WQ.51/2018

WRITTEN QUESTION TO THE MINISTER FOR SOCIAL SECURITY BY DEPUTY G.P. SOUTHERN OF ST. HELIER ANSWER TO BE TABLED ON TUESDAY 6th MARCH 2018

Question

Further to the response to written question WQ.46/2018 on 20th February 2018, which showed that the application of a uniform 6% rate above the current Standard and Upper earnings limits for Social Security contributions from employers and high-earning employees could raise contributions by up to £43 million,, will the Minister inform members of the extent to which the three-year extensive review of the Social Security system has examined, or will examine, the potential for such a change in revenues?

Answer

Social Security Review

The aim of the Social Security Review is to make sure that the Social Security scheme and the Fund remains financially and socially sustainable in the future, so that it can meet the needs of today's and future generations.

In particular, the number of pensioners is rising steadily and these increases will accelerate over the next twenty years. The most recent actuarial review reported an increase in the costs of pensions between 2015 and 2035 of nearly £100 million a year (in 2015 prices). These extra costs relate to existing workers and pensioners and there is very little variation in these figures when different population projections are considered. As such, changes will be needed in the Social Security Scheme to meet these extra costs.

The Review is made up of a number of projects, which altogether aim to:

1. **Maintain the social security scheme over the next 30 to 40** years as we tend to live longer and as more people reach pension age

2. **Reshape and modernise the protection and benefits the scheme offers** recognising:

    a. Our society's values and the changes that have and are taking place in how we live and work
    b. The government's role in supporting people now includes Income Support, which helps households with low incomes according to their situation and subject to eligibility.
    c. Developments in international best practice in supporting people and protecting people during times when they are unable to work.

3. **Review and improve how people save for retirement** so that they are better able to support themselves when they stop working.

The review will be developed in co-ordination with Future Jersey and the next government's medium and longer term plans. During the review, my department will consider a range of changes to contribution rates and ceilings. This will include possible changes to the standard and upper earnings limits and the percentage rates charged at different income bands. The final options for consideration will take account of all aspects of the review, the overall plans of the States, and the outcome of the actuarial review which will be carried out later this year and published at the end of 2018.

Clarification of contributions estimate

It is not clear from the question as to the derivation of the £43 million quoted by the Deputy. The following table shows the estimate of the additional income based on charging a 12% rate in respect of all earnings above the standard earnings limit with no upper cap, across both Class 1 and Class 2 contributors with contributions split equally between employees and employers, using the figures in the answer to WQ 46/2018.

This scenario represents a significantly higher contributions liability for employers, employees and self-employed people with earnings and incomes above the standard earnings limit (£4,290 per month / £51,480 per year for 2018).

The estimates quoted in the previous answer assume that individual and business behaviour would not change. This is a reasonable assumption for estimating the impact of a small change in contributions (of say 1% or 2%) on contributions revenue. Larger increases may well lead to behaviour changes amongst contributors and estimates of yields following significant changes need to be treated with significant caution. The figures quoted below do not take account of any likely behavioural changes. In particular there are a relatively small number of contributors with earnings above the upper earnings limit (£170,256 pa in 2018) and imposing a 12% contribution rate on earnings for these contributors may well lead to changes in business structures and activity and a lower yield than shown below.

The estimates provided in this answer are therefore highly uncertain. A more accurate assessment of this scenario would need to consider the likely response to the increases as well as wider social and economic effects.

	Current rules	WQ proposal	Estimated additional revenue, £m
Class 1			
On earnings below SEL			
Employee	6%	6%	0
Employer	6.5%	6.5%	0
Total	12.5%	12.5%	0
On earnings between SEL and UEL			
Employee	0%	6%	16
Employer	2%	6%	11
Total	2%	12%	27
Class 2			
On income below SEL	12.5%	12.5%	0
On income between SEL and UEL	2%	12%	8
Class 1 and Class 2			
On income above UEL	0%	12%	16
			52