



## Summary of the NESC report

**CONFIDENTIAL AND NOT FOR WIDER CIRCULATION**

For [Information]

<b>Subject</b>	<b>Summary of the NESC report No.151, entitled 'The Future of the Irish Social Welfare System: Participation and Protection', November 2020</b>
<b>Author</b>	Commission on Taxation and Welfare Secretariat
<b>Version</b>	[Draft]
<b>Date</b>	Document last updated 06 July 2021

### Key points

- The NESC report states that the Irish social welfare system is not in crisis, but faces profound challenges in wider social, economic and demographic contexts, challenges that have been compounded by the Coronavirus pandemic.
- The Irish social welfare system contributes to reducing market income inequality.
- The NESC report recommends that, to meet the challenges it faces, the Irish social welfare system should move towards more social insurance based system that would be more reliant on the social insurance contributions made by individuals, with social assistance payments for those who do not have social insurance.

## 1. Introduction

Report 151 by the National Economic and Social Council (NESC), “The Future of the Irish Social Welfare System: Participation and Protection” was published in November 2020. It considers the question of whether Ireland’s social welfare system is fit for purpose in the 21<sup>st</sup> century and proposes a number of reforms. The report is presented in three parts.

- The first part outlines the concepts underpinning the social protection system, describes the history and evolution of the Irish social welfare, as well as setting out the challenges it now faces.
- The second part proposes reforms, including to support participation, to modernise family supports and to enhance the future financial sustainability of the social protection system.
- The third part considers the implications of Covid-19 and the welfare measures implemented to support people during the pandemic.

This document summarises the detailed and comprehensive report which is close to 200 pages in length and which is based on a series of working papers that are available on the NESC website. A list of the members of the NESC working group is included in the appendix to the report.

This summary attempts to condense the main recommendations of the report and, in the conclusion, points out the degree to which the proposed changes are a substantial redevelopment of the existing social welfare system or minor adjustments, as well as highlighting questions the Commission on Taxation and Welfare may wish to consider.

## 2. Report summary:

### Background

The report describes Ireland’s social welfare system as modern and reasonably well functioning, with the report presenting an opportunity to assess its fitness for purpose in the 21st century, and whether the system adjustments are moving in the right direction.

In considering how income transfers operate, the report emphasises the context of health, education and housing services, and the extent to which they are comprehensive, universal and cost-free to the

user. Where they are, there is less reliance on income transfers to ensure living standards are above a certain threshold.

The report assesses the Irish social protection system in respect of three long-standing challenges:

- economic inequality;
- the mix of cash benefits versus services; and,
- the role of social insurance.

The first point, economic inequality, is of interest to any consideration of the taxation and welfare systems and is outlined in greater detail in associated working papers that form the basis of the report. The published report focuses on non-participation leading to low market incomes and variation in the market incomes of those in employment.

On the greater prevalence of cash benefits rather than services, the report acknowledges the challenges presented by determining the funding mix, organisational forms, standards for, and regulation of, services when compared to the relatively straightforward provision of cash benefits.

On the role of social insurance, the report acknowledges the balance to be struck between the contributory principle and principles of redistribution and solidarity.

### **Chapter 3: Changes, opportunities and challenges**

The report identifies the following changes that are taking place at present, with associated challenges, as follows:

- Social change – changes to family formation (structures, children, roles for men and women within families)
- Demography – the increase in life expectancy and the decrease in fertility rates, leading to a change in the proportion of people at, and above, working age
- Income and wealth – while income inequality has remained stable, the report suggests wealth inequality may be on the increase, and is likely to be exacerbated by inequality in home ownership and inheritance
- Funding of the Social Insurance Fund (SIF) – the funds required to cover the cost of the contributory State pension requires a PRSI rate of 15.5% for a person on average earnings, in contrast with an effective 13% rate for employees and 3.7% for self-employed people.

The report also points to tax structures related to couples and those with children, in particular the fact that tax credits are transferrable between married couples but not cohabiting couples and this transfer is unrelated to the presence of children. Given the changes in family structures over the past 40 years, the traditional family now co-exists with many alternative family types.

Without comparable data over time, it is not clear whether increasing insecurity (in housing, for example) is leading to greater support for State intervention. Much like our international counterparts, support for welfare among people in Ireland is ambivalent and somewhat contradictory. While people want the Government to provide welfare supports and indicate a willingness to pay for them, they feel they cannot access the supports when they need them and that they are contributing more than they receive, while many people receive benefits without deserving them.

## Chapter 4: A Framework for the future

The report encourages the adoption of a framework within which to consider a social welfare system for the 21st century while acknowledging that this framework will involve trade-offs between its component parts.

In comparison with other continental and northern European social welfare systems, it is worth noting Ireland's heavy reliance on cash income supports rather than service provision in meeting basic needs, with the acknowledgement that increasing service provision also requires a structure of regulation.

On a continuum from a reliance on means-tested social assistance payments, to a social insurance and social assistance mix, through social insurance mainly, to universal payments, Ireland is located on the social insurance/social assistance mix, with options for moving in the direction of greater social insurance, more means-tested payments, or more universal payments (also known as universal basic income).



---

Source: NESC, 'The Future of the Irish Social Welfare System: Participation and Protection', p xii

---

## **Chapter 6: Ensuring adequacy and alleviating poverty**

Notwithstanding the effectiveness of taxes and social transfers in reducing the risk of poverty and the low overall risk of poverty, the report outlines that some groups remain at greater risk of poverty. Based on an approach that identifies minimum expenditure requirements for a number of household profiles, the report concludes that, to reduce poverty, social welfare rates need to be increased for some contingencies. Of the various approaches to achieve this (annual budget increases, increases with rate of inflation, increases in line with wages, or as a proportion of earnings), the report recommends an agreed mechanism for increasing social welfare rates, taking into account the adequacy of payments for cohorts most at risk of poverty.

The report presents three proposals for ensuring income adequacy and alleviating poverty:

- Establish an independent indexation group to advise Government on appropriate welfare payment rates ensuring social welfare payments are adequate to prevent poverty.
- Introduce a two-tier child income support comprising a universal child benefit paid in respect of all children, with an automatic supplement payable in respect of children in low-income families, where these families are in receipt of a social welfare payment or in low-paid employment.
- Provide supportive services to complement income supports, including proposals on education, childcare, healthcare and housing.

## **Chapter 7: Modernising family supports to reflect gender and care needs**

The report outlines how the social welfare system should reflect changing patterns of household and family formation, with a commitment to equal gender roles and rights, and a sharing of family responsibilities.

The welfare and tax systems should be reformed to more closely reflect current family structures. The report proposes the following:

- The individualisation of the basis on which households receive social welfare payments, with the partners of people in receipt of a social welfare payment dealt with as separate individuals (where currently the claimant receives an additional sum in respect of the partner). This has consequences for conditionality attached to claims, as well as for activation and means-testing.

- Consideration should be given to parents being entitled to take part-time leave when they have young children, and to flexible work patterns to support those looking after older people to better support balancing work and family commitments.
- A review of the transferability of tax credits and the standard rate cut-off point to assess whether they should apply to married and co-habiting couples with dependent children only. This will require clarification on whether the original purpose was to support the care of children, and consideration of whether the Home Carer Tax Credit, which is linked to the presence of children but only in a marriage or civil partnership, should be so restricted.

## **Chapter 8: Supporting high participation**

The report identifies supporting high participation as focusing on the labour market choices of people with caring responsibilities, those with lower than secondary education, people with disabilities, and older workers. Dealing with the complexities of the changing world of work, such as atypical work, self-employment and platform work, is one of the issues that needs to be addressed.

NESC suggests a tripartite group—e.g. the Labour Employer Economic Forum (LEEF) or a similar body—to assess the reforms that would achieve flexibility and security for the greatest number of workers as well as recommending effective options to combat false self-employment.

A more inclusive public employment service would also support high participation in the labour force. This would be characterised by tailored supports, greater intensity of support, and further development in providing information and career guidance.

To encourage greater participation and potential progression, it is proposed to pilot a participation income. The idea behind this is that work which is currently unpaid, but of societal value, such as voluntary or caring work, could be recognised in some way. The pilot should be targeted at people not currently in the labour force but who could make a contribution to their local community or society.

There is also a need to support low-paid workers without children who are at risk of poverty, by amending the Working Family Payment or by introducing a refundable element to personal and employee tax credits. The report proposes the additional tapering of benefits on moving to employment (to avoid poverty and unemployment traps).

## **Chapter 9: Enhancing financial sustainability**

The report considers three main types of options for ensuring the long term financial sustainability of the social protection system:

- Increasing the funding for welfare
- Measures that manage expenditure
- Other external actions to help reduce financial pressure on the welfare system

A number of proposals are made:

- Increasing the PRSI contributions rates (especially for the self-employed)
- Assessing tax on all forms of income, including income from new sources (relating to digitalisation)
- More capital and property taxes with fewer exemptions
- Capping tax expenditures
- Applying multiple rates of income tax
- Adapting eligibility rules for benefits (for example, increasing the pension age, benchmarking benefits against other income/prices, employing greater targeting or more refined tapering of benefits)
- Increase the numbers in the labour force to increase contributions to the social insurance system.
- Reducing tax relief available for pensions for those on higher incomes.

## **Chapter 11: Implementation**

There are administrative reforms that, if implemented, would make the welfare system easier to operate and more transparent.

The report suggests:

- A working group be established to review and address inconsistencies, to consider how a single portable means test for a range of benefits might be operationalised.
- Examining disincentives to employment caused by the interaction of taxes and contributions for those on lower incomes.
- Good data are required to inform changes to the welfare system.

## **Part 3: Epilogue – Implications of Covid-19**

The report notes policy measures introduced in response to the Covid-19 pandemic to protect employment and ensure adequate incomes could be built on as follows:

- A stronger social insurance system - including considering whether entitlements should be more explicitly related to contributions, and whether there should be a pay-related element to social insurance payments.
- Reconsideration of flexicurity - high mobility between jobs and a comprehensive income safety net for the unemployed and active labour market policies.
- Better recognition of atypical work - the Pandemic Unemployment Payment and wage subsidy schemes were based on being in work at the onset of the crisis rather than on PRSI contributions or household means.
- Greater tapering in the withdrawal of benefits - the avoidance of a cliff edge in the operation of the Pandemic Unemployment Payment.
- Stronger anti-poverty measures.
- More appreciation of caring.
- Opportunity to pilot participation income.
- The importance of supportive services and community innovation.

The report notes that a sustainable funding mechanism is required to bring about the proposed developments and reforms (see chapter 9).

### 3. Conclusion

While it acknowledges the Irish social welfare system as being modern and reasonably well functioning, the report outlines an extensive set of recommendations, from minor adjustments of practice or process to major policy changes.

Thus far, this document has summarised the arguments and proposals in the report and, in this section, assesses the degree to which the proposed changes are substantial rebuilding of the existing system or minor adjustments. This section also picks out questions that crop up in the report that may be of interest to the Commission.

The report proposes reorientation of systems developed during times when family structures were perhaps more homogenous. The outcome of this proposal involves dependants of people on means-tested payments, with children older than seven, being subject to conditionality and activation as well as having access to employment services.



The proposal to develop a system of indexation of payments constitutes a considerable change to how rates of payment are determined at present but may not, in practice, have a major expenditure effect. Although the operational detail will determine overall expenditure, it may be that an indexation approach would be no different, in the long term, to the current approach of rate increases without reference to the relative value of the increase. It would have the benefit of a more transparent and predictable method of expenditure management.

The proposal to pilot a participation income acknowledges that existing schemes (community employment, TÚS and the Rural Social Scheme) come close to what is identified as a need to recognise work that is unpaid but of societal value<sup>1</sup>. The extent to which it would be transformative depends on how far any expansion goes beyond current recipients of analogous payments.

The report's recommendation to stabilise the social insurance system is buttressed by published actuarial projections of a shortfall in funding due to employer and employee contribution rates that are, by international standards, low and the contrast in benefits and contributions, particularly for the self-employed. The options to address this, as set out in the report, are relatively straightforward to cost and there would also be measurable consequences for the tax wedge.

Perhaps the report's most far-reaching recommendation is that Ireland should move towards a system with a greater proportion of social insurance. While there are metrics to assess the effectiveness of competing models of social welfare across a number of criteria, without a more detailed proposal of how contributions would relate to entitlements, and how it would be distinguished from the equivalent social assistance payment, it is not possible to bring evidence to bear on the argument that a greater reliance on social insurance would enhance overall welfare. The question of the mix between the two systems is largely a value judgment on the optimal design of a system combining social insurance and social assistance. Indeed, this accords with the request in the paper's introduction for a wide-scale deliberation of fundamental concepts underlying social policy.

In any event, the report's proposal to move towards a greater share of social insurance comes with a caveat that maintaining a mixed model of social protection remains essential. The scope for increasing the share of payments based on social insurance remains unclear if there is a requirement that the equivalent social assistance payment fulfils a similar poverty reduction function.

---

<sup>1</sup> A better example may be carer's allowance. For pension purposes, home caring periods that are included in the calculation of a person's pension rate are a (deferred) recognition of work that is unpaid but of societal value.

The report also anticipates the setting up of the Commission on Taxation and Welfare by recommending that a commission on taxation reviews multiple rates of taxes in the context of maintaining the progressivity of the tax system and tax yield, as well as reducing administration and increasing the incentive to work for low earners.

Finally, interspersed throughout the report are a number of questions that may be suitable for consideration by the Commission on Taxation and Welfare given its terms of reference:

- Should regulation (through employment law or minimum wages) or tax-benefit measures be used to address low incomes?
- Should cash benefits or tax credits be preferred if the tax-benefit system is used to improve the net incomes of low-paid workers?
- Is there a policy rationale for supplementing low incomes regardless of family structure?
- Should the universal (or practically universal) payments for both children and those of pension age be targeted at those who have most need of them?
- Is the scale of tax reliefs available, and the relatively low property tax, appropriate given the need for sustainable funding?

### **Additional documents supplied**

- [The future of the Irish social welfare system participation and protection](#) (151)  
November 2020
- [Challenges Facing the Welfare State](#) Background Paper (151/9) November 2020
- [Towards a More Integrated Income Support System](#) Background Paper (151/5)  
March 2021