STATES OF JERSEY

OLD AGE PENSION: INCREASE FOR 2012 (P.97/2012) – AMENDMENT (P.97/2012 Amd.) – COMMENTS

**Presented to the States on 3rd December 2012
by the Minister for Social Security**

STATES GREFFE

COMMENTS

Summary

The comments published in response to the original proposition P.97/2012 – Old Age Pension: increase for 2012 (lodged by Deputy G.P. Southern of St. Helier), strongly recommended that the proposition should be rejected on the grounds that its approval could have a seriously damaging impact on Social Security Reciprocal Agreements. Deputy Southern has now issued an amendment to P.97/2012 which addresses the problem of Reciprocal Agreements by proposing to pay the increased rate to all pensioners, wherever in the world they are currently living.

The proposal to increase the pension rate for 2012 acknowledges the recent impact of the recession on pensioners. However, as the proposal currently stands, the pension increase will add to the ongoing cost of pensions for every year in the future, placing an additional strain on the Social Security Fund. As set out in the previous comments, the cost of the proposal is at least £2 million each year and the annual cost will grow as the number of pensioners increases in future years. The ongoing cost is borne by the current generation of workers, who are also experiencing the negative impact of the recession.

The Minister for Social Security supports the <u>principle</u> of this proposition, on the very clear understanding that the Regulations that will be drawn up to provide the additional increase in 2013 will also include a new method for uprating old age pensions.

Increase in old age pension rate in respect of the 2012 RPI pensioner index

The proposition requires the 2012 pension uprate to be uplifted by the difference between the rate of growth in average earnings and prices (an additional 1.4%).

Backdating such payments to reflect pensioners' individual circumstances as at the date of the 2012 uprate – 1st October 2012 – and to take account of changes in their circumstances since then represents a major administrative task. The Department is working towards a pragmatic solution to ensure that costs and confusion are kept to a minimum.

In outline, the proposed solution would pay a lump sum to pensioners on a future date to be presented in Regulations that will be brought to the Assembly in the New Year, based upon their pension entitlement at that future date, rather than their circumstances as at 1st October 2012.

Even with this simplification, these payments will require substantial administrative effort to ensure that –

- pensioners are fully informed as to the payments they will receive
- income support claimants receive the full value of the additional amount
- income tax authorities are aware of the total pension income, including the one-off sum, for 2013
- payments can be made efficiently throughout the world
- backdated claims received later in 2013 can be dealt with fairly.

Following the payment of the one-off amount, the maximum weekly pension rate will be increased to £189.84 per week, representing the full increase of 2.9% in line with the increase in the June 2012 RPI (pensioner) index. This will require a further change to the Social Security Law. At the same time, an adjustment will be made to the pension disregard in the Income Support Scheme to ensure that low income local pensioners receive the full benefit of the increased weekly amount.

The rate of old age pension will be reviewed again in 2013 in accordance with the new uprating method which will be established in the Social Security Law, after the average earnings index for 2013 and the June 2013 RPI (pensioner) index are published.

Future Old Age Pension Uprating – Sustainability of Social Security Fund

- As noted above, the adjustment proposed to the old age pension rate will increase the cost to the Social Security Fund by at least £2 million per year, for every future year.

- P.97/2012 also only deals with the value of the old age pension for one year and does not protect pensioners in future years.

Both these points have been addressed by the Minister for Social Security, and proposals for a revised uprating method for the old age pension were announced in a press release on 8th November 2012.

The proposed uprating method will continue to peg the medium to long-term growth in pensions in line with the growth in average earnings, whilst guaranteeing a minimum rise in any one year in line with the increase in the cost of living for pensioners.

The full text of the press release is included in the **Appendix** to these comments.

Conclusion

Whilst the impact on pensioners of the recent low growth in earnings is fully acknowledged, any proposal to increase the old age pension rate must be affordable, sustainable, and fair to those who fund those pensions, the working population.

The Minister for Social Security supports the principle of the proposition on the clear understanding that Regulations will be drawn up to –

- introduce a revised uprating method to ensure that the long-term trend in old age pension rates matches the long-term trend in earnings, whilst guaranteeing a minimum rise in any one year in line with the increase in the cost of living for pensioners

- make a single payment to pensioners in respect of the backdating since October 2012

- increase the ongoing rate of old age pension to reflect the full impact of a 2.9% increase.

Social Security Department
News Release

States
of Jersey

Embargoed until 00.01 a.m. on 8th November 2012

Uprating proposals for old-age pensions

The Minister for Social Security is proposing a new method for uprating old age pensions, which will be debated by the States early next year.

The new method will continue to peg the medium to long-term growth in pensions in line with the growth in average earnings whilst guaranteeing a minimum rise in any one year in line with the increase in the cost of living for pensioners.

Currently pensions are uprated each year in line with the growth in average earnings which has, over the long term, resulted in significant growth in the value of pensions relative to the increase in the cost of living and seen the purchasing power of pensioners grow accordingly. This policy provides a direct link between the increases received by pensioners and the average rise in the earnings of the working population who pay for current pensions, through their contributions into the Social Security Fund.

However, in four of the last five years, prices have risen faster than wages, and both workers and pensioners have seen a fall in the real value of their incomes.

Following the rise of 1.5% in October this year, Senator Francis Le Gresley made a commitment to review the method of calculating the annual increase. After discussions with fellow Ministers, his Department will now be drawing up detailed plans to protect the value of the old age pension in future years.

Senator Le Gresley explained: "I am very aware of the difficulties that many pensioners have faced during the protracted economic downturn. I hope that pensioners will be reassured by these proposals which guarantee that future pension increases will always at least match the rise in prices during the year, whilst still enjoying increases in line with the earnings index in the long term.

"At the same time, I am responsible for maintaining the long-term sustainability of the Social Security Fund, which is under threat from the impact of the ageing population. In the future contributions from workers will need to fund the pensions of far more pensioners. The "triple lock" mechanism rejected by the States earlier this year was very expensive as it would have led to pension costs increasing year on year. In contrast, my new proposal limits the increase in costs in the long term.

"The scheme gives a firm guarantee to pensioners that their pension will always match the increase in prices during the year. The Social Security Fund will bear the extra cost in those years. In other years when the economy is doing well and wages are rising faster than prices, pensioners will receive an increase that is always above the increase in prices, and in the long term will match the long-term rise in earnings.

"By smoothing out the increases in pension rates, we can ensure that the long-term cost to the Fund is sustainable."

The Minister went on to say "We have more work to do to make sure all the details of the scheme are fully worked out, but I expect to be able to lodge a proposition early next year. If the States agree, this would lead to an immediate rise in the rate of the old age pension, probably in April 2013. The increase will bring the value of the pension in line with the increase in the RPI (pensioner) from June 2012, which will be an additional 1.4% on top of the 1.5% that has already been provided."

Future annual increases will be decided as follows:

- If prices have risen faster than wages, the pension will be increased in line with prices (RPI (pensioner)).

- If wages have risen faster than prices, the pension will be increased at least by the midpoint between the two rates, up to a maximum of the growth in wages. The exact value of the increase will depend on the long-term position of the pension index against the earnings index.

By matching the long-term increase in pensions with the long-term increase in earnings, the additional cost to the Social Security Fund of providing this protection will be kept to a minimum.

Further details of the scheme will be published in early 2013.

Ends

Notes to editors

1. Further details – Senator Francis Le Gresley – 447402.

2. The index of average earnings is published once a year in respect of the 12 months ending on 30th June. RPI (pensioner) is a measure of price increases typical of pensioners' spending. It is published four times a year. Both indices are maintained by the Statistics Unit.

3. Proposed mechanism for pension uprating, applied to historic data.

	RPI increase	EI increase	Proposed OAP increase	Prices higher than earnings – adjust pension index **above** earnings index	Earnings higher than the prices – adjust pension index **below** earnings index	Adjustment still to be made (in a future year)
1994	2.60%	4.60%	4.60%			
1995	3.50%	2.30%	3.50%	+1.20%		1.20%
1996	3.20%	5.00%	4.10%		-0.90%	0.30%
1997	3.50%	4.70%	4.40%		-0.30%	
1998	4.70%	6.40%	6.40%			

The following example illustrates how this mechanism would have operated using the actual RPI and EI figures for 1995 to 1998.

1995 – Prices rise faster than earnings
1. In 1995, the increase in prices was 3.5%, compared to an increase in earnings of 2.3%. Using this method, the rate of old age pension would have increased by 3.5%, to match the increase in prices.
2. The adjustment of 1.2% (the difference between the two rates) would have been identified.

1996 – Earnings rise faster than prices, adjustment needed
1. In 1996, the increase in earnings is 5%, above the increase in RPI of 3.2%.
2. The adjustment of 1.2% from the previous year needs to be taken into account when setting the pension rate for 1996.
3. The midpoint between the two increases (3.2%, 5%) is 4.1%, and this is 0.9% below the increase in earnings of 5%. This (0.9%) is the maximum adjustment that can be achieved this year.
4. The adjustment that is required is 1.2%, but this cannot all be achieved in 1996.
5. The pension rate is increased using the maximum possible adjustment of 0.9%, and is set at 4.1% (i.e. 5% – 0.9%), at the mid-point between RPI and EI.
6. 0.9% of the total adjustment of 1.2% has been made, but there is further 0.3% to be made in a future year.

1997 – Earnings rise faster than prices, adjustment needed
1. In 1997, the increase in earnings is 4.7%, above the increase in RPI of 3.5%.
2. The outstanding adjustment of 0.3% needs to be taken into account when setting the pension rate for 1997.
3. The mid-point between the two increases (3.5%, 4.7%) is 4.1%, and this is 0.6% below the increase in earnings of 4.7%. This (0.6%) is the maximum adjustment that can be achieved this year.
4. The adjustment that is required is 0.3%, which is below the maximum adjustment available.
5. An adjustment of 0.3% is made and the pension increase is set at 4.7% minus 0.3%, i.e. 4.4%.
6. All of the adjustment from 1995 has now been made.

1998 – Earnings rise faster than prices, no adjustment needed

1.   In 1998, the increase in earnings is 6.4%, above the increase in RPI of 4.7%.

2.   There is no outstanding adjustment to be taken into account when setting the pension rate for 1998.

3.   The pension rate is increased by 6.4%, in line with the increase in earnings.