

STATES OF JERSEY



POLICY REVIEW OF THE SOCIAL INSURANCE SYSTEM IN JERSEY: INTERIM REPORT

**Presented to the States on 2nd November 2004
by the Employment and Social Security Committee**

STATES GREFFE

FACT SHEET

(All figures relate to 2003 unless otherwise stated)

- The Department collected £108 million from 3,900 employers to provide Social Security Insurance for 46,500 workers.
- ***The number of retired people in Jersey will increase by some 12,000 individuals over the next 30 years.***
- Over 22,000 people received a social security pension in December 2003.
- ***Contributions to the Social Security Fund were made up of £49.9 million (32%) from the States, £51.2 million (33%) from employers, £45.9 million (29%) from employees and £8.8 million (6%) from self-employed.***
- Pensions and benefits for widows and widowers accounted for 72% of the cost of benefits paid by the Social Security Fund.
- ***82% of the working age population is economically active.***
- 33% of children and 33% of pensioners live in households with an average income below 60% of median income, after housing costs. Comparable U.K. figures are 30% for children and 22% for pensioners.
- ***In a typical month the department processes up to 35,000 benefit payments with a total value of nearly £12 million.***
- The Health Fund subsidised 403,000 visits to G.P.s at an average cost of £14.11 per visit.
- ***1,111,000 prescriptions were subsidised, at an average cost of £9.99.***
- 78,000 medical certificates were processed by the Department.
- ***More than 2,300 vacancies were featured on the Jobs in Jersey website.***
- The Health and Safety Inspectorate provided advice on over 3,000 enquiries.
- ***On an average day, the Employment and Social Security Contact Centre deals with 350 telephone calls and 850 people visit the Department in person.***

Full details of all the Department's activities and latest Annual Report can be found on the website.

<http://www.ess.gov.je>

REPORT

1. Introduction

- 1.1 The Employment and Social Security Committee has been reviewing all aspects of the Social Security Insurance system in the light of increasing demands, social and economic trends, the ageing population and changing fiscal environment (the last major review took place in the mid 1990s).
- 1.2 On 29th June 2004, the States approved the Strategic Plan 2005 – 2010. The Plan identified 9 key strategic aims that the Island must deliver to secure a prosperous, sustainable future. The third of these aims is to “Enhance Quality of Life” and the Plan specifies that we will “work towards the eradication of financial and social exclusion in the Island and more integrated and equitable tax, spending and welfare systems”.
- 1.3 This interim report summarises the key issues discussed to date including pensions, health, long-term care costs, support for the unemployed and funding arrangements. The Committee is very grateful to stakeholder groups who have already contributed their views on priority areas which need to be addressed. The aim is now to inform and widen the debate in the community so that policies can be developed over the next year. The important point to note is that the current system starts from a very strong position on which to plan and build for the future.

What are the challenges and priorities? What needs to be done to meet these challenges?

2. General considerations

- 2.1 During its discussions, the Committee recognised the need to maintain and strengthen the Social Security Insurance system so that people are insured for those times in their life when they are unable to work and to provide a basic income on retirement. By ensuring the Social Security system maintains wide coverage on an equitable and fair basis, the new Income Support system can be targeted to those, who through no fault of their own, need additional help.
- 2.2 The Committee is also mindful of the need to target additional support as fairly as possible whilst maintaining and strengthening work incentives. Ensuring that there is incentive to work and earn enough to be self-sufficient, presents a major challenge in the design of a new Income Support system. It is important to get the balance right so that those who work and save for their old age see some reward for their efforts whilst the most vulnerable are protected.
- 2.3 The following sections examine some of the main issues for the Social Insurance system. A more detailed summary of thinking to date on a new underpinning system of Income Support is covered separately in

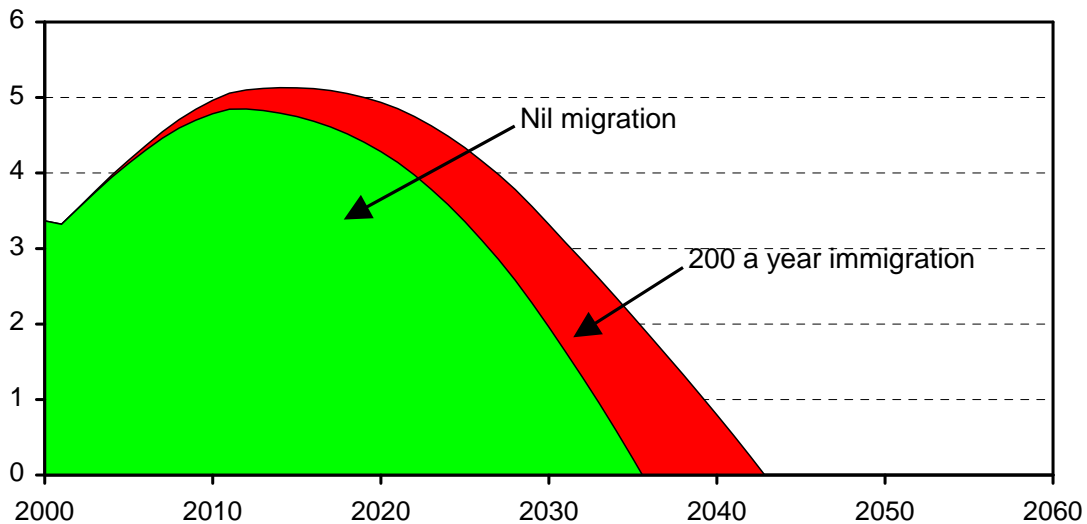
How do we ensure that the system is fair and rewards those who work hard and save whilst protecting those unable to do so?

3. Pensions

Social Security Pension

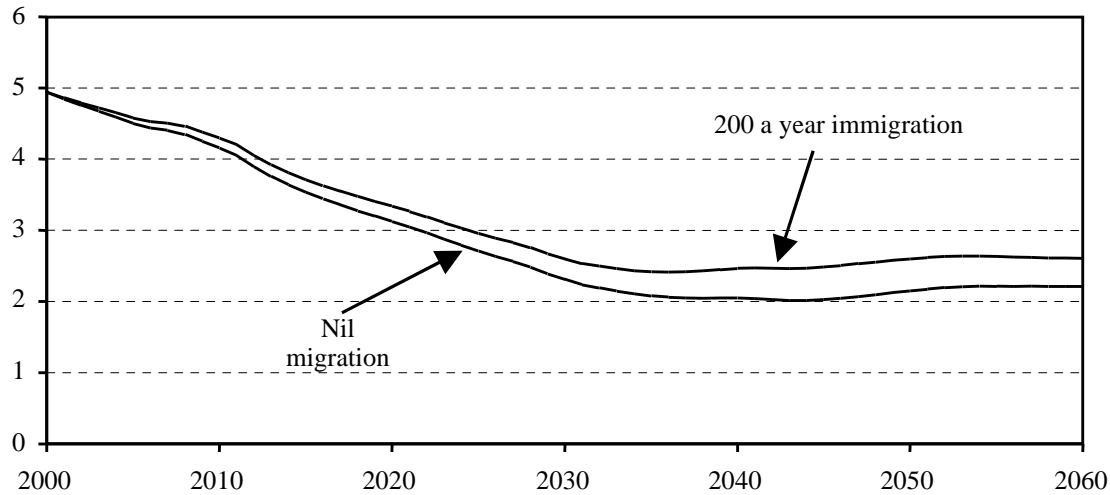
3.1 In 1995, the then Social Security Committee embarked on a fundamental review of the Social Security system in the light of the social, economic and demographic changes taking place in Society. This resulted in considerable consultation and debate within the community, the outcome being that people put the highest priority on maintaining a decent Social Security Pension and were willing to pay more to sustain it in the future. Since then, contributions have risen by ½% a year over 5 years and surpluses are now being invested in the Fund to be drawn down over the future years to accommodate the increasing number of Jersey pensioners. The following graph shows the predicted rise and fall in the size of the Fund over the next 40 years.

Projected balance as multiple of expenditure



The increasing number of pensioners can be represented by comparison with the number of people of working age in the population. At the turn of this century there were 4.9 workers to each pensioner and it is predicted that by 2030 there will be about 2.4 workers to each pensioner. The following graph shows this trend—

Projected number of people of working age per person over pension age



- 3.2 The U.K. Government Actuary was asked last year to update his previous Actuarial Review in the light of difficult financial markets and also the increasing longevity of the population. Whilst the scheme was reported to be in very good shape and, all things being equal, would not require any adjustment to be made for some time, nevertheless, a minor adjustment over the next few years would put it in an even stronger position. The alternative is to delay any increase and adjust contribution rates in the light of economic developments and financial markets in future years. Other options include: lengthening of the contribution period (currently 45 years), reducing pensions or increasing the age at which the social security pension becomes payable (currently 65 years for men and women though some women still have retained rights at 60 years).

New flexible pension age approach

- 3.3 The Government Actuary has also commented on pension age options. A more flexible approach, on the lines of a 63-68 pension scheme could help to reinforce the message that retirement should be more flexible in future and give people more choices depending on their health, financial and other circumstances. This option would retain the 45-year qualifying period for full rate pension and could enable people to build additional pension entitlement after that period. Already, contributors can take a reduced pension anytime from age 63 so it would make sense to enable people to continue working in order to achieve the full qualifying period of 45 years and also build additional entitlement, say, to the age of 68 or even 70 if they are able. Finland has already adopted a 63-68 Social Security Pension scheme and the U.K. Government are to give pensioners the option to delay taking their pension until age 70 when they will receive a bonus.
- 3.4 In discussing all these options, the Committee was mindful that the contribution period was already

amongst the longest worldwide and did not want to see any increase at this stage. The Committee also recognised that increasing the age at which the Social Security pension is paid would have the greatest impact on the lowest paid who are unlikely to have other pensions or limited savings on which to retire earlier. This is not something the Committee would wish to happen. Neither did the Committee consider it appropriate to target or reduce pensions. However, many pensioners either totally or partially rely on the Social Security Pension to provide for their retirement. The current rate only provides a basic pension on which people can build additional support.

- 3.5 In considering all the options, the Committee believes that the flexible Social Security pension approach had considerable merit and would want to consult more widely before bringing this matter to the States as part of the overall Social Security Policy Review. There also seemed to be merit in seriously considering a very small rise in contributions of around ½% to further strengthen the Social Security Pension Fund but, again, the Committee want to consult on this and other areas where contribution increases might be considered before making any proposals to the States. A full actuarial review is currently being undertaken by the U.K. Government Actuary on the Social Security Fund which will also help to inform the debate.
- 3.6 The Committee also thought it necessary to take a wider view of retirement income in the light of demographics. Encouraging or, possibly, requiring people to save and insure more for their retirement will be an important strategy if pressure on the new Income Support system is to be avoided in future and disincentives are not to be created – why save and insure when the States will guarantee an income anyway?
- 3.7 The Committee recognised this would not be easy to achieve in the context of the “credit card” culture, more erratic job patterns, less interest from employers in contributing to secondary occupational pensions and the shaken confidence in the pension industry amongst the public. Further, there would need to be a shift away from the “early retirement” culture to a more flexible approach to retirement where earnings, possibly part time or in less pressurised or physical work, provide another financial “pillar” for retirement. This would require more “bridge” type jobs designed to suit the older workforce which would only come about with a change in business culture.
- 3.8 The Committee is of the view that there has to be a co-ordinated strategy between the States, employers, employees and private sector pension providers to ensure more people properly fund their retirement in ways which give them some choice and confidence in their investment. The Committee believes that the best approach is to set up an independent review on secondary pensions and other ways of encouraging people to save more for retirement next year and will be seeking views of all interested parties.

How important is the Social Security pension to you? What do you think about a more flexible approach to retirement? What would encourage people to work longer and save more for retirement if able to do so? How can employers help?

4. Health

Primary, secondary and community

- 4.1 Whilst Governments have been concentrating on one aspect of the move to a long life society, namely pensions – more recently it has been realised that health expenditure will be just as great an issue for the future. The Committee has been working for some time with the Health and Social Services Committee and health professionals to develop an integrated Healthcare Strategy for the Island which addresses this issue.
- 4.2 The following section considers Jersey’s health care system, how it is funded now and options for the future, with a more in depth look at long-term care aspects.
- 4.3 At present, the Jersey health system is funded in different ways: the cost of secondary care (hospital) is largely met from general revenues; the voluntary/charitable sector (such as Family Nursing) receive a combination of grants from general revenues, donations and user payments, and, the greater part of primary care (G.P. services and prescriptions) is funded by a combination of user payments and subsidies through the Health Insurance system (£15 to the individual at each G.P. consultation and an average of around £10 subsidy per prescription item). There are also 2 limited subsidy schemes for dental costs targeted to lower income groups (11-18 year-olds and 65+ Health Plan). The latter scheme also gives some financial support for optical and chiropody costs. Otherwise, individuals pay the full cost of these services. Essentially, primary care is private in Jersey and secondary is public though some individuals will be covered by private health insurance schemes.
- 4.4 The contribution rate for primary health care subsidies is currently 2% of earnings and this pays for around 65% of the average cost of surgery visits and any prescriptions. People unable to work full-time with low incomes (single parents, long-term sick and pensioners) receive exemption from all G.P. and prescription costs, (40% of which is funded from general revenues and the remainder from the Health Insurance Fund).
- 4.5 The U.K. Government Actuary has advised that the Health Fund is sustainable over the foreseeable future if nothing changes. However, as all the recent evidence indicates, the “status quo” is not an option. Affordability and access to basic primary health care must be addressed, particularly for people in work with low incomes (families with young children), pensioners and those with chronic illnesses. Further, the whole system of health care is unlikely to be sustainable in its present form in the long term if nothing changes given the increased demands, ageing population and rising health care costs. In this respect, Jersey is no different from other countries who are also trying to address this challenge.

Long-term care

- 4.6 In addition to considering the sustainability of the whole health system (however it may be organised in future as a result of the current Integrated Health Strategic Review), the issue of nursing and residential care costs, particularly in old age, is one that is also exercising the minds of many countries.
- 4.7 There are basically 3 approaches worldwide (sometimes, as in Jersey, a mix of all three) –
- Informal care (e.g. within the Family – common in countries like Spain and China);
 - Home-based formal care (with the support of services such as Family Nursing, Home Helps and

Meals on Wheels);

- Institutional care (public and private residential nursing homes etc.).

4.8 In terms of funding, the main approaches are (again, this can be a mix) –

- Leave the cost to the individual, paid for from income, savings, assets, private insurance etc.;
- Means-tested support (this is currently the most common approach for those in need);
- Mandatory Insurance Scheme (either public or private).

4.9 At present, Insurance Schemes are the least common which may be something to do with cultures (such as family values and support), the possibility that individuals may prefer alternatives to residential care or believe it will never happen to them. This may be re-enforced by the fact that the chance of an individual needing residential nursing care is quite low – about one in 6 and an average period of care of around 2 years.

4.10 Conclusions reached at last year's International Social Security Association (ISSA) Research Conference are that –

- The proportion of GDP spent on long-term care is likely to double over the next 50 years but these forecasts (as with health care costs generally) are very sensitive to advances in treatments, demography, morbidity, care arrangements and macroeconomics.
- More expenditure needed on health care and long-term care may be mitigated by better health.
- Money spent preventing long-term care is worthwhile, for example, reallocation of funds focussing on age related diseases, prevention, outpatient services, rehabilitation, etc.
- Need for co-ordination/co-operation between all the health care professions is vital in relation to the elderly (lack of, usually causes high cost/failures).

4.11 The research also drew attention to the German Long-Term Care Insurance system which has been in place for some time. Germany had the highest proportion of its elderly in long-term residential care compared to other countries without insurance schemes that were examined. Guernsey has recently introduced a long-term care scheme covering nursing care costs in private residential care homes (States nursing homes and nursing care in the community costs are still paid out of General Revenues) but has yet to establish whether such a scheme does influence behaviours. From an individual perspective, though, it does take away the worry of meeting the cost from income, assets and savings, particularly the sale of a family home.

4.12 The Committee has asked the U.K. Government Actuary to help cost a compulsory insurance scheme for Jersey, to give an indication of a contribution rate to cover just residential nursing home fees. He has indicated that a contribution rate of the order of 2% increasing to 5-6% depending on migration by the

year 2046 may be necessary. The Government Actuary has been asked to provide further advice on a likely rate if care in the community nursing costs are also covered by a “Nursing Home Care and Residential Care” Insurance system. Substantial increases in expenditure may be required for nursing care support in future if people are to be cared for in their own home wherever possible.

4.13 It should be stressed that these contribution rates would apply under the current contribution system for employers and employees. The rates could be reduced if, for example, the contributor base were to be widened (such as, in Guernsey to pensioners), a percentage was taken on income (i.e. through tax) rather than earnings in an insurance-based system and/or a States contribution was made from General Revenues (a form of supplementation). Rates would also be affected by any changes in migration.

Overall

4.14 Looking at the Health system overall, there are different ways of organising services which are being considered as part of the move to integrate and co-ordinate services to better effect. For example, a “Commissioning Body” representing all aspects of public and private health care could be created to take an overview of health spending and where funds could be targeted to best effect. This could include creating a “Managed Health Care” environment in which services are co-ordinated, structured and delivered in the most cost-effective way using best practice and the latest evidence-based approaches. It was particularly interesting to note in the research on long-term care that it was the lack of co-ordination between all the health care professions that contributed to high costs (and failures) in relation to care of the elderly in other countries.

4.15 There are also different funding approaches which need to be considered, such as –

- Extending the Health Insurance system (with or without co-payments) to cover more or all of the health system;
- Moving to a Health “Tax” system, with all paying a proportion of income above a certain level instead of the 2% contribution rate on earnings; and
- Changing from a collective system to “Individual Medical Savings Accounts” which shifts responsibility to the individual but needs to be underpinned by another system which helps those who cannot afford to save enough to pay for their healthcare.

4.16 A wholesale transfer of all current Health expenditure to a contributory insurance system requiring contribution rates to increase by the order of 15% is unrealistic and, as with pensions, would expose the system to greater risk than a mixed funding approach. Alternatively, some additional parts of the health system could be funded from contributions (for example, Family Nursing Services or the cost of hospital consultants and residential nursing home care as in Guernsey).

4.17 Another issue to consider in any reform of the health care system in Jersey is the impact of the ageing population and whether more “pre-funding” of Health Insurance is needed just to mitigate higher costs in future. In other words, increase contributions and/or widen the contributor base to build up a “Health Fund” which can be drawn upon over the next 5 decades (on the same basis as the Social Security

Pension Fund). This could be done under a collective system and/or through individual Medical Savings Accounts (MSAs) with a safety net system. However, there are other considerations as the U.K. Government Actuary has pointed out, not the least that MSAs work better in a society where people traditionally save a larger part of their income and there is competition in health provision. It would be some time before individuals could build up enough in their accounts. Meanwhile, funding would still be needed to keep the existing system going which would put more of the burden on the current working generation who will be contributing for existing and future pensions already. Administration in a very small jurisdiction may also add disproportionately to costs.

4.18 In the whole context, it might be said that residential nursing care is only one aspect of total health care expenditure (though still costly). The Committee does not believe the issue should be addressed in isolation from the wider issue of the Island's Health Care Strategy, and how it will be delivered and funded in a sustainable way. It is important that the funding does not have unintended consequences, for example, in terms of impacting badly on the economy or creating the wrong incentives. It would also be important to consider the transferability of Health Insurance if it was widened, for example, to include long-term care insurance. Basically, what will happen to those who have contributed but decide to move to another country and ultimately have to pay for their care there?

4.19 This aspect needs extensive consultation once the Integrated Health Review has been completed. In the meantime the Committee believe it is important to maintain the current Health Insurance system whereby everyone who has been in the Island for more than 6 months can receive a subsidy for G.P. consultations and prescriptions. Help towards the co-payments can be targeted to those in need through the new Income Support system.

How should health care services be delivered and funded in future? Should the insurance system be extended to cover aspects such as long-term nursing and residential care? Who should pay?

5. The contributory social security and income support systems: the unemployed

5.1 As the new Income Support system needs to dovetail into the main Social Security Insurance scheme, the Committee reviewed the risks that the Contributory system would be best placed to cover in addition to sickness, maternity, injury, widow(er)hood and retirement. In the previous section, extending health insurance coverage was discussed. The other main aspect highlighted during the Review so far, is coverage for unemployment which is discussed below.

Unemployment

5.2 Opinion on contributory Social Security Insurance coverage for unemployment has always been divided in the Island. At the time of the last public survey, there was almost an equal split between those who favoured the introduction of a contributory unemployment benefit system and those who did not.

5.3 Unemployment systems throughout the world have been changing over the years. Rather than simply giving a benefit because someone is out of work, systems are now seen as a support to get people back into work (Job Seeker's Allowance, Back to Work Grants etc.). These new allowances have very strict criteria and there is considerable job and training support given by Government services where necessary

to ensure individuals can find work.

- 5.4 The U.K. Government Actuary was asked to cost a modest Job Seeker’s Allowance with a limited payout period of 6 months maximum and a minimum period of 3-year payment of contributions. Levels of unemployment do vary depending on the economic cycle but, based on the highest levels in the last cycle, a contribution rate of no more than 0.35% was suggested. There would, of course, be additional manpower implications. However, at present, all financial support for the unemployed is provided from Parish Welfare Grants so there should be savings on Income Support if it were only to cover the longer term unemployed with over 5 years’ residency.
- 5.5 The alternative is to retain the current system whereby the unemployed only receive financial help if in need through the Welfare Grants scheme (transferred to the new Income Support system), provided they have 5 years’ residency.

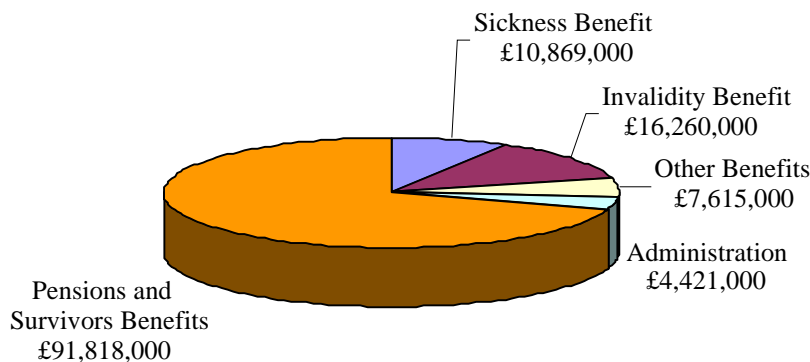
What other risks should the Social Security Insurance system cover?

Would you accept an increase in contributions of around 0.35% to give limited coverage during periods of unemployment?

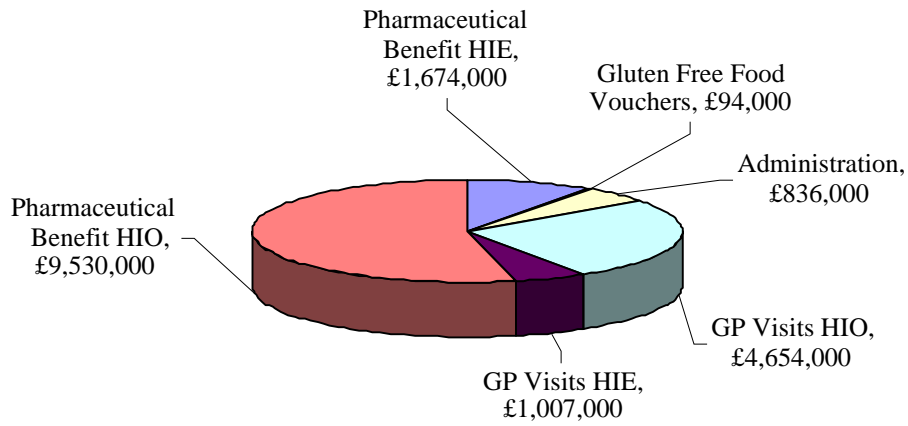
6. Sustainable and equitable funding of the system

- 6.1 Sustainability is a key issue for the future, not just in terms of the move to a long-life community over the next 5 decades but also in maintaining a vibrant economy to fund it. This report highlights potential increases in cost and different approaches that can be taken to both the Social Security and Health Contributory Insurance systems. It is clear we have reached a major crossroads and that choices will have to be made – we simply cannot “have it all”.
- 6.2 Already, there is considerable expenditure on both Social Security and Health Insurance Schemes as well as the non-contributory means tested benefits and welfare grant schemes.

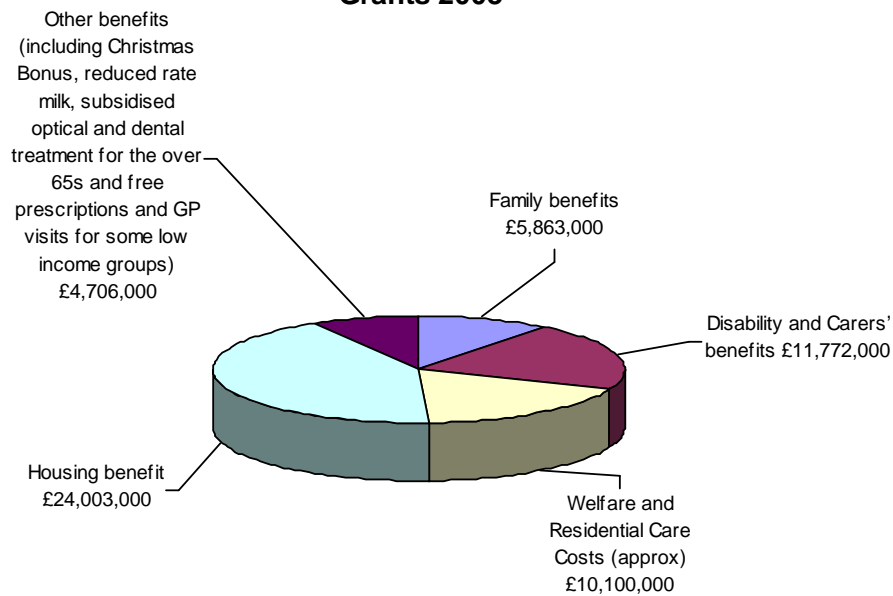
Expenditure on Social Security Insurance Benefits 2003



Expenditure on Health Insurance Scheme Benefits 2003



Total Expenditure on Means Tested Benefits and Welfare Grants 2003



6.3 It also has to be remembered that the better coverage that Social Insurance offers, the less need there is to

give people additional support under a means-tested Income Support system and the less that system costs in the long term. Further, Society must feel it is worthwhile working, insuring and saving for retirement rather than simply spending and relying on the States to pay a top-up income support allowance or pension. Society also has to believe that all are contributing fairly through their contributions and taxes.

Supplementation

6.4 Therefore, the Committee has also looked at the overall funding arrangements, mindful that a number of States members want supplementation (the States subsidy to low income groups towards their Social Security Insurance premiums) to be funded from another source.

6.5 In very basic terms, if supplementation is not funded from the general body of taxpayers (the fairest method of wealth redistribution) then there are really only three main courses of action –

- ***Increase contributions under the current insurance system***

If the amount currently contributed from general revenues (supplementation) was withdrawn, then contributions would increase by around 5 – 6% now on top of the other demands discussed in this report to be shared between employers and employees. This would undoubtedly have an impact on payroll costs and the economy though it would reduce the cost to general revenues. It would, however, expose the scheme to greater financial risk through economic and labour market activities.

The Committee has noted that around the world it is common for Governments to contribute amounts from general taxation to their Social Security systems. This is done in many ways through different formulas but the intent is clear – it spreads the burden more fairly and equitably and the risk. If there were no Government contribution, schemes could simply become independent insurance or pension systems run by employers and employees without any Government intervention.

- ***Change from Social Insurance to a form of taxation***

There are 2 basic approaches: increase general taxes; and/or introduce a payroll tax. Some countries have an employers' payroll tax to help fund the Social Security system, that is, the contribution "ceiling" is removed. It is not common to remove the ceiling on employees contributions as, in effect, it leads to a system of double taxation of earners (through both payroll and tax systems).

- ***Reduce Social Security expenditure***

The largest expenditure is on pensions, and as previously discussed in the report, reducing or means testing pensions are not options that the Committee would support. Alternatively, the range of risks covered could be reduced though, again, as previously discussed in the report, these are already fairly minimal and would probably add additional costs to an Income Support system.

The other main area of expenditure in Social Security terms, is that of sickness coverage, where costs have been rising in recent years. However, the whole Incapacity Benefit system has recently been reformed to facilitate a quicker return to work wherever possible.

The only other major change that could be made is to up-rate benefits and pensions in line with the cost of living rather than earnings. The difficulty with this approach is that, over time, pensions do not keep pace with earnings and a divide is created between earners and pensioners (as in the U.K.) leading to exclusion amongst this group. This defeats the purpose of ensuring that people can have enough to live on in retirement.

What is the fairest and most equitable way of funding Social Insurance? How do you mitigate risk and improve sustainability?

7. General conclusion

- 7.1 The Committee has concluded that improvements could be made in various ways by increasing contributions, and, possibly, redistributing the burden more widely across all, other than the very low income groups, irrespective of age.
- 7.2 However, any increase in payroll costs at such a difficult time for the economy could present problems. Last time, an increase of only 2½% in contributions was phased in over 5 years during a period of growth. It had the support of contributors who had given priority to pensions and were willing to pay on the basis that the additional money would be ring-fenced to secure those pensions.
- 7.3 Widening the contributor base, for example, to pensioners with reasonable incomes (as they do in Guernsey, in respect of part of the Health and the Long Term Care Insurance systems) would be a radical step for Jersey at a time when most pensioners feel they are already losing out.
- 7.4 The Committee is also mindful of the impact of rising contributions on the self-employed who presently pay both the employers and employees rate amounting to 12½%. Clearly any further contribution increases would require a major change to self-employed and non-employed contributors or leaving this group out of the system.
- 7.5 In addition, the Committee is also concerned to ensure that the whole system of financial support remains affordable and sustainable through the coming decades when an increasing elderly population will have to be sustained by a reducing number of workers. Above all, the system needs to be equitable in terms of the taxation burden and in creating the right incentives for people to work, wherever possible, and take responsibility to save and insure more for old age.
- 7.6 The policy in the past has been to keep contributions as low as possible and the coverage of risks to the essentials so that people have more disposable income to save in other ways. This method of funding Social Security has been balanced between earnings (two thirds) and general income derived from taxation (one third) which provides a mechanism of redistribution from the better to less well off in the most equitable way. It has also spread the risk across earnings and income which must still be a major strategy in the coming years as fewer people of working age support more elderly.
- 7.7 Somewhere a balance has to be struck and the Committee is firmly of the view that this has to be worked out in full consultation with its stakeholders and in the context of the Fiscal and various other reviews that

the Committee has taken an interest in such as the Integrated Health Care, Interdepartmental Strategy for an Ageing Society and Migration Policy ones. It is planned to take a full review of the Social Insurance system forward next year once the framework for the Income Support system has been agreed by the States and development of the Fiscal system is more advanced.

7.8 Jersey's Social Security system is on a very firm base on which to build for the future –

What is the future direction of the Social Insurance system? What role should the underpinning of the Income Support system play? How can they best be funded and sustained as we move into the uncharted waters of an ageing society?

The Employment and Social Security Committee would welcome suggestions on how the Social Security System can be protected and developed for the future and are asked to forward their views, in writing, to the President, Senator Paul Routier.