P.2021/108

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

COMMITTEE *FOR* EMPLOYMENT & SOCIAL SECURITY

CONTRIBUTORY BENEFITS AND CONTRIBUTION RATES FOR 2022

The States are asked to decide:

Whether, after consideration of the Policy Letter entitled ‘Contributory Benefits and Contribution Rates for 2022’, dated 13th September 2021, they are of the opinion:

1. To increase the percentage contribution rate for employers and employees into the Guernsey Insurance Fund in increments of 0.1% each per year over ten years, and for self-employed persons, and non-employed persons under pension age in increments of 0.2% per year over ten years, with effect from 1st January 2022, as set out in paragraph 3.11 of that Policy Letter.

2. To increase the percentage contribution rate for employees, self-employed persons, and non-employed persons under and over pension age, into the Long-term Care Insurance Fund in increments of 0.1% per year over four years, with effect from 1st January 2022, as set out in paragraph 3.18 of that Policy Letter.

3. If Propositions 1 and 2 are approved, to direct the Committee *for* Employment & Social Security to:

    a) review, in consultation with the Policy & Resources Committee, its ten year plan for increasing contributions each year, and

    b) report to the States each year, in its annual Policy Letter on contributory benefits and contribution rates, on whether to pursue or to adjust the plan, particularly in light of the resolutions following the debate on the Tax Review, the economic circumstances of the Island and other relevant factors at the time.

4. To set the upper weekly earnings limit and the upper monthly earnings limit for employed persons and employers at £3,027.00 and £13,117.00 respectively, from 1st January 2022.

5. To set the lower weekly earnings limit and the lower monthly earnings limit for employed persons and employers at £152.00 and £658.67 respectively, from 1st January 2022.

6. To set the upper and lower annual earnings limits for self-employed persons at £157,404.00 and £7,904.00 respectively, from 1st January 2022.

7. To set the upper and lower annual income limits for non-employed persons at £157,404.00 and £19,760.00 respectively, from 1st January 2022.

8. To set the allowance for non-employed persons at £8,904.00 per year, from 1st January 2022, in line with the uprating policy for contribution rates and to agree that section 8(4) of the Social Insurance (Guernsey) Law, 1978, is amended to allow for the same.

9. If Proposition 8 is approved, to set the voluntary contribution for non-employed persons at £22.34 per week, from 1st January 2022, in line with the minimum weekly amount payable by a non-employed person under pension age.

10. To set the overseas voluntary contribution at £103.45 per week for non-employed people and £114.37 per week for self-employed people, from 1st January 2022.

11. To set the standard rates of contributory social insurance benefits as set out in Table 10 of that Policy Letter, from 3rd January 2022.

12. To set the contribution (co-payment) required to be made by the claimant of care benefit, under the Long-term care Insurance Scheme, at £256.83 per week, from 3rd January 2022, and at £271.67 per week, from 4th July 2022.

13. To set the maximum weekly long-term care benefit at the rates set out below, from 3rd January 2022:

    a) £532.98 per week residential care benefit for persons resident in a residential home;

    b) £696.64 per week elderly mentally infirm (EMI) benefit for qualifying persons in a residential home; and

    c) £961.59 per week nursing care benefit for persons resident in a nursing home or the Guernsey Cheshire Home.

14. To set the maximum weekly respite care benefit:

    a) at the rates set out below, from 3rd January 2022:

        i) £789.81 per week for persons receiving respite care in a residential home;

        ii) £953.47 per week for the elderly mentally infirm (EMI) rate for persons receiving respite care in a residential home; and

iii) £1,218.42 per week for persons receiving respite care in a nursing home or the Guernsey Cheshire Home.

b) at the rates set out below from 4th July 2022:

i) £804.65 per week for persons receiving respite care in a residential home;

ii) £968.31 per week for the elderly mentally infirm (EMI) rate for persons receiving respite care in a residential home; and

iii) £1,233.26 per week for persons receiving respite care in a nursing home or the Guernsey Cheshire Home.

15. To approve, in principle, the policy options set out in paragraphs 6.21 to 6.39 of this Policy Letter in respect of changing the residency conditions to be satisfied to qualify for long-term care benefit, introducing a sliding scale of long-term care benefit entitlement based on length of residency in aggregate in Guernsey, Alderney, Herm or Jethou, and taking into account the capital value of a person's home in the income support means test if the person is living in a residential or nursing home and the property is not occupied by the person's spouse, partner or dependent relative(s).

16. If Proposition 15 is approved, to direct the Committee *for* Employment & Social Security, in consultation with the Policy & Resources Committee, to return to the States with detailed policy proposals in respect of the policy outlined in paragraphs 6.21 to 6.39 of this Policy Letter at the earliest opportunity, but no later than October 2022.

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

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

COMMITTEE *FOR* EMPLOYMENT & SOCIAL SECURITY

CONTRIBUTORY BENEFITS AND CONTRIBUTION RATES FOR 2022

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

13th September 2021

Dear Sir

1. Executive summary

1.1. This annual Policy Letter contains propositions concerning contributions to, and benefits funded from, the Guernsey Insurance Fund and the Long-term Care Insurance Fund and contributions to the Guernsey Health Service Allocation.

1.2. 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 the entry into force of The Machinery of Government (Transfer of Functions) Ordinance, 2020[1]. The legislative changes that will enable the final processes are intended to be implemented in January 2022. These include the closure of the Guernsey Health Service Fund, the repeal of provisions in the Health Service (Benefit) (Guernsey) Law, 1990, relating to Medical Benefit and other benefits, and the transfer of the balance of the Guernsey Health Service Fund to be ring-fenced within General Revenue (where it will be held as the Guernsey Health Reserve).

1.3. The Committee *for* Employment & Social Security ('the Committee') made it clear to the States in its Policy Letter on contributory benefits and contribution rates for 2021[2], and in its companion Policy Letter entitled 'Supported Living and Ageing Well Strategy: Extending the Life of the Long-

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[1] The Machinery of Government (Transfer of Functions) Ordinance, 2020

[2] Contributory Benefits and Contribution Rates for 2021 (Billet d'État XVI of 2020, Article IV)

term Care Insurance Scheme'[3], that the current contribution rates were insufficient to support the long-term financial sustainability of the Guernsey Insurance Fund and the Long-term Care Insurance Fund. Acknowledging that the Long-term Care Insurance Scheme was not financially sustainable without a change in revenues or a change in policy, the States resolved, on 19th August 2020, to direct the Committee, if the Tax Review did not identify measures to ensure the long-term stability of the Fund, to propose, in this report, an increase in the contribution rates of a maximum of 1.3% with effect from 1st January 2022.

1.4. The position outlined above is strongly reinforced by the latest actuarial projections of the Funds that were completed in 2020 for the period ending 31st December 2019. These were laid before the States in February 2021[4]. The UK Government Actuary's Department (GAD) has calculated that the Guernsey Insurance Fund will be exhausted by 2039 unless something is done to address this matter. It is a matter of deep concern that the pension fund could be exhausted in just 18 years if no measures are taken to prevent this. GAD projected that the balance in the Long-term Care Insurance Fund will fall to zero in 2053. This does not take into account the decision in principle, taken by the States of Deliberation in August 2020, to extend the coverage of the Long-term Care Scheme to cover care delivered in peoples' homes. Taking this policy change into account, the balance in the Long-term Care Insurance Fund is projected to fall to zero by 2038.

1.5. As a result, the Committee proposes that the percentage contribution rates of relevant Classes of contributors to the Guernsey Insurance Fund be gradually increased over a ten year period and to the Long-term Care Insurance Fund over a four year period, with effect from 1st January 2022, in order to address the sustainability of the contributory Funds. The Committee proposes to review this plan annually, in consultation with the Policy & Resources Committee, to ensure that it aligns with relevant economic and policy considerations, such as the resolutions made by the States following the debate of the Tax Review[5]. This approach is designed to be deliberately flexible, while allowing for some small steps in the right direction to be taken immediately.

1.6. The Committee is recommending that the States pension and all other benefits financed from the Guernsey Insurance Fund be increased by 2.4% from January 2022, and that benefits financed from the Long-term Care

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3 Supported Living and Ageing Well Strategy: Extending the Life of the Long-term Care Insurance Scheme ([Billet d'État XVI of 2020, Article V])

4 Guernsey Insurance Fund - Actuarial Review as at 31st December 2019 and Long-term Care Insurance Fund - Actuarial Review as at 31st December 2019 (Appendices to [Billet d'État V of 2021])

5 The Tax Review (Lodged on 20th August 2021 - [P.2021/97])

Insurance Fund be increased by 2.3% from January 2022, in accordance with the States-approved uprating policies for the two Funds. The Committee is recommending that upper and lower earnings and income limits for contributions and the Class 3 income allowance are also increased by 2.4% from January 2022.

PART 1: INTRODUCTION

2. Uprating Policy

2.1. Since 2016, the States-approved pensions uprating policy has been to apply increases of RPIX plus one third of the real increase in median earnings. This has been the agreed policy since 2016[6] and was most recently endorsed by the States in February 2020[7]. It is worth noting that this is less generous than the triple lock rule that has been applied in the UK since 2011. Under the triple lock, the state pension increases each year in line with the rising cost of living seen in the Consumer Prices Index (CPI) measure of inflation, increasing average wages, or 2.5%, whichever is highest.

2.2. The reason for applying an uprating policy which is based on a point between RPIX and median earnings is to ensure that income replacement benefits and contribution rates keep pace with the cost of living (i.e. the pension should represent the same buying power for essential goods and services (by following RPIX)), and keep pace, to a lesser extent, with the income of the working population (by following median earnings). This means that the pension should partly retain its value relative to the income of the wider population, and the difference in the quality of life between the retired and non-retired population should remain stable (disregarding the impact of any private or occupational pensions).

2.3. A more conservative uprating policy would ultimately result in a gradual increase in pensioner poverty, which would increase income support expenditure. A more generous uprating policy, for example which kept pace with median earnings, would gradually increase the cost of providing pensions over time and result in a need for further increases in revenues. The pension uprating policy was agreed by the States on the basis that it provided the most appropriate balance in the interests of contributors, pensioners, and public funds.

2.4. The June 2021 annual RPIX figure was 2.3% and the nominal change in median earnings as at December 2020 was 2.5%. The calculation of the uprating percentage based on the approved policy is shown below:

$$(2.5\% - 2.3\%) \div 3 + 2.3\% = 2.4\%$$

2.5. 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

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6 Benefit and Contribution Rates for 2016 (Billet d'État XVIII of 2015, Article VIII)

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

Committee is therefore recommending that contributory benefits provided from the Guernsey Insurance Fund are increased in line with the uprating policy figure of 2.4% in 2022. The Committee recommends that the same increase should apply to the upper and lower earnings and income limits for contributions and the class 3 income allowance.

3. Sustainability of the contributory funds

3.1. While the upper and lower weekly, monthly and annual earnings/ income limits increase by the uprating policy each year, there has been no change to the percentage contribution rates since 2017. There was an unsuccessful attempt, by the Committee's predecessor in February 2020[8], to increase contribution rates by 0.3% for employers and 0.2% for employees (i.e. 0.5% in total) as a first step towards addressing the financial sustainability of the Guernsey Insurance Fund.

3.2. The Committee is strongly of the view that action must be taken in order to secure the financial sustainability of the Guernsey Insurance Fund and the Long-term Care Insurance Fund. Obtaining States agreement on future funding is a top priority for the Committee.

3.3. In January 2020, the States directed the Policy & Resources Committee to:

> "…conduct a review to ensure that Guernsey's tax base is capable of raising sufficient revenues to meet long-term government expenditure needs in a sustainable manner within the boundaries of the Fiscal Policy Framework".

The Tax Review Steering Group was established to undertake the task, with representation from the Policy & Resources Committee and the Committee *for* Employment & Social Security. Due to the timing of the two debates, this Policy Letter will have been submitted in advance of knowing the outcome of the debate on the Tax Review. The Tax Review proposes significant changes to the structure of social security contributions, however, it must be acknowledged that it will take time to implement complex operational transformations.

3.4. The Committee is mindful that its long-term plans for increasing contribution rates to address the sustainability of the funds will need to align with the outcome of the debate of the Tax Review. However, it is of the view that it will be a small positive step in the right direction to implement a small increase in contribution rates in the meantime, regardless of the outcome of that debate.

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

3.5. This Policy Letter sets out a ten year plan for increasing the percentage contribution rates to ensure the sustainability of the Funds, commencing on 1st January 2022. The intention is that the Committee's proposals will complement the States resolutions that will be made following the debate of the Tax Review, as ultimately the direction of travel will be the same - both are aimed at finding a solution to the same problem. To this end, the Committee is proposing that it will review, in consultation with the Policy & Resources Committee, its ten year plan and report to the States annually in its Policy Letter on contributory benefits and contribution rates, in order to ensure that the increments remain necessary and in line with other economic and policy considerations at the time.

3.6. The most recent actuarial reviews of the Guernsey Insurance Fund and the Long-term Care Insurance Fund, undertaken by the UK Government Actuary's Department (GAD), covering the period 1st January 2015 to 31st December 2019, were laid before the States at its meeting on 24th February 2021[9].

3.7. The actuarial reviews provide future projections to assess the adequacy of contribution rates and the sustainability of the Funds based on the latest financial information in respect of the Funds and using a set of economic and demographic assumptions. The projections have a 60 year time horizon from 2020 to 2080.

3.8. The actuarial reviews of both Funds confirm that further measures will be required in the coming years to ensure the sustainability of the Funds in the longer term.

The Guernsey Insurance Fund

3.9. The actuarial review of the Guernsey Insurance Fund showed that the Fund had a balance equivalent to 4.7 times annual expenditure in 2019. GAD has calculated that the Guernsey Insurance Fund will be exhausted by 2039 unless something is done to address this matter.

3.10. Currently, the target is to hold a balance in the Fund of at least twice annual expenditure. Using the principal assumptions, it has been calculated that the Class 1 contribution rate (which represents the combined contribution of employers and employees to the Guernsey Insurance Fund) will need to increase to 11.3% from January 2022 to target a balance of twice annual

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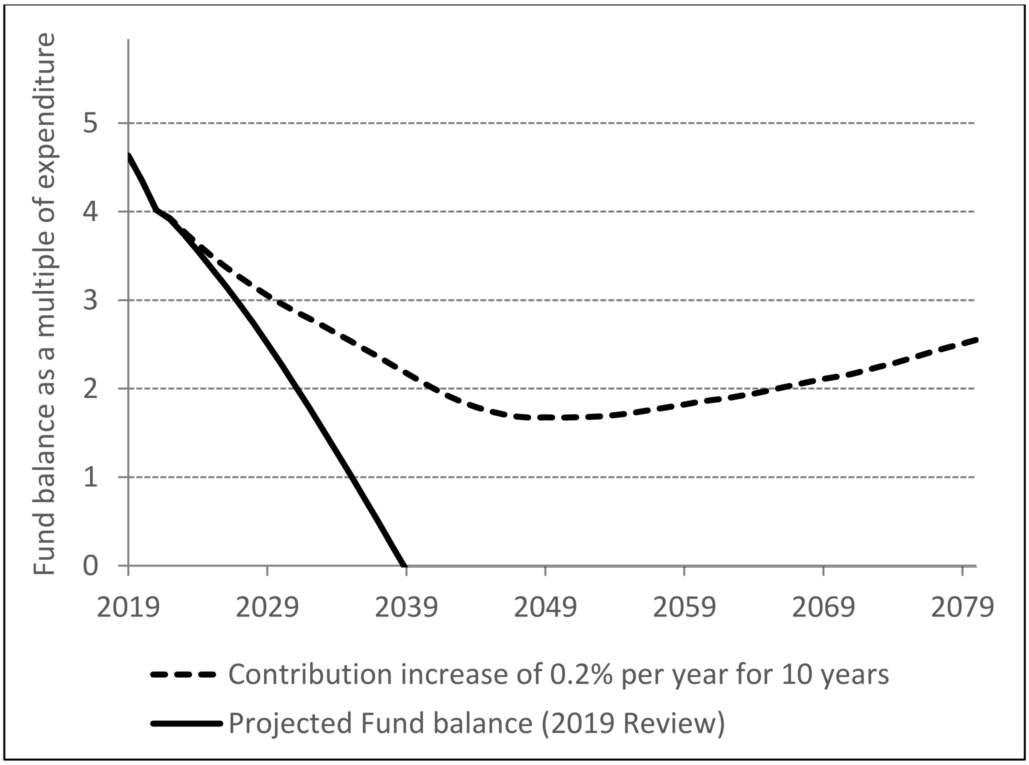
9 Guernsey Insurance Fund – Actuarial Review as at 31st December 2019 and Long-term Care Insurance Fund – Actuarial Review as at 31st December 2019 (Appendices to Billet d'État V of 2021)

expenditure in 2080. This compares with the anticipated rate from 2022 of 9.55%[10], so an increase of 1.75% overall.

3.11. Following careful consideration of a variety of contribution scenarios, the Committee is proposing to increase employer and employee contribution rates to the Guernsey Insurance Fund by 0.1% each (i.e. 0.2% overall for class 1 contributors) per year for ten years, and to increase contribution rates for self-employed persons and non-employed persons under pension age (pensioners do not contribute to the Guernsey Insurance Fund) by 0.2% each per year for ten years.

3.12. The projections show that, under this scenario, by 2080, income less expenditure would be sufficient to allow the balance of the Fund to grow relative to expenditure. However, it is worth noting that the balance of the Fund will drop below the target buffer of two times annual expenditure for a period of time. This is shown in Figure 1 below.

Figure 1 – Projected balance of the Guernsey Insurance Fund with and without the proposed contribution increase



10 This anticipated rate is based on the contribution allocations approved by the States following consideration of the Policy & Resources Committee's Policy Letter entitled 'Reform of Health Care Funding' (Billet d'État No. X of 2019, Article VII)

The Long-term Care Insurance Fund

3.13. The States resolved to note, in August 2020, following debate of the Policy Letter entitled 'Supported Living and Ageing Well Strategy – Extending the life of the Long-term Care Insurance Scheme'[11], that if the foregoing propositions were approved (which they were), and future benefit rates were maintained in line with the same methodology, it was estimated that the contribution rate necessary to ensure the sustainability of the Long-term Care Insurance Fund would need to increase by 0.9%, taking it from 1.8% to 2.7% for people under pension age and from 1.9% to 2.8% for people above pension age.

3.14. The States also noted that, if the States agreed that the Long-term care Insurance Scheme should be extended to incorporate care provided at home (which was given in principle approval by the States), the estimated contribution rate necessary to ensure the sustainability of the Long-term Care Insurance Fund, referred to above, would need to increase by a further 0.4%, taking it to a total of 3.1% for people under pension age and 3.2% for people above pension age (i.e. a 1.3% increase). Further, the States directed the Committee to propose, in this Policy Letter, an increase in the contribution rates of up to 1.3%, with effect from 1st January 2022, if the Tax Review did not identify measures to ensure the long-term stability of the Fund.

3.15. This figure of 1.3% was based on modelling done when the SLAWS Policy Letter was being prepared. This has since been superseded by the results of the actuarial review covering the period 2015 to 2019 (inclusive). Figure 2 overleaf shows that if the scope of the Long-term Care Insurance Scheme and the level of contribution rates into the Fund remain unchanged, the balance of the Fund is projected to be exhausted in 2053. This is brought forward to 2038 if the scope of the Long-term Care Insurance Scheme is expanded to cover the provision of care at home.

3.16. GAD calculated that, if the Long-term Care Insurance Scheme was extended to cover the provision of care delivered at home, the percentage contribution rates would need to increase by 1% to make the Long-term Care Insurance Fund sustainable in the long-term. Based on the current model of long-term care funding (i.e. excluding the provision of care at home), the actuarial review projected that a contribution rate increase of approximately 0.4% would be adequate to target a fund balance of at least twice annual expenditure in 2080.

3.17. The upper line in Figure 2 shows that, if contribution rates are increased by 0.4%, the target of having a Fund balance of twice annual expenditure by 2080 is projected to be achieved. The dotted line directly below the upper line

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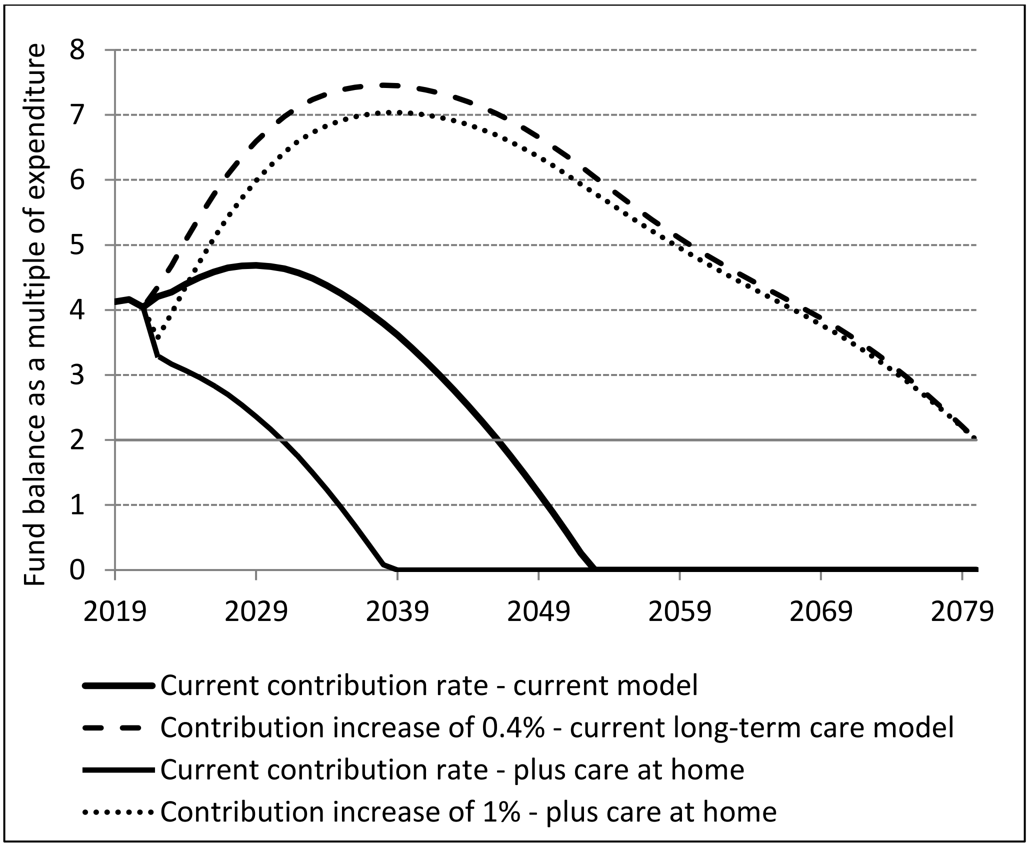
11 Supported Living and Ageing Well Strategy: Extending the Life of the Long-term Care Insurance Scheme (Billet XVI of 2020, Article V)

shows the effect on the Fund balance of extending the Long-term Care Scheme to cover the provision of care at home as well as increasing contribution rates by a further 0.6% (i.e. 1% above current rates).

Figure 2 – Projected progress of the balance of the Long-term Care Insurance Fund based on various scenarios



3.18. The Committee is therefore proposing a gradual increase in contribution rates of 0.1% per year for all contribution classes, except employers (who do not contribute to the Long-term Care Insurance Fund), over a period of four years until the target of 0.4% is reached in 2025.

3.19. In view of the foregoing, the current percentage contribution rates and proposed contribution rates for all Classes of contributors over the next ten years are shown in Table 1 overleaf.

Table 1 – Current and proposed contribution rates for 2022 to 2031

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Class 1	**13.2%**	**13.5%**	**13.8%**	**14.1%**	**14.4%**	**14.6%**	**14.8%**	**15.0%**	**15.2%**	**15.4%**	**15.6%**
Employer	6.6%	6.7%	6.8%	6.9%	7.0%	7.1%	7.2%	7.3%	7.4%	7.5%	7.6%
Employee	6.6%	6.8%	7.0%	7.2%	7.4%	7.5%	7.6%	7.7%	7.8%	7.9%	8.0%
Class 2											
Self-employed	11.0%	11.3%	11.6%	11.9%	12.2%	12.4%	12.6%	12.8%	13.0%	13.2%	13.4%
Class 3: Non-employed											
under pension age	10.4%	10.7%	11.0%	11.3%	11.6%	11.8%	12.0%	12.2%	12.4%	12.6%	12.8%
over pension age	3.4%	3.5%	3.6%	3.7%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%

3.20. If Propositions 1 and 2 are approved, the effect from 1st January 2022 will be to take the current contribution rates from 6.6% to 6.7% for employers, 6.6% to 6.8% for employees (i.e. a combined Class 1 contribution 13.5%), 11.0% to 11.3% for self-employed people, 10.4% to 10.7% for non-employed people under pension age, and 3.4% to 3.5% for non-employed people over pension age.

3.21. The estimated cost to General Revenue of increasing the employers' contribution rate by 0.1% in 2022 is £225,000-£250,000. However, it is noted that this measure alone will increase overall revenue to the Guernsey Insurance Fund in 2022 by an estimated £1.22m. The estimated additional cost to General Revenue of increasing the employers' contribution rate to 7.6% in year ten of the plan (i.e. in 2031) is £2.2m-£2.5m. An impact analysis of the increase in social security contributions by 2031, consistent with that included in the Tax Review, is shown in Figures 3 and 4 and Tables 2 and 3 overleaf.

3.22. This analysis includes an assumption that Income Support households will be compensated for any increase in their contributions, because the assessment is calculated on net income, which reduces the average impact for some low-income households, at a cost of between £0.5m-£1m per year by 2031. The application of an allowance for non-employed people under pension age and all people over pension age also means that the application of increases for those groups is more progressive than it is for employed or self-employed people.

3.23. As it is only the increase to the Long-term Care Insurance Fund (+0.4%) that is applied to those over pension age (they do not contribute to the Guernsey Insurance Fund), this means that 97% of the revenue raised is from working age people and employers, as shown in Table 2 below.

Figure 3 – Net impact on households by household income (%)

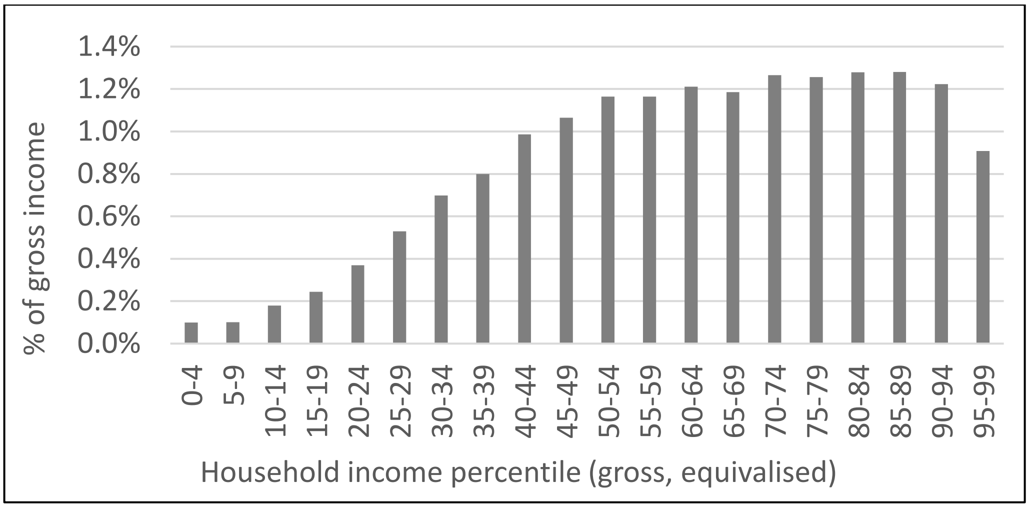


Figure 4 – Net impact on households by household income (£)

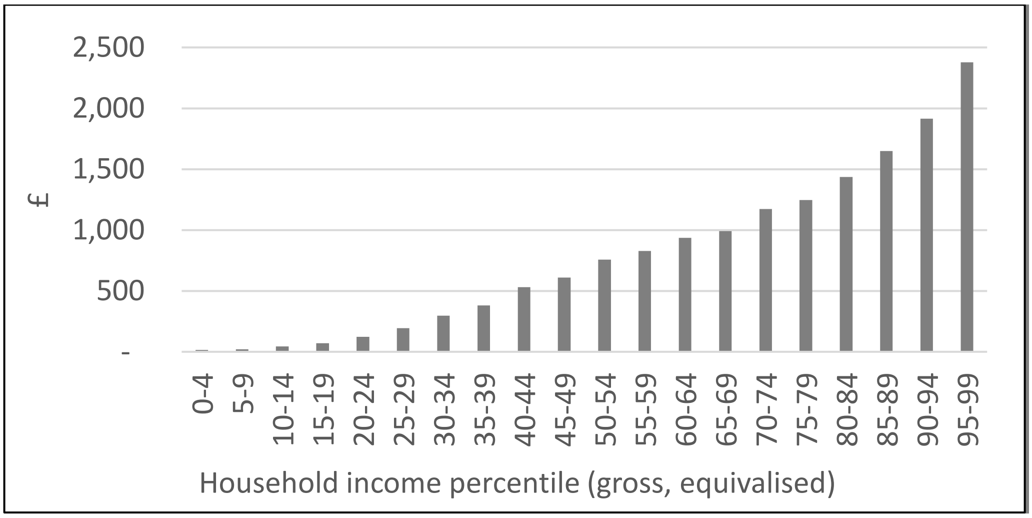


Table 2 – Estimated revenue raised from proposed contribution increases for various contributors

	Estimated revenue raised	Percentage
Working age people	£21m	62%
Pensioners	£1m	3%
Employers	£12m	35%
Total	**£34m**	**100%**
Estimated cost to income support	£0.5m - £1m	-

Table 3 – Impact of proposed contribution increases on different types of household, shown as a percentage according to gross, equivalised household income percentile

	Household income percentile (gross, equivalised) (%)																			
	0-4	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30-34**	**35-39**	**40-44**	**45-49**	**50-54**	**55-59**	**60-64**	**65-69**	**70-74**	**75-79**	**80-84**	**85-89**	**90-94**	**95-99**
One adult 16-64	0.3	0.4	0.7	0.7	0.5	0.8	1.0	1.2	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.2
One adult 16-64 with child(ren)	0.2	0.2	0.4	0.7	0.8	0.9	1.1	1.1	1.3	1.3	1.4	1.4	1.3	1.5	1.3	1.4	1.4	1.5	1.4	1.1
One adult 65 and over	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.4	0.4	0.3
Two adults 16-64 with child(ren)	0.3	0.1	0.4	0.5	0.9	1.0	1.3	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.5	1.5	1.4	1.3	1.0
Two adults 16-64	0.2	0.5	0.7	0.8	0.7	0.9	1.1	1.1	1.2	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.5	1.2
Two adults 65 and over	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.3	0.4	0.3
Two adults one 16-64 one 65 and over	0.1	0.2	0.3	0.3	0.4	0.5	0.6	0.6	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.7	0.9	0.7
Grand Total	**0.1**	**0.1**	**0.2**	**0.2**	**0.4**	**0.5**	**0.7**	**0.8**	**1.0**	**1.1**	**1.2**	**1.2**	**1.2**	**1.2**	**1.3**	**1.3**	**1.3**	**1.3**	**1.2**	**0.9**

PART 2: INCOME

4. Proposed contribution rates and limits for 2022

Proposed contribution rates for 2022

4.1. The percentage contribution rates proposed for 2022 are set out in Tables 4, 5 and 6 below and overleaf, alongside the rates for 2021. These tables also show how the contribution income from each class will be split between the Guernsey Insurance Fund, the Long-term Care Insurance Fund and the Guernsey Health Service Fund (expected to be renamed the Guernsey Health Service Allocation with effect from 1st January 2022).

Table 4 – Current contribution rates, proposed contribution rates for 2022, and the proportions of income split between the funds for employed persons (Class 1)

Employed persons (Class 1)	**2021**	**2022**
Employer	**6.6%**	**6.7%**
Guernsey Insurance Fund	5.0%	6.7%
Guernsey Health Service Fund/Allocation	1.6%	-
Long-term Care Insurance Fund	-	-
Employee	**6.6%**	**6.8%**
Guernsey Insurance Fund	3.5%	3.05%
Guernsey Health Service Fund/Allocation	1.3%	1.85%
Long-term Care Insurance Fund	1.8%	1.9%
Combined	**13.2%**	**13.5%**
Guernsey Insurance Fund	8.5%	9.75%
Guernsey Health Service Fund/Allocation	2.9%	1.85%
Long-term Care Insurance Fund	1.8%	1.9%

Table 5 – Current contribution rates, proposed contribution rates for 2022, and the proportions of income split between the funds for self-employed persons (Class 2)

Self-employed persons (Class 2)	**2021**	**2022**
Totals	**11.0%**	**11.3%**
Guernsey Insurance Fund	6.5%	7.55%
Guernsey Health Service Fund/Allocation	2.7%	1.85%
Long-term Care Insurance Fund	1.8%	1.9%

Table 6 – Current contribution rates, proposed contribution rates for 2022, and the proportions of income split between the funds for non-employed persons (Class 3)

Non-employed persons (Class 3)	2021	2022
Under pension age	**10.4%**	**10.7%**
Guernsey Insurance Fund	5.7%	6.8%
Guernsey Health Service Fund/Allocation	2.8%	1.9%
Long-term Care Insurance Fund	1.9%	2.0%
Over pension age	**3.4%**	**3.5%**
Guernsey Insurance Fund	-	-
Guernsey Health Service Fund/Allocation	1.3%	1.3%
Long-term Care Insurance Fund	2.1%	2.2%

4.2. The changes to the splits largely arise from resolution 11b made by the States on 13th June 2019, following debate of the Policy & Resources Committee's Policy Letter entitled 'Reform of Health Care Funding'[12]. The States agreed that the allocation of contributions to the Guernsey Insurance Fund, the Guernsey Health Service Fund and the Long-term Care Insurance Fund be as set out in table 6.1 of that report, which is appended to this Policy Letter at Appendix 1. Appendix 2 shows how the figures in Table 6.1 of the Reform of Health Care Funding Policy Letter have been adjusted to take account of the contribution rate increases proposed by the Committee for 2022.

4.3. It should be noted that the above changes in the contribution rates will be reflected in changes to the percentage allocations to the Long-term Care Insurance Fund and the Guernsey Health Service Allocation.

4.4. This reallocation of contribution income, whereby more contribution income is allocated to the Guernsey Insurance Fund and less to the Guernsey Health Service Allocation than is currently allocated to the Guernsey Health Service Fund, allows the General Revenue grant to the Guernsey Insurance Fund (currently 14.7% of contribution income) to be withdrawn (in accordance with Resolution 11a following the debate on Article VII of Billet d'État X of 2019). The purpose of this is to avoid what would otherwise be a flow of General Revenue in both directions: one being a transfer from overall contribution collections 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 this will be that the Guernsey Insurance Fund will be funded entirely from contribution income and investment returns.

4.5. The relevant section in the Social Insurance (Guernsey) Law, 1978, relating to the grant is planned to be repealed from 1st January 2022 when the Health

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

Service Benefit (Amendment and Miscellaneous Provisions) (Guernsey) Law, 2021, is planned to come into force.

Proposed contribution earnings and income limits, non-employed income allowance and voluntary contribution rates for 2022

4.6. The Committee is recommending that all contribution earnings and income limits, the non-employed income allowance and the overseas voluntary contribution rates for self-employed and employed persons are increased by approximately 2.4%, in accordance with the uprating policy set out in paragraph 2.1. Tables 7, 8 and 9 below and overleaf show the effects of this increase for all contributor classes, compared with the 2021 limits and rates.

Table 7 – Class 1 contribution limits and rates for 2022 compared to 2021

Class 1 – Employed persons	**2021**	**2022**
Upper Earnings Limit:		
Weekly	£2,955.00	**£3,027.00**
Monthly	£12,805.00	**£13,117.00**
Lower Earnings Limit:		
Weekly	£148.00	**£152.00**
Monthly	£641.33	**£658.67**
Weekly rate (employee):		
Maximum	£195.03	**£205.84**
Minimum	£9.77	**£10.34**
Weekly rate (employer):		
Maximum	£195.03	**£202.81**
Minimum	£9.77	**£10.18**

Table 8 – Class 2 contribution limits and rates for 2022 compared to 2021

Class 2 – Self-employed persons	**2021**	**2022**
Annual Earnings Limit:		
Upper	£153,660.00	**£157,404.00**
Lower	£7,696.00	**£7,904.00**
Weekly rate:		
Maximum	£325.05	**£342.05**
Minimum	£16.28	**£17.18**
Overseas voluntary contribution	£111.69	**£114.37**

Table 9 – Class 3 contribution limits and rates for 2022 compared to 2021

Class 3 – Non-employed persons	2021	2022
Annual Income Limit: Upper Lower	 £153,660.00 £19,240.00	 **£157,404.00** **£19,760.00**
Allowance (under and over pension age)	£8,695.00	**£8,904.00**
Weekly rate (under pension age): Maximum Minimum	 £289.93 £21.09	 **£305.57** **£22.34**
Weekly rate (over pension age): Maximum Minimum	 £94.78 £6.89	 **£99.95** **£7.31**
Overseas contribution (weekly)	£101.03	**£103.45**
Voluntary contribution (weekly)	£21.09	**£22.34**
Special rate non-employed (weekly)	£21.09	**£22.34**

4.7. Employers, employees, and self-employed people whose earnings are at, or above, the lower earnings limit, will be liable to pay contributions on all of their earnings up to the relevant upper earnings limit, at the percentage rates set out in Table 1.

4.8. With effect from 1st January 2021, self-employed and non-employed individuals pay contributions based on their current year earnings/income rather than from two years prior, as was previously the case. This is part of the ongoing transformation programme to streamline the collection of tax and contributions. Customers were also able to elect to be assessed on a current year basis in 2020, if their income had fallen as a result of COVID-19.

4.9. Self-employed and non-employed contributors are liable to pay contributions at the maximum rate, unless an application is made to pay earnings-related contributions (if self-employed) or income-related contributions (if non-employed). People with income at some point between the upper and lower earnings/income limits (as appropriate) pay pro-rata.

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

- Non-employed adults under pension age are liable to pay full percentage rate contributions to cover social insurance, health service and long-term care liabilities, based on their personal income.
- Non-employed people over pension age are liable to pay a lower rate of contributions which go towards funding the specialist health insurance scheme and the long-term care insurance scheme.

4.11. 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 future entitlement to the States pension for those people who are under pension age. A voluntary contribution, which counts towards States pension, can be paid by, or on behalf of, non-employed people under pension age, with personal income below the lower income limit. For self-employed and non-employed people living outside of Guernsey and Alderney, a voluntary contribution may be paid, and this is charged at an overseas rate.

4.12. The voluntary class 3 contribution rate for people living in Guernsey and Alderney is calculated by multiplying the Guernsey Insurance Fund element of the non-employed contribution rate for people under pension age (6.8% for 2022, as shown in Table 6) by the lower annual income limit and then dividing the sum by 52 to obtain a weekly amount of the contribution. The formula used in this calculation is set out in section 8(4) of the Social Insurance (Guernsey) Law, 1978[13]. When the non-employed allowance was introduced, it was set at a value that would produce a minimum weekly amount payable which aligned with the voluntary class 3 contribution rate. The reason for this was two-fold. Firstly, it was important to ensure that a person with income below the lower annual income limit would not be required to pay an amount higher than a person who had income at or above the lower annual income limit. Secondly, it also prevents an opportunity where a person might arrange their circumstances so that they are liable to pay whichever is the lower amount.

4.13. As explained in paragraphs 4.2 and 4.3, as a result of resolution 11b arising from the debate of the June 2019 Reform of Health Care Funding Policy Letter, the splits of contribution income to the Funds are expected to be adjusted from January 2022. This has the effect that the Guernsey Insurance Fund element of the non-employed contribution rate, when added to the Committee's proposed contribution increase of 0.2%, moves from 5.7% to 6.8%, as shown in Table 6.

4.14. The reason for highlighting this is because this figure is used to calculate both the voluntary class 3 contribution rate and is linked to the level at which the non-employed class 3 allowance is set, as explained in 4.12 above. In applying the usual formula to calculate the allowance, as shown in Appendix 3, this unusually high increase in the Guernsey Insurance Fund only contribution rate has the unintended consequence of causing the non-employed allowance to decrease to £7,202, when compared to the 2021 allowance of £8,695.

13 The Social Insurance (Guernsey) Law, 1978 (consolidated text)

4.15. The Committee is uncomfortable with this unintended consequence of the change in the split of contribution rates to the Funds, as a reduction in the non-employed allowance would mean that, combined with the increased contribution percentage rates proposed for 2022, a non-employed person would be required to pay a higher rate of contribution on more of their income. The Committee does not wish for an anomaly in the calculations to have this impact of 'double hitting' this group of contributors, and therefore proposes to simply uprate the non-employed allowance by 2.4%, in line with the uprating policy for contribution rates. This takes the allowance to £8,904 for 2022.

4.16. In doing this, the maximum and minimum weekly amounts payable by non-employed people with income above the lower income limit, are affected. This is because they are calculated by deducting the allowance from the upper or lower income limits, as appropriate, then multiplying by the relevant percentage rate (10.7% for under pension age and 3.5% for over pension age) and finally dividing by 52 to obtain a maximum and minimum weekly figure payable (as shown in Appendix 3). This proposed adjustment of the allowance then causes the minimum weekly amount payable to differ from the voluntary class 3 contribution rate. As explained in paragraph 4.12, these two rates should align.

4.17. In order to ensure that the allowance can be set at a level that the Committee deems to be appropriate going forwards, the Committee proposes that the voluntary class 3 contribution rate is simply aligned with the minimum weekly amount payable by a non-employed person under pension age. The Committee is of the view that it is acceptable to move away from the formula described in paragraph 4.12 when calculating the voluntary contribution rate. This is because a non-employed person, who is under pension age, will contribute into the Long-term Care Insurance Fund and the Guernsey Health Service Allocation, as well as the Guernsey Insurance Fund. Therefore, it is proposed to amend section 8(4) of the Social Insurance Law accordingly.

4.18. A special rate non-employed contribution is payable by insured people who would normally rely upon their employee contribution record for their contribution credit. The rate of this contribution is aligned with the voluntary contribution rate.

PART 3: EXPENDITURE – CONTRIBUTORY BENEFITS

5. Expenditure financed by the Guernsey Insurance Fund

5.1. The Committee is recommending that benefits funded from the Guernsey Insurance Fund are increased by 2.4%, in line with the States-approved uprating policy.

5.2. The proposed new weekly rates of benefit, effective from 3rd January 2022, are set out in Table 10 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 10 – Proposed and current rates of social insurance benefits

Weekly paid benefits	**2021**	**2022**
Old age pension		
Insured person	£228.37	**£233.85**
Increase for dependent wife[14]	£114.39	**£117.14**
Total	£342.76	**£350.99**
Survivor's benefits		
Widowed parent's allowance	£240.16	**£245.92**
Bereavement allowance[15]	£206.50	**£211.46**
Maternal health allowance, newborn care allowance, and parental allowance	£228.83	**£234.29**
Unemployment benefit, sickness benefit, and industrial injury benefit	£168.07	**£172.13**
Incapacity benefit	£201.95	**£206.78**
Industrial disablement benefit (100%)[16]	£184.03	**£188.45**
One off grants:		
Maternity grant and adoption grant	£421.00	**£431.00**
Death grant	£657.00	**£673.00**
Bereavement payment	£2,074.00	**£2,124.00**

5.3. If the proposals for benefit rates are approved, the 2022 estimated expenditure from the Guernsey Insurance Fund will be £171.3m (2021 Forecast: £169.1m), as shown in Table 11 overleaf.

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

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

16 Lower rates are payable based on degree of disability.

5.4. This estimate includes:

- the proposed 2.4% increase in the general rate of benefits (2021: 2.6% increase),
- an anticipated increase in the number of pension claims as a result of the aging demographic,
- an anticipated increase in the number of people claiming unemployment benefit during the COVID-19 pandemic,
- other policy decisions previously approved by the States, such as increasing pension age.

5.5. Benefits paid from the Guernsey Insurance Fund are statutory entitlements based, almost wholly, on the number of contributions paid. States pension expenditure accounts for over 85% of the total benefit expenditure of the Guernsey Insurance Fund. As of 1st July 2021, there were 18,727 people in receipt of a pension from Guernsey (1st July 2020: 18,566). 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.

5.6. Table 11 below shows annual benefit and administration expenditure for the Guernsey Insurance Fund for the years 2018 to 2020, the budget forecast for 2021 and an estimate for 2022.

Table 11 – Summary of expenditure for the Guernsey Insurance Fund

	2018 Actual £m	**2019 Actual £m**	**2020 Actual £m**	**2021 Forecast £m**	**2022 Budget £m**
States Pension	123.5	128.7	133.9	139.4	144.4
Incapacity	8.6	8.8	9.5	10.4	10.7
Sickness	4.1	4.5	4.7	4.4	4.7
Parental	2.3	2.5	2.6	2.6	2.6
Travelling Allowance Grant	2.8	2.5	2.5	3.2	-
Bereavement	1.8	1.8	1.7	2.0	2.0
Unemployment	0.9	0.9	2.1	1.4	1.0
Industrial	0.9	1.0	0.9	0.9	1.0
Total benefit expenditure	**144.9**	**150.7**	**157.9**	**164.3**	**166.4**
Administration	4.6	4.4	4.3	4.8	4.9
Total expenditure	**149.5**	**155.1**	**162.2**	**169.1**	**171.3**

5.7. The Travelling Allowance Grant has been removed from the budget for 2022, in line with a resolution following the debate of the Reform of Health Care Funding Policy Letter. This directed that the responsibility for the provision of the grant be transferred to the Committee *for* Health & Social Care.

Updates on States pension policy

5.8. This section provides a brief update on States Resolutions relating to the States pension.

5.9. The negotiation of a reciprocal social security agreement on pensions between Guernsey and Latvia entered into force on 1^{st} June 2021. The Agreement allows 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 jurisdiction, but if the contribution records of both jurisdictions were combined, the threshold would be met. The agreement also allows 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).

6. Expenditure financed by the Long-term Care Insurance Fund

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

6.2. Long-term care benefits are uprated by RPIX, which for June 2021 was 2.3%. The proposed benefit rates set out in this section are based on this uprating figure, with the exception of the co-payment, which is mid-way through a planned uplift to £280.00, in 2020 terms.

Co-payment (personal contribution) from person in care

6.3. Under the long-term care insurance scheme, it is a condition of entitlement to benefit that the person in care should make a contribution, known as the co-payment. 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.

6.4. Following debate of the August 2020 Policy Letter entitled 'Supported Living and Ageing Well Strategy: Extending the Life of the Long-term Care Insurance

Scheme'[17], the States agreed that the combination of the long-term care benefit and co-payment was insufficient to meet the cost of providing care and accommodation and ensure the stability of the private care market. It was agreed that the grant and co-payment should be increased to reflect this, with the co-payment amount increased by £20.00 to £229.37 with effect from October 2020. The States also resolved that the co-payment should increase further to £280.00 (in 2020 terms) by January 2023, that being the estimated cost of living expenses and accommodation.

6.5. A further Policy Letter[18], considered by the States in March 2021, outlined proposals for the increments and timeframe within which the co-payment would be increased to £280.00 (in 2020 terms). An increment was applied with effect from 5th July 2021, taking the co-payment to £242.06 per week, with further increments, due every six months in January and July, taking into account annual inflationary changes, until the final adjustment in January 2023. Based on June 2021 RPIX figure of 2.3%, the target amount of the co-payment should be adjusted to £286.44 per week, noting that this target will need adjusted again based on the June 2022 RPIX figure.

6.6. This Policy Letter recommends the increments to take effect on 3rd January 2022 and 4th July 2022. Table 12 below shows this, along with the estimated increment for January 2023, prior to adjustment for inflation.

Table 12 – Previous, current and proposed co-payment rates

Co-payment increment dates	Rate	Increment
6th January 2020	£209.29	Q2 2019 RPIX
5th October 2020	£229.37	£20.08
5th July 2021 (current rate)	£242.06	£12.69
3rd January 2022 (proposed rate)	£256.83	£14.77
4th July 2022 (proposed rate)	£271.67	£14.84
2nd January 2023 (prior to adjustment for inflation)	£286.44	£14.77

6.7. 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. Any beds available without the need to pay a top-up are known as 'States-rates beds'. Table 13 overleaf explains the breakdown of funding, for information.

17 Supported Living and Ageing Well Strategy: Extending the Life of the Long-term Care Insurance Scheme (Billet d'État XVI of 2020, Article V)

18 Implementation of approved rate of Long-term Care co-payment (Billet d'État VIII of 2021, Article X)

Table 13 – Overview of weekly long-term care benefit and fees (2021 values)

Element of funding		Cost	Paid by
Type of care	Residential	£521.00	Long-term Care Insurance Fund
	Residential (dementia/EMI)	£681.00	
	Nursing	£940.00	
Personal contribution (co-payment) (from 5th July 2021)		£242.06	Resident (or income support)
Top-up fees (homes may charge top-up fees above the States approved rate)		Discretionary	Resident

Long-term care benefit rates

6.8. The Committee recommends that the rates of long-term care benefit be increased by 2.3%, with effect from 3rd January 2022, as set out in Table 14.

Table 14 – Proposed and current weekly rates of long-term care benefit

	2021	2022
Residential care benefit	£521.00	**£532.98**
Residential – dementia (Elderly mentally infirm)	£681.00	**£696.64**
Nursing care benefit	£940.00	**£961.59**

Respite care benefit

6.9. 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.

6.10. The Committee recommends that the rates of respite care benefit are set as shown in Table 15 overleaf, with effect from 3rd January 2022, and also proposes the change that will be required to the respite rates with effect from 4th July 2022 as a result of the increment being proposed in respect of the co-payment at that time.

Table 15 – Proposed and current weekly rates of respite care benefit

	Current rate (w.e.f. 5th July 2021)	Proposed rate (w.e.f. 3rd January 2022)	Proposed rate (w.e.f. 4th July 2022)
Residential care respite benefit	£763.06	**£789.81**	**£804.65**
Residential-dementia respite benefit	£923.06	**£953.47**	**£968.31**
Nursing care respite benefit	£1,182.06	**£1,218.42**	**£1,233.26**

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

6.11. Table 16 below summarises the impact of the proposed benefit rates on projected expenditure from the Long-term Care Insurance Fund for 2022, along with the 2021 revised forecast at the time of writing, compared with the actual expenditure figures for 2018-2020.

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

	2018 Actual £m	2019 Actual £m	2020 Actual £m	2021 Forecast £m	2022 Budget £m
Residential care	10.6	10.7	10.4	11.9	12.4
Nursing care	9.0	9.7	10.0	10.8	11.2
Total benefits expenditure	**19.6**	**20.4**	**20.4**	**22.7**	**23.6**
Administration	0.3	0.4	0.4	0.3	0.5
Total	**19.9**	**20.8**	**20.8**	**23.0**	**24.1**

The future of long-term care funding

6.12. In August 2020, the States debated the Policy Letter entitled ‘Supported Living and Ageing Well Strategy: Extending the Life of the Long-term Care Insurance Scheme’. The analysis undertaken in the development of the Policy Letter illustrated that, while some care homes were profitable, there was a decline in profitability generally across the sector, but particularly so in the not-for-profit homes, with none of them achieving a ‘reasonable surplus’, and in fact four of the six incurred material operating deficits after rent payments.

6.13. To address this, a substantial increase in the grants paid from the Long-term Care Insurance Fund towards the cost of care was implemented in October 2020, along with a phased increase in the co-payment amount paid by individuals in respect of their accommodation and living costs. This was intended to ensure that the combined States rate equalled the mid-point of the benchmark set through the LaingBuisson analysis, which calculated the reasonable operating costs of efficient care homes. It is, however, recognised that the ongoing challenges surrounding the management of the COVID-19 pandemic will have increased the cost of care home provision since this earlier analysis was carried out.

6.14. Increasing the benefit rates was a first step, while recognising the potential for efficiencies to be made within the operating models of some of the homes. Alongside this, it was identified that addressing the future demand for long-term care services by developing policies to support and encourage private investment in the care sector, may provide the opportunity to increase the capacity and stability of the sector. Again, this needs to be further considered in the light of the changing operational context arising from COVID-19; the staffing challenges being experienced as a result of Brexit; together with rising supply costs and supply chain disruption. Difficulties in recruiting care staff across the public and private care sectors are currently being experienced, as well as a shortage of care beds, meaning that there is a lack of capacity within the current model of care to meet demand.

6.15. Further reviews of the appropriateness of benefit rates are due to be undertaken every five years alongside the actuarial review of the Long-term Care Insurance Fund. It is envisaged that this will include a consideration of the sustainability of the Fund and impact on General Revenue expenditure through Income Support provided to those accessing long-term care services, as well as the affordability of care at an individual level.

6.16. In particular, resolution 9, following the debate of the August 2020 Policy Letter, agreed in principle the introduction of a higher rate of benefit for exceptional and complex cases. The Committees *for* Employment & Social Security and Health & Social Care were directed to develop suitable eligibility and assessment criteria for access to this benefit by no later than December 2020. While some policy work has been undertaken, this requires further work in the context of the wider pressures on care home capacity. It is a challenging matter to address, but an important one.

6.17. Resolution 11, following the debate of the August 2020 Policy Letter, agreed in principle that the Long-term Care Insurance Scheme should be expanded to cover the cost of providing care in people's own homes, with the Committee and the Committee *for* Health & Social Care directed to develop detailed implementation plans by June 2022. The Committee *for* Health & Social Care provides community care free of charge to the service-user, but in addition there are also a number of private care providers whose services are not presently eligible for funding from the Long-term Care Insurance Scheme. This urgently needs to be addressed, but the biggest challenge is resourcing an increased offering of community care, with difficulties in recruiting care staff at present.

6.18. Effectively, introducing assessment criteria to provide care in people's own homes, as well as for exceptional and complex cases within a care home setting, adds further complexity and cost to the Long-term Care Insurance Scheme. The splitting of care costs (funded by the States) and accommodation costs (funded by the individual), which has largely been implemented already, will assist with developing a fair model for the provision of long-term care, regardless of whether that is in a care home setting or a person's own home.

6.19. The development of personal budgets (referred to in resolution 1j following debate of the February 2016 Supported Living and Aging Well Strategy Policy Letter[19]) would enable people to choose whether to receive long-term care at home or in a residential or nursing home, depending on their level of need and personal circumstances, and the availability of care. In order to implement the increased provision of care at home, as well as a complex case rate within care home settings, it has been identified that a digital solution needs to be developed. The current manual assessment process is not considered suitable due to the need for an increased number of assessments for long-term care and the added complexity of providing additional benefit options and rates.

6.20. This resolution relating to care at home will not be quick or simple to implement. This is due to the resourcing challenges mentioned above in recruitment to community care roles, as well as policy and clinical time to develop the proposals, and the staffing resources required to commission care through a new electronic system. However, the current levels of demand for care make this an urgent and core component of modernising long-term care provision within the Bailiwick.

Review of the residency conditions for long-term care benefit

6.21. Although the Committee is of the view that increasing the level of contribution income is likely to be the key way of ensuring the financial sustainability of the Long-term Care Insurance Fund, the Committee has been considering the potential for reducing benefit expenditure in a way that does not deny anyone the care that they require.

6.22. The Committee is exploring two potential policy changes which may result in a modest level of savings to the States overall. This work supports the policy objective set out under Priority 4 of the Government Work Plan[20] to sustain government finances.

6.23. Firstly, the Committee has been considering whether the current residency tests required to qualify for long-term care benefit should be changed with

19 The Supported Living & Ageing Well Strategy (Billet d'État III of 2016, Volume II, Article XIV)

20 Government Work Plan 2021-2025 (Billet d'État XV of 2021, Article I)

the aim of reducing the likelihood that people who have paid minimal social security contributions will qualify for full long-term care benefit.

6.24. Section 3(2) of the Long-term Care Insurance (Guernsey) Law, 2002 ('the Long-term Care Law') sets out the conditions to be satisfied to be entitled to benefit. The conditions are that the person concerned:

a) is a person in need of long-term care in accordance with the provisions of section 9 of the Long-term Care Law[21],

b) is ordinarily resident and present in Guernsey[22],

c) has at any time been ordinarily resident and present in Guernsey for a continuous period of five years,

d) has, immediately before the date in respect of which benefit is claimed, been ordinarily resident and present in Guernsey for a period of not less than twelve months, and

e) in the cases of care benefit and respite care benefit, is a resident of an approved care establishment which is not wholly owned by the States.

6.25. The Committee is concerned that people who may have lived in Guernsey for a continuous period of five years during their childhood, who return to Guernsey in later life, can qualify for long-term care benefit (subject, of course, to meeting the other criteria) after one year of residence following their return to the island. If the person was not working, and had income below the lower income limit, they would qualify for this valuable benefit (£940 per week for nursing care benefit in 2021, or £48,880 per year), having made no contributions to the Long-term Care Insurance Fund during their life.

6.26. The States were aware, when they approved proposals for the Long-term Care Insurance Scheme in February 2001[23], that while the scheme would be funded from contributions and a States Grant[24], eligibility would be residence based, and therefore, many people who received benefit would have paid minimal contributions to the Scheme, and perhaps no contributions at all.

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21 Section 9 of the Long-term Care Law states:
"9. (1) For the purposes of this Law and subject to the provisions of any regulations made under subsection (2), "a person in need of long-term care" is a person who –
(a) by reason of bodily or mental disability, or a combination of bodily and mental disability, is so disabled that he may suffer harm whilst undertaking the normal activities of daily life without substantial assistance or attention from another person, or
(b) is not so disabled, but in respect of whom there is good reason to believe that he would suffer such harm without such assistance or attention."

22 References to Guernsey in this section also include Alderney, Herm and Jethou

23 Long-term Care Insurance Scheme for Guernsey & Alderney (Billet d'État III of 2001, Article VII)

24 The States grant was removed with effect from 7 January 2008

6.27. The cost of care in a residential or nursing home is high, but the risk of requiring such care is relatively low. Table B.1 (page 40) in the most recent Actuarial Review of the Long-term Care Insurance Fund[25] shows that, under age 80, well under 1% of the age group are receiving permanent nursing care. Even at age 90-95, it only reaches 5-15% depending on age and sex. Further, with the possible exception of dementia care, claim duration is relatively short. The aim of the approach taken was to pool risk and spread the costs of long-term care across the whole community, recognising that not everyone in the community is liable to pay contributions (i.e. if their earnings/income is below the lower earnings/income limit, as appropriate).

6.28. Given the current financial constraints, and in light of the agreed objective to 'sustain government finances' under Priority 4 of the Government Work Plan, the Committee is minded to introduce a requirement for the period of residence assessed, in respect of criteria c) above, to be during adulthood only, as is the case under the equivalent scheme in Jersey. This will increase the likelihood that a person claiming long-term care benefit will have contributed towards the Long-term Care Insurance Scheme.

6.29. The Committee is also minded to change the requirement for the five year period of residence to be continuous, to aggregate, on the basis that a person who has resided in Guernsey during their adult life for five years continuously, or in aggregate, is likely to have contributed an equal amount to the Long-term Care Insurance Scheme. However, further work is necessary to determine the financial implications of this potential policy change.

6.30. Secondly, the Committee is investigating the option of introducing (for new claims only) a sliding scale of benefit entitlement based on length of residency in Guernsey as an adult, assessed at the point at which the applicant enters a care home, along the following lines:

- no entitlement for less than five years aggregate residency in Guernsey
- 25% of the full rate of benefit for individuals who have been ordinarily resident in Guernsey for an aggregate period of 5-10 years
- 50% of the full rate of benefit for individuals who have been ordinarily resident in Guernsey for an aggregate period of 10-15 years
- 75% of the full rate of benefit for individuals who have been ordinarily resident in Guernsey for an aggregate period of 15-20 years
- 100% of the full rate of benefit for individuals who have been ordinarily resident in Guernsey for an aggregate period of 20+ years

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[25] Long-term Care Insurance Fund – Actuarial Review as at 31 December 2019 (Appendix to Billet d'État V of 2021)

6.31. The majority of individuals do pay social security contributions during their adult lives. Therefore, while not moving to a contributions-based scheme per se, the above policy changes are expected, in most cases, to translate to less benefit being paid to people who have contributed less and more benefit being paid to people who have contributed more. This is considered fairer for the general population of contributors.

6.32. A review of current claimant data (as a proxy for future claimants) has shown that most of the current cohort of claimants would qualify for 100% of benefit if this system were applied to them. It is important to be clear that the Committee is strongly of the view that the potential new rules should only apply to new claimants upon implementation of amending legislation. The Committee would envisage that current claimants would have ‘grandfather rights’, meaning that they would retain entitlement to the full rate of long-term care benefit. That said, it is anticipated that a modest level of savings would be achieved that would reduce, to some extent, any future increase in contribution rates to the Long-term Care Insurance Fund.

6.33. Of course, consideration needs to be given to the complex interaction that this policy change would have with income support. This currently provides a financial safety net for people who cannot afford their long-term care co-payment and/or their personal expenses, and, in a few cases where a person does not qualify for long-term care benefit, their care home fees up to the relevant benefit limitation. If a sliding scale of benefit entitlement is introduced, as briefly outlined above, people who require long-term care in a residential or nursing home who are not entitled to the full rate of long-term care benefit by virtue of not having resided in Guernsey for an aggregate period of 20 years or more, may need to be provided with financial support through income support to cover the funding gap. This will increase costs to General Revenue, but it is anticipated that there would be a saving to States expenditure as a whole, given that some people will have sufficient income or capital resources to cover the funding gap themselves.

6.34. In 2001, when the States approved proposals from the former Social Insurance Authority to introduce a Long-term Care Insurance Scheme, the States resolved, amongst other things, that the Supplementary Benefit (Implementation) Ordinance 1971, as amended (now the Income Support (Implementation) Ordinance, 1971[26]), be further amended to provide for the value of the former residence to be ignored in the means tested assessment for assistance towards the co-payment and/or personal allowance, whether in the private or public sector. This amendment took effect upon the implementation of the Long-term Care Insurance Scheme in 2002.

26 Income Support (Implementation) Ordinance, 1971 (consolidated text)

6.35. The rationale for this decision, as explained by the Authority at the time, was that it believed that there was an implicit commitment with the introduction of the Scheme that people should not be forced to sell the family home to pay for long-term residential or nursing care.

6.36. The Committee is of the view that in the current financial context and particularly in the context of the aforementioned potential policy change, which could lead to more income support claims being made, this provision is too generous. Taxpayers are essentially subsidising a person who has considerable wealth tied up in their property.

6.37. It is envisaged that, if a sliding scale of benefit entitlement was introduced, there would also need to be a change in income support policy, whereby the capital value of a person's home would be taken into account in the income support means test if they, their spouse or partner, or their dependant(s)[27] were no longer living in the property. In practice, this would mean that a person who owned their own home, who was living alone prior to their move into a care home, would not qualify for financial support through income support if they could not afford the balance of their care home fees. In this scenario, the person concerned would need to release some of the value of their home either by renting it out, which would assist with housing provision, by releasing some of the equity in their home, if such a scheme were available locally, or by selling their property. The Committee is of the view that this is entirely reasonable in the circumstances. Further consideration is needed in respect of whether the amount of money a person would be expected to pay in this scenario should be capped.

6.38. Further policy work is required to fully develop this proposal in order to ensure that the aims of the policy will be achieved, without unintended consequences. This policy work includes, but is not limited to:

- further financial modelling work to determine the potential level of cost savings to the Long-term Care Insurance Fund and increased costs to General Revenue (through income support);
- further consideration of the interaction with income support and the development of policy proposals to mitigate the transfer of financial liability from the Long-term Care Insurance Fund to General Revenue, in particular in respect of taking into account the value of a person's home in the income support means test; and
- consultation with key stakeholders such as the Policy & Resources Committee, the Committee *for* Health & Social Care and care homes.

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27 The definition of 'dependant' will need to be considered as part of the further policy work to be undertaken if Propositions 15 and 16 are approved.

6.39. At this stage, the Committee is seeking in principle approval of the States in respect of the aforementioned policy options, prior to carrying out further policy work. Subject to States approval of Propositions 15 and 16, the Committee will return to the States with detailed policy proposals at the earliest opportunity, but no later than October 2022. Subject to the approval of Proposition 2 of the Tax Review[28], this savings opportunity will be examined by the Committee in the context of the States-wide exercise to identify and develop options to reduce expenditure or mitigate the anticipated increase in the cost of public services.

7. Expenditure financed by the Guernsey Health Service Fund

7.1. 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.

7.2. At the request of the Committee *for* Health & Social Care, the Committee notes that the Committee *for* Health & Social Care intends to set the prescription charge per item of pharmaceutical benefit at £4.30, from 1st January 2022. The Committee *for* Health & Social Care has advised as follows:

> "Over 1.5 million prescription items for drugs and medicines were dispensed as pharmaceutical benefit in Guernsey and Alderney in 2020, at a cost of £19.87 million. Approximately two thirds of all such prescription items issued were exempt from a prescription charge. For the 532,716 paid prescriptions, prescription charges paid by islanders amounted to £2.19 million.
>
> The prescription charge has been set at £4.10 for the last two years given a decision in 2020 to freeze the rate for 2021 in order to allow the Committee *for* Health & Social Care opportunity to undertake a more wide-ranging review, which would reconsider the prescription charge as part of the broader piece of work in relation to the model and funding of primary and community care. The review has not been able to proceed as intended due to the impact of the COVID-19 pandemic and subsequent second lockdown.
>
> In the meantime, and despite the work of the Prescribing Support Unit, the cost of drugs and medicines continues to rise due to increasing demand. This makes the anticipated review

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28 The Tax Review (Lodged on 20th August 2021 – P.2021/97)

more important than ever to ensure sustainability of the funding model and the Committee is progressing this as a priority.

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

However, while this work is ongoing, and given the wider pressures on the States of Guernsey’s finances, the Committee consider that it is unsustainable to retain the current prescription charge of £4.10. In 2020 alone, the average net ingredient cost per dispensed (drug) prescription item dispensed in 2020 was £10.01, up 4.8% on 2019 and it shows no sign of reducing this year.

Therefore, in order to take account of the above, the Committee *for* Health & Social Care intends to increase the charge for 2022 by twenty pence by Regulation, bringing the prescription charge to £4.30 per item.”

PART III: FINANCIAL POSITION

8. Financial position of the Guernsey Insurance Fund

8.1. The recent financial performance of the Guernsey Insurance Fund is shown in Table 17 below. It is estimated that the operating deficit will be £38.3m in 2022 (2021 forecast: £39.4m deficit). The Fund has now been in deficit, before investment returns are taken into account, since 2009.

8.2. 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 results in the number of years' expenditure cover remaining in the Fund reducing. It also reduces the extent to which investment income can contribute to the financing of the scheme.

8.3. 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 reduced in 2020 and is not expected to get back to pre-pandemic levels during 2021, while expenditure on sickness/incapacity and unemployment benefits has increased substantially.

Table 17 – Financial performance of the Guernsey Insurance Fund

	2018 Actual £m	2019 Actual £m	2020 Actual £m	2021 Forecast £m	2022 Budget £m
Income	125.9	130.6	127.4	129.7	133.0
Expenditure	(149.5)	(155.1)	(162.2)	(169.1)	(171.3)
Operating deficit	(23.6)	(24.5)	(34.8)	(39.4)	(38.3)
Investment returns	(33.1)	52.8	(3.6)	19.5	20.0
Net surplus/(deficit) for the year	(56.8)	28.3	(38.4)	(19.9)	(18.3)
Net assets at 1st January	769.3	712.5	740.8	702.4	682.5
Net assets at 31st December	712.5	740.8	702.4	682.5	664.2
Expenditure cover in years	4.8	4.8	4.3	4.0	3.9

9. Financial position of the Long-term Care Insurance Fund

9.1. The financial performance of the Long-term Care Insurance Fund is shown in Table 18 overleaf. The 2022 budget estimates that the operating surplus will increase to £6.8m (2021 forecast: £5.5m surplus).

Table 18 – Financial performance of the Long-term Care Insurance Fund

	2018 Actual £m	2019 Actual £m	2020 Actual £m	2021 Forecast £m	2022 Budget £m
Income	28.0	28.3	27.9	28.6	30.9
Expenditure	(19.9)	(20.8)	(20.8)	(23.1)	(24.1)
Operating surplus	8.1	7.4	7.1	5.5	6.8
Investing activities	(3.9)	6.1	-	2.5	2.5
Net surplus/(deficit) for the year	4.2	13.5	7.1	8.0	9.3
Net assets at 1st January	75.0	79.2	92.7	99.8	107.8
Net assets at 31st December	79.2	92.7	99.8	107.8	117.1
Expenditure cover in years	4.0	4.5	4.8	4.7	4.9

10. Investment returns

10.1. 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 2020 was -0.24%. For the period January to June 2021, there has been a positive return of 7.3%.

10.2. On 24th March 2021, the States considered the joint Policy Letter from the Policy & Resources Committee and the Committee *for* Employment & Social Security entitled "Improving the Governance of the States of Guernsey's Investment Funds"[29] and resolved, inter-alia, to establish a States' Investment Board as a sub-committee of the Policy & Resources Committee and that responsibility for the management of the Common Investment Fund be transferred from the Committee *for* Employment & Social Security to that Committee. This transfer took place on 15th July 2021 when the Machinery of Government (Transfer of Functions) Ordinance, 2021[30], came into force.

11. Compliance with Rule 4 of the Rules of Procedure

11.1. Rule 4 of the Rules of Procedure of the States of Deliberation and their Committees sets out the information which must be included in, or appended to, propositions laid before the States. In accordance with Rule 4(1)(a), it is confirmed that propositions 1 and 2, in respect of increasing contribution rates to the Guernsey Insurance Fund and the Long-term Care Insurance Fund,

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29 Improving the Governance of the States of Guernsey's Investment Funds (Billet d'État VIII of 2021, Article IV)

30 The Machinery of Government (Transfer of Functions) Ordinance, 2021

align with the priority set out in the Government Work Plan[31] to 'sustain government finances' under the 'reshaping government' workstream.

11.2. In accordance with Rule 4(1)(b), it is confirmed that the Committee has engaged with the Policy & Resources Committee throughout the preparation of this Policy Letter, except in respect of paragraphs 6.21 to 6.39 which were a late addition to the Policy Letter. In accordance with Rule 4(1)(c), the Propositions have been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications. She has advised that there is no reason in law why the Propositions should not be put into effect. In accordance with Rule 4(1)(d), estimates of the financial implications to the States of carrying the proposals into effect is set out in paragraph 3.20 and sections 8 and 9 of this Policy Letter.

11.3. In this Policy Letter, the Committee has set out its proposals for benefit rates and contribution rates and limits for 2022. In accordance with Rule 4(2)(a), it is confirmed that 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."

11.4. In accordance with Rule 4(2)(b), it is confirmed that the Propositions have the unanimous support of the Committee.

Yours faithfully

P J Roffey
President

H L de Sausmarez
Vice-President

T L Bury
S J Falla
J A B Gollop

M R Thompson
Non-States Member

R J Le Brun
Non-States Member

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31 The Government Work Plan 2021 – 2025 (Billet d'État XV of 2021, Article I)

APPENDIX 1

Table 6.1 from the Policy & Resources Committee's Policy Letter entitled 'Reform of Health Care Funding'[32] below shows how the split of contribution income will change when the Health Service Benefit (Amendment and Miscellaneous Provisions) Law, 2021[33] comes into force on 1st January 2022.

Table 6.1: Contribution Allocations (based on 2018 accounting data)

		Current contribution rate	2018 value (£m)	Proposed contribution rate	Estimated value (£m)
Combined contribution rate	Employers	6.6%	£76.3	6.60%	£76.3
	Employee	6.6%	£75.8	6.60%	£75.8
	Self-employed	11.0%	£16.8	11.00%	£16.8
	Non-employed	10.4%	£3.0	10.40%	£3.0
	>65	3.4%	£6.9	3.40%	£6.9
	Total		**£178.7**		**£178.7**
Guernsey Insurance Fund	Employers	5.0%	£57.8	6.60%	£76.3
	Employee	3.5%	£40.2	2.95%	£33.9
	Self-employed	6.5%	£9.9	7.35%	£11.2
	Non-employed	5.7%	£1.6	6.60%	£1.9
	>65	0.0%	£0.0	0.0%	£0.0
	Revenue Grant		£16.2		£0.0
	Less Travelling Allowance Grant		-£2.5[1]		
	Total		**£123.2**		**£123.3**
GHSF/ Guernsey Health Service Allocation	Employers	1.6%	£18.5	0.0%	£0.0
	Employee	1.3%	£14.9	1.85%	£21.2
	Self-employed	2.7%	£4.1	1.85%	£2.8
	Non-employed	2.8%	£0.8	1.90%	£0.5
	>65	1.3%	£2.6	1.30%	£2.6
	Total Health Service Allocation				**£27.1**
	Former GIF revenue grant				£16.2
	Plus Travelling Allowance grant		£2.5		
	Total		**£43.5**		**£43.4**
Long Term Care Fund	Employers	0.0%	£0	0.00%	£0.0
	Employee	1.8%	£20.7	1.80%	£20.7
	Self-employed	1.8%	£2.7	1.80%	£2.7
	Non-employed	1.9%	£0.5	1.90%	£0.5
	>65	2.1%	£4.3	2.10%	£4.3
	Total		**£28.2**		**£28.2**

[1] TAG in 2018 was unusually high, with spending increased by atypical demand for emergency medical transfers. 2019 estimates are used instead.

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

33 Health Service Benefit (Amendment and Miscellaneous Provisions) Law, 2021

APPENDIX 2

Table 19 – Current and proposed split of contributions into the Guernsey Insurance Fund

Contribution class	2021	2022		
		Reform of health care funding	Proposed increases	Proposed contribution rates for 2022
Class 1 – Employer	5.00%	6.60%	0.10%	6.70%
Class 1 – Employee	3.50%	2.95%	0.10%	3.05%
Class 2 – Self-employed	6.50%	7.35%	0.20%	7.55%
Class 3 – Non-employed under pension age	5.70%	6.60%	0.20%	6.80%
Class 3 – Non-employed over pension age	0.00%	0.00%	0.00%	0.00%

Table 20 – Current and proposed split of contributions into the Long-term Care Insurance Fund

Contribution class	2021	2022		
		Reform of health care funding	Proposed increases	Proposed contribution rates for 2022
Class 1 – Employer	0.00%	0.00%	0.00%	0.00%
Class 1 – Employee	1.80%	1.80%	0.10%	1.90%
Class 2 – Self-employed	1.80%	1.80%	0.10%	1.90%
Class 3 – Non-employed under pension age	1.90%	1.90%	0.10%	2.00%
Class 3 – Non-employed over pension age	2.10%	2.10%	0.10%	2.20%

Table 21 – Current and proposed split of contributions into the Guernsey Health Service Fund (to become 'Guernsey Health Service Allocation' from 1st January 2022)

Contribution class	2021	2022		
		Reform of health care funding	Proposed increases	Proposed contribution rates for 2022
Class 1 – Employer	1.60%	0.0%	0.0%	0.0%
Class 1 – Employee	1.30%	1.85%	0.0%	1.85%
Class 2 – Self-employed	2.70%	1.85%	0.0%	1.85%
Class 3 – Non-employed under pension age	2.80%	1.90%	0.0%	1.90%
Class 3 – Non-employed over pension age	1.30%	1.30%	0.0%	1.30%

APPENDIX 3

CALCULATION OF CONTRIBUTION RATES

In order to explain how to calculate the class 3 non-employed allowance, voluntary contribution rate and minimum weekly amount payable by a non-employed person under pension age, it is first necessary to set out how contribution rates are calculated from the outset, as they are interlinked and stem from the calculation of class 1 rates.

Class 1 – Employed persons

Class 1 weekly and monthly upper earnings limit

The calculation of the upper weekly earnings limit is the starting point for the calculation of most of the contribution rates and limits set out in Tables 7, 8 and 9 of this Policy Letter. It is set by applying an uplift in line with the uprating policy (2.4% for 2022) to the current class 1 upper weekly earnings limit (£2,955 in 2021). However, due to the way that the contributions computer system works, this figure must be a whole number that can be multiplied by 52 weeks and divided by 12 to obtain a monthly figure, which must also be a whole number, as shown below:

£2,955 + 2.4% = £3,025.92

£3,025.92 is not a whole number, and when rounded to £3,026, it does not result in a whole number when multiplied by 52 and divided by 12. The closest whole number that does this is £3,027, making this the proposed upper weekly earnings limit for 2022. When multiplied by 52 and divided by 12, this generates a monthly upper earnings limit of £13,117.

Class 1 lower weekly and monthly earnings limit

The lower earnings limit is calculated in the same way as the upper earnings limit, except that the computer system does not require the monthly limit to be a whole number. The weekly figure must be rounded to be a whole number before calculating the monthly figure, as shown below:

2021 rate of £148 + 2.4% = £152 when rounded to the nearest whole number.
Monthly rate is £152 x 52 ÷ 12 = £658.67

Weekly full rate contribution rates

The maximum and minimum weekly amounts that an employer or employee would be required to pay are calculated by multiplying the upper or lower weekly earnings limit by the percentage contribution rate for an employer or employee, as shown below:

Maximum employer: £3,027 x 6.7% = £202.81
Maximum employee: £3,027 x 6.8% = £205.84
Minimum employer: £152 x 6.7% = £10.18
Minimum employee: £152 x 6.8% = £10.34

Class 2 – self-employed persons

Class 2 upper and lower annual earnings limits
The class 2 upper annual earnings limit is set by multiplying the class 1 upper weekly earnings limit (£3,027) by 52 weeks, which for 2022 is proposed to be £157,404.

The class 2 lower earnings limit is set by multiplying the class 1 lower weekly earnings limit (£152) by 52 weeks, which for 2022 is proposed to be £7,904.

Weekly full rate contribution rates
The maximum and minimum weekly amounts that a self-employed person would be required to pay are calculated in accordance with Regulation 10(2)(a) of the Social Insurance (Contributions) Regulations, 2000, by multiplying the class 2 upper or lower annual earnings limit by the percentage contribution rate for a self-employed person, and dividing by 52 to obtain a weekly figure, as shown below:

Maximum:	£157,404 x 11.3% ÷ 52	= £342.05
Minimum:	£7,904 x 11.3% ÷ 52	= £17.18

Class 3 – non-employed persons

Class 3 upper and lower annual income limits
The class 3 upper annual income limit is equal to the class 1 upper annual earnings limit x 52, in accordance with section 8(1) of the Social Insurance (Guernsey) Law, 1978. For 2022, this is proposed to be £157,404.

The class 3 lower annual income limit is set by dividing the lower annual earnings limit for class 1 contributors by 40%, in accordance with Regulation 55 of the Social Insurance (Contributions) Regulations, 2000[34], as shown below:

£7,904 ÷ 40% = £19,760

Calculation of the voluntary class 3 contribution rate
Before the maximum and minimum weekly amounts payable by a non-employed person under or over pension age can be calculated, in accordance with Regulation 10 of the Social Insurance (Contributions) Regulations, 2000, the voluntary contribution rate needs to be calculated, as this is used in the calculation of the non-employed allowance.

As explained in paragraph 4.12 of this Policy Letter, the non-employed allowance is used to calculate the maximum and minimum weekly amounts payable by a non-employed person.

[34] The Social Insurance (Contributions) Regulations, 2000 (consolidated text)

The calculation of the voluntary contribution rate is set out in section 8(4) of the Social Insurance (Guernsey) Law, 1978, and is as follows.

The following acronyms are used in the calculation shown below:

A	= non-employed allowance
LIL	= class 3 lower income limit (£19,760 for 2022)
VCR	= voluntary contribution rate
CPR	= contribution percentage rate (10.7% for 2022)
GIF	= Guernsey Insurance Fund contribution percentage rate (6.8% for 2022)

$$\text{VCR} = \frac{\text{LIL x GIF}}{\text{52 weeks}}$$

$$\text{VCR} = \frac{\text{19,760 x 6.8\%}}{\text{52 weeks}}$$

Voluntary contribution rate = £25.84

Section 8(5) of the Social Insurance (Guernsey) Law, 1978, determines that a special rate of contribution can be paid by a non-employed person who would ordinarily be classed as an employed person, and is aligned with the voluntary contribution rate.

<u>Calculation of the non-employed allowance</u>
In accordance with section 8(2) of the Social Insurance (Guernsey) Law, 1978, the class 3 allowance is determined by Ordinance. As described in paragraph 4.12 of this Policy Letter, it is set at a value that will generate a minimum weekly amount payable by a non-employed person under pension age that equals the voluntary contribution rate. The calculation is shown below.

$$\text{A} = \text{LIL} - \left(\frac{\text{VCR x 52 weeks}}{\text{CPR}}\right)$$

$$\text{A} = 19{,}760 - \left(\frac{\text{25.84 x 52 weeks}}{10.7\%}\right)$$

A = £7,202 when rounded to the nearest whole number

<u>Weekly full rate contribution rates</u>
The weekly full rate maximum and minimum contribution rates for non-employed people are calculated by deducting the non-employed allowance from the upper or lower annual income limit and then multiplying the resultant amount by the percentage contribution rate for a non-employed person under or over pension age, and finally dividing by 52 to obtain a weekly figure, as follows:

Maximum under pension age: (£157,404 - £7,202) x 10.7% ÷ 52 weeks	= £309.07
Maximum over pension age: (£157,404 - £7,202) x 3.5% ÷ 52 weeks	= £101.10
Minimum under pension age: (£19,760 - £7,202) x 10.7% ÷ 52 weeks	= £25.84
Minimum over pension age: (£19,760 - £7,202) x 3.5% ÷ 52 weeks	= £8.45

Calculations according to adjusted non-employed allowance

The calculations set out above show how the adjustment of the split of contribution income into the Guernsey Insurance Fund, resulting from resolution 11b following the June 2019 debate of the Reform of Health Care Funding Policy Letter impacts on the calculation of the voluntary contribution rate, and thus the level at which the non-employed allowance is set. As explained in paragraph 4.15 of the Policy Letter, the Committee is uncomfortable with the rate of the allowance decreasing compared with the 2021 allowance because of its double impact on non-employed people. The Committee therefore proposes to set the allowance for 2022 by uprating it from the 2021 allowance in line with the uprating policy for contributions of 2.4%. This equals £8,904 (£8,695 + 2.4% and rounded to the nearest whole number).

When calculating the maximum and minimum weekly amounts payable by non-employed people based on this adjusted allowance figure, the rates are as follows:

Maximum under pension age: (£157,404 - £8,904) x 10.7% ÷ 52 weeks	= £305.57
Maximum over pension age: (£157,404 - £8,904) x 3.5% ÷ 52 weeks	= £99.95
Minimum under pension age: (£19,760 - £8,904) x 10.7% ÷ 52 weeks	= £22.34
Minimum over pension age: (£19,760 - £8,904) x 3.5% ÷ 52 weeks	= £7.31

The minimum weekly amount payable by a non-employed person under pension age is calculated to be £22.34, which differs from the voluntary contribution rate calculated according to section 8(4) of the Social Insurance (Guernsey) Law, 1978. As explained in paragraph 4.12 of this Policy Letter, it is important that these two figures align. Therefore, it is necessary to amend the calculation set out in the above Law so that it enables the rates to align now that the allowance is to be set using a different formula.

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

COMMITTEE *FOR* EMPLOYMENT & SOCIAL SECURITY

CONTRIBUTORY BENEFITS AND CONTRIBUTION RATES FOR 2022

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

13th September 2021

Dear Sir

Preferred date for consideration by the States of Deliberation

In accordance with Rule 4(3) 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 2022' be considered at the States' Meeting due to commence on 13th October 2021.

In order that contribution rates and limits can be uprated in 2022, 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 new rates and limits can be implemented from 1st January 2022, which is the only time of year that contribution rates and limits can be adjusted.

Yours faithfully

P J Roffey
President

H L de Sausmarez
Vice-President

T L Bury
S J Falla
J A B Gollop

M R Thompson
Non-States Member

R J Le Brun
Non-States Member