WRITTEN QUESTION TO THE MINISTER FOR SOCIAL SECURITY BY DEPUTY G.P. SOUTHERN OF ST. HELIER

ANSWER TO BE TABLED ON TUESDAY 24TH FEBRUARY 2009

Question

In P.82/2005, figures produced by the Social Security Department suggested that removal of the ceiling on employer and employee Social Security contributions would raise additional funding of £22 million. Would the Minister advise members what the current figure would be today and what percentage increase in the combined employee and employer rate would enable the elimination of supplementation?

Answer

Employees currently pay 5.2% of earnings and employers pay 5.3% up to a ceiling of £3,394 per month in Social Security contributions. Self employed individuals pay 10.5%.

Based on figures from the 2007 income tax data for employed earners, an additional £30 - 35 million would be raised by completely removing the contribution ceiling, on the assumption that the current ceiling for supplementation remains in place. This estimate includes a substantial sum that would be payable by the States as the largest employer on the Island, increasing the cost to the States. An estimate of the earnings from self-employment is not available and has not been included in this calculation.

Through the present funding of supplementation by the States, tax payers subsidise approximately 70% of all workers, as their contributions do not fully cover the costs of their benefits and pensions.

Were the Social Security Law to be amended to alter the way in which supplementation is funded, removing the ceiling will transfer some of this cost from all taxpayers (who pay tax on both earned and unearned income) to higher income workers and their employers. The advantage is that it reduces the burden on taxpayers; the disadvantage is that it increases the burden on business and concentrates the cost of Social Security provision upon earnings rather than earnings and other income.

Removing the ceiling will reduce the need for supplementation funding by £30 -35 million. To completely eliminate supplementation funding by the States, a further £33-38 million in additional contributions would need to be raised from employers and employees.

This could be achieved by increasing the total percentage rate for contributions by between 2% – 3%. Raising the rate of contributions would increase the cost borne by all workers, including those on relatively low incomes who are currently below the ceiling. Many of these workers will not be liable for income tax.

It should be noted in considering these estimates that increases to contribution rates will be needed to cover the cost of ensuring sufficient funding is available for pensions in the future and may also be needed to pay for a long-term care scheme. The sums required and rate increases needed in **each** of these areas will be similar in magnitude to that needed to meet the shortfall in the contributions of those earning less than the current earnings ceiling, that is currently funded through supplementation.