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

Pay Related Social Insurance

Tax Strategy Group – 19/06

July 2019

Pay Related Social Insurance – Budget 2020 Issues

The Social Insurance System

1. The Social Insurance system is central to the provision of social security in Ireland. It plays a major role in Irish life both in terms of the number of people who depend on it and also the financial and economic scale of the system.

2. The basic principle underlying the social insurance system is that people, while they are economically active, make social insurance contributions in accordance with their earnings level or income from self-employment. It is an important vehicle of income redistribution, social cohesion and solidarity between generations including those in work and those who are not. Contributions made today finance pension payments to an earlier generation of contributors and also pay for benefits to people who are temporarily economically inactive through, for example, illness or unemployment. In return, contributors build up entitlements to receive benefits on foot of their contributions, which will be paid to them as of right, without having to undergo a means test. These benefits will be paid when they themselves experience a specified contingency (e.g. disability, unemployment, costs of dental/optical treatment) or when they reach pension age.

3. This paper reviews the financial position of the Social Insurance Fund (SIF), the impact of the main PRSI related measures introduced and announced in Budgets 2017 and 2019[1], the findings of the *Actuarial Review of the Social Insurance Fund 31 December 2015* and the implementation of the PRSI income and expenditure commitments in the Programme for a Partnership Government. It also notes that the working group on the amalgamation of USC and PRSI completed its work in 2018.

4. Finally, the paper looks at the threshold at which employees become insurable for social insurance purposes and provides costings/yields from a number of possible changes to PRSI rates.

[1] There were no PRSI changes in Budget 2018. Budget 2019 introduced a small number of technical changes for change of PRD to ASC and for PAYE Modernisation. It also raised the higher employer PRSI rate threshold to €386 to align with the increase in the national minimum wage.

Social Insurance Fund – Financial Position

5. The SIF operates on a pay-as-you-go basis, with the Exchequer acting as the residual financier of the Fund, where there is a shortfall between social insurance income in the Fund and the cost of social insurance benefits paid.

6. The SIF was established in the early 1950s and annual Exchequer contributions were the norm for over 40 years. However, no Exchequer contribution was required over the period 1997 to 2007 inclusive, as social insurance income exceeded Fund expenditure. At the end of 2007, an accumulated surplus of €3.6 billion had been built up.

7. In 2008, the current operating balance of the SIF moved into deficit and the annual deficit accelerated rapidly in 2009 (€2.5 billion) and 2010 (€2.75 billion) as the recession took hold. This meant that the accumulated surplus built up over 11 years was exhausted in less than 3 years and the SIF incurred annual deficits totaling about €9Bn over the period 2008 – 2015. These deficits were funded by transfers from the exchequer central fund.

8. The annual deficit has declined significantly since 2013 with a provisional surplus of €1,135 million recorded in 2018. The Revised Estimates for 2019 provides for an annual surplus of €1,436 million.

Table 1: SIF income and expenditure, 2013 to 2019.

	2013 outturn	**2014 outturn**	**2015 outturn**	**2016 outturn**	**2017**	**2018 outturn (provi-sional)**	**2019 REV estimate**
	€ Millions	*€ Millions*	*€ Millions*	*€ Millions*	*€ Millions*	*€ Millions*	*€ Millions*
SIF income	7,318	7,891	8,498	9,217	9,816	10,625	11,240
SIF expenditure	8,632	8,431	8,617	8,764	9,086	9,491	9,803
Surplus/ deficit	**-1,314**	**-540**	**-119**	**453**	**730**	**1,135**	**1,436**

9. In response to the funding pressures during the recession period a number of structural PRSI income measures were introduced between 2009 and 2014 which have had a positive impact on the funding of the SIF. These measures included increases in rates of some contributions, the abolition of the employee ceiling for charging PRSI, the abolition of relief from PRSI previously applied to employee pension contributions, the abolition of the employee PRSI-free allowance as well as the broadening of the base on which PRSI is charged through the abolition of exemptions.

10. Over the same period, these revenue raising measures were accompanied by expenditure reducing measures including stricter contribution conditions for

entitlement and reductions in duration of entitlement, most notably for Jobseeker's Benefit and Illness Benefit, removal of entitlement to concurrent social insurance payments, increases in pension age to 66 years[2], changes in the level of entitlement to the State Pension (Contributory) where people do not have a full contribution history, standardisation of the rates of Adoptive and Maternity Benefit and reductions in entitlements under the Treatment Benefits and Redundancy payments schemes. In addition, the rates of weekly payments paid to persons aged less than 66 years, such as Jobseeker's Benefit, were reduced in 2010 and 2011 by circa 7.9% in total. In subsequent years the focus, in line with Programme for a Partnership Government commitments has been on extending the range of benefits accessible by self-employed contributors (see further below). In addition the range of optical and dental benefits available under the Treatment Benefit scheme has been restored.

Social Insurance Contribution Rates and Benefits

11. A combined PRSI rate of 14.95% is paid in respect of most (PRSI Class A) employees (this includes a 0.9% contribution to the National Training Fund[3]). The employee PRSI charge comprises 4% payable by employees and 10.95% by their employer (there is an 8.7% employer PRSI rate where weekly earnings are under €386). Employees who pay PRSI at Class A are covered for all benefits and pensions.

12. Self-employed persons who earn €5,000 or more in a contribution year are liable for PRSI at the Class S rate of 4%, subject to a minimum payment of €500. PRSI Class S contributors are covered for the State Pension (Contributory), Widow's, Widower's or Surviving Civil Partner's Pension (Contributory), Guardian's Payment (Contributory), Maternity & Adoptive Benefits, Paternity Benefit (from September 2016), Treatment Benefits (from March 2017) and Invalidity Pension (from December 2017). This Department is in the process of developing a new Jobseeker's Benefit for the Self-Employed scheme which will be introduced in November 2019.

13. Following these changes self-employed contributors are now covered for most of the benefits available under the social insurance schemes and when granted access to Jobseeker's Benefit payments will have access to benefits representing c 93% of the value of all benefits paid by the SIF. Class S contributors are currently not covered for Illness Benefit, Carer's Benefit and Occupational Injuries Benefit. Self-employed workers may, however, access social welfare supports by establishing eligibility to assistance-based payments such as Jobseeker's Allowance.

14. The tapered PRSI Credit reduces the PRSI charge applied once employees earn between €352.01 and €424 per week, thereby eliminating the long-standing "step-effect". Prior to the introduction of the tapered PRSI Credit the employee PRSI contribution would increase from nil at earnings of €352 per week, to €14.08 at €352.01 per week. As the tapered PRSI credit ensures that employee PRSI applies progressively, future increases

[2] State pension age will further increase to 67 years from 2021 and to 68 years from 2028.
[3] The National Training Fund is administered by the Department of Education and Skills. The contribution was increased from 0.7% to 0.8% in Budget 2018 and to 0.9% in Budget 2019.

in the minimum hourly wage should not necessitate changes to employee PRSI. The threshold at which the higher employer PRSI rate is charged was increased to €386 per week to cater for the increase in the minimum wage in 2019.

15. Subject to prescribed entry criteria, the Voluntary Contributions Scheme permits individuals to submit PRSI directly to the Department in order to maintain the continuity of social insurance if they are no longer subject to compulsory PRSI arising from employment or self-employment. The contributions are reckonable for the State Pension (Contributory), Widow's, Widower's or Surviving Civil Partner's Pension (Contributory) only. Individuals admitted following self-employment are subject to a flat rate charge of €500 for a full annual complement of contributions. Those admitted following employment are subject to a charge calculated at 6.6% of their income in the year preceding application, subject to a minimum annual charge of €500, whichever is the greater.

Actuarial Review of the Social Insurance Fund

16. The Minister for Employment Affairs and Social Protection is legally required to undertake an Actuarial Review of the Social Insurance Fund every 5 years. The fourth Actuarial Review as at 31 December 2015 was published in October 2017. The key conclusions from the Review were:

(i) The Fund had a modest surplus of income over expenditure (2016 surplus of €0.4 billion on expenditure of €8.8 billion and receipts of €9.2 billion).

(ii) The surplus was projected to increase in 2017 before reducing in the period 2018 to 2019 and returning to a small shortfall in 2020. The annual shortfalls were projected to increase from 2021 onwards as the ageing of the population starts to impact.[4]

(iii) In the absence of further action to tackle the shortfall, the excess of expenditure over income of the Fund will increase significantly over the medium to long term. The modest 2020 projected annual shortfall of €0.2 billion was expected to increase to €3.3 billion in 2030 and to €22.2 billion in 2071.

(iv) Expressed as a percentage of GDP, the shortfall was projected to increase from 0.1% of GDP in 2020 to 0.9% in 2030, and 3.1% in 2055 before gradually reducing to 2.9% of GDP by 2071.

(v) In the longer term, sizeable Exchequer subventions will be required to meet ongoing expenditure requirements in the absence of reductions in expenditure levels or increases in PRSI income. It was projected that Exchequer subventions will need to increase (from nil currently) to €1.7 billion by 2025, €5.6 billion by 2035 and €11.4 billion by 2045 (representing 2.4% of GDP at that time) [4]. In the period to 2045 the accumulated deficit in the fund was projected, in present value terms, to reach over €100Bn (c €130Bn gross) increasing, as the population continues to age, to over €400Bn (c €600Bn gross) by 2071. Based on these projections the annual average level of social insurance contribution over the period to 2071 required to restore balance

[4] Given the ongoing improvements in the labour market the short term position is more positive than outlined in the Review.

to the SIF and avoid a very significant and potentially destabilising impact on the exchequer finances was estimated at c 18.5%. This compares with an average effective rate of c 10% at the time of the Review. (13% for employees and 3.7% for self-employed contributors). [4]

(vi) In the medium to long-term, pension-related expenditure was projected to continue to be the predominant component of Fund expenditure rising from 70% in 2016 to circa 80% in 2071. The population over State Pension Age (SPA) was projected to increase from 12% of the total population in 2015 to 17% in 2035 to 23% in 2055.

(vii) The pensioner support ratio was projected to decline from 4.9 workers for every individual over age 66 to 2.9 workers in 2035 and to 2.0 workers by 2055. This position will be alleviated somewhat by the increase in the SPA to 67 and 68 in 2021 and 2028 such that the support ratio improves from 2.9 workers over age 66 to 3.4 for every individual over age 68 in 2035 and from to 2.0 workers over age 66 in 2055 to 2.3 workers over age 68.

(viii) Social insurance benefits offer excellent value for money for those on the lower part of the income distribution or shorter contribution histories, and the self-employed. For those at the higher end of the income distribution, the Fund is redistributive and they generally get back less than they pay in.

17. Given the ongoing improvements in the labour market the short term position is more positive than outlined in the Review however the fundamental points remain – an aging population and extended life expectancy mean that the draw on the SIF in future years will be significantly higher than payments into it. This raises the questions as to whether the State, as residual financier, will be required to make up these deficits via transfers from general tax receipts or whether measures should be taken to increase SIF contribution income and/or reduction SIF benefits.

18. The Roadmap for Pensions Reform 2018-2023 which was published on 28 February 2018 committed to the publication of a consultation paper on an appropriate rate-setting/funding approach for the Social Insurance Fund which is now due to issue in Quarter 4 2019. The consultation paper will be informed by the findings of the Actuarial Review referenced above.

Looking Ahead - Medium to Long Term Challenges

19. The core issue of how to deal with future shortfalls in the Social Insurance Fund, without unduly penalising any particular sectors of society, involves a choice between:

i) Scheme-related expenditure measures (relating to types and levels of benefit covered, rates of payment, duration of payment and measures relating to eligibility),

ii) increases in PRSI contribution rates, and (if these first two measures are not taken, or are not sufficient to address the deficits arising)

iii) the transfer of general taxation to fund future deficits, as they arise, from general taxation revenues

20. The choice of which measures, or combination of measures, to take will depend, *inter alia*, on overall growth in the economy and its capacity to fund the benefits paid by the SIF.

21. It is arguable, for example, that while the deficits in the SIF are alarming for the SIF when it is viewed in isolation they may be capable of being funded, out of general taxation, on a pay-as-you-go basis if the economy continues to grow at long-run average growth rates and if the tax paying population is prepared to allocate a greater share of their income to support payment of SIF benefits.

22. For example the current share of GDP distributed in the form of the State Pension is estimated at c 2%. Using the Actuarial Review data this is estimated to grow to about 5% of GDP by 2071. However over this period GDP is itself forecast to more than double. In the context of overall income more than doubling it is reasonable, at one level, to assume that working age citizens of the time should be amenable to allocate an extra 3 percentage points of their income to paying for pensions of older people. However it is also to be noted that, at present, income taxes account for c 6% of GDP while overall taxes account for c 16% of GDP. Adding an additional 3 percentage points to this tax burden (equivalent to increasing income tax by 50%) may not therefore be as palatable as might be supposed even in an environment where incomes have more than doubled. It is also to be borne in mind that the attitude of future taxpayers will be informed, at least in part, by the choices made by current taxpayers and policy makers as to whether, and by how much, to resolve the funding issue by steps taken over the next number of years or by steps deferred to be taken by future generations.

23. For these reasons and given that Irish social insurance contribution rates are in general significantly lower than those charged in other countries, it is proposed that consideration be given to a phased increase in PRSI contribution rates over a 5 – 10 year period with each annual increase in the order to 0.25 - 0.5%. Such an increase would raise in the order of €200 - €400m in employee contribution revenues on a single year basis, with a similar amount being raised if employer PRSI was increased at the same level. (See Appendix 1). This increase could be aligned with any programme of reductions in USC (See Appendix 3) or could be implemented as a measure on its own account.

Extending Social Insurance Entitlements for the Self-employed

24. In line with commitments in the programme for a Partnership Government recent changes have seen a number of additional benefits extended to self-employed contributors - these include Invalidity Pension, Treatment Benefit and shortly, Jobseekers Benefit. As a consequence self-employed contributors will, in return for a contribution more than 10 percentage points lower than that made in respect of employed contributors, have access to benefits which comprise c 93% of the value of all benefits available to employed contributors.

25. This section considers what measures if any should now be taken to align the value of contributions more closely with that of benefits. In doing so it takes account of the

report of the Advisory Group on Tax and Social Welfare on Extending Social Insurance Coverage for the self-employed, a survey of self-employed contributors from 2016 and the findings of the Actuarial Review published in 2017.

26. In September 2013, the third report of the Advisory Group on Tax and Social Welfare on Extending Social Insurance Coverage for the self-employed was published.[5] The Group:

i) was not convinced that there was a need for the extension of social insurance in respect of Jobseeker's Benefit;
ii) found that extending social insurance for the self-employed was warranted in cases related to long term sickness or injuries and recommended that the rate of contribution for Class S should be increased by at least 1.5 percentage points, and
iii) concluded that "*extension on a voluntary basis, through either an "opt in" or "opt out" basis, could lead to the selection of bad risks and would undermine the social solidarity and contributory principles that underline the social insurance system*."

27. In August 2016, a survey of self-employed Class S contributors was conducted to understand how the pay-related social insurance (PRSI) system is perceived by individual self-employed workers. The people surveyed were a representative random sample of all those people who depended on Class S PRSI for their social insurance contributions in 2014. Over 20,000 surveys were issued to self-employed people in August 2016 and nearly 3,200 responses were received.

28. The main findings of the survey were:

i. Respondents rated cover for long-term illness, short-term illness and unemployment as the most important extra benefits to them. 82% ranked long-term illness in their top three of preferred additional benefits.
ii. The current headline rate of PRSI for self-employed people is 4%. An overwhelming majority of respondents – 88% – said they would be willing to pay a higher headline rate of PRSI in return for at least one additional social insurance benefit. The average increase acceptable was 6%.
iii. A smaller majority – 74% – would welcome an option to keep paying the current headline PRSI rate but also pay additional voluntary contributions in return for extra benefit coverage.
iv. Respondents reported low levels of coverage from private insurance, such as income continuance cover. Just 28% are covered for long-term illness and only 2% for unemployment.
v. Respondents were dissatisfied with the range of social insurance benefits available to them. Over 80% of respondents rated both the range of benefits and the value for money as 'poor' or 'very poor' (the survey pre-dates the changes announced in Budget 2017).

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[5] http://www.welfare.ie/en/downloads/Third-Report-Extending-Social-Insurance-Coverage-for-the-Self-Employed.pdf

29. The 2017 Actuarial Review examined the additional PRSI expenditure that would be incurred from the extension of invalidity pension and illness, jobseeker's and carer's benefits to Class S self-employed workers and the PRSI contribution rates required to provide these benefits on a revenue neutral basis.

30. The review estimated the combined cost of introducing the invalidity, illness, jobseeker's and carer's benefits for PRSI Class S contributions to be €118 million in 2018, rising steadily to €223 million in 2020. By 2025 the projected cost is €413 million and, over the period of the review, the cost would rise to €1.3 billion in 2071.

31. The review indicates that, where these benefits are extended to the self-employed, the Class S rate of PRSI contribution would need to increase substantially in order to ensure that these and existing benefits are delivered in a revenue neutral manner. It estimates that the effective required contribution rate for SPC, Illness and Invalidity Benefits is of the order of 18.4% across all contributors compared to an effective rate of 13% among employed contributors and 3.7% among self-employed contributors. The required rate to fund the SPC alone is estimated at 15.5%. Even if the contribution deficit in respect of existing benefits is left unaddressed this data indicates that the contribution rate required from self-employed people to fund the expansion of benefits would be 3.5%, increasing the effective contribution rate to 7.2%.

32. This increased contribution is attributable to the costs of extending these additional benefits to PRSI Class S contributors. It does not take account of the value to PRSI Class S contributors of access to the range of existing benefits, and in particular State Pension (Contributory). The actuaries estimated that the typical cost of State Pension (Contributory) on its own is of the order of 15.5%. Adding in the other benefits referenced the total Class S rate of contribution to ensure revenue neutrality would be of the order of 20% per annum.

33. All of the measures for the self-employed announced in Budget 2017 (extension of Treatment Benefit from March 2017 and the extension of Invalidity Pension from December 2017) were introduced without any increase in the rate of PRSI contribution paid by self-employed workers. As a consequence self-employed workers will, when Jobseekers Benefit is extended to them later this year, have access to c 93%, in value terms, of the benefits paid by the SIF while making an effective contribution of 3.7% of earnings. At 3.7% the effective rate of social insurance paid in respect of self-employed people is c 28% of that paid in respect of other workers (effective rate of 13%) and just 24% of that required to cover pension entitlements alone (15.5%). [6]

34. Given the findings of the Advisory Group on Tax and Social Welfare, the views expressed in the survey of self-employed contributors and the costs estimated in the Actuarial Review it is now proposed that consideration be given to adjusting the level of social

[6] Table 11.10(a) of the Actuarial Review of the Social Insurance Fund. September 2017.

insurance contributions for self-employed workers. In this regard cognisance is also taken of the Report of the *Review Group on the use of intermediary-type structures and self-employment arrangements: Implications for Social Insurance and Tax Revenues* published in 2017. (This report found that the large differential in PRSI rates as between self-employment and employment is the major factor incentivising misclassification of employees as self-employed).

35. A number of suggestions are put forward.

    a. Changing the basis for the self-employed rate from that of employee to that of employer. The basis for charging a lower rate for self-employed workers is that it would be unfair to charge them both an employer and an employee contribution simply because they perform both roles. However, even if this is accepted, it raises the question as to the basis for assessment – that of employee (as at present) or that of employer? Given the extension of benefits, the willingness of self-employed people to pay an additional contribution and the findings of the report on the use of intermediary-type structures and self-employment arrangements it is believed that consideration should be given to charging self-employed people the employer rate of PRSI. Although this could be introduced on a phased basis (at say 1% p.a.) it would, when completed, yield an estimated annual increase in revenues of about between €600m (at the 8.7% rate) and €800m (at the 10.95% rate) depending on the number of self-employed people who declare income above the 8.7% employer threshold.

    b. It is also suggested that the current minimum self-employed contribution be increased from €500 to €3,500 per annum over the next three years. This is calculated at 8.7% (the lower of the two employer rates) of average earnings in 2018. The initial increase could be to €1,500 or about 4.4% of the average industrial wage with subsequent increases to €2,500 and €3,500 in 2021 and 2022 respectively. Our projections show that the first €1,000 increase in the minimum payment will generate about €146m in revenues.

    c. In parallel with any increase in the underlying contribution rates it is proposed that the final social insurance benefits – Illness Benefit and Carer's Benefit not currently available to self-employed contributors be extended to them. The Actuarial Review estimated that this would give rise to an annual cost of about €80m. Accordingly the timing of any such extension of benefits would need to be synchronized with the first increase of about 1.0% in self-employed PRSI.

Employee Social Insurance Cover – Entry Threshold

36. Ireland provides access to valuable employee social insurance entitlements to workers with negligible attachment to the workforce. Once weekly earnings exceed €38, the worker has access to the full range of long and short term social insurance benefits. Based on the national minimum hourly rate of pay for employees of €9.80, an employee earning €38 per week now only has to work just less than four hours per

week, for access to all benefits. These thresholds have not been increased since 1991. CPI has increased by c 68% in the same period. Earnings have increased by c. 67% in the same period. (Average earnings have increased by c. 133%.)

37. This access provides employees with entitlement to benefits which may be disproportionate to their income when in employment:

    i. Over their working life employees on very low earnings levels can establish entitlement to the maximum State Pension (Contributory) rate of €248.30 per week.
    ii. The minimum weekly personal rate of short-term benefits is €91.10 (i.e. Illness Benefit) are payable on weekly earnings between €38 and €150.

38. Consideration could be given to increasing and then indexing the earnings threshold to a level equivalent to a minimum of one and a half days' work per week (12 hours). At the current national minimum wage this would amount to c €118 per week or €6,136 per annum if working continually over a 52 week period. It is suggested that the income threshold of €6,136 be applied to self-employed people.

39. Increasing the entry threshold from €38 to €118 would represent a saving for employers who would no longer pay PRSI at 8.7% for those earning between €38 and €118. There would be an initial slight reduction in income to the SIF. This would in time be offset by savings on short-term schemes as those earning below the new threshold could not establish entitlement to these benefits. They would continue to have access to social assistance schemes.

40. In addition, consideration could be given to increasing the threshold of €386 per week at which employer PRSI increases to 10.95% (from 8.7%) to take account of any further increase in the national minimum wage – At present once an employee's earnings exceed this threshold amount employers are required to pay the higher rate of PRSI on all reckonable earnings not just the amount over the threshold. This can act as a disincentive to increase earnings/working hours. Increasing the threshold in line with increases in the national minimum wage should be revenue neutral or at worst have a small impact on SIF revenues.

PRSI Rate Increases

41. Provisional estimates of the yield for increases in the rates of employer, employee PRSI and in the PRSI rate paid by the self-employed are provided at Appendix 1.

42. There is no difference in the coverage afforded to voluntary contributors be they admitted to the scheme as formerly employed or as formerly self-employed contributors. Consideration of a standard flat rate charge for all voluntary contributors would appear merited, as would an increase in annual charges. See Appendix 2 for

estimates of yield for charge increases and the impact on the break-even point, if increases were introduced.

43. The TSG is invited to discuss this document.

Department of Employment Affairs and Social Protection

July 2019

Appendix 1

Provisional Estimates

Yields - Increases in PRSI Rates
June 2019

The following are provisional estimates for a 0.5% increase in the rates of PRSI:

Rate	Full Year Yield	Gainers/(Losers)
Employer PRSI (Class A) Increase in Lower 7.8%[7] rate to 8.3%	€21.56m	(820,100)*
Employer PRSI (Class A) Increase in Higher 10.05% rate to 10.55%	€374.3m	(2,174,300)*
Employee PRSI (Class A) Increase in 4% rate to 4.5%	€376.9m	(2,224,200)
Self –Employed PRSI (Class S) Increase in 4% rate to 4.5%	€68.2m	(310,600)

*Refers to employments

Increasing the entry threshold for Class A PRSI from €38 to €118:

Full Year Cost	Gainers/(Losers)
€20.9m	208,100*

*Refers to employments

Increasing the minimum payment for Class S PRSI from €500 to €1,500:

Full Year Yield	Gainers/(Losers)
€146.0m	(200,000)

[7] The Class A employer PRSI rates of 8.7% and 10.95% include 0.9% in respect of the National Training Fund Levy.

A new 0.5% employee rate for those with weekly earnings between €118 and €352 would yield:

Rate	Full Year Yield	Gainers/(Losers)
0.5%	€17.6m	(660,600)

Appendix 2

Provisional Estimates
Current position – Voluntary Contributors

As outlined in paragraph 14 above:

Formerly	Voluntary classification	* Contributor Numbers	Full year yield	Average contribution
Employed	High Rate	660	€0.43m	€ 650
Self-Employed	Special Rate	2041	€1.02m	€ 500

*** Last complete recorded year 2017**

Yields - Increases in Voluntary Contribution rates and associated break-even points

Voluntary classification	Proposed annual flat rate	Full year yield	Gainers/(Losers)	[1] Break-even point at average charge
High Rate	Both no change	€1.45m	No change	2.0 years
Special Rate				1.5 years
High Rate	Standardised at € 750	€2.02m	(2,700)	2.3 years
Special Rate				
High Rate	Standardised at € 1,000	€2.70m	(2,700)	3.1 years
Special Rate				
High Rate	Standardised at € 1,500	€4.20m	(2,700)	4.7 years
Special Rate				

[1] ***Assumptions*** *– Current weekly maximum State Pension Contributory rate is € 248.30.*

Break-even point is a measure of how long a voluntary contributor must be in receipt of a contributory pension, before pension benefit surpasses the cost of voluntary contributions.

Appendix 3

Restructuring of Personal Taxation

The Programme for a Partnership Government committed to reducing the burden of high personal tax rates. *"To make Ireland's personal taxation system more competitive, we will ask the Oireachtas to continue to phase out the USC as part of a wider medium-term income tax reform plan…………………..that keeps the tax base broad, reduces excessive tax rates for middle income earners, and limits the benefits for high earners. Reductions will be introduced on a fair basis with an emphasis on low and middle income earners."*

PRSI contributions (c. €10.6bn in 2018) are one of three statutory deductions from earnings/income – income tax (c €17.5bn in 2018) and the Universal Social Charge (USC) (c €3.7bn in 2018) being the other two elements. Any consideration of changes to the rates and structure of the USC, in particular, might have regard to PRSI rates and structures generally and the necessity to put the SIF in a better position to face the financing pressures in the years ahead arising from demographic factors and improved benefits committed to in the Programme for a Partnership Government (See paragraph 15 (v) above).

In this regard it is worth noting that the proportion of labour costs/income paid in social insurance contributions in Ireland is amongst the lowest in the OECD. There is therefore scope to increase PRSI rates to help fund pension and other benefits without unduly damaging labour competitiveness. The timing of any such increase could be synchronised with the proposed reductions in USC rates to help mitigate the impact on the disposable earnings of individuals and consumption generally. USC and PRSI are broadly charged on the same income base but some differences do exist. The yield from any increases in PRSI would, unless adjustments are made, be less than the equivalent USC yield because -

i. USC is charged regardless of age whereas PRSI is not charged for those over pension age;
ii. USC has a wider income base e.g. it applies to occupational pensions, and
iii. USC is charged on an annual cumulative basis, whereas PRSI is charged on a "week one" basis (i.e. the PRSI charge only applies where the weekly thresholds are exceeded without regard to cumulative annual income).

An interdepartmental working group to examine the integration of the USC and PRSI charges was established by the Minister for Finance in February 2018. The working group was chaired by the Department of Finance and included representatives from the Departments of the Taoiseach, Public Expenditure & Reform, and Employment Affairs & Social Protection and from the Office of the Revenue Commissioners.

The terms of reference of the working group were to examine and present options for the amalgamation of PRSI and USC in a manner which seeks to address, inter alia:

I. the need to preserve the tax base having regard to the need for certainty, equity, and ease of compliance and administration,
II. current and future funding challenges facing the Social Insurance Fund,

III. issues likely to arise from a phased implementation over a number of years of the new instrument,
IV. simplification of the personal tax and social insurance systems, and
V. any other relevant matters arising.

The working group has concluded its work and the report is currently with the Department of Finance.