P.2016/45

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

COMMITTEE *FOR* EMPLOYMENT & SOCIAL SECURITY

BENEFIT AND CONTRIBUTION RATES FOR 2017

The States are asked to decide:

Whether, after consideration of the Policy Letter entitled 'Benefit and Contribution Rates for 2017', dated 26th September 2016, they are of the opinion:

1. To increase the percentage contribution rate for employees, self-employed persons, and non-employed persons under and over pension age, by 0.5%, with effect from 1st January 2017. This takes the current contribution rates from 6.1% to 6.6% for employees, 10.5% to 11% for self-employed persons, 9.9% to 10.4% for non-employed persons under pension age, and 2.9% to 3.4% for non-employed persons at or over pension age.

2. To set the upper weekly earnings limit and the upper monthly earnings limit for employed persons and employers at £2,667 and £11,557 respectively, from 1st January 2017.

3. To set the lower weekly earnings limit and the lower monthly earnings limit for employed persons and employers at £134 and £580.67 respectively, from 1st January 2017.

4. To set the annual upper and lower earnings limits for self-employed persons at £138,684 and £6,968 respectively, from 1st January 2017.

5. To set the annual upper and lower income limits for non-employed persons at £138,684 and £17,420 respectively, from 1st January 2017.

6. To set the allowance for non-employed persons at £7,875 per year, from 1st January 2017.

7. To set the voluntary contribution for non-employed persons at £19.09 per week, from 1st January 2017.

8. To set the overseas voluntary contribution at £91.17 per week for non-employed people and £100.79 per week for self-employed people, from 1st January 2017.

9. To set the standard rates of pension and contributory social insurance benefits at the rates set out in Table 11 of that Policy Letter, from 2nd January 2017.

10. To set the prescription charge per item of pharmaceutical benefit at £3.80, from 1st January 2017.

11. To set the contribution (co-payment) required to be made by the claimant of care benefit, under the Long-term Care Insurance Scheme, at £195.16 per week, from 2nd January 2017.

12. To set the maximum weekly long-term care benefit at the rates set out below, from 2nd January 2017:

    a) £807.38 per week nursing care benefit for persons resident in a nursing home or the Guernsey Cheshire Home;

    b) £569.80 per week elderly mentally infirm (EMI) benefit for qualifying persons in a residential home; and

    c) £432.46 per week residential care benefit for persons resident in a residential home.

13. To set the maximum weekly respite care benefit at the rates set out below, from 2nd January 2017:

    a) £1,002.54 per week for persons receiving respite care in a nursing home or the Guernsey Cheshire Home;

    b) £764.96 per week for the elderly mentally infirm (EMI) rate for persons receiving respite care in a residential home; and

    c) £627.62 per week for persons receiving respite care in a residential home.

14. To set the supplementary benefit requirement rates at the rates set out in Table 17 of that Policy Letter, from 6th January 2017.

15. To set the weekly benefit limitations for supplementary benefit at the rates set out below, from 6th January 2017:

    a) £650.00 for a person living in the community;

    b) £534.00 for a person who is residing in a residential home; and

    c) £766.00 for a person who is residing as a patient in a hospital, nursing home, the Guernsey Cheshire Home, or as an elderly mentally infirm resident of a residential home.

16. To set the amount of the personal allowance payable to persons in Guernsey and Alderney residential or nursing homes who are in receipt of supplementary benefit at £30.55 per week, from 6th January 2017.

17. To set the amount of the personal allowance payable to persons in United Kingdom hospitals or care homes who are in receipt of supplementary benefit at £51.47 per week, from 6th January 2017.

18. To set the supplementary fuel allowance paid to supplementary beneficiaries who are householders at £26.03 per week, from 28th October 2016 to 28th April 2017.

19. To set the rate of family allowance at £13.50 per week, from 2nd January 2017.

20. To set the rates and annual income limits for severe disability benefit and carer's allowance at the rates and limit set out in Table 22 of that Policy Letter, from 2nd January 2017.

21. To rescind Resolution XIV of January 1993 (Billet d'État I of 1993, Article 14) which states that:

> 'After consideration of the Report dated the 7th December, 1992, of the States Insurance Authority.
> To authorise the States Insurance Authority to make a grant to The Methodist Church Bailiwick of Guernsey Circuit of £9,000 in 1993 and of such amount as it may deem appropriate in subsequent years in accordance with such terms and conditions as that Authority may decide.'

22. To authorise, subject to the approval of proposition 21, the Committee *for* Employment & Social Security to pay a grant to Every Child Our Future of £31,265 in 2017, and in subsequent years, at such amounts as the Committee may deem appropriate within its budget allocation for grants to charitable organisations, for the provision of a pre-school to support vulnerable families whose children are not of the age where they would be entitled to free pre-school education.

23. To introduce a 5 year residence requirement as a condition of entitlement to the supplementary benefit rent allowance and personal allowance for people living in Part D Houses in Multiple Occupation.

24. To give the Administrator the power, in exceptional circumstances, to award supplementary benefit, of such amount as he considers reasonable, to persons who do not meet the 5 year residence requirement.

25. To amend the Supplementary Benefit (Implementation) Ordinance, 1971, to replace the seven day period required for the Administrator to respond to the notification of an appeal with a 28 day period.

26. To amend the Social Insurance (Guernsey) Law, 1978, and associated legislation, to rename ‘invalidity benefit’ as ‘incapacity benefit’.

27. To direct the preparation of such legislation as may be necessary to give effect to the above decisions.

The above Propositions have been submitted to Her Majesty’s Procureur for advice on any legal or constitutional implications in accordance with Rule 4(1) of the Rules of Procedure of the States of Deliberation and their Committees.

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

COMMITTEE *FOR* EMPLOYMENT & SOCIAL SECURITY

BENEFIT AND CONTRIBUTION RATES FOR 2017

The Presiding Officer
States of Guernsey
Royal Court House
St Peter Port

26th September 2016

Dear Sir

1. Executive Summary

1.1.1. The Committee *for* Employment & Social Security has undertaken its annual review of the social security, health, and long-term care benefits paid under the various schemes for which it is responsible. The Committee is recommending that, with the exception of family allowance, the rates of the non-contributory benefits funded from General Revenue and Long-term Care be increased in 2017 by 0.6%, being the annual rate of 'core' inflation (RPIX) for the year to June 2016. The Committee is also recommending increases in the rates of contributory social insurance benefits of 0.8%, being approximately one third of the difference between the June 2016 RPIX figure of 0.6% and the 2015 median earnings index of 1.3%.

1.1.2. A significant change to note for 2017 is the increase in contribution rates already agreed by the States. Firstly, in November 2015 (Billet d'État XVIII of 2015, Article 8) the States agreed to increase the Class 1 rate by 0.1% on both the employer and employee rate in order to fund the new package of parental benefits, due to come into force on 1st January 2017. At the same time, the States agreed a reduction in the grant from General Revenue to the Guernsey Insurance Fund from 15% to 14.7%, in order to maintain the cash value of the grant at the same level that it would have been at without the increase in contributions. The second increase, approved by the States in February 2016 (Billet d'État III of 2016, Volume II, Article 14), was to increase contribution rates by 0.5% to assist with the sustainability of the Long-term Care Insurance Fund. This increase will be applied to all classes of contributors, except employers who do not contribute to the Long-term Care Insurance Fund.

1.1.3. The Committee gives notice in this Policy Letter that, unless there is funding from other sources, they are of the opinion that it is inevitable that further increases in contribution rates will be recommended during this political term in order to improve the sustainability of the Guernsey Insurance Fund. This comment is strongly reinforced by the latest actuarial projections of the Guernsey Insurance Fund. The actuarial reviews appear in full as Appendices to this Policy Letter.

PART I: INCOME

2. Contributions

2.1. Proposed contribution rates for 2017

2.1.1. The Committee is presenting the two changes to the contribution rates for 2017 in line with previous Resolutions of the States, as explained in the paragraphs below.

2.1.2. In November 2015 (Billet d'État XVIII of 2015, Article 8), the States resolved:

> '4. That, from 1st January 2017, the percentage contribution rate for employers be increased by 0.1%, from 6.5% to 6.6%, to fund the additional costs of the new parental benefits.
>
> 5. That, from 1st January 2017, the percentage contribution rate for employees be increased by 0.1%, from 6.0% to 6.1%, to fund the additional costs of the new parental benefits.'

2.1.3. In order to maintain the cash value of the grant from General Revenue at the same level that it would have been at without the increase in contributions, the States at the same time, resolved:

> '6. That, subject to Proposition 4 and 5 being approved, from 1st January 2017, the grant from General Revenue to the Guernsey Insurance Fund be decreased from 15% to 14.7% of contribution income.'

2.1.4. The States approved a further increase in contribution rates for employed, self-employed, and non-employed persons in February 2016 (Billet d'État III of 2016, Volume II, Article 14), in relation to the Supported Living and Ageing Well Strategy. The Resolution was:

> '1a. To direct the Committee *for* Employment & Social Security to increase contribution rates to the Long-term Care Insurance Fund for employed, self-employed and non-employed persons by no less than 0.5% from 1st January 2017.'

2.1.5. The above direction of the States was clearly that 0.5% should be the minimum increase in contribution rates, leaving it to the discretion of the Committee to recommend an increase greater than 0.5% if it saw fit.

2.1.6. The actuarial review of the Long-term Care Insurance Fund, appended to this Policy Letter indicates that if no mitigating action is taken, the Fund will be exhausted by 2031. The 0.5% increase in contributions to the Fund from 1st January 2017 is projected to extend the life of the Fund by 16 years to 2047.

2.1.7. That being so, the Committee will not, for the time being, be recommending more than the 0.5% increase in contribution rates for the scheme that was required by the States as a minimum increase from January 2017. The Committee is mindful that there are likely to be structural changes to the long-term care insurance scheme in both the scope of benefits and the financing structure as the various strands of the Supported Living and Ageing Well Strategy are developed.

2.1.8. It should be noted that there is no contribution to the Long-term Care Insurance Fund made by employers. The recommended 0.5% increase will apply to all individual contributors, employed, self-employed and non-employed, below and above pension age.

2.1.9. No further changes to contribution rates are recommended for 2017 beyond those which the States has already resolved to make. However, the Committee considers that it will be necessary, during this current political term, to recommend further increases in contribution rates to improve the sustainability of the Guernsey Insurance Fund.

2.2. Actuarial Reviews

2.2.1. The most recent actuarial reviews of the Guernsey Insurance Fund, the Guernsey Health Service Fund and the Long-term Care Insurance Fund, undertaken by the UK Government Actuary's Department for the five year period 2010-2014, inclusive, are appended to this Policy Letter. It is a statutory requirement that the actuarial reviews are laid before the States.

2.2.2. Based on the five year outcomes, and using a set of economic and demographic assumptions, the actuarial reviews include future projections in order to assess the adequacy of contribution rates and the sustainability of the Funds. For the Guernsey Insurance and the Long-term Care Insurance Funds, there are 60 year projections out to 2075. For the Guernsey Health Service Fund, the projection is for 15 years only, to 2030. This is because future health costs are hard to project with reliability.

2.2.3. The actuarial reviews of the Guernsey Insurance Fund and the Long-term Care Insurance Fund in particular give the Committee cause for concern. While some of the measures taken as a result of the Personal Tax, Pensions and Benefits Review, such as increasing pension age and having a long-term benefit uprating policy of RPIX, have improved sustainability, revised assumptions on earnings growth, net inward migration and investment returns have eroded some of that improvement.

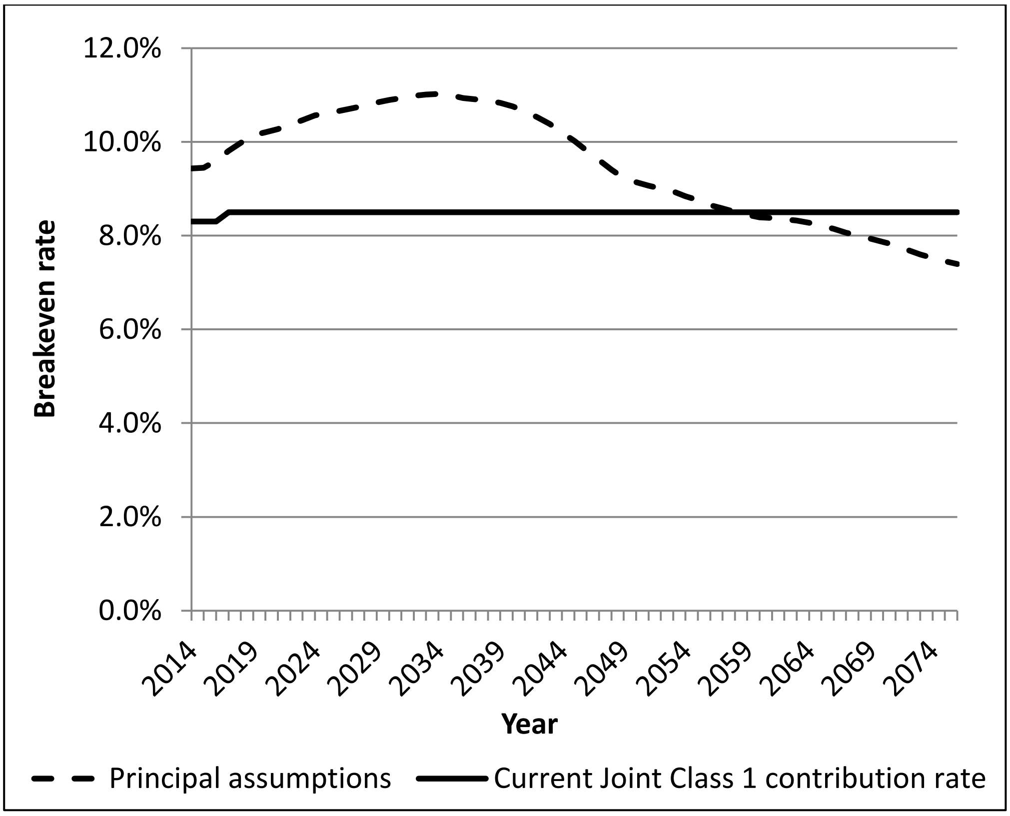
2.2.4. The actuarial reviews attached to this Policy Letter show a number of variations to the economic and demographic assumptions, while the following paragraphs reflect on the projections which result from the central assumptions.

2.2.5. The combined Class 1 contribution, including the employee's share and the employer's share, is currently equivalent to 12.5% of earnings and will be equivalent to 13.2% from 2017. Of that 13.2%, 8.5% will go into the Guernsey Insurance Fund, with 2.9% going into the Guernsey Health Service Fund and 1.8% going into the Long-term Care Insurance Fund.

2.2.6. The 8.5% contribution to the Guernsey Insurance Fund is below the breakeven rate necessary to match annual expenditure on pensions, sickness benefit, unemployment and other benefits. This is currently an accepted policy of the States where the reserves of the Guernsey Insurance Fund are being drawn down to assist the payment of benefits. The plan, however, has been that the reserves should not fall below a minimum of two times annual benefit expenditure.

2.2.7. The projected breakeven contribution rate for the Guernsey Insurance Fund is shown below in Figure 1, extracted from the actuarial review.

Figure 1 – Guernsey Insurance Fund break-even contribution rate based on the principal assumptions

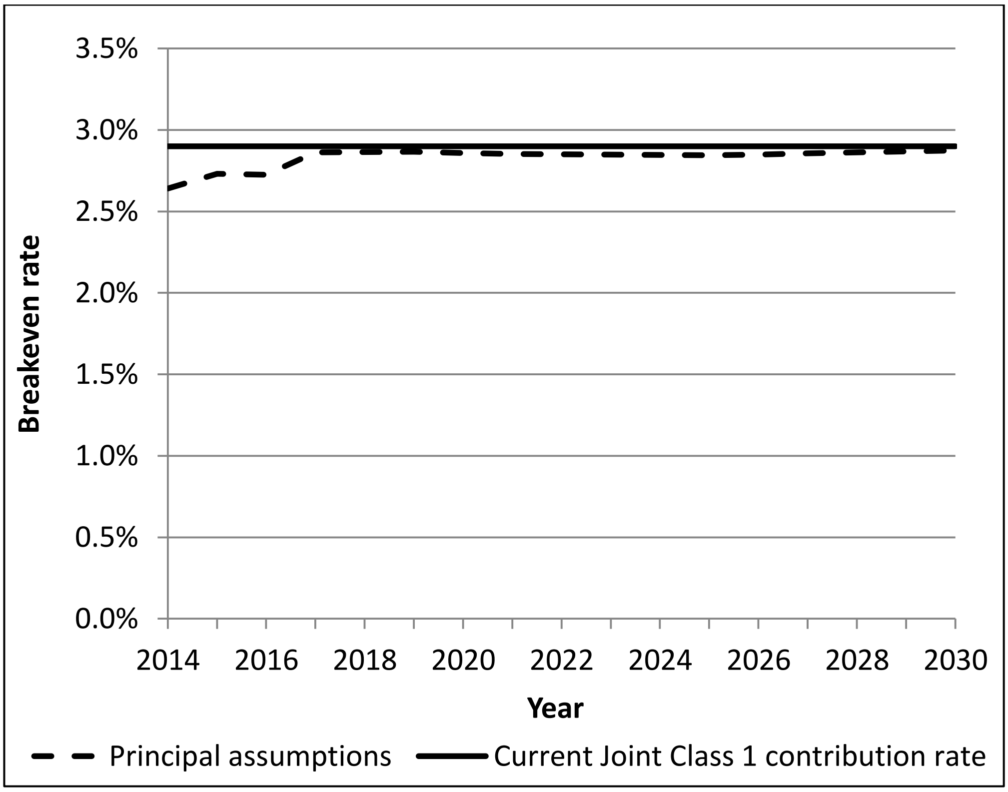


2.2.8. The Committee notes that the current breakeven contribution rate is just under 10%, compared with the 8.5% that will be paid from 2017. The maximum breakeven rate, when pension expenditure is at its highest is approximately 11% and occurs around 2034.

2.2.9. The latest projections are that, unless further changes are made, the minimum buffer of two times annual expenditure will be breached by 2035 and the reserves of the Guernsey Insurance Fund will be entirely depleted by 2046.

2.2.10. The results of the actuarial review of the Guernsey Health Service Fund suggest that, based on the principal assumptions adopted, the current Class 1 contribution rate of 2.9% is projected to remain adequate throughout the projection period, as shown in Figure 2.

Figure 2 – Guernsey Health Service Fund break-even contribution rate based on the principal assumptions



2.2.11. The projected increase in the break-even contribution rate in the early years is mainly the result of an increase in the number of specialist consultants at the end of 2014, as well as a higher than normal increase in the prescription charge for 2016.

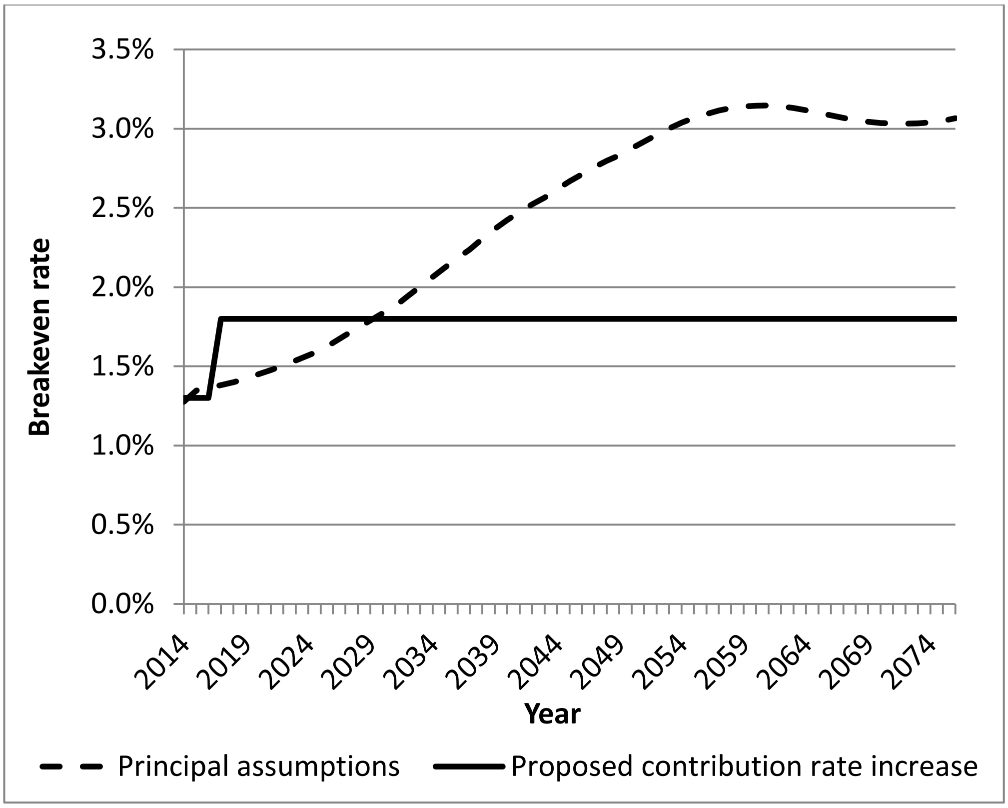
2.2.12. However, it is important to note that, as the projected break-even contribution rate is only very slightly below the current contribution rate, small variations in expenditure relative to the principal assumptions adopted could cause the break-even contribution rate to exceed the current joint Class 1 contribution rate of 2.9%. Given the inherent variability associated with medical costs and the relatively short projection period considered, it will be important to continue to monitor changes in the Fund as the projections suggest that small additional changes could result in operating deficits emerging.

2.2.13. The employed persons' (Class 1) contribution rate to the Long-term Care Insurance Fund is currently 1.3%. The actuarial projections suggest that, based on the principal assumptions, the Fund will decline quite rapidly throughout the projection period, will fall below the minimum buffer of two times annual expenditure by 2023, and will be completely exhausted by 2031. The projections show that a 0.5% increase in the contribution rates for employed, self-employed and non-employed persons, as proposed in this Policy Letter, would be expected to delay the exhaustion of the Fund by around 16 years, to 2047.

2.2.14. Based on the principal assumptions, the Class 1 break-even contribution rate is projected to exceed the current Class 1 contribution rate throughout the projection period. The break-even contribution rate is projected to steadily increase over time, plateauing at 3.1% in the late 2050s and the early 2060s. Figure 3 overleaf shows that the Class 1 break-even contribution rate is projected to exceed the current Class 1 contribution rate payable (allowing for a 0.5% increase in the rate from 2017, as proposed by the Committee in this Policy Letter) from 2028 onwards.

2.2.15. The reasons that the contribution rate is no longer adequate are that, over the next 20 to 30 years, more people are expected to live longer and require long-term care, and the dependency ratio (i.e. the ratio of dependants to persons of working age) is projected to increase.

Figure 3 – Long-term Care Insurance Fund break-even contribution rate based on variant contribution rate (i.e. 1.8% from 2017 onwards)



2.2.16. Informed by these latest projections, and being conscious of the drawdown on reserves that has already started, the Committee considers that it is inevitable that increases in contribution rates will be necessary to ensure the sustainability of the Funds. The Committee is not recommending such increases for 2017 beyond those already approved by the States for the new package of parental benefits and for long-term care. The Committee, however, wishes to draw this important issue to the attention of the States, as the Committee is likely to propose increased rates of contributions during this political term.

2.3. <u>Summary of 2016 and 2017 contribution rates</u>

2.3.1. The contribution rates previously agreed and proposed for 2017 are set out in Tables 1, 2, and 3 on the next page alongside the rates for 2016. These tables also show how the contribution income from each class is split between each of the funds:

Table 1 – Current contribution rates, proposed contribution rates for 2017, and the proportions of income split between the funds for employed persons (Class 1)

Employed persons (Class 1)	2017	2016
Employer	**6.6%**	**6.5%**
Guernsey Insurance Fund	5.0%	4.9%
Guernsey Health Service Fund	1.6%	1.6%
Long-term Care Insurance Fund	-	-
Employee	**6.6%**	**6.0%**
Guernsey Insurance Fund	3.5%	3.4%
Guernsey Health Service Fund	1.3%	1.3%
Long-term Care Insurance Fund	1.8%	1.3%
Combined	**13.2%**	**12.5%**
Guernsey Insurance Fund	8.5%	8.3%
Guernsey Health Service Fund	2.9%	2.9%
Long-term Care Insurance Fund	1.8%	1.3%

Table 2 – Current contribution rates, proposed contribution rates for 2017, and the proportions of income split between the funds for self-employed persons (Class 2).

Self-employed persons (Class 2)	2017	2016
Totals	**11.0%**	**10.5%**
Guernsey Insurance Fund	6.5%	6.5%
Guernsey Health Service Fund	2.7%	2.7%
Long-term Care Insurance Fund	1.8%	1.3%

Table 3 – Current contribution rates, proposed contribution rates for 2017, and the proportions of income split between the funds for non-employed persons (Class 3).

Non-employed persons (Class 3)	2017	2016
Under pension age	**10.4%**	**9.9%**
Guernsey Insurance Fund	5.7%	5.7%
Guernsey Health Service Fund	2.8%	2.8%
Long-term Care Insurance Fund	1.9%	1.4%
Over pension age	**3.4%**	**2.9%**
Guernsey Insurance Fund	-	-
Guernsey Health Service Fund	1.3%	1.3%
Long-term Care Insurance Fund	2.1%	1.6%

2.3.2. It should be noted that the above changes in the contribution rates will be reflected in changes to the percentage allocations to the Guernsey Health

Service Fund and the Long-term Care Insurance Fund, as shown in Tables 1, 2, and 3 on the previous page.

2.4. <u>2017 upper and lower earnings limits for employers, employees, and self-employed persons</u>

2.4.1. The Committee is not recommending a policy change to the way the upper and lower earnings limits are calculated for 2017. Therefore, the figures will be uprated according to the policy of applying a rate at approximately one third of the difference between the June 2016 RPIX figure and the 2015 median earnings index, which is 0.8% for 2017.

2.4.2. Table 4 shows the effects of the uprating policy on the upper and lower earnings limits for employers and employees from 1st January 2017, while Table 5 shows the same impact on the limits for self-employed persons.

Table 4 – 2017 upper and lower earnings limits for employers and employees

Employers and employees	Monthly limits		Weekly limits	
	2017	**2016**	**2017**	**2016**
Upper earnings limit	**£11,557**	£11,466	**£2,667**	£2,646
Lower earnings limit	**£580.67**	£576.33	**£134**	£133

Table 5 – 2017 upper and lower earnings limits for self-employed persons

Self-employed persons	Annual limits	
	2017	**2016**
Upper earnings limit	**£138,684**	£137,592
Lower earnings limit	**£6,968**	£6,916

2.4.3. Employers, employees, and self-employed persons whose earnings are at or above the lower earnings limit, will be liable to pay contributions on all of their earnings up to the relevant upper earnings limit, at the percentage rates set out in Tables 1 and 2. The maximum and minimum weekly contributions payable by employees, employers and self-employed persons from 1st January 2017 are set out in Table 6 overleaf.

Table 6 – Maximum and minimum 2017 weekly contributions for employees, employers and self-employed persons (2016 in brackets)

	Class 1			Class 2
	Employer	**Employee**	**Total**	**Self-employed**
Maximum weekly contribution	**£176.02** (£171.99)	**£176.02** (£158.76)	**£352.04** (£330.75)	**£293.37** (£277.83)
Minimum weekly contribution	**£8.84** (£8.64)	**£8.84** (£7.98)	**£17.68** (£16.62)	**£14.74** (£13.96)

2.5. Non-employed persons

2.5.1. As with self-employed persons, non-employed contributors are liable to pay non-employed, Class 3, contributions at the maximum rate, unless an application is made to the Committee and authorisation given for the release of the relevant information by the Director of Income Tax. This allows an income-related contribution to be calculated.

2.5.2. There are two categories of non-employed contributions:

- Full percentage rate contributions to cover social insurance, health service and long-term care insurance liabilities. This is the rate of contribution that non-employed adults under pension age are liable to pay, based on their personal income.
- Specialist health insurance and long-term care insurance contributions. These contributions, which are payable by people over pension age, go towards funding the specialist health insurance scheme and the long-term care insurance scheme.

2.5.3. Table 7 overleaf, shows the minimum and maximum weekly contributions payable in 2017 by non-employed persons. People with income at some point between the upper and lower income limits will pay pro-rata.

Table 7 – 2017 non-employed weekly contributions (2016 in brackets)

Annual income		**Full rate (under pension age)**	**Specialist health & long-term care only (over pension age)**
Under lower income limit	**Less than £17,420** (Less than £17,290)	**Zero** (Zero)	**Zero** (Zero)
Lower income limit	**£17,420** (£17,290)	**£19.09** (£18.95)	**£6.24** (£5.55)
Upper income limit	**£138,684** (£137,592)	**£261.62** (£247.99)	**£85.53** (£72.64)
Personal allowance: Subtracted from annual income figure with liability calculated on the balance.			**£7,875** (£7,336)

2.6. <u>Voluntary, overseas and special rate contributions</u>

2.6.1. As shown above, where a non-employed person's annual income is below the lower income limit of £17,420, that person will be exempted from the payment of contributions. However, this could affect old age pension entitlement. A voluntary contribution which counts towards old age pension can be paid by, or on behalf of, non-employed people, resident in Guernsey and under pension age, with personal income below the lower income limit. The rate is calculated by applying the social insurance element of the non-employed contribution rate, being 5.7% of the total 10.4% (9.9% in 2016), to the lower income limit.

2.6.2. Self-employed and non-employed people living outside of the Island are able to pay overseas voluntary contributions in order to maintain their entitlement to old age pension.

2.6.3. A special rate non-employed contribution is payable by insured persons who would normally rely upon employed contributor's employment for their livelihood, but have a small gap in their record where they were neither employed nor receiving an unemployment contribution credit. The rate of this contribution is aligned with the rate of the voluntary contribution.

2.6.4. The voluntary contribution will increase in line with the non-employed contribution. The Committee is proposing to increase the overseas and special rate contributions in line with the general increase of 0.8% for 2017. Table 8 overleaf shows the weekly rates for voluntary, overseas, and special rate contributions for 2017, with the 2016 rates shown alongside.

Table 8 – Voluntary, overseas and special rate contributions (weekly rates)

Contribution	2017 Rate (Weekly)	2016 Rate (Weekly)
Voluntary (non-employed)	**£19.09**	£18.95
Overseas voluntary (self-employed)	**£100.79**	£99.99
Overseas voluntary (non-employed)	**£91.17**	£90.45
Special rate (non-employed)	**£19.09**	£18.95

2.7. Number of contributors paying at the upper limits

2.7.1. The four quarter average, from Q2 2015 to Q1 2016 inclusive, of the number and corresponding percentages of contributors paying at the upper limits are shown in Table 9.

Table 9 – Average number of contributors paying at the upper limits – Q2 2015 to Q1 2016

	No. contributors paying at upper limits[1]	Proportion of total for each classification
Employee/employer	563	1.95%
Self-employed	321	11.60%
Non-employed	374	6.73%

2.7.2. The Committee has noted the intention of the previous States to review how equitable the different contribution classes are, with particular regard to the positioning of the upper earnings limit. The directions from the States are shown in the Resolutions from the Personal Tax, Pensions and Benefits Review, from March 2015 (Billet d'État IV of 2015, Article 1):

> '33. To direct the Social Security Department to review the assessment of Social Security contributions to ensure that the treatment of contributors in different contribution classes is equitable; such review to have particular regard to the upper earnings limit on contributions, the rates charged for self-employed and non-employed contributors and the definition of income used in the assessment of contributions for non-employed contributors.
>
> 33A. To direct the Social Security and Treasury and Resources Departments to investigate options to make the tax and social security system as a whole more progressive, through the withdrawal of personal tax allowances (such investigation to

[1] Figures rounded to the nearest whole number

include consideration of the interaction with the upper earnings limit on Social Security contributions in order to avoid high marginal rates of taxation) and to report to the States with their findings no later than June 2017.'

2.7.3. Some work has been undertaken regarding Resolution 33 above and should be concluded before the end of this year. Regrettably, there is no progress to report by the Committee *for* Employment & Social Security on Resolution 33A, as the new Committee has not yet had the opportunity to look into this particular area, but will do so as soon as it is able. The Committee has been advised that the Policy & Resources Committee will be reporting separately on their progress with Resolution 33A as part of the 2017 Budget Report.

3. States Grants to Contributory Funds

3.1.1. The Guernsey Insurance Fund currently receives a grant from General Revenue equal to 15% of the total amount collected in contributions, which totalled £15.02m in 2015. The Guernsey Health Service Fund receives a grant equal to 12% of the contributions collected for that Fund, which totalled £4.58m in 2015.

3.1.2. Following a proposition from the Social Security Department in Billet XVIII 2015, Article 8, the States resolved to decrease the States grant to the Guernsey Insurance Fund from 15% to 14.7% from 1 January 2017. This is to ensure that the cash amount of the grant is not increased as a consequence of the 0.2% increase in the Class 1 contribution rate, which will fund the improved parental benefits. Without that reduction in the percentage of the States grant, there would have been an additional cost to General Revenue of approximately £317,000 per year.

3.1.3. It should be noted that, as with all other employers, the States of Guernsey will bear the cost of the additional 0.1% on the employer's contribution rate. This will add approximately £170,000 to the States' payroll costs in 2017.

3.1.4. The estimated costs to General Revenue of the States grants to the two Funds in 2016 and 2017 are shown in Table 10.

Table 10 – Estimated costs to General Revenue of the States grants in 2016 and 2017

Fund	**Estimated cost of States grant - 2017**	**Estimated cost of States grant - 2016**
Guernsey Insurance Fund	£15.55m	£15.27m
Guernsey Health Service Fund	£4.73m	£4.65m
Total	**£20.28m**	**£19.92m**

PART II: EXPENDITURE

4. Social Insurance Benefits

4.1. Uprating policy

4.1.1. The uprating policy for social insurance benefits was addressed in the previous Policy Letter of this nature (Billet d'État XVIII of 2015, Article 8) and the States debate thereon. The States resolved:

> '1. That a guideline for the annual uprating of statutory old-age pensions be established, set initially at one third of the real increase in median earnings, with the intention to reduce this to RPIX subject to suitable policies to enhance personal provision being in place.
>
> 2. That the Social Security Department be directed to take the above guideline into account in its recommendations for the annual uprating of statutory old-age pensions, and to provide the States of Deliberation with detailed reasoning for any recommendation to deviate from it in its annual uprating Policy Letter.
>
> 3. That the Social Security Department be directed to review the guideline for the annual uprating of statutory old-age pensions no later than 2020, having regard to progress made in establishing supporting policies to enhance personal pension provision and the actuarial projections for the Guernsey Insurance Fund at that time.'

4.2. Proposed benefit rates for 2017

4.2.1. In accordance with the proposed long-term uprating policy set out above, the Committee is recommending that the standard rates of pension and other contributory social insurance benefits be increased by 0.8% for 2017, being approximately one third of the difference between the June 2016 RPIX figure of 0.6% and the 2015 median earnings index of 1.3%.

4.2.2. The proposed new weekly rates of benefit, effective from 2nd January 2017, are set out in Table 11 overleaf.

Table 11 – Proposed weekly rates of contributory social insurance benefits for 2017

Weekly paid benefits	2017	2016
Old Age Pension		
Insured person	**£206.09**	£204.45
Increase for dependant wife or pension for over 65 based on husband's record[2]	**£103.23**	£102.41
Total	**£309.32**	£306.86
Widow's/Survivor's Benefits		
Widowed Parent's Allowance	**£216.71**	£214.99
Bereavement Allowance/Widow's Pension	**£186.34**	£184.86
Maternity Allowance, Maternal Health Allowance, Newborn Care Allowance, and Parental Allowance	**£206.43**	£150.43[3]
Unemployment Benefit, Sickness Benefit, and Industrial Injury Benefit	**£151.62**	£150.43
Invalidity Benefit[4]	**£182.28**	£180.81
Industrial Disablement Benefit		
100% entitlement[5]	**£166.07**	£164.75
One-off grants		
Maternity Grant and Adoption Grant	**£379.00**	£376.00[6]
Death Grant	**£592.00**	£587.00
Bereavement Payment	**£1,871.00**	£1,856.00

4.2.3. These rates of weekly benefit and grants apply to persons who have fully satisfied the contribution conditions. Reduced rates of benefit are payable on incomplete contribution records, down to threshold levels.

4.3. Summary of social insurance expenditure financed by the Guernsey Insurance Fund

4.3.1. If the above proposals for benefit rates are approved, the 2017 Budget estimates that social insurance benefit expenditure will increase by 3.9% to £140.6m (2016 Forecast: +4.2% to £135.3m), as shown in Table 12 overleaf. This includes the proposed 0.8% increase in the general rate of benefit

2 For men/women, as appropriate, whose marriages took place before 1st January 2004, and who reached pension age before 1st January 2014.

3 The 2016 rate applies only to the Maternity Allowance, as the other benefits are new for 2017.

4 Proposal for 'Invalidity Benefit' to be re-named 'Incapacity Benefit' from January 2017.

5 Lower rates are payable based on degree of disability.

6 The 2016 rate applies only to the Maternity Grant, as the Adoption Grant is new for 2017.

(2016: +2.1%), and a further 3.1% increase due to changes in the number of people claiming benefit, particularly old age pensions. In addition, administration costs in 2017 are estimated to be £5.0m (2016: £4.9m).

4.3.2. Social insurance benefits are almost wholly statutory entitlements based on contributions paid. Expenditure therefore is not discretionary.

4.3.3. Pension expenditure accounts for over 85% of the total benefit expenditure of the Fund. This is estimated to increase by 2.9% to £118.5m in 2017 (2016 Forecast: +4.1% to £115.2m). As at 30 June 2016, there were 17,624 persons in receipt of a pension from Guernsey.

4.3.4. The new parental benefits, scheduled to be introduced on 1st January 2017, will increase expenditure by an estimated £1.9m and will be funded by an increase in contribution rates.

Table 12 – Summary of expenditure for the Guernsey Insurance Fund

	2017 Budget £m	**2016 Forecast £m**	**2015 Actual £m**	**2014 Actual £m**	**2013 Actual £m**
Pension	118.5	115.2	110.7	106.2	101.0
Invalidity[7]	8.3	8.2	8.1	7.9	7.7
Sickness	4.0	3.8	3.6	3.6	3.6
Parental	3.1	1.2	1.2	1.2	1.2
Travelling Allowance Grant	2.3	2.3	2.1	1.9	2.2
Bereavement	1.9	1.9	1.8	1.9	2.1
Unemployment	1.6	1.6	1.4	1.4	1.5
Industrial Injuries	0.9	0.9	0.9	0.9	0.9
Total benefit expenditure	**140.6**	**135.3**	**129.8**	**125.1**	**120.2**
Administration	5.0	4.9	4.7	4.4	5.2
Total expenditure	**145.6**	**140.0**	**134.5**	**129.5**	**125.4**

5. Health Service Benefits

5.1. Medical Benefit Grants

5.1.1. The total benefit expenditure on consultation grants in 2015 was £3.40m. This represented a decrease of around 4.3% on the 2014 cost. The consultation grants remained unchanged at £12 towards a consultation with a doctor and £6 towards a consultation with a nurse.

[7] Proposed to be re-named 'Incapacity Benefit' from 1st January 2017

5.1.2. The Committee will not be recommending any change in the level of the consultation grants for 2017. The Committee is mindful of Resolution 24 from the March 2015 debate on the Personal Tax, Pensions and Benefits Review (Billet d'État IV of March 2015, Article 1), which was:

> 'To note that in in the opinion of the Treasury & Resources Department and the Social Security Department, the Health Benefit grant for primary care appointments should be phased out by 2025.'

5.1.3. The Committee is aware that the consultation grants were introduced in 1991, when the policy intention was to develop a comprehensive scheme of health insurance to cover primary care and secondary care. At that time, the grants were seen as a stepping stone towards that objective. Twenty-five years on, the policy objective of the grants is now unclear. The Committee recognises that the future of the consultation grants needs to be considered, in consultation with the Committee *for* Health & Social Care and the medical profession, in the context of the primary care environment of today.

5.2. Pharmaceutical Service

5.2.1. Drugs and medicines, including appliances, cost a total of £17.74m in 2015, before netting off the prescription charges of £2.0m paid by patients. This was an increase of 7.3% on the previous year. The number of items prescribed under the pharmaceutical service increased by 0.2% in 2015 to 1.53 million items.

5.2.2. The cost per prescription item fell every year between 2004 and 2014, and this trend could not be expected to continue indefinitely. The increased costs in 2015 were due to an increase in the basic drug cost, or net ingredient cost, an increase in the cost of domiciliary oxygen and an increase in the cost of supplying medicines via Monitored Dosage Systems. In addition, although a very limited number of new drugs were approved in 2015, these were very high cost complex specialist drugs. Survival rates from very serious illnesses are improving, and the number of older people in the population is increasing, which inevitably leads to more prescribing.

5.3. Prescription charge

5.3.1. In the 2016 Policy Letter on benefit and contribution rates (Billet d'État XVIII of 2015, Article 8), the Social Security Department stated:

> '139. The States resolved, following consideration of the Joint Report on the Personal Tax, Pensions and Benefits Review (Billet d'État IV of 2015):

20. To note that in the opinion of the Treasury and Resources Department and the Social Security Department the universal exemption from prescription charges for those over the age of 64 should be phased out by 2020.

21. To note that in the opinion of the Treasury and Resources Department and the Social Security Department from 2016 a nominal fee should be introduced for prescriptions of up to £1 per item for all those currently exempt from prescription charges, but to direct the Social Security Department to reflect on the views expressed on this matter during debate of this Report before presenting to the States a firm proposal in its annual uprating report in October 2015.

22. To note that in the opinion of the Treasury and Resources Department and the Social Security Department that prescription charges should increase to £4.40 per item in 2016 and thereafter be reviewed annually, but to direct the Social Security Department to reflect on the views expressed on this matter during debate of this Report before presenting to the States a firm proposal in its annual uprating report in October 2015.'

5.3.2. The Committee has commenced work on these three States Resolutions. In principle, the Committee shares the opinion of the former Treasury and Resources and Social Security Departments that the universal exemption from prescription charges for those over the age of 64 should be phased out by 2020. However, it is still considering the options and an equitable mechanism for achieving that outcome.

5.3.3. Introducing a minimum £1 prescription charge in lieu of exemption from 2017 onwards is a separate issue. The Committee does not share the opinion of the former Departments concerning the merits of introducing such a nominal charge. The Committee notes that, if introduced this year, the charge would apply to people of pension age, people and families receiving supplementary benefit and people receiving Severe Disability Benefit. Some of these people are in receipt of multiple prescriptions, and could struggle to afford the nominal payments. The Committee is of the view that once an exemption has been granted, there should be no requirement for a nominal payment.

5.3.4. As regards the standard prescription charge for persons who are not exempt, the Committee recommends an increase of 10p per item, taking the charge from £3.70 to £3.80 per item, effective from 1st January 2017. The Committee notes that the opinion of the former Departments that the prescription charge should increase to £4.40 per item from 2016 was a proposed increase of £1 per item on the charge in place when that opinion was given.

5.3.5. The Committee notes that the 10p per item increase, which it is recommending, is an increase of 2.7%, whereas an increase of £1 per item would be 27%. At a time when RPIX is very low, at 0.6%, the proposed increase of 2.7% appears more reasonable. The Committee of course recognises that the States' finances require increased income and controls on expenditure, but does not propose seeking that extra income through the standard prescription charge.

5.3.6. The Committee notes that the average total cost per prescription in 2015, including the drug costs and dispensing fees, was £10.71. The 2015 charge of £3.70 was therefore on average a 35% contribution to the cost. The Committee is very aware that this average is derived from a vast range of drug costs. The fundamental importance of the pharmaceutical service is that patients can obtain drugs, some of which cost hundreds or thousands of pounds, for the standard prescription charge.

5.4. Specialist Medical Benefit

5.4.1. The current contract between the States and the Medical Specialist Group reaches the end of its 15 year term on 31 December 2017. A Secondary Healthcare Project Board was established at the end of 2014. The Project Board is chaired by the Chief Executive of the States and its membership includes the Presidents of the Committee *for* Health & Social Care and the Committee *for* Employment & Social Security, some Members of the two Committees and senior officers.

5.4.2. In November 2015 (Billet d'État XX of 2015, Article 10) the States endorsed the intention of the former Health and Social Services Department and former Social Security Department, subject to satisfying certain conditions set out in the Policy Letter, to enter into a rolling contract from year to year with the Medical Specialist Group. The rolling contract would require either party to give 5 years' notice of termination.

5.4.3. In the event of negotiations not leading to an acceptable form of contract, the States endorsed the intention of the Health and Social Services Department to set up a direct internal provision of secondary healthcare by no later than 1st January 2018. In effect, this fall-back option would see the States employing their own medical consultants.

5.4.4. The Committee fully understands the complexities involved in scoping and negotiating a satisfactory arrangement to replace the contract that is soon to expire. The Committee currently anticipates a satisfactory conclusion to the negotiations with the Medical Specialist Group.

5.5. Summary of expenditure financed by the Guernsey Health Service Fund

5.5.1. Table 13 summarises the impact of the proposed benefit rates on projected expenditure from the Guernsey Health Service Fund for 2017 and the 2016 revised forecast at the time of writing. This is compared with the actual expenditure figures for 2013-2015.

Table 13 – Summary of expenditure for the Guernsey Health Service Fund

	2017 Budget £m	2016 Forecast £m	2015 Actual £m	2014 Actual £m	2013 Actual £m
Specialist Health Insurance	20.6	20.0	19.3	17.7	16.6
Pharmaceutical	16.8	16.3	16.0	14.9	14.7
Consultation grants	3.5	3.5	3.4	3.5	3.5
Visiting Medical Consultants	0.8	0.8	0.7	0.7	-
Primary Care Psychological Therapies	0.3	0.3	0.3	0.3	0.3
Total benefit expenditure	**42.0**	**40.9**	**39.7**	**37.1**	**35.1**
Administration	1.7	1.6	1.6	1.2	1.0
Total expenditure	**43.7**	**42.5**	**41.3**	**38.3**	**36.1**

6. Long-term Care Benefits

6.1.1. The Long-term Care Insurance Scheme pays benefits to assist with fees in private residential and nursing homes. The Committee is recommending increases of 0.6% in the benefit rates, being the June 2016 RPIX figure.

6.2. Co-payment by person in care

6.2.1. It is a condition of entitlement to benefit under the Long-term Care Insurance Scheme that the person in care should make a co-payment. The 2016 co-payment is £193.97 per week. The Committee recommends a co-payment of £195.16 per week from 2nd January 2017.

6.2.2. It should be noted that the co-payment to the Long-term Care Insurance Scheme also sets the level of fees to be charged for accommodation in States-run homes and long-stay wards, including the Duchess of Kent, the Corbinerie (or Lighthouse) Wards, and the long-stay beds at the Mignot Memorial Hospital, Alderney.

6.3. Long-term care benefit rates

6.3.1. The Committee recommends that the rates of long-term care benefit be increased by 0.6%, with effect from 2nd January 2017, as set out in Table 14.

Table 14 – Weekly rates of long-term care benefit

	2017	2016
Nursing care benefit	**£807.38**	£802.55
Elderly Mentally Infirm (EMI) benefit	**£569.80**	£566.37
Residential care benefit	**£432.46**	£429.87

6.4. Respite care benefit

6.4.1. Persons needing respite care in private sector residential or nursing homes are not required to pay a co-payment. The Long-term Care Insurance Fund pays instead. This is to acknowledge the value of occasional investment in respite care in order to allow the person concerned to remain in their own home as long as practicable. It also acknowledges that persons having respite care also continue to bear the majority of their own household expenditure. The respite care benefits, therefore, are the sum of the co-payment and the residential care benefit, with or without EMI care, or nursing care benefit, as appropriate. The Committee, therefore, recommends the rates of respite care benefit set out in Table 15, with effect from 2nd January 2017.

Table 15 – Weekly rates of respite care benefit

	2017	2016
Nursing care respite benefit	**£1,002.54**	£996.52
EMI respite benefit	**£764.96**	£760.34
Residential care respite benefit	**£627.62**	£623.84

6.5. Summary of expenditure financed by the Long-term Care Insurance Fund

6.5.1. Table 16 overleaf summarises the impact of the proposed benefit rates on projected expenditure from the Long-term Care Insurance Fund for 2017, along with the 2016 revised forecast at the time of writing, compared with the actual expenditure figures for 2013-2015.

Table 16 – Summary of expenditure for the Long-term Care Insurance Fund

	2017 Budget £m	2016 Forecast £m	2015 Actual £m	2014 Actual £m	2013 Actual £m
Residential Home Care	9.5	8.5	8.6	9.0	8.7
Nursing Home Care	10.1	9.8	9.3	9.0	8.5
	19.6	**18.3**	**17.9**	**18.0**	**17.2**
Administration	0.3	0.3	0.3	0.3	0.2
	19.9	**18.6**	**18.2**	**18.3**	**17.4**

7. Non-Contributory Benefits

7.1.1. Non-contributory benefits are those funded entirely through General Revenue, which comes from tax income, and not from social security contributions. These benefits include supplementary benefit, family allowance, severe disability benefit and carer's allowance, the Community Environmental Projects Scheme and the free TV licence scheme.

7.1.2. The Committee recommends general increases in the rates of supplementary benefit, severe disability benefit and carer's allowance of 0.6%, in line with the published RPIX figure for June 2016.

8. Supplementary benefit

8.1. Supplementary benefit requirement rates

8.1.1. The Committee recommends that supplementary benefit requirement rates be increased by 0.6%, in line with RPIX for June 2016.

8.1.2. The recommended short-term and long-term requirement rates, to take effect from 6th January 2017, are set out in Table 17 overleaf. The long-term rates are payable when a claim reaches six months in duration, However, a person of working age who qualifies for supplementary benefit, on the basis of acting in compliance with the work requirement relating to them, will continue to be paid short-term rates until they are in, or deemed to be in, full-time remunerative work. A rent allowance, on top of the short-term or long-term rates, applies to householders living in rented accommodation.

Table 17 – Proposed short-term and long-term supplementary benefit requirement rates for 2017 (2016 in brackets)

Supplementary benefit requirement rates for 2017	Short-term rates (Up to 6 months)	Long-term rates (Over 6 months)
Householders:		
Cohabiting/married couple	**£203.63** (£202.42)	**£251.25** (£249.75)
Single householder	**£141.42** (£140.58)	**£173.83** (£172.79)
Non-householder:		
18 or over	**£107.66** (£107.02)	**£134.93** (£134.13)
16 – 17[8]	**£73.26** (£72.82)	**£73.26** (£72.82)
Member of a household:		
18 or over	**£107.66** (£107.02)	**£134.93** (£134.13)
16 – 17	**£91.42** (£90.87)	**£114.29** (£113.61)
12 – 15	**£56.63** (£56.29)	**£70.71** (£70.29)
5 – 11	**£41.13** (£40.88)	**£51.27** (£50.96)
Under 5	**£29.95** (£29.77)	**£37.79** (£37.56)

8.1.3. Until funding can be allocated to the implementation of the rates set out in the Social Welfare Benefits Investigation Committee's (SWBIC) March 2016 Policy Letter (Billet d'État VII of 2016, Volume II, Article 9), there will be hardship for many families. This is because the current short-term and long-term requirement rates do not go far enough to support the poorest families, according to the level below which the States have already agreed it to be intolerable for an individual to be expected to live in Guernsey.

8.1.4. For comparative purposes, the rates approved by the States during the debate of the March 2016 Policy Letter, uprated by the annual rate of inflation as at June 2016, are shown in Table 18 overleaf.

[8] 16 and 17 year olds are eligible for supplementary benefit only by exception.

Table 18 – SWBIC short-term and long-term requirement rates

SWBIC approved supplementary benefit requirement rates	Short-term rates (Up to 6 months)	Long-term rates (Over 6 months)
Householders:		
Couple	£175.28	£288.75
Single	£100.16	£174.29
Single non-householder:		
18 and over	£76.69	£107.38
Non-householder rent allowance	£75.00 (max)	£75.00 (max)
Member of household:		
11 and over	£71.59	£102.27
5 to 10	£53.69	£76.70
Under 5	£35.80	£51.14

8.1.5. The rates shown in Table 18 were agreed by the States to come into effect from January 2017, subject to funding being available. The Committee knows that there is no funding available for the implementation of the SWBIC proposals from January 2017, and is deeply concerned by this.

8.1.6. In effect, the postponement of funding means that the States are knowingly allowing some individuals and families to be limited to incomes which are intolerable. The majority of these families are comprised of working people, who are seeing their disposable income decrease each year.

8.1.7. A further update on progress with the plans to implement SWBIC's proposals is set out in section 17.4.

8.2. Benefit limitations

8.2.1. In the vast majority of cases, the amount of benefit paid to a person is equal to their total personal and family requirements, as set out in Table 17 on the previous page, together with an allowance for rent. Any resources, such as net earnings, pensions, or family allowance, are deducted from the benefit payable. Where a person is employed, £30 of their earnings is disregarded.

8.2.2. In a very limited number of cases, the amount of benefit payable is capped by the Benefit Limitation, also known as the 'Wage Stop'. This process limits the amount of supplementary benefit payable and therefore the ultimate cost to the taxpayer. It should be noted that in such cases, the earnings disregard is still applied, and any family allowance paid in excess of the benefit limitation is ignored in the means test, thereby giving the family a little additional income above the benefit limitation.

8.2.3. The benefit limitation has been in place since the scheme came into effect in 1971. In the past, this cap was set at such a level that even moderately sized families accommodated in the private rented sector received a benefit lower than the requirements prescribed in the legislation.

8.2.4. In 2002, it was recognised that the application of the benefit limitation at such low levels was giving rise to the creation of poverty amongst large families living in the private rented sector and even some families accommodated in social housing. This was despite the fact that families in social housing were further protected by the Rent Rebate Scheme, operated by the then Housing Authority.

8.2.5. Cases where the benefit is capped artificially now amount to around 1% of all claims, compared to around 14% of claims, prior to 2003. This is because significant increases were applied to the benefit limitation in 2003, 2008, 2012, and 2015, in order to prevent poverty being created as a result of the cap.

8.2.6. In March 2016, the Social Welfare Benefits Investigation Committee (SWBIC), as part of its Policy Letter recommending the amalgamation of the Supplementary Benefit and Rent Rebate Schemes, identified that the lack of a benefit limitation in the Rent Rebate Scheme represented a key issue. It meant that families in the private rented sector, who did not receive a rent rebate, were affected by a 'hidden benefit limitation', and as such, were treated less favourably than their counterparts accommodated in social housing, where no rebate scheme existed. As such, the Policy Letter concluded that a transitionary period of three years was necessary to align the two systems by removing the hidden benefit limitation. This would limit the impact of the changes on those families concerned.

8.2.7. The Committee agrees that the period of transition has to be an incremental process. It would be unreasonable to either remove the hidden benefit limitation for all social housing tenants or increase the supplementary benefit limitation massively to ensure that nobody suffered even the slightest level of financial inconvenience. The first course of action would cause some levels of poverty for families with children of all ages, whilst the latter would produce an unsustainable level of expenditure.

8.2.8. The Committee firmly believes that an incremental approach to benefit limitation change is the correct, and most cautious, way to proceed. It fully accepts that, without such changes, there can be no serious attempt to amalgamate the two schemes. In addition, it is best to introduce what is probably the largest, and least expensive, incremental lift at a time when the risks of unintended consequences are at their lowest, which is before any real move is made to amalgamate the two schemes. It is therefore proposing that the supplementary benefit limitation in the community be increased from £609 to £650 per week, with effect from 6th January 2017, as shown in Table 19 below. It has been estimated that the additional cost to General Revenue of this increase will be in the order of £15,000 per year, based on June 2016 claim data. The higher benefit limitation may result in some new claims, but any such claims are likely to be from families whose resources exceed the current benefit limitation. Benefit for those new claims will therefore be of small amounts per claim.

8.2.9. The increase of £41 per week looks more generous than it actually is. As explained in section 9.1.9 of this Policy Letter, the benefit limitation would have to increase by £24 per week if those families affected by the benefit limitation are to be no worse off if the Committee's proposal to reduce family allowance is agreed by the States.

8.2.10. Table 19 shows the weekly benefit limitations which currently apply and the proposed limitations from 6th January 2017. Except for the community limitation, as discussed above, the proposed limitations are in line with the general uprating policy for non-contributory benefits for 2017.

Table 19 – Weekly supplementary benefit limitations

Benefit limitation	**2017**	**2016**
Community	**£650.00**	£609.00
Residential homes[9]	**£534.00**	£531.00
Nursing homes, EMI residents and Guernsey Cheshire Home[10]	**£766.00**	£761.00

8.3. Personal allowances

8.3.1. The Committee pays a personal allowance to residents of residential or nursing homes who qualify for supplementary benefit. The personal allowance is intended to allow modest purchases of, say, newspapers, confectionery, toiletries, small family presents and so on.

8.3.2. The Committee *for* Health & Social Care (HSC) pays for Guernsey and Alderney residents to be placed in UK hospitals and specialised institutions if

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[9] This limitation applies to a person residing in a residential home who does not satisfy the residence requirements for long-term care benefit and may, therefore, need to rely on financial support from supplementary benefit.

[10] This limitation applies to a person residing in a nursing home or a residential home with EMI care needs or the Guernsey Cheshire Home who does not satisfy the residence requirements for long-term care benefit and may, therefore, need to rely on financial support from supplementary benefit.

their mental or physical health needs cannot be met on-Island. While HSC meets the cost of accommodation and care, residents are expected to pay for items of personal expenditure from their own resources. Residents who cannot afford these things can apply to Social Security for a personal allowance.

8.3.3. There is a need for this particular personal allowance to be higher than the rate which applies in Guernsey residential and nursing homes, because the people living temporarily off-Island tend to be a much younger age group, more active, and with more opportunities for using a personal allowance in the course of their supervised activities and outings.

8.3.4. Table 20 sets out the weekly personal allowances which currently apply and the proposed allowances to apply from 6th January 2017. The proposed allowances are in line with the general uprating policy for non-contributory benefits for 2017, which is set at 0.6%.

Table 20 – Weekly personal allowances

Personal allowance	**2017**	**2016**
Residents of local residential and nursing homes	**£30.55**	£30.37
Guernsey people in UK hospitals and care homes	**£51.47**	£51.16

8.4. Maximum rent allowances

8.4.1. The Committee and the GHA apply a range of rental charges depending on the size and nature of the property. For example, in the case of two-bed properties of the type required by claimants in Tenancy Group 2, rent charged for a terraced house will be less than rent charged for a detached house, as shown in Table 21 overleaf.

8.4.2. Maximum rent allowances were introduced for new claims from single people and couples with no children (tenancy group 1) and for people living in shared accommodation (tenancy group 5) with effect from 4 January 2013. Maximum rent allowances are upper limits of rental support, rather than fixed amounts, given to all people within the two groups. The actual rent allowance paid never exceeds the rent of the property occupied and indeed, in accordance with legislation, the Administrator sometimes awards a lower rent allowance if it is considered that this is reasonable, having regard to the circumstances of the claimant and the nature and standard of the accommodation.

8.4.3. The introduction of maximum rent allowances for families (tenancy groups 2, 3 and 4) was proposed by the Social Security Department in its Policy Letter entitled 'Benefit and Contribution Rates for 2014 and Modernisation of the Supplementary Benefit Scheme' (Billet d'État XX of 2013, Volume II, Article 11), which was considered by the States in November 2013. However, this proposal, along with all other proposals pertaining to the modernisation of the Supplementary Benefit Scheme, was replaced, by means of a successful Amendment proposed by Deputy Le Lièvre which resulted in the creation of the Social Welfare Benefits Investigation Committee (SWBIC). The Department stated in its 2015 report on benefit and contribution rates for 2016 (Billet d'État XVIII, Article 8) that it remained of the view that maximum rent allowances for families should be introduced, but that it considered that it was not appropriate to propose this while SWBIC was in the process of developing its proposals.

8.4.4. Following the conclusion of SWBIC's work, and given that it has been necessary in practice for rent allowances to be applied to families since 2013, the Committee is of the view that it is the right time to apply maximum rent allowances for tenancy groups 2, 3 and 4. The Administrator will use the powers available under supplementary benefit legislation to apply maximum rent allowances to all the groups listed in Table 21 overleaf.

8.4.5. The maximum rent allowances in respect of Tenancy Groups 2, 3 and 4 match the highest rent charged by the Committee and GHA in respect of properties with the necessary number of bedrooms. To apply a lower rate would risk creating a situation where a family in receipt of supplementary benefit could not afford to live in social housing.

8.4.6. The maximum rent allowances for 2016 and the proposed allowances for 2017, including for tenancy groups 2, 3 and 4, are set out in Table 21.

Table 21 – Maximum rent allowances for 2017

Tenancy Group	**Description**	**2017**	**2016**
Group 1	Single or couple with no children	**£217.50**	£212.00
Group 2	Adult with 1 dependent child	**£259.18**	£256.31
Group 3	Adult with 2 dependent children	**£330.96**	£327.82
Group 4	Adult with 3+ dependent children	**£405.26**	£401.77
Group 5	Living in shared accommodation	**£174.97**	£172.76

8.5. Supplementary fuel allowance

8.5.1. A supplementary fuel allowance is paid from General Revenue, to all householders in receipt of supplementary benefit, for 26 weeks from the last week in October until the last week in April of the year following. The fuel allowance was £27.66 per week for the winter of October 2015 to April 2016. The rate of the fuel allowance for the period was decreased by 7.8%

on the previous year and reflected the inflation adjusted cost of fuel, light and power in the year to June 2015[11].

8.5.2. The Committee is recommending a decrease of 5.9% in fuel allowance, taking it to £26.03 per week for the period from 28th October 2016 to 28th April 2017. This is in line with the change in the cost of fuel, light, and power in the year to June 2016[12].

8.5.3. The fuel allowance will cost in the region of £0.92m over the 26 week payment period for October 2016 to April 2017.

8.5.4. The fuel allowance is proposed to decrease for a second consecutive year, which is in line with the cost of fuel for June 2016. The Committee notes that work is in progress to convert existing social housing to be more energy efficient. As social housing now falls under the Committee's mandate, the Committee has every intention to continue to investigate these options for improving energy efficiency in social housing. The Committee will report back to the States with data on this, and whether those properties which are considered to be energy efficient should continue to receive the fuel allowance.

8.6. Community and Environmental Projects Scheme

8.6.1. The Committee administers the Community and Environmental Projects Scheme (CEPS), which offers short-term employment and training opportunities for unemployed people. The Committee contracts with States Works for the necessary supervision of the work teams and also for the provision of transport, equipment and tools.

8.6.2. The hourly wage rates for the CEPS employees are set by the Committee and do not require a Resolution of the States. From 1 October 2010, the rates payable were brought into line with minimum wage rates. From 1 January 2017, the rates payable will mirror the minimum wage rates agreed by the States.

9. Family Allowance

9.1.1. Family allowance is a universal benefit that is paid to all families with qualifying children, irrespective of the level of their household income. The weekly rate of family allowance has been £15.90 per child since January 2013.

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[11] Source: Guernsey Quarterly Inflation Bulletin – 17th July 2015.

[12] Source: Guernsey Quarterly Inflation Bulletin – 22nd July 2016.

9.1.2. Expenditure on family allowance amounted to £9.82m in 2015. It is estimated that expenditure on family allowance in 2016 will be £9.70m. The freeze applied to the rate of family allowance is projected to have resulted in a saving to General Revenue of approximately £1.1m during the three-year period from 2014 to 2016 inclusive.

9.1.3. The appropriateness of continuing to provide universal benefits, such as family allowance, was considered by the Social Security Department and the Treasury and Resources Department as part of the Personal Tax, Pensions and Benefits Review. One of the so called 'Green Paper' Resolutions approved by the States following consideration of the Joint Report (Billet d'État IV of 2015, Article 1) was:

> '19. To note that, in the opinion of the Treasury & Resources Department and the Social Security Department, between 2016 and 2025 the payment of a universal Family Allowance under the Family Allowances (Guernsey) Law, 1950, should be phased out through gradual reductions in the amount paid having regard to the increases in personal tax allowances as outlined in Proposition 27 below.'

9.1.4. The wording in the Resolution 'to note', does not direct the Committee to definitely phase out family allowance, and as such, the Committee will review the benefit and bring a proposition back to the States as it sees fit. Further, the States directed the Social Security and Treasury and Resources Departments:

> '…to reflect on the views expressed during debate of this Report before presenting to the States any firm proposals on the matters dealt with by Propositions 19, 20, 23 and 24, and to outline the mitigating actions to be taken in respect of any group of people disadvantaged by those proposals.'

9.1.5. Taking the above Resolutions into account, a successful Amendment laid by Deputy Dorey to the Social Security Department's Policy Letter on benefit and contribution rates for 2016 (Billet d'État XVIII of 2015, Article 8), required the Committee to report back to the States by October 2017 on their opinion on the future of family allowance. Deputy Dorey's amendment was:

> 'To agree that, after consultation with other relevant committees of the States, the Committee *for* Employment & Social Security shall report to the States by no later than October, 2017 setting out their opinion on whether the universal payment of family allowances should be altered, reduced or ceased and the costs thereof redirected to allow the States to provide additional

financial support for some or all of the following children's services: medical and paramedical, including but not limited to primary care, dental, optical and physiotherapy provided either by States-employed clinicians or contracted private practitioners; and breakfast clubs, after school homework clubs, school meals and holiday clubs at States' schools.'

9.1.6. Although no further progress has been made to date directly by the Committee, they remain committed to addressing Deputy Dorey's Amendment. In the meantime, a development took place in November 2015, which goes some way to redirect family allowance to children's services. Through the Education Department's Policy Letter, 'Transforming early years education – funding options for the introduction of a universal entitlement to pre-school education' (Billet d'État XX of 2015, Article 9), the States directed that States-funded pre-school education shall be funded by measures including:

'1b. reducing family allowance by £2.40 per child per week with effect from the 1st of January, 2017…'

9.1.7. In line with the above States Resolution of November 2015, the Committee proposes that the rate of family allowance be reduced by £2.40 per week, from £15.90 to £13.50 per week, with effect from 2nd January 2017. This equates to a reduction of 15.1% in the weekly payment, and will consequently reduce the Committee's General Revenue expenditure by approximately £1.47m. This will then be used for two purposes. Firstly, to increase the cash limit of the Committee *for* Education, Sport & Culture by £1.264m to cover part of the funding requirement for the implementation of universal pre-school education. Secondly, approximately £0.15m will be redirected to supplementary benefit to ensure that the amount of benefit received by families affected by the benefit limitation is not reduced as a result of the decrease in family allowance.

9.1.8. Family allowance payments received by supplementary benefit claimants impacted by the benefit limitation are disregarded for the purpose of capping benefit entitlement. This means that claimants are allowed to keep any family allowance over and above the benefit limitation. Therefore, if the rate of family allowance reduces, the total income received by families affected by the benefit limitation will reduce accordingly. Of the 11 families affected by the current benefit limitation of £609.00 per week at the time of writing, the majority would be worse off each week by simply the number of children eligible for family allowance multiplied by the £2.40 reduction. For others, who have some earnings, the impact would be slightly different, although all of the families modelled would be between £4.80 and £24.00

per week worse off in 2017 if the benefit limitation were to remain at £609.00 per week.

9.1.9. In order to ensure that no families affected by the benefit limitation will be worse off as a result of the proposed reduction in the weekly rate of family allowance, the benefit limitation would need to increase by £24.00 per week, taking it from £609.00 to £633.00 per week. However, the Committee proposes that the benefit limitation for 2017 be increased to £650.00, in order to ensure that families have enough income to meet their needs.

10. Severe Disability Benefit and Carer's Allowance

10.1. Rates and annual income limit

10.1.1. The Committee recommends that the rates of severe disability benefit and carer's allowance be increased by 0.6%, with effect from 2nd January 2017, as shown in Table 22.

Table 22 – Current and proposed annual income limit and weekly rates of severe disability benefit and carer's allowance

	2017	2016
Severe disability benefit - weekly rate	**£101.08**	£100.45
Carer's allowance - weekly rate	**£81.77**	£81.28
Annual income limit for both allowances	**£94,000**	£93,000

10.1.2. The annual income limit is the upper limit of income that a family may have, while still being entitled to receive either severe disability benefit or carer's allowance. The annual income limit has traditionally been rounded to the nearest thousand pounds.

10.1.3. Benefit expenditure on severe disability benefit and carer's allowance in 2015 was £5.1m. The expected outturn for these benefits for 2016 is £5.3m. It is estimated that expenditure in 2017 will be £5.5m. The increase in expenditure is in part due to the continuation of an increasing number of claims following legislative changes, promotion of the benefit, and an ageing population.

11. Free TV licences

11.1. Update on closure to free TV licence scheme

11.1.1. Further to the Social Security Department's Policy Letter on benefit and contribution rates for 2016 (Billet XVIII of 2015, Article 8), in which it was proposed that the scheme to provide free TV licences to persons aged 75 and over be closed to new entrants, the Committee is in a position to provide an update.

11.1.2. Following consideration of the aforementioned Policy Letter, the States resolved:

> 'That, from 1st January 2016, or as soon as practicable thereafter, there be no new grants of free TV licences for persons aged 75 or over, except to householders in receipt of supplementary benefit, and that householders in receipt of supplementary benefit who have attained pension age continue to receive a free TV licence without upper age limit.'

11.1.3. The necessary UK Statutory Instrument giving effect to the foregoing has now been made and took effect from 1st September 2016. This will mean that anyone who turns 75 on or after that date will not be eligible for a free TV licence, unless they are in receipt of supplementary benefit. Although the scheme will close to new applicants, retrospective applications will be accepted after 1st September 2016 from those people who turned 75 on or before 31st August 2016. The timescale was a result of the UK legislative process required to make the Statutory Instrument and the grandfathering of rights the scheme for those already over 75 was a requirement because of how the concession is applied.

11.1.4. The BBC will take over the policy responsibility for the concession for persons over the age of 75, in respect of the UK only, during 2020. Officers of the Office of the Policy & Resources Committee are in continuing discussions with the BBC regarding the long-term position for Guernsey residents as the situation changes in the UK.

PART III: FINANCIAL POSITION

11.1.5. This section of the Policy Letter explains the financial position of the four funds, including reference to the actuarial reviews undertaken for the 2010-2014 period, undertaken by the UK Government Actuary's Department.

12. Guernsey Insurance Fund

12.1 Summary of the financial position

12.1.1. The financial performance of the Guernsey Insurance Fund is shown in Table 23 below. The 2017 budget estimates that the operating deficit will increase to £24.2m (2016 forecast: £22.9m). The Fund has now been in deficit, before investment returns are taken into account, since 2009.

12.1.2. The operating deficit arises when benefit and administration expenditure exceeds contribution income and States grants. This shortfall is met by drawing down the Fund's reserves, and although planned, this causes the number of years expenditure cover to reduce.

Table 23 – Financial performance of the Guernsey Insurance Fund

	2017 Budget £m	2016 Forecast £m	2015 Actual £m	2014 Actual £m	2013 Actual £m
Income	121.4	117.1	115.1	113.9	110.9
Expenditure	(145.6)	(140.0)	(134.5)	(129.5)	(125.5)
Operating deficit	(24.2)	(22.9)	(19.4)	(15.6)	(14.6)
Investment returns	20.0	20.0	(5.9)	25.4	54.7
Net surplus/(deficit) for the year	(4.2)	(2.9)	(25.3)	9.8	40.1
Net assets at 1 January	673.6	676.8	702.1	692.3	652.2
Net assets at 31 December	669.4	673.9	676.8	702.1	692.3
Expenditure cover in number of years	4.6	4.8	5.0	5.4	5.5

12.1.3. The 2010-2014 actuarial review (see Appendix 1) indicates that, if the assumptions are correct for the Guernsey Insurance Fund, and there are no further increases in contribution rates beyond those set out within this Policy Letter, then the reserves will run out completely by 2045. The review suggests that sustainability could be achieved through some combination of higher contribution rates, increased inward migration, and better-than-expected long-term investment returns. However, while the States has very little control over the macro-economic factors which drive both migration and investment returns, it does have control over benefit and contribution rates, and must therefore look to these as the principal tools for securing the future of the Fund.

12.1.4. The projections of sustainability of the Guernsey Insurance Fund have been positively impacted by the increase in pension age and the pulling back of the annual uprating of benefits to bare RPIX from 2025 onwards. Without these measures, future annual deficits would be significantly higher, adversely affecting reserves.

13. Guernsey Health Service Fund

13.1 Summary of the financial position

13.1.1. The financial performance of the Guernsey Health Service Fund is shown in Table 24. The 2017 budget estimates that the operating surplus will decrease to £0.4m (2016 forecast: £0.5m surplus).

Table 24 – Financial performance of the Guernsey Health Service Fund

	2017 Budget £m	2016 Forecast £m	2015 Actual £m	2014 Actual £m	2013 Actual £m
Income	44.1	43.4	42.7	42.2	40.9
Expenditure	(43.7)	(42.9)	(41.3)	(38.4)	(36.0)
Operating surplus	0.4	0.5	1.4	3.8	4.9
Investment returns	3.2	3.2	(0.9)	3.6	7.3
Net surplus/(deficit) for the year	3.6	3.7	0.5	7.4	12.2
Net assets at 1 January	107.2	103.1	102.6	95.2	83.0
Net assets at 31 December	110.8	106.8	103.1	102.6	95.2
Expenditure cover in number of years	2.6	2.5	2.5	2.7	2.6

13.1.2. The actuarial review for the 2010-2014 period (see Appendix 2) shows the Fund to be in a favourable position over the 15 year projection period out to 2030. It is expected that the Fund balance will increase through re-invested returns, from 2.7 to 3.3 times annual expenditure. However, future health costs are notoriously hard to predict, and the sustainability of the Fund is affected mostly by movements in the price of prescription drugs. The assumption for the 15 year projection is that unit costs will increase by RPIX.

14. Long-term Care Insurance Fund

14.1 Summary of the financial position

14.1.1. The financial performance of the Long-term Care Insurance Fund is shown in Table 25. The 2017 budget estimates that the operating surplus will increase to £7.0m (2016 forecast: £0.7m surplus). This is as a result of the proposed 0.5% increase in contribution rates to the Fund from 1st January 2017.

Table 25 – Financial performance of the Long-term Care Insurance Fund

	2017 Budget £m	2016 Forecast £m	2015 Actual £m	2014 Actual £m	2013 Actual £m
Income	26.9	19.3	18.5	18.5	18.1
Expenditure	(19.9)	(18.6)	(18.2)	(18.2)	(17.4)
Operating surplus	7.0	0.7	0.7	0.3	0.7
Investing activities	1.7	1.7	(0.5)	2.0	4.2
Net surplus/(deficit) for the year	8.7	2.4	0.2	2.3	4.9
Net assets at 1 January	58.3	55.8	55.6	53.3	48.4
Net assets at 31 December	67.0	58.2	55.8	55.6	53.3
Expenditure cover in number of years	3.4	3.2	3.1	3.1	3.1

14.1.2. The actuarial review for the 2010-2014 period (see Appendix 3) shows that the current contribution rate of 1.3% is at, or very marginally below, the break-even contribution rate. Without any remedial action, the Fund will be exhausted by 2031. The increase in contribution rates by 0.5% to 1.8% (Class 1 employee rate) from January 2017 will extend the life of the Fund by 16 years to 2047. As such, further measures will be required in the coming years to ensure the sustainability of the Fund thereafter.

15. Non-Contributory Services funded from General Revenue

15.1. Summary of the financial position

15.1.1. As this Policy Letter is about the benefit and contribution rates for 2017, it only considers those Non-Contributory Services and benefits funded from General Revenue, delivered by Social Security, and not the additional services that come under the Committee's mandate, which are also funded from General Revenue.

15.2. Summary of non-contributory Social Security expenditure financed by General Revenue

15.2.1. Table 26 summarises the impact of the proposed benefit rates on expenditure for 2017. This also includes the 2016 revised forecast at the time of writing, and the actual expenditure figures for 2013-2015.

Table 26 – Summary of non-contributory Social Security expenditure financed by General Revenue

	2017 Budget £m	2016 Forecast £m	2015 Actual £m	2014 Actual £m	2013 Actual £m
Supplementary benefit	21.6	21.2	20.9	20.3	20.6
Family allowance	8.2	9.7	9.8	9.7	9.8
Severe disability benefit & carer's allowance	5.5	5.3	5.1	4.5	4.1
Concessionary TV licence	0.6	0.6	0.6	0.6	0.6
Contributory Fund States grants	20.3	19.9	19.6	19.4	18.9
Formula led expenditure	**56.2**	**56.7**	**56.1**	**54.5**	**54.0**
Administration	2.4	2.4	2.4	2.3	2.3
Others[13]	0.3	0.3	0.3	0.4	0.4
Non-formula led expenditure	**2.8**	**2.8**	**2.7**	**2.7**	**2.7**
Total expenditure	**59.0**	**59.5**	**58.8**	**57.2**	**56.7**

15.3. Supplementary benefit expenditure and claim data

15.3.1. Supplementary benefit expenditure amounted to £20.9m in 2015. The expected outturn for 2016 is £21.23m.

15.3.2. As at 31st August 2016, there were 2,377 active supplementary benefit claims, as set out in Table 27 overleaf. These claims also support 1,430 dependants, thereby giving a total supplementary benefit population of 3,807.

15.3.3. Supplementary benefit claimants have been, in recent years, split into ten classifications by which they can be identified and managed in practice. An amendment to supplementary benefit legislation in 2014 removed these classifications, however, in practice, claims are still split into those categories for the purposes of claims management and financial analysis. The

[13] Others include Community & Environmental Projects Scheme (CEPS), Charitable Grants, and miscellaneous expenditure.

classifications are referred to in the analysis of claims and expenditure shown in Table 27.

Table 27 – Supplementary benefit claims and expenditure

Classification	Claims at 31st August 2016	Claims at 27th June 2015	2017 Budget (£m)	2016 Forecast (£m)	2015 Actual (£m)
Pensioner	735	736	3.02	2.95	2.81
Incapacitated	510	515	4.30	4.33	4.33
Jobseeker or low earner	555	513	5.16	4.96	4.79
Single parent	283	303	3.64	3.49	3.64
Disabled	211	200	1.96	2.00	1.95
Incapable of self-support	58	54	0.70	0.68	0.66
Other[14]	25	34	0.32	0.29	0.30
Total (excluding dependants)	**2,377**[15]	**2,355**[16]	**19.10**	**18.70**	**18.48**
		Special Grants[17]	2.53	2.53	2.43
		Total	**21.63**	**21.23**	**20.95**

14 Includes the following classifications: Carer, Pregnant, Prisoner's spouse, and Partner in hospital.

15 Includes a small number of claimants whose classification is unknown.

16 Includes a small number of claimants whose classification is unknown.

17 Includes special grants in respect of medical expenses, disability, funeral expenses and other miscellaneous expenses.

PART IV: COMMITTEE UPDATES

16. Progress with Extant Resolutions

16.1. Maternity and paternity provisions and the United Nations Convention on the Elimination of All Forms of Discrimination Against Women

16.1.1. The States considered the Policy Council's report on Maternity and Paternity Provisions and the United Nations Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) in February 2012 (Billet d'État No IV of 2012, Volume I, Article 6). States Members resolved, among other things, to direct the Social Security Department to report back to the States, at the same time it reported on funding other benefits, with proposals for funding and requesting the preparation of the necessary legislation to provide for:

- changes to the maternity grant to make it available to all new mothers;
- changes to maternity allowance to split it into a maternal health allowance, available only to mothers, and a newborn care allowance, available to either parent;
- a new adoption grant at the same rate as maternity grant; and
- a new benefit of parental allowance available to adoptive mothers or fathers.

16.1.2. The Social Security Department reported to the States in February 2016 (Billet d'État III of 2016, Article 18) to request direction to prepare the necessary legislation to repeal the existing maternity benefits, to introduce the new parental benefits, and to provide for transitional arrangements which will apply to individuals who have a maternity allowance claim in payment as at 31 December 2016. The States approved the proposals, and agreed to an implementation date of 1 January 2017. At the time of writing, the legislative drafting is on target to achieve this implementation date.

16.1.3. As such, the Committee is proposing that the rates of the new parental benefits for 2017 should be as agreed by the States in February 2012 (Billet d'État No IV of 2012, Volume I, Article 6). This was £180 per week for the new allowances at the 2011 rate, which is uprated in accordance with the percentage increases applied to the social insurance benefits from 2012 to 2017 (inclusive). These proposed rates are shown in Table 11 in Section 4.2.

16.1.4. It has been estimated that the enhanced package of parental benefits will cost in the order of an additional £1.9m per annum, at 2017 rates, if average claim durations are 26 weeks, i.e. the maximum duration. Based on the 2016 estimation, this could be funded by an increase of 0.2% on the Class 1 employed persons' contribution, and was approved by the States to be applied as a 0.1% increase to both the employers' and employees' contribution rate.

16.1.5. The States also resolved, at the same time, that the States grant to the Guernsey Insurance Fund should be reduced from 15% to 14.7%. The effect of this reduction will be to keep the cash value of the grant approximately the same as it would have been without the increases in the contribution rates. This reduction in the States grant will also be implemented with effect from 1st January 2017.

16.1.6. The cost to the States, as an employer, will increase by an estimated £170,000 per annum. The Committee is of the view that the States grant should not be reduced further to offset the additional employers' contributions with a view to creating an entirely cost-neutral position for General Revenue and that the States should bear this additional cost along with all other local employers.

16.1.7. Therefore, the net impact on General Revenue of the proposed 0.2% aggregate increase in the Class 1 contribution rate and the proposed reduction in the States grant from 15% to 14.7% of contribution income is estimated to be £197,000 per annum.

16.1.8. All work on the United Nations Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) now sits with the Committee, and as such will be prioritised in due course.

16.2. Progress with the Reciprocal Agreement on Social Security with Latvia

16.2.1. Further to the States in-principle approval for a Reciprocal Agreement on Social Security with Latvia in October 2015 (Billet d'État XVIII of 2015, Article 8), the Social Security Department, and subsequently, the Committee *for* Employment & Social Security, has commenced the necessary processes for the negotiations with Latvia to take place. Principally, exchanges have been undertaken with the Ministry of Justice (MoJ) in the UK. Guernsey is awaiting the necessary entrustment from the MoJ to conduct negotiations with the Latvian authorities.

16.2.2. Once the entrustment from the UK has been received, and the subsequent negotiations have been undertaken, the agreement will take effect when an Ordinance has been put to the States and approved.

16.3. Scheme of medical insurance for travel to the UK

16.3.1. On 30 October 2015, in the course of consideration of the Committee's Policy Letter on contribution and benefit rates for 2016 (Billet d'État XVIII of 2016, Article 8), and having approved an Amendment proposed by Deputy Matt Fallaize, the States resolved:

> '32. That the Committee *for* Employment & Social Security shall investigate the merits of including within the ambit of the Guernsey Health Service Fund the costs of healthcare and medical treatment incurred by Guernsey residents while travelling to the United Kingdom which would previously have been within the ambit of the States' reciprocal health agreement with Her Majesty's Government, or alternatively of the States entering into partnership with one or more private insurance providers to ensure that such insurance cover can be made available to Guernsey residents at reasonable cost; provided that such investigation shall be undertaken on the presumption that any such insurance scheme would most probably require any claim to be subject to both maximum and minimum conditions in relation to cost coverage; and further to agree that the Committee *for* Employment & Social Security shall report to the States thereon by no later than October, 2017; and further to note that, for the purposes of Rule 15(2)(a) of the Rules of Procedure of the States of Deliberation, carrying into effect the proposals in this amendment, i.e. the carrying out of such an investigation, will not increase the expenditure of the States.'

16.3.2. The Social Security Department contracted with an independent insurance specialist to produce a report which would identify options for the Department to pursue as the basis for its Policy Letter and recommendations to the States. While this work was commissioned by the Social Security Department, it was completed following the election, and as such, the report produced was considered by the new Committee.

16.3.3. The Committee approved in principle the development of a scheme of medical insurance for Guernsey and Alderney residents visiting the UK, as recommended in the report. As such, the Committee intends to present a Policy Letter to the States, following consultation with the Committee *for* Health & Social Care and the Policy & Resources Committee. It is anticipated that this Policy Letter will be presented to the States by no later than October 2017, as directed by the above Resolution of the States.

16.4. Resolutions from the Personal Tax, Pensions and Benefits Review

16.4.1. A number of the Resolutions arising from consideration of the Personal Tax, Pensions and Benefits Review (Billet d'État IV of 2015, Article 1) were considered through the debate of the Social Security Department's Policy Letter on benefit and contribution rates for 2016 (Billet d'État XVIII, Article 8).

16.4.2. In addition, several of the resolutions from the Personal Tax, Pensions and Benefits debate are discussed throughout this Policy Letter. These Resolutions included the following:

- Resolutions 7-8: proposals for a second pillar pension scheme (see section 17.2)
- Resolution 16: Introduction of the new package of parental benefits (see section 16)
- Resolution 19: Phasing out of Family Allowance (see section 9)
- Resolution 20: Universal exemption from prescription charges for those over the age of 64 (see section 5.3)
- Resolution 21: Introduction of a nominal fee for prescription charges for those currently exempt from paying prescription charges (see section 5.3)
- Resolution 22: Increase prescription charges to £4.40 per item from January 2016 (see section 5.3)
- Resolution 23: Closure of the free TV licence scheme for those over the age of 74, and supplementary benefit claimants over the age of 64 (see section 11)
- Resolution 24: Phase out the Health Benefit grants for primary care appointments (see section 5.1)
- Resolution 33 and 33A: Have regard to the upper earnings limit and investigate options to make the tax and social security system as a whole more progressive (see section 2.4)

16.4.3. The Committee has noted those outstanding Resolutions which are not considered within this Policy Letter, and will report back to the States on those within appropriate timeframes.

17. Policies, Projects and Updates

17.1. Update on the number of jobseekers and unemployed persons

17.1.1. The total number of jobseekers is comprised of people who are unemployed, those temporarily employed on a government training scheme, and those in part-time or casual employment. The reason that those claimants in part-time and casual employment and temporary training, are included in the figure for the total number of jobseekers is because there are opportunities to work with those people to increase their capacity for work to full-time hours.

17.1.2. At the end of July 2016, the total number of jobseekers was 688 split across the three groups, as shown in Table 28.

Table 28 – Number of jobseekers as at the end of July 2016

Type of claimant	Number
In part-time or casual employment	230
Temporarily employed on the Community and Environmental Projects Scheme or another government training scheme	36
Unemployed - not in employment or training	372
Total	**638**

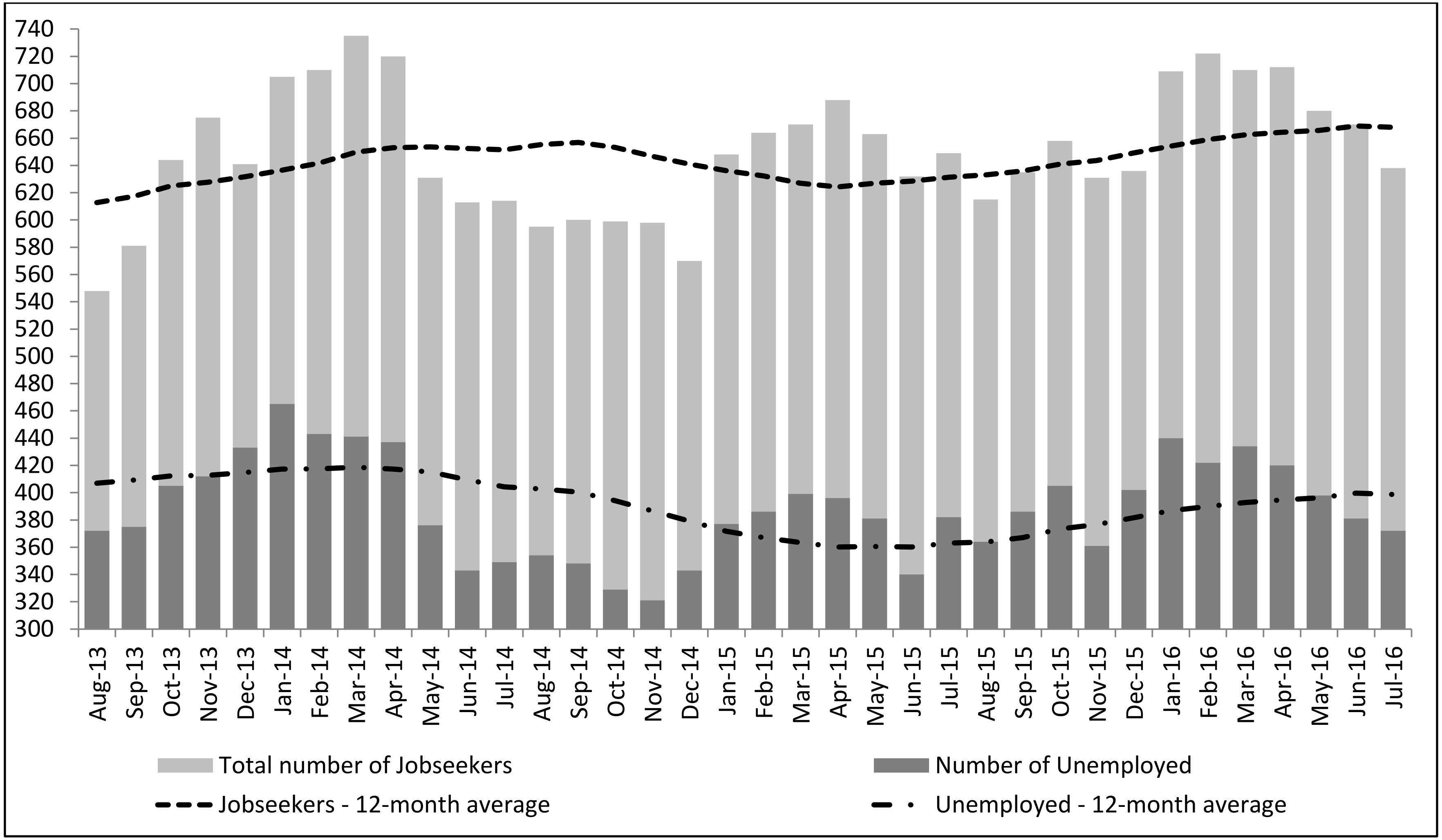
17.1.3. Unemployed people are those who are not engaged in any form of employment or training scheme. These figures are calculated using the International Labour Organisation's definition of 'unemployment'[18]. The contributory entitlements of the 372 unemployed people for July 2016 are shown in Table 29.

Table 29 – Number of unemployed persons as at the end of July 2016

Type of claimant	Number
Contributory unemployment benefit only	134
Contributory unemployment benefit and a supplementary benefit top-up	101
No contributory entitlement. In receipt of supplementary benefit only	137
Total	**372**

[18] https://stats.oecd.org/glossary/detail.asp?ID=2791

Figure 4 – Total number of jobseekers and unemployed persons – August 2013 to July 2016



17.1.4. Figure 4 on the previous page shows the trend and seasonal fluctuations of the total number of jobseekers each month over the three years from August 2013 to July 2016 (inclusive). This graph also includes the number of those jobseekers who are unemployed for comparison purposes. The 12 month rolling average trend line is also shown, which smooths out the seasonal variations and, therefore, shows whether unemployment is stable, rising, or falling.

17.1.5. The Committee continues to develop and expand the range of initiatives that it offers to assist and support jobseekers to secure employment or improve their employment prospects, as set out in Table 30.

Table 30 – Employment initiatives run by the Job Centre

Initiative	**Description**	**Benefit paid?**
Work trial	Chance to demonstrate capability to an employer where a real job is on offer.	Yes
Work experience	Extended work experience with learning goals.	Yes
Gradual return to work	Phased return to work following long-term sickness.	Partial payments
Kick start	On the job training with employers aimed at people at risk of long-term unemployment.	Minimum wage
Basic skills training and flexible IT	Help with IT, literacy & numeracy skills, including a flexible IT course to fit with commitments.	Yes
Short-term training	Retraining following illness and for parents re-entering the job market after long-term claims.	Yes
Passport To Work	Develop useful skills such as communication, problem solving and organisation.	Yes
Prince's Trust Team Programme	A 12-week personal development programme, which offers the chance to gain new skills, qualifications and work experience	Yes
Back to work bonus	One-off lump sum payable following a return to work and closure of long-term claims.	N/A
Job start expenses	Help with some of the costs associated with starting work, such as tools, boots, clothing	N/A
Community & Environmental Projects Scheme	Paid work and training opportunities for people who are not working due to unemployment or long-term illness.	Minimum wage
Recruitment grant	Staged payments to an employer to recognise the extra support required for someone who has been long-term unemployed or long-term sick.	N/A

The 'Get into…' courses	Short courses aimed at unemployed young people to help identify their skills and aptitude.	Yes
Job Centre Support Contract	Professional recruitment consultants working with employers and jobseekers to improve recruitment opportunities.	N/A
Job Fairs	A targeted means of bringing employers and jobseekers together to fill vacancies.	N/A
Stepping In Scheme	On the job training in roles which will become vacant when short-term housing licences expire.	Minimum wage
Work2Benefit	A mandatory work scheme for unemployed persons in receipt of supplementary benefit.	Yes

17.1.6. From 1 July 2015 to 30 June 2016, the Job Centre placed a total of 728 jobseekers into employment. Of the total number of jobseekers placed into employment from 1 July 2015 to 30 June 2016, 216 were placed by the Job Centre Support Contract consultants.

17.2. Update on the proposals for the implementation of a second pillar pension scheme for Guernsey and Alderney

17.2.1. In order to address the current low levels of private pension savings, coupled with the demographic trends projected for the Island, the Social Security Department reported to the States in February 2016 (Billet d'État III of 2016, Article 15) on proposals for the implementation of a new system of automatic enrolment into private pension saving for working age residents of Guernsey and Alderney.

17.2.2. This Policy Letter received strong support within the States and among private sector employers who were consulted during the development of the Policy Letter. The States approved the principles for the introduction of a Secondary Pension scheme, subject to further research being carried out by the Committee on any distinctions that should be made between employers of varying sizes and whether any temporary exemptions should apply to business start-ups.

17.2.3. The Committee was directed to report back to the States by no later than 31st December 2017 with detailed proposals for implementation, including an economic impact assessment. The Committee intends to meet the implementation date for the scheme of 2020. At the time of writing, the Committee has formed a project team to progress this work, and is on target to report back to the States within the above timeframe.

17.3. Supporting Occupational Health and Wellbeing

17.3.1. The Committee's Supporting Occupational Health and Wellbeing project (SOHWELL) was launched in 2014. This project has transformed the way in which the Committee manages sickness claims. The focus is on earlier intervention to support people who may need extra help to stay in work or get back to work more quickly.

17.3.2. Throughout this project the Committee has worked closely with Dr Leslie Smith in re-designing the medical certificate, so that it supports an earlier return to work, and changing the way incapacity for work is assessed. As Medical Adviser to the Committee, Dr Smith has also delivered occupational health training to GPs and other healthcare professionals.

17.3.3. All certifying practitioners have an important role in helping manage sickness related absence. Therefore, the Committee expects to complete the roll-out of the new style certificate and occupational health training to physiotherapists and other musculoskeletal practitioners by the end of 2016. This will ensure that all practitioners who can issue medical certificates have had the same opportunities for occupational health training and will provide information in a similar way.

17.3.4. The Committee recognises that fundamental changes and reduction to sickness absence and behaviour will take time. The Committee is grateful for the ongoing support and positive engagement of the medical profession. Opportunities now exist for medical practitioners to give advice on an employee's present work capability, including the obstacles that may prevent an employee from returning to work. The medical certificate allows practitioners to make basic recommendations about reasonable adjustments which may make an earlier return to work more likely.

17.3.5. Another key factor in the success of the project will be a greater awareness of occupational health amongst employers and their willingness to consider reasonable workplace adjustments. The Committee recognises that some employers may not have access to occupational health advice and may be unsure of how to deal with sickness related absence.

17.3.6. In August, the Committee launched a campaign under the brand 'FitTogether' which aims to raise awareness of the very important relationship between work and health. FitTogether is about doctors, employers, and employees all working together to make sure that people who have an illness, injury or disability are supported early, to help them stay at work or get back to work more quickly. The Committee will continue to work alongside organisations such as Guernsey Employment Trust and Mind Guernsey to actively engage with employers and provide greater support in this area.

17.4. Social Welfare Benefits Investigation Committee (SWBIC)

17.4.1. The Social Welfare Benefits Investigation Committee was constituted as a Special Committee by the States in December 2013 (Billet d'État XXVI of 2013, Article 1). In accordance with the constitution, the Committee comprised of two Members from the Social Security Department, two from the Housing Department, one from the Treasury and Resources Department, and an independent Member.

17.4.2. The Special Committee reported to the States in March 2016 (Billet d'État VII of 2016, Volume II, Article 9) and the States approved the propositions for the reform of the supplementary benefit and rent rebate systems. The new package was forecasted to add a cost of approximately £3.4m to social welfare expenditure in the first year of implementation, reducing to £2.9m by the third year.

17.4.3. The Committee has received confirmation from the Policy & Resources Committee that the 2017 Budget would not allocate any funding to the implementation of the Resolutions of the March 2016 Policy Letter. The States needs to be very clear about the consequences of not funding these social welfare reforms: it means that there are individuals and families who will continue to endure a standard of living which the States have already agreed is intolerable. This cannot be consistent with the States' social policy objectives, and in any event, it is unacceptable in a modern, compassionate, affluent society.

17.4.4. Following discussions with the Policy & Resources Committee, the Committee has decided not to submit a budget request for the necessary £3.4m for 2017, and will not seek to amend the 2017 Budget to that effect in the course of the States debate in November 2016. While the Committee is dissatisfied with the postponement of funding, the Committee accepts that, due to the administrative and logistical preparations that will be required to deliver the reformed system, the earliest practical start date would be 1st July 2017.

17.4.5. The Committee wishes to work closely with the Policy & Resources Committee on this matter in order to jointly identify measures that would secure the necessary finances to address poverty from 1st January 2018.

17.5. Treatment of pension contributions in the supplementary benefit means test

17.5.1. In October 2016, after consideration of a Policy Letter from the former Social Security Department entitled 'Benefit and Contribution Rates for 2016' (Billet d'État XVIII of 2016, Article 8), the States resolved:

'26. That the First Schedule to the Supplementary Benefit (Guernsey) (Implementation) Ordinance, 1971 be amended to allow any relievable pension contributions made by the person in that period to be deducted from the net remuneration or profit derived by him from any occupation, for the purpose of calculating a person's weekly earnings in respect of a claim to supplementary benefit.'

17.5.2. This legislation change came into effect from 8 January 2016[19]. This means that contributions made to occupational and personal pension schemes by individuals who are working and claiming a supplementary benefit top-up are now deducted from the individual's salary or wages for the purpose of calculating net earnings in the supplementary benefit means test. This has corrected an anomaly which existed whereby individuals in receipt of supplementary benefit who contributed to a pension scheme had less disposable income on a weekly basis than other claimants who did not pay into a pension scheme, which acted as a disincentive for individuals in low paid employment to save for their retirement.

17.6. Transfer of budget for School Clothing Grant and Educational Maintenance Grant

17.6.1. The Committee *for* Education, Sport & Culture has responsibility for matters relating to education. One of the functions carried out under this remit has been the administration of the School Clothing Grant and the Educational Maintenance Grant. These grants are made available to low-income families to help with the cost of uniforms and with the cost of keeping young people in education after they reach official school leaving age at 16. The grants are means-tested with the application, administration and payment processes mostly undertaken during the summer school holiday period.

17.6.2. The School Clothing and Educational Maintenance Grants were considered when exploring the Minimum Income Survey during the initial phase of the modernisation of Supplementary Benefit in 2012 (Billet d'État V of 2012, Article 6). The Education Department supported in principle the Clothing Grant and the Educational Maintenance Grant being integrated into the new Supplementary Benefit Scheme, however, the Minimum Income Survey proposals were not adopted in 2012, and have been subject to some reworking by the Social Welfare and Benefits Investigation Committee more recently.

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19 The Supplementary Benefit (Implementation) (Amendment) Ordinance, 2015

17.6.3. The grants are administered and processed as a stand-alone benefit and this function was transferred from the Committee *for* Education, Sport & Culture to the Supplementary Benefit Section of the Committee *for* Employment & Social Security, from 1st July 2016, along with the budget totalling £125,000.

17.6.4. The grants will continue to be administered in their current form until further consideration can be given as to whether they should be fully integrated into the supplementary benefit scheme.

17.7. Every Child Our Future LBG

17.7.1. There is a States Resolution, dating back to January 1993 (Billet d'État I of 1993, Article 14), which enables an annual grant to be paid to the Methodist Church in respect of the running of Wesley Playschool. In light of the proposed changes to pre-school provision on the Island, the church has decided to close the pre-school. Following this decision, the Committee received a request from the Committee *for* Education, Sport & Culture to re-allocate the grant to Every Child Our Future LBG (ECOF), which is a registered charity in Guernsey.

17.7.2. The grant to the Methodist Church is one of a number of charitable grants paid by the Committee through States Resolution. In 2016, the Committee allocated, from its capped budget for charitable grants, the sum of £31,265 to the Methodist Church and agreed that the same rate would be payable in 2017. The Committee is proposing that a grant at the same level is paid to ECOF.

17.7.3. ECOF is working in partnership with the Committee *for* Education, Sport & Culture on the provision of a childcare and children's centre at the old St Sampson's Infant School building. Through a pre-school at the centre ECOF will support vulnerable families who will access the pre-school alongside other families who choose to send their children to the centre, which will be named 'Bright Beginnings'.

17.7.4. The Committee is in agreement that the grant should be transferred from the Methodist Church to ECOF for the purpose outlined above. It is therefore proposing that the January 1993 Resolution be rescinded, and replaced with a new States Resolution enabling a grant to be paid to ECOF at £31,265 in 2017, and at such amounts as may be deemed appropriate in subsequent years, for the provision of a pre-school to support vulnerable families. This grant would be paid provided that the funds are allocated to support those children who were not of the age where they would be entitled to free pre-school education.

18. Proposed Amendments to Legislation

18.1. Proposal to introduce a residence criteria for supplementary benefit claimants living in Part D Open Market properties

18.1.1. In 2013 (Billet D'État XX of 2013, Volume 2, Article 11), the States approved a proposal from the Social Security Department that people residing in a dwelling listed on Part A of the Open Market Housing Register should be ineligible for a rent allowance paid under the Supplementary Benefit (Guernsey) Law, 1971. This proposal was in response to an increased number of claims to supplementary benefit being received from people living in Open Market accommodation. Typically, the claims were from migrant workers with expensive rent and low income.

18.1.2. The Social Security Department was of the view:

> 'that it is highly undesirable that Island residents who, by virtue of living in a Part A property, are not subject to any assessment as to: (i) the essentiality of their skills; or (ii) whether they are needed to work in the Island to fill manpower shortages; or (iii) whether they have sufficient connections with the Island to justify the grant of a licence not connected to their employment, might have their rent subsidised by the taxpayer by way of supplementary benefit, potentially on an indefinite basis given that there are no restrictions over the length of their residence in the Island.'

18.1.3. Following States approval of the Proposition, the supplementary benefit legislation was amended with effect from 1 January 2014. Since that time, supplementary benefit rent allowances have not been available to people living in Part A of the Open Market. The Committee has not been made aware of any difficulty arising from the implementation of this change. It should be noted that a claim could still be made for a supplementary benefit personal allowance, excluding rent, but the level of the requirement rates, as shown in Table 17, are such that there would probably only be entitlement if the individual had no earnings.

18.1.4. The Open Market Housing Register (Guernsey) Law, 2016, the introduction of which will coincide with the introduction of the Population Management (Guernsey) Law, 2016, is expected to take effect from 3 April 2017. The legislation will, among other things, redefine Part D of the Open Market Housing Register, which currently comprises lodging houses, to include those lodging houses and, subject to them meeting certain criteria, all Part A properties in use for the multiple occupation of unrelated adults.

Collectively, these properties will be defined as Houses in Multiple Occupation.

18.1.5. The 2013 proposal did not place any restrictions on availability to supplementary benefit for people living in Part D properties. This is because then, and currently, people in those properties will either have residential qualifications or be in possession of a housing licence. In short, the current residents will either be 'local people' or people for whom a housing licence has been granted by reason of the Island needing their labour or skills, or because of their familial connections within the Island.

18.1.6. From 3 April 2017, the redefined Part D Houses in Multiple Occupation will therefore combine in a single category two groups of people. One group is the current Part A people for whom the States have resolved that supplementary benefit rent allowances should not be available. The other group is the current Part D people for whom the States are content for supplementary benefit rent allowances to be available.

18.1.7. Unless there is a further change in the legislation, eligibility for supplementary benefit rent allowances will open up to people currently living in Part A, who, without necessarily moving house, will, from April 2017, be classified as living in a Part D House in Multiple Occupation. It is estimated that up to 800 people who are currently living in 172 Part A open market houses will, from April 2017, find themselves living in Part D accommodation.

18.1.8. In the future, people without residential qualifications will need a resident permit to live in Part D, but such permits will be granted routinely unless the applicant has exceeded the 5 year maximum time that the applicant is allowed to reside in Guernsey before taking a mandatory break in residence. The only other cause for rejection of an application for a resident permit for Part D would be by reason of a record of serious criminal convictions.

18.1.9. It is acknowledged that the great majority of these 800 people will be self-supporting, even though they will be in the Island by virtue of a resident permit and not an employment permit. Either form of permit will allow an individual to live and work in Guernsey. The difference is that a migrant worker with an employment permit will have been granted a permit that is conditional upon them undertaking work where the States consider there to be a labour or skills shortage. The migrant worker with a resident permit will be taking his or her chance in Guernsey and finding work outside the condition of the employment permit criteria. This will be quite lawful, as allowed by Part D residence.

18.1.10. Although it is expected that the great majority of Part D residents will have no need, nor motivation, to claim supplementary benefit, the Committee considers that there is a risk of a number of claims being made. The Committee considers that it is preferable to impose a control in advance of the change. The alternative would be to leave it uncontrolled and react as necessary in the light of experience.

18.1.11. By a majority, with Deputy John Gollop and Deputy Emilie Yerby dissenting, the Committee considers that there is a need to restrict availability to supplementary benefit for people living in Part D Houses in Multiple Occupation. The Committee considers that the restriction should go beyond the availability of a rent allowance and should be a general restriction on availability to a supplementary benefit personal allowance as well. The Committee proposes that there should be a 5 year residence requirement as a condition to entitlement to supplementary benefit. This will ensure that people with residential qualifications who happen to be living in Part D accommodation will not be excluded from claiming supplementary benefit if they have a need to do so.

The Committee considers that although this would be the general rule, there may be occasions when it would be necessary to provide assistance from supplementary benefit to a resident of Part D who had been resident in Guernsey for less than 5 years. The Committee proposes that the Administrator should be empowered to pay supplementary benefit, of such amount as he considers reasonable, in exceptional cases.

18.2. Proposal to increase the timeframe for the Administrator to respond to the notification of an appeal under the Supplementary Benefit Law

18.2.1. Under the Supplementary Benefit Law, claimants have a right of appeal to an independent tribunal against an Administrator's decision in the following circumstances:

- a decision that the person is not a person to whom the Law applies;
- a decision that the person is not in need of a supplementary benefit;
- a decision as to the amount of any supplementary benefit to be paid to him.

18.2.2. Section 12(3) of the Supplementary Benefit (Implementation) Ordinance, 1971 requires the Administrator to respond to the notification of an appeal by providing a statement setting out the facts and grounds on which he relies in support of the decision within seven days. It is likely this short time-frame was aimed at reducing the length of time someone would be at risk of experiencing financial hardship. While this turnaround may have been possible when the legislation was introduced, it is not realistic now. Claims are very much more complex than they were in 1971 when the

Supplementary Benefit Law was introduced; the review, collation and production of the Administrator's statement invariably takes more than seven days. It can then take some time to arrange a tribunal at a time convenient to all parties.

18.2.3. The Social Insurance Law also includes provisions for appeals to a tribunal in respect of the Administrator's decisions made under that Law. There is no time specified for the return of the Administrator's statement but the in-house service standard is to respond within one month of receipt. Depending on the nature of the case, and whether there is new information to consider, this standard may not always be met.

18.2.4. In order to provide a more realistic timeframe for processing an appeal statement, it is proposed that the Supplementary Benefit (Implementation) Ordinance, 1971 be amended to replace the seven days required for the Administrator to respond with 28 days. It should be noted, and in keeping with supplementary benefit being a benefit of last resort, that the Administrator does have the ability to make payments to relieve hardship while there is an appeal pending.

18.3. Proposal to rename invalidity benefit

18.3.1. A person under pension age who satisfies certain contribution conditions and who has been in receipt of sickness benefit or industrial injury benefit, arising from incapacity for work, for an aggregate period of 26 weeks (6 months), is entitled to invalidity benefit, under the Social Insurance (Guernsey) Law, 1978, for any subsequent day of incapacity for work which forms part of the same period.

18.3.2. A claimant of invalidity benefit may be a disabled person. However, a disability does not give rise to an entitlement to invalidity benefit unless, as a result of the condition experienced, the disabled person is assessed to be incapable of undertaking any form of employment.

18.3.3. The Committee has received feedback that the name of this benefit is offensive as the term 'invalid' has acquired derogatory connotations over time. The Committee concurs that the term 'invalidity benefit' has become outdated, and recommends renaming the benefit 'incapacity benefit'. This reflects work done since 2011 to remove outdated terminology from the supplementary benefit legislation, and from the names of other benefits.

PART V: CONCLUSIONS

19. Resource and Implementation Plan

19.1.1. Table 31 shows how the Committee has considered the resources required to implement the propositions set out in this Policy Letter.

Table 31 – Resource and Implementation Plan

Details considered	**Committee comment**
Cost	This Policy Letter recommends that contributory benefits and contribution rates are uprated by the States approved uprating policy of approximately one third of the difference between RPIX and the median earnings index: 0.8% for 2017. It is proposed that non-contributory and long-term care benefits are uprated by RPIX, set at 0.6% in June 2016.
Timescale	The timescales for the implementation of the proposals set out in this Policy Letter are commented on within the text, but will mostly take effect from January 2017.
Resource requirements	Consideration of the financial position has been given throughout this Policy Letter, as well as the results of the 2010-2014 actuarial reviews, and staff availability to undertake project work. Consultation with the Law Officers' has identified the impacts of the proposals on their workload, with regard to legislative drafting.
Funding	Funding will come from contribution income, the States grants, the planned draw-down of the Funds, General Revenue, and the re-allocation of a portion of the family allowance budget to families in receipt of supplementary benefit, so that they are not worse off as a result of the reduction in Family Allowance.
Staffing implications	The Committee does not envisage that the proposals contained within this Policy Letter would result in a request for additional staffing resources at this stage, and as such, expects that the work streams associated with the propositions will be carried out as business as usual, where staff provisions are not already in place.
Transitional arrangements	Some of the projects commented on in this Policy Letter require transitional arrangements to be put in place, which has been planned, however, the majority of the proposals are business as usual.
Communications plan	The Law Officers and the Policy & Resources Committee have been consulted with, and proposals discussed with stakeholders where relevant.

20. Engagement and consultation

20.1.1. Through the drafting of this Policy Letter, the Committee has consulted with the Policy & Resources Committee, including inviting a member of the Policy & Resources Committee to attend the meetings at which this Policy Letter was considered during the drafting process.

20.1.2. The Committee has consulted with the Law Officers regarding the legal implications and legislative drafting requirements resulting from the propositions set out in this Policy Letter. The Law Officers have not identified any legal difficulties with the propositions contained within this Policy Letter.

21. Conclusions

21.1.1. The Committee has set out its proposals for the benefit and contribution rates for 2017 throughout this Policy Letter, and seeks the States support for these proposals.

PART VI: PROPOSITIONS

22. Propositions

The States are asked to decide, whether they are of the opinion

1. To increase the percentage contribution rate for employees, self-employed persons, and non-employed persons under and over pension age, by 0.5%, with effect from 1st January 2017. This takes the current contribution rates from 6.1% to 6.6% for employees, 10.5% to 11% for self-employed persons, 9.9% to 10.4% for non-employed persons under pension age, and 2.9% to 3.4% for non-employed persons at or over pension age.

2. To set the upper weekly earnings limit and the upper monthly earnings limit for employed persons and employers at £2,667 and £11,557 respectively, from 1st January 2017.

3. To set the lower weekly earnings limit and the lower monthly earnings limit for employed persons and employers at £134 and £580.67 respectively, from 1st January 2017.

4. To set the annual upper and lower earnings limits for self-employed persons at £138,684 and £6,968 respectively, from 1st January 2017.

5. To set the annual upper and lower income limits for non-employed persons at £138,684 and £17,420 respectively, from 1st January 2017.

6. To set the allowance for non-employed persons at £7,875 per year, from 1st January 2017.

7. To set the voluntary contribution for non-employed persons at £19.09 per week, from 1st January 2017.

8. To set the overseas voluntary contribution at £91.17 per week for non-employed people and £100.79 per week for self-employed people, from 1st January 2017.

9. To set the standard rates of pension and contributory social insurance benefits at the rates set out in Table 11 of that Policy Letter, from 2nd January 2017.

10. To set the prescription charge per item of pharmaceutical benefit at £3.80, from 1st January 2017.

11. To set the contribution (co-payment) required to be made by the claimant of care benefit, under the Long-term Care Insurance Scheme, at £195.16 per week, from 2nd January 2017.

12. To set the maximum weekly long-term care benefit at the rates set out below, from 2nd January 2017:

    a) £807.38 per week nursing care benefit for persons resident in a nursing home or the Guernsey Cheshire Home;

    b) £569.80 per week elderly mentally infirm (EMI) benefit for qualifying persons in a residential home; and

    c) £432.46 per week residential care benefit for persons resident in a residential home.

13. To set the maximum weekly respite care benefit at the rates set out below, from 2nd January 2017:

    a) £1,002.54 per week for persons receiving respite care in a nursing home or the Guernsey Cheshire Home;

    b) £764.96 per week for the elderly mentally infirm (EMI) rate for persons receiving respite care in a residential home; and

    c) £627.62 per week for persons receiving respite care in a residential home.

14. To set the supplementary benefit requirement rates at the rates set out in Table 17 of that Policy Letter, from 6th January 2017.

15. To set the weekly benefit limitations for supplementary benefit at the rates set out below, from 6th January 2017:

    a) £650.00 for a person living in the community;

    b) £534.00 for a person who is residing in a residential home; and

    c) £766.00 for a person who is residing as a patient in a hospital, nursing home, the Guernsey Cheshire Home, or as an elderly mentally infirm resident of a residential home.

16. To set the amount of the personal allowance payable to persons in Guernsey and Alderney residential or nursing homes who are in receipt of supplementary benefit at £30.55 per week, from 6th January 2017.

17. To set the amount of the personal allowance payable to persons in United Kingdom hospitals or care homes who are in receipt of supplementary benefit at £51.47 per week, from 6th January 2017.

18. To set the supplementary fuel allowance paid to supplementary beneficiaries who are householders at £26.03 per week, from 28th October 2016 to 28th April 2017.

19. To set the rate of family allowance at £13.50 per week, from 2nd January 2017.

20. To set the rates and annual income limits for severe disability benefit and carer's allowance at the rates and limit set out in Table 22 of that Policy Letter, from 2nd January 2017.

21. To rescind Resolution XIV of January 1993 (Billet d'État I of 1993, Article 14) which states that:

    'After consideration of the Report dated the 7th December, 1992, of the States Insurance Authority

    To authorise the States Insurance Authority to make a grant to The Methodist Church Bailiwick of Guernsey Circuit of £9,000 in 1993 and of such amount as it may deem appropriate in subsequent years in accordance with such terms and conditions as that Authority may decide.'

22. To authorise, subject to the approval of proposition 21, the Committee *for* Employment & Social Security to pay a grant to Every Child Our Future of £31,265 in 2017, and in subsequent years, at such amounts as the Committee may deem appropriate within its budget allocation for grants to charitable organisations, for the provision of a pre-school to support vulnerable families whose children are not of the age where they would be entitled to free pre-school education.

23. To introduce a 5 year residence requirement as a condition of entitlement to the supplementary benefit rent allowance and personal allowance for people living in Part D Houses in Multiple Occupation.

24. To give the Administrator the power, in exceptional circumstances, to award supplementary benefit, of such amount as he considers reasonable, to persons who do not meet the 5 year residence requirement.

25. To amend the Supplementary Benefit (Implementation) Ordinance, 1971, to replace the seven day period required for the Administrator to respond to the notification of an appeal with a 28 day period.

26. To amend the Social Insurance (Guernsey) Law, 1978, and associated legislation, to rename 'invalidity benefit' as 'incapacity benefit'.

27. To direct the preparation of such legislation as may be necessary to give effect to the above decisions.

23. Committee Support for Propositions

23.1.1. In accordance with Rule 4(4) of the Rules of Procedure of the States of Deliberation and their Committees, it is confirmed that, with the exception of Propositions 23 and 24, which are not supported by Deputy Gollop and Deputy Yerby, the propositions above have the unanimous support of the Committee.

Yours faithfully

M K Le Clerc
President

S L Langlois
Vice-President

M J Fallaize
J A B Gollop
E A Yerby

M J Brown
Non-States Member

A R Le Lièvre
Non-States Member

PART VII: APPENDICES

APPENDIX 1

The Actuarial Review on the Guernsey Insurance Fund

The report follows on the next page.

Government Actuary's Department

Guernsey Social Security Reviews as at 31 December 2014

Guernsey Insurance Fund

FINAL REPORT

Date: 23 June 2016

Author: Martin Clarke

THE SOCIAL INSURANCE (GUERNSEY) LAW 1978

REPORT BY THE GOVERNMENT ACTUARY ON THE OPERATION OF THE SOCIAL INSURANCE (GUERNSEY) LAW IN THE PERIOD 1 JANUARY 2010 TO 31 DECEMBER 2014

To the President and Members of the Committee *for* Employment & Social Security:

Section 102 of the Social Insurance (Guernsey) Law 1978 (as amended) provides for a review of the operation of the Social Insurance Law at intervals not exceeding five years. The Government Actuary's previous review covered the period of six years up to 31 December 2009. At the request of the former Social Security Department, I have carried out a review covering the five year period from 1 January 2010 to 31 December 2014. I submit the following report on the financial condition of the Guernsey Insurance Fund and on the adequacy of the present contribution rates. All the references to Guernsey in this report are to be taken to include also the islands of Alderney, Herm and Jethou, whose residents are covered by the Social Insurance Law.

Martin Clarke FIA
Government Actuary

23 June 2016

Contents

1 Executive Summary

Background

1.1 This report has been prepared for the President and Members of the Committee *for* Employment & Social Security.

1.2 Section 102 of the Social Insurance (Guernsey) Law 1978 (as amended) requires an actuary to review the operation of the Social Insurance Law at intervals not exceeding five years. The previous review covered the period to 31 December 2009. Accordingly this review covers the period from 1 January 2010 to 31 December 2014. The next report will be due with an effective date no later than 31 December 2019.

1.3 The aim of this report is to review the financial condition of the Guernsey Insurance Fund ("the Fund") and the adequacy or otherwise of the contributions payable to support the payments to be made from the Fund.

1.4 We have assessed the financial condition of the fund in terms of a cashflow projection approach and this report includes:

> Projections of the contributions required to balance projected benefit payments

> Projections of the progress of the Fund if the current contributions rates are maintained

> Estimates of the constant contribution rates required such that the projected average balance of the Fund is equal to twice projected expenditure at the end of the projection period.

1.5 Projections have been produced for the period 2015 to 2075.

1.6 This review allows for changes made to the Fund since the previous review as at 31 December 2009, including the extension of planned increases in pension age as agreed following the Personal Tax, Pensions and Benefits Review.

Key results

1.7 The projections suggest that, based on the principal assumptions adopted, the current contribution rate, allowing for the planned increase from 1 January 2017, is unlikely to remain adequate over the period to 2075. The break-even contribution rate is projected to exceed the contribution rate payable until 2059. As such, the Fund is projected to steadily decline as a multiple of annual expenditure from 2014, falling below twice projected expenditure by 2035, and is projected to be exhausted in 2046. Similar outcomes are projected based on variant up-rating and real earnings growth assumptions.

1.8 For all the scenarios considered, the Fund is projected to decline in the early years of the projection period, reflecting the large cohorts approaching pension age.

1.9 However, the projections suggest that the current contribution rate may remain adequate throughout the projection period if net immigration is higher than that adopted on the principal basis. This scenario provides for a larger fund balance in the period during which expenditure is projected to exceed contribution income and prevents the Fund being exhausted prior to operating surpluses being projected to emerge. However, the projections suggest that the long-term objective of maintaining a fund balance of two years' outgo may not be achieved in every year of the projection period. Higher real investment returns, of 3% a year or higher, would be expected to provide a similar outcome.

1.10 The projections are more positive than those provided for the 2009 Review where the Fund was projected to be exhausted in 2037, based on up-rating in line with half-way between prices and earnings and variable net migration. This largely reflects the change in the principal up-rating assumption together with the planned increases in pension age and a change in the principal migration assumption. The effect of these changes is offset to an extent by changes in the contributions assumptions and a lower assumed real rate of investment return.

1.11 That is, changes introduced since the 2009 Review have improved the financial condition of the Fund but they are not projected to ensure the sustainability of the Fund over the period to 2075.

1.12 The constant contribution rate estimated to be required from January 2018 such that the projected average balance of the Fund is equal to twice projected expenditure at the end of the projection period is 8.68%. This constant contribution rate provides for the average balance of the Fund to remain positive throughout the projection period, but it is not projected to be above twice projected expenditure at all points throughout the projection period. The current joint Class 1 contribution rate is scheduled to increase from 8.3% of relevant earnings to 8.5% from 1 January 2017.

Assumptions

1.13 The projections provided depend on assumptions made about the future. The principal assumptions adopted in carrying out this review are summarised in Table 1.1 overleaf.

Table 1.1: Summary of principal assumptions

	Principal assumption
Fertility and mortality projections	ONS 2014-based projections for England and Wales adjusted by constant age-related multipliers to reflect Guernsey's mortality experience from 2008 to 2014 and fertility experience from 2009 to 2014.
Migration	Constant net immigration of 100 a year, as advised by the former Guernsey Social Security Department. Distribution of migration by age and sex updated to reflect a 55 / 45 male / female split but with the overall age distribution unchanged from that adopted for the 2009 Review.
RPIX price inflation	Short-term assumptions for the period to 2019 with a long-term assumption of 3% in 2020 and each year thereafter
Real earnings growth (net of RPIX price inflation)	1.5% pa
Real investment return (net of RPIX price inflation)	2.5% pa

1.14 The demographic and economic assumptions underlying the projections are inevitably subject to a considerable degree of uncertainty, particularly for the more distant future. The pay-as-you-go nature of the Fund means that contribution rates and the future progress of the Fund may change significantly over time owing to changes in the benefits provided, the profile of the population or the economic environment. The variant projections provided, as advised by the former Guernsey Social Security Department, illustrate the sensitivity of the projections to different experience or different policies.

1.15 Given the uncertainty about the future progress of the Fund, caution is needed when using the projections in this report. Users should read the main body of this report to understand the uncertainty and limitations surrounding these projections.

1.16 In our opinion the range of assumptions underlying the projections in this report cover a reasonable range and the methodology used in preparing these projections is appropriate for its purpose and consistent with actuarial principles.

2 Introduction and Scope of the Review

2.1 This report has been prepared for the President and Members of the Committee *for* Employment & Social Security. The Committee is required to lay a copy before the States as soon as is practicable after receiving it.

2.2 The Guernsey Insurance Fund ("the Fund") is financed broadly on the pay-as-you-go principle. The Fund receives contribution income to fund current and future benefit expenditure, with a fund maintained to act as a reserve. The long-term objective is to maintain a minimum balance of two years' outgo.

2.3 The cash flows into and out of the Fund are contributions paid each year by individuals and employers, and benefits paid to individuals in line with the provisions of the Fund. Under the pay-as-you-go approach, contribution income in a year is intended to cover expenditure in the year, and no significant fund of assets would be built up out of which to finance future expenditure. This means contribution rates may change significantly over time owing to changes in the benefits provided, the profile of the population or the economic environment. The long-term objective is to maintain a minimum Fund balance approximately equal to two years' outgo, while keeping the contribution rate relatively stable.

2.4 Section 102 of the Social Insurance (Guernsey) Law 1978 (as amended) requires an actuary to review the operation of the Social Insurance Law at intervals not exceeding five years. The legislation requires the actuary to "*make a report to the Committee on the financial condition of the Guernsey Insurance Fund and the adequacy or otherwise of the contributions payable under this Law to support the benefits payable thereunder having regard to its liabilities under this Law*."

2.5 This report addresses this requirement as at an effective date of 31 December 2014. The previous report, issued in June 2011, was prepared as at an effective date of 31 December 2009. The next report will be due as at an effective date no later than 31 December 2019.

2.6 Given the pay-as-you-go nature of the Fund we have assessed the financial condition of the fund in terms of a cashflow projection approach and this report includes:

> Projections of the contributions required to balance projected benefit payments

> Projections of the progress of the Fund if the current contributions rates are maintained

> Estimates of the constant contribution rates required such that the projected average balance of the Fund is equal to twice projected expenditure at the end of the projection period.

2.7 As requested by the former Guernsey Social Security Department, we have produced projections for the 60-year period from 2015 to 2075 and the projections reflect updated population projections.

2.8 The projections are dependent on the data, methodology and assumptions used. There is considerable uncertainty about the future progress of the Fund and actual experience could differ materially from the projections. Section 7 of this report provides further comments on this.

2.9 This report also provides:

> Details of the data and assumptions underlying the projections and estimates provided

> Details of the methodology adopted.

2.10 It is anticipated that the results in this report will be used by the Committee *for* Employment & Social Security for information purposes and for considering possible changes to contributions or benefits payable. However, before deciding on any changes, further actuarial advice should be sought in order to confirm the likely impact on the finances of the Fund. Furthermore, in making decisions about the Fund, it will also be appropriate to take into account non-actuarial matters, such as legal, administrative and policy issues.

Professional standards

2.11 This report complies with GAD's standards. For further details please see GAD's website: https://www.gov.uk/government/organisations/government-actuarys-department/about/terms-of-reference.

Reliances and limitations

2.12 This report has been prepared for the President and Members of the Committee *for* Employment & Social Security. We understand that the information in this report may be made available to others. However GAD does not accept any liability to third parties in relation to this report.

2.13 This review relies on the accuracy of data and information provided by the former Social Security Department. GAD does not accept responsibility for advice based on wrong or incomplete data or information provided.

2.14 The advice provided must be taken in context. Advice is intended to be read and used as a whole and not in parts. GAD does not accept responsibility for advice that is altered or used selectively.

2.15 Clarification should be sought if there is any doubt about the intention or scope of advice provided in this report. GAD is not responsible for any decision taken by the Committee *for* Employment & Social Security, except to the extent that the decision has been made in accordance with specific advice provided.

2.16 All references to Guernsey in this report are to be taken to include also the islands of Alderney, Herm and Jethou.

3 Overview of the Guernsey Insurance Fund

3.1 The Guernsey Insurance Fund is a contributory social security scheme providing a range of benefits including old age, sickness, and unemployment benefits.

3.2 The Fund is financed broadly on the pay-as-you-go principle. Under this approach, contribution income in a year is intended to cover expenditure in the year, and no significant fund of assets would be built up out of which to finance future expenditure. This means contribution rates may change significantly over time owing to changes in the benefits provided, the profile of the population or the economic environment.

3.3 However, notwithstanding the pay-as-you-go principle, a fund is maintained to act as a reserve to meet unforeseen contingencies in the operation of the Fund. As at 31 December 2014, the balance of the fund held was £702 million, which is equivalent to about 5.4 times annual expenditure.

3.4 Appendix A provides a summary of the contributions payable and the benefits provided. For some benefits it is not a requirement to be a Guernsey resident in order to receive a benefit from the Fund and, in practice, the old age pension is paid to many individuals who do not remain on the Island in retirement.

3.5 Contributions are paid by employers, employees, the self-employed and the non-employed. Employees and their employer currently pay a total of 8.3% of earnings up to the upper earnings limit, subject to a lower earnings limit. This contribution rate is to increase to 8.5% from 1 January 2017. (This contribution rate does not include contributions payable to the Guernsey Health Service Fund or the Long-term Care Insurance Fund.) Similar contributions are paid by self-employed and non-employed persons unless they are exempt. Employee contributions are not payable beyond pension age. The States also provide central funding to the Fund. The States grant is defined as a percentage of total contributions and is currently paid at a rate of 15%.

3.6 There have been a number of changes to the Fund since the previous review, including increases in the upper earnings limit for employees between 2010 and 2014 to align with the corresponding limit for employers and the cessation of Old Age Pension Addition for Dependants in respect of new awards from 1 January 2014. The most significant change is the extension of planned increases in pension age, as agreed following the Personal Tax, Pensions and Benefits Review. There has also been a change in up-rating policy since the 2009 Review.

3.7 Appendix B provides details of income and expenditure in the Fund since the previous review as at 31 December 2009 and Section 5 of this report provides details of the changes to the Fund since the previous review. The projections provided in this report make allowance for these changes.

4 Results on principal assumptions

4.1 The financial condition of the Fund has been assessed in terms of a cashflow projection approach and this report includes:

> Projections of the contributions required to balance projected benefit payments

> Projections of the progress of the Fund if the current contributions rates are maintained

> Estimates of the constant contribution rates required such that the projected average balance of the Fund is equal to twice projected expenditure at the end of the projection period.

4.2 As requested by the former Guernsey Social Security Department, we have produced projections for the 60-year period from 2015 to 2075.

4.3 These projections assume constant net immigration of 100 each year and real earnings growth of 1.5% a year. More details of the principal assumptions underlying these projections are provided in Section 6 of this report. The effect of varying these assumptions is shown in Section 7.

4.4 Appendix C provides a summary of the data used for these projections.

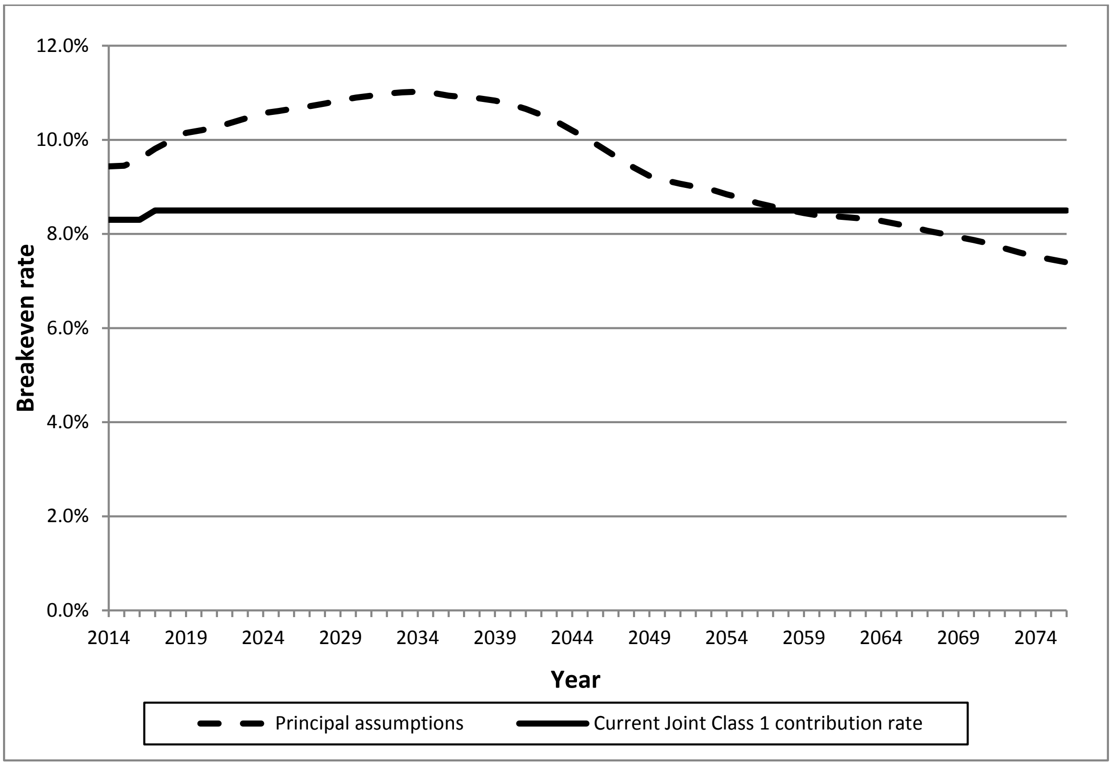
Break-even contribution rate

4.5 The contributions required to balance projected benefit payments are shown in terms of the Class 1 "break-even" contribution rate. This is the contribution rate required to exactly balance contribution income with expenditure on benefits and administration costs. It is determined based on contribution income and expenditure on a pay-as-you-go basis. Contribution income includes the income provided by way of a States grant but the break-even contribution rate does not include any allowance for returns on investments. The "break-even" contribution rate is assessed in terms of the joint Class 1 contribution rate, that is, it is the combined Class 1 contribution rate from employers and employees. It is assumed that contribution rates for self-employed and non-employed contributors would be changed pro rata to the Class 1 rate.

4.6 Figure 4.1 overleaf shows how the projected joint Class 1 break-even contribution rate is expected to change over time. Projections are shown assuming benefits and contributions limits are increased in line with one third of the real increase in median earnings above RPIX price inflation until 2024, reducing to increases in line with RPIX from 2025. The contribution rates are expressed as a percentage of relevant band earnings.

4.7 The chart also shows the current contribution rate payable, including the planned increase in the joint Class 1 contribution rate from 1 January 2017. The break-even contribution rate for 2014 is based on actual contribution income and benefit expenditure in that year.

Figure 4.1: Break-even contribution rate based on the principal assumptions



4.8 The chart shows the projected break-even contribution rate steadily increasing to a maximum of 11.0% in 2034 and gradually declining thereafter. The increases in the projected break-even rate slow from 2025 reflecting the lower up-rating of benefits from this date. The decline in the break-even rate reflects the smaller cohorts reaching pension age in later years, which in part reflects the planned increases in pension age as well as changes in the population profile. The rate of decline slows from 2050 following the full implementation of the increases in pension age.

4.9 The break-even rate is projected to fall below the contribution rate payable from 2017 of 8.5% in 2059.

4.10 Appendix D shows the projected joint Class 1 break-even contribution rate at 10-year intervals.

4.11 The projected break-even contribution rate is generally lower than projected at the time of the previous review. For the 2009 Review, the break-even contribution rate was projected to increase to a maximum of 13.2% in 2039, compared to a maximum of 11.0% in 2034 being projected at this review. The difference largely reflects the change in the principal up-rating assumption together with the planned increases in pension age and the change in the principal migration assumption. The effect of the changes in these assumptions is offset to an extent by changes in the contributions assumptions. The 2009 Review assumed up-rating at half-way between prices and earnings, based on a real earnings growth assumption of 2% a year and variable migration such that the total population remained constant at the April 2007 level. These projections assume constant net immigration of 100 each year.

4.12 Sample projected break-even contribution rates based on the principal assumptions adopted for this review, together with those for the 2009 Review are provided in Table 4.2 below.

Table 4.2: Break-even contribution rates

Projection Year	2009 Review	2014 Review
2020	10.3%	10.2%
2065	9.5%	8.2%

4.13 The different principal up-rating assumption affects the projected break-even rate from the start of the projection period with the differences increasing over time. The differences between the two reviews are also larger later in the projection period as the effect of the extension of the increases in the pension age emerge at a later stage.

4.14 The current joint Class 1 contribution rate, allowing for the planned increase from 8.3% to 8.5% of relevant band earnings effective from 1 January 2017, is unlikely to remain adequate throughout the projection period.

4.15 Section 7 provides projections for alternative scenarios, such as higher migration, under which the current contribution rate is projected to remain adequate. These scenarios provide for a larger fund balance in the period during which expenditure is projected to exceed contribution income and prevents the Fund being exhausted prior to operating surpluses being projected to emerge in 2059.

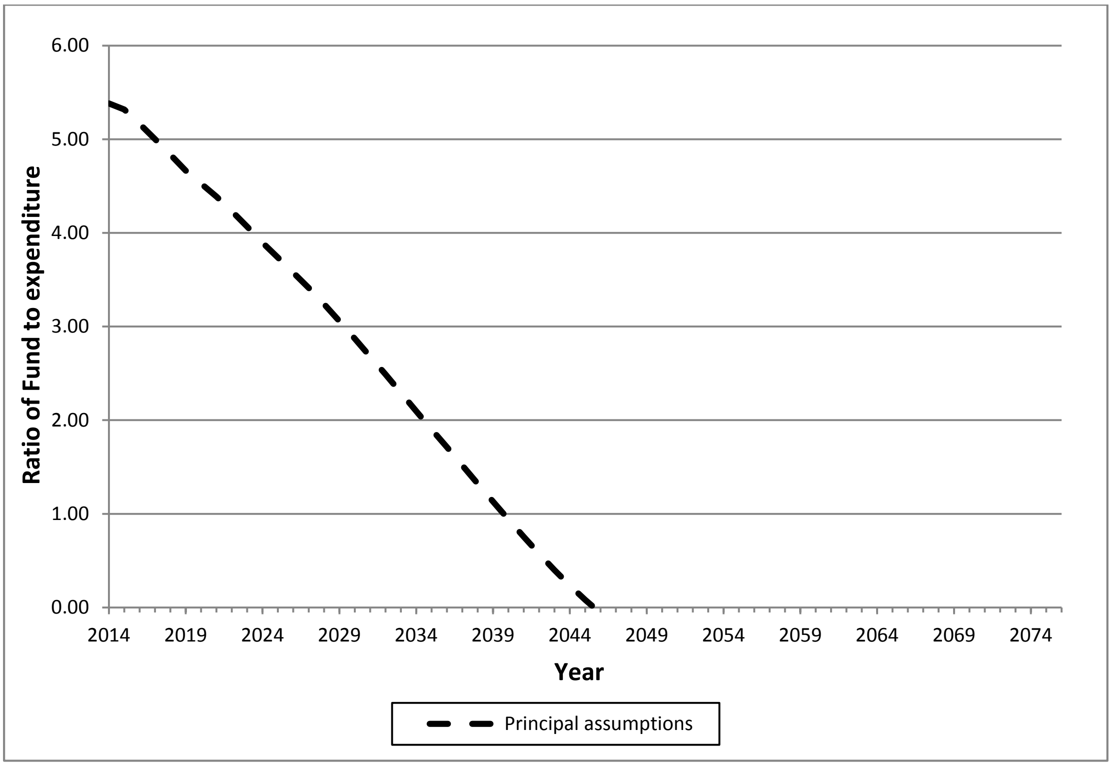
Projected progress of the Fund

4.16 The projected progress of the Fund is shown in terms of the projected average Fund balance in a year expressed as a proportion of the annual expenditure on benefits and administration costs, assuming contribution rates are unchanged. Unlike the projections of the break-even contribution rate, the projections of the progress of the Fund allow for investment returns, including re-investment of investment income, at an assumed real rate of return of 2.5% a year in excess of RPIX price inflation.

4.17 In 2014, the average balance of the Fund was 5.4 times expenditure in the year. It was slightly lower in 2009 at 5.2 times expenditure in that year. The higher average fund to expenditure ratio in 2014 reflects high investment returns in 2010, and to a lesser extent returns in 2012 and 2013, increasing the average balance of the Fund.

4.18 Figure 4.3 below shows how the average Fund balance, as a proportion of annual expenditure, is projected to change over time, assuming that the joint Class 1 employer and employee contribution rate is unchanged following the planned increase in the joint employer and employee contribution from 8.3% to 8.5% effective from 1 January 2017. Projections are shown assuming benefits and contributions limits are up-rated in line with one third of the real increase in median earnings above RPIX price inflation until 2024, reducing to increases in line with RPIX from 2025. The projections are based on an assumption of constant net immigration of 100 each year and the real increase in median earnings is assumed to be 1.5% a year above RPIX price inflation.

Figure 4.3: Projected progress of the Fund based the principal assumptions



4.19 The Fund is projected to steadily decline as a multiple of annual expenditure from 2014, falling below twice projected expenditure by 2035, and is projected to be exhausted in 2046.

4.20 Operating surpluses are projected to emerge from 2059 onwards as the contribution rate in payment is projected to exceed the break-even contribution rate from this point. However some alternative form of funding would be required to finance benefit expenditure between 2046 and 2059.

4.21 Appendix E shows the projected fund ratios at 10-year intervals.

4.22 Appendix F provides details of the projections of income and expenditure which underlie the projections of the break-even rate and the fund ratios, again, at 10-year intervals.

4.23 This is a more positive projection than that projected for the 2009 Review where the Fund was projected to be exhausted in 2037, based on up-rating in line with half-way between prices and earnings and variable migration such that the total population remained constant at the April 2007 level.

4.24 The more positive projection provided at this review reflects the change in the principal up-rating assumption together with the planned increase in pension age and the change in the principal migration assumption, offset to an extent by changes in the contributions assumptions and also a lower assumed real rate of investment return. However, the current joint Class 1 contribution rate, allowing for the planned increase from 8.3% to 8.5% of relevant band earnings effective from 1 January 2017, is unlikely to remain adequate throughout the projection period.

4.25 Section 8 of this report provides details of the changes since the 2009 Review and how these have affected the projected break-even contribution rate.

4.26 The constant contribution rate estimated to be required from January 2018 such that the projected average balance of the Fund is equal to twice projected expenditure at the end of the projection period is 8.68%. This constant contribution rate provides for the average balance of the Fund to remain positive throughout the projection period, but it is not projected to be above twice projected expenditure at all points throughout the projection period.

4.27 Appendix H provides a chart showing the projected future population of Guernsey based on the assumption of constant net immigration of 100 each year.

5 Changes since the previous review

5.1 This review reflects a number of changes which have occurred since the previous review was carried out as at 31 December 2009.

Personal Tax, Pensions and Benefits Review

5.2 The States of Guernsey carried out a comprehensive review of personal taxes, allowances and benefits during 2014. The Personal Tax, Pensions and Benefits Review resulted in the following changes being made in relation to the Guernsey Insurance Fund:

> An extension of the planned increases in pension age from 65 to 70 over the period 2020 to 2049, with pension age increased by two months a year

> A change in the policy for up-rating benefit rates and contribution limits from half-way between prices and earnings to one third of the real increase in median earnings above RPIX price inflation until 2024, reducing to RPIX from 2025.

Benefit provisions

5.3 The following changes in benefit provisions have be made since the 2009 Review.

Old Age Pension Addition for Dependants

5.4 As part of the 2004 gender equality reforms, new awards of the Old Age Pension Addition for Dependants ceased to be payable from 1 January 2014. Awards to those eligible as at 31 December 2013 continue to be payable.

Maternity / Parental benefits

5.5 From January 2017, Maternity Benefits are due to be replaced by a package of new Parental Benefits. Details of the new benefits are provided in Appendix A.

Bereavement Allowance

5.6 The requirement to be aged 45 and over to receive bereavement allowance was repealed with effect from 31 October 2012.

Contribution rates and limits

5.7 The upper earnings limit for employees increased between 2010 and 2014 to align with the corresponding limit for employers.

5.8 Both employer and employee contributions are due to increase by 0.1% from 1 January 2017, increasing the joint employer and employee contribution from 8.3% to 8.5%, in light of the introduction of Parental Benefits from this date. An offsetting decrease in the States Grant from 15% to 14.7% is intended to be effective from the same date.

Fund experience

5.9 The balance of the Fund has generally increased over the period since the last review, although there was a fall in the balance of the Fund at the end of 2011. This fall was primarily a result of an investment loss in the year.

5.10 Total contribution income continued to increase but expenditure has increased at a faster rate than total contributions resulting in operating deficits in every year since 2009. This largely reflects low earnings growth during this period, together with a small decline in the proportions of the population contributing to the Fund than was assumed at the previous review.

5.11 Increases in benefit expenditure are largely driven by increases in old age pension benefits. Benefit expenditure has increased on average by about 5% each year. Expenditure on unemployment benefits also increased significantly in 2012 but reduced in subsequent years.

6 Principal assumptions

6.1 The results provided in this report are projections and depend on assumptions made about the future. The assumptions adopted are based on data and information provided by the former Guernsey Social Security Department. We have relied on the accuracy of these data and GAD does not accept responsibility for advice based on wrong or incomplete data or information provided.

6.2 The demographic, economic and benefit-specific assumptions underlying these projections are inevitably subject to a considerable degree of uncertainty, particularly for the more distant future. Therefore there is considerable uncertainty about the future progress of the Fund and actual experience could differ materially from the projections.

6.3 Details of the principal assumptions underlying the projections results provided in Section 4 are provided below. Details of the assumptions used in projecting each element of benefit expenditure and contribution income, together with details of the methodology adopted, are provided in Appendix G.

Demographic assumptions

6.4 The former Guernsey Social Security Department provided Guernsey population data, including details of births, deaths, immigration and emigration covering the years 2010 to 2014. Data covering the period 31 March 2009 to 31 March 2013 were provided for the Policy Costings work carried out in early 2014. Data for earlier years were provided for the 2009 Review.

6.5 The relatively small population size means that it is not possible to project population birth and death rates with a sufficient degree of certainty based on Guernsey data alone. Instead, we have adjusted the 2014-based principal population projections prepared by the Office for National Statistics (ONS) for England and Wales by applying constant age- and sex-related factors to obtain assumed Guernsey fertility and mortality rates. That is, the factors vary by age and sex, but the same factors apply for all years of the projection. These age and sex-related factors were derived by comparing actual experience for Guernsey for the calendar years 2008 to 2014 inclusive for mortality (2009 to 2014 inclusive for fertility) with England and Wales experience for the same period.

6.6 Table 6.1 overleaf illustrates projected life expectancy as at 2014 based on the assumptions adopted for Guernsey, together with the corresponding figures based on the assumptions adopted for the 2009 Review and those for England and Wales based on the ONS projections. Figures are shown for current 60-year-olds, in 2014, as well as future 60-year-olds, in 2034, to illustrate the effect of assumed future improvements in longevity.

Table 6.1: Life expectancy for males and females aged 60 in 2014 and 2034

		2009 Review[1]	Current Review	England & Wales (ONS 2014-based Population Projections)
Males - Age 60 in:	2014	27.7	26.1	25.5
	2034	29.6	28.5	27.9
Females - Age 60 in:	2014	30.1	28.8	28.0
	2034	31.9	30.9	30.2

[1] The figures provided are consistent with those provided in the 2009 Review Report updated to reflect the different years being considered. In 2014 an error was identified in the derivation of the underlying age and sex-related adjustments for the 2009 Review. As such, the projected life expectancy figures are higher than should be the case.

6.7 The same mortality assumptions apply for all beneficiaries, both those resident in Guernsey and those who are not resident in Guernsey.

6.8 Future improvements in life expectancy in Guernsey are assumed to be consistent with the 2014-based principal projections prepared by ONS for England and Wales.

6.9 Table 6.2 below illustrates the assumptions adopted for fertility as at 2014 for Guernsey, together with the corresponding figures based on the assumptions adopted for the 2009 Review and those for England and Wales based on the ONS projections.

Table 6.2: Age specific fertility rates: number of births per 1,000 women in 2014

Mother's age	2009 Review	Current Review	England & Wales (ONS 2014-based Population Projections)
15	3.0	1.6	1.6
20	43.2	28.3	43.5
25	74.3	69.1	86.4
30	103.2	107.6	113.3
35	75.7	89.3	89.3
40	23.6	28.8	28.8
45	1.6	2.0	2.0

[1] The figures provided in respect of the 2009 Review are not the same as those provided in the 2009 Review report, as the relevant year for fertility rates is different and figures provided above are on a mid-year basis.

6.10 The same age-specific factors apply for all years of the projection period and future trends in fertility in Guernsey are assumed to be consistent with the 2014-based principal projections prepared by ONS for England and Wales.

Migration assumptions

6.11 The former Guernsey Social Security Department has advised that the central migration assumption to be used for this review should be net immigration of 100 a year. This reflects the revised Population Objective recently agreed by the States of Guernsey that:

> *"That, as far as practicable, Guernsey's population should, in the long-term, be kept to the lowest level possible to achieve the States' Economic, Social and Environmental objectives."*

6.12 Migration to and from Guernsey is very difficult to project. The migration data provided by the former Guernsey Social Security Department for the period 2010 to 2014 show significant variability in the net migration figures for individual years. We are content that the central assumption adopted is within a reasonable range of plausible outcomes and so is not an unreasonable assumption over the long-term. Nevertheless, consideration should be given to other reasonable assumptions, such as those shown in Section 7.

6.13 We have also updated the distribution of migration by sex to reflect a 55/45 split between males and females, at the request of the former Social Security Department. The overall age distribution is unchanged from that adopted for the 2009 Review.

6.14 Table 6.3 below illustrates the distribution of migrants by age and sex, based on the central assumption of net immigration of 100. The distribution provides for net immigration concentrated between the late teens and mid-30s and small amounts of net emigration between ages 55 and 70.

Table 6.3: Number of immigrants by age and sex based on an assumption of 100 net immigration

Age	Males	Females	Total
Under 15	2.20	1.80	4.00
15-24	26.40	21.60	48.00
25-34	17.60	14.40	32.00
35-44	7.15	5.85	13.00
45-54	2.75	2.25	5.00
55-64	-1.10	-0.90	-2.00
65-74	0.00	0.00	0.00
75+	0.00	0.00	0.00

Economic assumptions

Price inflation

6.15 The long-term rate of price inflation is assumed to be 3% a year consistent with the previous review and in line with the RPIX target.

6.16 However, RPIX price inflation has been relatively low in the recent past, falling below 2% in 2014 and averaging 1.1% in 2015. In order to bridge the gap between the current low level of RPIX inflation and the 3% target rate, we have adopted short-term assumptions for the period to 2019, set initially at 1.5%, with gradual increases to the long-term assumption of 3% applying from 2020 onwards. Details of the proposed assumptions are provided in Table 6.4 overleaf.

Real earnings growth

6.17 The long-term rate of real earnings growth is assumed to be 1.5% a year net of RPIX price inflation.

6.18 Real earnings growth, relative to RPIX price inflation, has been quite variable in recent years. The 2015 States Strategic Monitoring Report showed that over the period 2008 to 2014, real earnings growth has on average been close to 0.5%. Data were not available on changes in earnings during 2015. All other things being equal, real earnings growth would typically be expected to move in a consistent way to real GDP growth, which has averaged at around 1.8% pa over the same period.

6.19 Having observed UK real earnings growth reverting to historical averages in 2015, we have adopted a long-term assumption of real earnings growth of 1.5% a year which is applied throughout the projection period.

Real investment return

6.20 Investment returns on the fund have been quite variable in recent years, with negative returns emerging in 2008 and 2011, and quite high returns earned in 2009 and 2010. At the time of the previous review a real return of 3.5% a year was assumed, based on an asset allocation as at 31 December 2008 which comprised an equity holding of about 70% of assets.

6.21 The Fund appointed new investment advisors in 2009 and reviewed its investment strategy, increasing bonds and alternative assets holdings in place of equity holdings to provide equity-like returns but with a reduced risk profile. A real return of 2.0% was earned in 2014, based on an equity holding of about 55%, with the average real return for the period 2010 to 2014 being around 3.4%.

6.22 Consistent with the approach adopted for the 2009 Review and as agreed with the Guernsey Social Security Department, we have adopted a long-term assumption for real investment returns of 2.5% a year, to be applied throughout the projection period. This assumption reflects the lower expected returns suggested by current financial conditions.

Table 6.4: Economic assumptions

	2014 (actual)	2015	2016	2017	2018	2019	2020 onwards
RPIX price inflation	1.7%	1.5%	1.8%	2.1%	2.4%	2.7%	3.0%
Real earnings growth (net of RPIX price inflation)	0.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Real investment returns (net of RPIX price inflation)	2.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%

Labour market assumptions

6.23 Table 6.5 below illustrates the assumptions adopted for the proportions of the population assumed to be making Class 1 contributions, based on data supplied on the number of contributors (by age and sex) for the years 2010 to 2014.

Table 6.5: Proportions of the population assumed to be making Class 1 contributions

Age	Current Review	
	Males	Females
20	0.70	0.63
30	0.82	0.72
40	0.75	0.71
50	0.69	0.70
60	0.46	0.42

6.24 Corresponding data were provided in respect of self-employed and non-employed contributors. The assumptions adopted for this review assume slightly lower proportions of males making Class 2 (self-employed) contributions and a slightly different age distribution for females making Class 2 contributions. In contrast, this review assumes slightly higher proportions for those aged 60-64 making Class 3 (non-employed) contributions, in line with recent experience. Class 2 and 3 contributions are much less significant elements of overall contribution income.

6.25 These proportions are assumed to persist throughout the projection period, adjusted appropriately for the planned increase in State Pension Age from age 65 in 2020 to age 70 in 2049.

Contribution and benefit specific assumptions

6.26 A large number of additional assumptions are required to project contribution income and expenditure on individual benefits. Appendix G provides details of the methodology underlying the projections and the assumptions adopted.

Alignment with accounts

6.27 We have compared modelled contribution income and benefit expenditure in recent years with actual income and expenditure as recorded in the accounts to determine any adjustments required to allow for differences between using models and assumptions, and actual experience. Based on this comparison we have not made any material adjustments to the projections as we have not observed robust evidence of material differences or any particular trends.

7 Variant scenarios

7.1 The pay-as-you-go nature of the Fund means that contribution rates and the future progress of the Fund may change significantly over time owing to changes in the benefits provided, the profile of the population or the economic environment.

7.2 The demographic, economic and benefit-specific assumptions underlying the projections are inevitably subject to a considerable degree of uncertainty, particularly for the more distant future.

7.3 This section provides projections based on variant up-rating, migration and economic assumptions to demonstrate how different assumptions can affect the projected progress of the Fund.

7.4 At the request of the former Social Security Department, we have produced projections for two variant up-rating scenarios, three variant migration scenarios and one variant real earnings growth scenario to illustrate the effect of different assumptions on the future progress of the Fund. The variant assumptions adopted are as advised by the former Social Security Department.

7.5 There are a range of other factors that could significantly affect the future progress of the Fund, such as changes in the States grant, investment performance, the proportions receiving old age pension benefits and increasing longevity. Some factors, such as the number unemployed, impact both contribution income and benefit expenditure and therefore differences in experience from the assumptions adopted could result in a considerable change in the required break-even contribution rate and the future progress of the Fund.

Variant up-rating scenarios

7.6 Projections are provided for the following variant up-rating scenarios:

> A 'long-term up-rating assumption', that is, increases in line with one third of the real increase in median earnings above RPIX price inflation throughout the projection period, without the reduction to increases in line with RPIX from 2025

> Increases in line with the real increase in median earnings.

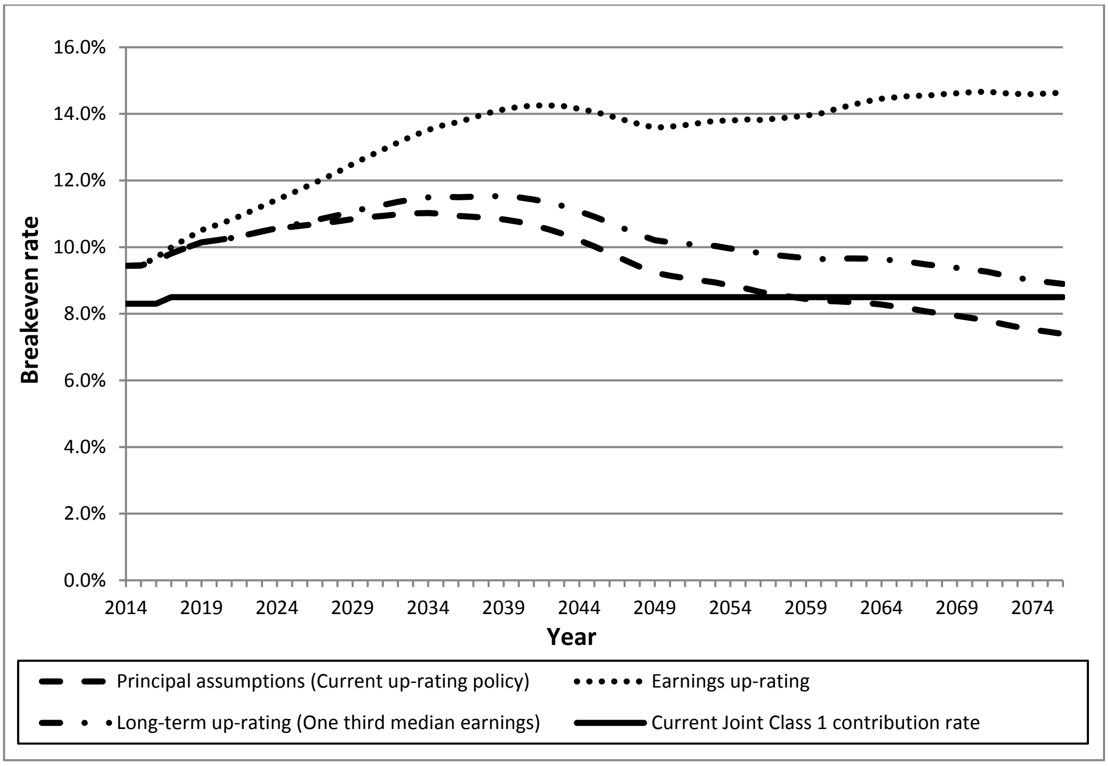
Break-even contribution rate

7.7 Figure 7.1 overleaf shows how the projected joint Class 1 break-even contribution rate is expected to change over time depending on the assumed up-rating policy. Projections are shown for the principal up-rating assumption, which is to provide increases in line with one third of the real increase in median earnings above RPIX price inflation until 2024, reducing to increases in line with RPIX from 2025, together with the two variant scenarios.

7.8 Consistent with the projections shown in Section 4, contribution rates are expressed as a percentage of relevant band earnings. In all cases, the real increase in median earnings is assumed to be 1.5% a year above RPIX price inflation and benefits and contributions limits are assumed to increase in a consistent manner.

7.9 The chart also shows the current contribution rate payable, including the planned increase in the joint Class 1 contribution rate from 1 January 2017. The break-even contribution rate for 2014 is based on actual contribution income and benefit expenditure in that year.

Figure 7.1: Break-even contribution rate based on variant up-rating scenarios



7.10 The chart shows that the two variant up-rating scenarios provide for higher projected break-even contribution rates in the long-term than is the case based on the principal up-rating assumption, reflecting the higher projected benefit expenditure. As expected, the projections for the long-term up-rating assumption are identical to those based on the principal assumptions up to 2024.

7.11 In all cases, the break-even contribution rate is projected to increase initially but there is a turning point - in 2038 based on the long-term up-rating assumption and in 2042 based on earnings up-rating - reflecting the smaller cohorts reaching pension age in later years. The rate of decline slows from 2050 based on the long-term up-rating assumption, and is reversed based on earnings up-rating, following the full implementation of the increases in pension age.

7.12 Based on the long-term up-rating assumption, the break-even rate is projected to peak at 11.5% of relevant earnings in 2038. Although it is projected to decline thereafter, it is not projected to fall below the contribution rate payable from 2017 within the projection period. There is a corresponding decline in the projected break-even contribution rate based on up-rating in line with earnings in 2043 resulting from the smaller cohorts reaching pension age, which in part reflects the planned increases in pension age as well as changes in the population profile. This is reversed from 2050 following the full implementation of the increases in pension age.

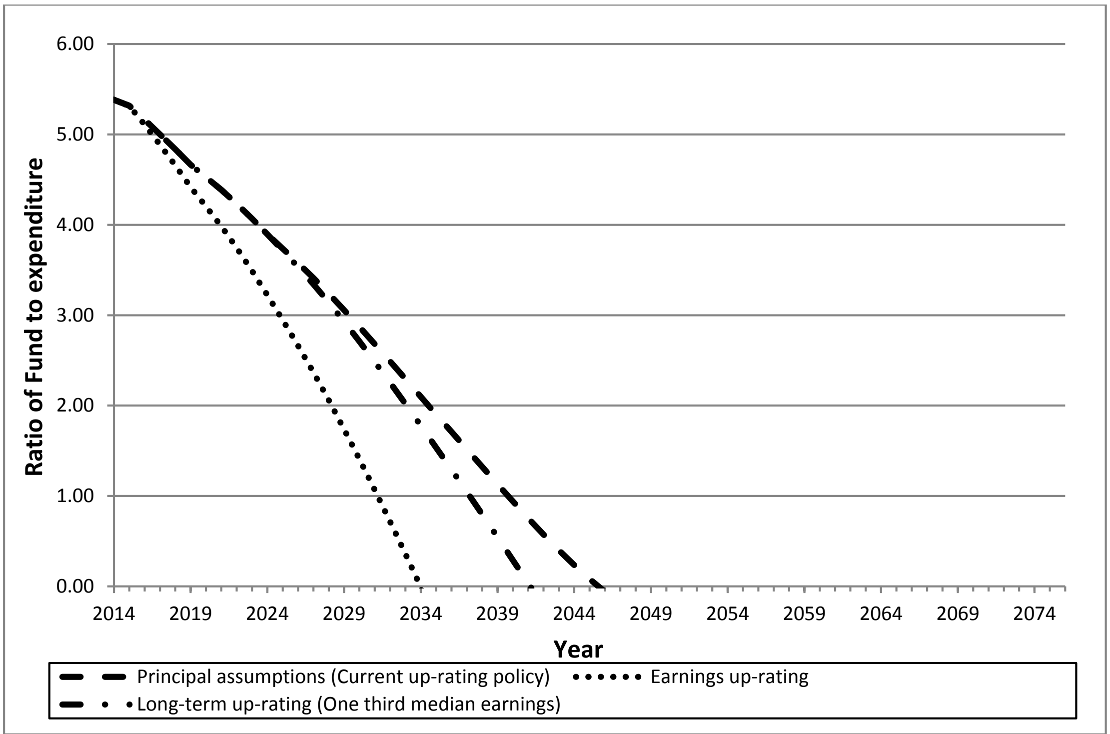
7.13 Appendix D shows the projected joint Class 1 break-even contribution rate at 10-year intervals for each up-rating scenario.

Projected progress of the Fund

7.14 Figure 7.2 below shows how the average Fund balance, as a proportion of annual expenditure, is expected to change over time, depending on the up-rating policy adopted and assuming that the contribution is unchanged following the planned increase in the joint employer and employee contribution from 8.3% to 8.5% from 1 January 2017. Projections are shown for the principal up-rating assumption together with the two variant scenarios.

7.15 Consistent with the projections shown in Section 4, the projections are based on a real earnings growth assumption of 1.5% a year and allow for expected investment returns, including re-investment of investment income, at an assumed real rate of return of 2.5% a year in excess of RPIX price inflation.

Figure 7.2: Projected progress of the Fund based on variant up-rating scenarios



7.16 In all cases, the Fund is projected to be extinguished during the projection period. Under the principal up-rating assumption operating surpluses are projected to emerge from 2059 onwards as result of the contribution rate being paid exceeding the break-even contribution rate. However, operating surpluses are not projected to emerge in respect of the other scenarios.

7.17 Table 7.3 below provides details of when the Fund is projected to be extinguished under each of the three up-rating scenarios.

Table 7.3: Projected date of fund being extinguished based on variant up-rating scenarios

Up-rating assumption	Fund projected to be extinguished
Increases in line with one third of the real increase in median earnings above RPIX price inflation until 2024, reducing to RPIX from 2025	2046
Increases in line with one third of the real increase in median earnings above RPIX price inflation throughout the projection period	2041
Increases in line with the real increase in median earnings	2034

7.18 Appendix E shows the projected progress of the Fund at 10-year intervals for each up-rating scenario.

7.19 The projected progress of the Fund over time by up-rating assumption is more positive that projected at the previous review, as at 31 December 2009, when the Fund was projected to be extinguished in 2031 based on earnings up-rating. The more positive projection provided at this review primarily reflects the change in the migration assumption adopted. The variable migration assumption adopted for the 2009 review resulted in net emigration being projected until the 2020s and net immigration thereafter whereas this review assumes net immigration of 100 in each year. However, the projections suggest that the current joint Class 1 contribution rate, allowing for the planned increase from 1 January 2017, is unlikely to remain adequate.

7.20 Table 7.4 overleaf details the constant contribution rate estimated to be required from January 2018 such that the projected average balance of the fund is equal to twice projected expenditure at the end of the projection period for each up-rating scenario.

Table 7.4: Estimated constant contribution rate for variant up-rating scenarios

Up-rating assumption	Estimated constant contribution rate
Increases in line with one third of the real increase in median earnings above RPIX price inflation until 2024, reducing to RPIX from 2025	8.68%
Increases in line with one third of the real increase in median earnings above RPIX price inflation throughout the projection period	9.43%
Increases in line with the real increase in median earnings	12.39%

Variant migration scenarios

7.21 Projections are provided for the following variant migration scenarios:

> Zero migration

> Net immigration of 200 a year

> Net emigration of 100 a year.

7.22 The zero migration scenario assumes zero immigration and zero emigration. It does not assume that immigration is matched by equal emigration. This means the population profile is not affected by differences in the distribution of immigrants and emigrants by age and sex.

7.23 The same mortality and fertility assumptions underlie all four scenarios and the same distribution of migrants by age and sex is assumed for all scenarios, although the projected numbers differ. In the net immigration scenarios, this distribution provides for net immigration concentrated between the late teens and mid-30s and small amounts of net emigration between ages 55 and 70. In the net emigration scenario this provides for net emigration concentrated between the late teens and mid-30s and small amounts of net immigration between ages 55 and 70. In all cases, the migration assumptions reflect a 55/45 split between males and females.

7.24 Appendix I provides charts showing the projected future population of Guernsey based on these variant migration scenarios.

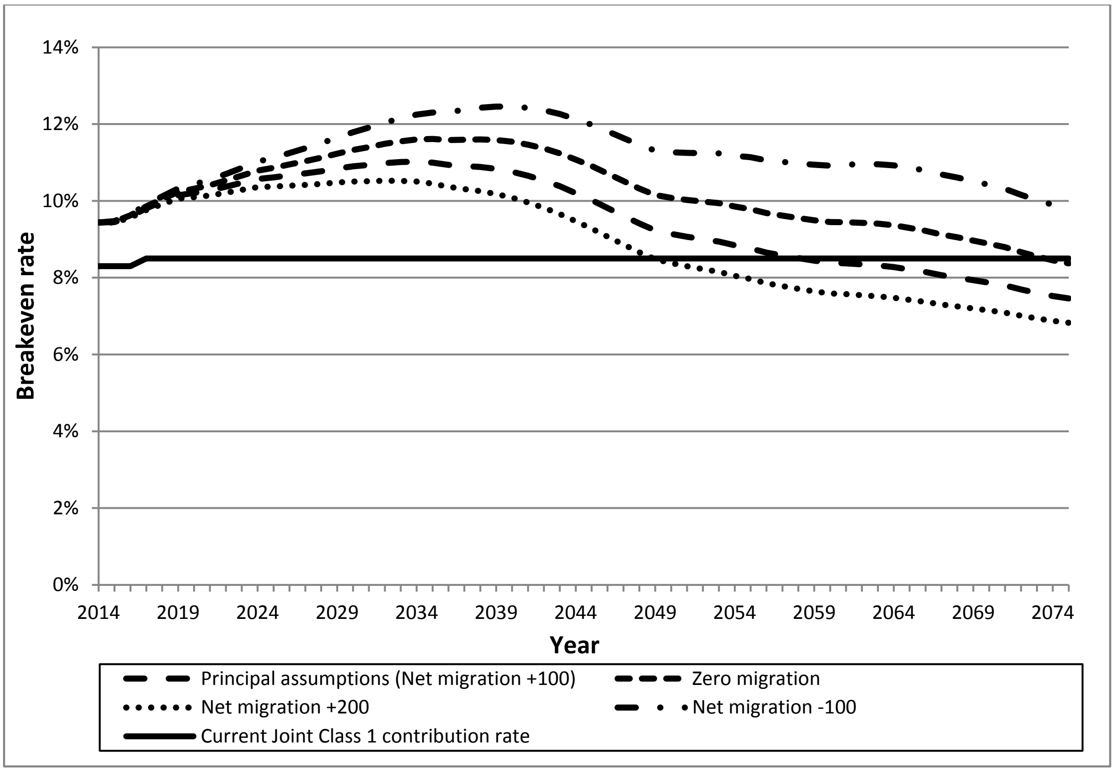
Break-even contribution rate

7.25 Figure 7.5 overleaf shows how the projected joint Class 1 break-even contribution rate is expected to change over time depending on the assumed level of migration. Projections are shown for the principal migration assumption of net immigration of 100 a year, together with the three variant scenarios.

7.26 Consistent with the projections shown in Section 4, contribution rates are expressed as a percentage of relevant band earnings. In all cases, the real increase in median earnings is assumed to be 1.5% a year above RPIX price inflation and benefits and contributions limits are assumed to increase in line with the principal up-rating assumption.

7.27 The chart also shows the current contribution rate payable, including the planned increase in the joint Class 1 contribution rate from 1 January 2017. The break-even contribution rate for 2014 is based on actual contribution income and benefit expenditure in that year.

Figure 7.5: Break-even contribution rate based on variant migration scenarios



7.28 The chart shows that the projected path of the break-even contribution rate is similar for all scenarios. In all cases, the break-even rate is projected to increase initially reflecting the large cohorts reaching pension age in the early years of the projection. However, there is a turning point as increases in contribution income start to exceed the projected increases in benefit expenditure, reflecting the lower up-rating of benefits from 2025 and the planned increases in pension age, as well as the effects of the assumed level of migration.

7.29 The projected break-even starts to decline more quickly based on the scenario assuming 200 net immigration a year, reflecting a higher ratio of contributors to pensioner beneficiaries. Based on this assumption, the number of contributors is projected to remain fairly stable throughout the projection period. For all the other migration scenarios, the number of contributors is projected to decline throughout the projection period.

7.30 The zero migration scenario shows the effects of the principal up-rating assumption and the increases in pension age, independent of migration effects. Under this scenario, the break-even rate is projected to decline from 2036.

7.31 The break-even rate for the scenario assuming 100 net emigration is also projected to decline but not until 2041. This decline reflects smaller cohorts reaching pension age in later years, which in part reflects the planned increases in pension age but also the changes in the population profile.

7.32 The break-even rate is projected to fall below the contribution rate payable from 2017 of 8.5% in 2049 based on net immigration of 200 a year and in 2074 based on zero migration. This corresponding date based on the principal assumptions is 2059. Based on net emigration of 100 a year, the break-even rate is not projected to fall below the contribution rate payable from 2017 within the projection period.

7.33 Appendix D shows the projected joint Class 1 break-even contribution rate at 10-year intervals for each migration scenario.

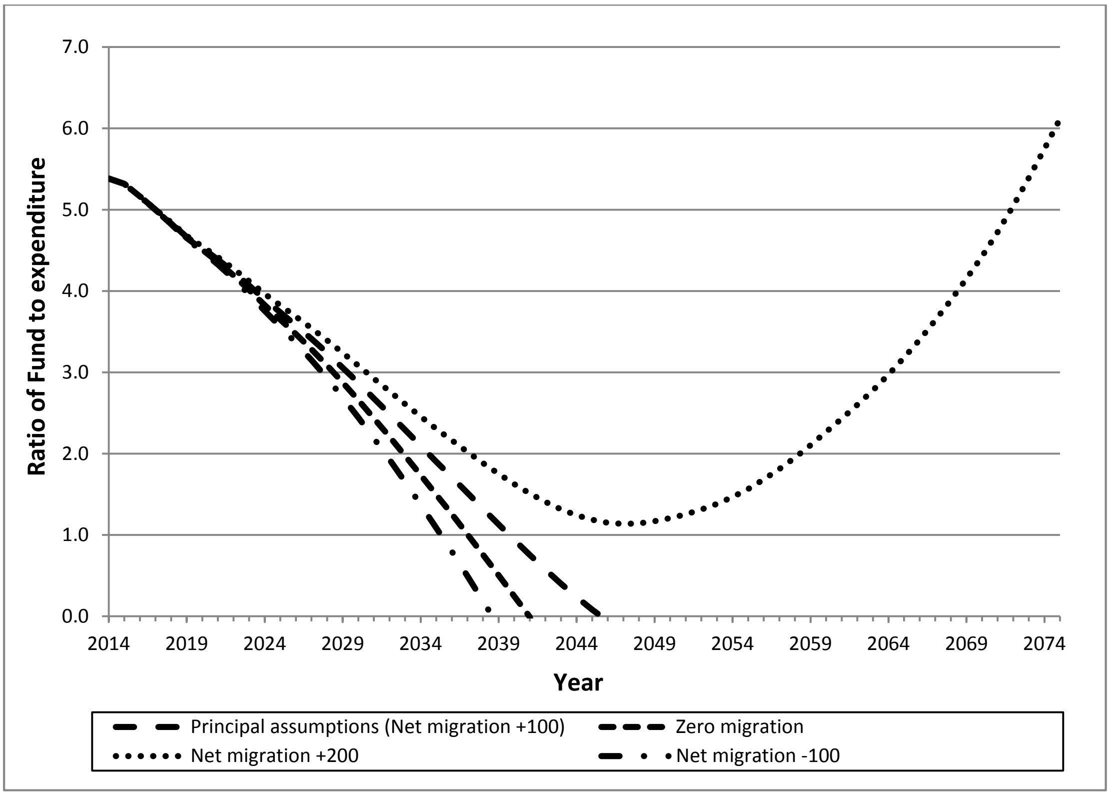
Projected progress of the Fund

7.34 Figure 7.6 overleaf shows how the average Fund balance, as a proportion of annual expenditure, is expected to change over time depending on the assumed level of migration and assuming that the contribution is unchanged following the planned increase in the joint employer and employee contribution from 8.3% to 8.5% from 1 January 2017.

7.35 Projections are shown for the principal migration assumption of net immigration of 100 a year, together with the three variant scenarios.

7.36 Consistent with the projections shown in Section 4, the projections are based on a real earnings growth assumption of 1.5% a year and allow for expected investment returns, including re-investment of investment income, at an assumed real rate of return of 2.5% a year in excess of RPIX price inflation.

Figure 7.6: Projected progress of the Fund based on variant migration scenarios



7.37 In all cases, the Fund is projected to steadily decline in the early years of the projection, reflecting the large cohorts due to reach pension age during this period. However, the projections suggest that under the scenario assuming net immigration of 200 a year, the current contribution rate, allowing for the planned increase in 2017, is projected to remain adequate. The higher projected contribution income projected under this scenario means that the fund declines at a slower rate and is still positive in 2049 when the break-even rate is projected to fall below the contribution rate payable from 2017, resulting in operating surpluses emerging. That is, there is a larger fund balance in the period during which expenditure is projected to exceed contribution income, thus preventing the Fund being exhausted prior to operating surpluses being projected to emerge. However, the projections suggest that the long-term objective of maintaining a fund balance of two years' outgo may not be achieved in every year of the projection period.

7.38 Table 7.7 overleaf provides details of when the Fund is projected to be extinguished under each of the other migration scenarios.

Table 7.7: Projected date of fund being extinguished based on variant migration scenarios

Migration assumption	Fund projected to be extinguished
Net immigration of 100 a year	2046
Zero migration	2041
Net immigration of 200 a year	N/A
Net emigration of 100 a year	2039

7.39 Under the principal migration assumption of net immigration of 100 a year operating surpluses are projected to emerge from 2059 onwards. Operating surpluses are also projected to emerge in respect of zero migration scenario but not until 2074. They are not projected to emerge in respect of the net emigration scenario.

7.40 Appendix E shows the projected progress of the Fund at 10-year intervals for each migration scenario.

7.41 Table 7.8 below details the constant contribution rate estimated to be required from January 2018 such that the projected average balance of the fund is equal to twice projected expenditure at the end of the projection period for each migration scenario.

Table 7.8: Estimated constant contribution rate for variant migration scenarios

Migration assumption	Estimated constant contribution rate
Net immigration of 100 a year	8.68%
Zero migration	9.29%
Net immigration of 200 a year	8.13%
Net emigration of 100 a year	10.01%

Variant real earnings growth scenario

7.42 Projections are provided for a variant real earnings growth assumption of 0.5% a year.

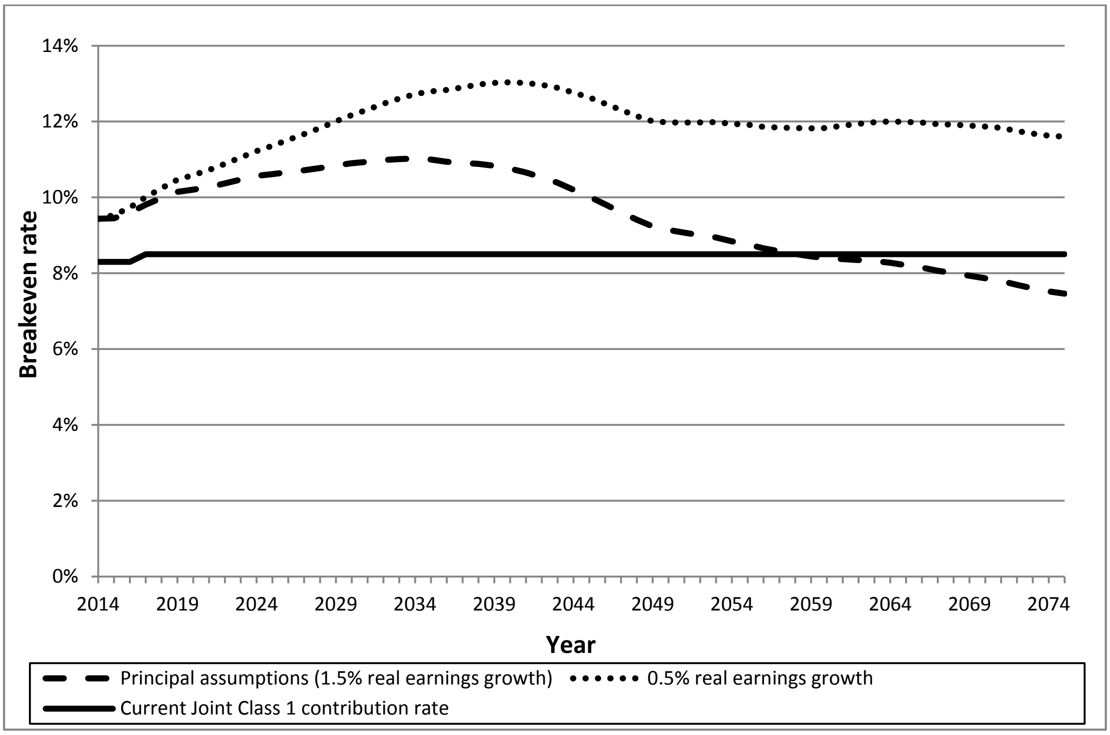
Break-even contribution rate

7.43 Figure 7.9 overleaf shows how the projected joint Class 1 break-even contribution rate is expected to change over time depending on the assumption adopted for real earnings growth. Projections are shown for the principal real earnings growth assumption of 1.5% a year and the variant assumption of 0.5% a year.

7.44 Consistent with the projections shown in Section 4, contribution rates are expressed as a percentage of relevant band earnings. In both cases, the projections are based on the principal migration assumption of 100 net immigration a year and benefits and contributions limits are assumed to increase in line with the principal up-rating assumption, which is increases in line with one third of the real increase in median earnings above RPIX price inflation until 2024, reducing to increases in line with RPIX from 2025.

7.45 The chart also shows the current contribution rate payable, including the planned increase in the joint Class 1 contribution rate from 1 January 2017. The break-even contribution rate for 2014 is based on actual contributions and benefit expenditure in that year.

Figure 7.9: Break-even contribution rate based on variant real earnings growth



7.46 The chart shows that the variant real earnings growth scenario provides for higher projected break-even contribution rates than is the case based on the principal real earnings growth assumption with the differences increasing over time. This largely reflects the lower contribution income projected based on a real earnings growth assumption of 0.5% a year. This scenario also provides for lower projected benefit expenditure but the differences are much smaller as the principal up-rating scenario is only linked to the real earnings growth assumption up to 2024.

7.47 In line with the projections based on the principal assumptions, the projected break-even contribution rate for the real earnings growth variant is projected to increase initially, to a maximum of 13.0% of relevant earnings in 2040. It is projected to remain largely unchanged at around 12% of relevant earnings following the full implementation of the increases in pension age in 2049.

7.48 Appendix D shows the projected joint Class 1 break-even contribution rate at 10-year intervals for each real earnings growth scenario.

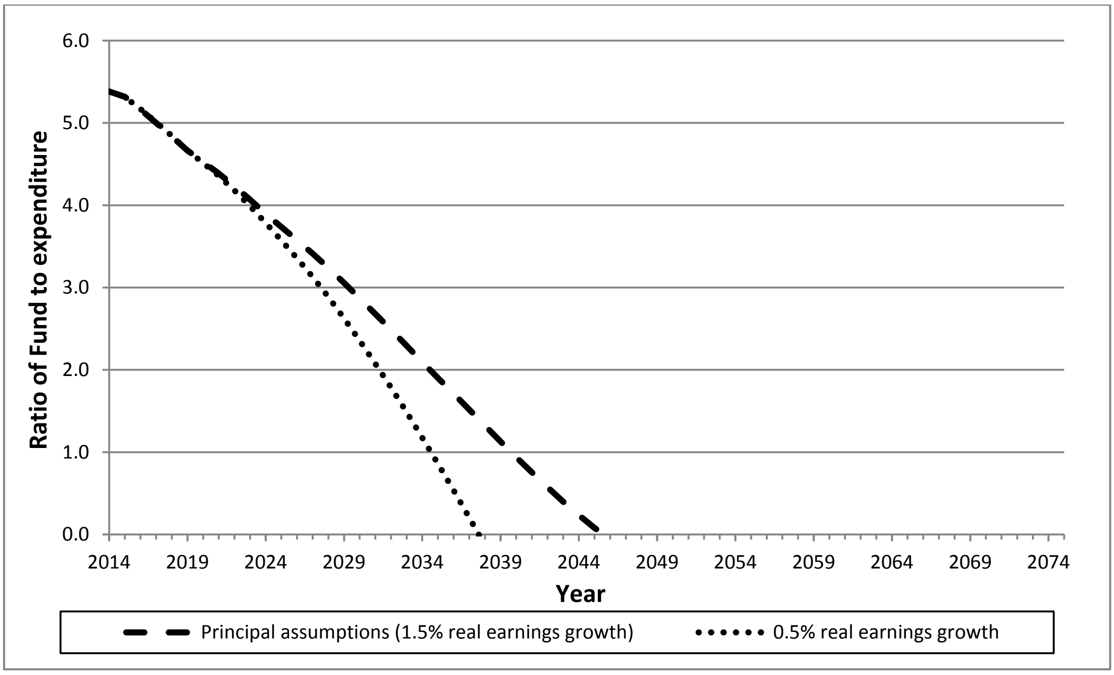
Projected progress of the Fund

7.49 Figure 7.10 below shows how the average Fund balance, as a proportion of annual expenditure, is expected to change over time for the two real earnings growth scenarios and assuming that the contribution is unchanged following the planned increase in the joint employer and employee contribution from 8.3% to 8.5% from 1 January 2017.

7.50 The projections are shown assuming benefits and earnings limits are up-rated in line with the principal up-rating assumption.

7.51 Consistent with the projections shown in Section 4, the projections allow for expected investment returns, including re-investment of investment income, at an assumed real rate of return of 2.5% a year in excess of RPIX price inflation.

Figure 7.10: Projected progress of the Fund based on variant real earnings growth



7.52 The chart shows that the Fund is projected to decline more quickly based on a variant real earnings growth assumption of 0.5%, falling below twice projected expenditure by 2032, and is projected to be exhausted in 2038. Under this scenario, operating surpluses are not projected to emerge at any point during the projection period.

7.53 Again, the more rapid decline in the balance of the Fund based on real earnings growth of 0.5% a year primarily reflects the lower projected contribution income, offset to an extent by lower projected benefit expenditure in the period to 2024.

7.54 Appendix E shows the projected progress of the Fund at 10-year intervals for each migration scenario for each real earnings growth scenario.

7.55 The constant contribution rate estimated to be required from January 2018 such that the projected average balance of the fund is equal to twice projected expenditure at the end of the projection period based on a real earnings growth assumption of 0.5% is 10.54%. The current joint Class 1 contribution rate is due to increase from 8.3% of relevant earnings to 8.5% from 1 January 2017.

8 Changes in projections from 2009 Review

8.1 Table 8.1 below provides details of changes since the 2009 Review and how these have affected the projected break-even contribution rate.

8.2 The projected break-even rates for the 2009 Review are based on a real earnings growth assumption of 2% a year, up-rating at half-way between prices and earnings and variable migration such that the total population remained constant at the April 2007 level.

Table 8.1: Comparison of 2009 Review projected break-even contribution rate and 2014 Review projected break-even contribution rate

	2015	2025	2035	2045	2055	2065	2070
2009 Review	**9.1%**	**11.2%**	**12.9%**	**12.5%**	**11.2%**	**9.5%**	**8.8%**
Change in economic assumptions (See 6.15)	-0.1%	0.2%	0.5%	0.8%	0.9%	1.0%	1.1%
Change in contribution assumptions (See G.9)	1.5%	1.9%	2.2%	2.3%	2.1%	1.7%	1.6%
Change in OAP benefit assumptions (See G.15)	0.0%	-0.3%	-0.5%	-0.6%	-0.4%	-0.2%	-0.1%
Change in up-rating assumption (See 5.2)	0.0%	-0.3%	-1.3%	-2.1%	-2.7%	-2.9%	-2.9%
Change in pension age (See 5.2)	0.0%	0.0%	-0.5%	-1.2%	-1.4%	-1.0%	-0.9%
Change in population projections (See I.1)	-0.6%	-1.6%	-1.8%	-1.1%	-0.3%	0.8%	1.2%
Other changes	-0.3%	-0.3%	-0.5%	-0.6%	-0.6%	-0.7%	-0.8%
2014 Review[1]	**9.4%**	**10.6%**	**11.0%**	**10.0%**	**8.8%**	**8.2%**	**7.9%**

[1] Figures may not sum to totals due to rounding.

8.3 The projected break-even contribution rate at this review is generally lower than that projected based on the principal assumptions adopted at the last review. This largely reflects the change in the principal up-rating assumption together with the extension of the planned increases in pension age and a change in the principal migration assumption. The effect of the changes in these assumptions is offset to an extent by the decline in the assumed proportions of the population contributing to the Fund, relative to those assumed at the previous review.

8.4 The change in the principal migration assumption and the planned increases in pension age, together with some of the changes in the OAP benefits assumptions, also change the projected ratio of contributors to pension beneficiaries.

8.5 Table 8.2 below show the ratio of contributors to pension beneficiaries, including off-Island pensioners, projected at the 2009 review and this review.

Table 8.2: Ratio of contributors to pension beneficiaries

	2015	2025	2035	2045	2055	2065	2070
2009 Review	1.83	1.35	1.07	1.00	1.02	1.11	1.17
2014 Review	1.89	1.52	1.27	1.24	1.26	1.18	1.17

8.6 The 'other changes' in Table 8.1 which reduce the projected break-even contribution rate include the effect of the change in the principal up-rating assumption on benefits other than the old age pension as well as other changes in benefit-specific assumptions and assumptions relating to administration costs.

Appendix A: Summary of contributions and benefits as at 31 December 2014

A.1 The Guernsey Insurance Fund is a contributory social security scheme providing a range of benefits including old age, sickness, and unemployment benefits.

A.2 A brief overview of the contributions payable, the benefits provided and the qualifying conditions is provided below. Guernsey has Reciprocal Social Security Agreements with a number of countries, whereby individuals who have contributed to a social security scheme in another country may receive small, part benefits from that country. This review does not allow for any impact from possible new agreements. Further information on contributions and benefits is available from the States of Guernsey Social Security (www.gov.gg).

Contributions

A.3 Contributions are paid by employers, employees, the self-employed and the non-employed under pension age. Contributions are paid by, and on behalf of, employees earning above the lower earnings limit, with contributions payable on total earnings up to the upper earnings limit. Contributions are payable by the self-employed, subject to the same limits.

A.4 The upper earnings limit was higher for employers for a number of years prior to 2014. The same upper earnings limit applies to all contribution classifications from 2014 onwards.

A.5 Contributions are paid by non-employed individuals under pension age with income above the lower income limit, with contributions payable on total income up to the upper earnings limit but subject to the non-employed income allowance. The income allowance was introduced in 2010.

A.6 The tables below provide details of the contribution rates and earnings limits applicable between 2010 and 2015. An increase of 0.1% to both the employer and employee contribution rate is scheduled for January 2017, in light of the introduction of parental benefits from that date. The contribution rates for the self-employed and non-employed are to remain unchanged.

Table A.1: Contribution rates payable

	2010	2011	2012	2013	2014	2015
Employer	4.90%	4.90%	4.90%	4.90%	4.90%	4.90%
Employee	3.40%	3.40%	3.40%	3.40%	3.40%	3.40%
Total Employed	8.30%	8.30%	8.30%	8.30%	8.30%	8.30%
Self Employed	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
Non-employed (Under 65)	5.70%	5.70%	5.70%	5.70%	5.70%	5.70%

Table A.2: Annual Contributions Earnings Limits (£)

	2010	2011	2012	2013	2014	2015
Lower Earnings Limit (employee, employer, self-employed)	5,928	6,084	6,292	6,500	6,656	6,812
Lower Income Limit (non-employed)	14,820	15,210	15,730	16,250	16,640	17,030
Upper Earnings Limit - Employer	117,468	120,900	125,268	129,792	132,444	135,252
Upper Earnings / Income Limit – Employee, Self-employed, Non-employed	79,872	91,884	105,144	119,340	132,444	135,252
Non-employed Income Allowance	6,290	6,451	6,675	6,895	7,059	7,223

A.7 Employee, self-employed and non-employed contributions are payable until pension age. Employer contributions remain payable in respect of employees over pension age.

A.8 Central funding is provided to the Fund by way of the States grant. The States grant is defined as a percentage of total contributions. The States grant has been unchanged at 15% since January 2008. A reduction in the States grant, to 14.7% is scheduled for January 2017, coinciding with the increase in employer and employee contribution rates and the introduction of parental benefits.

A.9 These contribution rates are in respect of the Guernsey Insurance Fund only. They do not include the contributions payable in respect of the Guernsey Health Service Fund or the Long-term Care Insurance Fund. This review assumes that contribution income to the Guernsey Insurance Fund is in line with published contribution rates and no allowance is made for potential re-allocations between the three Funds.

Benefits

A.10 Benefits are payable to “insured” persons, that is, those who are paying or have paid contributions to the Guernsey Insurance Fund.

A.11 Old age pension is the most significant benefit, accounting for 84.8% of total expenditure in 2014. Invalidity Benefit is the second largest element of expenditure and accounted for 6.3% of total expenditure in 2014. All other benefits individually accounted for less than 3% of total benefit expenditure in 2014.

Old age pension

A.12 Old age pension is a weekly benefit payable to men and women on reaching pension age, currently age 65. Eligibility and the level of benefit payable are both dependent on the beneficiary's contribution record.

A.13 To receive a pension at the full benefit rate, an average of at least 50 contributions must be paid each year over a 45 year period. A proportionately reduced benefit is paid where this condition is not met. However no pension is payable if the yearly average is less than 10, unless assisted by a Reciprocal Agreement.

A.14 Different rules applied for women married before 1 January 2004. There remain some transitional arrangements whereby a woman married before 1 January 2004 may be able to use part of her husband's record to improve her rate of pension.

A.15 Pension age is due to increase to age 70 between 2020 and 2049.

Incapacity benefits

A.16 There are a number of different benefits that may be payable on illness or injury:

> Sickness Benefit is a weekly benefit payable for up to six months if an individual is incapable of work due to illness or injury.

> Industrial Injury Benefit is a weekly benefit payable for the first six months of an illness which is connected with an injury at work.

> Invalidity Benefit is a weekly benefit payable after Sickness Benefit or Industrial Injury Benefit has been paid for six months.

> Industrial Disablement Benefit is a weekly benefit payable if an individual has a long-term disability which is a direct result of an accident at work or certain diseases or conditions contracted at work.

> Industrial Medical Benefit is a one-off payment or series of payments to meet the cost of treatment connected with an accident at work or certain diseases or conditions contracted at work.

A.17 Payment of sickness benefit and invalidity benefit is subject to at least 26 contributions having been paid at any time and at least 26 contributions having been paid or credited in the relevant contribution year. No benefit is paid in respect of illness of fewer than 4 days and partial weeks are paid proportionately.

Bereavement benefits

A.18 There are three bereavement benefits that may be payable on the death of a spouse:

> Bereavement Payment is a lump sum payment payable to all widows and widowers.

> Widowed Parent's Allowance is a weekly benefit payable to widows and widowers with dependent children.

> Bereavement Allowance is a weekly benefit, payable for up to one year, to widows and widowers below pension age who do not have dependent children.

A.19 Payment of bereavement benefits is subject to the same contribution conditions as for old age pension, based on the late spouse's record and date of death, rather than at pension age.

A.20 Bereavement benefits changed with effect from 1 January 2004. Different rules continue to apply to those widowed before 1 January 2004 but only a small number of legacy cases remain.

Travelling allowance grant

A.21 A Travelling Allowance Grant (TAG) provides funding and reimbursement of travel expenses for patients visiting Jersey or the UK when medical treatment is not available in Guernsey or Alderney, and also for Alderney patients requiring treatment in Guernsey.

Unemployment benefit

A.22 Unemployment benefit is a weekly benefit payable for up to 210 days if an individual is registered as unemployed and seeking work with an employer. Payment of unemployment benefit is subject to at least 26 contributions having been paid at any time as an employed person and at least 26 contributions having been paid or credited as an employed person in the relevant contribution year. Generally, contributions paid as a self-employed person or non-employed person do not count for Unemployment Benefit.

A.23 To receive the full benefit rate, at least 50 contributions must be paid in the relevant contribution year. A proportionately reduced benefit is paid where this condition is not met.

Maternity benefits

A.24 There are currently two maternity benefits that may be payable:

> Maternity Allowance – a weekly benefit payable to expectant mothers for a maximum of 18 weeks, subject to same contribution conditions as for sickness benefit and invalidity benefit

> Maternity Grant – a lump sum payment made to insured expectant mothers who are not entitled to Maternity Allowance or who opt for Maternity Grant instead.

A.25 From January 2017, Maternity Benefits are to be replaced with new Parental Benefits. The benefits to be provided from January 2017 are:

> Maternity Grant – a lump sum payable to all mothers of newborn children regardless of whether or not they are eligible for any other maternity/parental benefits

> Adoption Grant – a lump sum payable on the adoption of a child, payable at the same rate as the Maternity Grant

> Maternal Health Allowance – a weekly benefit payable to women in the pre-birth or initial post-birth period for a minimum two week period

- Newborn Care Allowance – a weekly benefit payable following the end of the compulsory two week maternal health allowance period, payable to either parent at the same rate as Maternal Health Allowance. Maternal Health Allowance and Newborn Care Allowance are payable for maximum combined period of 26 weeks
- Parental Allowance – a weekly benefit payable to either parent following the adoption of a child, payable at the same rate as Maternal Health Allowance and Newborn Care Allowance. Parental Allowance is payable for a maximum period of 26 weeks.

A.26 To receive the allowance benefits at the full rate, at least 50 contributions must be paid in the relevant contribution year. A proportionately reduced benefit is paid where this condition is not met.

Death grant

A.27 Death Grant is a one-off payment paid as a lump sum to help with funeral expenses. It is payable on the death of an insured person, their spouse or child, with payment subject to contribution conditions similar to those for old age pension, based on the deceased's record, or the parent's record in the case of a child.

Appendix B: Fund accounts from 2010 to 2014

B.1 The table below provides details of income, expenditure and the balance of the Fund for the period 2010 to 2014.

Table B.1: Income, expenditure and Fund balance from 2010 to 2014 (£000s)

	2010	2011	2012	2013	2014
Balance at 1 January	571,341	634,933	611,359	652,180	692,360
Income					
Contributions	88,488	92,318	94,867	96,474	99,065
States Grant	13,262	13,837	14,223	14,439	14,860
Total Income	101,751	106,156	109,090	110,913	113,925
Outgo					
Benefits	100,297	104,891	113,568	120,245	125,137
Administration Costs	5,102	5,217	5,508	5,219	4,393
Total Outgo	105,399	110,108	119,076	125,464	129,530
Operating Surplus / Deficit	-3,648	-3,953	-9,986	-14,551	-15,605
Return on Investments	67,240	-19,622	50,807	54,731	25,345
Balance at 31 December	**634,933**	**611,359**	**652,180**	**692,360**	**702,100**

B.2 The table below provides details of expenditure on each benefit for the period 2010 to 2014.

Table B.2: Benefit expenditure from 2010 to 2014 (£000s)

	2010	2011	2012	2013	2014
Old Age Pension	82,119	86,695	94,751	100,989	106,149
Sickness Benefit	3,360	3,326	3,382	3,535	3,604
Industrial Injuries Benefit	233	204	226	238	300
Invalidity Benefit	7,413	7,773	7,537	7,648	7,918
Industrial Disablement Benefit	614	588	579	593	552
Industrial Medical Benefit	122	113	129	112	135
Bereavement Benefit	2,057	1,871	1,873	1,835	1,629
Travel Allowance Grant	1,921	1,853	2,037	2,229	1,938
Unemployment Benefit	1,195	1,077	1,629	1,519	1,437
Maternity Benefit	1,007	1,108	1,135	1,224	1,184
Death Grant	229	241	280	273	271
Other	26	43	10	50	20
Total	**100,297**	**104,891**	**113,568**	**120,245**	**125,137**

Appendix C: Summary of data used

C.1 The projections provided in this report rely on the accuracy of data and information provided by the former Guernsey Social Security Department. Checks made on this information are limited to checks on the overall reasonableness and consistency of the data. We have informed the former Guernsey Social Security Department of areas where we found that data from different sources did not reconcile as well as might be expected and detailed the data used and the approach adopted to propose assumptions. The data generally appear to be of good quality and we believe the data provided are sufficient for the purposes of the review.

C.2 Nevertheless, it should be noted that if any of the data used for the calculations are materially incorrect or incomplete, this could have a significant effect on the results. GAD does not accept responsibility for advice based on wrong or incomplete data or information provided.

C.3 Data are used in three main areas:

> as the starting point of the projections

> to help determine appropriate assumptions about the future

> in validating the projection methodology

C.4 Details of the data used are set out below.

Data used as the starting point of the projections

C.5 The population projections are based on population data as at 30 June 2014.

C.6 The projections of the balance in the Fund are based on the value of the fund as at 31 December 2014 as shown in the 2014 accounts. The results for the projection of the fund balance should be seen in the context of the general volatility of market values of some classes of investment.

Data used to help determine appropriate assumptions about the future

C.7 Guernsey population data and the ONS 2014-based principal population projections for England and Wales have been used to determine appropriate mortality and fertility assumptions, including allowance for future mortality improvement.

C.8 Projections of contributions and benefits are based on data including the number of contributors and their earnings and the number of beneficiaries and the amount of benefit paid. Information was also provided on current contribution rates, earnings limits and benefit rates. There were differences in the format of the datasets provided in respect of old age pension beneficiaries which limited the degree of analysis that it was possible to carry out and a proxy approach was adopted.

C.9 Economic assumptions have been based on information provided by the former Guernsey Social Security Department, including the States Strategic Monitoring Report 2015, as well as the asset data provided in the accounts.

C.10 This review also takes account of expected future changes, such the planned increase in pension age and the introduction of parental benefits.

Data used in validating the projection methodology

C.11 We have compared modelled contribution income and benefit expenditure in recent years with actual income and expenditure as recorded in the accounts to determine any adjustment required to allow for differences between using models and assumptions, and actual experience. Based on this comparison we have not made any material adjustments to the projections as we have not observed robust evidence of material differences or any particular trends.

Appendix D: Projected break-even contribution rates

D.1 The tables below show the projected joint Class 1 break-even contribution rate, that is, the combined Class 1 contribution rate from employers and employees required to balance expenditure on benefits and administration costs. Results are provided at 10-year intervals based on the principal assumptions and for each of the variants.

Table D.1: Break-even contribution rate based on principal assumptions

	2014	2015	2025	2035	2045	2055	2065	2075
Principal assumptions	9.44%	9.45%	10.61%	11.00%	10.02%	8.76%	8.21%	7.46%

Table D.2: Break-even contribution rate based on variant up-rating scenarios

	2014	2015	2025	2035	2045	2055	2065	2075
Principal assumptions (Current up-rating policy)	9.44%	9.45%	10.61%	11.00%	10.02%	8.76%	8.21%	7.46%
Long-term up-rating assumption	9.44%	9.45%	10.66%	11.51%	10.91%	9.90%	9.59%	8.95%
Earnings up-rating	9.44%	9.45%	11.62%	13.66%	14.06%	13.83%	14.50%	14.62%

Table D.3: Break-even contribution rate based on variant migration scenarios

	2014	2015	2025	2035	2045	2055	2065	2075
Principal assumptions (100 net immigration)	9.44%	9.45%	10.61%	11.00%	10.02%	8.76%	8.21%	7.46%
Zero migration	9.44%	9.46%	10.86%	11.61%	10.91%	9.78%	9.29%	8.37%
200 net immigration	9.44%	9.44%	10.37%	10.45%	9.28%	7.96%	7.42%	6.83%
100 net emigration	9.44%	9.48%	11.13%	12.30%	11.99%	11.14%	10.86%	9.81%

Table D.4: Break-even contribution rate based on variant real earnings growth scenarios

	2014	2015	2025	2035	2045	2055	2065	2075
Principal assumptions (1.5% real earnings growth)	9.44%	9.45%	10.61%	11.00%	10.02%	8.76%	8.21%	7.46%
0.5% real earnings growth	9.44%	9.53%	11.36%	12.80%	12.63%	11.92%	11.99%	11.60%

Appendix E: Projected progress of the Fund

E.1 The tables below show the projected progress of the Fund, in terms of the projected average Fund balance in a year expressed as a proportion of the annual expenditure on benefits and administration costs, assuming that the contribution rate is unchanged following the planned increase in January 2017. Results are provided at 10-year intervals based on the principal assumptions and for each of the variants.

Table E.1: Projected progress of the Fund based on principal assumptions

	2014	2015	2025	2035	2045	2055	2065	2075
Principal assumptions	5.4	5.3	3.7	1.9	0.1	0.0	0.0	0.0

Table E.2: Projected progress of the Fund based on variant up-rating scenarios

	2014	2015	2025	2035	2045	2055	2065	2075
Principal assumptions (Current up-rating policy)	5.4	5.3	3.7	1.9	0.1	0.0	0.0	0.0
Long-term up-rating assumption	5.4	5.3	3.7	1.5	0.0	0.0	0.0	0.0
Earnings up-rating	5.4	5.3	2.9	0.0	0.0	0.0	0.0	0.0

Table E.3: Projected progress of the Fund based on variant migration scenarios

	2014	2015	2025	2035	2045	2055	2065	2075
Principal assumptions (100 net immigration)	5.4	5.3	3.7	1.9	0.1	0.0	0.0	0.0
Zero migration	5.4	5.3	3.6	1.5	0.0	0.0	0.0	0.0
200 net immigration	5.4	5.3	3.8	2.3	1.2	1.6	3.2	6.1
100 net emigration	5.4	5.3	3.6	1.1	0.0	0.0	0.0	0.0

Table E.4: Projected progress of the Fund based on variant real earnings growth scenarios

	2014	2015	2025	2035	2045	2055	2065	2075
Principal assumptions (1.5% real earnings growth)	5.4	5.3	3.7	1.9	0.1	0.0	0.0	0.0
0.5% real earnings growth	5.4	5.3	3.6	0.9	0.0	0.0	0.0	0.0

Appendix F: Projections of income and expenditure

F.1 Table F.1 overleaf provides details of projected income, expenditure and the balance of the Fund at 10-year intervals based on the principal assumptions.

Table F.1: Projected Income, Expenditure and Fund Balance based on the principal assumptions (£000s)

	2014	2015	2025	2035	2045	2055	2065	2075
Balance at 1 January	692,360	702,100	809,230	647,436	69,457	0	0	0
Income								
Contributions	99,065	101,711	151,300	222,135	332,127	493,523	715,975	1,047,605
States Grant	14,860	15,257	22,241	32,654	48,823	72,548	105,248	153,998
Total Income	113,925	116,968	173,541	254,789	380,950	566,070	821,223	1,201,602
Outgo								
Benefits	125,137	128,648	210,083	319,766	434,213	561,142	759,832	125,137
Administration Costs	4,393	4,509	6,582	9,892	14,868	22,347	33,587	4,393
Total Outgo	129,530	133,158	216,664	329,658	449,081	583,488	793,418	129,530
Operating Surplus / Deficit	-15,605	-15,605	-16,190	-43,123	-74,869	-68,131	-17,418	27,805
Return on Investments	25,345	28,024	43,929	34,036	1,999	0	0	0
Balance at 31 December	**702,100**	**713,934**	**810,035**	**606,604**	**3,325**	**0**	**0**	**0**

Appendix G: Detailed assumptions used in projections

G.1 This appendix summarises the methodology and assumptions used to project contribution income and benefit expenditure. The projections of both contributions and benefits are largely driven by future changes in the population. Details of the population projections are provided in Section 6 of this report and summarised below.

Methodology

G.2 This review has been carried out on a projected cashflow approach, reflecting the partially funded nature of the Fund. As such, the financial condition of the Fund has been assessed in terms of the average Fund balance relative to annual expenditure, reflecting that, although a reserve is held, assets are not expected to be sufficient to cover the accrued liabilities.

G.3 The projections have been prepared on an open basis. That is, this review allows for future contributors to the Fund and not only those currently contributing to, or receiving benefits from, the Fund.

G.4 As the Fund is financed broadly on the pay-as-you-go principle, we believe that this approach is appropriate for the purpose of this review and consistent with actuarial principles.

Population projections

G.5 The projections of Guernsey's population are based on population data provided as at 30 June 2014 and allow for the interaction of demographic assumptions including mortality, fertility and migration.

G.6 Mortality and fertility assumptions are based on the 2014-based principal population projections prepared by the Office for National Statistics (ONS) for England and Wales, adjusted by age and sex-related factors based on Guernsey experience from 2008 to 2014. The principal migration assumption assumes net immigration of 100 a year.

G.7 The insured population refers to those making contributions, or being credited with contributions, and therefore eligible for certain benefits.

Contributions

G.8 The key assumptions underlying the projections of contribution income are:

> proportions of the population assumed to be paying contributions in future years

> future contribution rates and earnings limits

> the distribution of future earnings

G.9 The proportions of the working-age population paying contributions are based on data provided on the number of contributors in the years 2010 to 2014 and population data. Contributor data were provided by age and sex and for each of the contribution classes, i.e. employed, self-employed and non-employed. In general, the proportions have declined slightly in recent years and there has been some variability in the proportions, particularly at younger ages. It is assumed that the proportions adopted will persist at a similar level throughout the projection period, adjusted for the planned increase in pension age from 65 to 70 between 2020 and 2049.

G.10 Both employer and employee contributions are due to increase by 0.1% from 1 January 2017, increasing the joint employer and employee contribution from 8.3% to 8.5%, coinciding with the introduction of Parental Benefits from this date. An offsetting decrease in the States Grant from 15% to 14.7% is intended to be effective from the same date. Contribution earnings limits are assumed to increase in line with increases in benefit rates.

G.11 Data on the distribution of earnings in Guernsey is provided to GAD on a quarterly basis. These provide information on earnings for Class 1 contributors (employed individuals) up to the employer upper earnings limit. Earnings information for other contributor classes (self-employed and non-employed) is provided up to the employee upper earnings limit. The upper earnings limit for employees increased between 2010 and 2014 to align with the corresponding limit for employers.

G.12 The earnings distributions are considered separately by contribution class, sex, and age band and are assumed to remain constant at the 2014 distribution in future allowing for earnings inflation.

G.13 Contribution income is projected by combining the future numbers of contributors, based on the relevant population projections, with the assumed earnings distribution allowing for the assumed up-rating of contribution limits and the relevant contribution rate.

Benefits

<u>Old age pension</u>

G.14 The key assumptions underlying the projections of old age benefit expenditure are:

> the proportions of the population assumed to receive a pension in future years

> the proportion of the full benefit rate expected to be paid on average.

G.15 It is not a requirement to be a Guernsey resident in order to receive the old age pension and, in practice, this benefit is paid to many individuals who do not remain on the Island in retirement. Based on recent experience it is assumed that pension benefits are paid to 140% of the resident population aged 65-69 in 2014. The proportions of the resident population in receipt of pension is higher (155%) for those aged 70-74 but lower for older cohorts. It is assumed that the 140% proportion will apply to all future cohorts and the proportions for older cohorts will be run-off.

G.16 The proportion of the full pension benefit rate paid depends on individuals' contribution records. Age-specific assumptions have been adopted based on data provided for the years 2010 to 2014. The age 65 proportion assumed to apply to all new cohorts expected in the future. The data provided did not permit an analysis of the average proportion of the full benefit rate paid by sex.

G.17 Expenditure on old age pension benefits is projected by combining the future numbers of beneficiaries, determined as proportions of the projected population, with the assumed average proportion of the full benefit rate payable (applied on a cohort basis) and the 2015 benefit rate allowing for the assumed rate of benefit increases.

Incapacity benefits

G.18 The key assumptions underlying the projections of expenditure on incapacity benefits are:

> the expected number of awards each year per head of the insured population

> the expected duration of each claim

> the average proportion of the standard benefit rate expected to be paid.

G.19 The table below details the assumptions adopted for each of the incapacity benefits. These assumptions are based on data provided detailing the number of beneficiaries, current benefit rates and expenditure on these benefits in recent years.

	Expected number of awards each year per head of the insured population	**Expected duration of claim (including allowance for average proportion of the standard benefit rate expected to be paid)**
Sickness benefit	New awards: Males – 25% Females – 35%	16.5 days
Industrial injury benefit	New awards: Males – 2% Females – 1%	21.5 days
Invalidity benefit	Average number in payment : Males - 1% at age 20, increasing to 9% by age 65. Females - 1% at age 20, increasing to 6% by age 65.	Paid throughout the year at 95% of the standard benefit rate.
Industrial disablement benefit	Average number in payment: 0.6%	Paid throughout the year at 35% of the standard benefit rate.
Industrial medical benefits	New awards: 2.8%	One-off payment. Average payment assumed to increase in line with the principal up-rating assumption.

G.20 These assumptions are assumed to persist throughout the projection period.

G.21 Expenditure on incapacity benefits is projected by combining the future numbers of beneficiaries, based on the projected insured population, with the assumed average proportion of the full benefit rate payable and the expected duration of payment and the 2015 benefit rate allowing for the assumed rate of benefit increases.

<u>Bereavement benefits</u>

G.22 The key assumptions underlying the projections of expenditure on bereavement benefits are:

- the proportion of the population assumed to be widowed in future years
- the proportion of those widowed receiving each bereavement benefit
- the average proportion of the full benefit rate expected to be paid.

G.23 The proportion of the population assumed to be widowed in the future is based on the Great Britain 2008 marital status projections for the proportions of widows and widowers in the population. These proportions are age-specific and are projected to change over time. These proportions are applied to the assumed Guernsey population projections.

G.24 We have adopted age- and sex-specific assumptions for the proportions of those widowed receiving each benefit.

G.25 The number of Bereavement Payment awards is assumed to range from 12% of the male widowed population aged 35, decreasing to zero by age 95 and from 20% of the female widowed population aged 25, again decreasing to zero by age 95.

G.26 The average number of Widowed Parent's Allowance awards assumed to be in payment is assumed to range from 15% for widowed males aged 35, increasing to 20% for ages 45-49 and decreasing to 5% by age 64. The corresponding assumptions for females is 60% for widowed females aged 25, decreasing to zero by age 60.

G.27 The average number of Bereavement Allowance awards is assumed to be 5% of the male widowed population aged 40 to 64 and 10% of the female widowed population aged 45, increasing to 50% by age 60.

G.28 All awards are assumed to be paid at 72% of the standard benefit rate with the average number of Widowed Parent's Allowance and Bereavement Allowance awards assumed to be paid throughout the year.

G.29 Expenditure on bereavement benefits is projected by combining the future numbers of beneficiaries, based on the projected numbers widowed and proportions receiving each benefit, with the assumed average proportion of the full benefit rate payable and the 2015 benefit rates allowing for the assumed rate of benefit increases.

Travelling allowance grant

G.30 The key assumptions underlying the projections of expenditure on the travelling allowance grant are:

> the proportions of the population assumed to receive a Travelling Allowance Grant

> the average benefit expected to be paid

G.31 It is assumed that, on average, 1.6% of the population will receive this benefit in each year and that the average expenditure for each award will increase in line with the principal up-rating assumption.

G.32 Expenditure on the travelling allowance grant is projected by combining the future numbers of grants, based on the projected population, allowing for the cost per grant to increase in line with the principal up-rating assumption.

Unemployment benefit

G.33 The key assumptions underlying the projections of expenditure on unemployment benefits are:

> the proportions of the insured population assumed to receive unemployment benefit

> the expected duration of each claim (including allowance for average proportion of the standard benefit rate expected to be paid)

G.34 It is assumed that the average number of awards in payment per head of the insured population will be 3.2% and that each award will be paid for 8.5 weeks at the full standard benefit rate. These assumptions are assumed to persist throughout the projection period.

G.35 Expenditure on unemployment benefit is projected by combining the future number of beneficiaries, based on the projected insured population, with the assumed average proportion of the full benefit rate payable and the expected duration of payment and the 2015 benefit rate allowing for the assumed rate of benefit increases.

Maternity benefit

G.36 The key assumptions underlying the projections of expenditure on maternity and parental benefits are:

> the proportion of births giving rise to a maternity grant

> the proportion of births giving rise to a maternity allowance / corresponding parental benefits from 2017

> the average expected duration of each maternity allowance / parental benefit award (assuming the standard benefit rate is paid in full for each claim).

G.37 It is assumed that 12.0% of births will give rise to a maternity grant, increasing to 100% in 2017 reflecting the introduction of new parental benefits, with all awards assumed to be paid at the full benefit rate.

G.38 82% of births are assumed to give rise to a maternity allowance or corresponding parental benefits. The average expected duration of each award, assuming the standard benefit rate is paid in full for each claim, is 15 weeks. This is assumed to gradually increase from 2017 to a maximum of 23 weeks by 2024, reflecting the introduction of the new parental benefits.

G.39 The total number of awards is greater than the number births as the number of births reflects live births on the island. In some cases births will take place off the island but will be eligible for a relevant benefit.

G.40 Expenditure on maternity benefits is projected by combining the number of births, based on the population projections, the proportion giving rise to each of the benefits and the assumed duration of maternity allowance and the 2015 benefit rate allowing for the assumed rate of benefit increases.

Death grant

G.41 The key assumptions underlying the projections of expenditure on death grant benefits are:

> the proportion of deaths giving rise to a grant

> the average proportion of the full benefit rate expected to be paid.

G.42 It is assumed that 90% of deaths will give rise to the award of death grant and that, on average, 96.5% of the full benefit rate will be paid.

G.43 Death grant expenditure is projected by combining the number of awards, based on the projected population and the proportion giving rise to a grant, and the average proportion of the full benefit rate expected to be paid, and the 2015 benefit rate allowing for the assumed rate of benefit increases.

Administration costs

G.44 It is assumed that 75% of administration costs are salary-related and therefore projected to increase from the 2014 level in line with earnings. All other administration costs are projected to increase from the 2014 level in line with prices.

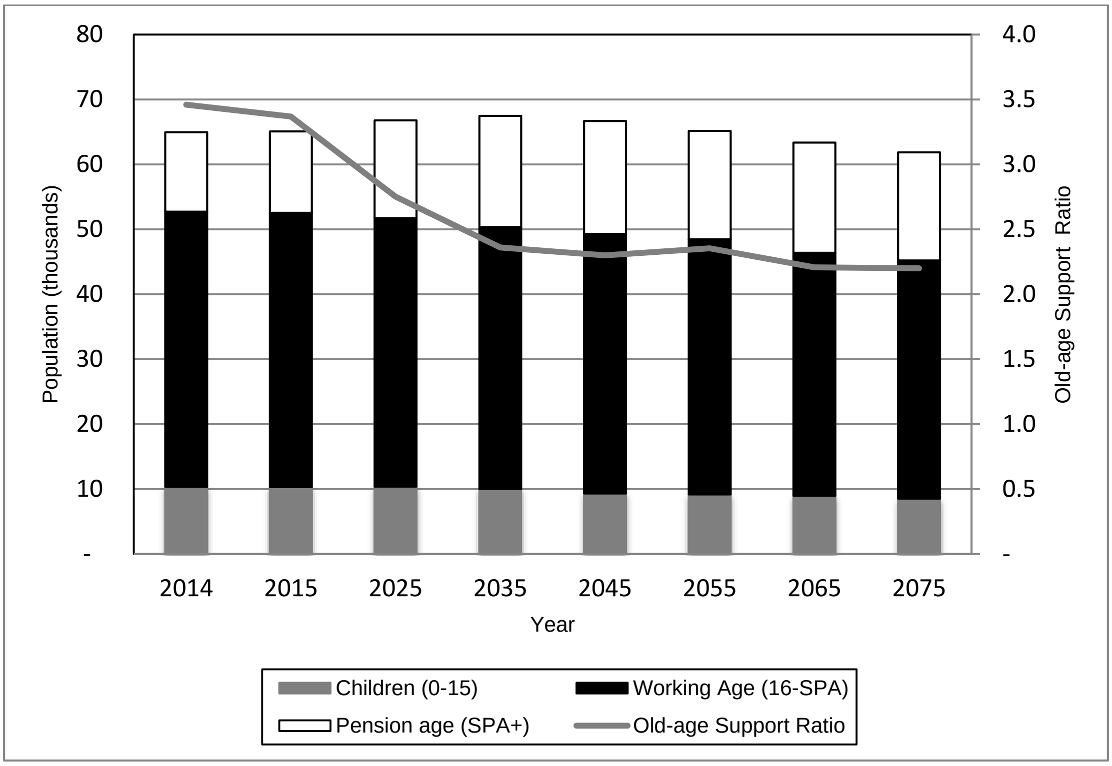
Appendix H: Projected future population of Guernsey

H.1 The chart below shows the population of Guernsey in 2014 and the projected future population at 10-year intervals based on the principal assumptions, which assume constant net immigration of 100 each year.

H.2 The chart sub-divides the population into children (0-15 years), those of working age and pensioners (above pension age). The projections reflect the planned increase in the pension age from 65 to 70 between 2020 and 2049.

H.3 The starting point is the population as at 30 June 2014 which provides for a ratio of the working-age population to the resident pensioner population of 3.5.

Figure H.1: Projection of Guernsey population based on the principal assumptions



Appendix I: Variant population projections

I.1 The charts below show the population of Guernsey in 2014 and the projected future population at 10-year intervals for the three variant migration scenarios:

> Zero migration
> Net immigration of 200 a year
> Net emigration of 100 a year

I.2 The charts sub-divide the population into children (0-15 years), those of working age and pensioners (above pension age). The projections reflect the planned increase in the pension age from 65 to 70 between 2020 and 2049.

I.3 The starting point for all scenarios is the population as at 30 June 2014 which provides for a ratio of the working-age population to the resident pensioner population of 3.5.

Figure I.1: Projection of Guernsey population assuming zero migration

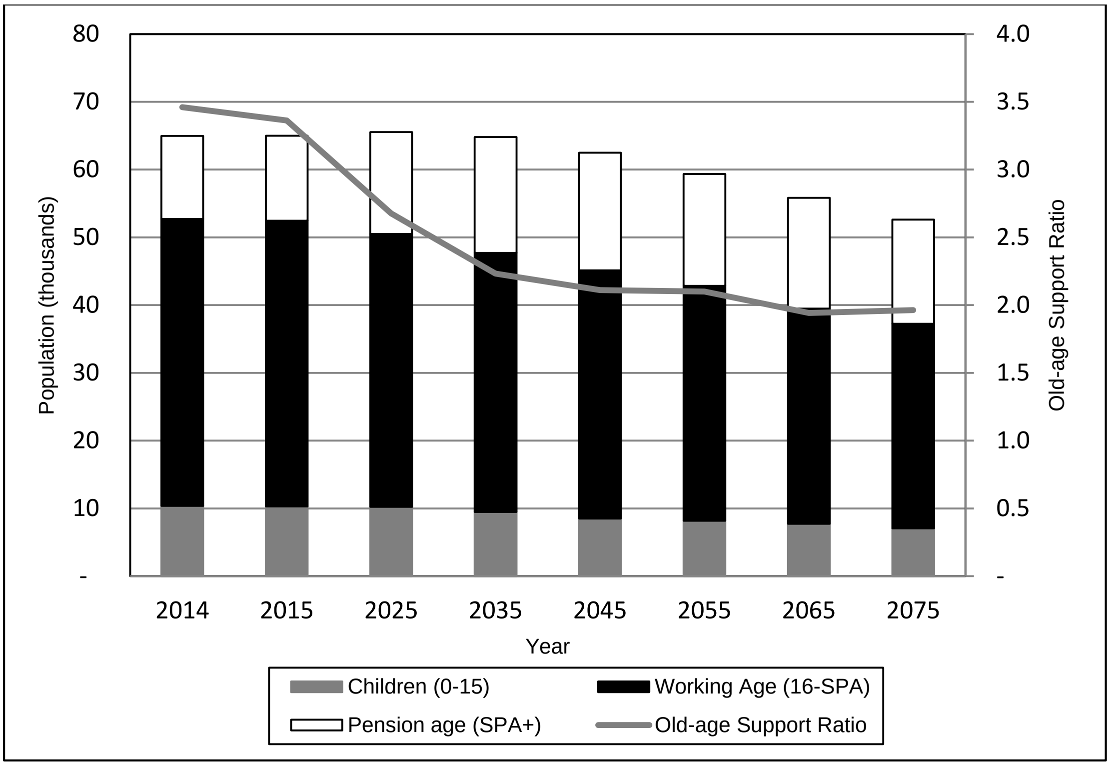


Figure I.2: Projection of Guernsey population assuming 200 net immigration

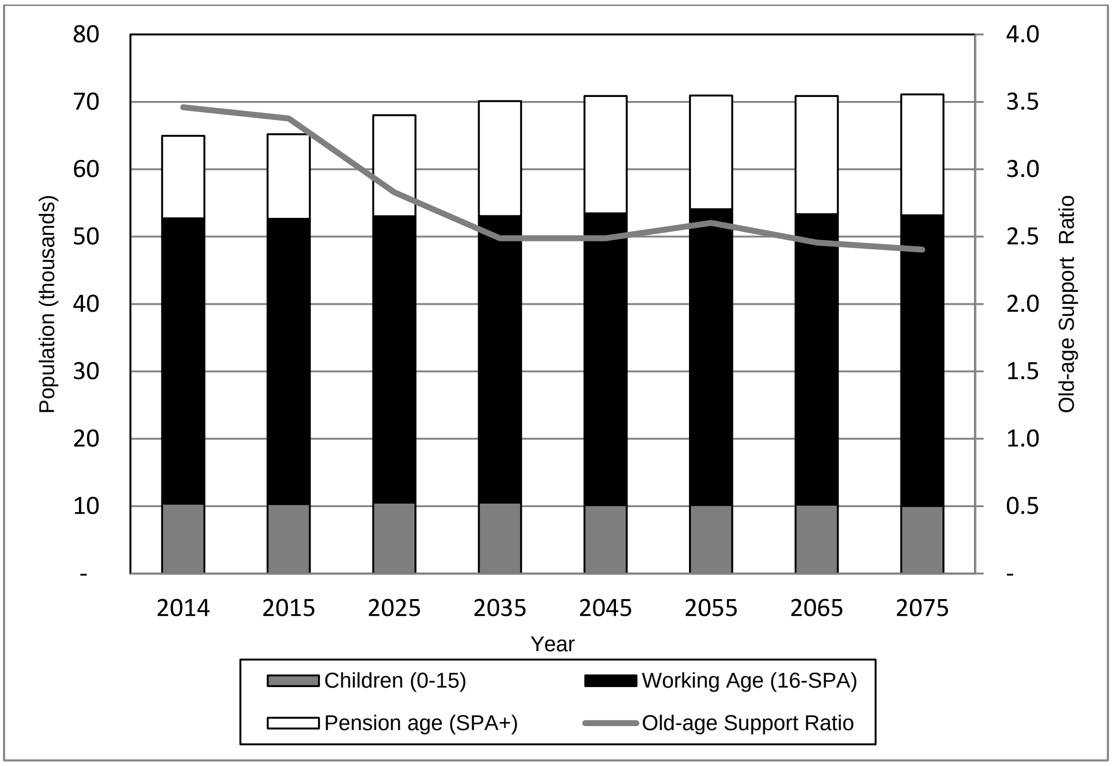
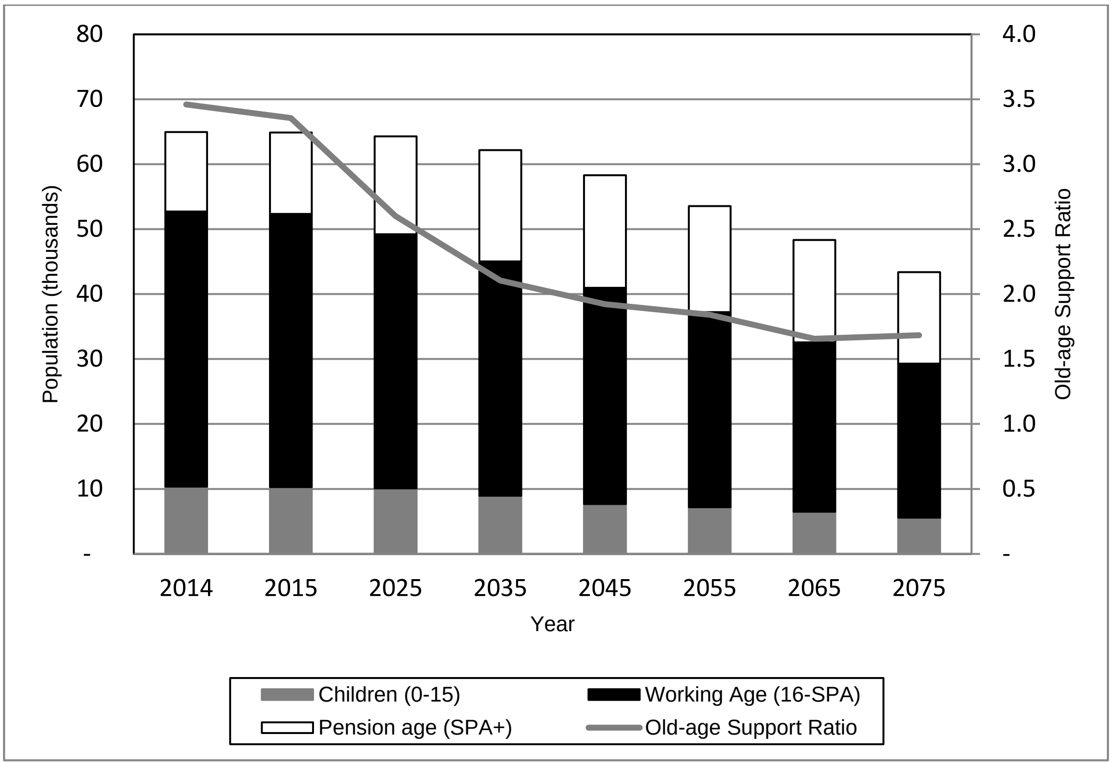


Figure I.3: Projection of Guernsey population assuming 100 net emigration



APPENDIX 2

The Actuarial Review on the Guernsey Health Service Fund

The report follows on the next page.

Government Actuary's Department

Guernsey Social Security Reviews as at 31 December 2014

Guernsey Health Service Fund

FINAL REPORT

Date: 23 June 2016

Author: Martin Clarke

THE HEALTH SERVICE (BENEFIT) (GUERNSEY) LAW 1990

REPORT BY THE GOVERNMENT ACTUARY ON THE OPERATION OF THE HEALTH SERVICE (BENEFIT) (GUERNSEY) LAW IN THE PERIOD 1 JANUARY 2010 TO 31 DECEMBER 2014

To the President and Members of the Committee *for* Employment & Social Security:

Section 20(1) of the Health Service (Benefit) (Guernsey) Law 1990 (as amended) ("the Law") provides for a review of the operation of the Law at intervals not exceeding five years. The Government Actuary's previous review covered the period of four years up to 31 December 2009. At the request of the former Social Security Department, I have carried out a review covering the five year period from 1 January 2010 to 31 December 2014. I submit the following report on the financial condition of the Guernsey Health Service Fund and on the adequacy of the Guernsey Health Service Fund allocation payable into the Fund under section 101 of the Social Insurance Law and the States Health Service Annual Grant payable into the Fund under section 2 of the Law. All the references to Guernsey in this report are to be taken to include also the islands of Alderney, Herm and Jethou, whose residents we understand are covered by the Law.

Martin Clarke FIA
Government Actuary

23 June 2016

Contents

1 Executive Summary

Background

1.1 This report has been prepared for the President and Members of the Committee *for* Employment & Social Security.

1.2 Section 20(1) of the Health Service (Benefit) (Guernsey) Law 1990 ("the Law") requires an actuary to review the operation of the Law at intervals not exceeding five years. The previous review covered the period to 31 December 2009. Accordingly this review covers the period from 1 January 2010 to 31 December 2014. The next report will be due with an effective date no later than 31 December 2019.

1.3 The aim of this report is to review the financial condition of the Guernsey Health Service Fund ("the Fund") and the adequacy of the contributions payable to support the payments to be made from the Fund.

1.4 We have assessed the financial condition of the fund in terms of a cashflow projection approach and this report includes:

> Projections of the contributions required to balance projected benefit payments

> Projections of the progress of the Fund if the current contributions rates are maintained

> Estimates of the constant contribution rates required such that the projected average balance of the Fund is equal to twice projected expenditure at the end of the projection period.

1.5 Projections have been produced for the period 2015 to 2030.

1.6 This review allows for changes made to the Fund since the previous review as at 31 December 2009 including the transfer of the cost of visiting medical consultants from the former Guernsey Health and Social Services Department to the former Guernsey Social Security Department from 2014. The extension of planned increases in pension age as agreed following the Personal Tax, Pensions and Benefits Review is not relevant for this review as the changes are effective after the end of the projection period.

Key results

1.7 The projections suggest that, based on the principal assumptions adopted, as advised by the former Guernsey Social Security Department, the current contribution rate is expected to remain adequate throughout the projection period. However, the projected break-even contribution rate is only very slightly below the current contribution rate. Therefore small variations in experience relative to the principal assumptions adopted could provide for the break-even contribution rate to exceed the current joint Class 1 contribution rate of 2.9% of relevant earnings.

1.8 Some variant scenarios show a break-even rate that is projected to exceed the current contribution rate during the projection period. All the variant scenarios considered suggest the Fund is projected to remain above twice projected expenditure throughout the projection period. However, this objective may not be achieved over a longer period or where experience varies in respect of more than one assumption.

1.9 Based on the principal assumptions the average Fund balance is projected to decrease in 2017 due to the anticipated increase in the number of specialist medical consultants in that year and thereafter steadily increase as a multiple of annual expenditure, increasing from 2.6 in 2014 to 3.3 times annual expenditure at the end of the projection period in 2030.

1.10 The continual increase in the average Fund balance from 2018 onwards reflects projected operating surpluses in each year, which arise from the contribution rate in payment exceeding the break-even contribution rate required to meet projected expenditure, compounded with assumed real investment returns of 2.5% a year in excess of RPIX price inflation.

1.11 This is in line with the projections at the time of the 2009 Review which showed the Fund projected to continue to grow throughout the projection period, reflecting continued cost control of expenditure from the Fund with contribution income expected to increase in line with general earnings.

1.12 However, there are a range of other factors that could significantly affect the future progress of the Fund, such as the rate at which consultation grants are payable, the proportions exempt from prescription charges and revisions to contract prices in respect of specialist services. The rate at which consultation grants are payable could also influence the number of consultations per head of population and in turn the number of prescription items.

1.13 Given the inherent variability associated with medical costs and the relatively short projection period considered, it will be important to continue to monitor changes in the Fund as the projections suggest that small additional changes could result in operating deficits emerging.

1.14 The constant contribution rate estimated to be required from January 2018 such that the projected average balance of the Fund is equal to twice projected expenditure at the end of the projection period is 2.63%. This constant contribution rate provides for the average balance of the Fund to remain above twice projected expenditure until 2030. The current joint Class 1 contribution rate is 2.9% of relevant earnings.

Assumptions

1.15 The projections provided depend on assumptions made about the future. The principal assumptions adopted in carrying out this review are summarised in Table 1.1 overleaf.

Table 1.1: Summary of principal assumptions

	Principal assumption
Fertility and mortality projections	ONS 2014-based projections for England and Wales adjusted by constant age-related multipliers to reflect Guernsey's mortality experience from 2008 to 2014 and fertility experience from 2009 to 2014.
Migration	Constant net immigration of 100 a year, as advised by the former Guernsey Social Security Department. Distribution of migration by age and sex updated to reflect a 55 / 45 male / female split but with the overall age distribution unchanged from that adopted for the 2009 Review.
RPIX price inflation	Short-term assumptions for the period to 2019 with a long-term assumption of 3% in 2020 and each year thereafter
Real earnings growth (net of RPIX price inflation)	1.5% pa
Real investment return (net of RPIX price inflation)	2.5% pa

1.16 The demographic and economic assumptions underlying the projections are inevitably subject to a considerable degree of uncertainty. The pay-as-you-go nature of the Fund means that contribution rates and the future progress of the Fund may change significantly over time owing to changes in the benefits provided, the profile of the population or the economic environment. The variant projections provided, as advised by the former Guernsey Social Security Department, illustrate the sensitivity of the projections to different experience or different policies.

1.17 Given the uncertainty about the future progress of the Fund, caution is needed when using the projections in this report. Users should read the main body of this report to understand the uncertainty and limitations surrounding these projections.

1.18 In our opinion the range of assumptions underlying the projections in this report cover a reasonable range and the methodology used in preparing these projections is appropriate for its purpose and consistent with actuarial principles.

2 Introduction and Scope

2.1 This report has been prepared for the President and Members of the Committee *for* Employment & Social Security. The Committee is required to lay a copy before the States as soon as is practicable after receiving it.

2.2 The Guernsey Health Service Fund ("the Fund") is financed broadly on the pay-as-you-go principle. The Fund receives contribution income to fund current and future benefit expenditure, with a fund maintained to act as a reserve. The long-term objective is to maintain a minimum balance of two years' outgo.

2.3 The cash flows into and out of the Fund are contributions paid each year by individuals and employers, and expenditure on benefits provided in line with provisions of the Fund. Under the pay-as-you-go approach, contribution income in a year is intended to cover expenditure in the year, and no significant fund of assets would be built up out of which to finance future expenditure. This means contribution rates may change significantly over time owing to changes in the benefits provided and the associated cost of the benefits provided, the profile of the population or the economic environment. The long-term objective is to maintain a minimum Fund balance approximately equal to two years' outgo, while keeping the contribution rate relatively stable.

2.4 Section 20(1) of the Health Service (Benefit) (Guernsey) Law 1990 ("the Law") requires an actuary to review the operation of the Health Service Law at intervals not exceeding five years. The legislation requires the actuary to make a report to the Department on the financial condition of the Fund and the adequacy or otherwise of the contributions payable under the Law to support the payments to be made out of the Fund under the provisions of the Law.

2.5 This report addresses this requirement as at an effective date of 31 December 2014. The previous report, issued in June 2011, was prepared as at an effective date of 31 December 2009. The next report will be due as at an effective date no later than 31 December 2019.

2.6 Given the pay-as-you-go nature of the Fund we have assessed the financial condition of the fund in terms of a cashflow projection approach and this report includes:

- Projections of the contributions required to balance projected benefit payments
- Projections of the progress of the Fund if the current contributions rates are maintained
- Estimates of the constant contribution rates required such that the projected average balance of the Fund is equal to twice projected expenditure at the end of the projection period.

2.7 As agreed with the former Guernsey Social Security Department, we have produced projections for the 15-year period from 2015 to 2030 and the projections reflect updated population projections.

2.8 The projections are dependent on the data, methodology and assumptions used. There is considerable uncertainty about the future progress of the Fund and actual experience could differ materially from the projections. Section 7 of this report provides further comments on this.

2.9 This report also provides:

> Details of the data and assumptions underlying the projections and estimates provided

> Details of the methodology adopted.

2.10 It is anticipated that the results in this report will be used by the Committee *for* Employment & Social Security for information purposes and for considering possible changes to contributions or benefits payable. However, before deciding on any changes, further actuarial advice should be sought in order to confirm the likely impact on the finances of the Fund. Furthermore, in making decisions about the Fund, it will also be appropriate to take into account non-actuarial matters, such as legal, administrative and policy issues.

Professional standards

2.11 This report complies with GAD's standards. For further details please see GAD's website: https://www.gov.uk/government/organisations/government-actuarys-department/about/terms-of-reference.

Reliances and limitations

2.12 This report has been prepared for the President and Members of the Committee *for* Employment & Social Security. We understand that the information in this report may be made available to others. However GAD does not accept any liability to third parties in relation to this report.

2.13 This review relies on the accuracy of data and information provided by the former Social Security Department. GAD does not accept responsibility for advice based on wrong or incomplete data or information provided.

2.14 The advice provided must be taken in context. Advice is intended to be read and used as a whole and not in parts. GAD does not accept responsibility for advice that is altered or used selectively.

2.15 Clarification should be sought if there is any doubt about the intention or scope of advice provided in this report. GAD is not responsible for any decision taken by the Committee *for* Employment & Social Security, except to the extent that the decision has been made in accordance with specific advice provided.

2.16 All references to Guernsey in this report are to be taken to include also the islands of Alderney, Herm and Jethou.

3 Overview of the Guernsey Health Service Fund

3.1 The Guernsey Health Service Fund is a contributory social insurance scheme providing a range of health-related benefits including grants for consultations with doctors, drugs and medicines, and specialist medical treatments.

3.2 The Fund is financed broadly on the pay-as-you-go principle. Under this approach, contribution income in a year is intended to cover expenditure in the year, and no significant fund of assets would be built up out of which to finance future expenditure. This means contribution rates may change significantly over time owing to changes in the benefit structure, population or economic activity.

3.3 However, notwithstanding the pay-as-you-go principle, a fund is maintained to act as a reserve to meet unforeseen contingencies in the operation of the Fund. As at 31 December 2014, the balance of the fund held was £103 million, which is equivalent to about 2.6 times annual expenditure.

3.4 Appendix A provides a summary of the contributions payable and the benefits provided.

3.5 Contributions are paid by employers, employees, the self-employed and the non-employed. Employees and their employer currently pay a total of 2.9% of earnings up to the upper earnings limit, subject to a lower earnings limit. (This does not include contributions payable to the Guernsey Insurance Fund or the Long-term Care Insurance Fund.) Similar contributions are paid by self-employed and non-employed persons unless they are exempt. The States also provide central funding to the Fund. The States grant is defined as a percentage of total contributions and is currently paid at a rate of 12%.

3.6 There have been a number of changes to the Fund since the previous review, including increases in the upper earnings limit for employees between 2010 and 2014 to align with the corresponding limit for employers and the transfer of the cost of visiting medical consultants from the former Guernsey Health and Social Services Department to the former Guernsey Social Security Department from 2014. The extension of planned increases in pension age as agreed following the Personal Tax, Pensions and Benefits Review is not relevant for this review as the changes are effective after the end of the projection period. The most significant change has been the increase in the number of specialist medical consultants in recent years.

3.7 Appendix B provides details of income and expenditure in the Fund since the previous review as at 31 December 2009 and Section 5 of this report provides details of the changes to the Fund since the previous review. The projections provided in this report make allowance for these changes.

4 Results on principal assumptions

4.1 The financial condition of the Fund has been assessed in terms of a cashflow projection approach and this report includes:

> Projections of the contributions required to balance projected benefit payments

> Projections of the progress of the Fund if the current contributions rates are maintained

> Estimates of the constant contribution rates required such that the projected average balance of the Fund is equal to twice projected expenditure at the end of the projection period.

4.2 As agreed with the former Guernsey Social Security Department, we have produced projections for the 15-year period from 2015 to 2030.

4.3 These projections assume constant net immigration of 100 each year and real earnings growth of 1.5% a year. More details of the principal assumptions underlying these projections are provided in Section 6 of this report. The effect of varying these assumptions is shown in Section 7.

4.4 Appendix C provides a summary of the data used for these projections.

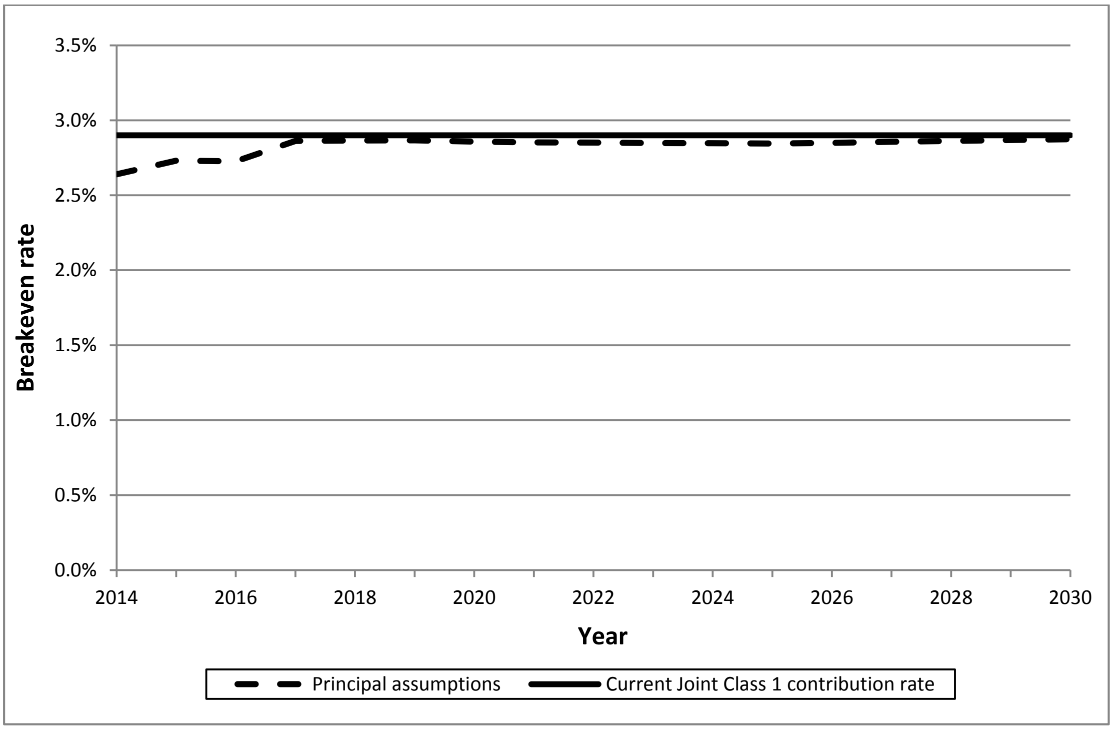
Break-even contribution rate

4.5 The contributions required to balance projected benefit payments are shown in terms of the Class 1 "break-even" contribution rate. This is the contribution rate required to exactly balance contribution income with expenditure on benefits and administration costs. It is determined based on contribution income and expenditure on a pay-as-you-go basis. Contribution income includes the income provided by way of a States grant but the break-even contribution rate does not include any allowance for returns on investments. The "break-even" contribution rate is assessed in terms of the joint Class 1 contribution rate, that is, it is the combined Class 1 contribution rate from employers and employees. It is assumed that contribution rates for self-employed and non-employed contributors would be changed pro rata to the Class 1 rate.

4.6 Figure 4.1 overleaf shows how the projected joint Class 1 break-even contribution rate is expected to change over time. The contribution rates are expressed as a percentage of relevant band earnings.

4.7 The chart also shows the current joint Class 1 contribution rate payable. The break-even contribution rate for 2014 is based on actual contribution income and benefit expenditure in that year.

Figure 4.1: Break-even contribution rate based on principal assumptions



4.8 The chart shows that there is some variability in the projected break-even contribution rate in the early years of the projections but that it is projected to remain fairly stable from 2017 at very slightly below the current contribution rate of 2.9%.

4.9 The initial variability in the projected break-even contribution rate reflects the increase in the number of specialist consultants at the end of 2014, a higher increase in prescription charges in 2016 and the further increase in the number of specialist consultants anticipated in 2017.

4.10 Thereafter the break-even contribution rate is projected to remain fairly stable. This reflects contribution income increasing at a similar rate as benefit expenditure. Contribution income is projected to increase broadly in line with median earnings, and although most elements of expenditure are assumed to increase broadly in line with RPIX price inflation, this is compounded by assumed increases in the number of prescriptions and appliances.

4.11 The chart also shows that the current contribution rate exceeds the projected break-even contribution rate throughout the projection period, but the difference is very small. This suggests that the current joint Class 1 contribution rate of 2.9% of relevant band earnings is expected to remain adequate throughout the projection period. However, small variations in experience relative to the principal assumptions adopted could provide for the break-even contribution rate to exceed the current contribution rate.

4.12 The projection period for the previous review was much shorter, with projections only provided for a 5-year period. Therefore corresponding projections are not available. However, that review projected that the balance of the Fund would continue to increase over the 5-year period, indicating that the current contribution rate was projected to remain adequate throughout the projection period.

4.13 Appendix D shows the projected joint Class 1 break-even contribution rate at 5-year intervals.

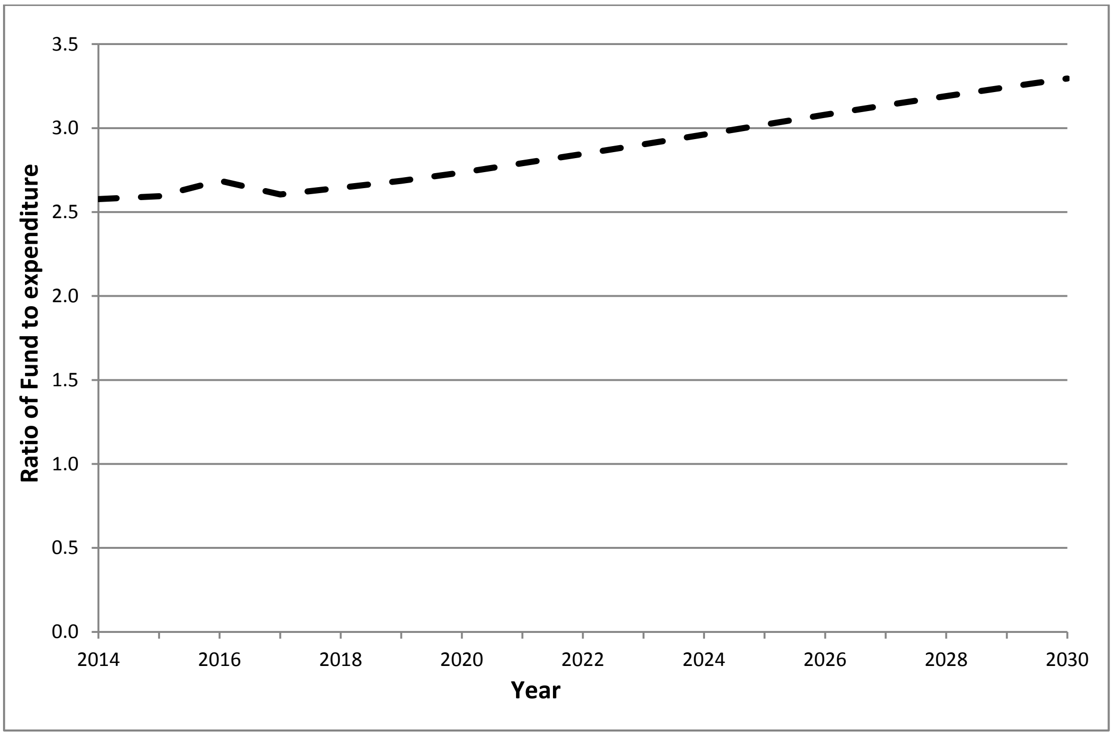
Projected progress of the Fund

4.14 The projected progress of the Fund is shown in terms of the projected average Fund balance in a year expressed as a proportion of the annual expenditure on benefits and administration costs, assuming current contribution rates are maintained. Unlike the projections of the break-even contribution rate, the projections of the progress of the Fund allow for investment returns, including re-investment of investment income, at an assumed real rate of return of 2.5% a year in excess of RPIX price inflation.

4.15 In 2014, the average balance of the Fund was 2.6 times expenditure in the year. It was lower in 2009 at 1.5 times expenditure in that year. The higher average fund to expenditure ratio in 2014 reflects the emergence of operating surpluses in each year since 2009 together with high investment returns in 2010, and to a lesser extent in 2012 and 2013, increasing the average balance of the Fund.

4.16 Figure 4.2 overleaf shows how the average Fund balance, as a proportion of annual expenditure, is expected to change over time, assuming the current Class 1 joint employer and employee contribution rate of 2.9% of relevant earnings is unchanged. The projections are based on an assumption of constant net immigration of 100 each year and a real increase in median earnings of 1.5% a year above RPIX price inflation.

Figure 4.2: Projected progress of the Fund based on principal assumptions



4.17 The chart shows that Fund is projected to steadily increase as a multiple of annual expenditure throughout the projection period, reaching a ratio of 3.3 times annual expenditure at the end of the projection period in 2030. The ratio of the Fund to expenditure is projected to fall slightly in 2017 reflecting an anticipated increase in the number of specialist medical consultants in that year.

4.18 The increase in the Fund reflects the slightly greater projected increases in contribution income compared to the projected increases in benefit expenditure throughout the projection period, providing for operating surpluses in each year, compounded with assumed real investment returns of 2.5% a year in excess of RPIX price inflation. This corresponds with the projections for the break-even contribution rate, which show that the current Class 1 contribution rate of 2.9% of relevant band earnings is projected to slightly exceed the contribution rate required throughout the projection period.

4.19 These projections suggest that the current joint Class 1 contribution rate of 2.9% of relevant band earnings is expected to remain adequate over the period to 2030, assuming there are no material changes in the provisions of the Fund. However, even small variations in experience relative to the principal assumptions adopted could result in the break-even contribution rate exceeding the current contribution rate.

4.20 Appendix E shows the projected progress of the Fund at 5-year intervals.

4.21 Appendix F provides details of the projections of income and expenditure which underlie the projections of the break-even rate and the fund ratios, again, at 5-year intervals.

4.22 The projections are similar to those provided at the time of the 2009 Review which showed the Fund projected to continue to grow over the projection period, reflecting continued cost control of expenditure from the Fund and contribution income expected to increase in line with general earnings, again compounded with assumed investment returns.

4.23 The constant contribution rate estimated to be required from January 2018 such that the projected average balance of the Fund is equal to twice projected expenditure at the end of the projection period is 2.63%. This constant contribution rate provides for the average balance of the Fund to remain above twice projected expenditure until 2030. The current joint Class 1 contribution rate is 2.9% of relevant earnings.

4.24 Appendix H provides a chart showing the projected future population of Guernsey based on the assumption of constant net immigration of 100 each year.

5 Changes since the previous review

5.1 This review reflects a number of changes which have occurred since the previous review was carried out as at 31 December 2009.

Benefit provisions

5.2 The following changes in benefit provisions have be made since the 2009 Review.

Changes in contracts

5.3 A period financial review of the contracts with the Medical Specialist Group for the provision of specialist medical benefit and with the Guernsey Physiotherapy Group for the provision of physiotherapy benefit were carried out in 2012, with updated contracts effective from 1 January 2013. A new contract for Alderney hospital benefit was awarded to the Island Medical Centre, for a period of five years commencing on 1 January 2015.

5.4 The contract with the Medical Specialist Group continues to be based on a per-consultant contract price, adjusted annually on 1 January for any changes in local RPI price inflation. Similarly, the new contract with the Guernsey Physiotherapy Group continues to be based on a per-physiotherapist and per-assistant contract price, adjusted annually on 1 January for any changes in local RPI price inflation.

Maximum staffing levels

5.5 The number of specialist medical consultants had increased to 44 by the end of 2014. The former Guernsey Social Security Department has requested that we assume a maximum staffing level of 50 consultants from 2017 onwards. Alternative scenarios for the number of specialist consultants are considered in Section 7.

5.6 Three additional physiotherapy posts were approved in 2015 providing for a maximum of 36.48 full-time equivalent staff.

Primary Care Mental Health and Wellbeing Service

5.7 The Primary Care Mental Health and Wellbeing Service was set up on a pilot basis in 2011. In November 2014, the States of Deliberation approved the continuation of the Primary Care Mental Health and Wellbeing Service on a permanent basis.

Visiting Medical Consultants

5.8 The cost of visiting medical consultants from the United Kingdom was transferred from the former Guernsey Health and Social Services Department to the Guernsey Health Service Fund from 2014.

Contribution rates and limits

5.9 The upper earnings limit for employees increased between 2010 and 2014 to align with the corresponding limit for employers.

Fund experience

5.10 The balance of the Fund has increased throughout the period since the last review, with operating surpluses in every year, despite a fall in contribution income in 2010 and an investment loss in 2011. There was also a significant increase in expenditure in 2014, reflecting an increased number of specialist consultants and the transfer of the funding for visiting medical specialists to the Fund.

Personal Tax, Pensions and Benefits Review

5.11 The States of Guernsey carried out a comprehensive review of personal taxes, allowances and benefits during 2014. The Personal Tax, Pensions and Benefits Review has resulted in an extension of the planned increases in pension age providing for pensionable age to increase to 70 between 2032 and 2049 following the already agreed increases in pensionable age to 67 between 2020 and 2031. The projection period for this review extends to 2030 so the extension of the planned increases in pension age from 2032 does not impact the projections provided at this review.

Changes in projections

5.12 The projection period for the previous review was much shorter, with projections only provided for a 5-year period. Therefore, it is not possible to provide details of how changes since the 2009 Review affect the projected break-even contribution rate.

6 Principal assumptions

6.1 The results provided in this report are projections and depend on assumptions made about the future. The assumptions adopted are based on data and information provided by the former Guernsey Social Security Department. We have relied on the accuracy of these data and GAD does not accept responsibility for advice based on wrong or incomplete data or information provided.

6.2 The demographic, economic and benefit-specific assumptions underlying these projections are inevitably subject to a considerable degree of uncertainty, particularly for the more distant future. Therefore there is considerable uncertainty about the future progress of the Fund and actual experience could differ materially from the projections.

6.3 Details of the principal assumptions underlying the projections results provided in Section 4 are provided below. Details of the assumptions used in projecting each element of benefit expenditure and contribution income, together with details of the methodology adopted, are provided in Appendix G.

Demographic assumptions

6.4 The former Guernsey Social Security Department provided Guernsey population data, including details of births, deaths, immigration and emigration covering the years 2010 to 2014. Data covering the period 31 March 2009 to 31 March 2013 were provided for the Policy Costings work carried out in early 2014. Data for earlier years were provided for the 2009 Review.

6.5 The relatively small population size means that it is not possible to project population birth and death rates with a sufficient degree of certainty based on Guernsey data alone. Instead, we have adjusted the 2014-based principal population projections prepared by the Office for National Statistics (ONS) for England and Wales by applying constant age- and sex-related factors to obtain assumed Guernsey fertility and mortality rates. That is, the factors vary by age and sex, but the same factors apply for all years of the projection. These age and sex-related factors were derived by comparing actual experience for Guernsey for the calendar years 2008 to 2014 inclusive for mortality (2009 to 2014 inclusive for fertility) with England and Wales experience for the same period.

6.6 Table 6.1 overleaf illustrates projected life expectancy as at 2014 based on the assumptions adopted for Guernsey, together with the corresponding figures based on the assumptions adopted for the 2009 Review and those for England and Wales based on the ONS projections. Figures are shown for current 60-year-olds, in 2014, as well as future 60-year-olds, in 2034, to illustrate the effect of assumed future improvements in longevity.

Table 6.1: Life expectancy for males and females aged 60 in 2014 and 2034

		2009 Review[1]	Current Review	England & Wales (ONS 2014-based Population Projections)
Males - Age 60 in:	2014	27.7	26.1	25.5
	2034	29.6	28.5	27.9
Females - Age 60 in:	2014	30.1	28.8	28.0
	2034	31.9	30.9	30.2

[1] The figures provided are consistent with those provided in the 2009 Review Report updated to reflect the different years being considered. In 2014 an error was identified in the derivation of the underlying age and sex-related adjustments for the 2009 Review. As such, the projected life expectancy figures are higher than should be the case.

6.7 Future improvements in life expectancy in Guernsey are assumed to be consistent with the 2014-based principal projections prepared by ONS for England and Wales.

6.8 Table 6.2 below illustrates the assumptions adopted for fertility as at 2014 for Guernsey, together with the corresponding figures based on the assumptions adopted for the 2009 Review and those for England and Wales based on the ONS projections.

Table 6.2: Age specific fertility rates: number of births per 1,000 women in 2014

Mother's age	2009 Review	Current Review	England & Wales (ONS 2014-based Population Projections)
15	3.0	1.6	1.6
20	43.2	28.3	43.5
25	74.3	69.1	86.4
30	103.2	107.6	113.3
35	75.7	89.3	89.3
40	23.6	28.8	28.8
45	1.6	2.0	2.0

[1] The figures provided in respect of the 2009 Review are not the same as those provided in the 2009 Review report, as the relevant year for fertility rates is different and figures provided above are on a mid-year basis.

6.9 The same age-specific factors apply for all years of the projection period and future trends in fertility in Guernsey are assumed to be consistent with the 2014-based principal projections prepared by ONS for England and Wales.

Migration assumptions

6.10 The former Guernsey Social Security Department has advised that the central migration assumption to be used for this review should be net immigration of 100 a year. This reflects the revised Population Objective recently agreed by the States of Guernsey that:

> *"That, as far as practicable, Guernsey's population should, in the long-term, be kept to the lowest level possible to achieve the States' Economic, Social and Environmental objectives."*

6.11 Migration to and from Guernsey is very difficult to project. The migration data provided by the former Guernsey Social Security Department for the period 2010 to 2014 show significant variability in the net migration figures for individual years. We are content that the central assumption adopted is within a reasonable range of plausible outcomes and so is not an unreasonable assumption over the long-term. Nevertheless, consideration should be given to other reasonable assumptions, such as those shown in Section 7.

6.12 We have also updated the distribution of migration by sex to reflect a 55/45 split between males and females, at the request of the former Social Security Department. The overall age distribution is unchanged from that adopted for the 2009 Review.

6.13 Table 6.3 below illustrates the distribution of migrants by age and sex, based on the central assumption of net immigration of 100. The distribution provides for net immigration concentrated between the late teens and mid-30s and small amounts of net emigration between ages 55 and 70.

Table 6.3: Number of immigrants by age and sex based on an assumption of 100 net immigration

Age	Males	Females	Total
Under 15	2.20	1.80	4.00
15-24	26.40	21.60	48.00
25-34	17.60	14.40	32.00
35-44	7.15	5.85	13.00
45-54	2.75	2.25	5.00
55-64	-1.10	-0.90	-2.00
65-74	0.00	0.00	0.00
75+	0.00	0.00	0.00

Economic assumptions

Price inflation

6.14 The long-term rate of price inflation is assumed to be 3% a year consistent with the previous review and in line with the RPIX target.

6.15 However, RPIX price inflation has been relatively low in the recent past, falling below 2% in 2014 and averaging 1.1% in 2015. In order to bridge the gap between the current low level of RPIX inflation and the 3% target rate, we have adopted short-term assumptions for the period to 2019, set initially at 1.5%, with gradual increases to the long-term assumption of 3% applying from 2020 onwards. Details of the proposed assumptions are provided in Table 6.4 overleaf.

Real earnings growth

6.16 The long-term rate of real earnings growth is assumed to be 1.5% a year net of RPIX price inflation.

6.17 Real earnings growth, relative to RPIX price inflation, has been quite variable in recent years. The 2015 States Strategic Monitoring Report showed that over the period 2008 to 2014, real earnings growth has on average been close to 0.5%. Data were not available on changes in earnings during 2015. All other things being equal, real earnings growth would typically be expected to move in a consistent way to real GDP growth, which has averaged at around 1.8% pa over the same period.

6.18 Having observed UK real earnings growth reverting to historical averages in 2015, we have adopted a long-term assumption of real earnings growth of 1.5% a year which is applied throughout the projection period.

Real investment return

6.19 Investment returns on the fund have been quite variable in recent years, with negative returns emerging in 2008 and 2011, and quite high returns earned in 2009 and 2010. At the time of the previous review a real return of 3.5% a year was assumed, based on an asset allocation as at 31 December 2008 which comprised an equity holding of about 70% of assets.

6.20 The Fund appointed new investment advisors in 2009 and reviewed its investment strategy, increasing bonds and alternative assets holdings in place of equity holdings to provide equity-like returns but with a reduced risk profile. A real return of 2.0% was earned in 2014, based on an equity holding of about 55%, with the average real return for the period 2010 to 2014 being around 3.4%.

6.21 Consistent with the approach adopted for the 2009 Review and as agreed with the Guernsey Social Security Department, we have adopted a long-term assumption for real investment returns of 2.5% a year, to be applied throughout the projection period. This assumption reflects the lower expected returns suggested by current financial conditions.

Table 6.4: Economic assumptions

	2014 (actual)	2015	2016	2017	2018	2019	2020 onwards
RPIX price inflation	1.7%	1.5%	1.8%	2.1%	2.4%	2.7%	3.0%
Real earnings growth (net of RPIX price inflation)	0.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Real investment returns (net of RPIX price inflation)	2.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%

Labour market assumptions

6.22 Table 6.5 below illustrates the assumptions adopted for the proportions of the population assumed to be making Class 1 contributions, based on data supplied on the number of contributors (by age and sex) for the years 2010 to 2014.

Table 6.5: Proportions of the population assumed to be making Class 1 contributions

Age	Current Review	
	Males	Females
20	0.70	0.63
30	0.82	0.72
40	0.75	0.71
50	0.69	0.70
60	0.46	0.42

6.23 Corresponding data were provided in respect of self-employed and non-employed contributors. The assumptions adopted for this review assume slightly lower proportions of males making Class 2 (self-employed) contributions and a slightly different age distribution for females making Class 2 contributions. In contrast, this review assumes slightly higher proportions for those aged 60-64 making Class 3 (non-employed) contributions, in line with recent experience. Class 2 and 3 contributions are much less significant elements of overall contribution income.

6.24 These proportions are assumed to persist throughout the projection period, adjusted appropriately for the planned increase in State Pension Age from 2020.

Contribution and benefit specific assumptions

6.25 A number of additional assumptions are required to project contribution income and expenditure on individual benefits. Appendix G provides details of the methodology underlying the projections and the assumptions adopted.

Alignment with accounts

6.26 We have compared modelled contribution income and benefit expenditure in recent years with actual income and expenditure as recorded in the accounts to determine any adjustments required to allow for differences between using models and assumptions, and actual experience.

6.27 Based on this comparison we have increased modelled contribution income by 1%. We have also increased modelled expenditure on drugs and medicines and appliances, with similar increases applied to modelled income from prescription charges. These adjustments are assumed to apply for all future years as we have not observed robust evidence of any particular trends. These adjustments are applied consistently to all scenarios projected.

7 Variant scenarios

7.1 The pay-as-you-go nature of the Fund means that contribution rates and the future progress of the Fund may change significantly over time owing to changes in the benefits provided, the profile of the population or the economic environment.

7.2 The demographic, economic and benefit-specific assumptions underlying the projections are inevitably subject to a considerable degree of uncertainty, particularly for the more distant future.

7.3 This section provides projections based on variant migration, economic and benefit-specific assumptions to demonstrate how different assumptions can affect the projected progress of the Fund.

7.4 At the request of the former Social Security Department, we have produced projections for seven variant scenarios:

> Two variant scenarios for the number of specialist consultants

> Three variant migration scenarios

> A variant real earnings growth scenario

> A variant scenario for the net ingredient cost of drugs and medicines.

7.5 These projection have been produced to illustrate the effect of different assumptions on the future progress of the Fund. The variant assumptions adopted are as advised by the former Social Security Department.

7.6 There are a range of other factors that could significantly affect the future progress of the Fund, such as changes in the States grant, investment performance, the proportions receiving consultation grants and the proportions exempt from prescription charges.

Variant specialist consultants scenarios

7.7 Projections are provided for the following variant scenarios for the number of specialist consultants:

> Increases in staffing to a maximum of 45 specialist consultants from 2017 onwards

> Increases in staffing to a maximum of 55 specialist consultants from 2017 onwards.

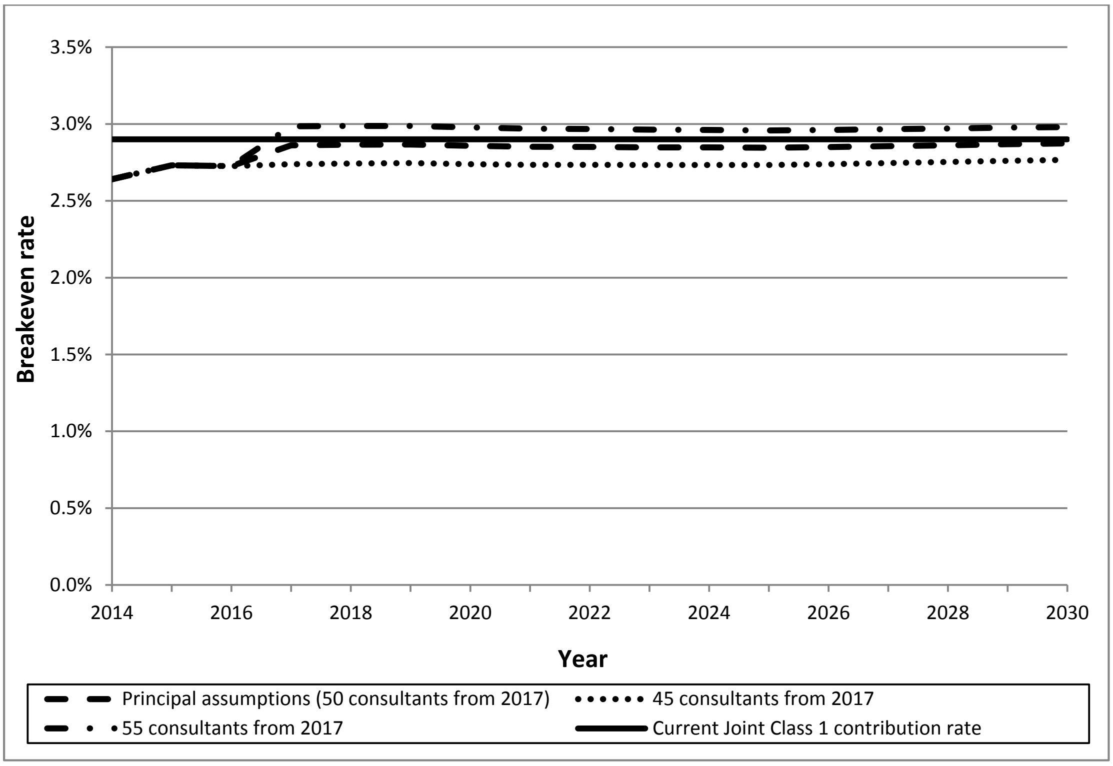
Break-even contribution rate

7.8 Figure 7.1 below shows how the projected joint Class 1 break-even contribution rate is expected to change over time depending on the assumed number of specialist consultants. Projections are shown for the principal assumption, which is an increase in staffing to a maximum of 50 specialist consultants from 2017 onwards, together with the two variant scenarios.

7.9 Consistent with the projections shown in Section 4, contribution rates are expressed as a percentage of relevant band earnings.

7.10 The chart also shows the current joint Class 1 contribution rate payable. The break-even contribution rate for 2014 is based on actual contribution income and benefit expenditure in that year.

Figure 7.1: Break-even contribution rate based on variant specialist consultants scenarios



7.11 The chart shows a step-change in break-even contribution rate for the different scenarios in 2017 and that these differences are projected to persist throughout the projection period.

7.12 Based on 55 specialist consultants from 2017, the break-even contribution rate is projected to slightly exceed the current contribution rate of 2.9% from 2017. In all other cases, the projected break-even contribution rate is projected to be below the current contribution rate throughout the projection period.

7.13 Appendix D shows the projected joint Class 1 break-even contribution rate at 5-year intervals for each specialist consultants scenario.

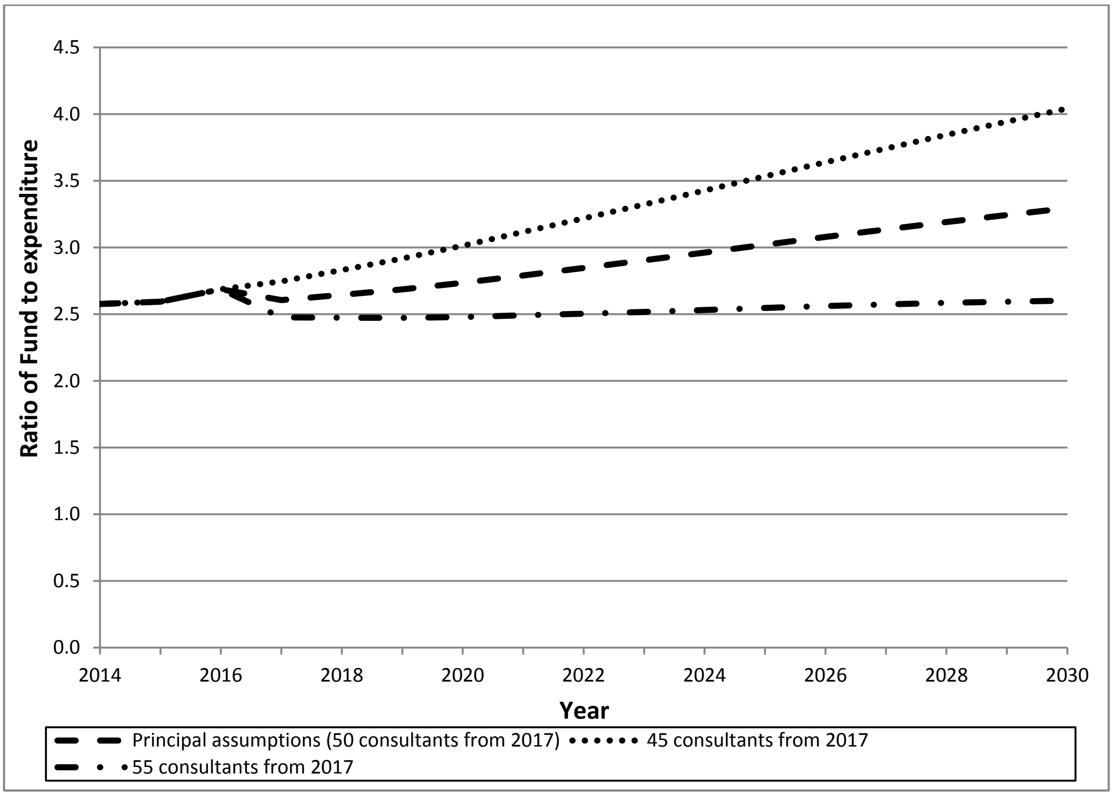
Projected progress of the Fund

7.14 Figure 7.2 below shows how the average Fund balance, as a proportion of annual expenditure, is expected to change over time, depending on the number of specialist consultants and assuming that the current contribution rate is unchanged at 2.9% of relevant earnings.

7.15 Projections are shown for the principal assumption together with the two variant scenarios.

7.16 Consistent with the projections shown in Section 4, the projections are based on an assumption of constant net immigration of 100 each year and a real earnings growth assumption of 1.5% a year and allow for expected investment returns, including re-investment of investment income, at an assumed real rate of return of 2.5% a year in excess of RPIX price inflation.

Figure 7.2: Projected progress of the Fund based on variant specialist consultants scenarios



7.17 In all cases, the Fund is projected to grow from 2017 as a proportion of annual expenditure, although at a slower pace for scenarios assuming a larger number of consultants. The chart shows the divergence in the projections for the different scenarios from 2017 with the differences projected to increase over time. This reflects the higher investment income earned in respect of the scenarios with smaller numbers of specialist consultants and the operating surpluses generated under these scenarios.

7.18 Table 7.3 below provides details the projected ratio of the average Fund balance as a proportion of annual expenditure at the end of the projection period in 2030 for each of the three specialist consultants scenarios.

Table 7.3: Projected fund ratio in 2030 based on variant specialist consultants scenarios

Assumption for number of specialist consultants	Projected Fund Ratio in 2030
Increase in staffing to a maximum of 50 specialist consultants from 2017 onwards	3.3
Increase in staffing to a maximum of 45 specialist consultants from 2017 onwards	4.0
Increase in staffing to a maximum of 55 specialist consultants from 2017 onwards	2.6

7.19 Appendix E shows the projected progress of the Fund at 5-year intervals for each specialist consultants scenario.

7.20 These projections suggest that the current joint Class 1 contribution rate is expected to remain adequate throughout the projection period for all three scenarios.

7.21 Table 7.4 below details the constant contribution rate estimated to be required from January 2018 such that the projected average balance of the fund is equal to twice projected expenditure at the end of the projection period for each specialist consultants variant.

Table 7.4: Estimated constant contribution rate for variant specialist consultants scenarios

Assumption for number of specialist consultants	Estimated constant contribution rate
Increase in staffing to a maximum of 50 specialist consultants from 2017 onwards	2.63%
Increase in staffing to a maximum of 45 specialist consultants from 2017 onwards	2.49%
Increase in staffing to a maximum of 55 specialist consultants from 2017 onwards	2.77%

Variant migration scenarios

7.22 Projections are provided for the following variant migration scenarios:

> Zero migration
> Net immigration of 200 a year
> Net emigration of 100 a year.

7.23 The zero migration scenario assumes zero immigration and zero emigration. It does not assume that immigration is matched by equal emigration. This means the population profile is not affected by differences in the distribution of immigrants and emigrants by age and sex.

7.24 The same mortality and fertility assumptions underlie all four scenarios and the same distribution of migrants by age and sex is assumed for all scenarios, although the projected numbers differ. In the net immigration scenarios, this distribution provides for net immigration concentrated between the late teens and mid-30s and small amounts of net emigration between ages 55 and 70. In the net emigration scenario this provides for net emigration concentrated between the late teens and mid-30s and small amounts of net immigration between ages 55 and 70. In all cases, the migration assumptions reflect a 55/45 split between males and females.

7.25 Appendix I provides charts showing the projected future population of Guernsey based on these variant migration scenarios.

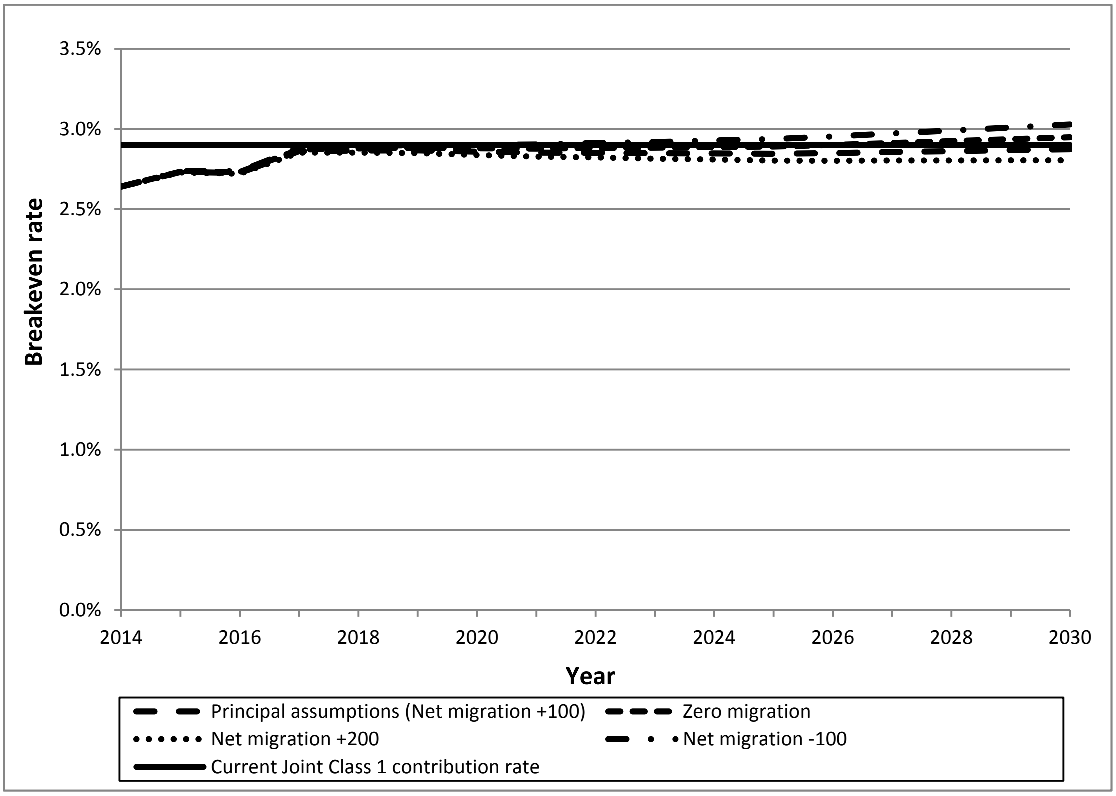
Break-even contribution rate

7.26 Figure 7.5 overleaf shows how the projected joint Class 1 break-even contribution rate is expected to change over time depending on the assumed level of migration. Projections are shown for the principal migration assumption of net immigration of 100 a year, together with the three variant scenarios.

7.27 Consistent with the projections shown in Section 4, contribution rates are expressed as a percentage of relevant band earnings. In all cases, the real increase in median earnings is assumed to be 1.5% a year above RPIX price inflation.

7.28 The chart also shows the current joint Class 1 contribution rate payable. The break-even contribution rate for 2014 is based on actual contribution income and benefit expenditure in that year.

Figure 7.5: Break-even contribution rate based on variant migration scenarios



7.29 The chart shows that the projected path of the break-even contribution rate is similar for all four scenarios. The projected break-even contribution rate is lowest based on the scenario assuming net immigration of 200 a year and highest based on the scenario assuming net emigration of 100 a year. For the scenarios assuming zero migration and net emigration, the break-even rate is projected to increase above the current contribution rate during the projection period.

7.30 The different migration assumptions provide for different projections of contribution income and benefit expenditure with higher levels of migration providing for higher projected contribution income and higher projected benefit expenditure on benefits such as consultation grants and drugs and medicines. However projected expenditure for some benefits, such as the Specialist Medical Benefit, are independent of the population projections. As such, increases in projected benefit expenditure resulting from higher migration assumptions are smaller than the corresponding increases in projected contribution income.

7.31 The differences between the scenarios are projected to be small over the projection period. However, the differences are projected to increase over time.

7.32 Appendix D shows the projected joint Class 1 break-even contribution rate at 5-year intervals for each migration scenario.

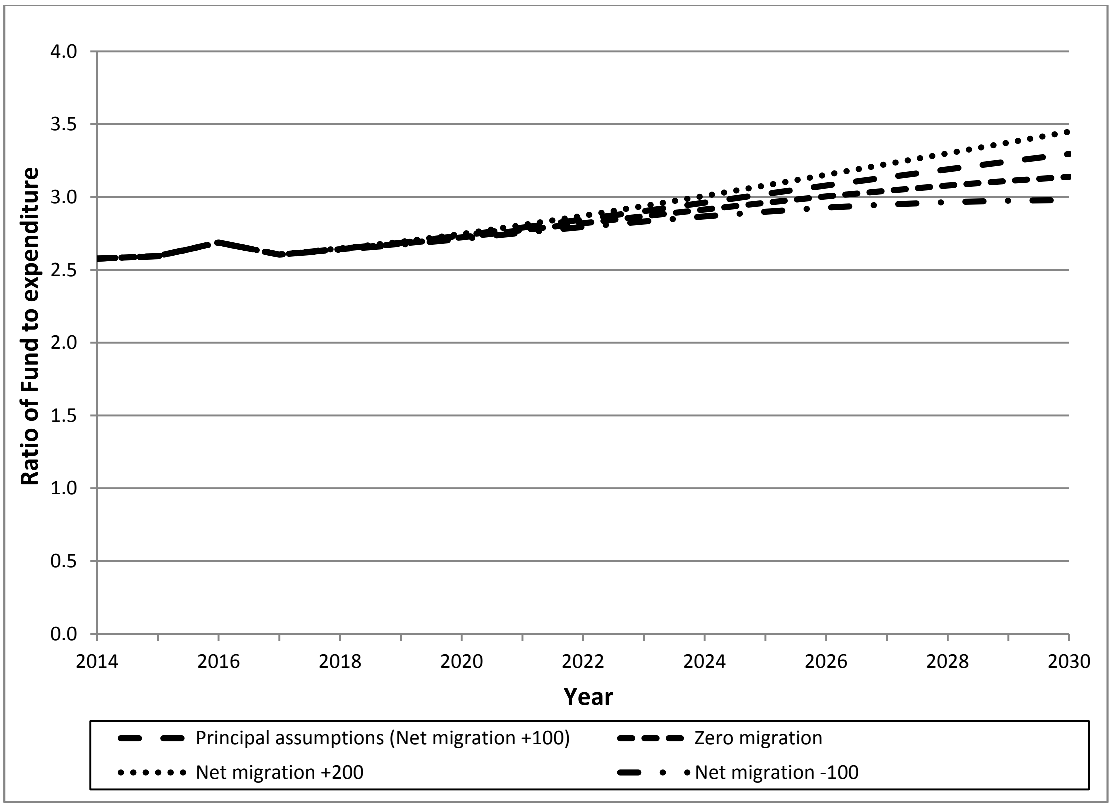
Projected progress of the Fund

7.33 Figure 7.6 below shows how the average Fund balance, as a proportion of annual expenditure, is expected to change over time depending on the assumed level of migration and assuming that the current contribution rate is unchanged at 2.9% of relevant earnings.

7.34 Projections are shown for the principal migration assumption of net immigration of 100 a year, together with the three variant scenarios.

7.35 Consistent with the projections shown in Section 4, the projections are based on a real earnings growth assumption of 1.5% a year and allow for expected investment returns, including re-investment of investment income, at an assumed real rate of return of 2.5% a year in excess of RPIX price inflation.

Figure 7.6: Projected progress of the Fund based on variant migration scenarios



7.36 For all scenarios, the Fund is projected to increase as a proportion of annual expenditure throughout the projection period. The chart shows the gradual divergence in the projections for the different scenarios with the differences increasing over time. This reflects the more significant impact different migration assumptions have on projected contribution income, relative to projected benefit expenditure, together with higher investment income being earned in respect of the scenarios generating operating surpluses.

7.37 Table 7.7 below provides details of the projected ratio of the average Fund balance as a proportion of annual expenditure at the end of the projection period in 2030 for each of the four migration scenarios.

Table 7.7: Projected fund ratio in 2030 based on variant migration scenarios

Assumption for number of specialist consultants	Projected Fund Ratio in 2030
Principal assumptions	3.3
Zero migration	3.1
Net immigration of 200 a year	3.4
Net emigration of 100 a year	3.0

7.38 Appendix E shows the projected progress of the Fund at 5-year intervals for each migration scenario.

7.39 These projections suggest that the current joint Class 1 contribution rate is expected to remain adequate throughout the projection period for all four scenarios.

7.40 Table 7.8 below details the constant contribution rate estimated to be required from January 2018 such that the projected average balance of the fund is equal to twice projected expenditure at the end of the projection period for each migration scenario.

Table 7.8: Estimated constant contribution rate for variant migration scenarios

Up-rating assumption	Estimated constant contribution rate
Net immigration of 100 a year	2.63%
Zero migration	2.66%
Net immigration of 200 a year	2.60%
Net emigration of 100 a year	2.69%

Variant real earnings growth scenario

7.41 Projections are provided for a variant real earnings growth assumption of 0.5% a year.

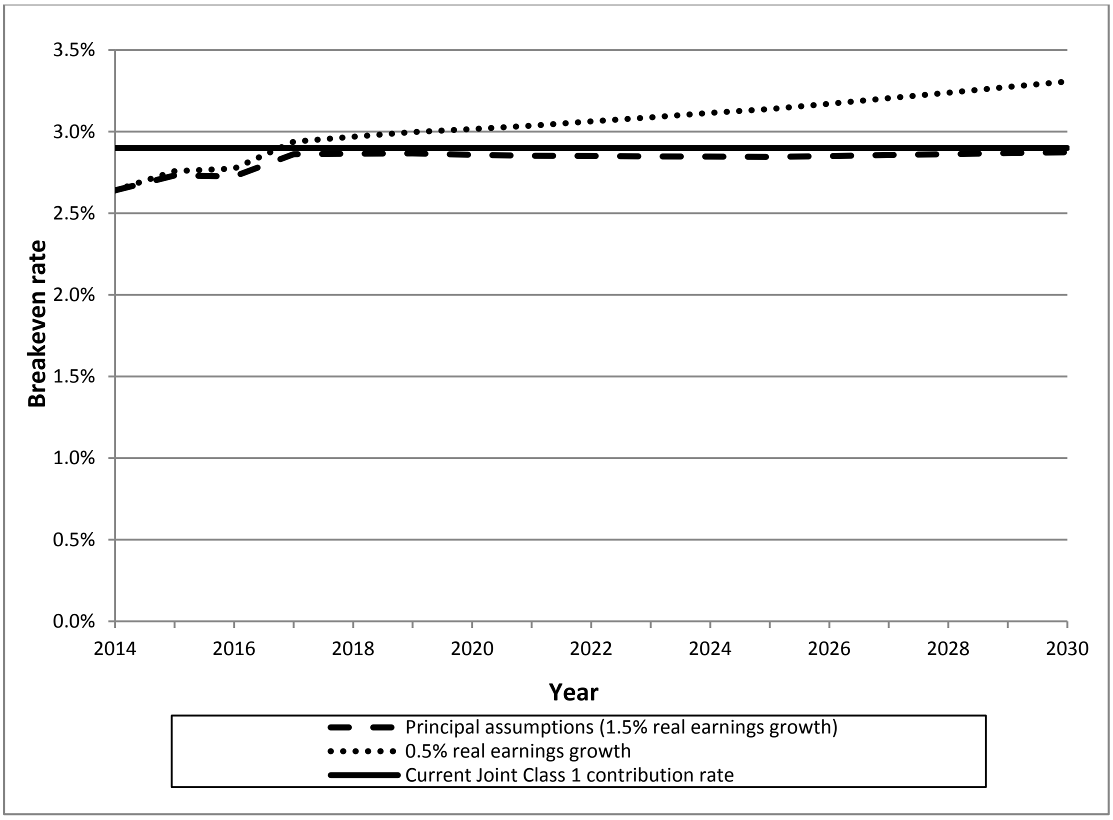
Break-even contribution rate

7.42 Figure 7.9 overleaf shows how the projected joint Class 1 break-even contribution rate is expected to change over time depending on the assumption adopted for real earnings growth. Projections are shown for the principal real earnings growth assumption of 1.5% a year and the variant assumption of 0.5% a year.

7.43 Consistent with the projections shown in Section 4, contribution rates are expressed as a percentage of relevant band earnings. In both cases, the projections are based on the principal migration assumption of 100 net immigration a year and the principal assumption for the number of specialist consultants of 50 from 2017 onwards.

7.44 The chart also shows the current joint Class 1 contribution rate payable. The break-even contribution rate for 2014 is based on actual contribution income and benefit expenditure in that year.

Figure 7.9: Break-even contribution rate based on variant real earnings growth



7.45 The chart shows that the variant real earnings growth scenario provides for higher projected break-even contribution rates than is the case based on the principal real earnings growth assumption, with the differences increasing over time. This reflects the lower contribution income projected based on a real earnings growth assumption of 0.5% a year. The projections of benefit expenditure are unchanged as none of the benefits projections are linked to real earnings growth assumption.

7.46 In line with the projections based on the principal assumptions, the projected break-even contribution rate for the real earnings growth variant is projected to increase in 2017. It is projected to continue to increase from 2.9% of relevant earnings in 2017 to 3.3% in 2030. That is, based on variant real earnings growth of 0.5% a year, the break-even contribution rate is projected to exceed the current joint Class 1 contribution rate of 2.9% from 2017 onwards.

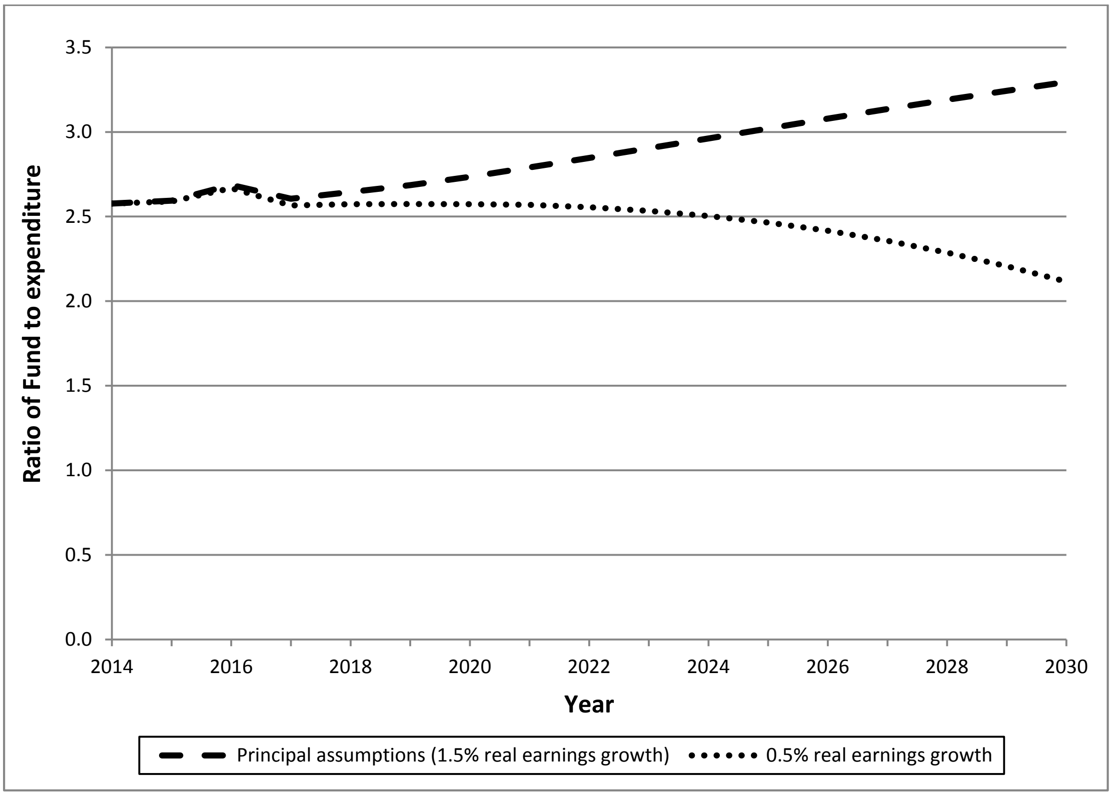
7.47 Appendix D shows the projected joint Class 1 break-even contribution rate at 5-year intervals for each real earnings growth scenario.

Projected progress of the Fund

7.48 Figure 7.10 below shows how the average Fund balance, as a proportion of annual expenditure, is expected to change over time for the two real earnings growth scenarios and assuming that the current contribution rate is unchanged at 2.9% of relevant earnings.

7.49 Consistent with the projections shown in Section 4, the projections allow for expected investment returns, including re-investment of investment income, at an assumed real rate of return of 2.5% a year in excess of RPIX price inflation.

Figure 7.10: Projected progress of the Fund based on variant real earnings growth



7.50 The chart shows that the Fund is projected to decrease from 2017 based on a variant real earnings growth assumption of 0.5% a year, falling to a ratio of 2.1 times annual expenditure at the end of the projection period in 2030.

7.51 The decrease in the balance of the Fund based on real earnings growth of 0.5% a year reflects the lower projected contribution income resulting in operating losses from 2017, together with the lower investment income earned on the smaller fund.

7.52 The constant contribution rate estimated to be required from January 2018 such that the projected average balance of the fund is equal to twice projected expenditure at the end of the projection period based on a real earnings growth assumption of 0.5% is 2.87%. The current joint Class 1 contribution rate is 2.9% of relevant earnings.

Variant net ingredient cost scenario

7.53 Projections are provided for a variant net ingredient cost scenario, assuming net ingredient costs increase each year at a rate that is 1% above UK RPIX inflation of 3% a year, that is, at an assumed rate of 4% each year.

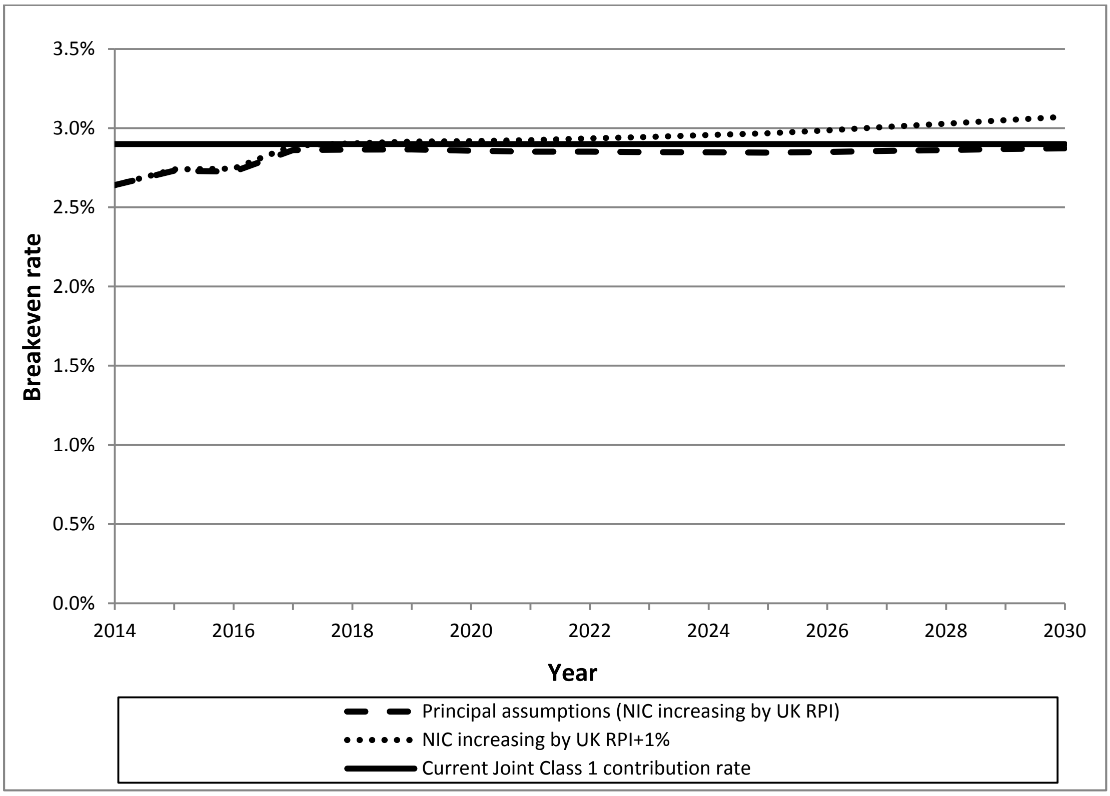
Break-even contribution rate

7.54 Figure 7.11 overleaf shows how the projected joint Class 1 break-even contribution rate is expected to change over time depending on the assumption adopted in respect of increases in the net ingredient cost of drugs and medicines. Projections are shown for the principal assumption, of increases in the average net ingredient cost in line with UK RPIX inflation of 3% a year, and the variant assumption of increases at a rate that is 1% above UK RPIX inflation of 3% a year.

7.55 Consistent with the projections shown in Section 4, contribution rates are expressed as a percentage of relevant band earnings. In both cases, the projections are based on the principal migration assumption of constant net immigration of 100 each year and a real earnings growth assumption of 1.5% in excess of RPIX price inflation.

7.56 The chart also shows the current joint Class 1 contribution rate payable. The break-even contribution rate for 2014 is based on actual contribution income and benefit expenditure in that year.

Figure 7.11: Break-even contribution rate based on variant net ingredient costs



7.57 The chart shows that the variant net ingredient cost scenario provides for higher projected break-even contribution rates than is the case based on the principal assumption. This reflects the higher projected expenditure on drugs and medicines, with no offsetting increase in contribution income or prescription charges.

7.58 In line with the projections based on the principal assumptions, the projected break-even contribution rate for the variant net ingredient cost scenario is projected to increase in 2017. It is projected to continue to increase from 2.9% of relevant earnings in 2017 to 3.1% in 2030. That is, based on increases in net ingredient cost at a rate that is 1% above UK RPIX of 3% a year, the break-even contribution rate is projected to exceed the current joint Class 1 contribution rate of 2.9% from 2017 onwards.

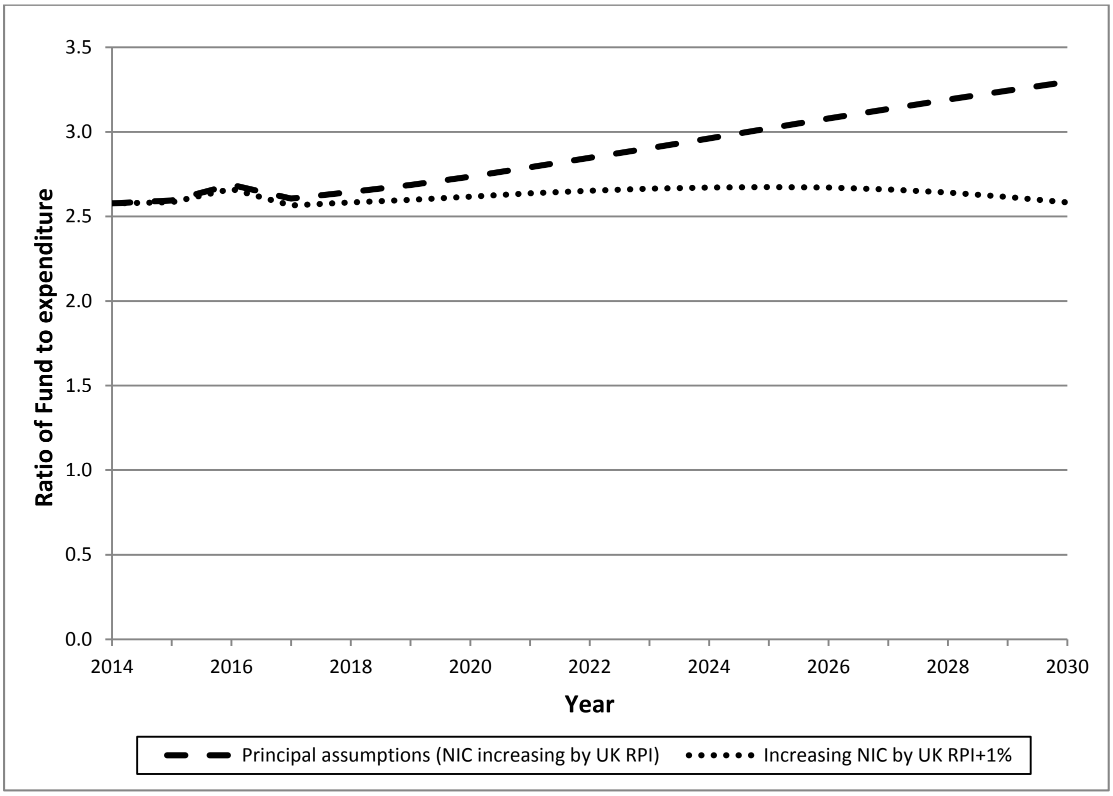
7.59 Appendix D shows the projected joint Class 1 break-even contribution rate at 5-year intervals for each net ingredient cost scenario.

Projected progress of the Fund

7.60 Figure 7.12 overleaf shows how the average Fund balance, as a proportion of annual expenditure, is expected to change over time for the two net ingredient cost scenarios and assuming that the current contribution rate is unchanged at 2.9% of relevant earnings.

7.61 Consistent with the projections shown in Section 4, the projections allow for expected investment returns, including re-investment of investment income, at an assumed real rate of return of 2.5% a year in excess of RPIX price inflation.

Figure 7.12: Projected progress of the Fund based on variant net ingredient costs



7.62 The chart shows that the Fund ratio is projected to increase more slowly based on a net ingredient costs increasing at a rate that is 1% above UK RPIX price inflation of 3% a year, peaking at a ratio of 2.7 times annual expenditure in 2025 and thereafter decreasing to reach a ratio of 2.6 at the end of the projection period in 2030.

7.63 The slower increase and ultimate decrease in the balance of the Fund based on net ingredient costs increasing at a rate that is 1% above UK RPIX price inflation reflects the higher projected expenditure on drugs and medicines resulting in operating losses from 2019, together with the lower investment income earned on the smaller fund.

7.64 The constant contribution rate estimated to be required from January 2018 such that the projected average balance of the fund is equal to twice projected expenditure at the end of the projection period based on net ingredient costs increasing at a rate that is 1% above UK RPIX price inflation is 2.77%. The current joint Class 1 contribution rate is 2.9% of relevant earnings.

Appendix A: Summary of contributions and benefits as at 31 December 2014

A.1 The Guernsey Health Service Fund is a contributory social security scheme providing a range of health-related benefits including grants for consultations with doctors, drugs and medicines, and specialist medical treatments.

A.2 A brief overview of the contributions payable and the benefits provided is provided below. Further information on contributions and benefits is available from the State of Guernsey Social Security (www.gov.gg).

Contributions

A.3 Contributions are paid by employers, employees, the self-employed and the non-employed. Contributions are paid by, and on behalf of, employees earning above the lower earnings limit, with contributions payable on total earnings up to the upper earnings limit. Contributions are payable by the self-employed, subject to the same limits.

A.4 The upper earnings limit was higher for employers for a number of years prior to 2014. The same upper earnings limit applies to all contribution classifications from 2014 onwards.

A.5 Contributions are paid by non-employed individuals with income above the lower income limit, with contributions payable on total income up to the upper earnings limit but subject to the non-employed income allowance. The income allowance was introduced in 2010. Contributions continue to be payable by non-employed individuals after pension age, based on personal income.

A.6 The tables below provide details of the contribution rates and earnings limits applicable between 2010 and 2015.

Table A.1: Contribution rates payable

	2010	2011	2012	2013	2014	2015
Employer	1.60%	1.60%	1.60%	1.60%	1.60%	1.60%
Employee	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%
Total Employed	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%
Self Employed	2.70%	2.70%	2.70%	2.70%	2.70%	2.70%
Under 65 Non-employed	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%
65+ Non-employed	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%

Table A.2: Annual Contributions Earnings Limits (£)

	2010	2011	2012	2013	2014	2015
Lower Earnings Limit (employee, employer, self-employed)	5,928	6,084	6,292	6,500	6,656	6,812
Lower Income Limit (non-employed)	14,820	15,210	15,730	16,250	16,640	17,030
Upper Earnings Limit - Employer	117,468	120,900	125,268	129,792	132,444	135,252
Upper Earnings / Income Limit – Employee, Self-employed, Non-employed	79,872	91,884	105,144	119,340	132,444	135,252
Non-employed Income Allowance	6,290	6,451	6,675	6,895	7,059	7,223

A.7 Contributions are payable on a non-employed basis after pension age, based on personal income. Employer contributions remain payable in respect of employees over pension age.

A.8 Central funding is provided to the Fund by way of the States grant. The States grant is defined as a percentage of total contributions. The States grant has been unchanged at 12% since January 2008.

A.9 These contribution rates are in respect of the Guernsey Health Service Fund only. They do not include the contributions payable in respect of the Guernsey Insurance Fund or the Long-term Care Insurance Fund. This review assumes that contribution income to the Guernsey Health Service Fund is in line with published contribution rates and no allowance is made for potential re-allocations between the three Funds.

Benefits

A.10 The Fund provides a range of health-related benefits. The two most significant elements of benefit expenditure are the cost of drugs and medicines, net of prescription charges, and specialist medical benefits.

Consultation grants

A.11 The Fund provides a grant towards the cost of primary care consultations with doctors and nurses. In 2014 the grants provided were £12 for doctor consultations and £6 for nurse consultations. The balance of the cost of the consultation is payable by the individual patient.

Drugs and medicines

A.12 The Fund finances the cost of approved drugs and medicines prescribed on an out-patient basis. However, patients are required to pay a prescription charge, unless they are subject to an exemption. In 2014 the prescription charge was £3.30 per item.

Appliances

A.13 The Fund provides a range of approved appliances where required, for example, for respiratory conditions or for the control of diabetes. The financing of these is subject to the payment of an appliance charge by the recipient, at the same rate as the prescription charge, unless the recipient is exempt from such charges.

Oxygen service

A.14 The Fund finances the provision of a domiciliary oxygen service which provides oxygen therapy and electric compressors for use by the patients at home for nebulising medicines.

Specialist medical benefit

A.15 Specialist medical benefit provides residents of Guernsey with specialist care and treatment free of charge. This benefit provides a wide range of specialist care provided including general medicine, surgery, ophthalmology, anaesthetics and cardiology.

Physiotherapy benefit

A.16 Physiotherapy benefit provides both in-patient and out-patient treatment for those referred by a doctor working for the Medical Specialist Group.

Alderney hospital benefit

A.17 The Alderney hospital benefit provides for consultations, treatment and procedures undertaken by the Island Medical Practice at the Mignot Memorial Hospital.

Primary Care Mental Health and Wellbeing Service

A.18 The Primary Care Mental Health and Wellbeing Service provides a range of short-term interventions for those experience anxiety and depression, including cognitive-behaviour therapy, counselling and cognitive-analytic therapy.

Visiting medical consultants

A.19 The cost of visiting medical consultants from the United Kingdom was transferred from the former Guernsey Health and Social Services Department to the Guernsey Health Service Fund from 2014.

Appendix B: Fund accounts from 2010 to 2014

B.1 The table below provides details of income, expenditure and the balance of the Fund for the period 2010 to 2014.

Table B.1: Income, Expenditure and Fund Balance from 2010 to 2014 (£000s)

	2010	2011	2012	2013	2014
Balance at 1 January	61,032	70,892	72,199	82,962	95,221
Income					
Contributions	33,401	34,777	35,821	36,546	37,635
States Grant	4,008	4,173	4,298	4,386	4,516
Total Income	37,409	38,950	40,119	40,932	42,151
Outgo					
Benefits	33,894	34,689	34,872	35,070	37,141
Administration Costs	873	930	924	967	1,236
Total Outgo	34,767	35,618	35,796	36,037	38,377
Operating Surplus / Deficit	2,642	3,332	4,323	4,895	3,774
Return on Investments	7,217	-2,025	6,440	7,364	3,580
Balance at 31 December	**70,892**	**72,199**	**82,962**	**95,221**	**102,575**

B.2 The table below provides details of expenditure on each benefit for the period 2010 to 2014.

Table B.2: Benefit expenditure from 2010 to 2014 (£000s)

	2010	2011	2012	2013	2014
Drugs and medicines	16,278	16,606	15,814	15,551	15,808
Appliances	584	601	639	689	722
Oxygen service	251	276	299	267	263
Prescription charges receivable	-1,742	-1,826	-1,870	-1,850	-1,913
Specialist medical benefit	13,221	13,468	14,100	14,558	15,600
Physiotherapy benefit	1,727	1,763	1,902	1,987	2,043
Alderney hospital benefit	70	71	74	76	78
Consultation grants	3,506	3,604	3,647	3,488	3,546
Visiting medical consultants	0	0	0	0	690
Primary Care Mental Health and Wellbeing	0	125	267	304	304
Total	**33,894**	**34,689**	**34,872**	**35,070**	**37,141**

Appendix C: Summary of data used

C.1 The projections provided in this report rely on the accuracy of data and information provided by the former Guernsey Social Security Department. Checks made on this information are limited to checks on the overall reasonableness and consistency of the data. We have informed the former Guernsey Social Security Department of areas where we found that data from different sources did not reconcile as well as might be expected and detailed the data used and the approach adopted to propose assumptions. The data generally appear to be of good quality and we believe the data provided are sufficient for the purposes of the review.

C.2 Nevertheless, it should be noted that if any of the data used for the calculations are materially incorrect or incomplete, this could have a significant effect on the results. GAD does not accept responsibility for advice based on wrong or incomplete data or information provided.

C.3 Data are used in three main areas:

> as the starting point of the projections

> to help determine appropriate assumptions about the future

> in validating the projection methodology

C.4 Details of the data used are set out below.

Data used as the starting point of the projections

C.5 The population projections are based on population data as at 30 June 2014.

C.6 The projections of the balance in the Fund are based on the value of the fund as at 31 December 2014 as shown in the 2014 accounts. The results for the projection of the fund balance should be seen in the context of the general volatility of market values of some classes of investment.

Data used to help determine appropriate assumptions about the future

C.7 Guernsey population data and the ONS 2014-based principal population projections for England and Wales have been used to determine appropriate mortality and fertility assumptions, including allowance for future mortality improvement.

C.8 Projections of contributions and benefits are based on data including the number of contributors and their earnings and the details of benefits provided and the amount of benefit paid. Information was also provided on current contribution rates, earnings limits and benefit rates.

C.9 Economic assumptions have been based on information provided by the former Guernsey Social Security Department, including the States Strategic Monitoring Report 2015, as well as the asset data provided in the accounts.

C.10 This review also takes account of expected future changes, such the planned increase in pension age and the anticipated increase in the number of specialist consultants from 2017.

Data used in validating the projection methodology

C.11 We have compared modelled contribution income and benefit expenditure in recent years with actual income and expenditure as recorded in the accounts to determine any adjustment required to allow for differences between using models and assumptions, and actual experience. Based on this comparison we have not made any material adjustments to the projections as we have not observed robust evidence of material differences or any particular trends.

Appendix D: Projected break-even contribution rates

D.1 The tables below show the projected joint Class 1 break-even contribution rate, that is, the combined Class 1 contribution rate from employers and employees required to balance expenditure on benefits and administration costs. Results are provided at 5-year intervals based on the principal assumptions and for each of the variants.

Table D.1: Break-even contribution rate based on principal assumptions

	2014	2015	2020	2025	2030
Principal assumptions	2.64%	2.73%	2.86%	2.85%	2.87%

Table D.2: Break-even contribution rate based on variant specialist consultants scenarios

	2014	2015	2020	2025	2030
Principal assumptions (50 consultants from 2017)	2.64%	2.73%	2.86%	2.85%	2.87%
45 consultants from 2017	2.64%	2.73%	2.74%	2.73%	2.77%
55 consultants from 2017	2.64%	2.73%	2.98%	2.96%	2.98%

Table D.3: Break-even contribution rate based on variant migration scenarios

	2014	2015	2020	2025	2030
Principal assumptions (100 net immigration)	2.64%	2.73%	2.86%	2.85%	2.87%
Zero migration	2.64%	2.73%	2.88%	2.89%	2.95%
200 net immigration	2.64%	2.73%	2.84%	2.80%	2.80%
100 net emigration	2.64%	2.74%	2.90%	2.94%	3.03%

Table D.4: Break-even contribution rate based on variant real earnings growth scenarios

	2014	2015	2020	2025	2030
Principal assumptions (1.5% real earnings growth)	2.64%	2.73%	2.86%	2.85%	2.87%
0.5% real earnings growth	2.64%	2.76%	3.02%	3.14%	3.31%

Table D.5: Break-even contribution rate based on variant net ingredient cost (NIC) scenarios

	2014	2015	2020	2025	2030
Principal assumptions (NIC increasing with UK RPI)	2.64%	2.73%	2.86%	2.85%	2.87%
NIC increasing with UK RPI +1%	2.64%	2.74%	2.92%	2.97%	3.07%

Appendix E: Projected progress of the Fund

E.1 The tables below show the projected progress of the Fund, in terms of the projected average Fund balance in a year expressed as a proportion of the annual expenditure on benefits and administration costs, assuming that the current contribution rate is maintained. Results are provided at 5-year intervals based on the principal assumptions and for each of the variants.

Table E.1: Projected progress of the Fund based on principal assumptions

	2014	2015	2020	2025	2030
Principal assumptions	2.6	2.6	2.7	3.0	3.3

Table E.2: Projected progress of the Fund based on variant specialist consultant scenarios

	2014	2015	2020	2025	2030
Principal assumptions (50 consultants from 2017)	2.6	2.6	2.7	3.0	3.3
45 consultants from 2017	2.6	2.6	3.0	3.5	4.0
55 consultants from 2017	2.6	2.6	2.5	2.5	2.6

Table E.3: Projected progress of the Fund based on variant migration scenarios

	2014	2015	2020	2025	2030
Principal assumptions (100 net immigration)	2.6	2.6	2.7	3.0	3.3
Zero migration	2.6	2.6	2.7	3.0	3.1
200 net immigration	2.6	2.6	2.7	3.1	3.4
100 net emigration	2.6	2.6	2.7	2.9	3.0

Table E.4: Projected progress of the fund based on variant real earnings growth scenarios

	2014	2015	2020	2025	2030
Principal assumptions (1.5% real earnings growth)	2.6	2.6	2.7	3.0	3.3
0.5% real earnings growth	2.6	2.6	2.6	2.5	2.1

Table E.5: Projected progress of the fund based on variant net ingredient cost (NIC) scenarios

	2014	2015	2020	2025	2030
Principal assumptions (NIC increasing with UK RPI)	2.6	2.6	2.7	3.0	3.3
NIC increasing with UK RPI +1%	2.6	2.6	2.6	2.7	2.6

Appendix F: Projections of income and expenditure

F.1 Table F.1 below provides details of projected income, expenditure and the balance of the Fund at 5-year intervals based on the principal assumptions.

Table F.1: Projected Income, Expenditure and Fund Balance based on the principal assumptions (£000s)

		2014	2015	2020	2025	2030
Balance at 1 January		95,221	102,575	136,956	185,077	248,777
Income						
	Contributions	37,635	38,713	46,753	57,493	70,019
	States Grant	4,516	4,646	5,610	6,899	8,402
	Total Income	42,151	43,359	52,363	64,392	78,421
Outgo						
	Benefits	37,141	39,570	50,139	61,419	75,588
	Administration Costs	1,236	1,263	1,471	1,763	2,114
	Total Outgo	38,377	40,833	51,609	63,182	77,702
Operating Surplus / Deficit		3,774	2,526	754	1,210	719
Return on Investments		3,580	4,192	7,656	10,351	13,889
Balance at 31 December		**102,575**	**109,293**	**145,365**	**196,638**	**263,385**

Appendix G: Detailed assumptions used in projections

G.1 This appendix summarises the methodology and assumptions used to project contribution income and benefit expenditure. The projections of both contributions and benefits are largely driven by future changes in the population. Details of the population projections are provided in Section 6 of this report and summarised below.

Methodology

G.2 This review has been carried out on a projected cashflow approach, reflecting the partially funded nature of the Fund. As such, the financial condition of the Fund has been assessed in terms of the average Fund balance relative to annual expenditure, reflecting that, although a reserve is held, assets are not expected to be sufficient to cover the accrued liabilities.

G.3 The projections have been prepared on an open basis. That is, this review allows for future contributors to the Fund and not only those currently contributing to, or receiving benefits from, the Fund

G.4 As the Fund is financed broadly on the pay-as-you-go principle, we believe that this approach is appropriate for the purpose of this review and consistent with actuarial principles.

Population projections

G.5 The projections of Guernsey's population are based on population data provided as at 30 June 2014 and allow for the interaction of demographic assumptions including mortality, fertility and migration.

G.6 Mortality and fertility assumptions are based on the 2014-based principal population projections prepared by the Office for National Statistics (ONS) for England and Wales, adjusted by age and sex-related factors based on Guernsey experience from 2008 to 2014. The principal migration assumption assumes net immigration of 100 a year.

Contributions

G.7 The key assumptions underlying the contribution projections are:

- proportions of the population assumed to be paying contributions in future years
- future contribution rates and earnings limits
- the distribution of future earnings

G.8 The proportions of the working-age population paying contributions are based on data provided on the number of contributors in the years 2010 to 2014 and population data. Contributor data were provided by age and sex and for each of the contribution classes, ie employed, self-employed and non-employed. It is assumed that the proportions adopted will persist at a similar level throughout the projection period, adjusted for the planned increase in pension age from 65 to 70 between 2020 and 2049.

G.9 Contribution rates are assumed to remain constant at the 2015 rates. Contribution earnings limits are assumed to increase in line with one third of the real increase in median earnings above RPIX price inflation until 2024, reducing to RPIX from 2025, consistent with the principal up-rating scenario for the review of the Guernsey Insurance Fund.

G.10 Data on the distribution of earnings in Guernsey is provided to GAD on a quarterly basis. These provide information on earnings for Class 1 contributors (employed individuals) up to the employer upper earnings limit. Earnings information for other contributor classes (self-employed and non-employed) is provided up to the employee upper earnings limit. The upper earnings limit for employees increased between 2010 and 2014 to align with the corresponding limit for employers.

G.11 The earnings distributions are considered separately by contribution class, sex, and age band and are assumed to remain constant at the 2014 distribution in future allowing for earnings inflation.

G.12 Contribution income is projected by combining the future numbers of contributors, based on the relevant population projections, with the assumed earnings distribution allowing for the assumed up-rating of contribution limits and the relevant contribution rate.

G.13 It is assumed that the Sates grant will continue to be payable at a rate of 12% of total contribution income.

Benefits

Consultation grants

G.14 The key assumptions underlying the projections of expenditure on doctor and nurse consultations are:

> the number of doctor and nurse consultation grants per head of population

> the rate of the grants provided for each consultation.

G.15 We have adopted age and sex-specific assumptions for the number of doctor and nurse consultations per head of population based on the data provided for the years 2010 to 2014. Tables G.1 overleaf outlines the assumptions used for a range of ages.

Table G.1: Number of doctor and nurse consultations assumed per head of population

Age	Doctor consultations		Nurse consultations	
	Males	Females	Males	Females
5	2.25	2.30	0.10	0.10
25	2.30	4.40	0.35	1.10
45	2.80	4.15	0.80	1.30
65	4.80	5.55	2.15	2.40
85	8.60	8.40	3.70	3.20

G.16 The age and sex-specific assumptions are assumed to persist throughout the projection period and are applied to the projected population to produce projected numbers of consultations.

G.17 As advised by the former Guernsey Social Security Department, we have assumed that consultation grants will remain constant at the current rates of £12 for doctor consultations and £6 for nurse consultations for the period of the review.

Cost of drugs and medicines

G.18 The key assumptions underlying the projections of expenditure on drugs and medicines are:

> the number of prescriptions items

> the cost of the drugs and medicines – both the net ingredient cost and dispensing fees

> the charges made for prescriptions

> the numbers exempt from prescription charges.

G.19 The number of prescription items is projected based on the number of doctor consultations. We have adopted an assumption of annual increases in the number of prescriptions per doctor consultation of 2% a year from the 2014 level of around six prescription items per doctor consultation.

G.20 We have assumed that the average net ingredient cost will increase in line with UK RPIX inflation of 3% a year over the projection period.

G.21 At the request of the former Guernsey Social Security Department, we have assumed that dispensing fees will increase in line with one third of the real increase in median earnings above local RPIX price inflation throughout the projection period.

G.22 At the request of the former Guernsey Social Security Department, we have assumed that prescription charges will increase in line with local RPIX price inflation from 2017 onwards.

G.23 We have assumed that the proportion of prescriptions exempt from prescription charges will increase by 1% a year from the 2014 level of 64% of total prescriptions.

Appliances

G.24 The key assumptions underlying the projections of expenditure on appliances are:

> the number of appliances prescribed
> the cost of the appliances prescribed
> the charges made for appliance
> the numbers exempt from appliance charges.

G.25 We have assumed that the number of appliance items will increase by 1.5% a year and that the average cost of appliances will increase in line with local RPIX price inflation.

G.26 Charges made for prescriptions and appliances have been at the same rate in recent years. In line with the assumption for prescription charges we have assumed that appliance charges will increase in line with local RPIX price inflation from 2017 onwards.

G.27 We have assumed an increase in the proportion exempt from paying appliance charges of 0.5% a year from 2014 level of 81%.

Oxygen service

G.28 We have assumed that the cost of the oxygen service will increase in line with local RPIX price inflation.

Specialist medical benefit

G.29 The key assumptions underlying the projections of specialist medical benefit expenditure are:

> the number of specialist consultants
> the annual increases in the contract price.

G.30 The former Guernsey Social Security Department has requested that we assume a maximum staffing level of 50 consultants from 2017 onwards.

G.31 Although the contract provides for annual increases in line with local RPI price inflation, we have adopted an assumption of increases in line with local RPIX price inflation, consistent with the price inflation assumption adopted for all other elements of the review.

Physiotherapy benefit

G.32 The key assumptions underlying the projections of physiotherapy benefit expenditure are:

- the number of full-time equivalent physiotherapists and assistants
- the annual increases in the contract price.

G.33 We have assumed that the number of full-time equivalent staff increases to 32.5 at the end of 2015, increasing by 1 each year to 36.5 in 2019, in line with the additional posts approved in 2015.

G.34 Although the contract provides for annual increases in line with local RPI price inflation, we have adopted an assumption of increases in line with local RPIX price inflation, consistent with the price inflation assumption adopted for all other elements of the review.

Alderney hospital benefit

G.35 We have assumed that the expenditure on the Alderney hospital benefit will increase in line with local RPIX price inflation, consistent with the price inflation adopted for all other elements of the review, although it is noted that the contract provides for increases in line with local RPI price inflation. We understand that there are currently discussions taking place regarding a potential increase in the contract price in respect of additional services. This review does not make provision for any such increase.

Primary Care Mental Health and Wellbeing Service

G.36 We have assumed that the cost of Primary Care Mental Health and Wellbeing Service increases in line with local RPIX price inflation each year.

Visiting medical consultants

G.37 We have been advised by the former Guernsey Social Security Department to assume that expenditure on visiting medical consultants should be projected to increase in line with local RPIX price inflation each year.

Administration costs

G.38 It is assumed that 45% of administration costs are salary-related and therefore projected to increase from the 2014 level in line with earnings. All other administration costs are projected to increase from the 2014 level in line with RPIX price inflation.

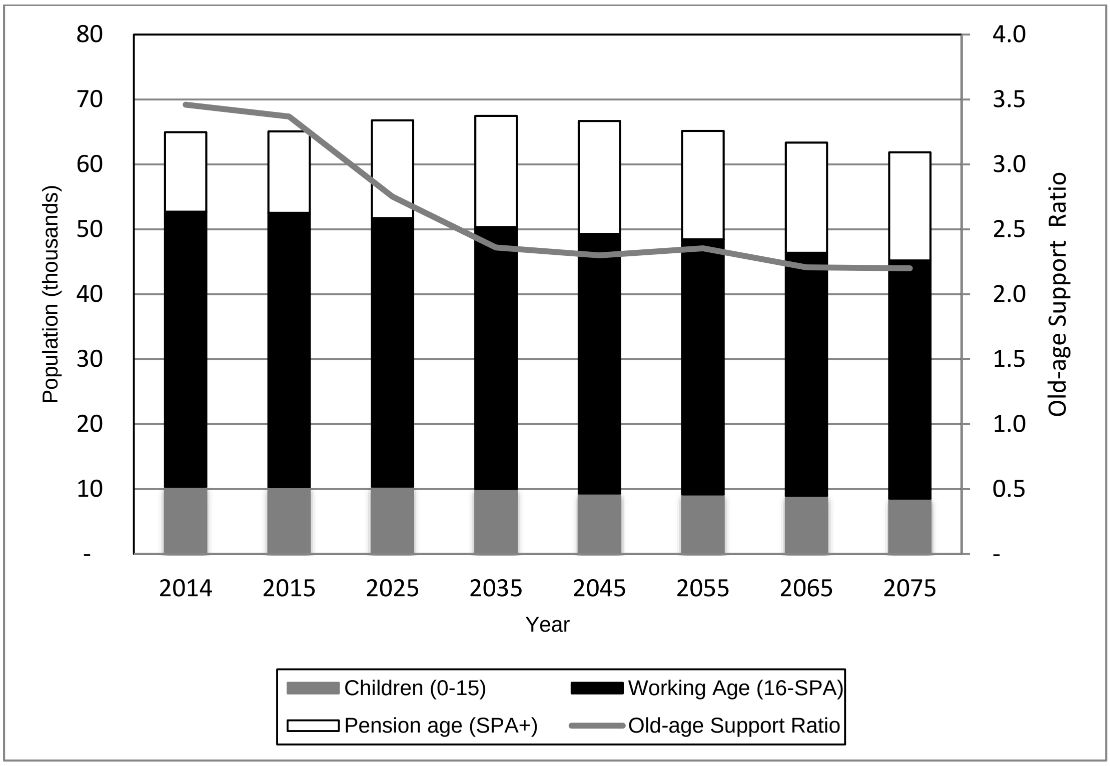
Appendix H: Projected future population of Guernsey

H.1 The chart below shows the population of Guernsey in 2014 and the projected future population at 10-year intervals based on the principal assumptions, which assume constant net immigration of 100 each year.

H.2 The chart sub-divides the population into children (0-15 years), those of working age and pensioners (above pension age). The projections reflect the planned increase in the pension age from 65 to 70 between 2020 and 2049.

H.3 The starting point is the population as at 30 June 2014 which provides for a ratio of the working-age population to the resident pensioner population of 3.5.

Figure H.1: Projection of Guernsey population based on the principal assumptions



Appendix I: Variant population projections

I.1 The charts below show the population of Guernsey in 2014 and the projected future population at 10-year intervals for the three variant migration scenarios:

> Zero migration
> Net immigration of 200 a year
> Net emigration of 100 a year

I.2 The charts sub-divide the population into children (0-15 years), those of working age and pensioners (above pension age). The projections reflect the planned increase in the pension age from 65 to 70 between 2020 and 2049.

I.3 The starting point for all scenarios is the population as at 30 June 2014 which provides for a ratio of the working-age population to the resident pensioner population of 3.5.

Figure I.1: Projection of Guernsey population assuming zero migration

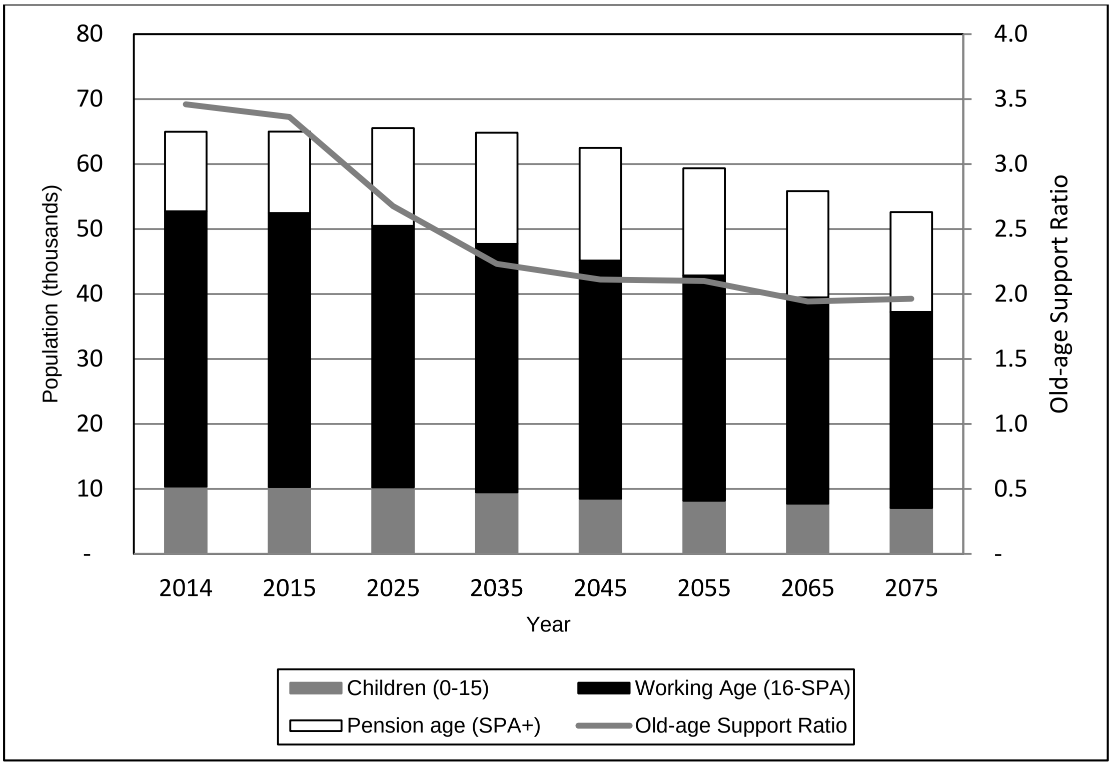


Figure I.2: Projection of Guernsey population assuming 200 net immigration

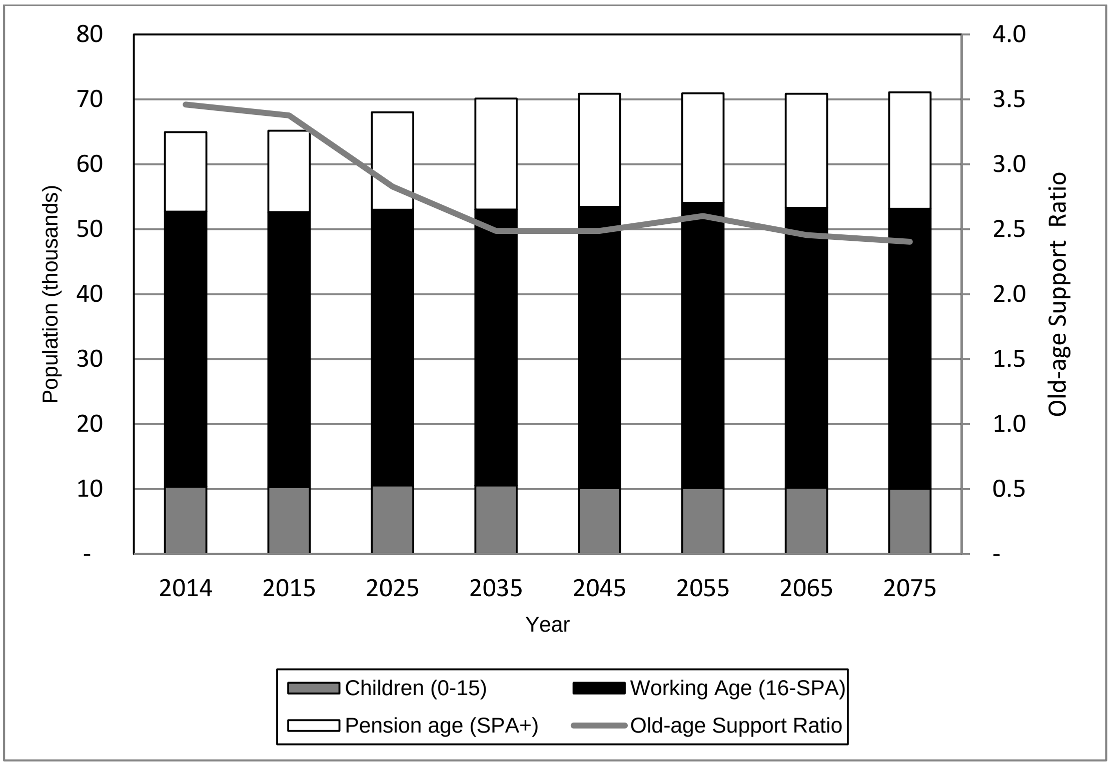
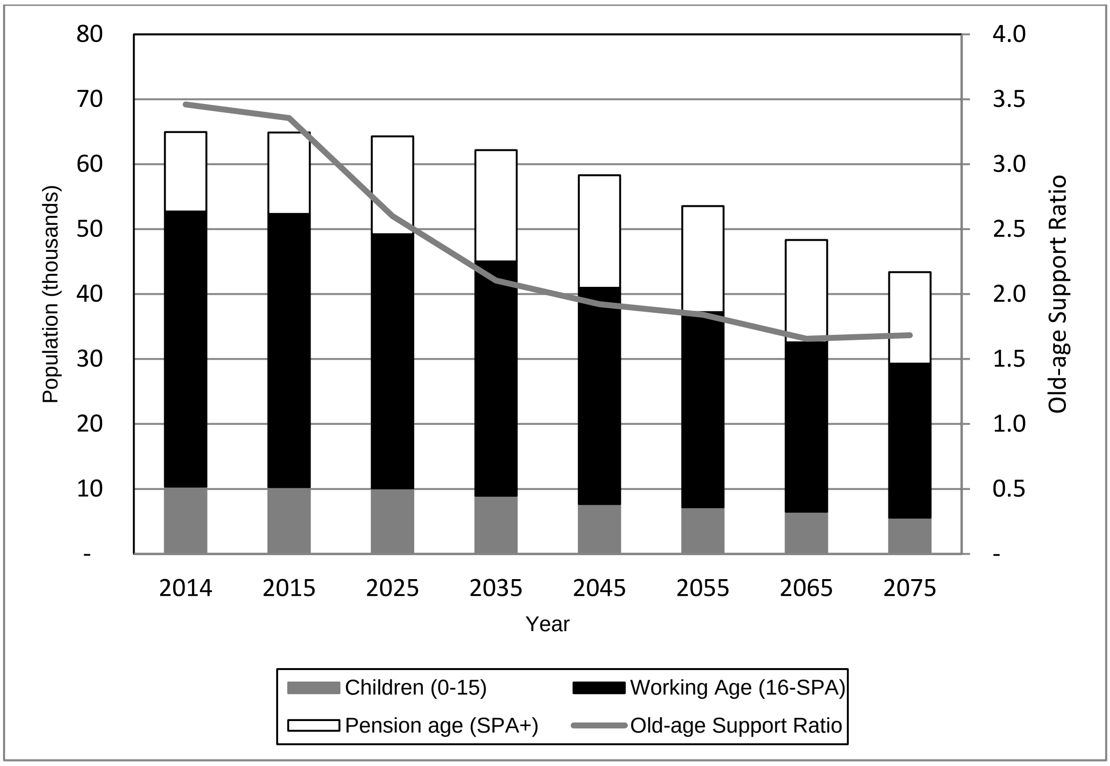


Figure I.3: Projection of Guernsey population assuming 100 net emigration



APPENDIX 3

The Actuarial Review on the Long-term Care Insurance Fund

The report follows on the next page.

Government
Actuary's
Department

Guernsey Social Security Reviews as at 31 December 2014

Long-term Care Insurance Fund

FINAL REPORT

Date: 23 June 2016

Author: Martin Clarke

LONG-TERM CARE INSURANCE (GUERNSEY) LAW 2002

REPORT BY THE GOVERNMENT ACTUARY ON THE OPERATION OF THE LONG-TERM CARE INSURANCE (GUERNSEY) LAW 2002 IN THE PERIOD 1 JANUARY 2010 TO 31 DECEMBER 2014

To the Minister and Members of the Social Security Department:

Section 26 of the Long-term Care Insurance (Guernsey) Law 2002 (as amended) ("the Law") provides for a review of the operation of the Law at intervals not exceeding five years. The Government Actuary's previous review covered the period of four years up to 31 December 2009. At the request of the former Social Security Department, I have carried out a review covering the five year period from 1 January 2010 to 31 December 2014. I submit the following report on the financial condition of the Long-term Care Insurance Fund and on the adequacy of the Long-term Care Insurance Fund Allocation payable into the Fund under section 101A of the Social Insurance Law and the States Long-term Care Insurance Annual Grant payable into the Fund. All the references to Guernsey in this report are to be taken to include also the islands of Alderney, Herm and Jethou, whose residents are covered by the Law.

Martin Clarke FIA
Government Actuary

23 June 2016

Contents

1 Executive Summary

Background

1.1 This report has been prepared for the President and Members of the Committee *for* Employment & Social Security.

1.2 Section 26 of the Long-term Care Insurance (Guernsey) Law 2002 requires an actuary to review the operation of the Long-term Care Insurance Law at intervals not exceeding five years. The previous review covered the period to 31 December 2009. Accordingly this review covers the period from 1 January 2010 to 31 December 2014. The next report will be due with an effective date no later than 31 December 2019.

1.3 The aim of this report is to review the financial condition of the Guernsey Long-term Care Insurance Fund ("the Fund") and the adequacy or otherwise of the contributions payable to support the payments to be made from the Fund.

1.4 We have assessed the financial condition of the fund in terms of a cashflow projection approach and this report includes:

- Projections of the contributions required to balance projected benefit payments
- Projections of the progress of the Fund if the current contributions rates are maintained
- Estimates of the constant contribution rates required such that the projected average balance of the Fund is equal to twice projected expenditure at the end of the projection period.

1.5 Projections have been produced for the period 2015 to 2075.

1.6 This review allows for changes made to the Fund since the previous review as at 31 December 2009, including the extension of planned increases in pension age as agreed following the Personal Tax, Pensions and Benefits Review.

Key results

1.7 The projections suggest that, based on the principal assumptions adopted, the current contribution rate is unlikely to remain adequate over the period to 2075. The Fund is projected to decline quite rapidly as a multiple of annual expenditure from 2014, falling below twice projected expenditure in 2023, and is projected to be exhausted in 2031. Similar outcomes are projected based on variant up-rating, migration and real earnings growth assumptions. However, the projections show that a 0.5% increase in the contribution rate would be expected to delay the exhaustion of the fund by around 15 years.

1.8 The benefit-specific assumptions underlying this review are based on the experience of the Fund in the years 2010 to 2014 and the same age and sex-specific assumptions are assumed to persist throughout the projection period. The proportions of the population receiving the different benefits provided has changed in recent years following the introduction of the Elderly Mental Infirmity benefit. This experience could change further over time, perhaps suggesting the use of alternative assumptions for future reviews. Experience may also change in light of developments arising from the Supported Living and Ageing Well Strategy.

1.9 Similarly, alternative approaches to modelling benefit expenditure, such as considering proportions needing care with reference to a period prior to death rather than based on age, could provide for significantly different projections.

1.10 The projections are more positive than those provided for the 2009 Review where the Fund was projected to be exhausted in 2027, based on up-rating in line with half-way between prices and earnings and variable net migration. This reflects the introduction of the Elderly Mental Infirmity benefit as well as changes in the principal up-rating assumption and the principal migration assumption. The effect of these changes is offset to an extent by changes in the contributions assumptions and a lower assumed real rate of investment return.

1.11 The constant contribution rate estimated to be required from January 2018 such that the projected average balance of the Fund is equal to twice projected expenditure at the end of the projection period is 2.35%. This constant contribution rate provides for the average balance of the fund to remain above twice projected expenditure until 2075. The current Class 1 contribution rate is 1.3% of relevant earnings.

Assumptions

1.12 The projections provided depend on assumptions made about the future. The principal assumptions adopted in carrying out this review are summarised in Table 1.1 overleaf.

Table 1.1: Summary of principal assumptions

	Principal assumption
Fertility and mortality projections	ONS 2014-based projections for England and Wales adjusted by constant age-related multipliers to reflect Guernsey's mortality experience from 2008 to 2014 and fertility experience from 2009 to 2014.
Migration	Constant net immigration of 100 a year, as advised by the former Guernsey Social Security Department. Distribution of migration by age and sex updated to reflect a 55 / 45 male / female split but with the overall age distribution unchanged from that adopted for the 2009 Review.
RPIX price inflation	Short-term assumptions for the period to 2019 with a long-term assumption of 3% in 2020 and each year thereafter
Real earnings growth (net of RPIX price inflation)	1.5% pa
Real investment return (net of RPIX price inflation)	2.5% pa

1.13 The demographic and economic assumptions underlying the projections are inevitably subject to a considerable degree of uncertainty, particularly for the more distant future. The pay-as-you-go nature of the Fund means that contribution rates and the future progress of the Fund may change significantly over time owing to changes in the benefits provided, the profile of the population or the economic environment. The variant projections provided, as advised by the former Guernsey Social Security Department, illustrate the sensitivity of the projections to different experience or different policies.

1.14 Given the uncertainty about the future progress of the Fund, caution is needed when using the projections in this report. Users should read the main body of this report to understand the uncertainty and limitations surrounding these projections.

1.15 In our opinion the range of assumptions underlying the projections in this report cover a reasonable range and the methodology used in preparing these projections is appropriate for its purpose and consistent with actuarial principles.

2 Introduction and Scope

2.1 This report has been prepared for the President and Members of the Committee *for* Employment & Social Security. The Department is required to lay a copy before the States as soon as is practicable after receiving it.

2.2 The Long-term Care Insurance Fund ("the Fund") is financed broadly on the pay-as-you-go principle. The Fund receives contribution income to fund current and future benefit expenditure, with a fund maintained to act as a reserve. The long-term objective is to maintain a minimum balance of two years' outgo.

2.3 The cash flows into and out of the Fund are contributions paid each year by individuals and benefits paid in line with the provisions of the Fund. Under the pay-as-you-go approach, contribution income in a year is intended to cover expenditure in the year, and no significant fund of assets would be built up out of which to finance future expenditure. This means contribution rates may change significantly over time owing to changes in the benefits provided, the profile of the population or the economic environment. The long-term objective is to maintain a minimum Fund balance approximately equal to two years' outgo, while keeping the contribution rate relatively stable.

2.4 Section 26 of the Long-term Care Insurance (Guernsey) Law 2002 ("the Law") requires an actuary to review the operation of the Long-term Care Insurance Law at intervals not exceeding five years. The legislation requires the actuary to make a report to the Department on the financial condition of the Fund and the adequacy or otherwise of the contributions payable under the Law to support the payments to be made out of the Fund under the provisions of the Law.

2.5 This report addresses this requirement as at an effective date of 31 December 2014. The previous report, issued in June 2011, was prepared as at an effective date of 31 December 2009. The next report will be due as at an effective date no later than 31 December 2019.

2.6 Given the pay-as-you-go nature of the Fund we have assessed the financial condition of the fund in terms of a cashflow projection approach and this report includes:

> Projections of the contributions required to balance projected benefit payments

> Projections of the progress of the Fund if the current contributions rates are maintained

> Estimates of the constant contribution rates required such that the projected average balance of the Fund is equal to twice projected expenditure at the end of the projection period.

2.7 As requested by the former Guernsey Social Security Department, we have produced projections for the 60-year period from 2015 to 2075 and the projections reflect updated population projections.

2.8 The projections are dependent on the data, methodology and assumptions used. There is considerable uncertainty about the future progress of the Fund and actual experience could differ materially from the projections. Section 7 of this report provides further comments on this.

2.9 This report also provides:

> Details of the data and assumptions underlying the projections and estimates provided

> Details of the methodology adopted.

2.10 It is anticipated that the results in this report will be used by the Committee *for* Employment & Social Security for information purposes and for considering possible changes to contributions or benefits payable. However, before deciding on any changes, further actuarial advice should be sought in order to confirm the likely impact on the finances of the Fund. Furthermore, in making decisions about the Fund, it will also be appropriate to take into account non-actuarial matters, such as legal, administrative and policy issues.

Professional standards

2.11 This report complies with GAD's standards. For further details please see GAD's website: https://www.gov.uk/government/organisations/government-actuarys-department/about/terms-of-reference.

Reliances and limitations

2.12 This report has been prepared for the President and Members of the Committee *for* Employment & Social Security. We understand that the information in this report may be made available to others. However GAD does not accept any liability to third parties in relation to this report.

2.13 This review relies on the accuracy of data and information provided by the former Social Security Department. GAD does not accept responsibility for advice based on wrong or incomplete data or information provided.

2.14 The advice provided must be taken in context. Advice is intended to be read and used as a whole and not in parts. GAD does not accept responsibility for advice that is altered or used selectively.

2.15 Clarification should be sought if there is any doubt about the intention or scope of advice provided in this report. GAD is not responsible for any decision taken by the Committee *for* Employment & Social Security, except to the extent that the decision has been made in accordance with specific advice provided.

2.16 All references to Guernsey in this report are to be taken to include also the islands of Alderney, Herm and Jethou.

3 Overview of the Long-term Care Insurance Fund

3.1 The Long-term Care Insurance Fund provides weekly benefits towards the cost of private nursing or residential care on either a permanent or respite basis.

3.2 The Fund is financed broadly on the pay-as-you-go principle. Under this approach, contribution income in a year is intended to cover expenditure in the year, and no significant fund of assets would be built up out of which to finance future expenditure. This means contribution rates may change significantly over time owing to changes in the benefits provided, the profile of the population or the economic environment.

3.3 However, notwithstanding the pay-as-you-go principle, a fund is maintained to act as a reserve to meet unforeseen contingencies in the operation of the Fund. As at 31 December 2014, the balance of the fund held was £56 million, which is equivalent to about three times annual expenditure.

3.4 Appendix A provides a summary of the contributions payable and the benefits provided.

3.5 Contributions are paid by employees, the self-employed and the non-employed. Contributions are not payable by employers. Employees currently pay 1.3% of earnings up to the upper earnings limit, subject to a lower earnings limit. (This contribution rate does not include contributions payable to the Guernsey Insurance Fund or the Guernsey Health Service Fund.) Similar contributions are paid by self-employed and non-employed persons unless they are exempt. No central funding is provided to the Fund by way of a States grant.

3.6 There have been a number of changes to the Fund since the previous review, including increases in the upper earnings limit for employees between 2010 and 2014 to align with the corresponding limit for employers and the extension of planned increases in pension age, as agreed following the Personal Tax, Pensions and Benefits Review. The most significant change is the introduction of the Elderly Mental Infirmity benefit in 2011, which provides additional support for those with conditions such as Alzheimer's within a residential setting, reducing the need for nursing care. There has also been a change in up-rating policy since the 2009 Review.

3.7 Appendix B provides details of income and expenditure in the Fund since the previous review as at 31 December 2009 and Section 5 of this report provides details of the changes to the Fund since the previous review. The projections provided in this report make allowance for these changes.

4 Results on principal assumptions

4.1 The financial condition of the Fund has been assessed in terms of a cashflow projection approach and this report includes:

> Projections of the contributions required to balance projected benefit payments

> Projections of the progress of the Fund if the current contributions rates are maintained

> Estimates of the constant contribution rates required such that the projected average balance of the Fund is equal to twice projected expenditure at the end of the projection period.

4.2 As requested by the former Guernsey Social Security Department, we have produced projections for the 60-year period from 2015 to 2075.

4.3 These projections assume constant net immigration of 100 each year and real earnings growth of 1.5% a year. More details of the principal assumptions underlying these projections are provided in Section 6 of this report. The effect of varying these assumptions is shown in Section 7.

4.4 Appendix C provides a summary of the data used for these projections.

Break-even contribution rate

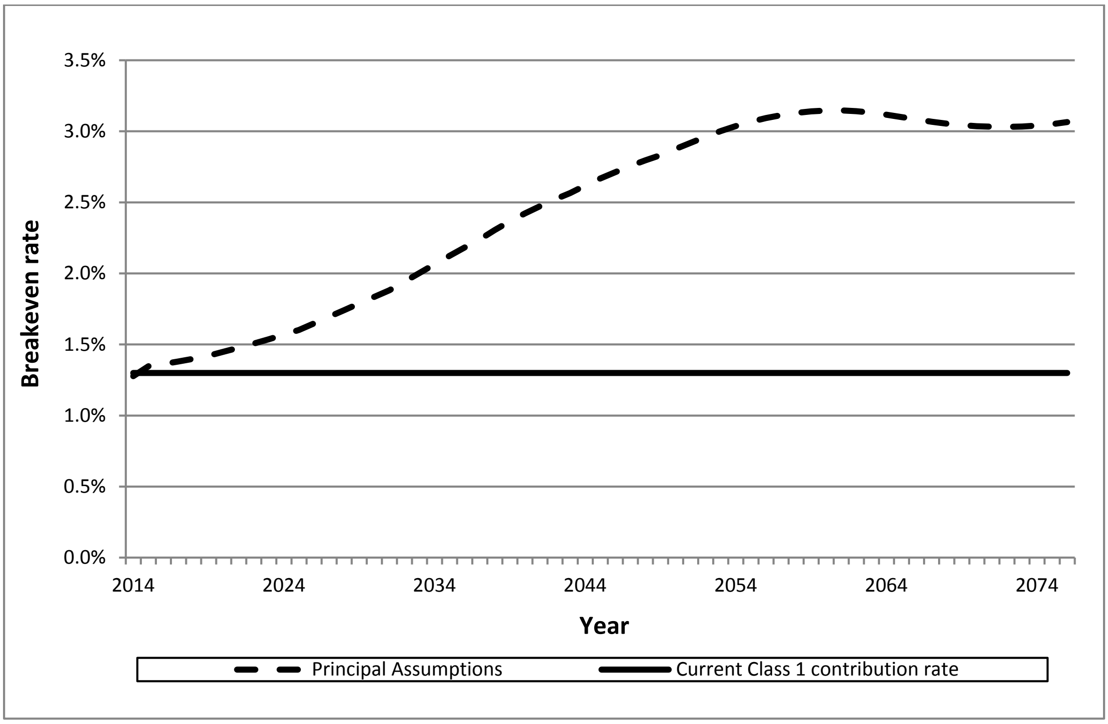
4.5 The contributions required to balance projected benefit payments are shown in terms of the Class 1 "break-even" contribution rate. This is the contribution rate required to exactly balance contribution income with expenditure on benefits and administration costs. It is determined based on contribution income and expenditure on a pay-as-you-go basis. It does not include any allowance for returns on investments. The "break-even" contribution rate is assessed in terms of the Class 1 contribution rate, that is, it is the employee contribution rate. It is assumed that contribution rates for self-employed and non-employed contributors would be changed pro rata to the Class 1 rate.

4.6 Figure 4.1 overleaf shows how the projected Class 1 break-even contribution rate is expected to change over time. Projections are shown assuming benefits are up-rated in line with one third of the real increase in median earnings above RPIX price inflation throughout the projection period and assuming contribution limits are up-rated in line with one third of the real increase in median earnings above RPIX price inflation until 2024, reducing to increases in line with RPIX from 2025.

4.7 The projections are based on an assumption of constant net immigration of 100 each year and the real increase in median earnings is assumed to be 1.5% a year above RPIX price inflation. The contribution rates are expressed as a percentage of relevant band earnings.

4.8 The chart also shows the current contribution rate payable. The break-even contribution rate for 2014 is based on actual contribution income and benefit expenditure in that year.

Figure 4.1: Break-even contribution rate based on the principal assumptions



4.9 The chart shows the projected break-even contribution rate steadily increasing and plateauing at 3.1% in the late 2050s and the early 2060s. It is projected to dip to 3.0% in the late 2060s and early 2070s before returning to 3.1% in the last year of the projection.

4.10 The increases in the projected break-even rate reflect benefit expenditure being projected to increase at a faster rate than contribution income. Contribution income is projected to increase broadly in line with median earnings whereas increases in benefit expenditure reflect the combined effect of increases in benefit rates and increases in the projected number of beneficiaries. In later years smaller increases in the number of beneficiaries are projected, slowing the rate of increase in benefit expenditure.

4.11 The break-even contribution rate is projected to exceed the current contribution rate throughout the projection period.

4.12 Appendix D shows the projected Class 1 break-even contribution rate at 10-year intervals.

4.13 The projected break-even contribution rate is generally lower than projected based on the principal assumptions adopted at the previous review. This largely reflects the change in the principal up-rating assumption and the change in the principal migration assumption, offset to an extent by changes in the contributions assumptions. The 2009 Review assumed up-rating at half-way between prices and earnings, based on a real earnings growth assumption of 2% a year and variable migration such that the total population remained constant at the April 2007 level. These projections assume constant net immigration of 100 each year.

4.14 Sample projected break-even contribution rates based on the principal assumptions adopted for this review, together with those for the 2009 Review are provided in Table 4.2 below.

Table 4.2: Break-even contribution rates

Projection Year	2009 Review	2014 Review
2020	1.6%	1.4%
2065	3.3%	3.1%

4.15 The current Class 1 contribution rate of 1.3% of relevant band earnings is unlikely to remain adequate over the projection period.

4.16 Section 7 provides projections for alternative scenarios, such as higher migration or a 0.5% increase in the Class 1 contribution rate. The current contribution rate is not projected to remain adequate under any of the scenarios shown.

Projected progress of the Fund

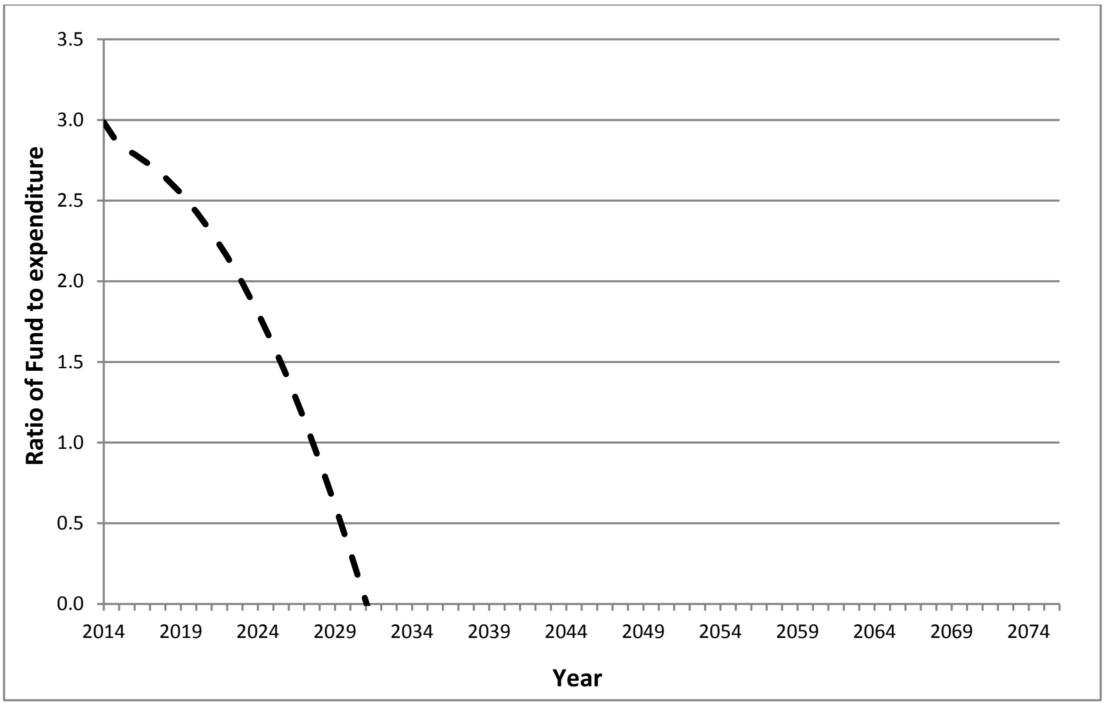
4.17 The projected progress of the Fund is shown in terms of the projected average Fund balance in a year expressed as a proportion of the annual expenditure on benefits and administration costs, assuming current contribution rates are maintained. Unlike the projections of the break-even contribution rate, the projections of the progress of the Fund allow for investment returns, including re-investment of investment income, at an assumed real rate of return of 2.5% a year in excess of RPIX price inflation.

4.18 In 2014, the average balance of the Fund was 3.0 times expenditure in the year. It was lower in 2009 at 2.3 times expenditure in that year. The higher average fund to expenditure in 2014 reflects high investment returns in 2010, and to a lesser extent returns in 2012 and 2013, increasing the average balance of the Fund.

4.19 Figure 4.3 overleaf shows how the average Fund balance, as a proportion of annual expenditure, is projected to change over time, assuming the current Class 1 employee contribution rate is unchanged at 1.3% of relevant earnings. Projections are shown assuming benefits are up-rated in line with one third of the real increase in median earnings above RPIX price inflation throughout the projection period with contribution limits up-rated in line with one third of the real increase in median earnings above RPIX price inflation until 2024, reducing to RPIX from 2025.

4.20 The projections are based on an assumption of constant net immigration of 100 each year and the real increase in median earnings is assumed to be 1.5% a year above RPIX price inflation.

Figure 4.3: Projected progress of the Fund based on the principal assumptions



4.21 The Fund is projected to decline quite rapidly as a multiple of annual expenditure from 2014, falling below twice projected expenditure in 2023, and is projected to be exhausted in 2031.

4.22 The decline in the Fund reflects benefit expenditure being projected to increase at a faster rate than contribution income. This corresponds with the projections for the break-even contribution rate, which show that the required contribution rate will exceed the current rate from 2015 onwards and that the current Class 1 contribution rate of 1.3% of relevant band earnings is unlikely to remain adequate over the period to 2075.

4.23 Appendix E shows the projected fund ratios at 10-year intervals.

4.24 Appendix F provides details of the projections of income and expenditure which underlie the projections of the break-even rate and the fund ratios, again, at 10-year intervals.

4.25 The projected decline in the Fund is slower than that projected for the 2009 Review where the Fund was projected to be exhausted in 2027, based on up-rating in line with half-way between prices and earnings and variable migration such that the total population remained constant at the April 2007. The slower decline in the projection provided at this review reflects the change in the principal up-rating assumption together with the change in the principal migration assumption, offset to an extent by changes in the contributions assumptions and also a lower assumed real rate of investment return. The Fund is projected to be exhausted before the extension of the planned increase in pension age takes effect.

4.26 Section 8 of this report provides details of the changes since the 2009 Review and how these have affected the projected break-even contribution rate.

4.27 The constant contribution rate estimated to be required from January 2018 such that the projected average balance of the Fund is equal to twice projected expenditure at the end of the projection period is 2.35%. This constant contribution rate provides for the average balance of the Fund to remain above twice projected expenditure until 2075. The current Class 1 contribution rate is 1.3% of relevant earnings.

4.28 Appendix H provides a chart showing the projected future population of Guernsey based on the assumption of constant net immigration of 100 each year.

5 Changes since the previous review

5.1 This review reflects a number of changes which have occurred since the previous review was carried out as at 31 December 2009.

Benefit provisions

5.2 A new benefit, Elderly Mental Infirmity (EMI), was introduced as a supplement to residential care benefits, both permanent care and respite care benefits, in 2011. The EMI supplement was introduced to provide additional support for those with conditions such as Alzheimer's within a residential setting, reducing the need for nursing care.

5.3 The Guernsey Social Security Department have requested that we project increases in benefits in line with one third of the real increase in median earnings above RPIX price inflation throughout the projection period.

Contribution rates and limits

5.4 The upper earnings limit for employees increased between 2010 and 2014, consistent with the changes made for the Guernsey Insurance Fund and the Health Service Fund, to align with the limits for employers and employees.

5.5 We understand that an increase in the contribution rate of 0.5%, from 1.3% to 1.8% is currently being considered. We have provided variant projections to show the likely effect of such an increase.

5.6 The former Guernsey Social Security Department have requested that we project increases in earnings limits for contributions in line with the approach adopted for the Guernsey Insurance Fund. That is, that limits will increase in line with one third of the real increase in median earnings above RPIX price inflation until 2024 and in line with RPIX from 2025.

Personal Tax, Pensions and Benefits Review

5.7 The States of Guernsey carried out a comprehensive review of personal taxes, allowances and benefits during 2014. The Personal Tax, Pensions and Benefits Review has resulted in an extension of the planned increases in pension age from 65 to 70 over the period 2020 to 2049, with pension age increased by two months a year.

Fund experience

5.8 The balance of the Fund has generally increased over the period since the last review, although there was a fall in the balance of the Fund at the end of 2011. This fall was primarily a result of an investment loss in the year.

5.9 There was a fall in total contribution income in 2010, reflecting the reduction in the contribution rate for employees and the self-employed. Contribution income increased in all subsequent years.

5.10 Expenditure has generally increased at a faster rate than contribution income, the exception being in 2012, resulting in gradually reducing operating surpluses.

5.11 Increases in benefit expenditure are driven by increases permanent care benefits, equally split between permanent nursing benefits and permanent residential benefits including the EMI supplement, as shown in Appendix B.

6 Principal assumptions

6.1 The results provided in this report are projections and depend on assumptions made about the future. The assumptions adopted are based on data and information provided by the former Guernsey Social Security Department. We have relied on the accuracy of these data and GAD does not accept responsibility for advice based on wrong or incomplete data or information provided.

6.2 The demographic, economic and benefit-specific assumptions underlying these projections are inevitably subject to a considerable degree of uncertainty, particularly for the more distant future. Therefore there is considerable uncertainty about the future progress of the Fund and actual experience could differ materially from the projections.

6.3 Details of the principal assumptions underlying the projections results provided in Section 4 are provided below. Details of the assumptions used in projecting each element of benefit expenditure and contribution income, together with details of the methodology adopted, are provided in Appendix G.

Demographic assumptions

6.4 The Guernsey Social Security Department provided Guernsey population data, including details of births, deaths, immigration and emigration covering the years 2010 to 2014. Data covering the period 31 March 2009 to 31 March 2013 were provided for the Policy Costings work carried out in early 2014. Data for earlier years were provided for the 2009 Review.

6.5 The relatively small population size means that it is not possible to project population birth and death rates with a sufficient degree of certainty based on Guernsey data alone. Instead, we have adjusted the 2014-based principal population projections prepared by the Office for National Statistics (ONS) for England and Wales by applying constant age- and sex-related factors to obtain assumed Guernsey fertility and mortality rates. That is, the factors vary by age and sex, but the same factors apply for all years of the projection. These age and sex-related factors were derived by comparing actual experience for Guernsey for the calendar years 2008 to 2014 inclusive for mortality (2009 to 2014 inclusive for fertility) with England and Wales experience for the same period.

6.6 Table 6.1 overleaf illustrates projected life expectancy as at 2014 based on the assumptions adopted for Guernsey, together with the corresponding figures based on the assumptions adopted for the 2009 Review and those for England and Wales based on the ONS projections. Figures are shown for current 60-year-olds, in 2014, as well as future 60-year-olds, in 2034, to illustrate the effect of assumed future improvements in longevity.

Table 6.1: Life expectancy for males and females aged 60 in 2014 and 2034

		2009 Review[1]	Current Review	England & Wales (ONS 2014-based Population Projections)
Males - Age 60 in:	2014	27.7	26.1	25.5
	2034	29.6	28.5	27.9
Females - Age 60 in:	2014	30.1	28.8	28.0
	2034	31.9	30.9	30.2

[1] The figures provided are consistent with those provided in the 2009 Review Report updated to reflect the different years being considered. In 2014 an error was identified in the derivation of the underlying age and sex-related adjustments for the 2009 Review. As such, the projected life expectancy figures are higher than should be the case.

6.7 Future improvements in life expectancy in Guernsey are assumed to be consistent with the 2014-based principal projections prepared by ONS for England and Wales.

6.8 Table 6.2 below illustrates the assumptions adopted for fertility as at 2014 for Guernsey, together with the corresponding figures based on the assumptions adopted for the 2009 Review and those for England and Wales based on the ONS projections.

Table 6.2: Age specific fertility rates: number of births per 1,000 women in 2014

Mother's age	2009 Review	Current Review	England & Wales (ONS 2014-based Population Projections)
15	3.0	1.6	1.6
20	43.2	28.3	43.5
25	74.3	69.1	86.4
30	103.2	107.6	113.3
35	75.7	89.3	89.3
40	23.6	28.8	28.8
45	1.6	2.0	2.0

[1] The figures provided in respect of the 2009 Review are not the same as those provided in the 2009 Review report, as the relevant year for fertility rates is different and figures provided above are on a mid-year basis.

6.9 The same age-specific factors apply for all years of the projection period and future trends in fertility in Guernsey are assumed to be consistent with the 2014-based principal projections prepared by ONS for England and Wales.

Migration assumptions

6.10 The former Guernsey Social Security Department has advised that the central migration assumption to be used for this review should be net immigration of 100 a year. This reflects the revised Population Objective recently agreed by the States of Guernsey that:

> *"That, as far as practicable, Guernsey's population should, in the long-term, be kept to the lowest level possible to achieve the States' Economic, Social and Environmental objectives."*

6.11 Migration to and from Guernsey is very difficult to project. The migration data provided by the former Guernsey Social Security Department for the period 2010 to 2014 show significant variability in the net migration figures for individual years. We are content that the central assumption adopted is within a reasonable range of plausible outcomes and so is not an unreasonable assumption over the long-term. Nevertheless, consideration should be given to other reasonable assumptions, such as those shown in Section 7.

6.12 We have also updated the distribution of migration by sex to reflect a 55/45 split between males and females, at the request of the former Social Security Department. The overall age distribution is unchanged from that adopted for the 2009 Review.

6.13 Table 6.3 below illustrates the distribution of migrants by age and sex, based on the central assumption of net immigration of 100. The distribution provides for net immigration concentrated between the late teens and mid-30s and small amounts of net emigration between ages 55 and 70.

Table 6.3: Number of immigrants by age and sex based on an assumption of 100 net immigration

Age	Males	Females	Total
Under 15	2.20	1.80	4.00
15-24	26.40	21.60	48.00
25-34	17.60	14.40	32.00
35-44	7.15	5.85	13.00
45-54	2.75	2.25	5.00
55-64	-1.10	-0.90	-2.00
65-74	0.00	0.00	0.00
75+	0.00	0.00	0.00

Economic assumptions

Price inflation

6.14 The long-term rate of price inflation is assumed to be 3% a year consistent with the previous review and in line with the RPIX target.

6.15 However, RPIX price inflation has been relatively low in the recent past, falling below 2% in 2014 and averaging 1.1% in 2015. In order to bridge the gap between the current low level of RPIX inflation and the 3% target rate, we have adopted short-term assumptions for the period to 2019, set initially at 1.5%, with gradual increases to the long-term assumption of 3% applying from 2020 onwards. Details of the proposed assumptions are provided in Table 6.4 overleaf.

Real earnings growth

6.16 The long-term rate of real earnings growth is assumed to be 1.5% a year net of RPIX price inflation.

6.17 Real earnings growth, relative to RPIX price inflation, has been quite variable in recent years. The 2015 States Strategic Monitoring Report showed that over the period 2008 to 2014, real earnings growth has on average been close to 0.5%. Data were not available on changes in earnings during 2015. All other things being equal, real earnings growth would typically be expected to move in a consistent way to real GDP growth, which has averaged at around 1.8% pa over the same period.

6.18 Having observed UK real earnings growth reverting to historical averages in 2015, we have adopted a long-term assumption of real earnings growth of 1.5% a year which is applied throughout the projection period.

Real investment return

6.19 Investment returns on the fund have been quite variable in recent years, with negative returns emerging in 2008 and 2011, and quite high returns earned in 2009 and 2010. At the time of the previous review a real return of 3.5% a year was assumed, based on an asset allocation as at 31 December 2008 which comprised an equity holding of about 70% of assets.

6.20 The Fund appointed new investment advisors in 2009 and reviewed its investment strategy, increasing bonds and alternative assets holdings in place of equity holdings to provide equity-like returns but with a reduced risk profile. A real return of 2.0% was earned in 2014, based on an equity holding of about 55%, with the average real return for the period 2010 to 2014 being around 3.4%.

6.21 Consistent with the approach adopted for the 2009 Review and as agreed with the Guernsey Social Security Department, we have adopted a long-term assumption for real investment returns of 2.5% a year, to be applied throughout the projection period. This assumption reflects the lower expected returns suggested by current financial conditions.

Table 6.4: Economic assumptions

	2014 (actual)	2015	2016	2017	2018	2019	2020 onwards
RPIX price inflation	1.7%	1.5%	1.8%	2.1%	2.4%	2.7%	3.0%
Real earnings growth (net of RPIX price inflation)	0.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Real investment returns (net of RPIX price inflation)	2.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%

Labour market assumptions

6.22 Table 6.5 below illustrates the assumptions adopted for the proportions of the population assumed to be making Class 1 contributions, based on data supplied on the number of contributors (by age and sex) for the years 2010 to 2014.

Table 6.5: Proportions of the population assumed to be making Class 1 contributions

Age	Current Review	
	Males	Females
20	0.70	0.63
30	0.82	0.72
40	0.75	0.71
50	0.69	0.70
60	0.46	0.42

6.23 Corresponding data were provided in respect of self-employed and non-employed contributors. The assumptions adopted for this review assume slightly lower proportions of males making Class 2 (self-employed) contributions and a slightly different age distribution for females making Class 2 contributions. In contrast, this review assumes slightly higher proportions for those aged 60-64 making Class 3 (non-employed) contributions, in line with recent experience. Class 2 and 3 contributions are much less significant elements of overall contribution income.

6.24 These proportions are assumed to persist throughout the projection period, adjusted appropriately for the planned increase in State Pension Age from age 65 in 2020 to age 70 in 2049.

Contribution and benefit specific assumptions

6.25 A number of additional assumptions are required to project contribution income and expenditure on individual benefits. Appendix G provides details of the methodology underlying the projections and the assumptions adopted.

Alignment with accounts

6.26 We have compared modelled contribution income and benefit expenditure in recent years with actual income and expenditure as recorded in the accounts to determine any adjustment required to allow for differences between using models and assumptions, and actual experience.

6.27 Based on this comparison we have increased modelled contribution income by 2% and increased modelled expenditure on permanent nursing benefits by 1%. These adjustments are assumed to apply for all future years as we have not observed robust evidence of any particular trends. These adjustments are applied consistently to all scenarios projected.

7 Variant scenarios

7.1 The pay-as-you-go nature of the Fund means that contribution rates and the future progress of the Fund may change significantly over time owing to changes in the benefits provided, the profile of the population or the economic environment.

7.2 The demographic, economic and benefit-specific assumptions underlying the projections are inevitably subject to a considerable degree of uncertainty, particularly for the more distant future.

7.3 This section provides projections based on variant up-rating, migration and economic assumptions to demonstrate how different assumptions can affect the projected progress of the Fund.

7.4 At the request of the former Social Security Department, we have produced projections for two variant up-rating scenarios, three variant migration scenarios and one variant real earnings growth scenario to illustrate the effect of different assumptions on the future progress of the Fund. Variant projections are also provided to show the effect of a 0.5% increase in the current contribution rate. The variant assumptions adopted are as advised by the former Social Security Department.

7.5 There are a range of other factors that could significantly affect the future progress of the Fund, such as the proportions receiving permanent nursing or residential care, investment performance and increasing longevity.

Variant up-rating scenarios

7.6 Projections are provided for the following variant up-rating scenarios:

> Increases in line with prices

> Increases in line with the real increase in median earnings.

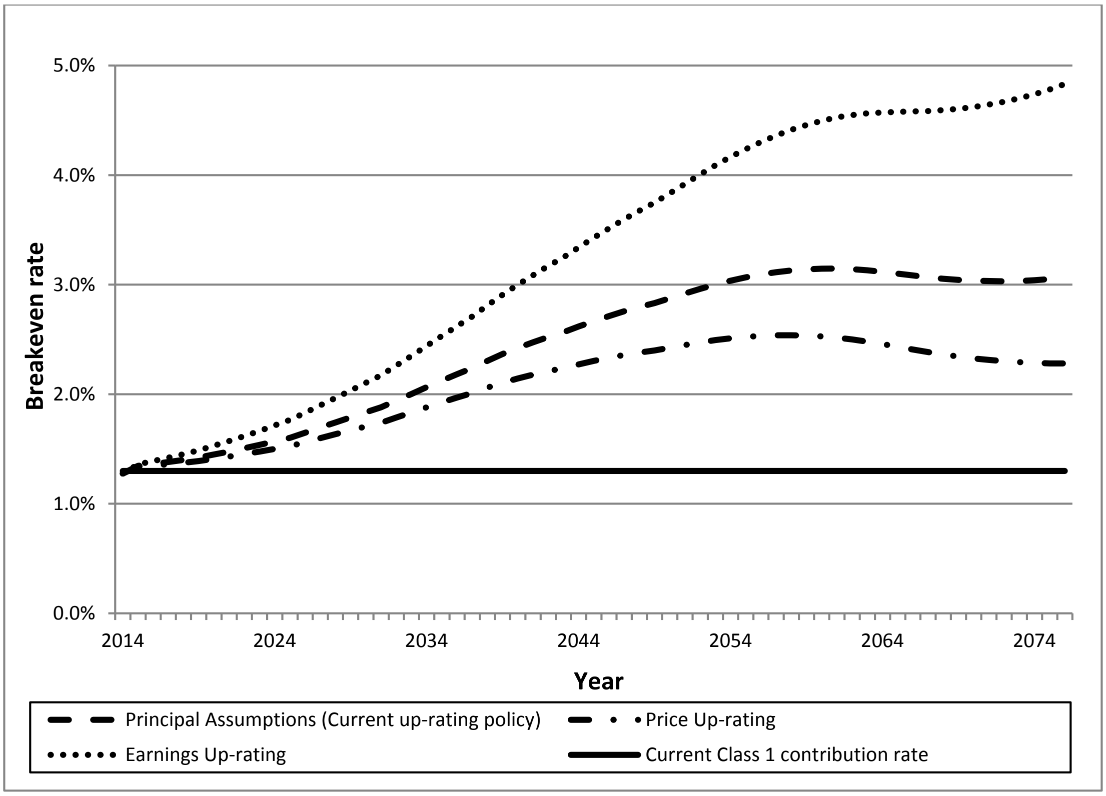
Break-even contribution rate

7.7 Figure 7.1 overleaf shows how the projected Class 1 break-even contribution rate is expected to change over time depending on the assumed up-rating policy. Projections are shown for the principal up-rating assumption, which is to provide increases in line with one third of the real increase in median earnings above RPIX price throughout the projection period, together with the two variant scenarios.

7.8 Consistent with the projections shown in Section 4, contribution rates are expressed as a percentage of relevant band earnings. In all cases, contribution limits are assumed to increase in line with one third of the real increase in median earnings above RPIX price inflation until 2024, reducing to RPIX from 2025 and the real increase in median earnings is assumed to be 1.5% a year above RPIX price inflation.

7.9 The chart also shows the current contribution rate payable. The break-even contribution rate for 2014 is based on actual contribution income and benefit expenditure in that year.

Figure 7.1: Break-even contribution rate based on variant up-rating scenarios



7.10 The chart shows that the break-even is projected to increase steadily until the 2050s for all three scenarios, reflecting benefit expenditure being projected to increase at a faster rate than contribution income. The increases are slower based on price up-rating, reflecting the lower increases in benefit rates under this scenario, and the break-even rate is projected to decline from 2059. Based on earnings up-rating, the break-even contribution rate is projected to increase throughout the projection period, albeit more slowly in the 2060s when smaller increases in the number of beneficiaries are projected.

7.11 In all cases the break-even contribution rate is projected to exceed the current contribution rate throughout the projection period.

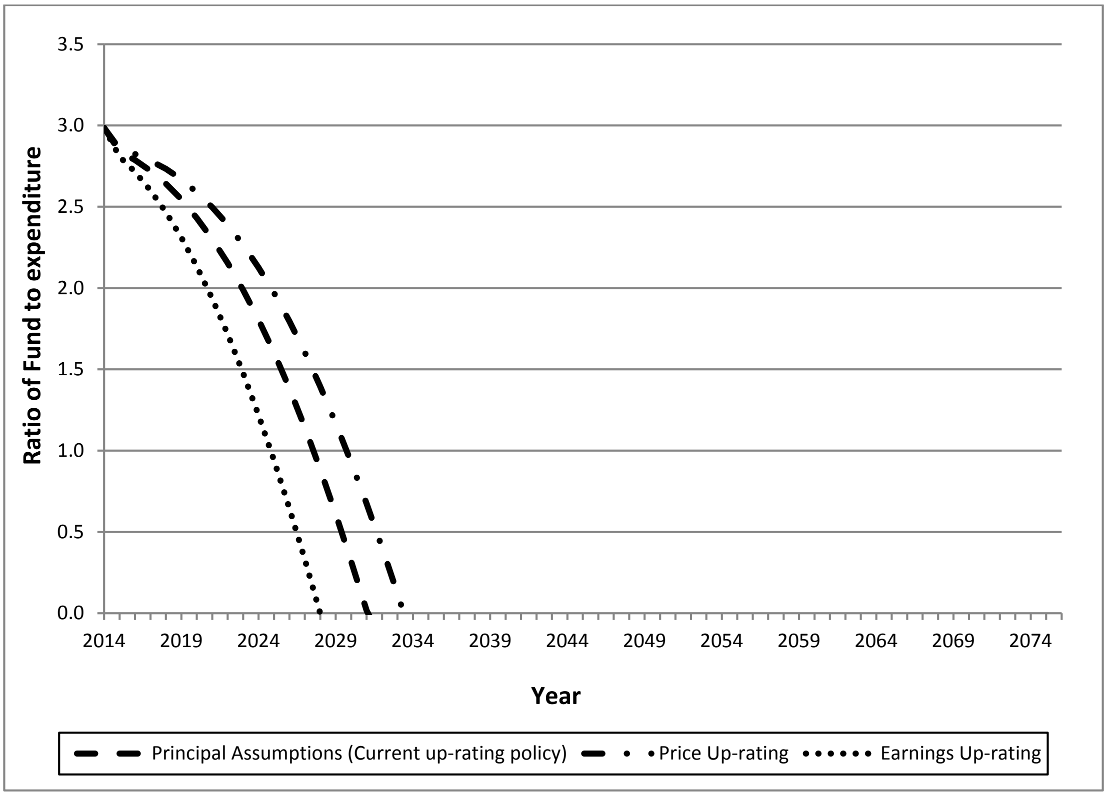
7.12 Appendix D shows the projected Class 1 break-even contribution rate at 10-year intervals for each up-rating scenario.

Projected progress of the Fund

7.13 Figure 7.2 below shows how the average Fund balance, as a proportion of annual expenditure, is expected to change over time, depending on the up-rating policy adopted and assuming that the current contribution rate is unchanged at 1.3% of relevant earnings.

7.14 Projections are shown for the principal up-rating assumption together with the two variant scenarios. Consistent with the projections shown in Section 4, the projections are based on a real earnings growth assumption of 1.5% a year and allow for expected investment returns, including re-investment of investment income, at an assumed real rate of return of 2.5% a year in excess of RPIX price inflation.

Figure 7.2: Projected progress of the Fund based on variant up-rating scenarios



7.15 In all cases, the Fund is projected to decline quite rapidly before being extinguished in the late 2020s or early 2030s. The rate of decline is slower based on up-rating in line with prices.

7.16 Table 7.3 overleaf provides details of when the Fund is projected to be extinguished under each of the three up-rating scenarios.

Table 7.3: Projected date of fund being extinguished based on variant up-rating scenarios

Up-rating assumption	Fund projected to be extinguished
Increases in line with one third of the real increase in median earnings above RPIX price inflation throughout the projection period	2031
Increases in line with RPIX price inflation	2033
Increases in line with the real increase in median earnings	2028

7.17 Appendix E shows the projected progress of the Fund at 10-year intervals for each up-rating scenario.

7.18 The projected decline in the Fund is slower than that projected at the previous review, as at 31 December 2009, when the Fund was projected to be extinguished in 2025 based on earnings up-rating. The slower decline projected at this review reflects the introduction of the EMI benefit as well as the change in the principal migration assumption adopted. The variable migration assumption adopted for the 2009 review resulted in net emigration being projected until the 2020s and net immigration thereafter whereas this review assumes net immigration of 100 in each year.

7.19 These projections suggest that the current Class 1 contribution rate is unlikely to remain adequate over the period to 2075.

7.20 Table 7.4 below details the constant contribution rate estimated to be required from January 2018 such that the projected average balance of the fund is equal to twice projected expenditure at the end of the projection period for each up-rating scenario.

Table 7.4: Estimated constant contribution rate for variant up-rating scenarios

Up-rating assumption	Estimated constant contribution rate
Increases in line with one third of the real increase in median earnings above RPIX price inflation throughout the projection period	2.35%
Increases in line with RPIX price inflation	2.00%
Increases in line with the real increase in median earnings	3.17%

7.21 In all cases, the constant contribution rate provides for the average balance of the fund to remain above twice projected expenditure until 2075. The current Class 1 contribution rate is 1.3% of relevant earnings.

Variant migration scenarios

7.22 Projections are provided for the following variant migration scenarios:

> Zero migration
> Net immigration of 200 a year
> Net emigration of 100 a year.

7.23 The zero migration scenario assumes zero immigration and zero emigration. It does not assume that immigration is matched by equal emigration. This means the population profile is not affected by differences in the distribution of immigrants and emigrants by age and sex.

7.24 The same mortality and fertility assumptions underlie all four scenarios and the same distribution of migrants by age and sex is assumed for all scenarios, although the projected numbers differ. In the net immigration scenarios, this distribution provides for net immigration concentrated between the late teens and mid-30s and small amounts of net emigration between ages 55 and 70. In the net emigration scenario this provides for net emigration concentrated between the late teens and mid-30s and small amounts of net immigration between ages 55 and 70. In all cases, the migration assumptions reflect a 55/45 split between males and females.

7.25 Appendix I provides charts showing the projected future population of Guernsey based on these variant migration scenarios.

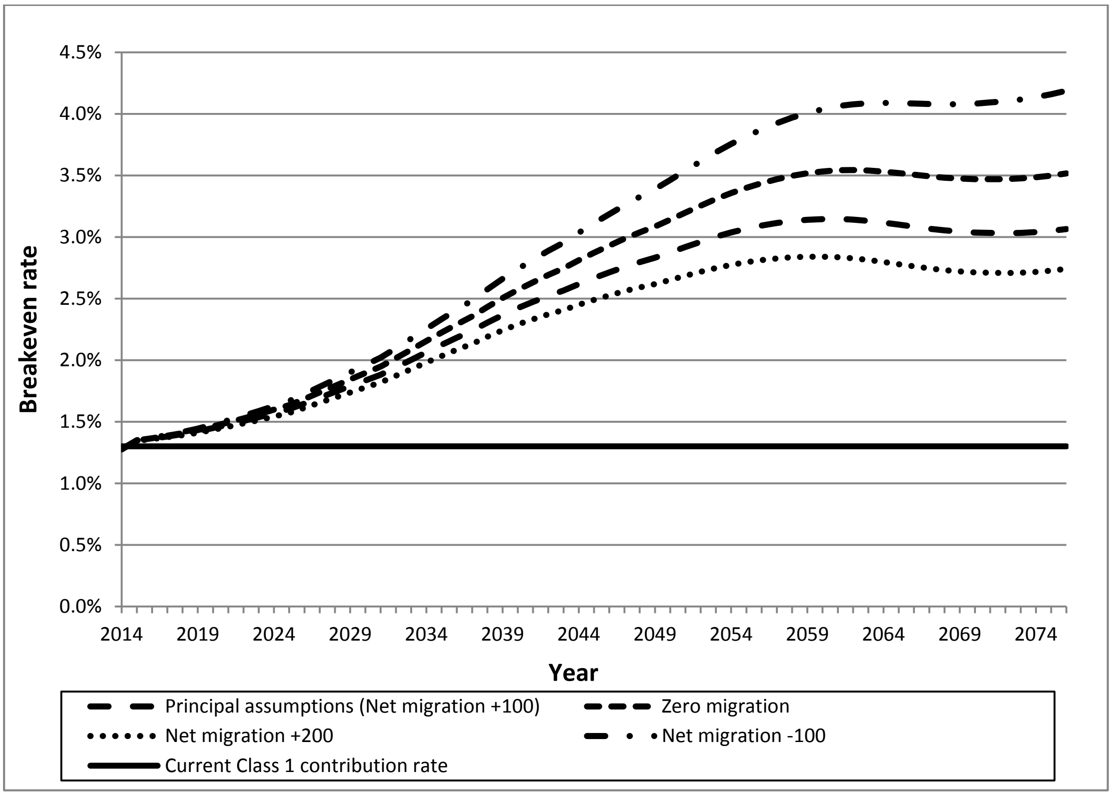
Break-even contribution rate

7.26 Figure 7.5 overleaf shows how the projected Class 1 break-even contribution rate is expected to change over time depending on the assumed level of migration. Projections are shown for the principal migration assumption of net immigration of 100 a year, together with the three variant scenarios.

7.27 Consistent with the projections shown in Section 4, contribution rates are expressed as a percentage of relevant band earnings. In all cases, the real increase in median earnings is assumed to be 1.5% a year above RPIX price inflation and benefits and contributions limits are assumed to increase in line with the principal up-rating assumptions.

7.28 The chart also shows the current Class 1 contribution rate payable. The break-even contribution rate for 2014 is based on actual contribution income and benefit expenditure in that year.

Figure 7.5: Break-even contribution rate based on variant migration scenarios



7.29 The chart shows that the projected path of the break-even contribution rate is similar for all scenarios. In all cases, the break-even rate is projected to increase steadily until the late 2050s reflecting benefit expenditure being projected to increase at a faster rate than contribution income. The break-even rate is projected to increase more rapidly for the scenario assuming net emigration, reflecting the smaller number of contributors to the Fund.

7.30 The different migration scenarios impact projected contribution income much more significantly than projected benefit expenditure over the period considered due to the older ages at which benefits are provided.

7.31 In all cases the break-even contribution rate is projected to exceed the current contribution rate throughout the projection period.

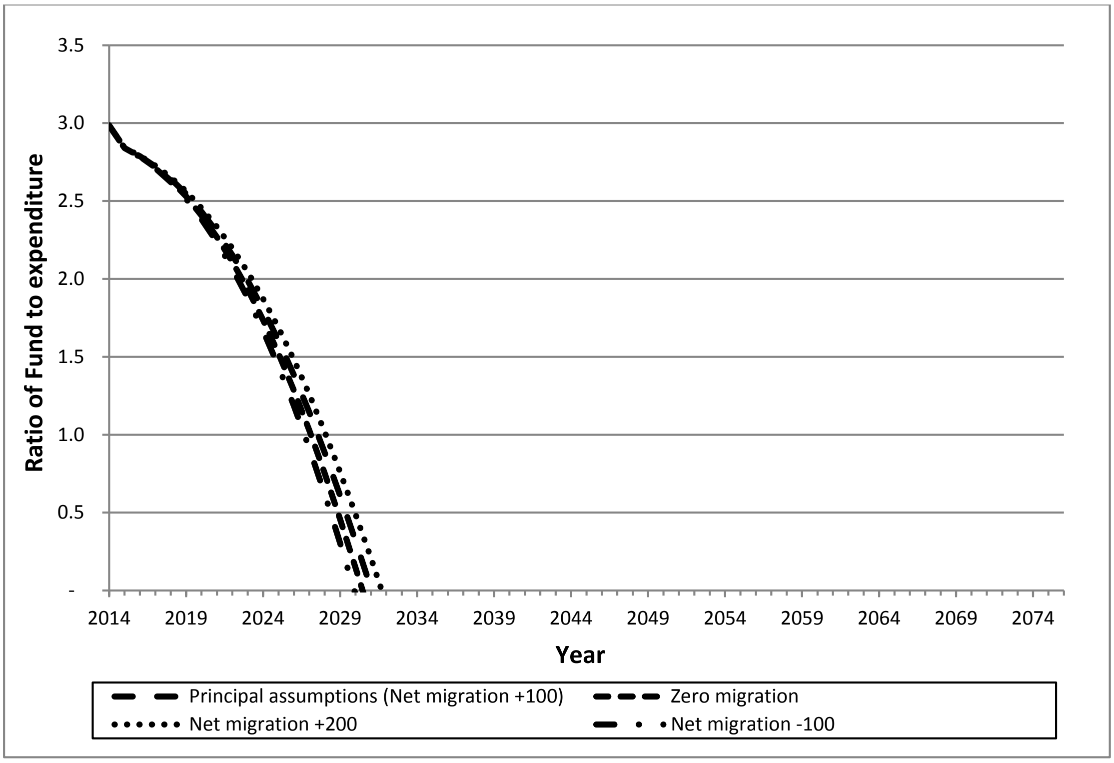
7.32 Appendix D shows the projected joint Class 1 break-even contribution rate at 10-year intervals for each migration scenario.

Projected progress of the Fund

7.33 Figure 7.6 overleaf shows how the average Fund balance, as a proportion of annual expenditure, is expected to change over time depending on the assumed level of migration and assuming that the current contribution rate is unchanged at 1.3% of relevant earnings.

7.34 Projections are shown for the principal migration assumption of net immigration of 100 a year, together with the three variant scenarios. Consistent with the projections shown in Section 4, the projections are based on a real earnings growth assumption of 1.5% a year and allow for expected investment returns, including re-investment of investment income, at an assumed real rate of return of 2.5% a year in excess of RPIX price inflation.

Figure 7.6: Projected progress of the Fund based on variant migration scenarios



7.35 In all cases, the Fund is projected to decline quite rapidly and to be extinguished in the early 2030s.

7.36 Table 7.7 below provides details of when the Fund is projected to be extinguished under each of the migration scenarios.

Table 7.7: Projected date of fund being extinguished based on variant migration scenarios

Migration assumption	Fund projected to be extinguished
Net immigration of 100 a year	2031
Zero migration	2030
Net immigration of 200 a year	2032
Net emigration of 100 a year	2030

7.37 Appendix E shows the projected progress of the Fund at 10-year intervals for each migration scenario.

7.38 Table 7.8 below details the constant contribution rate estimated to be required from January 2018 such that the projected average balance of the fund is equal to twice projected expenditure at the end of the projection period for each migration scenario.

Table 7.8: Estimated constant contribution rate for variant migration scenarios

Up-rating assumption	Estimated constant contribution rate
Net immigration of 100 a year	2.35%
Zero migration	2.51%
Net immigration of 200 a year	2.22%
Net emigration of 100 a year	2.68%

7.39 In all cases, the constant contribution rate provides for the average balance of the fund to remain above twice projected expenditure until 2075. The current Class 1 contribution rate is 1.3% of relevant earnings.

Variant real earnings growth scenario

7.40 Projections are provided for a variant real earnings growth assumption of 0.5% a year.

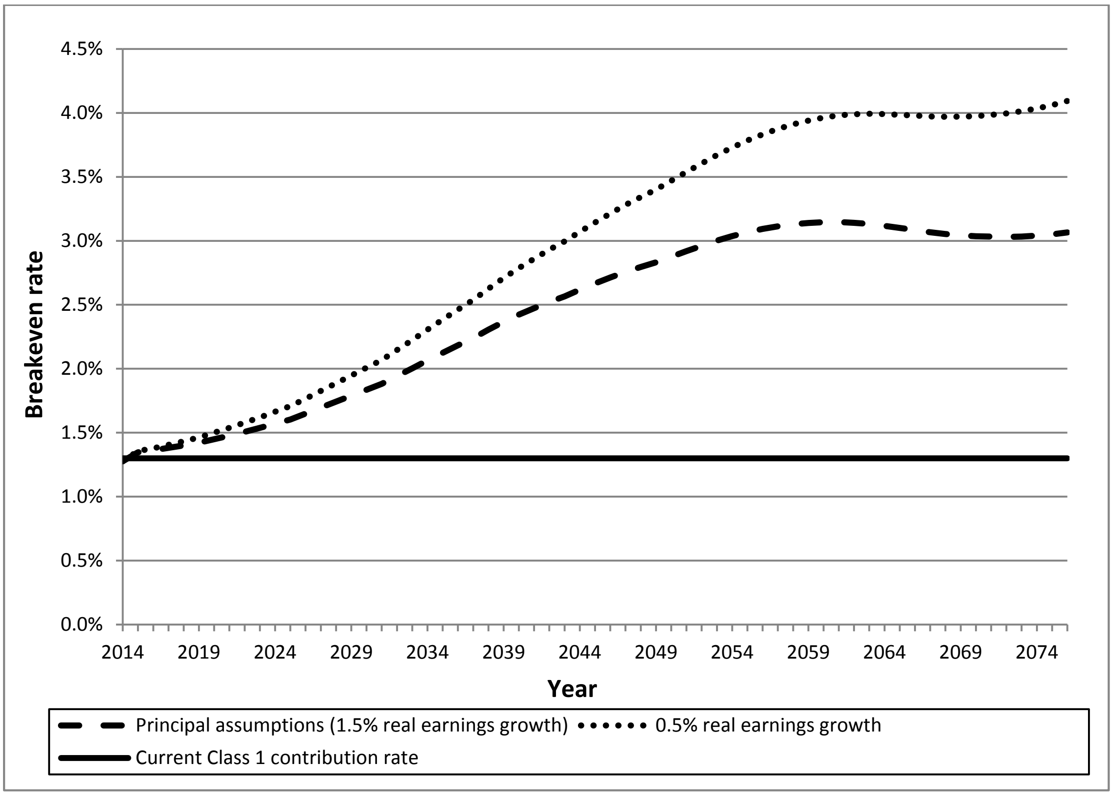
Break-even contribution rate

7.41 Figure 7.9 overleaf shows how the projected Class 1 break-even contribution rate is expected to change over time depending on the assumption adopted for real earnings growth. Projections are shown for the principal real earnings growth assumption of 1.5% a year and the variant assumption of 0.5% a year.

7.42 Consistent with the projections shown in Section 4, contribution rates are expressed as a percentage of relevant band earnings. In both cases, the projections are based on the principal migration assumption of 100 net immigration a year and benefits and contributions limits are assumed to increase in line with the principal up-rating assumptions.

7.43 The chart also shows the current contribution rate payable. The break-even contribution rate for 2014 is based on actual contributions and benefit expenditure in that year.

Figure 7.9: Break-even contribution rate based on variant real earnings growth



7.44 The chart shows that the variant real earnings growth scenario provides for higher projected break-even contribution rates than is the case based on the principal real earnings growth assumption with the differences increasing over time. This largely reflects the lower contribution income projected based on a real earnings growth assumption of 0.5% a year. This scenario also provides for lower projected benefit expenditure but the differences are smaller as the principal up-rating scenario is linked to one third of the real increase in median earnings above RPIX price inflation.

7.45 In line with the projections based on the principal assumptions, the projected break-even contribution rate for the real earnings growth variant is projected to increase steadily until the 2050s. The projected break-even contribution rate at the end of the projection period in 2075 is 4.1%. This compares with a projected break-even contribution rate of 3.1% of relevant earnings assuming real earnings growth of 1.5% a year.

7.46 Appendix D shows the projected joint Class 1 break-even contribution rate at 10-year intervals for each up-rating scenario.

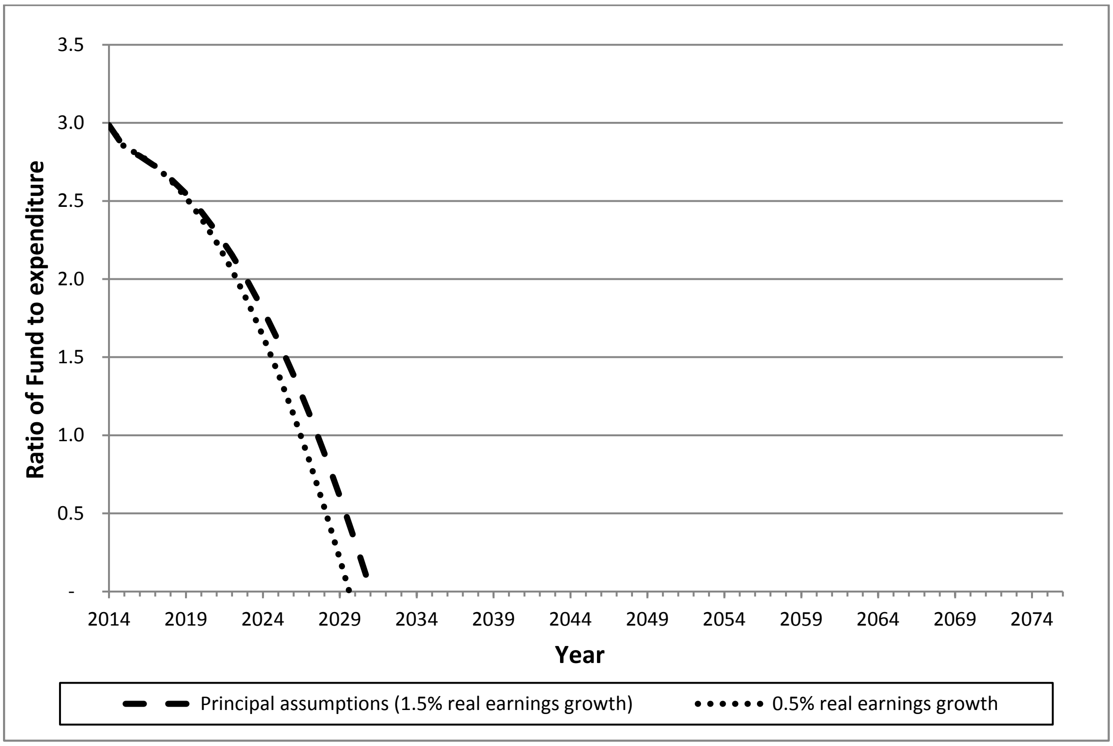
Projected progress of the Fund

7.47 Figure 7.10 below shows how the average Fund balance, as a proportion of annual expenditure, is expected to change over time for the two real earnings growth scenarios, assuming that the current contribution rate is unchanged at 1.3% of relevant earnings.

7.48 The projections are shown assuming benefits and earnings limits are up-rated in line with the principal up-rating assumptions.

7.49 Consistent with the projections shown in Section 4, the projections allow for expected investment returns, including re-investment of investment income, at an assumed real rate of return of 2.5% a year in excess of RPIX price inflation.

Figure 7.10: Projected progress of the Fund based on variant real earnings growth



7.50 The chart shows that the Fund is projected to decline more quickly based on a variant real earnings growth assumption of 0.5%, falling below twice projected expenditure by 2023, and is projected to be exhausted in 2030.

7.51 Again, the more rapid decline in the balance of the Fund based on real earnings growth of 0.5% a year primarily reflects the lower projected contribution income.

7.52 The constant contribution rate estimated to be required from January 2018 such that the projected average balance of the fund is equal to twice projected expenditure at the end of the projection period based on a real earnings growth assumption of 0.5% is 2.65%. The current Class 1 contribution rate is 1.3% of relevant earnings.

Contribution rate increase scenario

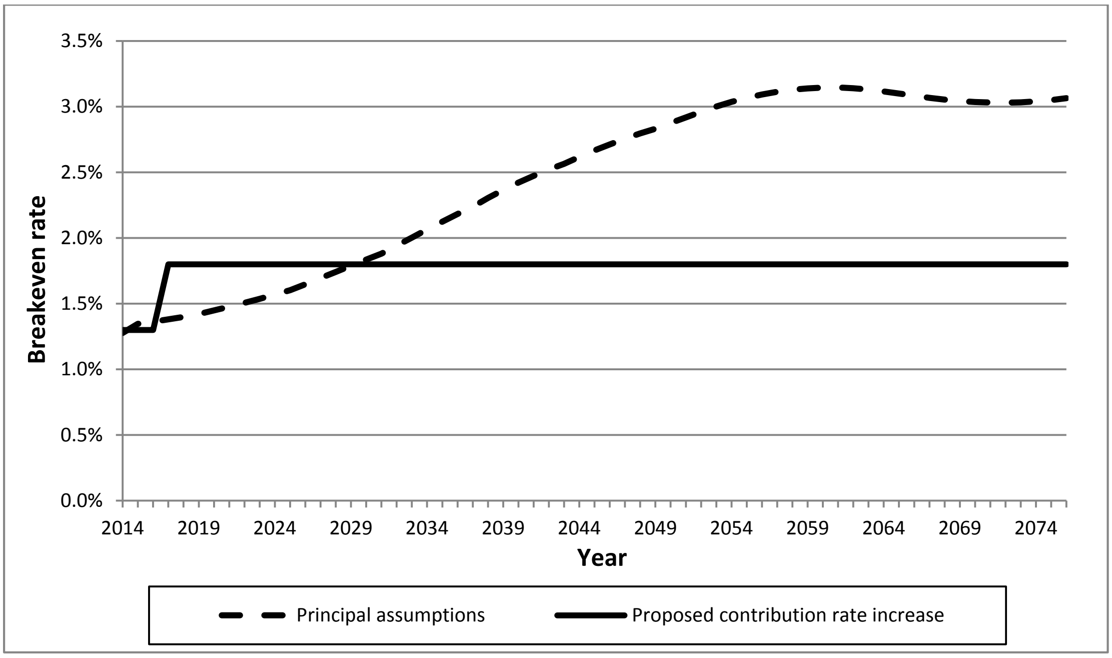
7.53 Variant projections are also provided to show the effect of a 0.5% increase in the contribution rate.

Break-even contribution rate

7.54 A change in the contribution rate does not have any effect on the projected break-even contribution rate. The projected break-even contribution rate is derived with reference to the amount contribution income expected to be received based on the proportions of the population assumed to be paying contributions in future years and the distribution of future earnings. However an increase in the current contribution rate would be expected to provide a period during which the contribution rate in payment exceeds the break-even contribution rate.

7.55 Figure 7.11 below shows how the projected Class 1 break-even contribution rate is expected to change over time together with the current contribution rate payable allowing for a 0.5% increase in the Class 1 contribution rate from 2017. This shows that the break-even contribution rate is projected to remain below the current contribution rate until 2028.

Figure 7.11: Break-even contribution rate based on variant contribution rate



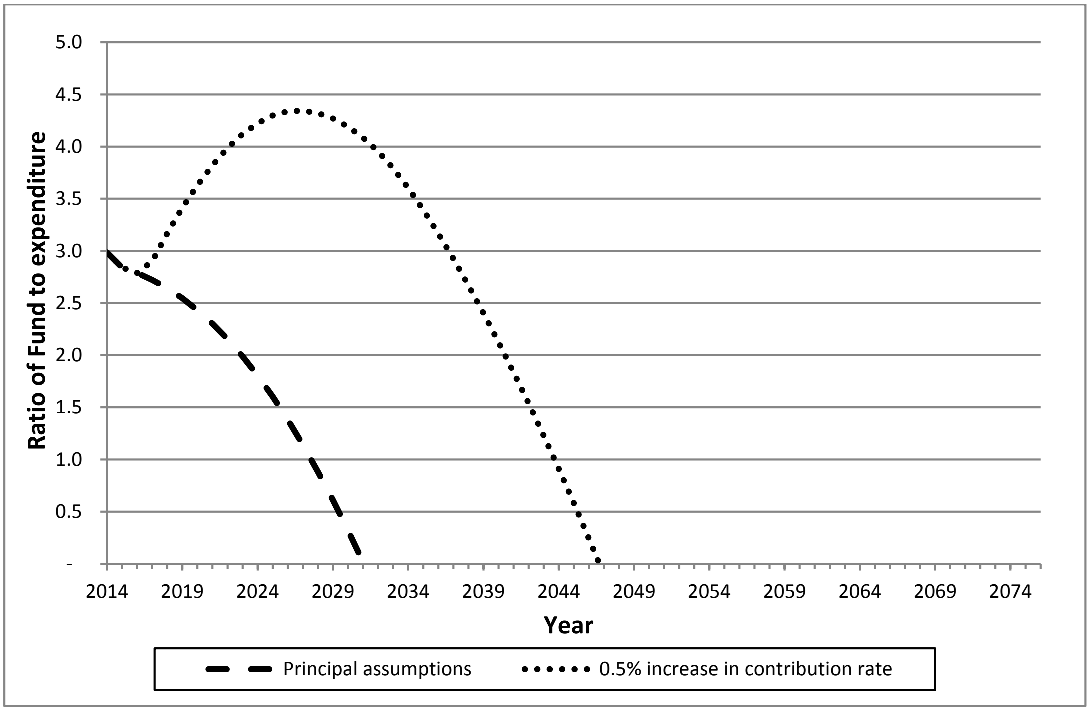
Projected progress of the Fund

7.56 Figure 7.12 overleaf shows how the average Fund balance, as a proportion of annual expenditure, is expected to change over time, depending on the assumed contribution rate. Projections are shown assuming the current Class 1 contribution rate is unchanged at 1.3% and allowing for a 0.5% increase in the contribution rate for all contribution classes from 2017.

7.57 The projections are shown assuming benefits and earnings limits are up-rated in line with the principal assumptions.

7.58 Consistent with the projections shown in Section 4, the projections allow for expected investment returns, including re-investment of investment income, at an assumed real rate of return of 2.5% a year in excess of RPIX price inflation.

Figure 7.12: Projected progress of the Fund based on variant contribution rate



7.59 The chart shows that a 0.5% increase in the contribution rate provides for the Fund to grow initially, reflecting the emergence of operating surpluses, with investment returns being earned on the positive fund value. However the Fund is projected to decline from 2028 reflecting the higher break-even contribution rate from this date. The Fund is projected to fall below twice projected expenditure in 2041, and is projected to be exhausted in 2047.

7.60 In line with the projections for the break-even contribution rate, a change in the contribution rate does not have any effect on the constant contribution rate estimated to be required from January 2018 such that the projected average balance of the fund is equal to twice projected expenditure at the end of the projection period. This is unchanged at 2.35% and this constant contribution rate provides for the average balance of the fund to remain above twice projected expenditure until 2075. The current Class 1 contribution rate is 1.3% of relevant earnings.

8 Changes in projections from 2009 Review

8.1 Table 8.1 below provides details changes since the 2009 Review and how these have affected the projected break-even contribution rate.

8.2 The projected break-even rates for the 2009 Review are based on a real earnings growth assumption of 2% a year, up-rating at half-way between prices and earnings and variable migration such that the total population remained constant at the April 2007 level.

Table 8.1: Comparison of 2009 Review projected break-even contribution rate and 2014 Review projected break-even contribution rate

	2015	2025	2035	2045	2055	2065	2070
2009 Review	**1.4%**	**1.8%**	**2.6%**	**3.2%**	**3.4%**	**3.3%**	**3.1%**
Change in economic assumptions (See 6.14)	0.0%	0.0%	0.1%	0.1%	0.2%	0.3%	0.3%
Change in contribution assumptions (See G.8)	0.2%	0.3%	0.5%	0.6%	0.6%	0.6%	0.6%
Change in benefit assumptions (See G.13)	-0.1%	-0.1%	-0.2%	-0.4%	-0.5%	-0.6%	-0.6%
Change in up-rating assumption (See 5.6)	0.0%	0.0%	-0.1%	-0.2%	-0.2%	-0.2%	-0.2%
Change in pension age (See 5.7)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Change in population projections (See I.1)	-0.1%	-0.4%	-0.6%	-0.7%	-0.5%	-0.2%	0.0%
2014 Review[1]	**1.3%**	**1.6%**	**2.1%**	**2.7%**	**3.1%**	**3.1%**	**3.0%**

[1] Figures may not sum to totals due to rounding.

8.3 The projected break-even contribution rate is lower than that projected based on the principal assumptions adopted at the last review. This reflects the introduction of the EMI benefit as well as the changes in the principal up-rating assumption and the principal migration assumption. The effect of these changes is offset to an extent by the decline in the assumed proportions of the population contributing to the Fund, relative to those assumed at the previous review.

8.4 The extension of the planned increases in pension age is also projected to reduce the break-even contribution rate due to increased contribution income but the effect of this is small, rounding to 0.0%.

Appendix A: Summary of contributions and benefits as at 31 December 2014

A.1 The Guernsey Long-term Care Insurance Fund provides weekly benefits towards the cost of private nursing or residential care on either a permanent or respite basis.

A.2 A brief overview of the contributions payable, the benefits provided and the qualifying conditions is provided below. Further information on contributions and benefits is available from the States of Guernsey Social Security (www.gov.gg).

Contributions

A.3 Contributions are paid by employees, the self-employed and the non-employed. There are no employer contributions payable. Contributions are paid by employees and self-employed individuals earning above the lower earnings limit, with contributions payable on total earnings up to an upper earnings limit.

A.4 Contributions are paid by non-employed individuals with income above the lower income limit, with contributions payable on total income up to the upper earnings limit but subject to the non-employed income allowance. The income allowance was introduced in 2010. Contributions continue to be payable by non-employed individuals after pension age, based on personal income.

A.5 The upper earnings limit increased by more than general up-rating, over the 5-year period from 2010 to 2014. Going forward it is expected to increasing in line with general up-rating.

A.6 The tables below provide details of the limits and contribution rates applicable between 2010 and 2015.

Table A.1: Contribution rates payable

	2010	2011	2012	2013	2014	2015
Employee	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%
Self Employed	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%
Under 65 Non-employed	1.40%	1.40%	1.40%	1.40%	1.40%	1.40%
65+ Non-employed	1.60%	1.60%	1.60%	1.60%	1.60%	1.60%

Table A.2: Annual Contributions Earnings Limits (£)

	2010	2011	2012	2013	2014	2015
Lower Earnings Limit (employee, employer, self-employed)	5,928	6,084	6,292	6,500	6,656	6,812
Lower Income Limit (non-employed)	14,820	15,210	15,730	16,250	16,640	17,030
Upper Earnings / Income Limit – Employee, Self-employed, Non-employed	79,872	91,884	105,144	119,340	132,444	135,252
Non-employed Income Allowance	6,290	6,451	6,675	6,895	7,059	7,223

A.7 There is no central funding is provided to the Fund by way of a States grant.

A.8 These contribution rates are in respect of the Long-term Care Insurance Fund only. They do not include the contributions payable in respect of the Guernsey Insurance Fund or the Health Service Fund. This review assumes that contribution income to the Long-term Care Insurance Fund is in line with published contribution rates and no allowance is made for potential re-allocations between the three Funds.

Benefits

A.9 Weekly benefits are payable on behalf of those assessed as being in need of care and who are currently being provided care in a private residential or nursing home. Benefits can be provided on either a permanent or respite basis. Respite benefits can normally be provided for up to four weeks a year.

A.10 Payments are made directly to the care home and all benefits are paid at the standard rate; no proportionate amounts are payable.

A.11 To receive a benefit, the individual must have lived in Guernsey for a continuous period of 5 years and have lived in Guernsey for at least 12 months immediately prior to claiming Long-term Care Benefit.

A.12 Individuals receiving permanent care are required to a pay an additional ‘co-payment’ towards the cost of care from their own funds. The co-payment is financed from the Long-term Care Insurance Fund in respect of respite care. Where an individual cannot afford the co-payment, Supplementary Benefit may be provided. Supplementary Benefit is funded centrally and not from the Long-term Care Insurance Fund and is not considered as part of this review.

A.13 Benefits are not payable on behalf of those being cared for in a home run by the States.

Appendix B: Fund accounts from 2010 to 2014

B.1 The table below provides details of income, expenditure and the balance of the Fund for the period 2010 to 2014.

Table B.1: Income, expenditure and fund balance from 2010 to 2014 (£000s)

	2010	2011	2012	2013	2014
Balance at 1 January	38,798	44,425	43,666	48,314	53,245
Income					
Contributions	16,369	17,033	17,588	18,066	18,558
States Grant	0	0	0	0	0
Total Income	16,369	17,033	17,588	18,066	18,558
Outgo					
Benefits	15,131	16,273	16,626	17,214	17,927
Administration Costs	168	183	165	167	299
Total Outgo	15,299	16,456	16,791	17,381	18,226
Operating Surplus / Deficit	1,070	577	797	685	332
Return on Investments	4,557	-1,335	3,851	4,246	1,987
Balance at 31 December	**44,425**	**43,666**	**48,314**	**53,245**	**55,564**

B.2 The table below provides details of expenditure on each benefit for the period 2010 to 2014.

Table B.2: Benefit expenditure from 2010 to 2014 (£000s)

	2010	2011	2012	2013	2014
Residential home care benefit					
Permanent	6,829	5,309	5,287	5,568	6,056
Permanent with EMI supplement	0	2,499	3,031	2,852	2,749
Respite care	113	158	139	207	139
Respite care with EMI supplement	0	15	32	35	16
Nursing home care benefit					
Permanent	8,099	8,196	8,044	8,381	8,834
Respite care	91	95	93	171	133
Total	15,131	16,273	16,626	17,214	17,927

Appendix C: Summary of data used

C.1 The projections provided in this report rely on the accuracy of data and information provided by the former Guernsey Social Security Department. Checks made on this information are limited to checks on the overall reasonableness and consistency of the data. The data generally appear to be of good quality and we believe the data provided are sufficient for the purposes of the review.

C.2 Nevertheless, it should be noted that if any of the data used for the calculations are materially incorrect or incomplete, this could have a significant effect on the results. GAD does not accept responsibility for advice based on wrong or incomplete data or information provided.

C.3 Data are used in three main areas:

> as the starting point of the projections

> to help determine appropriate assumptions about the future

> in validating the projection methodology

C.4 Details of the data used are set out below.

Data used as the starting point of the projections

C.5 The population projections are based on population data as at 30 June 2014.

C.6 The projections of the balance in the Fund are based on the value of the fund as at 31 December 2014 as shown in the 2014 accounts. The results for the projection of the fund balance should be seen in the context of the general volatility of market values of some classes of investment.

Data used to help determine appropriate assumptions about the future

C.7 Guernsey population data and the ONS 2014-based principal population projections for England and Wales have been used to determine appropriate mortality and fertility assumptions, including allowance for future mortality improvement.

C.8 Projections of contributions and benefits are based on data including the number of contributors and their earnings and the number of beneficiaries and the amount of benefit paid. Information was also provided on current contribution rates, earnings limits and benefit rates.

C.9 Economic assumptions have been based on information provided by the former Guernsey Social Security Department, including the States Strategic Monitoring Report 2015, as well as the asset data provided in the accounts.

C.10 This review also takes account of expected future changes, such the planned increase in pension age.

Data used in validating the projection methodology

C.11 We have compared modelled contribution income and benefit expenditure in recent years with actual income and expenditure as recorded in the accounts to determine any adjustment required to allow for differences between using models and assumptions, and actual experience. Based on this comparison we have not made any material adjustments to the projections as we have not observed robust evidence of material differences or any particular trends.

Appendix D: Projected break-even contribution rates

D.1 The tables below show the projected Class 1 break-even contribution rate, that is, the Class 1 contribution rate from employees required to balance expenditure on benefits and administration costs. Results are provided at 10-year intervals based on the principal assumptions and for each of the variants.

Table D.1: Break-even contribution rate based on principal assumptions

	2014	2015	2025	2035	2045	2055	2065	2075
Principal assumptions	1.28%	1.35%	1.60%	2.12%	2.67%	3.07%	3.10%	3.05%

Table D.2: Break-even contribution rate based on variant up-rating scenarios

	2014	2015	2025	2035	2045	2055	2065	2075
Principal assumptions (Current up-rating policy)	1.28%	1.35%	1.60%	2.12%	2.67%	3.07%	3.10%	3.05%
Prices up-rating	1.28%	1.34%	1.53%	1.93%	2.30%	2.52%	2.43%	2.28%
Earnings up-rating	1.28%	1.36%	1.77%	2.53%	3.43%	4.24%	4.58%	4.78%

Table D.3: Break-even contribution rate based on variant migration scenarios

	2014	2015	2025	2035	2045	2055	2065	2075
Principal assumptions (100 net immigration)	1.28%	1.35%	1.60%	2.12%	2.67%	3.07%	3.10%	3.05%
Zero migration	1.28%	1.35%	1.64%	2.22%	2.87%	3.40%	3.52%	3.50%
200 net immigration	1.28%	1.35%	1.57%	2.03%	2.49%	2.80%	2.78%	2.73%
100 net emigration	1.28%	1.35%	1.67%	2.33%	3.11%	3.82%	4.09%	4.16%

Table D.4: Break-even contribution rate based on variant real earnings growth scenarios

	2014	2015	2025	2035	2045	2055	2065	2075
Principal assumptions (1.5% real earnings growth)	1.28%	1.35%	1.60%	2.12%	2.67%	3.07%	3.10%	3.05%
0.5% real earnings growth	1.28%	1.36%	1.71%	2.38%	3.14%	3.78%	3.99%	4.06%

Appendix E: Projected progress of the Fund

E.1 The tables below show the projected progress of the Fund, in terms of the projected average Fund balance in a year expressed as a proportion of the annual expenditure on benefits and administration costs, assuming that the current contribution rate is maintained. Results are provided at 10-year intervals based on the principal assumptions and for each of the variants.

Table E.1: Projected progress of the Fund based on principal assumptions

	2014	2015	2025	2035	2045	2055	2065	2075
Principal assumptions	3.0	2.8	1.6	0.0	0.0	0.0	0.0	0.0

Table E.2: Projected progress of the Fund based on variant up-rating scenarios

	2014	2015	2025	2035	2045	2055	2065	2075
Principal assumptions (Current up-rating policy)	3.0	2.8	1.6	0.0	0.0	0.0	0.0	0.0
Prices up-rating policy	3.0	2.9	2.0	0.0	0.0	0.0	0.0	0.0
Earnings up-rating	3.0	2.8	0.9	0.0	0.0	0.0	0.0	0.0

Table E.3: Projected progress of the Fund based on variant migration scenarios

	2014	2015	2025	2035	2045	2055	2065	2075
Principal assumptions (100 net immigration)	3.0	2.8	1.6	0.0	0.0	0.0	0.0	0.0
Zero migration	3.0	2.8	1.5	0.0	0.0	0.0	0.0	0.0
200 net immigration	3.0	2.8	1.7	0.0	0.0	0.0	0.0	0.0
100 net emigration	3.0	2.8	1.4	0.0	0.0	0.0	0.0	0.0

Table E.4: Projected progress of the fund based on variant real earnings growth scenarios

	2014	2015	2025	2035	2045	2055	2065	2075
Principal assumptions (1.5% real earnings growth)	3.0	2.8	1.6	0.0	0.0	0.0	0.0	0.0
0.5% real earnings growth	3.0	2.8	1.4	0.0	0.0	0.0	0.0	0.0

Table E.5: Projected progress of the fund based on contribution rate increase in 2017

	2014	2015	2025	2035	2045	2055	2065	2075
Principal assumptions	3.0	2.8	1.6	0.0	0.0	0.0	0.0	0.0
Contribution increase in 2017	3.0	2.8	4.3	3.4	0.6	0.0	0.0	0.0

Appendix F: Projections of income and expenditure

F.1 Table F.1 below provides details of projected income, expenditure and the balance of the Fund at 10-year intervals based on the principal assumptions.

Table F.1: Projected Income, Expenditure and Fund Balance based on the principal assumptions (£000s)

	2014	2015	2025	2035	2045	2055	2065	2075
Balance at 1 January	53,245	55,564	58,813	0	0	0	0	0
Income								
Contributions	18,558	19,145	28,840	43,625	65,902	98,071	143,923	211,386
States Grant	0	0	0	0	0	0	0	0
Total Income	18,558	19,145	28,840	43,625	65,902	98,071	143,923	211,386
Outgo								
Benefits	17,927	19,528	35,084	70,572	134,086	229,618	340,497	491,715
Administration Costs	299	308	467	728	1,135	1,770	2,761	4,306
Total Outgo	18,226	19,836	35,550	71,300	135,221	231,388	343,258	496,021
Operating Surplus / Deficit	332	332	-690	-6,711	-27,675	-69,319	-133,317	-199,335
Return on Investments	1,987	2,230	3,094	0	0	0	0	0
Balance at 31 December	**55,564**	**57,103**	**55,197**	**0**	**0**	**0**	**0**	**0**

Appendix G: Detailed assumptions used in projections

G.1 This appendix summarises the methodology and assumptions used to project contribution income and benefit expenditure. The projections of both contributions and benefits are largely driven by future changes in the population. Details of the population projections are provided in Section 6 of this report and summarised below.

Methodology

G.2 This review has been carried out on a projected cashflow approach, reflecting the partially funded nature of the Fund. As such, the financial condition of the Fund has been assessed in terms of the average Fund balance relative to annual expenditure, reflecting that, although a reserve is held, assets are not expected to be sufficient to cover the accrued liabilities.

G.3 The projections have been prepared on an open basis. That is, this review allows for future contributors to the Fund and not only those currently contributing to, or receiving benefits from, the Fund

G.4 As the Fund is financed broadly on the pay-as-you-go principle, we believe that this approach is appropriate for the purpose of this review and consistent with actuarial principles.

Population projections

G.5 The projections of Guernsey's population are based on population data provided as at 30 June 2014 and allow for the interaction of demographic assumptions including mortality, fertility and migration.

G.6 Mortality and fertility assumptions are based on the 2014-based principal population projections prepared by the Office for National Statistics (ONS) for England and Wales, adjusted by age and sex-related factors based on Guernsey experience from 2008 to 2014. The principal migration assumption assumes net immigration of 100 a year.

Contributions

G.7 The key assumptions underlying the projections of contribution income are:

- proportions of the population assumed to be paying contributions in future years
- future contribution rates and earnings limits
- the distribution of future earnings

G.8 The proportions of the working-age population paying contributions are based on data provided on the number of contributors in the years 2010 to 2014 and population data. Contributor data were provided by age and sex and for each of the contribution classes, ie employed, self-employed and non-employed. It is assumed that the proportions adopted will persist at a similar level throughout the projection period, adjusted for the planned increase in pension age from 65 to 70 between 2020 and 2049.

G.9 Contribution rates are assumed to remain constant at the 2015 rates. As advised by the former Guernsey Social Security Department, contribution earnings limits are assumed to increase in line with the approach adopted for the Guernsey Insurance Fund. That is, that limits are projected to increase in line with one third of the real increase in median earnings above RPIX price inflation until 2024 and in line with RPIX from 2025.

G.10 Data on the distribution of earnings in Guernsey is provided to GAD on a quarterly basis. These provide information on earnings for Class 1 contributors (employed individuals) up to the employer upper earnings limit. Earnings information for other contributor classes (self-employed and non-employed) is provided up to the employee upper earnings limit. The upper earnings limit for employees increased between 2010 and 2014 to align with the corresponding limit for employers.

G.11 The earnings distributions are considered separately by contribution class, sex, and age band and are assumed to remain constant at the 2014 distribution in future allowing for earnings inflation.

G.12 Contribution income is projected by combining the future numbers of contributors, based on the relevant population projections, with the assumed earnings distribution allowing for the assumed up-rating of contribution limits and the relevant contribution rate.

Benefits

Permanent care

G.13 The key assumptions underlying the projections of old age benefit expenditure are:

> the proportions of the population assumed to receive permanent care in future years

> the rate of benefit payable.

G.14 We have adopted age- and sex-specific assumptions for the proportions of the population in receipt of permanent care based on the data provided for the years 2010 to 2014. The proportions of the population receiving the different benefits provided has changed in recent years following the introduction of the Elderly Mental Infirmity benefit. This experience could change further over time, perhaps suggesting the use of alternative assumptions for future reviews. Experience may also change in light of developments arising from the Supported Living and Ageing Well Strategy.

G.15 The average number of permanent nursing benefit awards assumed to be in payment is assumed to range from 1% the population for males aged 76, increasing to 12.5% for males from age 100. The corresponding assumptions for females is 1% for females aged 75, increasing to 22.5% for females from age 100.

G.16 The average number of permanent residential benefit awards assumed to be in payment is assumed to range from 1% the population for males aged 76, increasing to 36% for males from age 100. The corresponding assumptions for females is 1% for females aged 72, increasing to 30% for females from age 96.

G.17 The proportion of permanent residential care beneficiaries receiving the EMI supplement assumed to be 18% for males and 30% for females.

G.18 These age and sex-specific assumptions are assumed to persist throughout the projection period and will be applied to the projected population to produce projected numbers of beneficiaries. It will be important to review this assumption at future reviews as age-specific assumptions may be observed to vary over time.

G.19 All benefits are paid at the standard rate; no proportionate amounts are payable.

G.20 Expenditure on permanent benefits is projected by combining the future numbers of beneficiaries, determined as proportions of the projected population, with the benefit rate payable allowing for the assumed rate of benefit increases.

Respite care

G.21 The key assumptions underlying the projections of old age benefit expenditure are:

> the proportions of the population assumed to receive permanent care in future years

> the rate of benefit payable.

G.22 The number of respite nursing benefit awards is assumed to range from 1% of the male population aged 80, increasing to 1.4% from age 90. The corresponding assumptions for females is 1% for females aged 89, increasing to 1.5% from age 100.

G.23 The number of respite residential benefit awards is assumed to range from 1% of the male population aged 78, increasing to 6.2% from age 97. The corresponding assumptions for females is 1% for females aged 76, increasing to 5.0% from age 90.

G.24 Respite benefits can normally be provided for up to four weeks a year. Based on recent experience, the average duration for respite care is assumed to be 2½ weeks, for both nursing and residential care.

G.25 The proportion of respite residential care beneficiaries receiving the EMI supplement assumed to be 14% for males and 8% for females.

G.26 These age and sex-specific assumptions are assumed to persist throughout the projection period and will be applied to the projected population to produce projected numbers of beneficiaries.

G.27 All benefits are paid at the standard rate; no proportionate amounts are payable.

G.28 Expenditure on respite benefits is projected by combining the future numbers of beneficiaries, determined as proportions of the projected population, with the benefit rate payable and the expected duration of respite benefits, allowing for the assumed rate of benefit increases.

<u>Administration costs</u>

G.29 It is assumed that all administration costs will increase in line with earnings from the 2014 level.

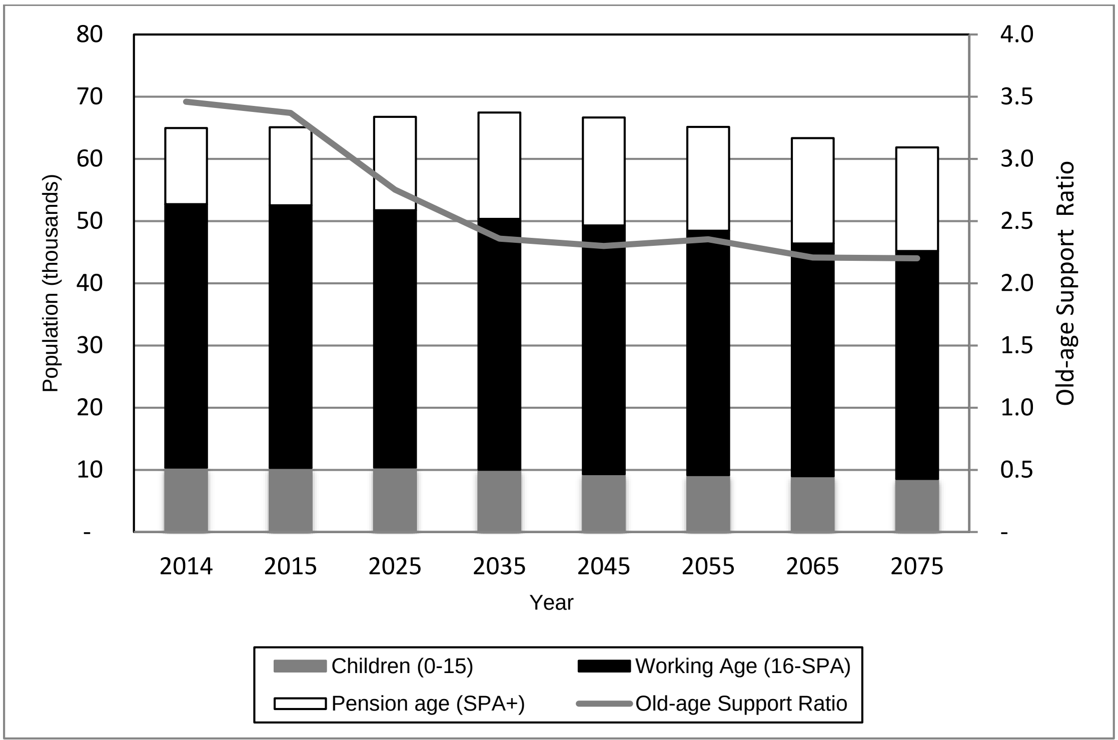
Appendix H: Projected future population of Guernsey

H.1 The chart below shows the population of Guernsey in 2014 and the projected future population at 10-year intervals based on the principal assumptions, which assume constant net immigration of 100 each year.

H.2 The chart sub-divides the population into children (0-15 years), those of working age and pensioners (above pension age). The projections reflect the planned increase in the pension age from 65 to 70 between 2020 and 2049.

H.3 The starting point is the population as at 30 June 2014 which provides for a ratio of the working-age population to the resident pensioner population of 3.5.

Figure H.1: Projection of Guernsey population based on the principal assumptions



Appendix I: Variant population projections

I.1 The charts below show the population of Guernsey in 2014 and the projected future population at 10-year intervals for the three variant migration scenarios:

> Zero migration
> Net immigration of 200 a year
> Net emigration of 100 a year

I.2 The charts sub-divide the population into children (0-15 years), those of working age and pensioners (above pension age). The projections reflect the planned increase in the pension age from 65 to 70 between 2020 and 2049.

I.3 The starting point for all scenarios is the population as at 30 June 2014 which provides for a ratio of the working-age population to the resident pensioner population of 3.5.

Figure I.1: Projection of Guernsey population assuming zero migration

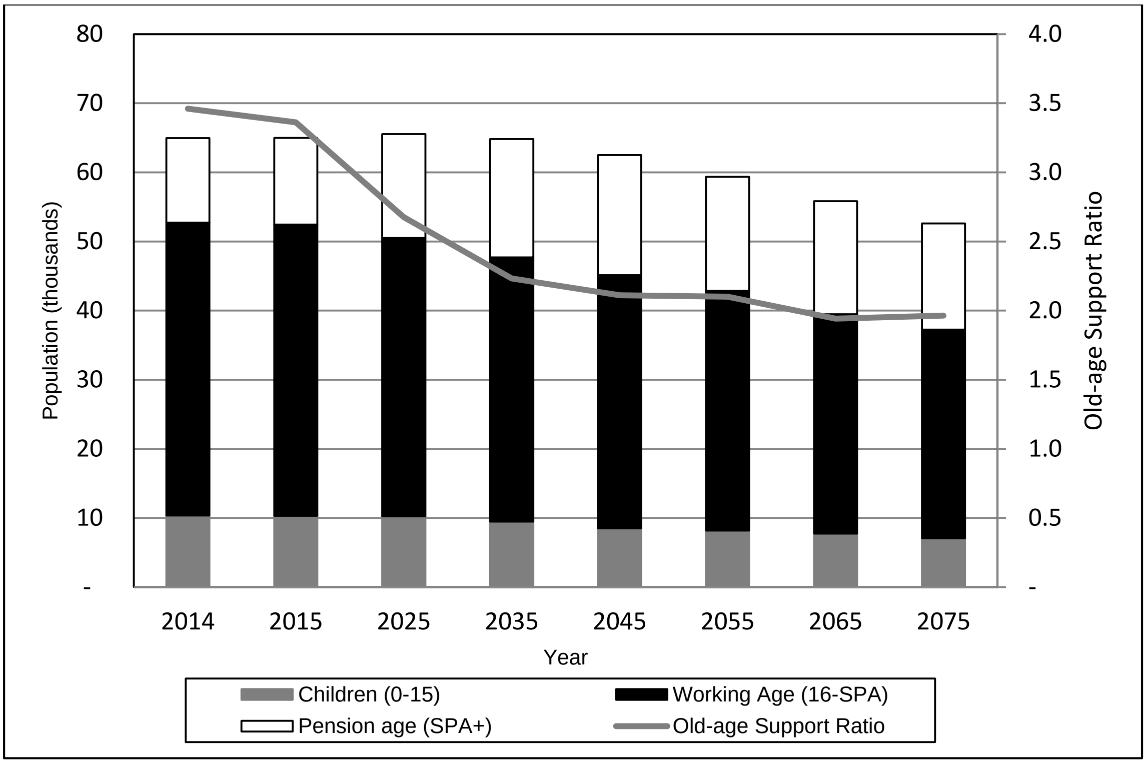


Figure I.2: Projection of Guernsey population assuming 200 net immigration

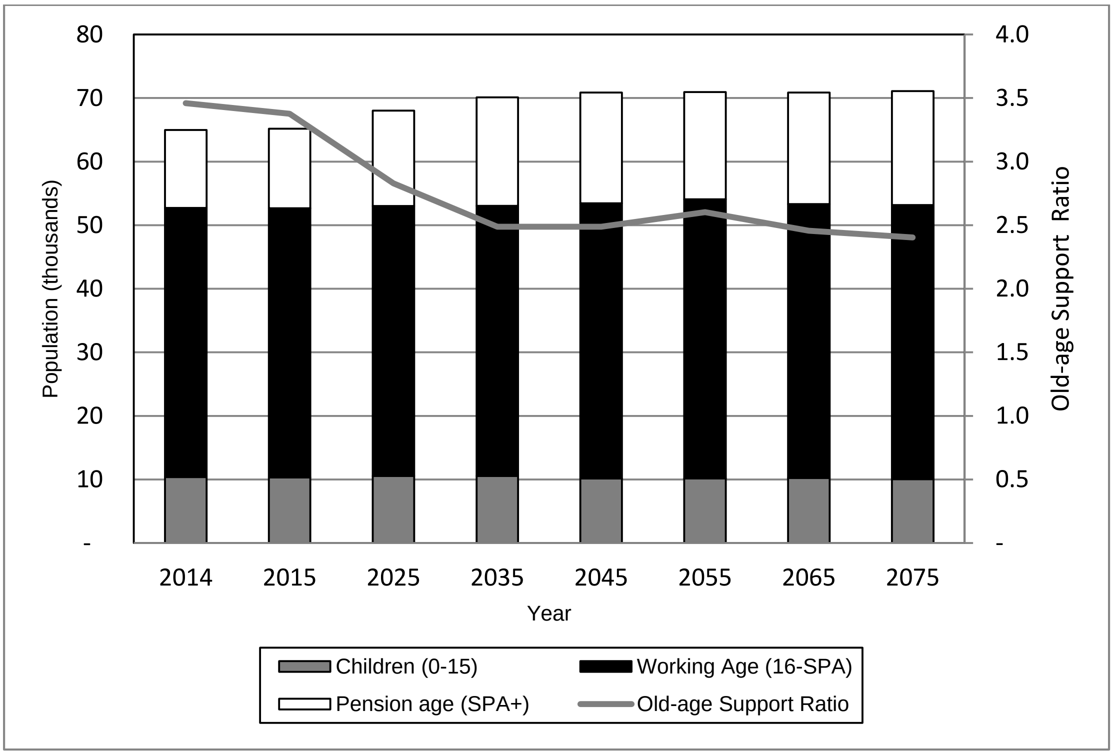


Figure I.3: Projection of Guernsey population assuming 100 net emigration