STATES OF JERSEY

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SOCIAL SECURITY FUND: A NEW METHOD OF FUNDING (P.137/2003) – COMMENTS

Presented to the States on 18th November 2003
by the Employment and Social Security Committee

STATES GREFFE

COMMENTS

The Employment and Social Security Committee disagrees with the argument behind this report and proposition which attacks the fundamental principle upon which Jersey's successful Social Security system is based. Social Security in Jersey is an insurance system, not a revenue instrument. The payment of benefits is linked directly to the payment of contributions and the level of benefits is related to the level of contributions or premium. Those people whose earnings are deemed to be below a level, or ceiling, at which the requisite premium is achieved, are afforded protection through supplementation. Changing this principle, as described in the report and proposition, turns the system into a tax.

Furthermore the proposal turns the scheme into a system of tax on earnings, not income. Non-earned income, company profits and other sources of income would be unaffected under Deputy Southern's proposal. The Committee does not believe this is a fairer mechanism of redistribution, being centred on the narrower definition of earnings rather than the wider net of income. In other words, the Committee believes that any additional burden should not be carried by workers, some of whom will be low earners anyway, through contribution increases – rather it should be shared by the wider income tax community.

Employees and workers currently just above the earnings ceiling would be hit twice by the abolition of the ceiling and the increase in contributions. All workers will basically be paying tax twice on their earnings – a form of double taxation – whereas other non-employed taxpayers will not. Furthermore, the impact of Deputy Southern's amendment as it relates to the self-employed would be an additional burden to all enterprises, new and old business enterprises. Although it is acknowledged in the report that this aspect would have to be addressed, there are no easy options other than to change liability fundamentally, and possibly ultimately lose revenue from this source.

The Committee also has concerns about using the Social Security Scheme as a mechanism for filling a funding gap. Social Security in Jersey is not a revenue-raising device. It is a trusted system of mutual support for the community and something the Island should be proud to protect rather than use as a convenient vehicle to, as Deputy Southern states, "stop the haemorrhaging of general tax revenue into the supplementation system". This emotive language fails to recognise the partnership and social contract that exists in the system between employer, employee and the State in order to provide protection to existing and future beneficiaries and pensioners. The Employment and Social Security Committee would attest that a measure of a government's social conscience is not only the level of help given to disadvantaged groups in society but also the method of delivery.

The Committee is acutely aware of the financial problems facing the Island. The effect on its budget in the area of general revenue funded benefits and services will be challenging. However the Committee is determined to work with the Finance and Economics Committee to bring about a fair and equitable solution to funding issues in the short and, importantly, long term, whilst at the same time protecting the essential benefits and services provided by the States. Deputy Southern's proposition fails to do this on several fronts.

The proposition does not look to the total future requirements of the States. For example the Health Insurance Scheme is accepted as being in a healthy state and in need of no corrective action – but in the light of the ageing population, residential care costs and the review of Health Funding overall, it is actually very likely that there will be some changes to the system of Health Insurance which will almost certainly increase costs in future. The U.K. Government Actuary is currently working on longer term forecasts. Future corrective action may also be necessary in the Social Security system itself for example to pension benefits and "back to work" benefits. The Finance and Economics Committee is also considering a "payroll tax".

The sum of all these issues needs to be co-ordinated in the short, medium and long-term. Isolating the social security system withdraws the flexibility which will be needed as Deputy Southern states, "to test our ingenuity for decades to come", and to ensure equity across the whole system. Social Security schemes are by the very nature long-term systems. It is for this reason that the current scheme is reviewed every 3 years and amendments to it are referred to the Government Actuary as a matter of course. The next Social Security Actuarial Review is for the 3-year period ending 31st December 2003 and should be available in the middle of 2004.

Finally, this proposition affords no protection to low income earners whose contribution liability will increase thereby reducing their income. It is also likely, with social security contributions being a direct labour cost to business, that prices would increase leaving the low income earner with even less in his/her pocket. Whilst the Committee accepts the figures quoted in the report, it believes that it would be unwise to accept these proposals without a full actuarial review. The Committee would, therefore, request that the States do not support Deputy Southern’s proposition at this stage, but await the outcome of the current fiscal and other reviews, backed up by actuarial advice.