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THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

COMMITTEE *FOR* EMPLOYMENT & SOCIAL SECURITY

CONTRIBUTORY BENEFIT AND CONTRIBUTION RATES FOR 2020

The States are asked to decide:

Whether, after consideration of the policy letter entitled 'Contributory benefit and contribution rates for 2020', dated 9th September 2019, 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 2020.

2. To set the standard rates of contributory social insurance benefits as set out in Table 6 of that policy letter, from 6th January 2020.

3. To set the prescription charge per item of pharmaceutical benefit at £4.10, from 1st January 2020.

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 £209.37 per week, from 6th January 2020.

5. To set the maximum weekly long-term care benefit at the rates set out below, from 6th January 2020:

    a) £463.89 per week residential care benefit for persons resident in a residential home;

    b) £611.24 per week elderly mentally infirm (EMI) benefit for qualifying persons in a residential home; and

    c) £866.11 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 6th January 2020:

    a) £673.26 per week for persons receiving respite care in a residential home;

b) £820.61 per week for the elderly mentally infirm (EMI) rate for persons receiving respite care in a residential home; and

c) £1,075.48 per week for persons receiving respite care in a nursing home or the Guernsey Cheshire Home.

7. To rename "old age pension" as "States pension" and to make all necessary amendments to legislation to allow and reflect the name change.

8. To note that the Committee intends to amend relevant legislation to enable prisoners of pension age to receive a lump sum payment of their pension, for that part of their imprisonment which is equivalent to the period that prisoners under pension age participate in the Release on Temporary Licence Scheme.

9. 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 2020

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

9th September 2019

Dear Sir

1. Executive summary

1.1. For the second year, the Committee *for* Employment & Social Security is presenting its annual proposals regarding benefit and contribution rates in two separate policy letters. This policy letter concerns the contributory benefits and contribution rates, and it is proposed that it is debated by the States at its meeting which is scheduled to commence on 16th October 2019. The policy letter on non-contributory benefits will be debated at the same meeting as the States' Budget for 2020, scheduled for 5th November 2019.[1] The intention is to provide greater transparency over States' expenditure.

1.2. This policy letter therefore considers contributions to, and benefits funded from, the Guernsey Insurance Fund, the Guernsey Health Service Fund and the Long-term Care Insurance Fund. These are the three funds supported by social insurance contributions.

1.3. Social insurance benefits are paid based on contribution records. In order to receive them an individual must have paid, or been credited, a certain number of weekly social security contributions, and often have to satisfy a residency test. 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 as well, including sickness, unemployment, parental, and bereavement benefits.

[1] See rule 1(2) of the Rules of Procedure of the States of Deliberation and their Committees.

1.4. Eligibility for health and long-term care benefits is determined by a residency test, rather than a contribution test. In the case of health benefits, an individual must generally be resident in Guernsey or Alderney. In order to receive long-term care benefits, a person must have been a resident of Guernsey or Alderney for at least five 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 States-approved pension uprating policy is to apply a rate at approximately one third of the difference between the Quarter 2 RPIX figure and the most recent annual median earnings index figure, which relates to the previous December. The June 2019 RPIX figure was 1.9% and the December 2018 median earnings figure was 3.3%. The calculation is shown below:

$$(3.3\% – 1.9\%) \div 3 + 1.9\% = 2.4\%$$

1.6. On the assumption that, in the long-term, earnings increase by more than prices, the uprating policy ensures that at least part of that gain is shared with pensioners and other recipients of earnings-replacement benefits. The Committee is therefore recommending that contributory benefits and contribution rates are increased in line with the uprating policy figure of 2.4% in 2020, except long-term care benefits, which the Committee proposes are uprated by RPIX only, at 1.9%, as has been done in recent years.

2. Uprating policy

2.1. Following the October 2015 debate of the policy letter on benefit and contribution rates for 2016 (Billet d'État XVIII of 2015, Article 3), 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.'

2.2. At the same States Meeting, it was also resolved:

> '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.'

2.3. The Committee has been progressing this extant resolution and will be reporting back to the States more fully in next year's policy letter on contributory benefit and contribution rates for 2021. In the meantime, the Committee is progressing detailed proposals for the implementation of a second pillar pension scheme for Guernsey and Alderney, which will be brought to the States later this year. This will, at least in part, address the October 2015 resolutions.

2.4. Noting that the current contribution rates for the Guernsey Insurance Fund are insufficient for long-term financial sustainability, the Committee has considered whether to recommend a 0.5% contribution increase in rates for 2020. Having discussed this with the Policy & Resources Committee, the Committee acknowledges that there are several policy letters due for consideration by the States before the end of the political term that would impact on contribution rates, or other deductions from employers and employees. In addition to Guernsey Insurance Fund sustainability, there will be proposals for auto-enrolment to a secondary pension scheme. This will have a phased contribution increase, starting with a 1% contribution for both employees and employers in the first year and gradually increasing to 6.5% for employees and 3.5% for employers by the seventh year. The States will also receive options for sustainability of the Long-term Care Insurance Fund, including an option to increase contributions. Furthermore, proposals from Health & Social Care regarding the provision of NICE approved drugs are expected, which could result in an increase in the contribution rate for the Guernsey Health Service Fund.

2.5. The Committee agrees with the Policy & Resources Committee that it is important for States Members to have an appreciation of all of these potential sources of contribution increases rather than considering them separately as and when they are presented to the States. The Committee, therefore, has decided not to propose an increase in the contribution rate for the Guernsey Insurance Fund in this Policy Letter.

2.6. The periodic actuarial review of the Guernsey Insurance Fund for 2015 to 2019 inclusive will take place during 2020. This will help inform debate on the uprating policy and adequacy of contribution rates in the future.

PART I: INCOME

3. Contributions

Proposed contribution rates for 2020

3.1. The Committee is not recommending any changes in the percentage rates of contributions for 2020. Contribution rates will therefore remain as follows in Tables 1-3 below.

Table 1 – Contribution rates for 2020, and the proportions of income split between the funds for employed persons (Class 1)

Employed persons (Class 1)	2020
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 2020, and the proportions of income split between the funds for self-employed persons (Class 2).

Self-employed persons (Class 2)	2020
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 2020, and the proportions of income split between the funds for non-employed persons (Class 3).

Non-employed persons (Class 3)	2020
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%

3.2. 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 the reform of healthcare funding, approved by the States in May 2019 (Billet d'État X of 2019, Article 7). More information about this is contained in part III of this policy letter.

Proposed contribution limits and rates for 2020

3.3. The Committee is recommending that all contribution earnings and income limits are increased by 2.4%, in accordance with the uprating policy.

3.4. Table 4 overleaf shows the effects of the 2.4% increase for 2020 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 2019.

Table 4 – Contribution limits and rates for 2020

		2020	2019
Class 1 – Employer/Employee		**6.6% / 6.6%**	**6.6% / 6.6%**
Upper Earnings Limit:	Weekly	£2,880.00	£2,814.00
	Monthly	£12,480.00	£12,194.00
Lower Earnings Limit:	Weekly	£144.00	£141.00
	Monthly	£624.00	£611.00
Weekly full rate:	Maximum	£190.08	£185.72
	Minimum	£9.50	£9.31
Class 2 – Self-employed people		**11%**	**11%**
Annual Earnings Limit:	Maximum	£149,760	£146,328.00
	Minimum	£7,488	£7,332.00
Weekly full rate:	Maximum	£316.80	£309.54
	Minimum	£15.84	£15.51
	Voluntary overseas contribution	£108.86	£106.31
Class 3 – Non-employed people[2]:			
Under pension age		**10.4%**	**10.4%**
Over pension age		**3.4%**	**3.4%**
Annual Income Limit:	Maximum	£149,760.00	£146,328.00
	Minimum	£18,720.00	£18,330.00
Allowance (both under & over pension age)		£8,460.00	£8,285.00
Weekly full rate:	Maximum	£282.60	£276.09
(under pension age)	Minimum	£20.52	£20.09
Weekly full rate:	Maximum	£92.39	£90.26
(over pension age)	Minimum	£6.71	£6.57
Overseas contributor (per week)		£98.47	£96.16
Voluntary contribution (per week)		£20.52	£20.09
Special rate non-employed (per week)		£20.52	£20.09

3.5. 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.

3.6. As with self-employed people, 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 the Revenue Service. 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.

3.7. 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.

3.8. 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 Guernsey Insurance Fund element of the non-employed contribution rate, being 5.7% of the total 10.4%, to the lower income limit.

3.9. 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.

3.10. 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>

3.11. The four quarter average, from Q2 2018 to Q1 2019 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 2018 to Q1 2019

	No. contributors paying at upper limits[3]	Proportion of total for each classification
Employee	590	2.02%
Self-employed	301	11.15%
Non-employed	332	5.46%

4. States grants to the contributory funds

4.1. The Guernsey Insurance Fund currently receives a grant from General Revenue equal to 14.7% of the total amount collected in contributions. The estimated costs to General Revenue of the States grant to the Guernsey Insurance Fund in 2019 is £16.7m and is expected to be £17.0m in 2020.

4.2. The grant from General Revenue to the Guernsey Health Service Fund has been suspended since 2017. The grant had previously equalled 12% of contribution income into that Fund. Its removal has resulted in an operating deficit for the Fund from 2017 to date. The Committee notes the intention was to suspend the grant for one year to assist with the Committee *for* Health & Social Care's expenditure in 2017. As explained in the paragraph below, the Committee will not be proposing the reinstatement of the grant in 2020, which means that it will be the fourth year that the Guernsey Health Service Fund will not receive the grant. The Committee wants it noted that this amounts to £19.9m of income into the Fund foregone since 2017, which includes the forecast amount of £5.2m for 2020.

4.3. The Committee has noted the resolutions from the debate of the policy letter on the reform of healthcare funding (Billet d'État X of 2019, Article 7), which resolved, among other things, that some of the contributions allocations into the Guernsey Health Service Fund are redistributed to the Guernsey Insurance Fund. The effect of this will be that the Guernsey Insurance Fund would be funded entirely from contribution income and the top-up grant from General Revenue would be removed. In light of the forthcoming transfer of responsibility for health service benefits from the Committee to the Committee *for* Health & Social Care, this policy letter does not propose that the grant from General Revenue to the Guernsey Health Service Fund is reinstated in 2020. The Committee notes however, that the transfer of the responsibility for health funding from the Committee to the Committee for Health & Social Care will result in the partial or full reinstatement of the grant from General Revenue to support the current levels of expenditure.

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3 Figures rounded to the nearest whole number.

PART II: EXPENDITURE – CONTRIBUTORY BENEFITS

5. Social insurance benefits

5.1. This section proposes the 2020 rates for social insurance benefits and makes policy recommendations in relation to those benefits.

Proposed benefit rates for 2020

5.2. As explained in section 1.6, the Committee is recommending that contributory benefits are increased by 2.4%, in line with the States-approved uprating policy.

5.3. The proposed new weekly rates of benefit, effective from 6th January 2020, are set out in Table 6. These rates of weekly benefit and grants apply to people 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 6 – Proposed rates of contributory social insurance benefits for 2020

Weekly paid benefits	**2020**	**2019**
Old age pension		
Insured person	£222.58	£217.36
Increase for dependent wife[4]	111.49	£108.88
Total	£334.07	£326.24
Survivor's benefits		
Widowed parent's allowance	£234.07	£228.58
Bereavement allowance[5]	£201.27	£196.55
Maternal health allowance, newborn care allowance, and parental allowance	£223.02	£217.77
Unemployment benefit, sickness benefit, and industrial injury benefit	£163.80	£159.95
Incapacity benefit	£196.84	£192.22
Industrial disablement benefit (100%)[6]	£179.37	£175.17
One off grants:		
Maternity grant and adoption grant	£410.00	£400.00
Death grant	£640.00	£625.00
Bereavement payment	£2,021.00	£1,974.00

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

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

6 Lower rates are payable based on degree of disability.

Summary of expenditure financed by the Guernsey Insurance Fund

5.4. If the above proposals for benefit rates are approved, the 2020 Budget estimates that social insurance benefit expenditure will increase by 2.7% to £153.9m (2019 Forecast: +3.4% to £149.8m), as shown in Table 7 below. This includes the proposed 2.4% increase in the general rate of benefits (2019: also +2.4%), and further increases due to changes in the number of people claiming benefit, particularly old age pensions. In addition, administration costs in 2020 are estimated to be £5.1m (2019 revised: £5.1m).

5.5. 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 Guernsey Insurance Fund. Expenditure is estimated to increase by 3.2% to £132.0m in 2020 (2019 Forecast: +3.6% to £127.9m). As of 1 July 2019, there were 18,501 people in receipt of a pension from Guernsey (2018: 18,199). Pension expenditure is increasing due to larger numbers of people reaching pension age, but it is also affected by lower mortality rates, meaning that people are enjoying longer retirements, with many more people living into and beyond their 80s.

Table 7 – Summary of expenditure for the Guernsey Insurance Fund

	2020 Budget £m	**2019 Forecast £m**	**2018 Actual £m**	**2017 Actual £m**	**2016 Actual £m**
Pension	132.0	127.9	123.5	117.5	115.4
Incapacity	8.8	8.6	8.6	8.0	8.1
Sickness	4.5	4.3	4.1	3.9	3.8
Parental	2.3	2.4	2.3	2.1	1.2
Travelling Allowance Grant	2.5	2.5	2.8	2.1	2.1
Bereavement	1.9	2.0	1.8	1.9	1.9
Unemployment	1.0	1.0	0.9	1.0	1.4
Industrial	0.9	0.8	0.9	0.8	0.8
Total benefit expenditure	**153.9**	**149.5**	**144.9**	**137.3**	**134.7**
Administration	5.1	5.1	4.6	4.5	4.8
Total expenditure	**159.0**	**154.6**	**149.5**	**141.8**	**139.5**

Old age pension policy decisions

5.6. The transition to increase pension age from 65 to 70 will start from January 2020. This will take place in two month increments every ten months, until transition is complete and pension age reaches 70 in 2049. This means that a person who reaches age 65 between 1st January and 31st October 2020 will have to wait an extra two months before receiving their old age pension. The pension age increase changes will help to slow the decline of the Guernsey Insurance Fund as the population ages and people live longer into retirement.

5.7. The Committee has received a number of comments and complaints from individuals, regarding the terminology around the old age pension, noting that the name is outdated and no longer fit for purpose. The Committee has considered the comments received, and proposes that the old age pension is renamed ‘States pension’. The Committee believes that this is a more modern and inclusive title. It reflects that it is the pension received in respect of social insurance contributions made to Social Security, so that it will not get confused with other pensions that people may have, or the secondary pension scheme that, subject to States approval, will be implemented in the near future.

5.8. It may not widely be known that when a person is imprisoned, all benefit payments stop automatically. This includes old age pension, for which the prisoner has paid contributions over their working life. As they are over pension age, they do not have a work requirement while in prison, and therefore cannot earn a small wage from participation in the Release on Temporary Licence (ROTL) scheme, which for prisoners under pension age, takes place during the last few months of their sentence. Those participating in the ROTL scheme are able to save the wages earned, which they can access upon their release from prison. This cash may help the ex-offender with the deposit on a rental property and to resettle into the community.

5.9. There has been international discussion on whether prisoners should be able to receive their state pension for the duration of their sentence. Ireland had a Supreme Court ruling in 2017, where legislation disqualifying a person from receiving any benefit while imprisoned was challenged on the basis that people have a right to access justice through the courts system, and that disqualification from receiving their pension could be considered to be an additional punishment to that which had been imposed by the court system. While this argument has not been tested through the Guernsey court system, it adds to the Committee’s justification for reconsidering the total disqualification of pensions during imprisonment.

5.10. As private and occupational pensions continue to be paid during a term of imprisonment, the suspension of the old age pension disproportionately penalises those pensioners who do not have private or occupational pensions. The Committee also considers that the current suspension of pensions has a negative impact on prisoners’ lives after prison, as they may be released with no savings to help them resettle in the community. This may increase their susceptibility to homelessness, the likelihood of reoffending, and their reliance on income support.

5.11. The Committee has therefore decided that the fairest and easiest way of implementing some support for pensioners in prison, is to pay their pension for the last 18 weeks of their sentence. This will align with the timeframe that prisoners under pension age can earn a small wage while participating in the ROTL scheme, which is up to the last four and a half months of their sentence. This means that they would receive a lump sum of their pension on release, which provides more equality between older prisoners and those of working age. This change can be implemented through a Regulation made by the Committee, which it proposes will come into operation on 1st January 2020.

5.12. The final policy change to mention in relation to old age pension is that progress is being made on the negotiation of a reciprocal social security agreement on pensions between Guernsey and Latvia. This will allow pension contributions made in either jurisdiction to count towards the calculation for pension entitlement in the other jurisdiction. Guernsey has been entrusted by the UK to enter into negotiations with Latvia. It is anticipated that negotiations could be concluded this year, or early next year, with implementation before the end of 2020, depending on how long it takes to obtain final approval. A condition of the entrustment is that the Agreement will be scrutinised by the Ministry of Justice prior to finalisation. This agreement is a positive step towards recognising the contributions paid by Latvians while working in Guernsey.

6. Health service benefits

6.1. This section concerns the benefits that are funded from the Guernsey Health Service Fund. Given that the States has resolved to transfer the responsibility for healthcare funding and associated benefits to the mandate of the Committee *for* Health & Social Care in due course, the Committee is not recommending any policy changes for 2020. The only change will be the usual increase in the prescription charge of ten pence, which is broadly in line with the uprating policy for contributory benefits.

<u>Medical benefit grants</u>

6.2. The total benefit expenditure on consultation grants is forecast at £3.3m for 2019. It was £3.4m in 2018. This represented a decrease of 2.6% on the 2018 cost. The consultation grants remained unchanged at £12 towards a consultation with a doctor and £6 towards a consultation with a nurse.

6.3. The Committee is not recommending any change in the level of the consultation grants for 2020. 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.'

6.4. The Committee is not making any recommendation regarding the grants for 2020, to reflect the forthcoming reform of healthcare funding, and that consequently, any changes to the grants will become a matter for the Committee *for* Health & Social Care to consider.

Pharmaceutical service

6.5. Drugs, medicines and appliances, cost a total of £19.1m in 2018, before netting off prescription charges of £2.2m paid by patients, and rebates and discounts. Therefore the total cost of the service in 2018 was £16.8m. The number of items prescribed under the pharmaceutical service increased by 0.8%, compared to 2017, to approximately 1.5m items. Cost growth was kept under control by savings from generic expiries and reduced prescribing of low value products. In addition, significant costs were avoided by the controlled entry of new drugs onto the prescribing list. There was a decrease of 1.2% in the number of paid prescriptions, due to fewer prescriptions being issued by Primary Care for antibiotics, opioid analgesics, hypnotics and anxiolytics.

6.6. The significant reduction of the cost of drugs is due to the success of the Prescribing and Formulary Panel, which reviews drugs to ensure that only those that are low cost and medically effective are permitted onto the prescribing '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. There was an above-average increase in the cost of medical appliances (8.1%), the monitored dosage system service (5.1%) and the oxygen service (18.9%). This is attributed to the ageing population, improved survival of patients with severe illnesses, and the overwhelming desire for older people to remain in their own homes for longer. The oxygen service's significant increase is attributed to increased complexity of care, therefore the number of consumables required has increased. In previous years, expenditure in relation to the oxygen service had been stable or reduced.

6.8. The prescribing of drugs is carefully scrutinised and managed, to ensure that costs are reduced as far as possible. The Committee notes the proposal to allow all NICE approved drugs to be prescribed in Guernsey, and the significant additional estimated costs that would be incurred, should it be approved.

Prescription charge

6.8 The prescription charge has traditionally been uprated by ten pence each year. The standard prescription charge for people who are not exempt was set at £4.00 in 2019. The Committee is proposing for 2020 that the prescription charge be increased to £4.10. This is an increase of 2.5%, which is broadly in line with the uprating policy for contributory benefits.

6.9. The Committee notes that the total cost of prescriptions in 2018, including the drug costs and dispensing fees, was £19.1m. £2.2m was recovered through the payment of prescription charges, set at £4.00 per item. 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 Prescribing Support Unit, the cost of providing these drugs is likely to increase in the coming years as rising life expectancy and an ageing 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 (MSG). 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.

6.12. The contract is designed to support the ongoing transformation of health and social care. 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 MSG contract amounted to £18.1m in 2018. The forecast for 2019 expenditure is £18.5m. The increase in budget is due to the required appointment of an additional gastroenterologist, inflation, and an increase in insurance costs (which have been offset to some extent by the savings target imposed on MSG under the contract). Throughout 2019, the Committee has approved funding for the Orthopaedic waiting list initiative, and increased spending for a mobile cardiac CT service.

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 £2.3m in 2018, and expenditure for 2019 is forecast to remain at £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 people under the age of 21, through GP practices and the sexual health clinics. Analysis after running the programme for 16 months showed a significant reduction in the number of under 18 pregnancies.

6.17. Following the debate of the reform of healthcare funding policy letter (Billet d'État X of 2019, Article 7), it has been approved that the current non-statutory pilot scheme would become permanent in the future. It will continue under the mandate of the Committee, funded through the Guernsey Health Service Fund, until responsibility for healthcare funding transfers to the Committee *for* Health & Social Care, when the service will be funded from General Revenue.

Summary of expenditure financed by the Guernsey Health Service Fund

6.18. Table 8 overleaf summarises the impact of the proposed benefit rates on projected expenditure from the Guernsey Health Service Fund for 2020, and the 2019 revised forecast at the time of writing. This is compared with the actual expenditure figures for 2016-2018.

Table 8 – Summary of expenditure for the Guernsey Health Service Fund

	2020 Budget £m	2019 Forecast £m	2018 Actual £m	2017 Actual £m	2016 Actual £m
Specialist Health Insurance	22.6	21.3	20.7	20.5	20.1
Pharmaceutical	18.8	17.9	16.8	16.2	16.3
Consultation grants	3.4	3.1	3.4	3.3	3.4
Visiting Medical Consultants	0.9	0.8	0.8	0.8	0.7
Primary Care Psychological Therapies	0.4	0.4	0.4	0.4	0.3
Free Contraception for the under 21s (pilot)	0.1	0.1	0.1	-	-
Total Benefit Expenditure	**46.2**	**42.3**	**41.5**	**41.2**	**40.8**
Administration	1.6	1.7	1.6	1.3	1.6
Total expenditure	**47.8**	**43.9**	**43.1**	**42.5**	**42.4**

7. Long-term care benefits

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

Co-payment (personal contribution) from 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 2019 personal contribution is £205.45 per week. The Committee recommends a personal contribution of £209.37 per week from 6th January 2020.

7.3. It should be noted that the personal contribution, plus the cost of care funded by the Long-term Care Insurance Fund sets the level of fees to be charged for accommodation in States-run homes and long-stay wards. This includes 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 private care homes 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 9 overleaf explains the breakdown of funding.

Table 9 – Overview of weekly long-term care benefit and fees (2019 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>£455.21</td><td rowspan="3">Long-term Care Insurance Fund</td></tr>
<tr><td>Residential (dementia/EMI)</td><td>£599.83</td></tr>
<tr><td>Private nursing home</td><td>£849.94</td></tr>
<tr><td colspan="2">Personal contribution</td><td>£205.45</td><td>Resident (or income support)</td></tr>
<tr><td colspan="2">Top-up fees (homes may charge top-up fees above the States approved rate)</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 2016 policy letter on the Supported Living and Ageing Well Strategy (SLAWS) (Billet d'État III of 2016, Volume II, Article XIV). It is anticipated that proposals on the future of long-term care funding, in respect of those resolutions, will be brought to the States in December 2019. The proposals will provide States Members with a number of options to consider. A significant amount of progress has been achieved in attempting to get the correct balance to ensure that the Long-term Care Insurance Fund is sustainable, while not causing an unjust burden on Islanders accessing long-term care, and also ensuring that care homes are financially sustainable.

Long-term care benefit rates

7.6. The Committee recommends that the rates of long-term care benefit be increased by 1.9%, with effect from 6th January 2020, as set out in Table 10.

Table 10 – Weekly rates of long-term care benefit

	2020	**2019**
Residential care benefit	**£463.89**	£455.21
Residential – dementia (Elderly mentally infirm)	**£611.24**	£599.83
Nursing care benefit	**£866.11**	£849.94

Respite care benefit

7.7. People 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 for as long as practicable. It also acknowledges that people having respite care continue to bear the majority of their own household expenditure at the same time. 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 11 below, with effect from 6th January 2020.

Table 11 – Weekly rates of respite care benefit

	2020	2019
Residential care respite benefit	**£673.26**	£660.66
Residential – dementia (EMI) respite benefit	**£820.61**	£805.28
Nursing care respite benefit	**£1,075.48**	£1,055.39

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

7.9. Table 12 below summarises the impact of the proposed benefit rates on projected expenditure from the Long-term Care Insurance Fund for 2020, along with the 2019 revised forecast at the time of writing, compared with the actual expenditure figures for 2016-2018.

Table 12 – Summary of expenditure for the Long-term Care Insurance Fund

	2020 Budget £m	2019 Forecast £m	2018 Actual £m	2017 Actual £m	2016 Actual £m
Residential care	11.3	10.8	10.6	9.8	8.6
Nursing care	10.0	9.6	9.0	9.6	9.8
Total benefits expenditure	**21.3**	**20.4**	**19.6**	**19.4**	**18.4**
Administration	0.4	0.4	0.3	0.3	0.3
Total	**21.7**	**20.8**	**19.9**	**19.7**	**18.7**

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.

8.2. There is a legal requirement for an independent actuarial review of the contributory funds to take place every five years. The next review is due for the five year period from 2015 to 2019, which will take place during 2020. The anticipated cost is approximately £100K, which is based on the cost of the previous review. The review is likely to cover only the Guernsey Insurance Fund and the Long-term Care Insurance Fund. This is because, in line with the resolutions from the June 2019 policy letter on the reform of healthcare funding, the Guernsey Health Service Fund will be discontinued in due course, so it was decided that an actuarial review of that Fund would not be necessary.

Guernsey Insurance Fund: summary of the financial position

8.3. The financial performance of the Guernsey Insurance Fund is shown in Table 13. The 2020 budget estimates that the operating deficit will increase to £26.5m (2019 forecast: £24.9m deficit). The Fund has now been in deficit, before investment returns are taken into account, since 2009.

8.4. 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 13 – Financial performance of the Guernsey Insurance Fund

	2020 Budget £m	2019 Forecast £m	2018 Actual £m	2017 Actual £m	2016 Actual £m
Income	132.5	130.0	125.9	122.3	117.3
Expenditure	(159.0)	(154.9)	(149.5)	(141.8)	(139.4)
Operating deficit	(26.5)	(24.9)	(23.6)	(19.5)	(22.1)
Investment returns	31.0	33.9	(33.1)	56.0	76.5
Net surplus/(deficit) for the year	4.5	9.0	(56.8)	36.5	54.4
Net assets at 1st January	721.5	712.5	769.3	731.2	676.8
Net assets at 31st December	726	721.5	712.5	767.7	731.2
Expenditure cover in years	4.6	4.7	4.8	5.4	5.2

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

8.6. There is an outstanding work stream for the Committee to analyse the uprating policy applied to the old age pension to ensure the sustainability of the Guernsey Insurance Fund. This action will be taken once the Committee has received the conclusions from the 2015-19 actuarial review, which it hopes to receive no later than during 2021.

Guernsey Health Service Fund: summary of the financial position

8.7. The financial performance of the Guernsey Health Service Fund is shown in Table 14. The 2020 budget estimates that the operating deficit will be £4.7m (2019 forecast: £1.8m deficit), with the States grant not being reinstated.

Table 14 – Financial performance of the Guernsey Health Service Fund

	2020 Budget £m	2019 Forecast £m	2018 Actual £m	2017 Actual £m	2016 Actual £m
Income	43.1	42.3	41.0	39.5	43.6
Expenditure	(47.8)	(44.1)	(43.8)	(42.5)	(42.3)
Operating surplus/(deficit)	(4.7)	(1.8)	(2.8)	(3.0)	1.3
Investment returns	5.0	6.2	(5.3)	8.9	12.0
Net surplus/(deficit) for the year	(0.3)	4.4	(8.1)	5.9	13.3
Net assets at 1st January	118.8	114.4	122.5	116.4	103.1
Net assets at 31st December	119.1	118.8	114.4	122.3	116.4
Expenditure cover in years	2.5	2.7	2.9	2.9	2.8

8.8. 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 reinvested 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.

8.9. When the resolutions from the June 2019 reform of healthcare funding policy letter are discharged, the Guernsey Health Service Fund will be discontinued and the balance of the fund converted into ring-fenced General Revenue funds, which will be known as the Guernsey Health Service Allocation (GHSA). The GHSA will still be partly funded by contribution income, for which the policy decisions will remain the responsibility of the Committee.

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

8.10. The financial performance of the Long-term Care Insurance Fund is shown in Table 15 below. The 2020 budget estimates that the operating surplus will increase to £7.8m (2019 forecast: £8.2m 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 15 – Financial performance of the Long-term Care Insurance Fund

	2020 Budget £m	2019 Forecast £m	2018 Actual £m	2017 Actual £m	2016 Actual £m
Income	29.6	29.0	28.0	26.6	19.4
Expenditure	(21.8)	(20.8)	(19.9)	(19.7)	(18.7)
Operating surplus	7.8	8.2	8.1	6.9	0.7
Investing activities	3.8	4.0	(3.9)	5.0	6.4
Net surplus/(deficit) for the year	11.5	12.2	4.2	11.9	7.1
Net assets at 1st January	91.4	79.2	75.0	62.9	55.8
Net assets at 31st December	102.9	91.4	79.2	74.8	62.9
Expenditure cover in number of years	4.7	4.4	4.0	3.8	3.4

8.11. 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 from 1st January 2017. However, further measures will be required in the coming years to ensure the sustainability of the Fund in the longer term.

8.12. Following the States approval of the Supported Living and Ageing Well Strategy in February 2016, the Committee has been progressing work to investigate how the funding and delivery of long-term care services can be restructured to improve the sustainability of the Long-term Care Insurance Fund. Proposals will be brought to the States for debate in December 2019.

Investment returns

8.13. The reserves of the three funds are invested jointly in a portfolio supervised by a sub-committee and advised by investment professionals. Implementation of a revised strategic asset allocation was completed in 2018. The new allocation has reduced the level of risk in the portfolio.

8.14. The expected return of the investments on a 10 year forward view is Libor plus 3.7%. Actual performance in the calendar year 2018 was -4.15%. It should be noted that the FTSE 100 fell by 12.5% that year. For the six months to June 2019, the investment return has been 5.7%.

8.15. A Member of the Policy & Resources Committee attends the meetings of the Employment & Social Security Investment Sub-Committee, and a Member of ESS attends the Policy & Resources Investment Sub-Committee meetings. Treasury staff provide the administrative support for both Sub-Committees. The Policy & Resources Committee and the Committee *for* Employment & Social Security have agreed to pursue new governance arrangements involving a single Investment Sub-Committee with a membership that includes additional non-States Members. One of the objectives would be to ensure continuity through the election cycle and changing Committee memberships.

PART IV: CONCLUSIONS

9. Resource and implementation plan

9.1. Table 16 shows how the Committee has considered the resources required to implement the propositions set out in this policy letter.

Table 16 – Resource and implementation plan

Details considered	Committee comment
Cost	This policy letter recommends that benefit rates are uprated by 2.4% for 2020, which is in line with the uprating policy, 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 6th January 2020.
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 a moderate 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.

10.3. The Committee has set out its proposals for the benefit and contribution rates for 2020 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

J A B Gollop
P J Roffey
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 2020

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

9th September 2019

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 2020' be considered at the States' meeting to be held on 16th October 2019.

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 2020 can be applied from 1st January 2020.

Yours faithfully

Michelle Le Clerc
President

Shane Langlois
Vice President

John Gollop, Peter Roffey, Emilie Yerby

Mike Brown, Andrew Le Lievre
Non-States Members