An Roinn Coimirce Sóisialaí
Department of Social Protection

Tax Strategy Group Social Protection Budget Package – Budget 2022 Issues

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Social Protection Package – Budget 2022 Issues

Introduction

The importance of Social Protection in providing support to Irish society was brought sharply into focus in its response to the onset of the Pandemic Crisis in March 2020. As part of the Government response in immediately launching a significant fiscal stimulus package to support the Irish economy and workers who had lost employment, the Pandemic Unemployment Payment (PUP) was introduced. In addition, funding for the payment by Revenue of wage subsidies to employers was directed through the Social Protection Vote.

In its paper comparing the Global Financial Crisis in the 2000s with the ongoing Covid pandemic crisis, ESRI analysis indicates that the scale of the negative economic shock is much more severe during the COVID-19 induced crisis.[1] In its June 2021 report, the ESRI acknowledges that the widespread job losses induced by the COVID-19 pandemic have had a substantial negative impact on household income in Ireland. It comments that the income losses experienced by families would have been even more severe were it not for pre-existing income support systems such as unemployment benefits and two new pandemic-related measures - the Pandemic Unemployment Payment (PUP) and the Employment Wage Subsidy Scheme (EWSS).[2]

In May 2020, over 600,000 people were in receipt of PUP. This was in addition to nearly 1.4 million persons in receipt of standard social welfare payments in respect of just under 2 million beneficiaries. As restrictions were gradually eased, the numbers on PUP dropped to a low of over 200,000 in October 2020, before peaking again in February 2021 when almost 482,000 people were availing of the PUP. Weekly expenditure on PUP was at its highest in the first week of May 2020, at just under €211 million. The weekly cost of PUP went below €100m per week in early June 2021 and, at end of August 2021, numbers receiving PUP fell below 150,000 for the first time since the commencement of the scheme. This reflects the continued re-opening of the economy and the accelerated roll-out of vaccinations and follows

[1] ESRI (2020) Comparing two recessions in Ireland: Global Financial Crisis vs COVID-19 (https://www.esri.ie/system/files/publications/RN20200401.pdf)

[2] ESRI (2021) Budget Perspectives 2022: Covid-19 and the Irish Welfare System (https://www.esri.ie/system/files/publications/BP202202.pdf)

the closure of the scheme to new entrants in early July 2021. PUP weekly payments at the end of August 2021 cost €44 million per week.

In terms of the overall numbers of those who have continued to be supported by the Social Protection system at end July 2021, of the almost 1.4 million persons in receipt of a standard weekly social welfare payment (excluding the PUP), 679,000 were in receipt of a pension payment and 284,000 were in receipt of working age income or employment supports. Some 213,000 received a disability allowance or an invalidity pension and 94,000 were in receipt of Carer's Allowance or Benefit. A further 632,000 families received a monthly child benefit payment in respect of 1.2 million children.

In addition, at the end of July 2021 there were over 349,000[3] workers whose employers were benefitting from the Employment Wage Subsidy Scheme (EWSS). Taken as a whole, these numbers provide a comprehensive picture of how the payments and services operated by, or funded through, the Department of Social Protection (DSP), impact, either directly or indirectly, on the lives of most people in the State.

This paper begins by examining the general role of social transfers. Trends in poverty rates are briefly discussed, followed by an analysis of newly emerging trends in the labour market.

The paper presents overall DSP expenditure by its various programmes. Budget 2022 is also discussed in the context of commitments in the Programme for Government – Our Shared Future.

The paper concludes with presenting a range of illustrative welfare Budget measures and provides, in Appendix 1, the distributive and poverty impact of some of these measures, in order to demonstrate the social impact of welfare budgetary policy.

Role of Social Transfers

1. It is widely acknowledged that Social transfers play a pivotal role in alleviating poverty. They provide a valuable benefit to young families and older people and, in addition, cushion people from the worst effects of reductions in income due to life contingencies such as unemployment, old age, illness or disability.

2. The role of social transfers has been particularly highlighted throughout the pandemic, where the exceptional deployment of transfers to meet the sudden loss of employment

[3] Revenue data as of 28th July 2021

income experienced by workers when most sectors of the economy closed served to address the immediate income needs of those workers. In commenting on the extent to which pre-existing income support systems such as unemployment benefits and PUP and EWSS mitigated ameliorated the income losses experienced by families the ESRI[4] found that, in the absence of the PUP and EWSS, household income would have dropped by an average of 7% during the pandemic. The introduction of these two payments more than halved the average income loss to 3%.

3. Welfare payments are also essential in supporting well-being and reducing inequalities through the redistribution of income, therefore helping to promote social cohesion. In addition to income adequacy, social transfers are critical to the social determinants of health[5], crime prevention and access to education.

4. Social protection expenditure contributes, directly and indirectly, to the wider economy. People in receipt of welfare payments usually spend most, if not all, of their payments each week, thereby adding to domestic and local employment and economic activity.

5. Throughout the last number of years, social transfers performed strongly in reducing the at-risk-of- poverty rate. In 2019, social transfers (excluding pensions) reduced the at-risk of poverty rate from 30.6% to 12.8% or 17.8 percentage points in absolute terms. This represents a poverty reduction effect of 58.2%[6]. The impact of social transfers in reducing poverty is one of the highest in the EU. This reflects the progressive and targeted nature of social transfers. Other research undertaken[7] suggests that the level of service provision has a significant impact on the expenditure needs of people on low incomes.

6. Social transfers also provide support across the life-course, from helping to protect children from the risks of inter-generational poverty and disadvantage, to ensuring an adequate standard of living across all life-cycle groups.

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[4] ESRI (2021), Budget Perspectives 2022 Paper 2, Covid-19 and the Irish Social Welfare system (https://www.esri.ie/system/files/publications/BP202202.pdf)

[5] See, for example: http://www.euro.who.int/en/health-topics/health-policy/health-2020-the-european-policy- for-health-and-well-being/publications/2013/review-of-social-determinants-and-the-health-divide-in-the-who-european-region.-final-report

[6] The reduction including pensions was from 41.4% (before social transfers) to 12.8% (after social transfers), a 'poverty reduction effect' of 68.5%.

[7] Vincentian Partnership for Social Justice (2020), *Minimum Essential Standard of Living 2020 Update Report* (https://www.budgeting.ie/publications/mesl-2020/)

Poverty Trends

7. Poverty trends emerging from the pandemic crisis will not be immediately evident. The results of CSO's Survey on Income and Living Conditions (SILC) for 2020 on which poverty trend analysis is based, will not be available until the end of this year. In addition it is likely that the impact on incomes of temporary lay-offs during the pandemic, the extent of which differed by sector and occupation, may make the interpretation of these results more difficult than would normally be the case.

8. In the meantime, the latest survey results reflecting 2018/2019 incomes show that pre-pandemic crisis poverty indicators had begun to stabilise and improve following a deterioration during the Financial Crisis in 2009/2010 which peaked in 2013/2014. These results highlight the effect of a crisis on poverty trends and suggest how scarce resources could be directed in supporting the most vulnerable during, and when recovering from, a crisis.

    i. The at-risk-of-poverty rate was 14% as reported in SILC 2018, reducing to 12.8% in SILC 2019. Changes in the at-risk-of-poverty rate in the 2019 SILC reflect different dynamics: (a) the rise in the 60% median income threshold as household incomes have increased with the emerging economic recovery; and, (b) the cushioning effect (poverty reduction effectiveness) of social transfers, in reducing pre-social transfer at-risk-of-poverty rates.

    ii. Consistent poverty, the indicator used to set the national social target for poverty reduction, fell to a low of 4.2% in the 2008 SILC, before rising to a high of 9% in SILC 2013. Having fallen steadily since 2014, the consistent poverty rate was 5.5% in 2019.

9. The impact of poverty varies across different groups. While the consistent poverty rate for the population as a whole was 5.5% in 2019, the groups with the highest rates of consistent poverty were individuals who were unemployed (20.2%) and those who were not at work due to illness or disability (18.1%). Those in employment, older people, and people living in owner-occupier housing had the lowest consistent poverty rates. In terms of household composition, individuals in households where there was one adult and one or more children under 18 years of age, had the highest consistent poverty rate (17.1%). Consistent poverty was lowest (1%) for individuals in households with two adults where at least one was 65 years of age or older and where there were no children present.

Labour Market Trends

10. The CSO's Covid-19 Adjusted Monthly Unemployment Estimates stood at 13.5% in July 2021, down from 25% in January 2021. In the case of younger workers (i.e. those aged 15-24 years), the equivalent rates were 44.2% and 58.8%, respectively. This measure of youth unemployment needs to be interpreted carefully as access to the Pandemic Unemployment Payment, upon which the Covid-19 adjusted measure is based, was extended to young people who were, prior to the pandemic, in full time education but who may have had a part-time job. Accordingly, many of the young people captured in this measure will return to education as colleges and universities re-open. It is expected that this will lead to a significant reduction in reported youth unemployment.

11. The Summer Economic Statement[8] predicts that the ongoing success of the vaccination programme means that a widespread and sustainable re-opening of some of the sectors most effected by the pandemic related lockdowns, is now in prospect. The re-opening of these labour-intensive sectors should support a strong recovery in employment, with the unemployment rate (Covid-19 Adjusted) expected to fall to 11 per cent by the fourth quarter of the year, and then to an average of 8.2 per cent in 2022 and 6.7 per cent in 2023.

12. The recently published Economic Recovery Plan (ERP)[9] set out the Government's intention to build on the progress made so far in reopening the economy, by providing new supports and investment, and designing policies to promote the next stage of recovery and renewal. Alongside the publication of the ERP, the Government also committed to supporting the recovery by extending the Pandemic Unemployment Payment (PUP) and the Employment Wage Subsidy Scheme (EWSS), along with enhanced illness benefit and the Covid Restrictions Support Scheme (CRSS).

13. The strategic approach outlined in the ERP is operationalised in the Government's new Pathways to Work 2021-2025 (PtW). PtW focuses on helping people, including young people, back into employment, training and education. In doing so, it aims to minimise the long-term scarring effects of the pandemic on the labour force for those whose jobs are permanently lost.

14. Pathways to Work 2021-2025 sets out 83 commitments to work towards the ambition of restoring unemployment back to or below its pre-pandemic levels of 2019. In addition, a separate youth unemployment rate target is also set. These initiatives include a range of employment and training supports, including:
    - Delivering an additional 50,000 further education and training places.

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[8] Summer Economic State 2021 (https://assets.gov.ie/162708/84814361-3925-44b9-8775-9a728a6a6a0a.pdf)
[9] Economic Recovery Plan 2021 (https://assets.gov.ie/136523/03f31f12-10eb-4912-86b2-5b9af6aed667.pdf)

- Delivering a new quality paid Work Placement Experience Programme to benefit 10,000 jobseekers by end-2022.
- Providing an extra 3,000 places on State Employment Schemes.
- Increasing funding for Back to Education and Back to Work Enterprise Allowance Schemes.
- Expanding the caseload capacity of the Public Employment Service by increasing the number of Department of Social Protection Case Officers by 50%.

15. PtW and the ERP envisage that employment will exceed pre-crisis employment levels, with 2.5 million people in work by 2024.

Social Protection Budgets 2015 - 2020

16. While core social welfare rates were largely protected, Budgets 2009 to 2014 included a number of cost saving measures that contributed to the fiscal consolidation effort over the Financial Crisis in 2009/2010.

17. Budget 2015, for the first time in a number of years, provided scope to make some improvements for welfare recipients. That Budget reinstated a partial Christmas Bonus (25%), introduced the Back to Work Family Dividend scheme, increased the Living Alone Allowance and Child Benefit payments, but did not include increases in the weekly rates of payment.

18. Budget 2016 included a €3 weekly rate increase for pensioners, and increases in Child Benefit, the Carer's Support Grant and Fuel Allowance as well as the introduction of a new Paternity Benefit scheme. The Christmas Bonus was increased to 75% in December 2015.

19. Budget 2017 introduced the first general increase in weekly rates of payment since 2009 with a €5 increase in the weekly rate of all social welfare payments and proportionate increases for qualified adults and those on reduced rates of payment. Budget 2017 also introduced a number of measures improving the social insurance coverage of the self-employed by providing access to Invalidity Pension and Treatment Benefits. Other Budget measures included improvements for lone parents and farmers, and new pre-activation supports for people with disabilities. The Christmas Bonus was increased to 85% in December 2016.

20. Budget 2018 continued the improvements in weekly rates of payment. A further €5 increase was introduced in the weekly rate of all pension and working age payments, with proportionate increases for qualified adults and those on reduced rates of payment. A

particular effort was made to address the issue of child poverty through targeted increases. Budget 2018 also provided for an increase in the weekly qualified child payments, an increase in income thresholds for the Working Family Payment, improvements for lone parent families, the introduction of a Telephone Support Allowance and the announcement of a new Youth Employment Support Scheme.

21. Budget 2019 continued the trend of improving weekly rates of payment with some targeted measures for child supports. A further €5 increase was introduced in the weekly rate of all pension and working age payments, with proportionate increases for qualified adults and those on reduced rates of payment. Budget 2019 also saw another increase in qualified child payments and a change to the structure of those payments. An increase of €2.20 for children under 12 was provided and an increase of €5.20 for children aged 12 and over. Improvements for working families included a further increase in the earnings disregard for lone parents in receipt of One-Parent Family Payment and Jobseeker's Transitional Payment, as well as the introduction of a housing cost disregard on maintenance payments for recipients of the Working Family Payment. Budget 2019 also saw the introduction of new social insurance schemes – Parental Benefit and Jobseeker's Benefit Self-Employed scheme (JBSE). Parental Benefit provides for two paid weeks of parental leave, while the key objective of the JBSE scheme is to provide support to self-employed contributors who are no longer engaged in self-employment.

22. Budget 2020 took a more targeted approach, focusing on the most vulnerable, with continued improvements in the Qualified Child Payment - an increase of €2 for children aged under 12 and €3 for children aged 12 and over. The Working Family Payment income thresholds were increased by €10 per week for families with up to three children. Budget 2020 also saw a €15 increase in the income disregard for One-Parent Family Payment (OFP) and Jobseeker's Transition payment (JST), from €150 to €165 per week. The Living Alone Allowance, paid to those aged over 66 and living alone, was increased by €5 from €9 to €14. The Allowance is also paid to people who are less than 66 years of age, living alone and in receipt of disability allowance, invalidity pension, incapacity supplement or blind pension. A disregard for the Blind Welfare Allowance in the assessment of means for social assistance payments was also introduced. Eligibility for the Household Benefit Package was broadened by amending current household composition criteria to reflect the bill-payer and, if applicable, their spouse/civil partner/cohabitant only. This measure aimed to support vulnerable multi-generational households at a time of high housing costs.

Budget 2021

23. As part of Budget 2021, it was announced that the planned increase to the State Pension age would be deferred. The pension age had been due to increase to from 66 to 67 with effect from January 2021. The deferral of the increase was in keeping with the commitment to do so set out in the Programme for Government.

24. Budget 2021 continued the approach of the previous Budget with a series of targeted measures that focused on the most vulnerable in our society. The Qualified Child Payment was increased by €2 for children aged under 12 and €5 for children aged 12 and over.

25. The Living Alone Allowance was increased by a further €5 per week for over 160,000 pensioners, widows and widowers and over 40,000 people with disabilities. This measure increased the payment from €14 to €19 per week.

26. The allowance for Living on a Specified Island was increased by €7.30, raising the payment from €12.70 to €20 per week.

27. The earnings disregard for Disability Allowance was increased by €20 from €120 to €140 per week (from June 2021).

28. The rate of Fuel Allowance was increased by €3.50. This increased raised the payment from €24.50 to €28 per week for over 375,000 households. This measure aims to offset the increase in Carbon Tax for low income households.

29. The income thresholds for the Working Family Payment were raised by a further €10 for families with up to 3 children, while the €425 earnings threshold for One Parent Family payment was removed.

30. Parent's Benefit was extended to provide an extra 3 weeks of paid leave for parents of children born/adopted since 1st November 2019. Parents can now avail of the scheme for 5 weeks.

31. Additional funding was allocated to provide for the continued roll out of the new Hot School Meals programme that delivers hot meals instead of cold lunches to up to 35,000 children.

32. The Widowed or Surviving Civil Partner Grant was increased by €2,000, from €6,000 to €8,000.

33. The Carer's Support Grant was increased by €150, from €1700 to €1850 per year.

34. The number of waiting days for Illness Benefit were reduced from six to three days (from March 2021).

35. The conditions of the Hearing Aid Benefit scheme were changed to provide a flat rate grant of up to €500.

DSP Expenditure in 2021

36. The original Revised Estimates Volume (REV) for 2021 published in December 2020 provided for expenditure of €25.13 billion for the Department of Social Protection in 2021. These estimates reflected Government decisions up to and including Budget 2021 in October 2020, including the public health restrictions in place and envisaged for the months ahead, the closure of the Pandemic Unemployment Payment to new entrants at the end of 2020 and the cessation of the Employment Wage Subsidy Scheme, the Pandemic Unemployment Payment and Covid-19 Illness Benefit at the end of Quarter 1, 2021.

37. The 2021 Further Revised Estimate (FREV) was approved by the Dáil on 16th June 2021, and provides an allocation of €29.14 billion, an increase of €4 billion on the 2021 REV estimate published in December 2020. It reflects Government Decisions to extend PUP, EWSS and Covid Illness Benefit to end June 2021 and exits from PUP to jobseekers after June 2021.

Table 1: Total Department Spend by Programme 2017 - 2021

	2017 Outturn	2018 Outturn	2019 Outturn	2020 Outturn (Provisional)	2021 FREV
	€'m	€'m	€'m	€'m	€'m
Administration	618	637	639	635	699
Pensions	7,387	7,758	8,215	8,480	8,826
Working Age Income Supports	3,598	3,422	3,259	8,357	7,883
Working Age Employment Supports	874	792	712	4,717	3,291
Illness, Disability and Carers	4,009	4,254	4,506	4,769	4,905
Children	2,621	2,631	2,636	2,630	2,659
Supplementary Payments, Miscellaneous Services and agencies	836	816	787	867.463	878
Total expenditure	**19,942**	**20,310**	**20,754**	**30,456**	**29,140**

Government Priorities

38. The Programme for Government – Our Shared Future - provides a number of commitments relevant to the Department of Social Protection.

39. The Programme contains a commitment to "protect core weekly social welfare rates". A five euro increase to weekly social welfare payments is discussed in the Budget options below.

40. The Roadmap for Social Inclusion sets a goal of protecting the incomes of older people through the delivery of the commitment to benchmark State Pension payments. This is also explored in the options below.

41. The importance of ancillary benefits, which are paid in addition to the main weekly social welfare payments, is recognised in the Programme for Government. This paper discusses

options for potential increases to the Qualified Child payment (IQC), which is paid to social welfare recipients in respect of their dependent children.

42. The Programme for Government also commits to ensuring that planned increases to the Carbon tax are progressive, and fuel poverty is prevented by targeting additional resources at the most vulnerable through the social welfare system. This paper discusses a further increase to the Fuel Allowance.

43. This paper also explores increasing the thresholds for assessment of capital (savings, property, investments, etc.) across all social assistance payments.

44. The Programme commitment to extend paid parental leave for parents, to allow them to spend more time with their baby during its first year, mirrors the commitment in the Roadmap for Social Inclusion, for an additional 7 weeks paid parental leave to bring Ireland in line with other EU member states and meet the requirements of on work-life balance for parents and Carers Directive.

Social Impact Assessments

45. In recent years, the Department's Social Protection Package - Budget Issues[10] papers to the Tax Strategy Group contained analysis of the distributive impact of a range of illustrative social protection budget measures.

46. The Programme for Government commits to develop a "*set of well-being indices to create a well-rounded, holistic view of how our society is faring*". This section lists a range of illustrative welfare Budget measures and provides, in Appendix 1, the distributive and poverty impact of these measures, in order to better inform understanding of the social impact of budgetary policy.[11]

47. Welfare improvements, in general, are progressive and benefit those in the bottom half of the income distribution most, given that welfare income forms a greater proportion of the total incomes of these groups. However, as demonstrated in the analysis included in this document, the impact of individual welfare measures varies, with some having little impact on the bottom quintile while other measures have a broader impact across all income groups. Changes to direct taxation only impact those who pay tax and may have

[10] https://www.gov.ie/en/publication/fdd38-budget-2021-tsg-papers/

[11] The Department has produced post Budget integrated social impact assessments of the main tax and social welfare measures for Budgets 2013 to 2021 inclusive, using the ESRI SWITCH model.

little impact on households in the bottom half of the income distribution (although the impact varies depending on the measures chosen).

Review of Potential Budget Measures

A. €5 weekly rate increase for <u>working age social welfare recipients,</u> with and without a proportionate increase for qualified adults

48. Weekly rates for working age social welfare recipients have not been increased since March 2019. Budgets 2020 and 2021 provided increases to payments in respect of qualified children, along with increases to the earnings disregards for the One Parent Family and Jobseekers Transitional Payments, as well as increases to the Working Family Payment earnings thresholds for families with up to three children. The aim of these measures was to target resources at those who need them most, with research consistently showing that households with children are at greater risk of poverty.

    Some working age social welfare recipients, however, have seen no increase in the rate of their payment since March 2019, albeit that consumer prices have increased modestly (by 1.6 per cent) in that time[12].

49. Based on research undertaken by the Vincentian Partnership for Social Justice on the Minimum Essential Standard Living[13] (MESL) rates and payments, consideration could be given to increasing personal rates of payment without increasing those for dependent adults. The research also highlights the higher risk of poverty for those living on their own and points to the importance of the Living Alone Allowance in addressing this. Consideration could therefore be given to directing resources towards increasing the Living Alone Allowance as an alternative to providing proportionate increases for dependant adults.

50. The estimated full year cost of:

    (i) a €5 increase for all working age recipients, <u>with</u> proportionate increases for qualified adults and those on reduced rates of payment, is **<u>€217 million</u>**;

    (ii) a €5 increase for all working age recipients for the personal rate only (i.e. <u>without</u> proportionate increases for qualified adults), would cost **<u>€203 million</u>**;

    (iii) an increase of €2.50 per week in the Living Alone Allowance is **<u>€5.5 million.</u>**

[12] CSO consumer price index June 2021

[13] The MESL research examines data on various household types, including the different costs that arise for households in rural and urban locations. In that way, it complements data produced from other analyses such as the Survey on Income and Living Conditions produced by the Central Statistics Office

A €5 per week increase in the personal rate would represent an increase of nearly 2.5% for recipients of most working age payments.

B. €5 weekly rate increase for pensioners, with and without a proportionate increase for qualified adults

51. As with working age payments, weekly social welfare rates for pensioners have not been increased since March 2019. In the context of limited resources, Budgets 2020 and 2021 took a more targeted approach to ensure that available resources were used as efficiently as possible and targeted at the most vulnerable.

52. Over the last two years, the Living Alone Allowance has been increased by €10, while the Fuel Allowance has been increased by €5.50. These increases sought to ensure that, in the absence of more general rate increases, resources were targeted towards the most vulnerable pensioners. In line with MESL research, consideration could be given to increasing the Living Alone Allowance for pensioners as an alternative to increasing dependent adult rates, when increasing the personal rate of payment.

53. The estimated full year cost of:
    (i) a €5 increase for all pensioners, with proportionate increases for qualified adults and those on reduced rates of payment, is **€175 million**;
    (ii) a €5 increase for all pensions for the personal rate only (i.e. without proportionate increases for qualified adults), would cost **€160 million**;
    (iii) an increase of €2.50 per week in the Living Alone Allowance for pensioners is **€23.5 million.**

In the context that consumer prices have increased modestly (by 1.6 per cent) since March 2019 this represents an increase of over 2%. [12]

C. Pensions Benchmarking

54. The current system of setting welfare rates and, in particular, pension rates of payment, has traditionally favoured the provision of a single flat rate increase, without reference to the relative value of that increase. The process provides no assurance as to the real or relative value of future pension payments meaning that neither those at work, nor those in receipt of a pension, can make decisions with respect to other personal savings or expenditure confident in the knowledge that the value of the State pension will be protected.

55. Nearly every other OECD country has developed and implemented a system of benchmarking rates of pension payments. Ireland is one of the few countries that do not operate such a system and there have, accordingly, been calls for many years to benchmark the rate of state pension payments to average earnings.

56. A number of reports have recommended a benchmark rate of 34% of earnings for this purpose.

(i) The Roadmap for Pensions Reform (2018) committed that the Government would examine and develop proposals to set a formal benchmark target of 34% of average earnings for State Pension Contributory payments; and institute a process whereby future changes in pension rates of payment are explicitly linked to changes in consumer prices and average wages.

(ii) Most recently, the Roadmap for Social Inclusion 2020-2025 (January 2020) specified further Government commitments to consider and prepare a report for Government on the potential application of the benchmarking approach to other welfare payments.

57. In line with these commitments, an approach was developed in consultation with the Department of Public Expenditure and Reform and was outlined in the Roadmap for Social Inclusion. It uses what is described as a smoothed earnings system which ensures that, over the long-term, the relative value of pensions compared to market earnings would be maintained and that, over any short-term period, the real value, or purchasing power, of these payments would be protected.

58. The implementation of this approach is being considered by the Commission on Pensions so is not discussed further in this note. However, it is to be noted that the benchmark measure of employment earnings has been artificially skewed higher than would otherwise be the case, in Ireland and elsewhere, due to the uneven impact of temporary Covid-related layoffs as those remaining in employment throughout the Covid-19 crisis tended to be in relatively higher income occupations – including in high-earning public sector occupations.

D. Increase the Qualified Child (IQC) rate by €5 in respect of children aged over 12, and by €2 in respect of children aged under 12

59. Most weekly social welfare payments include an additional payment – an Increase for a Qualified Child (IQC) - in respect of each qualified child up to age 18. This is extended for older school/college going children up to age 22, under certain circumstances. This

increase provides targeted assistance that is directly linked with household income and family-size to support low-income families and recognises the need for greater income support for welfare-dependent households with children.

60. The Minimum Essential Standard of Living (MESL) research has found that the needs of older children cost 60% more than the minimum needs of younger children. These higher costs are largely due to additional food, clothing, personal care and social inclusion costs. A fifth of the cost relates to additional expenses associated with second level education.

61. In light of this, over the last four Budgets, the weekly IQC rate has increased by €15.20 for children aged 12 and over 12 and by €8.20 for children under 12.

62. The estimated full year cost of a €5 increase in respect of children aged 12 and over is estimated to be **€33.5 million** while the cost of a €2 increase to the IQC rate in respect of children aged under 12 is **€21.3 million**.

E. Disregards for Social Assistance schemes

63. Applicants for social assistance payments are means tested. A means test is a way of checking if a claimant has enough financial resources to support themselves and determine what amount of social assistance payment, if any, they may qualify for.

    A maximum rate is payable where a person has no or limited means, and tapering applies to the rate payable to those with modest or more substantial means, as there is an expectation that those with resources can at least partly contribute towards supporting themselves.

64. Social welfare legislation provides that, for social assistance schemes, income and capital (such as savings, investments and property other than the family home) belonging to the claimant and his or her partner, where applicable, is assessable for means assessment purposes. The purpose of the means assessment is to ensure that social welfare expenditure is targeted to those who need it most. All of the claimant's sources of income are added together and taken into account when deciding whether they qualify for a means-tested payment, or the level at which they are paid.

65. The assessment of capital reflects an expectation that people with reasonable amounts of capital and property are in a position to use that capital, or to realise the value of the property, to support themselves without having to rely solely on a means-tested welfare payment.

The formula for assessing the value of capital for most social welfare schemes is as follows:

Capital	Weekly means assessed
First €20,000	Nil
Next €10,000	€1 per €1,000
Next €10,000	€2 per €1,000
Balance	€4 per €1,000

The exceptions to the formula above are Disability Allowance, where the first €50,000 of capital is not taken into account, Supplementary Welfare Allowance, where the first €5,000 is not taken into account, and the Working Family Payment, where capital is not taken into account at all.

66. The capital disregard for the State Pension (Non-Contributory), Jobseeker's Allowance, Farm Assist, One Parent Family Payment, Jobseeker's Transition Payment and Carer's Allowance has not been increased since 2005. In recent years there have been calls to increase the capital disregard with the rationale being that people who save for a relative's future care, or to make provisions for retirement, or indeed, to save a deposit for a house purchase, should not be penalised in means assessments for exercising prudence.

67. Increasing the capital disregard for the means assessment to €36,000 on the social assistance schemes mentioned above, is estimated to cost **€16 million** in a full year. The disregard has not been increased since 2005 and it is timely to do so now to encourage and assist people in making prudent provision for future costs. The increase to €36,000 is similar to the initial amount disregarded in the means test for the Medical Card.

    This cost is based on the means assessment data for recipients in 2020 and assumes the distribution of capital means will not change. It should be noted that there may be an unknown cost for people who, under current means assessment rules, do not qualify for a payment but would become eligible if the disregard was increased.

F. Extend Parent's Leave and Benefit

68. Parent's Leave and Benefit was introduced on 1 November 2019 with the commencement of the Parent's Leave and Benefit Act 2019. Initially, two weeks' Parent's Benefit was introduced, paid at the rate of €245 per week. As part of the Budget 2021 package, Parent's Benefit was extended by 3 weeks for parents of children born/adopted on or

after 1 November 2019, resulting in 5 weeks leave and benefit for each parent.

69. The current leave and benefit entitlement are set out as follows:

Parent's Leave entitlement	Leave	Benefit entitlement
Entitlement for each parent for a child born or adopted on or after 1 November 2019	Five weeks leave for each parent	Benefit paid at €245/week for five weeks

70. The Government is committed under the EU Work Life Balance Directive to provide up to 9 weeks for each parent by August 2024, with the requirement to ensure that 7 weeks leave and benefit is in place by August 2022. The Work Life Balance Directive is part of a package of measures to address under-representation of women in employment, and to support their career progression through improved conditions to reconcile their working and private duties.

71. The duration of Parent's Leave can be increased to a maximum of 9 weeks by order of the Minister for Justice and Equality in consultation with the Minister for Social Protection and the consent of the Minister for Public Expenditure and Reform. The making of such an Order requires prior approval of both Houses of the Oireachtas.

72. The estimated full-year cost of an additional two weeks of Parental Benefit, from 5 weeks to 7 weeks in 2022, is **€14.6 million** in a full year.

G. Increase the rate of Fuel Allowance by €3.50 per week to offset the planned increase in the Carbon Tax

73. Fuel allowance is a means-tested payment to assist households in receipt of long-term social welfare payments who are unable to provide for their own heating needs. It is not intended to meet those costs in full. Only one allowance is paid per household. The 2021/2022 fuel season is due to commence in late September 2021.

74. Fuel allowance is currently paid over the winter season for a duration of 28 weeks at €28 per week (amounting to €784 per annum).

75. An increase of €3.50 per week would bring the annual value of the allowance to just under €882 per household - an overall increase of just under €100 per household per year, as a means of compensating low-income households for any increase in carbon tax in 2022. This would cost an estimated **€36.8 million** in a full year.

H. Increase the Telephone Support Allowance by €2.50 per week

76. The Telephone Support Allowance is a weekly payment for people who live alone and are already in receipt of certain other social welfare payments on certain social welfare payments and are also getting both the Living Alone Increase and the Fuel Allowance. It is paid at a rate of €2.50 per week (€130 per annum).

77. In order to reflect the changing nature of communications, including the fact that a broadband internet connection is required to access many services provided online, the allowance could be increased to €5 per week, at an estimated cost of **€17.8 million** in a full year.

78. The TSG is invited to consider this paper.

Appendix 1 - Social Impact Assessment of Illustrative Welfare Measures

The following analyses have been prepared by the Department of Social Protection at the request of the Tax Strategy Group. They provide an estimated social impact assessment of policy options under consideration by the Group.

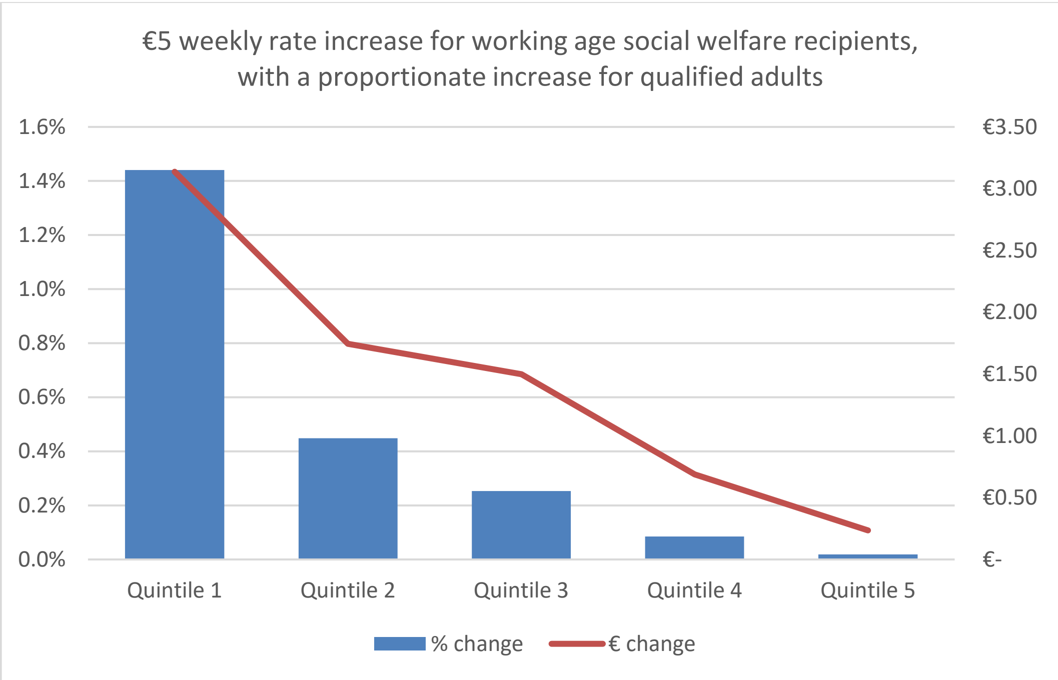
These analyses have been undertaken using SWITCH (Simulating Welfare, Income Tax, Childcare and Health), the ESRI tax-benefit model. SWITCH is based on data drawn from SILC Survey on Income and Living Conditions. SWITCH simulates the estimated impact of changes in welfare and income tax for a representative sample of households drawn from the CSO Survey on Income and Living Conditions, with the data uprated to reflect growth in population, employment and incomes. More recently, SWITCH has been upgraded to reflect the impact of Covid-19 on unemployment and the impact of Government supports (PUP and EWSS).

The Department of Social Protection uses SWITCH to undertake social impact assessment of budgetary changes to welfare and direct tax measures.

€5 weekly rate increase for working age social welfare recipients, with a proportionate increase for qualified adults

Distributional impact:

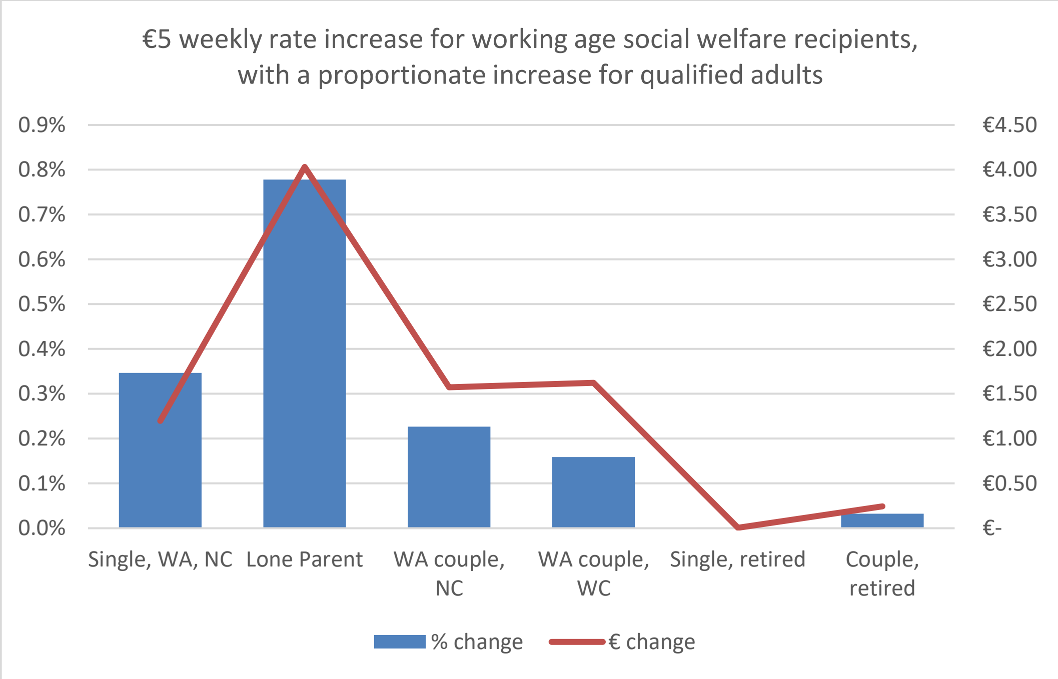
The proposed increase to working age payments, along with proportionate qualified adult increases, predominantly target the lowest income quintile. Disposable household incomes in this quintile increase by just over 1.4%, which is equivalent to a weekly increase of €3.10 in disposable income. Increases are progressive across the remaining quintiles.



Source: DSP SWITCH analysis

Impact by household type:

Lone parent households benefit the most from this proposed measure. Disposable incomes for lone parent households increase by nearly 0.8% per week, or approximately €4.00 per week. There are also gains of just over 0.3% for single working age households, which is equivalent to €1.20 per week.



Source: DSP SWITCH analysis[14]

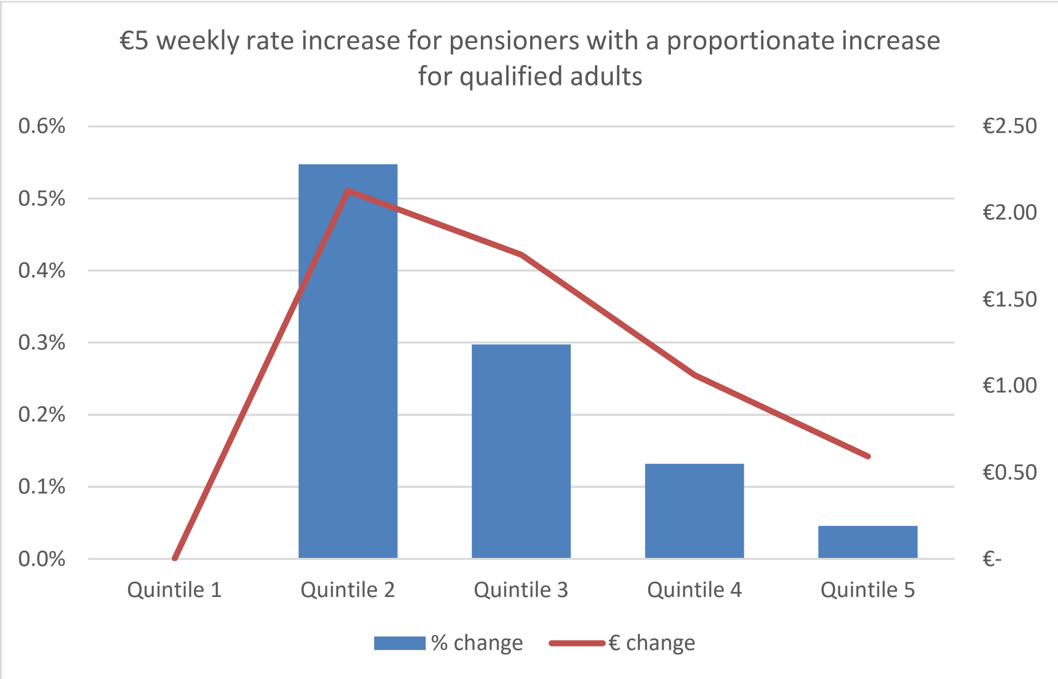
Impact on At-Risk-of-Poverty rate:
Under this proposed change, the AROP rate for the full population decreases by an estimated 0.3 percentage points. This is driven by a decrease in the AROP rate for working age adults decreasing by nearly 0.4 percentage points, and the child AROP rate falling by nearly 0.25 percentage points.

[14] Single, WA, NC = *Single working-age without children;* WA couple, NC = Working-age couple without children; WA couple, WC = Working-age couple with children; Single, retired = Single retirement-age (>= 66); Couple, retired = Retirement-age couple (at least one >=66)

€5 weekly rate increase for pensioners with a proportionate increase for qualified adults

Distributional impact:

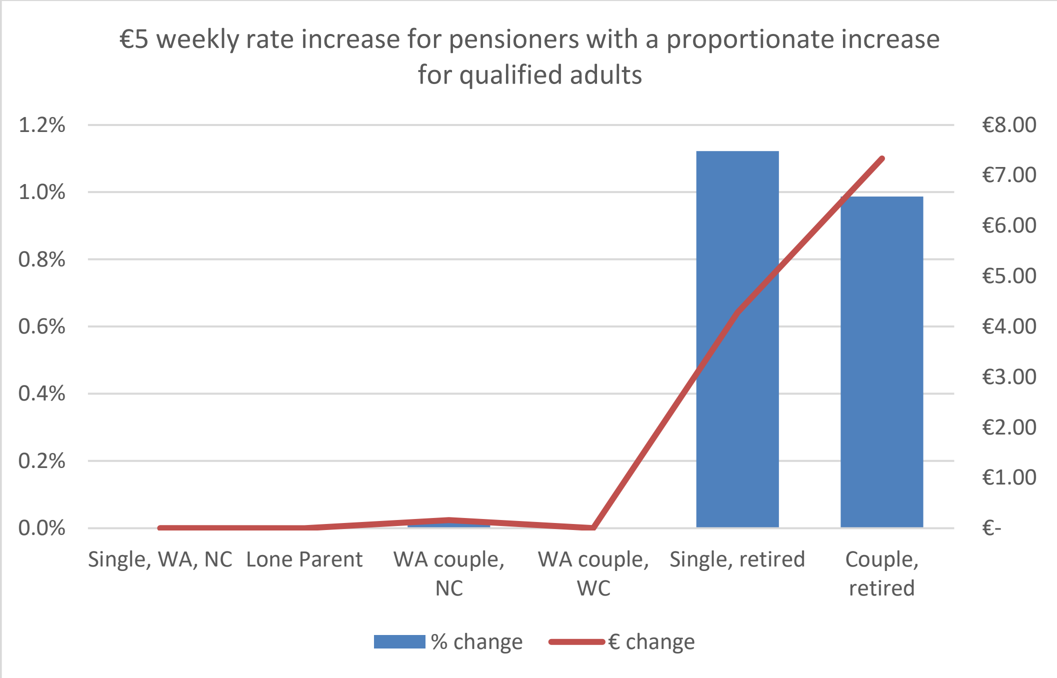
It is estimated that this measure benefits households in the second to fifth income quintiles with an average gain of 0.2%, or €1.10 increase in weekly household disposable income. This is highest in the second quintile, at just over 0.5%, equivalent to approximately €2.10 per week.



Source: DSP SWITCH analysis

Impact by household type:

As expected, this targeted measure benefits single retired persons and retired couples. This increase is estimated to be 1.1% and 0.9% respectively, which is equivalent to a weekly increase in disposable income of €4.30 (single) or €7.30 (couple).

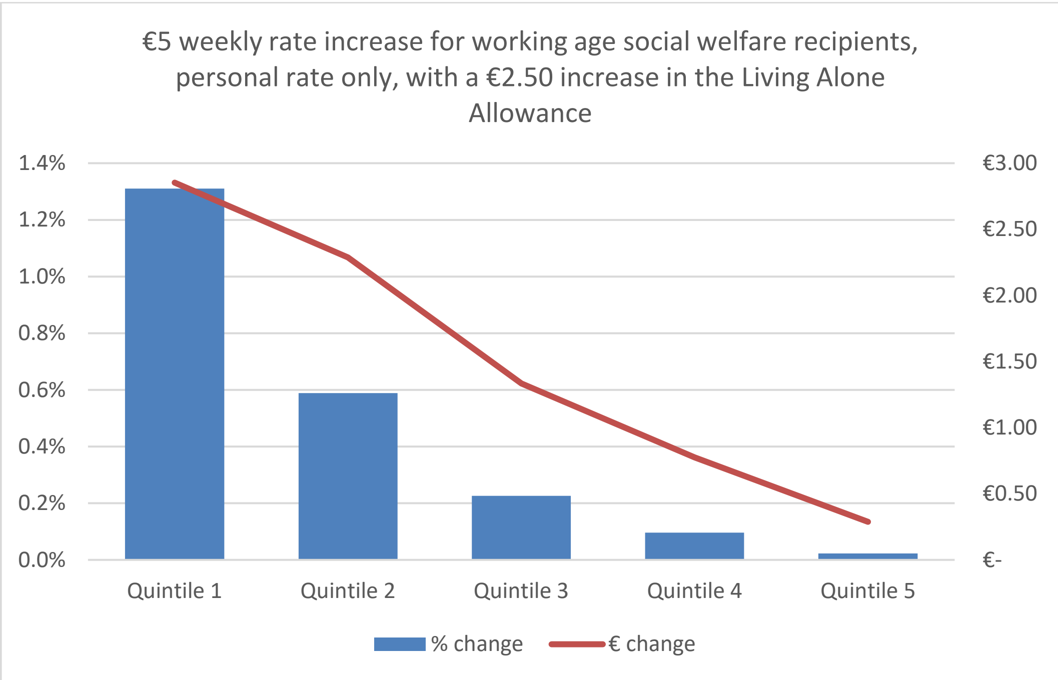


Source: DSP SWITCH analysis

Impact on At-Risk-of-Poverty rate:
Despite the targeted nature of this proposed measure, it does not affect the AROP rates for elderly people, or the whole population. The AROP rates for elderly people are already significantly lower than the whole population, so this change is unlikely to have an impact in this regard.

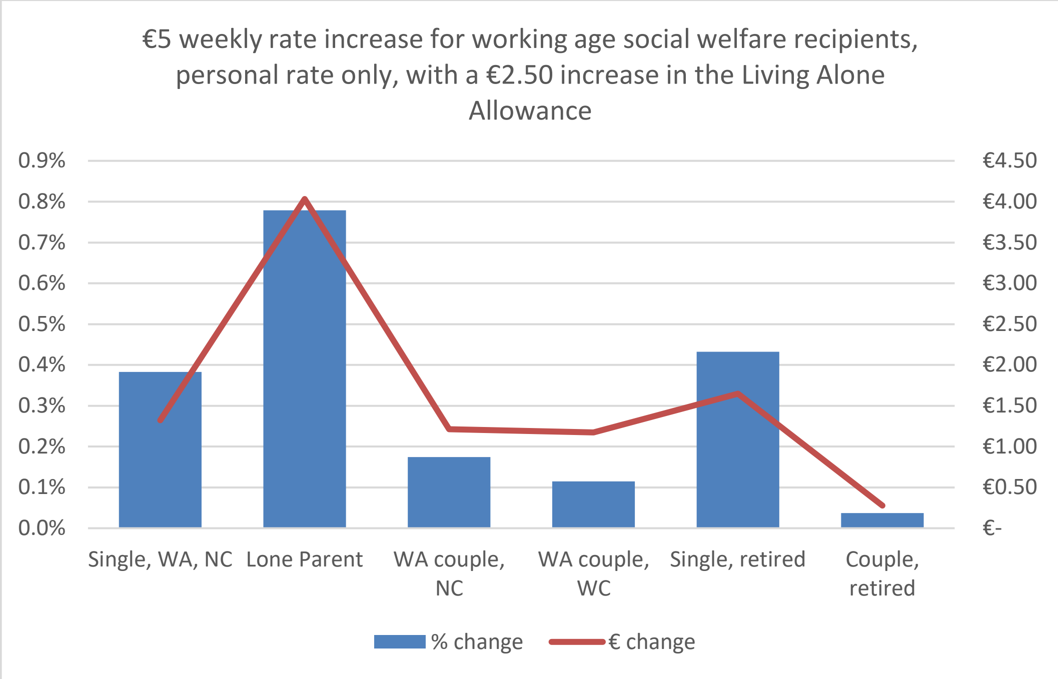
<u>€5 weekly rate increase for working age social welfare recipients (personal rate only) with a €2.50 increase in the Living Alone Allowance</u>

Distributional impact:
This combined measure has a progressive impact on income distribution, with gains experienced across all quintiles. The highest of these is in the first income quintile, which increases by approximately 1.3%, or nearly €2.90 per week. Households in the second income quintile experience a gain of 0.6%, equivalent to €2.30 per week.



Source: DSP SWITCH analysis

Impact by household type:
Again, the proposed increase to working age payments and Living Alone Allowance have a positive impact across all household types. The highest increases are experienced by lone parent households, where disposable incomes rise by approximately 0.8%, which is equal to just over €4.00 per week. All other household types receive an estimated increase of at least €1.20 per week, with the exception of retired couples, where the increase to disposable income is just less than €0.30 per week.

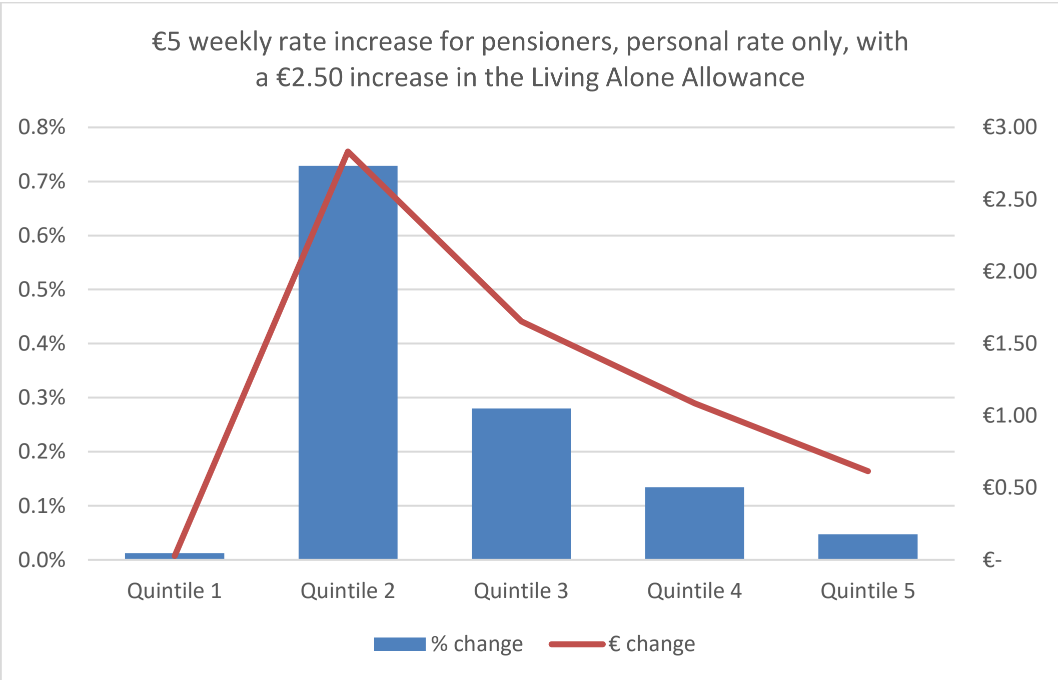


Source: DSP SWITCH analysis

Impact on At-Risk-of-Poverty rate:
There are a broad range of reductions in the At-Risk-of-Poverty rates for all age groups. The rate for the full population decreases by 0.2 percentage points, which is comprised of a 0.2 percentage point decrease for working age adults and decreases of approximately 0.1 percentage points each for children and elderly people.

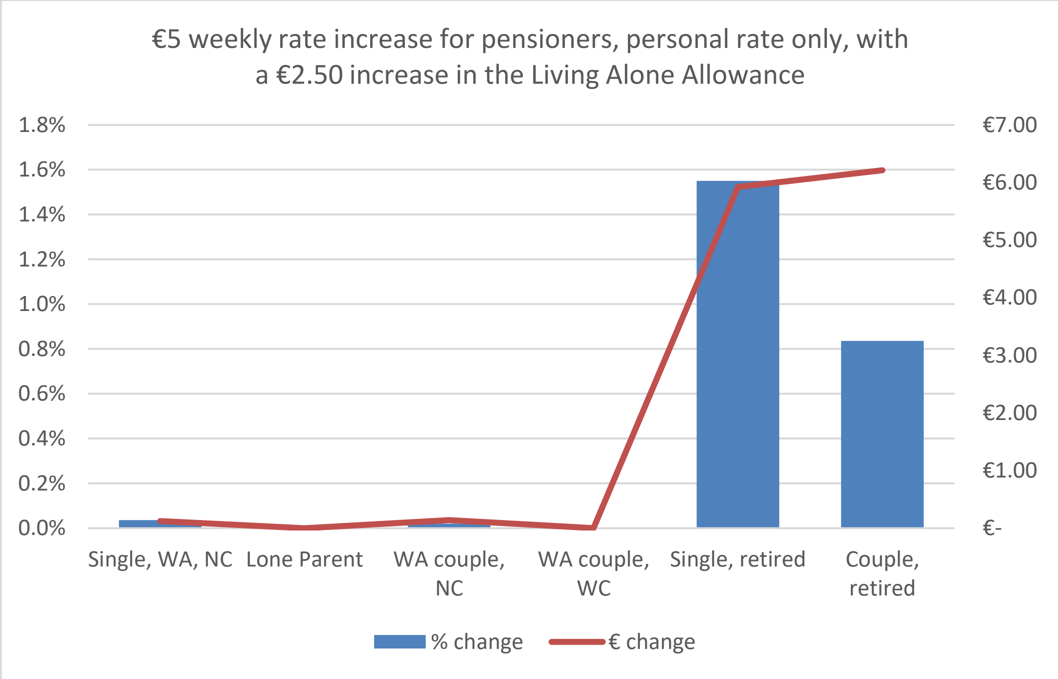
€5 weekly rate increase for pensioners, personal rate only, with a €2.50 increase in the Living Alone Allowance

Distributional impact:
The average gain across all income quintiles is approximately 0.2% of weekly disposable income, which is valued at just over €1.20. This peaks in the second income quintile, where households experience gains on 0.7%, or a €2.80 in weekly disposable income, before tapering away in the third, fourth and fifth quintiles.



Source: DSP SWITCH analysis

Impact by household type:
Again, there are significant increases for retired persons and couples as a result of this targeted measure. This increase in weekly disposable income is valued at almost 1.6% for single retired persons, or €5.90; and 0.8%, or €6.20, for retired couples. There are very small gains for some single, working age households, as a small portion of this cohort will be in receipt of the Living Alone Allowance.



Source: DSP SWITCH analysis

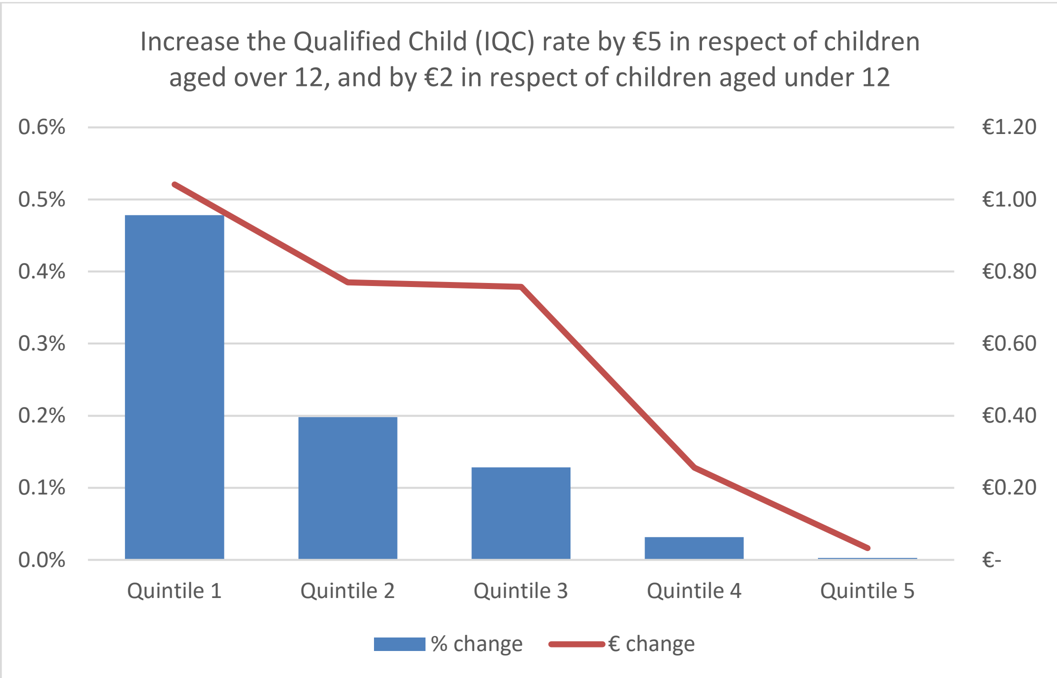
Impact on At-Risk-of-Poverty rate:
There is no effect on the At-Risk-of-Poverty rates resulting from this measure.

Increase the Qualified Child (IQC) rate by €5 in respect of children aged over 12, and by €2 in respect of children aged under 12

Distributional impact:

This measure would benefit the lowest income quintile most, increasing disposable weekly incomes by almost 0.5% (just over €1 per week).

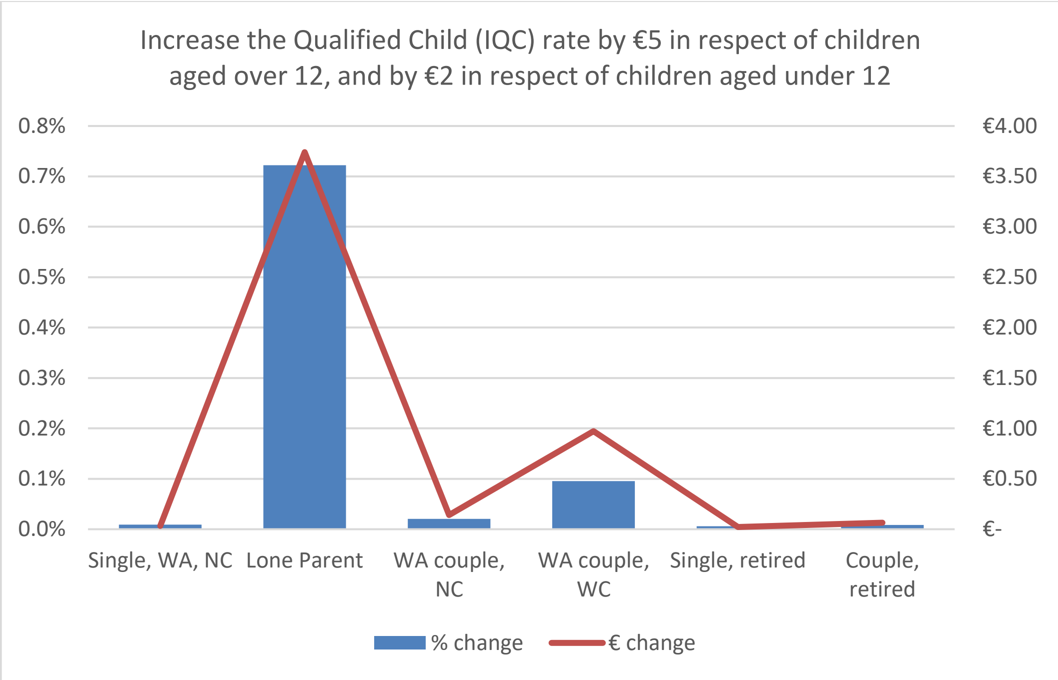
Increases progressively lessen across the second to fifth quintiles and families in the second- and third-income quintiles gain just under €0.80 per week each.



Source: DSP SWITCH analysis

Impact by household type:

This proposed change primarily benefits lone parent households. It is estimated that this would increase disposable household incomes by over 0.7%, or just over €3.70 per week. Working age couples with children also stand to benefit by 0.1% of disposable income, equal to just under €1.00 per week.



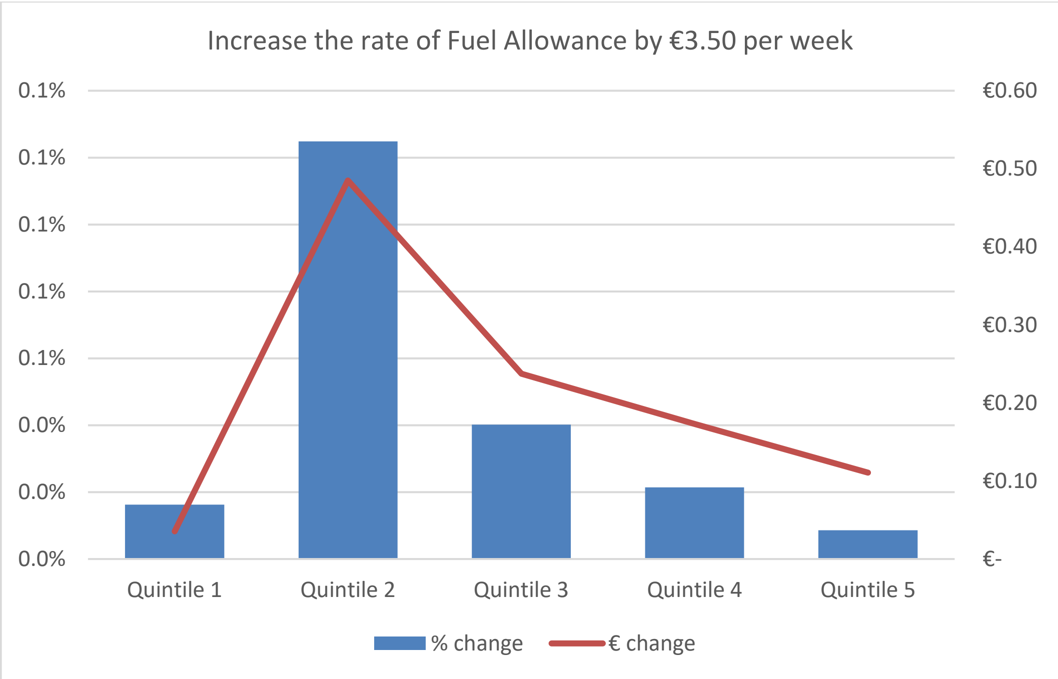
Source: DSP SWITCH analysis

Impact on At-Risk-of-Poverty rate:
The AROP rate for the whole population and for working age adults decrease by just under one percentage point under the proposed measure. It is estimated that the AROP rate for children is reduced by nearly two percentage points.

Increase the rate of Fuel Allowance by €3.50 per week

Distributional impact:

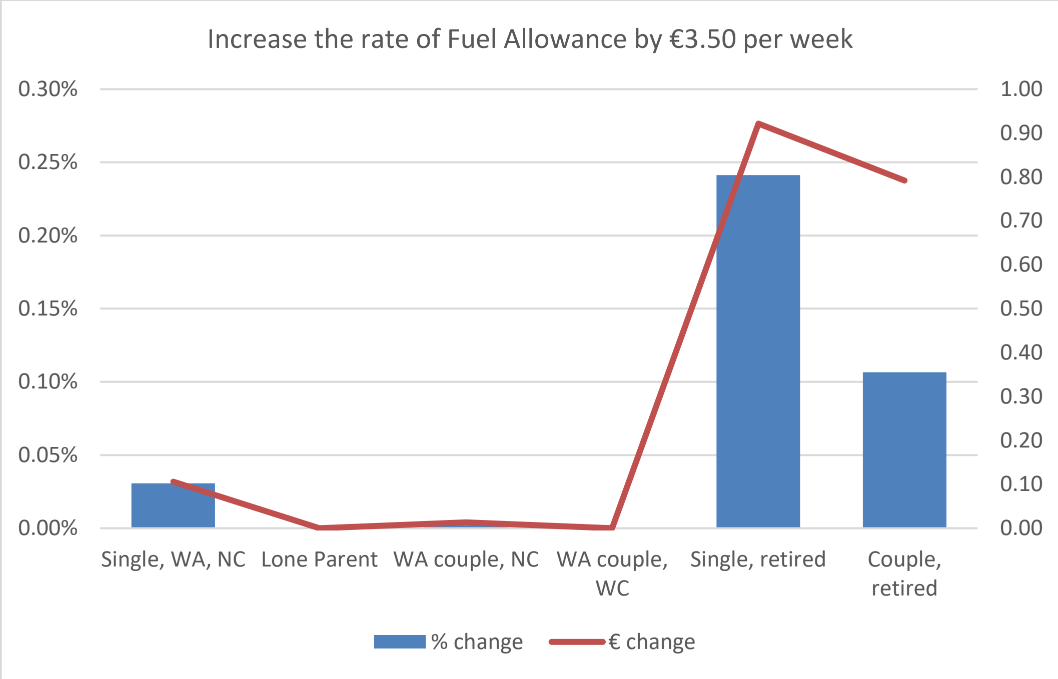
There are small gains experienced by all income quintiles under this proposed measure. The second income quintile experiences the greatest increase here, of approximately 0.1%. This is equivalent to an increase of approximately €0.50 in weekly household disposable income.



Source: DSP SWITCH analysis

Impact by household type:

Unsurprisingly, an increase to the Fuel Allowance mainly benefits those of retirement age. Single retired households experience an increase of almost 0.25% of weekly disposable income, approximately €0.90. Whereas retired couples' disposable income increases by about 0.1%, or €0.80 per week.



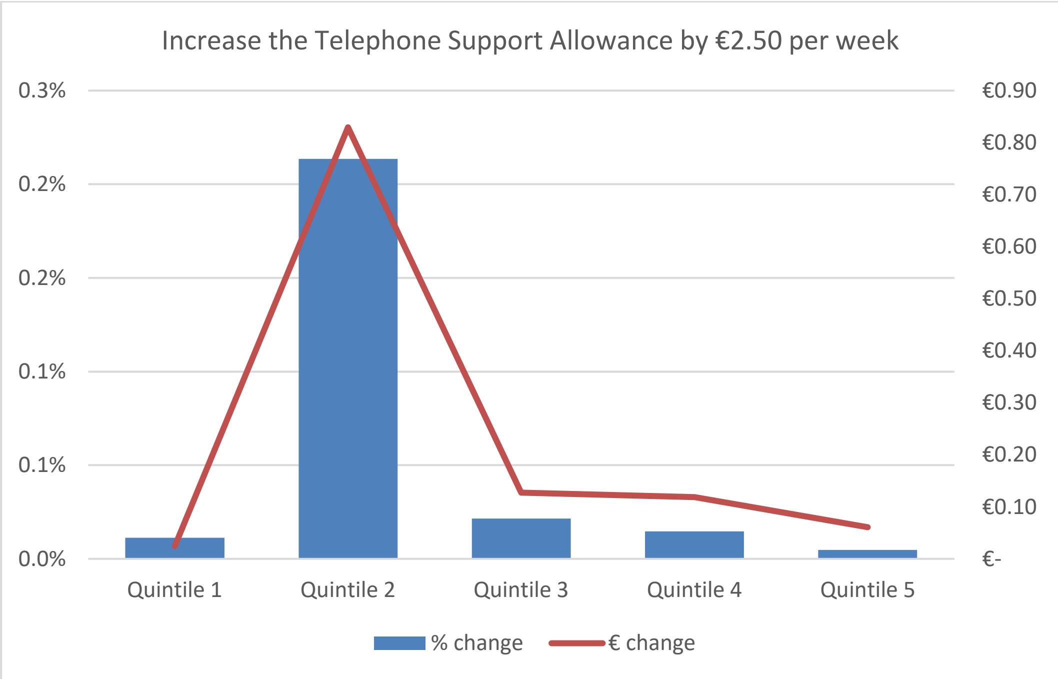
Source: DSP SWITCH analysis

Impact on At-Risk-of-Poverty rate:

There is no notable change in the At-Risk-of-Poverty threshold resulting from this change.

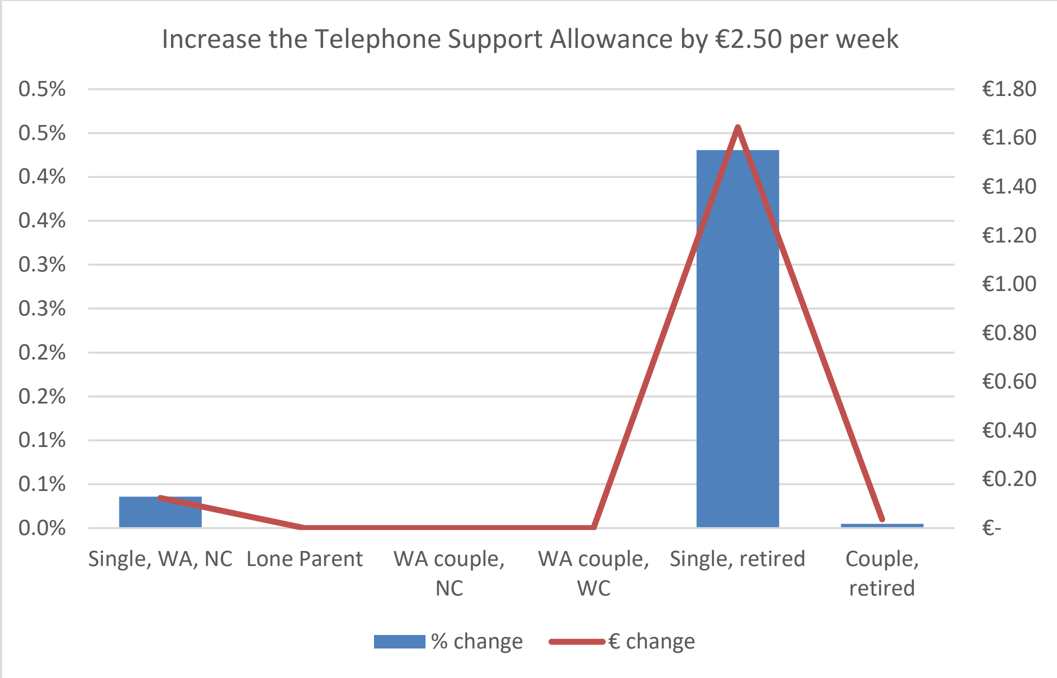
Increase the Telephone Support Allowance by €2.50 per week

Distributional impact:
It is estimated that this measure would primarily benefit households in the second income quintile, by approx. 0.2% per week, or €0.80. There are very small gains for households in other income quintiles, each of less than €0.10 per week.



Source: DSP SWITCH analysis

Impact by household type:
This measure mainly targets single people of retirement age, given the eligibility criteria for the Telephone Support Allowance. It is estimated that this increases the weekly disposable income for single retired persons by approximately 0.4%, which is equivalent to €1.60 per week. There are also smaller gains experienced by single, working age persons, where a small number of this group will also be eligible for this Allowance. This increase is equivalent to just over €0.10 of weekly disposable income.



Source: DSP SWITCH analysis

Impact on At-Risk-of-Poverty rate:
There is no notable change in the At-Risk-of-Poverty threshold resulting from this change.