

**WRITTEN QUESTION TO THE MINISTER FOR SOCIAL SECURITY
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ANSWER TO BE TABLED ON TUESDAY 14TH NOVEMBER 2017**

Question

Further to the answer provided to Written Question 8473 on 9th September 2014, will the Minister provide up-to-date projections for income yield if Social Security contributions were set at 4%, 5% and 6%, respectively, with no Standard Earnings Limit (SEL) or Upper Earnings Limit (UEL) and with employer contributions remaining unchanged?

Will the Minister further provide projections for income yield if the employer contributions rate under Class 2 contributions was set at 0%, 1% and 2% below the SEL?

Answer

The Social Security scheme

The Social Security scheme is a social insurance scheme which covers all adults who have lived in Jersey for at least six months. Insured people are either Class 1 as employed people, or Class 2 which includes everyone else, for example self-employed people and other people who are not employed.

Every adult is expected to pay contributions in to the scheme, although there are exceptions in certain situations, for example having a low income, being unable to work through sickness or disability, being in full-time education or starting a family.

The contributions that people pay are a percentage of their earnings, and the percentage depends on the level of their earnings as follows:

Earnings limits for 2017

	£ per month	£ per year
Standard Earnings Limit (SEL)	4,180	50,160
Upper Earnings Limit (UEL)	13,828	165,936

Contribution rates in 2017

	on earnings up to the SEL	on earnings between SEL and UEL
Class 1: Employee	6%	0%
Class 1: Employers	6.5%	2%
Class 2	12.5%	2%

Employees who earn less than £50,160 a year (the Standard Earnings Limit (SEL)) pay a 6% contribution of their earnings. Employees who earn above this pay a 6% contribution on £50,160 of their earnings and do not pay any further contributions above this earnings level.

Employers pay 6.5% of the employee's earnings up to the SEL, and a further 2% on any earnings between the standard and upper earnings limit (UEL).

Self-employed people and others not in employment (Class 2 people) pay a total contribution rate of 12.5% on their earnings up to the SEL and 2% in respect of earnings between the SEL and the UEL.

Estimates

The table below provides an estimate of yield under a flat rate, no earnings limit scenario with 4%, 5% and 6% levied on Class 1 employees. The same options have been applied to class 2 individuals, with the table excluding the contributions made by class 2 individuals which are equivalent to employer contributions.

Estimates of contributions on earnings up to the UEL are based on actual contributions received by the Social Security Department in 2015.

Estimates of contributions on earnings above the UEL are based on income tax data for 2015. These estimates are less certain due to variations arising from the ways in which income and earnings are defined. In particular, the contributions estimates for the highest earners are based on a small number of people. Any changes in the number of these people could have a disproportionate impact on the estimate and the actual sum achieved will be subject to considerable variation.

The estimates also do not take into account any changes in individual or business behaviour, or any wider economic impacts, that might result from changing the current contributions structure to the ones described in this question.

Estimate part 1

	Estimated change in employee contributions (including Class 2)			
	Total 2015 contributions: Employer, Employee and Class 2 £'000	4% rate £'000	5% rate £'000	6% rate £'000
Class 1 below SEL	175,013	-28,002	-14,001	0
Class 1 between SEL and UEL	5,495	10,990	13,737	16,485
Class 2 below SEL	15,651	-2,504	-1,252	0
Class 2 between SEL and UEL	1,632	3,264	4,080	4,896
Estimated contributions above UEL		4,622	5,778	6,933
Difference compared to actual		-11,630	8,342	28,314
Total	197,791	186,161	206,133	226,105

These estimates suggest that a flat 4% rate would reduce payments into the Social Security Fund by at least £11.6m million; a flat 6% rate would increase payments into the fund by up to £28.3 million. The estimates of yield above the UEL should be treated with considerable caution as noted above, this yield relies on a small number of individuals and the assumption that their current income structure would be unaffected by this move.

Estimate part 2

This part of the question asks the Minister to “provide projections for income yield if the employer contributions rate under Class 2 contributions was set at 0%, 1% and 2% below the SEL.”

The Class 2 contribution rate is 12.5% for earnings below the SEL. This is set in line with the total Class 1 employee and employer contribution rate which is also 12.5%.

The equivalent change suggested would therefore be to have a Class 2 contribution rate of either 6%, 7% or 8% below the SEL, rather than the current rate of 12.5%. (In this scenario, the Class 2 contribution rate of 2% of earnings between the SEL and UEL remains the same).

At present, the Class 2 contribution rate is the same as the total Class 1 contribution rate so that an individual or a business pays the same contribution percentage whether a worker is employed or self-employed. The benefits available to Class 1 and Class 2 individuals are also identical.

If the Class 2 contribution rate is reduced below the total Class 1 contribution rate, the Social Security scheme would favour self-employment over employment. The Class 2 rates being suggested are significantly lower than the Class 1 rates, and therefore individual and business behaviour is more likely to change. For example:

- Some people may move from employment to self-employment.
- Some businesses may prefer to engage self-employed people rather than employ people.
- There is a risk this could leave some more vulnerable workers less protected if they are self-employed rather than employed.

A reduction in the Class 2 rate would reduce the amount of contributions paid by every Class 2 person, including those with high earnings. There are currently 1,300 Class 2 people who have earnings above the SEL. This includes a wide range of business owners and professions including lawyers, accountants and doctors. In all, one in three Class 2 contributors have earnings above the SEL.

Taking the current distribution of Class 2 individuals, the reduction in income would be as shown below. Figures are given for 2015, to allow comparison with the first half of the question.

Estimated change in Class 2 contributions

	Total 2015 contributions: Employer, Employee and Class 2 £'000	Class 2 6% rate £'000	Class 2 7% rate £'000	Class 2 8% rate £'000
Class 1 below SEL	175,013	0	0	0
Class 1 between SEL and UEL	5,495	0	0	0
Class 2 below SEL	15,651	-8,139	-6,887	-5,634
Class 2 between SEL and UEL	1,632	0	0	0
Difference compared to 2015		-8,139	-6,887	-5,634
Total	197,791	189,652	190,904	192,157

These estimates suggest that reducing the Class 2 rate would result in less contributions ranging from £8.1 million (Class 2 rate of 6% instead of 12.5%) to £5.6 million (Class 2 rate of 8% instead of 12.5%).

For the reasons noted above, it is likely that reducing the percentage liability for Class 2 contributions relative to Class 1 would lead to changes in employment structures, and the actual reduction in income would be greater than shown as businesses take advantage of the differential rates.

The Social Security scheme review

The UK Government Actuary report on the Social Security Funds published earlier this year suggested that the States should review the options to preserve its future viability.

The Social Security scheme review is looking at this over the next couple of years. We have gradually built up reserves in the Social Security Funds over the last 20 years and so there is time to undertake this work thoroughly.

The review also includes projects to improve and modernise the protection and benefits the scheme provides, bearing in mind how people live and work today and in the future. At the moment the department is consulting on maternity benefits and survivor's benefits.