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THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

COMMITTEE *FOR* EMPLOYMENT & SOCIAL SECURITY

CONTRIBUTORY BENEFITS AND CONTRIBUTION RATES FOR 2021

The States are asked to decide:

Whether, after consideration of the Policy Letter entitled 'Contributory Benefits and Contribution Rates for 2021', dated 29th June 2020, 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 2021.

2. To set the standard rates of contributory social insurance benefits as set out in Table 6 of that Policy Letter, from 4th January 2021.

3. 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 BENEFITS AND CONTRIBUTION RATES FOR 2021

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

29th June, 2020

Dear Sir

1. Executive summary

1.1. This annual Policy Letter has in previous years contained propositions concerning contributions and benefits relating to Guernsey Insurance Fund, the Guernsey Health Service Fund and the Long-term Care Insurance Fund. This year, the propositions are almost entirely related to the Guernsey Insurance Fund. Propositions concerning the Long-term Care Insurance Fund are contained in a separate Policy Letter entitled 'Supported Living and Ageing Well Strategy: Extending the Life of the Long-term Care Insurance Scheme', which the Committee intends publishing simultaneously with this Policy Letter. Most matters concerning benefits under the Guernsey Health Service Fund have, since 1st June 2020, become the responsibility of the Committee *for* Health & Social Care. This follows States' approval of The Machinery of Government (Transfer of Functions) Ordinance, 2020[1].

1.2. A further Policy Letter on non-contributory benefits such as income support, severe disability benefit and carer's allowance will be brought to the States later this year, alongside the States' Budget for 2021.

1.3. The Committee noted in its Policy Letter on contributory benefits and contribution rates for 2020 that the current contribution rates were insufficient to support the long-term sustainability of the Guernsey Insurance Fund, Long-term Care Insurance Fund and Guernsey Health Service Fund. However, with the five-yearly independent actuarial review of the Funds

[1] The Machinery of Government (Transfer of Functions) Ordinance, 2020 (Billet d'État XI of 2020, Article IV)

being undertaken during 2020, and the impact of COVID-19 not being fully known as yet, the Committee is not proposing any change to the percentage contribution rates for 2021. The Committee does, however, wish to make it clear to the States that increases in contributions in future are inevitable if pensions and other benefit rates are to maintain their relative value.

1.4. The Committee accepts that, in the context of this Policy Letter and the companion Policy Letter on extending the life of the Long-term Care Insurance Scheme, the funding issues need to be considered within the overall Review of the Taxation Strategy and the recovery from the COVID-19 crisis.

1.5. The Committee is recommending that the States pension and all other benefits financed from the Guernsey Insurance Fund be increased by 2.6% from January 2021, in accordance with the approved uprating policy. The Committee is recommending that upper and lower earnings and income limits for contributions are also increased by 2.6% from January 2021.

2. Contributions

Proposed contribution rates for 2021

2.1. The Committee is not recommending any changes in the percentage rates of contributions for 2021. Contribution rates will therefore remain as follows in Tables 1-3 below. As well as showing the total contribution rates paid by individuals and employers, the rates show the constituent parts of the contribution which are allocated to the Guernsey Health Service Fund and the Long-term Care Insurance Fund.

Table 1 – Contribution rates for 2021, and the proportions of income split between the funds for employed persons (Class 1) – no change

Employed persons (Class 1)	2021
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 2021, and the proportions of income split between the funds for self-employed persons (Class 2) – no change

Self-employed persons (Class 2)	2021
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 2021, and the proportions of income split between the funds for non-employed persons (Class 3) – no change

Non-employed persons (Class 3)	2021
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. As the Committee has stated in each of its annual Policy Letters of this nature in recent years, the current levels of contributions into all three funds will not meet the financial requirements of maintaining benefits at their current relative value in years to come.

2.3. A number of steps have been taken and are being reviewed, in order to address this, including the Committee's proposal to increase the Class 1 contribution rates into the Guernsey Insurance Fund by 0.5% as a first step towards ensuring the sustainability of the Fund. However, the States did not support this proposal in February 2020[2]. The Committee is still of the opinion that this increase, and further increases will be necessary and notes the obligation of its successor Committee to report back to the States no later than the last quarter of 2021, with further proposals to secure the financial sustainability of the Guernsey Insurance Fund.

2.4. The States' approval of the proposals for the implementation of a Secondary Pensions Scheme for Guernsey and Alderney[3] will, in the long-term, help to improve people's income in retirement. However, further measures are required to protect the sustainability of the Guernsey Insurance Fund, as

2 Uprating policy for States Pension (Billet d'État V of 2020, Article IX)

3 Secondary Pensions: Detailed Proposals for the Introduction of Automatic Enrolment into Private Pensions and the Establishment of "Your Island Pension" (Billet d'État IV of 2020, Article II)

Secondary Pensions are intended to supplement, and not replace, the States pension.

2.5. Further, the Committee is in the process of having independent actuarial reviews of the Guernsey Insurance Fund and Long-term Care Insurance Fund completed, which will show the extent of the concerns around the sustainability of the Funds. There have been some delays to the actuarial reviews, due to access to necessary data, and by reason of the COVID-19 lockdown, but it is hoped that the reviews can be completed by the end of 2020.

Uprating policy

2.6. The States-approved pension uprating policy is to apply annual increases of the Quarter 2 annual RPIX figure plus one third of the real increase in median earnings. The earnings index is taken as of the end of the previous calendar year. The States reaffirmed this position in February 2020, through their approval of the Committee's proposal to maintain this uprating policy in the future[4].

2.7. Due to the possibility that the General Election may be held in October 2020, the submission of this Policy Letter has been brought forward to meet the deadline for what is anticipated to be the last States Meeting of the political term, scheduled for 19th August 2020. This is because any debate that would take place following an October election would be too late in the year for new upper and lower contribution limits to be adjusted from 1st January 2021, and it is not currently possible to implement changes to these limits, or other contribution rates, at any time other than the start of a calendar year.

2.8. The impact of the Policy Letter being submitted earlier than normal is that it was not possible, by the submission deadline, to obtain the RPIX figure for Quarter 2 2020, which is the figure that should be used, according to the uprating policy, to calculate the proposed benefit and contribution limits for the following year. That being so, the Committee has proposed rates based on the Quarter 1 2020 figure instead. The March 2020 annual RPIX figure was 2.5% and the nominal change in median earnings at December 2019 was 2.7%. The calculation is shown below:

$$(2.7\% - 2.5\%) \div 3 + 2.5\% = 2.6\%$$

2.9. 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 provided

[4] Uprating policy for States Pension (Billet d'État V of 2020, Article IX)

from the Guernsey Insurance Fund are increased in line with the uprating policy figure of 2.6% in 2021. The Committee recommends that the same increase should apply to the upper and lower earnings and income limits for contributions.

2.10. Should the Q2 2020 annual RPIX figure, when published, be similar to the Q1 2020 figure that has been used, then the impact on recommended benefit rates will be minimal. However, should the figure be significantly different, this could lead to the benefit rates proposed for 2021 being substantially higher or lower than they should be, had the correct figure been available for the calculation. The Committee will consider the impact of this and, if necessary, will lay a suitable amendment to its own propositions. Again, depending on the amount of the difference, the Committee may leave the propositions unchanged and suggest that its successor Committee should take the difference in the two figures into account when proposing contribution and benefit rates for 2022.

Proposed contribution limits and rates for 2021

2.11. The Committee is recommending that all contribution earnings and income limits are increased by 2.6%, in accordance with the uprating policy.

2.12. Table 4 overleaf shows the effects of the 2.6% increase for 2021 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 apply in 2020.

Table 4 – Contribution limits and rates for 2021

		2021	2020
Class 1 – Employer/Employee		**6.6% / 6.6%**	**6.6% / 6.6%**
Upper Earnings Limit:	Weekly	£2,955.00	£2,880.00
	Monthly	£12,805.00	£12,480.00
Lower Earnings Limit:	Weekly	£148.00	£144.00
	Monthly	£641.33	£624.00
Weekly full rate:	Maximum	£195.03	£190.08
	Minimum	£9.77	£9.50
Class 2 – Self-employed people		**11%**	**11%**
Annual Earnings Limit:	Maximum	£153,660.00	£149,760.00
	Minimum	£7,696.00	£7,488.00
Weekly full rate:	Maximum	£325.05	£316.80
	Minimum	£16.28	£15.84
Voluntary overseas contribution		£111.69	£108.86
Class 3 – Non-employed people[5]:			
Under pension age		**10.4%**	**10.4%**
Over pension age		**3.4%**	**3.4%**
Annual Income Limit:	Maximum	£153,660.00	£149,760.00
	Minimum	£19,240.00	£18,720.00
Allowance (both under & over pension age)		£8,695.00	£8,460.00
Weekly full rate: (under pension age)	Maximum	£289.93	£282.60
	Minimum	£21.09	£20.52
Weekly full rate: (over pension age)	Maximum	£94.78	£92.39
	Minimum	£6.89	£6.71
Overseas contributor (per week)		£101.03	£98.47
Voluntary contribution (per week)		£21.09	£20.52
Special rate non-employed (per week)		£21.09	£20.52

2.13. 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.

2.14. 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 pay earnings-related or income-related contributions. People with income at some point between the upper and lower income limits will pay pro-rata.

5 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.

2.15. 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.

2.16. 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 States pension entitlement. A voluntary contribution, which counts towards States 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.

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

2.18. 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>

2.19. The four quarter averages, from Q1 2019 to Q4 2019, of the number of contributors paying at the upper limits and the corresponding percentages are shown in Table 5 below.

Table 5 – Average no. contributors paying at upper limits – Q1 to Q4 2019

	No. contributors paying at upper limits	**Proportion of total for each classification**
Employee	604	2.1%
Self-employed	309	12.4%
Non-employed	331	5.8%

3. States grants to the 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. The estimated costs to General Revenue of the States grant to the Guernsey Insurance Fund in 2020 is £17.1m and is expected to be £16.8m in 2021. The actual figure for 2020 is expected to be substantially lower as many people's earnings, and therefore contributions paid, were reduced due to the COVID-19 pandemic, with many employed people being furloughed or retained on the minimum wage co-payment scheme. The deferral of employer and self-employed contributions for Quarter 1 and Quarter 2 2020 payments would also have an impact on contribution income. The 2021 budgeted contribution income is an estimate based on information currently available.

3.2. The resolutions from the debate of the Policy Letter on the Reform of Health Care Funding[6] resolved, among other things, that some of the contributions allocations into the Guernsey Health Service Fund will be redistributed to the Guernsey Insurance Fund. This is to avoid what would otherwise be a flow of General Revenue in both directions: one being a transfer from overall contribution collections to General Revenue by way of a Guernsey Health Service Allocation and the other being an inward transfer of a grant from General Revenue to the Guernsey Insurance Fund. The effect of the resolutions of the States will, when the necessary legislation has been approved by the States and brought into force, be that the Guernsey Insurance Fund will be funded entirely from contribution income and investment income. The grant from General Revenue will be removed.

3.3. 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 States' budgeting for the Committee *for* Health & Social Care's expenditure in 2017. In the light of the transfer of responsibility for health service benefits from the Committee to the Committee *for* Health & Social Care, from 1st June 2020, and the resolutions of the States referred to in the preceding paragraph, this Policy Letter makes no recommendations concerning a States grant from General Revenue to the Guernsey Health Service Fund.

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[6] Reform of Health Care Funding (Billet d'État X of 2019, Article VII)

4. Expenditure

Proposed benefit rates for 2021

4.1. As explained in paragraph 2.11, the Committee is recommending that Guernsey Insurance Fund benefits are increased by 2.6%, in line with the States-approved uprating policy.

4.2. The proposed new weekly rates of benefit, effective from 4th January 2021, are set out in Table 6 below. These rates 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 social insurance benefits for 2021

Weekly paid benefits	2021	2020
Old age pension		
Insured person	£228.37	£222.58
Increase for dependent wife[7]	£114.39	111.49
Total	£342.76	£334.07
Survivor's benefits		
Widowed parent's allowance	£240.16	£234.07
Bereavement allowance[8]	£206.50	£201.27
Maternal health allowance, newborn care allowance, and parental allowance	£228.83	£223.02
Unemployment benefit, sickness benefit, and industrial injury benefit	£168.07	£163.80
Incapacity benefit	£201.95	£196.84
Industrial disablement benefit (100%)[9]	£184.03	£179.37
One off grants:		
Maternity grant and adoption grant	£421.00	£410.00
Death grant	£657.00	£640.00
Bereavement payment	£2,074.00	£2,021.00

Financial forecasting and budgeting

4.3. The approach to the financial forecasting and budgeting has not been undertaken in the same way as normal, due to the time constraints of preparing the Policy Letter and the data and figures available at the time of

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

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

9 Lower rates are payable based on degree of disability.

drafting. Under normal circumstances, the change in demand, and any other factors that could affect expenditure during the following year, would be taken into consideration when forecasting after the end of Quarter 2. For example, policy decisions like the pension age increasing, would have an impact on pension expenditure, and would therefore be factored into the budget for the following year.

4.4. Further, there would be additional challenges presented due to the impact of COVID-19 on demand for unemployment benefit and sickness benefit, which mean that straightforward calculations based on demand would not be an accurate basis for the 2021 budget estimates. Therefore, given the time constraints of submitting this Policy Letter for debate before the possible General Election, the Committee has taken the approach of calculating the increase in cost on the 2020 budget, including any known adjustments, of applying the 2021 uprating figure of 2.6%. This effectively provides an impact analysis of the uprating proposals, rather than a budget for 2021.

Summary of expenditure financed by the Guernsey Insurance Fund

4.5. If the proposals for benefit rates are approved, the 2021 estimated social insurance benefit expenditure will be £162.9m (2020 Budget: £154.3m), as shown in Table 7 overleaf. This includes the proposed 2.6% increase in the general rate of benefits (2020: 2.4%) and the anticipated increases due to changes in the number of people claiming benefit during the COVID-19 pandemic, and other policy decisions such as the increasing pension age. In addition, administration costs in 2021 are estimated to be £5.0m.

4.6. Social insurance benefits are statutory entitlements based, almost wholly, on contributions paid. States pension expenditure accounts for over 85% of the total benefit expenditure of the Guernsey Insurance Fund. As of 1st June 2020, there were 18,576 people in receipt of a pension from Guernsey (1st July 2019: 18,501). 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. The increasing of the States pension age, which started from 1st January 2020, will have the effect of slowing this increase in expenditure. Pension age is increasing by two months every ten months, until it reaches age 70 by 2049.

4.7. Table 7 overleaf shows annual benefit and administrative expenditure for the Guernsey Insurance Fund for the years 2017 to 2019, the budget estimate for 2020 and an estimate for 2021 in terms of impact of proposals on 2020 figures (see explanation at paragraph 4.4 above)

Table 7 – Summary of expenditure for the Guernsey Insurance Fund

	2021 Est. Impact £m	2020 Budget £m	2019 Actual £m	2018 Actual £m	2017 Actual £m
States Pension	139.5	132.0	128.7	123.5	117.5
Incapacity	9.2	9.0	8.8	8.6	8.0
Sickness	4.8	4.6	4.5	4.1	3.9
Parental	2.5	2.4	2.5	2.3	2.1
Travelling Allowance Grant	2.5	2.5	2.5	2.8	2.1
Bereavement	2.0	1.9	1.8	1.8	1.9
Unemployment	1.5	1.0	0.9	0.9	1.0
Industrial	0.9	0.9	1.0	0.9	0.8
Total benefit expenditure	**162.9**	**154.3**	**150.7**	**144.9**	**137.3**
Administration	5.0	4.9	4.4	4.6	4.5
Total expenditure	**167.9**	**159.2**	**155.1**	**149.5**	**141.8**

Updates on States pension policy

4.8. In the Committee's Policy Letter on contributory benefits and contribution rates for 2020, a number of policy matters relating to the States pension were considered and approved by the States. This section provides a brief update on some of those work streams.

4.9. Firstly, the States resolved to rename the 'old age pension' to 'States pension'. The legal drafting of the required Ordinance to make this change is in progress. The Committee is using the term 'States pension', and has done so throughout the various Policy Letters that it has brought to the States since that decision, with an acknowledgment that the legislation is to follow.

4.10. Secondly, the negotiation of a reciprocal social security agreement on pensions between Guernsey and Latvia has almost reached conclusion. This will allow partial pensions to be paid on relatively small numbers of contributions made in either jurisdiction. This is where insufficient contributions have been paid to qualify for a minimum rate pension in one country, but if the contribution records of both countries were combined, the threshold would be met. The agreement will also allow pension entitlements earned through contributing to the Latvian system to be paid to pensioners residing in Guernsey. (Guernsey already pays pensions overseas without the necessity of a reciprocal agreement).

4.11. It is anticipated that the agreement will be signed as soon as travel restrictions allow a meeting in person to take place. Subsequently, an Ordinance of the States will be needed to bring the agreement into effect. Similarly, a legislative instrument will need to be approved in Latvia.

4.12. Thirdly, in February 2020[10], the States approved proposals for the establishment of a Secondary Pensions Scheme involving an obligation on employers to auto-enrol their employees either into a default scheme, to be established by the States, or into another scheme that meets standards set by the States. These secondary pensions will be in the form of individual accounts. The States approved the appointment of Smart Pension Ltd to be the administrator of the default pension arrangement. The target is for the Secondary Pensions system to begin during 2022.

5. Guernsey Health Service Fund benefits

5.1. As responsibility for the benefits provided under the Health Service (Benefit) (Guernsey) Law, 1990, has transferred to the Committee *for* Health & Social Care, reports and recommendations on those benefits will no longer form part of this annual Policy Letter.

5.2. As regards prescription charges for 2021, for which a recommendation would previously have been included in this annual Policy Letter, the Committee *for* Health & Social Care has advised as follows:

> '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 £4.10 in 2020. The Committee for Health & Social Care is not proposing to increase the charge for 2021, believing instead that a more wide ranging review should take place ahead of 2022. The Committee advises that the review will retain the fundamental principle that patients should be able to obtain drugs, some of which cost hundreds or thousands of pounds, for a standard prescription charge, unless exempt from paying altogether, but give consideration to:-
>
> - How such a standard rate should be set;
> - Whether there should be an annual 'prescription cap' for people who need multiple / repeat prescriptions,
> - Whether, through the rearrangement of funds, some Pharmaceutical Benefit could be used (in conjunction with wider changes in funding) to provide certain patient groups with a designated number of low-cost appointments per year for the purpose of obtaining repeat prescriptions, and

10 Secondary Pensions: Detailed Proposals for the Introduction of Automatic Enrolment into Private Pensions and the Establishment of "Your Island Pension" (Billet d'État IV of 2020, Article II)

- Whether the more effective targeting of Pharmaceutical Benefit could release funding to support the introduction of NICE-approved drugs.

The Committee for Health & Social Care is of the view that this is a complex, but necessary, piece of work aligned to the Partnership of Purpose and Revive and Thrive: Our Recovery Strategy for Guernsey Together.'

6. Long-term Care Insurance benefits

6.1. The Long-term Care Insurance Fund pays benefits to assist with the fees for private sector and third sector residential and nursing homes.

6.2. This annual Policy Letter would normally include proposals relating to the rates of benefit payable under the Long-term Care Insurance Scheme. However, simultaneously with this Policy Letter, the Committee is publishing a separate Policy Letter entitled 'Supported Living and Ageing Well Strategy: Extending the Life of the Long-term Care Insurance Scheme' which among other propositions relating to Long-Term Care Insurance, recommends new rates of benefit for that scheme from 5th October 2020.

7. Financial position of the Guernsey Insurance Fund

7.1. There is a legal requirement for an independent actuarial review of the Guernsey Insurance Fund to be undertaken every five years. The next review is due for the five year period from 2015 to 2019. Following a tendering process, the review is being undertaken by the UK Government Actuary's Department. The work has commenced, but there have been delays to the progression of the work resulting from the COVID-19 pandemic and issues with accessing information on the systems. The review is expected to be completed and published during 2020.

7.2. The recent financial performance of the Guernsey Insurance Fund is shown in Table 8 overleaf. It is estimated that the operating deficit will increase to £36.7m in 2021 (2020 budget: £26.6m deficit). The Fund has now been in deficit, before investment returns are taken into account, since 2009.

7.3. The operating deficit arises when expenditure on benefits and administration exceeds contribution income and the States grant. This shortfall is met by drawing down the Fund's reserves and, although the drawdown has been planned, it of course results in the number of years' expenditure cover remaining in the Fund to reduce. It also reduces the extent to which investment income can contribute to the financing of the scheme.

7.4. An economic crisis, such as the one that is being faced as a result of the COVID-19 pandemic, will cause the Fund to go deeper into deficit as contribution income will have significantly reduced in 2020, while expenditure on sickness and unemployment benefits will have increased substantially.

Table 8 – Financial performance of the Guernsey Insurance Fund

	2021 Est. Impact £m	2020 Budget £m	2019 Actual £m	2018 Actual £m	2017 Actual £m
Income	131.2	132.6	130.6	125.9	122.3
Expenditure	(167.9)	(159.2)	(155.1)	(149.5)	(141.8)
Operating deficit	(36.7)	(26.6)	(24.5)	(23.6)	(19.5)
Investment returns	30.9	30.9	52.8	(33.1)	56.0
Net surplus/(deficit)	(5.8)	4.3	28.3	(56.8)	36.5
Net assets at 1st January	744.4	740.1	712.5	769.3	731.2
Net assets at 31st December	738.6	744.4	740.1	712.5	767.7
Expenditure cover in years	4.4	4.7	4.8	4.8	5.4

7.5. 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 of the Fund would run out completely by 2046. The impact of the COVID-19 pandemic on the Funds has not yet been quantified, however it is expected that the actuarial review will show that the sustainability of the Fund is in a significantly worse position than it was prior to the pandemic. This is due to a reduction in income into the Fund and an increase in unemployment and sickness benefit paid out of the Fund caused by COVID-19.

7.6. As explained in paragraph 2.6, the States supported the Committee's proposal to maintain the uprating policy at RPIX plus one third of the difference between RPIX and the movement in median earnings. This is not an especially generous uprating policy, given that some state pension schemes index with the full movement in earnings. However, when compounded with the demography of an ageing population, the result is that the balance of the Fund continues to decline and will be exhausted if contribution rates remain unchanged. This was the reason behind the Committee's proposal, explained in paragraph 2.3, to increase the Class 1 contribution rates to the Guernsey Insurance Fund by 0.5% as a first step towards ensuring the sustainability of the Fund for future generations. Although this was not supported by the States, the Committee is still of the strong opinion that increases in the contribution rate will be necessary, and notes the obligation of its successor to report back to the States no later than the last quarter of 2021, with further proposals to secure the financial sustainability of the Guernsey

Insurance Fund. The Committee anticipates that the report on the actuarial review of the Fund, when available, will reinforce this requirement.

Investment returns

7.7. The reserves of the Guernsey Insurance Fund 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 revised allocation reduced the level of risk in the portfolio. The expected return of the investments on a 10 year forward view is LIBOR plus 3.7%. Actual performance in the calendar year 2019 was 7.6%. For the period January to May 2020, there has been a negative return of -7.0%.

7.8. 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 is to ensure continuity through the election cycle and changing Committee memberships.

8. Conclusions

Compliance with Rule 4 of the Rules of Procedure

8.1. This Policy Letter has been produced in a short period, reacting to the possibility of a General Election being held in October 2020 and the implications that such a timetable would have on the normal policy, legislative and administrative procedures associated with an uprating of contributory benefits and the lower and upper earning and income limits for contributions. In order to allow for a January uprating of contributory benefits and contributions limits, it has been necessary to submit these propositions in time to ensure debate by the States ahead of an October election, should that be the case.

8.2. Consequently, the Committee has not consulted with the Policy & Resources Committee to the extent that it would in normal circumstances. However, the Committee did make the Policy & Resources Committee aware, through a paper at a joint meeting of the intention to apply a routine set of uprating proposals in accordance with the approved uprating policy of the States. The Policy & Resources Committee indicated that the approach was reasonable.

8.3. The Committee has consulted with the Law Officers regarding the legal implications and legislative drafting requirements resulting from the propositions.

8.4. In this Policy Letter, the Committee has set out its proposals for the rates of Guernsey Insurance Fund benefits and contribution rates and limits for 2021. The propositions accord with 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."

8.5. 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[11]. The Committee's Policy Plan is aligned with the States objectives and policy plans.

8.6. 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
E A McSwiggan
P J Roffey

M J Brown
Non-States Member

A R Le Lièvre
Non-States Member

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11 The Policy & Resource Plan: Phase Two (Billet d'État XII of 2017, Article I)

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

COMMITTEE *FOR* EMPLOYMENT & SOCIAL SECURITY

CONTRIBUTORY BENEFITS AND CONTRIBUTION RATES FOR 2021

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

29th June 2020

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 benefits and contribution rates for 2021' be considered at the States' Meeting to be held on 19th August 2020.

In order that contribution rates and limits can be uprated in 2021, it is imperative that the above-named Policy Letter is considered by the States before the end of October. This is due to the system requirements and processes that need to take place before the end of the year, in order that the rates can be implemented from 1st January 2021, which is the only time of year that contribution rates can be adjusted. In anticipation of the possibility that the General Election may be moved to October 2020, the Committee has prepared this Policy Letter in time for what it anticipates would be the last States Meeting of the political term, 19th August 2020, to ensure that contributory benefits and contribution rates can be uprated in 2021.

Yours faithfully

Michelle Le Clerc
President

Shane Langlois
Vice President

John Gollop, Emilie McSwiggan, Peter Roffey

Mike Brown, Andrew Le Lievre
Non-States Members