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GUERNSEY SOCIAL SECURITY AUTHORITY

REVISION OF SOCIAL INSURANCE SCHEME
FOR GENDER EQUALITY

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B I L L E T   D ' É T A T

TO THE MEMBERS OF THE STATES OF

THE ISLAND OF GUERNSEY

I have the honour to inform you that a Meeting of the States of Deliberation will be held at **THE ROYAL COURT HOUSE, on WEDNESDAY,** the **30th APRIL, 2003,** at 9.30 a.m.

GUERNSEY SOCIAL SECURITY AUTHORITY

REVISION OF SOCIAL INSURANCE SCHEME FOR GENDER EQUALITY

The President
States of Guernsey
Royal Court House
St Peter Port
Guernsey
GY1 2PB

7 March 2003

Dear Sir

Revision of social insurance scheme for gender equality

Summary of report and recommendations

1. The social insurance scheme, which provides the contributory benefits of old age and widow's pension, and benefits for sickness, unemployment and maternity, is overdue for revision to match the needs of a society which has changed radically since the scheme's basic structure was formulated in the 1940s.

2. In addition to the sociological arguments in favour of revising the scheme, the introduction of the Human Rights (Guernsey) Law has added impetus in the area of gender equality. The Authority is aware that features of the current scheme which stem from discrimination in favour of the family and especially married women, could be incompatible with the provisions of Article 14 of the European Convention on Human Rights, concerning non-discrimination.

3. The achievement of gender equality, through the proposals set out in this report, will at the same time simplify many of the most complex provisions of the Social Insurance Law. The Authority's strategy will be to move decisively towards the individualisation of social insurance benefits, so that all contributors will have clearly defined entitlements under the Law, without reference to gender, marital status or family circumstances.

4. This report is confined to the contributory benefits of the social insurance scheme and it is important to view individualisation of benefits in this context. Individualisation cannot reasonably extend to the non-contributory social assistance schemes of supplementary benefit and public assistance. In these schemes, the make-up of the family unit must be known, as must be the income and resources of all members. These must remain aggregated and, in fairness to the wider body of taxpayers, ought not to be individualised.

5. The Authority recognises the different work patterns of men and women, particularly in relation to bringing up children. The Authority proposes to safeguard the contribution record of women, or men, who are non-employed but looking after a child by attaching a contribution credit to any week in which a family allowance is paid in respect of a child under 16**.** The family allowance credit would not apply where the person had unearned income above the threshold for payment of an income-related non-employed contribution, currently £10,790 p.a.

6. Particular attention is also paid to the future pension position of married women who have been paying reduced rate contributions, in some cases for many years, in the expectation that they can claim a part pension based on the contribution record of their husband. The Authority proposes that the States should honour this expectation by enhancing the personal contribution records of all married women under pension age, if to their advantage, by 62% of their husband's long-term contribution average as at 31 December 2003. This will allow many married women in employment to add future contributions that they may pay to their own individualised record, bettering the pension they would have received under the current system.

7. If, following the change in the systems, married women do not add to their individualised record, through payment of employed, self-employed or non-employed contributions, then they may eventually receive an old age pension lower than that available under current rules. The younger the married woman is, and consequently the further from pension age, the larger the potential for a reduced pension; but conversely the greater the potential for a pension better than under current rules if contributions are paid.

8. The Authority has modelled the effect of its proposals on numerous real cases and believes the proposals very fair in all the circumstances. The proposals may well appear complicated to people without a special interest in social security, in which case understanding will be assisted by examination of the effects on individual cases. The Authority has put a calculator on its website at www.gssa.gov.gg where people can input their own details and see the effect of the proposals on their future pension. This service will also be available to callers at Edward T Wheadon House.

9. The Authority has confidence in its proposals and will offer a guarantee which it considers will seldom need to be called upon, but will act as a reassurance to some persons to whom the proposals may appear worrying. This guarantee is that any married woman within 10 years of pension age will, when she reaches 65, be assessed for pension based on the current rules, if the amount of pension that she would receive under the new proposals does not match that amount. As always with pension matters, the Authority is looking to the long-term with these proposals, that is, up to 60 years ahead. The Authority aims to secure a meaningful, first pillar state pension where as many people as possible are paying into the scheme and where those drawing pension are people who have contributed themselves and are not receiving a right derived from someone else's contribution record, except in the special circumstances of bereavement benefits.

10. The Authority has recently taken steps, in response to the findings of the Townsend Centre for International Poverty Research, to strengthen the single rate of old age pension compared with the amount paid for a wife based on the husband's contribution record. The proposals in this report abolish the concept of a 'married woman's pension'

and work towards couples, whether married or not, receiving individualised pensions of the same amount. The two objectives may appear to conflict, but can be rationalised. The married woman's pension, even if new awards are stopped from 1 January 2004, will survive for forty years or so, as those pensions in payment remain in payment undisturbed apart from annual benefit uprating decisions. Married women being awarded a pension in 2003 based on their husband's record can, with current life expectancy, expect to receive that pension for at least 10 years. With improving life expectancy, many of that cohort will receive the pension for 20 years or more, while the husband remains alive. The so called married woman's pension, therefore, will survive for a long time, although gradually reducing in number.

11. As the married woman's pension decreases in number, the number of individualised pensions will increase and there will be potential for more couples to receive two full state pensions in retirement. However, assuming continued mobility of labour, many pensioners living in Guernsey or elsewhere in the world will receive incomplete Guernsey pensions because only part of their working lives has been spent in Guernsey. But such people may also receive part pensions from the other countries that they have worked in.

12. The proposed individualisation of benefit entitlements includes the removal of benefit increases in respect of adult and child dependants. The impact will be most noticeable in the area of old-age pension where, currently, a man can claim an increase in his old-age pension in respect of his wife while she is not, herself, a pensioner. The husband is older than the wife in four out of five married couples, so the removal of the benefit increase will affect retirement income of most married couples in the first few years of retirement, until the wife reaches 65 and receives her own pension. The Authority considers that a period of notice is required for this particular change in order to allow couples, where possible, to make provision for this loss of benefit income. The Authority proposes a period of 10 years before the removal of the increase of old-age pension for an adult dependant.

13. The Authority's recommendations, to achieve the aim of gender equality, are as follows:

   a. that the married woman’s and widow’s option to pay a reduced rate of social insurance contribution, if employed, or to pay no social insurance contribution if self-employed or non-employed shall be discontinued, and that all women shall be assessed to pay at the full percentage rates from 1 January 2004;

   b. that the married woman’s pension, based on her husband’s contribution record, should effectively cease to be awarded from 1 January 2004, being replaced by a pension awarded in respect of her own contribution record, enhanced, if to her advantage, by the substitution of 62% of her husband’s contribution average, calculated as at 31 December 2003;

   c. that a Class 3 contribution credit shall not be awarded to widows in respect of any week after 1 January 2004;

   d. that, from 1 January 2004, a Class 3 contribution credit shall be awarded to non-employed persons who are in receipt of family allowance in respect of a child under the age of 16 and are not otherwise liable, through employment, self-employment or having sufficient un-earned income, to pay a social insurance contribution;

e. that women who are widows or divorcees at 1 January 2004, not having remarried at that date, shall be entitled, at age 65, to have their entitlement to a pension calculated in accordance with the regulations in force at 31 December 2003;

f. that no increase of benefit for a child shall be payable with widowed parent's allowance, the standard rate having been increased by an appropriate amount to compensate;

g. that no increase of an old age pension shall be payable in respect of a child dependant;

h. that no increase of invalidity, sickness, industrial injury or unemployment benefit should be payable in respect of a child dependant;

i. that no increase of sickness, industrial injury or unemployment benefit should be payable in respect of an adult dependant;

j. that no increase of invalidity benefit shall be payable in respect of an adult dependant except for a transitional period of one year, where the claim was in payment at 31 December 2003;

k. that, from 1 January 2014, no increase of an old age pension shall be payable in respect of a wife;

l. that survivor's grant shall be replaced with 'bereavement payment' and made payable to all widows and widowers, including pensioners, at a rate comparable with the present value of survivor's grant;

m. that widow's pension shall be replaced by a 'bereavement allowance', payable to a widow or widower aged between 45 and 64, inclusive, who is not entitled to a widowed parent's allowance, for a maximum period of 12 months;

n. that the right of a widow pensioner to receive a pension at the same rate as payable to her late husband, if greater than her own pension, shall be reciprocated and shall also apply to widower pensioners;

Note: The effective date of 1 January 2004, for recommendations *a* to *e* should be qualified by 'or as soon as is practicable thereafter'. The target date is, however, considered achievable as amendments to primary legislation are understood not to be required. Recommendations *f* to *n* are understood to require amendment to primary legislation and their commencement date, therefore, shall be as soon as is practicable after 1 January 2004.

14. The Authority has taken advice from the Government Actuary's Department on the impact of its proposals on the long-term financing of the social insurance scheme. From a financial standpoint, the key features are:

- the immediate increase of £2.6m per year contribution income as all married women switch to full rate contributions;

- the immediate increased demand of £1.5m per year from General Revenue, by way of the formula led States grant to the Guernsey Insurance Fund;

- the increased take-up of sickness, unemployment and invalidity benefit, which the previous reduced rate contribution did not cover;

- the long-term effect of full rate contributions for all married women on old-age pension entitlements
- the long-term effect of family allowance credits on old-age pension entitlements
- the long-term effect of voluntarily paid non-employed contributions on old-age pension entitlements**.**

15. The Government Actuary's Department has advised that the Authority's package of proposals is, in the long-term, self financing. In the short term there will be an estimated net gain of approximately £4.0m per year to the Fund, gradually reducing each year as benefit entitlement accrues from the extra contributions and credits. By the end of the actuarial forecast period, sixty years ahead, the initial net gains from this package of proposals has reached a net loss of around £2.8m per year. However, investment returns from the years of net gain will more than compensate for the later annual deficits arising from these proposals.

16. It should be noted that the proposals in this report address gender equality in a broadly cost neutral way. They do not affect, substantially, the underlying demographic issue of rapidly declining contributor to pensioner ratios that will impact on all pension schemes will reach their peak in around the middle of this century. The minimal effect that the gender equality proposals will have on the wider pension financing issue will, however, be in a positive direction through the initial net annual gains.

Revision of social insurance scheme for gender equality

Introduction and Background

17. The Social Insurance scheme, which provides the contributory benefits of old age and widow's pension, and benefits for sickness, unemployment and maternity, is overdue for revision to match the needs of a society which has changed radically since its basic structure was formulated.

18. The existing provisions, currently given effect through the Social Insurance (Guernsey) Law, 1978, as amended, are based on the 1940s model of a nuclear family. This assumed a husband in employment, a wife who would never work, or perhaps take only occasional employment, and dependent children. To fit this model, social protection for the wife was provided mainly by way of benefits derived from her husband's social insurance record, and effectively allowed a married woman to opt out of social insurance altogether.

19. The model went further than this, however, and seems to have contained an unspoken assumption that all women would eventually marry, and would thus never themselves be responsible for dependants. In consequence, men, who could all eventually be expected to acquire a dependent wife, were once required to pay a higher rate of contribution than women.

20. The current structure of the social insurance scheme discriminates in favour of the family man, both through the provision of derived rights for his adult and child dependants and also through the married woman's entitlement to pay reduced rate contributions. No similar provisions exist for the male spouse, nor indeed for the members of unmarried partnerships.

21. Guernsey's first full-coverage social insurance was given effect through the Social Insurance (Guernsey) Law, 1964, closely modelled on the United Kingdom's 1946 National Insurance Act. The 1978 revision of the 1964 law was begun in the mid 1970s and was intended mainly to solve the problem that the flat-rate contribution structure could no longer sustain the benefit levels necessary as the result of the period of rapid inflation of the late 1960s and early 1970s. Earnings-related contributions ensured that the lower-paid would not have to contribute a disproportionate share of their earnings, whilst the contributions paid by the better-off were able to support the necessary levels of benefit.

22. The revised scheme had removed the higher rate of contribution paid by men, believing this unnecessary on the grounds that men would naturally contribute more to the scheme because of their higher earnings. But it did not address the other changes that had begun to alter the structure of society: the increased number of working women and the reduced importance, and permanence, of the nuclear family.

23. The Authority is committed to achieving gender equality in the social insurance scheme and, in this report, makes its proposals to the States in order to achieve this aim. The introduction of the Human Rights (Guernsey) Law has certainly added impetus to this area of work, as the Authority considers that features in the current scheme which stem from discrimination in favour of the family and married women, may be incompatible

with the provisions of Article 14 of the European Convention on Human Rights, concerning non-discrimination.

24. Some 17 years ago, the States Insurance Authority, as it was then, was directed to report to the States on the changes that would be necessary to enable males and females to be treated equally under the social insurance scheme. As will be evidenced from the detail of this report, this is an extremely complex matter which, until now, has been repeatedly displaced from high priority by more pressing policy matters such as the specialist health insurance scheme and, more recently, the long term care insurance proposals. The Authority regrets that it has taken so long to address in depth the gender equality issues and to bring proposals to the States for consideration.

25. On 30 May 1985, having considered a report from the States Committee to Investigate Equal Pay for Female Employees (Billet d'Etat XII of 1985), the States resolved, among other things:

"'To direct the States Insurance Authority-

(i) to consider what changes it would be necessary to make in the Social Insurance and Supplementary Benefit Laws to enable males and females to be treated equally;

(ii) to consider what the implications would be both administratively and financially if such measures as in (i) were to be adopted; and

to report to the States as soon as possible.'

26. Minor amendments to the Authority's legislation in recent years, for a variety of purposes, have also had regard to the issue of gender equality. The Authority considers that the Attendance and Invalid Care Allowances Law, the Family Allowances Law, the Health Service (Benefit) Law and the Supplementary Benefit Law are now fully gender neutral or as gender neutral as is considered reasonable and practicable. Outstanding issues concerning gender inequality are, therefore, almost wholly confined to the Social Insurance Law and its Ordinances and Regulations.

27. The achievement of gender equality will at the same time simplify many of the most complex provisions of the Social Insurance Law. Subject to States approval, the Authority's strategy will be to move decisively towards the individualisation of benefits, so that all contributors will have clearly defined entitlements under the Law, without reference to gender, marital status or family circumstances

28. At this point, it is important to draw the distinction between the contributory social insurance scheme and the non-contributory social assistance schemes of supplementary benefit and public assistance. There can never be any escape from the complexity that is inherent in any means-tested, social assistance scheme. For supplementary benefit and public assistance, the make-up of the family unit must be known, as must be the income and resources of all members. These must remain aggregated and, in fairness to the wider body of taxpayers, ought never to be individualised.

29. The Authority's vision for the future of Social Security as a whole is of a structure comprising:

- a simplified, individualised insurance scheme to provide contribution-based benefits against the contingencies of sickness, unemployment and old age without regard to need or resources;

- residence-based insurance schemes, such as health benefit and long-term care insurance funded by, but benefit not conditional on, the payment of contributions;

- an inevitably more complex, means-tested supplementary scheme for those ineligible for insurance benefits or whose own resources are insufficient, including the moderately disabled;

- universal benefits, such as family allowances and attendance and invalid care allowances, for the severely disabled and their carers.

30. The Authority’s proposals in this policy letter are exclusively concerned with the Social Insurance (Guernsey) Law, the collection of contributions and payment of benefits under its provisions.

Inequalities in the present law

31. As has already been stated, the assumption that the purpose of social insurance is to protect the stereotypical family lies at the root of all the discriminatory features of the present law

The married woman’s contribution option

32. The most obvious inequality is that married women may, in effect, opt out of social insurance by electing to pay a considerably reduced personal rate of contribution if employed, and paying no contribution whatever if self-employed or non-employed. It must, however, be remembered that contributions are collected by the Guernsey Social Security Authority for purposes other than social insurance, so that contributions for health service and long-term care benefits may still be payable.

33. Widows, so long as they do not re-marry and are entitled to widow's benefit, are treated as married women and may likewise elect not to pay social insurance contributions, but men and all other single women have no option but to pay the full percentage rate.

The married woman's pension

34. A married woman, once her husband has attained pensionable age, is herself entitled to an old age pension on reaching age 65 at a rate which was, prior to 2003, equal to just under 62% of the rate payable to him. She is entitled to this as a minimum, whether she has paid any contributions or not. If she has also paid social insurance contributions in her own right she may receive either the pension based on her own contributions or that based on her husband's, but not both. There is no comparable provision for married men.

Increase of pension for wife under 65

35. A pensioner who is residing with or maintaining a wife aged under 65 is entitled to an increase of his pension at a rate which was, prior to 2003, approximately 62% of his basic rate. This increase is payable regardless of his wife's earnings, but may be reduced or removed if she is receiving another social insurance benefit.

36. A pensioner living with a woman who is not his wife cannot receive an increase for her unless there is a child or children in his family, which is rare. A female pensioner is not entitled to an increase in her pension in respect of her husband.

Increase of short-term benefit for wife or adult dependant

37. A man who has a wife is entitled to an increase in the amount of any short-term benefit for sickness or unemployment provided that his wife is living with him or is being maintained by him. This increase is payable regardless of his wife's earnings, but may be reduced or removed if she is receiving another social insurance benefit.

38. A man living with a woman who is not his wife cannot receive the increase unless there is a child or children in his family, which frequently is the case.

39. A married woman is not entitled to an increase of a short-term benefit in respect of her husband other than in the rare exception of his being incapable of self-support and not in receipt of a social insurance benefit.

40. A single woman is entitled to an increase for an adult dependant only if that dependant is one of a list of prescribed relatives who is entirely supported by her and is not receiving a social insurance benefit.

Increase of benefit for child or children

41. A man or single woman is entitled to an increase of pension or short-term benefit for a child or children living with that person or maintained by that person.

42. A married woman is not entitled to an increase for a child or children unless she is living apart from her husband or he is incapable of self-support.

A widow pensioner inherits her husband's pension on his death

43. A female pensioner is entitled to receive the rate of pension formerly paid to her husband after his death, if this is to her advantage, even if the pension previously payable to her was based on her own contributions. This option is not available to a male pensioner.

Survivor's grant is available to all wives, but only to husbands with children

44. Any woman whose husband dies before reaching age 65 is entitled to a survivor's grant based on his contribution record. A widower is entitled to the grant only if he has children and will be entitled to a widowed parent's allowance.

Widow's pension is not payable to a man

45. A widow who has no children in her family and has reached the age of 40 before widowhood, or before her entitlement to widowed parent's allowance ends, is entitled to a widow's pension, based on her late husband's contribution record. This is regardless of any earnings that she may have and so long as she continues to be entitled to the pension (i.e. does not remarry or cohabit with a man as his wife), she will be credited with a contribution which will entitle her to an old age pension.

46. A man in the same circumstances has no title to any benefit and must continue to pay contributions.

A widow or divorcee may substitute her former husband's record for her own

47. A widow or divorcee may elect, in the calculation of her old age pension, to substitute the contribution average of her former husband, calculated at the date of the termination of the marriage, for either

- the period of the marriage; or
- the period prior to and up to the date of the end of the marriage.

48. No such provision is applicable to a man.

A widow has the married woman's contribution option

49. A widow in receipt of benefit may pay a reduced personal rate of contribution if employed, and pay no social insurance contribution whatever if self-employed or non-employed. To ensure that she qualifies for an old age pension she is also credited with a Class 3 contribution which is additional to her weekly benefit.

50. No such provision is applicable to a man.

Fundamental policy considerations

51. It may seem that the most straightforward means of achieving equality is to allow all to enjoy the features previously available to the few, but such a solution could easily destroy that which it sought to preserve. The current social insurance scheme is, essentially, voluntary for married women, but to extend that privilege to married men, or, more equitably, to all contributors, would undermine the compulsion which is the whole basis of the scheme.

52. Likewise, to make all possible benefits or increases of benefit available to all contributors on the same terms as are currently available to married men or women would considerably increase the outlay of the Insurance Fund so that either all benefits,

including those already in payment, would have to be drastically reduced, or contributions would have immediately to be raised to unacceptable levels.

53. The inequalities that arise from the married woman's privilege to opt out of insurance are not just that men are, by and large, entitled to increases of benefit that are not available to women, or that some exemptions or special treatment are not available to men. Profound changes both in society itself and in the behaviour and expectations of its members have turned this very privilege into an irrelevance which often discriminates against an increasing proportion of each generation of women, while acting against the best interests of many of those it was designed to assist. These changing patterns will be illustrated by statistics that follow in this report.

54. Finally, it should be remembered that one of the reasons for the married woman's contribution option was a reluctance to enforce Class 3, non-employed, liability: to insist that a woman who was a full-time wife and mother should be obliged either to pay a flat-rate contribution or demonstrate that she was unable to afford to do so, by claiming a 'small income exception'. In the United Kingdom, the payment of Class 3 contributions became voluntary shortly after the introduction of the 1946 National Insurance Act, but Guernsey and Jersey have always resisted such a course as undermining the element of compulsion, and, in consequence, increasing the potential demand for social assistance in the future.

55. Since 1 January 1996, however, Class 3 contributions have been income-related, and no person with an income below the Lower Annual Income Limit, currently about £10,800 p.a., is liable to pay a Class 3 contribution, although the payment of a minimum contribution is possible if desired. The final element of the married woman's contribution option, namely the removal of liability to pay a Class 3 contribution, has thus effectively already been applied to all non-employed persons whose income is too low to be able to afford to contribute.

Inequality: the married woman's contribution option and the married woman's pension

56. Since the Authority firmly believes that the basis of social insurance must continue to be that all must contribute, there can be no alternative to the abolition of the married woman's option to elect not to pay. The questions relate to how the transition is to be managed, but before the Authority's proposals are outlined, it is necessary to evaluate the numbers and situation of those affected.

Who can make the reduced rate contribution option?

57. As in all developed countries, Guernsey society has changed greatly since the 1950s, not least in the education, employment and expectations of women. Although the attempt to introduce universal compulsory Social Insurance to the Island in 1951 was unsuccessful, the Social Insurance (Guernsey) Law, 1964, which came into force on 4 January 1965, was substantially identical, and initially made no special provision for employed married women, who had to pay full-rate contributions, unless they worked for 6 months or less during the year in horticulture or tourism. Self-employed and non-

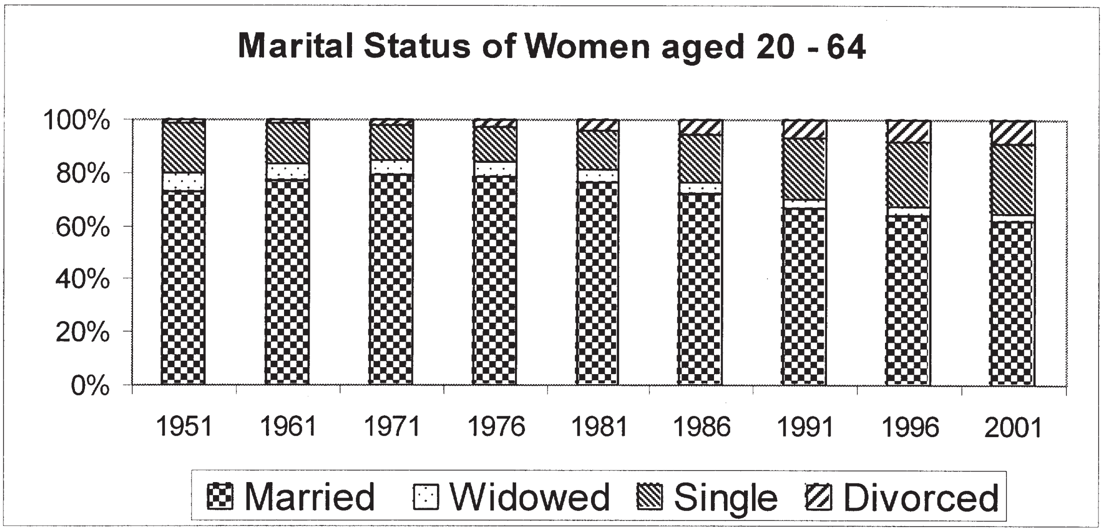
employed married women were not required to contribute unless they wished, and were qualified, to do so.

58. There seems to have been an assumption, however, that most married women would not continue in work for any length of time, and so would not be able to obtain a pension better than would be available by virtue of their husbands' contributions. In the 1970 Policy Letter setting out plans for the revision of the 1964 Law (Billet d'Etat IV of 1970) it was proposed, and approved, that all employed married women could choose whether or not to contribute under the Law. Thus, since 7 June 1971, married women and widows receiving widow's pension or widowed parent's allowance (formerly widowed mother's allowance) have been able to elect not to be liable for the full payment of social insurance contributions.

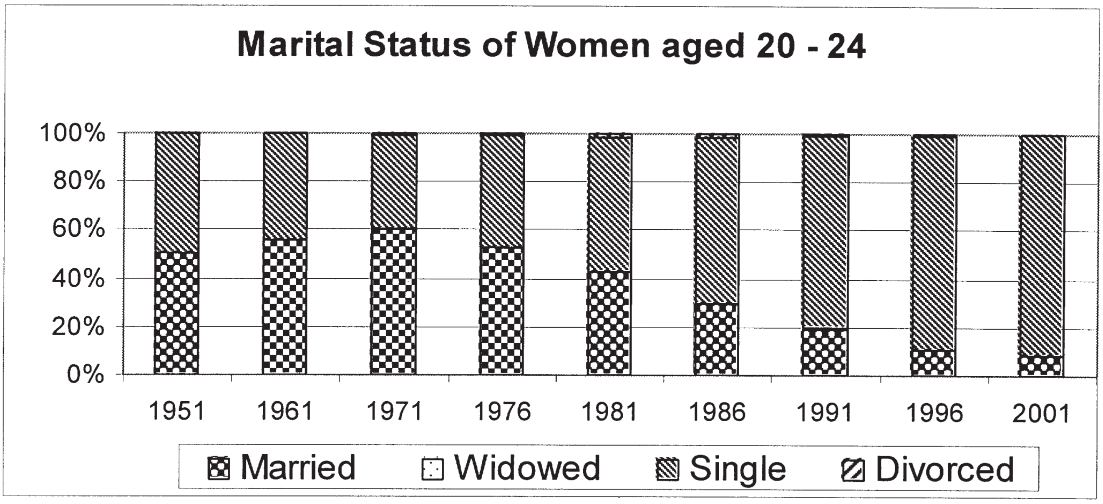
59. In the 1950s, 60s and 70s, more than 80% of Guernsey's females in the age group 20 to 64 were either married or widowed, but this is not so today. The ratio of widows to married women in 1951 was 1:11 overall and 1:3 for the 55 to 64 age-group. These ratios now stand at 1:26, and almost 1:9 respectively, with the number of widows of working age having almost halved from 852 to 470. Of greater significance, however, is the change in the percentage of women who are married.

60. At the 1951 census, 79% of the total population in the 20 - 64 age-groups were married or widowed. This increased to 83% in 1961 and 84% in 1971.

61. Since then, there has been a dramatic change. The overall percentage of married and widowed women has declined from a high of 84% in 1971 to just over 64% in 2001. While the substance of this change is easily visible in the figures for the working-age population as a whole, it is even more pronounced on inspection of the individual age-groups.



62. The proportion of married women in the 20 to 24 age group has now fallen from a high of 60% in 1971 to just 8.4% in 2001.



63. A decline is reflected also, though to a lesser extent, in the 25 to 29, 30 to 34 and 35 to 39 age-groups. There is a common pattern, underlying the summary data below, of an increase in the percentage married in 1961 and 1971, followed by a decline which accelerates from 1981.

Age	1951	1971	2001
25 – 29	75.49%	84.22%	33.12%
30 - 34	82.51%	89.84%	58.83%
35 - 39	83.54%	90.45%	71.62%

64. There may be many reasons for this, including a perception that the formality of marriage is not necessary; yet the fact that there is a steadily increasing likelihood of marriage with age shows that marriage itself has not gone out of fashion. More likely, it is believed, is the correlation of this later marriage with the tendency for childbearing to be postponed to the late twenties and thirties.

65. This is, it is felt, due as much to the increased employment opportunities for Guernsey's young women as to the economic pressures of the housing market. Today's under-twenties are, by and large, more likely to have educational qualifications which will enable them to take advantage of the available employment opportunities.

66. There is also evidence that young couples are deciding to marry only when ready to settle down and start a family, and an appreciable proportion of new claims to Family Allowances are made by women who have married in the preceding 12 to 15 months.

67. Whatever the reasons, the clear trend for marriage later in life has meant that an increasing number of women under 40 cannot take advantage of the married woman's option for a reduced rate contribution because they are unmarried. Even when married, many do not opt to pay reduced rate because they wish to retain entitlement to short-term benefits for sickness, maternity and unemployment. Some may be taking the longer view of building a full old-age pension entitlement on their own contribution record in preference to the part pension currently available as a derived right on the husband's record.

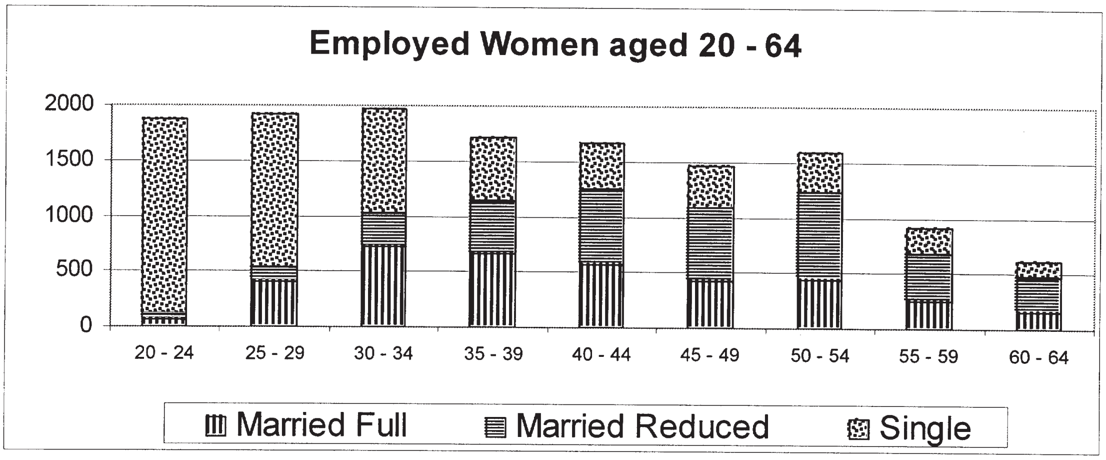
68. A woman opting to pay reduced rate contributions for social insurance is, effectively, discarding any contributions she has already paid, since she can either have a pension based on her own record, or on her husband's record. She cannot add the two records together. This discard would be of comparatively little importance where her own contributions had been paid for no more than a few years before marriage, but for a woman who has worked for 10 or 12 years, and has paid the same percentage as her husband on earnings as great as his, the discarded contributions represent a considerable sum of money.

69. The final consideration is that the option to pay reduced rate contributions is most attractive to those for whom it may, ultimately, be a bad choice. The reduced rate of contribution is tempting to those on the lowest rates of pay, offering an extra £4.00 a week take-home pay to a person earning £150, but those on such a wage are the most likely to require the sickness, maternity or unemployment benefits that the reduced rate contribution debars them from receiving. Even if the woman in question is only working part-time, she could be contributing, at little real cost, towards a pension that could form a valuable part of the family income in old age.

Who has opted to pay reduced rate contributions?

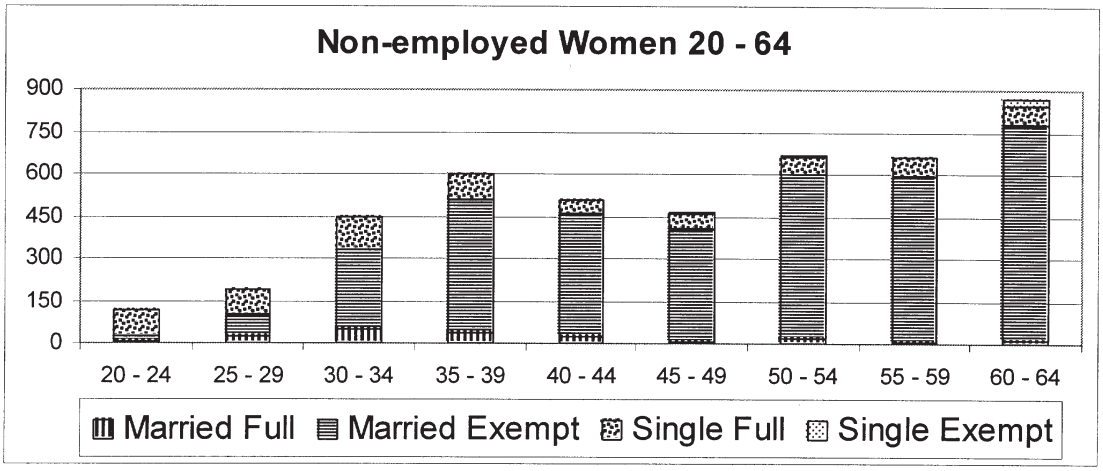
70. Analysis of the age-group distribution of married women paying reduced rate contributions shows, predictably, that they are very much in the minority of those aged 20 to 39, and although there are fewer married women paying full-rate in the 40 to 44 age-group, it is only in the over 45s that there is a clear majority paying the reduced rate. This analysis of contributors has been made from the details of those persons present, according to the Authority's records, in the Island during the week preceding the day of the 2001 census, and correlates with the census figures within a very small margin.

71. So, although a total of 3,800 employed women are paying the reduced rate of contribution, they are only one in eight (12.62%) of those under 40, and nearly one in six (17.64%) of those under 45.



72. The situation is somewhat different among self-employed women, but the numbers are very small, the total being under 700. Even so a clear majority of those under 40 are paying the full-rate contribution.

73. Lastly, non-employed women are those who are not gainfully occupied, either as employed or self-employed persons. The overwhelming proportion aged under 50 are engaged in looking after the home and one or more children. It is likely also that the increase in the over-fifties reflects retirement from paid, and possibly pensionable, employment at a time when the income required to maintain an 'empty nest' has considerably reduced.



74. Most of these women have little or no personal income. Only around 100 non-employed women, single or married, are paying the full percentage rate Class 3 contribution, covering both social insurance and health benefits. A further 250 non-employed women, who are married, are paying a reduced rate Class 3 contribution for health benefits only.

75. Many of the single women who are ostensibly non-employed and liable to pay a Class 3 contribution are in common-law relationships and remaining at home to raise their children, while their contribution liability is removed because they have insufficient personal income. Since its introduction in 1996, the income-related Class 3 contribution has, effectively, given them the same contribution exemption as a married woman in the same situation.

What would be the effect of stopping reduced rate contributions?

76. The reduced rate of contribution is based on earnings for the employed and self-employed, and on total income for the non-employed. The reduced rates and the full rates can be compared from the table below.

	Reduced Rate Percentage	**Full Rate Percentage**
Employed: Class 1	3.3%	6.0%
Self-Employed: Class 2	4.2%	10.5%
Non-Employed: Class 3	4.2%	9.9%

77. Removal of the reduced rate option will affect around 4,500 women: 3,800 employed, 400 self-employed and around 350 widows.

- Employed married women and widows will become liable for full rate social insurance contributions. The reduced rate contribution is currently 3.3% and the full rate contribution is 6.0%, so their net earnings would be reduced by a further £2.70 per £100 earned, up to an extra £15.96 on the upper earnings limit of £591 per week (£30,732 p.a.).

- The 400 self-employed married women paying reduced rate will have to pay an additional 6.3% of their earnings from self-employment. This will range between an extra £5.22 per week and an extra £37.23 per week for self-employed earnings between the lower and upper limits of £83 per week (£4,316 p.a.) and £591 per week (£30,732 p.a.) respectively.

- The 250 non-employed married women paying reduced rate would have to pay an additional 5.7% of their annual personal income, if above the lower limit (currently £10,790) up to the upper income limit (currently £30,732). This will range between an extra £11.97 per week and an extra £33.69 per week non-employed income between the lower and upper limits of £210 per week (£10,790 p.a.) and £591 per week (£30,732 p.a.) respectively.

Extra contribution income and States grant

78. If, as the Authority proposes, the above changes were given immediate effect, rather than being phased in over a long period, there would be an estimated additional £2.6m annual increase in contribution income to the Guernsey Insurance Fund. The States Grant to the insurance fund is a formula-led supplement equal to 57% of contribution receipts. Consequently, the additional contribution income would cause an additional draw from general revenue of £1.5m per year. The financial implications of the Authority's full set of proposals are addressed in paragraphs 206 to 222 of this report.

Short-term and long-term benefit entitlement

79. Within a period of less than two years from starting to pay full rate contributions, the married women and widows in employment would gain full cover for the short-term benefits of sickness, maternity, unemployment and invalidity. Benefit expenditure in respect of this new group of fully insured persons is difficult to predict. It is envisaged that the main benefit affected would be unemployment benefit, with married women who work seasonally becoming eligible for benefit and wishing to protect their contribution record through unemployment benefit credits rather than being liable for the payment of non employed contributions.

80. Taking a longer term view, with each full rate contribution paid or credited the married women and widows in employment would be building a contribution in their own right for old age pension. This would be a very positive move towards improving retirement incomes.

81. The Authority has recently taken steps, in response to the findings of the Townsend Centre for International Poverty Research, to strengthen the single rate of old age pension compared with the amount paid for a wife based on the husband's contribution

record. The proposals in this report abolish the concept of a 'married woman's pension' and work towards couples, whether married or not, receiving individualised pensions of the same amount. The two objectives may appear to conflict, but can be rationalised. The married woman's pension, even if new awards are stopped from 1 January 2004, will survive for forty years or so, as those pensions in payment remain in payment undisturbed apart from annual benefit uprating decisions. So, married women being awarded a pension in 2003 based on their husband's record can, with current life expectancy, expect to receive that pension for at least 10 years. With improving life expectancy, many of that cohort will receive the pension for 20 years and some for much longer, until eventual widowhood. The so called married woman's pension, therefore, will survive for a long time, although gradually reducing in number.

82. As the number of married woman's pensions decrease, individualised pensions will increase in number and there will be potential for more couples to receive two full state pensions in retirement. The Authority would be very pleased to see both members of a married couple receiving the full individual old age pension, based on contributions that they had paid individually. As well as improving their financial circumstances, it could reduce reliance on means-tested benefits such as supplementary benefit, funded by the taxpayer.

83. However, assuming continued mobility of labour, many pensioners living in Guernsey or elsewhere in the world will receive incomplete Guernsey pensions because only part of their working lives has been spent in Guernsey. But such people may also receive part pensions from the other countries that they have worked in.

84. Naturally, for many women, bringing up children will continue to interrupt, or stop altogether, their paid employment, which will consequently affect their individual contribution record. Later in this report, the Authority sets out a constructive proposal to accommodate this through a new form of contribution credits tied to family allowance.

Too late for many married women to improve on derived pension rights?

85. Currently, if a married woman has a contribution record in her own name that gives her a better rate of pension than the derived rights on her husband's record, then of course she receives the higher pension based on her own record. But if her husband is entitled to a full-rate pension, then to better the derived rights, the woman will have had to contribute at the full percentage rate for almost 27 years. With their working careers often interrupted while bringing up children, many married women now approaching pension age do not have a contribution record that is better than the derived right.

86. The Authority is well aware that a large number of women married in the 1960s, 1970s and 1980s will have chosen to pay reduced rate contributions in the knowledge that they could rely on a pension based on their husband's record. If the States were to legislate, as the beginning and end of the gender equality solution, simply that full rate contributions had to be paid by all workers, with immediate effect, the majority of married women workers, over 40 years of age and currently paying reduced rate contributions, would have significantly increased social insurance deductions from their salaries with no prospect of improving their pension position.

87. In the United Kingdom the option to pay reduced rate contributions was stopped from 12 May 1977, but any married woman or widow paying at the reduced rate at that time has been allowed to continue. This may at first seem to be the safest and fairest transition, but it would require almost two generations to fully work through, with considerable overheads in the complexity and cost of administration.

88. The UK is now more than half way through that period. Guernsey has not started. Jersey introduced provisions similar to the UK, effective from 1 April 2001, but there is a further consideration, which in the Authority's view, makes that solution much less attractive.

89. The need for change to gender equality has been made more urgent by the introduction of the Human Rights Law as part of Guernsey's domestic legislation, and any long-running transitional arrangements on the road to full equality in the treatment of men and women must themselves be fully compliant with the provisions of Article 14 of the Convention concerning non-discrimination.

90. If the married woman's option to pay reduced rate contributions is to be allowed to wither away, as in the UK and Jersey, the consequential effects that will continue to apply to married women must apply also to married men for the duration of the transitional period. These would, of necessity, be those provisions that concerned old age pension; the availability of a pension at a percentage of the spouse's rate and the substitution of the spouse's contribution average for a man who had been widowed or divorced.

91. Such provisions are now incorporated in the United Kingdom Social Security Acts, and will take full effect from April 2010, but the Authority is extremely reluctant to embark on such a course, requiring as it does, primary legislation which would increase the availability of derived rights, the exact opposite of the individualised social insurance scheme that is the Authority's goal. If such provisions were introduced they would require ultimately to be withdrawn, so that there would also have to be a transitional period for that change also, with difficulties similar to those now being experienced.

92. The other objection is that the administration of derived rights necessarily produces an increase of several orders of complexity as compared to an individually based scheme. It is more difficult to calculate entitlement and much more difficult to explain both to staff and consumers. To extend these provisions to an additional class of contributors would add costs, and administrative costs must ultimately be reflected either in reduced pensions or increased contributions.

A better solution

93. At the heart of the married woman's contribution option is the promise of a pension for every married woman based on about 62% of that which her husband has paid for. While governments are not necessarily bound by the promises of their predecessors, the Authority is confident that the States will wish to honour the contract made between its predecessors and those who have contributed to the Guernsey Insurance Fund.

94. The existing law not only makes a special concession to married women in allowing them to opt out of social insurance and benefit from that part pension, but also compensates women whose marriages have ended by death or divorce. The basic principle is that at age 65, provided that she has not married, a widow or divorcee may substitute her husband's contribution record for her own, if it is to her advantage. Such substitution may take place for the duration of the marriage or for the whole of the woman's working life up to the date the marriage ended. The mechanism for this substitution is somewhat complex and need not be explained here in great detail, but it has been tried and tested over many years and is routine to the Authority's pension staff.

95. The Authority's proposal, to compensate for the removal of the married woman's pension, is to use a similar mechanism as described above. The proposal is to award to the contribution record of every married woman who requires it, the value, in contributions, of the pension amount that would have been available to her on her husband's record as if she had reached 65 on the date of the change which abolishes the married woman’s election. Instead of the 100% of the husband's record, which would be used currently for divorce or widowhood, the Authority will substitute 62% of the husband's record. This figure recognises the historic expectation of a 62% married woman's pension. It should be noted, however, that the Authority's recent strengthening of the single pension relative to the addition for a dependant wife has reduced the married woman's pension to 57% of the single pension rate and the percentage is likely to decline further as the policy is pursued. In these circumstances, the use of 62% as a substitution figure should be seen as fair.

96. The award of the substituted contributions under the new rules will not be made until the married woman's pension is calculated shortly before her 65th birthday and will be based on the insurance record, as of the date of change, of the man to whom she was married as of that date. This means that subsequent widowhood, divorce or remarriage will have no effect. The proposal means, in effect, that for the purposes of old age pension entitlements, the revised law will treat all marriages as if they had ended on 31 December 2003. Marriages after that date will have no effect on the pension entitlement of any insured person.

97. The nearer a married woman is to 65, the greater the value of the contribution record that will be transferred from her husband's record. The further away from 65 (the younger the woman) the less the value of the transferred record, but the greater the opportunity for the married woman to improve her individual record further following the changeover.

98. The Authority’s records do not link married couples unless there is a claim for a benefit to which marriage is pertinent, and although it is necessary to know whether a woman is married, there is no reason, unless a benefit is claimed, to record to whom she is married. This will not present an insuperable administrative problem, since it will only be necessary to know the details of a woman's marriage at the time her old age pension is calculated. The Authority's records are sufficiently detailed to enable the contribution records of all contributors, male and female, married or unmarried, to be determined in respect of any given point in time.

99. It must be emphasised that all pensions awarded prior to the proposed change would be unaffected by the proposals and will continue to be paid under the provisions applicable at the date of award.

100. A further consideration is that, in consequence of the Survey of Guernsey Living Standards published in 2002 and the steps taken to address the problem of single-pensioner poverty, the relationship between the single rate and the dependant's rate has begun to change. In 2002, the married woman's rate of old age pension was 61.11% of the full standard weekly rate of £112.50, but for 2003 the single rate has increased by 7.5% to £121.00, whereas that for an adult dependant (married woman's pension) has increased, by only 1.0%, to £69.50. This has reduced the proportion of the married woman's pension from 61.11% to 57.44% of the husband's rate. The Authority intends to continue this process so far as it is affordable, which will further reduce the relative percentage of the married woman's pension. This point is being highlighted to show that the proposed transfer of 62% of the husband's average at the date of the changeover will be more than the rate applicable at the time under existing rules.

Recommendation on reduced rate contributions and married woman's pension

101. The Authority recommends that the right to pay a reduced rate of contribution should be abolished for all married women and widows. This would have to take place at the beginning of a contribution year, so the earliest that this could be introduced is 1 January 2004.

102. The Authority will also recommend that the entitlement of a married woman to claim an old age pension based on her husband's insurance record be effectively abolished immediately upon any amendment to the Law being registered on the records of the Island. To make up for the lost entitlement every woman who was married as at 31 December next following the amendment would, at pensionable age, be entitled to substitute a proportion of her husband's record at that date for her own record up to that date, if it would produce a higher rate of old age pension.

103. The proposal is based on the mechanism by which entitlement to an old age pension is currently calculated. The total number of weekly contributions paid or credited, at any time up to the 65th birthday, is divided by the pension average period of 45 years (the years between the start of the 20th birthday year and the end of the 64th birthday year), giving a yearly average.

104. If this yearly average is 50 or more, a full pension is payable, otherwise a percentage of the full rate is payable dependant on the whole-number average attained. The minimum payable is on a yearly average of 10, giving a 20% pension, unless contributions have been paid to a country with which Guernsey has a reciprocal agreement, when fractional pensions may be payable on as few as 50 contributions.

105. The married woman's pension is currently awarded without any regard for the woman's own contribution record. Even if she has a pension average of 30 in her own right, which means that she has paid over 1,350 weekly contributions, a woman whose husband is entitled to a full pension will currently be entitled to a married woman's pension of slightly more based on his record. She will obtain no benefit from the contributions she has paid, receiving the same rate of pension as she would had she never contributed at all.

106. The Authority’s proposal is designed to preserve the value of contributions already paid by a married woman through substituting 62% of her husband’s yearly average for her own, either in the entire pension average period up to the date of the change or, if more advantageous, only from the date of marriage to the date of change, i.e. in the period where it is most likely to be needed. This substitution of 62% of a husband’s record reflects the historical rather than the present position and, as explained in para. 96, is more generous than the percentage of the standard rate that the married woman’s pension now represents.

107. The exact effects of this change on the various possible combinations of individual circumstances are very complex. Understanding of the proposal will be assisted by examination of the effects on individual cases. The Authority has put a calculator on its website at www.gssa.gov.gg where people can input their own details and see the effect of the proposals on their future pension. This service will also be available to callers at Edward T Wheadon House.

108. Given that all persons will, in future, receive only the pension that they have paid for, the Authority believes that the proposal will be considerably more generous in terms of potential value than the current married woman’s pension.

109. For some women, this proposal will produce an additional improvement on the existing scheme, since the married woman’s pension based on her husband's contributions cannot currently be paid until her husband has himself reached age 65. A woman, say, 5 years older than her husband has to wait until age 70 before receiving a pension based on his record and some have to wait even longer. Awarding some of her husband’s contribution record directly to a woman older than her husband, in other words individualising her record, means that the resultant contributions will be available to her as soon as she is 65.

110. The Authority has confidence in its proposals and will offer a guarantee which it considers will seldom need to be called upon, but will act as a reassurance to some persons to whom the proposals may appear worrying. This guarantee is that any married woman within 10 years of pension age when the changes take place will, when she reaches 65, be assessed for pension based on the current rules and the new rules and will receive whichever level of pension is the higher.

111. The Authority will also propose special transitional arrangements for women who have attained age 65 at the date of the change, but whose husbands are not of pensionable age. Otherwise it will be a general principle that existing beneficiaries will retain their entitlement unchanged.

112. Since the Authority’s proposal will replace the gaps in every married woman’s contribution record with a proportion of her husband’s record, those for whom a pension is a more distant prospect will have a viable opportunity to take charge of their own income in old age. Those working in employment or self-employment will pay contributions in proportion to their income, and will increase their entitlement to a pension by about around 2% of the full rate for every year's work.

Family Allowance credits to protect pension entitlement of a non-working spouse

113. In the move away from derived rights to individualised insurance records and benefit entitlements, the Authority acknowledges the need for replacement measures for the social protection of the non-working spouse, especially, but not exclusively, the woman. In particular, measures are needed to protect the insurance records of those who have stopped work, temporarily or permanently, to bring up children.

114. The Authority has identified a very simple, workable solution based on awarding contribution credits to the records of people to whom family allowance is paid. The system could work in a similar way to the contribution credits already attached to some social insurance benefits, including sickness benefit, invalidity benefit, maternity allowance and unemployment benefit.

115. For each week in respect of which family allowance was paid in respect of a child under 16, a contribution credit would be awarded to the record of the person receiving the allowance. As with the contribution credits for other benefits, the family allowance credit would be overwritten, and not double counted, if the person was at work, or still receiving wages or salary and their contribution record was already satisfied by a contribution based on those earnings.

116. The Authority will recommend that the new family allowance credit should be a Class 3 non-employed credit. This means that it would count for old age pension, death grant and survivor's benefit, but would not count for other benefits such as sickness and unemployment.

117. A further feature of the proposed new credit is that it is the Authority's intention to restrict the award to those who are not otherwise liable to pay a contribution, that is, that the award of the credit will not remove the liability to pay an income-related Class 3 non-employed contribution. This will mean that a man or woman receiving family allowance, whose personal income is at or above the lower income limit (currently £10,790 p.a.) will still be liable to pay a Class 3 contribution at a rate appropriate to his or her income.

118. The award of family allowance credits will vary between families, depending on the number of children and the timing of the main carer returning to work, if at all. At one extreme, there may be a mother in employment who returns to work within a month of giving birth and is awarded 3 or 4 family allowance credits. Indeed, such a person would probably end up with no family allowance credits because she would probably still be receiving salary on which contributions were paid. At the other extreme it would be possible for a woman to have three children at ten year intervals and not return to work at any stage.

119. In such an example the family allowance credits alone would give entitlement to an 80% old age pension, provided that the woman had met the first basic test for pension, which will remain, of having paid 156 (3 years) contributions. This is, of course, a purely academic example, and would be so rare as to be irrelevant to the Authority's purpose of finding a solution that will adequately replace the pension which married women can currently claim as a right derived their husbands' record.

120. A far more normal scenario nowadays will be that a woman will work throughout the period from the end of her education and through the first few years of marriage. After deciding to start a family, she is likely to cease work only a few weeks before the birth of her first child.

121. Maternity allowance is payable for a total of 18 weeks, and during that time a contribution credit is awarded, but after the end of the maternity allowance period, unless she returns to work, she is currently able to contribute towards her old age pension only by paying a Class 3 non-employed contribution, which, even at the minimum rate, would probably be both unaffordable, and the lowest item in the family's priorities at such a time.

122. A family allowance credit, awarded from the week following the child's birth and for any weeks during which the allowance was payable, up to the child reaching 16, and in which there was no other credit or contribution, would continue to add to her pension entitlement, perhaps through the birth of subsequent children, until such time, perhaps after 5 or more years, as she felt her family circumstances warranted a return to work.

123. The Authority considers that substituting a system of family allowance credits for the derived right of a married woman's pension could work very well. It would provide mothers with substantial levels of social protection in respect of child care. It would also mean that any contributions paid on re-entry to the labour market would continue the improvement of their individualised insurance record rather than being diluted by the effects of a gap in their insurance record.

124. Unlike the derived right of a married woman's pension, family allowance credits would not be tied to marriage, so would equally assist unmarried or divorced mothers. Furthermore, the Authority will recommend a gender-neutral provision so that family allowance credits could be awarded to the male partner. This would require the parent who intended to be the primary carer of the child to claim family allowance. Provision already exists to enable the male parent to make the claim and is occasionally used.

125. This would assist couples where the male partner stays at home with the children while the female partner continues work. In this situation, at present, the man is liable for non-employed income related contributions. Usually, his personal income is below the lower income limit for payment of a contribution, meaning that he does not have to pay, but also that his insurance record becomes deficient unless he volunteers to pay a minimum Class 3 contribution (currently £20.54 a week) to maintain his record. Most do not, and a family allowance credit would improve matters for men in this situation.

126. The Authority's proposal will benefit all parents equally, whether married or unmarried, divorced, widowed or single, male or female. Analysis has revealed that there are almost 2,000 non-employed persons of working age who would benefit from a family allowance credit, of whom more than 600 are not married women.

127. The Authority is mindful of occasional calls, by some members of the States, for family allowances to be means-tested instead of universally paid. The Authority's introduction of universal family allowance credits may be seen as a reinforcement of the status quo. But for the avoidance of doubt, the Authority is confident that it could regulate the award of family allowance credits for pension purposes, possibly under a different label, even if the weekly cash allowance were to be restricted or substantially modified.

128. Both Jersey and the UK have 'Home Responsibilities Protection' bearing some similarity to what the Authority intends with its family allowance credits. In the UK, periods spent bringing up children or caring for an invalid, up to a maximum of 20 years, are deducted from the pension average period. It should be noted that removing years from the pension calculation is far less generous than positively awarding contribution credits, as is the Authority's intention. The Jersey system is the same as the Authority is proposing except that their Home Responsibilities Protection credits are limited to periods of caring for children under the age of 5.

Recommendation on family allowance credits

129. The Authority recommends the introduction of family allowance credits, awarding a class 3 contribution credit to the recipient of family allowance for each contribution week in which a family allowance is payable in respect of a child under 16 and the claimant is not working and is also exempt, by virtue of low income, from paying a non-employed contribution.

Voluntary non-employed contributions

130. There remains a group of about 2,000 women, mostly over 50, not in gainful employment and without significant personal income, who are not receiving family allowance, perhaps because their children have grown up and left home. For most, it will be a positive choice not to take employment. Some may have retired from pensionable work. Others may be unable to work because of chronic illness, but are unable to claim benefit because they were previously paying reduced rate contributions which would have entitled them to incapacity benefits.

131. The Authority's vision of a fully individualised social insurance system means that no woman who would normally be working will be put in this position in the future, but for the present can only offer no more than the means-tested assistance of Supplementary Benefit if the family's resources are, or become, insufficient.

132. The Authority does not believe that those who have voluntarily ceased work should be provided with an old age pension at the expense of those still working, but is conscious that it is important to give such persons an affordable means of making provision for their old age.

133. Women in this group would be required to pay income-related non-employed contributions. If their personal income was above £10,790 per annum (2003 rate) they would be paying contributions that count towards old-age pension. If they had income of less than £10,790 they would not have to pay contributions and would not be adding to their insurance record for an old age pension.

134. Voluntary contributions, though common in other social insurance systems, do not currently form a significant part of the Guernsey scheme, being payable only by persons out of the Island, and hedged about with restrictions. While the Authority is well aware that not every person with a low personal income will live in a low-income household, it feels that it is important to give all those with such incomes access to an affordable means of maintaining their insurance record for old age pension.

135. Since persons with incomes below the lower income limit are, by law, both excepted from liability to pay a health service or long-term care insurance contribution, yet entitled to receive those benefits by virtue of their residence, the Authority will propose the creation of a resident voluntary contribution, comprising the social insurance element of the contribution only. This will be higher than the special rate of Class 3 contribution payable for short gaps in the insurance records of persons who are normally employed. But it would be set lower than the minimum Class 3 contribution paid by persons whose income is just equal to the lower income limit, currently £10,790 p.a., who are liable to pay not only social insurance, but also health benefit and long-term care contributions as well.

136. The basis of this resident voluntary contribution will be the Class 3 percentage (currently 5.7%) of a sum which will be determined by reference to the Authority's actuary. As a safeguard against abuse, the Authority will also prescribe conditions designed to ensure that this bargain rate is available only to those non-employed people genuinely unable to afford to pay the normal rate.

Inequality: Increase of pension for adult dependant on man's pension only

137. This inequality is closely linked with that of the married woman's pension, but concerns the situation where the husband is a pensioner but the wife is still under 65. In such a situation, the husband receiving old age pension can claim an increase of pension in respect of his dependent wife.

138. The amount of the increase is the same as what would be the married woman's pension if she were over 65, a rate which was, prior to 2003, approximately 62% of the amount being received by the husband. The use of the word 'dependant' is redundant because the married man receives this increase of pension without any test of financial dependence.

139. By way of example, and acknowledging that large age differences between spouses are relatively rare, the husband receiving pension is currently entitled to an increase of pension for a dependant wife, even if the wife were in her 40s and in highly paid employment.

140. The increase of pension in respect of a wife under 65 is available only in respect of a wife. For married couples where the wife reaches 65 first, an increase of benefit in respect of her husband cannot be claimed on her pension, if indeed she has a pension in her own right.

141. As with all of these areas of gender inequality associated with derived rights, there is no entitlement to an increase of pension in respect of couples living together outside marriage unless there is a child or children for the purposes of family allowances.

142. The married man's increase of pension in respect of his wife is only paid while he is 65 or over and she is under 65. When she reaches 65, the dependant's allowance stops. The wife will then receive in her own name either a married woman's pension based on her husband's record or a pension based on her own record, whichever is the greater.

143. The existing rules mean that, in practice, the great majority of married pensioner couples receive the same aggregate amount of pension income when the wife is under 65 as they receive when she is over 65. The only difference is that while she is under 65 the equivalent of 1.62 pensions is paid to the husband, but when she is over 65 just 1 pension is paid to the husband and the equivalent of 0.62 pensions is paid to the wife.

Recommendation on pension increase for adult dependant

144. In line with its policy of individualising social insurance benefits, the Authority will recommend that the increase of old age pension for a dependant wife be repealed, but that there should be a delay of ten years before the implementation of this single proposal.

145. The Authority is mindful that, for couples where the man reaches pension age and his wife is not in employment, the removal of the pension increase could cause a significant loss in retirement income until such time as the wife also became a pensioner. The safety net of supplementary benefit would remain available where there was financial hardship.

146. As with all other proposals in this report, it is the Authority's intention that the pensions of existing pensioners, including an increase for a wife, if in payment, would be unaffected. Ten years after the proposed changes come into force, a man attaining age 65 would not be entitled to an increase of pension for his wife, but a pensioner who had previously been awarded such an increase would continue to receive it until his wife herself attained pension age.

Inequality: Widow over 65 can inherit pension of late spouse if better than her pension - no reciprocity for widowers

147. If a woman's husband dies when they are both in receipt of an old age pension, the wife becomes entitled to the rate of old age pension which her husband was receiving, if her own pension is of a lower value. However, if the wife dies, the husband is not entitled to any pension increase, even if his wife's pension was greater than his own.

148. This inequality could be redressed very simply by amending the legislation so that a widower pensioner could inherit his late spouse's pension, if it were higher than his own. In practice, with the life expectancy of women being greater than that of men and, with men's social insurance records likely to remain generally better than women's for some time to come, there are likely to be very few occasions when this would be used to advantage.

Recommendation on inherited pension

149. The Authority recommends that a widower pensioner be allowed to inherit the old age pension entitlement of his late wife where the level of pension is higher than his own. This change could take effect as soon as the necessary legislation is in place.

Inequality: Married man can claim increase of short-term benefits for wife, but not vice-versa

150. A married man receiving a short-term social insurance benefit can claim an increase for his dependent wife, regardless of whether she is in paid employment. Despite the terminology, there is no test of dependency. Alternatively, a man may claim the increase for a 'housekeeper', instead of for a wife, if there are children in the household. This allows the increase of benefit to be paid to the man in a common law partnership if there are children. The benefits where such increases are applicable are:

sickness benefit;
industrial injury benefit;
invalidity benefit; and
unemployment benefit.

151. Generally, a woman is unable to claim any increase of these short-term benefits in respect of her husband. The only exception is where the husband is entirely incapable of self-support and is not in receipt of a personal benefit.

152. As with the increase of pension described earlier, the amount of the increase of short-term benefit for an adult dependant was, for many years, 62% of the rate payable to the husband. However, in considering the Authority's annual benefit uprating proposals in 2000 (Billet d'Etat XX of 2000), the States approved the Authority's policy that adult dependants' increases for short-term benefits should not be increased. This was in view of their intended removal from the benefit network.

153. The freeze on adult dependants' increases was further endorsed by the States' approval of the Authority's 2001 and 2002 benefit uprating reports (Billets d'Etat XIX of 2001 and XX of 2002). As a result of this freeze, the value of the adult dependants' increases has reduced to approximately 51% of the husband's benefit rate.

154. The proportion of short-term benefit claims that include a claim for an adult dependant is smaller than may be anticipated. In 2001, out of approximately 8,600 claims for sickness and industrial injury benefit, 1,500, or 18%, included an adult dependant claim. Of 441 unemployment benefit claims, 83, or 19%, included an adult dependant claim.

155. Claims for sickness benefit and industrial injury benefit have a maximum duration of 26 weeks. People remaining incapable of work beyond 26 weeks become entitled to invalidity benefit. Unemployment benefit claims have a maximum duration of 180 days. Although the days may be spread over a period, the limit means few claims last for more than 30 weeks.

156. In view of their generally short-term nature and turnover, the Authority does not envisage difficulty, nor significant financial hardship in removing the adult dependant's increase for sickness, industrial injury and unemployment benefit. If there is financial hardship, the social assistance schemes of supplementary benefit or public assistance will top up benefit up to the limits approved by the States.

157. At the time of removing the increase for adult dependants, however, the Authority will recommend an increase in the main personal rates of the benefits concerned so that a proportionate amount of the global sum that would have been paid for adult dependants is smoothed into the personal rates. Sickness, industrial injury and unemployment benefit claims where there is an adult dependant's increase in payment, as of the date of the change, will continue to receive that increase until the claim ends.

Special consideration of invalidity benefit

158. Invalidity benefit requires separate consideration as the claim can remain in payment until pensionable age (65). There are currently approximately 580 invalidity benefit claims in payment, 200 (36%) of which include an increase of benefit for an adult dependant. As with sickness, industrial injury and unemployment benefit, the Authority will recommend the removal of the adult dependant's increase for invalidity benefit and will recommend an increase in the main personal rate.

159. Whereas for, say, unemployment benefit, increases of benefit already in payment for adult dependants can be allowed to continue until the claim ends within a maximum of 30 weeks, increases of benefit already in payment for invalidity benefit could remain for many years. This continuing claims liability would necessitate a limiting of the amount by which the personal rate of the individualised benefit could be increased.

160. The Authority has examined the profile of invalidity benefit claims. The data used was a snapshot of July 2001, when there were 603 claims for invalidity benefit in payment. Of these, 225 claims involved an increase of benefit for an adult dependant. Examining the social security records of the 225 adult dependants showed that just under one half were really financially dependant on the husband receiving invalidity benefit.

161. Among the 225 claims where an increase of benefit for a wife was being paid, 84 of the women were working and receiving salaries of over £10,000 per year. A further 103 women had salaries of between £5,000 and £10,000 per year. There were also 34 claims where the female adult dependant was not working, but the family was supported by supplementary benefit.

162. This detailed investigation of invalidity benefit claims involving an increase of benefit for an adult dependant leads the Authority to conclude that the increase of benefit should be withdrawn from a specified date in preference to a long-term solution of allowing claims to terminate on return to work, pension or death. The Authority does not expect this to cause significant financial hardship, taking into account some compensatory payment, where necessary, of supplementary benefit

Recommendations on short-term benefit increase for adult dependant

163. The Authority recommends the abolition of an increase of benefit in respect of an adult dependant on claims for sickness, industrial injury, unemployment and invalidity benefit, such abolition to take effect immediately following the coming into force of the necessary legislation.

164. The Authority will recommend that transitional provisions allow for the continuation of increases of benefit for sickness, industrial injury and unemployment benefit, already in payment, until those claims terminate or are succeeded by invalidity benefit.

165. The Authority will recommend that increases of benefit for invalidity benefit, already in payment, be allowed to continue for a transitional period of up to one year following the legislation taking effect.

Inequality: Men and single women can claim increase of short-term benefits for children; but a married woman, generally, cannot.

166. A man or single woman, even if she is in a common law relationship, can claim a small increase of sickness, industrial injury, unemployment or invalidity benefit in respect of every child of the family. A married woman cannot claim for children unless her husband is totally incapable of self-support or if she is separated from her husband and has care of the children.

167. The amount of the increase of benefit in respect of a child dependant is only £4.68 per child per week. The level of increased benefit has been frozen for the last 15 years with a view to its discontinuance. The Authority considers that there will be minimal impact from the abolition of this increase of benefit.

168. Increases of benefit for child dependants are also currently available for old age pension and widowed parent's allowance. The rate of the increase for these long-term benefits is £9.00 per child per week. As with the increase for short-term benefits, this rate of benefit has remained frozen for the last 15 years, with a view to its removal from the benefit system.

169. Increase of pension in respect of child dependants is fairly rare, currently involving only 29 Guernsey and Alderney pensioners. In all but 4 of these cases the child is the natural issue of the pensioner and, usually, towards the end of teenage years. The Authority considers that the increase of benefit could be removed without significant implications.

170. As regards the increase of widowed parent's allowance where, by definition, one or more child dependants are always involved, the Authority considers that the increase of benefit for the child dependant should, nonetheless, be abolished but the main allowance be increased to compensate. Based on the current increase of £9 per week per child, the Authority would recommend an increase of the order of £15 per week in the main rate. Clearly, this would be a form of averaging, being an over-compensation in the case of a single child, but under-compensation where there were two more children.

Recommendation on increase of benefit for child dependants

171. The Authority recommends the abolition of increases of sickness, industrial injury, unemployment and invalidity benefit in respect of child dependants, such abolition to take effect immediately following the coming into force of the necessary legislation. Child dependants' increases already in payment will continue until the main claim ends or until the child ceases to qualify as a child for benefit purposes.

172. The Authority recommends, also, the abolition of increases in old age pension and widowed parent's allowance in respect of child dependants, such abolition to take effect immediately following the coming into force of the necessary legislation. Child dependants' increases already in payment will continue until the main claim ends or until the child ceases to qualify as a child for benefit purposes. The Authority will recommend a compensatory increase in the main personal rate of widowed parent's allowance, as this particular benefit, by definition, always involves one or more child dependants.

Inequality: Widow’s benefits generally not available to widowers.

173. Widow’s benefits represent a whole class of benefit that was originally available to married women only. Although the Authority has recently restyled widowed mother’s allowance as widowed parent's allowance and extended it to widowers with children, the numerically much larger benefit, widow’s pension, is still available only to women who were legally married.

174. Widow's pension, as it currently stands, is paid on the apparent assumption that every woman widowed at the age of 40 or over requires a weekly benefit to support her after her husband’s death, regardless of her earnings, and requires special provision to be made for her old age. These assumptions about married women are considered erroneous and the Authority would certainly not wish to replicate them by providing a widower's pension for men in similar circumstances.

175. There are currently three so called 'survivor's benefits' in the Guernsey social insurance scheme. Widowed parent's allowance and widow's pension have been referred to above. The third benefit is survivor's grant, which is a one-off payment. Entitlement to each of the three benefits is based on the insurance record of the late spouse, not the survivor. This is a typical arrangement for such benefits based on the insurance principle that you cannot insure yourself to benefit from someone else's death.

176. All three benefits, namely survivor's grant, widowed parent's allowance and widow's pension are available only to couples married before the death of one partner and cannot be claimed by common-law spouses.

177. Through amendment to the Social Insurance Law in 1999, the States approved changes in the area of survivor's benefits which went some way towards gender equality, but left further reform to be dealt with as part of the wholesale review of gender equality, which is the subject of this report.

178. The 1999 amendment repealed widow's allowance, a higher-rate benefit paid only to widows for the first 6 months, and replaced it with a survivor's grant which could be claimed by all widows under 65 and also by widowers under 65 with dependent children. Survivor's grant is a single payment, the full rate being £1,160 in 2003. Reduced rates of grant are paid where the insurance record of the late spouse is incomplete.

179. The amendment also replaced widowed mother's allowance, available only to widows with children, with widowed parent's allowance available to widows or widowers with

dependent children. Widowed parent's allowance is a weekly benefit, based on the insurance record of the late spouse paid, regardless of earnings, until such time as the children of the family cease to be classed as children under the family allowances legislation or the claimant remarries or cohabits with a partner as if they were man and wife. Widows or widowers in receipt of widowed parent's allowance receive contribution credits for each week in which benefit is paid.

180. The amendment did not, however, extend widow's pension to widower's pension. Widow's pension is a weekly benefit paid to a widow over the age of 40 when widowed, or over the age of 40 when her claim for widowed parent's allowance ends because the children are no longer dependent. There is also an extremely rarely used provision for a widow's pension to be paid to a widow under the age of 40 who is incapable of self-support.

181. Widow's pension is paid up to the age of 65, at which point the widow will receive old age pension. Widow's pension is payable even when the widow is in paid employment. It only stops in cases where the widow remarries or lives with a man as his wife.

182. In proposing the 1999 amendments to widow's benefits, the Authority decided against recommending the introduction of a widower's pension on the same basis as a widow's pension. The Authority is aware that proposed amendments to widow's pension, of all benefits, are likely to raise some emotive arguments. Nonetheless, it believes that gender equality should be achieved though limiting the extent of widow's benefit before making it available to widowers on equal terms.

183. Principally, the removal of the married woman’s contribution option means that widows must, like everyone else, pay the full rate of social insurance contribution if gainfully occupied, or, if non-employed and in receipt of an income above the lower income limit.

184. Since the Authority started investigating these changes, the Department of Work and Pensions in the United Kingdom has revised its own set of survivor's benefits in order to be gender neutral and to comply with the non-discrimination Article of the European Convention on Human Rights. The Authority believes that the UK reforms in this particular area of social security cover offer a good model for Guernsey to follow.

185. The UK reforms of survivor's benefits took effect from 9 April 2001. Widow's payment, being similar to Guernsey's survivor's grant, was doubled in value to £2,000 and was renamed 'bereavement payment'. Bereavement payment is paid to widows and widowers under 65, or to persons over pensionable age whose spouse was under 65 at death, at a fixed rate provided that the late spouse has met certain contribution conditions.

186. The Authority recommends renaming survivor's grant as bereavement payment, which is a preferred term, and maintaining the level of the grant at its current level, subject to routine annual increases, while retaining the insurance record of the deceased spouse as the basis for the calculation of the rate payable.

187. The Authority further recommends extending the new bereavement payment to people over 65 as well as under 65. Entitlement to benefit will be based on the contribution of the deceased spouse, as that record stood when he or she reached 65. The Authority's proposal has particular regard to the recent findings of the Townsend Centre for International Poverty Research on single pensioner poverty. The Authority considers that the payment of a bereavement payment to people over 65 will, to some degree, ease the financial transition from a two person household to a single person household. Clearly, with far more deaths occurring after 65 than before 65 this proposal has a cost implication, but savings will be available from the reform of widow's pension as described below.

188. The second part of the UK bereavement benefits is widowed parent's allowance, identical to that now in force in Guernsey, which needs no further reform.

189. The third part of the UK bereavement benefits is called bereavement allowance and replaces their widow's pension. Persons aged 45 or over when their spouse dies receive bereavement allowance at the same rate as would have been paid for widow's pension, but for a maximum of 52 weeks.

190. This benefit is intended to ease the transition from the married to the single state without providing indefinite support, which can better be provided to those in need through the agency of means-tested benefits. It is paid at a variable reduced rate depending on age, from 30% at 45 increasing to full rate at age 55.

191. The Authority believes that this approach should be adopted, believing, in particular, that the lower age for entitlement for this type of benefit should be raised from 40 to 45. The Authority wishes to avoid unnecessary complexity and will propose a single rate, based on the insurance record of the deceased spouse, roughly equal to that of the existing widow’s pension. The 52 week bereavement payment will be payable to widows and widowers over 45 who do not qualify for widowed parents allowance or whose allowance ceases within the 52 week period.

Existing widow beneficiaries

192. Although the general rule in all changes to social security is to leave existing benefit awards unchanged, the Authority’s proposals will mean that there will be changes which affect women in receipt of widow’s pension and widowed parent’s allowance. Widow's pensions already in payment at the time the law is changed will continue to be paid and widowed parent’s allowance will continue to be awarded. But people receiving those benefits will, like married women, be required to pay full-rate social insurance contributions in accordance with their employed, self-employed or non-employed circumstances.

193. Widows and widowers receiving widowed parent’s allowance will also be claimants to family allowance and will thus, if not otherwise gainfully occupied, have the advantage of the proposed new family allowance credits. But the remaining widows in receipt of a widow’s pension, who are non-employed, will be required, like non-employed married women, to fund their own old age pension by the payment of a Class 3 contribution.

194. The present rules award a Class 3 contribution credit to all widows for each week in which they are entitled to receive benefit, in order to compensate for the loss of a husband whose contributions would have provided an old age pension.

195. The abolition of the married woman's pension will remove this justification for the award of a contribution credit. The Authority proposes, therefore, that the award of such credits should cease at the date of the abolition of the married woman's option to pay a reduced rate contribution.

196. The majority of widows in receipt of widow's pension are either employed or self-employed, but there will be some who are non-employed and have insufficient resources to be liable to pay a Class 3 contribution. This could adversely affect their old age pension. The Authority will therefore recommend that widow's pension should continue to be payable after age 65, in preference to a lower old age pension, to ensure that such women will continue to receive the same level of benefit after age 65. This will apply only to widows in receipt of widow's pension as of the date of change in the legislation.

Additional transitional arrangements for widows and divorcees

197. Women who have ceased to be married receive special treatment under the current provisions of the Law. Provided that they have not remarried before reaching age 65, widows and divorcees can, if it will improve their pension, substitute their husband's pension average, calculated at the end of the marriage, for their own insurance record either for the period of the marriage only or for the whole of their pension average period.

198. This is the mechanism which the Authority proposes should be adapted in compensating all married woman for the withdrawal of the so-called married woman's pension, treating all marriages, to an extent, as terminated as at the date of the change. Under the Authority's proposals, only marriages that took place before the date of the change will have any effect on a woman's pension entitlement, so that the pension of a woman married at 31 December 2003 will (subject to possible transitional provisions) be calculated with reference to the record of the man she was married to at that date even, if she is subsequently widowed or divorced and remarries.

199. The widow or divorcee who remarried under the former provisions would have acquired a new set of derived rights from her new husband, but since no new rights will be acquired under the Authority's proposals, it is only just to allow those acquired before the date of the change to continue.

200. The Authority thus proposes that existing rights should be preserved for all women who are widowed or divorced at the date of the change, even if they subsequently remarry, so that at age 65, each will receive the benefit to which she would have previously been entitled.

Women over 65 at the date of the change.

201. The changes proposed by the Authority will have no effect on the vast majority of existing pensioners, but there will be a small number of married women who, themselves over 65, will be entitled either to an increased pension once their husbands attain pensionable age, or, because they have no entitlement to a pension in their own right, will first become pensioners at that date.

202. The Authority will propose that where a married woman has attained age 65, but her husband has not, her pension entitlement should be recalculated in accordance with the process to be applied to all other married women, and the new rate become payable as at the effective date of the change.

Maternity Benefits

203. Maternity Allowance and Maternity Grant are payable only to women. The Authority has considered whether the allowance or the grant should be made available to fathers. Council Directive 79/7/EEC of 19 December 1978 on the progressive implementation of the principle of equal treatment for women in matters of social security states that 'the principle of equal treatment in matters of social security does not prejudice the provisions relating to the protection of women on the grounds of maternity'.

204. The Council of Europe (ETS No. 163) European Social Charter (revised) also recognises that in the case of maternity, working women have the right to a special protection - i.e. to be provided with adequate social security benefits or with benefits from public funds to enable them to take leave before and after childbirth.

205. Maternity allowance is grouped with the several benefits involving incapacity for work through sickness or disability. With maternity allowance sometimes the incapacity is very real, but in any event it is deemed for the mother. The Authority draws a distinction with maternity leave, which is more often a condition of employment and not a social insurance benefit. Given that the option of making maternity benefits available to men is not required by the Council Directive or the European Charter, the Authority does not believe there is any merit in pursuing it. The Authority considers that a possible right to paternity leave does not constitute the basis for, and should not be introduced through the mechanism of, a social insurance benefit derived from the deemed incapacity, through maternity, of another person.

Financial implications of proposals

206. The Authority has consulted the Government Actuary's Department on the immediate and, more importantly, the long-term impact of this package of gender equality proposals on the Guernsey Insurance Fund.

207. Some of the Authority's proposals increase income to the Fund, or reduce benefit expenditure. For example:

- full rate contributions from married women increase contribution income;
- extra contributions mean extra formula-led States grant from general revenue, further increasing income;

- reform and curtailment of widow's pension and adult dependant increases on several benefits reduce benefit expenditure.

208. Other proposals cause an increase in benefit expenditure. For example:

- full rate contributions will earn married women increased levels of old age pension;

- family allowance credits will also contribute to increased levels of old age pension;

- discounted voluntary contributions for non-employed people with low personal income will contribute to increased levels of old age pension.

No negative impact on supplementary benefit expenditure

209. The Authority has considered the impact that the revision of the social insurance scheme could have on supplementary benefit expenditure, in particular through withdrawal of increases of social insurance benefits in respect of adult dependants and child dependants.

210. The Authority's proposals include enhancing the single person rates of sickness, industrial injury, unemployment and invalidity benefit, feeding back the majority of the benefit that would previously have been paid through increases for adult dependants.

211. Among the number of people receiving supplementary benefit, those also receiving a single social insurance benefit greatly outnumber those receiving a social insurance benefit with also an increase for an adult dependant. The enhanced single rate of social insurance benefits will, therefore, result in a small net saving to supplementary benefit expenditure, not a cost.

212. As regards the withdrawal of the increase of old age pension in respect of a child dependant, none of the 29 pensions involving a child dependant is currently associated with a supplementary benefit claim.

Main areas of cost and savings to social insurance scheme

213. The most significant parts of the proposals, as regards social insurance income and expenditure, are considered below:

214. Table 1 shows that the initial improvement to contribution income from discontinuing the reduced rate option is slowly reduced as women with better pensions under the transitional arrangement retire. However, this trend is later reversed as younger women, who have inferior contribution records, start to retire and the net saving grows. (This is before taking the value of family allowance credits into account.) By 2063, the total cost is close to the ultimate position, and is not expected to grow significantly in real terms.

Table 1

Income to Fund from stopping reduced rate contributions, plus extra States grant, net of extra benefit entitlements	
Year	(£000s)
2004	3,813
2008	3,490
2013	2,850
2018	1,959
2023	1,103
2028	463
2033	168
2038	287
2043	1,020
2048	1,759
2053	2,330
2058	2,694
2063	2,804

215. Table 2, below, shows the extra cost to the Fund of awarding credits to all persons receiving a family allowance for a child under 16 but who are not otherwise paying contributions or receiving a credit for other reasons. The expense of this proposal, in terms of its cumulative effect can be seen. The ultimate position is seen in 2063, when an estimated extra £5.7m per annum of old age pension entitlement is drawn from family allowance credits awarded in earlier years.

Table 2

Extra cost to Fund from introducing family allowance contribution credits in respect of children under 16	
Year	(£000s)
2004	0
2008	27
2013	89
2018	299
2023	660
2028	1,301
2033	2,206
2038	3,141
2043	4,054
2048	4,765
2053	5,273
2058	5,575
2063	5,706

216. Table 3 shows the extra cost to the Fund of allowing voluntary contributions to be paid by non-employed persons with personal income insufficient to make them liable for an income-related non-employed contribution. The voluntary contribution would be pitched at an affordable rate in order to attract a take up. But, clearly there would be an increasing net outflow to the Fund from the extra pension expenditure paid on the basis of the discounted voluntary contributions. Contributions should be available to married women of 5.7 per cent of an amount between the lower income limit and the lower earnings limit.

217. As many as 2000 non-employed persons could potentially take up the option of a voluntary contribution. The reality will be a lesser take up and the table assumes that 1,000 non-employed persons do so. If this were to be the case, the ultimate extra cost would be between about £2.3m per year.

Table 3

Extra cost to Fund (saving to 2013) from introducing a discounted voluntary contribution	
Year	(£000s)
2004	(774)
2008	(671)
2013	(348)
2018	186
2023	809
2028	1,343
2033	1,768
2038	2,061
2043	2,217
2048	2,270
2053	2,270
2058	2,270
2063	2,270

218. Table 4 shows the saving to the Fund from the abolition of the increase of old age pension in respect of adult dependants.

Table 4

Saving to Fund from abolition of increase of old-age pension for adult dependants	
Year	(£000s)
2004	0
2008	0
2013	0
2018	1,251
2023	2,592
2028	2,829
2033	2,925
2038	2,862
2043	2,511
2048	2,297
2053	2,327
2058	2,408
2063	2,397

219. Table 5 shows the savings to the Fund from the reform of survivor's benefits:

Table 5

Savings to Fund (or costs) from reform of survivor's benefits	
Year	(£000s)
2004	(519)
2008	157
2013	448
2018	454
2023	434
2028	274
2033	89
2038	36
2043	13
2048	30
2053	16
2058	(17)
2063	(33)

Net effect of all proposals on Guernsey Insurance Fund

220. Table 6 consolidates the previous five tables to show the net overall effect on the Fund.

Table 6

Net annual savings (or costs) of all proposals on the Fund	
Year	(£000s)
2004	4,068
2008	4,291
2013	3,557
2018	3,179
2023	2,660
2028	922
2033	(792)
2038	(2,017)
2043	(2,727)
2048	(2,949)
2053	(2,870)
2058	(2,760)
2063	(2,808)

221. The Government Actuary's Department has advised that the Authority's package of proposals is, in the long-term, self financing. In the short term there will be an estimated net gain of approximately £4.0m per year to the Fund, gradually reducing each year as benefit entitlement accrues from the extra contributions and credits. By the end of the actuarial forecast period, sixty years ahead, the initial net gains from this package of proposals has reached a net loss of around £2.8m per year. However, investment returns from the years of net gain will more than compensate for the later annual deficits arising from these proposals.

222. It should be noted that the proposals in this report address gender equality in a broadly cost neutral way. They do not affect, substantially, the underlying demographic issue of rapidly declining contributor to pensioner ratios that will impact on all pension schemes and reach will reach their peak in around the middle of this century. The minimal effect that the gender equality proposals will have on the wider pension financing issue will, however, be in a positive direction through the initial net annual gains.

Conclusions

223. Reform of the social insurance scheme to achieve gender equality is both necessary and socially desirable. The introduction of the Human Rights Law in Guernsey, in particular the non-discrimination Article, is a driver for change. But arguably more important is the indisputable fact that the structure and attitudes of society are now very different from those of the immediate post-war period on which the current social insurance scheme remains based.

224. The social insurance scheme is long-term. It involves pension contributions paid over a 45 year working life and subsequent receipt of pension for a period that in some cases can be nearly as long. The nature of the scheme means that reform must be carried out very carefully, to preserve accrued rights and to meet historically based expectations.

225. The key expectation addressed in this report is that of a married woman being able to claim a part pension based solely on the contribution record of her husband. The Authority's proposed reforms, individualising contribution records, honour this expectation through awarding contributions to the insurance record of the married woman as of the date of the changeover, which is expected to be 1 January 2004. Thereafter, the married woman will be no different to any other contributor to the social insurance scheme, paying earnings-related or income-related contributions depending on whether she is employed, self-employed or non-employed.

226. There will be the opportunity for married women to add contributions to their individual records after the changeover, with the result that, in time, many will receive a better pension than the part pension currently available. Some married women who, for whatever reason, make no further contributions to their own record after the changeover, will receive a pension which is less than they would currently receive. But the Authority proposes a guarantee that any married woman over 55 will receive a pension of at least the same value as available under the existing rules.

227. The reformed social insurance scheme will achieve gender equality through an individualisation of contribution liabilities and benefit entitlements. Apart from some transitional and savings provisions the baffling complexity of derived rights will disappear. The scheme will be simpler, easier for the customers and easier to administer. The complexity of aggregated family incomes, expenditures and benefits will be properly confined to the complementary social assistance schemes of supplementary benefit and public assistance.

228. The reforms acknowledge and address the different work patterns, generally, of men and women through the proposed award of family allowance credits to maintain the insurance record of a woman or man while bringing up children.

229. The various proposals carry costs and savings. In aggregate, the reforms provide a net initial inflow of revenue to the Guernsey Insurance Fund.

230. The additional contributions collected from married women and widows switching from reduced-rate contributions to full-rate contributions require an additional £1.5m per year from General Revenue by way of the formula-led States. There should be no negative effect on General Revenue expenditure in the form of supplementary benefit.

Recommendations

231. The recommendations *a* to *e* below can be introduced under powers already available to the Authority under the existing provisions of the Social Insurance Law, but will only be implemented after receiving the agreement of the States to the complete package.

232. The Authority commends to the States this package of reforms to the social insurance scheme and recommends:

a. that the married woman's and widow's option to pay a reduced rate of social insurance contribution, if employed, or to pay no social insurance contribution if self-employed or non-employed shall be discontinued, and that all women shall be assessed to pay at the full percentage rates from 1 January 2004;

b. that the married woman's pension, based on her husband's contribution record, should effectively cease to be awarded from 1 January 2004, being replaced by a pension awarded in respect of her own contribution record, enhanced, if to her advantage, by the substitution of 62% of her husband's contribution average, calculated as at 31 December 2003;

c. that a Class 3 contribution credit shall not be awarded to widows in respect of any week after 1 January 2004;

d. that, from 1 January 2004, a Class 3 contribution credit shall be awarded to non-employed persons who are in receipt of family allowance in respect of a child under the age of 16 and are not otherwise liable, through employment, self-employment or having sufficient un-earned income, to pay a social insurance contribution;

e. that women who are widows or divorcees at 1 January 2004, not having remarried at that date, shall be entitled, at age 65, to have their entitlement to a pension calculated in accordance with the regulations in force at 31 December 2003;

f. that no increase of benefit for a child shall be payable with widowed parent's allowance, the standard rate having been increased by an appropriate amount to compensate;

g. that no increase of an old age pension shall be payable in respect of a child;

h. that no increase of invalidity, sickness, industrial injury or unemployment benefit should be payable in respect of a child dependant;

i. that no increase of sickness, industrial injury or unemployment benefit should be payable in respect of an adult dependant;

j. that no increase of invalidity benefit shall be payable in respect of an adult dependant except for a transitional period of one year, where the claim was in payment at 31 December 2003;

k. that, from 1 January 2014, no increase of an old age pension shall be payable in respect of a wife;

l. that survivor's grant shall be replaced with 'bereavement payment' and made payable to all widows and widowers, including pensioners, at a rate comparable with the present value of survivor's grant;

m. that widow's pension shall be replaced by a 'bereavement allowance', payable to a widow or widower aged between 45 and 64, inclusive, who is not entitled to a widowed parent's allowance, for a maximum period of 12 months;

n. that the right of a widow pensioner to receive a pension at the same rate as payable to her late husband, if greater than her own pension, shall be reciprocated and shall also apply to widower pensioners;

o. that the foregoing recommendations shall take effect from 1 January 2004 or as soon as practicable thereafter.

233. I should be grateful if you would lay this matter before the States with appropriate propositions including one directing the preparation of the necessary legislation.

Yours faithfully

O. D. LE TISSIER

President
Guernsey Social Security Authority

The President
States of Guernsey
Royal Court House
St Peter Port
Guernsey

11 March 2003

Dear Sir

Guernsey Social Security Authority – Gender Equality in the Social Insurance Scheme

I refer to the letter dated 07 March 2003 from the President of the Guernsey Social Security Authority concerning proposals for gender equality in the social insurance scheme.

The Advisory and Finance Committee recognises that it has been necessary for the Authority to review a number of complex provisions within the social insurance scheme and that a significant amount of time has been invested in this matter. The Committee commends the Guernsey Social Security Authority for the proposals resulting from the review which are fair and equitable and which also achieve the important requirement of gender equality.

The Committee supports the proposals of the Guernsey Social Security Authority and recommends the States to approve the propositions arising therefrom.

Yours faithfully

L. C. MORGAN

President
States Advisory and Finance Committee

The States are asked to decide:-

Whether, after consideration of the Report dated the 7th March, 2003, of the Guernsey Social Security Authority, they are of opinion:-

1. That the married woman's and widow's option to pay a reduced rate of social insurance contribution, if employed, or to pay no social insurance contribution if self-employed or non-employed shall be discontinued, and that all women shall be assessed to pay at the full percentage rates from 1 January 2004.
2. That the married woman's pension, based on her husband's contribution record, shall effectively cease to be awarded from 1 January 2004, being replaced by a pension awarded in respect of her own contribution record, enhanced, if to her advantage, by the substitution of 62% of her husband's contribution average, calculated as at 31 December 2003.
3. That a Class 3 contribution credit shall not be awarded to widows in respect of any week after 1 January 2004.
4. That, from 1 January 2004, a Class 3 contribution credit shall be awarded to non-employed persons who are in receipt of family allowance in respect of a child under the age of 16 and are not otherwise liable, through employment, self-employment or having sufficient un-earned income, to pay a social insurance contribution.
5. That women who are widows or divorcees at 1 January 2004, not having remarried at that date, shall be entitled, at age 65, to have their entitlement to a pension calculated in accordance with the regulations in force at 31 December 2003.
6. That no increase of benefit for a child shall be payable with widowed parent's allowance, the standard rate having been increased by an appropriate amount to compensate.
7. That no increase of an old age pension shall be payable in respect of a child.
8. That no increase of invalidity, sickness, industrial injury or unemployment benefit shall be payable in respect of a child dependant.
9. That no increase of sickness, industrial injury or unemployment benefit shall be payable in respect of an adult dependant.
10. That no increase of invalidity benefit shall be payable in respect of an adult dependant except for a transitional period of one year, where the claim was in payment at 31 December 2003.
11. That, from 1 January 2014, no increase of an old age pension shall be payable in respect of a wife.
12. That survivor's grant shall be replaced with 'bereavement payment' and made payable to all widows and widowers, including pensioners, at a rate comparable with the present value of survivor's grant.
13. That widow's pension shall be replaced by a 'bereavement allowance', payable to a widow or widower aged between 45 and 64, inclusive, who is not entitled to a widowed parent's allowance, for a maximum period of 12 months.

14. That the right of a widow pensioner to receive a pension at the same rate as payable to her late husband, if greater than her own pension, shall be reciprocated and shall also apply to widower pensioners.

15. The the foregoing propositions shall take effect from 1 January 2004 or as soon as practicable thereafter

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

DE V. G. CAREY
Bailiff and President of the States

The Royal Court House,
Guernsey.
The 28th March, 2003.

IN THE STATES OF THE ISLAND OF GUERNSEY

ON THE 30TH DAY OF APRIL, 2003

The States resolved as follows concerning Billet d'Etat No. V dated 28th March, 2003

GUERNSEY SOCIAL SECURITY AUTHORITY

REVISION OF SOCIAL INSURANCE SCHEME FOR GENDER EQUALITY

I. After consideration of the Report dated the 7th March, 2003, of the Guernsey Social Security Authority:-

1. That the married woman's and widow's option to pay a reduced rate of social insurance contribution, if employed, or to pay no social insurance contribution if self-employed or non-employed shall be discontinued, and that all women shall be assessed to pay at the full percentage rates from 1 January 2004.

2. That the married woman's pension, based on her husband's contribution record, shall effectively cease to be awarded from 1 January 2004, being replaced by a pension awarded in respect of her own contribution record, enhanced, if to her advantage, by the substitution of 62% of her husband's contribution average, calculated as at 31 December 2003.

3. That a Class 3 contribution credit shall not be awarded to widows in respect of any week after 1 January 2004.

4. That, from 1 January 2004, a Class 3 contribution credit shall be awarded to non-employed persons who are in receipt of family allowance in respect of a child under the age of 16 and are not otherwise liable, through employment, self-employment or having sufficient un-earned income, to pay a social insurance contribution.

5. That women who are widows or divorcees at 1 January 2004, not having remarried at that date, shall be entitled, at age 65, to have their entitlement to a pension calculated in accordance with the regulations in force at 31 December 2003.

6. That no increase of benefit for a child shall be payable with widowed parent's allowance, the standard rate having been increased by an appropriate amount to compensate.

7. That no increase of an old age pension shall be payable in respect of a child.

8. That no increase of invalidity, sickness, industrial injury or unemployment benefit shall be payable in respect of a child dependant.