

2016.11.01

3.11 The Deputy of Grouville of the Minister for Treasury and Resources regarding freedom of access to private pension pots: [9693]

When is the Minister intending to reach a decision on whether Jersey will follow the U.K. in providing freedom of access to private pension pots?

The Connétable of St. Peter (Assistant Minister for Treasury and Resources - rapporteur):

I am pleased to advise the Deputy of Grouville that in the 2017 Budget that has recently been lodged, the Minister for Treasury and Resources has proposed another step forward in creating greater flexibility in retirement. Back in 2003, Jersey was ahead of the times in creating approved drawdown contracts. This is a mechanism through which individuals could have unlimited access to their pension funds on the proviso that they could prove that they would have sufficient income in retirement, this to limit the risk that they would fall back on the States for financial support later on in life. Tax is payable on whatever they draw out. Since last year, 2015, we have seen their usage increase, where individuals have been permitted to take a tax-free lump sum for entering into an approved drawdown contract. However, in the 2017 Budget it is proposed that we go further, and in addition to the existing income test, a capital test would also be introduced. This will enable those who have built up a safety net of capital assets to realise them in order to support themselves financially through their retirement and thereby gain access to the flexibility of drawdown contracts. This is responsible pension freedoms, allowing people to access their pension funds where the risk that they will fall back on the States for financial support later in life is extremely low. There will be a high bar test to ensure that future generations are insulated from having to support those who might choose to squander their pension savings. I hope Members will support the proposals in the forthcoming budget debate in December.

3.11.1 The Deputy of Grouville:

I find the Assistant Minister's terminology somewhat patronising, in that his department seems to expect that anyone with access to their pension pot is going to fall back on the States and squander their retirement pension. Does it not occur to his department and him that people might wish to invest in more lucrative schemes than the returns - and some of them very modest returns - on a private pension pot, and can be better for the individuals, but would certainly be better for the economy?

The Connétable of St. Peter:

Unfortunately, I do not agree that the answer was patronising to people at all. I think what all of us should be interested on is protecting the taxpayer from having to support people who could have otherwise supported themselves. I do not really regard that as being patronising. Coming back to the second part of the question: should people be allowed to draw down some of the pension pot to invest in more lucrative investments in particular? The answer is I am sure that when they go through the high bar test, providing they can demonstrate that there will be good income coming from those which would insulate them from having to fall back on the States, that is something that Treasury will look sympathetically towards.

3.11.2 Deputy G.P. Southern:

Does the Minister not agree, I think I saw over half-term that in the U.K. there is a certain amount of rowing back from this provision, particular concerns about the mis-selling or mis-evaluation of packages? The question to the Assistant Minister must be what measures or what consideration has

been given in his budget proposals to this rowing back and these risks around certain issues concerning that?

The Connétable of St. Peter:

I thank the Deputy for that very good question. Certainly we are very alive to the issue in the U.K., which is the U.K. has taken a great risk in liberalising the ability for people to take back pensions, because many of those people are falling back on the taxpayer to support them in later life. We are very aware of that potential, which is why, as I said earlier in my speech, there will be a high bar that will have to be passed to enable them to draw down funds rather than just being able to draw them down willy-nilly, effectively, as they can currently in the U.K.

[11:00]

3.11.3 The Deputy of Grouville:

This stance, is it not “Nanny knows best” and is it not a case that we can and should be trusting an individual to be responsible for their own monies and not deprive them of further opportunities? Could the Assistant Minister please indicate who he is taking advice from? Is it those in the industry?

The Connétable of St. Peter:

In answering the first part of the question, I have to consider what working families are doing today out there, working very, very hard, paying their taxes into the system and protecting them from having to pay more taxes through any forms potentially to fund people’s lifestyles who have squandered their pension pots. I am interesting in protecting people from tax increases in the long term, rather than giving somebody a nice break when they squander their pension pot. The advice comes from the tax planning officers with the Treasury. We are being well-advised on it.