

# STATES OF JERSEY



## **GOVERNMENT PLAN 2020–2023 (P.71/2019): SIXTEENTH AMENDMENT (P.71/2019 Amd.(16)) – COMMENTS**

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**Presented to the States on 22nd November 2019  
by the Council of Ministers**

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**STATES GREFFE**

## COMMENTS

The Corporate Services Scrutiny Panel proposes the following in P.71/2019 Amd.(16) –

### **PAGE 2, PARAGRAPH (h) –**

After the words “to the Report” insert the words “, except that, in Summary Table 8(iii), the income in the line entitled “Proposed changes to Long-Term Care Charge” shall be reduced by £11,500,000 by reducing the proposed increase in contributions to the Long-Term Care Charge to 0.5%, with other affected lines in Summary Table 8(ii) to be updated accordingly”.

### **The Council of Ministers opposes this proposal and urges States Members to reject the amendment.**

The Government Plan proposes an increase of 1% in the Long-Term Care (“LTC”) contribution rate to maintain the Fund for the next generation without further contribution increases. This amendment would limit the increase to 0.5%.

The Council of Ministers considers that it is important to plan ahead and create an LTC Fund that is sustainable for future generations. Limiting the increase in the LTC contribution rate to 0.5% fails to do this. The amendment fails to acknowledge the need for inter-generational fairness, and places a higher burden on younger workers in the future.

Members should also consider the following:

**Actuarial Report:** The Scrutiny Panel’s amendment states that the actuarial review of the LTC Fund suggested a 0.5% increase in the contribution rate. This is not correct. The actuary did not make any recommendation as to the future rate of the LTC Fund. However, the report did note that –

*“...as the modelling shows that costs will rise significantly in future, early action would help to spread the burden more fairly across the generations.”.*

**The older generation have gained the most from the introduction of the LTC scheme:** While the LTC scheme is available to anyone aged over 18 with long-term care needs, it is the older generation who are benefiting most from it, having only paid in for the last 5 years. Younger people will pay in for their whole working lives for the same help with long-term care costs. Limiting the increase to 0.5% also reduces the cost to better-off pensioners who may need to use the scheme over the next few years.

**The LTC contribution rate will need to increase again in the future:** Younger people will need to pay higher contributions in future years. Building up the Fund now creates a fairer balance between generations. The chart at the end of these comments shows the impact on the Fund balance.

**Migration:** Current estimates are based on net inward migration of +700 a year. If future population policy aims for lower levels of migration, then there will be more pressure on Islanders to pay higher LTC contributions.

**Timing:** The economy is doing well – businesses are growing, employment is high, unemployment is low. Now is the right time to increase the rate. This is in line with Fiscal Policy Panel recommendations. Limiting the increase now runs the risk of being forced to make the next increase during an economic downturn.

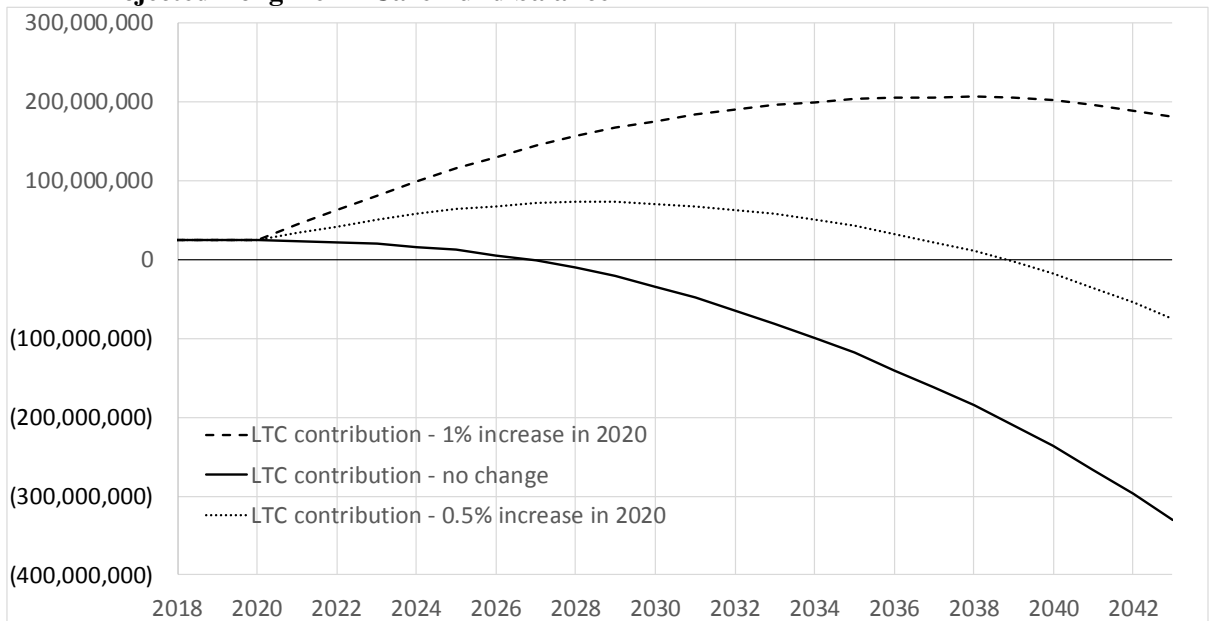
**Impact on lower and middle income groups:** LTC contributions are linked to income tax liability. About 30% of people do not pay LTC contributions, because their income is below the income tax threshold. Most of the extra contributions will be paid by people with higher incomes. Most people who pay LTC contributions will pay less than the headline rate, because of their income tax allowances.

**Impact on the LTC Fund balance**

This chart shows the expected future LTC Fund balance from –

- No change in the LTC contribution rate (solid line)
- Amendment (16): 0.5% increase in the LTC contribution rate (dotted line)
- Government plan proposal: 1% increase in the LTC contribution rate (dashed line).

**Projected Long-Term Care Fund balance**



Main assumptions –

- The chart is in today's money.
- Net inward migration of +700 a year.
- Conservative investment returns of 3% a year.
- Long-term care claim characteristics remain stable.