Fiscal Responsibility Panel

2018

Annual Assessment

Bermuda

David Peretz (Chair)
Peter S. Heller
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List of Acronyms

AML: Anti Money Laundering

BELCO: Bermuda Electric Company

BHB: Bermuda Hospitals Board

BHC: Bermuda Health Council

BMA: Bermuda Monetary Authority

BTA: Bermuda Tourism Authority

CARTAC: IMF's Caribbean Technical Assistance Center

CFATF: Caribbean Financial Action Task Force

COLA: Cost of Living Adjustment

CPF: Contributory Pension Fund

CPI: Consumer Price Index

CTF: Counter-terrorism Financing

EU: European Union

GEHI: Government Employees Health Insurance Fund

GDP: Gross Domestic Product

GST: General Services Tax

HIP: Health Insurance Plan

IMF: International Monetary Fund

LPG: Liquefied Petroleum Gas

MMLPF: Ministers and Members of the Legislature Pension Fund

OECD: Organisation for Economic Cooperation and Development

ORC: Office of the Registrar of Companies

OTC: Office of Tax Commissioner

PBWG: Pension Benefit Working Group

PRC: Permanent Resident's Certificate

PSSF: Public Service Superannuation Fund

SAGE: Spending and Government Efficiency Commission

SHB: Standard Health Benefit

SPR: Standard Premium Rate

TRC: Tax Reform Commission

Executive Summary

This is the Panel's fourth annual report. As in previous years we have had productive discussions with Ministers, officials and many others on the island and we are grateful for their advice, but all the judgements and recommendations are our own independent conclusions.

In our previous reports we highlighted Bermuda's vulnerability to external events and noted specific risks that could create a severe financial crisis. We have reassessed these risks: some can be or are being mitigated by determined government actions; others remain or have increased. And new ones will emerge. *But perhaps of greatest concern is the certainty of the island's shrinking workforce and rapidly ageing population.* This will put ever-increasing pressure on both taxes and spending. On present trends, Bermuda is heading for a downward spiral of demographic and economic decline.

The high level of government debt, unfunded pension liabilities and other contingent liabilities leaves the island extremely vulnerable. Deficit and debt reduction must therefore remain a high priority. We regret the Government's decision in the 2018 budget to delay achieving budget balance by a further year to 2020/21. *This target must now be met,* as well as the longer-term targets of reducing debt and debt service, respectively, to 80% and 10% of revenues. And this fiscal action needs to be complemented with policies to reinvigorate economic growth, including through a decisive change in immigration administrative practices and policies.

We make a number of suggestions and recommendations in this report to achieve these goals. The following key issues need to be addressed without delay.

- **Tax reform.** The Tax Reform Commission was mandated to propose ways to raise government revenues from the present 17% of GDP to around 20-22%; its proposals (on which we provide detailed comments) would take revenue to about 19%, and would be an important and welcome step. Many of the measures would move Bermuda's tax system towards a more normal combination of conventional income and sales taxes. *We recommend that the Government adopt and implement the package, or something like it, as quickly as feasible*, although we caution that the TRC's recommended timescale seems ambitious given capacity constraints and the likely timing of systems development at the Office of the Tax Commissioner.

  We also recognise that the Government faces a challenge in explaining the need for tax increases to the population and business. It would help if, as we recommend, they were accompanied by action on immigration, as also recommended by the Commission, and by equally firm steps to improve public sector efficiency.

- **Securing faster growth.** *This is a necessary precondition for all other aims*, including making effective progress in debt reduction. The government's aim of diversification away from reliance on insurance and tourism is sensible but will be easier said than done: the island has few natural advantages. But compared with many island competitors, Bermuda has a world-class legal and regulatory structure. The focus on attracting new fintech businesses is appropriate as long as care is taken not to attract activities that could carry severe reputational risk.

  The underdeveloped nature of domestic capital markets, and absence of a domestic market for start-up finance is a concern. We make three suggestions here. It would help greatly if, as elsewhere, there were a requirement for all companies to prepare annual financial statements. It would also help to have in place clear legal procedures for handling company failures. And we suggest that consideration be given to setting some form of target for domestic investment – in viable projects – by the island's private and public pension schemes.

- **Reforming immigration practices and policy.** *A precondition for faster growth is to increase the island's workforce.* It is the *only* realistic counter to the island's demographic challenge from a rapidly shrinking and ageing population. Immigrants and returning Bermudians with the right skills will help to create jobs, *not* displace them. We welcome the Government's evident determination to implement fundamental reform of its administrative practices and policies. The recent improvements in processing times for work permit applications are an excellent start but need to be urgently followed through with broader changes in administrative practices and policies, if Bermuda is to return to a sustainable economic and demographic trajectory.

- **Spending on health care.** This is now the largest single area of spending in the budget, and a rapidly ageing population will continue to put upward pressure on demand and costs. *An agenda for action, set out by the Ministry of Health and the Bermuda Health Council, exists: the government needs to proceed urgently*. Health care coverage should be compulsory, with subsidies being redirected to help those unable to pay premia; the basic health care package should be extended to encourage preventative care as well as access to providers offering effective disease management, while preventing or postponing the need for expensive hospital care. Any premium subsidies should be means-tested; and costs should be contained, if necessary by price controls, to reduce the excessive costs (when compared to costs elsewhere) of many forms of treatment on the island.

- **Government efficiency.** *We welcome the Government's bottom-up approach to improving efficiency,* moving resources to priority areas and looking for ways to improve efficiency across Government, in particular by seeking to develop effective and linked-up IT. We recommend appointing a "champion" (with possibly a separate champion for improved IT) in the Cabinet Office or Finance Ministry to drive the process and be held accountable for results.

- **Tackling unfunded pension liabilities.** Currently the territory's public sector pension schemes for its employees have an unfunded liability of around $1 billion. Unless tackled, this will be a burden on future budgets. In addition, the Contributory Pension Fund also has very large unfunded liabilities, and it is inconceivable the government would allow it to fail. So *debt reduction needs to be complemented by actions to address these deficits*. Actions that could reduce the need for sharply increased contribution rates include raising the retirement age (which would also mitigate the expected decline in the workforce); and, for public sector employees, basing pensions on the average of salaries over a 5-year period and actuarial pension reductions for early retirees.

- **A long-term debt reduction target.** These difficult medium and long-term issues facing the island are becoming increasingly apparent to all. So alongside action to achieve budget balance, *it would be a useful confidence-building measure to set a timescale for reaching the longer-term target of reducing debt to 80% of revenue*. We suggest it would be reasonable to set a target for 10 years from now, in 2028.

Taken together this is a challenging agenda. Work on much of it is already under way. The renewed impetus behind immigration reform is welcome. And the proposals of the Tax Reform Commission provide what up to now has been a missing piece in the strategy for achieving the government's targets for deficit and debt reduction. If tackled now and with determination, it is an agenda that will leave Bermuda safer and more prosperous.

A. Introduction

1. This is the Panel's fourth annual report and the first since our reappointment. Panel membership is expected to rotate in future but for 2018 remains the same as the last three years.

2. Our role as set out in our letters of reappointment is "to provide Bermuda's Parliament, Minister of Finance and Financial Policy Council with an annual published assessment of the territory's fiscal strategy, focusing on progress in meeting the territory's medium-term objectives for public spending, taxation, borrowing and debt reduction." We are therefore asked to review "progress towards the Bermuda Government achieving a balanced budget by fiscal year 2020/21" and "prospects for further progress towards meeting the aims of reducing debt and debt service to less than 80% and 10% of revenues." In making our assessments we are asked to "review the impact of the most recent Bermuda Government Budget; the credibility of macro and fiscal assumptions underlying Government projections; and the risks that could affect progress in meeting the territory's fiscal goals …[offering]…advice where needed on ways to refine these goals, and on adjustments to fiscal strategy and tax and spending policies needed to achieve them."

3. We have had helpful discussions with Ministers and their officials, and we would also like to thank many others on the island who have offered us information and advice either in face-to-face meetings or otherwise (a complete list is in Annex A). However, as in our previous reports, all the judgements and recommendations in this report are our own independent views.

4. Section B discusses progress since our report last year; section C discusses relevant external developments and reassesses the uncertainties and risks facing the island; and section D discusses developments in Bermuda's economy and sets our prospects for the fiscal position and debt under various scenarios. Sections E and F address the tax, expenditure and other measures now needed with some urgency if Bermuda is to improve its resilience, meet the Government's fiscal and debt targets and lay the foundations for future growth and prosperity. Section G discusses some other important long-term issues. Section H summarises our conclusions and recommendations.

B. Progress since the December 2017 report

5. In our 2017 report as in previous reports we highlighted Bermuda's vulnerability to external events, as a small open economy competing in a global marketplace. We identified and assessed a number of specific risks and uncertainties that could adversely impact the economy. In some circumstances, a severe financial crisis could result; this would affect the well being of all Bermudians, but particularly the most vulnerable. We concluded that the high level of government debt and other contingent public financial liabilities left the island poorly equipped to deal with the potentially severe financial and economic impact if any one was to materialise. We also noted that given likely future expenditure needs arising from an ageing population, the government can ill afford to continue spending such a high proportion of its budget on debt service.

6. Our views in this respect remain unchanged. Charts1a and 1b below update the figures for total Government net debt and the ratio of net debt to revenue. Table 1 illustrates the additional potential financial liabilities resulting from Government guarantees, and unfunded liabilities of public pension and health funds.

Chart 1a: Bermuda net government debt, $m

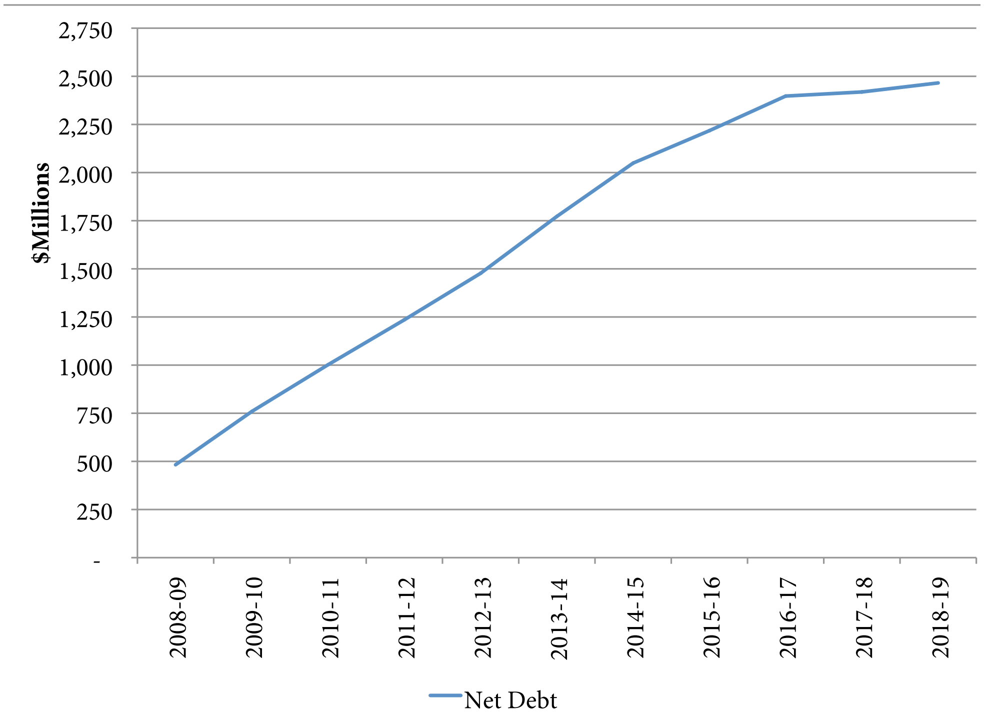


Chart 1b: Ratio of government debt to revenue, %

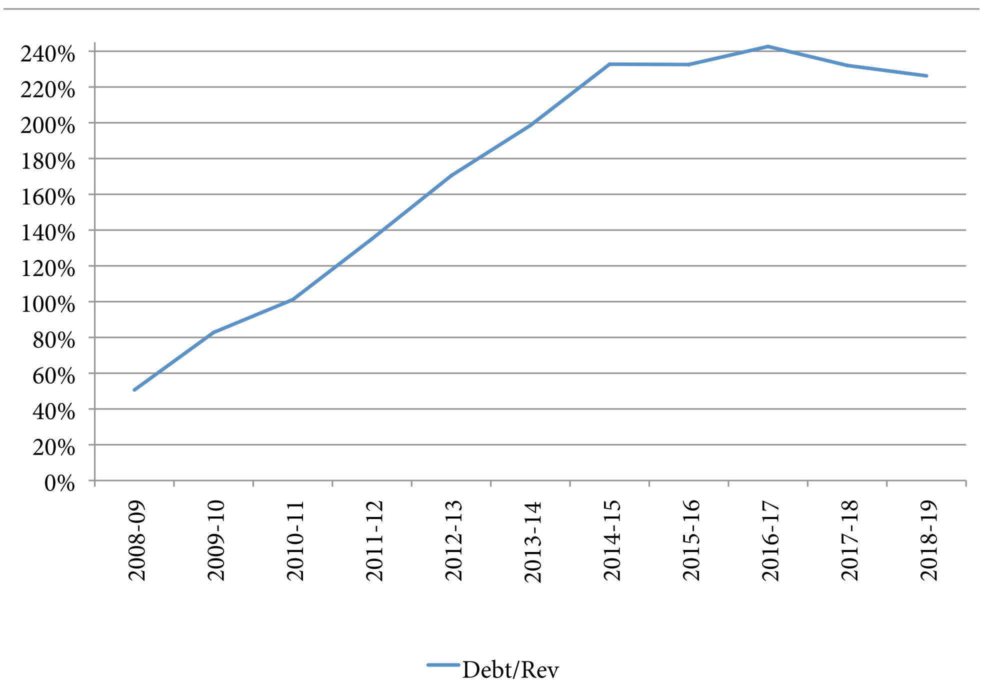


Table 1: Approximate Scale of the Government's Debts, Unfunded Liabilities and Outstanding Guarantees

(in B$ millions)

Explicit Debt	
Net debt of the Central Government (current)	2428
Outstanding Government Guarantees (current)	533
Net Unfunded Pension Liabilities for Government Employees (1)	975
Accrued Benefit Obligation for the Government Employees Health Insurance (GEHI) Fund (at 3/2018)	481
Implicit Debt	
Present value of unfunded net accrued benefits for the Contributory Pension Fund (CPF) (2014) (2) (3) (4)	500-1800

Notes:

(1) Estimate for the Public Sector Superannuation Fund (PSSF) (2017) and the Ministers and Members of the Legislature Pension Fund (MMLPF) (3/2018)

(2) Not a legal obligation of the Government

(3) Variance is a function of assumptions on the magnitude of future accrued benefits and contributions; latest actuarial estimates for 2014

(4) Explicit debt is the formal responsibility of the government. Implicit debts are obligations that in practice the government would be obliged to cover.

7. In our report last year we therefore regretted the slippage, agreed by the previous Government, from its target of a balanced budget of 2018/19. We welcomed what we understood to be the Government's aim of reaching a balanced budget by 2019/20, and to make progress thereafter towards the longer-term targets for the ratios of debt and debt service to revenues. We welcomed what we understood at the time to be the Government's intention to introduce a professional services tax as a possible precursor to a more comprehensive General Services Tax (GST). And we made specific suggestions for expenditure, revenue and other measures needed to meet the Government's short-term aims for budget balance and debt reduction and the longer term need to finance the costs of an ageing population, noting the critical role to be played by the Tax Reform Commission (TRC).

    - We reiterated our recommendation made in 2016 to unfreeze posts and increase resources of the Office of the Tax Commissioner (OTC), noting that additional resources for tax collection and enforcement should pay for themselves many times over in additional revenue.
    - With a current tax and social insurance contribution structure excessively weighted towards the taxation of labour and goods, which has the perverse effect of taxing companies that create employment while leaving those that do not largely tax free, we noted the need to look for sources of revenue that spread the burden more evenly and equitably across the economy.
    - A broader GST would spread the tax burden more widely and raise revenue from the sector that is likely to be the fastest growing sector of the economy in future. We also suggested looking for ways to tax companies that declare large profits and turnover on the island while providing little or nothing of substance by way of employment.
    - We argued the need for fiscal measures that address inequity in the distribution of income and wealth on the island. This should involve the taxation of dividend income, particularly where dividends are being taken as a form of salary payment, and some more general taxation of significant incomes from capital. Greater progressivity in the taxation of labour and possibly also in public pension and social insurance contributions would be desirable.
    - The government should continue to look for ways to increase economic growth. We welcomed initiatives to improve training and to diversify the island's economy by attracting new industries as well as building on existing areas of business. Faster growth will ease the fiscal situation as well as improving the well being of all Bermudians.
    - As we stressed in all our previous reports, given demographic trends, it will be critical to success to adopt an immigration policy and welcoming attitude that encourages qualified and skilled people of working age (including returning Bermudians) to come to the island, whether as employees or to establish new businesses, and to stay. This would also help improve the sustainability of the island's pension and health insurance arrangements. We welcome the renewed impetus for reform in this area and the government's recent efforts to streamline processes and reduce the bureaucracy involved in obtaining work permits.
    - We also made recommendations about two policy areas that will be hugely important over the medium and longer term:
        - The island's costly healthcare system risks overwhelming the budget and the whole economy as the population becomes increasingly elderly and frailer, with more and more requiring long-term care. We said it would be important to pursue with determination measures to control and reduce costs and to better target government subsidies to those most in need.

- Both the public-sector pension schemes and the Contributory Pension Fund (CPF) remain substantially underfunded. We said it would be important to address this over time with a range of measures that should certainly include, as in other countries, a rise in the retirement age – a measure that also has the merit of increasing the working age population.

8. Policy developments over the past year have turned out to be different in many respects from what we anticipated last December. The fiscal targets set for 2018/19 and projected for subsequent years in the 2018 Budget represent a significant step back from those set out in the 2017 Budget. This is true both for revenues and spending: for 2018/19, the 2018 budget projection for revenues is $20m lower than the projection made in 2017, and current spending is projected to be $24m higher. And the target year to reach a balanced budget has been postponed, again, to 2020/21. These changes in the fiscal outlook reflect a number of budget decisions.

- On the revenue side these included decisions not to proceed with a professional services tax or the previously planned second stage of payroll tax reform, and a number of payroll tax concessions. These reductions in revenue were to some extent offset by imposition of a temporary tax on commercial rents, an increase in cell phone fees, and a proposal to tax notional salaries paid as dividends (which was expected to raise an additional $10m in revenue over the course of 2018/19).
- On the expenditure side the increase in 2018/19 is more than accounted for by the need to restore the one year holiday in subsidy to the Bermuda Hospital Board (BHB) taken in 2017/18 to make use of surplus cash accumulated by the BHB. Elsewhere the aim was to rebalance expenditures to focus better on activities likely to support growth and reduce inequalities while cutting waste and inefficiencies.

9. A number of other relevant policy changes and developments were announced in the Budget statement or elsewhere over the last year.

- Introduction of a new sugar tax (from October 1) and increases in tobacco taxes, as health-related measures.
- The relaxation of the 60/40 rule to encourage foreign investment, together with the clear signals given in the Budget Statement about moving to a more open immigration policy.
- The unfreezing of positions and agreement to additional resources in the OTC and other actions that begin to address recognised weaknesses in OTC's capacity and procedures; also the appointment of a new Tax Commissioner and some reductions in the amount of outstanding accounts receivable.
- Most recently, the report of the TRC, published on November 16. This clearly has major implications for this report. The Commission recommends some new taxes (inter alia, on nonessential services, rental incomes, and some interest and dividends) and modifications of existing taxes (on foreign currency purchases, registration fees for larger foreign companies, increased financial services taxes, and payroll taxes). The proposals seek to substantially increase the revenue share, add to the progressivity of the tax system, and incentivise employment growth. Reforms to the organisation of Bermuda's tax administration over the medium term are also proposed, as is the need for reforms in the immigration system to counter the shrinkage in overall employment and population. The report is discussed in detail in section E below.

- Legislation to provide for a "living wage", initially at a level of $12.25 per hour, but potentially rising to above $18 per hour in 2021, possibly the highest statutory minimum wage in the world. We are told the impact on public spending should be minimal and there could be a modest positive impact on payroll tax receipts.
- Establishment of an Efficiency Committee in the Ministry of Finance to find ways to cut waste and improve efficiency in public spending (see section E for a discussion of its recommendations).

C. <u>External developments, uncertainties and risks</u>

10. Global growth over the past year has been healthy, particularly in the US, Bermuda's largest trading partner, which has experienced a sustained period of rapid growth in output and employment. However, risks have grown. The IMF recently downgraded its forecast for global growth in both 2018 and 2019 to 3.7 per cent, and the Managing Director, Christine Lagarde, warned that trade tensions were growing and threatened to do significant damage. The IMF also warned that governments were ill-prepared to cope with a crisis: "Governments have less fiscal and monetary ammunition than when the global financial crisis broke out ten years ago, and therefore need to build their fiscal buffers and enhance resilience in additional ways, including by upgrading financial regulatory regimes and enacting structural reforms that raise business and labour-market dynamism." As we discuss below, this warning is highly relevant for Bermuda.

11. Financial markets in developed economies remain buoyant. However, as foreshadowed in our last report, increases in interest rates by the US Federal Reserve – with the likelihood of more to come – have led to a rise in long-term interest rates, with 10-year Treasury yields rising sharply and now exceeding 3 per cent. Since Bermuda government bonds are priced and traded relative to Treasury yields, this will in due course feed through into higher interest costs for the Bermuda government.

12. Partly as a consequence of the rise in Treasury yields, and partly as a result of domestic policy imbalances, a number of previously well-performing emerging market economies have experienced severe market volatility, notably Turkey and Argentina, which have both seen large capital outflows and severe pressure on the value of their currencies, leading in turn to reduced access to external financing and higher interest rates for both the government and the private sector.

13. Bermuda remains at present reasonably well insulated from these global trends. Since Bermuda's exports are almost entirely financial services, they seem unlikely to be affected directly by tensions over trade. The Government has just successfully concluded a major financing operation, involving both refinancing a large amount of existing debt and new borrowing to cover financing needs for 2018-19. Although Treasury yields have risen, they remain low by historical standards, and as long as Bermuda government debt is perceived as a relatively low risk investment, then it should be possible to continue to issue debt at acceptable interest rates. Recent reports by the main credit rating agencies have been positive, emphasising Bermuda's political and economic stability, and noting the new government's continued commitment to fiscal sustainability.

14. However, this is emphatically not grounds for complacency. Experience suggests that financial crises, and the loss of access to external financing, can hit with very little warning, precipitated by domestic economic or political developments or, if a country has pre-existing vulnerabilities, by exogenous forces. Rating agency reports are lagging indicators, moving behind rather than ahead of debt markets, and positive reports and the success of the recent Government bond issue are therefore no guarantee of continued market access in the future. Even after the recent financing operation, the Government will need to return to the market at some point, most likely by 2023. We note that, despite the relatively positive current environment, a recent survey of private sector business confidence showed a marked decline. Such surveys, while not definitive, can be leading indicators of developments in the real economy.

15. Last year, we highlighted a number of specific threats to Bermuda's economy. We update them here:

- *Risks from global initiatives in financial regulation.* The Caribbean Financial Action Task Force (CFATF) assessment of Bermuda's Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF) measures is now underway. While there are some reasons for optimism about a positive outcome, this is not yet certain.

- *Reputational risks.* Bermuda rightly prides itself as a well-regulated place to do business with a respected regulatory and legal system. This has been key to Bermuda's success in attracting international business. Many have stressed to us the potential risks to this reputation if something were to go wrong with any of the new businesses attracted by Bermuda's new fintech strategy. Regulating these businesses effectively must be a high priority.

- *Potential EU action to blacklist Bermuda as a "non-co-operative" tax jurisdiction under the EU Code of Conduct initiative*. We said last year it is important to recognise the political motivation of those in the EU who object to Bermuda's facilitation of corporate vehicles with no substantial business on the island and the absence of a corporation tax, and who wish to include Bermuda on any blacklist of "non-cooperative" jurisdictions. There have been intensive discussions with the EU on this issue over the last year focusing on how to prevent businesses with no substantial business on the island benefitting from Bermuda's tax regime. It seems likely that the outcome will be new legislation in Bermuda, and all comparable jurisdictions, requiring companies that benefit from the tax regime to have a substantial presence on the island including in terms of employment. This will result in companies like Google – which books annual profits of around $18 billion to the island – either leaving (though it is not clear where to, as all competitor jurisdictions will be required to have similar legislation) or moving some jobs and functions to Bermuda. In the worst case the loss to the island's economy would be quite small; in the best case there could be a significant gain.

- *It will also be important to maintain Solvency II equivalence for insurance regulation.* The European Commission will shortly be reviewing Solvency II requirements. Bermuda needs to continue to develop its strategy to engage with the EU post-Brexit and the decision to establish a representative office in Brussels was timely.

- *US tax reform.* The tax reform legislation eventually passed by Congress does not appear to have had any significant negative impacts on Bermuda's insurance and reinsurance industry; this risk has therefore diminished significantly. Nevertheless, Bermuda will need to ensure that it maintains its comparative advantage as a place to do business and to keep a close eye on developments in Washington.

- *The general rise in populism and economic nationalism in advanced economies*. As noted above, this risk has materialised, leading to significant tensions between the US and other countries, especially China; fortunately Bermuda has as yet not been adversely affected in any direct sense. But if trade tensions continue to rise, there will be an increasing risk of spill overs into measures that would have a more direct impact on Bermuda, which benefits hugely from globalisation in general and international capital mobility in particular.

- *Impact of global warming and climate change.* With global warming, extreme weather events are becoming more frequent. Bermuda had a narrow escape this year from the full force of Tropical Storm Florence. Over the long term, however, Bermuda is at risk from a major weather event.[1] While Bermuda has coped well in the past, we believe it needs to clarify the potential impacts of climate change (see section G). Climate change will also have wider impacts on Bermuda's insurance and reinsurance businesses, in the short term leading to significant pay-outs, but in the longer term possibly leading to higher insurance rates and increased business.

- *Brexit.* Bermuda is not part of the EU, and is responsible for its own trade policy. The vast majority of Bermuda's trade in goods is with the US, and most tourists are from North America. The direct impact of Brexit on Bermuda is therefore small. Even the knock-on effects of a disruptive "No Deal" Brexit would be unlikely to have a material direct impact on the Bermudian economy, although it might lead to further strains in global financial markets, which could in turn impact Bermuda. However, to the extent that the UK acts to defend Bermuda's interests in the EU, particularly in relation to financial services regulation and tax policy, Bermuda may find it more difficult to make its case in Brussels.

- *Effects of an ageing population, declining workforce, underfunded public sector pension funds and escalating health care costs.* This remains a certainty, not just a risk, which will result in serious medium and longer-term pressures on public spending and challenges to growth. It will also make it more difficult to deal with a large debt overhang. The recent Census throws these issues into sharp relief, suggesting a sharp rise in the old-age dependency ratio in the near future. Concern about this is a further factor that could ultimately trigger a loss of market confidence. While demographic trends are, by their nature, slow-moving and may not be immediately visible to the public, this is perhaps the single most serious long-term issue Bermuda faces and one that now needs to be addressed with some urgency.

16. As a small open island economy, Bermuda is of course exposed to many other potential risks and uncertainties. Overall, our assessment is that while some short-term Bermuda-specific risks appear to have diminished, risks stemming from the continued vulnerability of the global economy to economic, political or financial instability have increased; while the longer no major actions are taken to address Bermuda's longer-term demographic issues, the more serious the consequent risks become.

1 The October report of the Intergovernmental Panel on Climate Change (IPCC) highlights the dangers posed by sea level rise and the increased intensity of hurricanes for small island economies by 2040 in the event that global action fails to limit the pace of global warming in the next two decades.

17. The key point remains: any shock that has a significant negative impact on Bermuda's economy could trigger a fiscal and financial crisis. With its current level of debt, reliance on external finance, no possibility of an independent monetary policy given the currency link to the US dollar, and no effective lender of last resort arrangement for domestic banks, the island is not well equipped to handle such an event. In particular, with significant refinancing requirements ahead, anything that leads to a sharp rise in market interest rates on government debt would pose significant medium-term risks to the government's fiscal strategy. And if the government lost market access, then it would be obliged quickly to raise taxes and/or cut spending or to contemplate at least a partial default (the sinking fund would provide a partial cushion) on the debts that become due in 2023. There would also be an immediate impact on the island's credit ratings, and so on the credit ratings for Bermuda-based banks and other companies and hence on their ability to do business. These effects in turn would likely lead to a sharp fall in business and consumer confidence, with knock-on impacts on the wider economy. Such a scenario is not likely, and there are no government policies that cause major concern in this respect. Nevertheless, if Bermuda were to be hit by a major internal or external shock (either relating to the risks described above, or another, unforeseen, one) then the impact on the well being of all Bermudians would be severe. Improving resilience by pursuing fiscal balance and debt reduction therefore should remain an overriding priority.

D. <u>Bermuda's economy and fiscal and debt prospects</u>

18. GDP grew by 2.5 per cent in real terms in 2017, the highest level of growth since the financial crisis. Much of the increase was driven by activity related to the America's Cup, especially hotels and restaurant, but 11 of 15 sectors saw an increase. Growth appears to have slowed slightly in the first quarter of 2018 and will probably also appear weak in the second quarter compared to the previous year, when it was boosted by the America's Cup. Recent growth in retail sales, perhaps the timeliest indicator, has been weak.

19. However, overall, the economy appears to be broadly on track, despite the significant fiscal consolidation over the past few years. Tax revenues are broadly tracking budget plans, suggesting the economy is performing roughly as expected. Tourism, in particular, is performing well. The strategy of the Bermuda Tourism Authority (BTA), to leverage the Americas' Cup to broaden Bermuda's offer to tourists on a sustainable basis, appears appropriate and well implemented. The test will be whether tourism continues to grow over the next few years, enabling some rebalancing of the economy away from international business.

20. While Bermuda's insurance and reinsurance sectors remain successful and competitive, the trend of increasing consolidation via mergers and acquisitions continues, meaning that employment in the sector is unlikely to generate the job growth Bermuda needs. This emphasises the need, highlighted by the new government, for a broader economic development and diversification strategy. This encompasses sectors such as fintech, digital currencies and cybersecurity, and is necessarily still at a very early stage. Bermuda would clearly benefit from a more diversified economic base. However, it will be important to focus on sectors where it can demonstrate a comparative advantage, and to ensure that they are supported by complementary policies that make Bermuda attractive to potential foreign investors and improve the business environment across the board; in particular, immigration policy, as the TRC report emphasises.

21. As noted last year, short-term measures of GDP growth in Bermuda are volatile, possibly relating to the GDP deflator: over the last three years, nominal growth has averaged about 3 to 3.5 per cent, while real growth has averaged about 1 per cent. These figures seem plausible as estimates of Bermuda's growth prospects for the medium term. Over the longer term, however, demographic pressures will dampen Bermuda's sustainable rate of growth, absent substantial structural reforms. This in turn will have consequences for fiscal sustainability.

22. This reasonably stable short-term picture should make the on-going task of restoring Bermuda's public finances to sustainability easier, both economically and politically. 2017/18 saw continued progress. Indeed, with revenues substantially exceeding budget projections, and a significant undershoot of planned spending, the fiscal outturn, on all measures, was much better than forecast. With some savings on debt interest, as interest rates remained low, the overall deficit was about $67m, only half the target. It seems likely that a significant proportion of this better than expected performance was due to one-off factors. And, as noted above, the original budget incorporated a one-off contribution holiday in payments to the Bermuda Hospital Board (BHB) of $25 million. At least some of these factors are likely to be reversed in future years. Nevertheless, this is clearly very encouraging. Performance this year on spending and taxes appears to be running close to plans. The Auditor General's office has also noted that government departments have improved their performance in terms of staying within their expenditure limits.

23. This better than expected outturn meant that the current balance (that is, current revenues minus current spending and interest payments but excluding capital spending) was positive for the first time since the crisis. Even after taking account of capital expenditure, the deficit (before payments to the Sinking Fund) was only about $5m, so net debt was almost flat. Since nominal GDP rose, the debt/GDP ratio fell, again for the first time since the crisis, as did the debt/revenue ratio. These are major milestones.

24. However, going forward, progress looks to be considerably slower than planned. In last year's report, we noted that the government planned to achieve overall no addition to net debt in 2018/19. In fact, the published 2018 Budget foresees a deficit of $25m ($90 million on the government's preferred definition, after contributions to the Sinking Fund). There is a similar shortfall, relative to last year's plans, in 2019/20 with the year for achieving balance on the Government's definition postponed (again) by a further year. We recall that in our first report, in 2015, the then government planned to achieve balance, on its preferred definition, by 2018/19 (although we noted that we viewed some of aspects of those projections as unrealistic and unlikely to be deliverable); current plans are that balance will not be achieved until 2020/21.

25. All this reflects a continuation of trends identified in our previous reports. That is, the scope for further incremental expenditure reductions has largely been exhausted, and indeed there are significant pressures for increases in some areas, particularly relating to social spending. In fact, the 2018 Budget simply freezes future spending in cash terms. On the one hand, this reflects a welcome determination to ensure that pent-up spending pressures, after a long period of spending restraint, are not allowed to lead to a loss of budget discipline. On the other hand, it is clearly not consistent with a systematic, bottom-up approach to the prioritisation of government spending and could easily turn out to be unrealistic.

26. As in the past three years, this means that the burden of deficit reduction in the immediate future must largely fall on the revenue side. This is appropriate; indeed, in our 2015 report, we suggested that it would be appropriate for the government to aim to increase the revenue/GDP ratio from approximately 16% to approximately 18.5%. This recommendation was broadly accepted by the previous government, which set an objective of implementing a structural increase in tax revenues of 2 ½ to 3 per cent of GDP over the following 2 years, through a combination of increases in existing taxes and the introduction of a GST. In the event, while some progress has been made, the revenue/GDP ratio is still slightly below 17%. In our 2017 report, we noted that the growing needs of an ageing population would put additional pressure on spending, and recommended that over the longer term the government should have the objective of increasing the revenue share to a level nearer the 22-23% share seen in comparable small island economies.

27. However, lack of administrative capacity and political constraints have meant that the implementation of major new taxes and structural reforms to existing taxes have been slower than planned and yielded less revenue than originally forecast. As noted in section B, a planned professional services tax was dropped, and introduction of the GST was postponed pending the recommendations of the TRC. Indeed, the projections for tax revenue in the Budget see growth of only 4-5 per cent a year in nominal terms over the forecast period, compared to nominal GDP growth which we expect to average approximately 3 per cent. This would still leave the revenue/GDP ratio at only slightly over 17 per cent, well short of our earlier recommendations, let alone our suggested long-term objectives.

28. Bermuda does not face a fiscal emergency – with debt/GDP and debt/revenue ratios now beginning to move in the right direction, there is no immediate prospect of a debt spiral. But, as described above, there are significant risks, many wholly or largely outside its control, and it would not be sensible for government to proceed simply on the basis that they may not materialise.

29. In this context, the report of the TRC is extremely welcome. It sets out specific, costed proposals that would increase revenue by approximately $150m by 2020-21, raising the revenue/GDP ratio, under our calculations, to about 19%[2]. As shown in our modelling below, this would significantly increase Bermuda's resilience to economic shocks while allowing the government to accommodate likely pressures on spending over the medium term. However, we note that it remains short of the mandate given by the government to the Commission- a ratio of 20-22% - and our suggestion that in the longer run it would need to rise to 22-23%.

30. As we set out below, implementing the scale of change set out in the TRC report, certainly on the timescale envisaged, given the administrative and political constraints, may be unrealistic. Some slippage is inevitable. And we have some comments on some of the individual proposals in the report. Nevertheless, the broad thrust of the report, and in particular its ambition and the sense of urgency it conveys on the need for a step change in revenue raising, are wholly welcome and have our full endorsement.

31. As in previous years, we show the possible evolution of the key debt/revenue ratio under different scenarios, but also include a projection than incorporates the recommendations of the TRC. We also model the impacts of potential future spending increases, given the medium term demographic pressures on expenditure, particularly on health spending.

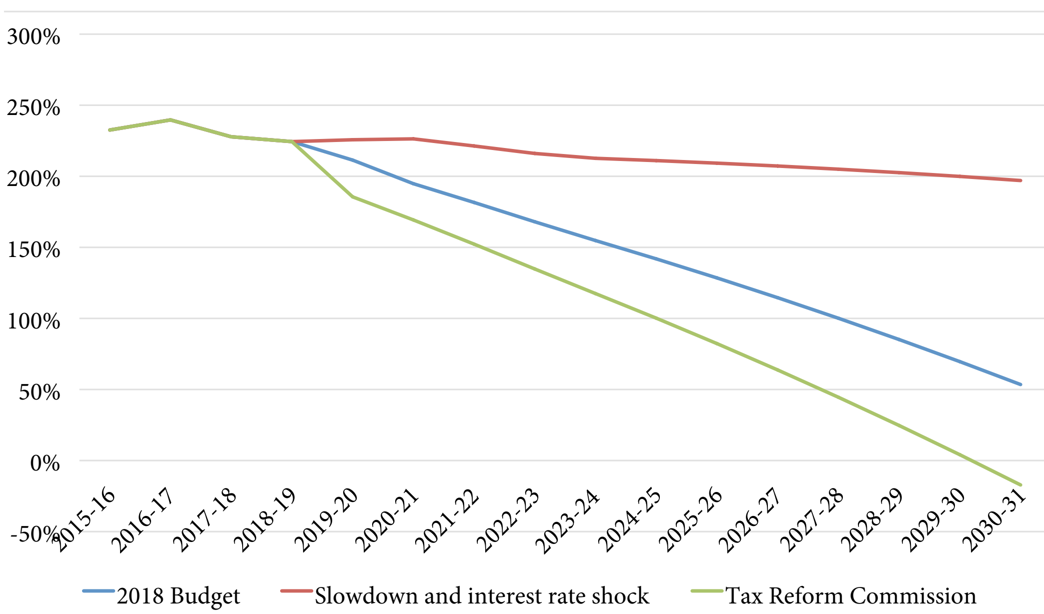
2 The TRC report notes a figure of 20%, but this relates to GDP in 2017. Our calculations take account of the impact of likely growth on both GDP and revenues.

- The "base case" is consistent with the 2018 Budget, with spending stable and revenue rising by between 4 and 5 per cent per year. Revenue and expenditure (excluding debt interest) are assumed to grow at 3%, roughly the expected trend growth of nominal GDP, after the end of the budgetary period in 2020/21. We assume that the interest rate payable on Bermudian government debt rises gradually to 6 per cent. Under this scenario, the debt/revenue ratio falls at an accelerating pace, and hits the government's target of 80 per cent by 2028/29, by which time the debt/GDP ratio has been reduced to 17 per cent, less than half its current level.

- Under a second "slowdown and interest rate shock" scenario, we assume that tax revenue remains flat in cash terms in 2019/20 and 2020/21, at the same level as the current fiscal year, after which growth resumes. This could be the result of an economic slowdown, either domestic or resulting from international developments; or it could reflect continued difficulties, either political or administrative, in enacting fundamental tax reforms. Under this scenario, we also assume a significant, but plausible, further increase in the effective interest rate payable on Bermuda government debt, to 7%. In our view, this is by no means a particularly pessimistic or alarmist scenario; it is well within recent historical experience. Nevertheless, this moderate slowdown has a significant negative impact on fiscal developments. Under this scenario, both the debt/GDP ratio and the debt/revenue ratio remain broadly flat; the debt/revenue ratio remains very high for the foreseeable future, and is still close to 200% in 2030. It should be noted that we do not attempt to model the worst-case scenario of a complete loss of market access (a "sudden stop"); in such an event, emergency fiscal measures would be necessary.

- Finally, we model the successful and timely implementation of the proposals of the TRC, which would result in a sharp rise in revenues in 2019-20 (more than 10 per cent). This generates very positive and self-reinforcing fiscal dynamics, as interest payments also fall. The debt/revenue ratio falls below 80% by 2025, and steadily growing surpluses mean that the debt is entirely paid off by 2030.

Chart 2a: Debt/revenue under different scenarios (%)



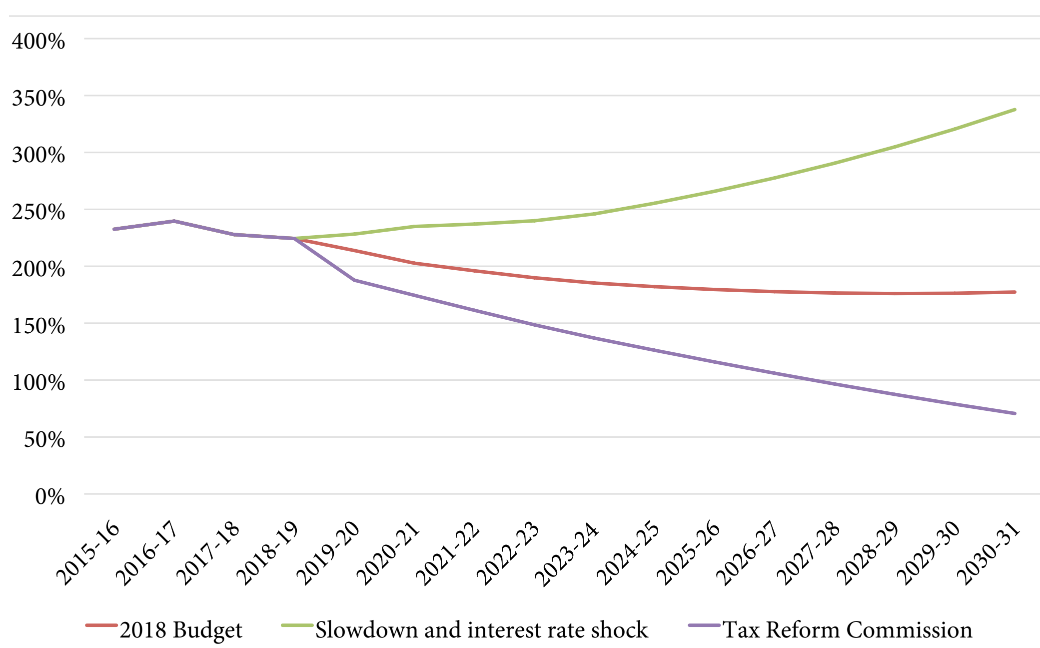
32. The negative scenario illustrated here is not in our view alarmist – it is far from being out of line with Bermuda's historical experience. It thus illustrates the continued vulnerability of Bermuda's public finances to negative shocks, internal and external, and emphasises the need for continued progress to ensure that Bermuda is in a position to withstand such shocks. The final scenario, by contrast, shows that implementing the proposals of the TRC would put the government on a much more sustainable path; that is, it would enable the government to make very rapid progress on reducing debt.

33. These scenarios are only illustrative, and will not in practice materialise in the form shown here. But they do illustrate the broad choices facing Bermuda: continuing with an incremental approach to tax and spending, which will leave the island vulnerable to adverse shocks, whether of domestic or foreign origin; or a determined effort to increase revenue generation, which will both make the fiscal position more resilient to such shocks while freeing up fiscal space to deal with the inevitable pressures on spending resulting from the island's demographic position.

34. However, all of these scenarios assume continued spending restraint throughout the budget period, with spending initially held constant in nominal terms, followed by relatively modest growth. Given the demographic pressures outlined elsewhere in this report, as well as the need for some targeted additional spending to support growth (for example on education and skills) this may not be realistic. Even if the government makes progress on rationalising government services and improving efficiency - progress on which has been painfully slow over the last few years – some upward pressure on spending may be inevitable over the medium term.

35. We therefore illustrate an alternative set of scenarios which are similar to those above, except that they assume spending grows in line with revenues in 2020-21, and after that rises at 4% annually in nominal terms. The results are shown below.

Chart 2b: Debt/revenue under different scenarios (%), alternative spending assumptions



36. Here we can see that under the base case outlined in the 2018 Budget, debt continues to shrink, but at a painfully slow pace, and the debt/revenue ratio still remains close to 200% in 2030. The adverse shock scenario sees debt first flatten out and then rise, and by 2030 the debt/revenue ratio is above 300% and rising rapidly; this would almost certainly be unsustainable. On the other hand, the scenario in which the TRC proposals are implemented in full sees the debt/revenue falling below the 80% target in 2029, even after the projected spending increases.

37. These scenarios are of course broad-brush and purely for illustrative purposes. Nevertheless, in our view they illuminate three key points:

- The continued vulnerability of Bermuda to even a relatively modest economic slowdown, resulting either from domestic or external sources and the potential impact on fiscal sustainability.
- The additional pressures on spending resulting from the island's extremely negative demographic dynamics, combined with an extraordinarily expensive health financing system, and the potential impact of these factors on the public finances, even if spending elsewhere is restrained.
- The favourable impact of an increase in tax revenues over the short to medium term, broadly on the lines of those set out by the TRC, which would, under our projections, allow some accommodation of medium-term spending pressures while ensuring debt was on a reasonably rapid downward trajectory.

E. **Past and Prospective Tax and Expenditure Reforms**

Tax Reform

38. We much regret the decision in the 2018 Budget to permit a further year's slippage in the target year for achieving budget balance. As we warned last year such slippage can all too easily become a bad habit. It is mainly a result – as noted above – of the decision not to proceed with a professional services tax and the second stage of payroll tax reform. On the latter the Premier said in his budget speech that he regarded the tax as "the enemy of job creation" and expressed a desire "to broaden the tax base away from taxes on labour income only." As we have made clear in our earlier reports we have much sympathy for this view, but finding ways to broaden the tax base has now become a matter of some urgency.

39. Two decisions in the 2018/2019 Budget on taxation we very much welcome: the decision to apply the payroll tax to income paid as dividends and the decision to unfreeze all posts in the OTC. The latter has already proven productive in 2018 as previously unpaid stamp duties of almost $3m have been collected and an additional $4.7m in uncollected stamp duties have been identified. But if the plans set out in the Budget for 2019/20 and 2020/21 are to be met – let alone the more ambitious targets set out by the TRC – then significant new taxes and tax increases will be required in the 2019 Budget, almost certainly requiring a further increase in OTC resources.

40. The recent Throne Speech highlighted initiatives that will reduce the burden of taxes on lower-income households. Inter alia, contributions to the CPF will be levied at a progressive rate on the basis of income rather than as a flat rate levy. Changes in the structure of energy taxation will replace the flat rate of tax on fuel imports with a progressive tax based on energy consumption. Stamp taxes will be eliminated for any mortgage refinancing of less than $750,000. These changes are expected to have only a marginal fiscal impact while the restructuring of CPF contributions is intended to make a positive contribution to the long-term viability of the CPF.

41. The Throne Speech did, however, foreshadow further tax reforms to be announced in the 2019 Budget, and in particular proposals resulting from the TRC report. Proposals along these lines will be essential to meet the Government's commitment to achieve a balanced budget in 2020-21 and, over the medium term, to the revenue share moving towards the target of 20-22% of GDP set out in the government's mandate to the TRC.

Box 1: Summary of Tax Policy Recommendations of Tax Reform Commission

Proposed New Taxes

Description of Tax	Intent of measure	Impact	Revenue	Time Frame
Commercial and Residential Rental Tax	Progressive Tax based on Annual Rental Value (ARV)	Property Owners	41m	Within 12 months
General Services Tax	Flat tax based on value of local services	Final User	27.5m	Within 24 months
Withholding Tax – Managed Services	Flat tax based on overseas services provided locally	Companies	27.5m	Within 12 months
Withholding Tax— Dividend & Interest	Flat tax on value of dividends/ interest	Recipient		Within 24 months

Proposed Reforms to existing taxes

Description of Tax	Intent of measure	Impact	Revenue change by 2020/2021	Time Frame
Payroll Tax	Eliminate rate for $48k under	Employee earnings	($24m)	Within 12 months
	Provide relief by lowering rates	Reduction in payroll cost		
Tax on owner-manager Declared Dividend	Dividends for owner-managers in scope of payroll tax	Owner-managers	$15m	Within 12 months
Custom Duty	Reduce cost of staple items and clothing	Final users	($2.1m)	Within 12 months
Excise Tax	Increase excise tax on wine			
Land Tax	Restructure land tax	Property Owners	($10.1m)	Within 12 months
Financial Services Banks and Insurers	Generate additional revenue from bank and insurance fees	Financial Services Firms and Customers	$6.1m	Within 12 months
Foreign Currency Purchase Tax	Increase rate to 1.75%	Individuals and companies	$16.5m	Within 12 months
International Company Fees	Align fees with a company's assessed capital by increasing the number of bands	Companies	$25.5m	Within 12 months
Immigration Fees	Generate more revenue	Companies	$3.5m	

42. The TRC report was published on November 17th, so we have had only limited time to consider its details. However, we have discussed the report with Ministers, the Ministry of Finance and others who we met in the week after its publication. We strongly support the overall aims and thrust of the report. And we have a few comments on its key recommendations.

- **A "rental income tax"** (actually a property tax, applied as a flat percentage of annual rental value for properties used primarily for rent as opposed to owner-occupation). This would cover, for example, residential properties whose primary function was for rentals to tourists or international business employees[3]. Short of a more radical reform of the tax system this seems a sensible step towards extending the tax base to cover forms of income other than income from employment.

- **A new GST of 5%.** This would apply to "non-essential" services, including catering, vehicle repair, air tickets and so on. This reflects earlier recommendations, including by CARTAC (and endorsed by us in the past) with some modifications to take account of challenges to implementation. In particular, at least in the near term this would be a tax on *services* – a General Services Tax rather than a General Sales Tax–viz. not on goods, which for the most part incur import duties and tariffs. This appears a sensible proposal for the short to medium term, and would, in conjunction with the managed services tax and customs duties, move the system closer to a broad-based sales tax.

- **A Managed Services Tax of 7.5% on (mostly professional) services purchased from abroad** (essentially a "tariff" on such services). This is to be levied as a "withholding tax." With the introduction of a GST this would be a sensible step towards maintaining a level playing field between domestic and offshore service providers.

- **A withholding tax on locally-generated dividends and interest**. There are obvious risks here; first, that this will disincentivise domestic investment, and second that individuals will simply shift savings accounts offshore. But the (increased) foreign currency purchase tax may act as an offsetting incentive. And like the rental income tax this may be a sensible second best approach to extending the tax base to forms of income other than income from employment.

- **Substantial increases in the foreign currency purchase tax**. This is probably just about manageable and as noted would act as a counter incentive to the proposed withholding tax on domestic interest and dividend. But, given Bermuda's fixed exchange rate, further moves in this direction could risk creating an effective dual currency mechanism. International experience suggests this would be distorting and ultimately unsustainable.

- **Increases in registration fees for larger foreign companies.** Given the government's commitment not to introduce a corporate income tax in the near future, this is a welcome approach. However, we are not clear about the rationale of linking the charge to companies' assessed capital rather than to a measure less at the discretion of companies themselves such as annual turnover. And we would repeat a suggestion we made last year: that there could be a much more significant increase in these annual fees while allowing them as an offset against payroll tax liabilities in order to encourage such companies to provide jobs on the island.

3 Thus, a householder who rented out her house on AirBnB for a few weeks a year would not be caught by the tax but a property that was substantially used for rental purposes would be. It would also cover commercial property.

- **Increases to financial services taxes, including bank and insurance fees.** There must be some concern here that there is overlap with the withholding tax (which applies to interest income).
- **Reforms to the payroll tax to make it somewhat more progressive, both at the company and the individual level**; these changes seem appropriate and, if the rest of the package is delivered (but not otherwise) affordable. Together with the proposed **changes to the structure of customs duties, with reductions in duties on food and clothing and increases in alcohol duties,** these changes will help to make the island's tax system slightly more progressive – a development that we very much welcome.

43. Viewed as a package, the recommendations would significantly increase the overall tax burden, while shifting the tax system to some extent from taxes on employment income to taxes on other forms of income and consumption, in particularly rents and services. They also begin to enhance the progressivity of the tax system: the impact of the reforms on less well-off Bermudians would be mitigated by the changes to payroll tax and customs duties, and the structure of the proposed new taxes entail a number of exemptions for smaller businesses. Many of the proposals are perhaps best seen as steps towards an eventual move to a more conventional system of income and sales taxation.

44. Nevertheless, as with any tax increase there will be an impact on the cost of living and doing business in Bermuda. While we recommend that the Government accepts and implements the package, or something like it, we also acknowledge that it will face a major challenge in explaining the need for the measures to the population and to business. It would clearly help if the tax increases could be matched by actions on immigration – as also recommended by the TRC – and by equally firm actions to improve efficiency in the public sector and to cut or at least to prevent future increases in costs, particularly in the health sector (see the relevant paragraphs below in sections E and F).

45. Implementing the TRC's recommendations on anything like the proposed timescale will also further intensify the challenges that already confront the OTC as it seeks to implement past tax policy reforms and reform and modernise its systems. The report of the Finance Ministry's recently created Efficiency Committee underscored the urgency of actions to strengthen tax administration, both within the OTC and the Office of the Registrar of Companies (ORC). The additions to the resources of the OTC in the last several months were long needed but they were just a first step. In the short-term, additional trained staff and fixes to urgent IT bottlenecks were seen by the Efficiency Committee as necessary in both offices to enhance collections and strengthen audit efforts in several areas, notably in relation to "notional payroll taxation," domestic and corporate services taxes, and property stamp duties. And over the medium-term, the Efficiency Committee emphasised that the OTC will need both a new IT system and a functional restructuring of its organisation.

46. Implementation of the additional tax policy reforms recommended by the TRC will be difficult without such an effort, particularly as these reforms broaden the base of taxation to include nonessential services, rental income, managed services purchased abroad, all with provisions that require taking into account different thresholds and some progressivity in rates. We would be cautious in assuming that the time frames envisaged by the TRC– essentially 18-24 months for most of the policy reforms–are realistic. Even if the Government were to decide to make a start straight away (which in itself may be unrealistic given the complexity of the issues and the

need to generate a sufficient degree of public support or at least acceptance) it seems unlikely that a reform as complex as setting up a new GST could be implemented as early as 2020/21. But the TRC *also* recommended organisational reforms in the area of tax collection over the next 2-5 years, including creation of a single authority combining the tax revenue collection departments (HM Customs, the OTC and the Department of Social Insurance), development of an IT integration strategy to obtain consolidated taxpayer data, and development of a Social Insurance Number as a unique identifier on all adults. **We believe that the task of revenue mobilisation will urgently need both additional staffing for the OTC and continued input from CARTAC in developing a strategic plan for phased implementation of the envisaged reforms.**

Expenditure Rationalisation

47. The 2018 Budget statement accurately identified the challenges faced by Bermuda from a rapidly changing demographic, a highly competitive and challenging international business environment, and increasing inequality in Bermudian society. The Budget emphasised the need to reshape expenditure priorities so as to redirect spending to areas that promote growth and reduce inequality, while cutting back on inefficient and wasteful spending. Thus, while (apart from the elimination of the one-off holiday from subsidy to the BHB) overall expenditures remained largely unchanged (with a slight shift towards current expenditure), departmental spending priorities were to be focused on investment in human capital (both in education and health), enhanced maintenance of schools and roads, and enhanced investment incentives to foster Bermudian-led businesses, innovative financial technologies, and the effectiveness of the tourism sector. This rebalancing is welcome. The recent Throne Speech added details, including increased financial aid grants as well as scholarships to Bermuda College for high performing public school graduates.

48. But there is more to be done. The Budget statement also recognised the pressures arising from an ageing population and the increased health burdens of the elderly. This challenges the health care sector to be both responsive and more efficient in the way that medical problems are addressed (see paragraphs 58 - 64 below). Recent actions by the Ministry of Health to adjust the BHB's fees for different services based on an international standard of relative value units is an important first step in the direction of cost control. More broadly it will be important to continue to find ways to reduce waste and improve efficiency across the public sector. We welcome the bottom up approach that has been pursued by the Efficiency Committee. Echoing and reaffirming the Sage Commission Report of 2013, the Committee has highlighted the many ways in which a rationalisation of the government's management of financial assistance, project implementation, purchases of materials, inventory management, and handling of staff vacancies could yield significant savings and greater effectiveness. A review of the rationale and operational efficiency of all quangos is also necessary. Given the breadth of these recommendations, prioritisation in terms of the magnitude of potential savings will be critical. Looking forward, the Committee also emphasised the importance of developing a detailed overall strategic plan to guide spending priorities of the government over the medium to long-term. In this respect, this recommendation echoes the view of the Bermuda First Committee, which has highlighted the need for government programs to address an ageing population, the growing number of "working poor," a costly health care system and an education system challenged by technological change.

49. The Efficiency Committee's agenda for action will nevertheless require at least one if not two champions and managers for reform in the Cabinet Office or the Finance Ministry who can be held accountable for implementation. Given the extent – and cost – of past IT failures it might also be advisable to appoint an experienced and knowledgeable Chief Information Officer to be held accountable for implementation of improved IT across Government. Formulating prioritised action plans would be an important first step. We also support the Efficiency Committee's proposal that a permanent committee be established to review efficiency within the public sector.

F. Longer Term Issues to be Addressed Urgently

Growth is essential

50. The government has identified promoting growth through economic diversification as a priority. In principle, it is clearly desirable to reduce Bermuda's dependence on insurance and reinsurance. This would reduce both the short-term risk to overall employment and tax revenues from cyclical conditions in that sector, and the longer-term risk that technological or market developments cause the sector to continue to consolidate, leaving Bermuda with few alternative sources of growth. Diversification would also provide alternative employment opportunities for Bermudians.

51. However, meaningful diversification will be easier said than done. Beyond tourism, Bermuda has few obvious sources of natural comparative advantage – it is small, remote, high-cost, and its domestic skills base is insufficient at present to support new high-growth industries. Given these constraints, the obvious candidates for new sectors in Bermuda are in the (broadly defined) technology and financial services sectors, which are high-value, can be delivered remotely, and where Bermuda's world-class regulatory and legal infrastructure is a valuable asset. The government's focus on promoting fintech, while liberalising regulations that currently inhibit the growth of financial and related services beyond insurance (such as global law firms and banks), is therefore appropriate. We would caution, however, against excessive focus on particular niche products such as digital or crypto currencies where there are potentially significant financial and reputational risks. It would be very damaging for Bermuda, at a time when it is already under international scrutiny in relation to tax and transparency issues, to be perceived to be providing an excessively lax regulatory environment for products where there clearly are major issues with manipulation and fraud.

52. Attracting and growing new sectors will, above all, require access to a skilled and flexible workforce. Obviously, the prospective shrinking of the labour force will limit future economic growth prospects (a challenge also recently underscored in the report of the TRC).[4] As we noted last year, improving the quality of Bermuda's education system at all levels should be a priority, as should liberalisation of immigration administrative practices and rules, as discussed below. The recent Census revealed the sensitivity of Bermuda's growth model to the changing age and educational composition of its citizenry. It also revealed the relatively weaker position of those in the younger age groups in terms of their low level of completed education and higher unemployment rate. Potential productivity growth will be further weakened by the propensity of those with higher education to emigrate. It is important to note that, in the context of growth and

4 The increase in the female labour force participation rate to 79% has been an important factor in buoying economic growth, but at this level, not much further improvement can be gained from this sphere. Moreover, women may prove challenged by the pressures for home care of the very elderly with the rise in longevity.

diversification, jobs for Bermudians and higher levels of skilled immigration are likely to be complements – that is, go together – rather than being substitutes or alternatives.

53. The underdeveloped nature of domestic capital markets is also a concern. The Bermuda stock market is not a major source of new finance for domestically oriented companies, domestic lending by commercial banks has been weak, and there seems to be no domestic market for high risk start up capital. It is possible that this inhibits potentially viable projects, outside the international business sector, from accessing finance. Also inhibiting access to finance is the absence of any requirement that businesses provide routine financial statements or accounts. For small businesses this may hinder their access to capital. The absence of clear legal procedures for handling company failures in the nonfinancial sector may represent a further hindrance to business financing.

54. It is notable that neither occupational pension schemes, which are mandatory for most employees in Bermuda, nor the public sector and state-supported pension schemes, have any requirement to invest any of their assets in Bermudian companies. This contrasts with a number of other countries with mandatory private pension schemes and underdeveloped domestic capital markets. We recommend that the Pension Commission, Government and Bermuda Monetary Authority (BMA) consider the case for setting a target share of new pension savings to be allocated to domestic investment in viable projects. This could be initially set at a low level and gradually increased, in conjunction with other measures aimed at boosting the domestic capital markets and ensuring that Bermuda-based non-financial businesses have access to financing.

An ageing and shrinking population requires a reform of Bermuda's immigration policy

55. Bermuda's recently completed population projections through 2026 underscore that an ageing population will loom heavily on the fiscal picture. The median age rose between 2010 and 2016 (from 41 to 44) and further ageing can be expected by 2026—to 49. The elderly dependency rates will soar from 25 per cent in 2016 to 40 per cent, as the share of seniors in the population climbs from 17 per cent to 25 per cent. By the standards of most developed countries, this is an extraordinarily rapid rate of change. And with a fertility rate of only 1.4, these trends will accelerate in subsequent decades, absent policy reforms that raise fertility or enhance net immigration.

56. The threat this poses can hardly be overstated; this would be a downward spiral of demographic and economic decline. If these projections materialise, the government will have no choice but to continue to raise taxes on the ever-shrinking proportion of the population in work – further encouraging emigration of the young and skilled - while at the same time reducing the quality or quantity of services provided to the growing number of elderly people. The political, economic and social consequences for all Bermudians – but especially those most dependent on government services – would be severe.

57. The only realistic approach to avoiding the negative economic, fiscal and social consequences of demographic change is to move to significant positive net migration. Modernising and liberalising Bermuda's administrative immigration practices and policy might facilitate at least some net growth in the labour force, particularly if combined with measures to encourage the return of overseas Bermudians with marketable skills and some moves towards the provision of citizenship to the families of noncitizens that have been long resident in Bermuda. Recent actions to accelerate the processing time for work permit applications and to implement a reorganization of the Immigration Department are very welcome indeed, and now need to be followed up with broader reforms of practices and policies. We welcome the new impetus behind reform in this area signalled by the government, and were encouraged by our conversations with Ministers, officials and other stakeholders. We hope that 2019 will indeed see fundamental changes to administrative practices and policy that will streamline and ease the process of acquiring work permits and, in the words of the Throne Speech, "simplify issues surrounding Bermudian status, the status of PRC holders and Bermudian status for mixed-status families."

Preventing a spiralling of medical care costs

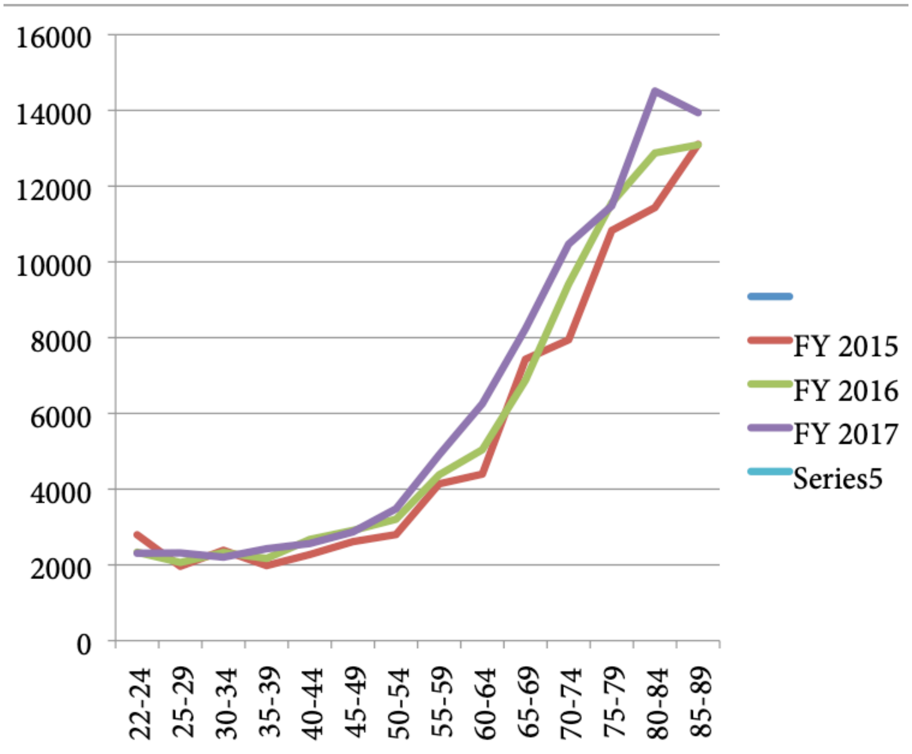
58. Government expenditure on health care is the largest area of spending in the budget (now exceeding debt interest). While the private sector dominates financing in this mixed public-private health insurance system (reflecting the legal requirement of employers to provide health insurance), public sector subsidies for young, elderly and the indigent as well as the government's share of health insurance premiums for government employees are substantial. The pressure for Government outlays will become only more challenging as the number of seniors increase.[5,6] The pressures of rising demand for medical services also arises from the more elderly segments of the labour force (over age 50) with annual per capita claim costs for outpatient services rising by more than 50% in 2017. Though offset to some extent by a decline in per capita inpatient costs, overall, the pressure on outpatient costs contributed to a 6.4 per cent increase in the Standard Premium Rate (SPR) in 2018/19, and even larger increases in the premiums charged for supplemental private insurance schemes (Chart 4, drawn from the most recent 2017 Bermuda Health Council (BHC) *Actuarial Review*).[7] The premiums paid by the government on its much more comprehensive health insurance plan -- the GEHI—may have to rise at a much faster rate than the SPR, most likely somewhere between 12.5-15%.

5 The recently published 2016 Population and Housing Census and accompanying demographic projections through 2026 show that the share of the 65+ population in 2016 rose to 17 percent, relative to 14 percent in 2010, with further increases anticipated over the next decade.

6 A principal source of budgetary concern in the health care sector derives from the roughly $435m in unfunded liabilities with respect to the Government's insurance coverage for its own retirees (through the GEHI), on the basis of the 2016 actuarial review. Since then, the Government introduced measures to reduce the scale of these liabilities, increasing contribution rates by both the Government and GEHI members, and reducing the Government's share of contributions for premiums in relation to the spouses of retired government employees. The impact of these reforms has not yet been reflected in an actuarial review.

7 The standard premium rate for the standard health benefit is based on a pooled assessment of costs and outlays and is the same for all participants (though supplemented by an additional premium for additional health services provided under some private employer schemes). The Health Insurance Plan and Future Care receive a $3m capital injection annually to keep premiums down.

Chart 4: Total Annual Per Capita Claim Costs: FY 2015-2017, by age group (in Bermuda Dollars)



Source: 2017 *Actuarial Report for the Bermuda Health Council, with estimates for age groups 65 and over adjusted for subsidy*

59. Medical care inflation, estimated at about 6.5 per cent in Bermuda (relative to inflation of roughly 1.5 per cent), and the use of new technologies have also contributed to the rising costs experienced.[8] These cost pressures are of particular concern for most Bermudians, since the Standard Health Benefit (SHB) principally covers the cost of hospital care and a "few non-hospital services." The recognition of these cost pressures led the Minister of Health to initiate a reassessment of the system of health financing in Bermuda, with the intention of realising greater cross-subsidisation of costs from the healthy to the sick. Alternative reform proposals would put all persons into either one or two health insurance pools.[9] We have been told that the Government will announce its plan for reforms and develop a road map for implementation by April 2019. Inevitably, this will be controversial, given the complexity of the issues to be addressed. But regardless of which of the two financing proposals is adopted, Bermuda's health care system needs to address: how to ensure any government subsidies are used most productively and fairly directed; how to ensure resources for health care in the economy are used effectively and with effective control of costs; and how to ensure that health care is at least accessible to all Bermuda's citizenry.

8 As described by the Minister of Health, "there were no fee increases and only negligible benefit changes. So the only reason the premium for the minimum package increased is because our people are sicker, older and receiving more health care."

9 The issue of universal coverage must also reflect the recent 2016 Census results which showed that there was a shift in the age categories most commonly observed without health insurance—the 45-64 age group led in 2016 as opposed to 15-29 year olds in 2010 (p.42). Yet one would expect this older group to have a higher demand for medical care. Overall, there was a fall in the share of the population with major health insurance coverage (private or GEHI) (from 84 per cent to 72 per cent). The share of the population without any health insurance coverage increased from 5 per cent to 8 per cent (of which 93% were Bermudians).

60. Thus, some revisiting of its policy of universally subsidising health care for the elderly will be necessary. Presently, such subsidies are a specifically limited, block grant in the budget, with the BHB forced to rationalise costs if there is excess utilisation by subsidised groups. In view of the demand pressures from an ageing population, this subsidy policy can only be seen as a temporary "band-aid" to stem further bleeding from the government's budget. A revisiting of how the government subsidises health care costs for children, the indigent, and the elderly is needed, *both* to contain, if not reduce, costs and to achieve a fairer and more satisfactory outcome for the health condition of Bermudians. These objectives cannot be achieved if many elderly Bermudians with chronic diseases continue to be incentivised by the existing subsidy scheme to have recourse to costly hospital visits rather than to more cost-effective prevention and treatment within the community. An alternative approach to achieve these objectives would have three key components:

- it would make health insurance mandatory and provide premium subsidies that would help to finance the cost of health insurance for those individuals and households not covered by their employers;
- to facilitate universal coverage it would redirect subsidies, using means testing, to allocate premium subsidies to those who meet set criteria related to income and health status (irrespective of age); and
- it would broaden the coverage of the SHB to include prescription medications, preventive care, and access to providers that offer effective disease management (rather than being limited only to hospital care).

61. Beyond the cost of subsidies, Bermuda's present approach to the treatment of some chronic diseases threatens to lead to further sharp increases in the costs borne by its citizens for health insurance. As an example, the rising incidence of kidney disease of Bermudians, coupled with its dramatically high cost of dialysis treatment (60% higher than in the USA and more than 4-12 times higher than that of Jamaica and Barbados) already costs more than $20m for the less than 200 individuals requiring dialysis (not that much less than the $30m block grant for subsidies to the elderly). International experience highlights that Bermuda could significantly reduce the burden to both the government and its citizens by a more effective approach. Another obvious way in which costs can be contained relates to Bermuda's policy with regard to overseas medical expenditure. While it is recognised that a small island economy cannot afford many forms of medical care, Bermuda is an outlier in the share of its overseas health expenditure. Greater in-island treatment of certain categories of inpatient care should be considered as well as partnering with insurers and designated overseas hospital centres for the treatment of Bermuda residents. We are encouraged by the recent partnering agreement with The Johns Hopkins University for on-island treatment and the work of the Health Insurance Department to explore opportunities for care in low-cost settings with good health outcomes.

62. Long-term care will also pose increasingly costly challenges, with the share of the 75+ population projected to rise from 7.5% in 2016 to 10.8% in 2026. Despite recent policy initiatives, still more than half of the BHB's high cost beds are devoted to long-term care. This is abetted by the provision of government subsidies under Future Care for such care within the BHB. While some long-term care is appropriately provided at the BHB, the challenge will be to contain this and ensure that alternative approaches to long-term care are available within the country. To bring down the cost to Government for this care, we agree with those calling for an increase in "purpose-built residential facilities with trained staff "to care for many of the very elderly with chronic health challenges or dementia.

63. The private medical care sector in Bermuda is largely unregulated, raising concerns about both the cost and quality of the care provided, of diagnostic testing and of pharmaceutical products. Further efforts are needed to strengthen the regulation of private sector providers (including their use of health technology) as a means to reduce duplication that adversely impacts health care costs and exposes patients to unnecessary risk. As in our 2017 report, we believe that an appropriate regulatory infrastructure with enforcement resources remains a necessary element of any strategy for cost containment in Bermuda's health care sector.

64. We are also encouraged by the Government's efforts to begin to address some of the sources of chronic disease within the population. Witness the Bermuda Health Strategy, the Bermuda Health Action Plan, the Long Term Care Action Plan, and a number of initiatives to contain costs and promote a healthier life style (the Enhanced Care Pilot, the Patient Centered Medical Home, and the Personal Care Benefit). The new 50% duty on sugary soft drinks, candies and pure sugar imports (which will be raised to 75% in April 2019), represents a further initiative. The revenues to be raised (roughly $10m in a full year at the higher rate) should be clearly seen as earmarked to specific programs that expand health promotion and encourage healthy lifestyles.

An Unfunded Pension system adds to the Government's Debt Challenge

65. Pension issues impact on Bermuda's fiscal sustainability, both directly and indirectly. Most directly, the government is responsible for the solvency of its pension plan for its own employees, namely, its defined benefit and partially funded PSSF, and the much smaller plan for Ministers and Legislators (MMLPF). Second, though not a formal legal obligation, the CPF—the first-tier social pension scheme—relies on the government's efforts to ensure that its obligations to retirees are managed responsibly and met. Third, its regulatory role in relation to private pension schemes is critical for providing confidence that these schemes are transparent and well managed by employers. Finally, and most indirectly, and in concert with health insurance schemes, the Government has to be concerned that the impact on wage costs of financing the various social insurance schemes does not jeopardise the attractiveness of Bermuda for employers, particularly in the international business sector.

66. For the PSSF and MMLPF, the most recent actuarial review indicates an unfunded liability of $975 million as of March 2018 that will burden future budgets. Outstanding proposals from the previous Government's Pension Benefit Working Group (PBWG) highlighted the need for reforms to strengthen the PSSF's financial position, and recognised that this might require increases in contribution rates by the Government and its employees, an increase in the retirement age for unreduced pensions, a shift to a final 5-year average salary as the basis for calculating the pension, and application of actuarial reductions on early retirement prior to age 65.[10] The Premier emphasised the importance of this funding issue and commissioned the Government's actuaries to prepare a 75-year baseline projection to assess the implications for sustainability of adopting such policy changes to the scheme's basic parameters. While the results of this analysis are not yet in, we have little doubt that they will reveal that the assets of the system are at risk of being depleted within the next couple of decades and that the Government will have little option but to implement the types of reforms suggested by the PBWG. Achieving the government's targets for explicit debt would not provide fiscal resilience unless the pension debt overhang is also addressed.

10 The recent Throne Speech indicated that public servants will be called to work past the age of 65 (while preserving the right to retire at age 65).

67. The 2016 actuarial review of the CPF (for the year ending August 2014) highlighted its long-term financial weakness (with its assets likely to be depleted by 2049). That review indicated the present value of net unfunded accrued benefits ranged from $500m to $1.8billion, depending on assumptions made as to the magnitude of future accrued benefits and contributions. Recently, the Government announced a 4.2 per cent increase in the flat rate contribution level, following an earlier increase in pension benefits last December (which was backdated to August 2017). Importantly, the Premier also signalled the Government's intention to announce, in 2018, measures to increase the progressivity of the CPF's financing by ensuring that "the most vulnerable Bermudians will carry a lower share of the burden of sustaining the… pension system." We support this movement away from a flat rate to a more progressive system and would hope that this is achieved, not only by a cap on the level of contributions by lower-wage Bermudians but by progressivity in the rates applied to higher wage earners.

68. Our 2017 report also noted that the 2016 actuarial review might have understated the potential risks that could arise if the financial environment fails to deliver an adequate real rate of return on pension investments. The latter possibility is also a risk faced by Bermudians reliant on privately managed pension returns. While the government is not legally obligated to cover any CPF shortfall (let alone shortfalls in private schemes), the CPF system plays too significant a role for the retirement income support of many elderly for the Government to allow it to fail. Adjustments in the contribution and benefit formulae and the age of eligibility for CPF benefits remain an urgent priority that needs to complement the announced policy to maintain an annual COLA[11].

G. Other important long-term fiscal challenges

69. **Ensuring the viability and relevance of Bermuda's social welfare framework:** Our two previous reports argued for a dialogue with all Bermudians on the challenges that will arise as the population ages and on the need for a revisiting of existing views on the work-retirement balance during the elderly years. And like other countries, to preserve the integrity of its social welfare system, Bermuda must now respond to demographic changes with policy reforms that encourage individuals to work longer, incentivise the retraining and employment of older workers as the work environment changes, liberalise immigration policies, and confront the challenge of an increasingly elderly population in need of additional caring services. Simply from the perspective of fiscal sustainability, the need for these changes is serious and urgent.

70. Last year, we also raised an issue that bore more on the social sustainability of Bermuda's framework of social insurance, viz., the risk of holes in the social framework. Many of those wholly dependent on CPF pensions will fall below the poverty line.[12] This may be particularly relevant for elderly women (who exceed their male counterparts by a ratio of 4:3). As noted in the recent demographic projections, "elderly women are more likely to have a greater need for assistance with services such as income maintenance, housing, meals, transportation and health care because they have less financial resources" (with median annual personal gross income only 71.4% that of senior men). Addressing this problem through financial assistance is a contingent risk on the budget. As we have noted in our last two reports, "these questions raise issues of distributional equity, but cannot be avoided in any discussion of future budget priorities."

11 The 2017 actuarial review of the CPF is currently being conducted in accordance with the Act that reviews are carried out every 3 years.

12 Bermuda is not alone in facing such challenges. Even Japan, a country with a universal pension system, has one of the highest rates of elderly poverty among industrial countries.

71. The recent Census also highlights that income inequality remains a persistent challenge for Bermudian society. Inequality widened over the last 6 years: for those Bermudians working full time in the age groups 16-34, their nominal annual gross income from their main job declined 4-6 per cent at a time when inflation was 12%. Smaller declines of 2-5 per cent occurred for the three older age groups. Overall, a greater share of households occupied the lower income bands compared to six years ago. This issue will need to inform the thrust of policy in all spheres of tax and expenditure policy in coming years.

72. **Impacts of climate change:** Bermuda, by the fact of its location in the North Atlantic, its topography, and state of development, is positioned to be more resilient to the effects of many dimensions of climate change than many neighbouring island economies in the Caribbean. But nevertheless, global climate change is raising the sea level and the frequency of severe hurricanes and heavy rains, exposing Bermuda to greater risks from storm surges and flooding in low-lying areas. Besides the effect on low-lying areas, some critical infrastructure in the power and aviation sectors may be at greater risk to climate events. Unlike other countries (e.g., the Cayman Islands), no government department has the responsibility for measuring climate-related environmental indicators, monitoring potential changes, or providing risk assessments of threats emanating from climate impacts emanating from the ocean or atmospheric disturbances.

73. **A medium term debt target.** These difficult medium and long-term issues facing Bermuda's economy and public finances are becoming increasingly apparent to all. That makes the task of facing them squarely and taking steps to address them more urgent. As this is done, alongside the actions needed to meet the Government's target of a balanced budget by 2020/21, we think it would be a further useful confidence building step to announce a proposed timetable for reaching the long term target of reducing government debt to 80% of revenues. Obviously this will take time. But from the simulations shown in section D it would not be unreasonable to set a target year 10 years from now, namely in 2028.

H. Conclusions and Recommendations

74. In our previous reports we highlighted Bermuda's vulnerability to external events, as a small open economy competing in a global marketplace, and noted specific risks that could lead to a severe financial crisis. We have reassessed these risks in this report. Some can be and are being mitigated by determined government actions but others remain or have increased and new ones will emerge. But perhaps of greatest concern is the certainty of the Island's shrinking workforce and ageing population that will put ever-increasing pressure on both taxes and spending. On present trends, Bermuda is heading for a downward spiral of demographic and economic decline.

75. The high level of government debt, unfunded pension liabilities and other contingent public financial liabilities leaves the island extremely vulnerable. Deficit and debt reduction must therefore remain a high priority. We regret the Government's decision in the 2018 budget to delay achieving budget balance by a further year to 2020/21. It will now be important to meet that target as well as the further aim of reducing over time the volume of government debt accumulated in recent years so as to achieve the longer-term targets of reducing debt and debt service respectively to 80% and 10% of revenues. And this fiscal action needs to be complemented with policies to reinvigorate economic growth, including through a decisive change in immigration administrative practices and policies.

76. We make a number of suggestions and recommendations in this report. The key issues that need to be addressed without delay are as follows.

- **Tax reform.** The Tax Reform Commission was mandated to propose ways of raising the level of government revenues from the present 17% of GDP to around 20-22%; the proposals it sets out would take revenue to about 19%, and would represent an important and welcome step. We have some detailed comments. Many of the measures are best regarded as moves towards a longer-term aim of developing a more normal combination of conventional income and sales taxes. We recommend that the government adopts the package, or something like it, and implements it as quickly as feasible: the planned timescale may be over-ambitious given capacity constraints and likely timing of systems development at the Office of the Tax Commissioner.

  We also recognise that the Government faces a challenge in explaining the need for the measures to the population and business; the tax measures should be matched by action on immigration, as also recommended by the Commission, and by equally firm actions to improve public sector efficiency.

- **Securing faster growth.** This is a necessary precondition for all other aims, including making progress in debt reduction. The government's aim of diversification away from reliance on insurance and tourism is sensible but will be easier said than done: the island has few natural advantages. One clear advantage is its world-class legal and regulatory structure; the focus on attracting new fintech businesses is appropriate so long as care is taken not to attract activities that could carry severe reputational risk.

  The underdeveloped nature of domestic capital markets, and absence of a domestic market for start-up finance is a concern. We make three suggestions here. It would help greatly if, as elsewhere, there were a requirement for all companies to prepare annual financial statements. It would also help to have in place clear legal procedures for handling company failures. And we suggest that consideration be given to setting some form of target for domestic investment – in viable projects – by the island's private and public pension schemes.

- **Reforming immigration practices and policy.** But a precondition for faster growth will be increasing the island's workforce: the only realistic counter to the island's demographic challenge of a rapidly shrinking and ageing population is significant positive migration of people of working age. Immigrants and returning Bermudians with the right skills will help to create jobs, not displace them. The evident determination of the government to implement fundamental reform of administrative practices and policies is extremely welcome. The recent improvements in processing times for work permit applications are an excellent start but need to be followed through with broader changes in administrative practices and policies. These are urgent and essential if Bermuda is to return to a sustainable economic and demographic trajectory.

- **Spending on health care.** This is now the largest single area of spending in the budget, and a rapidly ageing population will continue to put upward pressure on costs. An agenda for action, set out by the Ministry of Health and the Bermuda Health Council, exists: the government needs to proceed urgently. Health care coverage should be compulsory, with subsidies being redirected to cover premia for those unable to pay; the basic health care package should be extended so as to encourage preventative care and access to providers offering effective disease management, while preventing or postponing the need for expensive hospital care; premium subsidies should be means-tested; and costs should be contained, if necessary by price controls, to reduce the excessive costs (when compared to costs elsewhere) of many forms of treatment on the island.

- **Government efficiency.** We welcome the bottom up approach to improving efficiency being pursued by the Government, moving resources to priority areas and looking for ways to improve efficiency across Government, in particular by seeking to develop effective and linked up IT. We recommend appointing a champion (with possibly a separate champion for improved IT) in the Cabinet Office or Finance Ministry to drive the process and be held accountable for results.
- **Tackling unfunded pension liabilities.** Currently the territory's public sector pension schemes have an unfunded liability of around $1billion. Unless tackled, this will be a burden on future budgets. In addition, the Contributory Pension Fund also has very large unfunded liabilities, and it is inconceivable the government would allow it to fail. So debt reduction needs to be complemented by action to address this pension fund deficit. Actions that could help reduce the need for sharply increased contribution rates, include raising the retirement age (which would also mitigate the expected decline in the workforce), and for public employees, basing pensions on the average of salaries over a 5-year period, and actuarial pension reductions for early retirees.
- **A long-term debt reduction target.** These difficult medium and long term issues facing the island are becoming increasingly apparent to all. So alongside action to achieve budget balance, it would be a useful confidence building measure to set a timescale for reaching the longer-term target for reducing debt to 80% of revenue. We suggest it would be reasonable to set a target 10 years from now, in 2028.

77. Taken together this is a challenging agenda. If tackled now and with determination it will leave the territory in a much safer and more prosperous place. Work on much of it is already under way. The renewed impetus behind immigration reform is welcome. And the proposals of the Tax Reform Commission provide what up to now has been a missing piece – how to achieve the government's targets for deficit and debt reduction.

78. The Panel looks forward to assessing progress made in a year's time.sources of extra revenue if needed.

Annex A: List of Meetings Held by the Panel (November 19-24, 2018)

Association of Bermuda Insurers and Reinsurers

Nick Kempe, Senator

Jennifer Attride-Stirling, PS, Ministry of Health

The Honourable Wayne Caines, Minister of National Security

Bermuda, Auditor General

Bermuda Bankers Association

Bermuda Health Council

Bermuda Monetary Authority

Bermuda Public Services Union

Bermuda Trade Union Congress

Bermuda Tourism Authority

Bermuda Chamber of Commerce

The Honourable Curtis Dickinson, Minister of Finance

The Honourable Wayne Furbert, M.P., Junior Minister of Finance

Dr. Mark Guishard, Bermuda Institute of Ocean Sciences

Nathan Kowalski (Economic Consultant)

Ministry of Finance

Denis Pitcher (Economic Consultant)

Derrick Rawlins, Tax Commissioner

Craig Simmons (Professor of Economics)

Ronald Simmons, Chairman, Tax Reform Commission

Robert Stubbs (Economic Consultant)

Members of the panel presenting their 2018 findings to the Premier and Minister of Finance