

EXECUTIVE COUNCIL

PUBLIC

Title:	Retirement Pensions Ordinance 1996 – Contribution Credits for Self Employed below the Earnings Threshold and for Welfare Recipients
Paper Number:	27/18
Date:	21 st March 2018
Responsible Director:	Financial Secretary
Report Author:	Financial Secretary
Portfolio Holder:	MLA Roger Spink & MLA Roger Edwards
Reason for paper:	This paper is submitted to Executive Council: For policy decision (including budgetary policy)
Publication:	Yes
Previous papers:	Retirement Pension Contribution Restructure – 38/15
List of Documents:	Revised Contribution Credit application form

1. Recommendations

Honourable Members are recommended to:

- (a) Approve the extension of Retirement Pension Contribution credits to those self-employed with total earnings below the earnings threshold.
- (a) Approve the extension of Retirement Pension Contribution credits to those in receipt of welfare.

2. Additional Financial Implications

2.1 Retirement Pension Contribution credits for the self-employed and for welfare recipients are a charge to the Falkland Islands Government, and represent an estimated annual budget cost of £5,000¹.

¹ Based upon applications received and approved relating to calendar years 2015, 2016 and 2017, that amount to 156 weeks of contribution claims, with the contribution credit being £31.50 per week (from 1 January 2018).

2.2 In broad terms the on-going cost of granting one year of contribution credits for each claimant will £188 per year for life, based upon existing pension rates².

3. Executive Summary

3.1 The Retirement Pensions Ordinance 1996 makes provisions relating to pensions payable on retirement and for connected matters.

3.2 A full retirement pension is available for every person that has made 2,200 weekly contributions, and is paid from the age of 64 years³. Contributions are compulsory for those in employment (s10) and employer contributions (s11) and there is also scope to make voluntary contributions (s12).

3.3 Circumstances where assisted contributions can be paid are described in the Retirement Pensions Ordinance 1996 (s13).

3.4 This paper recommends extending the circumstances to cover those individuals in receipt of welfare and also the self-employed on lower incomes.

3.5 There will be on-going financial implication for the Falkland Islands Pensions Equalisation Fund over and above the contribution income foregone to FIG.

4. Background

4.1 The availability for pension contribution credits for welfare recipients and self-employed on lower earnings has been made available for the calendar years 2015, 2016 and 2017.

4.2 No legislative authority exists currently for this specific area. The recommendations of the Budget Select Committee of 18 & 19 March 2015 are not yet enshrined in legislation (although a number of other pension related changes were reflected in the Finance Ordinance 2015). The reason for this omission is thought to be a simple administrative oversight.

4.3 Since 2016 the Contributions Credit Form that has been used by the Treasury has had two additional situations where contribution credits can be claimed: for self-employed earning below the earnings threshold⁴ and also for welfare recipients:

² 2,200 contributions are required for a full pension – equating to 42.3 years of full time work. Annual pension is £153 X 32 weeks = £7,956, divided by 42.3 = £188.

³ Retirement age will increase by one year from 2020 onwards

⁴ The Earnings Limit for 2018 is £263.20 a week (£13,686 per annum).



FALKLAND ISLANDS GOVERNMENT
RETIREMENT PENSIONS ORDINANCE 1996

Application for Contribution Credits 2016

Name: Pension ID:

Address: Telephone:

Date of Birth:

I wish to apply for Contribution Credits to be made on my behalf because my earnings are less than £215.00 per week and I fulfil one or more of the following criteria: (please tick the appropriate box below)

- a) Due to ill health I am unable to work. (In support of this claim I authorise the Medical Department to provide, where necessary, to the Treasury proof in respect of my incapacity to work)
- b) I am actively seeking employment but have so far been unsuccessful
- c) I am in receipt of a Family Allowance
- d) I am looking after a person who is entitled to an Attendance Allowance
- e) I am following a prescribed course of education or training
- f) I am Self Employed since July 2015 (please provide monthly breakdown of earnings)
- g) I am in receipt of Welfare since July 2015

Notes:

- Please declare all income received during the period you have claimed for on the reverse side of this form.
- You will be required to provide proof to show why you are not employed and why credits are being sought.
- By signing this form I authorise the Taxation Office to be able to inform the Pensions Office of any income I received during the claim period below.

Number of contribution credits requested are weeks for the period

- 4.4 From the Application for Contribution Credits, items a), b), c), d) and e) are referred to section 13 of the Retirement Pensions Ordinance 1996.⁵
- 4.5 Items f) and g) do not currently exist in legislation.
- 4.6 Item f) (Self Employed low earners) and g) (receipt of Welfare since July 2015) are referred to in ExCo paper 38/15 of 11/03/15. These two areas were then referred to the Budget Select Committee, and page 20/22 of the 18 and 19 March 2015 Budget Select Committee states “The following were agreed in principle pending more detail: vi) Contribution Credits scheme to be extended to those in receipt of welfare and the self-employed earning the Minimum Wage”.
- 4.7 The Finance Ordinance 2015 did not contain any provision for the Contribution Credit scheme to be extended to those in receipt of welfare and the self-employed earning the Minimum Wage.
- 4.8 The 2015/16 Budget Highlights issued by the Treasury in 2015 stated that there was an “Extension of [the] contribution credits scheme & increase in earnings threshold for Retirement Pension Scheme. Removal of requirement to pay in excess of 2,200 contributions. Removal of interest charges of voluntary Retirement Pension contributions”.
- 4.9 If the recommendation is accepted the Contribution Credits form will need to be amended. In any event the form will be amended to ensure that specific legislative references are included.

⁵ The Application for Contribution Credits has now been amended to ensure that the wording on the form ties back specifically to legislation. For example, item e) is only available to those aged 21 and over.

- 4.10 The minutes from the Budget Select Committee of 18 & 19 March 2015 (para 8.7.1. ii – a) & b) note the recommendations that the FIG Taxation Office definition of self-employed was adopted by the Pensions Office and that a “business” means any trade, business, profession or vocation. The self-employed should be assessed on all income for the year, to complete an annual assessment and also that income for the year is pro-rata if the business accounting year does not match the tax year end dates.

5. Options and Reasons for Recommending Relevant Option

5.1 Options are:

5.2 Option 1: Do nothing.

5.3 Doing nothing will perpetuate the current mismatch between the legislation and the self-employed contribution credit applications that have been approved to August 2017 by the Retirement pensions Board of Management. This approach is not recommended.

5.4 Option 2: Do not proceed with enabling pension contribution credits for welfare recipients and for self-employed people with lower incomes.

5.5 The availability of pension credit contributions was publicised after the budget process for 2015. Some applications have already been submitted. Withdrawing pension credit availability is not recommended, unless part of a wider review of pensions in the Falkland Islands, or welfare in general. The cost of contribution credits for welfare recipients and self-employed on lower incomes is a minor issue in terms of overall pension sustainability.

5.6 Option 3: Approve recommendations, and be consistent with the apparent intent of the Budget Select Committee of 18 & 19 March 2015.

5.7 Honourable Members are recommended to approve Option 3.

6. Resource Implications

6.1 Financial Implications

6.2 FIG will be obligated to provide additional pension for individuals that might not otherwise have been eligible. In other words, individuals will end up with more weekly pension than they would otherwise have had, for the rest of their life. The financial cost will be a function of longevity and the total number of additional weeks claimed.

6.3 If a self-employed person or welfare claimant received Contribution Credits for one whole year, then this would produce additional pension of $52/2,200 \times £7,956^6 = £188$ per year. Without considering the discounted present value, but assuming a life expectancy of 20 years beyond the retirement pension age, then the capitalised cost will be around £4,000 per claimant.

⁶ Falkland Island weekly retirement pension from 1 January 2018 of £153.

6.4 There is a broader issue around the financial sustainability of pension provision in the Falkland Islands Government and models for future funding, many of which were reflected in the budget process from 2016.

6.5 Human Resource Implications

6.6 None

6.7 Other Resource Implications

6.8 None

7. Legal Implications

7.1 The Finance Ordinance 2018 will need to include provision for the changes agreed.

8. Environmental & Sustainability Implications

8.1 None

9. Significant Risks

9.1 A substantial change in the number of self-employed individuals on lower incomes or welfare recipients, perhaps arising from a material downturn in the economy.

9.2 FIG can address this risk by working on the long term overall financial sustainability and resilience of the Retirement pension Fund.

10. Consultation

10.1 Consultation formed part of the 2015/16 budget process.

11. Communication

11.1 Through existing channels and the Retirement pensions Board of Management. A draft revised Contribution credit application form is attached.



FALKLAND ISLANDS GOVERNMENT RETIREMENT PENSIONS ORDINANCE 1996

Application for Assisted Contributions

Name:

Pension ID:

Address:

Telephone:

Date of Birth:

I wish to apply for Assisted Contributions to be made on my behalf because my earnings were less than the weekly earnings limit (see reverse) for each week in the period specified below, I am ordinarily resident in the Falkland Islands and I fulfil one or more of the following criteria: (please tick the appropriate box below)

- a) I was unable to work by reason of ill-health, and was not in receipt of any remuneration for the period specified below, and that, in the week preceding the week in which I became unable to work by reason of ill-health, I was an employee or a self-employed person and a contributor under the Retirement Pensions Ordinance. (Please arrange for completion of the Doctor's Certificate on the reverse) (Section 13(3)).
- b) I was neither an employee nor self-employed, but can show to the Board that I was actively seeking employment during the period specified below. (Please provide supporting evidence) (Section 13(4)(a))
- c) I was entitled to family allowance for the period specified below. (Section 13(2)(b)(i))
- d) I was entitled to family allowance for the period specified below. (Section 13(2)(b)(i))
- e) I can show to the Board that I was looking after another person who was entitled to attendance allowance (Please provide a letter of support from Social Services confirming this) (Section 13(2)(b)(ii))
- f) I can show to the Board that I was following a prescribed course of education or training and I was aged 21 years or over for the whole of the period specified below. (Please provide supporting evidence of acceptance, attendance and completion of the course) (Section 13(4)(b))
- g) I was self-employed and have worked _____ months. Please provide monthly breakdown of earnings. (xx/xx/xxxx)
- h) I was in receipt of Welfare (xx/xx/xxxx) for the specified dates.

Notes:

- ◆ You are required to provide evidence as noted above to show why you are not employed and why assistance is being sought.

- ◆ By signing this form I authorise the Taxation Office and/or Social Services to inform the Pensions Office of any income I received during the claim period specified below, and that the Pensions Office may ask for further information if required.
- ◆ To be defined as Self-employed you must declare your earnings with the Tax Office Annually.
- ◆ No Assisted Contributions shall be made in respect of any whole week commencing more than five years before the claim is made.

Number of Assisted Contributions requested weeks for the period from
 to inclusive.

I certify that the statements made above are true to the best of my knowledge and belief.

Signature: _____ Date: _____

Weekly Earning Limit for each year

2013	£ 180.00
2014	£ 180.00
2015	£ 180.00
2016	£ 215.00
2017	£ 232.00
2018	£ 263.20

Doctor's Certificate

I hereby certify that(name of claimant) has been seen by me and was unable to work (for the period specified above / for the period fromto.....)

(Please delete / complete as appropriate), by reason of ill-health.

Signature of Doctor:

Name of Doctor:

Date:

