STATES OF JERSEY

OLD AGE PENSION: INCREASE FOR 2012

Lodged au Greffe on 9th October 2012
by Deputy G.P. Southern of St. Helier

STATES GREFFE

PROPOSITION

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

(a) to agree that 2012 annual increase in the old age pension for those resident in Jersey should be increased by a further 1.4% to match the RPI (Pensioners) figure for June 2012; and

(b) to request the Minister for Social Security to bring forward for approval at the earliest possible opportunity the necessary amendments to legislation to give effect to the proposal, together with a matching rise in the disregard in respect of pension income available to Income Support claimants.

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

I believe like many others that the mark of a civilized society is how it looks after its poor and vulnerable. In this case, how we are to protect our pensioners from the worst impacts of the recession. This proposition indicates a simple mechanism for offering them some additional protection in these harsh times, by taking their 2012 pension rise to 2.9%, the level of the June 2012 retail price (pensioner) index.

Senator A. Breckon's proposition P.164/2011, "Old Age Pension: method for increase" showed how, in these times of austerity, pensioners were losing out in terms of the indexation of their annual increases. Whilst in normal times the rise in Average Earnings Index (AEI) is consistently greater than the change in the Retail Price Index (RPI), in recent years the increases in AEI, to which pensions are linked, have been less.

Year	RPI % (June)	AEI %
2006	2.9	3.3
2007	4.4	4.7
2008	***5.6***	***4.3***
2009	- 0.4	3.0
2010	***2.8***	***1.1***
2011	***4.5***	***2.5***
2012	***3.0***	***1.5***

For example, this table shows that in the past 3 years, pensions have increased by less than half of the rise in the cost of living (5.1% and 10.7% respectively). There is every prospect that this trend will continue into 2013 and 2014 as food and oil prices spiral upwards and the States tries to maintain a wage freeze in the public sector.

This impact on pensioners has been due directly to States policy. The two high points for RPI in 2008 and 2011 are caused by the introduction of GST, first at 3% and then at 5%. The Average Earnings Index has been depressed partly by the impact of recession but also by the wage freezes imposed on public sector workers. Over the period 2009 to 2012 whilst private sector employees saw their wages rise by 8.7%, the public sector has seen only a 6.4 % rise.

The conclusion is that whilst both working age and post-working age islanders have suffered from the recession it is the pensioners who have been hardest hit in the past 3 years.

When the States rejected the "triple lock" contained in Senator Breckon's proposition in March of this year, it did so, I believe, largely on the basis of the 5 points below, reproduced from the Minister for Social Security's comments (P.164/2012 Com.), combined with doom-laden forecasts of a doubling of pensioner numbers, massive increases in contribution rates and ultimately the extinction of the Social Security Fund –

- The proposal (P.164) to move to a more generous uprating formula for pensions creates a significant additional cost to workers over the next few decades, at a time when contribution rates will need to rise just to maintain the current value of the pension.
This proposal has minimal costs.

- The cost of P.164 will increase cumulatively over time, reaching an annual additional sum estimated to be around £30 million by 2069 (and possibly up to £82 million). This cost will need to be borne by our children and grandchildren, during their working lives.
This proposal does not have massive cumulative costs.

- The cost of the P.164 completely reverses the savings and improved sustainability of the Fund recently achieved through the agreement to increase the pension age.
This proposal has no impact on pension age.

- The P.164 is poorly targeted. The increased value of the pension will be enjoyed by both high income and low income pensioners, by both pensioners living in Jersey and the substantial proportion of pensioners who live overseas.
This proposal targets those resident in Jersey.

- If P.164 is accepted by the States Assembly, serious consideration will be given to bringing forward an increase in contribution rates to preserve the sustainability of the Fund and to ensure that current workers closer to pension age start to contribute towards the cost of such an improvement in their pension terms.
No such threats are required for this proposal.

By contrast, this proposition operates on a much smaller scale and carries with it none of the threats above. The costs of this change are minimal, calling as it does for an additional 1.4% increase in pensions for those pensioners resident in Jersey only. In 2011 this amounts to –

£143 million x 60% x 1.4% = £1.2 million.

This sum must be seen in the context of an annual surplus on the Social Security Fund in 2010 of over £30 million and net assets in the reserve fund of £838 million which had grown since 2009 by a remarkable £126 million. As can be seen from the graphs below (taken from the Government Actuary's Report on the Financial Condition of the Social Security Fund as at 31st December 2009) the combined funds are currently in growth, and will remain able to support total expenditure for at least the next 2 decades.

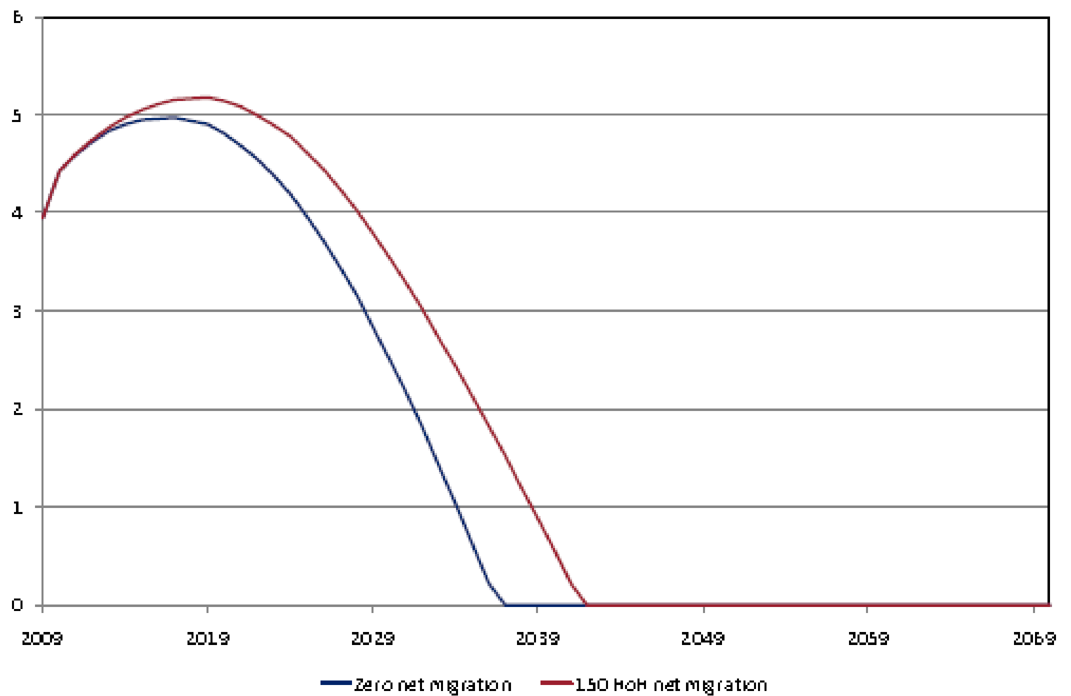


Figure 4.2: Projected Combined Fund balance expressed as a multiple of annual expenditure based on the principal assumptions

The longevity of the fund is sensitive to many factors. Not the least of these is the rate of return achieved by the reserve fund. As can be seen below doubling the rate of return from 2% to 4% enables the fund to remain functional until almost 2059.

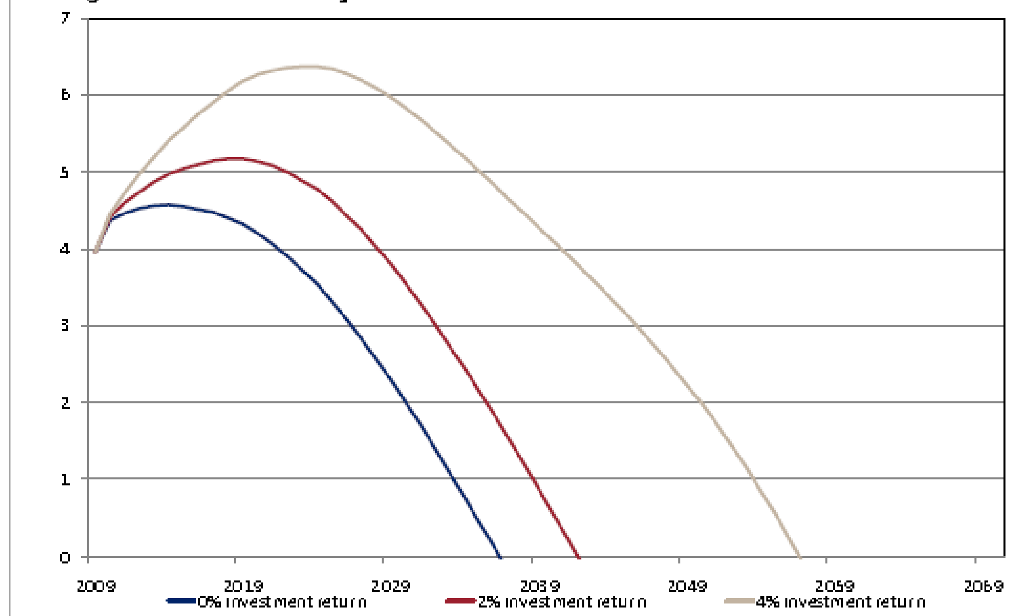
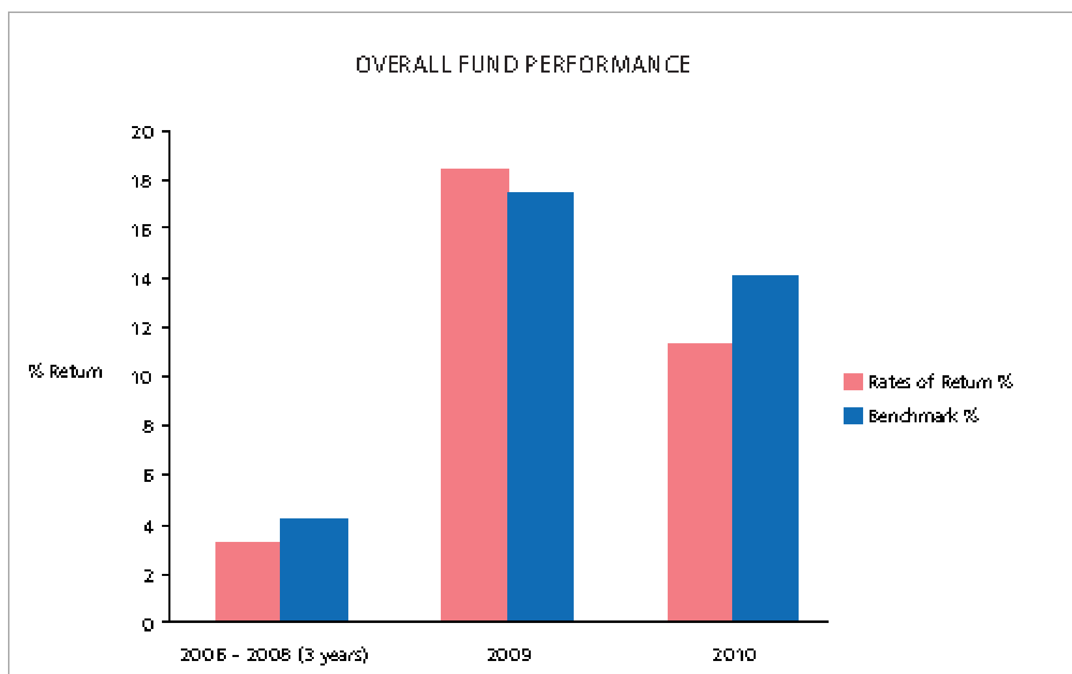


Figure 5.2: Projected balance in the Funds as a multiple of expenditure for different assumptions on investment return in excess of earnings and net immigration of 150 HoHs a year

The Minister for Social Security sums up the performance of the fund in his Report and Financial Statement 2010 (R.122/2011) in the following chart –



The overall investment performance over 3 years was an increase of 3.22% compared with a benchmark increase of 4.18%. The performance against the benchmark of 14.2% over 2010 was an increase of 11.35%. Elsewhere in the 2010 report, the Minister has the following to say –

> "The Social Security (Reserve) Fund has continued 2009's positive performance by achieving an 11.3% return on opening Net Assets. This has been achieved against the increased volatility in global markets which may be with us for some time to come.
>
> To mitigate against some of these testing investment pressures, the Social Security (Reserve) Fund is now taking advantage of the States of Jersey Common Investment Fund (the "CIF"), an administrative arrangement which gives its participants broader investment opportunities while minimising costs and fees through economies of scale. The Social Security (Reserve) Fund began migrating its investment assets to the CIF in October 2010.
>
> The short time frame that the Social Security (Reserve) Fund's investment assets have been in the CIF has meant there has been little chance for the change to impact returns. I am expecting the benefits to become evident in 2011."

We wait to see what improvements to returns can be achieved by the Common Investment Fund in this first full year.

Having dealt with the need to target only those pensioners living in Jersey, it still leaves the proposal open to the criticism that some pensioners are better off. The comments of the Minister for Social Security contained the extraordinary statement –

"It is estimated that just over half of local pensioner households pay income tax."

The assumption here, of course is that those who pay tax cannot be suffering from the recession. The reality however is different. The better off pensioners are more likely to be reliant on the interest from their lifetime savings, at a time when interest rates have gone through the floor. If they are house owners with their mortgage paid off, and the children having left home then, of course they may pay income tax, because they cannot claim allowances. They cannot claim income support. They are not eligible for cold weather bonus, food cost bonus or, if they are over 75, for a free TV licence.

The inference that any pensioner who is an income tax payer does not need help is untrue. But what is worse is the misleading inference that most pensioners are well off. To discover this one does not need estimates, one merely needs the income distribution survey 2009/10 conducted by our Statistics Unit.

The income survey clearly shows that pensioner households make up 50% of those in the bottom income quintile (fig. 5, p.16). In fact pensioner households constitute the highest proportion of all poverty markers across all groups, including that (50% of median) which indicates depth of poverty.

As Table 16 shows, before housing costs, particularly high proportions of pensioner households (pensioners living alone and pensioner couples) fall below the lower threshold of 50% of median income.

In more detail: a quarter (24%) of pensioners living alone fall below the 50% threshold, while a fifth (22%) of pensioner couple households and one in six (16%) single parents with dependent children households have an income below this threshold.

Table 16: Percent of each household type falling below given relative low income threshold, **before** housing costs

	below median	below 70% of median	below 60% of median	below 50% of median
Single parent at least one dependent child*	75	32	20	16
Person living alone (pensioner)	78	54	41	24
Person living alone (non pensioner)	45	18	11	5
Single parent with all children over 15yrs	62	15	10	7
Couple (both pensioners)	67	38	27	22
Couple at least one dependent child*	44	17	7	3
Couple with all children over 15yrs	36	12	7	5
Couple (one pensioner)	44	22	14	10
Couple (not pensioners)	30	10	6	2
Other	51	13	6	4
All household types	*50*	*23*	*14*	*9*

Taking the group of households below the 50% of median threshold before housing costs, this was found to be made up in the majority of: pensioners living alone (30%), pensioner couples (27%) and single parents with at least one dependent child (10%).

I believe the case for additional support for our pensioners in these hard times demonstrable. Under Article 50(g) of the Social Security (Jersey) Law 1974, the States may alter by Regulations any of the rates or amounts of benefit or increase in benefit set out in Parts 1, 2 and 3 of Schedule 1 (including the old age pension), so it need not take long to achieve.

Financial and manpower implications

The cost of any increases in pensions is drawn from the Social Security Fund which has sufficient capacity as shown above.

There will be a cost in increasing the pension income disregard for pensioners. In the continued absence of any breakdown of Income Support payments by components, this sum is far from easy to estimate. My estimate is as follows –

> Total housing component 2010 = £24 million (response to question 6536, September 2011) uprated to 2012, say, = £27 million x 1.4% = £380,000 x approx proportion of pensioners in IS (response to question 5052 January 2010) x 35% = £133,000.

I believe this sum may still fall within the total cost of the package of Income Support component rate and disregard changes contained in MD-S-2012-0081 for 2013 of £2.64 million, as allowed for in the Treasury provisions for uprating in the Medium Term Financial Plan. This figure also allows for an element of growth in the volume of Income Support claimants during 2013.

There are no manpower considerations.