

Review of Social Security Scheme

Overview of review and Response to “Living Today, Thinking Ahead”.

Executive summary

The Social Security Fund holds assets of just under £1.8 billion and pays out pensions and benefits of well over £200 million a year. Whilst the Fund is in a very healthy state at present, the cost of pensions will soon start to rise significantly in line with the increase in the number of pensioners in the population. A review of the Scheme is needed to prepare for these extra costs and maintain the viability of the Fund in coming decades.

The first public consultation held in 2016 confirmed strong support for the Fund and the provision of a contributory old age pension, acknowledging that this could lead to higher contribution rates to meet the growing cost. It also identified the need for the States to find new ways to help people to make financial provision for their own old age.

In 2017 a second consultation, “Living Today, Thinking Ahead”, focused on the parental and bereavement benefits paid out of the Fund. Again, the public have demonstrated strong support for maintaining these benefits. However, there was also significant support for requiring people to pay into the scheme for longer before these benefits could be claimed.

Further work is ongoing, and support provided for working age incapacity will be examined this year. An actuarial review will provide updated figures on the Fund at the end of 2018 and results from each benefit area and the range of possible contributions options will then be brought together as part of the preparation for the next Medium Term Financial Plan. Once agreed, any changes will be phased in from 2020 onwards.

This report sets out the background to the overall review and provides a summary of the completed and ongoing work streams. The independent response document prepared for “Living Today, Thinking Ahead” is appended in full.

Background

- **What is the Social Security scheme?**

Jersey’s Social Security scheme helps to protect contributors at times when they 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 parents and to people when they are ill or disabled, and after a death.

These benefits are paid for by compulsory contributions from working age people, employers and a government grant from general tax revenues.

Social Security is not a fully funded scheme - contributions are not saved in individual ‘Pension pots’. Instead, the contributions collected in a year are used to cover the costs of the benefits paid in that year. In particular, each generation relies on the next to pay for their Social Security pensions.

- **The demographic challenge**

We are now generally living much longer and healthier lives - many more people enjoy active lives into their 80s and 90s. During the 1950’s 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). Life expectancy may well continue to increase.

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

Between 2015 and 2035, 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 the level of net immigration. The number of working age people paying in contributions per each pensioner receiving a pension will fall, requiring changes in the way that the Scheme works. Most other developed countries are also facing a similar challenge.

- **British Irish Council**

During 2016, the British-Irish Council (BIC) demography work group concluded its work on population ageing. Officers from each jurisdiction have examined the data and evidence of how and why our populations are ageing and drawn on experience from policy areas, which are responding to our ageing society.

The work sector wrote a report¹ and designed a strategic tool to help bring together the analysis, policy insights and to help those involved consider the opportunities and challenges, and what the next steps should be.

The BIC report provides a shared demography story, strategic considerations around an ageing population, discussion of policy options and looks ahead at how we can address and adapt. It also provides exemplar case studies describing innovative policy, successful practice, and investments so that the governments can learn from each other.

The work sector used the strategic tool as the basis of discussion at its final Ministerial gathering in Edinburgh in 2016. The BIC Ministers, which included Jersey's Social Security Minister, agreed to continue the work in this area.

- **Actuarial review as at 31 December 2015**

The Social Security Law requires an actuarial review of the Fund every 3 years. The last review related to 2013 – 2015 and the results were published in January 2017. (R.6/2017²). This showed the fund to be in a healthy state.

The Actuary reported that:

The financial outlook for the Fund remains healthy in the short to medium term and has slightly improved from that shown at the 2012 review. The speed at which the population profile ages will however have a significant impact on the development of the Fund.

And

¹ <https://www.britishirishcouncil.org/bic-demography-population-ageing-society>.

² <http://www.statesassembly.gov.je/assemblyreports/2017/r.6-2017.pdf>

Given the long-term nature of the commitments built up in social security schemes, it is important to take early action to stabilise the future financial position of the Fund. However, given the Fund exhaustion dates are projected to lie well into the future, it is not essential to take immediate action about this in advance of the next actuarial review of the Fund (due no later than 31 December 2018). Progress should continue to be monitored at future actuarial reviews.

- **Continuity and Change**

“Continuity and Change”, the last major review of the Social Security scheme, was published in 1995 leading to changes over the following nine years. Contribution rates were increased by 2.5%, some benefits were amended and the treatment of men and women was made equal. In particular, from 2001 onwards, newly married women were required to continue to make their own contributions and could no longer rely on their husband’s record to claim a pension.

Twenty years on and these changes have served the scheme well in many areas. In particular raising the contribution rate has helped to build up the substantial level of reserves within the Fund.

- **Need for Review**

As identified in the 2015 actuarial review and the underlying population projections³ from the Statistics Unit, the number of people aged 65 and above will increase significantly in coming decades. The current scheme is already operating close to its break-even rate – i.e. the contributions collected in a year are only just covering the cost of pensions and benefits paid out. As the number of pensioners grows in the next few years, the income received from contributions will no longer be sufficient on its own to meet these growing costs.

The substantial reserve fund will allow the Scheme to be maintained well into the medium term. However, a review is needed to identify the long term future of the scheme and to identify the most effective way to balance the cost of the pensions and benefits being paid out, the level of contributions being paid in and the possible drawing down of some of the reserves that have been built up during the last 20 years.

At the end of 2017, the scheme had built up just under £1.8 billion of reserves. This gives us flexibility in when and how we make changes to the scheme but we do need to start making plans now so that any changes to the scheme can be brought in gradually.

This review will examine both the way the Fund receives contributions and how it pays out benefits. The timing of the review will allow actions to be considered by the next Council of Ministers as part of their strategic and financial planning process.

Social Security Review

- **Living Longer: Thinking Ahead**

The first stage of the Social Security Scheme review started in October 2016 with the public consultation *Living Longer: Thinking Ahead*. This asked for views about how people

³ <https://www.gov.uk/government/pages/statesreports.aspx?reportid=2370>

financially prepare for old age and how the Social Security scheme could be rebalanced in the future.

Public feedback was very supportive of the old age pension and suggested that the eligibility for other contributory benefits could be tightened to help to meet some of these extra costs. It was also accepted that employers and employees may need to pay more into the Fund to meet the rising pension bill.

There was strong support for introducing workplace pensions and for the government to provide more information and incentives to help people to save for their old age.

The results of this consultation were published in May 2017. (R.51/2017⁴: summary document and R.52/2017⁵: full report)

• **Living Today, Thinking Ahead**

The second stage of the review, which started in September 2017, looked at the way the scheme protects working age contributors and how their needs have changed in the last few decades. It focused on benefits that help to protect working age people when:

- They start a family
- Following a death

2,675 members of the public contributed to the *Living Today: Thinking Ahead* review either through Apptivism, the online survey or by attending a workshop

The results demonstrate very positive support for retaining these contributory benefits.

- More than 8 out of 10 respondents wanted to keep the bereavement benefits (Survivor's Allowance, Survivor's Pension and Death Grant).
- More than 7 out of 10 respondents wanted to keep the parental benefits (Maternity Grant, Adoption Grant and Maternity Allowance).
- More than 8 out of 10 people were against means testing these benefits.

There was clear support for the view that people should pay into the scheme for longer, before they can claim a contributory benefit. More than 7 out of 10 respondents agreed that people should have to pay contributions for a longer period before being able to claim a contributory benefit, with 5 years being the most popular option

The 2017 survey also included two questions on increasing the generosity of benefits – providing a parental allowance for longer and paying a higher value of death grant. In both cases, opinions were fairly evenly split between keeping the benefit as it is and providing a more generous benefit.

It was also accepted that employers and employees might have to pay more into the Fund to meet the costs of any extra benefits and the rising pension bill.

The consultation included 8 workshops and a number of additional themes emerged from these discussions. Key ideas included:

⁴ <http://www.statesassembly.gov.ie/assemblyreports/2017/r.51-2017.pdf>

⁵ <http://www.statesassembly.gov.ie/assemblyreports/2017/r.52-2017.pdf>

- There was strong support for higher earners and employers to pay more contributions on higher wage levels
- The eligibility rules for benefits are too complicated
- New residents in Jersey face a confusing set of rules around accessing benefits and services after different periods. These should be simplified.

The responses to this consultation have been analysed by independent consultants and their full report is appended.

- **Work plan for 2018**

A number of work streams are in progress for 2018.

Actuarial review

In future, the regular actuarial review of the Social Security Fund will be aligned with the Medium Term Financial Planning (MTFP) cycle of the States Assembly and a review will be completed on a four-year cycle in the year before the next MTFP is agreed. To achieve this alignment, a review is being undertaken in 2018, based on the Fund as at 31 December 2017. This will be published towards the end of the year. The up to date analysis will then be available to help to evaluate the financial impact of various contribution / benefit options before States members are asked to take any final decisions.

Incapacity (illness and disability)

In 2017, work started on a review of the incapacity benefits provided through the Fund. This includes examining how working-age incapacity is assessed for both short-term and long-term conditions and identify what support (financial and non-financial) should be provided. This work will continue throughout 2018 and will also include a review of the support available to informal carers through the contributory system.

Deferred contributions for new business owners

A review of the deferred rate contribution scheme available to a new business owner is underway.

Internal departmental review

During 2018, a range of technical areas relating to current benefit and contribution rules will be reviewed.

Financial security in old age

Following on from the 2016 consultation, in 2018 work will start on reviewing options for workplace pensions and other ways to help people make financial provision for their old age.

Living longer

The themes of the 2016 BIC demography work group and the challenges and opportunities posed by an ageing population were explored in a cross-departmental workshop held towards the end of 2017. These themes will continue to be developed during 2018.

- **Looking ahead**

Completed and current work will be consolidated during 2018 to feed into the planning process used to develop the Strategic Plan of the new Council of Ministers. In particular, the "living longer" cross-departmental work will be fed into the long-term vision and strategic planning

process to ensure that the full impact of these demographic changes is accounted for in future policy making.

As part of the process to develop the next Medium Term Financial Plan (MTFP), we will evaluate a range of options for future benefit provision. The costs of each option will be estimated and corresponding proposals will be put forward describing changes to contributions to meet the anticipated cost.

The proposals for contributions will include a review of the balance of contributions received from employees and employers, the earnings limits and percentage rates applied at different income levels and the range of income to be included within the rules for liability. This review will be carefully co-ordinated with other possible income measures to be included in the next MTFP.

Agreed changes will be implemented from 2020 onwards.