

**WRITTEN QUESTION TO THE MINISTER FOR SOCIAL SECURITY
BY DEPUTY G.P. SOUTHERN OF ST. HELIER
ANSWER TO BE TABLED ON TUESDAY 1st NOVEMBER 2011**

Question

Will the Minister provide an estimate of the overall cost to taxpayers of the support given in Income Support and supplementation to the maintenance of low-paid jobs (at or around the minimum wage) in the economy, and if not why not?

Answer

There is little evidence currently available to identify the number of workers employed at or close to minimum wage. Attempts to measure the number have produced results that are difficult to analyse statistically, due to the low number of individuals identified. A question was asked in the Jersey Annual Social Survey 2008 and the recent Income Distribution Survey also examined wage rates.

The issue of income support being paid to workers on minimum wage was also considered by the Health, Social Security and Housing Scrutiny Panel during their 18 month review of benefit levels. Their published report did not provide any evidence of the number of IS claimants working at the minimum wage.

Feedback from sectors that are more likely to employ individuals at lower hourly rates suggest that the minimum wage is mainly used when employing entry-level, seasonal and youth workers and the majority of locally resident workers are paid above the minimum wage.

The Employment Forum has recently published its recommendations on the 2012 minimum wage. These include a proposal to undertake independent research to identify the extent of minimum wage jobs in Jersey. I have accepted this recommendation and this research will be undertaken next year.

Relevant extracts from reports mentioned above are included in the appendix to this question.

Both income support and supplementation are calculated on the basis of wages received, rather than the hourly rate paid. An individual working 40 hours at the current minimum wage (£6.32 ph) will earn £252.80 per week. The same wages would be received by an individual working 25 hours at £10.10 per hour, or 20 hours at £12.64 per hour. Data held within the Social Security Department records gross wages on a weekly or monthly basis. It does not differentiate between an individual working full time at the minimum wage as opposed to someone working part-time at a higher rate.

Supplementation is a mechanism to ensure that the majority of workers are able to claim a full pension in old age. As long as earnings in a month exceed a minimum threshold (currently set at £776), and contributions are paid by the employee and employer, then the contribution record for that employee is "supplemented" and is deemed to have been paid at the full rate. The cost of this supplementation has historically been borne by the States through an annual grant. Approximately 70% of all employees in Jersey receive some supplementation to their

contribution record at any one time. An individual with a weekly wage of £252.80 would have supplementation of £62.77 added to their contribution record.

It should be noted that the States Grant in respect of supplementation has now been fixed for 2011, 2012 and 2013 following the adoption by the States Assembly of the Draft Social Security (Amendment of Law No. 1) (Jersey) Regulations 2011 in July this year.

Income support is only available to individuals with five years residence. Income support is based on household income and is only paid to households with total income below a given level. Income support is available to those with and without work but it provides a significant incentive for individuals to take up and remain in work. For example, the individual earning £252.80 per week and receiving income support, is £2,629 a year better off than a similar individual who is unemployed.

Given the limited data on the number of workers working at minimum wage, the wide variety of workers who receive supplementation, and the targeting of income support based on residency conditions and household circumstances, it is not possible to make any meaningful estimate of the cost of supplementation and income support to workers working close to the minimum wage.

Appendix

Extract from the Employment Forum Recommendation – Minimum wage rates for 1 April 2012¹; ‘Data on minimum wage earners’ section

“The Forum has been concerned for a number of years that this data is not available from current statistics and surveys. Discussions with the Statistics Unit indicate that it would not be possible to adapt an existing survey, or to initiate a new survey specifically for this purpose. One difficulty is that the equivalent surveys used to collect this information in the UK and Isle of Man are required to be completed by law, whereas there is no such requirement in Jersey. Returns are provided on a voluntary basis, which can become a burden for employers.

Another factor is the small numbers of employees involved; questions relating to the minimum wage were included in a Jersey Annual Social Survey (JASS). However, data representative of minimum wage earners was not available because the resulting sample of individuals earning the minimum wage was so small.

Data from the latest Income Distribution Survey (IDS) allows the number of minimum wage earners to be estimated at 400 +/- 200. However, there are limitations as the survey was not created for this purpose; there is unlikely to have been a representative sample of employees in the hospitality and agriculture industries, particularly seasonal workers. The Forum considers that perhaps this figure may be considered as representing the resident population of minimum wage earners, but is not confident in relying on this as a meaningful representation of the situation.

Those attending the public meeting expressed surprise at this low estimate of minimum wage earners. However, the minimum wage appears to be mainly paid in the agriculture and hospitality industries with a combined total of only 12 percent of the labour market - around 6,000 people - employed in those sectors in December 2010. Generally wages are banded and only a proportion of employees in a business will earn the minimum wage whilst other more experienced employees receive higher rates of pay.

In order to contemplate a higher minimum wage, or any other major changes to the system and method of calculation, the Forum must have data to fully consider the impact. The Forum particularly wants to receive information indicating the number of minimum wage employees in Jersey, the industries they work in, and the type of contracts, e.g. seasonal or permanent, part time or full time. The Forum expects that expert independent research would have to be commissioned to achieve this aim.”

¹<http://gov.je/SiteCollectionDocuments/Working%20in%20Jersey/R%20Minimum%20Wage%20Recommendation%2020110927%20JJ.pdf>

Extract from JASS 2008²

Minimum wage

A small percentage (2%) of people reported that they earned less than £6 per hour gross wage (i.e. before deductions are made for tax, social security, accommodation and food provided by the employer, and also excluding overtime and bonuses). Of these people, the majority earned the minimum wage or above (the minimum wage was increased in April 2008 to £5.80 per hour). A very small number of people did report earning under the minimum wage. Whilst some of these reported being exempt from the minimum wage (for example because they are volunteers, or because the work is therapeutic) there was a very small number of people who self-reported that they are earning less than the minimum wage as their hourly rate

Extract from Response to Scrutiny report

Because only a very small proportion of workers receive the minimum wage, it is difficult to interpret survey data in this area, but it is known that the minimum wage is principally used in industries employing migrant labour. Seasonal workers are not eligible to receive Income Support. As accommodation is often included in the remuneration package, local residents often do not take up work in these sectors.

Although the Scrutiny Report created several theoretical examples using the minimum wage, it provided **no evidence** of Income Support claimants actually receiving the minimum wage, which bears out the limited information that is available.

The only evidence on earnings levels provided in the Scrutiny Report (page 98 section 18.6) is that average earnings for Income Support households in January 2010 were

- between £22,000 and £23,000 per year for couples with children; and
- above £15,000 for lone parents

This compares with the minimum wage at that time (£6.08 ph) giving annual earnings of £12,650 for a 40 hour week.