

STATES OF JERSEY



PENSIONS: SURVIVOR'S BENEFIT

Lodged au Greffe on 10th May 2011
by Senator F. du H. Le Gresley

STATES GREFFE

PROPOSITION

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

- (a) to agree that any survivor's pension awarded after 1st January 2013 will only be paid to a survivor with a child or children under school leaving age, or aged 19 or under and still in full-time education, or a survivor who is aged 45 years and over but below State Pension Age, and that the minimum contribution conditions that have to be met will be at least 120 monthly social security contributions paid at any time in the working life of the deceased spouse or civil partner in the event that the States approve legislation to enable the creation of civil partnerships; and
- (b) to request the Minister for Social Security to bring forward for approval the necessary legislation to give effect to the proposal.

SENATOR F. DU H. LE GRESLEY

REPORT

Background

On 19th November 1996, the States adopted a proposition of the Employment and Social Security Committee, P.132/96 – Social Security: Continuity and Change. One of the proposals in P.132/96 was to replace widow’s benefits by survivor’s benefits so that both men and women could benefit from contributions paid by their late spouse.

The necessary changes to the Social Security (Jersey) Law 1974 to implement P.132/96 were approved by the States on 26th September 2000 when they adopted P.137/2000. Article 9 of the Social Security (Amendment No. 14) (Jersey) Law 2000 substituted for Articles 24 and 24A of the principal Law the new provisions governing the entitlement to survivor’s benefit in a new Article 24, which is reproduced below –

24 Survivor’s benefit

- (1) Subject to the provisions of this Law, a surviving spouse shall be entitled to survivor’s benefit if the deceased spouse satisfied the relevant contribution conditions, and –
 - (a) in the case of survivor’s allowance either spouse was not entitled to an old age pension, or was under pensionable age, at the time of the deceased spouse’s death; and
 - (b) in the case of a survivor’s pension, the survivor was under pensionable age at the time of the other spouse’s death and was not entitled to a reduced old age pension under Article 25(1A).
- (2) The period for which survivor’s benefit is payable to a surviving spouse shall be –
 - (a) in the case of survivor’s allowance, the 52 weeks next following the other spouse’s death; and
 - (b) in the case of a survivor’s pension, any period during which the survivor is under pensionable age and is not entitled to a survivor’s allowance or to a reduced old age pension under Article 25(1A),but the benefit shall not be payable for any period after the death or remarriage of the survivor, or for any period during which the survivor is cohabiting with another person of either sex.
- (3) In this Article, references to the spouse of a surviving spouse, if the survivor has been married more than once, are to the survivor’s last spouse only.

Members will note that a survivor’s pension is paid until the recipient reaches “pensionable age” when the benefit changes to an age-related pension. In order to receive the survivor’s pension at the full standard rate (currently £179.97 per week), the deceased spouse must have paid, or been credited with, full contributions from their 18th birthday up until the month before their death. If the deceased spouse had gaps in their contribution record, the amount paid is reduced. A minimum of 10% entitlement is needed to receive survivor’s benefit.

Why I am proposing a change in the calculation of a survivor's pension?

A survivor's pension is a very generous benefit as it is not means-tested and can be paid to a survivor who is in paid employment. Provided the survivor does not co-habit with another person of either sex or re-marry, the pension is paid until it is replaced with an old age pension based on the survivor's own contribution record.

In order to show the financial cost to the Social Security Scheme I give an example below –

A childless husband or wife, aged 25, who loses their spouse at an early age of, say, 30 years is currently entitled to receive the survivor's allowance for 12 months, totalling £11,230, and then the survivor's pension for 39 years, provided the deceased spouse had 12 years of full contributions or credits. Using the current rate of benefit, this means that the surviving spouse could potentially receive in total a survivor's pension of £364,979 before he or she reaches the current retirement age of 65 years. This is before allowing for annual increases in the rate of benefit in line with the average earnings index. With compounded annual increases of, say, 3%, the total cost to the Social Security Fund over the 39 years is potentially £705,000, assuming the widow or widower does not re-marry or co-habit before reaching State Pension Age. A person in receipt of a survivor's pension is also eligible to receive the Christmas Bonus.

I hope members will agree that because of the challenges the Social Security Fund is facing, as clearly explained by the Minister for Social Security in his Report to P.58/2011, we cannot continue to offer such generous terms for survivor's pensions.

What I am proposing

Given the pressures forecasted on the Social Security Fund due to the ageing population, I believe that it is necessary to include in any review of State Pension Age and contributions the pension paid out of the same Fund to survivors. Our current scheme is very generous, in that the minimum requirement is for the deceased spouse to have contributions, or have credits, for at least 10% of the number of months between the age of 18 and the month when they died.

Unlike other similar jurisdictions, such as Guernsey or the Isle of Man, we currently award a full survivor's pension to a survivor of any age below State Retirement Age provided the contribution conditions have been met.

I am proposing that after 1st January 2013, any **new** award of survivor's pension will only be paid to a survivor with a child or children under school leaving age, or aged 19 or under and still in full-time education, or a survivor who is aged 45 years and over but below State Pension Age; and that the minimum contribution conditions that have to be met will be at least 120 monthly social security contributions paid at any time in the working life of the deceased spouse or civil partner. This will bring us more in line with the contribution conditions and bereavement benefits currently available to residents of Guernsey and the Isle of Man.

I am not proposing any change in survivor's allowance which is currently paid for the first 52 weeks after a spouse has died at a rate 20% higher than the usual full rate of benefit.

Will this change cause any hardship?

Before widow's benefits were replaced by survivor's benefits, the only safety net was parish welfare. Now all people who have been continuously resident for 5 or more years are entitled to claim income support benefit. Furthermore, when a recipient of a reduced survivor's pension is entitled to claim another benefit, based on their own contribution record, such as short-term incapacity benefit, he/she can choose to receive whichever is the most favourable.

All Jersey residents under pension age are required to pay social security contributions, and therefore the vast majority of people who do not have dependent children are in paid employment or in receipt of contribution credits due to prolonged ill-health or temporary unemployment.

How does our current survivor's benefits compare with other similar jurisdictions?

Guernsey

Guernsey changed their bereavement benefit scheme from 1st January 2004. There are 3 benefits: bereavement payment – a lump sum (currently a maximum of £1630.00) payable to all survivors; widowed parent's allowance (currently a maximum of £188.93 per week) for survivors with children; and bereavement allowance (currently a maximum of £162.40 per week) payable to survivors without children aged 45-64 inclusive for up to one year following bereavement. All 3 benefits are calculated on the contribution record of the deceased spouse. The bereavement benefit scheme does not recognise civil partnerships.

There are 2 contribution conditions that have to be met:

- (1) the deceased spouse must have paid at least 156 weekly social security contributions at any time in their working life, and
- (2) between the age of 20 and their age of death (before their 65th birthday) they must have paid or had credited an average of between 10 and 50 contributions each year that count towards benefit.

For a survivor to receive full benefit, the deceased spouse needs to have paid or had credited an average of 50 contributions each year from the age of 20. Benefit is paid at a reduced rate if the average is less than 50.

Widowed Parent's Allowance is only paid to a parent who has a child or children under school leaving age or aged 19 or under and still in full-time education.

The current benefit rates are set out in the following table –

ALLOWANCES AND WEEKLY PAYMENTS FROM 3.1.11

Yearly average of reckonable contributions paid or credited	Bereavement Payment	Widowed Parent's Allowance	Bereavement Allowance	Bereavement Payment	Widowed Parent's Allowance	Bereavement Allowance	
50	£1,630.00	£188.93	£162.40				
Reduced rate at which payments and allowances are payable							
49	£1,597.00	£186.22	£159.15	29	£945.00	£132.06	£94.19
48	£1,565.00	£183.51	£155.90	28	£913.00	£129.35	£90.94
47	£1,532.00	£180.81	£152.66	27	£880.00	£126.65	£87.70
46	£1,500.00	£178.10	£149.41	26	£848.00	£123.94	£84.45
45	£1,467.00	£175.39	£146.16	25	£815.00	£121.23	£81.20
44	£1,434.00	£172.68	£142.91	24	£782.00	£118.52	£77.95
43	£1,402.00	£169.97	£139.66	23	£750.00	£115.81	£74.70
42	£1,369.00	£167.27	£136.42	22	£717.00	£113.11	£71.46
41	£1,337.00	£164.56	£133.17	21	£685.00	£110.40	£68.21
40	£1,304.00	£161.85	£129.92	20	£652.00	£107.69	£64.96
39	£1,271.00	£159.14	£126.67	19	£619.00	£104.98	£61.71
38	£1,239.00	£156.43	£123.42	18	£587.00	£102.27	£58.46
37	£1,206.00	£153.73	£120.18	17	£554.00	£99.57	£55.22
36	£1,174.00	£151.02	£116.93	16	£522.00	£96.86	£51.97
35	£1,141.00	£148.31	£113.68	15	£489.00	£94.15	£48.72
34	£1,108.00	£145.60	£110.43	14	£456.00	£91.44	£45.47
33	£1,076.00	£142.89	£107.18	13	£424.00	£88.73	£42.22
32	£1,043.00	£140.19	£103.94	12	£391.00	£86.03	£38.98
31	£1,011.00	£137.48	£100.69	11	£359.00	£83.32	£35.73
30	£978.00	£134.77	£97.44	10	£326.00	£80.61	£32.48
Less than 10	no benefit payable						

The most notable difference between the Jersey and Guernsey bereavement benefit schemes is that a survivor under the age of 45 with no children is only entitled to claim the lump sum bereavement payment, which at the full rate is currently £1,630. Compare this figure with the Jersey scheme and the example I gave before of a survivor aged 25 who could potentially receive in excess of £700,000 before reaching retirement age.

The Isle of Man

The Isle of Man has 3 bereavement benefits – age-related bereavement allowance, widowed parent’s allowance and bereavement payment. The amount a survivor receives in bereavement benefits is based on the deceased spouse’s or civil partner’s National Insurance contributions record.

In order to receive a lump sum **bereavement payment** of £2,000 the deceased must have paid at least 25 Class 2 or 3 NI contributions or had earnings from employed earner’s employment of at least 25 times the lower earnings limit for any tax year.

Widowed Parent’s Allowance is a weekly benefit of £100.70, paid to a surviving husband, wife or civil partner who has dependent children for whom they are entitled to (or can be treated as entitled to) Child Benefit. The deceased spouse or civil partner must have paid at least 52 Class 2 or Class 3 contributions or earned at least 52 times the lower earnings limit in any one tax year and paid Class 1 contributions on those earnings. NI contributions must have been paid for 90% of the deceased spouse’s or civil partner’s working life for the allowance to be paid at the full rate. Widowed Parent’s Allowance stops when the survivor no longer has a dependent child, i.e. at the same time as Child Benefit ceases; if this is within 52 weeks of bereavement the survivor may be entitled to Bereavement Allowance, provided he/she is aged between 45 and State Retirement Age.

Age Related Bereavement Allowance is a weekly benefit **paid for a maximum of 52 weeks** to a spouse or civil partner who has no dependent children and is aged 45 years or over when they became widowed or when their civil partner has died. A survivor cannot receive Bereavement Allowance at the same time as Widowed Parent’s Allowance. If the survivor is aged 55 or over he/she will receive the full rate of £100.70 per week. The allowance is reduced by 7% for each year of age by which the survivor was under the age of 55 when their spouse or civil partner died. The amount is fixed and does not increase after a birthday.

The contribution conditions require the deceased spouse or civil partner to have paid at least 52 Class 2 or Class 3 contributions or earned 52 times the lower earnings limit in any one tax year and paid Class 1 contributions on those earnings. NI contributions must have been paid for at least 90% of the late spouse’s or civil partner’s working life for the allowance to be paid at the full rate.

The current Age Related Bereavement Allowances are –

54	£93.65	49	£58.41
53	£86.60	48	£51.36
52	£79.55	47	£44.31
51	£72.50	46	£37.26
50	£65.46	45	£30.21

Civil Partners to be entitled to a Survivor’s Pension

I expect that by 2013 the Island will have formally established the legal status of civil partnerships and any necessary changes to other legislation will have already been enacted, but in case this might get overlooked, I have mentioned entitlement of civil partners to survivor’s pensions in my proposition.

Financial and manpower implications

It is difficult to quantify the potential savings to be made because of all the unknown factors; however, it is reasonable to assume that there will be a significant reduction in expenditure from the Social Security Fund on survivors' pensions, which may be partly offset by an increase in income support payments.

The total expenditure in Guernsey in 2010 on bereavements benefits was £2,056,615 and in the Isle of Man £568,800. I would suggest that our current total annual expenditure of £4,389,000 on survivors' pensions could be reduced by £50,000 from 2013 as the Social Security Department estimate that there would be approximately 6 less awards of survivor's pension per annum if this proposition is approved.

There are no manpower implications as the Social Security Department is already committed to a review of pension contributions and State Pension Age.