

STATES OF JERSEY



PENSIONS: SURVIVOR'S BENEFIT – REVIEW

Lodged au Greffe on 7th June 2011
by Senator F. du H. Le Gresley

STATES GREFFE

PROPOSITION

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

to request the Minister for Social Security to carry out a comprehensive review of survivor's benefits, and in particular to take into account the bereavement schemes available to survivors in Guernsey and the Isle of Man, and to report back to the States, no later than 31st March 2012, with proposals for a new scheme which should have a long-term aim of achieving a significant reduction in the current annual expenditure of £5 million, whilst honouring the claims of current recipients.

SENATOR F. DU H. LE GRESLEY

REPORT

Originally there were 4 categories of widow's benefits –

- widow's allowance – paid for the first year of widowhood
- widow's pension – paid after the first year of widowhood
- widowed mother's allowance – paid after the first year of widowhood
- widowed father's allowance – paid for the period when a widowed father has the sole responsibility for bringing up a child of his marriage who is in full-time education in Jersey.

A minor change to widow's benefits took place in 1991 when the States approved a proposition of the Social Security Committee to amend the Social Security (Jersey) Law 1974 so that a widow, regardless of age, gained access to widow's benefit for the period that she remained a widow. Prior to this Amendment, the Law prevented the payment of widow's benefit to widows without children who were under the age of 40 at the time of their husband's death or to widows where the children of the family had ceased full-time education before the widow reached the age of 40.

In their proposition P.105/1991, the Social Security Committee expressed the view that *“a widow's prospects of employment do not differ whether she is widowed at 25, 35 or 45, nor does the need for the compensation provided by widow's benefit”*. The Committee also pointed out that the existence of the age limit had only prevented the payment of benefit to less than 10 widows since 1974.

This change to the Social Security (Jersey) Law 1974 effectively removed widowed mother's allowance, as all widows moved from widow's allowance to widow's pension regardless of age or dependent children after the first year of widowhood.

In 1995, the Social Security Committee carried out a comprehensive review of the Social Security and Health Insurance Schemes and produced a major report called Continuity and Change. In the President's Foreword to the report he stated –

“Social Security schemes must change with the times if they are to continue to serve society as a whole....Within the workplace the proportion of women is increasing.....Within the family there has been a move away from the traditional male head of household role and divorce rates have increased as has the number of single parent families. In short, this could mean that more people may not be fully covered by the Scheme in future as it is based on traditional concepts of continuous full-time employment and the male as the head of the household...If the Jersey Social Security Scheme is to maintain its credibility, we must ensure that benefits accrued by those already in the scheme are honoured and, at the same time, introduce changes which will benefit our society in the future.”

The report recommended that the 3 elements of widow's benefits be replaced with survivor's benefits in order to give equal treatment to widows and widowers. It was also noted that the 20% “enhancement” during the first year of widowhood was a carry-over from the old UK system and was not a feature of many other Social Security systems, the UK having stopped this weekly enhancement in favour of a lump sum.

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

Current survivor's benefits scheme

Survivor's allowance is paid for the first 52 weeks after a spouse has died, at a rate 20% higher than the usual full rate of benefit. Contribution credits are awarded whilst a survivor is in receipt of survivor's allowance. The minimum requirement is for the deceased spouse to have contributions or credits for at least 10% of the number of months between the age of 18 and the month when they died. The full, standard, weekly rate of survivor's allowance is £216.02. A total of £745,472 was paid in 2010 to 205 separate claimants. As at 31/12/10, there were 85 open claims and 4 being processed.

A **survivor's pension** is paid until the recipient reaches "pensionable age", when the benefit changes to an age-related pension. In order to receive the survivor's pension at the full standard rate (currently £179.97 per week) the deceased spouse must have paid, or been credited with, full contributions from their 18th birthday up until the month before their death. If the deceased spouse had gaps in their contribution record, the amount paid is reduced. The minimum requirement is for the deceased spouse to have contributions or credits for at least 10% of the number of months between the age of 18 and the month when they died.

A total of £4,389,000 was paid in 2010. As at the 31/12/10 there were 847 open claims, of which 783 were for survivors aged 45 or above.

Why I am proposing a review of survivor's benefits?

Paying a survivor's pension to a widow, or widower, who has no children, or no dependent children, is, as far as I have been able to establish, unique to Jersey. Thirty-seven years ago, significantly less married women were in full-time or part-time employment compared with the make-up of the labour market today.

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

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

A childless husband or wife, aged 25, who loses their spouse at an early age of, say, 30 years, is currently entitled to receive the survivor's allowance for 12 months, totalling £11,230, and then the survivor's pension for 39 years, provided the deceased spouse had 12 years of full contributions or credits. Using the current rate of benefit, this means that the surviving spouse could potentially receive, in total, a survivor's pension of £364,979 before he or she reaches the current retirement age of 65 years. This is before allowing for annual increases in the rate of benefit in line with the average earnings index. With compounded annual increases of, say, 3%, the total cost

to the Social Security Fund over the 39 years is potentially £705,000, assuming the widow or widower does not re-marry or co-habit before reaching State Pension Age. A person in receipt of a survivor's pension is also eligible to receive the Christmas Bonus.

At a time when the States of Jersey is endeavouring to find savings of £65 million per annum, it seems to me that we cannot ignore the fact that our survivor's benefits scheme costs in excess of £5 million per annum, yet in Guernsey the cost is £2 million, and in the Isle of Man £½ million. We are also paying £1 million of this benefit each year to people who have left the Island, and are totally reliant on their honesty to advise the Social Security Department should they start to co-habit or re-marry.

Before 2007, the only safety net for widows and widowers was parish welfare. Now all people who have been continuously resident for 5 or more years are entitled to claim income support benefit. Furthermore, when a recipient of a reduced survivor's pension is entitled to claim another benefit, based on their own contribution record, such as short-term incapacity benefit, he/she can choose to receive whichever is the most favourable.

All adults living in Jersey who are under pension age are required to pay Social Security contributions. The vast majority of women who do not have pre-school children are in paid employment, or in receipt of contribution credits or receiving benefits due to prolonged ill-health or temporary unemployment.

Whilst it goes without saying that the death of a spouse is a tragedy for the survivor, I would ask Members to consider if it is still appropriate for government to fund a survivor's pension to a survivor of any age until he/she reaches "pensionable age"? Perhaps the time has come for a survivor who has no children, or no dependent children, to only qualify for survivor's allowance for one year? On the other hand, there is clearly a need to help a survivor who has young children and therefore sound reasons why a survivor's pension should continue to be paid to a survivor who has a dependent child or children under school-leaving age, or aged 19 or under and still in full-time education.

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

Guernsey

Guernsey changed their bereavement benefit scheme from the 1st January 2004. There are 3 benefits: bereavement payment – a lump sum (currently a maximum of £1,630.00) payable to all survivors; widowed parent's allowance (currently a maximum of £188.93 per week) – for survivors with children; and bereavement allowance (currently a maximum of £162.40 per week) – payable to survivors without children aged 45–64 inclusive, for up to one year following bereavement. All 3 benefits are calculated on the contribution record of the deceased spouse. The bereavement benefit scheme does not recognise civil partnerships.

There are 2 contribution conditions that have to be met –

- (1) the deceased spouse must have paid at least 156 weekly social security contributions at any time in their working life, and

- (2) between the age of 20 and their age of death (before their 65th birthday), they must have paid or had credited an average of between 10 and 50 contributions each year that count towards benefit.

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

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

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

ALLOWANCES & WEEKLY PAYMENTS FROM 3.1.11

Yearly average of reckonable contributions paid or credited	Bereavement Payment	Widowed Parent's Allowance	Bereavement Allowance		Bereavement Payment	Widowed Parent's Allowance	Bereavement Allowance
50	£1,630.00	£188.93	£162.40				
Reduced rate at which payments and allowances are payable							
49	£1,597.00	£186.22	£159.15	29	£945.00	£132.06	£94.19
48	£1,565.00	£183.51	£155.90	28	£913.00	£129.35	£90.94
47	£1,532.00	£180.81	£152.66	27	£880.00	£126.65	£87.70
46	£1,500.00	£178.10	£149.41	26	£848.00	£123.94	£84.45
45	£1,467.00	£175.39	£146.16	25	£815.00	£121.23	£81.20
44	£1,434.00	£172.68	£142.91	24	£782.00	£118.52	£77.95
43	£1,402.00	£169.97	£139.66	23	£750.00	£115.81	£74.70
42	£1,369.00	£167.27	£136.42	22	£717.00	£113.11	£71.46
41	£1,337.00	£164.56	£133.17	21	£685.00	£110.40	£68.21
40	£1,304.00	£161.85	£129.92	20	£652.00	£107.69	£64.96
39	£1,271.00	£159.14	£126.67	19	£619.00	£104.98	£61.71
38	£1,239.00	£156.43	£123.42	18	£587.00	£102.27	£58.46
37	£1,206.00	£153.73	£120.18	17	£554.00	£99.57	£55.22
36	£1,174.00	£151.02	£116.93	16	£522.00	£96.86	£51.97
35	£1,141.00	£148.31	£113.68	15	£489.00	£94.15	£48.72
34	£1,108.00	£145.60	£110.43	14	£456.00	£91.44	£45.47
33	£1,076.00	£142.89	£107.18	13	£424.00	£88.73	£42.22
32	£1,043.00	£140.19	£103.94	12	£391.00	£86.03	£38.98
31	£1,011.00	£137.48	£100.69	11	£359.00	£83.32	£35.73
30	£978.00	£134.77	£97.44	10	£326.00	£80.61	£32.48

Less than 10 no benefit payable

The most notable difference between the Jersey and Guernsey bereavement benefit schemes is that a survivor under the age of 45 with no children is only entitled to claim the lump sum bereavement payment, which at the full rate is currently £1,630.

The Isle of Man

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

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

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

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

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

The current Age Related Bereavement Allowances are –

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

Note – In order to assist Members, I have summarised the main differences between Jersey, Guernsey and the Isle of Man bereavement schemes in a table at the Appendix to this proposition.

Conclusion

My original proposition, P.70/2011, asked the States to agree that any survivor's pension awarded after 1st January 2013 will only be paid to a survivor with a child or children under school leaving age, or aged 19 or under and still in full-time education, or a survivor who is aged 45 years and over but below State Pension Age. Subsequent research has revealed that an age limit of 40 was removed in 1991 and that there might only be 6 fewer awards of survivor's pension per annum if an age limit of 45 was introduced. The intention of my original proposition was to find a way of reducing the budget for survivor's benefits whilst at the same time protecting existing recipients. Producing a saving of £50,000 per annum is insignificant when the overall budget for survivor's benefits is in excess of £5 million. A comprehensive review is therefore required as we are clearly out of step with our neighbours.

The Minister for Social Security has advised me that, in principle, he agrees that survivor's benefits are generous and that a review is required. I am proposing that this review is carried out by 31st March 2012, as it may be necessary to consult with the public via a Green Paper.

I conclude with the words of the former President of the Social Security Committee, now our Chief Minister –

“If the Jersey Social Security Scheme is to maintain its credibility, we must ensure that benefits accrued by those already in the scheme are honoured and, at the same time, introduce changes which will benefit our society in the future.”

Financial and manpower implications

There will be manpower implications of carrying out a review of survivor's benefits, but there should be significant long-term savings, potentially up to £2 million per annum, for the Social Security Fund if a revised scheme is approved.

SURVIVOR'S OR BEREAVEMENT BENEFITS							
	Total Expenditure 2010 £	Number of Claimants as at 31/12/10	Population	Cost per Head of Population £	Deceased Spouse Contribution Conditions	Time that Benefit Paid	Bereavement Payment £
Jersey	4,389,000 (pensions) 745,472 (allowances) Total: 5,134,472	847 85	92,500	55.50	Minimum of 10% of years between the age of 18 and age at death	Survivor's allowance – 1 year Survivor's pension – up to pensionable age	n/a but 20% enhancement of benefit in first year = 1,871
Guernsey	Data unavailable (bereavement payment) Data unavailable (widowed parent's allowance & bereavement allowance) Total: 2,056,615	9 60 207	62,274	33.02	3 years	Bereavement allowance (survivors aged 45-64 inclusive) – 1 year Widowed parent's allowance – until child/children is/are no longer in full-time education or until the age of 19.	Maximum of 1,630
Isle of Man	161,776 (bereavement allowance) 407,024 (widowed parent's allowance) Total: 568,800	34 61	80,058	7.10	1 year	Age related bereavement – 1 year (survivor aged 45 years or over) Widowed parent's allowance – until the survivor no longer has a dependent child	2,000