

STATES OF JERSEY



OLD AGE PENSION: METHOD FOR INCREASE

Lodged au Greffe on 3rd October 2011
by Senator A. Breckon

STATES GREFFE

PROPOSITION

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

- (a) to agree that future annual increases in the old age pension should no longer be linked automatically to the Average Earnings Index but should be increased in line with whichever is the highest for the year in question of –
 - (i) the Average Earnings Index;
 - (ii) the RPI Pensioners' Index produced by the Statistics Unit; or
 - (iii) a figure of 2.5%; and
- (b) to request the Minister for Social Security to bring forward for approval the necessary amendments to legislation to give effect to the proposal, at the earliest opportunity.

SENATOR A. BRECKON

REPORT

I believe this issue is too important to many pensioners to be left to a Minister or department to dither about and deliberate for years – something needs to be agreed by the States soon to have it in place by mid-2012 so that it can come into effect in October 2012. Also, it will be a real incentive for the States to keep domestic inflation down.

My recollection of why the increase in Jersey's Old Age Pensions was linked to the Earnings Index was principally for 2 reasons –

- (1) Because of the strength of economy and wage bargaining power, the Earnings Index was deemed to be most beneficial Index to link the increase of pensions and some other benefits.
- (2) It was recognised that pensioners and those on benefit had no bargaining power themselves for increases, therefore, (at that time) it was thought best to link them to those that did – wage and salary earners.

The table below shows that over the last 21 years for –

- 14 years the Average Earnings Index was higher than the RPI.
- 6 years the Average Earnings Index was lower than the RPI.
- 1 year it was the same.

The cost of life's necessary basic needs, like food, utilities, light and heating, have increased significantly over the last few years, hitting pensioners particularly hard – when **REAL** costs have risen, but pensions have not matched this, leaving many to suffer in silence and make do.

Information from the recently published 'Index of Average Earnings – June 2011', from the Statistics Unit, says –

- **In June 2011 the average weekly earnings of workers in Jersey was 2.5% higher than in June 2010.**
- The latest annual increase is 1.4 percentage points greater than that of the previous 12 month period (1.1% to June 2010).
- Average earnings in the **private sector overall** increased by 2.2% over the year to June 2011; the majority of sectors saw increases of around 2 to 3%.
- The **public sector** saw average earnings increase by 3.9% over the year to June 2011. This increase was due to both a scheduled pay award (of 2%) for 2011 for the majority of employees, as well as a retrospective pay award for 2010 (of 2%) for some pay groups.

The Index of Average Earnings measures changes in average earnings (gross wages and salaries) that have occurred, and been paid, to workers in Jersey. It includes overtime payments, but excludes bonuses, employers' insurance contribution, and

holiday pay and benefits in kind (e.g. free accommodation or meals). The 2011 Index measures changes in average earnings received between the last weeks of June 2010 and June 2011.

Average earnings are calculated on the basis of a full-time equivalent (FTE) worker. Workers include full-time and part-time employees and also self-employed people. Part-time employees are weighted in the calculation of FTEs according to hours worked.

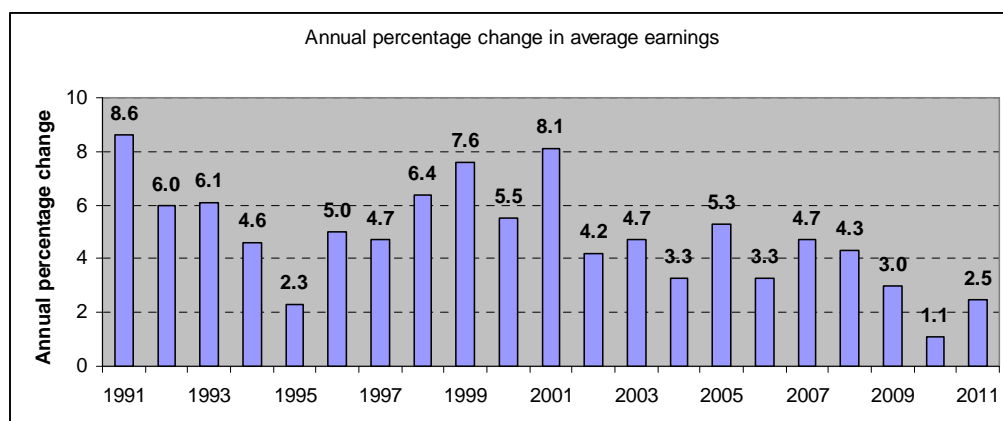
Table 1 (RPI – Retail Prices Index, EI – Earnings Index)

Year	RPI (% increases)	EI	max	Index for max
1990				100
1991	8.0%	8.6%	8.6%	108.6
1992	6.2%	6.0%	6.2%	115.4
1993	4.0%	6.1%	6.1%	122.4
1994	2.7%	4.6%	4.6%	128.0
1995	3.5%	2.3%	3.5%	132.5
1996	3.1%	5.0%	5.0%	139.1
1997	3.5%	4.7%	4.7%	145.6
1998	4.7%	6.4%	6.4%	154.9
1999	3.2%	7.6%	7.6%	166.7
2000	4.5%	5.5%	5.5%	175.9
2001	3.9%	8.1%	8.1%	190.1
2002	4.2%	4.2%	4.2%	198.1
2003	4.2%	4.7%	4.7%	207.4
2004	4.8%	3.3%	4.8%	217.3
2005	3.6%	5.3%	5.3%	228.7
2006	2.9%	3.3%	3.3%	236.2
2007	4.3%	4.7%	4.7%	247.2
2008	5.6%	4.3%	5.6%	261.1
2009	-0.4%	3.0%	3.0%	268.9
2010	2.8%	1.1%	2.8%	274.4
2011	4.5%	2.5%	4.5%	288.9

Table 2

Year	RPI (% increases) June	EI
2005		
2006	2.9%	3.3%
2007	4.3%	4.7%
2008	5.6%	4.3%
2009	-0.4%	3.0%
2010	2.8%	1.1%
2011	4.50%	2.5%

The annual percentage changes in average earnings have been recorded since 1991 (over the 12 months to June of each year) as shown in the bar chart on the next page. The average annual increase in earnings during the most recent 3 year period, since the global economic downturn in late 2008, has been 2.2% per annum, a rate of increase lower than the annual increases seen in the preceding 2 decades.



Comparison of the rate of growth of earnings in the public and private sectors is made more complex by the historic 2 year nature of pay negotiations and awards seen in the public sector prior to 2008, and also by the periodic delay in implementation of pay awards for some pay groups. Nevertheless, it is informative to compare the rates of increase of earnings in the sectors over periods of several years in order to smooth out the effects of such factors –

- Since June 2001, average earnings in the public sector have increased by 41%; over the same period, earnings in the private sector increased by 43%.
- Since June 2007, after which the public sector moved away from a 2 year structure of pay awards to one on an annual basis, the public and private sectors have seen similar overall increases in average earnings, of 11%.

Comparison with Retail Prices Indices

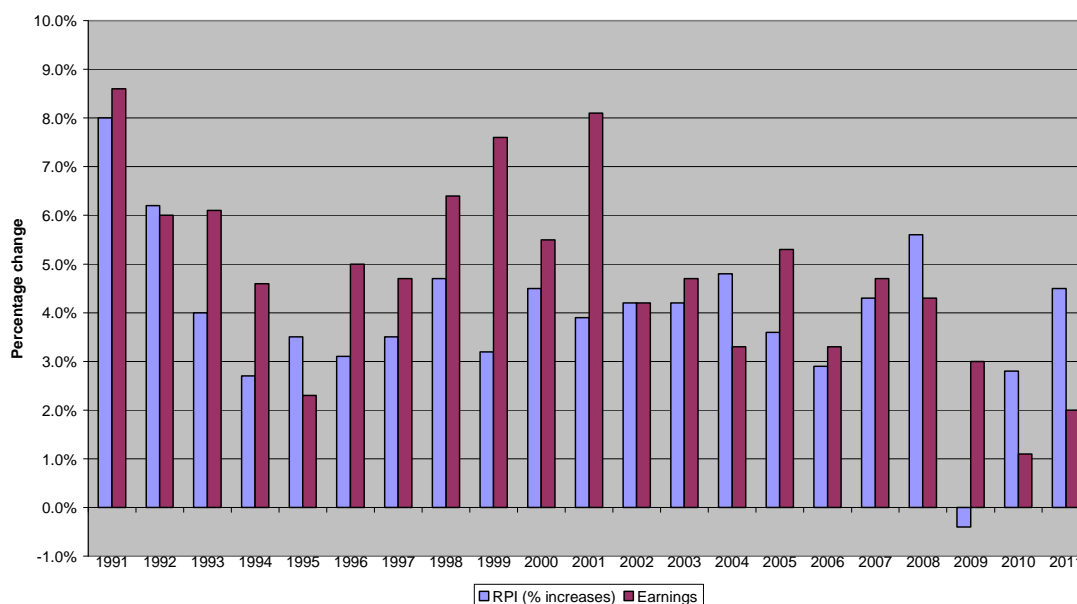
During the 12 months to June 2011, the Jersey All Items Retail Prices Index (RPI) rose by 4.5%. This annual rise was driven by the increase in the rate of GST¹ on 1st June 2011, accounting for 1.3 percentage points of the increase in the RPI.

Average earnings increased by 2.5% during the last 12 months, implying that prices increased by 2.0 percentage points more than earnings over the period.

Historically, the long-term growth of earnings in Jersey has been greater than that of prices. Since 1990, the Jersey RPI has increased by 128% (i.e. prices have more than doubled), whilst earnings have increased by 167%. As the bar chart shows on the next page, prices have increased in Jersey at a faster rate than earnings in 6 out of the last 20 years, since 1991.

¹ The rate of GST in Jersey increased from 3% to 5% on 1st June 2011.

Annual percentage change in average earnings and the RPI at June each year



This relative behaviour of earnings and prices is reflected in the long-term annual averages: over the period from 1990 to 2011, earnings increased on average by almost one percentage point more per annum than prices (4.8% and 4.0% per annum for earnings and prices, respectively).

It is also apparent from the chart above that in recent years movements have constituted a different period in the relative behaviour of prices and earnings than that seen over the longer term: in 3 of the past 5 years prices in Jersey have increased at a greater rate than earnings.

Information from Social Security:

“Pensions increase in line with earnings

Following the announcement of a 2.5 per cent increase in the Jersey annual earnings index, the Minister for Social Security, Deputy Ian Gorst, has released details of increases in benefit rates from October 2011. These are automatically linked to the rise in average earnings. The full rate for a single pensioner will increase by £4.48 to £184.45 per week. The full married couple rate will increase from £298.76 to £306.25 per week. Other benefits such as incapacity and maternity benefits will also rise by 2.5%.

Associated changes to Income Support will ensure that all low income pensioners will see an increase in their total benefit entitlement of £4.48 a week for a single pensioner, or £7.49 for a couple.”

My Comments:

However, this does not tell the full story because it has been demonstrated to me that some pension increases are being offset by **REDUCTIONS** in Income Support for pensioners, and they can actually finish up worse off after “the increase” in pension.

Whilst the Minister may wish to consult or produce reports until the cows come home, pensioners are suffering some hardship. I believe now is the appropriate time to seek an amendment which allows for the highest Index of Average Earnings, Retail Prices and the more recently produced Pensioners' Index (linked to the Retail Prices Index Reports) to be used to benefit pensioners.

Making direct comparisons between basic pensions in Jersey and the UK is not, in my opinion, appropriate because the UK pension has many "supplements" added to it. Also many pensioners in the UK receive free medical treatment, as well as doctors, this can include dental, optical and foot care. Also, allowances are paid towards heating/utility bills and many goods and services, e.g. food, for example, are considerably cheaper.

Deputy Gorst has announced a review of the mechanism for uprating pensions –

"The UK Government Actuary is currently completing a three year review of the Jersey Social Security Fund. The results of this review will be used to plan future changes to the Social Security Scheme. As we know, the number of pensioners is increasing and people are living longer. The States has already agreed to increase the pension age from 2020 onwards, but we will also need to increase contribution rates over the next few years to ensure that pensions can continue to be paid in the future.

I have asked the Government Actuary to include in his review an analysis of the impact of changing the method used to increase pensions from year to year. At present, pensions are increased automatically in line with the increase in the earnings index so that pensioners' incomes rise at the same rate as the incomes of the working population. This method was introduced in 1990 and has ensured that current pension rates have kept pace with the general level of wages in the island.

Since the earnings index began in 1990, the growth in earnings has been higher than the RPI (Retail Prices Index) in most years. In only six years has the increase in RPI been higher than the increase in earnings. As a result, the Jersey pension rate of £184.45 a week compares very favourably with the UK pension of £102.15.

In recent years, the RPI has been higher than the earnings index in 2008, 2010 and 2011. The review by the Government Actuary will calculate the cost of changing the method of uprating, so that it takes into account both the cost of living and the earnings index. In the UK this has been referred to as a "triple lock" and the UK government has committed to uprating the basic state pension by a triple guarantee of the highest of the increase in earnings, prices (CPI) or 2.5%.

The cost of changing the method of uprating will need to be borne by the current working age population. Any decision will need to take into account the increase in the contribution rate that is needed to maintain the current system, as well as the extra cost of a more generous uprating method.

I intend to publish a report setting out this analysis at the end of October. Following the elections, the new Minister for Social Security will be able to put proposals to the new States Assembly.”.

Financial and manpower implications

The costs of any increases in pensions are drawn from the Social Security Fund. There are no manpower implications, save for officer time drafting the necessary amendments to the relevant legislation.