STATES OF JERSEY

DRAFT SOCIAL SECURITY (AMENDMENT OF LAW No. 5) (JERSEY) REGULATIONS 201- (P.15/2013): AMENDMENT

Lodged au Greffe on 5th March 2013
by Deputy G.P. Southern of St. Helier

STATES GREFFE

1 PAGE 14, REGULATION 6 –

In the inserted Article 25A after paragraph (2) add the following paragraph –

"(3) The amount prescribed under paragraph (2)(b) shall be the product of £6.32 multiplied by the number of weeks comprised in the period beginning with the day in October 2012 from which the last increase in the old age pension took effect and ending with the day before the day from which the standard rate specified in paragraph 2(1) of Part 1A of Schedule 1 takes effect.".

2 PAGES 14–15, REGULATION 7 –

In paragraph (2), in the inserted Part 1A of Schedule 1 –

(a) in paragraph 2(4) for the amount "£189.84" substitute the amount "£193.57";

(b) in paragraph 2(6)(a) for the amount "275.1" substitute the amount "280.5".

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

In line with a commitment made by the Minister for Social Security in November 2012, and supported by a States decision at the end of last year (P.97/2012: Old Age Pension: increase for 2012, as amended) the Minister has brought forward draft Regulations in P.15/2013 to provide for an adjustment in the value of the current old age pension, to bring it into line with the increase in RPI (Pensioners) from June 2012. This amendment proposes a further increase in the rate of old age pension payable from October 2012 by £3.72 to £193.57.

These Regulations propose a new method for uprating old age pensions from October 2013. The new method will continue to peg the medium to long-term growth in pensions in line with the growth in average earnings, whilst guaranteeing a minimum rise in any one year in line with the increase in the cost of living for pensioners. This will ensure that future pension increases will always at least match the rise in prices during the year, whilst also allowing pensioners to enjoy increases that keep pace with the earnings index in the long term.

In contrast to the “triple lock” method rejected by the States in early 2012, the additional cost associated with this method is limited and does not build up from year to year. The proposal will protect pensioners from the impact of high prices without damaging the long-term sustainability of the Social Security Fund.

This amendment is fully supportive of the uprating of the States’ pension as proposed in P.15/2013 to give some compensation for the years in which average earnings have fallen behind the increase in RPI Pensioners.

Start June 07	**RPI Pensioners**			**Earnings Index**			**Proposed mechanism**		
	RPI index	Rebase	% change	AEI	Rebase	% change	% change	Index	Rebase
June 07	102.7	100.0		240.2	100.0			240.2	100.0
June 08	108.5	105.6	5.6%	250.6	104.3	4.3%	5.6%	253.7	105.6
June 09	111.6	108.7	2.9%	258.0	107.4	3.0%	2.9%	261.1	108.7
June 10	114.6	111.6	2.7%	260.9	108.6	1.1%	2.7%	268.1	111.6
June 11	119.7	116.6	4.5%	267.3	111.3	2.5%	4.5%	280.2	116.7
June 12	123.2	120.0	2.9%	271.4	113.0	1.5%	2.9%	288.3	120.0
lump sum				275.1	114.5				
% change 2007 – 2012		**20.0%**		**Include lump sum**	**14.5%**			**20.0%**	

In fact in only one year (2009) did the rise in pensions match the rise in the cost of living (see Table above). In all other years the pension fell relative to the cost of living, leaving pensions 5.5% behind the RPI Pensioners, even including the lump sum back payment in May of this year.

Rebasing the pension on 2011 figures when the index of average earnings stood at 267.3 and the weekly old age pension rate was set at £184.45 means that the adjustments that will be made to the current old age pension are equivalent to the old age pension rate in 2012 being set at £189.84 per week. This means that the pension uprating will match the full increase of RPI Pensioners of 2.9% in 2012.

In the light of the full 5.5% reduction in the purchasing power of the pension over this period, this amendment proposes a further step in compensating for this loss in value, by rebasing the pension index proposed not to the 2011 base but to the 2010 base. This permits a further increase to compensate for the 2% difference between the full RPI (4.5%) and the AEI (2.5%) awarded in the previous year.

The result of taking the baseline from the previous year is to increase the "pension index" on which future pension awards will be made from 275.1 to 280.5.

If the baseline year of 2010 (instead of 2011) is adopted, then the pension in 2012 would be approx £193.57 which is an increase of around £3.70 on the current 2012 figure of £189.84 (which includes the lump sum) and £9.12 greater than the current 2011 baseline pension of £184.45.

Pension 2011	**Pension 2012 +1.5%**	**Pension 2012 +2.9%**	**Pension 2012 rebase 2010 + 4.9%**
Pension Index 267.3 (272.6)	271.4	275.1	(280.5)
£184.45	£187.25	£189.84	£193.57
Pension rise	£2.80	£2.60	£3.72
Cumulative rise	£2.80	£5.40	£9.12

Financial and manpower implications

The amendment leaves the proposed uprating methodology intact and ensures that the increase in pensions in a particular year cannot fall below RPI (Pensioners) but can, on occasion, rise above the increase in the Index of Average Earnings. In these years, the cost to the Fund will be greater than under the current method. The additional cost will depend on the difference between the increase in prices and the increase in earnings in that year.

Adjusting the 2012/2013 pension rates in line with the full 2.9% increase in RPI (Pensioners) as at June 2012, as proposed by P.15/2013, will introduce an additional cost of approximately £2.04 million. This sum is calculated as follows –

Based on a payment date of 2nd May 2013, the 2013 old age pension adjustment will be paid to just over 28,000 pensioners, cover 31 weeks from 4th October 2012 to 8th May 2013 and cost approximately £1.21 million.

The pension uprating, to run from 9th May 2013 to 30th September 2013 will cost approximately £0.83 million. These costs will be met from the Social Security Fund.

Adopting this amendment will result in additional costs of £2.9 million to be met from the Social Security Fund.

Increasing the value of the pension disregard within the income support calculation will create additional cost within the income support budget. It is not known at this time whether the additional cost of £2.9 million will be accommodated within the additional £10.6 million AME budget in 2013.

There are no ongoing manpower implications. However, considerable temporary resources will be needed to ensure the smooth payment of the 2013 old age pension adjustment. Existing departmental resources will need to be reallocated from other operational areas to administer this project.

The Regulations brought by the Minister will result in the next uprate taking place on 1st October 2013 using the new method and based on the RPI (Pensioners) and the average earning index figures for June 2013. The new uprating method will only be applied to old age pensions. All other contributory benefits will continue to be linked directly to the index of average earnings.