

Minimum earnings threshold for contributions – information for Scrutiny

20 October 2021

Summary

The proposed Social Security Law change (P79/2021) will allow the Social Security Minister to refer to a £ amount rather than an hours amount when determining when an employer and employee should start to pay class 1 contributions.

The actual £ amount will be set in an Order by the Social Security Minister, and this amount can be changed from year to year as is needed.

Setting the value involves considering and agreeing a balance between different factors working in both directions:

Factors for reducing the £ value:

1. Greater inclusivity and coverage of people and employers makes a stronger Social Security system
2. Lower earning people get a better record, and benefit from the employer contribution
3. It is harder for an employer to avoid paying contributions for their employees, through multiple jobs, or hours or wages offered.

Factors for increasing the £ value:

1. The contributions are a cost to the individual, but this needs to be considered alongside any protection or old age pension they will get.
2. The contributions are a cost to the employer to be compared against the value of employing the person in the small job.
3. Middle and higher earners (and people with credits, like students) with a small extra job will pay contributions that do not benefit them directly.

Impact of change

This change would affect a small number of people who have a small job, or jobs (< 8 hours a week), and will earn more than the new minimum earnings threshold.

This could be jobs for 5, 6 or 7 hours a week depending on the hourly wage and the minimum earnings threshold level set. It will affect very few jobs at 4 or less hours a week – only those with high hourly rates.

For example, people that:

1. Earn more than £980 per month in a main job and have a second small job:
 - The person and their employer will pay a small amount of extra contributions on the second job.
 - This does not help the person as they already have a full contribution record, but -
 - This will reduce the amount needed to supplement the individual's record if they earn below £4,610 per month, and
 - The employer will also contribute to the overall cost of the Social Security Fund.
2. Earn less than £980 per month in a small job or jobs:
 - The person will start to pay a small amount of Class 1 contributions
 - The employer will start to pay a small contribution towards the pension record of the person.
 - These contributions give the person a small record for old age pension purposes, and

- Makes it easier for the person to top up their contributions up to the class 2 amount for a full record for old age pension and benefit purposes. (The worker is always liable for class 2 contributions unless they receive an exemption and have opted out of making payments towards their pension record)
- If the person has credited contributions already (e.g. a full-time university student getting credits) then the contributions they and their employer pay do not help the person. They go in to the Social Security Fund to help support the costs of contributory benefits and the old age pension more generally. This is the same as a student earning a higher wage - all these contributions help to keep the fund in balance. Without them, the fund would not be to afford the current range of benefits and credits.

The £980 per month is the lower earnings limit and this is explained in more detail next.

How the lower earnings limit and supplementation works

The monthly lower earnings limit is £980 per month. (This is equivalent to £11,760 a year)

When a person earns between £980 and £4,610 a month, their employee and employer contributions are supplemented up to £576 per month by the Social Security Fund. This gives the person a full contribution record for the month and helps them to build entitlement to contributory benefits and the old age pension.

When a person earns less than £980 a month, their employee and employer contributions are not supplemented by the Social Security Fund. The person's contribution record for the month will be quite small. For example, it will be up to 20% of a full record for earnings just under £980 in a month.

When a person earns more than £4,610 a month, they have a full contribution record, and their employee and employer contributions are not supplemented. Any contributions the employer pays on earnings above £4,610 per month, goes towards the cost of supplementation for lower paid workers.

Households receiving Income support

The earnings of people in households receiving Income Support will not be affected by the new threshold because the income support benefit takes into account all of the contributions they pay. i.e. if they start to pay £3 a week in contributions, and their wages have not changed, their income support payment will go up by £3 a week.

Questions and examples

- 1. A full-time person (e.g, teacher) with an extra job doing a further 3 or 4 hours' – please could you also provide some details showing exactly how much more they would get dependent on how long they do the part time job and how much they get out when they get their pension;**

In this example, the person earns more than the lower earnings limit in their full-time job, so the employer and employee contributions (plus supplementation) will give them a full contribution record each month. They will be eligible for Social Security protection, for example if they are sick, and they will build full entitlement to the old age pension.

If the person has a second small job < 8 hours a week and earns over the new minimum earnings threshold, then the person and their employer would start to pay contributions on those earnings. The cost of supplementing their contributions to the fund and the general taxpayer will be slightly lower. The person will not get any extra entitlement to contributory benefits or old age pension.

Note that if the person does some extra work as a self-employed person rather than as an employee, then the current 8 hour rule and proposed new minimum earnings threshold does not affect their Social Security protection or contributions they pay. They will not pay any extra contributions on their self-employed earnings.

Example: Teacher earning £3,170 per month from their main job and £100 per week (or £433 per month) from the extra job.

	Current 8 hours rule	MET £66 per week	Change
<u>Extra job (weekly paid)</u>			
Hours per week	4	4	
Hourly rate, £	25	25	
Earnings per week, £	100	100	
Employee contribution	0	6.00	6.00
Net earnings* per week, £	100	94	-6.00
Employer contributions, £	0	6.50	6.50
<u>Month summary</u>			
	£	£	
Earnings	3,603	3,603	0
Employee contributions	190	216	26
Net earnings*	3,413	3,387	-26
Employer contributions	206	234	28
Contribution record	100%	100%	0
Supplementation	151	106	-46

*: Does not include any ITIS or other deductions

Note that supplementation covers the 10.5% part of the Social Security contribution which goes to the Social Security Fund, which is why it is £46 per month change and not £54

- How this would affect people who earn under the Lower Earnings Limit: particularly people who would previously been classed as a 'Class 2' contributors and might now have some contributions taken as 'Class 1' contributions. Will this affect their application for Low Income Contribution Relief? How would their benefits be affected if they have partially paid contributions under Class 1, but have not topped up under Class 2?**

People who earn under the lower earnings limit of £980 per month – one job

There are an estimated 600 people that have one job and work less than 8 hours a week.

The proposed change will affect some of these people, and their employers, if they earn above the new minimum earnings threshold.

The impact

The person and their employer will pay contributions. Then either:

- The person “tops up” the contributions from employment to their class 2 amount, and they get a full contribution record for the month and full protection/entitlement to benefits and old age pension.

Or:

- The person is excepted from paying class 2 contributions, and the employee and employer contributions from employment will give them a small contribution record to help their old age pension entitlement later in life. It will not help their entitlement to the other contributory benefits.

Examples with a threshold based on 8 hours at minimum wage (£66 per week/£289 per month):

- Person earning the living wage of £10.96 per hour working 6 or 7 hours a week would be affected as above.
- Person earning the living wage working 5 hours a week or less would not be affected. They are under the hourly threshold now and would be under the new earnings threshold.
- Person earning the minimum wage of £8.32 an hour would not be affected. The proposed £ threshold is a like for like change for them.

Examples with a threshold based on 8 hours at living wage (£87 per week/£380 per month):

- Person earning the living wage working 6 or 7 hours a week would not be affected – they would still be under the new threshold.
- Person earning the minimum wage working 8, 9 or 10 hours a week. This person and the employer would now not pay contributions on the earnings. The person would either make up this difference on their class 2 contributions to get a full record, or, if they are excepted from paying class 2 contributions due to having a low income, would not get a small record towards their old age pension.

Low Income Contribution Relief

People who are working and earn less than the lower earnings limit can apply for Low Income Contribution Relief which excuses them from paying class 2 contributions.

The proposed change will generally not affect whether people earn more or less than the lower earnings limit, but if in some cases a person would now earn above the lower earnings limit, they will get a full contribution record in those months.

3. If a full time student (over 18 years old) with student credits also has a small part time job paying over the minimum earnings threshold – would the employee and employer contribution still be deducted?

In this example, the person and their employer will start paying contributions when the person works more than 8 hours a week now, or when earnings are above the minimum earnings threshold in the proposal.

This means that some students could now pay a small amount of contributions towards their record which would otherwise be covered by the student credits.

The student credits will make sure that the person gets a full contribution record for the month while they are in full-time education. The person’s extra entitlement to any contributory benefits or the old age pension in the future will be paid for by the Social Security Fund’s contributors more generally.

[Information about how student credits work now.](#)

4. A person with a few small jobs

They will be affected if, in any of their jobs, they work less than 8 hours a week and would earn more than the new earnings threshold.

If they are earning less than the lower earnings limit each month, this is covered in the answer to question 2.

If they are earning more than the lower earnings limit each month, then they will have a full contribution record for benefit and old age pension purposes. If the new earnings threshold results in the person and their employer paying a small amount of extra contributions, this will not help the person, but it will reduce the amount of supplementation paid for by the Social Security Fund (general contributor/taxpayer)

Data requests

Statistics Jersey has confirmed the estimate of 600 people with a main job <8 hours a week. This is based on the 2011 Census and corroborated with more recent Jersey Opinions and Lifestyle Surveys (JOLS) up to 2019.

We do not have an estimate of the number of people working multiple jobs but not having their contributions covered because, for example, they are doing 5 jobs at 7 hours a week.

There's no data specifically on small jobs since Covid.

There's no data on where in the household income distribution, small jobs < 8 hours a week, are carried out.