Commission on Taxation & Welfare
An Coimisiún um Chánachas ⁊ Leas

Briefing Paper

Social insurance – design questions, operation, financing and sustainability

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Subject	**Social insurance – design questions, operation, financing and sustainability**
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Key points

- Social protection systems can be designed around proportions of social insurance, targeted income support and universal payments
- The social insurance system is based on two fundamental principles – the contributory principle and the solidarity principle.
- As a proportion of total taxation, Ireland's social security contributions are the lowest in the EU, with the exception of Denmark.
- The policy direction since 1988 has been to widen social insurance coverage and to increase benefits in scope and number.
- The rise in expenditure on State Pension (Contributory) is due to the increase in the number of recipients, the increase in the proportion of recipients receiving the maximum rate, and increases in the rates of payment.

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1. Introduction

Discussions at previous meetings of the Commission on Taxation and Welfare (the Commission) described the social protection system, with its function to act as a safety net for those in need of income support, and noted the unusually unequal distribution of market income in Ireland.[1] There are a number of ways in which the taxation and welfare systems can redistribute to the point where Ireland's disposable income distribution is close to the EU or OECD average.

This paper outlines one of those ways – Ireland’s social insurance system – and outlines the policy rationale underpinning it, its operation (the benefits it provides and the social insurance contributions that fund it) and its financial sustainability. This relates to previous papers presented to the Commission on how the taxation and welfare systems incentivise employment while fulfilling their fundamental objectives of raising revenue, redistributing income and providing income support.[2]

Members of the Commission are asked to consider, in this regard, broader views on the design of the welfare system, particularly on the options to deliver income support: social insurance, targeted welfare and universal payments. The balance between these delivery methods will also influence consideration of other papers, such as the considerations of any barriers to employment in our taxation and welfare systems.

The financial sustainability of the Social Insurance Fund (SIF) aligns with previous papers on fiscal sustainability and is the broader sustainability question in microcosm. Ireland’s demographic structure means there will be fewer contributors and more recipients of pensions in future decades, which poses a challenge for the funding of the SIF, and it also means there will be a greater requirement for age-related healthcare expenditure, which poses a challenge to the sustainability of Exchequer funding.

One potential design change to the social insurance system is a consideration of a return to pay-related jobseeker benefits, such as those seen during the Covid-19 pandemic. This may be considered in a separate paper, to include consideration of the extent to which, under a pay-related benefit system, such jobseeker payments cushion income shocks (albeit while also potentially altering the financial incentive to work), and the cost of pay-related benefits, which is largely dependent on the link to previous earnings and how long the benefit will last.

[1] Meeting 2: An Outline of the Irish Social Protection System, and Meeting 4: Market income and redistribution
[2] [Sustainability of the Public Finances in meeting 2, Fiscal sustainability and the balance of taxation in meeting 8] Meeting 4, Encouraging Employment

Members are asked to reflect, in light of earlier discussions and the material presented in this paper, on the social insurance system and whether any changes are required so that Ireland's taxation and welfare systems continue to support economic activity as well as the most vulnerable in our society. In regard to experience gained during the Covid-19 pandemic, members may consider whether the social insurance system is sufficiently robust to withstand large economic shocks and to provide the requisite buffer.

The terms of reference of the Commission include an examination of the social insurance system, including structure and benefits coverage, while ensuring sustainability. This includes consideration of the NESC report and output from the Pensions Commission regarding sustainability and eligibility issues in respect of State Pension arrangements. Separate papers will address output from the Pensions Commission, part of which has been specifically referred to the Commission, and how legal form (self-employment, employment or incorporation) is influenced by taxation and social insurance design. The latter also ties in with the Commission's discussion on the future of work and whether, increasingly, people will have greater scope to select the legal form under which they operate (and how they channel income). If so, current distortions between pay-related social insurance (PRSI) treatment of employment and self-employment will become amplified and this draws in the earlier discussion on the combination of income tax, Universal Social Charge (USC) and PRSI across the earnings distribution.[3]

As a component part of the tax wedge[4], PRSI can also be considered in the discussion on the balance of taxation between earned income, consumption and wealth, which is referenced in the Commission's terms of reference.

2. Executive summary

The social insurance system in Ireland dates to the 1950s. As well as being an important vehicle of income redistribution, the current social insurance system is an expression of social cohesion and solidarity between generations as well as between those who, at a point in time, are in work and those who are not.

The social insurance system is based on two fundamental principles – the contributory principle and the solidarity principle. The contributory aspect recognises contributions are paid in when employed and an entitlement to benefits when people are of pension age or temporarily out of work due to

[3] Encouraging Employment, meeting 4.
[4] Encouraging Employment, meeting 4.

illness or unemployment. The contributory principle underpins the direct link between contributions paid and entitlements to social insurance benefits. This aspect reflects the idea of reciprocity, as people make contributions that entitle them to benefits (without means testing) at a later stage.

In Ireland's social insurance model, the solidarity principle is reflected in how contributions are combined in the SIF and benefits are weighted towards contributors who are more vulnerable, demonstrating solidarity between those in employment and across generations.

Ireland's social insurance and social assistance systems apply in differing proportions to those of pension age and those of working age. For those aged 66 and over, a large majority are in receipt of the social insurance pension – the State Pension (Contributory) – while a decreasing minority are in receipt of the equivalent social assistance payment. For those of working age, the reverse is true – at a point in time, a larger proportion are in receipt of a social assistance payment compared to the number in receipt of social insurance payments.

The policy direction since 1988 has been to widen social insurance coverage and to increase benefits in scope and number. Between 1988 and 1995, PRSI coverage was extended to self-employed workers, part-time workers and public servants. The expansion in benefits to self-employed people (Class S contributors) has been notable in recent years.

The overall design choices for income support can vary the proportion of social insurance, targeted welfare and universal payments.

3. Social insurance in Ireland

The social insurance system in Ireland dates to the 1950s. Pay-related social insurance (PRSI) contributions are ring-fenced to the Social Insurance Fund (SIF) and are redistributed to pay social insurance benefits such as pension payments to an earlier generation of contributors and benefits to people who are temporarily economically inactive through illness or people in short-term unemployment. Shortfalls in the SIF are funded by Exchequer subventions – see section 6 below.

As well as being an important vehicle of income redistribution, the current social insurance system is an expression of social cohesion and solidarity between generations as well as between those who, at a point in time, are in work and those who are not.

The social insurance system is based on two fundamental principles – the contributory principle and the solidarity principle. The contributory aspect works as follows: contributions (a proportion of earnings) are paid in when employed, benefits are paid out when people are of pension age or temporarily out of work due to illness or unemployment. The contributory principle underpins the direct link between contributions paid and entitlements to social insurance benefits. This aspect reflects the idea of reciprocity, as people make contributions that entitle them to benefits (without means testing) at a later stage. Within social insurance, we can further distinguish systems with the strongest contributory aspect, where both contributions and benefits are earnings-related, and systems with a weaker contributory aspect, where benefits are not linked to the monetary value of contributions.

In Ireland's social insurance model, the solidarity principle is reflected in how contributions are combined in the SIF and benefits are weighted towards contributors who are more vulnerable, demonstrating solidarity between those in employment and across generations. Another equalising factor is the primacy accorded to the number of social insurance contributions rather than the amount of money this represents. Payment rates are generally equivalent regardless of the amount remitted in each contribution.[5] This focus on the number of contributions as the eligibility criterion further amplifies its redistributive character by ignoring individual differences in baseline risk of any contingency.

As outlined in previous papers, the principle economic argument for social protection is its mitigation and sharing of risk.[6] While some exposure to risk is unavoidable, this exposure, as well as the ability to cope, varies over the life cycle. While private insurance arrangements link contributions to a value based on individual risk and expected payment duration; social insurance differs in that risks are pooled and there is no distinction based on individual risk. The model is social in two senses: it is shared among employers, employees and the State, and it is shared between those paying contributions now and those who did so in the past. This reflects a common bond or social solidarity that comes with contributing, in the broader sense, to life in Ireland.

As a proportion of total taxation, Ireland's social security contributions are the lowest in the EU, with the exception of Denmark, which funds its social security system through general taxation.[7] However, international comparisons are inevitably coloured by differing rules within each EU member states on eligibility, retirement age, and the range of benefits. It is perhaps not particularly instructive to

[5] See the report of the Commission on Pensions and the Report of the Interdepartmental Pensions Reform & Taxation Group for more on the redistributive character of the State Pension (Contributory), where average and low earners receive higher income from the State Pension (Contributory) than if the equivalent value of the Class A PRSI contributions were invested in a defined contribution pension scheme. Historically, Jobseekers Benefit and Maternity Benefit were earnings-related, Jobseekers Benefit currently is, but to a minor extent, and a future examination of pay-related benefit has been flagged in the Programme for Government.
[6] An Outline of the Irish Social Protection System, meeting 2.
[7] See OECD Social security contributions indicator.

compare social insurance rates across different systems, each with a different mix of insurance-based, targeted and universal delivery.

From an analysis of recipients of payments, Ireland's social insurance and social assistance (based largely on targeted – usually means tested – income support) systems apply in differing proportions to those of pension age and those of working age. For those aged 66 and over, an increasing majority are in receipt of the social insurance pension – the State Pension (Contributory) – while a decreasing minority are in receipt of the equivalent social assistance payment, the non-contributory State pension. For those of working age, the reverse is true – at a point in time, a larger proportion are in receipt of a social assistance payment compared to the number in receipt of social insurance payments, notwithstanding the limited durations of payments in the latter category (such as Jobseekers Benefit – where entitlement expires at nine months).

Table 1: Recipients of social insurance and social assistance payments, selected years, 2011-2019

Scheme	2011	2015	2019
Pensions - Social Assistance	96,749	95,179	94,854
Pensions - Social Insurance	425,495	482,152	554,485
Working Age Income Supports - Social Assistance	425,460	317,127	205,872
Working Age Income Supports - Social Insurance	129,176	109,136	85,404
Illness, Disability, and Caring - Social Assistance	180,129	180,118	190,310
Illness, Disability, and Caring - Social Insurance	139,922	131,356	129,212

Source: Department of Social Protection, Statistical Information on Social Welfare Services, 2020, TableB1

4. The expansion of social insurance

The policy direction since 1988 has been to widen social insurance coverage and to increase benefits in scope and number. Between 1988 and 1995, PRSI coverage was extended to self-employed workers, part-time workers and public servants. The expansion in benefits to self-employed people (Class S contributors) has been notable in recent years, with cover under Class S contributions for Invalidity

Pension and Treatment Benefit from 2017. This amounts to approximately 93 per cent, by value, of all benefits paid by the SIF.[8]

Social insurance has also expanded with the introduction of new benefits: Paternity Benefit in September 2016, Parent's Benefit in 2019, and a new Jobseeker's Benefit scheme for the self-employed in 2019.

As well as expanding across categories of workers (or PRSI classes) and the introduction of new benefits, the social insurance system has also expanded its coverage as thresholds decrease in real terms. The entry threshold for access to social insurance coverage for dependent employees is €38 weekly (equivalent to €1,976 annually), which confers access to the full range of long and short-term social insurance benefits at a value unchanged since 1994 (in nominal terms). While this ensures benefits are available to those who take up part-time work, and creates an additional incentive to do so, it represents a particularly low threshold of less than four hours per week at the national minimum wage to gain access to all social insurance benefits.[9]

This extension of coverage has had a consequential impact on financing (see section below) as the number of people covered by social insurance increased significantly: recipients of the largest benefit by volume or expenditure, the State Pension (Contributory), increased from approximately 73,000 in 1990 to almost 450,000 by the end of 2020. The rise in expenditure on State Pension (Contributory) is due to the increase in the number of recipients (an increasing number of people eligible due to labour force growth over the past three decades leading to improved contribution records, more people surpassing the relatively low thresholds, and existing recipients living longer), the increase in the proportion of recipients receiving the maximum rate, and increases in the rates of payment.

Social insurance also expanded to include a charge on unearned income. This was introduced in 2014 at a threshold of €3,174 (now €5,200) at a rate of 4 per cent (Class K, with no entitlement to benefits). For those aged between 16 and 66, PRSI must be paid on unearned income from rents, investments, dividends and interest on deposits and savings unless DIRT has been paid.

5. Design choices for the delivery of income support

[8] See Tax Strategy Group paper, 'Pay Related Social Insurance for Self-Employed Workers') and Table 5 in the appendix.

[9] The Class A threshold of the equivalent of €1,976 annually contrasts with that of the Class S contributor, €5,000.

While the preceding sections outline the policy rationale for social insurance in Ireland, it is worth noting that the delivery of income support, consistent with a given disposable income distribution, can be achieved in other ways.[10] The three delivery options, all of which can be combined in different proportions, can be described as follows:

Income support through social insurance: entitlement is based on a record of having made social insurance contributions – typically a compulsory payment of a proportion of earnings from employment.

Income support through targeting: this is generally applied through a means test, where the household income and means are assessed and the income support is available to those whose household income is below a certain amount.[11] This is the dominant method in a social assistance system, where need is assessed at a point in time, without reference to employment history.

Income support through universal payments: Also known as categorical benefits, this is where anyone within a certain category receives the benefit, regardless of means or contribution record (an example in Ireland is child benefit).

We can look to other countries to see how combining these approaches in differing proportions works. Box 1 groups EU member states over the past 30 years (including the UK) into different social and labour market models.[12] Each operates by emphasising different combinations of the above income support delivery mechanisms, as well as differing employment protection systems and redistributive preferences.

[10] Delivery options were set out in more detail in the paper entitled “An Outline of the Irish Social Protection System” which at Meeting 2.

[11] Criteria other than means can be used – many social assistance schemes in Ireland require applicants to satisfy the Habitual Residence Condition (see Meeting 2: An Outline of the Irish Social Protection System).

[12] See André Sapir, Globalisation and the Reform of European Social Models; competing typologies are also available – see Esping-Andersen’s trio of corporatist regimes (work-oriented and based on individual contribution), social democratic regimes (universalist values) and liberal regimes (residualist systems where welfare is confined to those who are otherwise unable to manage).

The overall design choices for income support are not covered in a comprehensive way in this paper. Briefly, the arguments for targeting are that to do otherwise is wasteful and an inefficient way to redistribute, with the implication of higher public expenditure overall, which implies higher taxes. Depending on how these taxes are levied, they may not be conducive to economic growth.

Against this, the argument for a universal approach to the provision of income support, and more precisely against targeting, is that expenditure savings are, to some extent, swallowed by the administrative costs of means testing. Furthermore, the application of income thresholds and eligibility conditions greatly increases the likelihood of poverty traps (see related paper on social assistance). Finally, it can be argued that excessive targeting dilutes widespread public support and undermines the effectiveness of social protection systems: where provision, and consequently public support, is narrower, private provision will be higher, and the total budget for the social protection system overall will be smaller.[13]

Box 1: European social and labour market models

As a framework to examine the current mix in Ireland, the EU member states (and the recently departed UK) can be grouped according to four social policy models.

- The Anglo-Saxon model (UK, Ireland): generous social assistance, weak unions, wide earnings dispersion and high incidence of low pay.
- The Nordic model (Denmark, Finland, Sweden, the Netherlands): high levels of social protection spending and universal welfare provision, unregulated labour markets and active labour market policies, with compressed wage structures (lower wage inequality).
- The Continental, or Rhineland, model (Austria, Belgium, France, Germany, Luxembourg): extensive social insurance, employment protection and strong unions, as evidenced by the reach of collective bargaining to non-union firms.
- The Mediterranean model (Greece, Italy, Portugal, Spain): public spending is focussed on old-age pensions, employment is regulated, generous early retirement options reduce the number of jobseeker claims and wages are compressed.

[13] See Korpi and Palme (1998), 'The Paradox of Redistribution and Strategies of Equality: Welfare State Institutions, Inequality and Poverty in the Western Countries, and Jacques and Noël (2018), 'The case for welfare state universalism, or the lasting relevance of the paradox of redistribution'.

Generally, social insurance models redistribute across different points in an individual's life – intra-lifetime transfers – whereby people make contributions while in employment and receive benefits during one of the covered contingencies. The drawback is that this approach excludes those who have not made the required number of contributions. Meanwhile, targeting focuses on need at a point in time and involves vertical redistribution – examining the people who need income support at a point in time without reference to their employment record or intra-lifetime transfers. Which system to emphasise is largely a value judgment – any empirical input to the comparison of these models is restricted somewhat by the analytical tools typically used to examine income distribution, which have a point-in-time focus.

The sustainability of the current funding model for Ireland's social insurance system (see section 6 below) brings into focus the design choices. Demographic changes means more working age people will have to pay more social insurance (and, more broadly, more tax, with consequent implications for the tax wedge if taxes on labour increase), which requires a strong intergenerational solidarity.

Broader economic considerations are also worth noting – benefits can act as an automatic stabiliser once they are designed in a counter-cyclical way, and the social insurance model lends itself more automatically to this function.

Inevitably, most countries elect to have a combination of social insurance, targeting and universal payments. Given that an insurance-based system excludes those who have not made contributions, if the alleviation of the risk of poverty is being pursued, a parallel system must be developed.

The recommendations of the NESC report, summarised for Commission members in a separate document, call for a move towards a system with a greater proportion of social insurance.

6. Operation and financing

PRSI operates on the relationship between the employment or self-employment status of a person, the rate of PRSI contribution payable, and the benefits receivable (including pensions) as a result of these contributions. For social insurance purposes, contributions come from three categories:

1. An employed contributor;
2. A self-employed contributor, or
3. A voluntary contributor

Social insurance contributions are primarily based on contributions during paid employment (as employees or self-employed people). The social insurance system also takes account of periods spent out of the workforce through unemployment, illness and caring responsibilities by crediting people's insurance records with contributions during these times. Social insurance is payable by individuals, with no reference to the household. This accords with basis on which benefits are paid – as of right rather than on the basis of a means test.[14]

Table 2: Pay-related social insurance, from employers, employees, and the self-employed – as proportion of total Social Insurance Fund income, 2011-2020

Year	Employer PRSI	Employee PRSI	Self-Employed PRSI
2011	69.4%	20.5%	4.4%
2012	70.6%	20.9%	4.4%
2013	69.9%	20.7%	5.2%
2014	69.9%	20.7%	4.9%
2015	69.6%	20.6%	5.2%
2016	68.8%	20.4%	6.3%
2017	69.7%	20.6%	5.1%
2018	68.7%	20.4%	5.4%
2019	68.4%	20.3%	5.1%
2020	63.3%	24.4%	5.7%

Source: Secretariat calculations from Department of Social Protection, Statistical Information on Social Welfare Services, 2020, Table A4
Note: Rows do not sum to 100% as total income over the period also included income from the health contribution, investment income, recoveries from benefit overpayment and redundancy and insolvency and other receipts (not shown)

Table 1, above, shows the majority of PRSI contributions come from employers (between 63 per cent and 71 per cent of total SIF income over the past ten years), followed by employees (between 20 per cent and 24 per cent over the same period), with the self-employed in third place (between 4 per cent and 6 per cent). Over the past ten years, contributors at Class A make up between 63 per cent and 65 per cent of the total number of contributors each year, with contributors at Class S making up between 9 per cent and 12 per cent each year.[15]

A majority of PRSI contributions are made under Class A, which applies to the majority of employees, and Class S, which applies to self-employed people.[16] Within each class, the amount of PRSI payable with each contribution is proportionate to earnings, reflecting the contributory principle, but the

[14] In this respect, social insurance is an intra-lifetime transfer that, somewhat paradoxically, also maintains the incentive to save – this is less true of means-tested social assistance, which generally takes account of household income and assets rather than just those of the individual.
[15] Contributor totals are a count of people who made at least one contribution within each class – people can make contributions in more than one class. See Department of Social Protection, Statistical Information on Social Welfare Services, 2020
[16] For information on all classes, rates and earnings thresholds, see Pay Related Social Insurance (PRSI)Contribution Rates and User Guide

benefits paid out in relation to pensions are not linked to earnings at a point in time or the value of a person's PRSI contributions over a longer period, which reflects the solidarity principle (see section 3, above, Social insurance in Ireland). In general, for anyone who is employed or self-employed between the ages of 16 and 66, the payment of social insurance is compulsory.

Table 3: PRSI rates for Class A and Class S, 2021

Class	Employer rate	Employee rate	Total
A	11.05%	4%	15.05%
S	-	4%	4%

Source: Pay Related Social Insurance (PRSI) Contribution Rates and User Guide
Note: For Class A, employees who earn over €352 per week pay PRSI a rate of 4% on all earnings. If earnings are below €352 per week no employee's PRSI is due. Differing rates for Class A sub-classes AO and AX. Class S minimum annual contribution is €500.

The SIF is funded on a tripartite basis by PRSI contributions from employers, workers and the State where necessary. As in many other EU member states with developed social insurance systems, the SIF operates on a pay-as-you-go basis, which means that current contributions fund current payments.

The SIF sits outside the Exchequer, which encompasses the majority of the total Government financial position. The financial position of the SIF is included in the General Government classification (compiled in accordance with the European System of Accounts 2010).

The SIF comprises a current account managed by the Minister for Social Protection, and an investment account, managed by the National Treasury Management Agency on behalf of the Minister for Finance. Sums payable out of the SIF come from the current account and any surplus is contained in the investment account. All PRSI entitlements are recoverable from the SIF, as are the administrative costs associated with PRSI collection (carried out by Revenue on behalf of DSP). Where there is a shortfall in the current account, the balance must be made up first from the investment account and otherwise from funds provided by the Exchequer as residual financier, via a subvention provided from the Social Protection Vote (see Table 6 in the appendix). Since 1952, the fund has been in surplus for only 15 years, all of which have occurred since 1997.

Although the terminology of a 'Fund' is used, therefore, in reality the SIF is markedly different from, say, a pension fund, since it operates on a Pay-As-You-Go basis. The linkage between the funds raised in PRSI payments, and the amounts dispensed in Social Insurance payments is a loose one, since the SIF is regularly topped up by the Exchequer, which also funds social assistance and other social welfare payments. At the same time, PRSI sits within the definition of what constitutes a tax, and so the evolution of PRSI needs to be considered as part of the broader tax system.

Table 3, below, shows the types of expenditure, and each proportion, forecast for 2022. While this view presents the expenditure for a given year, in reality liabilities are building up over time as people make contributions that confer future benefits. For this reason, actuarial projections estimate future contributions and expected expenditure at future points (see table 4 in the next section).

Table 4: Estimate of expenditure of the Social Insurance Fund, 2022

SIF Expenditure	€	Proportion of total expenditure
Administration	256,140	2.3%
Pension	8,049,250	71.1%
Working Age Income Supports	1,116,602	9.9%
Illness, Disability and Carers	1,520,106	13.4%
Children	26,842	0.2%
Supplementary Payments	358,400	3.2%
Total Expenditure	11,327,340	

Source Budget expenditure report

7. Sustainability

The sustainability of the SIF relates to the broader question of fiscal sustainability discussed in earlier meetings, which noted the long-term structural costs associated with ageing, healthcare, and the carbon and digital transitions.[17] These, it was argued, will require a combination of increased Government revenues, decreases in expenditure in other areas or an increase in the pension age. One aspect particularly relevant for Ireland's social insurance system is the demographic projection that younger age cohorts will decrease in relative terms while older cohorts increase (in absolute and relative terms).

The long-term sustainability of the SIF is examined every five years in an actuarial review. The most recent was published in 2017, and envisaged expenditure exceeding income over the medium to long term (estimated from 2021 due to population impacts), with pensions making up a significant amount of the expenditure (increasing from 70 per cent of SIF expenditure in 2016 to 80 per cent in 2071).[18] An update of key tables in the actuarial review was carried out for the Commission on Pensions and

[17] Sustainability of the Public Finances, Meeting 2, Fiscal sustainability and the balance of taxation, Meeting 8.
[18] This, however, was based on the assumption of an increase in the State pension age to 67 in 2021 and 68 in 2028.

projects a €2.36 billion deficit in 2030, with the expenditure on the State Pension (Contributory) alone consuming all SIF income by 2050.

Table 5: Projected annual SIF income and expenditure, selected years

Year	2030	2050	2070
Income	€14.64	€20.74	€28.57
Expenditure	€17.00	€34.09	€49.66
SPC	€9.60	€23.12	€33.94
Deficit	€2.36	€13.35	€21.10

Source: from the Report of the Commission on Pensions – KPMG calculations updating 2017 actuarial review.

The largest draw on the SIF is the State Pension (Contributory), which is payable from 66 years of age, subject to a sufficient contribution record.[19] This means the draw on the SIF is more acute as the population in receipt of benefits is increasing and the duration of benefit receipt is increasing. This is due to two positive developments: increases in the labour force over recent decades and increases in life expectancy. At the same time, the working age population paying into the SIF is shrinking relative to the number of people above pension age. This is a long-term trend – in 1991, there were five working age people for every pensioner, the current ratio is 4.5 working age people to every pensioner and this is projected to fall to 3.5 working age people to every pensioner by 2031 and to 2.3 by 2051.

The State Pension (Contributory) amounts to good value for those who are eligible for it. The actuarial review estimated that, for someone entering the social insurance system at 25 years of age that benefit alone is valued at the equivalent of 15.5 per cent of average earnings in 2017. For access to the State Pension (Contributory) and other relevant benefits, a combined PRSI rate of 15.05 per cent is paid in respect of most employees. The rate for self-employed workers is 4 per cent.[20] A 2016 survey of the views of self-employed workers on PRSI rates and benefits reported a large majority of respondents (88 per cent) willing to pay a higher rate of PRSI in return for at least one additional social insurance benefit.[21]

[19] See the Report of the Commission on Pensions for considerations about increasing the age at which the State Pension (Contributory) is payable.

[20] Self-employed workers who earn €5,000 or more in a contribution year are liable for PRSI at the Class S rate of 4per cent, subject to a minimum payment of €500.

[21] The 2016 survey of Class S PRSI contributors is available at: https://assets.gov.ie/37347/9da24ee6c9354a75a139daf7cdf07007.pdf

Given Ireland's ageing population, the options to ensure the sustainability of the SIF are the eligibility criteria, the rates of payment, the age at which it is payable and the number of people making contributions. The Report of the Pensions Commission has a number of proposals to address the sustainability of the Social Insurance Fund (SIF) in terms of pension age, eligibility criteria, contribution rates, pension calculation methods and pension payment rates (see Box 2).

A broad set of changes to social insurance (base and rates) is one way to avoid the sustainability challenges outlined here (see Box 2 for those envisaged by the Commission on Pensions, which also considers whether factors like migration, fertility and economic growth could alleviate the sustainability challenge). A higher employment rate will also make a difference – a starting point is the ambition of increasing the labour force participation rate as set out in the Future Jobs strategy. As outlined in earlier meetings, the scope for this increase is primarily in the female participation rate for the prime working age cohort (women aged 25 to 54 years).[22]

[22] See table on participation rates, by age group, in An Outline of the Irish Social Protection System, Meeting 2. As outlined at Meeting 4, Encouraging Employment, the increase in the participation rate relates to individualisation of the tax code as well as the successful operation of the Public Employment Service.

Box 2: Recommendations of the Commission on Pensions

The Report of the Commission on Pensions was published in October 2021. The report, along with its technical working papers, is published here. The Commission on Pensions makes a number of recommendations that may be of particular interest to the Commission on Taxation and Welfare, including:

- increasing the PRSI contribution rate for employers and employees (Class A) and the self-employed (Class S)
- broadening the PRSI base by removing the exemption from PRSI for those aged 66 or over (other than social welfare payments), and by removing the exemption to pay PRSI on supplementary pension income (occupational and personal pensions, and public sector pensions),
- maintaining the exemption from PRSI on all social welfare payments, and
- formalising the tripartite basis of SIF funding by employees/self-employed, employers, and the State, by allocating a separate Exchequer contribution to the SIF

Other recommendations of the Commission on Pensions relate to payment rates and methods of calculating entitlement to rate bands, long-term carers' access to pensions, the State pension age and the retirement age.

Further communication is expected between the Minister for Social Protection and the Commission, on foot of the recommendations above and the Commission's consideration of output from the Pensions Commission regarding sustainability and eligibility issues in respect of State Pension arrangements.

8. How PRSI affects employment decisions

Any tax on labour creates a wedge between the cost of labour to the employer and the net remuneration of the worker. As such, any tax leads to a diminution in economic activity, as measured by output or employment volumes. In this regard, PRSI is no different to any other tax in its impact on employment. However, its continued existence, along with income tax and USC, is an example of optimal labour market functioning trading off against distributional or policy objectives.

Aside from the tax wedge difference that applies to economic activity, the entitlement to benefits associated with social insurance may also be relevant. Arguably, PRSI differs from income tax and the USC in that it confers an entitlement to the payment of a future benefit, which offsets its labour supply disincentive effect. In practice, labour supply decisions are likely influenced by the combined impact of all three taxes and charges, rather than any one alone, and the offsetting effect is difficult to estimate or validate. It is worth noting that one expansion of PRSI with no effect on labour supply decisions – positive or negative – is the payment of PRSI on unearned income (Class K, at a rate of 4 per cent).

Rather than having a tax wedge impact on individual labour supply decisions, the PRSI charge may, in some circumstances, have an effect on the legal form through which two sides agree to engage in economic activity. This arises from the disparity between the rate charged on self-employed income (a 4 per cent rate) and the combined employer and employee rates (15.05 per cent), which creates a different tax wedge for economic activity carried out under different legal forms. The extent to which this occurs in practice is, substantially, a question of employment regulation but it is relevant to the question of how the taxation and welfare systems are encouraging employment and whether economic activity is incentivised under particular legal forms (and whether there is justification for this).[23] A separate paper will examine this matter with regard to dependent employment, self-employment and incorporation.

9. Conclusion

Questions for the Commission:

Does the fiscal sustainability question suggest that, overall, PRSI rates should increase and the base should broaden?

How does this align with the objective of encouraging employment by limiting the tax wedge?

Is the application of PRSI on unearned income a positive feature of the social insurance system (in that it does not contribute to the tax wedge that negatively affects employment decisions)?

How might the PRSI base be broadened?

How should PRSI as a tax interact with other forms of personal taxation?

[23] Aspects entirely unrelated to the taxation and welfare systems that influence legal form include: employers' obligations relating to unfair dismissal, minimum wage, collective redundancies, insolvency and the transfer of undertakings, consultation with workers, working hours, and equal treatment and pay.

10. Appendix

Social insurance benefits

Table 6: Social insurance benefits, by PRSI class

Year	Employer PRSI
A	Adoptive Benefit, Carer's Benefit, Guardian's Payment (Contributory), Health and Safety Benefit, Illness Benefit, Invalidity Pension, Jobseeker's Benefit, Maternity Benefit, Occupational Injuries Benefits, Parent's Benefit (since November 2019), Partial Capacity Benefit, Paternity Benefit, State Pension (Contributory), Treatment Benefit, Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension.
B	Carer's Benefit, Guardian's Payment (Contributory), Limited Occupational Injuries Benefits, Parent's Benefit (since November 2019),
C	Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension.
D	Carer's Benefit, Guardian's Payment (Contributory), Parent's Benefit (since November 2019), Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension.
E	Carer's Benefit, Guardian's Payment (Contributory), Occupational Injuries Benefits, Parent's Benefit (since November 2019), Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension.
H	Adoptive Benefit, Carer's Benefit, Guardian's Payment (Contributory), Health and Safety Benefit, Illness Benefit, Invalidity Pension, Maternity Benefit, Parent's Benefit (since November 2019), Paternity Benefit, State Pension (Contributory), Treatment Benefit, Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension.
J	Carer's Benefit(**), Treatment Benefit(**), Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension(**), Adoptive Benefit, Guardian's Payment (Contributory), Health and Safety Benefit, Illness Benefit, Invalidity Pension, Jobseeker's Benefit, Maternity Benefit, Parent's Benefit (since November 2019), Paternity Benefit, State Pension (Contributory). ** Only these benefits are paid during service.
K	Occupational Injuries Benefit.
M	None
P	Occupational Injuries Benefits in certain circumstances.
S	Limited Jobseeker's Benefit, Limited Illness Benefit, Treatment Benefit.
Voluntary Contributors	Adoptive Benefit, Guardian's Payment Contributory, Invalidity Pension, Jobseekers Benefit for the Self-Employed, Maternity Benefit, Parent's Benefit, Partial Capacity Benefit, Paternity Benefit, State Pension Contributory, Treatment Benefit: Dental, Optical and Aural, Widow's, Widower's or Surviving Civil Partner's Contributory Pension.

Sources: Department of Social Protection, Statistical Information on Social Welfare Services, 2020, Appendix 3

PRSI classes

Employee's PRSI:

- Contribution classes of PRSI (classes A, J, E, B, C, D, H, K, M, S and P) apply to different categories of people. Class A which applies to the majority of employees and Class S applies to self-employed people.
    - Class A PRSI:
        - Employees who earn over €352 per week pay PRSI a rate of 4 per cent on all earnings. If earnings are below €352 per week no employee's PRSI is due.
        - For people earning between €351.01 and €424 per week, a tapered PRSI credit is available that reduces the amount of PRSI payable.
    - Class S PRSI:
        - Self-employed people pay PRSI at a rate of 4 per cent of annual earnings subject to a *de minimis* amount of €500.
        - Income under €5,000 per year is exempt from PRSI.

Employer's PRSI

- Employer's PRSI is paid at a rate of 8.8 per cent on weekly earnings up to €398 and at a rate of 11.05 per cent on weekly earnings over €398.
- Self-employed people do not pay employer's PRSI.

Table 7: Social insurance Fund, income, expenditure and surplus/deficit, 1988-2021

Year	Income	Expenditure	Surplus / Deficit
1988	1,303	1,694	-392
1989	1,404	1,683	-278
1990	1,604	1,781	-177
1991	1,761	1,947	-186
1992	1,906	2,103	-197
1993	2,043	2,177	-134
1994	2,139	2,192	-52
1995	2,215	2,488	-273
1996	2,272	2,399	-127
1997	2,470	2,461	8
1998	2,717	2,648	69
1999	3,159	2,817	341
2000	3,726	3,291	435
2001	4,307	3,676	631
2002	4,798	4,376	422
2003	5,089	4,833	255
2004	5,650	5,273	377
2005	6,159	5,665	494
2006	6,974	6,326	649
2007	7,834	7,251	583
2008	8,144	8,400	-255

2009	7,280	9,784	-2,505
2010	6,710	9,461	-2,751
2011	7,544	9,004	-1,460
2012	6,781	8,870	-2,089
2013	7,318	8,632	-1,314
2014	7,891	8,431	-540
2015	8,498	8,617	-119
2016	9,217	8,764	453
2017	9,816	9,085	731
2018	10,625	9,491	1,135
2019	11,585	10,016	1,569
2020	10,666	14,102	-3,436
2021	11,130	15,345	-4,215

Source: Department of Social Protection data

Extract from the terms of reference of the Commission on Taxation and Welfare:

Examine what changes, if any, should be made to the social insurance system, including structure and benefits coverage, while ensuring sustainability. This will include consideration of the NESC report no 151 (November 2020) on the future of the Irish social welfare system and of output from the Pensions Commission regarding sustainability and eligibility issues in respect of State Pension arrangements. It will also include examination of how welfare policy can work in tandem with the taxation system to support economic activity, and while continuing to support those most vulnerable in our society in a fair and equitable way, having regard in particular to experience gained during the Covid-19 Emergency.