

STATES OF JERSEY

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INCOME SUPPORT SCHEME: DEFERRAL OF INTRODUCTION

**Lodged au Greffe on 26th September 2007
by the Health, Social Security and Housing Scrutiny Panel**

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion –

to request the Minister for Social Security to take no further action on the implementation of the proposed Income Support Scheme until further specialist advice and research, including the modelling of the effects of behaviour change has been carried out, and appropriate amendments brought forward for approval to rebalance the components of the scheme in order to –

- (a) improve incentives to make work pay;
- (b) better target pensioner and child poverty;
- (c) better target health benefits to those with high healthcare needs.

HEALTH, SOCIAL SECURITY AND HOUSING SCRUTINY PANEL

REPORT

Introduction

This proposition and report has been prepared in some haste (started 15th August, recommenced 5th September 2007) to summarise the fundamental flaws discovered by the Income Support Scrutiny Sub-Panel in its examination of the Income Support (IS) Regulations proposed by ESS. For a full account of the serious nature and extent of these flaws, members should turn to the Panel's report (S.R.17/2007)

So serious are the structural problems revealed by the Panel's investigation that the panel was forced to the conclusion that, despite having prepared a series of amendments to accommodate some of the defects (major and minor) in the IS proposals, to proceed with implementation now would be wrong.

This leaves us with the alternatives –

- (a) to defer implementation to allow serious revision; or
- (b) to implement now (with amendments) and sign up to major and continuing reforms over the next 5 years.

Whilst the second option is possible, it is the opinion of the panel that to proceed now would be so inefficient, and the required reform programme so resource-hungry, as to put at risk effective delivery of IS and leave those in need in our community in a worse position than they are presently for years to come.

The need for this proposition is to be regretted, but is necessitated by the complex interaction of many strands, all of which need to be considered together to form a full picture of how the system is to work effectively. This full picture has not been visible until very recently as can be seen in the following timetable.

| | |
|---|--------------------|
| IS Law | (7th June 2007) |
| IS Regulations | (25th June 2007) |
| Special Payment Regulations | (25th June 2007) |
| IS Orders | (25th June 2007) |
| Transition payment Regulations | |
| (Power to make transitional payment in IS Law) | [7th June 2007] |
| Arrangements of such in an Order to be made available for the debate and not yet received by the Sub-Panel) | |
| Briefing note provided to the Sub-Panel | (10th August 2007) |
| Models | (10th August 2007) |
| GST Support | |
| (Actual rates contained in lodged P.90 amendments not provided to Sub-Panel prior to lodging) | |
| Job Seekers agreement | |
| Outline in Appendix 1 of policy guidelines | (10th August 2007) |
| User guide to IS (Policy guidelines) | (10th August 2007) |

The long development of IS has overlapped with a “decade for the eradication of poverty”, reflecting of the importance and significance of the topic. For example, the proposition P.44/2000, Minimising Material and Social Deprivation, lodged on 4th April 2000, referred back to previous reports and work commissioned by the Benefits and Welfare Working Party in 1996, and focussed on 3 essential elements –

- Welfare analysis
- Marginal deduction rates
- Household (minimum) budgetary requirements

These concerns have been the focus of all subsequent work and the many reports produced since. They are summarised in 2 broad areas –

1. Work incentives (Marginal deduction rates {MDR})
2. Reducing poverty

To these, must be added the replacement of the inadequate HIE scheme –

3. Access to Healthcare

1. The work focus of Income Support

There is a central emphasis on work in Income Support. The Minister and the Social Security Department (SSD) have gone to great lengths to emphasise that entitlement to benefits will depend on being in “full-time” work.

“One of the fundamental principles of the system is that those people who can work should work and be given every encouragement to work if their circumstances allow.” (P.90/2007: Draft Income Support (Jersey) Regulations 200-, page 5)

Will Income Support improve promotion of employment?

Over the past 25 to 30 years there has been a huge growth in good quality policy evidence about what works and what doesn't work across the English-speaking world. This evidence comes from the U.S.A., U.K., Canada, Australia, Eire and New Zealand, for instance and from labour market economic analysis as well as specific policy evaluation studies. The OECD has adopted much of this evidence into clear policy advice for its member countries.

The evidence and best practice can be split into 2 main areas across which are 5 main considerations–

Making work available

- I. **Put in place Clear Rules of Entitlement that link Receiving Benefits to Being in or looking for Work.**
The short-hand for this is “Conditionality”.
- II. **Put in Place a Range of Effective & Efficient Employment Services-** to match people to jobs, to improve their ability to get jobs, (their “employability”) and to provide a service to employers. This could be achieved by working closely with the Minister for Economic Development.

Making work pay

- III. **Ensure People are “Better Off in Work”** – this means ensuring that benefits in work and benefits out of work are sufficiently different to give a positive return to people entering employment. (The comparison of income out of work to that in work is shown in “Replacement Rates”.)
- IV. **Ensure that People Maintain Incentives to Improve their Earnings** – this means ensuring that means-tested benefits are not tapered back too steeply. Current proposals for IS suggest a 94% taper – meaning that anyone earning an extra £1 will only keep 6p. This is usually discussed in the form of “Marginal Deduction/Tax Rate” and was a major argument for reform in Jersey.

High marginal deduction/tax rates deter partners of working people from entering work in a couple – as their taking up a job will only result in very small gains to family income.

- V. **Ensure Some Stability in Support for Work** – this means avoiding rules that revise entitlement for all and any changes in earnings. This rewards work by giving a period of certainty for households as they rely on a mix of earnings and benefits. It can be most simply be done by having fixed periods of benefit lasting say 6 months.

These principles are applicable to all industrial economies and should thus apply to Jersey. The proposals in

P.90/2007, Draft Income Support (Jersey) Regulations 200-, especially the stated objective of promoting employment, must be judged against these 5 principles.

Making work available (Objectives I and II)

Income Support sets up a fundamental condition of entitlement that all those entitled must be in “full-time work” the question arises as to how many applicants must be considered for employment and in particular the full-time work requirement. SSD has collected data on current claimants of benefits that will be replaced by IS to give an indication of the size of the relevant populations of claimants.

Overall, around 45% of the IS individual claimants are those who are never required to work (pensioners and mothers of children aged under 5 years).

In addition the Sub-Panel established that, as at 22nd August 2007, there were 693 low-income families receiving Family Allowance (Social Security Department e-mail 23rd August 2007). Many or all of whom will probably be required to be actively seeking work, either full or part-time.

The majority of the remainder will either already be in work or not required to work full-time. This means that the rhetorical commitment to making full-time work the condition for Income Support is only really appropriate for a minority of claimants - those who are both unemployed and who have no employment constraints. This fact has been well-known for many years. Analysis of caseloads of Parish Welfare clearly shows that only a quarter are “unemployed”.

Table 1 shows an estimate of the size and circumstances of the population who will be subject to work conditionality. These estimates are taken from SSD data earlier this year from a sample of approximately 5,000 applicants for IS already received (out of a total of 7,000+). The data clearly show that SSD has a very large caseload that will firstly require assessment and then require job-seeking agreements and services. It should be noted that a significant proportion will not be required to seek full-time work. All of those single parents who are currently out of work, one half of out of work couple parents and a significant proportion of those who are currently identified as having a “medical condition”.

Table 1

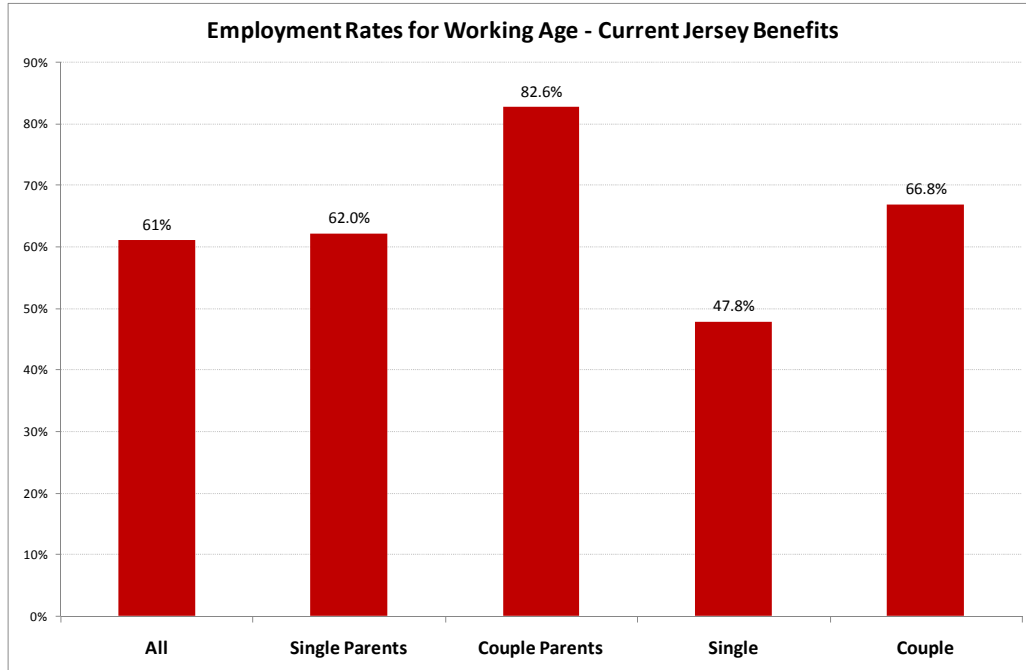
Individual caseload for work conditionality

| | Workless Households | | Households with Earnings | | Total |
|--------------------|---|------------|---|------------|--------------|
| | Currently claiming because of “Medical Condition” | Other | Currently claiming because of “Medical Condition” | Other | |
| Single Parents | 53 | 162 | | | 215 |
| Couple Parents | 46 | 178 | 105 | 357 | 686 |
| Single Working Age | 322 | 290 | | | 612 |
| Couple Working Age | 108 | 126 | 139 | 96 | 469 |
| Total | 529 | 756 | 244 | 453 | 1,982 |

Source SSD Data

Furthermore it should be noted that the current system of benefits is already supporting high levels of employment. Figure 1 shows that the majority of current benefits go to those households where there is already someone in work. These rates, however, will include those in part-time work and those couples where one partner is not in work who will also require individual assessments of work conditionality.

Figure 1



Source: SSD data

Capacity of SSD to deliver the work focus: Employment Services

The Law, Regulations and Order say nothing about obligations of the Minister to provide appropriate and effective employment services to IS recipients. There are some rather vague statements in P.90/2007: Draft Income Support (Jersey) Regulations 200- that allude to such services –

“The new Income Support system will lead to more people using Employment Services at the Social Security Department and the interactions will be monitored to provide more data on both the Income Support system and unemployment. Changes to the organisational structure and computer systems are being made to help meet these expected increases.” (P.90/2007: Draft Income Support (Jersey) Regulations 200-, page 6, last paragraph)

The size of the workload is illustrated as follows –

- SSD will have to undertake detailed individual level assessments of conditionality for work for all working age people who are not “mothers” of children aged under 5 years to see if the “full-time” work conditionality applies to them – they may have health conditions that make full-time work unsuitable, for instance, or they may be attending training or further education.
- For all those that have work conditionality imposed on them there is a need to set up appropriate employment services to set up regular meetings between an adviser and each job-seeker to agree and monitor work search activity and to provide services to job-match and improve employability as required.
- The populations of those involved are large, and there are not currently sufficient resources in place to assess the stock of claimants that will come into Income Support in January 2008, nor to develop the support and training services that they will require.
- The job-market in Jersey is not in a position to respond immediately to the new influx of a considerable stock of Income Support job seekers. The Sub-Panel have seen no evidence that the Social Security Department has identified either: (a) the skills base of these new job seekers; or (b) the sectors of the

economy in which there is a demand.

All of the above suggests that the underlying need for, and costs of, provision will rise. No discussion of costs of such services and no Policy Guidelines on their provision have been made available to the Sub-Panel.

This absence of any detail, the lateness of Ministerial Policy Guidelines, together with some rather worrying statements in P.90/2007 that put forward strange patterns of intervention give us grave concerns. It states that –

“In difficult cases the officers would provide a plan, or “job seekers agreement” negotiated with the person in question as to the appropriate way to get back into work”.

International evidence from a variety of “welfare to work” programmes clearly shows that universal agreements for all claimants facing conditionality are the basis of providing employment services. Even the most able will have to agree to actively seek and be available for work – and this is simply put into every situation in an agreement. Of course, those most able to return to work will not require service-heavy provision. But they should –

- sign an agreement to fulfil the conditions;
- be given a period of review; and
- be given a clearly stated outline of what help they can expect to receive (for instance Special Payments to help in job-entry costs).

This comprehensive approach is the cornerstone to the gains in efficiency and effectiveness obtained in employment services in the U.K. with the introduction of “job-seekers agreements” (an approach that is now copied in many countries in E.U.).

- Such an approach would allow SSD to target services to those most in need at an appropriate time during their period out of work.
- The most cost-effective programmes avoid interventions that are too early for those who can self-serve but will also recognise those who have additional needs for services early and not allow them to spend time unproductively in unstructured or unsupported job-search.
- One-to-one “advisor” interviews are the most successful and economical interventions. High cost training provision has to be extremely carefully provided to ensure improved outcomes.

The Sub-Panel believes that this proven approach to the use of job seekers agreements is essential to producing improvements in job entry and maintenance. However, it would further increase the workload in the Department. The Minister has provided no evidence that the resources required for successful job seeker outcomes have been sufficiently thought through.

2. Income Support making work pay – better off in work

The incentives with the greatest success at moving people back into work are economic ones. Simply, people must be better off in work than out of work. This provides the most clear and understandable “carrot” in a “carrot and stick” approach. For example, a person can easily understand that if they take a job at £200 per week they will be better off by, say, £20 than they would have been by sitting at home. This understanding alters the ‘reservation wages’ people have in targeting jobs when they are looking for work. Research in the U.K. by Institute of Fiscal Studies on US system of tax credits and the Canadian Self-Sufficiency programme show this to be true across all systems.

However, all these systems depend on separating in-work and out-of-work benefits into separate but inter-linking systems. Jersey has instead chosen to create a single Income Support scheme rather than to have separate systems.

This means that the Minister has made it very difficult to balance the poverty and work trade-offs at the heart of

Income Support. In short it becomes impossible to achieve both a reduction in poverty and to make work pay within the prescribed budget. Unfortunately, as we shall demonstrate, neither of these fundamental targets, which have been at the heart of nearly 2 decades of work, has been met.

Making work pay – Income disregards and replacement rates (Objectives III & IV)

The simplest way to create incentives to work is to put in place monetary disregards on earned income before support is withdrawn. The original draft schemes put to the scrutiny panel contained no such disregards. The Minister has reflected on our earlier advice and the disregards set out in the Order (on which The States have no power to debate or amend) are in some ways an improvement on the original proposals.

Paragraph 5(e) of Schedule 2 of the Order puts forward a fixed monetary disregard against all earnings of £15 per week. There is an additional stepped disregard for Single Parents allows them some gains beyond the first £15 – specifically, an additional 50% (maximum of £5) of earnings up to £25 and an additional 25% (maximum of £5) for other earnings up to £45.

This amounts in total to disregards of £25 for the first £45 of earnings. Above this point, no earnings are disregarded unless 6% of earnings results in a higher disregard.

Table 2 shows the position of several hypothetical claimants of Income Support and compares their position in work at 35 hours at the minimum wage to their position not working. The gains from working 35 hours a week at the minimum wage are small when compared to the income gained from not working at all (reflected in high replacement rates). The lack of incentive to return to work over the benefits of just sitting at home, are perhaps most clearly illustrated by the effective hourly rates of pay which range from 70p to 97p per hour.

Table 2 – Income in and out of work: replacement rates for Income Support

| | Single non-householder | Single Householder | Couple Householder | Lone Parent 1 child | Couple with 2 children |
|--------------------------|------------------------|--------------------|--------------------|---------------------|------------------------|
| Income out of work | £80.01 | £121.03 | £201.04 | £210.49 | £308.98 |
| Income Support in work | £0.20 | £114.72 | £194.73 | £250.54 | £364.20 |
| Total Income in work | £104.57 | £145.59 | £225.60 | £244.45 | £333.54 |
| £ gain for 35 hours work | £24.56 | £24.56 | £24.56 | £33.96 | £24.56 |
| Effective hourly pay | £0.70 | £0.70 | £0.70 | £ 0.97 | £0.70 |
| Replacement Rate | 77% | 83% | 89% | 86% | 93% |

Source: Own calculations

Notes: Income is After Housing Costs; housing costs are based on rent limits for flats appropriate to size of household.

However, it must first be remembered that these calculations do not take into account any expenses from work – such as travel, out of pocket expenses, wear and tear etc. – that will reduce the net impact of earnings on overall income differences. Indeed, it is clear that the proposed fixed £15 a week disregard is more likely to be a reflection of underlying expenses of work rather than any attempt to “make work pay” and be a positive incentive to work. The sum is clearly insufficient to make work attractive and thus to act as an incentive to job entry at anything but the margins of part-time work.

The reasoning behind the proposed disregards is difficult to establish. The disregards themselves seem to have been adapted from existing provisions in Parish Welfare. No apparent consideration has been given to looking at incentive structures afresh from first principles or to reflect the needs of an Income Support system that supports both in-work and out-of-work populations. Indeed, these provisions make little sense alongside the emphasis on

full-time work of 35 hours a week because they reward **any work** by the fixed disregard (of £15) for the majority of cases.

The more generous disregards for single parents are also difficult to fathom.

First, it is not clear why only single parents have been singled out for additional disregards. Table 1 has already shown that a large proportion of the out-of-work Income Support population have constraints from children or from poor health/ disability. It makes no sense whatever to give one group with constraints (single parents) additional job-entry incentives to enter into part-time work when the need to promote part-time work will also be necessary for these other equally constrained groups.

Second, it is not clear what level of work is being promoted and how that fits with the types of constraints on hours that parents of children have – essentially to work around school hours or to work longer and pay childcare. Given that Jersey has a minimum wage of £5.40 an hour, the highest incentive to enter work are at the margins of 8 to 10 hours a week. It would be expected that hours of around 20 or more would make more sense for those with younger primary school aged children.

The whole issue of disregards and making people better off in work is a clear instance where the current proposals are seriously flawed.

Making work pay – incentives to earn more (marginal deduction rates)

Whilst the Minister has improved disregards and job-entry incentives as a result of his discussions with the Sub-Panel, he appears to introduce proposals in P.90/2007 to raise tapers for withdrawal of Income Support from previous drafts. The 90% tapers, as proposed in P.86 have been raised to 94%.

In simple terms, tapers claw back existing benefits as earnings rise and produce high marginal deduction rates. A marginal rate of 94% (as proposed for Income Support) gives a return of 6 pence for every additional pound earned. A rate of exactly 100% means that income remains the same (no gain), and a marginal rate of over 100% means that income goes down as each pound of additional earnings rise.

In 1998 there were 2 reports from the Task Group on Marginal Deduction Rates that clearly pointed out the deficiencies of old benefit structures where Parish Welfare, Family Allowance and Rent Abatement and Allowances interacted to produce withdrawal rates that were over 100% in some instances. Indeed, P.86 showed Members an instance of a couple with 2 children and the changes to their income as earnings rose. We reproduce this example below as Figure 2.

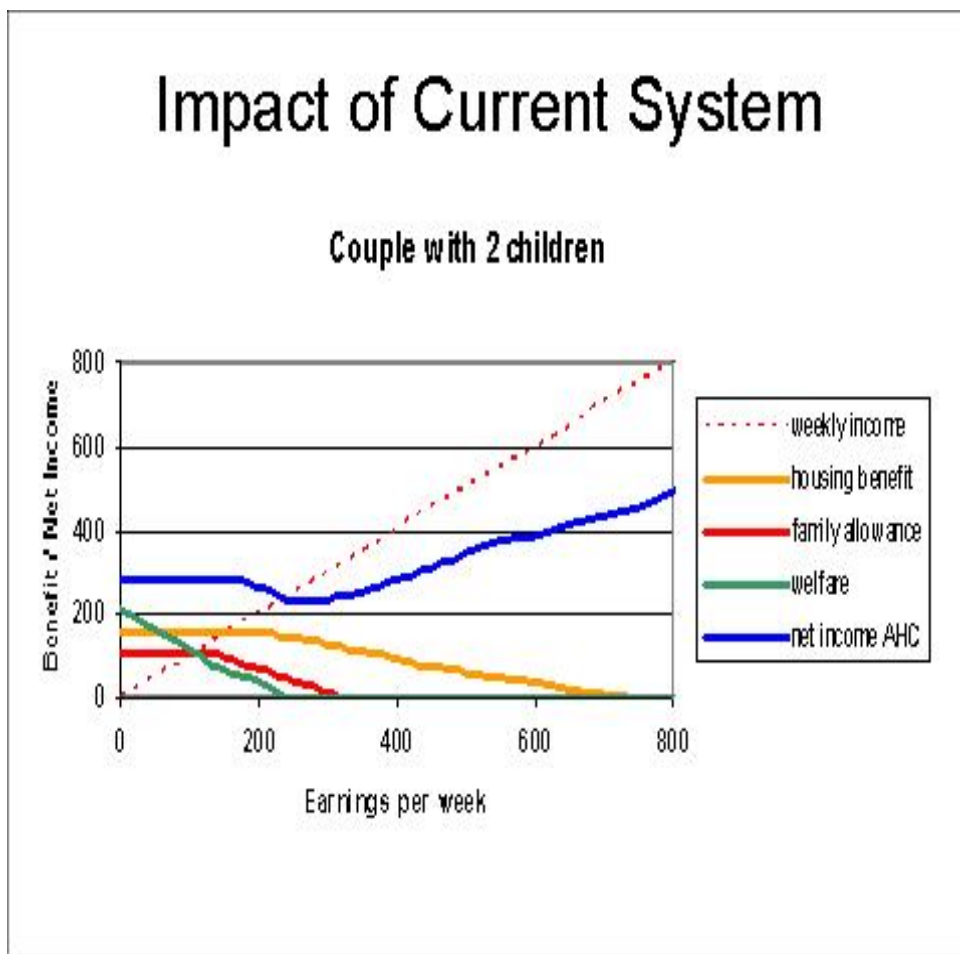


Figure 2 clearly shows the problem of perverse work incentives— under the old benefits/welfare system, the illustrated family face a fall in income between earnings of around £180 to £220 and then face little reward for earnings until around £300 a week. This arises because tapers claw-back existing benefits as earnings rise and produce high “marginal deduction” rates of 100% or more.

The Minister proposes that the move from the old system which has the potential to impose marginal rates of withdrawal of over 100% to Income Support, which has a fixed marginal rate of 94% is an improvement of overall work incentives. He is clearly mistaken in this.

He is mistaken because the impact of work incentives depends not just on the underlying rates, but on how many people are faced with what rate of marginal deduction. For instance, under the proposed Income Support rules there are several marginal rates – 94% for most claimants, but those earning small amounts will have the offset of the £15 and thus have a lower rate. Single parents, on the other hand, will have the potential for lower marginal rates for those earning at the margins of £45 a week, but will face an effective 100% marginal rate for all earnings between £45 and around £420 a week.

If the Minister looks at the SSD data on current claimants he will see the range of earnings that they have. These may well be influenced by current incentive structures. When this range of earnings is then subjected to the Income Support proposed incentives the outcome is shown in Table 3.

Table 3

Marginal deduction rates: proportions of working claimant populations with children before and after reform

| | Current System MDRs | | |
|----------------|----------------------------|-------------|------------------|
| | <i><50%</i> | <i>100%</i> | <i>Over 100%</i> |
| Single Parents | 55% | 20% | 25% |
| Couple Parents | 84% | 4% | 12% |
| | Income Support MDRs | | |
| | <i><75%</i> | <i>94%</i> | <i>100%</i> |
| Single Parents | 4% | 17% | 79% |
| Couple Parents | 2% | 98% | – |

Table 3 shows the position of working parents who currently receive benefits and their position after the introduction of Income Support.

Lone parents

55% of lone parents face a marginal deduction rate of under 50p in the pound,
20% face a pound for pound rate (no gain),
25% face rates of over one pound for each pound earned.
This is not very good.

However, Income Support is worse:

Only 4% face a marginal rate of 75p in the pound or less,
17 % face a 94p in the pound, and
79% face a pound for pound rate.

Couple parents:

The situation is worse still.
Currently, 84% face rates of 50p in the pound or less,
4% face a pound for pound rate, and
12% face rates greater than a pound for pound.

Under Income Support:

98% will face a 94p in the pound rate, and
only 2% will face a rate of 75 p in the pound or less.

Put simply, the populations facing high marginal rates of tax/deduction grow under Income Support but the highest rates are no longer over 100%. What the Minister proposes is to squash support further down the earnings distribution and then taper it more severely for the majority, thereby pulling more people into poor work incentives.

The results of this can be fairly accurately predicted from existing evidence and evaluation elsewhere. Combined with the very poor incentives to enter work these proposals are highly likely to –

- severely curtail the ability of partners of those currently earning to enter work;
- result in more job exits and lower job retention;
- result in reductions in hours currently worked.

The result of these structural defects in the delivery of Income Support means that articles III and IV set out previously as internationally recognised essential conditions in constructing an in-work benefit system have not been met. The Income Support System, as currently proposed cannot either –

- **Ensure people are better off in work, or**
- **Ensure that people maintain incentives to improve their earnings.**

As such it must be regarded as a failure.

The main body of the Scrutiny Report S.R.17/2007 details how condition V above is also poorly catered for in the current Income proposals. It also details the impact of transitional protection, which means that the structural defects detailed in III and IV will not become fully apparent for 3 years. It further points to defects in the treatment of maintenance payments. These faults cannot be directly amended as the provisions are all contained in Orders.

3. Poverty

The poverty line in Jersey was last measured in 2002 using the Jersey Income Distribution Survey. This report adopted E.U. and U.K. practice to construct poverty lines at 60% of median income. Additionally, it adopted the U.K. practice of having 2 measures of income poverty before and after housing costs. This approach makes sense for Jersey where high rents are a real call on low income households' consumption and where liability for rent gives rise to a means-tested benefit for housing costs for those on the lowest incomes.

An alternative budget standard approach to basic needs and poverty was considered and considerable expense was incurred in CRISP research to calculate such budget standards but they have not been adopted in either poverty measurement or in Income Support design.

Work, poverty and family poverty

The Minister faces a dilemma when setting levels of components for Income Support for all those who can potentially work. A commitment to have Income Support lines at poverty levels would be a mistake for those of working age who are able to work, because incentives to work would be seriously threatened. This is part of the issue of making people "better off in work" discussed previously as benefit levels at poverty level would potentially worsen "replacement rates" as previously discussed.

This problem is particularly true for families with children because poverty measurement reflects the number of people in the household but underlying wages do not. Having children thus raises the risk of poverty because needs are higher (additional mouths to feed) at the same time as the earning ability of the family decreases as mothers leave work for a substantial period and/or reduce their hours of work.

How do the proposed Income Support scheme protect against poverty in and out of work? We estimate a contemporary poverty line by using earnings inflation since 2002 to update median income in Jersey. This approach gives us poverty lines for 2007 of £387 before housing costs (BHC) and £297 after housing costs (AHC). These poverty lines are based on a couple with no children and continue to use the McClements equivalence scale to make incomes of different sizes of households consistent and comparable^[1].

Figure 3

Poverty and work: families with children under proposed Income Support Scheme

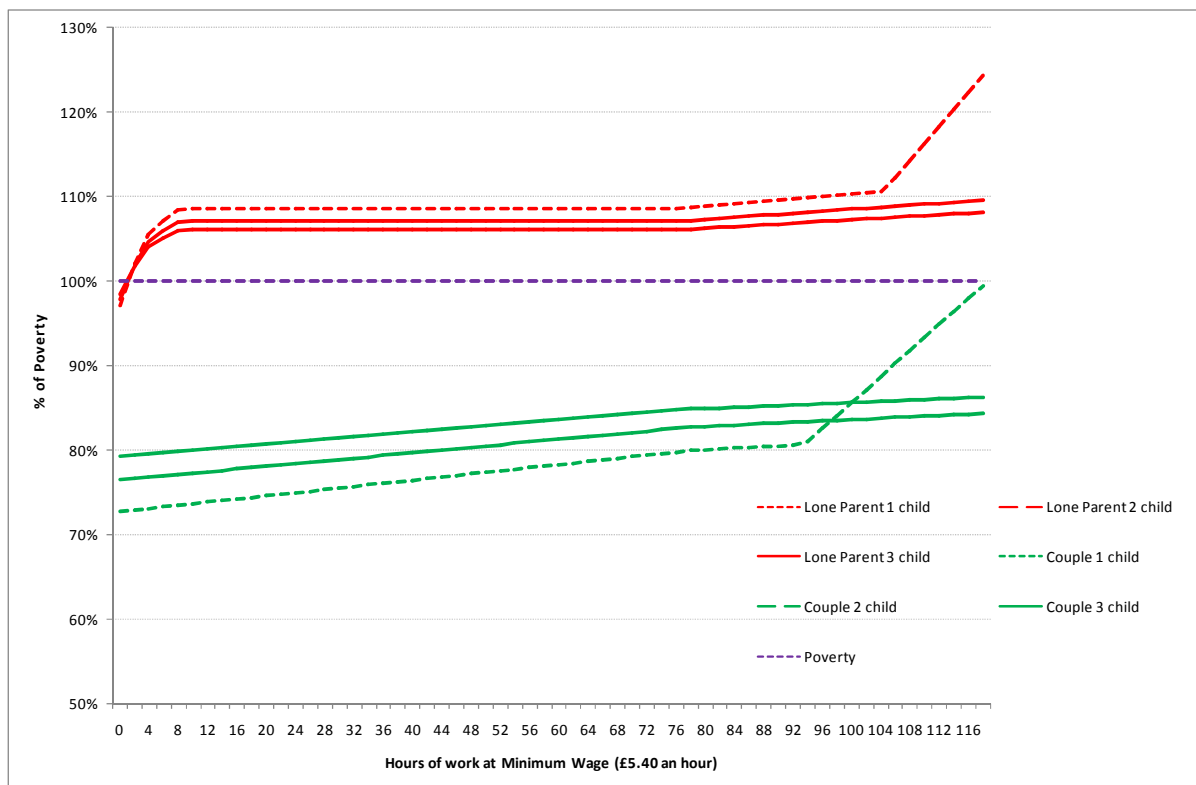


Figure 3 shows the poverty profiles for families with children under the new Income Support scheme and how this alters as they increase the number of hours worked at the minimum wage. Single parents and couples are each shown with one, 2 and 3 children. The Income Support calculations come from the SSD model and are based on the original rates of Income Support put forward by P.90/2007.

Non-working single parents will have levels of Income Support that are at the margins of poverty, approximately 98% of poverty line, and when they start work they will cross the poverty line and, depending on the number of children they have, have incomes between 6 and 9% above poverty. However, gaining greater poverty clearance as they work more hours is virtually impossible at the minimum wage. The high marginal deduction rates mean that they will not be able to escape the margins of poverty. The examples in Figure 3 show the lone parent with a single child manages to obtain 10% poverty clearance by working 96 hours a week at the minimum wage— an impossible task with children present.

Figure 3 shows that couples with children will be in a permanent “poverty trap” under Income Support. When nobody works, Income Support will only lift their income to 73 to 80% of poverty. When working, the poor disregard and high marginal rates of deduction mean that it is impossible to escape poverty – the illustrated example of a couple with a single child suggests that it will take 120 hours a week at the minimum wage to cross the poverty line.

Figure 3 clearly shows that the Ministers statements in P.90/2007 on the ability of Income Support to lift families out of poverty and promote work –

“The new system will help and enable people to both avoid poverty and to take appropriate actions and life decisions to get out of poverty. The system will do this by effectively tackling real needs whilst promoting work and encouraging self-reliance.” (– our emphasis, P.90/2007)

The system manages to lift single parents marginally out of poverty, at the expense of the 2 other groups where poverty is a problem, namely children and pensioners.

Pensioner poverty

| Other Income | | | | | | |
|--------------------------------|--------|--------|--------|--------|--------|--------|
| SOJ Pension | 158.27 | 158.27 | 158.27 | 262.78 | 262.78 | 262.78 |
| disregard | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 | 25.00 |
| Actual Interest from savings | – | 17.31 | 28.85 | – | 17.31 | 28.85 |
| IS Tariff income | – | 17.00 | 57.00 | – | – | 28.00 |
| Income Support | 131.26 | 114.26 | 74.26 | 106.76 | 106.76 | 78.76 |
| Outcomes | | | | | | |
| Net Income after housing Costs | 146.03 | 146.34 | 117.88 | 226.04 | 243.35 | 226.89 |
| Income Compared to AHC Poverty | 89% | 89% | 72% | 76% | 82% | 76% |

Source: Own calculations using Income Support rates proposed in P.90/2007.

Couple pensioners have higher Income Support rates (but not double a single pensioner) and also will receive higher States of Jersey Pension. The same profiles of savings are used for the couple as were previously used for the single pensioner – for simplicity. This leads to the position where the couple with no savings have an income after their have paid their rent at 72% of poverty. If the couple have £15,000 of savings this is ignored and they are better off and only at 82% of poverty. However, if they have £25,000 of savings they have exactly the same income as having no savings at all.

This shows that the design of Income Support for the elderly is seriously flawed, both in the level of underlying support and its relationship with poverty and in the treatment of income and savings and the resulting incentives to save for those who are planning their retirements currently and watching the introduction of Income Support.

The overall impact of Income Support as currently drafted, is to make around 40% of pensioners worse of than they are under the current system, while doing little to alleviate pensioner poverty at the lower end.

4. Healthcare and Income Support

The current HIE system provides free access to primary healthcare for those that qualify at very low levels of income. Its defects are well-known. The income levels are set too low, and HIE does not target those with the greatest need for healthcare.

Access to primary healthcare is an essential consideration for any social assistance scheme and there must be the ability to ensure that costs are not an up-front barrier to access for either treatment or preventative care. The evidence of the effect of such user-charges for low income individuals is now clear and unambiguous. The British Medical Association reviewed the evidence in the 1990s and showed clearly that the combination of low income and user-charges produced poor health outcomes through delayed access and diagnosis and lower uptake of screening and other preventative treatments and had significant effects on costs of treatment down the line. In the U.S.A. the RAND experiment showed clear behavioural avoidance of primary health care associated with low income health user charges and more recent evidence from developing countries supports this finding.

Currently Jersey is also attempting to introduce changes that move to a higher profile for preventative healthcare and to promote healthy behaviour in the New Directions report. It is questionable how far the proposals put forward by Income Support are either equitable or support preventative health care in their potential effect.

Proposals

The *basic component* of Income Support for each person (adults and children) is stated as being designed to meet –

*“their individual needs, such as food, clothing, travel, energy and **basic medical costs**”* (P.90/2007 Report, page 7– my emphasis).

Later, P.90/2007 makes it clear the assumptions that underpin the unspecified element within basic components

that relate to basic medical costs as based on 4 visits to a G.P. per annum on average–

“The basic adult and child components allow for the average number of visits to a doctor per year (4)” (P.90/2007 Report, page 9).

Second, additional components of Income Support are available for those who higher than average needs due to ill-health or disability. These additional components are called “Impairment Components” and provide additional costs for those with personal care and mobility needs. Additionally an Impairment Component can be paid, in addition to these components or solely in its own right on the basis of a person having higher than average medical costs through a separate “clinical cost element”.

“The clinical cost element seeks to direct more money to those people on low income who have chronic medical conditions that warrant higher than average visits to a general practitioner (to) people with a chronic or progressive condition” (ibid).

The clinical cost element can be paid at 2 additional rates, a lower rate, enough to cover an extra 4 visits a year (8 in all), and a higher rate for those people who have conditions that clinical guidelines recognise need at least a further 4 consultations a year will be given enough benefit to cover 12 visits to the doctor a year (12 in all or one a month).

Third, needs for clinical costs that arise above and beyond those outlined in weekly IS components will be considered under the IS “Special Payments”.

There are real strengths in these proposals as they give recipients of Income Support equal status to other users of health services in that they have to make “co-payment” charges when they visit the G.P. This means there is equity of status with other health consumers and promotes what is rather strangely termed a “*principle of self-dependence*” (P.90/2007 Report, page 8).

However, the policy as currently proposed is extremely crude and the assumptions about average consumption, the circumstances under which additional resources are given and the range of primary health care provision envisaged are open to significant criticism, especially when one considers the characteristics of IS claimants and their propensity to ill-health.

Normal and exceptional health needs

Our discussions with SSD suggest that 4 consultations is the average based on a crude assumption about how often the general population visits a G.P. It is a clear error in estimation for 2 reasons:

First, the international evidence on the correlation of ill-health and low income is clear. Those on low income have **higher incidence** of ill-health and have higher than average needs for health services. Setting any average to the whole population therefore underestimates need and uptake significantly. This point is directly relevant to Jersey and the aims for future public health policy which seek to increase **preventative and** screening primary health services as well as directing current provision more to over-ride the “inverse care law” in which those on low income command fewer health resources.

New Directions, “People who are ill tend to be poor, and people who are poor tend to be ill. Tacking inequalities (in health) will mean targeting services at the neediest islanders” (page 19).

Those currently on HIE make an average of 12 visits to their G.P. in the course of a year.

Second, it is contrary to all evidence on uptake of health services to set an average that is not weighted to age as health service usage by age is u-shaped – highest around birth and the end of life and higher more generally for children and elderly people. To allocate an underlying average of 4 to all recipients of IS is thus completely contrary to all evidence and good practice.

The proposed impairment component will link chronic conditions to additional resources and thus be indirectly

targeted to the elderly who will have more chronic conditions, but the effect of the current proposals is to effectively ration regular healthcare more stringently to children on IS (and to those elderly who have high incidence of ill-health but no underlying chronic conditions). The proposals are likely to routinely push IS recipients who are elderly and who have children to Special Payments provisions – with their more stringent test of means and assets and greater discretion.

These 2 points mean that if the proposals go forward current form and contain notional elements for health care contained in the basic components such elements should be reformulated to meet a better and more accurate estimation of “normal” usage that is risk-weighted.

Pregnancy and post-natal care are good examples of where non-normal circumstances will lead to the need for more than 4 annual G.P. visits. It also provides a clear example of incentives problems. There is a choice between using G.P.s and using community maternity services through the hospital or other providers. Clearly, an expectant mother faced with a choice between G.P. – with a rationed 4 visits and co-payments – and the community maternity services with no charges will choose the latter.

The change from HIE to the proposed new rules can be expected to lead to a behavioural change towards free services. This means that the “IS budget” is protected but spending is merely transferred to Department of Health. That is clearly not sensible if you are strategically budget rational and thinking in “joined-up” ways and if you want continuity of care with G.P. at the centre of primary health provision.

More generally, the whole approach of the Regulations is founded on one that apparently places no importance on encouraging preventative healthcare. This is partly a problem of current primary healthcare provision through Jersey’s G.P.s as reported by the New Directions Paper. But considering the IS population are likely to be over-represented in terms of BOTH current and future risk of ill-health AND to be over-represented due to low income for smoking-related, diet-related and other behavioural health risks, this is clearly an oversight that means that structural changes to HIE and income related transfers have not been adequately considered alongside health reform.

Moving to a system that encourages preventative and screening treatments, of early diagnosis of potentially costly conditions in order to save costs and to prevent acute hospital usage needs to be underpinned by access and payment for those on low incomes that sets up the right incentives and rewards, prevents frivolous uptake and abuse but that ensures early diagnosis and thus contains health costs.

The wrong combination of costs and incentives may deter IS recipients from accessing primary care optimally and thus delay diagnosis until the costs of treatment have risen and are transferred from IS to the health budget and fall on larger drug and hospital costs and have potential knock on costs for higher future IS payments themselves for longer periods of debilitation.

In Summary

The statements of principle in the aims of policy are largely empty rhetoric. Statements in P.90/2007 saying –

“The new system will help and enable people to both avoid poverty and to take appropriate actions and life decisions to get out of poverty. The system will do this by effectively tackling real needs whilst promoting work and encouraging self-reliance...”

are simply misleading because the reforms have mostly done the opposite.

When we look at the losers and gainers from structural reform, the difference in targeting between the current system and that after reform means that pensioners who have significant savings lose, and those below pension age that work mostly lose. The gainers are mostly those who have no earnings and little pension and savings.

Table 5

Gainers and losers from reform – working age and employment

| | Out of Work | | In Work | |
|----------------|--------------|-----------|----------|------------------------|
| | Average Gain | % Gainers | % Losers | % who are not entitled |
| Single Parents | £40.16 | 93% | 34% | 16% |
| Couple Parents | £19.75 | 83% | 47% | 30% |
| Single | £9.43 | 74% | 84% | 62% |
| Couple | £6.64 | 55% | 74% | 52% |

Table 6

Pensioners: current benefit caseloads that are structural losers under reform

| | All Losers | | Those Who Lose All Entitlement | |
|-------------------|------------|-------|--------------------------------|-----|
| | Number | % | Number | % |
| Single Pensioners | 669 | 43.8% | 378 | 25% |
| Couple Pensioners | 337 | 56.6% | 223 | 37% |

What can be done to make Income Support better?

First, there has to be more honesty in the presentation of the proposals. We are critical and rightly so, but there needs to be a greater admission of just how much is still to do to make a scheme that matches the aims that have been put forward. Policy-makers and Ministers have to be more questioning of simple platitudes of strategic policy aims and think more about design and implementation and the necessary resources to make them happen. Platitudes are easy, making things improve across the board is a bigger challenge.

Second, some priorities have to be made. Commitments to end child and pensioner poverty within a set timetable and programmes re-orientated to do so could be adopted. Such promises cannot be simply platitudes and will require better understood and considered programmes to support employment and saving. Such an approach would better match the wider policy aims and may help focus policy-makers' minds on the real trade-offs that have to be made when trying to promote opportunity alongside income benefits.

Third, there is the opportunity to tinker with the structures of Income Support – **but fundamentally it is not an anti-poverty programme that makes work pay. Neither is it an anti-poverty programme for the elderly that supports saving for old age.** The essence of the reforms has been to squeeze out any resources that promote and reinforce work to those on low to moderate incomes. Any radical change is beyond tinkering but would require complete rethinking.

Fourth, there is the need to prepare for the potential negative effects that Income Support will have on work and saving even if no larger reform is possible. These are potentially considerable without some immediate action to change the incentive structures to improve the gains from work and to reward savings.

Financial and manpower implications

The financial and manpower implications are difficult to assess in that they will depend on decisions on the extent of changes to be attempted. The Panel is aware that models including behavioural change have been developed by OXERA, but not used. Specialist advice and research might realistically be estimated at around £100,000, plus some dedicated officer time from Social Security Staffing.

[1] *SSD have stated an intention to follow E.U. and U.K. practice and move to using the “modified OECD” equivalence scale. To adopt this scale the original JIDS data will have to be re-estimated as underlying median incomes differ considerably when equivalence scales are changed.*