



Social Security

**DEPARTMENT OF HEALTH & SOCIAL SECURITY**

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*From the Secretary of State for Social Services*

I enclose a copy of a summary of the main proposals for a statutory sick pay scheme. A green Paper entitled "Income During Initial Sickness: A New Strategy" (Command 7864), was published last April to set out the background to these proposals and the considerations involved.

There are three main reasons why the Government has put forward these proposals now. First, they will result in the majority of payments made during sickness becoming taxable. This will, in turn, make the job of taxing other incapacity benefits that much more feasible in the next few years. Taxing benefits is an essential part of the Government's policy on incentives; it is quite unacceptable that someone should get more out of being off work than in it.

Second, the scheme will reduce public expenditure by some £400 million. This will make a very worthwhile contribution to the achievement of the Government's aim of substantially reducing public expenditure - essential if the rate of inflation is to be brought down, interest rates cut, and incentives restored so that people can appreciate in real terms the benefits of hard work. Social Security expenditure is very high, too high for the country to afford at present, and the Green paper proposals are one way of cutting it. That is why the scheme is a crucial one to the regeneration of a strong economy.

Third, the Government expects a saving of about 5,000 civil servants posts to result from the scheme, many of which are concerned with doing jobs that private industry has already accepted as appropriate to them. As the Green Paper points out, a large and evidently growing sector of the business world is now

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providing income during sickness for employees. Some employers apparently find the complexities of juggling with two inter-related schemes operating side by side time-consuming and wasteful; they would prefer to do the whole job themselves. The tasks of central Government must be reduced, and such duplication of effort avoided. Streamlining the system is essential.

We are mindful, nevertheless, of the difficulties some employers - particularly the smaller ones - may face, and the Green Paper pays close attention both to their needs and to the extent of the help to be made available to them. We propose to ease their lot in two principal ways: by underwriting their increased wage bill costs as a group through a measure of reimbursement, and by keeping the eventual scheme as simple as possible to understand and operate. These are areas in which we are seeking the views of those most closely concerned.

Primary reimbursement would be made through a general reduction in the rate of the employers' national insurance contribution, without regard to the individual employers' actual outlay. The estimate mentioned in the Green Paper that employers' wage bills could rise by about £415 million overall would be more than offset by the suggested reduction of 0.5 per cent in the contribution. On the basis of figures supplied by the Government Actuary in another connection, a variation of one quarter per cent in the rate affects income for the National Insurance Fund by close to £250 million. Secondary reimbursement would, however, be related directly to the sick pay paid to new employees. The figures are quoted simply as a guide to help the discussion, and much depends upon the final shape of the scheme and the amounts involved at the time of its introduction.

The Green Paper contains many talking points, and we intend to weigh very carefully the reactions of all sections of the community before putting forward legislation. The views and comments now coming in will all contribute towards the overall picture now emerging from the vital consultation stage of these proposals.

SUMMARY OF THE MAIN PROPOSALS IN THE GREEN PAPER "INCOME DURING INITIAL SICKNESS: A NEW STRATEGY" (COMMAND 7864)

The main proposals for a statutory sick-pay scheme are:-

- (i) entitlement to continuing wages during sickness should be conferred on all employees for whom national insurance contributions are payable, (other than married women and widows who have opted to pay the reduced contributions);
- (ii) though there would be no payment due for the first three days of any spell of incapacity, employers' sick-pay would last for up to eight weeks in any tax year after which title to national insurance benefit would begin;
- (iii) the minimum amount of sick-pay should - subject to 'waiting days' - be £30 a week if it were replacing the present (November 1979) sickness benefit rates; but
- (iv) a low earner who falls sick should have a statutory entitlement to a proportion of normal earnings instead of the £30 flat-rate;
- (v) employers' national insurance contribution liability should be reduced by an amount broadly reflecting their collective liability for extra wage costs;
- (vi) within the total available for compensating employers, they would be entitled to claim a direct re-imbursment of one-half of the sick-pay disbursed to employees with less than eight weeks' service;
- (vii) on balance, it would not be appropriate to treat small firms differently from other employers by allowing a further re-imbursment provision for very small firms;
- (viii) decisions about entitlement to sick-pay should be taken on the basis of doctors' advice concerning incapacity for work and, as far as possible, within the rules of sick-pay schemes which are negotiated by the employer and employees concerned.

The Government would welcome comments on these proposals and on the following questions:-

(i) should there, after the first fortnight of sickness, be a higher minimum rate of sick-pay for employees with dependent children than is available in general?

(ii) how should the normal pay of low earners be defined, and is 75% of ~~sick~~<sup>Such</sup> pay an appropriate level for their sick-pay entitlement?

(iii) ought it to be open to sick-pay schemes to seek advice on individuals' capacity for work from the DHSS Regional Medical Service?

(iv) would it be more appropriate for Industrial Tribunals or national insurance tribunals to resolve disputes between sick-pay schemes and their members in which statutory entitlement to benefit is at issue?

Comments on these and other matters should be sent to the office of DHSS (Branch A3) at Room A516, Alexander Fleming House, Elephant and Castle, London SE1 6BY. It would be helpful if they could be received by 30 September 1980.



~~MAP~~  
MAP (0/12)

to see

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With the Compliments of  
the Private Secretary to  
the Secretary of State

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Alexander Fleming House  
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Mike,

Standard letter  
as requested.

Jenny Middleton 3/10/80