

2018.02.20

9 Deputy G.P. Southern of St. Helier of the Minister for Social Security regarding contribution rates for employers and high-earning employees: [OQ.30/2018]

Further to the review of the Social Security contribution and benefits system which is being undertaken, what consideration, if any, has the Minister given to raising contribution rates for employers and high-earning employees and, if none, why not?

Deputy G.J. Truscott (Assistant Minister for Social Security - rapporteur):

I thank the Deputy for his question. The Social Security and Sustainability Review is looking at all aspects of the Contributory Social Security Scheme. Every part of the scheme will be reviewed, including contribution rates. The department is concentrating on the benefits the scheme provided at the moment. The detailed review into parental and bereavement benefits is due to be completed in March and a review of the incapacity benefit is running through 2018. An actuarial review of the Social Security Fund is just about to start. When these are completed the department will collate all the results and then review the changes that may be needed to contribution income. This step will consider all the rules for contribution and this includes the balance of contributions between employees and employers, the earnings limits, the types of income to be included, and the percentage rates of different wage levels. This work will help to determine the level of contributions and the range and type of income to be included within the future rules of liability. Any potential changes to contribution rules will be considered as part of the next Government's strategic and financial planning process to feed into the debate on the M.T.F.P. 3 in 2019.

3.9.1 Deputy G.P. Southern:

Could the Assistant Minister inform Members how long an actuarial review takes to conduct? I believe it is of the order of 18 months and you may see the report in 2 years' time. Is it not the case that the Minister, in that case, has parked this question on a shelf and will ignore it for at least the coming 2 years?

Deputy G.J. Truscott:

The actuary has just been engaged I believe; his report will be fed-in in time for the next M.T.F.P. 3 and the important work that he will be doing is just about to be undertaken.

3.9.2 Deputy S.Y. Mézec:

I took part in the Apptivism survey on Social Security not too long ago and it asked questions based on 3 potential solutions; it spoke about raising contribution rates for everybody, it spoke about raising the pension age, and it spoke about cutting benefits. Given that there were no questions about the prospect of raising contributions from the highest earners - who, let us not forget, pay a lower percentage overall than ordinary workers do - what guarantees can he give us that this is being considered, given that it was not part of that consultation and there seems to be no sign that it is being considered?

Deputy G.J. Truscott:

I think we have been down this road before, Deputy, and I understand that Reform are not particularly happy with the way that the department phrased some of their questions. But personally I believe that our team have put a very good and robust review online and have consulted widely and as accurately as we possibly can. We are now collating the evidence. The general public have engaged with the review in a quite spectacular way, I think we have had over 1,600

respondents, and so we are working through that and the first results will be coming through in March and then some later next year.

3.9.3 Deputy S.Y. Mézec:

But if 1,600 people took part in this review and none of them were asked what they think of the prospect of higher contributions, or not even higher contributions, but how about the same contribution rate as the rest of us, how does he expect that to have featured in their thinking when they were only asked: "Do you want to pay more contributions; do you want to work longer; or do you want to see benefits cut?" How does he think that this review has any credibility when that basic question was not asked?

Deputy G.J. Truscott:

I think the whole point of phrasing certain questions; it is a bit like if I was to ask you if you would like an Aston Martin, would you like to pay for it or would you like somebody else to pay for it? I think we know what the answer would be. I think we possibly tried to phrase questions in a way that we would get the result that we were looking for.

3.9.4 Deputy M. Tadier:

I will not go down my analogy because I might end up in a car crash. Does the Minister accept that the effective rates contributions that are paid for Social Security contributions are regressive?

Deputy G.J. Truscott:

Deputy, we are looking at all the rates. No, I do not agree with that. We are looking at everything. It is in the consultation, we are going to do a major piece of work. Nothing in, nothing out really. What I can guarantee is that we are looking at a sustainable fund. I do believe, and quite rightly, as a society we should be considering becoming a more caring society. But, like everything, it costs money and there is not a magic money tree out there unfortunately. So definitely at some point I think rates will possibly have to increase.

3.9.5 Deputy M. Tadier:

Can I suggest to the Assistant Minister that previous statements by the Treasury when analysing different contributions, taxes and duties, in the round show that Social Security is regressive because higher earners pay a smaller amount of effective rate than lower earners. On that basis, does he think that it is important for the public, coming into an election, that the policy direction of his Minister and the department is made clear and what proposals are likely to be put forward so that the public can vote in confidence as to whether social security is going to go up, down, or up for the wealthiest but the same for most people?

Deputy G.J. Truscott:

I believe it is an interesting concept and I think it is the old physics equation that comes into play here; it is with every action there is a reaction and I think we really have to look at the full ramifications of changing contribution rates right across the spectrum. Everything is going to depend on how the economy is doing. We are going to obviously seek the views of Treasury. We are looking for a sensible balanced forward-looking, looking into the future, kind of view and I think that is so important going forward.

3.9.6 Deputy J.M. Maçon:

My understanding was, for example, that if you died before you reached pensionable age the money you put into the pot... you certainly do not get a rebate, so the analogy of whether other people

benefit from the money you put in of course is already established within our system. Given that is the case, surely the matter of thresholds that currently exist under the current system, how the public view those thresholds is an important piece of information and data, which should be collected, and does the Assistant Minister not agree that information should be on the table as well?

Deputy G.J. Truscott:

I could answer this one, yes, it would be taken into account; everything will be taken into consideration. As you say, we have to look at the full spectrum, we have to think about the future, we have an ageing demographic, we have health costs that are going to spiral as the years go on and I think very sensibly Social Security are looking at the full range of benefits and thinking about how we pay for those benefits going forward.

3.9.7 Deputy G.P. Southern:

Does the Minister accept that potentially, by raising the levels of contribution above the standard earnings limit, there is the potential to collect an extra £22 million of revenues towards the Social Security Fund, which might replace supplementation or might be spent on better benefits such as maternity leave and that we have that scope?

Deputy G.J. Truscott:

I thank the Deputy. I think since 2008 I stood on an election platform with Deputy Tadier and I do believe I think he was even at that point mentioning the earnings cap and raising it. There is most certainly an untapped amount of money there that we could raise, but, like I say, it is looking at the action and the reaction, it is the ramifications, it is looking at the economy in the round, it is looking at world events, it is what the economy can really afford. So I do assure the Deputy, and you have been asking this question for some time, Sir. Not you, Sir, but the Deputy. It is something that we are seriously looking at; I think there is going to be a measured rise of the cap possibly. As I say, I cannot rule anything in or anything out.

3.9.8 Deputy S.Y. Mézec:

In answer to a previous question from Deputy Tadier, the Assistant Minister said that he did not agree with Deputy Tadier's assessment that social security contribution rates are regressive. Just help us understand his thinking here, could he give us a concise definition of what he thinks a regressive tax is?

Deputy G.J. Truscott:

If we are looking at specifically the Social Security Contributions Fund, which we are, there is the benefit or the payments and the pensions are basically a standard pay-out, so you could effectively pay more into the system, if you are richer you could pay more into the system, if you are poorer you could pay less into the system, and both get the same thing at the end of the day. So I know where Reform are coming from, I really do, and I think there is a degree of Robin Hood here, and I think there is something that we could do for the rich to pay a bit more and let us just analyse that particular thing.

3.9.9 Deputy S.Y. Mézec:

I can help the Assistant Minister out. The Oxford Dictionary definition of a regressive tax is a tax at which the taxable rate decreases as the taxable base increases. Under that definition, social security contribution rates are regressive. So could I ask him to familiarise himself with that definition before embarking on any course on social security contributions because it is right that when we go in a particular direction they are based on facts.

The Deputy Bailiff:

The question is: will you familiarise yourself with that definition? I do not know if you want to answer it?

Deputy G.J. Truscott:

Yes, indeed, Sir, I will. Thank you.

3.9.10 Deputy G.P. Southern:

So I am mightily relieved to hear the Assistant Minister say that he personally is coming around to giving consideration to the possibility of raising the rates for higher earners. I come back to my original question as to when we might see that, is it in fact sometime beyond 18 months' time away? Is he proposing to do nothing for the moment, even though there is potentially £22 million of revenues available?

Deputy G.J. Truscott:

The M.T.F.P. 3 is the most critical thing. We are all working to that and we are, as a department, going to work out a whole raft of recommendations and bring them to the Assembly in 2019. I am sure that will be part of the consideration and we look forward to that no doubt at the time.