

STATES OF JERSEY



SOCIAL SECURITY SCHEME: AMENDMENTS (P.117/2010) – COMMENTS

**Presented to the States on 15th November 2010
by the Minister for Social Security**

STATES GREFFE

COMMENTS

Summary

The proposals contained in P.117/2010 add considerably more to the overall tax burden on the individual and local employer than the total FSR package that has been proposed by the Minister for Treasury and Resources.

The Social Security Department is well aware of the long-term pressures on the Social Security and Health Insurance Funds. These funds are kept under regular review and within the next 10 years there will need to be adjustments in respect of contribution levels and/or benefits available. However, there is no need to collect the quantity of money proposed by Senator Breckon to be set aside in ring-fenced funds in the timescales that he is proposing.

This is an irresponsible proposition that will create unnecessary concern. It is put forward without any supporting evidence to justify the substantial increases in contribution rates.

Proposed increases

Senator Breckon's proposition seeks to raise in excess of £84 million a year from local residents and employers by the beginning of 2014, to be placed in ring-fenced funds.

The table below shows the phasing of these increases, based on 2009 prices. The actual costs will be higher, as earnings rise from year to year.

<i>Year</i>	<i>Employee contributions (£ million)</i>	<i>Employer contributions (£ million)</i>	<i>Taxpayer funding (£ million)</i>	<i>User Pays charges (£ million)</i>	<i>Total additional cost (£ million)</i>	<i>Note</i>
2011				2.4	2.4	Re-introduce prescription charges
2012	14.5	14.5		2.4	31	Introduce LTC contributions
2013	29.0	29.0	6.2	2.4	66	Increase HIF and SSF contributions
2014	29.0	43.5	9.3	2.4	84	Increase HIF and SSF contributions

Earnings ceiling

The existing contributory system includes an earning ceiling and contributions are not collected in respect of earnings above the earning ceiling. Individuals who make contributions below the earning ceiling have their record supplemented by the States to create a full record for benefit and pension purposes.

As Senator Breckon's proposition does not make any amendments to the earning ceiling, the extra cost of £29 million for employees and £43.5 million for employers is met by contributions on earnings up to the earning ceiling which in 2010 is £43,752

per annum. Under his proposals, higher earners will not pay any additional contributions above the ceiling and the States will need to bear the additional cost of supplementation for lower income earners.

Strategic planning

Senator Breckon suggests that there is an “unsatisfactory situation” at present and that action needs to be taken immediately to solve current problems and that his proposals will create the correct structure for future funding mechanisms. He fails to mention the clear direction set out in the 5-year strategic plan covering the years 2009 – 2014. Page 44 of the Strategic Plan includes an explicit acknowledgement of the need for a long-term plan to deal with the increasing pressure on pensions and long-term care and health care costs. Social Security and Health are addressing these problems over this 5-year timescale and departmental business plans for each year identify specific actions to be taken during that year.

Departmental actions

Senator Breckon has taken no account whatsoever of the following issues that are already being dealt with by the Department –

- The use of the Social Security reserve fund that has been specifically built up in order to help cope with the increasing cost of pensions in the medium term.
- The possibility of collecting additional contributions from higher earning employees and their employers by creating a contribution rate above the earning ceiling, as put forward in the current Budget proposals.
- Increasing the pension age to relieve some of the pressure on the Social Security Fund.
- Amending the benefits available through the Health Insurance Fund in line with a modern health care strategy that is being developed by the Health and Social Services Department.

He fails to acknowledge the professional advice that is received from the Department on a regular basis from the UK Government Actuary’s Department. The Government Actuary is currently working on reports for both the Health Insurance Fund and the Social Security Fund and these 2 reports will be available within the next 4 months.

Future actions

There is absolutely no need to impose these major contribution increases on the general population within the next couple of years. The States have time to –

- Consider these issues properly,
- Take the necessary expert advice, and
- Involve the public in the decisions that will need to be taken.

Senator Breckon’s proposition allows for none of these. His suggestion that we need to make urgent increases across existing funds in addition to the new long-term care fund places a completely unwarranted additional burden on the local working family and should be completely rejected.

Long-term care benefit

In addition to raising funds, Senator Breckon suggests that a long-term care scheme should be established. As is well known, the Department is already working on this proposal and a White Paper is being published (*see R.131/2010*), setting out detailed proposals and a clear timetable for implementation. The White Paper also identifies areas in which additional work will need to be undertaken before the scheme can be brought into operation. In particular, it is not practical to suggest that the benefit could be in payment by July 2012.

Prescription charges

P.117/2010 includes a proposal to re-introduce a prescription charge for certain groups. Work is already being undertaken in this area and I will be publishing proposals before the end of the year. As with the funding increases, Senator Breckon provides no evidence whatsoever to support his proposals. In particular, there is no justification for the choice of exempt groups.

He does not include any exceptions for individuals with chronic medical conditions who rely on regular medication to control their condition and who have benefited greatly from the current system of free prescriptions. Instead, he creates arbitrary exemptions, including an exemption for everyone included in Income Support households. One of the difficulties with the previous benefits system was that individuals who received one benefit were then able to receive additional benefits automatically, without reference to their particular medical needs.

It would be premature to accept this proposal, without any understanding of the consequences. However, I acknowledge the considerable interest in the subject and I can confirm that work has been ongoing for some time to identify an appropriate mechanism for prescription charging and a proposal, based on proper research and including an examination of prescription usage in the island, will be published within the next 2 months.

Health Insurance Fund

Social Security is working closely with Health and Social Services on a revised Health Insurance Law, which is likely to include a greater emphasis on targeting of benefits in the future. For example, the new Law could include subsidies for regular screening amongst the population as a whole and provide additional support for individuals with chronic health conditions who currently face high medical bills.

Proposals for changes to the law will be brought forward within the next 2 years and will be based on substantial research and an acknowledgement of the changes in primary health care provision in recent years.

The suggestion that the Health Insurance Fund should be used to provide additional benefits for individuals based solely on their income as opposed to their medical condition should be rejected. Senator Breckon's key argument is that individuals are prepared to pay into ring-fenced funds as they know they will receive a benefit from it. Including means-tested benefits in a ring-fenced fund acts directly against this argument as individuals who are working and contributing to the fund will not be able to receive these benefits if their income is above a certain level.

Conclusion

- I am already committed to bringing primary legislation for a long-term care fund to the States Assembly by July 2011, with benefits being payable from the new fund in early 2013.
- In 2009 the surplus of income over expenditure in the Health Insurance Fund was £5,378,000.
- The UK Government Actuary has nearly completed his review of the Health Insurance Fund and that review is likely to be published before the end of 2010. This will provide firm evidence for possible changes to the Health Insurance Fund in the future.
- The Health Department is working on an overall primary health care strategy which will lead to a revised health insurance Law by 2013.
- In 2009 the surplus of income over expenditure for the Social Security Fund amounted to £37,354,000.
- The UK Government Actuary is already working on the next review of the Social Security Fund and that review is likely to be published in the first quarter of 2011. This will provide further evidence for the timing of possible changes to the Social Security contributions.
- Law drafting resources have already been allocated to long-term care legislation, social security legislation and health insurance legislation.
- I am already committed to bringing proposals for prescription charges to the States by the end of 2010, with a States debate in early 2011

Every element of Senator Breckon's proposition is already being developed by the appropriate department and detailed plans, supported by expert advice, will be published for States members and the general public to consider, before any decisions need to be taken as to increased funding or user charges that will affect the general public.

In addition to the points raised by Senator Breckon –

- I will be publishing a paper on changes to the pension age by the end of 2010.
- I will be bringing forward proposals to allow for contributions to be made above the current earnings ceiling during 2011, which will provide for additional contributions to be made by higher earners and their employers.
- I will be bringing forward proposals to set the value of the funding provided by the taxpayer to the Social Security Fund ("supplementation") during 2011.