

# Social Protection in Jersey: a Comparative Study



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## Executive Summary

This report was commissioned by Jersey's Employment and Social Security Committee in order to provide evidence which places Jersey and its social security provision in relation to the countries of the European Union. Studying Jersey's social security system in a comparative context will help inform decisions on future direction, including proposals to develop a more simplified and user-friendly income support system, on target to be implemented by October 2006. It will also highlight where Jersey sits as a society regarding experience of and protection from social exclusion, and thus what it needs to do to keep up with the drive in Europe to make the eradication of poverty a central plank in any strategy for economic growth. The pivotal findings of the research are as follows:

- The incidence of poverty in Jersey is very similar to the European average although the severity of poverty in Jersey is generally less. Jersey in fact has the lowest median at risk of poverty gap in Europe (see Chart 3.4).
  - Jersey spends less on social protection as a percentage of its GDP than any other European country. Spending on social protection per head of population is similarly relatively low, with only Greece, Ireland, Spain and Portugal spending less on a per capita basis.
  - Low social protection expenditure in Jersey is attributable to that on old age, families and children, and unemployment, while expenditure on sickness and healthcare, and on disability, is close to the European average. Reflecting policies to subsidise housing consumption rather than house building, only the UK spends more than Jersey on housing support.
  - Most European countries are seeking to strike a balance between a level of social protection high enough to provide a decent standard of living and promote social cohesion without being too high as to create welfare dependency. Net replacement rates in Jersey are currently stacked greatly in favour of guarding against welfare dependency to the detriment of protecting against social exclusion.
  - Jersey is the second wealthiest country in Europe measured in terms of per capita Gross Domestic Product (GDP). It therefore has a comparatively large potential resource pool from which to finance social protection, but, because it is an island economy that is heavily reliant on the finance industry, this situation cannot be taken for granted in the long term.
  - Conversely, pressure on welfare services in Jersey is significantly below that in most other European countries. This is because Jersey has a below average proportion of elderly citizens and a comparatively low unemployment rate. The proportion of households with children in Jersey is also slightly below the European average.
  - Since Jersey spends significantly less than the European average on social security, poverty levels on the island are encouraging. However the fact that Jersey is a wealthy society with relatively low pressure on welfare services begs the question as to why the poverty rate is not lower.
  - Nevertheless, being a wealthy society with low pressure on welfare means that poverty and social exclusion could be significantly reduced without a dramatic increase in relative expenditure.
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## Background

In March 2000 at the Lisbon European Council, Europe set itself a strategic goal for 2010 "to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion."<sup>1</sup> It was emphasised that modernisation of the economy should go hand in hand with the eradication of poverty and social exclusion, the levels of which were highlighted as unacceptable by the Council. Tackling poverty and improving social cohesion were also recognised as "making an important contribution to achieving sustainable economic and employment growth... reinforced by the fact that the most social progressive countries within the Union are also among the most economically advanced" (Council of the European Union (2004)). Each Member State was asked to prepare a National Action Plan (NAP) on how they were going to tackle poverty and social exclusion and to monitor their progress on achieving these goals (NAPs are in fact now in their second phase, having been revisited and updated in 2003). Paid work was viewed as central in the push to eradicate poverty. Nevertheless, the provision of acceptable levels of welfare for those unable to work was an important element in this European drive to close the economic gap between the EU and the US in a sustainable and socially defensible way.

Although Jersey is not a member of the European Union, it is geographically part of Europe, and responding to major policy drives would prevent Jersey from falling behind both economically and also with regards to what is increasingly becoming the dominant European view on social security provision. There has in fact already been a push within Jersey to move in a similar direction since the publication, in 1995, of its Strategic Policy Review which set a vision of Jersey as "an island in which all are able to enjoy a high quality of life and level of personal fulfilment, a high quality of natural and built environment, an opportunity to use their talents fully in gainful employment, the protection of persons and property, a high standard of public and private service and overall standard of living, and personal freedoms and rights" (States of Jersey, 1995). Jersey's Employment and Social Security Committee have been pursuing a number of objectives since including the development of work and lifelong learning initiatives, modernising social protection systems (including the development of non-contributory benefits) and making pensions safe and sustainable (ESSC Press Release 2001). Nevertheless, recent research showed that Jersey's economic success is viewed by key policy makers on the island as having been brought about at the cost of creating an unjust, two-tiered society which is ultimately unsustainable and has so far not been properly addressed (Aiming for Fairer Society, 2001).

In light of this, Jersey's commitments to tackling poverty have been re-articulated in its most recent Strategic Plan (2005-2010) which promises to work towards the eradication of financial and social exclusion in the island and more integrated and equitable tax, spending and welfare systems (States of Jersey, 2004d). As part of this, Jersey's Employment and Social Security Committee have produced proposals to produce a more simplified and user-friendly income support system, on target to be implemented by 1st October 2006. In order to inform these proposals, the Committee commissioned this research to 'place' Jersey and its social security provision in relation to other European countries. Studying Jersey in an international context would not only highlight in more detail how Jersey compares with other countries but would also aid understanding of the factors underpinning Jersey's current position and inform on avenues conducive to improving its social security provision and to tackling poverty on the island.

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<sup>1</sup> [http://europa.eu.int/comm/employment\\_social/knowledge\\_society/index\\_en.htm](http://europa.eu.int/comm/employment_social/knowledge_society/index_en.htm)

## The Research

Jersey was benchmarked against the 15 (pre-enlargement) Member States of the European Union according to demographic indicators, expenditure on social security (inputs) and levels of poverty and income distribution (outputs). Switzerland was also included where possible as a non-EU country with similarities to Jersey.

One of the major issues needing consideration when comparing expenditure across countries is the comparative value of goods. Even when different countries use the same currency (as with the Euro) the value of that currency and of the goods within each country may nevertheless diverge. Expenditure cannot thus be compared at face value. This is addressed by using Purchasing Power Parities (PPPs) to convert currencies into comparable units (PPSs). Purchasing Power Parities work by comparing the relative price of an identical basket of goods and services across the countries in question to produce a ratio by which the currency in each country must be divided in order to be comparable. However, although overcoming the effects of movements in exchange rates, PPPs are not 100% reliable due to the fact that people in different countries consume very different sets of goods and services, making it difficult to compare the purchasing power between countries. PPPs are, however, the best estimate available for comparability purposes. PPPs for the 15 EU member states, the 13 candidate countries, Norway, Iceland and Switzerland are calculated on an annual basis by Eurostat through the European Comparison Programme.

Although Jersey is not included within the European Comparison Programme and thus does not have its own PPP ratio, after careful consideration it was deemed acceptable to compare Jersey's expenditure directly with that of the United Kingdom (and thus to convert Jersey's expenditure using the UK's PPP ratio). This practice is not without precedent as Jersey has already successfully conducted research comparing monetary figures directly with the UK (Rafferty et al (2002); States of Jersey (2004b)). However, the value of goods are not exactly the same between the two countries even though they use the same currency (Jersey house prices are roughly comparable to those in London, while the price of consumables on the island is similar to the price of consumables in rural areas of the UK). Weighing up these limitations and the success of past research led to the conclusion that converting Jersey's expenditure using the UK's PPP ratio was nonetheless the most effective method available to produce a comprehensive comparison.

The report is divided into sections to facilitate clear comparison between Jersey and other countries. Section One, entitled 'Resources and Demographics', compares Jersey's society with that of the other countries in terms of population characteristics and financial situation. This is particularly important in informing understanding of the performance of countries' social security systems, highlighted in the sections that follow. Section Two, 'Inputs', benchmarks Jersey's expenditure on social protection, both in its entirety and also by particular areas of provision, for example the provision for old age. Section Three, entitled 'Outputs', compares levels and depth of poverty in Jersey and the other European countries. Although these variables are affected by more than the provision of social security, the success of a good welfare system has to be measured in a large part according to the effectiveness of that welfare in combating poverty and providing a more equal and just society<sup>2</sup>.

Jersey's Employment and Social Security Committee also requested increased focus on a smaller number of countries - the United Kingdom, Ireland, Finland and Switzerland - that shared characteristics with Jersey either in the structure of their social protection systems or in their welfare ethos. Esping-Andersen's original typology of welfare states categorises welfare regimes into three 'ideal types': liberal, conservative and social-democratic. These ideal types are categorised according to the extent to which

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<sup>2</sup> It must be borne in mind, however, that these are often not the only criteria against which social protection systems are measured. Many social protection systems have other aims, for example protecting against risk, promoting economic efficiency and encouraging behavioural change (Walker, pending publication), and the extent to which equality is pursued differs with the ideology underpinning different welfare regimes. However, the eradication of poverty and social exclusion can nevertheless be viewed as central to all systems of welfare in the developed world.

welfare services and benefits are viewed as a social right, and the degree to which citizens can live without reliance on the market (which Esping-Andersen termed 'decommodification'). Social-democratic regimes are the most highly decommodified where benefits tend to be more generous and are likely to be universal rather than means tested. Liberal welfare states provide the least level of decommodification with a greater reliance on the market to determine household incomes and on means testing for the most needy sections of society. Conservative welfare regimes lie somewhere between the social-democratic and liberal regimes regarding their level of decommodification, and benefits tend to be related to occupational status<sup>3</sup>.

Many, if not most, countries' welfare states do not fit tidily into any one of Esping-Andersen's ideal types but are hybrids of them. However, the typology is useful in identifying fundamental underlying principles that inform the way that welfare works in different countries. Of the countries singled out for greater focus in this research, the UK and Ireland are categorised by Esping-Andersen as having liberal welfare regimes, and Switzerland and Finland as conservative (although the results of this research show that Finland has more social-democratic characteristics than originally thought). Jersey's welfare system would probably be closest to the liberal ideal type due to the fact that it is similar to the UK in not being a high tax society and having a system of means tested welfare for those in most need. While cash benefits are largely based on social insurance principles, the health system is principally funded from general government revenue and employee, and especially employer, contributions are low compared with countries that have conservative regimes more generally reliant on social insurance. Where appropriate, extra attention has been paid to these four chosen countries in the analysis of the variables in the report, and the Key Findings conclude with a brief section on their National Action Plans to address poverty and social exclusion in the future.

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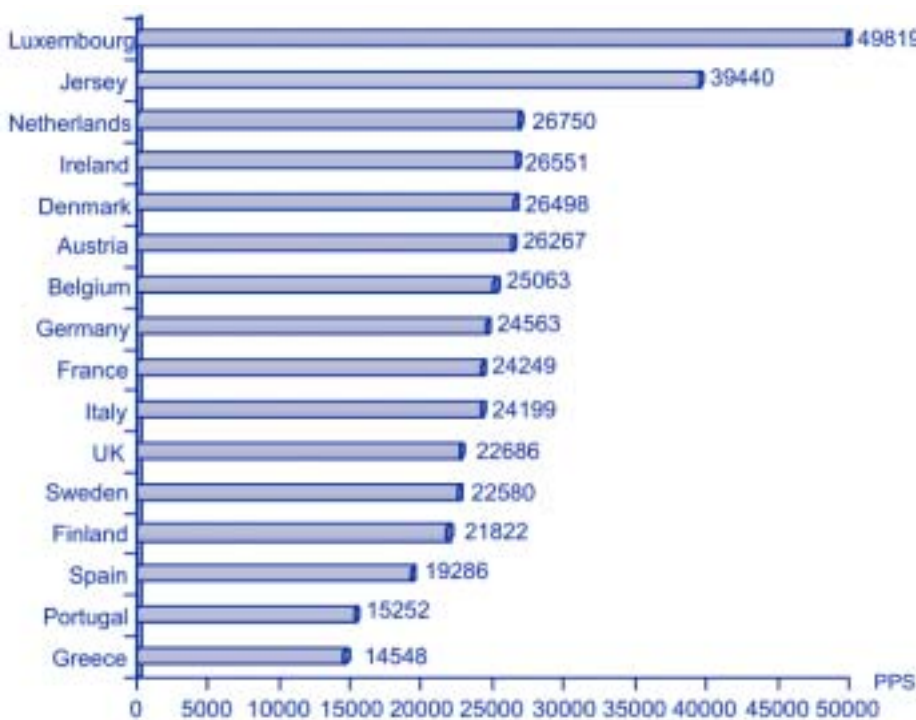
<sup>3</sup> For a more in-depth explanation of Esping-Andersen's welfare typologies, see Arts & Gelissen (2002)

## Section 1: Resources & Demographics

The most widely used measure of economic output is gross domestic product (GDP), which refers to the market value of the goods and services produced by a particular country. It is thus often used to measure the relative size of different economies in addition to their performance over time. Gross National Income (GNI) rather than GDP is recommended by the International Monetary Fund (IMF) as the best measure of the economy of small jurisdictions dominated by the financial sector (of which Jersey is a prime example). GDP measures the economic activity of a particular country regardless of who owns the means of production, whereas GNI subtracts income earned in that country by foreign-owned companies while taking account of income earned overseas by home-owned businesses and individuals. Given that GDP is the most commonly used measure in Europe, however, we have decided to use it rather than GNI.

### GDP Per Capita (in PPS)

Chart 1.1a

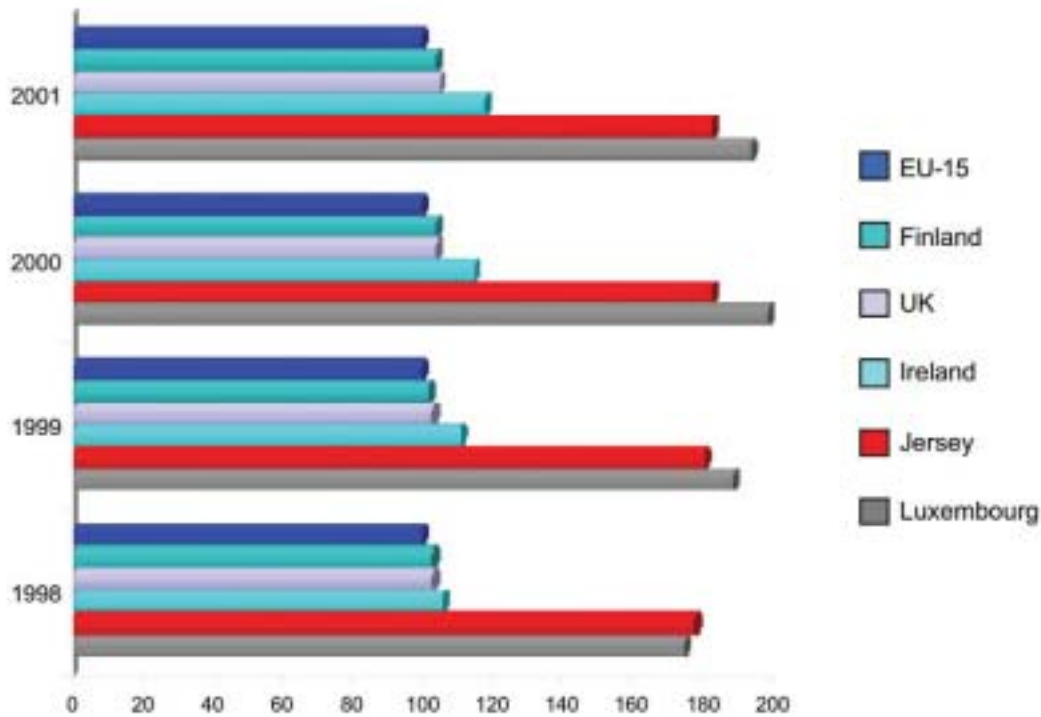


Source: European Commission (2004)/Jersey (2004c) & Census 2001. Jersey using UK PPP conversion rate. All figures are presented in current year prices.

As the chart demonstrates, Jersey's income per capita is relatively high, with only Luxembourg superseding it. Had GNI rather than GDP been used for Jersey its production in 2001 would have even higher at 45592 pps per capita. While Jersey is seen to be prosperous compared to other European countries, its marked reliance on the financial service sector makes it vulnerable to external events. However, Chart 1.1a only shows GDP at one point in time: the following chart (1.1b) highlights how GDP has changed over a four-year period (for which data is available for Jersey) for the countries selected for increased focus (data is unavailable for Switzerland). The average per capita GDP for the fifteen original member states of the European Union is set at 100, with the per capita GDP for each individual country expressed as a ratio of this figure. Thus all countries with a per capita GDP that is higher than the European average will have a score of over 100, and those with below average GDPs will score below 100.

### Change in GDP Per Capita Over Time (in PPS) (EU15=100)

Chart 1.1b



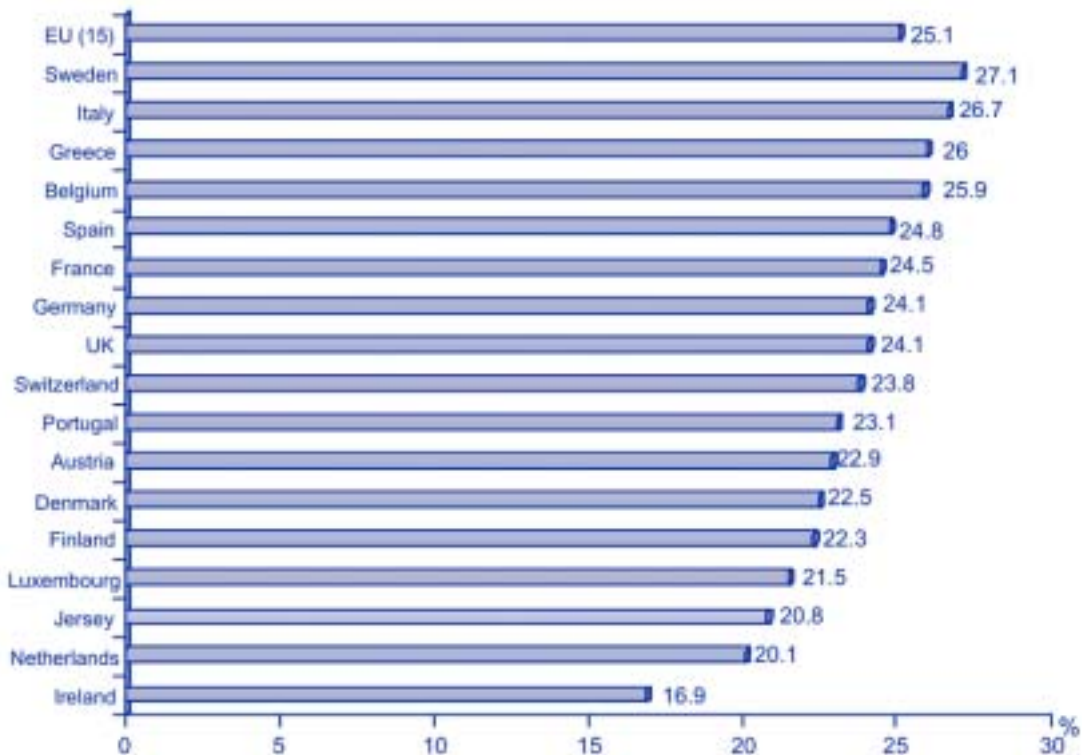
Source: InfoBase Europe/States of Jersey (2004c)

Chart 1.1b highlights that all the countries singled out for extra analysis have had a consistently higher per capita GDP than the European average (if only slightly in some cases) throughout the four year period ending in 2001. What is also highlighted is not only the extent to which Jersey's prosperity is greater than that of the other countries (except Luxembourg, which is included here as the only other country with an unusually high per capita GDP), but also that this has been consistent and rising (if only gradually) over the period in question. Although four years may not be considered a significant period of time in history, it does suggest that although Jersey's economy is vulnerable due to reliance on one economic sector, that sector has been consistently prosperous rather than simply having the odd 'good year'.



## Pensioner/Working Age Population Ratio

Chart 1.2

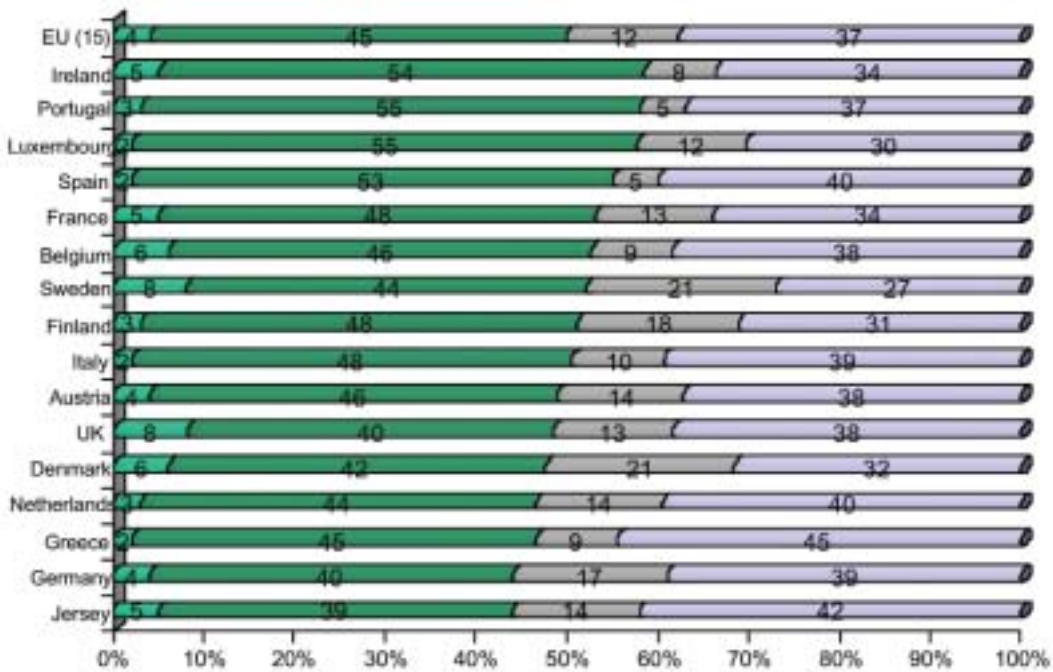


Data 2000 bar Jersey 2001. Eu-15 average not weighted according to population size. Source: OECD/Jersey Census 2001

The pensioner/working age population ratio (usually referred to as the 'old age ratio') is calculated by dividing the population aged over 65 by the population of working age (15-64 according to the OECD definition) and multiplying by 100. The ratio may be interpreted as the percentage cost of each elderly person that each working age person would need to cover. Most developed countries are concerned by an increasing old age ratio and the implications that this has for taxation and spending, and Jersey is no exception in this respect. A decreasing proportion of citizens of working age providing the resources to finance a growing population of the retired poses a significant threat to the viability of many social protection systems as they currently stand. Despite this, Jersey currently has a low pensioner/working age population ratio (old age ratio) compared with most of the other member countries of the European Union, being over four percentage points behind the European average. Jersey is thus in the enviable position of being able to monitor and learn from the handling of this issue by other countries with much higher ratios, and also to gradually implement the changes necessary for sustainability in the future.

## Household Type

Chart 1.3a



Data 2002 bar Jersey 2001. 'Children' includes those aged 16-24, in full time education and still living at home - data for Jersey based on estimate. Source: Council of the European Union (2004)/Jersey Census 2001



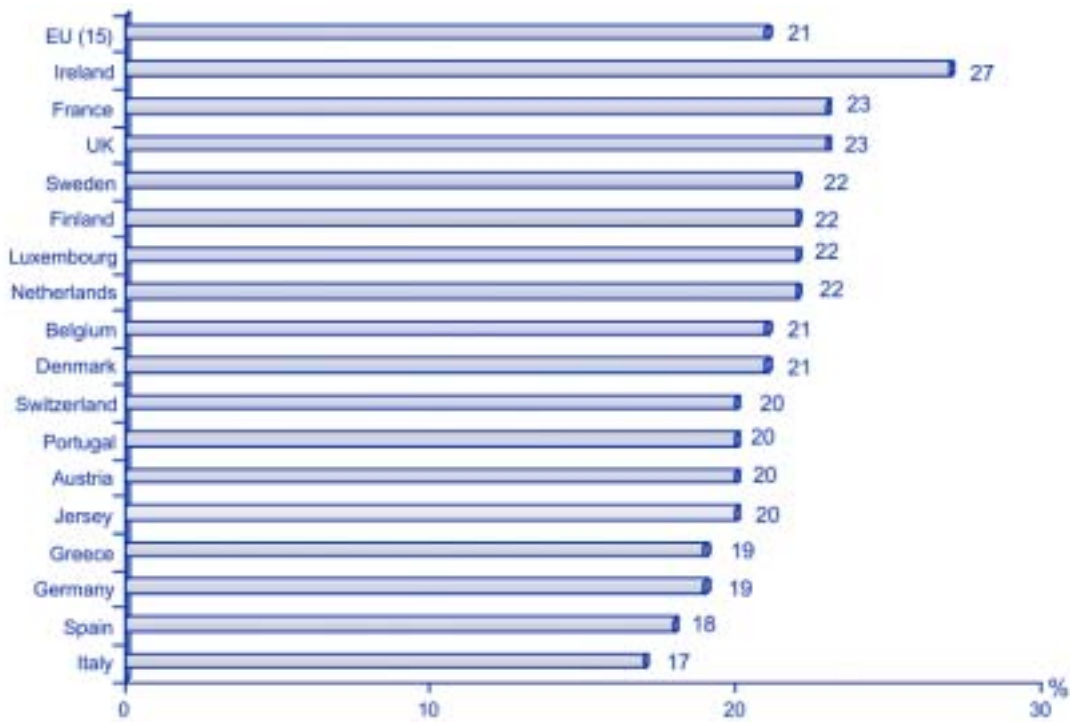
In addition to having a low pensioner/working age population ratio, the chart above shows that Jersey also has a slightly below average number of families with children compared with other European countries<sup>4</sup>. Coupled with its low unemployment rate (see chart 1.4 below), this goes some way to explaining Jersey's comparatively high GDP. This also means that Jersey has a relatively large potential resource pool from which to draw money (in the form of taxation) for social security while potentially experiencing less pressure for its benefits.

Jersey does, however, have a slightly above average proportion of lone parent households, a group that have been highlighted by the European Union as suffering disproportionately from social exclusion. Jersey's own Income Distribution Study for 2002 highlighted single parent families as being twice as likely as the average to reside in the bottom income quintile, and even more likely to do so after housing costs have been taken into consideration. Many Member States have targeted lone parents for increased welfare support in their National Action Plans to address poverty and social exclusion

<sup>4</sup> However, the proportion of children in Jersey is only 1% lower than that in Europe on average (see chart 1.3b).

## Children as proportion of population

Chart 1.3b

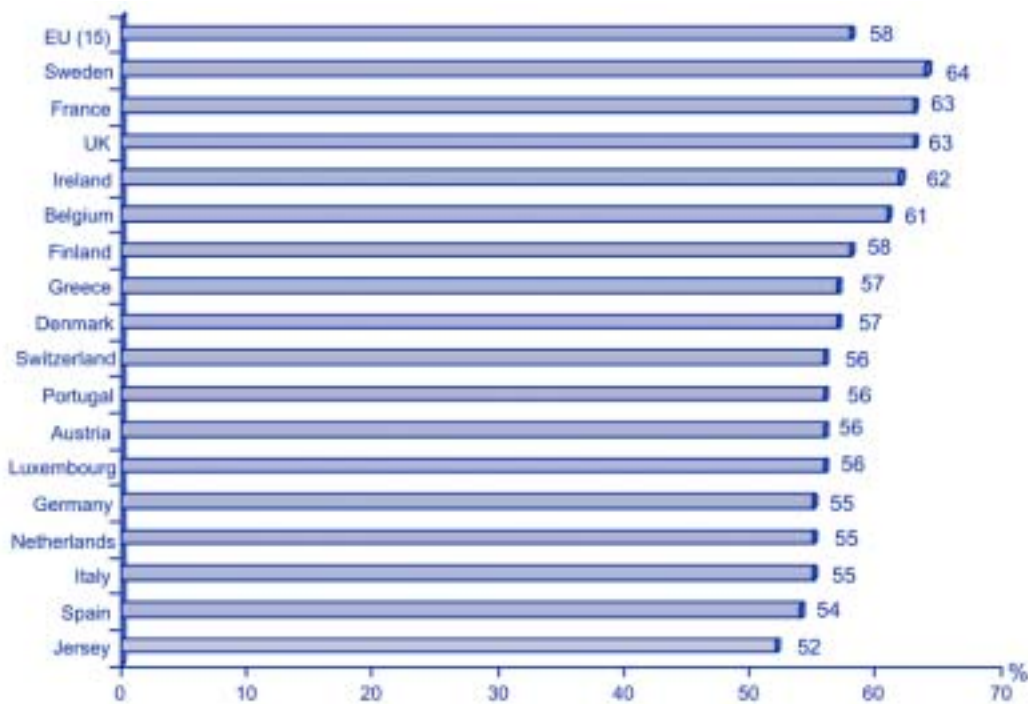


Data 2000 bar Jersey 2001. Source: United Nations/Jersey Census 2001

Chart 1.3b confirms that the proportion of children in Jersey is slightly less than the proportion of children in Europe on average. Ireland is the most obvious outlier regarding this demographic, with a proportion of children 6 percentage points higher than the European average.

## Dependency Ratio

Chart 1.3c



Data 2000 bar Jersey 2001. Source: United Nations/Jersey Census 2001

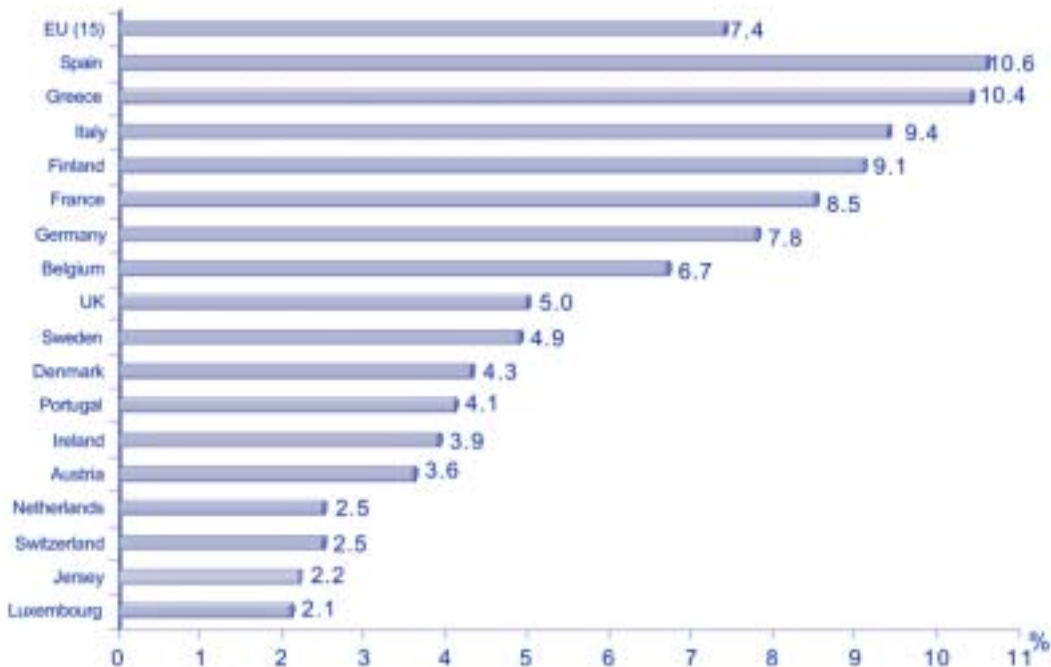
The dependency ratio is calculated by adding the number of children (under-18s) to the number of over 65s, dividing this total by the working age population (19-64 year-olds) and multiplying by 100. The ratio reveals the percentage of the cost of each 'dependent' (elderly person or child) that each working age person needs to cover. At 52, Jersey has the lowest dependency ratio of all the European countries: each working aged person has to meet just 52 per cent of the cost of each person not of working age. In other words, for every 2 working people in Jersey, there is approximately 1 dependent person<sup>5</sup>.

Jersey is therefore in the enviable position of having a higher than average working population available to support a lower than average population of dependents. It is thus in a strong position to provide welfare, at least at this point in time.

<sup>5</sup> It must be borne in mind that 'children' in this chart refer to those aged under 18 years of age, whereas in Chart 1.2 highlighting pensioner/working age population ratio 'children' referred to those under 16. This has been done for comparability purposes but interpretation necessitates awareness of this fact.

## Unemployment Rate

Chart 1.4



The EU-15 average is calculated as a population-weighted average of the available national values.

Unemployed as percentage of the labour force. 'Unemployed' must be available for work. Labour force as those aged 15-74 in EU-15, 16-59/64 in Jersey and 15-64 in Switzerland. Data 2001 for all countries. Source: Eurostat/Jersey Census 2001/OECD (Switzerland).

Unemployment<sup>6</sup> in Jersey is comparatively very low: the average European is over three times more likely to experience unemployment. The fact that, proportionally, there are more citizens of working age in Jersey than in the other countries does not affect this finding as it is calculated purely as a percentage of those who are available for work, rather than of society as a whole.

Of the countries singled out for particular comparison with Jersey, only Finland has an above average unemployment rate. The UK, Ireland and Switzerland all have comparatively low levels of unemployment, particularly Switzerland whose level of unemployment is very similar to Jersey's.

Jersey's social protection system is thus in an extremely favourable position in that it has a larger than average working base from which to draw resources to finance social protection, with a below average pressure on those resources.

<sup>6</sup> Measured according to criteria defined by the ILO: Unemployed as those without a job who have actively sought work within the last 4 weeks and who are available start work in the next two weeks, or who have found a job and are due to start within the next two weeks.

## Concluding comments

Resources and demographics in Jersey indicate a very favourable situation with regards to the provision of social security. A very low pensioner/working age population ratio and a slightly below average proportion of children contribute to a dependency ratio on the island that is lower than any other country in Europe. Coupled with a very low unemployment rate (the second lowest in Europe) it becomes clear as to why Jersey's per capita GDP is as high as it is. Furthermore, Jersey has a very high economic activity rate with a large percentage of women in the workforce.

As an island economy heavily dependent on just one economic sector, however, Jersey's prosperity is less secure than it is for larger states. In addition to this demographics are changing, especially with growing numbers of the elderly, in all developed states including Jersey. Having said that Jersey's prosperity has been consistent over a number of years and has indeed been steadily, if slowly, rising. Its pensioner/working age population ratio is also considerably lower than most other European states indicating that Jersey has the time to study and learn from the handling of this issue by other countries with a more pressing problem.

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## Section 2: Inputs

The European Commission (1996) defines social protection as: encompassing all interventions from public or private bodies intended to relieve households and individuals of the burden of a defined set of risks or needs, provided that there is neither a simultaneous reciprocal or an individual arrangement involved.

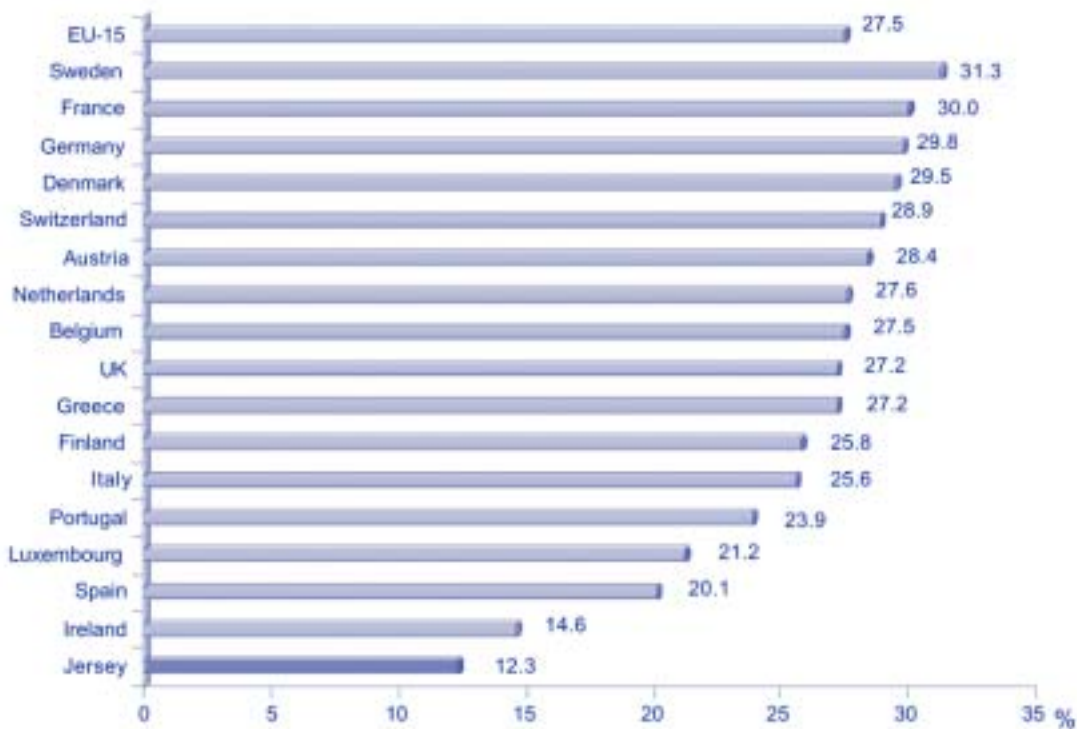
Systems of social protection vary across different countries due to each country's particular history, welfare ethos, dominant priorities, bureaucratic systems and social need. However, this does not mean that states cannot learn from the practices abroad. Indeed, learning from others (whether that be from their successes or failures) is vital for countries constantly seeking to update and improve their welfare systems in a changing world. Moreover, the drive to address poverty and social exclusion on a European scale makes this process ever more important.

This section compares social protection systems across Europe in terms of their expenditure, both as a whole and on particular areas of social protection, and also their receipts. Jersey's position is highlighted within each chart.

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## Total social protection expenditure as % of GDP (2001)

Chart 2.1



The EU-15 average is calculated as a population-weighted average of the available national values.  
 Source: European Commission (2004)/ Jersey Report & Accounts 2001.

Jersey spends somewhat less on social protection as a percentage of its wealth than any other European country. The graph demonstrates Jersey's expenditure as a percentage of its Gross Domestic Product (GDP); had it been as a percentage of its Gross National Income (GNI) its proportional expenditure would have been lower at 10.6%.

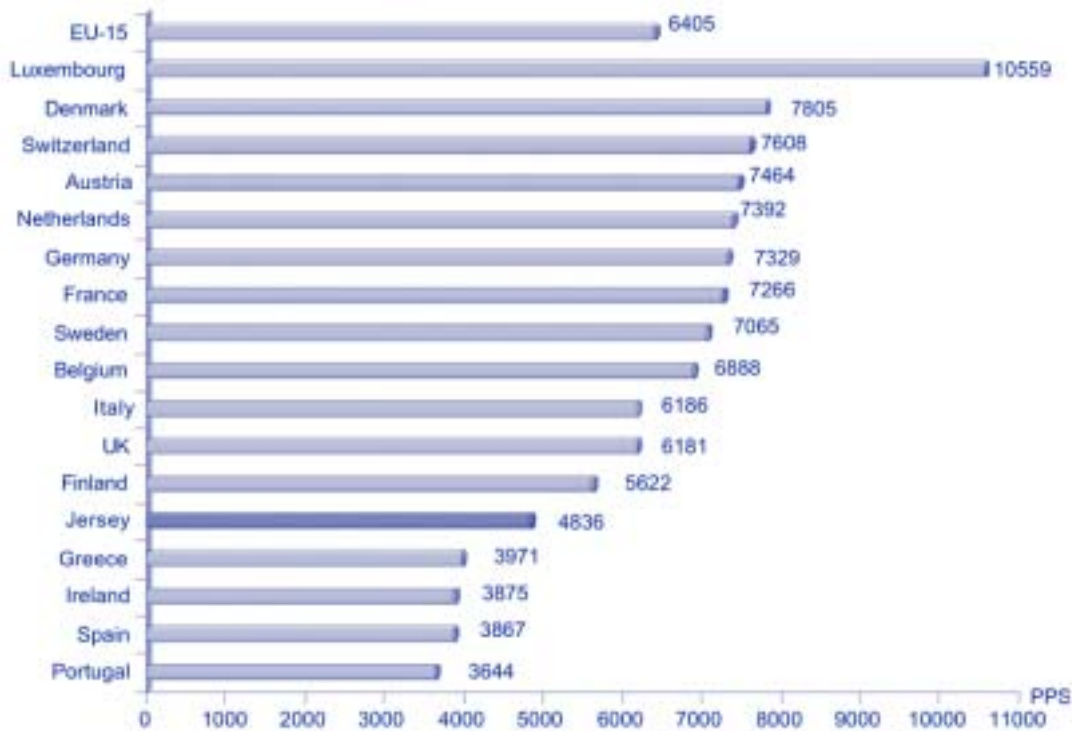
Jersey's relatively low expenditure as a percentage of its GDP can be partly explained by the fact that the island's per capita GDP is high compared with the European average. Nevertheless, Luxembourg's per capita GDP is even higher yet it spends a significantly greater percentage of this on social protection than does Jersey.

Of the countries singled out for specific comparison with Jersey, only Ireland has a similarly low rate of expenditure. Switzerland, the UK and Finland all spend at a rate that is close to the European average, approximately twice that of Jersey. Ireland's GDP per capita is higher than the other three countries (although still below Jersey's) although it is not as high as to be able to fully account for its relatively low expenditure on social protection as a percentage of this figure. It is worth bearing in mind, however, that Ireland has experienced the fastest growth in GDP in Europe since 1992 and it may thus take a longer time for an equivalent growth to occur in welfare spending.



## Total social protection expenditure per capita (PPS) (2001)

Chart 2.2



Jersey using UK PPP conversion rate. The EU-15 average is calculated as a population-weighted average of the available national values. Source: European Commission (2004)/Jersey Report & Accounts 2001.

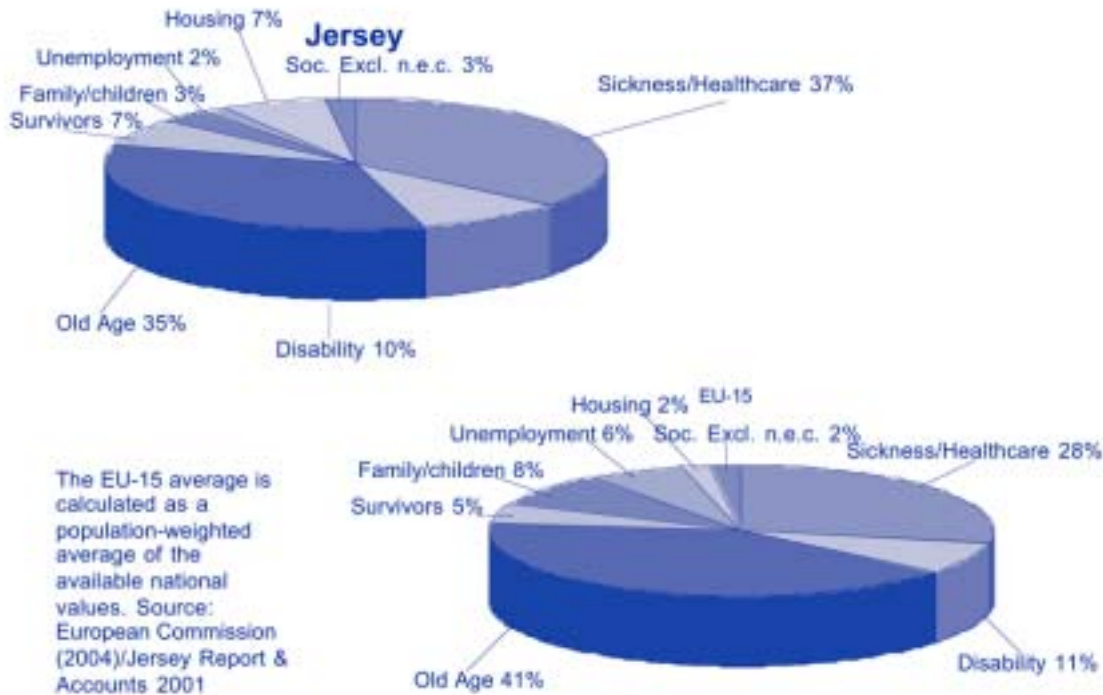
Jersey's relative position improves somewhat when expenditure on social protection is expressed in per capita terms, increasing from 45% to 76% of the European average: spending falls short of that of Finland but is well above that of Greece, Ireland, Spain and Portugal. However, it is pertinent to note that the difference between Jersey and Greece is largely attributable to the high level and coverage of occupational pensions funded largely through the private sector.

It must be borne in mind, however, that Jersey is a comparatively low tax society. Tax thresholds are quite high, benefiting those on low incomes as well as the more prosperous, and the island provides a number of tax allowances for the elderly and those with children<sup>7</sup>. Residents may therefore have relatively high rates of disposable income and be less in need of benefits. Of course, this is wholly dependent on residents receiving a regular income, and thus does not address the plight of the unemployed.

<sup>7</sup> For example, old age pensioners in Jersey in receipt solely of the Jersey old age pension would not pay any tax, unlike in the UK.

## Social Benefits by Function as Percentage of Total Expenditure (2001)

Chart 2.3

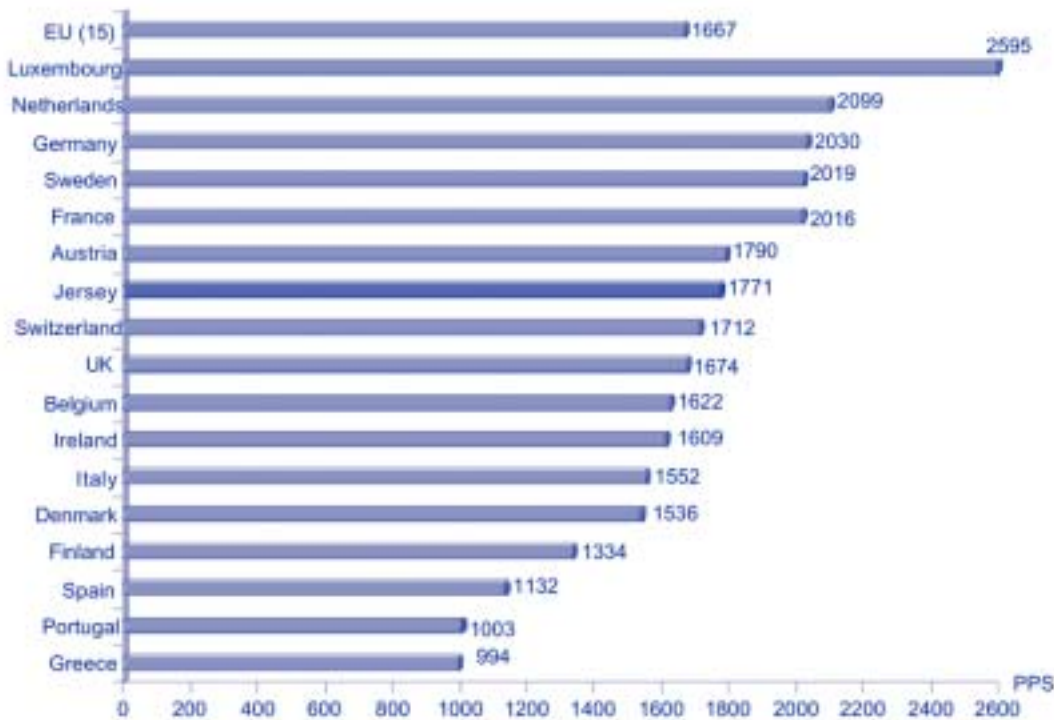


Partly due to its low pensioner/working age population ratio Jersey spends a below average proportion of its total social security expenditure on old age benefits, but it devotes a noticeably higher than average amount to sickness and healthcare. Relative expenditure on disability is similar to the EU average, as is that on social exclusion not elsewhere classified (n.e.c.) (for definition see Appendix 2). Four times the European average is devoted to social security expenditure on housing, no doubt reflecting both the high cost of accommodation on the island and subsidies in some other countries directed towards house building rather than rents. As Jersey has no statutory unemployment benefit, it was unsurprising that it spends much less than other European countries on unemployment. Jersey also spends noticeably less proportionately on family benefits but more on survivors.

The pie charts above highlight the current priorities with regards to social security expenditure in Jersey and across the EU-15 as a whole. However, they do not provide information on how much each country spends per head. The following charts reveal differences between Jersey and European countries in the level of per capita spending, in some instances taking account of variations in the size of the target population.

## Per capita expenditure on Sickness/Healthcare (PPS) (2001)

Chart 2.4



EU-15 average not weighted according to population size.  
 Source: European Commission (2004)/Jersey Report & Accounts 2001

Per capita spending on health in Jersey is a little above the European average and might be marginally higher still because any payments made by employers in the form of sick pay are necessarily excluded from the Jersey figures (since no information is readily available) but included for other countries. Nevertheless, Jersey does spend proportionately more on health than the four specific comparator countries (Switzerland, Finland, Ireland and the UK). The fact that Jersey has its own general hospital, an expensive asset for a small island community, provides some explanation as to its expenditure on health. Wages are also comparatively high in Jersey, adding to the cost of secondary health care on the island.

It is important to bear in mind that individual personal spending on private healthcare is not included in this or the European Union's analysis of social security expenditure unless it is reimbursed by government or by statutory insurance<sup>8</sup>. The inclusion of private expenditure might yield very different results. However, the purpose of this report is to compare social security expenditure, and per capita expenditure in Jersey on sickness and healthcare is very close to the European average.

While the UK and Jersey both have universal medical care systems, provision of cash benefits for sickness are only available to Jersey residents who are covered by social insurance whereas a dual

<sup>8</sup> Expenditure in Jersey on primary care, which is private, is thus included as it is covered by both health insurance and by government subsidies (at a ratio of approximately 50:50).

system of social insurance and social assistance provides almost universal coverage in the UK. Statutory sick pay in the UK is approximately 85 PPS<sup>9</sup> per week for up to 28 weeks after a 3 day waiting period; those not qualifying are entitled to income support of up to 76 PPS per week depending on circumstances. Sickness benefit in Jersey is approximately 177 PPS per week for one year. The difference in these rates may also go some way to explaining Jersey's slightly higher per capita spend when compared with the UK.

Like Jersey, Ireland has a system of social insurance for health-related cash benefits, with statutory sickness benefit having a ceiling of 106 PPS per week, which is reduced if the claimant has made less than 48 weeks worth of paid contributions in the preceding year. Inpatient care costs 33 Euros or 29 PPS a day. Medical services are free to medical-card holders (means-tested) or with partial cost-sharing for the rest of the population.

In Finland, health care is provided by a private sector sickness insurance programme (although the system, being obligatory and statutory, is counted as part of the overall social protection system) and also a public sector (municipal) health services programme financed largely through taxation. Sickness benefit (contributory) is worth between 25% and 70% of daily earnings (the more earn, the less percentage receive), while means-tested sickness allowance is payable after 55 days of disability and is worth approximately 56 PPS per week. The sickness insurance scheme provides cash refunds for certain medical expenses, while under municipal health services a 22 Euro or 18 PPS fee is charged for the one visit to the doctors per year (the rest are free). Hospital care is free except for a 22 Euro/18 PPS fee per outpatient visit and 26 Euro/22 PPS fee per inpatient day.

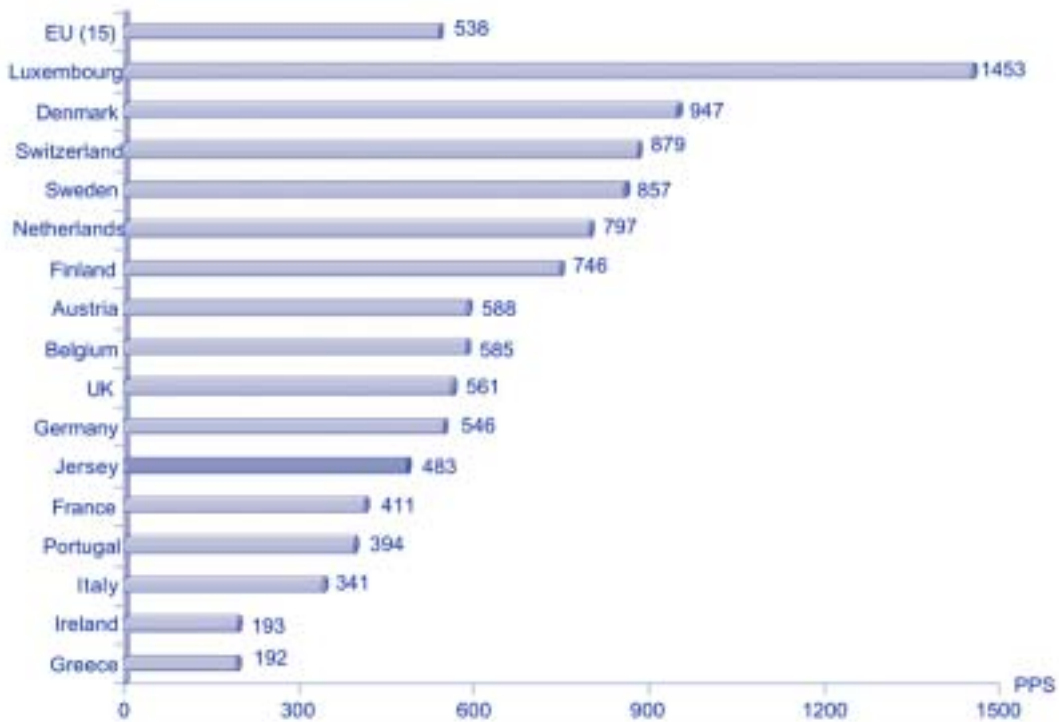
Medical care in Switzerland is financed through compulsory insurance, although the government provides subsidies to reduce the premiums of people on low incomes. Additional insurance can be bought on a voluntary basis that provides daily cash allowances. The amount of daily allowance for sickness benefit depends on the agreement reached between the insurer and the insured. Allowance is payable for up to 720 days in a period of 900 consecutive days. Switzerland's per capita expenditure on sickness and healthcare is slightly above the European average, although the percentage of this financed through taxation is minimal compared with Jersey, the UK, Ireland and Finland.

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<sup>9</sup> All PPS calculations on actual benefit rates are based on information for 2002 provided by Social Security Online

### Per capita expenditure on Disability (PPS) (2001)

Chart 2.5

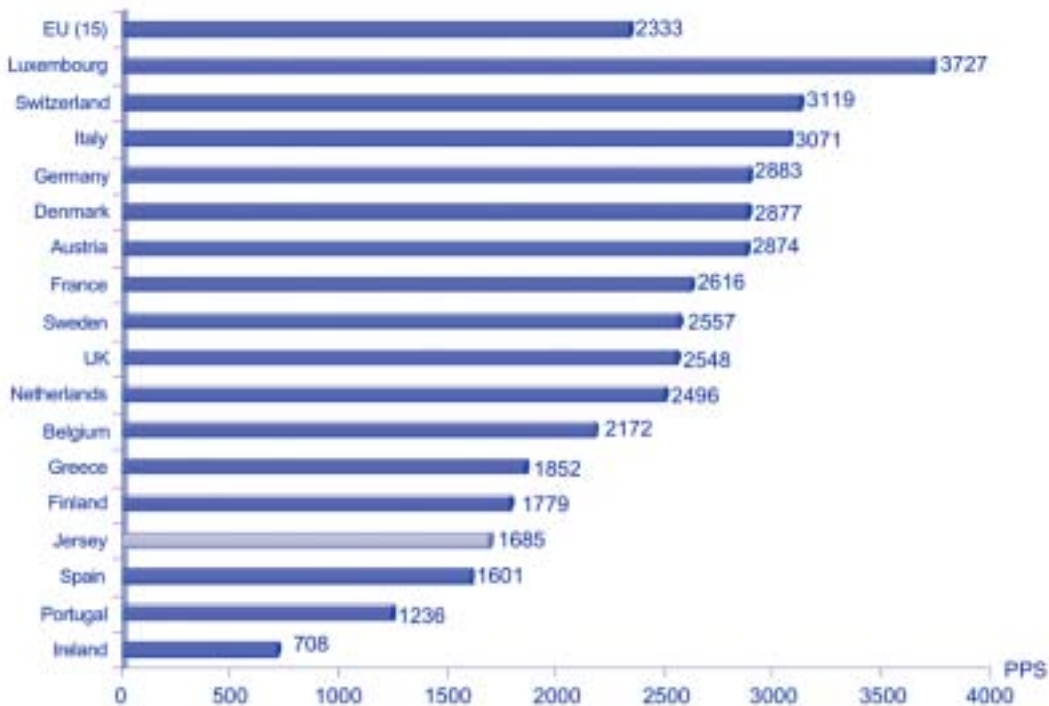


Eu-15 average not weighted according to population size. Source: European Commission (2004)/Jersey Report & Accounts 2001

Per capita expenditure on disability is lower than in Europe by about 10% (Chart 2.5). Jersey's expenditure is not much different from that of the UK, but is significantly below that of Switzerland and Finland (both well above the European average) and substantially above that of Ireland (one of five countries spending less in per capita terms than Jersey)).

## Per capita expenditure on Old Age (PPS) (2001)

Chart 2.6a



EU-15 average not weighted according to population size. Source: European Commission (2004)/Jersey Report & Accounts 2001

Below average per capita expenditure on old age reflects the low pensioner/working age population ratio in Jersey. Nevertheless Luxembourg, which has a similar pensioner/working age population ratio to Jersey (21.5% and 20.7% respectively), has the highest per capita expenditure on social protection for old age. Luxembourg is noted for its very generous welfare expenditure but is nonetheless important as an indication of the level of provision that can be sustained by a small economy.

Whereas citizens in Jersey who have not paid enough contributions to its social insurance programme are eligible to apply for the set rate of welfare benefit, the UK and Ireland each have a dual social insurance and social assistance programme in their provision for old age, meaning that all residents receive some form of pension even if they have not contributed towards it. Finland has a universal income tested pension in addition to a statutory earnings-related pension, while Switzerland has a social insurance and mandatory occupational pension system.

The UK has two state pensions - the basic state retirement pension (based on contributions) and the non-contributory retirement pension for those over 80 who are ineligible for the basic pension. The basic state retirement pension in the UK in 2002 was worth approximately 100 PPS per week<sup>10</sup>, with the British non-contributory pension being worth 60 PPS per week. The UK also has a Pension Credit entitlement for everyone aged 60 or over which guarantees an income of at least 145 PPS per week (or 221 PPS for a couple), whether or not contributions have been made throughout working life. Jersey's full state pension for a single person in 2001 was 177 PPS per week (although it must be borne in mind that wages in Jersey are on average higher than in the UK, so these figures cannot indicate the change in the standard of living that would be experienced by those moving into retirement). Those who have not

<sup>10</sup> All PPS calculations on actual benefit rates are based on information for 2002 provided by Social Security Online.

paid enough contributions to qualify for a pension in Jersey would qualify for the set welfare rate of 149 PPS per week, very similar to that provided by the Pension Credit in the UK. The fact that Jersey provides 'welfare' rather than a non-contributory 'pension' may have an effect on take-up. It should be borne in mind that pensioners' income is not taxed at the same rate in Jersey as it is in the UK, meaning that the disposable incomes of pensioners above the UK tax threshold will be reduced relative to those in Jersey because of the tax that they have to pay. However, the tax threshold is generally set above the level of means tested Pension Credit.

Social security expenditure on old age includes spending on occupational pensions even though employers and employees largely fund these. In the absence of other data, estimates for Jersey are derived from household survey data on the occupational pensions received by current pensioners. They suggest that occupational pensions account for 40 per cent of the total pension income received by the elderly in Jersey and are just as important a factor in supporting the incomes of pensioners as they are in the UK which has taken the lead, among the larger economies, in promoting this form of provision over more comprehensive social insurance schemes.

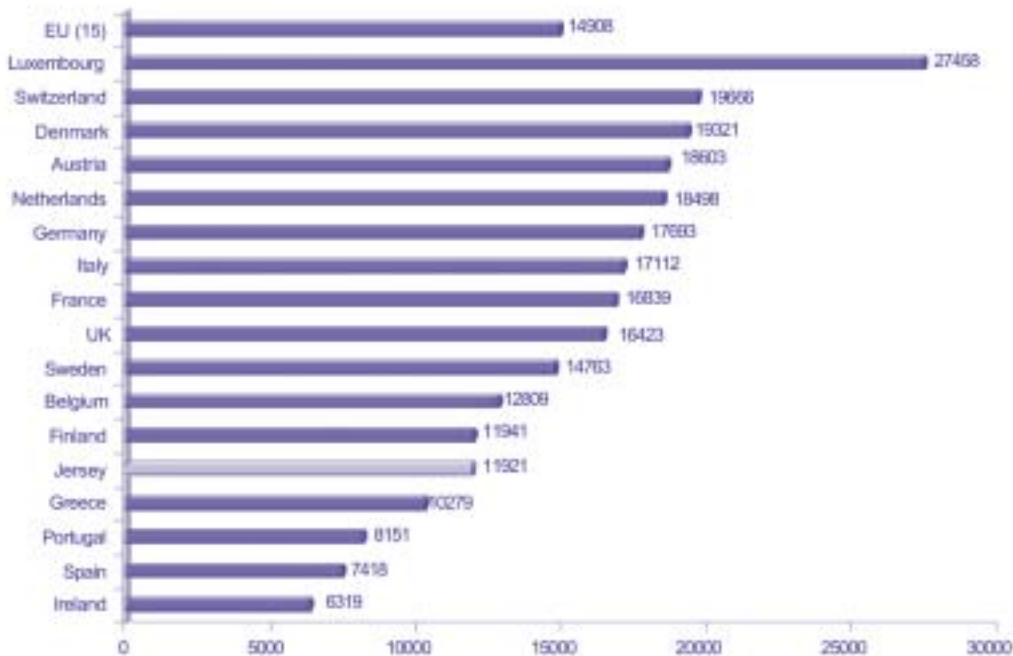
State pensions are available in Ireland on a contributory and non-contributory basis, both at age 66 and above. The maximum contributory pension is worth approximately 131 PPS per week, with the maximum means tested pension being 120 PPS per week. The fact that Ireland's per capita expenditure on old age is low is thus probably due to a combination of a low pensioner/working age population ratio (16.9%) and a slightly below average occupational pension coverage (approx one third to one half of working population compared with one half in the UK<sup>11</sup>) rather than to lower levels of benefit per se.

Finland provides a universal income-tested pension to all Finnish citizens residing in the country for at least three years, and to citizens of other countries residing in Finland for 5+ years prior to retirement. This pension has a ceiling of 102 PPS per week, but is payable whether retired or not. Occupational earnings-related pensions are compulsory in Finland and thus have a certain 'public' status. The earnings-related pension is paid at 1.5% of average pensionable earnings for each year of employment between ages 23 and 59, and 2.5% for each year between ages 60 and 65. The provision of a guaranteed pension to all citizens, even though it is income tested, removes the stigma perceived to be attached to benefits targeted at specific sections of the population. However, the rate at which this pension is paid is comparatively low, which may go some way to explaining Finland's below average per capita expenditure.

Old age provision in Switzerland is based on a social insurance system (base pension) and mandatory occupational pension system. Employees whose earnings exceed 24,720 francs (or 11392 PPS) per annum must join the mandatory occupational pension system. Contributions of one year minimum are necessary to make a claim on any pension. The base pension is worth between 119 PPS and 237 PPS per week and the mandatory occupational pension pays 7.2% of accumulated funds in the claimant's personal account annually, with interest. There is no pension provision for those who have not made contributions. Switzerland's per capita expenditure on old age is one of the highest in Europe. In the absence of a particularly high pensioner/working age population ratio, it is likely that this level of spending is due largely to the high level of contributions (in this case affecting benefit rates) involved in its mandatory occupational pension. These range from 7% to 18% of income for the insured, depending on age, gender and amount earned. Employer contributions are at least equal to that of the employee.

## Expenditure per old aged person on old age (PPS) (2001)

Chart 2.6b



2001. EU-15 average not weighted according to population size.  
Source: European Commission (2004)/Jersey Report & Accounts 2001

Unlike Chart 2.6a that relates expenditure on welfare for the elderly to the total population, Chart 2.6b expresses expenditure on old age pensions as an amount per elderly person and thus provides a direct indication of the level or generosity of provision. Whereas in simple per capita terms Jersey spends 72 per cent of the European average amount on the elderly, this rises to 80 per cent when focusing on spending per elderly person reflecting Jersey's low pensioner/working age population ratio. The contribution of occupational pensions is very important. In Jersey, 66 per cent of pensioner households have occupational pensions worth, on average, 177 PPS per week (in 2001/2)<sup>12</sup>. These figures are not dissimilar to the UK where 70 per cent of pensioner households have income from an occupational pension that averages about 161 PPS per week<sup>13</sup>. Moreover, in both countries a small number of pensioner households have very large incomes from occupational pensions. This means that the median statistic (literally the pension income exceeded in size by 50 per cent of pensioner households) provides a better measure of the typical income from occupational pensions: 114 PPS and 96 PPS per week for each pensioner household with one or more occupational pensions Jersey and the UK respectively.

A number of benefits enjoyed by elderly people in Jersey are not captured in the above analysis due to the conventions adopted by Eurostat, the statistic division of the European Commission. 76% of Jersey's Disabled Transport Allowance, although categorised under expenditure on disability, is actually

<sup>12</sup> Calculated from States of Jersey 2004b

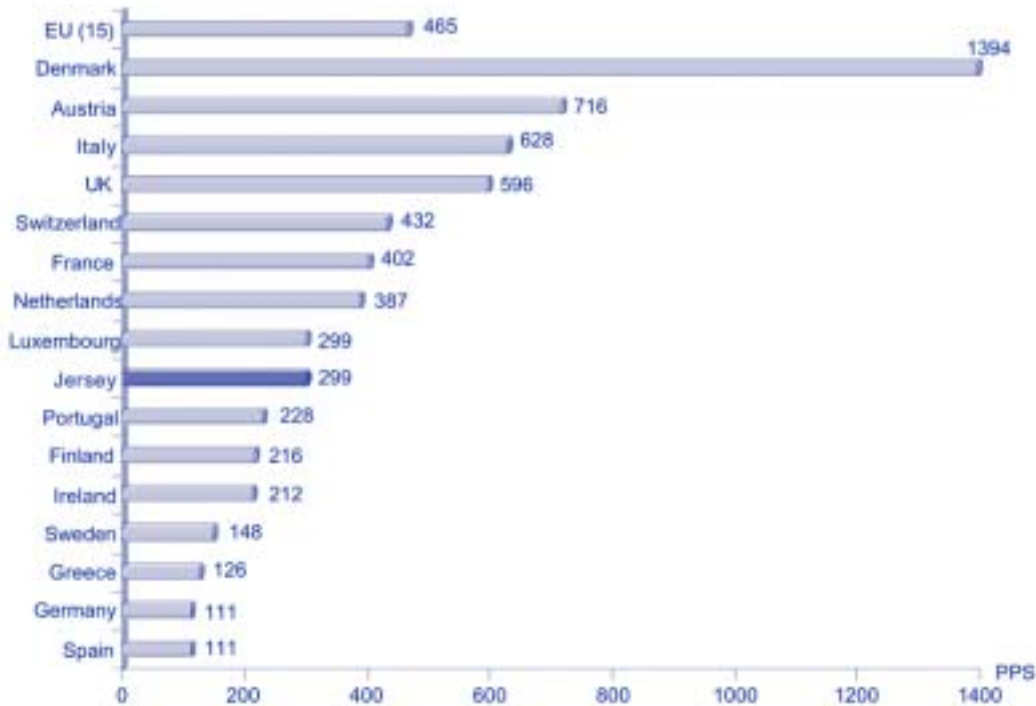
<sup>13</sup> National Statistics 2004



claimed by elderly residents. The elderly are recipients of a major slice of both the welfare and housing budgets, as well as being the majority recipients of HIE medical benefit and Christmas bonus benefit, which appear in the analysis under health and social exclusion respectively. Similarly, bus passes for the elderly and welfare for those not qualifying for an old age pension are also not accounted for in Charts 2.6a and 2.6b. However, while these additional benefits are significant to those elderly people in receipt of them, they are not large enough drastically to alter per capita spending on elderly persons.

## Per capita expenditure on Survivors (PPS) (2001)

Chart 2.7

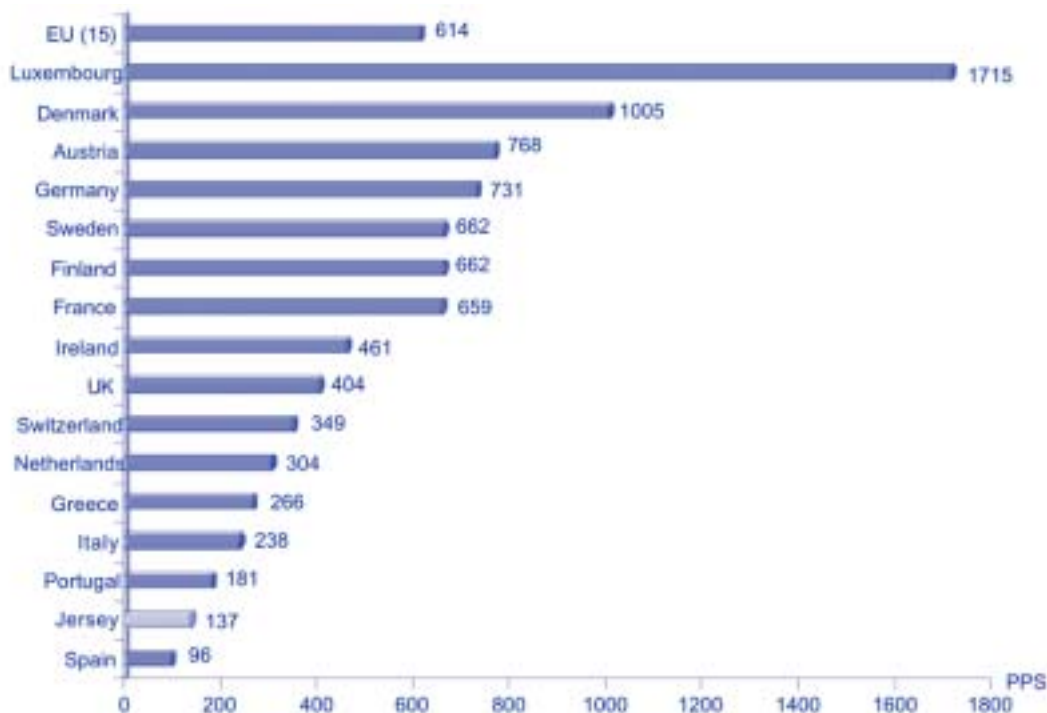


EU-15 average not weighted according to population size. Source: European Commission (2004)/Jersey Report & Accounts 2001

Per capita expenditure in Jersey on survivor benefits is below the European average as would have been expected in a country with a low pensioner/working age population ratio. However, expenditure on survivor benefits is higher relative to other countries than that on old age (Chart 2.6a). Jersey's survivor pension is generally paid at the same rate as its old age pension, with a slightly higher rate for the first year of widowhood. Without comparative data on life expectancy (this is currently unavailable for Jersey) it is difficult to ascertain whether the higher than anticipated spending on survivors is due to women living longer in Jersey than in some of the other countries or perhaps down to another, more culturally specific, reason.

## Per capita expenditure on Family/children (PPS) (2001)

Chart 2.8a



EU-15 average not weighted according to population size. Source: European Commission (2004)/Jersey Report & Accounts 2001

Jersey's social protection expenditure per capita on benefits and/or services for families and children is only 22% of the average for Europe. This difference is only partly explained by the fact that the proportion of households with children is slightly lower in Jersey (44%) than it is in Europe as a whole (49%).

Jersey's family allowance system is targeted towards low income families, and the amount received is assessed on the previous year's income-tax return. The maximum rate, paid to families with very low income, is approximately 71PPS per week for the first child, 61PPS per week for the second, and 57PPS per week for each consecutive child<sup>14</sup>. Although the rates are comparatively generous, the fact that child benefit in Jersey is earnings related may help to explain the relatively low level of total expenditure. However, Jersey also provides generous tax allowances for families with children, at an annual rate of £2500 per child, thereby raising the tax threshold considerably and increasing disposable incomes of those affluent enough to pay tax or to be lifted out of tax by the allowances. Maternity allowance is provided in Jersey for up to 18 weeks for those who are insured, at a rate of 177PPS per week. Figures for Jersey necessarily exclude any payments made by employers to cover maternity pay since no information is available. As of 2001, such payments in Jersey were voluntary although statutory payments by employers are mandatory in a number of countries including the UK.

The UK has a universal system of child benefit regardless of earnings in addition to a system of tax credits<sup>15</sup> for working families based on household income and number of children,<sup>16</sup>. Child benefit in the UK is approximately 21PPS per week for the eldest qualifying child and 14PPS per week for each consecutive child (with rates being slightly higher for lone parents). The proportion of families with children in the UK is very near to the EU average. Maternity allowance is provided by the state for up

to 18 weeks at a rate of 85 PPS per week, although employers are required to provide maternity allowance to employees based on their earnings while in employment.

Ireland pays a family allowance of approximately 26 PPS per week for each of the first two children, and 33 PPS per week for each consecutive child. It also provides means-tested provision for one-parent families of up to 105 PPS per week. However, although family allowance is more generous in Ireland than in the UK, it does not provide any tax credits or breaks for families on low income. State maternity benefit is paid at 70% of weekly earnings up to a maximum of 207 PPS per week for 18 weeks.

Finland's family allowance system is universal and is worth 17 PPS per week for one child, 39 PPS for two, 64 PPS for three, 93 PPS for four, and an extra 33 PPS for each additional child. There is a supplement available for single parent households, and a birth grant of 117 PPS, usually payable in kind. Finland also offers a child home care allowance of 2535 PPS per annum for one child under 3 cared for at home, and an additional 502 PPS for each additional child under 7 cared for at home. A partial home care allowance of 53 PPS per month is available to a parent reducing his or her working hours to a maximum of 30 per week. This runs counter to the ethos in the UK, where the emphasis is much more on work as a route out of poverty and where parents (particularly lone parents) are given incentives to go back into the labour market. This may also go some way to accounting for the higher than average expenditure per capita on benefits for families and children in Finland. It may also contribute to Finland's below average poverty rate. State maternity benefit is worth approximately 56 PPS per week and is available for 105 work days.

Family allowance is financed by employers and government in Switzerland. Much social aid is administered by the Cantons (or 'regions', each with their own regional government) rather than the federal government, and this is the case with family allowance. Cantonal regulations differ widely and there is great disparity between benefits granted: for family allowance the Cantons provide a legal minimum of between 18PPS and 86PPS per week for each child, depending on their individual funds. In order to obtain cash maternity benefits in Switzerland, individuals must have 9 months of membership in a voluntary insurance scheme without more than 3 months' interruption. Maternity benefit is payable for up to 16 weeks, the daily allowance depending on the agreement reached between the insurer and the insured.

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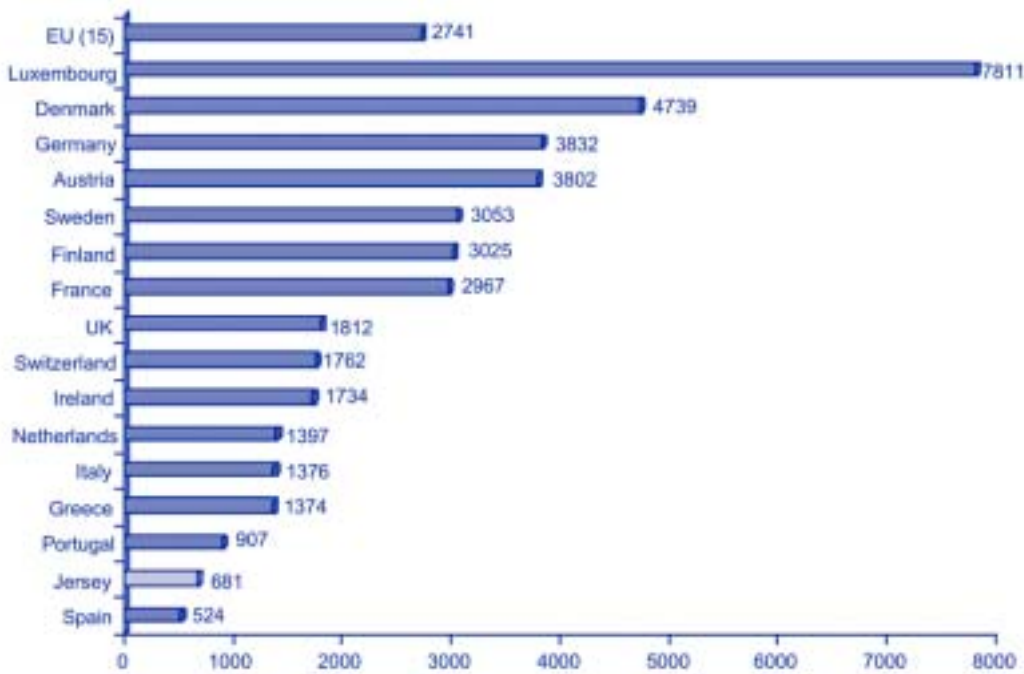
<sup>14</sup> All PPS calculations on actual benefit rates are based on information for 2002 provided by Social Security Online

<sup>15</sup> Tax credits here refer to tax that may be claimed back in tangible cash, and should be differentiated from tax allowances or breaks which simply refer to amounts that one is allowed to earn before being subject to taxation.

<sup>16</sup> Tax credits and tax breaks, although having a potentially great effect on families with children, are not included in the figures on expenditure on families/children (See European Commission, 1996).

## Expenditure on Family/children per child (PPS) (2001)

Chart 2.8b



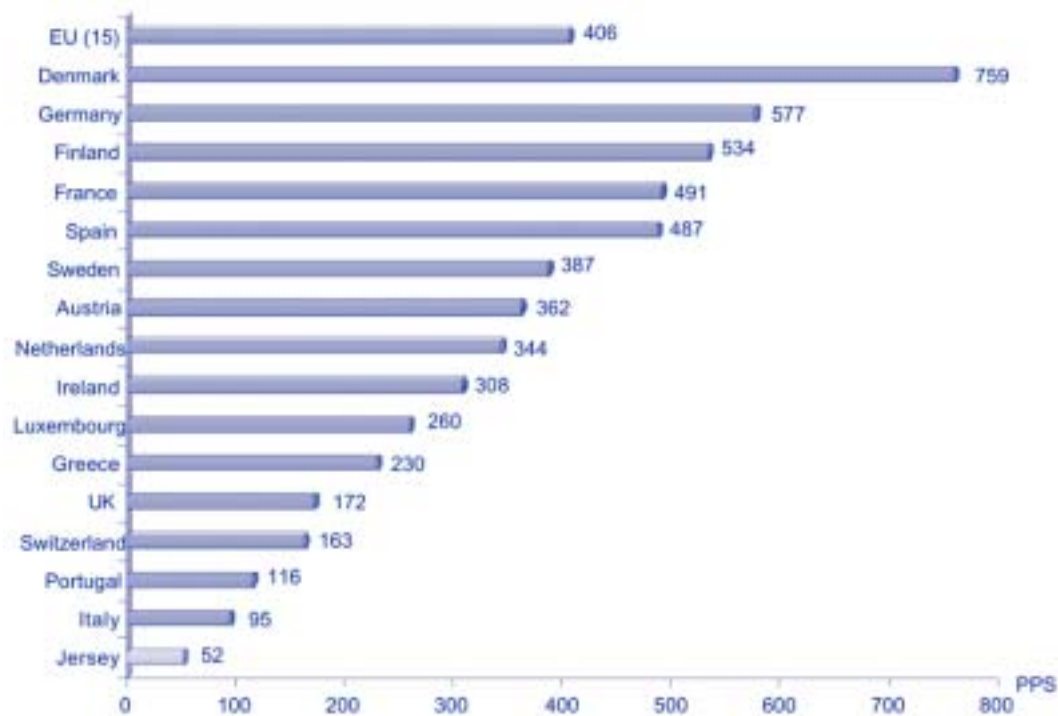
EU-15 average not weighted according to population size. Source: European Commission (2004)/Jersey Report & Accounts 2001

Expressing social protection expenditure on family and child benefits as an amount per child provides a direct measure of the generosity of provision (Chart 2.8b). Doing so has little effect on Jersey's relative position compared with other European countries but expenditure per child in Jersey is 25% of the European average whereas per capita it is only 22%.

As with the earlier comparisons, Chart 2.8b does not take account of the generous tax allowances available in Jersey for families with children and at least one adult in employment. While some other European countries have similar systems of tax allowances, it cannot be assumed from the above analysis that families in Jersey are necessarily worse off than in other countries. The distinction is that whereas the Jersey fiscal system acknowledges that families with children cannot afford to pay the same level of taxes as other families, many other European countries recognise that all families with children have additional needs that should be met through the benefit system. Also tax advantages in Jersey are not available to families with no working adults which might become a more serious issue should unemployment rise on the island.

## Per capita expenditure on Unemployment (PPS) (2001)

Chart 2.9



EU-15 average not weighted according to population size. Source: European Commission (2004)/Jersey Report & Accounts 2001

Reflecting the absence of any system of statutory unemployment benefit and the low level of unemployment (2.2% compared to the European average of 7.4%), per capita expenditure in Jersey is the lowest in Europe. The small amount of expenditure highlighted in Chart 2.9 refers to the cost of unemployment training and employment relations, and not to assistance with the hardship associated with unemployment. Unemployed persons in Jersey are necessarily reliant on application to the island's parishes for means-tested assistance. The standard rate of welfare assistance in Jersey for a single unemployed person applying to the parishes is 149 PPS per week<sup>17</sup>. This is higher than the rate for both contributory and non-contributory unemployment benefit in Ireland and the UK. This component of Jersey's expenditure on welfare assistance does not appear on this chart as it is not tailored solely to aid unemployment and is instead accounted for under 'social exclusion not elsewhere classified' (see chart 2.11).

The UK has a system of statutory unemployment benefit based on social insurance in addition to social assistance support for the unemployed who have not paid enough contributions to qualify for statutory benefit. The maximum paid, approximately 73PPS per week, is the same for both contributory and non-contributory benefits, although with the former it is dependent on contributions paid and with the latter on a means test.

Ireland has a similar system to the UK with a dual social insurance and means-tested social assistance programme. Unemployment benefit based on contributions has a ceiling of 106 PPS per week which is payable for up to 15 months. Means-tested benefit is paid at the same rate.

<sup>17</sup> All PPS calculations on actual benefit rates are based on information for 2002 provided by Social Security Online.

Finland and Switzerland differ from the UK and Ireland in that they have systems of earnings-related unemployment benefit rather than purely fixed rates. Finland has a voluntary programme for earnings-related unemployment benefit in addition to a government-financed programme for basic unemployment benefit. The basic benefit is worth approximately 95 PPS per week while the earnings-related benefit is 95 PPS per week plus 45% of daily wage if earnings are less than 2,047.50 Euros per month. If earnings are above this rate, the benefit is 232 PPS per week plus 20% daily earnings in excess of 95.23 Euros a day. Finland spends the most resources per capita on unemployment, but it also has a considerably higher unemployment rate than the other countries, at 9.1% compared with 5% in the UK, 3.9% in Ireland, 2.5% in Switzerland and 2.2% in Jersey.

Switzerland has a social insurance system to cover the event of unemployment. Claimants must have worked for at least 6 months in the last 2 years to be eligible. Unemployment benefit is set at 80% of last earnings if the insured person has dependents, earned less than 3,526 francs (1,625 PPS), or is disabled, and 70% in all other cases. Benefit is paid for up to 150 days if claimant is aged 50 or under, 250 days if 50-60 and 400 days if over 60. There is also the provision of partial unemployment benefit which covers 80% of lost earnings for up to 12 months in a 2 year period.

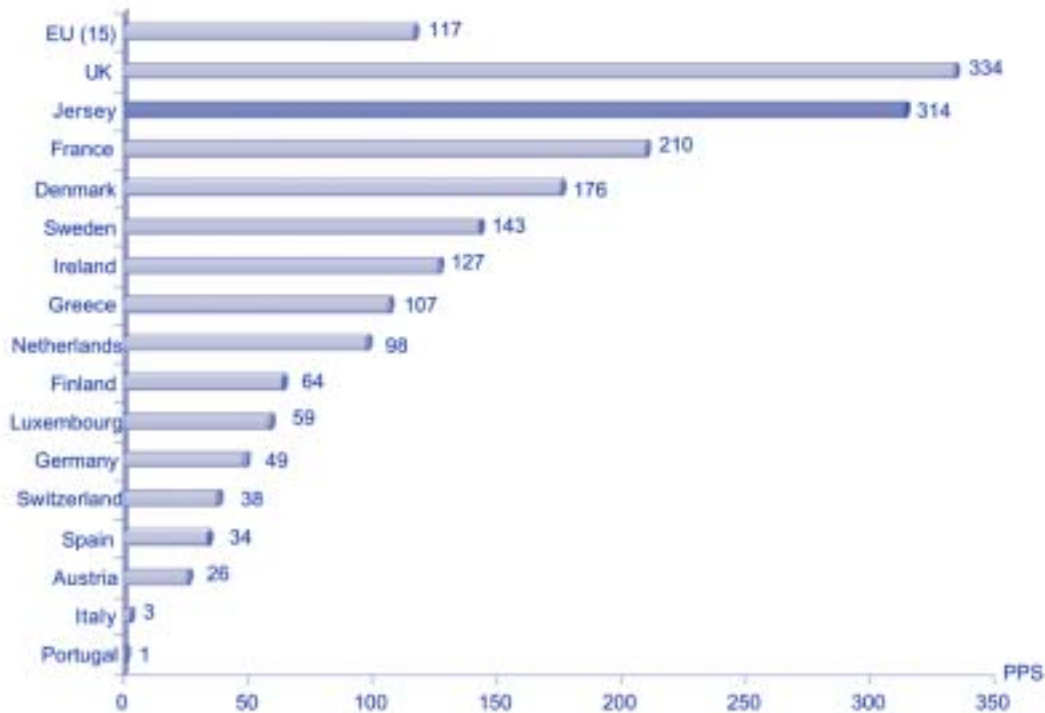
It is difficult to deduce the effect that earnings-related unemployment benefit may have on the risk of poverty. Finland's poverty rate is below the European average (including the UK, Ireland and Jersey), but this information is not available for Switzerland.

The application for parish welfare is viewed by key policy makers on the island as involving unnecessary stigma and may deter unemployed people in need from claiming (Walker 2001). In fact, expenditure on social exclusion (Chart 2.11) is not as high as might have been expected considering that it is the only avenue open for financial assistance to the unemployed. If Jersey wishes to move in a similar direction to Europe, especially in its current drive to promote social cohesion, the introduction of statutory unemployment benefit would need serious consideration.

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## Per capita expenditure on Housing (PPS) (2001)

Chart 2.10



EU-15 average not weighted according to population size. Source: European Commission (2004)/Jersey Report & Accounts 2001

Per capita expenditure on housing is high in Jersey, at well over twice the amount spent on average in Europe. Only the United Kingdom spends more than Jersey on housing per head of population. Much like the UK, Jersey has moved from providing cheap social housing to providing rent abatements in both public and private housing, which may explain the comparatively high expenditure. The cost of renting public housing is now comparable to that of private housing on the island, meaning that rent abatements have been consistently on the rise. In addition to this, in order to qualify for housing support in Jersey one must have been a resident on the island for nineteen years<sup>18</sup>. This means that all people living on the island for less than this amount of time cannot access help in paying the high costs of housing, a problem that has been highlighted as increasing the gulf between the 'haves' and the 'have nots' in Jersey (States of Jersey, 2004b). Jersey is thus in the unenviable position of spending highly on housing support whilst failing to provide for the sections of the population who are perhaps in most need. Jersey does provide mortgage interest relief for many families not on high wages, although again residency is required in order to buy a property on the island.

Ireland's expenditure on housing is slightly above the European average, although homelessness was recently highlighted as one of the most pressing problems in Ireland contributing to social exclusion (Council of the European Union, 2004). Expenditure in Finland and Switzerland is, in both cases, significantly below the European average and thus well below that in Jersey.

The UK, being the only country to spend more on housing than Jersey per capita, has a level of expenditure at almost three times that in Europe. Some see increased expenditure on housing in the

<sup>18</sup> This was the case in 2001, and was reduced gradually to 15 years in 2004.

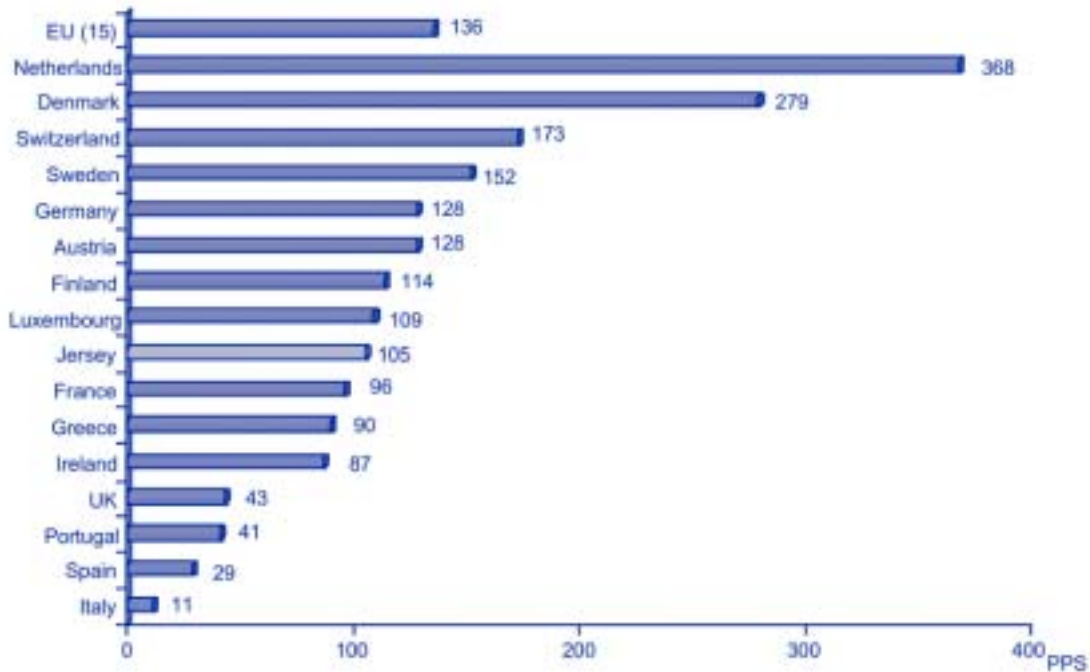


UK, much like in Jersey, as being due to the reduction of the public provision of goods and services (for example the provision of local authority housing stock) in favour of market solutions and targeted personal subsidies (i.e. housing benefit, which grew by 11% per year between 1991 and 2000) (King, 2000). A lack of rent controls to prevent private landlords from charging unreasonable amounts has also been cited as contributing to escalating costs (The Guardian, August 2001). Having a relatively small rental market also means that there is not as much housing supply to keep prices low. The relative influence of each of these issues on housing expenditure in the UK is open for debate. What is clear is that addressing social exclusion through housing support may well involve more than simply increasing expenditure.

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**Per capita expenditure on Social Exclusion not elsewhere classified (n.e.c.) (PPS) (2001)**

Chart 2.11



EU-15 average not weighted according to population size. Source: European Commission (2004)/Jersey Report & Accounts 2001

'Social Exclusion n.e.c.' is defined by the European Commission as "Benefits in cash or kind (except health care) specifically intended to combat social exclusion where they are not covered by one of the other functions" (European Commission 2004, p54) and includes income support (European Commission 1996, p70). Because Jersey's social protection system does not include statutory unemployment benefit, unemployed persons in financial need will be covered here, provided they are in receipt of parish welfare.

Per capita expenditure in Jersey exceeds that in Ireland and especially the UK but falls somewhat short of the European average.

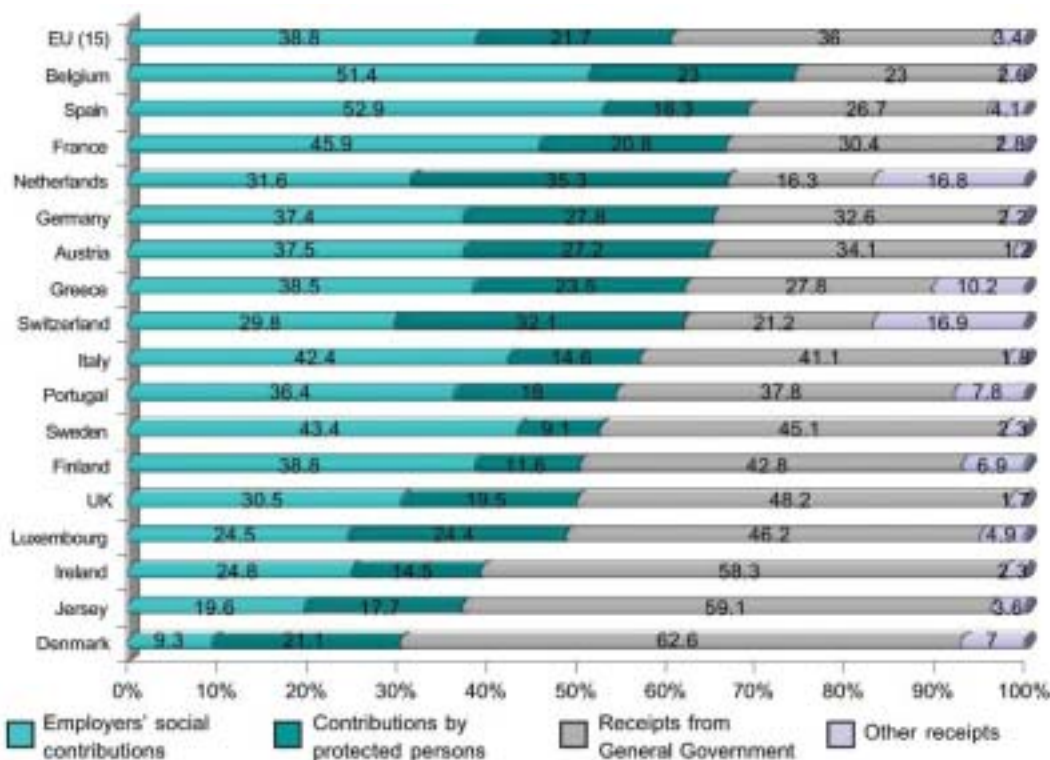
### Expenditure on Social Benefits vs Administration

In 2001 Europe spent on average 96% of its social protection expenditure on social benefits, and 4% on administration and other expenditure. Jersey spent 95.3% on social benefits and 4.7% on administration<sup>19</sup>. The fact that Jersey has managed to keep its expenditure on administration at a similar rate to the rest of Europe, considering that it has a much smaller population and resulting smaller budget, attests to efficiency in the running of its social security system.

Administration costs are usually much higher for means-tested benefits than for other benefits, resulting in variability between the administration costs of different countries' social security systems. Although this research does not provide specific data on administration expenditure per benefit type in each European country, the higher than average proportion of means tested benefits in Jersey is worth bearing in mind.

### Source of Social Protection Finance: Social Protection Receipts by Type (2001)

Chart 2.12



The EU-15 average is calculated as a population-weighted average of the available national values.  
 Source: European Commission (2004)/Jersey Report & Accounts 2001

Chart 2.12 shows countries ranked according to the percentage of social protection receipts sourced from contributions (both employer and protected persons.) Care is needed in the interpretation of this figure since in the case of Jersey alone it does not include expenditure on occupational pensions.

<sup>19</sup> This figure omits costs of administering parish welfare due to information unavailability. As parish welfare only makes up a small percentage of Jersey's overall expenditure on social protection, the ratio quoted here would not be greatly altered by the inclusion of this information.

However, Jersey is unusual in the high proportion of expenditure raised from general government revenue with correspondingly small amounts provided through employee contributions and, especially, from employers. The UK is also characterised by the comparatively large contribution to social protection expenditure attributed to general government receipts (48.2% compared with 59.1% in Jersey). However, in the United Kingdom, employers contribute 30.5 per cent to the cost of social protection compared with 19.6% in Jersey (while employees also contribute marginally more than in Jersey - 19.5% compared to 17.7%). Even if one makes the unrealistic assumption that all expenditure on current occupational pensions in Jersey is directly paid for by employers (some, in fact, reflects employee contributions in addition to investment growth), employer's contribution to social protection expenditure only rises to 28.3%.

Contributions in Jersey are set lower than they are in the UK, with insured person contributions fixed at 5.7% and 10% of income respectively, and employer contributions set at 6.3% and 11.9%. It is difficult to produce average figures for Finland, Ireland and Switzerland as there are many conditions which affect the amounts paid. However, contributions overall tend to be higher in these countries than for Jersey ([www.ssa.gov](http://www.ssa.gov)).

Old age pensions tend to be financed to a much greater extent through contributions than other benefits. With a low pensioner/working age population ratio, Jersey spends a relatively small proportion of its social protection expenditure on old age benefits. Instead, Jersey devotes a much higher percentage of its expenditure to health and sickness, where contributions contribute a much smaller percentage of the costs.

Comparing the proportion of contributions from protected persons to that from employers indicates that in almost all of the countries in Europe, the employers contribute significantly more than protected persons. Jersey is one of the few exceptions in that contributions are almost evenly shared between employers and employees. The other exceptions are the Netherlands and Switzerland (where insured persons contribute the larger share), and Luxembourg where both parties pay similar amounts.

## Concluding comments

Jersey's expenditure on social protection is very low compared to that in other countries both on a per capita basis but especially as a percentage of GDP. This is due largely to particularly low expenditure on families and children, and unemployment (for which there is no statutory provision) and is offset by moderately high expenditures on health. Expenditure on old age is below the European average and would be lower were it not for the significant contribution made by occupational pensions.

Cash benefits are often only available in Jersey on a contributory basis: those who have not paid enough contributions have recourse to parish welfare which, although not ungenerous once granted, has a certain stigma attached to it. This is also the only option for the unemployed in need of financial assistance. Nevertheless, Jersey does offer generous tax allowances to both families with children and to old age pensioners. Disposable income is thus higher for these groups than would otherwise be the case, meaning that beneficiaries may not have as much need for welfare benefits. Nevertheless, this is dependent on individuals and families having at least some regular income and does not, therefore, aid the unemployed.

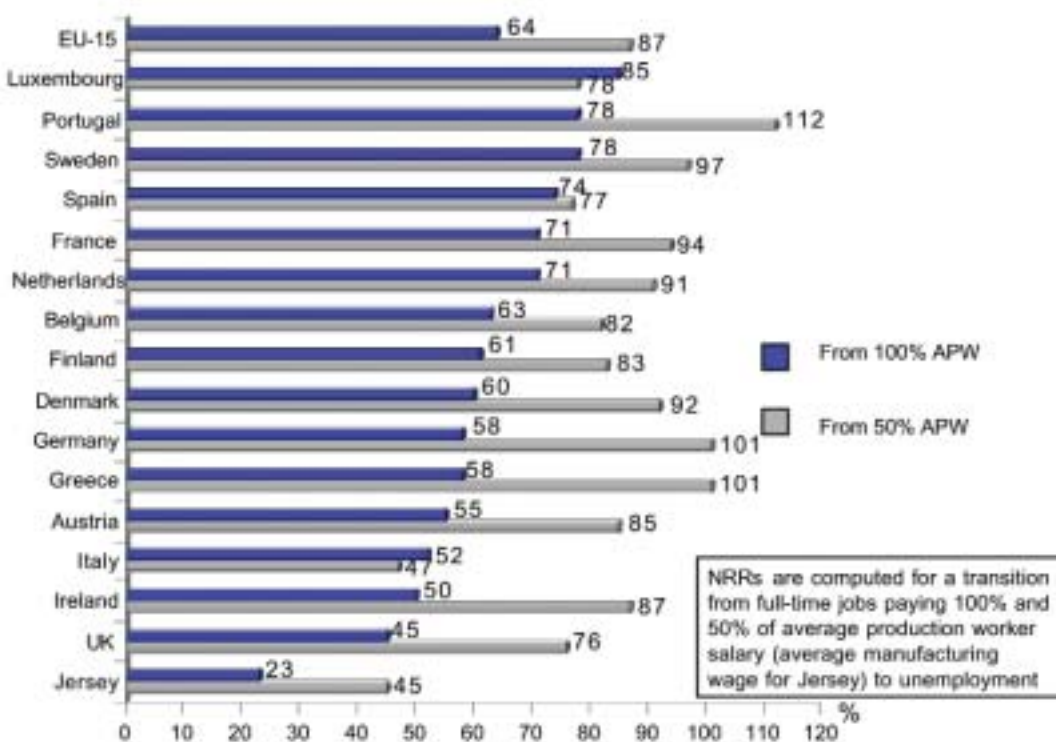
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### Section 3: Outputs

Addressing poverty and inequality while guarding against work disincentives is fundamental to the success of all systems of social protection. This section highlights the poverty experienced in Jersey compared with that experienced in other countries, including the extent of depth of poverty. Although the incidence of poverty in any country is affected by more than its social protection system, these systems are nevertheless judged on their ability to tackle the issue. Potential work disincentives produced as a side effect of different countries' social protection systems are also compared.

#### Net Replacement Rates for Unemployed\*

Chart 3.1



EU-15 average not weighted according to population size. Source: Carone et al (2004)/Jersey Annual Earnings Survey 2004.  
 \*Data for Jersey 2004; for other countries 2001.

Net replacement rates measure the change in income that would result from a person becoming unemployed, taking account of any tax credits and/or benefits they would be entitled to. For example, a net replacement rate of 60% would mean that the person concerned would lose 40% of their income through becoming unemployed. The chart above shows the replacement rates for a transition from full-time work paying 100% and 50% of the average salary for a production worker (a worker in the manufacturing sector in Jersey's case) in the country in question. The replacement rates are for single people only, and do not take account of other household compositions.

Compared with the rest of Europe, Jersey has extremely low net replacement rates (perhaps unsurprising due to Jersey's lack of unemployment benefit but also due to Jersey's generous tax breaks for working people). A transition into unemployment from a full manufacturing wage in Jersey would involve a loss of 77% earnings compared with 36% earnings in Europe as a whole. Considering that wages in Jersey are fairly high on average within the European context, this does not necessarily mean that the unemployed would suffer from absolute poverty as a result (although in the absence of unemployment benefit, this is dependent on the unemployed claiming parish welfare). However, very

low replacement rates are likely to contribute to relative poverty, and should Jersey experience a higher rate of unemployment in the future this may become a significant problem. This also goes against the drive within Europe towards greater social cohesion.

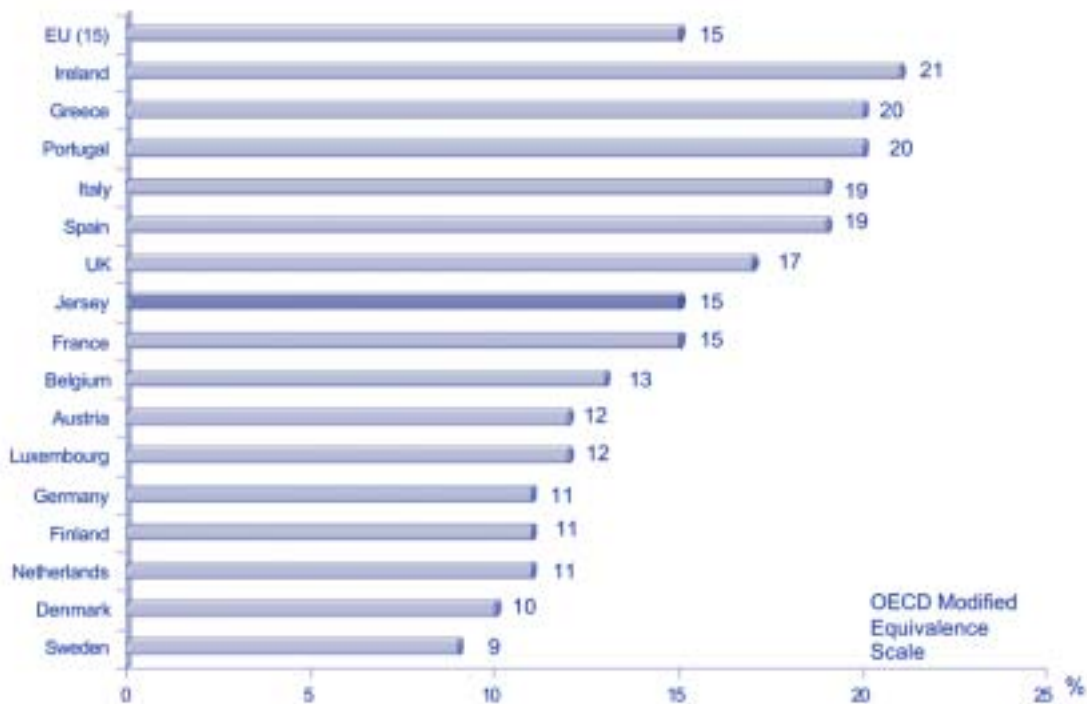
Policies to make work pay are also a priority within Europe and lower net replacement rates are viewed as a positive incentive to work. Indeed someone in Germany or Greece who could only command a wage equivalent to 50% of the average production worker salary would actually be financially better off by remaining on benefits than they would be if they went back to work (although this might have more to do with very low wages than overly generous welfare). Most European countries are seeking to strike a balance between a level of social protection high enough to provide a decent standard of living and promote social cohesion without being too high as to create welfare dependency.

Both the UK and Ireland have net replacement rates below the EU-15 average while those in Finland are close to the European average, because of the provision of earnings-related unemployment benefit. However, even the rates in Ireland and the UK are considerably higher than those in Jersey. Net replacement rates in Jersey are currently stacked greatly in favour of guarding against welfare dependency and not of protecting against social exclusion.

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## At Risk of Poverty Rate at 60% Median Equivalised Income (2001\*)

Chart 3.2



\*Data 2001 bar Jersey 2002. The EU-15 average is calculated as a population-weighted average of the available national values. Source: Council of the European Union (2004)/Foresight First (2004)

Poverty can be defined and measured in a number of ways. In a European context, relative rather than absolute poverty is generally preferred first, because minimal acceptable living standards vary considerably across different states, and secondly because the drive within Europe is to enable the sharing of increased wealth with the whole population. The Council of the European Union offers the following definition of relative poverty:

*The proportion of individuals living in households where equivalised income is below the threshold of 60% of the national equivalised median income is taken as an indicator of relative poverty. Given the conventional nature of the retained threshold, and the fact that having an income below this threshold is neither a necessary nor a sufficient condition of being in a state of poverty, this indicator is referred to as a **measure of poverty risk** (Council of the European Union, 2004)*

Jersey has an at risk of poverty rate that exactly matches the European average (Chart 3.2). This is encouraging if one focuses on the fact that Jersey spends considerably less than the European average on social protection. It is discouraging, however, given Jersey's low dependency ratio, low level of unemployment and high Gross Domestic Product.

The relative poverty measure used in Chart 3.2 employs the OECD modified equivalence scale to take account of differences in household composition (see Appendix 2 for more extensive definition). This is the only scale consistently employed by all European countries, but is based on income before housing costs are accounted for. Jersey's Income Distribution Survey 2002 indicates that, due to the high costs of property and high rents on the island, measured poverty increases if housing costs are taken into consideration. Therefore Chart 3.2 tends to understate the incidence of relative poverty encountered in Jersey<sup>20</sup>.

Ireland has the highest at risk of poverty rate in Europe, at six percentage points above the average. Considering that Ireland also has below average unemployment and the lowest pensioner/working age population ratio in Europe, this is surprising. However, it must be remembered that economic growth rates in Ireland (and resultant reductions in unemployment), helped by a cash injection from the European Union, have recently been at historically high levels. The effects of this on the Irish relative poverty rate may take a little longer to materialise. Ireland's expenditure on social protection, however, is currently still significantly below the European average.

Finland, conversely, has a below average relative poverty rate despite suffering an above average level of unemployment. This cannot be entirely explained in terms of per capita expenditure on social protection since although Finland spends considerably more than Ireland or Jersey, its welfare expenditure is slightly less than that of the UK, where the at risk of poverty rate is above the European average. An important factor, here, is that market incomes in Finland are more equitably distributed in Finland than in the UK. Another difference is that Finland's welfare ethos appears to be closer to Esping-Andersen's social-democratic model than that in the UK, Ireland or Jersey. The Council of the European Union in its Joint Report (2004) stated that "the aim (in Finland) is to provide the entire population with services that are mainly tax funded", and some of its benefits are more likely to be couched in universal terms (e.g. pensions). Welfare in Finland is viewed less as a stigma and more as a right although the fairly large private sector involvement in health provision means that Finland is not an archetypal social-democratic welfare state.

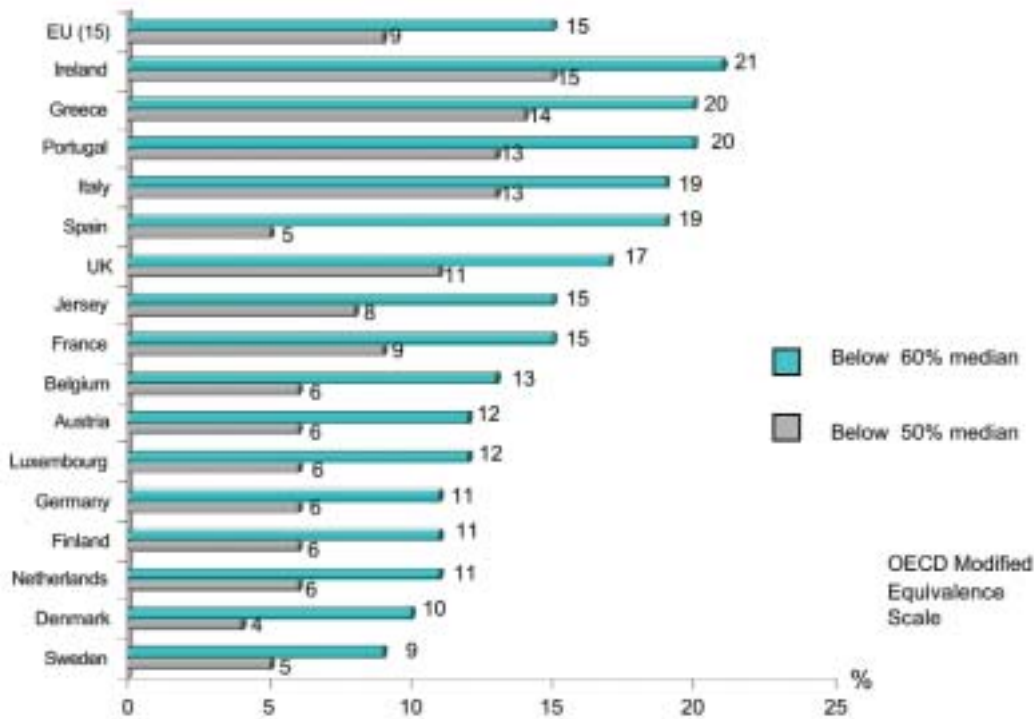
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<sup>20</sup> Guernsey reports a poverty rate of 16% but this based on a different methodology (Gordon et al., 2002)



### Poverty Rate at 50% Median Equivalised Income (compared with 60% rate) (2001\*)

Chart 3.3

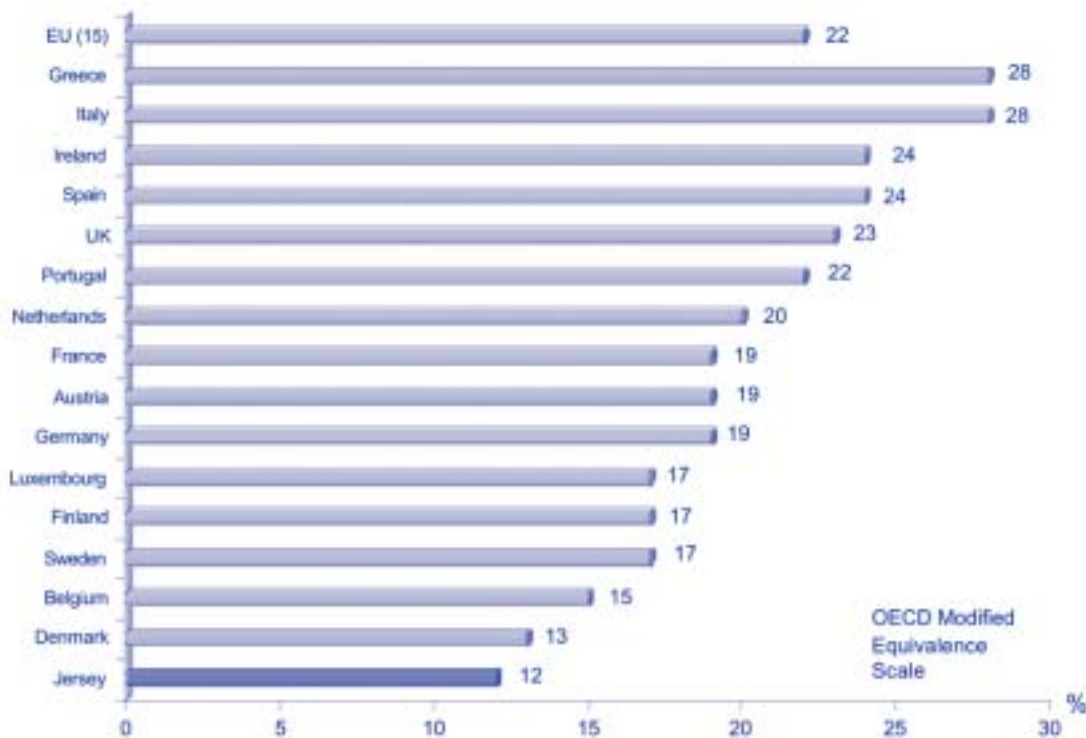


\*Data 2001 bar Jersey 2002. The EU-15 average is calculated as a population-weighted average of the available national values. Source: Council of the European Union (2004)/Foresight First (2004)

If a more stringent definition of poverty is used, equivalised household income of below 50% of the median, the relative poverty rate in Jersey falls just short of the European average (Chart 3.3). This suggests that a disproportionate number of people have incomes just below 60% of median incomes or, in other words, that the poverty experienced by people in Jersey is on average less severe than in some other European countries. Relative poverty, according to both measures, is higher in Ireland and the UK than in Jersey (Ireland has the highest relative poverty rate in Europe), but lower in Finland. (No data is available for Switzerland).

## Median at-risk-of-poverty gap (2001\*)

Chart 3.4



\*Data 2001 bar Jersey 2002. The EU-15 average is calculated as a population-weighted average of the available national values.  
Source: Council of the European Union (2004)/Foresight First (2004)

The median at-risk-of-poverty gap expresses the difference between the poverty line (at 60% median equivalised income) and the median income of the poor as a percentage of the poverty line. The larger the percentage, or gap, the more severe the poverty suffered by the average poor person in terms of very low income.

As Chart 3.4 highlights, Jersey has a lower at-risk-of-poverty gap than any of the EU-15 countries, significantly below the European average. This demonstrates that the depth of poverty is not as severe in Jersey as it is in the rest of Europe.

Ireland and the UK each have a poverty gap that is above the European average. The poverty gap in Finland is significantly below the European average but is nevertheless still considerably higher than that experienced in Jersey. This is a very encouraging finding for Jersey, in that although the poverty rate on the island is higher than might have been expected, the majority of those below the poverty line are actually quite close to that line and not suffering severe poverty.

## Concluding comments

Although the at-risk-of-poverty rate in Jersey matches that in Europe on average, it is very encouraging that the depth of poverty experienced in Jersey is in fact the lowest in the European Union. However, it must be borne in mind that this poverty measure is calculated before housing costs, particularly expensive in Jersey, are taken account of. It is also important to bear in mind that although low net replacement rates protect against disincentives to work, should unemployment become a problem on the island they would contribute to a significant increase in the relative poverty rate on the island, thus working against the drive in Europe towards greater social cohesion.

## Section 4: National Action Plans (NAPs) to tackle poverty and social exclusion

As part of the European drive to promote equality alongside growth, each of the Member States have been required to produce their own National Action Plan on how they are going to tackle poverty and social exclusion. The second phase of National Action Plans were published in 2003.

The UK's National Action Plan for 2003 focuses on a 'work for those who can, support for those who cannot' approach to welfare, and resources are increasingly being targeted at groups in society who are considered the most likely to be at the greatest risk of poverty (for example residents of deprived neighbourhoods, lone parents, children, the elderly, ethnic minority communities and the long-term unemployed). The Government has pledged to eradicate child poverty by the year 2020 and there are indications that it is on track to achieve this target (Brewer et al, 2004). Public services concentrated on education, health and transport have also been singled out for extra spending for the period 2003/4-2005/6 as a cornerstone of the Government's approach to tackling poverty and social exclusion (Council of the European Union, 2004). Nevertheless, despite their redistributive nature, approaches so far can be viewed as having slowed the increase of inequality rather than reducing it.

Ireland's National Action Plan (NAP) is similar in ethos to that of the UK, with an emphasis on work as a route out of poverty backed up by the provision of adequate income support. Provision is targeted specifically at groups identified as being in most need, such as people with disabilities, immigrants, Travellers and ex-prisoners. Ireland now has an Office for Social Inclusion and has also established a Social Inclusion Forum to increase civic participation in its strategies to achieve a more equal society. Despite the fact that 'consistent' poverty (a measure of poverty combining relative income and deprivation measures) has continued to fall in Ireland, from 8.2% in 1998 to 5.2% in 2001, the relative risk of poverty at the 60% level is the highest of the EU-15 countries at 21%, having risen from 19% over the same period (Council of the European Union, 2004). It remains to be seen whether the implementation of Ireland's latest NAP will be successful in reversing its increasing level of income inequality.

Although Finland's NAP/inclusion strategy encourages work as an exit route from poverty, the focus is not as heavily reliant on this as in the UK and Ireland. The ethos of social security is more universal in nature and although there is provision to target certain at-risk groups the focus is the preservation of the Finnish universal social security system. However, as stated in the EU's 'Joint Report on Social Inclusion' (2004), "Finland has managed to maintain its level of performance in the field of tackling social inclusion, even though the share of GDP spent on social expenditure is less than the EU-average. It remains to be seen whether this formula is sustainable under the circumstances of prolonged economic slowdown" (p202).

As it is not a member of the European Union, Switzerland has not produced a National Action Plan. However, although unemployment is low in Switzerland, it has nevertheless risen significantly since the early 1990s, increasing the reliance on social security. Switzerland has since been struggling with how to promote social inclusion by keeping benefit levels high whilst at the same time improving measures designed to get benefit recipients back into work (OECD).

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## Conclusion

Jersey spends comparatively little on social protection while experiencing below average pressure on its welfare services. It can thus be said to be in a very comfortable position compared with the rest of Europe. Moreover while the level of relative poverty in Jersey is on a par with the European average, the severity of poverty experienced, in terms of the size of the shortfall in income, is noticeably less than anywhere else in Europe. This suggests that Jersey would not need greatly to increase expenditure in order substantially to reduce the poverty rate and become a shining example of the economically successful, socially cohesive society that Europe is aiming for.

Expressed as a percentage of Gross Domestic Product, or national wealth, Jersey's expenditure on social protection is less than half the European average, while in per capita terms it expends just 76% of what other European countries typically spend. However, this comparative under-expenditure is confined to particular areas of social protection, namely: old age pensions; survivor's benefits; payments to families and children; and particularly unemployment. By way of contrast, Jersey's expenditure on housing is comparatively high, and expenditure on sickness and healthcare, and on disability, is very close to the European average. Low expenditure can be explained to some extent (although not entirely) by the fact that there is not the same pressure on these services in Jersey as there is in other countries. Jersey has a slightly lower than average proportion of households with children, and a much lower than average proportion of old people and of unemployed persons, although a lack of statutory unemployment benefit means that expenditure in this area would be low regardless of the employment situation, a serious problem if unemployment should rise. Moreover, considering that the population is gradually ageing in all developed countries including Jersey, low demand on services cannot be relied on indefinitely.

One reason why relative spending on social protection is low compared to that in other countries may be because Jersey is so prosperous: only Luxembourg has a higher per capital GDP. Moreover, Jersey has sustained this position since 1998 despite not experiencing the fastest growth rate in Europe. Nevertheless, while the poverty experienced by people in Jersey is typically not severe, the poverty rate is comparable with countries that are much less affluent.

Circumstances are such that Jersey is in a position to substantially reduce remaining social exclusion experienced on the island without having to increase expenditure to levels common in other countries. Taxes and/or contributions could be raised very gradually to produce the revenue required in a politically tenable way and without having to challenge the dominant welfare ethos in Jersey. A failure to act at this point may make potential changes in the future far more difficult if revenue creation slows down or if unemployment and poverty should rise.

It could be said that Jersey is closest to the United Kingdom and Ireland regarding its social protection system and ethos. However, poverty rates in both of these countries are higher than the European average, and Jersey may benefit from learning from these countries' failures and the successes of others. Jersey has much more scope than most countries, both in terms of more income and in terms of less current need, to fulfil the social objectives proposed by the European Union. Redeveloping its social security system could not have come at a more timely moment.

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