WRITTEN QUESTION TO THE MINISTER FOR SOCIAL SECURITY
BY DEPUTY M. TADIER OF ST BRELADE
ANSWER TO BE TABLED ON TUESDAY 9th SEPTEMBER 2014

Question

Will the Minister provide projections for income yield if social security contributions were set at 4%, 5% and 6%, respectively, with no SEL or UEL, with employer contributions remaining unchanged?

Given the Minister's recent comments that social security contributions will have to rise, can the Minister give an update of what preparatory work has been done, if any, in the area by his department and will he provide an outline of the preferred options? Does he consider that there is scope to make the contributions mechanism more progressive?

Answer

Earnings limits for 2014 have been set at:

Upper Earnings Monthly Limit (UEL)	£12,964 per month	£155,568 per year
Standard Earnings Monthly Limit (SEL)	£3,918 per month	£47,016 per year

Under the current system, employers pay a total contribution rate of 6.5% up to the Standard Earnings Limit (SEL) and 2% in respect of earnings between the SEL and the Upper Earnings limit (UEL). Class 1 employees pay 6% up to the SEL, with no contributions levied on earnings above this level. Class 2 individuals (self-employed and others not in employment) pay a total contribution rate of 12.5% up to the Standards Earnings Limit (SEL) and 2% in respect of earnings between the SEL and the Upper Earnings limit (UEL).

The table below provides an estimate of yield under a flat rate, no earnings limit scenario with 4%, 5% and 6% levied on Class 1 employees. The same options have been applied to class 2 individuals, with the table excluding the contributions made by class 2 individuals which are equivalent to employer contributions.

Estimations for yield below the UEL are based on actual contributions received by the Social Security Department in 2012. The Department does not have access to data on the earnings of islanders above the UEL – there is no obligation for such information to be declared to the Department. However in 2011 the Department worked with the Treasury to model options regarding the new 2% contribution rate levied on earnings between SEL and the new UEL. Drawing on this exercise, yield above the UEL can be estimated.

It should be noted that the estimates above the UEL are vulnerable to variations arising from the ways in which income and earnings are defined.

	Total 2012 Contributions (employee, employer and class 2) £'000	Estimated Change in Employee Contributions[1]		
		4% rate	5% rate	6% rate
Class 1 below SEL	164,253	-26,280	-13,140	0
Class 1 between SEL and UEL	5,121	10,242	12,803	15,363
Class 2 below SEL	15,544	-2,487	-1,244	0
Class 2 between SEL and UEL	1,974	3,948	4,935	5,922
Estimated contributions above UEL		3,382	4,228	5,073
Difference compared to 2012		-11,196	7,582	26,358
Total	186,892	175,696	194,474	213,250

These estimates suggest that a flat 4% rate would reduce payments into the Social Security Fund by £11.2 million; a flat 6% rate would increase payments into the fund by £26.4 million.

In addition to the caveats regarding accuracy of data above the UEL, caution is required when estimating the yield from the highest earners. The movement of a small number of people could have a disproportionate impact and the actual sum achieved will be subject to considerable variation.

The two Government Actuary reports published this year suggested that the Social Security fund will break even in 2016 and that the Health Insurance fund has already reached that point. The Actuary has advised that work should be undertaken to review options to preserve the future viability of the Funds. This work is currently being programmed by the department. It is vital that these reviews are undertaken, but prudent policies have resulted in the accumulation of reserves and there is time to undertake this work thoroughly.

The Social Security business plan for 2015 will include research and consultation on both contribution rates and the range of benefits. It is likely that propositions will be bought to the Assembly in 2016/17 and will be implemented thereafter, co-ordinated with the wider fiscal strategies of the States.

Given the significance of the reforms required, I anticipate that changes to the social security system will be subject to wide public debate. My successor as Social Security Minister will lead this process. Detailed work will start later this year and it would not be appropriate to identify options until this research has been undertaken.

The Social Security system is a social insurance system rather than an income tax system. Decisions will need to be taken over the next two years as to whether it is appropriate to make the contribution mechanism more progressive.

The details regarding how the contribution scheme is eventually revised will be a matter for the States Assembly.

[1] These calculations do not take account of individuals who are exempt from making employee contributions and will thus overstate the true figure. The largest category of such employees comprises women married before April 2001, who have elected to opt out of paying contributions.