



An Roinn Gnóthaí Fostaíochta  
agus Coimirce Sóisialaí  
Department of Employment Affairs  
and Social Protection

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# Review of the Operation of the Working Family Payment

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## **Appendices**



# Review of the Operation of the Working Family Payment

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including the requirement to work 19 hours per week, or 38 hours per fortnight to qualify for the payment.

Report to the Committee on Social Protection  
in accordance with Section 9 of the Social Welfare Act 2017

27/11/2018

## **Glossary of abbreviations used**

<b>ACS</b>	<b>Affordable Childcare Scheme</b>
<b>BOBF</b>	<b>Better Outcomes Brighter Futures</b>
<b>BTWEA</b>	<b>Back to Work Enterprise Allowance</b>
<b>BTWFD</b>	<b>Back to Work Family Dividend</b>
<b>CA</b>	<b>Carer's Allowance</b>
<b>GCY</b>	<b>Governing Contribution Year</b>
<b>GSW</b>	<b>Genuinely Seeking Work</b>
<b>HAP</b>	<b>Housing Assistance Payment</b>
<b>IQC</b>	<b>Increase for a Qualified Child</b>
<b>JA</b>	<b>Jobseeker's Allowance</b>
<b>JB</b>	<b>Jobseeker's Benefit</b>
<b>JST</b>	<b>Jobseeker's Transitional Payment</b>
<b>NMW</b>	<b>National Minimum Wage</b>
<b>OPF</b>	<b>One Parent Family Payment</b>
<b>PAYE</b>	<b>Pay As You Earn</b>
<b>PTJI</b>	<b>Part Time Job Incentive</b>
<b>SWA</b>	<b>Supplementary Welfare Allowance</b>
<b>WFP</b>	<b>Working Family Payment</b>

## **Introduction**

Section 9 of the Social Welfare Act 2017, enacted on 23 December 2017, provides that the Minister shall, within 6 months of the Bill being enacted, bring forward a report to the Committee on Social Protection reviewing the operation of the Working Family Payment, including the requirement to work 19 hours per week, or 38 hours per fortnight, to qualify for the payment.

The Working Family Payment (WFP) is an in-work support that provides an income top-up for low-earning employees with children. The payment is provided tax-free and is paid weekly. The payment effectively preserves the incentive to take up or remain in employment in circumstances where the employee might only be marginally better off in work. The overall aim of the WFP is to encourage employment among low-income workers with children. There are currently 56,700 families in receipt of this payment in respect of more than 127,000 children. The estimated expenditure on WFP for 2018 is in the region of €431 million.

# Part 1 – The Development of the Working Family Payment

## 1.1 Background

The Programme for Government commits to the introduction of a new working family payment that “promotes work over welfare by supplementing, on a graduated basis, the income of a household, while at the same time incentivising more hours and full-time work”. The document and commitments by the Taoiseach (and former Minister for Social Protection) suggested that two key principles should underpin the approach: **To Make Work Pay and To Reduce Child Poverty.**

As part of the process of developing the Working Family Payment the Department carried out an extensive analysis of the range of supports it provides to assist individuals to take up employment. This analysis showed the existing in-work supports are very effective, and work well in assisting individuals to make the transition from unemployment into employment, in particular in-work supports such as the Working Family Payment and the Back to Work Family Dividend.

The analysis concluded that for the vast majority of families the existing system of supports works very well both in terms of reducing child poverty and incentivising work. However, there were a small number of circumstances where this may not always be the case. Given the nature of these smaller problems, it was concluded that the ideal approach would be to introduce a package of measures that improves the existing supports to working families and which can be built on incrementally over time, rather than to introduce a single new scheme (see Appendices 1 and 2 for note on consultation process and details of the issues identified).

It should be noted that the analysis undertaken was limited in scope to the Working Family Payment (formerly Family Income Supplement), Jobseeker’s Allowance (JA), the One-Parent Family Payment (OFP), Jobseeker’s Transitional (JST) schemes and the Back to Work Family Dividend (BTWFD). Certain schemes were omitted for specific reasons. For example, because of the unique characteristics of the Carer’s Allowance scheme it was not considered; Disability Allowance was the subject of examination by a separate Interdepartmental group; and Jobseeker’s Benefit and other insurance-based schemes operate on an entirely different basis and are of relatively short duration, and so were not included in the analysis.

The following is an appraisal of the Irish welfare system in terms of its ability to incentivise work and to reduce child poverty. It is important to recognise these strengths and to contextualise the limited problems that do exist within the system. In this regard, it is imperative that any options put forward for an approach to achieving the goals of the working family payment do not have the unintended consequence of weakening elements of the system which currently operate effectively.

## 1.2 A Strong System of Supports

### Incentivising Work

The incidence of disincentives to work in the Irish social welfare system is low. A 2015 ESRI publication entitled *Making Work Pay More*<sup>1</sup>, found that “based on an analysis of current incomes, benefits and taxes - more than eight out of ten unemployed jobseekers would see their income increase by at least 40 per cent upon taking up employment. Fewer than 3 per cent would, in the short-term, be financially better off not in work. The risk of facing weak financial incentives to work is higher for unemployed persons with a spouse and children, as the income support goal of the welfare system means that they tend to have higher welfare payments. However, even among that group, *fewer than 1 in 15* would be financially better off not working. With the addition of the Back to Work Family Dividend, that figure drops to 1 in 20”. In any event, financial incentives are not the sole driver of the decision to take up work. Other factors matter as well, including social and personal motivation on the part of jobseekers and the activation and support measures implemented by the Department.

When evaluating the system as a whole, it is useful to conceptualise incentivising work as a two stage process.

- First, people should be encouraged to take up *some* work – even if it is only a few hours per week. This helps to prevent further drift from the labour market and reduces their dependence on welfare.
- Second, parents living off a mixture of work and welfare should be incentivised to increase their work intensity with a view to moving off welfare entirely.

There are virtually no disincentives built into the system at the first stage. All working-age means-tested schemes have earnings disregards ranging from €60

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<sup>1</sup>Making Work Pay More: Recent Initiatives. ESRI June 16, 2015 | Budget Perspectives

(€20 per day up to a maximum of three days) on JA, to €130 for a lone parent on OFP or JST. Customers will not lose a single euro of their social assistance payment by doing a small amount of work.

There are some cases where the system could serve to disincentivise full-time work both among lone parents and among potential second earners in couple households. These instances are detailed in the next section. However, there are a range of supports which help to encourage low work-intensity families to take up full-time work (see Table 1). For example, tapers of between forty and sixty percent apply to most customers (other than lone parents in receipt of both OFP and WFP). This means that a jobseeker who, after earnings disregards are taken into account, earns €100, will have this amount subject to a sixty percent taper. In effect this means that 60% or €60 will be deemed as means and their social welfare payment will be reduced by that amount).

In addition, the Back to Work Family Dividend helps to ease the transition from welfare for people with child dependents, and the universal nature of Child Benefit means that parents will always receive some kind of support from the State.

For low income workers with less than the minimum hours of employment for WFP and working on a casual basis (that is, up to and including 3 days per week) the Jobseeker's Allowance (JA) scheme provides in-work income support through daily disregards and tapered withdrawal of payments<sup>2</sup>.

Apart from the jobseeker schemes if a person cannot meet the 19 hours WFP threshold or if their hours vary significantly from week to week, the Department offers a number of other schemes which can provide income support that can be combined with earnings from employment, subject to each individual's circumstances. These include One-Parent Family Payment (OFP) and the Jobseeker's Transitional Payment (JST), and the Part-Time Job Incentive (PTJI) scheme.

The rule that the Medical Card can be retained for three years after leaving welfare should also encourage people to move off out-of-work schemes<sup>3</sup>.

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<sup>2</sup> Individuals on Jobseeker's Benefit can also work up to 3 days per week. For each day they work they lose a proportionate reduction in their Jobseeker's Benefit payment.

<sup>3</sup> However, there is anecdotal evidence to suggest that this facility is not widely understood among DEASP customers.

Taking all of these schemes in combination, the Department provides an extensive system of social welfare support which facilitates recipients taking up some employment while permitting them to maintain their social welfare payment.

In general, secondary benefits are becoming less and less “passported” to out-of-work schemes. This means that access to secondary benefits is becoming less dependent on the applicant being fully unemployed. For example, recipients of the new Housing Assistance Payment (HAP), which replaces the Rent Supplement for those recipients who have a long term housing need, will be able to avail of HAP when they enter full-time work. The Affordable Childcare Scheme, which is under development, will also be based on household income rather than being tied to a social welfare payment.

Finally, the Department has committed to shifting its focus to activating other cohorts of jobseekers, including casual workers and qualified adults.

**Table 1: Incentives to work in the current system** (see also Appendix 2).

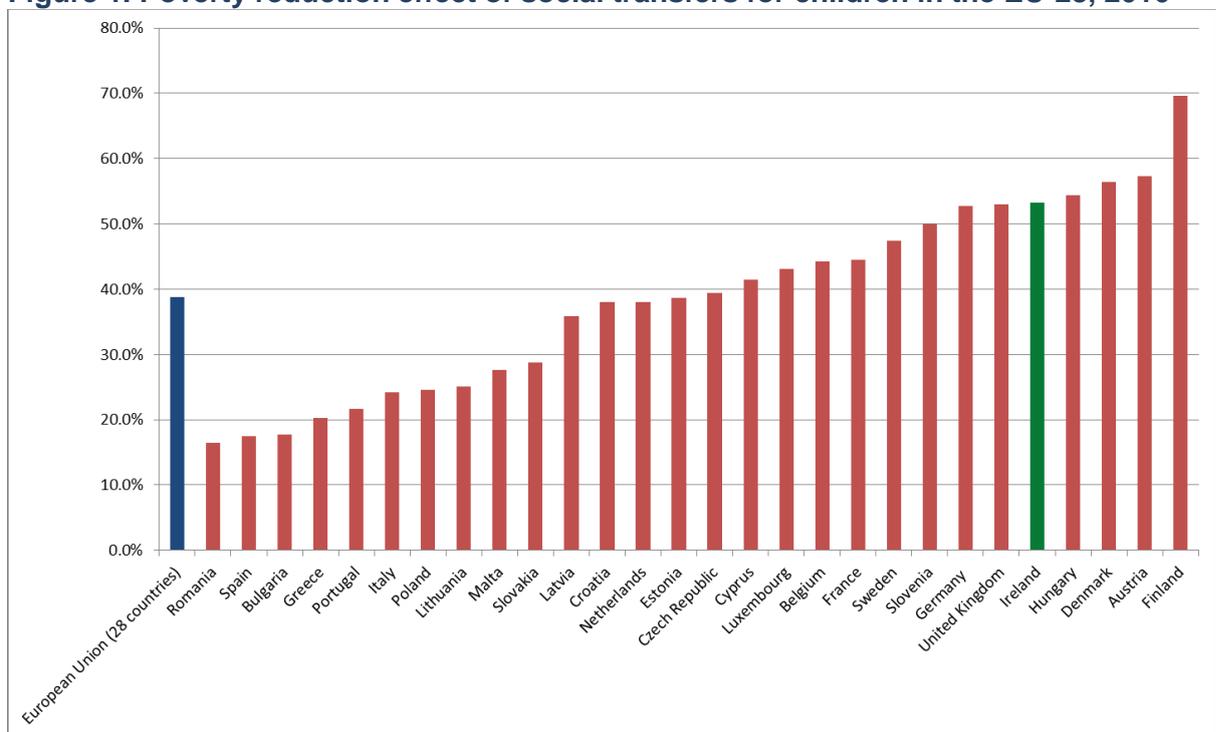
	<b>Lone Parents</b>	<b>Couples</b>
<b>Unemployed to part-time</b>	€130 disregard on OFP and JST with 50% of the remainder assessed as means	€20 disregard per day of work on JA for both primary claimant and qualified adult (up to maximum of 3 days each), with 60% of the remainder assessed as means
	Part-Time Jobs Incentive (PTJI) Single Adult rate of €122.20 per week, no means test and must work for less than 24 hours per week.	Part-Time Jobs Incentive Couple rate of €199.20 per week, no means test and must work for less than 24 hours per week.
	PTJI is a small, administrative scheme with 364 recipients (as of May 2018). No Increase for a Qualified Child (IQC) is payable.	
<b>Part-time to full-time</b>	<ul style="list-style-type: none"> <li>• Retention of Medical Card for 3 years</li> <li>• Back to Work Family Dividend (BTWFD)</li> <li>• Gradual tapers on OFP, JST and WFP.</li> <li>• Universality of Child Benefit</li> <li>• Back to Work Enterprise Allowance (BTWEA)</li> </ul>	<ul style="list-style-type: none"> <li>• Retention of Medical Card for 3 years</li> <li>• Back to Work Family Dividend</li> <li>• Gradual tapers on WFP</li> <li>• Universality of Child Benefit</li> <li>• GSW conditionality on JA</li> <li>• Back to Work Enterprise Allowance</li> </ul>

To sum up, the current system of supports creates little or no disincentives to take up part-time work and a range of policy tools exist to encourage parents to increase their work intensity and progress to full-time employment.

### Reducing Child Poverty

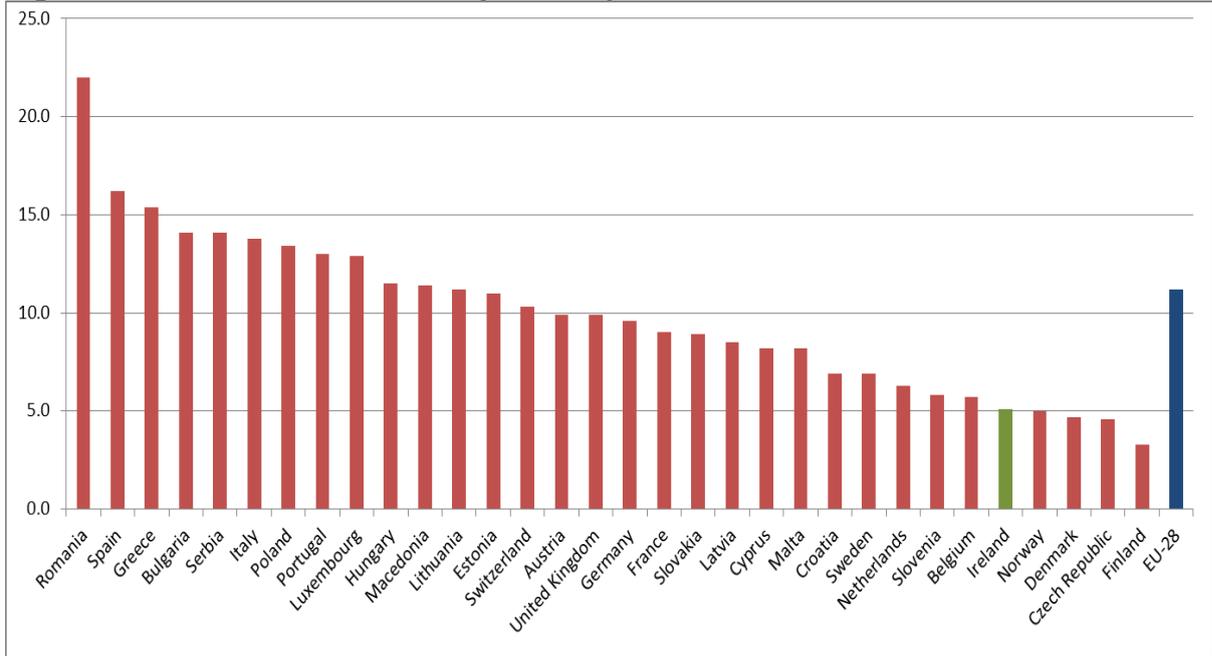
The Irish system of social transfers is consistently one of the top performers in the European Union at reducing market income inequality and poverty through taxes and transfers (see Figure 1). In 2016 social transfers reduced the at-risk-of-poverty rate for children from 40.5 per cent to 18.9 per cent, a poverty reduction effect of 53.3 per cent.

**Figure 1. Poverty reduction effect of social transfers for children in the EU-28, 2016**



Employment is a highly effective route out of poverty in Ireland. According to Eurostat Data, the parental in-work poverty rate in Ireland is 5.1% - significantly below the EU average of 11.2% (see figure 2). This is in large part due to in-work supports such as the WFP and the BTWFD.

**Figure 2. Parental In-Work Poverty in Europe, 2016.**



With regard to policy options, there are three key points to take away from these child poverty data:

- First, work should not be incentivised by cutting the basic welfare rates. Doing so would adversely affect the Government’s efforts to reduce the number of children living in consistent poverty by two thirds by 2020.
- Second, encouraging employment in other ways will greatly assist in this drive to improve living standards because of the link between employment and escape from poverty.
- Third, greater investment in quality public services – in particular childcare – should be considered to lift more children out of poverty.

This approach would serve to incentivise work and therefore capitalise on the robust poverty-reducing effect of employment.

### 1.3 Issues within the System

This section details some of the limited circumstances where a small number of families may face some disincentives to work. It is worth keeping in mind, however, that in the main these schemes work well for the vast majority of recipients and beneficiaries.

## **Interaction of Jobseeker's Allowance (JA) and the Working Family Payment – the JA and WFP “Gap”**

On Jobseeker's Allowance (JA), the 4-in-7 rule dictates that payment will be stopped if and when the primary claimant works more than three days in any seven consecutive days (that is, you can work up to 3 days a week and continue to receive a benefit). The household can also qualify for the Working Family Payment if the total hours worked in the household amounts to at least 19 hours per week or 38 hours per fortnight and the employment is likely to last for at least 3 months.

It is possible that some lone parents on JA fail to qualify for either scheme because they work less than 19 hours but more than three days. This issue is much less problematic for couples because the 4-in-7 rule currently does not apply to the qualified adult. If the primary claimant gets a job, they can easily switch the claim with the qualified adult so that the family would continue to receive a reduced rate of JA. Couples will only fall into the “gap” between the schemes when both parents work more than three days, but their combined workload does not amount to 19 hours per week. This is a highly unlikely scenario.

## **Treatment of maintenance payments on WFP**

Another issue is the inconsistent treatment of maintenance as means across the Department's schemes. On OFP, JST, and JA, €95.23 of a lone parent's maintenance spent on housing is disregarded as means with the balance assessed at a tapered rate of 50%. No such disregard exists on WFP. In most cases, the lack of the disregard on WFP is not an issue from the perspective of making work pay. Many lone parent families on WFP already receive the maintenance disregard through their OFP payment (if their youngest child is under the age of seven). Some lone parents are better off on JST than on WFP because the disregard applies to the former and not the latter. In these cases, they can simply stay on JST and not face any significant disincentive to work (there is no 4-in-7 rule on JST). However, lone parents on JA may face an incentive to stay on JA rather than moving to WFP because of the absence of the disregard on WFP. The application of the 4-in-7 rule in this instance may potentially restrict their ability to take up additional employment.

Beyond the issue of making work pay, the lack of the maintenance disregard on WFP represents an inconsistency in the treatment of maintenance across all schemes, potentially leading to confusion on the part of customers and DSP staff alike.

## WFP and small-family couples

The at-risk-of-poverty threshold, a relative measure of poverty based on the median income, rose in the most recently published Survey of Income and Living Standards (SILC 2016). As a result of this change, it is now possible for some couple families to be below the at-risk-of-poverty threshold while on WFP. This will only happen when the couple work very low hours at a rate of hourly earnings close to the National Minimum Wage (NMW). In reality most NMW earners are second earners and, given that a couple can share their childcare duties, as long as employment is available they should not be so constrained as to be unable to work more than the minimum hours required. However, for the vast majority of recipients the WFP is extremely effective in reducing in-work poverty – especially among lone parents and large couple families. In fact, in 2016 Ireland had one of the lowest rates of parental in-work poverty in Europe, surpassed only by Norway, Denmark, Czech Republic and Finland. (See Figure 2 earlier). This success is, at least in part, attributable to the supports available from the DEASP.

Tables 2 and 3 below compare a range of two-parent household families on WFP and JA against the at-risk-of-poverty threshold.

**Table 2: Working Family Payment and 2016 Weekly Poverty Threshold Comparison.**

Number of Children	Hours worked p/w	Earnings @NMW = €9.55	WFP Income Limit	WFP Payable	Child Benefit Payable	Total Income	2016 Poverty Threshold	Difference
<b>1</b>	19	€181.45	€521	€204	32	€417.49	€471.30	<b>-€53.81</b>
	40	€382.00	€521	€83	32	€497.71	€471.30	€26.41
<b>2</b>	19	€181.45	€622	€264	64	€509.78	€549.45	<b>-€39.67</b>
	40	€382.00	€622	€144	64	€590.00	€549.45	€40.55
<b>3</b>	19	€181.45	€723	€325	96	€602.38	€627.61	<b>-€25.23</b>
	40	€382.00	€723	€205	96	€682.60	€627.61	€54.99

**Poverty threshold (60% median equivalised nominal disposable income)**

In very low work intensity households, where only one adult is working part-time, one, two, and three child families can, in theory at least, be at-risk-of-poverty. Ideally, WFP should raise all eligible families out of poverty. It is worth noting that in all of the cases highlighted in red in Table 2 above, the household could qualify for JA instead and be lifted out of poverty (see Table 3 below).

**Table 3: JA Comparison of the same circumstances as Table 2**

Number of Children	Hours	JA + Net Earnings +CB	Poverty Threshold	Exceeds poverty threshold by:
1	19	502.09	471.30	30.79
	40	571.76	471.30	100.46
2	19	565.58	549.45	16.13
	40	629.38	549.45	85.80
3	19	629.38	627.61	1.77
	40	699.05	627.61	71.44

In fact in couple households with one, two and three children and where only one adult is working these families are **always better off on JA than on WFP**.

### JA Example 1

A couple family with two children where one adult works 19 hours per week over 3 days at a rate of €11.70 per hour, generate earnings from employment of €222.30 + JA of €296 = **€518.30**  
 The basic social welfare rate for this family is **€393**. **Therefore working 19 hours and on JA increases family income by nearly 32%**.  
 The same couple working the same hours over more than 3 days would receive **€463** on WFP (an increase of 18%).

Clearly, in the example above JA is better than the WFP for these family types.

The only way to make the WFP a more generous option than JA for couple families with up to three children would be to substantially increase the WFP income thresholds for these families. However this would be a costly measure and would be an ineffectual use of resources when the existing JA scheme is working effectively to meet the needs of the same cohort.

## 1.4 WFP and JA – helping families into work

Every year new families enter the WFP scheme while others move on. Indeed about half of all WFP recipients are only on the scheme for two years before they move off it; those families who spend longest on the payment tend to be headed by lone parents. In these instances it is likely that caring responsibilities for children of school-going age have as much to do with such families working fewer hours as any other 'hurdles' to increasing employment.

There is sometimes a lack of understanding of the jobseekers schemes provided by the DEASP which understates the pro-employment impact of the JA schemes. Under JA a person is required to be genuinely seeking work on a full-time basis

while under Jobseeker's Transition a person is obliged to participate in local office activation measures, including case management, and to participate in any recommended course of education, training or employment programme.

There is no evidence to indicate that the JA scheme hinders re-integration into the workforce to any significant degree. In fact, in March 2018 the JA scheme supported 49,466 casual and part-time workers on the Live Register with an in-work payment (this represents 21.3% of the total Live Register). Figures show that many of these casual and part-time workers progress into full-time employment and ultimately leave the Live Register. For example in March 2017 there were 59,260 casual and part-time workers on the Live Register. This means that in the 12 months from March 2017 there was a decrease of almost 10,000 casual and part-time workers on JA; a substantial fall in the numbers.

These figures illustrate two central points: first, that JA casuals represent a significant proportion of the total JA population; and second, that JA fulfils two functions, providing a safety net of income support to families who lose their jobs, and, by allowing recipients to work while retaining some of their payment, offering a way out of welfare dependence and into full time employment and economic independence. Given the numbers cited above it is clear that JA continues to be a significant in-work support for families.

The Programme for Government acknowledges that there is a need to assist families to remain in work, and to incentivise those moving from welfare to work while preventing families from becoming at risk of poverty. The analysis undertaken by the Department shows that existing in-work supports such as the Working Family Payment, Jobseekers Allowance and the Back to Work Family Dividend are very effective in reducing poverty and work well in assisting individuals to make the transition from unemployment into employment. These findings are confirmed by both ESRI research into the Department's existing in-work measures, and by Eurostat figures, which show that the parental in-work poverty rate in Ireland is 5.1%, less than half the EU 28 average of 11.2%.

## **1.5 Working Family Payment – Package of Measures**

Developing a single new scheme to address the issues highlighted in the analysis for both lone parents and couples would be complex and would require the substantial redesign of a wide range of existing social welfare payments. A single scheme would likely impose significant financial losses on some customers and

could potentially generate significant deadweight cost by increasing payments to other existing recipients. By contrast, a more targeted approach would be to introduce improvements to the current system, each with the explicit intention of resolving some particular issue within the system. Most of the options will require funding, possibly legislation and system development. Decisions on available funding and on which options to select will be a matter for Government as part of the Budgetary process. However the system as a whole, which has been found to be strongly supportive and successful in achieving the twin goals of incentivising employment while reducing child poverty, would not be compromised by such an approach.

The approach recommended on foot of the analysis undertaken here is to introduce a package of measures that improves the supports to working families and which can be built on incrementally over time. This work has already begun and a number of changes were introduced in Budget 2018 and 2019 which enhance the range of supports available to working families. These are outlined below.

### **Budget 2018**

In Budget 2018 the Family Income Supplement scheme was re-designated as the Working Family Payment (WFP), with the aim of bringing it more visibility as a payment aimed specifically at working families. The new name better reflects the nature of the payment.

Budget 2018 increased the WFP income thresholds by €10 for families with one, two and three children. As a result of this increase additional families became eligible for the scheme. This was a targeted measure which benefited low income working families. With over eighty percent of WFP families having up to three children this measure provided targeted assistance, directly linked with household income and supporting a majority of low-income working families on WFP.

**Table 4: Average WFP payment by family size**

Family Size	No of Families	Average WFP Payment
1 Child	17,866	€102.41
2 Children	18,670	€126.20
3 Children	11,959	€151.31
4 Children	5,550	€184.72
5 Children	1,751	€241.11
6 Children	507	€319.65
7 Children	166	€370.17
8 Children	66	€445.29

Lone parents returning to work benefitted from an increase in income disregards, as did Jobseekers' Transition recipients. These disregards increased by €20, from €110 to €130 per week. This was in addition to the €5 increase in the weekly rate of payment and the €2 increase in the qualified child payment.

The National Minimum Wage was increased to €9.55 per hour from January 2018, an increase of 30 cents an hour (3.2%) in line with the recommendation of the Low Pay Commission. To date, Government has implemented all of the Commission's recommendations on pay, reflecting its commitment to ensuring that work pays.

Finally Budget 2018 removed the sunset clause (31 March 2018) for the Back to Work Family Dividend in order to continue its operation. This scheme allows those moving off welfare into work to retain the IQC element of their benefit for a 2 year period (year 1 at full rate and year 2 at half rate).

### **Budget 2019**

There was a further increase in the weekly income disregards for OFP and JST, from €130 to €150. This brings the OFP income disregard above the highest previous level (of €146.50 in December 2011). The effect of this measure will be to increase the amount of money that a lone parent will receive from employment without reducing their social welfare payment. It also enhances the incentive for a lone parent to take up employment.

A maintenance payment disregard of €95.23 was introduced for Lone Parents in receipt of the Working Family Payment. For lone parents in receipt of WFP and who receive maintenance from an ex-partner, the measure means that their income will increase (but not those on WFP and OFP concurrently, who already receive a disregard under the OFP payment).

The weekly rate of the IQC was raised by €2.20 for children under 12 and by €5.20 for children 12 and over. This is a targeted measure which, while it benefits families in receipt of social welfare payments, will also benefit workers who move from a social welfare payment to take up employment and who thereby qualify for the Back to Work Family Dividend (which provides for the retention of IQC payments for a period).

## Part 2 – WFP Hours Threshold

As part of the review of the Operation of the Working Family Payment the Department of Employment Affairs and Social Protection was asked to look specifically at the WFP Hours Threshold, which critics have claimed acts as a barrier to some employees accessing WFP (on the grounds that they cannot meet the 19 hours threshold).

The “hours worked” requirement has reduced significantly since the introduction of the WFP scheme. The requirement was initially set at 30 hours per week (similar to the definition of full-time employment used in the SWA scheme). It was progressively reduced from 30 hours in 1984 to 24 (1986), 20 (1989) and finally to 19 hours per week (1996). The adjustment in 1989 also allowed a couple to aggregate their hours worked to meet the requirement.

A further lowering of the hours worked threshold may have implications for other schemes, for example Jobseekers Allowance. In addition, consideration would have to be given to the impacts on other structural aspects of the scheme, such as methods of calculating the WFP (i.e. gross earnings or net earnings), the multiplier and in particular the income thresholds.

A concern of the Department is that a further reduction in the “hours worked” requirement may facilitate precarious employment and bad employer practice by acting to prop up unsustainably low working hours, and facilitating low-hours contracts which potentially allow employers to ‘control’ employees.

A reduction in the hours worked threshold could also undermine the Programme for Government commitment to supplement *“on a graduated basis, the income of a household, while at the same time incentivising more hours and full-time work.”*

### 2.1 The effect of a reduction in hours

Further reducing the “hours worked” requirement would have significant expenditure implications as significantly more people could meet the “hours worked” eligibility criteria.

As previously stated for low income workers with less than the minimum hours of employment for WFP and working on a casual basis up to and including 3 days per week, jobseeker’s schemes provide in-work income support through daily disregards and tapered withdrawal of payments. Given that an alternative child-related payment (that is a primary social welfare payment such as Jobseekers

Allowance with IQCs) is currently available for persons on low-income with up to an equivalent of three day's employment, the minimum number of hours worked condition does not of itself generally preclude support to low-income families with children.

In the case of WFP and Jobseekers Allowance customers can, subject to meeting the conditions of the schemes, opt for the payment which is the most financially beneficial to them. It should be noted that even were the WFP hours worked threshold to be reduced to 15 hours the JA option is still better for couple families with up to three children (Example 2 below):

### JA Example 2

A couple family with two children where one adult works 15 hours per week over 3 days at a rate of €11.70 per hour generate earnings from employment of €175.50 + JA of €324 = **€499.50**  
The basic social welfare rate for this family is **€393**. **Therefore working 15 hours and on JA increases family income by 27%.**  
The same couple working the same hours would receive **€444** on WFP (an increase of 13%).

The only cohort where WFP is always a better option than JA is for working lone parents.

### JA VS WFP for Lone Parents Example 3

A lone parent family with two children works 19 hours over three days at the National Minimum Wage of €9.55 per hour generating earnings from employment of €181.45 + JA of €261.60 = €370.05  
The basic social welfare rate for this family is **€261.60**  
**Therefore working 19 hours and on JA increases family income by 41%.**  
The same family working the same hours on WFP would receive **€446**. **This represents an increase of 71% on the basic social welfare rate.**

Supporting working lone parents through an extension of the JST means test (the conditionality element) rather than a general relaxation of the qualifying criteria for WFP, which could have potential detrimental effects in terms of supporting lower hours contracts, would help to support these parents without impacting upon their work intensity.

### WFP as a Multiple of Earnings from Employment

Tables 5a and 5b below illustrate the effect of the WFP top-up if there were to be a reduction in the hours threshold. The examples show that the value of the WFP

payment can become a multiple of earnings from employment. Indeed, in the scenarios used here WFP could represent more than 200% of the value of income from employment (3-child household at 15 hours). This would seem to run counter to the goal of incentivising employees to increase their hours, and perhaps more importantly, places an ever-growing burden upon WFP to support and make sustainable very low hours employment. The earnings referred to in the examples are net of tax, PRSI and USC. Further examples at different hourly rates of pay are at Appendix 3. They illustrate the potential disincentive effect of a reduction in the hours threshold (based on National Minimum Wage earnings of €9.55 per hour).

**Table 5a: Single Child Household**

Single Child Household					
Hours Worked	Net Earnings	WFP Top-Up	Total Income	WFP %	New NET Hourly Rate with WFP
15	<b>€143.25</b>	€220.65	€363.90	61%	€24.26
16	<b>€152.80</b>	€214.92	€367.72	58%	€22.98
17	<b>€162.35</b>	€209.19	€371.54	56%	€21.86
18	<b>€171.90</b>	€203.46	€375.36	54%	€20.85
19	<b>€181.45</b>	€197.73	€379.18	52%	€19.96
25	<b>€238.75</b>	€163.35	€402.10	41%	€16.08
30	<b>€286.50</b>	€134.70	€421.20	32%	€14.04
35	<b>€331.25</b>	€107.85	€439.10	25%	€12.55
39	<b>€362.00</b>	€89.73	€451.73	20%	€11.58

**Table 5b: Three Child Household**

Three Child Household					
Hours Worked	Net Earnings	WFP Top-Up	Total Income	WFP %	New NET Hourly Rate with WFP
15	<b>€143.25</b>	€341.85	€485.10	70%	€32.34
16	<b>€152.80</b>	€336.12	€488.92	69%	€30.56
17	<b>€162.35</b>	€330.39	€492.74	67%	€28.98
18	<b>€171.90</b>	€324.66	€496.56	65%	€27.59
19	<b>€181.45</b>	€318.93	€500.38	64%	€26.34
25	<b>€238.75</b>	€284.55	€523.30	54%	€20.93
30	<b>€286.50</b>	€255.90	€542.40	47%	€18.08
35	<b>€331.25</b>	€229.05	€560.30	41%	€16.01
39	<b>€362.00</b>	€210.93	€572.93	37%	€14.69

## **2.2 Potential policy, labour market and behavioural effects.**

### **Policy Implications**

WFP is not designed as a primary social welfare payment, but as an in-work support to low-waged employees who have children. The WFP scheme has two explicit objectives: the first is to address child poverty; the second is to improve employment incentives for working parents. A further reduction of the existing “hours worked” threshold would not be consistent with WFP policy objectives and would lead to a much larger role for WFP as a subvention mechanism.

- Greater dependency on WFP to support very low earnings, with significant budgetary implications.
- Increased number of WFP recipients which might include some types of employment not currently eligible, such as teachers for example.

Furthermore, trying to create an additional role for WFP, by attempting to reach those working on very low hours, would not add to the effectiveness of the payment in reaching its current objective as it would effectively prop-up otherwise unsustainable employment.

### **Labour Market Effects**

It is important that the WFP does not inadvertently subsidise unsustainably low earnings or encourage employers to offer minimal hours of employment. The tax and social protection systems have a fundamental part to play in addressing the challenges of creating of jobs, reducing unemployment and in ensuring work pays.

Supplementary welfare is not a long-term solution to low wages, particularly in a tightening labour market. The longer term goal of WFP, as an incentive to take up and remain in work, could be compromised if the nature of the work taken up is not ultimately sustainable without ever-increasing and perhaps ultimately unsustainable levels of subvention from the State. The call by some NGOs for a lowering of the hours worked threshold to 15 hours has already been echoed by others, with calls to reduce it even further to 12 hours. In this context very careful consideration is needed to ensure that WFP does not, as stated earlier, inadvertently subsidise unsustainably low earnings or encourage employers to offer minimal hours of employment. It is critical that WFP, a policy instrument designed to provide in-work support, does not further contribute to the phenomenon of the emergence of greater numbers of workers in precarious employment situations.

## Potential Behavioural Effects

Potential implications of a reduced “hours worked” threshold includes:-

- Reduced incentive to increase part-time hours (a net difference of just over €15 between 15 and 19 hours, equal to over €3 per hour for each additional hour worked, see Tables 5a and 5b) thereby creating a poverty trap.
- Could result in recipients on minimum 19 hours threshold reducing their hours of work (as per previous point).
- A reduction in the “hours worked” criteria might attract new recipients currently on higher wages above the WFP threshold, who might decide to reduce their hours in order to qualify.
- WFP is calculated on a net income basis. This is more advantageous to people on higher incomes than for those on lower incomes as the difference between their gross and net earnings is greater.
- It is also possible that some JA casuals might move to WFP which would have the effect of removing conditionality (there is no GSW requirement in WFP) and potentially increasing the numbers of open-ended claims.

Further reducing the “hours worked” requirement could cause WFP to be a disincentive for a person to take-up additional hours or to move from part-time to full-time work.

Under JA a person is required to be genuinely seeking work on a full-time basis while under Jobseeker’s Transition a person is obliged to participate in local office activation measures, including case management, and to participate in any recommended course of education, training or employment programme. In contrast a person in receipt of WFP will remain in payment while satisfying the employment conditions, but is not required to participate in activation measures or training courses to up-skill, or to increase their hours worked if they are working on or near the minimum hours worked.

## 2.3 Estimated Costs

As WFP administrative data does not record information on recipients working below 19 hours per week, an estimated number needs to be determined for those working between the proposed 15 hours and 19 hours. Based on the most recent CSO Labour Force Quarterly Series (2018 Q1) it is estimated that there are almost 200,000 people (almost 70 per cent of whom are female) working 1-19

hours. Although only some of these people would qualify for WFP this figure represents the size of the pool from which potential recipients would be drawn (bearing in mind some may already be in receipt of JA). In addition the cost could increase depending on behavioural effects as outlined earlier.

Under EU regulations WFP is defined as a family benefit and is therefore exportable in cases where the claimant is working in Ireland but where the children are living abroad (in contrast JA is not exportable). As regards WFP payments for families abroad, currently there are some 621 WFP claims in payment where the relevant child's country of residence is outside the State (at a cost of almost €4 million annually). We have no way of predicting with any degree of accuracy the potential in-flow in this category, and the extent to which a system which was very simple to qualify for (very low qualifying hours) might act to have a 'pull' effect on new entrants and on immigration.

Between 2008 and 2016 the number of families in receipt of WFP doubled, while expenditure on WFP more than doubled from €170.3 million to an estimated €413.7 million. The outturn for 2018 is estimated at €431 million. Further reducing the "hours worked" threshold would obviously have potentially very significant increased expenditure implications.

## Part 3 – Conclusions

### Conclusions

Given the limitations of what the Department of Employment Affairs Social Protection can achieve by altering its schemes, a whole-of-government approach is necessary to ensure the effective delivery of the twin goals of the working family payment – to make work pay and to reduce child poverty.

Nevertheless, as has been illustrated in this document, a number of DEASP schemes, along with a wide range of personal supports delivered through activation and case management, combine to ensure that customers are given as much help as they need to access and sustain employment. The schemes which provide this support include JA, JB, OFP, JST, BTWFD and of course the WFP. These mainstream schemes are complemented by a range of secondary supports such as the Fuel Allowance and Rent Supplement.

It is crucially important however to consider the broader policy context when examining the effectiveness of DEASP supports.

Issues such as low pay and precarious employment are likely to become ever more important in the years to come. It is worth noting, for example, that a large proportion of recent job growth has been concentrated in the Accommodation and Food Sector<sup>4</sup> – an industry where the high incidence of low pay is widely acknowledged. The rapid and sustained increase in the numbers of families in receipt of the WFP over the past ten years, coupled with the dangers associated with any growth in the incidence of precarious employment make it all the more important to ensure that the income support system does not inadvertently contribute to a rise in the numbers engaged in low-paid, insecure employment. This is just one of the reasons why this analysis does not support lowering the hours worked threshold.

In terms of tackling poverty, and particularly child poverty, the Government has increasingly focused on improving service provision so as to tackle the high cost of raising children in Ireland. The National Policy Framework for Children and Young People, *Better Outcomes Brighter Futures* (BOBF) has established a shared set of outcomes for children and young people towards which all

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<sup>4</sup> The CSO found that the lowest average weekly earnings in the year to Q2 2018 were €356.29 in the Accommodation and food services sector. ‘*Earnings and Labour Costs Quarterly, August 2018*’

government departments and agencies, statutory services and the voluntary and community sectors can work, to ensure a coherent response for children and young people. It therefore provides the best approach to co-ordinate the work of Government and NGOs in tackling poverty.

In 2016 the European Commission issued a Country Specific Recommendation which required Ireland to tackle low household work intensity and to address the risk of child poverty through tapered withdrawal of benefits and supplementary payments upon return to employment; and to facilitate female labour market participation by improving access to more affordable and full-time childcare, particularly for low income families. In light of that, and in line with the commitment to tackle child poverty made in BOBF, it is important to remove any barriers to employment through a whole of government approach. This includes, above all else, improving the affordability of childcare and afterschool services.

In the past, Rent Supplement has been identified as a component of the system which contributes to high replacement rates and can create disincentives to enter employment. However, the Housing Assistance Payment (HAP) should deal with most of the disincentive effects associated with Rent Supplement, provided that it is applied consistently across all local authorities.

It is worth pointing also to the ongoing modernisation of the Pay As You Earn (PAYE) system. Changes to PAYE will facilitate reform of existing policies including rules surrounding PRSI and the Governing Contribution Year (GCY), the taxation of benefits and, crucially in the context of in-work supports, the treatment of JA casuals and WFP recipients.

Also, in a wider context, the most relevant current macroeconomic indicators relate to the sustained reductions in unemployment and long term unemployment. The Irish seasonally adjusted unemployment rate remains static in July 2018 at 5.1 per cent (compared with June), significantly down from the 6.8 per cent a year earlier. These figures underline the fact that the incidence of severe disincentives to work is generally low in Ireland. With the improvements outlined in this document, the support system, in terms of its capacity to incentivise employment and reduce child poverty, should only be strengthened.

## **Appendices**

- 1. Consultation process for the development of the Working Family Payment**
- 2. Package of measures examined for Budget 2018.**
- 3. Additional tables showing effect of WFP at various pay and hours levels**
- 4. General Statistics on WFP Scheme**

## Appendix 1

### Consultation Process to Develop the Working Family Payment

To advance the commitment contained in the Programme for Partnership Government, the Department of Employment Affairs Social Protection established an internal working group and an Inter-Departmental Group of the relevant Government Departments to consider proposals. The Department also issued an open call for submission on the proposed Working Family Payment. The open call ran from 30<sup>th</sup> January to mid-March 2017. In total the Department received twenty submissions, sixteen from NGOs and four from private individuals.

- Twelve of the sixteen submissions highlighted the importance of ensuring that any new scheme interacts with other schemes in an efficient and desirable manner.
- Eleven raised childcare costs as a substantial issue.
- Eight highlighted the issue of low pay.
- Eight emphasised the importance of activation and training supports.
- Seven argued that the WFP floor of 19 hours per week is too high. Many suggest reducing it to 15.
- Seven expressed concern over housing and homelessness.
- Four of the submissions argued that the social welfare system does not pose significant disincentives to work (i.e. that replacement rates are not very high).

## Appendix 2

### Financial and Non-Financial Supports

<p><b><u>1</u></b></p>	<p><b><u>The Retention of the Medical Card</u></b>            Long term recipients of social welfare payments are entitled to retain their Medical Card for three years after taking up work. Furthermore, many would still satisfy the means test for a GP Visit Card after going into full-time employment. It is not clear if all customers moving off long term social welfare payments are aware of their eligibility to maintain the medical card for three years.            A study on the incentives to take up work carried out by the ESRI found that, even with the effect of the Medical Card accounted for, only 24.1% of households with children face replacement rates in excess of 70% when looking to go into full-time employment.</p>
<p><b><u>2</u></b></p>	<p><b><u>The Introduction of the Affordable Childcare Scheme (ACC)</u></b>            It is planned that the ACC will be introduced in 2019. The scheme includes a universal subsidy for infants (6 to 36 months old), as well as a means-tested subsidy to parents with children aged 3-15 which is calculated on the basis of their net income. The roll out of the scheme will represent a sizable improvement in the provision of affordable childcare in Ireland, and should be helpful in moving parents into employment, provided that they are made aware of the benefits it can bring.</p>
<p><b><u>3</u></b></p>	<p><b><u>The extension of the Housing Assistance Payment (HAP)</u></b>            HAP has been rolled out across all local authorities since March 2017. From the perspective of making work pay, HAP is a considerable improvement on the Rent Supplement, because the recipient will no longer be disqualified from the payment if they work over 30 hours per week. There are currently just over 36,000 households having their housing needs met via HAP, with a weekly average of 357 HAP tenancies are being set-up during 2018. Conditional on there being adequate supply of HAP tenancies, increasing public awareness of this reform could help to alleviate people's concerns that their income from the State will be curtailed if they take up employment.</p>
<p><b><u>4.</u></b></p>	<p><b><u>Incentives to work on DSP schemes</u></b>            A range of incentives are built into existing DSP schemes, including the following:</p> <ul style="list-style-type: none"> <li>• WFP</li> <li>• BTWFD</li> <li>• PTJI</li> <li>• BTWEA</li> <li>• JA/JST/OFP income disregards</li> </ul>
<p><b><u>5.</u></b></p>	<p><b><u>Short-term employment or training</u></b>            Better promotion of the Department of Social Protection's fast-tracking system for people who sign off a jobseeker's payment to take up work for a short period (up to 12 weeks) or to go on a short training course (up to 12 weeks). This ensures that their jobseeker's payment is re-instated without delay. "Fast-track" system which allows JA recipients to temporarily sign off for short-term employment.</p>

## Appendix 3

Additional tables showing effect of WFP at various pay and hours levels

<b>Table 6: Average Part-Time Wage @ 12.00 €/hr</b>					
<b>Table 6a: Single Child Household</b>					
<b>Average Part time Wage: @ 12 €/hr</b>					
<b>Single Child Household</b>					
<b>Hours Worked</b>	<b>Net Earnings</b>	<b>WFP Top-Up</b>	<b>Total Income</b>	<b>WFP %</b>	<b>New NET Hourly Rate with WFP</b>
15	€180.00	€198.60	€378.60	52%	€25.24
16	€192.00	€191.40	€383.40	50%	€23.96
17	€204.00	€184.20	€388.20	47%	€22.84
18	€216.00	€177.00	€393.00	45%	€21.83
19	€228.00	€169.80	€397.80	43%	€20.94
25	€297.00	€128.40	€425.40	30%	€17.02
30	€353.00	€94.80	€447.80	21%	€14.93
35	€398.00	€67.80	€465.80	15%	€13.31
39	€441.00	€42.00	€483.00	9%	€12.38

<b>Table 6b: Three Child Household</b>					
<b>Average Part time Wage: @ 12 €/hr</b>					
<b>Three Child Household</b>					
<b>Hours Worked</b>	<b>Net Earnings</b>	<b>WFP Top-Up</b>	<b>Total Income</b>	<b>WFP %</b>	<b>New Hourly Rate with WFP</b>
15	€180.00	€319.80	€499.80	64%	€33.32
16	€192.00	€312.60	€504.60	62%	€31.54
17	€204.00	€305.40	€509.40	60%	€29.96
18	€216.00	€298.20	€514.20	58%	€28.57
19	€228.00	€291.00	€519.00	56%	€27.32
25	€297.00	€249.60	€546.60	46%	€21.86
30	€353.00	€216.00	€569.00	38%	€18.97
35	€398.00	€189.00	€587.00	32%	€16.77
39	€441.00	€163.20	€604.20	27%	€15.49

<b>Table 7: Average Full-Time Wage @ 22.00 €/hr</b>					
<b>Table 7a: Single Child Household</b>					
<b>Average Full Time Wage: @ 22 €/hr</b>					
<b>Single Child Household</b>					
<b>Hours Worked</b>	<b>Net Earnings</b>	<b>WFP Top-Up</b>	<b>Total Income</b>	<b>WFP %</b>	<b>New NET Hourly Rate with WFP</b>
15	€326.00	€111.00	€437.00	25%	€29.13
16	€346.00	€99.00	€445.00	22%	€27.81
17	€363.00	€88.80	€451.80	20%	€26.58
18	€380.00	€78.60	€458.60	17%	€25.48
19	€396.00	€69.00	€465.00	15%	€24.47
25	€501.00	€20.00	€501.00	4%	€20.04
30	€579.00	Not eligible	€579.00		
35	€658.00	Not eligible	€658.00		
39	€716.00	Not eligible	€716.00		

<sup>[1]</sup> At €501 the recipient is entitled to the €20.00 minimum payment

<b>Table 7b: Three Child Household</b>					
<b>Average Full Time Wage: @ 22 €/hr</b>					
<b>Three Child Household</b>					
<b>Hours Worked</b>	<b>Net Earnings</b>	<b>WFP Top-Up</b>	<b>Total Income</b>	<b>WFP %</b>	<b>New NET Hourly Rate with WFP</b>
15	€326.00	€232.20	€558.20	42%	€37.21
16	€346.00	€220.20	€566.20	39%	€35.39
17	€363.00	€210.00	€573.00	37%	€33.71
18	€380.00	€199.80	€579.80	34%	€32.21
19	€396.00	€190.20	€586.20	32%	€30.85
25	€501.00	€127.20	€501.00	25%	€20.04
30	€579.00	€80.40	€579.00	14%	€19.30
35	€658.00	€33.00	€658.00	5%	€18.80
39	€716.00	Not eligible	€716.00		

## General Statistics on WFP Scheme

Table 8: No of children per WFP family and average WFP payment per family size

Family Size	Earnings Threshold (Net)	Recipients	Average WFP Payment
1 Child	€521	17,866	€102.41
2 Children	€622	18,670	€126.20
3 Children	€723	11,959	€151.31
4 Children	€834	5,550	€184.72
5 Children	€960	1,751	€241.11
6 Children	€1,076	507	€319.65
7 Children	€1,212	166	€370.17
8 Children	€1,308	66	€445.29

The average WFP payment across all family sizes is **€136.05**. Families with up to 3 children account for approximately 86% of WFP recipients.

Table 9: WFP Numbers and Expenditure 2000-2017

Year	Expenditure € million	Recipients Children	Recipients Families
2000	39.4	31,274	13,181
2005	72.2	33,956	17,448
2010	186.0	62,240	28,223
2015	367.9	122,417	55,913
2016	415.437	127,408	57,567
2017	422.5*	129,274**	57,745**

Note: Based on 2017 Estimates, Monthly Statistics Reports, Statistics and Business Intelligence Unit, December 2017

**Table 10: WFP Income Limits 2007 to 2018**

No of Children	2007	2008	2009	2010-2016	2016	2017	2018
1	€480	€490	€500	€506	€511	€511	€521
2	€550	€570	€590	€602	€612	€612	€622
3	€625	€655	€685	€703	€713	€713	€723
4	€720	€760	€800	€824	€834	€834	€834
5	€820	€870	€920	€950	€960	€960	€960
6	€910	€970	€1030	€1066	€1076	€1076	€1076
7	€1020	€1090	€1160	€1202	€1212	€1212	€1212
8 or more	€1090	€1170	€1250	€1298	€1308	€1308	€1308

**Table 11: Private Households 2016 by number of children per Family Unit (FU)**

No/type of family units		WFP recipients	WFP as % of all FUs
<i>All family units</i>	1,218,370		
All family units with children	862,721	56,535	6.6%
1 child family	341,160	17,866	5.2%
2 child family	307,298	18,670	6.1%
3 child family	152,071	11,959	7.9%
4 child family	47,002	5,550	11.8%
5 child family	10,838	1,751	16.2%
6 child family	2,926	507	17.3%
7 or more child family	1,426	232	16.3%

**Source: CSO Census 2016 and DEASP WFP 2017**

On average, 6.6% of all family units with children are in receipt of WFP. Not unnaturally, the proportion increases in accordance with family size, but tapers off marginally for families with 7 children and over.

