

STATES OF JERSEY

# LIVING LONGER: THINKING AHEAD



Part 1. Social Security  
and Income in Retirement

## INTRODUCTION

We are generally living longer and healthier lives, and many more people enjoy active lives into their 80s and 90s.

This is a great achievement, but it means that we face new challenges. One of these challenges is making sure that we will have enough income and savings to look after ourselves after we have stopped working.

We need to understand your views on living longer and having a longer retirement so that the government can play the right role in helping people to save for retirement in the future.

**How** should we plan for these extra years?

**What** role should individuals, businesses and the government have?

**What** role should the Social Security pension play?



START WORK



STARTING A FAMILY



SUPPORT FOR YOU  
DURING ILLNESS  
AND DISABILITY

## HOW SOCIAL

# The Social Security Scheme will change during the 2020s – but how?

Jersey's Social Security scheme helps to protect us at times when we may be less likely to be able to earn a living. For example, the scheme pays benefits to people above the Social Security pension age, to new mothers and to people when they are ill or disabled, and after the death of their partner. **80% of benefits paid out are for pensions.** These benefits are paid for by compulsory contributions from working age people, employers and a government grant from general tax revenues.

Social Security is a Pay As You Go scheme – your contributions are not saved in your own 'pension pot', they are used to pay out the Scheme's benefits. Each generation relies on the next to pay for their Social Security pensions.

Today, the scheme collects a similar amount in contributions as it pays out in benefits. As the number of pensioners increase, the balance will tip and contributions will not be enough to cover the cost of all the benefits.

The scheme has built up £1.3 billion of reserves which will gradually be used up over the next twenty years or so. Although this is a long time away, we need to start making plans now so that any changes can be brought in gradually in the 2020s.

We need to understand your views on **how we can make the Social Security scheme financially sustainable.** Our questions focus on:

- Age** – the age you get the Social Security pension
- Benefits** – how much they are worth and who gets them
- Contributions** – who should pay and how much into the Scheme.



SUPPORT TO CARE FOR SOMEONE



LOSS OF A PARTNER



SOCIAL SECURITY PENSION



DEATH

SECURITY SUPPORTS YOU IN YOUR LIFETIME

## What is the government doing?

This is the start of a public conversation that will help to set the direction of Jersey's Social Security scheme and retirement income system for the next thirty years.

This part of the Review is understanding how the Social Security pension fits in with other ways that people provide income and savings for themselves in retirement. This will need long term decisions and this review will work closely with the long term vision that the government is developing.

You will be able to give your views on other social security benefits later in the Review.

## How long will the Review take?

The Review will take place over the next three years. Information and ideas for change will be discussed with the public during 2016 and 2017, and after the elections in 2018, lead to final proposals and decisions being made in 2019.

## Your views are important and will make a difference

As you read this booklet and complete the questionnaire, please think about how this could affect you, your family and future generations. Any information you provide will be treated in the strictest confidence and used anonymously, unless you tell us otherwise.

We are going to hold some meetings so that we can hear and discuss your views in more detail over the next few months. This will help us to get a much better understanding of the issues that are most important to you and to answer your questions. If you would like to take part, please give us your contact name and details so that we can invite you to a meeting. This part of the consultation will finish on 10 January 2017.

## Contact us

If you would like further information or help, please call:

Mark MacGregor or Sarah Le Monnier on 01534 445505 or email [SocialSecurityReview@gov.je](mailto:SocialSecurityReview@gov.je)



email [SocialSecurityReview@gov.je](mailto:SocialSecurityReview@gov.je)  
[www.gov.je/SocialSecurityReview](http://www.gov.je/SocialSecurityReview)

A photograph of a woman with dark hair and bangs, wearing a teal lab coat, smiling warmly. She is in a clinical or hospital setting, with a blurred background showing another person and a chalkboard. A large teal diagonal shape is overlaid on the bottom right of the image.

# INTRODUCTION

As you read this booklet and complete the questionnaire, please think about how this could **affect you, your family and future generations.**

# SAVING FOR A LONGER RETIREMENT

## What is retirement?

Retirement is when someone stops working. There is no set age at which someone should stop working – it will vary from person to person. Many people choose to stop working when they reach the Social Security pension age and others may stop sooner or later. Some people may work part-time before they stop working altogether.

A key government aim is to help people to be financially independent. For older people this means:

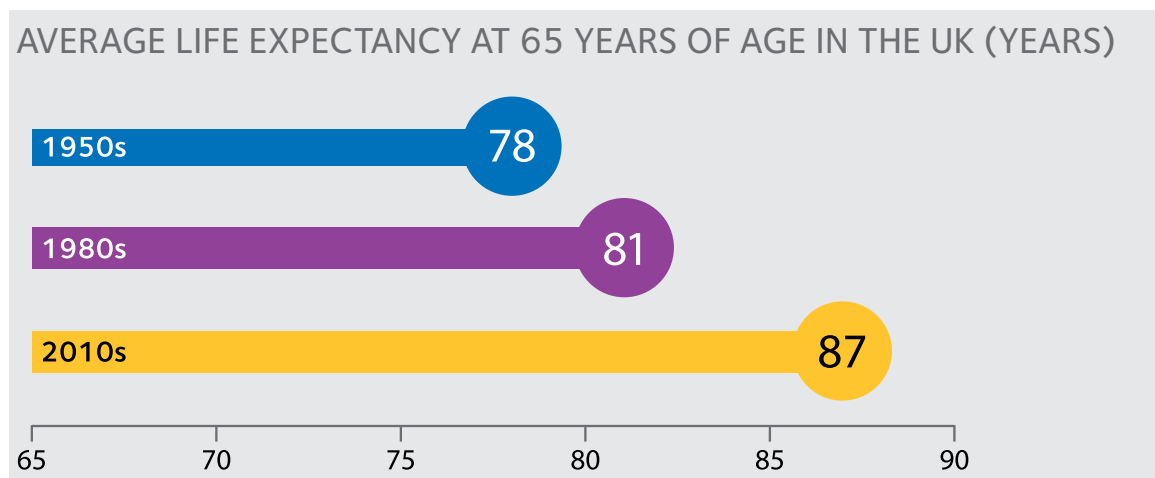
- making sure that people can work as long as they want to
- helping people plan for their retirement so they will have enough income and savings when they do decide to stop working

## Life begins at retirement?

Until the early 1900s, people worked most, or all of their lives and generally did not have a retirement. Those who could no longer work were looked after by their families (multi-generation households used to be more common), and relied on their savings, or help from others (for example the parish, church or charities) where this was available.

We are now generally living much longer and healthier lives – many more people enjoy active lives into their 80s and 90s.

During the 1950s a 65 year old could expect to live to 78 on average (or 13 more years). Now, a 65 year old can expect to live until they are 87 years of age (or 22 more years). The average life expectancy of Jersey people is slightly higher than the UK average figures used here.



Life expectancies are expected to carry on improving over the next 50 years, by which time a 65 year old might expect to live until they are 93.

This is a great achievement. Having and enjoying a retirement is a new development that has come about in the last hundred years or so. People are more likely to have regular incomes before they retire and there are now many ways that people can put money aside for their retirement.

## New challenges...

We face new challenges as individuals and as a society. One of these challenges is making sure that we will have enough income and savings to look after ourselves after we have stopped working.

In the last few decades, a person's job is less likely to be for life and workplace pensions are not as common or generous as they used to be. Recent generations of homeowners have benefited from a large increase in property prices which might not be repeated in the future. These changes make it even more important that we all plan ahead and that the government supports our efforts.

## What you told us

The Jersey Annual Social Survey collects detailed information on a wide range of topics each year, and in 2015, included pensions and retirement as a topic. About 1,650 households responded to the survey and some of the main findings were that:

### “I have a good pension (workplace or private) or other income to use in my retirement”

**47%**  
Agreed

**12%**  
neither agree  
or disagreed

**41%**  
Disagreed



### “I am worried about my standard of living in retirement”

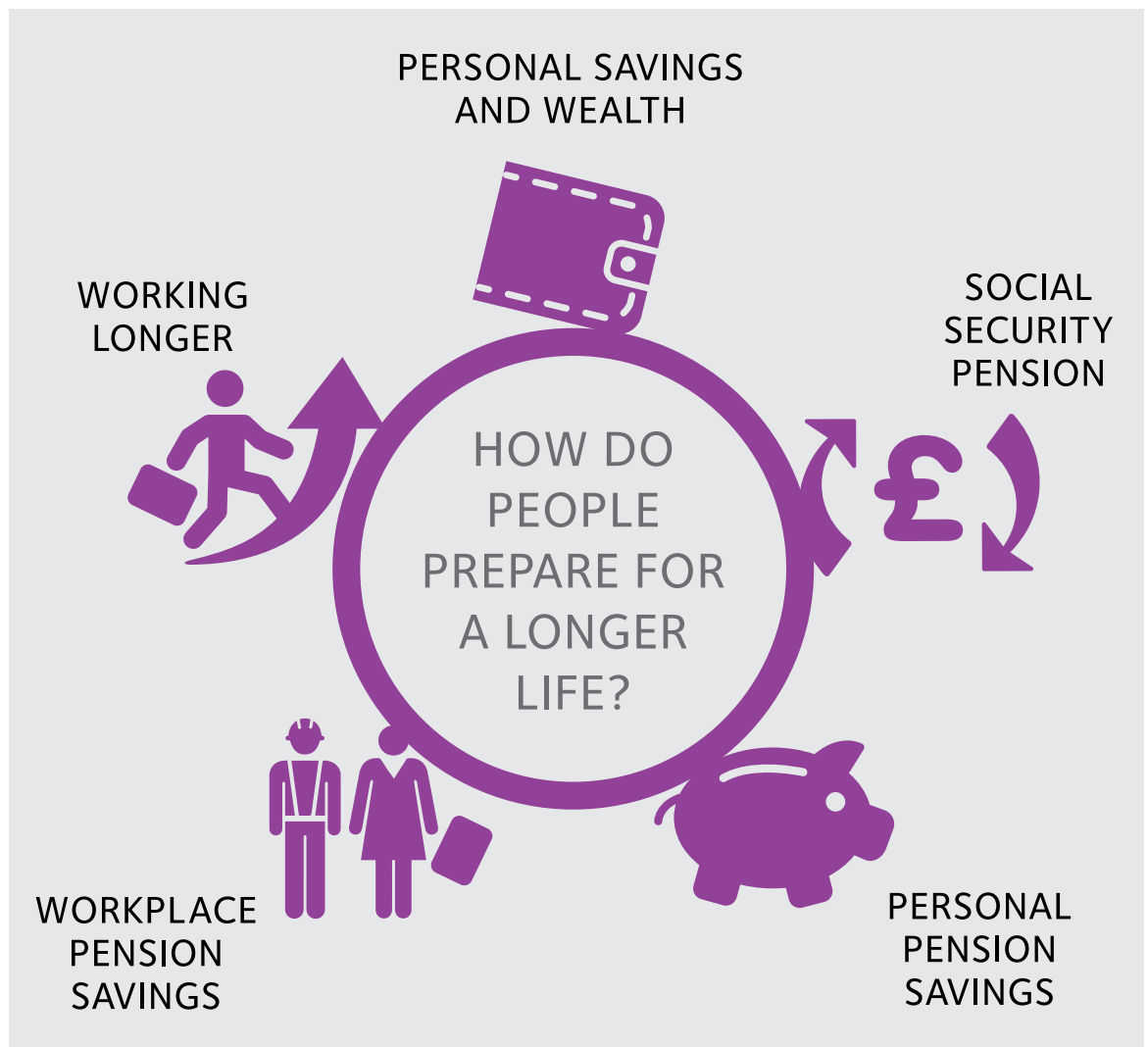
**53%**  
Agreed

**23%**  
neither agree  
or disagreed

**24%**  
Disagreed



# HOW DO PEOPLE PREPARE FOR A LONGER LIFE?



There are five main ways that people financially prepare for retirement.

## 1. Personal savings and wealth

Some people save some of their income during their working lives for when they retire. It is up to the individual to decide how much they save.

The government provides public services and support to help people to reach their potential during their lives, and this will increase income and savings.

Jersey has a low effective tax rate, no capital gains tax and no inheritance tax. This helps people to increase their income, savings and wealth before they retire.

## 2. Working longer

Some people choose to work past the Social Security pension age because they enjoy their job or they need to work to maintain their income. If you work after Social Security pension age, you keep more of your wages, because you do not have to pay Social Security contributions anymore. Your wages are subject to income tax in the normal way.

The States has just introduced protection against age discrimination in 2016, and has also introduced a right to request flexible working for people with caring responsibilities in 2015. These changes will make it easier for people to work up to and beyond pension age if they want to, and are able to.



### 3. Social Security pension

The Social Security pension is paid from the Social Security Scheme which collects compulsory contributions from workers and employers, and gets a grant from general tax revenues.

The size of a person's Social Security pension is linked to the amount of time they have paid Social Security contributions, rather than their earnings.

The maximum pension for a single person is roughly £200 a week, and the average pension paid is £145 a week. The Social Security pension does not cover all living costs. It is intended to support other income and savings during retirement.

### 4. Private pension savings

Private pensions are long-term savings products that individuals can choose to contribute to on a voluntary basis, complementing their other savings and the Social Security pension. There is a clear link between how much an individual saves over the years and the size of their pension pot at retirement.

The government encourages private pension savings by providing income tax relief on them.

### 5. Workplace pension savings

Workplace pensions are long-term savings products that individuals and employers contribute to, as part of their job.

Some employers provide a pension scheme to their workers. In most cases the employer and

worker both make a contribution. Sometimes employers give their workers the option of joining a pension scheme but in other cases the pension scheme is compulsory. There is a clear link between an individual's wages, how long they worked for the company and the size of their pension pot at retirement.

Many of these pension schemes are under pressure. As people are living longer, the cost of providing pensions is increasing and many employers are restricting their schemes or reducing the size of pensions paid out. Many small employers do not offer pension schemes.

In Jersey, the government encourages workplace pension savings by providing income tax relief on them.

Governments in some other countries have looked at this and decided that all employers must offer their workers a workplace pension scheme to encourage people to save more for their retirement. The UK already has a scheme like this and Guernsey is planning to start one in the early 2020s.

In Jersey, the government does not require all employers to provide a workplace pension scheme. If a scheme was introduced, the details, such as who contributes and how much, who would administer the Scheme, flexibility over investment choices, and how people can access their pension pot, for example, would all be considered.

## WHAT YOU TOLD US

THE JERSEY ANNUAL SOCIAL SURVEY SHOWED THAT:

**66%**  
of adults

**AGREED**  
the States should provide  
a **VOLUNTARY**  
additional pension scheme.

**51%**  
of adults

**AGREED**  
the States should provide  
a **COMPULSORY**  
additional pension scheme.



# THINKING AHEAD: JERSEY'S SOCIAL SECURITY SCHEME

## What is Social Security?

The development of Social Security schemes across the world was one of the most significant achievements in social policy over the last 100 years or so. Jersey's Social Security scheme was introduced in 1951, building on the Parish Welfare system at the time. It was largely based on the National Insurance Scheme set up in the United Kingdom in 1948. Since then, the Scheme has been modernised and updated several times to reflect changes in our society and the ways in which we live and work.

Jersey's Social Security scheme helps to protect you at times when you may be less likely to be able to earn a living. The scheme pays benefits to people above the Social Security pension age, to new mothers and to people when they are ill or disabled and after the death of their partner.

Social Security is a Pay As You Go scheme - your contributions are not saved in your own 'pension pot', they are used to pay out the Scheme's benefits, which is mostly the Social Security pension. Each generation relies on the next to pay for their Social Security pensions.

## What is the main challenge that the Social Security scheme faces?

Today, the Social Security scheme is collecting a similar amount in contributions as it is paying out in benefits. The balance will tip so that contributions will fall short of covering the cost of benefits.

The scheme automatically adjusts to changes in prices and earnings, but it does not automatically adjust to changes in how long we live for. So for every extra year lived, there is an extra year of Social Security pension to pay out, without any extra contributions being paid in.

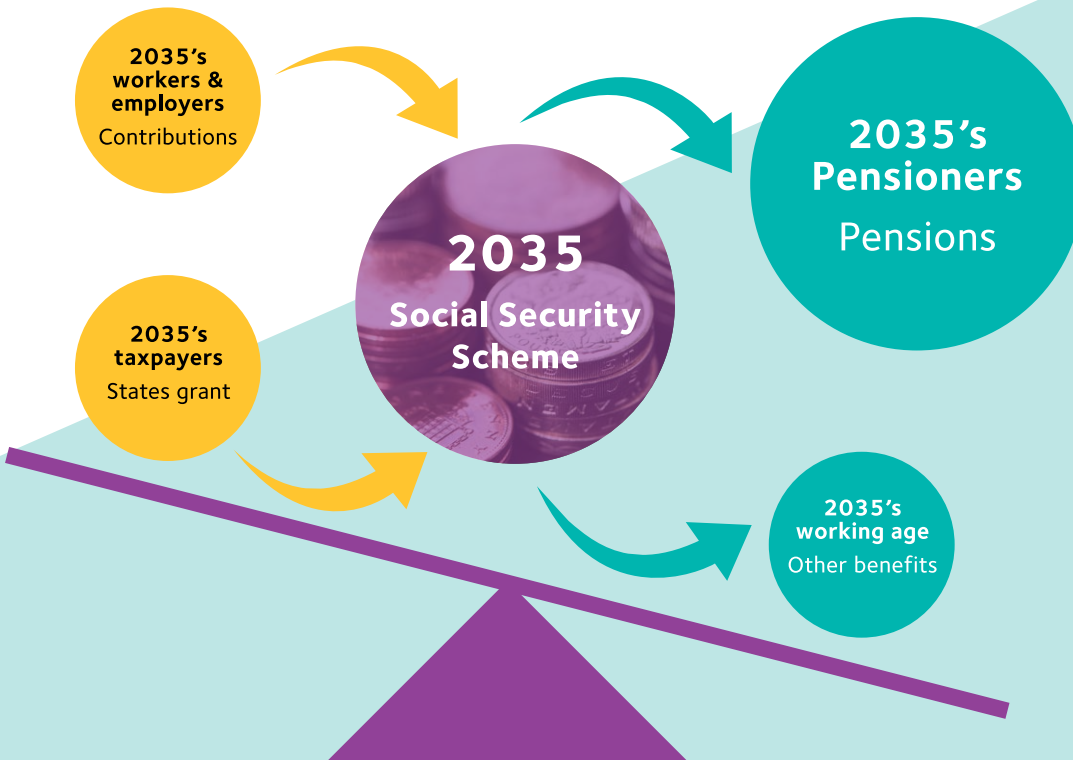
Over the next twenty years, the number of people over 65 in Jersey will increase from 17,000 to 28,000, while the number of people under 65 will stay the same or increase slightly, depending on births, deaths and the number of people here.

This will mean that the number of working age people supporting each pensioner will fall, requiring changes in the way that the Scheme works. Most other developed countries are also facing this challenge now.

The Social Security scheme had reserves of £1.3 billion at the end of 2015, or six times the annual cost of benefits paid out. However, this money will gradually be used up over the next twenty years or so as Social Security pension costs increase. **Although this is a long time away, we need to start making plans now so that any changes can be brought in gradually.**

# PERSPECTIVE

## THE SOCIAL SECURITY SCHEME IN THE NEXT 20 YEARS



Over the next twenty years, the number of people over 65 will increase from 17,000 to 28,000.

# WHAT HAVE WE DONE AND WHAT ARE WE DOING?

## We have changed Social Security...

In the last twenty years, the States has made two important changes to the Social Security Scheme to improve its long-term sustainability.

Between 1998 and 2002, the future increase in the number of pensioners was looked at and the contribution rates were gradually increased by 2.5% (0.5% each year) to help towards paying future Social Security pension costs. This allowed the Scheme to build up the reserves it has today, and means that we have time to consider and make the right changes to the Scheme.

In 2011, the States decided to increase the Social Security pension age from 65 to 67 for people born after 1 March 1964. For those born between 1955 and 29 February 1964, the Social Security pension age increased, but by less than two years. This change will affect people from 2020 onwards and be completed in 2031.

## We help people with low incomes and savings...


In 2008, the States introduced Income Support which provides financial support to households with low incomes and savings that have lived in Jersey for at least five years.

Income Support is a means-tested benefit paid for from general tax revenues. It is not part of the Social Security scheme. Social Security benefits are not means-tested and are paid for by Social Security contributions.

## We are developing a long term vision...

This year, the government has started to develop a long-term vision for Jersey which will describe the sort of place we want Jersey to become 20 years from now. It will be a statement of what it is possible for Jersey to achieve, shaped by people's views on what's good about Jersey today and what people want in the future. That long term vision will set the direction for a range of delivery strategies across social, economic and environmental goals. This review will play a role in "affordable living" - one of the overarching goals set out in the framework for the long term vision for Jersey.

Alongside the long term vision, this Council of Ministers will review and update Jersey's population policy.



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STARTED TO DEVELOP A LONG-TERM  
VISION FOR JERSEY WHICH WILL DESCRIBE  
THE SORT OF PLACE WE WANT JERSEY TO  
BECOME 20 YEARS FROM NOW.**

# WHAT DO WE NEED TO DO NEXT?

The Social Security scheme will change during the 2020s. The changes to the scheme will need to fit in properly with the future of Jersey's whole retirement income system and how people will save for retirement in future.

There are three main ways that the States can change the Social Security Scheme to make it financially sustainable in the future. They are the "A", "B", "C" of Social Security:

**Age** - Increase the Social Security pension age from 67



**Benefits** – Limit the amount of money people receive from the Scheme



**Contributions** – Increase the amount of money paid into the Scheme



Changes in these areas will affect people in different ways and at different times of their lives.

We have asked questions about these choices in the 2015 Jersey Annual Social Survey and now we want to look at these choices and your answers in more detail. We would like to hear your views about how changes in these three areas could affect you, your family and the next generation.



### Age - Increase the pension age?

The States could increase the Social Security pension age – the age at which you receive the Social Security pension.

Jersey's Social Security pension age will reach 67 in 2031. Pension ages have been agreed for everyone born before 1 March 1964.

Increasing the pension age for people born after 1 March 1964 would help the Scheme to be more financially sustainable. This measure would affect younger and middle-aged people, but not older people.

In response to the pressures faced by their Social Security schemes, many countries have increased their Social Security pension ages and linked them to future changes in average life expectancy.

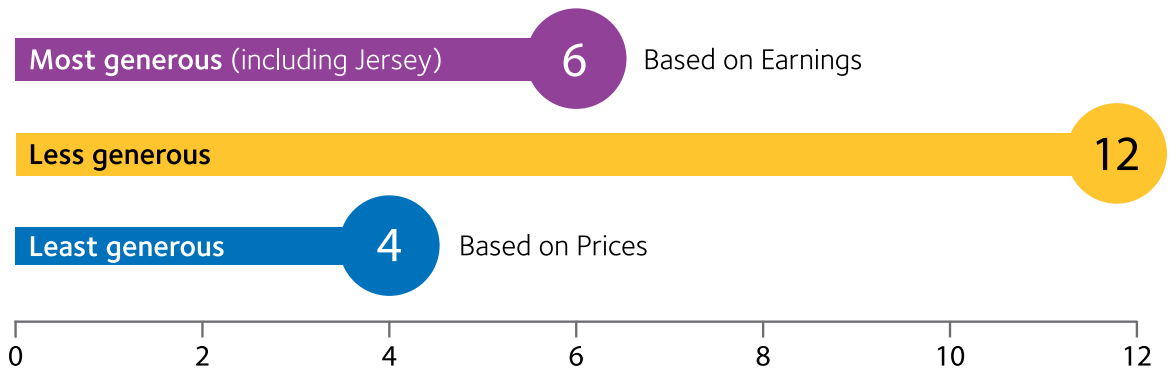


### Benefits - Smaller increases in the Social Security pension?

Prices and earnings usually increase from year to year. When the economy is doing well, earnings will rise faster than prices and people can enjoy a higher standard of living. The Social Security pension increases in line with average earnings.

Other countries increase their State pensions each year in different ways. Many go up faster than prices but less than earnings. Some of these countries can decide not to increase their State pension in a year if their Scheme is not sustainable.

This means that our approach to increasing the Social Security pension is more generous than many other European countries.



Some countries have already made this kind of change. Any changes to how fast the Social Security pension increases each year will affect pensioners and younger people when they reach Social Security pension age. Future pensioners would be affected more than current pensioners.

### Benefits – Limit the amount of money people receive?

Jersey's Social Security scheme protects you at times when you may be less likely to be able to earn a living. The scheme pays benefits to people above the Social Security pension age, to new mothers and to people when they are ill or disabled and after the death of their partner.

Today, the Income Support scheme helps at any time when you experience low income. This means we can think about whether we should limit the range of benefits that the Social Security scheme provides. For example, this could be by tightening the rules for who can claim the Social Security pension and benefits, or reducing the range of benefits available.

Changes like this would affect some people, who would have otherwise received a benefit.

### Contributions - Increase the amount of money paid into the Scheme

Social Security pensions and benefits are paid for by contributions from working age people, employers and a government grant from general tax revenues. People above Social Security pension age do not pay contributions.

We could increase the amount of money that Social Security collects each year by increasing the contribution rate during the 2020s.

An increase could be on the contributions that employees pay, employers pay, or the self-employed or a mix of them. It could be on contributions paid by people regardless of their earnings, or for those with higher earnings.

These choices would affect different groups of people and businesses.

Some countries, have decided to raise taxes and contribution rates to improve the sustainability of their Social Security schemes.

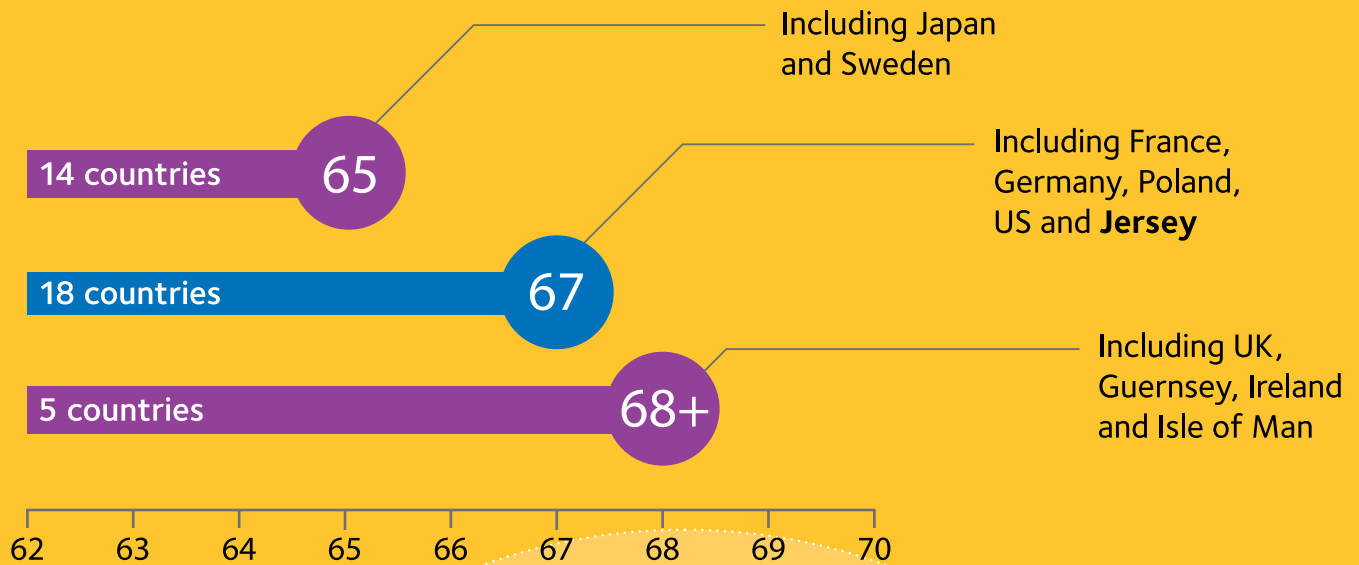


WHAT DO WE DO NEXT?

WE NEED TO START **MAKING PLANS NOW** SO THAT ANY CHANGES CAN BE **BROUGHT IN GRADUALLY**.

# PERSPECTIVE

## PLANNED STATE PENSION AGES AROUND THE WORLD



62 63 64 65 66 67 68 69 70





# TIMETABLE

	WHAT WILL HAPPEN?	WHEN?
ISSUES	Part 1: Consultation and discussion groups	Oct 2016 – Jan 2017
	Part 1: Actuarial Report on the financial outlook of the Social Security scheme	Dec 2016
	Part 1: Feedback on what you have said	Mar 2017
OPTIONS	Part 2: More information on the Scheme, our options and opportunities to tell us your views	Mar – Oct 2017
	Part 2: Consultation and discussion groups	Oct – Dec 2017
	Part 2: Feedback on what you have said	Mar 2018
RECOMMENDATIONS	Part 3: Final research and recommendations	Mar – Dec 2018
	Part 3: Council of Ministers agrees on a plan to take to States members	Dec 2018
	Part 3: States members consider the proposed plan and decide on the future direction of the Social Security scheme	Jun 2019
	The Social Security scheme is changed gradually	2020s and 2030s



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## Contact us

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