practice.

Figure 14 Percentage of population that can answer 3 out of 4 simple financial questions



Source: S&P Global FinLit Survey

However, despite the clear evidence for the benefits of being financially literate – creating improved and long-lasting financial literacy that translates to material changes in pension behaviour is challenging. The issue of the value of financial education interventions is somewhat controversial – and often hotly debated. It is obvious that clear financial messaging around products and new reforms is useful. But it is difficult to cite national-scale results which show a country that proactively developed a particular approach on financial education that saw a meaningful bump up in pension coverage numbers (Fuentes and Price 2020).

It is however an area where ministries and regulators should enable the activities of existing providers to work with innovative new providers to try and increase their ability to attract and retain customers. This should be underpinned by regulations ensuring good consumer protection and continued provider responsibility, even when using a third-party provider (as embedded for example in the OECD/IOPS guidance and standards on private pension regulation and supervision). The providers clearly have an incentive to find and use the most effective techniques. But it should be a means to make broader reform effective. It is not a way to avoid more significant reform.

This is also an area where many have suggested that Artificial Intelligence and Robo-advisers can help to fill the advice gap. This may be possible – although as with financial education there is no current evidence that this is the case. Moreover, there appears to be little reason why a robo-adviser would be less susceptible to issues with mis-selling than a human adviser. Ultimately the companies are seeking to maximise income. If a 'pure' algorithm recommended customers move to a provider or a different product that earned the 'creator' of the algorithm no money it is difficult to imagine the robo-adviser being released into the market. Moreover, it may be difficult for regulators (or even providers) to have a clear and full understanding of how the tool will work in all circumstances. Meanwhile, default investment funds have radically simplified issues for millions and helped to boost scale and cut costs and social security delivers retirement income without the need for consumer making any complex decisions.

The lack of examples of successful voluntary pensions with intense financial education filling the coverage gap also applies to non-pension saving. Ultimately, the aim is income in retirement. This does not require pensions – merely the accumulation of assets. In addition, there are clearly significantly savings in shorter and medium term assets. The results from Jersey's Household Income survey indicate significant sources of non-pension income for those of pension age. Similar sources for the UK paint the same picture of significant non-pension financial wealth for some individuals. As Table 5 shows, 28% of the 65+ age group have more than £100,000. But it also show that 46% have under £25,000, and 27% of over 65 year olds have between £25,000 and £100,000. Saving £50,000 is an impressive achievement for many people – and very important to insulate them from shocks in retirement or from events like the Covid pandemic. But at current annuity rates it would yield under £2,500 a year income with no inflation protection, and £1,500 if the annuity rose at 3% a year. So, these amounts of savings do not transform the basic pension dilemma for the majority of households who are the target of the policy reforms.

Table 5: Distribution on non-pension financial saving UK 2016-2018

	Percentage (%)				
April 2016 to March 2018	Less than £0	More than £0 but less than £25,000	£25,000 to £50,000	£50,000 to £100,000	£100,000 or more
55-64	18	35	10	13	24
65+	7	39	13	14	28
All Persons	**27**	**40**	**9**	**9**	**15**

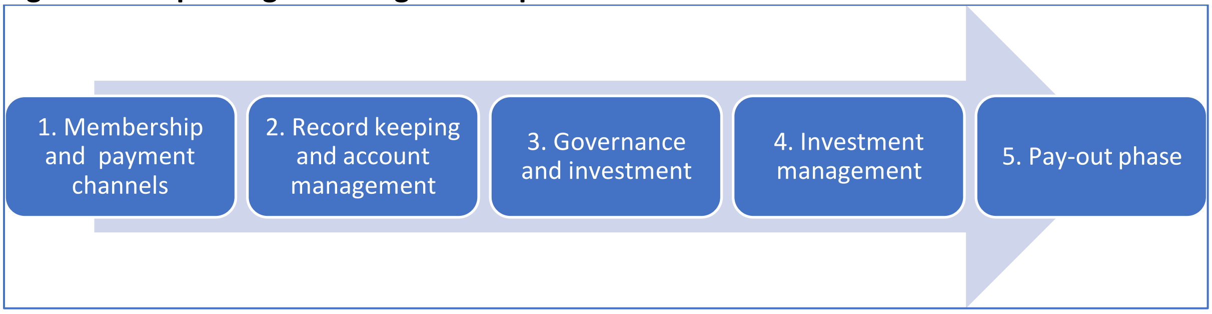
Home equity withdrawal products are also often canvased as a potential solution to the lack of income in retirement. The logic is strong – many people have a very large housing asset but are income poor. So, translating the asset into an income stream should be a positive development. Part of the issue is an individual reluctance to use an asset they may wish to leave as a bequest. But, in general products have been poorly designed and sold from a consumer protection perspective. This does not mean the idea could never work. But as with financial education there are no good sources of evidence for a country that has achieved a significant retirement income goal through either an enabling or proactive approach to home equity withdrawal. Moreover, a number of countries have faced mis-selling or other issues with such markets. One area that might be more promising is where the government or local authorities can provide long-term or residential care and receive any required payments from a person once they sell their house. This is the idea behind the UK's Universal Deferred Payment Scheme (UDPS) introduced in 2015. It is still early in the life of the programme, but it may be a simpler and safer way to unlock equity in a home for asset-rich, cash-poor people.

Main ideas for review

The key requirement to improve financial security in old age will be to expand coverage of pensions to the segment of the population that is above the level that relies significantly on income support, and below the income and wealth levels at which people already have good provision from social security plus additional pension plans and other savings including homeownership. To do this will require high quality developments at each stage of the pension value chain (Figure 15):

- making it simpler and more likely that people will join and contribute to a pension;
- improving the efficiency and robustness of record keeping and account management;
- improving governance of pension entities overall and their investment strategies;
- improving the execution of investment strategies; and
- improving the pension payout phase so that all the preceding benefits actually deliver income in retirement.

Figure 15: Improving each stage of the pension value chain



Source: D3P Global

One obvious option is simply to enhance the social security pillar – which already delivers all stages in the value chain given its asset-backed nature and is a well-established part of the Jersey social and financial system. This model would see extra contributions in return for extra income. This extra income could use the same approach as currently - delivering a Defined Benefit income in relation to the contribution and other requirements that already exist. An actuarial study would be needed to support this option, but it would be a simple and straightforward approach technically.

A good recent example that helps illustrate the option comes from Canada. It has recently extended the Canada Pension Plan – the equivalent of Jersey's Social Security Fund – and one that shares the relatively rare feature of being well funded rather than PAYG. The reforms were announced in 2016 – after a decade of debate and discussion. The pre-reform system had a total of 9.9% of wages in contributions (4.95% for employees and employers each). Contributions were made on earnings from CAN$3,500 (GBP£2,058)[76] a year to CAN$54,900 (GBP£32,300)[77]. The original aim of the CPP was to deliver a replacement rate of 25% for someone who contributed up to the $54,900 limit for 40 years – so that they would receive $13,110 (GBP£7,700). The reform options were then discussed against the backdrop

[76] All currency conversions at CAN$1.7:1GBP£.

[77] All figures are in 2016 prices from the time of the reform announcement. Current figures, including the yearly transitional dynamics, can be found from the Canada Pension Plan at https://www.canada.ca/en/services/benefits/publicpensions/cpp.html. Details of the investments of the Canada Pension Plan can be found from the Canada Pension Plan Investment Board at www.cppib.com.

of a decline in workplace private pensions from 48% in 1971 to 25% in 2016. Then, as now, there is no consensus in Canada for mandatory or autoenrollment into private pensions. This is despite an appreciation of the coverage enhancement benefits of both options – and the existence in some parts of the Canadian economy of very strong occupational private plans with world leading features but for the 25% or less of workers who are lucky to be covered by them.

To achieve the aim of increasing the core replacement rate from 25% to 33% the Canada Pension Plan is set to increase contributions for all, plus raise the limit on which contributions are required. The combined 9.9% contributions shared equally between employers and employees will rise in stages to 11.9%. There will be a new 8% charge (4% each for employers and employees) on income between CAN $54,900 (£32,300) and CAN$82,700 (£48,650). The new basic rate of retirement income with 40 years of contributions will rise from CAN$13,110 (£7,700) to CAN$17,500 (£10,300) or from 25% of CAN$54,900 to 33%. Total income for people earning up to the new higher limit of CAN$82,900 will be CAN$19,900 (£11,705).

So, the Canadian example shows that pension reforms can clearly use the Social Security fund as a critical part of a reform package. This report includes some additional ideas for reforms to social security that are less substantive but that may still be worth exploring as part of the overall final retirement income reform package that are discussed later.

One reason not to rely on a single pension pillar for most retirement income – even if it is currently a successful pillar - is to diversify the sources of retirement income across multiple pillars or tier. Different pension pillars can be more appropriate to different tasks. They are also impacted by some common but some very different risks. Figure 16 below shows how the risks are distributed across different pillars. So, as well as the 'pure' case for a given solution, it is very important to think through the potential for a wide range of idiosyncratic and difficult to predict situations that might hit the economy in general or a particular pension pillar and take a view on whether the pension system is sufficiently diversified.

Jersey already has a relatively strong set of policies that counter some of these key risks – with the foundation of Social Security protecting against longevity and inflation in a way that does not expose individuals to investment risk. This obviously creates a potential fiscal risk – that is offset to a greater extent than in most countries by the existence of significant assets backing the current regime. As highlighted above, the key gaps in the risk framework seem to be in relation to those who do not have a significant source of additional old-age income from a workplace pension or stock of assets – be they savings in the bank, investments in the capital market or income from property. A key issue if pension requirements are extended down the income distribution will be whether relatively lower income workers should be insulated against investment risk for example by the provision of investment guarantees, a full Defined Benefit system or an intermediate point of risk sharing. These and other issues are highlighted below – and should be explored in greater detail in follow-up work once some key lead options are identified.

Figure 16: The different functions and risks for different pension pillars

Sources of retirement consumption	Risks affecting payout size
Zero Pillar – poverty prevention	Fiscal, Intergenerational, Longevity
First Pillar – public contributory – consumption smoothing	Fiscal, Intergenerational / Political, Longevity, Labor Market
Second Pillar – mandatory private contributory DB or DC	Capital Market (Inv returns/costs), Labor participation, Longevity
Third Pillar- private contributory DB or DC (inc deferred annuities)	Capital Market: Investment/Costs Labor market/individual myopia
Fourth Pillar: Financial assets	Economic Growth, Instability
Fourth Pillar: Family transfers	Family size/wealth/culture/location
Fourth Pillar: Housing	Housing market, labor income
Labor Income & Own-consumption	Labor Market, Agricultural market
Longevity and inflation risk is pervasive	

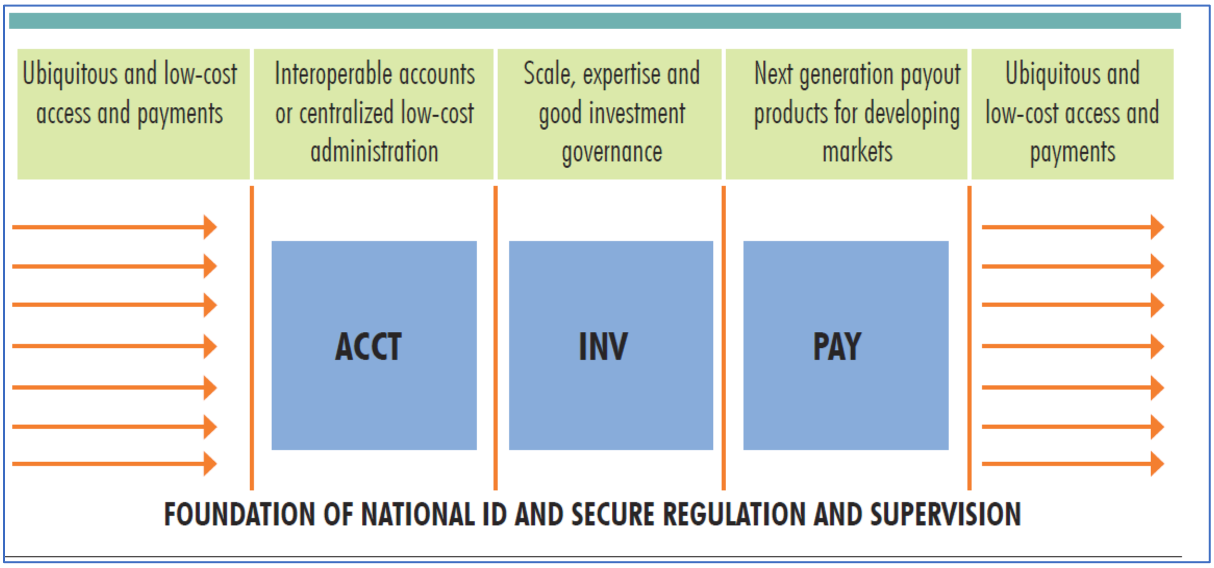
Source: Authors (Note: The agricultural market is a risk affecting labour income and 'own-consumption' in those countries where people still use small-holdings to partially provide for their families).

Membership and payment channels

The past 10 to 20 years have seen unprecedented innovation in how members can potentially join a pension fund and contribute to it. These obviously include 'new' channels such as internet banking. More recently they include a wide range of new 'FinTech' innovations, from easier app-based banking and payments from existing providers to the entry of wholly new providers. All of these are important to investigate for Jersey in the context of wanting to extend coverage as far as possible -and potentially as helping to make the Digital Jersey ambitions a reality. However, given Jersey's very formal labour market and high rates of employment and coverage of Social Security, these areas are not as important to the key decisions on workplace coverage as they may be in other countries. So, they should be considered as part of the way in which the core solution is developed. But the problem of the informal sector is not significant in Jersey compared to other countries, such as Mexico where only around 40% of workers are in the formal sector and Indian and Sri Lanka where it is only around 15%.

The key concept for the expansion of coverage to the informal sector – or those with irregular employment – is to have a pension value chain that can have ubiquitous and (very) low-cost access points. The core processes cannot revolve around the employer with an HR department and regular income payments. Ideally, it would link the places where people spend money – i.e. shops – with the pension and financial system. This process is illustrated in Figure 17.

Figure 17: Creating ubiquitous access points to expand coverage of pensions



Source: Khanna, Price and Bhardwaj (2017)

In addition to well-known examples in India and Kenya, the Mexican pension regulator CONSAR has created a FinTech 'infrastructure' supporting its aim to boost voluntary contributions. To boost voluntary contributions, which had been very small since the new system was created in 1997, the Mexican pension regulator CONSAR worked with a wide range of potential entry points into the system for enrolment and payments. It helped create 15 channels into saving by 2018 that did not exist in 2013. A critical lesson from Mexico is that if one cannot target the employer and the employment contract with informal sector workers, then it will be necessary to work through points of consumption where the informal income is spent. So, CONSAR worked with 7,000 retail outlets from 7-Elevens to pharmacies to enable customers to pay-in as little as US$2 at a time at low-cost (approved by the regulator) directly into their pension account, whilst making a regular purchase at the shop. In this way the retail outlet did not need any new infrastructure, except to use their existing payment systems to direct part of the payment to pay for the goods and part to go directly to the customers' pension account on receipt of their unique reference number. A similar approach was taken with remittances, where customers could use existing platforms that delivered income directly to their families and allocate a slice of the money to their pension account. Figure 18 shows how CONSAR built a multi-functional range of options to make it easier to make contributions into the pension system.

A carefully designed strategy building on the ideas highlighted above, was followed by the implementation of multiple different channels. This has made it far simpler to enrol and contribute – for your own pension or for those of a family member by creating 15 different ways to contribute (the circles in the picture) from mobile, point of sale in shop, internet and remittances by external workers directly to their pension account . The net result is that there have been more voluntary pension contributions in the past 4 years than the previous 18.

Figure 18: Creating a digital ecosystem in Mexico giving 15 different ways to pay

Source: Mexican Regulator CONSAR

Improving collection and enrolment from people within the country also helps citizens temporarily outside the country make contributions to their home plan – which is relevant to Jersey given population mobility. There could be many advantages to creating a longer-term connection between their saving and pension saving whilst on the island with their activity when they are working away. India and Mexico allow citizens who are working abroad to contribute to their home country-based pension plan in a simple and direct way. New Zealand and Australia have the 'Trans-Tasman Agreement' on pensions that allow citizens to consolidate their pension arrangements between the two countries in a simple way and not have to maintain two separate accounts with separate charges and tax arrangements. These kinds of arrangements could also be used to enable citizens of Jersey to contribute directly into the pensions of family members – particularly if they are working abroad and earning a higher income than they might on return to Jersey. All these approaches would make it more likely that people would have accounts and that those accounts would grow – improving retirement outcomes and increasing the size of the domestic pension sector. This would require a change in the tax law which currently prevents third-party contributions like this. As highlighted above, this is an area where the United Nations Capital Development Fund is working to enable better coverage of pensions (and insurance) for the world's 272 million migrants, who collectively remit around US$ 1 trillion a year to their 'home' countries.

The Financial Technology or FinTech revolution is bringing change to many parts of the financial sector. It is clearly an area which the Digital Jersey initiative can leverage. One of world's most engaged regulators has been The Monetary Authority of Singapore. It hosts one of the world's largest FinTech events. In 2018 there were 45,000 participants from 130 countries. The 2019 event combined with an innovation week saw 60,000 participants from 140 countries. Box 4 sets out the key developments and their potential impacts on pensions.

Box 4: FinTech and its potential implications

FinTech It is a fast moving area which has the potential to deliver major benefits for the way in which pensions are provided – but it is important to ensure that the new technologies and techniques are used to get people into decent quality pensions. To set out the potential impact of FinTech, it useful to look at the technologies that are involved. They are numerous and often it is their operation in combination that helps to unlock the real potential of FinTech (adapted from Dias (2017)).

i. ***Application Program Interface API*** *– important now – simple 'glue' for providers*
ii. ***Artificial Intelligence (AI) and Machine Learning*** *– not clear for most pensions at this stage but developments moving quickly – but with both potential costs and benefits*
iii. ***Internet of Things*** *– potential to link consumption spending to contributions for informal sector workers plus health monitoring that could affect longevity*
iv. ***Big Data Analytics*** *– general importance for all forms of pensions plus enforcement*
v. ***Distributed Ledger Technology (DLT)*** *(with blockchain a type of DLT) – a big issue for administration but is there a solution that is robust to a 40-year horizon yet?*
vi. ***Cloud Computing*** *– 'simple' improvement in storage but a great general enabler*
vii. ***Cryptography*** *– essential to protect payment systems, pension funds, custodians*
viii. ***Biometrics*** *– profoundly important now for pensions and in the future*

The products that these new technologies enable are similarly diverse and include:

ix. ***Digital Payments and e-money*** *– profoundly important now for pensions*
x. ***International Remittances*** *– potentially significant but often over-looked for pensions*
xi. ***Personal and Business Loans*** *– potential investment opportunity for funds plus use in relation to fund members where they are able to borrow against pension assets*
xii. ***Peer to peer lending platforms*** *– not relevant to pensions directly at this point*
xiii. ***Crowdfunding platforms*** *– not likely to be relevant to pensions unless for investments*
xiv. ***Robo-advisers*** *– relevant and likely to be pushed, but concern they are an overhyped or worrying 'solution' – because default funds have provided a better solution for many*
xv. ***Cryptocurrencies*** *– high risk so should be very unlikely to impact pensions unless investment governance and regulations are weak – one to monitor*

However, despite the benefits of new technology the reality is that without the use of auto-enrolment (where essentially all employers have to offer a pension but workers can opt out), or the use of mandatory requirements, then the coverage of private pensions is not likely to rise substantially. The results of the initial consultations under the Social Security Review in Jersey is that there is over 60% support for a voluntary expansion of workplace pensions but only 51% support for a mandatory requirement binding employers and workers. The 'completely' mandatory approach is common in many Latin American and Eastern European countries, but has been more difficult to push forward in other jurisdictions. But auto-enrolment as seen in the UK, New Zealand and Turkey and proposed is Guernsey and Ireland does involve a mandatory requirement on employers to offer a pension and then the chance for the worker to contribute. In the UK and New Zealand, it also includes a mandatory requirement on employers to make contributions – whereas in Turkey there are only worker contributions[78,79]. But the voluntary opt-out element of auto-enrolment may well be sufficient to achieve the 60%+ levels of support seen in some of the survey results.

<u>Record Keeping and Account Management</u>

The most important ideas for record keeping and account management is how to leverage as many of the vast economies of scale as possible. Economies of scale in administration continue to exist for funds of US$20bn and higher – with the US$400bn+ US Thrift Saving Plan (the DC plan for Federal Government workers) having an overall Assets under Management fee of around 0.05% a year (5 basis points). Clearly, these levels of assets are not possible for Jersey from its internal population - with even the Social Security Reserve Fund and the Common Investment Fund. That said, the economies of scale exist powerfully as fund sizes move from £10m to £100m and beyond. Jersey's international financial role means that its true ability to leverage scale goes well beyond what one would expect given its 'headline' population. The very large trust based business and the associated fund management, record-keeping and account management industries mean that larger scale is possible – but the key test will be whether that can be leveraged to the benefit of potential members.

There are models for overall collection, record keeping and account management internationally that are relevant to this debate. These range from centralised models using Social Security or the Tax office, hybrids and fully-decentralised models. The New Zealand and Swedish workplace pension reforms both leveraged tax collection schemes. Figure 19 shows the set up in New Zealand. Employers had duties to auto-enrol workers – who would then make choices of providers. But the collection system to channel employer and worker contributions went through the Central Administrator of New Zealand Inland Revenue.

Figure 19: Centralised administration in the New Zealand Workplace model

Source: KiwiSaver

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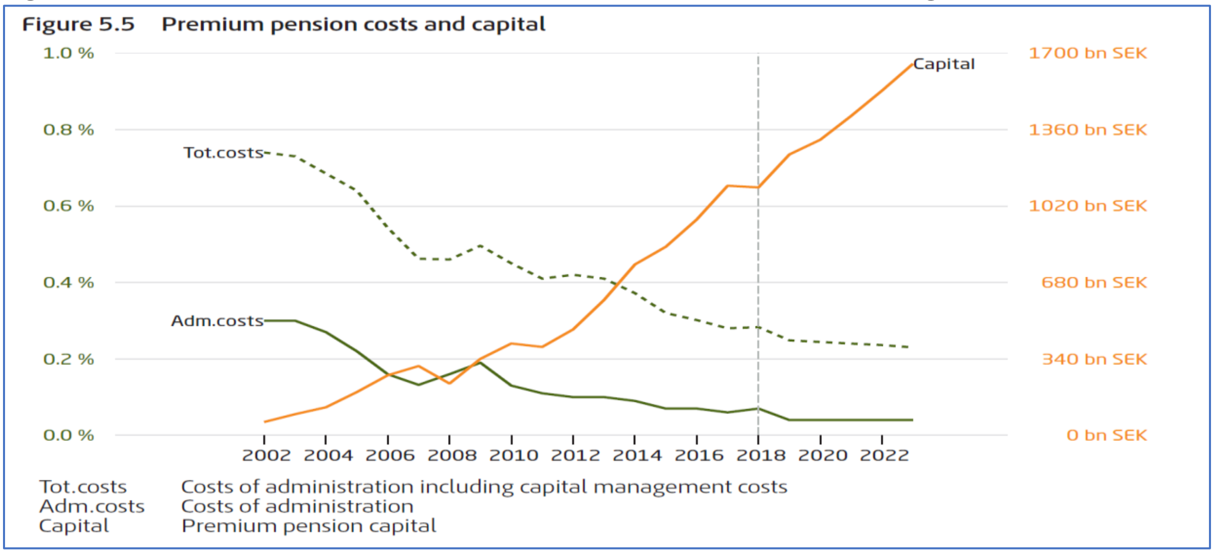
[78] Price, Ashcroft and Hafeman (2016). A subset of related indicators are included in the OECD Global Pension Statistics or the metrics used in the Melbourne Mercer annual pension index.

[79] Employer contributions were not included in Turkey when auto-enrolment was introduced in 2017 because there had recently been a 30% increase in the minimum wage, so burdens on employers were already high. However, the lack of an employer contribution – and the overly rapid pace of introduction of auto-enrolment – help to explain why opt out rates were higher than those seen in the UK and New Zealand (but lower than those seen in Italy's auto-enrolment reforms).

A similar approach to collection and administration was used in Sweden's workplace pension reforms – which introduced a compulsory private pension pillar (2nd pillar) alongside a state pension and occupational plans. Figure 20 shows how quickly the economies of scale help to drive lower administration and investment management costs – shown as a percentage of assets under management. This happens even in the early years when the assets are not very large – noting that the use of existing systems means that there is no need for full new build set up costs to be covered. The reduction in investment management fees was partly driven by regulation – where asset managers had to provide a volume discount linked to the scale of assets under management. So, the cost savings for them from scale were passed on partly to the workers in this dynamic way. This is an intelligent approach and helps to mitigate the risk that any fee guidance or cap is set too high or too low.

Both Sweden and Jersey have relatively strong public or first pillar pensions. Sweden then has an additional 'second pillar' mandatory DC pensions requiring 2.5% of salary from workers to be paid via the tax authorities with a single lifetime account managed by the Pension Agency. Workers can invest in a default investment strategy managed by an arms-length government created asset manager like the CIF in Jersey. They can also choose between numerous private asset managers via an online platform. This means workers can choose if they want to but do not need to. They have an additional pension with no need to do anything other than contribute (which is mandatory and automatically deducted from wages). Only asset managers have a role in this part of the system – there is no role for administrators or other providers as this part is performed by the Tax and Pension authorities. It also means employers have no role in second pillar pensions. This pillar does not exist at all in Jersey – and is obviously one of the ideas that could be introduced. Both Jersey and Sweden then have occupational pension plan – where employers can choose providers and administration and asset management and is fully private. However, given the strong collective bargaining in Sweden, roughly 90% of wage workers are covered by an agreement with employers that provides for pensions, compared to perhaps 30%-35% in Jersey.

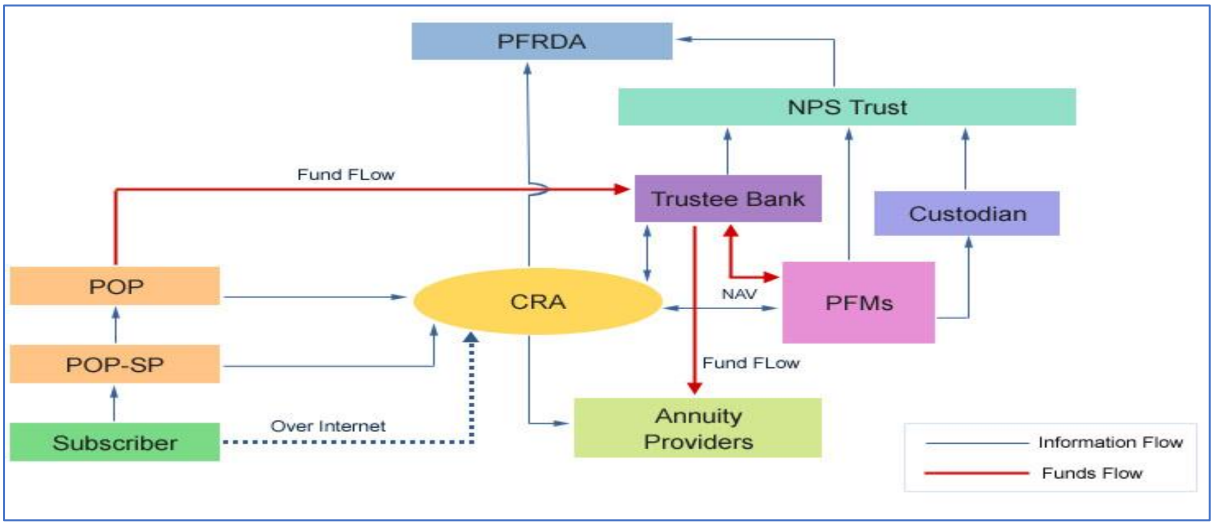
Figure 20: Economies of scale in administration and investment management in Sweden



Source: Swedish Premium Pension Agency

India set up the 'New' Pension Scheme or NPS following a report in 2004 – that was to be used for funded defined contribution pensions for private sector workers and new civil servants. It tendered for a 'Central Records Agency' to be a single account administrator. This is a variation on the centralised model, in that it does not use the tax system or social security institution – which both exist in India but did not have the necessary capabilities. Figure 21 shows the structure – that had to deal with a very wide range of entry points – known as POPs for Points of Presence. These all plug into the Centralised Records Agency and the worker or saver has a single account for their whole life. Asset management is then done as bulk investment management depending on which providers members choose – with a set of asset managers who participate in an annual auction on pricing for investment management services. The payout phase then has another central portal that helps savers choose between a limited set of annuity service providers. The overall model is very low cost (under 0.5% a year or 50 bps) whilst operating in a very large and complex country.

Figure 21: The centralized administrator in India's National Pension Scheme (NPS).



Source: India Pension Fund Regulation and Development Authority PFRDA

Hybrid or decentralized models have multiple administration providers (and asset managers) thus reducing the scope for economies of scale and increasing potential problems with missing or lost accounts and transfers – but allowing choice between providers. A key test for any country is then whether one can quantify the benefits of lower costs and a single account that follows a worker across multiple jobs with the benefits of greater choice – perhaps demonstrated by different providers showing their relative net of fee returns. An example of a fully decentralized model is the UK system pre-autoenrollment. The auto-enrolment reforms created the National Employment Saving Trust (NEST) as a 'backstop' provider so that all employers would have one provider who would offer them services – even if the existing players did not want the business. NEST was created from scratch – so had to procure an account administration system and engage asset managers. An employer can auto-enrol their workers in NEST – who will then deal with all account administration and investment issues – using outsourced investment managers but keeping the investment governance in-house. Or the employer can choose other providers – some of whom have vertically integrated administration and asset management and some of whom will use an outsourced third-party administrator and then focus on investment. So, there are many ways in which the pension funds structure their operations.

The key development in the UK model was that NEST was given a statutory duty to take any employer and have total costs of administration and asset management of 0.5% as a share of assets under management[80]. This occurred in combination with a requirement for all providers that their default funds (into which the vast majority of savers go) could cost no more than 0.75% as a share of assets under management (AUM). This, combined with the competition from NEST, forced significant consolidation in the industry and reductions in fees.

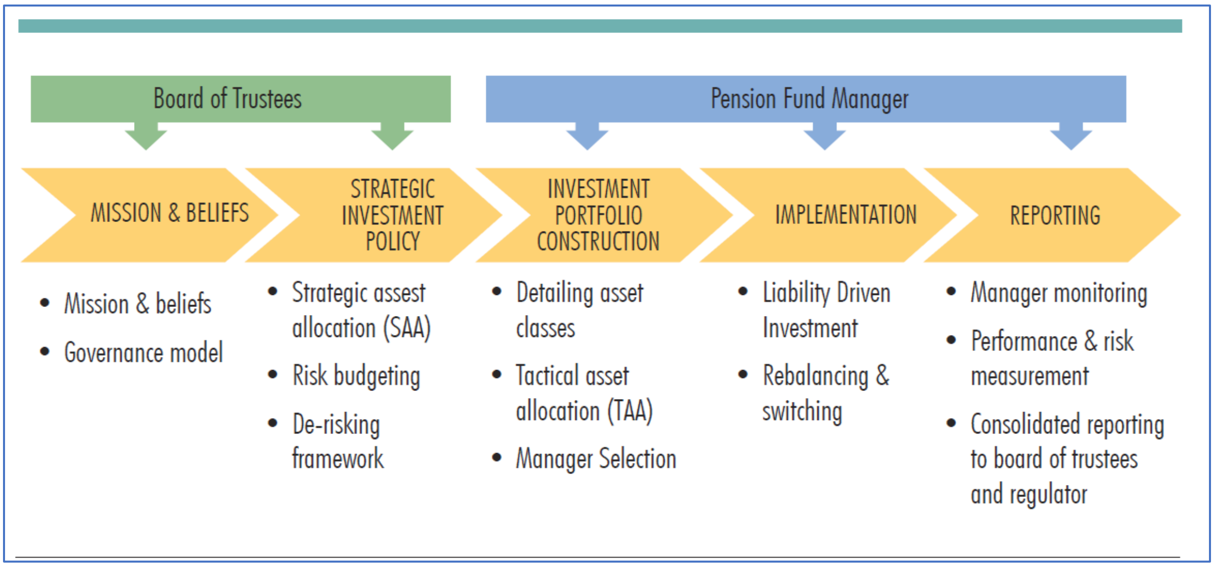
As well as ideas to improve efficiency, it is essential to ensure that record keeping, and account management are robust to fraud, particularly cyber fraud. Innovations that enable the FinTech revolution that can provide so many benefits also make systems more vulnerable to fraud. It will be important for all options to able to deal with these vulnerabilities. These issues are not discussed in detail at this first stage of development of the broad options – but it will have to be a critical element to the build of the final option chosen.

<u>Governance, Investment Strategy and Investment Management</u>

The combined impact of scale, expertise and governance has a critical effect on the performance of a pension fund – which contributes to improving member outcomes. CEM Benchmarking – a leading pension performance benchmarking firm - and Ambachtsheer calculate that the benefits of the 'Canadian Model' of large, well-governed pension funds with expert investment and operations have added value equal to $4.2 billion annually over the past 10 years relative to a comparable sample of 132 global funds (see also Ambachtscheer, 2016). This is despite other parts of the Canadian financial sector, such as mutual funds, having relatively high fees internationally. The benefits of governance, scale and expertise for pension funds is supported by other research with different funds in other jurisdictions. Clark and Urwin 2007 find that "almost all of our best-practice funds had a performance margin 2% per annum or more over their benchmarks" and Price, Khalif, De Luna-Martinez, Zhang and Arshad 2018 find in a Case Study on the Employee Provident Fund of Malaysia that improvements to governance and expertise (and the investment strategy that followed) improved the outperformance relative to a domestic bond portfolio by some two percentage points compared to the pre-reform period. The kind of process a well-run fund will follow is shown in Figure 22. Linking to the proposed reforms on pension regulation – it is clear that the many small legacy funds will not be doing anything equivalent to the process below.

[80] NEST actually has a combination of a charge on each contribution (of 1.8%) and an assets under management fee (of 0.3%) which together are slightly lower than a 0.5% AUM fee. This was in order to increase cashflow in the early years to make it quicker to be able to fund operations and then repay the government loan that was given to fund the set-up costs.

Figure 22: Best practice investment governance



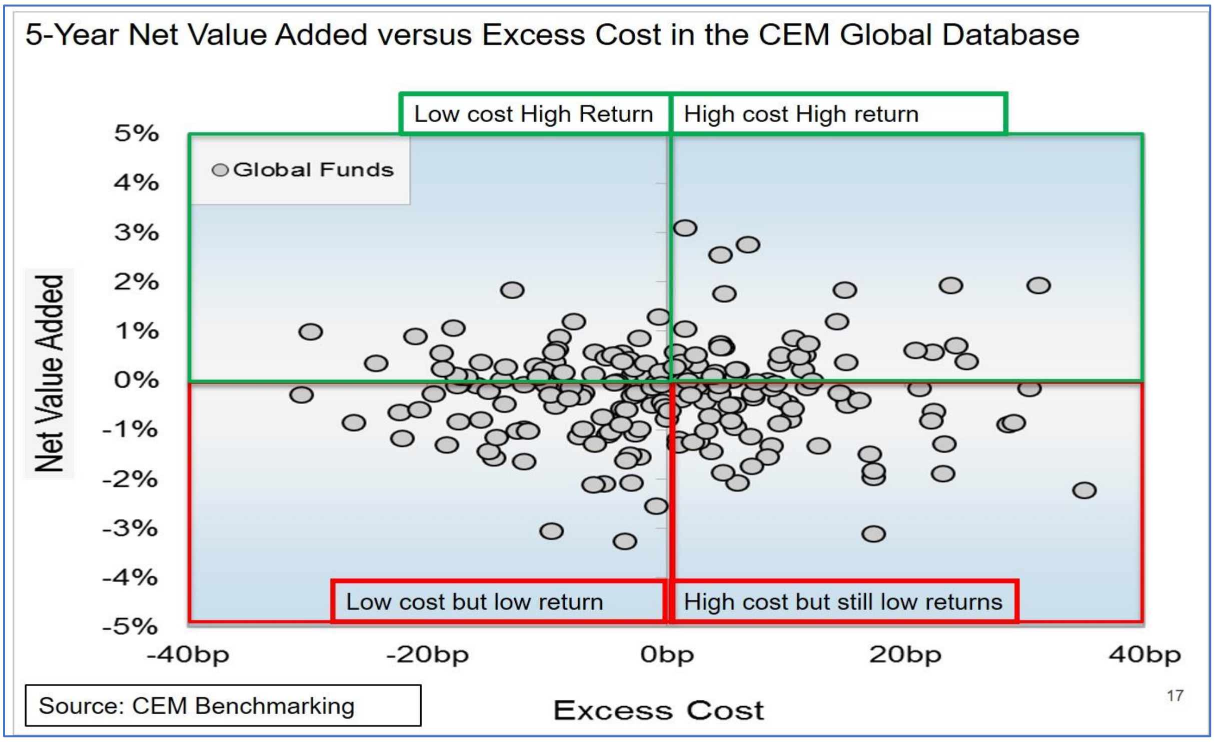
Source: Franzen and Ashcroft (2017)

If workers are compelled to save in a mandatory pension pillar or quasi-mandatory through auto-enrolment, then the government and the (future) supervisor clearly have a duty to ensure decent standards of governance and asset-security. This can be a learning process for countries with long-standing voluntary pension system who realize that compelling someone to join a pension requires the authorities to ensure higher standards from pension providers. This was certainly the case in the UK where the governance standards in law and regulation were raised as a result of the auto-enrolment reforms. However, this argument should not be pushed very far. It is questionable whether savers in a voluntary system (whether occupational DB or DC funds or individual voluntary pension plans) would consider they need weaker protections against fraud or poor management just because they joined a pension fund through voluntary choice. Certainly, in voluntary systems which have suffered major failures, there is little sense in the enquiries that follow that the authorities owed a lower duty of care to pension savers who joined voluntarily compared to those who were automatically enrolled or were part of a mandatory system.

Good governance though requires resources – time and money and systems – that very small pension plans may struggle to find. This is an area where there is a chance to boost pension outcomes without needing to increase contributions – whether from workers, employers or from the government. Delivering improved governance needs proactive work from the pension industry. But it should also be a key focus of new pension regulation. Particularly in a world where resources for pension regulation and supervision are likely to be stretched, focusing on improving governance and requiring higher standards if there were to be a major expansion of workplace pensions will be critical. Again, on the one hand Jersey has many very large companies in the financial services space. But this does not always translate into the size of each individual pension plan that employers may have. So, as in the case of the UK, ensuring that future policy can deliver for large, small, medium and micro employers is an important test to ensure potential economies of scale and good governance can reach down to all levels or customer. In Australia and the Netherlands for example, even with the many very large superannuation and pension funds, there has been significant consolidation in the past 20 years as providers, government and customers alike have tried to ensure ever-improving levels of delivery and efficiency.

Governance is particularly important to determine where it is useful to spend scarce resources – given that some active managers can deliver enhanced net of fee returns but others do not. There are areas where there are additional costs to good execution compared to passive management – for example in relation to some private equity investment. But there are many examples of poor quality high cost and low cost funds and equally many examples of good quality high cost and low cost fund. The key task for those governing a pension plan is to have the skill, expertise and focus to determine the difference. High quality benchmarking plays a key role. Figure 23 gives data from one of the world's best pension fund benchmarking databases. It shows that there are examples of all types of fund – high and low cost as well as good and bad net performance.

Figure 23: The lack of correlation between cost and investment performance



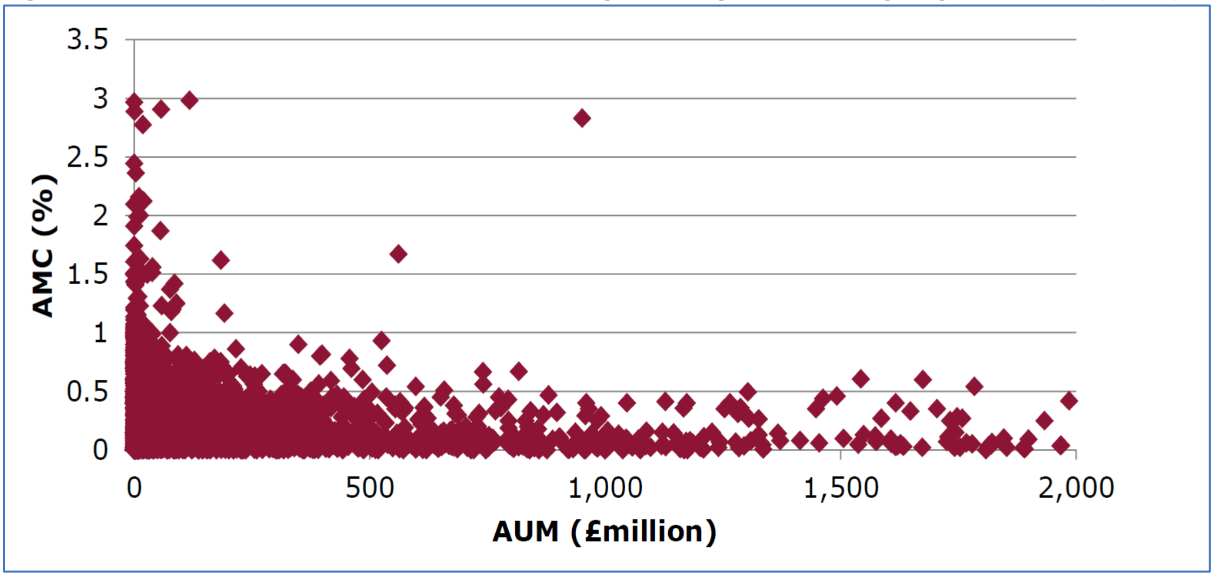
Investment Management

A key requirement for any model is to that there is a simple default product for pension savers. This can give them access to an investment strategy that adapts as they approach retirement – and ideally include some form of cost control to match the simple low-cost model. In recent years, both the UK and Hong Kong have introduced simple default investment plans for their auto-enrolment and mandatory private pensions respectively – and both after trying many alternative solutions in the previous 20 to 30 years. In both countries there is a strong focus on using market forces. But for the core simple product for ordinary workers both have concluded that a simple low-cost product with a fee cap set by the regulator is important. Initial discussion with the industry in Jersey indicates a range of views – with some providers openly admitting they will not be able to produce a low-cost mass-market product efficiently and others who are keen to avoid interventions that would affect existing business. The UK faced a similar debate – and essentially challenged the industry to show if they could deliver a mass-market product to relatively low-income consumers for fees low enough to ensure decent net of fee returns. Ultimately there was no viable alternative to introducing NEST as a backstop – and it is very likely to be the case in the Jersey context where there is far less opportunity to gain scale. Unless low fees are delivered the level of income and contributions needed to justify higher costs will exclude a significant portion of workers who could afford some contributions. The higher costs are typically not those that might increase net of fee returns but simply higher costs of delivering the core product, process and administration of a pension plan.

As highlighted above there are strong economies of scale in asset management as well as for administration. The key will be to check whether the economies of scale seen for example in the Social Security, Public Employees and Teachers Plans exist in the same way in the private and occupational plans, for which there is as yet no data. There are certainly sufficient assets under management in the whole sector if one also includes the assets of non-Jersey residents. For example, figures from the Jersey Financial Services Commission indicate that 82 investment licenses have been issued for investment business for local and global clients. In 2018 there were 14,795 discretionary clients with £23.6bn in assets under management. Taking only one particular product – Qualifying Segregated Managed Accounts (QSMAs) - there were 16 accounts with £1.5bn in assets under management. There are 963 regulated collective investment funds with a combined £319.9bn in assets under management. The Trust Company business is also very large in Jersey – with 186 Trust and Company Service providers with 843 licenses.

In general, the economies of scale should be very large. Figure 24 shows that the impact starts even from very low balances – from £10m to £50m for example, as well as extending to the very much larger assets under management.

Figure 24: Distribution of actual annual average management charge against AUM (2015)



Source: UK FCA actual management charge and AUM data for segregated mandates

Potential ideas to deliver workplace pensions

The most promising delivery ideas leverage existing workplace pensions where there are providers with scale, expertise and good governance. Even if Social Security is not extended or reformed, the collection, administration and investment management capacity could be leveraged to deliver a low-cost and well-managed workplace pension. This would use existing systems but draw in private sector expertise for investments. To have a Defined Contribution add-on to the current Defined Benefit Social Security plan would require the addition of some DC account management capability, but that is a relatively commoditised functionality.

Another approach is to leverage large, good quality, low cost pension plans: The Public Employees' Pension Plans (both the DB and CARE plans) and the Jersey Teachers plans both have large existing operations already – of around £2.1bn and £500m respectively. Each has good governance and relatively low cost administration. Whilst data is not yet available, there may be similar performance and some scale in some of the larger private pension plans. Smaller existing private workplace plans would not be suitable to join unless they had very good outcomes – creating a much simpler and more efficient and lower-risk industry to supervise.

There are then hybrid options which would have a default provider (perhaps Social Security or a backstop provider as with the UK's NEST) operating alongside other pension plans which met tests for good quality and delivery of good member outcomes. All options can be made very simple for the employer – who need only be a channel for payments as for Social Security unless they actively wanted to deliver a bespoke workplace pension plan. Workers with this idea could be allocated to a default provider or option. A simple platform could be constructed (as already in Sweden and like any standard asset management platform) where workers could make a choice of another provider if they wanted to. Figure 25 sets out a stylized summary of the impact of key design choices based on international experience.

Figure 25: Different models for improving cost and investment outcomes in pension

<table>
<tr><th colspan="2">DEMAND SIDE OF MARKET</th><th colspan="3">DISTRIBUTION and SUPPLY SIDE OF MARKET</th><th>Costs</th></tr>
<tr><td colspan="2">Who decides strategy, chooses provider & negotiates costs?</td><td>How demand and supply are matched</td><td colspan="2">Administration and investment management</td><td></td></tr>
<tr><td colspan="2">Individual</td><td>Sales Agents</td><td colspan="2">Admin and Inv Management</td><td>High</td></tr>
<tr><td>Individual</td><td>Default member allocation rule</td><td>Sales agents AFTER initial allocation</td><td colspan="2">Admin and Inv Management</td><td>Med - High</td></tr>
<tr><td>Individual</td><td>Auction</td><td>Sales agents AFTER initial allocation</td><td colspan="2">Admin and Inv Management</td><td>Med - High</td></tr>
<tr><td colspan="2">Member-focused governance org with scale and expertise – bulk purchases for members</td><td>Member automatically added via employer or default</td><td>Admin – competitive bulk tender</td><td>Investment Management - competitive bulk tender</td><td>Low and Med</td></tr>
</table>

Member-focused governance org with scale and expertise – bulk purchases for members	Member automatically added via employer or default	Admin competitive bulk tender or in-house	**Investment Management – in-house provision and external tenders**	Low
Member-focused governance org with scale and expertise: bulk purchases for members	Member automatically added by employer or default	In-house administration	In-house investment Management	Low
Fee caps can be used in any of the models, but any positive impact will depend on good design. Table shows ways to improve costs & investment, not all possible delivery channels.				

Source: Authors

Before turning to the individual elements that need to be decided in any delivery model, it may be helpful to see simple high-level summaries of the options chosen by countries facing similar challenges. These are set out in Box 5 and in more detail in Annex A.

Box 5: Reforms implemented with autoenrollment: UK, New Zealand, Turkey and Italy

New Zealand. KiwiSaver is a retirement savings system that automatically enrolled workers into a retirement savings scheme. It also allowed for voluntary opt-in for all ages. KiwiSaver was the first successful automatic enrolment model in the world. It has enrolled over 2.8 million members - over 60% of the NZ Population of 4.5 million – hence increasing savings coverage and improving financial independence in later life. Since commencement in 2007 the plans now has $48.6b NZD invested. It has been regarded internationally as a world class, work-based retirement savings system.

United Kingdom The implementation of Work-Based Automatic Enrolment pensions in the UK was on a different scale to New Zealand, given the population of over 65 million people and over 1.5 million employers. But it provides invaluable insights given the mix of large, medium and mostly small and micro employers. A highly successful pension reform – it is regarded in the UK as a best practice model of how to design and implement major government programmes. It has seen over 10 million workers enrolled, over 1.5 million employers reach compliance and automatic enrolment for pensions become the business and social norm. This programme required the establishment of a new regulatory role and operating model within the Pensions Regulator. It provides in depth experience of creating new regulatory and supervisory functions and integrating them into an existing regulator – as would be the case with the introduction of the pension regulation role into Jersey Financial Services Commission. Coverage increased from 46% of workers in 2012 to 78% in 2020.

Turkey: The Ministry of Finance designed and implemented automatic enrolment and the regulatory and supervisory arrangements for it. Introduced in January 2017 there has been an increase of over 5 million workers in Turkey saving into pensions. This has increased coverage by over 50% in one year compared to the voluntary coverage achieved over the previous 14 years. The design adopted also reduced costs by 50% compared to the previous voluntary model and improved investment regulations.

Italy: Italy is the only other major country to introduce national level auto-enrolment. The policy was not considered to be a particular success as enrolment rates were under 30% (opt-out rates were over 70%). This was because the policy proposed to automatically switch rights to a retirement lump-sum (the TFR) into a pension. So, workers were giving up access to that money in return for it going into a pension – which created a different dynamic to the other examples of auto-enrolment – particularly in the UK and New Zealand.

Product and eligibility options

Type of pension – accumulation and payout phase

There are a range of other decisions that would need to be taken about the core parameters of the plan that need to cover:

- eligibility and coverage;
- opt-out and re-enrollment (if the plan is not compulsory);
- the level of contributions;
- incentives;
- the type of product and the nature of the payout phase; and
- regulation and supervision (as already discussed above);
- and programme management.

For eligibility, the level of income at which workers would be added to any workplace plan could be aligned with a well-known figure like the lower earnings limit for Social Security (£980 a month, £11,760 a year in 2021) or linked to the new rules for an equivalent financial test being introduced to replace the '8' hour rule. This is partly for efficiency and simplicity reasons so that particularly small employers can comply as easily as possible. But it is also because ultimately the workers will be best placed to decide if they can contribute or not. There are many reasons why that level of income may be too low to support additional pension contributions – from student and other debt through to childcare and housing costs through to personal factors. Moreover, politically it may seem unattractive to seek additional pension contributions from current low-earners and potential future old-age Income Support recipients. Efforts to make the system too clever and responsive also make it complicated and exclude lots of people who may ultimately be able to contribute. The decision on the age of workers has a similar logic. Putting in a relatively young age like 18 may seem too young – particularly with people who are in education. But on the other hand, it is never too early to save or build up social security contributions – and again the effort to tailor the entry age to potential issues makes the system liable to exclude many people who could benefit. The potential logic for this approach could be investigated by seeing how many people receiving Social Security pensions have a contribution history from 18 to 22 (or indeed 16-22) to see if these early years do contribute to retirement income. In New Zealand they contribute from age 18 and a salary of NZD$1.

For coverage there is the issue of seasonal and temporary workers. This is closely related to discussions on migration policy and housing status. Jersey has the advantage that there is an existing system to classify workers and identify them, so that using these classifications to apply different treatment to workers would not introduce costly new administration. The key risk in excluding those workers that are registered for example, is if they then become entitled and ultimately retire on the island. In these cases, workers could have big gaps in provision. How often this happens would be an empirical issue. But one option is to cover all workers, then ensure that the first few years of investment of assets was in more liquid and lower risk assets. These could be returned to workers if they definitively left Jersey. But a worker who came to Jersey for 3 months for 5 years in a row could begin to build up a saving pot that would be useful in future years if they then gained more long-term employment. On the other hand, it may be simpler to exclude them – and New Zealand exempts people coming in for a seasonal job of under 3 months.

A compulsory system will almost certainly gain more coverage than an auto-enrolment system. But if full compulsion is seen as politically unacceptable then the only option that achieves good coverage is auto-enrollment[81]. In this option employers must enrol workers into a pension plan, they must contribute and only then the worker has the option to opt-out. If the worker does opt-out first time round they are typically the best placed to judge their circumstances at that point in time. But the consensus is to re-enrol people every three years – and in the UK this approach (on the anniversary of opt-out) has added an extra 500,000 contributors. There are challenges in managing opt out process in relation to:

- Refunds
- Closing accounts
- Interest on funds
- Partial Payment / Split allocations

Decisions on contribution levels (and government incentives) of course flow from the desired outcome for adequacy. So, a final decision cannot be taken before that is determined. But it is likely that the final aim will be for workplace pensions to deliver a significant but not dominant amount of income in retirement relative to Social Security. There is also the practical reason that given contribution rates of 12.5% of salary already for Social Security including health, it is important to pay attention to the non-wage labour costs.

There is a broad range of contributions around the world including the UK autoenrollment at 8% of wages that has been successful in total – but which by common consensus will have to increase. However, New Zealand has only 6% contributions. In its mandatory reforms Australia started at 3%, rose to 9.5% and is planned to rise to 12%. At the other extreme, Malaysia has 23% of wages in total contributions split between employer and employees, but with only very limited public pension provision.

Table 6 sets out some modelling for the different combinations of contributions and returns to illustrate the range of options for different target replacement rates. More modelling and analysis generally would be needed to support the ideas chosen to move towards formal policy implementation.

Table 6: Contribution rates to achieve a certain target replacement rate

	Rate of Return on Investments			Interest rate (discount rate used to price annuities)			Life expectancy at retirement		
Replacement Rate	5	7	9	3.5	4.5	5.5	10	20	30
30%	7.7	5.0	3.1	5.5	5.0	4.6	3.1	5.0	6.3
70%	18	11.7	7.3	12.8	11.7	10.7	7.1	11.7	14.6
Baseline for change: 7% nominal return on investment, 4.5% nominal discount rate and life expectancy 20 years at retirement age of 65 – expected age of death of 85. Replacement rate is % of average wages for representative worker using productivity growth of 1.5%[82]. Source: OECD Pension Outlook 2012									

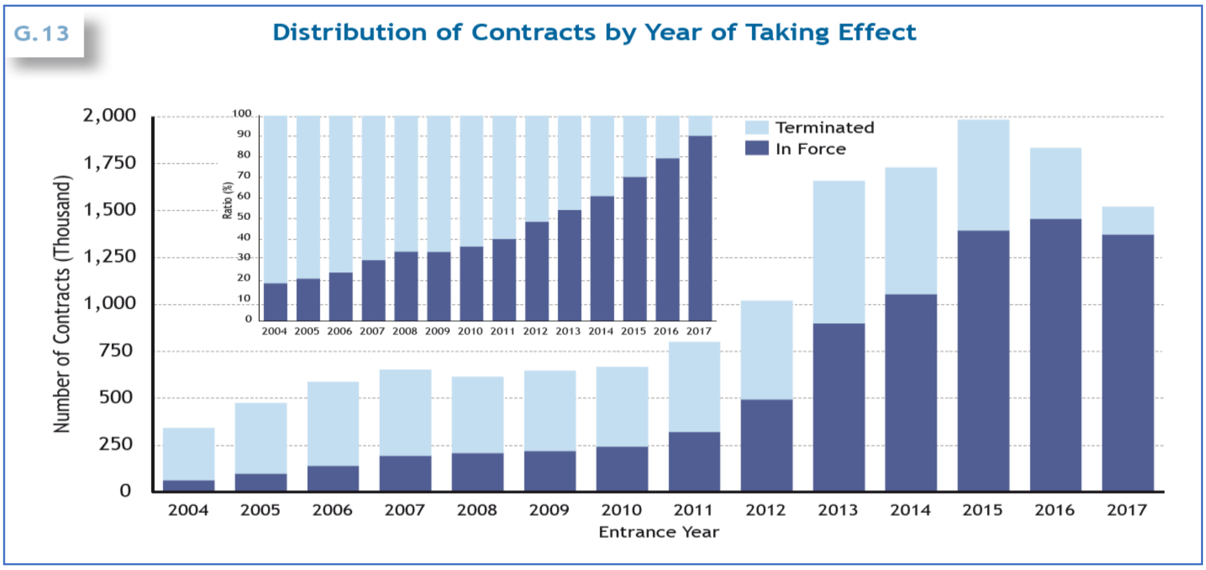
[81] Unless there are very strong historic union coverage and bargaining arrangements across the whole economy.
[82] The table is designed to highlight the impact of different parameters to illustrate key concepts and is not a detailed projection for Jersey. Cross-country comparisons in OECD (2014) set out a useful framework for comparisons over time and the likely impact on replacement rates and relative poverty and would be the type of analysis recommended after an outline decision to proceed.

The Government will need to decide how to incentivise contributions to the new workplace pension plan. The standard approach is to use the tax system. A more innovative approach is to use matching contributions which can be simpler to understand and provide a greater incentive for those on relatively low income. However, one option is to use the approach the Jersey already uses with Social Security – which is quite an innovative way to support those that are working and contributing but below the standard (maximum) level set under the scheme. In the context of a workplace plan, the government could contribute a flat rate for all workers which will be a higher percentage benefit for lower income workers plus have a match of say 25% of all contributions. This gives incentives for those workers who do not pay (sufficient) tax and focuses the benefits on those most likely to have gaps in provision – whilst giving an incentive for all (up to a total contribution limit). Finally, the Government could use the New Zealand 'kick-start' model with a lump-sum payment for staying in the system and not opting out in order to get the model embedded into the custom and practice of working and saving life in Jersey.

Ideas to incentivise contributions by low-earners are an important dimension of these discussions. Tax-relief in general provides a greater incentive for higher taxpayers if they can gain relief at the marginal rate. One option is to provide tax-credits so that even those who pay little or no tax can gain from making contributions since the Government credits tax to the pension account as if the person were a tax payer – even if those contributions are financed by third parties such as other family members.

Turkey changed from tax-relief to matching in 2013 and saw a large increase in voluntary pension enrolment. The impact of the reforms in Turkey is shown in Figure 26. The change from tax-relief to matching in 2013 led to a significant increase in the growth of accounts. The voluntary pension system had been introduced in 2003 – so was already relatively mature. This made the increase in penetration more impressive given that the early adopters of voluntary pensions already had 10 years to open an account. Mexico boosted the benefits for low income workers through its flat rate government contribution known as the 'cuota social'. This effectively means low income workers have total contributions of 13.2% of salary as opposed to 6.5% for higher income workers. Mexico is now also significantly increasing contributions for all to improve adequacy.

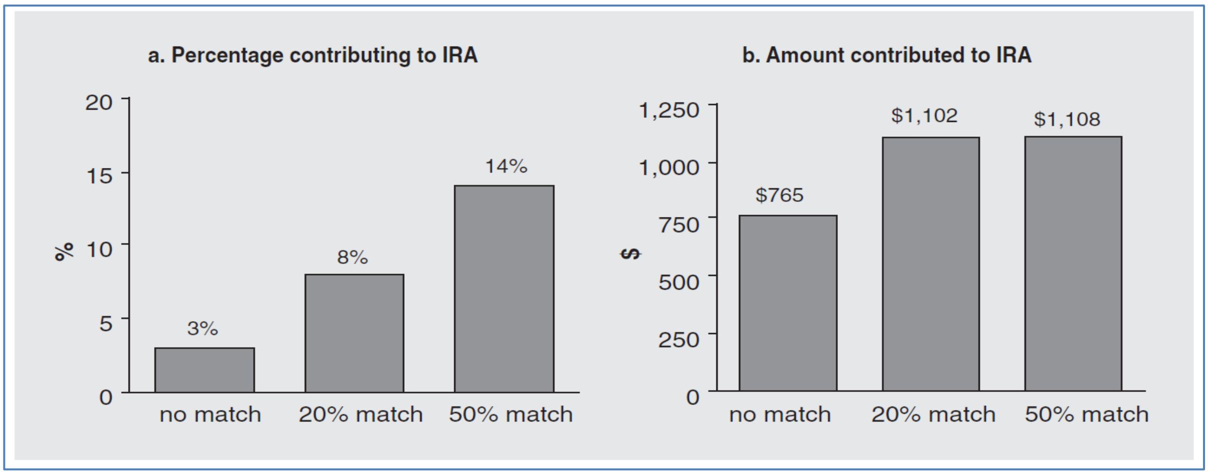
Figure 26: How matching increased voluntary pension account opening in Turkey



Source: The Pension Fund Monitoring Centre, Turkey

The matching concept has also been used in some cases in the United States with some success – though often in the context of auto-enrolment into voluntary company pension plans. Duflo and others (2006) show how matching contributions increased both the percentages joining a saving plan (known as an IRA) and the amount that they contributed. With no match only 3% of people participated in the saving plan. A 20% match increased participation to 8%. A 50% match increased it to 14%. This is set out in Figure 27.

Figure 27: The impact of matching contributions on enrolment and contributions to savings



Source: Duflo and others 2006

The Saving Gateway was a UK government pilot program that used matching contributions to increase short-term saving by people with low incomes[83]. Two separate pilots experimented with different matching rates, contribution ceilings, eligibility rules, and recruitment mechanisms. The likelihood of joining the pilot doubled as the match rate increased from 20 percent to 50 percent but did not increase further as the match rose to 100 percent (Table 7). Once in the program, the ceiling on how much a person could contribute

[83] See chapter by Price in Hinz et al (2012).

each week seemed to have a much larger impact on saving than the match rate. For the low-income target group, the pilots led to new saving rather than a redirection of existing saving from other sources. Important issues of potential selectivity bias need to be considered in evaluating pilot results. This example and many more around the world can be found in Hinz et al, 2012 on Matching Defined Contributions.

Table 7: Mean and median saving balances in Saving Gateway Pilot 2

Area	Match rate (%)	Contribution ceiling (£)	Conversion rate (%)	Net monthly contribution (£)		Final balance (before match added) (£)	
				Median	Mean	Median	Mean
1	20	50	6.5	50	33	750	543
2	20	125	10.3	125	89	2,000	1,546
3	50	50	21.8	50	39	800	680
4	50	25	16.2	25	21	400	349
5	50	25	22.8	25	20	400	343
6	100	25	19.7	25	20	400	338

SOURCE: Emmerson and others 2007.

Box 6 from OECD provides a good summary of the international evidence on incentives to save. It endorses the importance of reviewing the targeting and effectiveness of current tax relief and exploring other approaches as outlined above.

Box 6: OECD Policy Guidelines on Financial Incentives for Retirement

1. **Financial incentives are useful tools to promote savings for retirement**. They encourage people to participate in and contribute to retirement savings plans, while keeping individual choice and responsibility for retirement planning.

2. **Tax rules should be straightforward, stable and common to all retirement savings plans in the country**. Different tax rules for different types of plan and frequent changes to those rules may create confusion and reduce people's trust in the system.

3. **The design of tax and non-tax incentives for retirement savings should at least make all income groups neutral between consuming and saving**. This tax neutrality is achieved when the way present and future consumption is taxed makes the individual indifferent between consuming and saving. The tax treatment of retirement savings should at least not discourage savings.

4. **Countries with an "EET" tax regime already in place should maintain the structure of deferred taxation**. The upfront cost incurred at the introduction of the pension system with deferred taxation is already behind in most countries and the rewards in the form of large tax collections on pension income are in the horizon.

5. **Countries should consider the fiscal space and demographic trends before introducing a new retirement savings system with financial incentives**. The maturity of the pension system and demographics influence the fiscal cost related to financial incentives.

6. **Identifying the retirement savings needs and capabilities of different population groups could help countries to improve the design of financial incentives**.

a. **Tax credits, fixed-rate tax deductions or matching contributions may be used when the aim is to provide an equivalent tax advantage across income groups**. Financial incentives that equalise the tax relief provided on contributions for all individuals, independently of their income level and marginal income tax rate, achieve a smoother distribution of the overall tax advantage across the income scale.

b. **Non-tax incentives, in particular fixed nominal subsidies, may be used when low-income earners save too little compared to their savings needs**. Non-tax incentives are better tools to encourage retirement savings among low-income earners, who are less sensitive to tax incentives.

7. **Countries using tax credits may consider making them refundable and converting them into non-tax incentives**. Individuals with a low tax liability can still benefit from tax credits when they are refundable. The value of the credit is strengthened when it is paid directly into the pension account, in order to help individuals to build larger pots to finance retirement.

8. **Countries where pension benefits and withdrawals are tax exempt may consider restricting the choice of the post-retirement product when granting financial incentives**. When withdrawals are tax exempt, financial incentives may lose their purpose if individuals withdraw early or take a lump sum. To counter this, policy makers could restrict the choice of when and how to withdraw the money; take back part or all of the financial incentives when individuals take a lump sum or withdraw early; or encourage people to selected post-retirement products that are more in line with the objective of people having a retirement income.

The Pension Payout Phase

The Payout phase is one of the most challenging areas of pension policy – and one where there is a very wide range of international practice. Rules on access need to balance flexibility for those with sufficient income even if they use any assets withdrawn rapidly and those for whom the pension assets need to deliver income until death. Lump-sum payouts will typically threaten a Government's central objective to deliver Financial Independence for the whole of old-age. It is recommended that there is a core mandatory or default retirement income product unless people can prove they have sufficient other income. This is so that hard-won savings supported by tax-payer incentives are not spent rapidly with people coming back to the Government for further support in later old age.

<u>Access to withdrawals and lump-sums</u>

One way to investigate the impact of introducing default or mandatory requirements for a retirement income product is to investigate what happens when such requirements are removed. The UK provides an example since 2015 when requirements to effectively take an annuity were removed, and members could make any choice. Workers were now free to take 100% of their money as a lump sum. They would pay tax on the full lump sum taken at the marginal income tax rate for the value removed (a one-off 25% of the lump sum is tax-free).

The Financial Conduct Authority (FCA) has tracked choices since 2015[84]. In the three years to October 2018, nearly 1.5 million pension 'pots' or accounts were accessed for the first time under the new rules. 53% of workers took a 100% lump-sum – often those with the smaller balances. 31% of workers chose an income drawdown – akin to a phased or programmed withdrawal. The most likely rate of drawdown for accounts under £100,000 was 8% of assets per year or over. Those with over £250,000 in assets tended to draw down less rapidly. Only 13% of savers chose an annuity.

So, the new 'freedoms' have led to a very large shift away from annuities to around half of the people taking a 100% lump sum and one third taking a phased withdrawal – often at rapid rates. This can be contrasted with the stock of existing products, where there are eight times as many annuity contracts in force as drawdown products.

The UK annuity market did have issues pre 2015. But the UK example shows that even in a country with a very large annuity market, that had existed for decades and that had effective mandatory requirements to annuitise, it made no different to the desire for short-term cash over long-term income. Hence, there was a sudden and large shift to 100% lump-sums and high-rate drawdown products despite the long-term consequences for income in very old-age. So, without a mandatory or a default income product the assets accumulated are likely to be spent rapidly and leave the central policy objective of private pensions unmet. When the implications of this change in the UK are fully felt in future years – the pressure for higher public pensions or acquiescence in higher rates of old-age poverty are likely the only two policy responses that will be left.

Another example of the risks of allowing full lump-sums comes from Malaysia – a country with an enviable record in the accumulation phase but where most of the assets taken as lump-sums are used up rapidly. Malaysian private sector workers are required to contribute

[84] See https://www.fca.org.uk/publication/data/data-bulletin-issue-14.pdf for an example.

to the Employees Provident Fund (EPF). Employees contribute 11% of salary and employers 12% or 13% depending on salary level. Thus, the accumulation phase is very strong, and the EPF has grown into one of the world's largest pension funds – with US$240bn in assets under management. But workers have been able to access all their retirement savings as a lump sum. Two different surveys identified that 50% of workers used all their money in 5 years and 70% used them all in 10 years. So, even in a country with a solid saving ethic and a potent accumulation phase, the ability to access fund balances significantly reduces the ability of those assets to create retirement income.

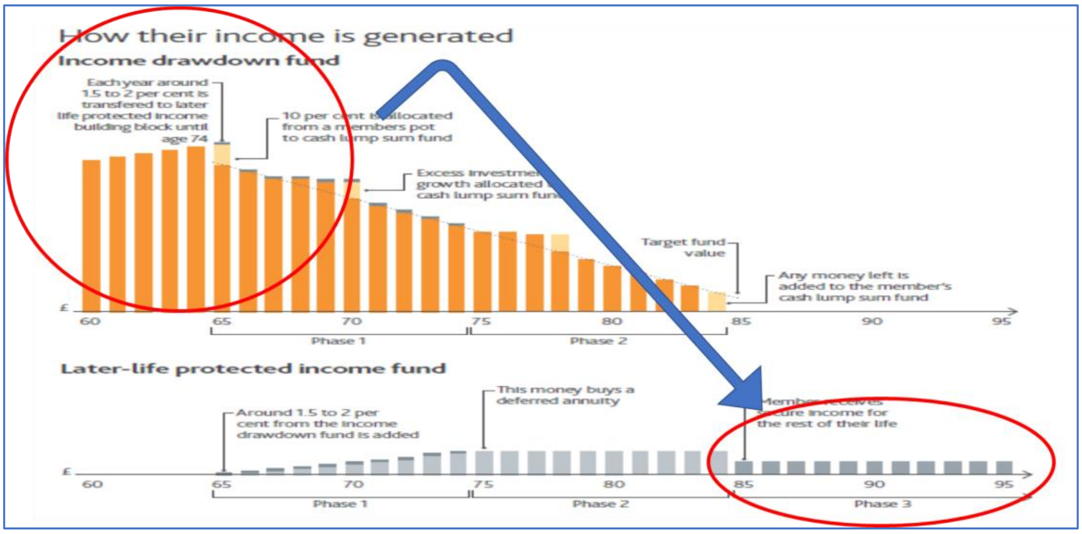
A common approach to the pay-out phase is to legislate for annuities and phased withdrawals and have some rules on how much money can be taken as a lump-sum. This approach then quickly defaults into lump-sums and phased withdrawals as few countries see active annuity markets. This is due to problems on the supply-side - with lack of mortality data, or capital market instruments to back annuity liabilities – or on the demand side where people are often very averse to giving all their lifetime savings for an annuity in a single irrevocable transaction. They often perceive (sometimes rightly) that annuities are 'bad value' – but also fail to see that they contain a significant element of insurance against outliving one's assets that a phased withdrawal does not supply. These considerations particularly affect less developed countries on the supply-side of annuities, but all countries face problems in the annuity market due to the demand side. The issue in some sense does not arise for DB markets in which the pension is paid until the person dies – that is the person receives an annuity – because the concept of accumulation and decumulation are not distinct as they are for a DC pension. For DC plans the problem is most acute where members are left to make all decisions by themselves.

Another option is to effectively use an annuity formula where the pay-out for the coming year is related to the probability of survival taken from a mortality table. This is more sophisticated and can be effective – although as identified below a phased withdrawal for a fixed period followed by a deferred annuity would be preferable (see Box 7). In Macedonia, the regulator MAPAS developed a phased withdrawal formula for the regulations governing payouts where the amount paid out is related to the average remaining life expectancy and other factors. However, there are risks to life expectancy linked phased withdrawals if an overly cautious approach is taken – as in the Costa Rican case. In Costa Rica the pay-out is related to a fully developed mortality table, but with adjustments to build a conservative payout rule to increase the chances that members will have assets at the end of their life. The problems with this well-intentioned idea, is that there is no mortality pool whereby those who live longer get the gains from those who live less long. Without these mortality or survival credits, the projected income from a single-person phased withdrawal are hence very low – and some estimates suggest that most people are projected to leave around 30% of their assets to their heirs, rather than having access to them in their own old-age. In all cases, the payout will change when mortality estimates change and will be subject to different expected mortality rates as the person ages in any case.

Phased withdrawals of course do not provide any protection against longevity risk – so an approach that is growing in popularity is to start with phased withdrawals and then have a Deferred Annuity that starts in later life as insurance against longevity risk. The aim of this approach is to reduce the behavioural, cost and illiquidity implications of an annuity taken as soon as someone retires (an immediate single-premium annuity). Box 7 shows how such an approach works – and how it can allow members access to their funds – albeit with the majority in a phased withdrawal that does not allow total access. This prevents the issue that members have a very large asset balance as they retire and then see it all 'disappear' as a premium for the immediate annuity. In the example shown the premiums for the deferred annuity start to be paid at age 65 for an annuity that would start at age 85. This allows the premia to be much smaller, and phased, because of course not everyone will reach the age of 85. Other approaches are possible – for example spending 10% of total assets at retirement on the deferred annuity[85]. This is still a sizeable amount of money, but members will keep the vast majority of their assets. They may also appreciate more clearly how the deferred annuity is providing insurance against a potentially very costly risk of living into advanced old-age.

Box 7: Combining phased withdrawals with deferred annuities

The combined approach uses a phased withdrawal initially and then takes a small slice of assets each year to buy a deferred annuity for later old age – to which it is far less likely the person will live. This has behavioural advantages because the member does not have to hand all their money to an insurer on the day of retirement and the insurance company only has to insure a shorter time period – although will still face significant mortality 'tail-risk'. The approach works much better when then are large groups involved so that there is less risk of adverse-selection – and hence is more powerful as a mandatory or default product. The picture shows how small annual payments are made to a deferred annuity in early retirement, leaving the member access to most of their funds for drawdown until the deferred annuity starts – and with an initial 10% lump-sum payment to meet.



Source: NEST

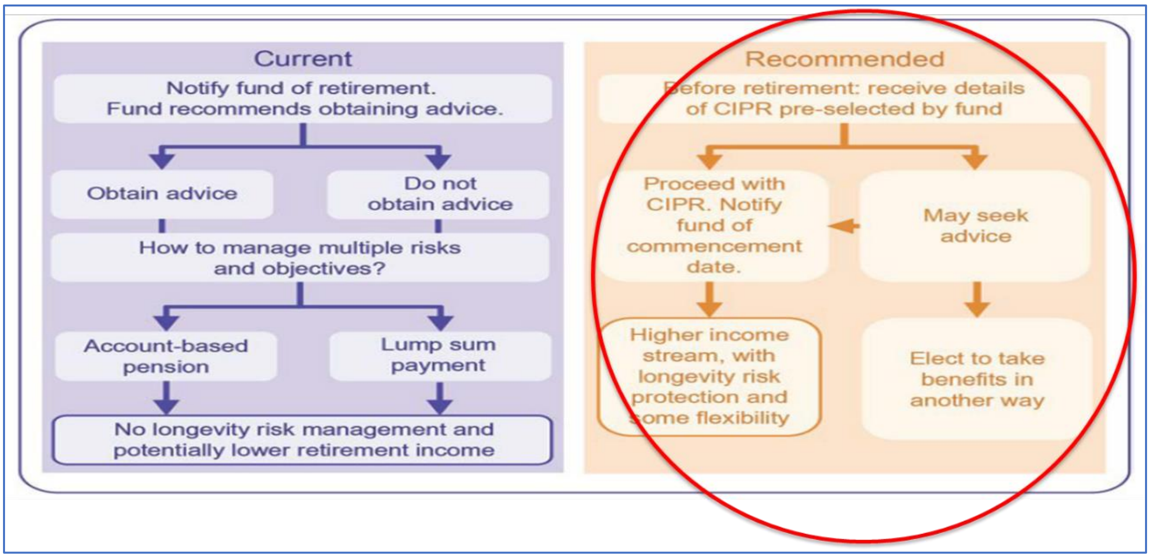
As with the accumulation phase, the decumulation or payout phase should make it as simple as possible for workers and consumers to navigate. A worker (and indeed employer) that has no real understanding of pensions should be able to be placed on a good default pathway – in much the same way that Social Security offers them a simple (and single) basic

[85] Horneff, Maurer and Mitchell 2019 'Automatic enrolment in 401(k) annuities: Boosting retiree lifetime income, Economic Studies at Brookings – which builds on earlier related work in Horneff, Maurer and Mitchell 2018 'Putting the Pension Back in 401(k) Retirement Plans: Optimal Versus Default Longevity Income Annuities' CFS WP 607.

option. Choice and flexibility can easily be built in for anyone who would like them. When contemplating expanding pension coverage to a broader percentage of the population the numbers who can navigate this complex area should be assumed to be low unless there is evidence to the contrary.

Australia has a large and long-standing pension industry. Governance has been a focus for the accumulation phase. But the payout phase gave people 100% lump-sums and total freedom to then approach the pay-out providers. A recent series of reviews, starting with Murray (2014) focused on improving the pay-out phase – and trying to leverage the good governance in the accumulation phase for the benefit of members in the pay-out phase. In this example, the people running the accumulation phase would be tasked with developing a default life-time income product for the benefit of members and then contract with potential providers to get the best deal. The central message here is that if there is a provider with good governance and some scale and expertise in the accumulation phase it may be very sensible to leverage those abilities in the payout phase – rather than have the typical separation of phases and providers seen in many countries. Figure 28 compares the current approach of superannuation funds which essentially leaves members to make a choice without help to the future envisaged process where the trustees would have developed a default income solution that members could use unless they wanted to choose.

Figure 28: Using good governance to create a default retirement income product



Source: Murray Review (2014). Note: CIPR is a 'Comprehensive Income Product for Retirement'

Another promising approach to tackling longevity risk is to allow some risk sharing between members in a defined group – while still benefiting from the pooling of mortality risk. This approach to variable life-annuities is not new and as Box 8 shows it has been used successfully in Sweden since they introduced their mandatory DC pensions in 2003. It is also what underlies the TIAA-CREF model – although the precise formulas and approaches underlying the payout structure are not known – which is why the Swedish example is so useful to study. The approach has recently been introduced by Singapore's Central Provident Fund – but there too the exact formula used, and mortality and discount rates adopted is not fully transparent (the Singapore approach in Box 9 also incorporates some nice clear and simple ways for members to understand different options).

The option of a default non-insured life annuity is an example of what part of the literature calls 'tontines'. This draws on an ancient concept of a non-insured annuity product whereby people chose to form groups who pool their assets for use of the surviving members so that the assets of those who die relatively young are used for the benefit of those that live longer. Different authors in the 'tontine' literature explore different payout formulas and assess their desirability relative to other options such as a standard single-premium life annuity or sometimes the self-annuitization option[86]. The standard annuity delivered by an insurance company clearly also benefits from recycling these mortality or survival credits but in a particular institutional and legal structure where the insurance company typically promises a specific payment profile and is legally required to deliver it.

A linked approach comes with proposals for 'Variable Uninsured Life Annuities' or Value annuities. Here members pool longevity risk to ensure that everyone receives income for their lifetime. That income can be higher than a traditional annuity and more secure than a scheduled withdrawal. Pension payouts adjust over time so that providers do not need to guarantee a fixed payout for 40 years at the time of purchase. The risk sharing features mean regulatory capital and solvency rules are not needed – making the system simpler and cheaper to run. Detailed modelling and regulatory and supervisory considerations have been developed in a report by the US Society of Actuaries and D3P Global in 2021.

Box 8: Sweden - benefits of a mandatory non-insured annuity with transparency

The Swedish mandatory private DC pensions (second pillar pension) has a mandatory pay-out that is a variable non-insured life-annuity. The Swedish Pension Agency have developed a life-annuity formula tailored to Swedish mortality data that calculates the annual payouts based on the remaining assets in the member account. Mortality data is updated every three years using data from the Swedish statistical agency, over which the pension agency has no control. The combination of clarity on formula and the use of external agencies to supply the critical data overcomes some of the governance and trust issues when an insurance company controls all of the mechanisms of variable and 'with-profits' types of policies. If there is no equivalent agency in a country, the work could still be done to create the country-specific formula and then contract with insurance companies to deliver the pay-outs based on that formula.

The formula essentially says that a given stock of assets will provide more income each year if interest rates are mortality rates are higher (and costs are lower).

$$D(x) = \int_0^\infty e^{-\delta t} \frac{l(x+t)}{l(x)} dt$$

$$\delta = \ln(1+r) - \epsilon$$

$$l(x) = \int_0^\infty e^{-\int_0^x \mu(t)dt}$$

The Swedish approach has an actuarial formula behind it – but no one needs to understand or choose to get the payout and it works very simply at low cost

$$\mu(x) = \begin{cases} a + be^{cx} & for\ x \leq 97 \\ \mu(97) + (x - 97) \cdot 0.001 & for\ x > 97 \end{cases}$$

Source: Swedish Premium Pension Agency Orange Report 2016

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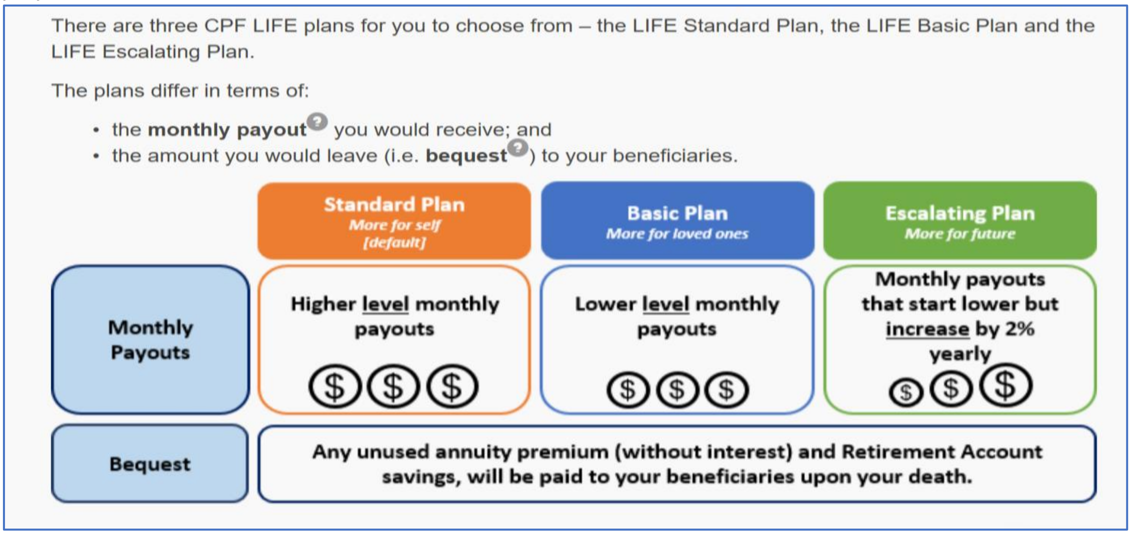
[86] For recent articles on tontines see Milevsky and Salisbury 2015 'Optimal Retirement Income Tontines' Insurance, Mathematics & Economics 64; Chen, Sehner and Rach 'On the optimal combination of annuities and tontines'; and an excellent CFA survey in 2019 by Richard Fullmer 'Tontines: A Practitioners Guide to Mortality-Pooled Investments'.

Box 9: Variable non-insured life annuities in Singapore

The Central Provident Fund in Singapore has developed improved payout phase options – based around three different variable non-insured life-annuity options known as 'CPF LIFE plans.' The example shows how good design and very simple presentation may be the most effective way to help members – rather than attempts to do expensive and extensive education to enable them to understand all the options and inputs. The basic presentation is set out below – and highlights a focus on income received, whether it will increase over time and the implications for the money you can leave your family as a bequest. The desire to leave a bequest is often given as a reason to avoid an annuity.

So, allowing this option for many CPF members helps to preserve the broad membership base. This helps to counter the effects of adverse selection on annuity pricing – where providers have to charge more / offer less income for a given payment because they have to guard against the fact that only people who are likely to live longer than average want to take out an annuity. The CPF provides a simple online calculator to translate the CPF balance into the income and bequest scenarios. Members can then make this simplified choice. What is less clear is how the product works 'under the bonnet'. It is based on a variable life annuity operating on current assumptions about mortality and discount rates – which can be changed in the future if needed. It is not clear how many members truly understand the nature of this mechanism – but the existence of the CPF as a trusted counterparty provides reassurance. In Singapore, the same institution covers the accumulation phase – but there is no reason why this kind of model could not be created in a country with multiple accumulation providers – all potentially lacking scale – with a new and distinct approach to pay-outs.



The 'traditional' option is still to use standard insured annuities. Annuities are effectively what governments provide in state or public pensions – a payout to a person until they die. The other ideas above are useful to provide another insured option (using the deferred annuity) or the non-insured variable annuity. But if a country has the mechanism to deliver annuities well – such as Chile with the use of an auction among providers– these remain a very legitimate option for a payout default or mandatory product. This is particularly the case if the mandated product includes benefits for spouses – since this is a very powerful policy to address gender inequity in the accumulation phase of pensions.

A final area to consider, is the potential for a revenue-neutral policy for public pensions to help individuals mitigate risks in the pay-out phase. In the US, Canada and the UK, it is possible to delay taking the public pension and receive an actuarially fair increase in the future pension for life. In the US if a worker delays taking their public pension from 62 (the earliest possible age) to 70, they will receive a pension that is 75% higher until they die[87]. Clearly, this is not possible for everyone. But someone with low savings who can still work or can fill the income gap to age 70 is able to effectively increase the level of life annuity income without needing to navigate the private annuity markets. In Canada, one can delay taking the Canada Pension Plan pension (their Social Security) and receive an increase of 0.7% a month. The pension must be taken by 70. So, the maximum pension increase from the current retirement age of 65 to 70 is 42%[88]. In the UK, each year that a person delays taking their pension leads to an increase of 5.8%[89]. Clearly the worker losses out on the pension for the years for which they defer, but as a way to boost the level of income that is guaranteed until death it is an extremely effective method[90]. Combined with the idea highlighted below for state pensions to be much higher at older ages such as 75 and 80 compared to 65 and 70, this shows how a better alignment of state and private pension policy could simplify the retirement income problem. It reduces the need for the private sector to provide annuities in cases where they were expensive or poorly delivered for any reason.

In the face of persistent demands for higher state or public pensions from an aging population, the concept of the 3rd and 4th ages of pensions can be used to provide a potentially powerful but relatively simple solution through better integration of public and private pensions. The idea of the 3rd and 4th age is that in the past getting to 65+ was a relatively rare occurrence and then people in general did not live for much longer. Now, getting to 65 and older is common and people often have a period of 10 to 15 years or more with good health when they are very active. The 4th age is then the relatively rare phase when health and capacity to manage risk is much worse.

The almost universal approach to public pensions is to pay them from a given age at the same level for everyone and then increase them all by the same amount each year. This means someone at 65 say or 70 who may well have some savings, or some continuing income, will be paid the same as someone who is 75, 80 or indeed 90 who may have no savings and no chance of working. One option would be for state pensions to start at a lower rate for people between say 65 and 75 and then rise significantly at older ages. This could be revenue neutral because the numbers of people who are 75 or 80 and above are much lower than those aged 65-75. Ordinarily this could be regressive because the rich tend to live longer. Tax policy and means testing can therefore be used to counteract this tendency although these do have implementation costs. The added benefit of such an approach would mean that private savings could be focused on a specific and limited period of time – for example between 65 and 75. Filling a 10 year gap is both technically and financial simpler than trying

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87 See for example Shoven and Slavov (2014) and Hubener, Maurer and Mitchell (2018).

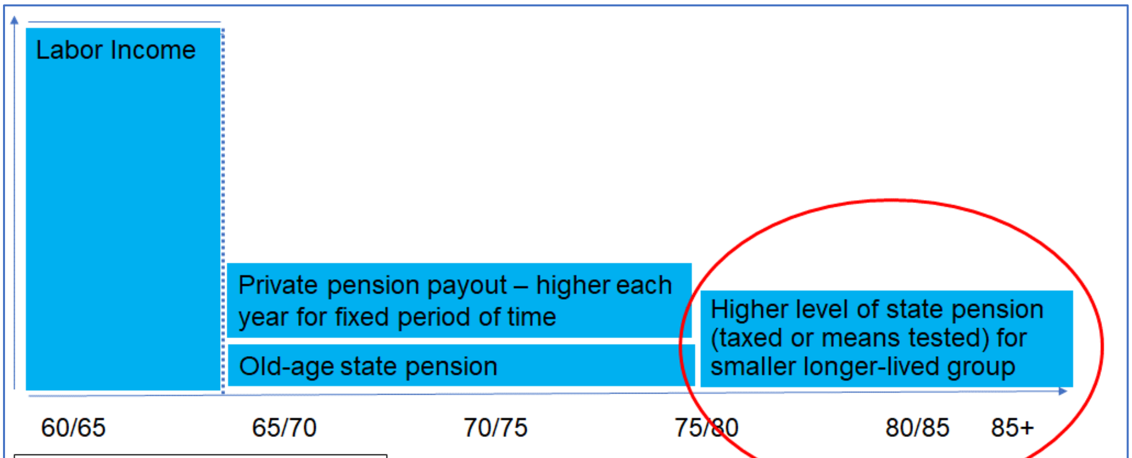
88 https://www.osfi-bsif.gc.ca/Eng/Docs/cpp27.pdf

89 See www.gov.uk/deferring-state-pension. Note that the increase for a one-year deferral used to be 10.8% but has been reduced to take account of increases in the level of pension payments and improvements in longevity. The final increase will be higher depending on the annual increase in pensions which can change from year to year.

90 This approach could also be used in relation to private Defined Benefit pension funds as well.

to convert assets into a lifetime income[91]. However, in the absence of such changes the priority for private and funded pensions is to provide an income in old-age and ideally until death. The example is shown in Figure 29.

Figure 29: How higher public pensions in the 4th age could simplify pension design



Source: Price (2017)

There are clearly many decisions to take, which can seem very complicated. Ultimately however, countries have to make a final decision on the key parameters. Box 10, 11 and 12 highlights the key decisions (or decisions in principle) made recently by Guernsey, the Republic of Ireland and the Dubai International Financial Centre (for expatriate workers) as they chart their own course on expanding workplace pensions through auto-enrolment.

[91] This idea is explored in more detail in Price (2017) which sets out the relative size of the young old-age and older old-age cohorts for a range of countries globally. This policy needs to be progressive – as do increases in retirement age. One way to ensure that increased retirement ages do not benefit the poor over the rich is to include rules for the maximum number of contributions needed (as many countries do). In this way, someone who started work at 18 and works for (say) 45 years can retire at 63 compared to someone starting to work at 22 (after potentially public funded university education) who would need to retire at 67. The key issue for both ages is that they rise as longevity rises. Clearly many people cannot reach 45 years of contributions – but the point is that whatever level of contributions needs to be reached triggers retirement – so that those people who start work early and perhaps have fewer years of education do not have to wait till the same age as people who had the benefit of more education and more formal jobs.

Box 10: Workplace reforms: Guernsey

Guernsey: The introduction of a secondary pension scheme incorporating auto-enrolment was agreed in February 2016 by the States of Deliberation. It will be known as 'Your Island Pension (YIP)' and was due to launch in 2022 – subject to final decision in by the States – and now the impact of Covid.

The drivers for change in Guernsey were similar to most countries in terms of demographic challenges. Research also showed that 60% of the working age population were not making any personal pension provision (broadly equivalent to the situation in Jersey). This meant people would be reliant on the States Old Age Pension and/or on income replacement benefits. A key aim was to explicitly diversify the future sources of retirement income and to have a clear balance between a government or public pension and a private pension led by employers and workers.

A range of options and delivery methods were reviewed – including compulsion and the use of the existing Social Security infrastructure for collection – before the final model was determined (subject to final agreement from the States). One reason for not using the Social Security infrastructure to collect contributions was the particular systems and processes in use. These would have made it difficult to provide the required speed and flexibility of contribution collection and payment to all employers along with voluntary contributions from employees without a significant change programme. Using a separate delivery system could also help to emphasise the difference between the public and private pensions.

Tenders were launched for service providers in June 2018, which led to a range of bids. SMART pensions – a Master Trust established to operate in the (new) UK autoenrollment market – was selected. SMART pensions is a combination of FinTech start-up with some backing from Legal and General Investment Management, JP Morgan and a large Australian administrator (Link).

Contribution rates will start at 1% of wages for workers – rising to 6.5% over 9 years, with employers ultimately contributing 3.5% of wages. Workers can keep existing plans if they meet minimum requirements. There is no minimum entry age planned – which will tend to expand coverage and contributions.

Given the current social security contributions of 6.6% of gross salary each for employees and employers below pension age (13.2%) the steady state total contributions including YIPS will be 13.1% for employees and 10.1% for employers (23.2% in total). Contributions are planned to cover earnings up to the Upper Earnings Limit (£146,328 in 2019).

The self-employed are not to be included in the first roll-out after initial ambitions to ensure they were covered. This was due to the well-known issues in relation to volatile income, absence of an employer and difficulties tracking and obtaining contributions from self-employed workers.

Box 11: Workplace reforms: Dubai International Financial Centre (DIFC)

The 'DEWS' (DIFC Employee Workplace Savings) Plan for expatriate workers went live at the start of February 2020, following passage of legislation in 2019. It is a Defined Contribution plan for expatriate workers, which replaces their entitlement to a Defined Benefit 'end of service' plan based on years of service and final basic salary. Citizens of the United Arab Emirates UAE) and Gulf Cooperation Council (GCC) are not included as they are covered by a (generous) social security scheme but can make voluntary contributions. The new 'DEWS' programme is expected to cover around 25,000 employees.

The DEWS is being introduced because it ***'supports DIFC's vision to drive the future of finance in the region by reforming the end-of-service benefit arrangement to align with global retirement saving standards'***. (DIFC)

The minimum employer contribution rates were calculated to 'broadly match' the costs of minimum accrual rates under the existing Defined Benefit end-of-service plan. In the DEWS employers need to make mandatory contribution of:
- 5.83% of basic salary for members with less than 5 years' service; and
- 8.33% for members with 5 years' service or more.

The pension value chain behind DEWS is delivered by externally procured providers who will all be regulated by the DIFC (in addition to any other 'home' regulator). Equiom (Isle of Man) Limited (DIFC Branch) has been appointed as the Master Trustee. Equiom will be the legal owner of the contributions made by the employing companies in the DIFC, with the contributing employees as the members with the beneficial interest.

Mercer provide investment advice to Equiom as Master Trust. There is a default fund alongside a range of funds with different risk profiles and also a Shari'a compliant option. The DEWS Plan Administrator is Zurich Workplace Solutions (ZWS). Zurich support the plan with a contact centre and a DIFC based team. Smart Pension as technology services provider.

The annual charge is 1.33% of AUM for the default fund option inclusive of all trust costs, administration cost and investment management charges. No other charges are permitted such as entry or exit fees, switch charges and fixed annual fee. As highlighted above in the fees and charges section, a fee of 1.33% is well above what can be achieved in multiple large and small jurisdictions.

There is a DIFC Supervisory Board that will oversee the DEWS governance and financial aspects that are not covered by the DIFC's regulation. So, it will cover the appointment of the trustee and administration service provider and the overall Scheme Deed and Rules. The Supervisory Board will have employee and employer representatives as well as DIFC representation and an independent Chair.

Box 12: Workplace reforms: Ireland

The Irish Government set out a 6 part Pension Road Map in February 2018 that included introducing auto-enrolment – alongside reform to public and existing private pension plans and supporting fuller working lives. In August 2018 they published a 'Strawman' consultation on autoenrollment – setting out initial views on features such as contribution rates and coverage and the approach to administration and investment. On 31 October 2019 they published final decisions on most of the features for auto-enrolment, with a few issues still under discussion such as the payout phase and the size of the state contribution (a €1:€3 match was included in the strawman).

The basic model that has now been announced, with the main features:

Target membership for autoenrollment will cover people from 23 to 60, with a relatively high salary minimum of €20,000. Many lower income people will not be included automatically.

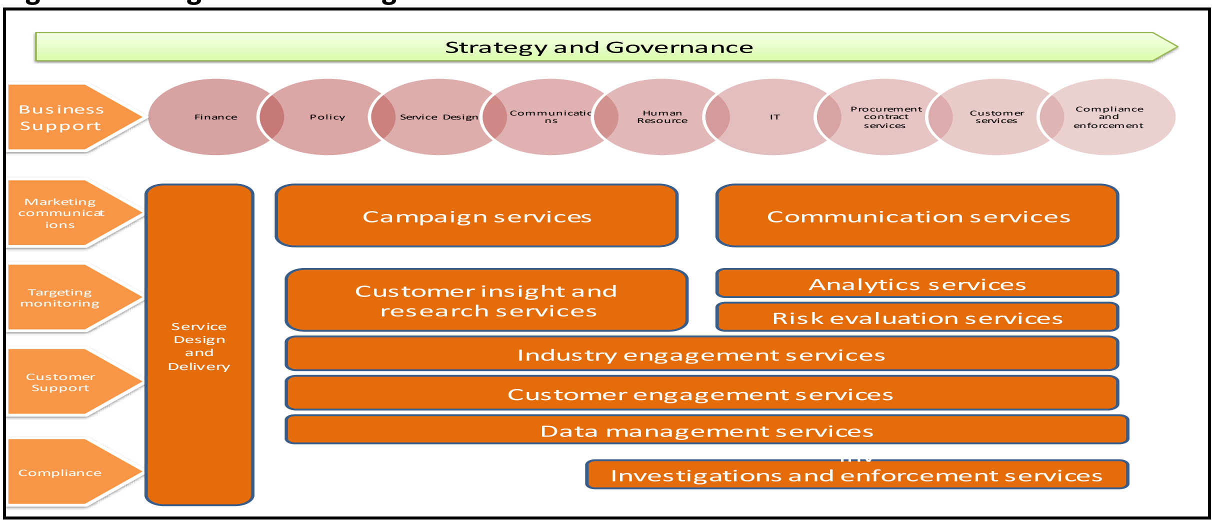
Contributions for employees will start at 1.5% of salary a year and ultimately rising to 6% after 10 years. Employers will make matching contributions up to a qualifying threshold of €75,000.

Administration will be via a new Central Processing Authority (CPA) - to be established by the Government. It will set out minimum standards for default retirement products and select Registered Providers for those products. Ireland does have large existing occupational pension plans, as well as many very small ones, but the need for a simple way to deliver a lifetime pension account without multiple providers and high switching costs influenced the creation of the Central Processing Authority.

Fees in total for administration and investment management are to be capped at 0.5%.

The final area for discussion is vital but at this stage just needs to be highlighted. Any change that requires a mix of strategy, policy, analysis, stakeholder engagement and operational changes will require high-quality programme management. An integrated approach is shown at Figure 30. A number of countries have seen failures on sensible reforms because a pension regulator or supervisor was not in place before the new system went live. Others have under-estimated the operational impact of changes. They had a good plan but did not have the right mix of skills. The key element to note is that the overall strategic decisions in 2022 get taken alongside the correct resourcing of the programme to implement them.

Figure 30: Programme Management is central to success but often overlooked



Source: D3P Global

Conclusions and Next Steps

This report aims to identify some key metrics for policy success and a range of ideas that could help achieve these outcomes tailored to Jersey. The work is designed to stimulate debate and help create a consensus around core ideas to work into more detailed policy options. There should then be more detailed impact analysis on leading options. This will be an important part of follow-up work once initial strategic and political steers have been provided.

The key potential policy and delivery choices are summarized briefly below (and in Box 1 in the Executive Summary above). As well as having different economic impacts they also raise political considerations. One overarching issue is the appropriate balance between the Government, individual and employer in delivering income in old-age. Another is whether it is politically desirable to have people on very low earnings brought within the scope of expanded pension provision given scarce current income and the potential impact on future benefit entitlements. The 'Outcomes-Based' framework aims to help these decisions by looking at what different options might mean for: improving the coverage of old-age income; improving the adequacy or income level; the impact on the sustainability of government, employer or employee finances; the potential gains from improved efficiency through lower costs or better returns; and finally the necessary foundations for ensuring money saved now is secure for decades to be delivered as income in old-age.

There are then some ideas which should not be lead contenders for major reforms as they do not have good evidence that they can have a major impact. These include:

- Financial education and literacy initiatives (but which can support other changes);
- Home equity release; and
- Enhanced tax incentives or looser product rules for pension access.

Turning to key potential options, improving financial independence in old age can be achieved in different of ways – and could combine a number of them. There are options related to Social Security such as:

- Enhancing or extending Social Security;
- Improving incentives to delay taking Social Security in order to increase future payouts and restricting early retirement for those without significant assets;
- Improving incentives for low value (below LEL) contributions to Social Security;
- Potentially shifting the profile of Social Security payments so that they are higher for 'older' old age when people are more likely to have exhausted savings – and correspondingly relatively lower at 'early' old-age;
- Reviewing the number of years required to achieve a full contribution record; and
- Reviewing voluntary contributions requiring the full 12.5% of salary given that few make them.

Key ideas to enhance private pension savings focus on:

- Mandatory or auto-enrollment into a workplace pension – which could be a Defined Benefit, a risk sharing or a Defined Contribution product – with different implications for the relative balance of risk between the Government, employers and individuals;

- Changes to the value chain for delivering pensions so that economies of scale in administration and investment can be leveraged to reduce costs whilst still getting best in class asset management – and thereby boosting pensions for a given contribution;
    - Leveraging Social Security Infrastructure, tendering for a large single provider with fee controls or leveraging existing large and good quality providers in the public and private sectors with a backstop or default fund;
- Enhanced digital enrolment that can improve workplace pensions but also offer new options for lower cost voluntary savings for informal workers without employers;
- Improved delivery of incentives through matching of contributions by members rather than only using tax relief; and
- Enhanced payout options that can help to deliver income until death but incorporate risk sharing to improve the payouts relative to current annuities.

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- Population Estimates 2018

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Annex A: Country Cases

United Kingdom Summary

The Pensions Commission (Lord Turner) was established in 2002 to consider the impact of an ageing society on pension savings – reports in 2004 and 2005 recommended:

- Simpler State Pension
- Increased State Pension Age
- Automatic Enrolment of eligible workers into workplace pensions

The Automatic Enrolment Programme was established delivering:

- a duty on all employers *to automatically enroll* all eligible jobholders into a qualifying workplace pension scheme and pay a contribution;
- 'National Employment Savings Trust' (*NEST*) - a new low-cost, simple to use multi-employer occupational pension scheme, with a public service obligation to accept any employer who chooses to use it; and

'a *compliance and enforcement regime*' - a proportionate regime run by the Pensions Regulator to support and supervise employers in delivering these workplace pension reforms.

Feature	Summary
2nd Pillar – Automatic Enrolment	From October 2012 it was mandatory for employers to obtain and offer a pensions scheme to their employees, providing the met age and earning criteria. They employer must also contribute to the scheme. If an employer fails to meet their duties, they are liable for a fixed penalty fine (£400) and a potential additional daily escalating fine (between £50 - £10,000 per day depending on employer size) for failure to comply. Employees have an option to opt out and around 9% have opted out.
Coverage	Prior to the Introduction of Automatic enrolment, 46% of workers were saving, this has risen to 78% by 2020. The imbalance between female and males has corrected, both now saving at 85% of the workforce in the public sector but with some gaps still among private sector workers. There has been a marked improvement with younger savers. 22-39 year olds have seen coverage of eligible workers (a subset of all workers) increase from 24% in 2012 to 84% in 2020. From 2012 there were over 10 million workers automatically enrolled into a workplace pensions scheme.
Employee eligibility criteria	Employees aged between age 22 and statutory retirement age, with annual earnings of more than £10,000 are automatically enrolled. Employees with earnings below the stipulated threshold but above the LEL (£6,136 in 2019/2020) can apply to join and enjoy employer contributions. Employees with earnings below the LEL can apply for voluntary participation but will not necessarily enjoy employer contributions. In 2017 an Automatic enrolment review was undertaken, and it was recommended that the age criteria be moved to 18, and the LEL for contribution collection be reduced to £1. These recommendations are still under consideration from the UK government.

Schemes	The pension savings market in the UK is a mixture of defined benefit (DB), defined contribution (DC) and hybrid type schemes. Historically it was dominated by DB schemes which since the introduction of automatic enrolment this has seen a marked shift to DC schemes and predominately master trusts.
Contributions	Employers and employees contribute, with the government providing a tax relief. Contributions have been phased over the delivery of automatic enrolment, starting at 2% (and rising to 5% in 2018 and 8% in 2019 (4% employees, 3% employers and, 1% government).
Contribution income base	Banded earnings of employees between LEL and UEL are set to calculate contributions from: (pre-tax) annual earnings of £6,136–50,000 in 2019/2020. Only earnings higher than £6,136 are counted in the contribution base.
Target rate of replacement	Current overall net pensions replacement rate for the UK, as published by OECD is circ. 30% for the basic state pension as a share of average earnings.
Tax system and incentives	EET regime, with a government tax relief of 1% of income and 25% tax free lump-sum.
Pay-out phase	Generally, age 55 at the earliest rising to 57. Income taken out after this is taxed, but up to 25% lump sum available tax-free. No new pay-out options introduced – but separately in 2015 longstanding requirement to take an income removed.
State pension age	Now set at 67 years old. For those born before 5th December 1953, they are still eligible to retire at 65.
State Pillar	Flat rate full single state pension, £168.60 per week, to qualify you must have paid 35 years national insurance contributions. A minimum of 10 years contributions is required. If a person decides to delay claiming their state pensions this will go up by 5.8% per year until they commence drawdown.
Management charges	A charge cap was introduced on the 6th April 2015. The charge cap is 0.75% of funds under management within the default arrangement, or an equivalent combination charge. NEST (see below) established to operate with 0.5% maximum fees.
Government 'Default' Scheme	National Employee Superannuation Trust, (NEST) was introduced by the UK with a public service obligation requirement. This means any they are not allowed to turn away any employer who wishes to use them for Automatic enrolment purposes. This was done as the UK government was concerned commercial providers would only want to enrol more profitable employers. The NEST setup was funded by way of a loan from the government to NEST which is paid back over time through profits.
Gov agencies with role in reg/oversight	Department of Work and Pensions (DWP), HM Revenue & Customs (HMRC), The Pensions Regulator (TPR), Financial Conduct Authority (FCA).

New Zealand Summary

New Zealand implemented pensions reforms in July 2007 to address the lack of personal savings for retirement, the challenge of an aging population and the impacts that would have on the state pension system. KiwiSaver (KS) was established. It was the first successful automatic enrolment approach, requiring employers to enrol workers into a pension scheme, to contribute but to allow workers to opt out if they so wished.

New Zealand designed and implemented KiwiSaver within the tax system. The Inland Revenue Department, designed a central administration system to auto enrol workers and facilitate the contributions from employers and employees to a chosen or default provider.

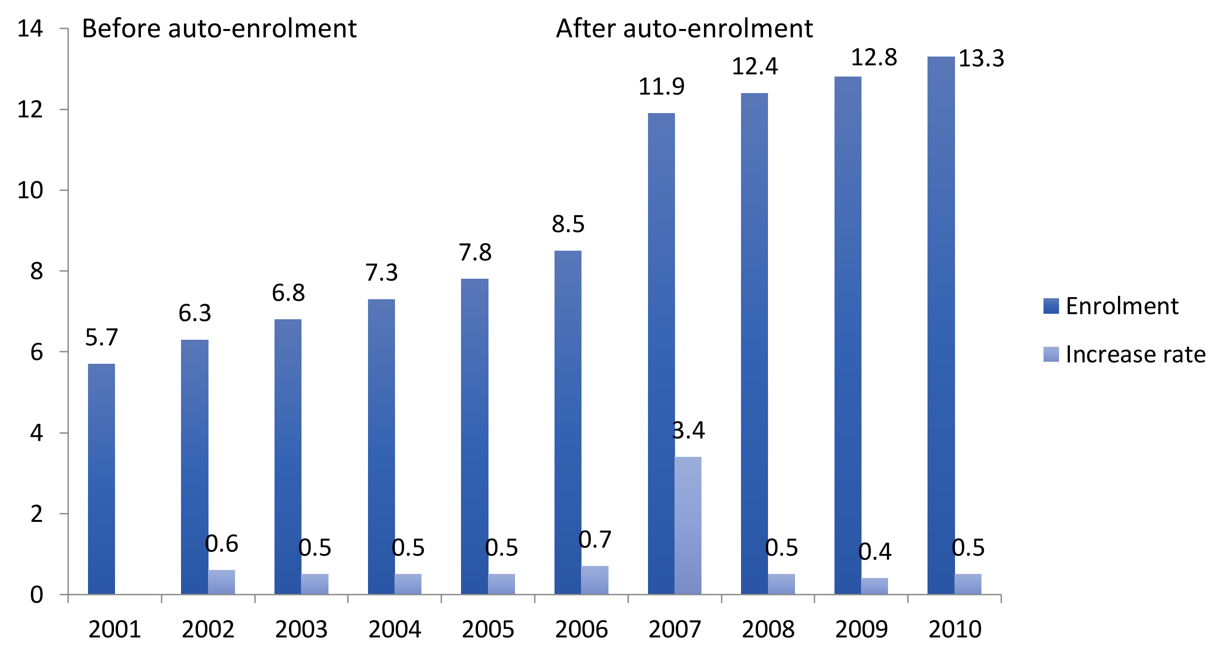
Scheme providers were contracted (licensed) to the government to provide KS schemes to workers. If a worker opted not to choose a scheme, 8 default providers were set up on a carousel basis to accept members.

Additional features were added to the KS scheme where members may be eligible for a first home deposit grant or a drawdown to pay toward you mortgage.

Feature	Summary
2nd Pillar – Automatic Enrolment	From July 2007 it was mandatory for employers to obtain and offer a pensions scheme to their employees, providing the were 18 years old or up to 65 years of age. The employer must also contribute to the scheme. If an employer fails to meet their duties, they are liable for fines. Employees have an option to opt out.
Coverage	Prior to the Introduction of KS, less than 30% of private sector workers were saving, this has now risen to just over 60%. Circ. 48% of 15 to 24-year-old adults have a private superannuation scheme. Total enrolment as at March 2019 stands at 2,934,268 against a country population of 4.9 million.
Employee eligibility criteria	Employees aged between age 18 and 64 years old, are automatically enrolled. Citizens aged outside those years are entitled to opt into the scheme. The person must be a NZ citizen.
Schemes	The savings market in NZ is a small mixture of defined benefit (DB), defined contribution (DC), master trusts. Private sector savers predominately save into a KiwiSaver scheme.
Contributions	Employers and employees contribute, with the government providing a government contribution. Contributions are 3% of wages for employees and 3% employers with the government contributing $512 NZD per year if a member contributes $1000 per annum. Previously the government provided a ‘kickstart’ one off lump sum of $1,000 for anyone enrolling or being auto enrolled into a scheme and $1,000 per year if a member contributed at least

	$1,000 per year. The government incentives are also available to self-employed citizens.
Contribution income base	Automatically enrolled in KiwiSaver if starting a new job with a new employer and your job is: • full-time • permanent part-time • a temporary contract for more than 28 days, or • as a casual agricultural worker for more than 3 months.
Target rate of replacement	Current overall net pensions replacement rate for the NZD, as published by OECD is circ. 40%.
Tax system	New Zealand operate a TTE system.
Pay-out phase	Generally, age 65 at the earliest. Income is tax free. There is no annuity market in NZ and savers have the freedoms to withdraw 100% if they so wish.
State pension age	Eligible from age 65.
State Pillar	Flat rate state pension, $950.84 NZD per fortnight single person living alone or with a dependent child (Gross). To be eligible you must have contributed for at least 10 years from the age of 20 with at least 5 years being in the period of 50 to 65. For a couple the rate is $720.84 each per fortnight.
Management charges	Variable. Circ. 1.50% as a share of AUM.
Government Default Scheme	There are currently 9 Default providers offering schemes to those employees who do not chose one. Inland Revenue will allocate them one of the 9 default fund schemes on a carousel basis. Members can transfer between schemes at any time. Employees are only able to have one KS scheme which follows them where every they are employed.
Gov agencies with role in reg/oversight	Inland Revenue Department, Work and Income Support, Financial Markets Authority, Commission for Financial Capability.

Italy Summary
Automatic enrolment was introduced nationally between 2006 and 2007 for all salaried employees. The requirement was to pay into a pension fund 7% of salaries and workers had a period of six months to opt out the new system. The reform aimed at 12.2 million private sector workers and several hundred of thousand companies. However, after the reform, coverage only increased by 3.4 percentage points of the working age population.



Source: OECD, Pension Outlook 2012

The increased in coverage experienced by Italy was well below expectations, and defied international experience. "*The great majority of enrolment came from explicit adhesion, not from auto enrolment*" (Rinaldi, 2011). Only 5% of new members came from automatic enrolment in the private sector in 2007. One of the main reasons for the low take up rate has to do with the way the new scheme was designed. In essence workers had to choose between their severance money and contributions to the pension system. Contributing to the new system meant that they had to forgo some of the severance payment if they were laid off, leading to a low take up rate due to uncertainties on the labor market.

Other possible design and structural factors that prevented Italy from success are related to a (i) high existing and competing social contributions, (ii) the reforms was introduced one year earlier than planned, (iii) problems with incentives for companies, and (iv) the international crisis could have possibly affected enrolment rates after 2007.

There are also key insights from the Italian case on the implementation of the reform. The lack of a proper communication strategy possibly affected its results. There was no major government-run information campaign that explained the benefits of the system. This was coupled with a sub-optimal definition of the default option and a contradictory set of incentives due to high costs for the government.

Annex B: List of Interviews and Meetings

Government of Jersey
Minister for Social Security, Deputy Judy Martin
Assistant Minister, Deputy Jeremy Maçon
Assistant Minister Scott Wickenden
Strategic Policy Director, SPPP
Policy Principal SPPP
Lead Policy Adviser, Financial Services
Head of Shared Services Centre, Treasury
Deputy Comptroller, Treasury
Assurance and Annuity Pension Manager, Treasury
Head of Treasury and Investment Management, Treasury and Exchequer (by phone)
Specialist Officer Pensions and Care, GoJ CLS
Head of Statistics Jersey
Statistical Officer

Jersey Financial Services Commission
Senior Manager Relationship Managed Supervision, Jersey Financial Services Commission
Head of Policy Unit, Jersey Financial Services Commission

Jersey Private Sector firms and representatives
Partner, Bedell Cristin and Chair Jersey Pension Association
Director and Head of Pensions, Fairway Pension Trustees Limited and Treasurer Jersey Pension Association
Business Manager, Jersey Business
Managing Director Rossborough Financial
First Actuary
Chief Executive Jersey Chambers of Commerce
Head of Legal and Technical, Jersey Finance
Operations Manager Jersey Finance
Chair of IoD Industry Sub-Committee: Jersey Finance Limited and Institute of Directors
Chief Governance Officer and Society Secretary, Cooperative Society

Annex C: Housing and Employment Categories in Jersey

Residential & Employment Status and Conditions	
Permanent Entitled	• Jersey-born and 10 years of combined ordinary residence; or • Not Jersey-born but ordinary residence taken up before the age of 16 and 10 years of continuous ordinary residence; or • Not Jersey-born but ordinary residence taken up before the age of 20 and 10 years of combined ordinary residence completed before the age of 40 (and having an Entitled parent at the end of those 10 years); or • Not Jersey-born but 30 years of continuous ordinary residence
Entitled	• Not Jersey-born but 10 years of continuous ordinary residence; or • On social or economic grounds and judged as being in the best interests of the community; or • On hardship grounds.
Licensed	• Appointment to a job that may only be undertaken by Licensed persons (and not having Entitled or Entitled for Work Only status).
Entitled for Work Only	• 5 years of continuous ordinary residence; or • The spouse or civil partner of a person with Entitled, Entitled for Work Only or Licensed status; or • A person divorced less than 5 years previously from a spouse or civil partner who has Entitled, Entitled for Work Only or Licensed status. • A person whose spouse or civil partner died less than 5 years previously and whose spouse or civil partner had Entitled, Entitled for Work Only or Licensed status.
Registered	• 3 months of continuous ordinary residence; or • An intention to be ordinarily resident for a continuous period of 3 months.

Annex D: A comparison of contribution rates to public pension across the European Union

Table II.1.7: **Contribution rates to the public pension system**

Country	Contribution rate: employers	Contribution rate: employees	State contributions		Contribution rate: self-employed
			Contribution rate	Other provisions	
BE	24.92% (for all Social security schemes)	13.07% (for all Social security schemes)	-	In the wage earners' scheme, social spending is also funded by State subsidies (10.5% of total in 2016) and alternative funding (10.4%) - mainly share of VAT revenues.	In 2017, 21% for revenues from 13,296 to 57,416 EUR and 14.16% for revenues from 57,416 to 84,613 EUR.
BG	7.7% in 2017 and 8.3% in 2018 and beyond (born after December 1959) / 10.5% in 2017 and 11.1% in 2018 and beyond (born before January 1960)	6.1% in 2017 and 6.5% in 2018 and beyond (born after December 1959) / 8.3% in 2017 and 8.7% in 2018 and beyond (born before January 1960)	-	State commitment for covering the deficit on an annual basis.	For persons born before January 1, 1960, 18.8% of declared covered earnings in 2017 and 19.8% in 2018 and beyond; for persons born after December 31, 1959, is 13.8% of declared covered earnings in 2017 and 14.8% in 2018 and beyond
CZ	21.5%	6.5%	-	Balance of pension system is part of general governement budget.	28%
DK	-	-	-	-	0
DE	9.35%	9.35%	-	State subsidies with annual indexation. "Sustainability fund" fluctuating between 0.2 and 1.5 of monthly pension expenditures. Contribution rate is set to meet this requirement.	18.70%
EE	20% (if not participant to the 2nd pillar); 16% (if participant to the second pillar)	-	-	-	20%
IE	Varies	Varies	-	Social Insurance Fund and Social Assistance Fund (used to finance other social benefits in addition to pensions). Shortfalls met by Exchequer.	4% of covered income
EL	Main pensions 13.33%; Auxiliary pensions: 3%	Main pensions 6.67%; Auxiliary pensions: 3%	-	National budget / other sources	20%
ES	Private sector: 23.6%	Private sector: 4.7%	-	Central governement transfers amount to 12.16% of total expenditure.	29.80%
FR	Private sector (CNAV): 10.45% up to the Social Security Ceiling (SSC), plus 1.9% above the SSC in 2017	Private sector (CNAV): 7.3% up to the social security ceiling (SSC), 0.4% above the SSC in 2017. Reduced contribution rates are applied to some specific groups (artists, journalists and part-time medical workers)		Pensions Reserve Fund and Old-age solidarity fund.	17.75% up to the SSC, plus 0.6% above the SSC in 2017
HR	-	20% (public PAYG scheme participants only); 15% (participants in both public PAYG scheme and mandatory fully-funded DC scheme)	-	Government committed to cover deficits.	20% (public PAYG scheme participants only); 15% (participants in both public PAYG scheme and mandatory fully-funded DC scheme)
IT	23.81%	9.19%	-	Residual fuding (pension expenditure exceeding contributions) funding by the State.	Around 22.2% in 2014, gradually increasing to24% in 2018, 23.1% in 2016
CY	7.8%	7.8%	4.6%	Reserve fund.	14.6% of insurable income
LV	20% (if no participation in the 2nd pillar (FDC)	-	-	Contributions from the state and special budgets are paid in certain cases such as child care or unemployment benefit recipients, also maternity, sickness, etc	20% if no participation in the 2nd pillar scheme or 14% for participants of 2nd pillar
LT	22.3%	3% (1% for participant in the private 2nd pillar)	1%	-	25.3% based on 50% of declared earnings
LU	8%	8%	8%	Buffer fund of at least 1.5 times the amount of annual benefits.	16%
HU	27%	10%	-	-	10% of declared monthly earnings and 27% of declared monthly earnings in the form of a social contribution tax.
MT	10%	10%	10%	-	15% of the annual income that is subject to the same ceiling that applies to employees
NL	-	17.9%	-	Government supplements shortfall between expenditure and funds raised by the 17.9% tax levy.	17.90%
AT	Between 12.55% and 20% (according to status)	10.25%	The differences to the standard contribution rate of 22.8% for farmers, self-employed in the liberal proffesions are borne by federal transfers.	Federal budget covers the deficits in public pension schemes.	18.50%
PL	9.76%	9.76%	-	Demographic Reserve Fund.	19.52%
PT	23.75%	11%	-	Social Security Trust Fund.	29.6% or 34.75%
RO	Between 15.8% and 25.8% (according to working conditions)	10.50%	-	State provides funds from the national budget to cover the public pension system deficit.	10.5% or 26.3%
SI	8.85%	15.50%	-	State provides funds from the national budget and other sources to cover the difference between the Institute's revenues from contributions and other sources, and the Institute's expenditures.	24.35%
SK	Varies according to status and participation to the 2nd pillar. 14% if not participating to II pillar	Varies according to status and participation to the 2nd pillar . 4% if not participating to II pillar	Varies according to status and participation to the 2nd pillar	-	18%
FI	National pensions: abolished in 2010. Earnings-related pensions: from 17.75% to 23.7% (according to sector)	Earnings-related pensions: 5.55% (18-52 years old) / 7.05% (53-68 years old)	20.4% for State pensions	Nations pensions: funding from the State at 100%. Earnings-related pensions: 25% of private sector pension are prefunded.	
SE	9.04%	6%	"Employer contribution" for social insurances	Buffer funds.	17.21%
UK	13.80%	Varies according to status and earnings	-	Occasional top-ups to the National Insurance Fund if reserves fall below a threshold recommended by the Government Actuary Department.	From 9%
NO	PAYG system without earmarked tax going to pensions.	PAYG system without earmarked tax going to pensions	PAYG system without earmarked tax going to pensions	State Pension Fund contributes to financing governement (pension and other) expenditures.	11.40%

(1) When several schemes prevail, the information reported refers to the main (general regime) pension scheme.

Source: Commission services, EPC.

Source: European Commission Aging Report 2018

Annex E: A comparison of public and private pensions in the European Union

Table II.AII.1: **Pension schemes in EU Member States and projection coverage**

		Public pensions[3]					Private pension scheme		
Country	**Pension scheme**	**Minimum Pension[4]**	**Old-age pensions**	**Early retirement pensions**	**Disability pensions**	**Survivors' pensions**	**Occupational pension scheme**	**Mandatory private individual**	**Voluntary private individual**
BE	DB	MT - SA	ER	ER	ER priv FR self-emp	ER	M* priv V* self-emp	X	Yes*
BG	DB	MT - SA	ER	ER	ER	ER	V*	Yes*	Yes*
CZ	DB	X	ER	ER	ER	ER	X	X	Yes*
DK	DB	FR & MT suppl.	FR & MT suppl.	V	FR	FR	Quasi M	X	Yes*
DE	PS	MT - SA*	ER	ER	ER	ER	V*	X	Yes*
EE	DB	MT - SA	ER	ER	ER	ER	M*	Yes	Yes*
IE	Flat rate + DB	MT - FR & SA	FR	FR - MT	FR - MT	FR - MT	M pub V* priv	X	Yes*
EL[1]	Flat rate + DB + NDC	MT - FR	FR - ER	FR - ER	FR - ER	FR - ER	X	X	Yes*
ES	DB	MT	ER	ER	ER	ER	V	X	Yes
FR[2]	DB + PS	MT - SA	ER	ER	ER	ER	V*	X	Yes*
HR	PS	ER	ER	ER	ER	ER	V*	Yes	Yes*
IT	NDC	MT - SA	ER	ER	ER	ER	V*	X	Yes*
CY	PS	MT & ER	ER	ER	ER	ER	M* - pub V* - priv	X	Yes*
LV	NDC	FR - SA	ER	ER	ER	ER	X	Yes	Yes*
LT[6]	DB	SA	ER	ER	ER	FR - ER	X	Quasi M	Yes*
LU	DB	MT - SA*	ER	ER	ER	ER	V*	X	Yes*
HU	DB	MT - SA	ER	ER	ER	ER	V*	X	Yes*
MT	Flat rate + DB	MT - SA	FR & ER	X	FR & ER	FR & ER	V*	X	Yes*
NL	DB	SA	FR	X	ER	FR	M	X	Yes*
AT	DB	MT - SA	ER	ER	ER	ER	V*	X	Yes*
PL	NDC	ER	ER	ER	ER	ER	V*	Yes*	Yes*
PT	DB	MT - SA[5]	ER	ER	ER	ER	M	X	Yes*
RO	PS	SA	ER	ER	ER	ER	X	Yes	Yes
SI	DB	MT - SA*	ER	ER	ER	ER	V*	X	Yes*
SK	PS	MT - SA	ER	ER	ER	ER	X	X	Yes*
FI	DB	MT	ER	ER	ER	ER	V*	X	Yes*
SE	NDC	MT	ER	ER	ER	ER	Quasi M	Yes	Yes
UK	DB	FR & MT - SA	ER - V	X	ER*	ER	V*	X	Yes*
NO	NDC	FR	ER	X	ER	ER	M*	X	Yes*

Source: European Commission Aging Report 2018