

**WRITTEN QUESTION TO THE MINISTER FOR SOCIAL SECURITY
BY DEPUTY G.P. SOUTHERN OF ST. HELIER
ANSWER TO BE TABLED ON TUESDAY, 5th DECEMBER 2006**

Question

Figures taken from Social Security accounts and from 'Jersey in Figures' reveal that the contribution from taxation to social security funds (supplementation) has risen over the period 2000 to 2005 by 40% from £36.2m to £50.7m, at a time when cumulative inflation was only 20% and numbers in employment remained more or less stable.

Would the Minister –

- (a) set out the reasons for this significant rise, and inform members what actions, if any, he intends to take to reduce this sum?
- (b) inform members what estimate he currently has for the 2006 actual supplementation figure, and account for any variation from the estimate given in the 2006 Budget of £53.2m?
- (c) state whether the sum of £54,657,800 allocated to supplementation in 2007 (Annual Business Plan Annex) will be adequate for 2007 according to current estimates and state what sums have been allocated for supplementation within the net expenditures figures for 2008– 2009 for Social Security contained in Summary Table B of the Budget 2007?

Answer

Before answering the specific questions asked, I take this opportunity to remind States members that supplementation is the contribution from general taxation to the Social security records of low to middle wage earners to protect their entitlement to pensions and to ensure that they remain fully insured if unable to work. It is thereby a significant tool for alleviating poverty.

Each month an individual's earnings up to an earnings ceiling is declared and 10.5% of those earnings is the contribution collected and attributed to that person. Individuals with earnings below the earnings ceiling have their contributions "supplemented" to the level of contributions paid at the earnings ceiling. Those people with earnings at or above the earnings ceiling do not attract supplementation. High earners do not receive supplementation.

The parameters that drive the global sum for supplementation are the numbers of people earning below the earnings level and the earnings of these individuals. Increasing economic activity which might increase the number of workers, and salary levels particularly annual increases below the published earnings index would both have a major impact on supplementation. The effect of inflation on supplementation is at most indirect in that it can affect pay claims and thereby average earnings.

- (a) I remind Deputy Southern that contribution rates for supplementation were increased by ½% a year for each of the years 1998-2002. These increases which received widespread support were to maintain the Social Security Pension by building up reserves in the fund to help counter the effects of an ageing population.

This forward planning has resulted in a financially robust Social Security Fund that is the envy of many other jurisdictions.

These rate increases were reflected in the significant growth in contributions and supplementation over those years. As shown in the table below, over the 2 year period 2000 to 2002, Social Security contributions rose by 28% and supplementation by 33%, whilst Health Insurance Scheme

contributions the rate for which did not rise similarly and which do not attract supplementation rose by 16%.

By contrast over the longer period of 3 years, 2002 to 2005, when contribution rates did not increase Social Security Contributions rose by 11% and supplementation by 6%.

Year	Supplementation	Social Security Contributions	Health Insurance Contributions
2000	£36.2 m	£81.1 m	£17.1 m
2001	£41.2 m	£92.8m	£18.6 m
2002	£48.1 m	£104.0 m	£19.9 m
2003	£49.9 m	£108.4 m	£20.7 m
2004	£50.8 m	£110.3 m	£21.0 m
2005	£50.8 m	£115.5 m	£22.0 m

The rise of supplementation over the period 2000 to 2005 is principally a direct result of a decision of the States, made after extensive consultation and so I am somewhat taken aback by Deputy Southern asking what I intend to do about it.

- (b) Based on the evidence of contributions collected in the A and B quarters between January and June 2006, and the most up to date figures for the C quarter (July, August, and September 2007) the most recent estimate of supplementation is £55.8 million. As usual the budget estimate was made based on contributions received in the first quarter of the previous year, and the variation is due to a combination of factors; an increase in the number of contributors particularly those earning below the earnings ceiling; and an increase in the average amount of supplementation per individual earning below the contribution ceiling.

This increase in supplementation in 2006 is unexpected and appears to be as a result of growth and change in employment rates at the lower to middle income earning levels.

The Council of Ministers has agreed that the Social Security, Economic Development and Treasury and Resources Departments, working with the Economic Advisor, assess the situation relating to supplementation, identify possible options and report back to the Council by mid 2007. That work will be led by the Social Security Department.

In addition to this significant review, Officers of my Department are investigating further and are concentrating upon the declaration of earnings by some employers and employees to ensure as far as possible that when supplementation is claimed, that it is based upon an accurate declaration of earnings.

- (c) The current budget for supplementation, agreed by the States for 2007 is £54.7 million. Latest forecasts for 2007 are between £3-£5million in excess of this amount, hence the need for the urgent review agreed by the Council of Ministers.

The 2008 cash limit for the Social Security Department includes a provisional estimate for supplementation of £56.3 million and for 2009, £58.0 million.

These provisional estimates which were set in the first quarter of 2006, will be revised as a result of recent experience and the review announced above.

As Minister for Social Security and as the former President and before that a member of the Employment and Social Security Committee, I am very proud of the wise and prudent decision taken by the States in having the foresight to build up a fund to contribute towards protecting the pensions of the future.