THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

COMMITTEE *FOR* EMPLOYMENT & SOCIAL SECURITY

CONTRIBUTORY BENEFIT AND CONTRIBUTION RATES FOR 2019

The States are asked to decide:

Whether, after consideration of the Policy Letter entitled 'Contributory Benefit and Contribution Rates for 2019', dated 10 September 2018, they are of the opinion:

1. To set the contributions limits and rates as set out in Table 4 of that Policy Letter, from 1st January 2019.

2. To set the standard rates of contributory social insurance benefits as set out in Table 7 of that Policy Letter, from 1st January 2019.

3. To set the prescription charge per item of pharmaceutical benefit at £4.00, from 1st January 2019.

4. To set the contribution (co-payment) required to be made by the claimant of care benefit, under the Long-term care Insurance Scheme, at £205.45 per week, from 1st January 2019.

5. To set the maximum weekly long-term care benefit at the rates set out below, from 1st January 2019:
   a) £455.21 per week residential care benefit for persons resident in a residential home;
   b) £599.83 per week elderly mentally infirm (EMI) benefit for qualifying persons in a residential home; and
   c) £849.94 per week nursing care benefit for persons resident in a nursing home or the Guernsey Cheshire Home.

6. To set the maximum weekly respite care benefit at the rates set out below, from 1st January 2019:
   a) £660.66 per week for persons receiving respite care in a residential home;

b) £805.28 per week for the elderly mentally infirm (EMI) rate for persons receiving respite care in a residential home; and

c) £1,055.39 per week for persons receiving respite care in a nursing home or the Guernsey Cheshire Home.

7. 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

CONTRIBUTORY BENEFIT AND CONTRIBUTION RATES FOR 2019

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

10 September 2018

Dear Sir

1. Executive Summary

1.1. This year the Committee *for* Employment & Social Security has decided to present its annual benefit and contributions Policy Letter in a new form. In the past contributory matters were considered in a single Policy Letter alongside non-contributory matters. This year they will be presented in separate Policy Letters, intended to be debated at the same meeting but as different items. It is hoped that this will provide greater transparency over the source of funds. This is a response to the Resolution to investigate integration of the budget proposals and non-contributory benefit uprating proposals[1]. It is intended that there will be further incremental steps in the years to come.

1.2. This Policy Letter therefore considers contributions to and benefits funded from, the Guernsey Insurance Fund, Guernsey Health Service Fund and Long Term Care Insurance Fund. These are the three funds supported by social security contributions.

1.3. Social insurance benefits are paid based on contribution records; in order to receive them you must have paid or been credited a certain number of weekly social security contributions. In some cases the amount of benefit payable varies depending on the completeness of the individual's contribution record. The most well-known of these benefits is the old age pension, but there are many other benefits provided through this fund.

[1] Resolution 22 on Billet d'État no XX of 2017.

1.4. Eligibility for health and long term care benefit is determined by a residency test rather than a contribution test. In the case of health benefits you must generally be resident in Guernsey or Alderney, and to receive long term care benefits you must have been a resident on one of the islands for at least 5 years. Health benefits fund secondary medical care, a grant for primary medical care and prescription drugs. Long term care benefit helps to fund the cost of residential and nursing care.

1.5. 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 the rates of contributory benefits be increased in 2019 by 2.4%, being the annual rate of 'core' inflation (RPIX) for the year to June 2018. The agreed policy is to uprate by RPIX plus one third of the difference between RPIX and the annual increase in median earnings; however this year RPIX is higher than the increase in median earnings (1.9%). The same situation occurred last year and it was decided that a 'double lock' approach should be taken, where RPIX is adopted if it is greater than the previously agreed policy.

PART I: INCOME

2. Contributions

Proposed contribution rates for 2019

2.1. As with last year's report, the Committee is recommending no change for 2019. Contribution rates will therefore remain as follows in Tables 1-3 below.

Table 1 – Contribution rates for 2019, and the proportions of income split between the funds for employed persons (Class 1)

Employed persons (Class 1)	2019
Employer	**6.6%**
Guernsey Insurance Fund	5.0%
Guernsey Health Service Fund	1.6%
Long-term Care Insurance Fund	-
Employee	**6.6%**
Guernsey Insurance Fund	3.5%
Guernsey Health Service Fund	1.3%
Long-term Care Insurance Fund	1.8%
Combined	**13.2%**
Guernsey Insurance Fund	8.5%
Guernsey Health Service Fund	2.9%
Long-term Care Insurance Fund	1.8%

Table 2 – Contribution rates for 2019, and the proportions of income split between the funds for self-employed persons (Class 2).

Self-employed persons (Class 2)	2019
Totals	**11.0%**
Guernsey Insurance Fund	6.5%
Guernsey Health Service Fund	2.7%
Long-term Care Insurance Fund	1.8%

Table 3 – Contribution rates for 2019, and the proportions of income split between the funds for non-employed persons (Class 3).

Non-employed persons (Class 3)	2019
Under pension age	**10.4%**
Guernsey Insurance Fund	5.7%
Guernsey Health Service Fund	2.8%
Long-term Care Insurance Fund	1.9%
Over pension age	**3.4%**
Guernsey Insurance Fund	-
Guernsey Health Service Fund	1.3%
Long-term Care Insurance Fund	2.1%

2.2. The Committee is mindful that contributions to all three funds will not meet the financial requirements of maintaining the same services in years to come. This is being addressed by a review of the provision of Long-term care, through the Supporting Living and Ageing Well Strategy (SLAWS), and through a review of Health & Social Care funding being jointly undertaken with the Policy & Resources Committee. More information about this is contained in part III of this Policy Letter.

Proposed contribution limits and rates for 2019

2.3. The Committee is recommending that all contribution earnings and income limits are increased by the June 2018 RPIX figure of 2.4%.

2.4. Table 4 overleaf shows the effects of the 2.4% rate for the 2019 uprating on the limits for all contributor classes. This includes the upper and lower earnings limits for employers, employees, and self-employed people, and the upper and lower income limits for non-employed people. It also shows the minimum and maximum weekly contribution rates payable for each class of contributor, including voluntary, overseas, and special rate contributions. These proposed rates are shown alongside the rates which applied in 2018.

Table 4 – Contribution limits and rates for 2019

		2019	2018
Class 1 – Employer/Employee		**6.6% / 6.6%**	**6.6% / 6.6%**
Upper Earnings Limit:	Weekly	£2,814.00	£2,748.00
	Monthly	£12,194.00	£11,908.00
Lower Earnings Limit:	Weekly	£141.00	£138.00
	Monthly	£611.00	£598.00
Weekly full rate:	Maximum	£185.72	£181.37
	Minimum	£9.31	£9.11
Class 2 – Self-employed people		**11%**	**11%**
Annual Earnings Limit:	Maximum	£146,328.00	£142,896.00
	Minimum	£7,332.00	£7,176.00
Weekly full rate:	Maximum	£309.54	£302.28
	Minimum	£15.51	£15.18
	Voluntary overseas contribution	£106.31	£103.82
Class 3 – Non-employed people[2]:			
Under pension age		**10.4%**	**10.4%**
Over pension age		**3.4%**	**3.4%**
Annual Income Limit:	Maximum	£146,328.00	£142,896.00
	Minimum	£18,330.00	£17,940.00
Allowance (both under & over pension age)		£8,285.00	£8,110.00
Weekly full rate: (under pension age)	Maximum	£276.09	£269.57
	Minimum	£20.09	£19.66
Weekly full rate: (over pension age)	Maximum	£90.26	£88.13
	Minimum	£6.57	£6.43
Overseas contributor (per week)		£96.16	£93.91
Voluntary contribution (per week)		£20.09	£19.66
Special rate non-employed (per week)		£20.09	£19.66

2.5. 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 (unless the allowance applies) up to the relevant upper earnings limit, at the percentage rates set out in Tables 1 and 2.

2.6. 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. People with income at some point between the upper and lower income limits will pay pro-rata.

2 In addition to these rates there is also a rate of 5.7% for special classes of voluntary contributors although in practice people do not often opt to pay at this rate.

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

- Full percentage rate contributions to cover social insurance, health service and long-term care insurance liabilities are 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, which are payable by people over pension age, go towards funding the specialist health insurance scheme and the long-term care insurance scheme.

2.8. Where a non-employed person's annual income is below the lower income limit, that person will be exempt 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%, to the lower income limit.

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

2.10. A special rate non-employed contribution is payable by insured people who would normally rely upon their employee contribution record for their entitlements to benefit, 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 voluntary contribution rate.

<u>Number of contributors paying at the upper limits</u>

2.11. The four quarter average, from Q2 2017 to Q1 2018 inclusive, of the number of contributors paying at the upper limits and the corresponding percentages shown in Table 5 overleaf.

Table 5 – Average number of contributors paying at the upper limits – Q2 2017 to Q1 2018

	No. contributors paying at upper limits[3]	Proportion of total for each classification
Employee	620	2.15%
Self-employed	306	11.66%
Non-employed	341	6.03%

3. States Grants to Contributory Funds

3.1. The Guernsey Insurance Fund currently receives a grant from General Revenue equal to 14.7% of the total amount collected in contributions.

3.2. In 2017 and 2018 the States grant to the health fund was suspended. The grant had previously amounted to 12% of contribution income. The removal of this grant resulted in a deficit during those years. The Medium Term Financial Plan[4] assumed that the grant was to be reinstated from 2018 onwards. This reduction in funding must be addressed as part of the wider review of health and social care funding.

3.3. The estimated costs to General Revenue of the States grant to the Guernsey Insurance Fund and Guernsey Health Service Fund in 2018 and 2019 are shown in Table 6 below. The grant for 2018 would have been £4.9m, and in 2019 would have been £5.1m.

Table 6 – Estimated costs to General Revenue of the States grants in 2018 and 2019

Fund	Estimated cost of States grant for 2019	Estimated cost of States grant for 2018	Percentage of contribution income
Guernsey Insurance Fund	£16.6m	£16.1m	14.7%
Guernsey Health Service Fund	£0	£0	12.0% (prior to removal)
Total	**£16.6m**	**£16.1m**	

4. Funding Health and Long Term Care

4.1. As set out in the 2018 Budget Report, the Policy & Resources Committee and the Committee *for* Employment & Social Security, in consultation with the

3 Figures rounded to the nearest whole number
4 Billet d'État XII of 2017, article I, appendix 1, section 5.43.

Committee *for* Health & Social Care, are examining options for reforming the funding of health and long term care. The review was originally focussed solely on funding of health care services. However, when the two Committees met initially to discuss this matter consideration was given to the fact that the same issues regarding 'distributional equity' which had been identified in respect of the current health service contributions collected through the social security system applied to the contributions collected in respect of long term care. Therefore the Committees decided to incorporate long term care contributions within the scope of the review.

4.2. The original driver for consideration of this project was that the public funding of health and social care services (including those that are directly commissioned by the States, and those, such as prescriptions or primary care, that are subsidised) currently has multiple sources. In effect, this means that multiple bodies make decisions about the allocation of funding to health services, and shape health policy making by doing so. The multiple sources of funding and decision making present barriers and disincentives to the full transformation of health and social care.

4.3. Therefore, the Committees have decided to adopt a two phase approach to enable this issue to be addressed as soon as possible with the second phase being to consider the most appropriate contribution model.

4.4. As the first stage, the three Committees anticipate submitting a Policy Letter in late 2018 which will seek approval for the transfer of policy and operational control for the £43million of services currently provided through the Guernsey Health Service Fund from the Committee *for* Employment & Social Security to the Committee *for* Health & Social Care. The Committee *for* Employment & Social Security will retain responsibility for the collection of contributions to the Health Service Fund.

4.5. This stage of work will provide a clearer division between the mandates of the two Committees by consolidating governance of all health services under a single Committee. In the short-term, managing services and policy development within a single mandate and with a single budget should improve both political transparency and financial control. In the longer-term, the transfer of responsibilities will enable the Committee *for* Health & Social Care to fully integrate these services within its transformation plans, ensuring that future service developments are fully co-ordinated to deliver the best social and financial outcomes.

4.6. The second phase will concentrate on the way in which the States raise revenues to fund health and long term care services, with extensive and detailed analysis to design a new model and undertake consultation thereon. There will be particular focus on the distributional impact given that the

Committees are aiming to deliver a more progressive system in line with the direction approved by the States as part of the Medium Term Financial Plan *"to seek a greater contribution from those most able to pay"*. This is a complex piece of work which will impact on the whole tax system and this two phase approach will allow for greater integration between this project and the Revenue Service Programme.

PART II: EXPENDITURE – CONTRIBUTORY BENEFITS

5. Social Insurance Benefits

5.1. It has been brought to the Committee's attention through several recent cases, that the way in which contributions are counted for the purposes of determining eligibility, can disadvantage those who have generally good contribution records. In some cases this can affect those who have a break in their contribution record many months prior to their claim.

5.2. For example, consider a person who has been in continuous employment from 1st August 2016, prior to that date the person had taken a sabbatical to go travelling from December 2015. If this person wished to make a claim for parental benefits in the first half of 2018, they would be assessed on their 2016 contribution record. As they have made fewer than 26 weekly contributions in that year, they would not have been eligible to receive benefit. If this person had made their claim in the second half of 2018 they would be assessed on their 2017 record with 52 weeks of contributions, therefore they would be eligible to receive benefit at the full rate.

5.3. This delay in considering contributions was historically due to the time it took to process contribution records. Processing time is now much reduced and the current calculation could be re-considered. The Committee will address this before the debate of the uprating reports in 2019.

<u>Proposed benefit rates for 2019</u>

5.4. As explained in section 1.5, the Committee is recommending benefit rates for pension and other contributory benefits are increased by 2.4%, representing June 2018 RPIX.

5.5. The proposed new weekly rates of benefit, effective from 1st January 2019, are set out in Table 7 overleaf. 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, after which, no benefit is payable.

Table 7 – Proposed rates of contributory social insurance benefits for 2019

Weekly paid benefits	2019	2018 (actual)
Old Age Pension		
Insured person	**£217.36**	£212.27
Increase for dependant wife[5]	**£108.88**	£106.33
Total	**£326.24**	£318.60
Survivor's Benefits		
Widowed Parent's Allowance	**£228.58**	£223.22
Bereavement Allowance[6]	**£196.55**	£191.94
Maternal Health Allowance, Newborn Care Allowance, and Parental Allowance	**£217.77**	£212.66
Unemployment Benefit, Sickness Benefit, and Industrial Injury Benefit	**£159.95**	£156.17
Incapacity Benefit	**£192.22**	£187.74
Industrial Disablement Benefit (100%)[7]	**£175.17**	£171.06
One off grants:		
Maternity Grant and Adoption Grant	**£400.00**	£391.00
Death Grant	**£625.00**	£610.00
Bereavement Payment	**£1,974.00**	£1,928.00

Summary of social insurance expenditure financed by the Guernsey Insurance Fund

5.6. If the above proposals for benefit rates are approved, the 2019 Budget estimates that social insurance benefit expenditure will increase by 3.6% to £149.5m (2018 Forecast: +5.2% to £144.4m), as shown in Table 8 overleaf. This includes the proposed 2.4% increase in the general rate of benefit (2018: +2.8%), and a further 1.2% increase due to changes in the number of people claiming benefit, particularly old age pensions. In addition, administration costs in 2019 are estimated to be £5.1m (2018 Revised: £4.8m).

5.7. Social insurance benefits are almost wholly statutory entitlements based on contributions paid. Pension expenditure accounts for over 85% of the total benefit expenditure of the Fund. Expenditure is estimated to increase by 4.0% to £127.9m in 2019 (2018 Forecast: +4.7% to £123.0m). As of 1 July 2018, there were 18,199 people in receipt of a pension from Guernsey. Pension expenditure is increasing due to larger numbers of people reaching pension age, but it is also affected by improved (lower) mortality rates, meaning that

5 For people whose marriages took place before 1st January 2004, and who reached pension age before 1st January 2014.

6 Widow's pension is also payable at this rate, new applications cannot be made but there are still historic cases continuing.

7 Lower rates are payable based on degree of disability.

people are enjoying longer retirements, with many more people living into and beyond their 80's.

Table 8 – Summary of expenditure for the Guernsey Insurance Fund

	2019 Budget £m	2018 Forecast £m	2017 Actual £m	2016 Actual £m	2015 Actual £m
Pension	127.9	123.0	117.5	115.4	110.7
Incapacity	8.6	8.5	8.0	8.1	8.1
Sickness	4.3	4.3	3.9	3.8	3.6
Parental	2.4	2.3	2.1	1.2	1.2
Travelling Allowance Grant	2.5	2.5	2.1	2.1	2.1
Bereavement	2.0	2.0	1.9	1.9	1.8
Unemployment	1.0	1.0	1.0	1.4	1.4
Industrial	0.8	0.8	0.8	0.8	0.9
Total benefit expenditure	**149.5**	**144.4**	**137.3**	**134.7**	**129.8**
Administration	5.1	4.9	4.5	4.8	4.7
Total expenditure	**154.6**	**149.3**	**141.8**	**139.5**	**134.5**

6. Health Service Benefits

Medical Benefit Grants

6.1. The total benefit expenditure on consultation grants in 2017 was £3.3m. This represented a decrease of around 1.8% on the 2016 cost. The consultation grants remained unchanged at £12 towards a consultation with a doctor and £6 towards a consultation with a nurse.

6.2. The Committee is not recommending any change in the level of the consultation grants for 2019. However, the Committee is mindful of Resolution 24 following the April 2015 debate on the Personal Tax, Pensions and Benefits Review (Billet d'État IV of 2015, Article I), which was:

> 'To note that 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.'

6.3. At this stage the Committee considers that it would be most appropriate for the reduction or complete removal of the grant to be aligned with the ongoing reforms of the Committee *for* Health & Social Care. This would ensure that the funds would be allocated to appropriate alternative health and social care expenditure. The two Committees meet regularly to discuss, among other things, the ongoing transformation of health and social care services.

Pharmaceutical Service

6.4. Drugs, medicines and appliances, cost a total of £18.05m in 2017 before netting off the prescription charges of £2.19m paid by patients. This was a decrease of 0.5% on 2016. The number of items prescribed under the pharmaceutical service decreased by 1% in 2017 to approximately 1.5 million items.

6.5. The year saw a slight fall in the number of items dispensed for the second year in a row and a fall in the total annual cost of the service. This was despite the approval of several new specialist drugs and fluctuations in the cost of many generics. There were reductions in the prescribing of opioid analgesics, antibiotics and hypnotics and large savings achieved from a reduction in the prescribing of high cost and low value products. In addition, significant costs were avoided by the controlled entry of new drugs onto the prescribing list.

6.6. The reduction in these costs was primarily due to the work of the Prescribing Support Unit (PSU) and its close co-operation with medical professionals. Careful monitoring of the drugs prescribed and the market availability of generic drugs allows the PSU to recommend the approval of cheaper, but similarly effective drugs to the 'white list'. The pragmatic use of generic drugs keeps overall costs down and allows the budget to be better allocated for the limited prescription of expensive specialist drugs which are either new to market or have no equivalent alternative.

6.7. In 2018, the structure of the bodies that advise the States on prescription matters has changed. To date, separate bodies have existed for the recommendation of drugs for hospital and community prescribing. These bodies have been brought together and it is expected that this will result in a consistent approach.

Prescription charge

6.8. The prescription charge has traditionally been uprated by 10p each year. The current standard prescription charge for persons who are not exempt is set at £3.90. The Committee is proposing for 2019 that the prescription charge be increased to £4.00. This is an increase of 2.6% on the 2018 charge, which is slightly higher than RPIX for June 2018.

6.9. The Committee notes that the total cost of prescriptions in 2017, including the drug costs and dispensing fees, was £18.05m. £2.19m was recovered through the payment of prescription charges, set at £3.90 per item in 2016. Although only 12% of the total cost is recovered in prescription charges, 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, or are exempt from paying altogether. In fact, nearly two-thirds of all items dispensed are to people who are exempt from paying the prescription charge.

6.10. Despite the ongoing work of the PSU, the cost of providing these drugs is likely to increase in the coming years due to the aging demographic. Rising life expectancy and an aging population will lead to greater per capita demand for drugs. Factors such as a no-deal Brexit and the expansion of the list of approved drugs could result in even greater increases.

Specialist Medical Benefit

6.11. Under the Health Service (Benefit) (Guernsey) Law, 1990, and the Health Service (Specialist Medical Benefit) Ordinance, 1995, Specialist Medical Benefit is predominantly the secondary healthcare services provided through the contract with the Medical Specialist Group. The benefit also includes treatment by visiting medical specialists. A 15 year contract with the Medical Specialist Group ended on 31st December 2017. A new contract with the Medical Specialist Group has been in place since 1st January 2018. The contract is designed to support the ongoing transformation of health and social care.

6.12. Responsibility for managing the contract lies with the Committee *for* Health & Social Care. As the contract is financed through Social Security contributions, the role of the Committee *for* Employment & Social Security is focused primarily on the collection of funds and ensuring that sufficient funds are collected to meet current and future demands.

6.13. The Medical Specialist Group contract amounted to £18.1m in 2017. The forecast for 2018 expenditure is £18.1m. The MSG contract includes an annual savings target for the first 3 years of the contract of 3%, 2% and 1% respectively. In July 2018 the recruitment of an additional oncologist and an additional gastroenterologist was approved. The appointment of these additional specialists was recommended by a review of adult medical services produced by the Royal College of Physicians of Edinburgh earlier this year.

Physiotherapy benefit

6.14. Under the Health Service (Benefit) (Guernsey) Law, 1990 and the Health Service (Physiotherapy Benefit) Ordinance, 1997, physiotherapy services are provided through a contract with the Guernsey Therapy Group. The contract was due to expire on 31st December 2017 but has been extended while the Committee *for* Health & Social Care reviews the existing model of service delivery. As with the MSG contract, this contract is managed by the Committee *for* Health & Social Care and the role of the Committee *for*

Employment & Social Security is focused primarily on the collection of contributions to fund the service.

6.15. The contract with the Guernsey Therapy Group cost £2.2m in 2017, and expenditure for 2018 is forecast to be £2.3m.

Provision of contraception for people under 21 years old

6.16. In December 2017 the Committee *for* Health & Social Care and the Committee *for* Employment and Social Security established a pilot scheme to provide free contraceptive options to young people available through all GP practices as well as the sexual health clinics. It is hoped that this pilot will lead to a significant reduction in the number of under 18 pregnancies. While it is too early to comment in detail, initial results are very encouraging.

Summary of expenditure financed by the Guernsey Health Service Fund

6.17. Table 9 below summarises the impact of the proposed benefit rates on projected expenditure from the Guernsey Health Service Fund for 2019, and the 2018 revised forecast at the time of writing. This is compared with the actual expenditure figures for 2015-2017.

Table 9 – Summary of expenditure for the Guernsey Health Service Fund

	2019 Budget £m	**2018 Forecast £m**	**2017 Actual £m**	**2016 Actual £m**	**2015 Actual £m**
Specialist Health Insurance	21.4	20.7	20.5	20.1	19.3
Pharmaceutical	16.3	16.1	16.2	16.3	16.0
Consultation grants	3.3	3.4	3.3	3.4	3.4
Visiting Medical Consultants	0.8	0.8	0.8	0.7	0.7
Primary Care Psychological Therapies	0.5	0.4	0.4	0.3	0.3
Free Contraception for the under 21s (pilot)	0.1	0.1	-	-	-
TOTAL BENEFIT EXPENDITURE	**42.4**	**41.5**	**41.2**	**40.8**	**39.7**
Administration	1.7	1.6	1.3	1.6	1.6
Total expenditure	**44.1**	**43.1**	**42.5**	**42.4**	**41.3**

7. Long-term Care Benefits

7.1. The Long-term care Insurance Scheme pays benefits to assist with fees in private residential and nursing homes including the Guernsey Cheshire Home and States-run homes and long-stay wards.

Co-payment (Personal contribution) by person in care

7.2. Under the long-term care insurance scheme, it is a condition of entitlement to benefit that the person in care should make a co-payment. The 2018 personal contribution is £200.62 per week. The Committee recommends a personal contribution of £205.45 per week from 1st January 2019.

7.3. It should be noted that the personal contribution 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. This includes the Duchess of Kent, the Corbinerie (or Lighthouse) Wards, and the long-stay beds at the Mignot Memorial Hospital in Alderney.

7.4. In addition to the long-term care benefit payment and the personal contribution by the individual, many people in care will be required to pay additional fees set by the homes. These 'top-up fees' are paid by approximately two thirds of those in care. Table 10 below explains the breakdown of funding.

Table 10 – Overview of weekly long-term care benefit and fees (2018 values)

<table>
<tr><th colspan="2">Element of funding</th><th>Cost</th><th>Paid by</th></tr>
<tr><td rowspan="3">Type of care</td><td>Residential</td><td>£444.57</td><td rowspan="3">Long-term Care Fund</td></tr>
<tr><td>Residential-dementia</td><td>£585.76</td></tr>
<tr><td>Private nursing home</td><td>£829.99</td></tr>
<tr><td colspan="2">Personal contribution</td><td>£200.62</td><td>Resident (income support may provide assistance)</td></tr>
<tr><td colspan="2">Top-up fees – these can be charged by the homes, in some cases there are no top-up fees</td><td>Discretionary</td><td>Resident</td></tr>
</table>

7.5. The cost and overall structure of Long-term Care is being investigated as part of the work to progress the Resolutions following the Supported Living and Ageing Well (SLAWS) Policy Letter (Billet d'État III of 2016, Volume II, Article XIV), which will be reported back to the States in the near future. It is intended that when this Policy Letter is presented to the States it will include multiple options for the States to consider.

Long-term care benefit rates

7.6. The Committee recommends that the rates of long-term care benefit be increased by 2.4%, with effect from 1st January 2019, as set out in Table 11 below.

Table 11 – Weekly rates of long-term care benefit

	2019	2018
Residential care benefit	**£455.21**	£444.57
Residential – dementia[8]	**£599.83**	£585.76
Nursing care benefit	**£849.94**	£829.99

Respite care benefit

7.7. People needing respite care in the 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 for as long as practicable. It also acknowledges that people having respite care 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 Residential-dementia care, or nursing care benefit, as appropriate.

7.8. The Committee recommends that the rates of respite care benefit are set as shown in Table 12 below, with effect from 1st January 2019.

Table 12 – Weekly rates of respite care benefit

	2019	2018
Residential care respite benefit	**£660.66**	£645.19
Residential- dementia respite benefit	**£805.28**	£786.38
Nursing care respite benefit	**£1,055.39**	£1,030.61

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

7.9. Table 13 overleaf summarises the impact of the proposed benefit rates on projected expenditure from the Long-term Care Insurance Fund for 2019, along with the 2018 revised forecast at the time of writing, compared with the actual expenditure figures for 2015-2017.

[8] Otherwise known as Elderly Mentally Infirm (EMI) Benefit, the term 'Residential-dementia' is used here as it is a simpler way to describe those who are eligible.

Table 13 – Summary of expenditure for the Long-term Care Insurance Fund

	2019 Budget £m	2018 Forecast £m	2017 Actual £m	2016 Actual £m	2015 Actual £m
Residential care	10.7	10.6	9.8	8.6	8.6
Nursing care	9.9	9.4	9.6	9.8	9.3
	20.6	**20.0**	**19.4**	**18.4**	**17.9**
Administration	0.4	0.3	0.3	0.3	0.3
	21.0	**20.3**	**19.7**	**18.7**	**18.2**

PART III: FINANCIAL POSITION

8. Financial position of the Contributory Funds

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

Guernsey Insurance Fund: Summary of the financial position

8.2. The financial performance of the Guernsey Insurance Fund is shown in Table 14 below. The 2019 budget estimates that the operating deficit will increase to £24.7m (2018 forecast: £23.4m deficit). The Fund has now been in deficit, before investment returns are taken into account, since 2009.

8.3. 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 14 – Financial performance of the Guernsey Insurance Fund

	2019 Budget £m	2018 Forecast £m	2017 Actual £m	2016 Actual £m	2015 Actual £m
Income	129.9	125.9	122.3	117.3	115.1
Expenditure	(154.6)	(149.3)	(141.8)	(139.4)	(134.5)
Operating deficit	(24.7)	(23.4)	(19.5)	(22.1)	(19.4)
Investment returns	33.9	18.3	56.0	76.5	(5.9)
Net surplus/(deficit) for the year	9.2	(5.1)	36.5	54.4	(25.3)
Net assets at 1 January	762.6	767.7	731.2	676.8	702.1
Net assets at 31 December	771.8	762.6	767.7	731.2	676.8
Expenditure cover in number of years	5.0	5.1	5.4	5.2	5.0

8.4. The 2010-2014 actuarial review indicated that, if the assumptions were correct for the Guernsey Insurance Fund, and there are no further increases in contribution rates beyond those that were implemented in 2017, then the reserves will run out completely by 2046.

Guernsey Health Service Fund: Summary of the financial position

8.5. The financial performance of the Guernsey Health Service Fund is shown in Table 15. The 2019 budget estimates that the operating deficit will be £1.9m (2018 forecast: £2.1m deficit), with the States grant not being reinstated.

Table 15 – Financial performance of the Guernsey Health Service Fund

	2019 Budget £m	2018 Forecast £m	2017 Actual £m	2016 Actual £m	2015 Actual £m
Income	42.3	41.0	39.5	43.6	42.7
Expenditure	(44.1)	(43.1)	(42.5)	(42.3)	(41.3)
Operating surplus/(deficit)	(1.8)	(2.1)	(3.0)	1.3	1.4
Investment returns	6.2	3.2	8.9	12.0	(0.9)
Net surplus/(deficit) for the year	4.4	1.1	5.9	13.3	0.5
Net assets at 1 January	123.4	122.3	116.4	103.1	102.6
Net assets at 31 December	127.8	123.4	122.3	116.4	103.1
Expenditure cover in number of years	2.9	2.9	2.9	2.8	2.5

8.6. The actuarial review for the 2010-2014 period showed 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 prices of prescription drugs. The assumption for the 15 year projection is that unit costs will increase by RPIX.

Long-term Care Insurance Fund: Summary of the financial position

8.7. The financial performance of the Long-term Care Insurance Fund is shown in Table 16 overleaf. The 2019 budget estimates that the operating surplus will increase to £8.0m (2018 forecast: £7.9m surplus). The significant increase in income between 2016 and 2017 was a result of the 0.5% increase in contribution rates to the Fund, which applied from 1st January 2017.

Table 16 – Financial performance of the Long-term Care Insurance Fund

	2019 Budget £m	2018 Forecast £m	2017 Actual £m	2016 Actual £m	2015 Actual £m
Income	29.0	28.2	26.6	19.4	18.5
Expenditure	(21.0)	(20.3)	(19.7)	(18.7)	(18.2)
Operating surplus	8.0	7.9	6.9	0.7	0.7
Investing activities	4.0	1.9	5.0	6.4	(0.5)
Net surplus/(deficit) for the year	12.0	9.8	11.9	7.1	0.2
Net assets at 1 January	84.6	74.8	62.9	55.8	55.6
Net assets at 31 December	96.6	84.6	74.8	62.9	55.8
Expenditure cover in number of years	4.6	4.2	3.8	3.4	3.1

8.8. The actuarial review for the 2010-2014 period showed that an increase in contribution rates of 0.5% to the Fund, would extend the life of the Fund by 16 years to 2047. This increase took place in January 2017. However, further measures will be required in the coming years to ensure the sustainability of the Fund. Particularly because the States has resolved to expand the scheme, and therefore increase expenditure, via the work of the Supported Living and Aging Scheme (SLAWS).

Investment returns

8.9. The reserves of the three funds are invested jointly in a portfolio supervised by a sub-committee. There is a standing invitation for a political member of the Policy & Resources Committee to join all meetings of the sub-committee. Given the nature of the funds they are invested with a conservative approach to risk. Over the past 18 months there have been significant changes to the composition of the fund, which were aimed at reducing risk while maintaining the target return, this restructuring is reaching its conclusion. The target and expected return of the portfolio is Libor +3.5%.

PART IV: CONCLUSIONS

9. Resource and Implementation Plan

9.1. Table 17 shows how the Committee has considered the resources required to implement the propositions set out in this Policy Letter.

Table 17 – Resource and Implementation Plan

Details considered	Committee comment
Cost	This Policy Letter recommends that benefit rates are uprated by the June 2018 RPIX figure of 2.4% for 2019, and that contribution rates are unchanged. Detailed financial information is provided in part III of this document.
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 2019.
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. The drafting of the necessary legislation has limited resource impact for the Law Officers.
Funding	Funding will come from contribution income, the States grants and the planned draw-down of the Funds.
Staffing implications	The Committee does not envisage that the proposals contained within this Policy Letter would result in a request for additional staffing resources.
Transitional arrangements	There are no transitional arrangements required.
Communications plan	The Law Officers and the Policy & Resources Committee have been consulted with.

10. Compliance with Rule 4 of the Rules of Procedure

10.1. Through the drafting of this Policy Letter, the Committee has consulted with the Policy & Resources Committee at joint meetings.

10.2. 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.

10.3. The Committee has set out its proposals for the benefit and contribution rates for 2019 throughout this Policy Letter, and seeks the States support for the propositions, which are based on the Committee's purpose:

> "To foster a compassionate, cohesive and aspirational society in which responsibility is encouraged and individuals and families are supported through schemes of social protection relating to pensions, other contributory and non-contributory benefits, social housing, employment, re-employment and labour market legislation."

10.4. In particular, the propositions are aligned with the priorities and policies set out in the Committee's Policy Plan, which was approved by the States in June 2017 (Billet d'État XII, Article I). The Committee's Policy Plan is aligned with the States objectives and policy plans.

10.5. In accordance with Rule 4(4) of the Rules of Procedure of the States of Deliberation and their Committees, it is confirmed that the propositions 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

<u>THE STATES OF DELIBERATION</u>
<u>of the</u>
<u>ISLAND OF GUERNSEY</u>

COMMITTEE *FOR* EMPLOYMENT & SOCIAL SECURITY

CONTRIBUTORY BENEFIT AND CONTRIBUTION RATES FOR 2019
AND
NON-CONTRIBUTORY BENEFIT RATES FOR 2019

The President
Policy & Resources Committee
Sir Charles Frossard House
La Charroterie
St Peter Port
GY1 1FH

10th September 2018

Dear Sir

Preferred date for consideration by the States of Deliberation

In accordance with Rule 4(2) of the Rules of Procedure of the States of Deliberation and their Committees, the Committee *for* Employment & Social Security requests that 'Contributory Benefit and Contribution Rates for 2019' and 'Non-Contributory Benefit Rates for 2019' be considered at the States' meeting to be held on 24th October 2018.

It would be helpful for the Policy Letter to be considered at the earliest opportunity for two reasons. Firstly, the timing of processes within Social Security's systems requires administrative actions on the Resolutions from the debate of the Policy Letter to take place as early as possible following their approval. Secondly, there are a number of legislation requirements which will follow the debate, and these need to be completed before the end of the year, to ensure that the benefit and contribution rates for 2019 can be applied from 1st January 2019.

Yours faithfully

Michelle Le Clerc
President

Shane Langlois
Vice President

Matthew Fallaize, John Gollop, Emilie Yerby

Mike Brown, Andrew Le Lievre
Non-States Members