

# STATES OF JERSEY



## SHORT-TERM INCAPACITY ALLOWANCE: LOWER THRESHOLD

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Lodged au Greffe on 23rd October 2017  
by Deputy G.P. Southern of St. Helier

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STATES GREFFE

## **PROPOSITION**

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

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.

DEPUTY G.P. SOUTHERN OF ST. HELIER

## REPORT

We live in curious times. In the UK and Jersey alike, the rates of unemployment are at historic lows. In the UK unemployment hovers around 5%. A directly comparable figure for Jersey would be 4% in the period of April 2014 to May 2015, measured by the 2014/2015 Household Spending and Income Survey, corresponding to 2,500 people being unemployed and looking for work. The latest figures point to even lower rates of unemployment, with only 980 registered as actively seeking work (“ASW”).

And yet, there has not been the increase to wages that full employment typically brings – in the 3 months to May this year, average pay adjusted for inflation fell by 0.5% year-on-year in the UK according to the Office for National Statistics (“ONS”) data. In Jersey, there has been essentially no improvement in average 10-year real-term earnings since 2011, shown in Figure 10 of the Index of Average Earnings 2017 from the States of Jersey Statistics Unit.

There may be many reasons for this rare phenomenon, but some of course must surely be the rise in unstable, precarious, low-paid and temporary jobs, typified by the growth in zero-hour contracts. Around 900,000 people were on zero-hours contracts in May, according to ONS data – and since many of these people need 2 jobs to make ends meet, the survey found 1.4 million zero-hours contracts in place, or 5% of all employment agreements. Someone on a zero-hours contract works, on average, 26 hours a week – with more than a quarter wanting more hours, compared with 7% of other workers.

Perhaps the best guess at just how fully employed the UK is, comes from the Chartered Institute of Personnel and Development, which estimates that full-time employees make up 60% of the workforce.

In Jersey the use of zero-hours contracts has become commonplace, with some 10% of the workforce engaged on such terms. In December 2016, there were 6,270 jobs in the private and public sectors on zero-hours contracts, representing 11% of total employment. ASW figures show that some 300 individuals fall into the category of “under-employed” and therefore actively seeking more hours. We do not have figures for the weekly average number of hours worked by those on zero-hours contracts, but it seems likely that UK and Jersey figures will be similar.

Badly-paid, temporary and insecure jobs are the new poverty – a trap that is becoming harder and harder to escape, with more and more workers sliding into its jaws. One of the dangers of the predominance of zero-hours culture is that our social security system is built on an assumption of full-time work and thus, as mentioned above, those who end up “under-employed” not only suffer from unstable hours of work, but as we shall see below, may fall outside the protective measures built in to the social security benefit system.

The importance of zero-hours contracts is reflected in the way these contracts are treated by the Social Security Department –

- The Department takes the position that any job is better than no job;
- Zero-hours jobs are therefore advertised on the Social Security website; and
- Job-seekers may be directed to apply for such jobs.

- Leaving a zero-hours job will be deemed *Giving up Work* (“GUV”) without good reason, and subject to sanction of 13 weeks’ removal of Income Support personal component.

In her answer to Written Question 543 on 10th October 2017, the Minister for Social Security explained how the system works for Short-Term Incapacity Allowance (“STIA”), thus –

**“Answer**

*In 2017, £884 per month is the minimum amount a person must earn (the “Lower Earnings Limit”) to pay enough contributions to be insured and entitled to claim working age contributory benefits. This limit is directly linked to the value of contributory benefits available.*

*Contributory benefits are paid based on a person’s monthly contribution record. Contributory benefits include maternity benefits and incapacity benefits. These provide a standard rate of benefit with this rate being set approximately equal to the minimum weekly wage needed to create a contribution record. If a person is off work sick they can claim a Short Term Incapacity Allowance (STIA) of up to £204.19 a week, which is equivalent to just over £884 a month.*

*The amount a person can claim depends on the contributions they have paid. To get the full amount of STIA the person must:*

1. ***Have contributed for at least three months during their working life*** – they must have paid enough contributions for at least three months during their working life and before the end of the relevant quarter
2. ***Have a recent contribution record before their sickness*** – they must have paid or been credited with enough contributions for each month in the relevant quarter

*Enough contributions means paying contributions on earnings at or above the lower earnings limit (£884 per month in 2017).*

*The following table explains when the relevant quarter is:*

| <b>If your claim begins during:</b> | <b>You must have paid contributions during:</b> |
|-------------------------------------|---|
| January to March                    | July to September in the previous year          |
| April to June                       | October to December in the previous year        |
| July - September                    | January to March in the same year               |
| October - December                  | April to June in the same year                  |

*If a person has contributed enough for at least three months during their working life, but only has a contribution record in one or two months of the relevant quarter before their sickness, they will get 1/3 or 2/3 of the full rate of STIA.*

*The eligibility rules are clear and are applied fairly to all workers covered by the Social Security contributory scheme. The current scheme was established in 1975 and the last*

major review was undertaken at the end of the 1990s. The Social Security department is now reviewing the Social Security scheme again to ensure that it continues to meet the needs of current and future generations of workers. A series of public consultations and expert reviews will look at all major areas of the scheme and a programme of changes will be drawn up for approval by the next States Assembly.

The examples quoted in the question provide monthly earnings between £700 and £900, giving weekly wages of between £161 and £208. With an hourly minimum wage rate of £7.18 this represents part time work of no more than 29 hours per week. With part time wages at this level, the worker is likely to qualify for assistance from Income Support or may be a member of a household that includes another working partner.

The first example in the question is someone who earns £900, £700 and £900, which is above the threshold in two of the three months of the relevant quarter. They would get 2/3 of the full amount of STIA each day they are sick. If the worker is a member of an income support household, this benefit can also be adjusted if there is a shortfall in the basic income of the household.

The second example in the question is someone who earns £850 on a regular basis each month. At minimum wage, this represents part time work of 28 hours a week. This worker falls below the minimum level at which a contribution record is achieved and they would not be able to claim any STIA.

If there is a legitimate reason why the worker cannot work full time, they are likely to be covered by Income Support. When people who claim Income Support are off work sick, their benefit will adjust upwards to make up for the loss of wages.”

In the above theoretical case, the employee who pays quarterly contributions on greater earnings (£2,550) cannot claim sickness benefit, while the employee paying contributions on a lower sum (£2,500) can claim around £136 per week.

The following case is a record of the actual earnings for a young person employed on a zero-hours contract over a 9-month period:

|                |        |        |        |        |        |          |        |        |          |
|----------------|--------|--------|--------|--------|--------|----------|--------|--------|----------|
| <b>Hours</b>   | 113.93 | 93.49  | 81.16  | 104.84 | 97.66  | 108.17   | 107.35 | 117.08 | 103.90   |
| <b>Rate £</b>  | 7.17   | 7.17   | 7.17   | 7.17   | 7.17   | 7.28     | 7.28   | 7.28   | 7.28     |
| <b>Basic £</b> | 816.88 | 670.32 | 581.92 | 751.70 | 700.22 | 787.48   | 781.51 | 852.34 | 756.60   |
| <b>Total £</b> | 972.30 | 685.29 | 596.09 | 775.28 | 722.45 | 1,096.56 | 802.61 | 890.27 | 1,094.00 |

This young person has paid contributions amounting to 86% of the lower earnings limit. She met the lower earnings limit in 4 of the 9 months, but remains ineligible for STIA as these months did not fall within the correct quarter. Under the current rules she receives no sick pay. Being under 19, and living in the family home, this person is not eligible for Income Support either. Under this proposition, she would be able to claim 86% of maximum sickness benefit to support herself through her illness.

### **Financial and manpower implications**

Apart from the initial effort required to revise the rules governing the payment of contributory benefits, there is no consequential manpower demand from this proposal and no direct impact on States finances other than that on the contributory benefits system.