WRITTEN QUESTION TO THE MINISTER FOR SOCIAL SECURITY BY DEPUTY G.P. SOUTHERN OF ST. HELIER

ANSWER TO BE TABLED ON TUESDAY 14th FEBRUARY 2006

Question

With regard to the findings contained in the OECD Report entitled *'Pensions at a Glance. Public policies across OECD Countries'*, published in April 2005, which contained data regarding the Gross Replacement Rate (GRR) comparing the State pension rate with average earnings and showed that the average OECD earner received on retirement 56.9% of the average wage in State pension compared with 40% in the U.K., would the Minister state how Jersey's position regarding its Gross Replacement Rate (GRR) currently compares with the data contained in the report and inform members whether he intends to review Jersey's position in this regard and, if not, the reasons why?

Answer

The Statistics Department has advised that it will need time to examine the report to make sure that accurate comparisons can be made.

The OECD report is the first in a series to be published every two years to assess the impact of pension reforms. From an initial examination, it would seem that the question has picked on one figure, the Gross Replacement Rate (GRR), which is defined as "individual pension entitlement as a percentage of individual pre-retirement gross earnings" rather than a more useful one of Net Replacement Rate (NRR) which is defined as "individual pension entitlement net of taxes and contributions as a percentage of individual pre-retirement earnings net of taxes and contributions". The report shows that on average the net replacement rate is 22% larger than gross replacement rates on average across the OECD. Care, therefore, needs to be taken on making comparisons.

The former Employment and Social Security Committee commissioned a report from Nottingham University, entitled '*Social Protection in Jersey*'*: a Comparative Study*, (Stella Hart with Professor Robert Walker), which noted that comparisons were difficult because of the variation of prices between countries and the different purchasing power of different currencies (or the same currency as with the Euro). Using purchasing power parities (PPP) helps to eliminate this effect but is not done in this OECD report. Furthermore, the use of averages as a benchmark, although easier to obtain, is not as good as using median figures when considering earnings or income distributions. The reason is one of statistical bias, particularly in small populations like Jersey where a few very large income earners can skew the calculation of an average figure. I would direct the Deputy and States members to the report from Nottingham University for a better comparison of pensions and other social protection issues.

In addition, the Jersey Social Security pension is indexed by earnings and not prices and as the OECD report points out '*nearly all OECD countries link pensions to consumer prices. However, some still adjust pensions in line with earnings, which may cost more than 20% more than if pensions were indexed to prices'*.

Further, there are two basic Social Security systems operating throughout Europe. The dominant Social Security system in mainland Europe is based on the Bismarkian system where contributions are higher to enable benefits and pensions to be paid on a wage related basis. The other system, which emanated from the U.K. and on which the Jersey system is based, is the Beveridge one. In this system, contribution levels are collected to provide a basic benefit and pension, a platform on which people can build supplementary provision. In other words, the role of the State is less prescriptive. Over the years, employer sick pay and maternity schemes, occupational pensions, private savings and pension schemes have emerged to enable people to supplement Social Security benefits and pensions.

It has been argued by some that the Beveridge systems are better placed to withstand the demographic changes than those based on the Bismarkian system. By providing a basic platform on which to build, Jersey has been able to take corrective action to raise contribution rates and is moving to a partially funded pension system to mitigate the impact of the demographics over the coming decades.

Therefore, there are no plans at present to change the Social Security Insurance system in Jersey which would, of course, entail increasing contributions even further and create higher future liabilities. However, if the policy is to allow people more choice and freedom to invest and save their money in different ways, I am concerned to ensure that people who can, do save enough on top of the basic States pension to achieve a reasonable and comfortable retirement. It was for this reason, that the former Employment and Social Security Committee published a *'Policy Review of the Social Insurance system in Jersey : Interim Report'*, (R.C. 49/2004), raising a number of key issues, including retirement income as a whole and not just the Social Security pension (Section 3 of that report).

My intention is to follow up on this report later in the year with wider public consultation on the broader pension issues.

In this context, the recent Turner Report on Pension Reform in the U.K. is interesting in that it suggests that the States Social Security Pension be increased to a basic level (Basic State Pension) and that it subsequently be uprated in line with average earnings instead of RPI, as Jersey has been doing for some time. The Pensions Commission also recommended a National Pensions Savings Scheme to provide for those who may not have other occupational or personal pension plans. Members will see that the question of encouraging or, possibly, requiring people to save more for their retirement, will be an important strategy consideration for the future and one that will no doubt generate much public debate as it is currently doing in the U.K..

For these reasons, I do not think that comparison of GRR only as defined in the OECD report is helpful. No doubt the Statistics Department will be able to advise in due course and if meaningful figures can be provided, they will be published.