

STATES OF JERSEY



SHORT-TERM INCAPACITY ALLOWANCE: LOWER THRESHOLD (P.102/2017) – COMMENTS

Presented to the States on 24th November 2017
by the Minister for Social Security

STATES GREFFE

COMMENTS

Summary

Members are strongly recommended to oppose this proposition.

- A low-income worker living in an Income Support household will see no benefit from this proposal.
- The main beneficiaries would be adults in middle- to high-income households who choose to work part-time or intermittently.
- As such, the proposal does not support the aims of promoting financial independence or providing well-targeted benefits.
- And, implementation of the proposal would have significant administrative costs and would add complexity to the benefit system.

At the same time –

- The ongoing Social Security review is about to commence its work on incapacity benefits, and it would be premature to make unco-ordinated changes in advance of the detailed review planned for 2018.

Finally –

- The wording of the proposition is significantly different to the description of the proposal set out in the report.

Wording of proposition

These comments are based on the proposal set out in the report that accompanies [P.102/2017](#).

In summary, the report suggests changing the benefit entitlement of an individual who works and pays contributions which sometimes fall below the lower earnings limit in a month.

The proposal is that a worker in this situation should be able to claim a partial Short-Term Incapacity Allowance (“STIA”) payment, based on the proportion of the contributions paid each month, even if these contributions are below the minimum needed to qualify for a contribution record in that month.

Partial STIA payments are already available in the current system, but the proposal is that these should be calculated on a more generous basis.

The wording of the proposition itself sets out a much broader proposal. The **Appendix** to these comments provides an explanation of the terms used in the proposition, and some of the implications of the actions proposed in the proposition.

Targeting of additional benefit entitlement

The report considers an individual working part-time and living in a non-Income Support household, with an income that fluctuates above and below the lower earnings limit. It is correct that a worker in this situation might benefit from the proposal set out in the report.

However, other groups will not gain any advantage from this change.

- **Receiving Income Support:** a worker in a low-income household that is receiving Income Support will be unaffected by this proposal, as income from STIA will reduce the overall Income Support claim on a pound-for-pound basis, i.e. –
 - if the worker receives full STIA at £209 per week, then their Income Support benefit would be reduced by £209.
 - If the worker received a partial STIA payment of, say £100, their Income Support benefit would be reduced by £100.
 - If the worker did not receive an STIA payment, their Income Support would be paid in full.

Receiving (or not receiving) a partial STIA benefit payment would **make no difference** to the low-income household that qualifies for Income Support.

- **Low-income workers who do not receive Income Support: people with less than 5 years' residence.** This group would theoretically benefit from a more generous treatment of low-level contributions. However, workers in this group are unlikely to be working part-time hours, as they do not receive any help with rental or living costs. A worker receiving minimum wage for at least 29 hours a week and earning at least £209 a week will maintain a full contribution record.
- **Part-time workers who do not receive Income Support: living in a middle-/high-income household** (the example quoted in the report). People in this group are not fully reliant on their own wages to meet their living costs, as their overall household income is too high to qualify for Income Support, whilst their own earned income is always or sometimes below the Lower Earnings Limit. These workers are able to choose to work part-time or intermittently, as the household income is high enough not to require each adult to be in full-time work. This group **would benefit** from a more generous treatment of low-level contributions.

Overall, the higher level of benefits would mainly flow to higher-income households where an adult has chosen to work part-time. There would be no advantage to low-income families receiving Income Support, and the change is likely to have limited impact on recent migrants.

As such, the proposal is not well-targeted and does not promote financial independence.

Social Security Review

A thorough review of the Social Security scheme is currently underway. The review will be looking in detail at incapacity benefits during 2018, and it is anticipated that the current system will be subject to a number of changes to improve the support available to workers with short- and long-term health conditions. The ideas set out in the Deputy's report will be incorporated into the review and examined alongside other options for change. However, it is premature to make a decision on a single issue, in advance of this detailed work.

The overall review will be co-ordinated with the publication of a new Strategic Plan and Medium Term Financial Plan, with outcomes debated by the States Assembly.

Financial and manpower implications

The report suggests that this change would have a limited impact. This is not the case.

If the intention of the proposition is to provide for calculations as set out in the example on page 5 of the report, this would require a significant change to existing I.T. systems and would introduce considerable complexity into the administration of STIA. There would also be additional costs in the provision of a higher level of contributory benefits to a possibly large number of part-time workers.

The Department was not consulted on the details of this proposition or asked to comment on the financial and manpower implications.

A detailed analysis of contribution records would be needed to estimate the possible additional cost involved in this proposal.

Members are strongly recommended to oppose this proposition.

DETAILS OF PROPOSITION

The proposition makes reference to Schedule 2 of the [Social Security \(Jersey\) Law 1974](#) (“the 1974 Law”) and proposes that payments should be made in proportion to the contributions that have been made. The wording of the proposition differs significantly from the proposal set out in the report in a number of areas, which are set out below.

Which benefits are covered by this proposition?

The title of the proposition – Short-Term Incapacity Allowance: lower threshold – refers specifically to STIA. However, the proposition refers to the whole of Schedule 2 of the 1974 Law.

*“to request the Minister for Social Security to bring forward an amendment to the Social Security (Jersey) Law 1974 to provide that, where the annual and quarterly contribution factors for a claimant are lower than the figures contained in **Schedule 2 of the Law**, then the sum payable shall be proportionate to the contributions which have been made, notwithstanding the lower earnings limit.”*

Schedule 2 covers all of the following benefits under the 1974 Law –

- Short-term incapacity allowance
- Long-term incapacity allowance
- Incapacity pension
- Home carer’s allowance
- Maternity allowance
- Maternity grant/adoptive parent grant
- Survivor’s allowance
- Survivor’s pension
- Old age pension
- Death grant.

The wording of the proposition would affect the calculation of **all these benefits**, not just STIA. The report and the title of the proposition suggest that the proposition was intended to apply only to STIA.

What are annual contribution factors and what are they used for?

*“to request the Minister for Social Security to bring forward an amendment to the Social Security (Jersey) Law 1974 to provide that, where the **annual** and quarterly **contribution factors** for a claimant are lower than the figures contained in Schedule 2 of the Law, then the sum payable shall be proportionate to the contributions which have been made, notwithstanding the lower earnings limit.”*

Annual contribution factors (“ACFs”) in Schedule 2 are used to create an initial eligibility test to qualify for the benefit. An annual contribution factor is equal to 1 if a worker has paid contributions at or above the lower earnings limit in each month in the year.

For different benefits, the ACF test is set at 0.25 (contributions have been paid for a period of any 3 months in the year), 0.5 (6 months in the year), or 1.0 (12 months in the year). The ACF test can only be satisfied with payments – the individual must make some payments before any benefit is paid. Meeting the ACF test on its own is not always sufficient to qualify for a benefit.

The proposition does not explain how the value of the benefit should be made proportionate to the ACF test. It is more likely that this was not the intention, and the ACF test should not have been included in the proposition. The report does not refer to the ACF or the separate test that uses the ACF.

	Minimum ACF to qualify for benefit
STIA	0.25
LTIA	0.5
ICP	0.5
HCA	0.5
MA	0.25
MG/APG	0.25
SA	0.5
SP	0.5
OAP	0.5
DG	1.0 (or the person was working at the date of death)

What are quarterly contribution factors and what are they used for?

“to request the Minister for Social Security to bring forward an amendment to the Social Security (Jersey) Law 1974 to provide that, where the annual and quarterly contribution factors for a claimant are lower than the figures contained in Schedule 2 of the Law, then the sum payable shall be proportionate to the contributions which have been made, notwithstanding the lower earnings limit.”

Quarterly contribution factors (“QCFs”) in Schedule 2 are used to create a second eligibility test for some benefits. Additional eligibility tests are found in other parts of the 1974 Law.

	Minimum QCF to qualify for full benefit	Minimum QCF to qualify for partial benefit
STIA	1	0.33 Social Security (Incapacity Benefits) (Jersey) Order 2004
LTIA	1	
ICP	1	
HCA	0.33 (Social Security (Home Carer’s Allowance) (Jersey) Order 2012), or nil if the claimant has a married woman’s election	N/A
MA	1	0.33 (Social Security (Maternity Benefit) (Jersey) Order 1975)
MG/APG	No test	
SA	QCF not used – different test applied	
SP	QCF not used – different test applied	
OAP	QCF not used – different test applied	
DG	No test	

For these benefits, the QCF eligibility is a test of a recent contribution record. This can be satisfied if the worker has earnings and/or credits that are above the lower earnings limit for that month. The eligibility test is applied to a single 3-month period, which is specified in Schedule 2 of the 1974 Law. In most cases it relates to a period about 6 months before the benefit claim is made –

- a full contribution record (payments and/or credits) for each of the 3 months provides a QCF of 1;
- a full contribution record (payments and/or credits) for only one of the 3 months provides a QCF of 0.33;
- a full contribution record (payments and/or credits) for only 2 of the 3 months provides a QCF of 0.66.

Legislation already allows for reduced rate STIA benefits to be paid when the worker has made variable contributions across the 3 months. This rule is found in the [Social Security \(Incapacity Benefits\) \(Jersey\) Order 2004](#). Benefit can be paid from 33% of the full rate, up to the full rate, depending on the actual QCF.

The example in the report provides the following earnings information. Assuming this data is for January to September 2017 (the actual dates are not specified), the worker will receive a full contribution record in any month in which earnings are at £884 or above under the current rules.

Hours per month	114	93	81	105	98	108	107	117	104
Average hours per week	26	22	19	24	23	25	25	27	24
Rate £	7.17	7.17	7.17	7.17	7.17	7.28	7.28	7.28	7.28

Basic £	817	670	582	752	700	787	782	852	757
Total £	972	685	596	775	722	1,097	803	890	1,094
Full monthly contribution record created?	Yes	No	No	No	No	Yes	No	Yes	Yes
QCF	0.43		0.45			0.73			

Using these dates, the worker has a record which provides for a reduced rate STIA benefit throughout this period under the current rules. This would range from £90.09 a week with a QCF of 0.43, up to £152.94 with a QCF of 0.73.

The calculation proposed in the report is that the gross earnings for all 9 months should be totalled and applied *pro rata* to the benefit rate, even if they fall below the lower earnings limit for the month. It is not clear why a period of 9 months has been chosen, and how the 9-month period relates to the date of sickness. Taking 9 months rather than 3 months to determine eligibility for STIA may create a higher or lower overall benefit, depending on the value and timing of the individual contributions.