



**Isle of Man**  
**Government**

*Reilrys Ellan Vannin*

GD 2015/0036



## The Treasury *Yn Tashtey*

# Social Security and National Insurance Reform Treasury Proposals

Submitted to Tynwald by the Treasury

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To: The Hon Clare Margaret Christian BSc, President of Tynwald, and the Honourable Council and Keys in Tynwald assembled.

Social Security and National Insurance Reform – Treasury Proposals

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## **1. Introduction**

The Treasury Minister, Eddie Teare, MHK, announced in his budget on 17 February 2015 that, “We will start a full consultation exercise on the future of our social security system next month. The Ci65 report – an assessment of the viability and future sustainability of our benefits and state pension system - was published on the Government web-site on 5th November, and we will follow this with briefings for Members of Tynwald, public meetings and a consultation document. The issues at hand are of the greatest national importance and it is vital that we hear what the public thinks. How to reform will be one of the most important decisions to be made since the introduction of the welfare state.”

Following meetings around the Island with the public, the business community and Members of Tynwald, a consultation was started in March 2015 on possible changes to:

- the state retirement pension;
- the National Insurance system;
- workplace pensions; and
- working age benefits.

In June 2015, Treasury published the consultation response, and has taken its wide-ranging feedback into consideration when developing the proposals in this document.

## **2. Background**

By virtue of an agreement between the two countries, the social security system in the Isle of Man has been almost identical to that of the United Kingdom since 1948. Over the years, changes which have been introduced in the UK have, in the main, been applied in the Isle of Man.

However, in the light of major social security reforms which are taking place in the UK, our Government felt that it was the right time to review whether following UK policy should continue.

## **3. What are we trying to achieve?**

Treasury believes that it is not appropriate that the social security system, which accounts for over £270 million of Isle of Man Government expenditure and £174 million of its revenue each year, is

determined largely by policies set in the UK. Social security affects all three of the Government's priorities: protecting the vulnerable, growing the economy and balancing the books. We need to have more policy and legislative control of the system if we are to deliver those priorities effectively.

One of our aims is to have a social security system which:

- has rules which are easy to understand and follow;
- is simple to run;
- doesn't cause a drain on other parts of the public finances; and
- recognises our close links with the UK.

Our state pension, National Insurance and welfare benefits schemes have been in place for many years and it will not be easy to bring in new ones. If Tynwald approves a reform programme, Treasury must ensure that, as far as possible, no unfair burden is placed on any particular part of the community.

## **4. State pension**

The Isle of Man has the same complicated state pension system as in the UK. For the last 22 years or so, it has been enhanced (for people who qualify) by the Manx Pension Supplement and the Retirement Pension Premium, adding further complexity and bureaucracy.

In the UK, for people reaching state pension age on or after 6 April 2016, a much simpler, single-tier pension scheme is being introduced, set at around £155 a week.

Treasury believes, supported by the majority of respondents to the consultation, that the Isle of Man should also introduce a single-tier pension for new pensioners, and one which is designed to meet the Island's needs.

The consultation showed that the majority of respondents thought that a single-tier, flat-rate state pension of £180 per week would be appropriate, with annual increases linked to rises in average earnings. However, many respondents said that annual increases should be linked to prices inflation.

An overwhelming majority of respondents thought that people should have at least 10 qualifying years of National Insurance contributions before gaining rights to a state pension.

The majority of respondents did not think it fair that a person should need at least 45 qualifying years of National Insurance contributions to be entitled to a full state pension. Some respondents expressed concern that women who take time off work to look after children, carers of elderly or disabled people, people with chronic illnesses, people who undertake long periods of study (e.g. doctors, dentists, advocates and other similar professions) and people who have physically demanding occupations may not be able to achieve 45 years of contributions before reaching state pension age.

However, it should be noted that parents who care for children under the age of 12, carers for severely disabled persons, incapacitated persons and persons who are registered as unemployed are eligible under the current rules for credits of National Insurance contributions, and are therefore building up entitlement to a state pension even though they are not working.

A large majority of respondents agreed that the Manx Pension Supplement should be phased out for new entrants over a 20-year period.

The consultation produced strong support for the Isle of Man setting its own state pension age, with a majority also indicating that it would be fair to set the period spent in retirement, on average, at no more than one-third of working life.

## **RECOMMENDATION 1**

The Isle of Man should:

- introduce a single-tier state pension, based on local needs;
- protect pension rights already built up;
- determine the affordable level of pension, based on a forecast that it will be around £180 per week;
- ensure that a contributions credit system is maintained so that those not able to work because of sickness, caring responsibilities, education or unemployment can still build up entitlement to a pension;
- ensure that the state pension age is appropriate to the life expectancy of Isle of Man residents;
- phase out the Manx Pension Supplement over a 20-year period (for new pension claims only).

## 5. National Insurance

As a part of the social security system, National Insurance in the Isle of Man is very similar to that in the UK. The consultation showed that major changes in the National Insurance scheme are not supported. However, it is recognised that the current scheme could be simplified and made fairer. Over the many years since it was introduced National Insurance has become ever more complex. This point was recognised by many respondents to the consultation.

Self-employed people pay a different class and rate of National Insurance contributions to those who are employed and, as a result, they are not entitled to certain benefits such as Jobseeker's Allowance and the Additional Pension Component. If we introduce a simplified, single-tier state pension in the Isle of Man, it would seem appropriate that the same rate of National Insurance should be paid by all.

The consultation indicated support for self-employed people paying the same National Insurance as those in employment, but concerns were expressed about how this would work in practice. The concept is not straightforward in that the self-employed pay National Insurance on their profits, while employed people pay contributions on their earnings.

Under current rules people can build up rights to benefits without paying any National Insurance. While this helps those on low incomes, it also enables others to plan their affairs so as to reduce or eliminate the National Insurance they pay. The consultation showed that there was general agreement that this issue should be tackled.

Where an employer operates an occupational pension scheme it can be 'contracted-out', meaning that both the employee and employer pay a lower rate of National Insurance. In these circumstances, the employee does not build up rights to the additional component of the basic state pension. If we introduce a simplified, single-tier state pension in the Isle of Man, everyone will build up the same rights, and so contracting-out should end. The consultation supported this view.

The consultation supported looking at ways to encourage people to stay in work longer in order to encourage a more phased retirement. Some respondents expressed concern that by encouraging this, the ability of younger people to find employment might be affected adversely.



While many consultation responses said that ways should be found to help the young and the disabled find employment, the National Insurance scheme was not necessarily seen as the best vehicle for it.

## **RECOMMENDATION 2**

The Isle of Man should:

- maintain the current overall structure of the National Insurance scheme;
- simplify where possible how National Insurance is calculated and collected;
- aim to have self-employed and employed people paying the same rate of contributions, so that they are entitled to the same benefits and build up the same state pension rights;
- remove contracting-out, but ensure that all employers with affected pension schemes are consulted and given sufficient notification of the change;
- help employers with the recruitment and retention of employees, but through collaboration between the Treasury and the Department of Economic Development rather than changes in National Insurance.

## **6. Workplace pensions**

The state pension was not intended to be a person's only source of income in retirement, and the need for people to plan additional financial provision is widely recognised. The consultation showed a significant majority of respondents supporting the introduction of a compulsory scheme for people without work-based pensions. Although many respondents supported the proposal, concerns were raised about the cost and administrative burden for employers and employees.

## **RECOMMENDATION 3**

Treasury should consult further with employers and pension providers in the Isle of Man regarding the introduction of a compulsory workplace pension, and report back to Tynwald in July 2016 on the feasibility of the proposal.

## 7. Working age benefits

The present benefits system is complex and difficult to deal with for claimants and the Government alike. The consultation proposed the introduction of a simplified, single working age benefit. Respondents to the consultation were very much in favour of the proposal, although some said that 'the devil would be in the detail' in terms of maintaining public support. Whatever the final design of a Manx benefit, respondents were in favour of clear obligations for those in receipt of benefits, and of those who fail to meet their obligations having benefits reduced or stopped.

The Isle of Man has experienced a significantly different and more expensive pattern of claimant growth than the UK, despite the fact that the benefit systems are essentially identical. The UK has, over the last six years, introduced a number of changes designed to increase the monitoring of benefit recipients and ensure that the number of people claiming benefits incorrectly is reduced. The Ci65 report recommended that Treasury should introduce similar changes while also providing additional support to help people leave benefits and enter work. These concepts attracted wide support in the consultation. There was strong support for there being a 'better off in work' guarantee.

Passported benefits are those services provided free by the Government based on a person's entitlement to a means-tested benefit. There was no clear view from the consultation about changing how passported benefits are provided.

The consultation proposed the possibility of introducing a 'benefit cap' on a similar basis to that of the UK. Such a cap would not apply to pensioners, the disabled or those who work for a specified number of hours per week. Views were also sought on the possibility of an overall financial limit on benefit spending funded from taxation. Respondents favoured a benefit cap for individuals with few benefits excluded, and an overall limit on tax-funded welfare.

### **RECOMMENDATION 4**

The Isle of Man should:

- introduce a single Manx benefit which will support people both out of and in work;

- strengthen the rules which allow the withholding or reduction of benefits for claimants who fail to meet their obligations;
- ensure that claimants who can work will be better off if they do so;
- introduce increased monitoring and checking of claimants' rights to benefits;
- provide a job, training or work experience for the long-term unemployed, coupled with sanctions or loss of benefit for those who refuse to engage;
- keep under review the number and type of Government services provided at reduced cost to those on means-tested benefits;
- introduce a benefit cap.

## **8. Our relationship with the UK**

The Isle of Man and the UK have had a reciprocal agreement since 1948 which effectively treats the two countries as one for social security and National Insurance purposes. If Tynwald supports social security reform, bringing greater control over the Island's revenue and expenditure, the reciprocal agreement will need to be amended.

The responses to the consultation highlighted the importance of having an agreement which facilitates the movement of people between the Isle of Man and the UK, and thereby helps the delivery of the three priorities covered in section 3 above.

### **RECOMMENDATION 5**

The Isle of Man should ensure a reciprocal agreement with the UK is maintained which takes account of social security reforms in both countries and which allows people to move between both countries while protecting their entitlement to National Insurance funded benefits.