STATES OF JERSEY

PENSION PLUS SCHEME

Lodged au Greffe on 23rd August 2022
by Deputy M. Scott of St. Brelade
Earliest date for debate: 13th September 2022

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion −

to request the Minister for Social Security, in consultation with the Minister for Treasury and Resources, to take the necessary steps to make the Pension Plus Scheme available to Islanders over 75 years of age who:

(i) qualify in all respects with its current qualifying criteria other than the requirement not to pay Jersey income tax; and

(ii) pay income tax on income of less than £25,000 in the relevant tax year and pay rent for their living accommodation in Jersey out of their taxable income.

DEPUTY M. SCOTT OF ST. BRELADE

REPORT

This Proposition seeks to alleviate the relatively high amount of pensioner poverty in the Jersey compared to that in the UK by proposing the adoption of a support measure in addition to those proposed in Propositions P.80/2022 and P.81/2022 in connection with the Council of Minister's mini-budget.

It proposes that support under the Social Security Department's Pension Plus Scheme (PPS) (which currently offers financial contributions towards dental, optical and podiatry costs of up to a current value of £590 annually) be extended to those with entitled residential status who:

- are over the age of 75
- pay income tax on income of less than £25,000
- have capital assets of less than £30,000, and
- pay rent for their living accommodation out of their taxable income.

The current entitlement to apply for payments under the PPS is as follows (extracted from government's website):-

You can apply for Pension Plus if:

- you've reached pension age at the time of application
- you either have an Jersey Old Age Pension or have 'entitled' residential status
- you (and your partner) don't pay Jersey income tax
- you (and your partner) have capital assets less than £30,000

Excluded from the capital assets criteria under the PPS is the value of the accommodation in which the claimant lives if owned by the claimant.

Although the raise in income tax threshold from £16,550 to £18,550 for 2023 for single taxpayers proposed in Propositions P.80/2022 and P.81/2022 will make the PPS accessible to a greater number of pensioners by taking some of them out of the Jersey income tax net, the rent payable by pensioners who remain liable to pay a small amount of income tax remains non-tax deductible.

There is a substantial difference in available income after housing costs between pensioners who are paying rent out of low taxable income and those whose income is slightly lower but who have no need to pay rent owing to home ownership. There also in an inequity with respect to the distribution of benefits under PPS and the recently-introduced Cost of Living Temporary Scheme (COLTS) that favours the homeowner over the tenant.

Illustrative Example:

A and B are two pensioners aged 78, both living on their own.

Pensioner A mainly worked part time before retirement and has been living in the house she owns while receiving a total income last year of £15,838 from her state pension and a private annuity scheme.

Pensioner B has worked full time in the Island from the age of 17 until retirement age and received a total income £19,838 in 2021 (from company pension schemes and the state pension) from which she had to pay £9,000 in rent.

Both had savings of less than £30,000 and no other capital assets (other than, in the case of Pensioner A, the £500,000 house in which she lives).

With the personal income tax threshold in 2021 being £16,000, Pensioner A was not required to pay income tax, with the value of her home excluded from the capital asset value restriction related to PPS. She therefore was entitled to contributions from the PPS of up to £590 and, on that basis, also entitled to claim an additional payment of £20 for each member of her household each month from April to December 2022 of this year under the COLTS scheme (which the mini-budget proposes to double).

Pensioner B was liable to pay income tax and the long-term care contribution of £1118 in 2021. From her remaining income of £18,720, she had to pay her £9000 rent, which left her £9,720 for other living expenses for the year, including winter heating costs. As an income taxpayer, she was not entitlement to any payments under the PPS and COLTS by way of assistance. This is despite her income after her housing costs and tax in 2021 being £6,000 less than Pensioner A's tax-free income after housing costs.

Pensioner B has paid £4,000 a year from her sole savings account to cover her living expenses. Not being entitled to PPS, Pensioner B's savings will need to cover more in the way of costs for equivalent optical, dental and podiatry treatment than Pensioner's A's savings. Although both pensioners may find themselves paying towards maintenance costs of the building in which they live (directly in the case of Pensioner A and, in Pensioner B's case, through her tenancy agreement), unlike Pensioner A, Pensioner B will not benefit from any maintained or increased value of the property resulting from the maintenance works for which she has paid.

Some taxpayers in Pensioner's B's position may have been entitled to income support for their rental payments, giving them access to one-off grants towards certain expenses. This entitlement and the amount of contribution would have depended on the level of their savings but would not cover the whole of the rent (at best, possibly a third of it).

Effect of mini budget

The report accompanying Proposition P.80/2022 anticipates a rise of the full single Jersey pension to £13,176.80 in 2023 (plus any additional RPI uplift from October in that year). It also proposes a rise in the single income tax threshold to £18,550. Because rent will continue not to be a deductible expense for tax purposes, unless the PPS is amended as proposed in this Proposition, pensioners who pay rent out of low taxable income from other sources will continue to be relatively disadvantaged compared to those who own their own homes.

Rectifying this position would make an appreciable difference for a small number of more elderly pensioners who have endeavoured to live relatively independently in rented property in their retirement. A number of these are being forced to exhaust their limited savings sooner than they originally planned owing to unforeseeable events (including the removal of an additional tax allowance by government in 2017 described below). This will accelerate the time when they are likely to have to look to government for income support funded by the taxpayer along with related administrative costs.

NOTES

1. Inflation has caused a loss of income in real terms in recent years across the Island. Approximately 1 in 3 Pensioners in the past 7 years have had less than 60% of median household income after housing costs. This was less than £336 per week (or £17,472 a year) in 2014/2015[1] (34% of Pensioner households) and less than £414 per week (or £21,528 per year) in 2019/2020[2] (28% of Pensioner households).

2. The 2021 Census showed that, whereas:

   a. 74% of households comprising a couple with one pensioner owned their own home; and

   b. 83% of households with at least two pensioners owned their own home,

   a smaller percentage (57%) of single pensioners owned their own home. Of the remaining single pensioners, 26% paid social housing rent, 15% paid rent for qualified accommodation and 2% paid rent for unqualified accommodation.

3. The 28% proportion of pensioners on a relatively low income after housing is twice that of the UK (14%)[3] Those who pay rent have faced increased rental costs (the Private Sector Rental Index shows an increase in private rents of approximately 40% from 2015 to 2022) and an increased cost of living owing to recent inflation, while also having been deprived since 2017 of a higher income tax threshold available to Islanders over the age of 64/65.

4. In view of staffing shortages and the Island's relatively high proportion of population over the age of 65, the Outline Economic Strategy for Jersey published in 2022 anticipates that 'those aged 65 and above will play a much greater role in shaping our economy'. For this reason, and to counter possible Treasury objections to the potential implementation cost of the Proposition, the Proposition's proposed changes to the Pension Plus Scheme have been restricted to Islanders over the age of 75.

I would stress this proposition is regarded by me as a starting position developed within time constraints so that it can be considered by the relevant Ministers and the States Assembly alongside the mini-Budget. There are further steps or adjustments to the proposal that could be taken to assist more of those on low incomes or in 'middle Jersey' who are finding themselves struggling with the rising housing and living costs in the current economic climate.

Financial and manpower implications

[1] Source: Jersey Household Income Distribution survey 2014/15 published by Statistics Jersey

[2] Source: Jersey Household Income Distribution survey 2019/2020 published by Statistics Jersey (https://www.gov.je/SiteCollectionDocuments/Government%20and%20administration/R%20Income%20Distribution%20Report%202019%2020220506%20SJ.pdf)

[3] Jersey Household Income Distribution Survey 2019/2020 published by Statistics Jersey

In the absence of further data at the time of submitting this Proposition, I estimated the cost of the proposed amendment to be less than £100,000 at current rates of relief for the following reasons.

1. An estimate provided by Revenue Jersey indicated that, in 2020, 850 single taxpayers aged over 75 paid income tax on an income of less than £25,000 (this is roughly 10% of the number of Islanders (8,652) over the age of 74 shown in 2021 census[4]).

2. If all 850 single taxpayers were to start immediately claiming the total amount of PPS support potentially available to them as new claimants following the change proposed in this Proposition, its annual cost at current rates would be 850 x £590 = £501,500.

   However, the cost is likely to be much less than £501,500 because the numbers provided by Revenue Jersey do not disclose how many of the 850 taxpayers:

   (i) own their own homes; or

   (ii) pay rent for their living accommodation but have capital assets of more than £30,000

   (each of these cases continuing to make them ineligible for the Pension Plus Scheme as proposed to be amended under this Proposition).

   It also is possible not all the remaining number will claim the full amount of benefits available to them under the PPS.

3. The 2021 census recorded 18,736 people in Jersey aged 65 or more with 17% of these paying rent in the private sector (3,185).

   If the percentage of single pensioners over the age of 75 paying rent in the private sector matches the percentage (17%) of those over the age of 65 paying rent in the private sector, the annual cost at current rates would be less than £85,255 (144 x £590).

   However, an unidentified percentage of these 144 individuals already will be entitled to Pension Plus benefits, some will remain unentitled owing to having capital assets of more than £30,000, and the increase in income tax threshold proposed in the mini-budget will lead to others becoming entitled to benefits under the Pension Plus Scheme in the absence of the proposed amendment.

4. There needs to be factored into this calculation an estimated rate at which the over-75 population will increase in the future. The 2021 census showed the 70-74 year old population to be just over a third larger than the 75-79 year old population). Jersey's 2020 mortality statistics showed approximately 510 deaths of those aged 75 and over last year (with an average age of death of 79), suggesting an annual increase in the over-75 population of 24 each year over the next four years.

The manpower implications of implementing this Proposition if adopted by the States Assembly should not be significant as requiring pensioners to exhaust their limited

[4] Census 2021 Population bulletin published by Statistics Jersey

savings sooner rather than later is likely to necessitate them looking to government for income support with related administrative costs: this amendment aims to delay that need.