



## Pay Related Benefits

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For consideration

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### Key points

- The current Programme for Government and Pathways to Work commit to designing a pay-related social insurance jobseeker payment.
- Arguments for pay-related benefits include the protection they can provide by cushioning income shocks when a person becomes unemployed; and smoothing transitions between employment and unemployment.
- Such a system links the monetary value of benefits to the value of contributions made.
- Arguments against pay-related benefits are that they can act as a transfer from lower to higher-income deciles; and may support individuals with alternative means and resources to a greater extent than is necessary.
- It may be argued that pay-related benefits enhance a sense of reciprocity within the system as a whole.

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## 1. Introduction

As previously outlined, social protection provides a safety net to provide for contingencies and deliver income support when those contingencies arise.<sup>1</sup> As part of its function to alleviate the risk of poverty, income support smooths consumption for people who lose their jobs. The extent to which it smooths consumption depends on the level of the payment relative to earnings prior to the period of unemployment as well as the level of the payment relative to some minimum benchmark of adequacy.

A concurrent function of insurance-based unemployment schemes is to facilitate the job matching function. The economy as a whole works best if the people with the most relevant skills are doing the jobs that require these skills, boosting productivity and output. The role of insurance-based unemployment schemes is to provide a safety net so that a reasonable match, based on skills and experience, is the driver of a return to work rather than the necessity to alleviate imminent poverty driving an immediate return.

Both aspects have an important impact at the level of the individual and at the macro level. Automatic stabilisers operate as corrections after economic shocks and are designed to do so without discretionary policy intervention. When large numbers of people are suddenly unemployed, the entitlement, as of right, to an insurance-based payment mitigates a drop in aggregate demand. Similarly, while finding the right job to match one's skills and experience is important to the individual, overall productivity is enhanced by this happening across all jobs.

Meeting 10 noted that, within social insurance, we can 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. This aspect is linked to the notion that social insurance should have some degree of reciprocity.

In the social insurance system, the idea of some degree of reciprocity is seen most clearly at pension age. The lifetime sum of contributions (an indication of consistent labour market attachment rather than earnings levels) determines the rate of pension payment.<sup>2</sup> For recipients of working age payments, once over the qualification threshold, the lifetime number of contributions has no

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<sup>1</sup> See Meeting 2, Introduction to Social Protection

<sup>2</sup> See Social Insurance, Meeting 10, for the calculation methods, which are either averaged or summed to determine rate bands.

relationship to the rate of payment.<sup>3</sup> To highlight the relevance of this topic to the discussions of the Commission, the related aspects of the Commission's terms of reference are reproduced in Box 1.

**Extracts from Commission terms of reference:**

- “Review how best the taxation and welfare system can support economic activity and income redistribution, whilst promoting increased employment and prosperity...”
- “Examine what changes, if any, should be made to the social insurance system, including structure and benefits coverage, while ensuring sustainability...”
- “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.”

## 2. Assumptions

The current Programme for Government, ‘Our Shared Future,’ discusses a new social contract with citizens. To this end, a “balanced progressive approach” will be required, and the Government commits to replenish the Social Insurance Fund (SIF) to pay for a range of benefits, including pay-related benefits. Pathways to Work 2021-2025 commits to designing a pay-related social insurance jobseeker payment under the current Programme for Government.<sup>4</sup>

In light of this expected development, and the Commission's terms of reference, this paper considers the advantages and disadvantages of one form of pay-related benefit – a jobseeker payment where the weekly rate of an unemployment benefit is related to previous earnings. The proposal for pay-related benefit is still at the policy development stage and has not yet been advanced to the point where the specific features of the proposal can be considered. This paper outlines the concept of pay related benefits for jobseekers based on a set of assumptions.

The discussion on pay-related benefits could usefully proceed along two tracks:

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<sup>3</sup> Working age payments are generally unrelated to previous earnings. Jobseekers Benefit has different rates but the large share of recipients are in receive of the maximum rate. See current eligibility criteria and rates of payment in Section 3: Current operational design (Jobseekers Benefit).

<sup>4</sup> [Pathways to Work 2021-2025, The Welfare System - Working for Work](#)

- (i) a principled consideration of whether it is desirable, or at least in accordance with the high-level imperatives outlined to date, to link past earnings levels to the rate of payment for a jobseeker payment, and
- (ii) some discussion of likely impacts of this development, acknowledging that this is hampered to some degree by the lack of the design detail at this stage.

Certain assumptions are set out below in order to outline how the benefit could work. This is primarily based on the Pandemic Unemployment Payment (PUP) on the basis that Pathways to Work 2021-2025 commits to use this experience to inform the design and implementation of any such system (see Table 1). Therefore, this paper uses elements of PUP as default values when describing how a pay-related benefit system might operate. The assumptions set out below may vary from what emerges as the future design – the distributional impact is quite different under other scenarios, where, for example, the payment rate is continuous rather than banded or adult and child increases are paid alongside it.

A very different version of pay-related benefit is where the payment is on a continuous scale, pegged at a proportion of earnings over a previous period. A benefit worth, say, 80 per cent of previous earnings, without a cap, has very different cost implications and a different distributional impact.

**It must be emphasised that the cost of any pay-related benefit proposal depends on the details of its design, and that the total cost may vary considerably depending on the design chosen.**

**Table 1: Pandemic Unemployment Payment rates of payment, October 2020-September 2021**

Previous average weekly earnings	Corresponding annualised earnings	Weekly rate
Less than €200	<€10,450	€203
€200 or above but less than €299.99	€10,450 - €15,674	€250
€300 or above but less than €399.99	€15,674 - €20,799	€300
€400 or more	>€20,799	€350

Source: Gov.ie, [COVID-19 Pandemic Unemployment Payment Rates](#)

**Working assumptions:**

In the absence of either a set proposal or the scope to discuss all possible permutations, the following assumptions underpin what is intended by pay-related benefit hereafter:

- It is assumed that payment rates will relate to bands of previous earnings. For the purposes of this paper, it is assumed that the lowest payment rate will be the maximum personal rate of Jobseeker's Benefit at present (€208 per week). The rate bands applicable to the PUP are used here (see Table 1 above).
- The working assumption, for the purposes of this paper, is that increases/additional payments for qualified adults or children are **not** paid. In other words, only the personal rate applies regardless of household composition. Depending on household composition, some jobseekers will be better off in receipt of the equivalent social assistance payment.
- Recipients of Jobseekers Benefit who have not found employment by the time the benefit expires move to the means-tested social assistance Jobseekers Allowance. Some people in receipt of Jobseekers Benefit do not qualify for Jobseekers Assistance due to means (e.g. savings or capital) at levels that renders them ineligible. This is assumed to continue.
- The duration of the pay related benefit is assumed to be shorter, at six months, than Jobseekers Benefit (currently nine months) to give some sense of the trade-off between pay-related benefits and duration until benefit expiry within a given level of expenditure. This also captures the impact of the scenario outlined above, where those who are not entitled to Jobseekers Allowance exit after a shorter benefit duration, and illustrates the trade-off, for a given level of expenditure, between higher benefit levels (in this case pay-related) and shorter durations.

Table 2 outlines how some of these rates of payment correspond to the earnings distribution for individuals in 2019, with the rate of payment compared to the weekly (and annual equivalent) earnings at each decile. The replacement rate is the rate of payment as a proportion of the weekly earnings at each decile.

**Table 2: Weekly earnings by every 10th percentile, corresponding PRB rate and replacement rates**

Percentile	Weekly earnings 2019	Annual earnings 2019	Rate of payment	Proportion of previous earnings replaced
Up to 10th	<€211.35	<€11,020	€203/€250	>118%
10 <sup>th</sup>	€211.35	€11,020	€250	118%
20 <sup>th</sup>	€316.84	€16,520	€300	95%
30 <sup>th</sup>	€417.54	€21,771	€350	84%
40 <sup>th</sup>	€504.62	€26,311	€350	69%
50 <sup>th</sup>	€598.36	€31,198	€350	58%
60 <sup>th</sup>	€708.13	€36,922	€350	49%
70 <sup>th</sup>	€839.87	€43,791	€350	42%
80 <sup>th</sup>	€1,048.32	€54,659	€350	33%
90 <sup>th</sup>	€1,399.04	€72,946	€350	25%

Source: CSO, [Earnings Analysis using Administrative Data Sources 2020](#)

### 3. Social insurance benefits for jobseekers

While the rationale for, and features of, the social insurance system have been addressed in previous papers, this section outlines the current social insurance benefit available to jobseekers in order to contrast the status quo with a putative change.

The current social insurance benefit available in the event of unemployment is Jobseeker's Benefit. To qualify, a claimant must:

- be unemployed, or have sustained a substantial loss of employment,
- be under the pension age,
- be available for full time work and genuinely seeking work, and
- have made sufficient qualifying social insurance contributions.

Jobseeker's Benefit is paid for a maximum of nine months, but may be paid for six months, depending on the claimant's contribution history, as set out below:

- If a claimant has 260 PRSI contributions paid, the claim lasts for a total of nine months of unemployment.
- If a claimant has less than 260 contributions paid the claim lasts for a total of six months of unemployment.

The maximum rate of Jobseeker's Benefit paid to a recipient is €203 (€208 from January 2022), where a recipient's average weekly earnings in the governing contributory year were €300 or more.<sup>5</sup> For jobseekers who earned below this rate, reduced banded rates will be paid in accordance with average weekly earnings (a qualified increase for adults and/or children may also be paid). As explained in the introduction, once a recipient is over the qualification threshold, the lifetime number of contributions has no relationship to the rate of payment. Table 3 sets out these personal rates of payment, using data from 2019. As noted previously, the payment is earnings-related in its design – however, the earnings band associated with the highest rate of payment is set quite low, with the vast majority qualifying for the highest rate.<sup>6</sup> Compared to the payment rate of the PUP, the maximum personal rate is 58 per cent of the value of the PUP rate.

**Table 3: Jobseeker's Benefit rates of payment 2019 recipient numbers**

Average weekly earnings	Personal rate of payment	Number of recipients (2019 quarterly average)
€300 or more	€203	23,229
€220 or above but less than €300	€159	3,505
€150 or above but less than €220	€131	1,802
Less than €150	€91.10	2,959

Source: Gov.ie, [Jobseeker's Benefit](#); Department of Social Protection Administrative Data

Note: Quarterly average recipient data includes casual recipients

The nature of social insurance is that the entitlement is based on contribution history without regard to means and that the loss of earnings from employment is enough to trigger the entitlement. It may also be worth considering whether employment income is too narrow to be the basis on which the substantial loss is deemed to occur.

Previous discussions on 'High-Level Design Imperatives' (Meeting 8) outlined the Haig-Simons definition of income, which was discussed in a related paper. This is a broad definition, suggesting that income broadly connotes the exercise of control over scarce resources and ultimately defines income as equal to total consumption during a year plus any increases in capital (after accounting for

<sup>5</sup> The Governing Contribution Year (GCY) is the second last complete tax year, for example, for a claim in 2021 the second last complete tax year in 2019. To qualify for Jobseeker's Benefit, a jobseeker must have at least 39 reckonable contributions paid or credited in the GCY and 13 of these contributions must be paid contributions; or have at least 26 reckonable contributions paid in both the GCY and the year immediately preceding the GCY. Gov.ie, [Operational Guidelines: Jobseeker's Benefit](#)

<sup>6</sup> Social insurance – design questions, operation, financing and sustainability, Meeting 10

inflation). A comprehensive definition of income on these lines would include capital gains, gifts and inheritances, lottery winnings and all other receipts.

The implications of this approach are that income from different sources, such as rents, interest or earnings should, as far as possible, be treated in the same way, contributing to a more neutral tax system where decisions regarding how to generate monies are made on their economic merit and not the tax implications of that choice<sup>7</sup> Applying this approach to social insurance acknowledges the importance of other sources of income and that an entitlement could be on the basis of a substantial loss of income flowing from a substantial loss of employment.<sup>8</sup>

### 3.1 Exits from Jobseeker's Benefit

Being in receipt of Jobseeker's Benefit indicates a recent employment history and at least some degree of consistency in labour market attachment, which is a good predictor of the likelihood of returning to work. Table 4 provides detail on why people exited Jobseeker's Benefit in 2019, and after how long. Almost two thirds of jobseekers were in receipt of the payment for a period less than three months, with one in six moving off the payment between three and six months.

A relatively small proportion exited the scheme to return to education or training, or have transferred to another social welfare scheme. Approximately one quarter of exits are due to benefit expiry as the claim reaches the maximum duration. This has implications for the scheme design, in that a payment that lasts only six months provides income support for the full duration of unemployment for four in five recipients, or at three months it provides income support for the duration of the claim to two out of three.

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<sup>7</sup> The Commission on Taxation 1982-1986 endorsed the Haig-Simons definition of income

<sup>8</sup> "To qualify for Jobseeker's Benefit, a person must sustain a substantial loss of employment. A person is regarded as having sustained a substantial loss of employment if he or she has lost at least one day of insurable employment in any period of seven days as an officer of the Minister may determine, provided his or her reckonable earnings or reckonable income are reduced as a consequence of the loss of employment." Gov.ie, [Operational Guidelines: Jobseeker's Benefit](#)

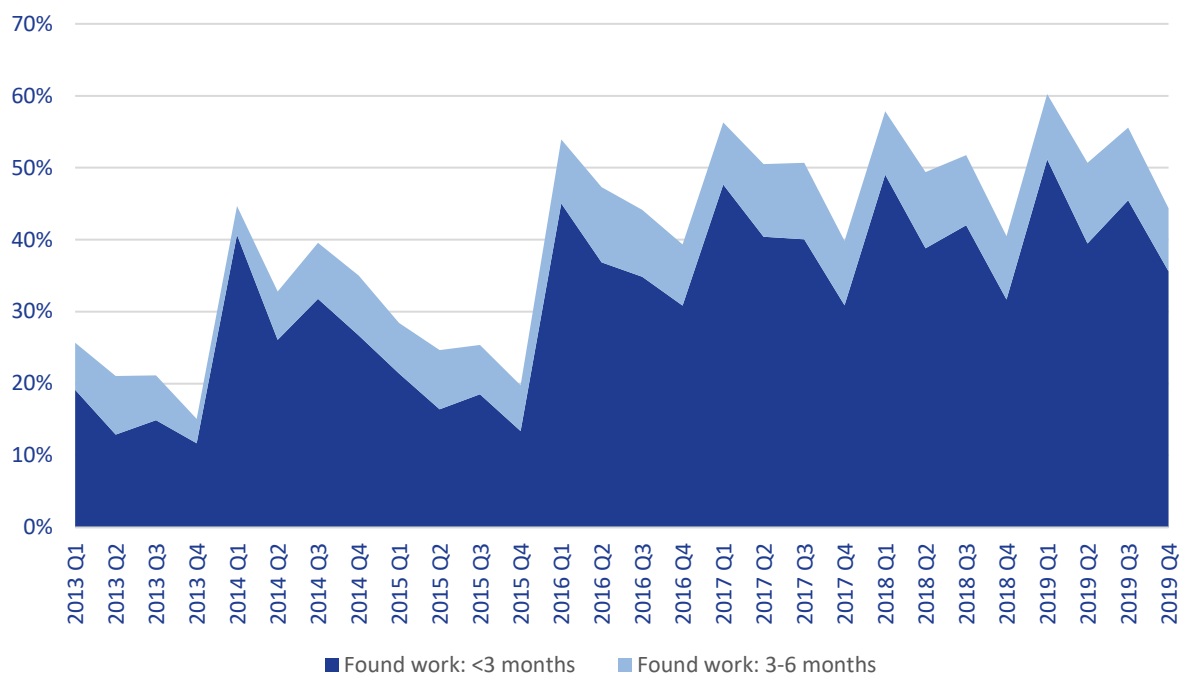
**Table 4: Exits from Jobseeker's Benefit, 2019 by reason for exit and duration**

Reason for exit	<3 months	3-6 months	6 months -1year	>1year	Total	% of total
Found work	50,121	9,473	3,294	38	62,926	60.5%
No longer entitled to unemployment	10,753	3,612	12,376	191	26,932	25.9%
No reason stated	3,692	2,371	989	7	7,059	6.8%
Other	1,587	547	265	19	2,418	2.3%
Took up educational, training or employment placement	762	549	356	2	1,669	1.6%
Transferred to other DSP schemes	1,631	641	695	14	2,981	2.9%
Total	68,546	17,193	17,975	271	103,985	
<b>Proportion of total, by duration of payment</b>	65.9%	16.5%	17.3%	0.3%		

Source: Department of Social Protection admin data

Over a longer timeframe, Figure 1 shows the proportion of Jobseeker's Benefit recipients who exited to work, within three months and between three and six months, from 2013 to 2019. Primarily, this figure shows that of all exits from Jobseeker's Benefit (all reasons for exit include finding work, taking up education or training, transferring to other DSP schemes) across all durations of payment, a significant proportion find work within three months. This is supplemented by individuals who exit to work after between three and six months of payment, indicating the significant proportion of Jobseeker's Benefit recipients on the scheme for relatively short periods of time before returning to work. The improvement over time, over a period when employment prospects improved steadily, is also worth noting.

**Figure 1: Number of exits to work from Jobseekers Benefit, by claim duration (three/six months) as proportion of all exits in a month, 2013-2019 (quarterly averages)**



Source: Department of Social Protection administrative data

## 4. Arguments for and against pay-related benefits

### 4.1 Cushioning the income shock in unemployment

One of the main advantages of pay-related benefits is the protection it gives to recipients' standards of living when they become unemployed. By connecting benefit rates to previous earnings, a sudden loss of earnings might be better cushioned compared to when income drops to the level of the current flat-rate jobseeker payment. This provides the recipient with greater income certainty for the duration of the benefit and ensures the ability to better meet financial needs while they seek employment. As noted in the section 3 above, this relates only to the earnings from employment and they may have other sources of income that also serves to mitigate the income shock associated with unemployment.

### 4.2 Household resources

In the absence of pay-related benefits, most people who were in employment experience a sudden drop in income when moving to a jobseeker payment. This may cause financial stress and uncertainty, and may result in unmet needs, particularly in the short term, when a pattern of expenditure is based

on the earnings from employment. To cover any immediate financial needs during this period a person may have to rely on savings or other resources.

However, it is not clear that this is problematic at certain levels of income. A person's level of earnings affects the capacity to save while in employment. Those who earn more will likely have higher expenditure commitments that may be difficult to reverse in the short term but have had the capacity to build up resources over a longer timeframe.

Pay-related benefits are of advantage in maintaining the short-term expenditure commitments of people with higher previous earnings but it is arguable that, in the first instance, a person's own resources should be drawn on to maintain expenditure patterns. The current Jobseeker's Benefit scheme already does this, by design, as it pays a flat rate without a means test. Therefore individuals with greater means (including savings) can qualify for and receive Jobseeker's Benefit, even if they have the means to support themselves without recourse to State support. This element of deadweight is essentially a design feature of social insurance where an entitlement to a benefit comes as of right once the threshold has been reached.

Jobseeker's Benefit is, at present, calibrated to take account of additional adults and/or children in a household, who are dependent on the recipient's income. Such additional payments take account of the varying needs and circumstances of Jobseeker's Benefit recipients, with varying household compositions. Under the assumptions outlined here, a pay-related benefit dilutes the consideration given to other dependent members of a household – indeed, some jobseekers with adult and child dependants will be better off under the current arrangements.<sup>9</sup>

### **4.3 Distributional impact**

The distributional impact of a pay-related benefit is most sensitive to the design parameters and the precise distributional impact cannot be identified without deciding on the payment rate levels and how these correspond to previous earnings.

In general, by cushioning incomes, pay-related benefits broadly uphold and maintain the current income distribution. Under pay-related benefits, a medium-to-high earner who becomes unemployed will not be as exposed to the same sudden, sharp drop in income. In this sense, the advantage of pay-

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<sup>9</sup> The working assumption is that increases for qualified adults or children are calculated as a flat rate increase and not proportional to the recipient's previous earnings (unlike the personal rate for a pay-related benefit).

related benefits is that they minimise downward movements through the deciles of the income distribution.

On the other hand, however, this removes the equalising impact of the flat-rate social insurance payment for all recipients. In this way, a pay-related benefits system acts as a transfer from lower to higher income decile households (relative to what would otherwise happen) by maintaining the status quo in the income distribution. In other words, introducing a pay-related benefit has distributional consequences when compared to the no policy change situation.

#### 4.4 Labour supply

Previous papers provided to the Commission have outlined the relationship between earnings from and income support payments, and the impact this relationship has on short-term financial incentives to work (see Meeting 4). The overall finding is that short-term financial incentives matter somewhat but high replacement rates are relatively rare and, more importantly, many people with high replacement rates – where it would be financially advantageous not to work – are in employment <sup>10</sup>. Further evidence on this is presented in the appendix based on the empirical, rather than hypothetical, replacement rates for Jobseeker Benefit recipients. This shows a large majority of recipients have replacement rates under 60% (meaning the unemployment payment replaces less than 60% of what they previously earned) and those above that level generally relate to the presence of adult dependants or two child dependants.

A potentially important corollary to the discussion on financial incentives relates to the work of the PES.<sup>11</sup> The activation process is a counterpart to the analysis that considers the purely financial balance between adequacy of income support payments and maintaining the short-term financial incentive to work. Adopting a pay-related benefit changes the system of payments that generates the current range of short-term financial incentives to work, and heightens the importance of activation. Discussions of pay-related benefit sometimes assume that high levels of activation and a short payment period would be part of the design.

Finally, as alluded to the introduction, the social protection system also has a role in smoothing transitions between employment and unemployment. Previous papers have outlined how a certain level of short-term unemployment (frictional unemployment) is an indicator that the labour market

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<sup>10</sup> The replacement rate is the proportion of previous earnings that the jobseeker payment replaces, with values over 100% indicating the value of the jobseeker payment is greater than previous earnings.

<sup>11</sup> Activation and the Public Employment Service, Meeting 11. It is acknowledged that some members are unconvinced the topic is within the remit of the Commission's terms of reference.

and the social protection system are both functioning well. The social protection system provides income support during these periods to enable people to move between jobs and, in the event of unemployment, to move as rapidly as possible onto the next job that represents a good match between the task and the person's skills. The matter for consideration is how to pitch the level of income support, and whether to link it to previous earnings, in a way that absorbs the income shock to an optimal level (given some degree of trade-off between adequacy of income support, deadweight and total expenditure in transfers).

## 5. Alignment with principles discussed to date

The previous sections outlined the arguments about the potential impact of the introduction of pay-related benefits: how it serves to better smooth the income loss associated with unemployment, the household dimension and the possible labour supply aspects. The policy option of a pay-related benefit can be considered through the lens of the principles of taxation outlined at earlier meetings and through the narrower lens of the social insurance principles that underpin social insurance benefits. The latter is a way of considering how pay-related benefit is aligned with the terms under which people make social insurance contributions in anticipation of receiving a benefit under certain circumstances.

The notion of equity is that people should contribute in proportion to their abilities and that people (or households) with the same gains in discretionary income should be treated equally.<sup>12</sup> Horizontal equity is the objective of treating similar people in similar ways. While the principle is simple in its statement, the interpretation and application hinges on determining the relevant dimensions by which we are adjudging people to be similar or in the same situation. In this case, the difficulty is whether to categorise individuals as similar based on the previous earnings or based on their current situation (unemployed in this scenario).

Pay-related benefit is premised on the notion that similarity based on previous earnings has primacy. By paying a different level of benefit based on previous earnings, pay-related benefits arguably runs counter to the notion of horizontal equity that underpins the current system, as it does not confer the same level of benefit on people whose contributions are of lower monetary value but who have an identical contribution record. In terms of need, people with similar needs (i.e. they have recently lost

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<sup>12</sup> For the purposes of this paper, discretionary income is taken as the residual income beyond what is required for the necessities like food and clothing and obligations to dependants. Further discussion on principles is required before members agree on a definition.

their employment and need income support) are currently treated similarly but will be treated differently if payment rates are based on past earnings.

Vertical equity typically refers to those in different circumstances bearing appropriately different burdens (usually, of taxation). Those higher on the earnings distribution are expected to pay a greater burden than those lower down - this is achieved through a progressive taxation system, something that is true of both PRSI, income tax and USC individually and together (and is developed further in the paper on the personal taxes on income). Members of the Commission may wish to consider whether, having previously made a higher level of contribution under a progressive personal tax system, the principle of vertical equity supports a correspondingly differentiated rate of unemployment benefit. Arguably, this approach can be buttressed by the notion of reciprocity and that a system that maintains some relationship between the financial value of what is paid in and paid out will garner greater support.

## **6. Experience of the Pandemic Unemployment Payment**

The Commission's work is framed in the terms of reference as taking account of "relevant issues such as the impact of the Covid-19 Emergency" and examining 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". Lessons learned from Covid-19 will be more fully explored in a future paper.

Both PUP and wage subsidies are useful tools for policymakers. They have protected incomes where economic activity ceased suddenly and delivered income support that allowed people to maintain expenditure levels (in a manner similar to pay-related benefits). In the case of wage subsidies, much like the short-time work schemes in existence for much longer, overall labour market functioning to cope with a dramatic but short-term drop in demand was improved as employees maintained firm-specific skills in readiness for resuming normal output.

In a period where differentiating between liquidity and solvency problems seemed close to impossible, protecting existing employment (during an acute employment shock) seems a reasonable response. The longer this protection goes on, the more it creates divergent outcomes between people who were in employment at some arbitrary point and a more dispersed population who would otherwise have enjoyed better opportunities. These categories correspond to a well-defined and easily identifiable group who would otherwise have lost something specific and valuable (in the absence of wage

subsidies) and a more nebulous cohort whose opportunities would have been better in the absence of the policy. In other words, those in employment just before a point in early 2020 benefit from either a higher rate of jobseeker payment, or a wage subsidy that protects their connection to their employer – those who were about to enter the labour market just after that point get neither, and also have the disadvantage of reduced labour market churn.<sup>13</sup> The longer the policy continues, and with consumers' preferences for goods and services changing, the less likely the matches between firms and workers formed prior to early 2020, and maintained by wage subsidies, continue to be the optimal matches.

Whether future policy makers will draw on the tools used during the past two years depends on the whether future recessions resemble the highly specific circumstances of a global pandemic, where the public health response has a major impact on particular sectors. The weighing of the benefits and costs has to take into account the more obvious impacts as well as the more subtle ones that, nonetheless, are part of the policy consideration.

For these purposes, the PUP provides an example of a payment that, subsequent to the initial design of a flat rate payment, retained a relationship between earnings from employment and a rate of payment when people are unable to work.<sup>14</sup> Although difficult to disentangle from the various other impacts of a global pandemic that was met with public health restrictions that dampened much economic activity, the existence of a payment at a relatively high level may well have enabled the kind of labour market mobility outlined above as a reason for pay-related benefit. This is because the individuals concerned no longer had a connection to a particular employer and the higher rate of payment under the PUP potentially allowed for additional time to consider options when securing a new job. The analysis of former PUP recipients' transitions between employers and sectors, for example, provides an example of this kind of mobility, albeit in circumstances that may not be applicable to the normal economic cycle.<sup>15</sup> In contrast, it is not yet clear which firms who retained employees on wage subsidies will maintain viability into the future.

## 6.1 Distributional Impact of PUP

Although initially set up as a flat rate payment of €350 as an emergency response to the significant unemployment shock, the payment rates were subsequently tied to an individual's prior earnings, an

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<sup>13</sup> This is not to suggest a fixed number of jobs at any point, or a zero sum view of employment.

<sup>14</sup> If we use the ILO definition of unemployed, PUP was paid to people who were unemployed or inactive - during a time when public health restrictions on economic activity are in force, many more people will not correspond to the ILO definition of unemployed – see meeting 4, Encouraging Employment, for more on ILO categorisation.

<sup>15</sup> [PUP labour market transitions analysis](#), (2021), Department of Social Protection

approach that protected the incomes of households across all quintiles and mitigated the worst impact of sudden unemployment.<sup>16</sup> Furthermore, while the PUP was effective in protecting household incomes after unemployment, it still created a strong financial incentive to work, with replacement rates between 25 and 50 per cent for a majority of recipients.

## 6.2 PUP implementation

While much of the focus is currently on PUP withdrawal it may be useful to recall the simple nature of the payment when it was introduced, largely due to the fact that it was not integrated with the tax and welfare systems until later in 2020.<sup>17</sup> The banded rates model relies on data provided by employers to Revenue and onward to DSP to determine previous earnings and to calculate the rate of PUP.

The ongoing administration of PUP is therefore heavily reliant on Revenue data which is submitted by employers. The integrity of these data needs to be high if used in future, for example, to introduce a pay related benefit as incorrect data have an impact on the payment rate of a pay related benefit.

## 7. Conclusion

The discussion above outlines some ideas about how pay-related benefit may have an impact, notwithstanding the difficulty in discussing the potential impact of a benefit that has not yet been designed. Pay-related benefit may well facilitate better labour market matches and minimise the disruption to short-term expenditure patterns. For a given level of expenditure, a shorter pay-related benefit may be preferable to a longer payment at a flat rate.<sup>18</sup>

At another level, the idea can be considered against a number of principles with well-established relevance for policy discussions on taxation and welfare. In particular, the discussion above highlights some of the tension between competing principles and illustrates how some degree of trade-off may be necessary across a number of topics.

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<sup>16</sup> See '[Budget Perspectives 2022 Paper 2: COVID-19 and Irish Welfare System](#)' (2021). Dublin: ESRI

<sup>17</sup> The higher rate of payment corresponded to higher income tax liability for some, depending on duration. This taxation of welfare payments is addressed in a related paper on social assistance.

<sup>18</sup> The contrast here is with Jobseekers Benefit, which has different rates of payment relating to previous weekly earnings but, as noted earlier, a large majority of claims are paid at the same rate.

**Commission members are invited to consider the following questions:**

- Are members in favour, in principle, of pay-related benefit?
- Is a pay-related benefit the optimal way to minimise the income shock arising from a period of unemployment?
- How does a pay-related benefit hold up when examined through the lens of horizontal equity?
- Does it dilute the consideration of household labour supply that may be available as the first response to unemployment?
- Is it reasonable to assume higher earnings implies a greater capacity to save while in employment? Should this be taken into account?
- How applicable is the experience of income support payments made during Covid-19 in the longer term?

## Appendix

### International experience

Table 5 shows the prevalence of earnings-related unemployment insurance schemes in EU member states and whether the calculation process has either a cap on the earnings taken into account or an upper ceiling on the benefit amount payable from the earnings calculation. In Ireland's case, Jobseekers Benefit is already earnings-related (see Table 3 above), takes all earnings into account but limits the amount payable for the personal rate at €203.

**Table 5: Earnings-related unemployment insurance schemes in EU member states**

Reason for exit	Earnings related	Earnings cap	Upper ceiling on benefit
Austria	✓	✓	✓
Belgium	✓	✓	✗
Bulgaria	✓	✓	✓
Croatia	✓	✓	✓
Cyprus	✓	✓	✗
Czech Republic	✓	✓	✓
Denmark	✓	✗	✓
Estonia	✓	✓	✓
Finland	✓	✓	✓
France	✓	✓	✓
Germany	✓	✓	✓
Greece	✓	✗	✗
Hungary	✓	✗	✓
Ireland	✓	✗	✓
Italy	✓	✓	✓
Latvia	✓	✗	✗
Lithuania	✓	✗	✓
Luxembourg	✓	✗	✓
Malta	✗	✗	✓
Netherlands	✓	✓	✓
Poland	✗	✗	✗
Portugal	✓	✗	✓
Romania	✓	✗	✗
Slovakia	✓	✓	✓
Slovenia	✓	✗	✓
Spain	✓	✓	✓
Sweden	✓	✓	✓

Source: MISSOC, Unemployment insurance benefits, Reference basis for calculation

PUP and other supports were introduced in response to an unprecedented event, with existing supports insufficiently flexible to respond. Ireland is not an outlier in this regard – across the EU, other member states also implemented specific enhanced income support responses. At an institutional level the European Commission established the Support to mitigate Unemployment Risks in an Emergency (SURE) instrument – Ireland has received €2.5 billion to date from this instrument.

Notwithstanding the need to put in place exceptional supports during the pandemic, if previous economic downturns are considered, Ireland's current system of income supports has responded well. Recent research by the ESRI examined the five 'crisis countries' Portugal, Ireland, Greece, Italy and Spain during the Great Recession and found that, overall, automatic stabilisation, particularly through the benefits system, played a larger role than discretionary policy in reducing inequality in crisis countries. Automatic benefit stabilisation cushioned income inequality increases, highlighting the importance of a well-designed tax-benefit system in dealing with employment shocks.

## **Replacement rates**

Table 6 shows Jobseeker's Benefit claims that commenced in Q1 2020 and the rate of Jobseeker's Benefit paid as a proportion of household income (that is, earnings and working-age social welfare payments for all members of the household). Earnings are from 2019 (full year and across all classes), with the total divided by the number of weeks of insurable employment (equating to the number of social insurance contributions). The replacement rate is the proportion of previous earnings that the jobseeker payment replaces, with values over 100% indicating the value of the jobseeker payment is greater than previous earnings.

**Table 6 Replacement rates - rate paid in Jobseeker's Benefit claims commencing in Q1 2020 as a proportion of household income, number of observations: 23,882**

Replacement rate, %	All claims	Adult dependent		Child dependent			2019 PRSI class	
		No	Yes	0	1	2	A	S
<b>0-10</b>	4%	4%	3%	4%	2%	2%	3%	6%
<b>10-20</b>	11%	12%	6%	12%	8%	6%	11%	10%
<b>20-30</b>	18%	19%	12%	19%	16%	14%	18%	14%
<b>30-40</b>	19%	20%	13%	20%	16%	16%	19%	14%
<b>40-50</b>	16%	16%	14%	16%	19%	17%	16%	14%
<b>50-60</b>	11%	11%	14%	11%	13%	15%	11%	12%
<b>60-70</b>	7%	7%	12%	7%	10%	11%	7%	7%
<b>70-80</b>	4%	4%	7%	4%	4%	7%	4%	7%
<b>80-90</b>	3%	2%	5%	3%	2%	3%	3%	3%
<b>90-100</b>	2%	2%	4%	2%	3%	2%	2%	1%
<b>100-110</b>	1%	1%	2%	1%	2%	3%	1%	2%
<b>110-120</b>	1%	1%	2%	1%	2%	1%	1%	2%
<b>120-130</b>	1%	1%	1%	1%	1%	1%	1%	1%
<b>130-140</b>	1%	0%	1%	1%	1%	0%	0%	2%
<b>140-150</b>	0%	0%	1%	0%	0%	0%	0%	1%
<b>150 or greater</b>	2%	1%	2%	2%	1%	2%	1%	6%
<b>Obs</b>	23,882	22,552	1,330	22,017	788	705	23,377	505

Source: Department of Social Protection administrative data

Note: Income is taxable earnings and working-age social welfare payments for all members of the household in 2019; rate of Jobseeker's Benefit paid includes any adult or child dependent

## Estimated cost of pay-related benefits

Using the ESRI's tax-benefit model, 'SWITCH', Table 7 sets out estimated costs of pay-related benefits in Ireland, using the working assumptions above. Note, however, that some jobseekers may be better off on Jobseeker's Allowance (where they might receive qualified adult and/or child increases) than they would on the pay-related benefit model outlined. As noted in previous papers, only one in four jobseekers have an adult or child dependant (either Jobseeker's Allowance or Jobseeker's Benefit) so this aspect has only a limited impact.

Given the current maximum duration of the Jobseeker's Benefit payment (nine months) and assumed maximum duration of a pay-related benefit model (six months), the average total payment for each period is also provided below. Under the working assumptions outlined above, the pay-related benefit costs marginally more to operate over the maximum duration, but provides a much higher weekly rate to the recipient.

**Table 7: Estimated annual cost of pay-related benefits Ireland**

Previous average weekly earnings	Jobseeker's Benefit (current system)	Pay-related benefit
Average total payment received over maximum duration	€7,088 (nine months)	€7,417 (six months)
Average weekly payment per recipient	€181	€285

*Source: Author's calculations using 'SWITCH,' the ESRI tax-benefit model. Estimates based on 2019 data.*

*Note: See table 3 for current rates and the proportion of recipients at each level*

How much this costs in aggregate, and over time, depends on a variety of factors: the inflow volume (Figure 2), the maximum duration, the payment rates and the proportion of claims paid at each rate, as well as the claim duration (for those who exit before the maximum duration). During periods of economic growth, exits will be rapid and overall numbers low; in the event of an employment shock, the number of recipients will be higher (especially initially as people will have the required contributions to be eligible). At this point, the higher rates of payment function as an automatic stabiliser, countering the drop in demand.

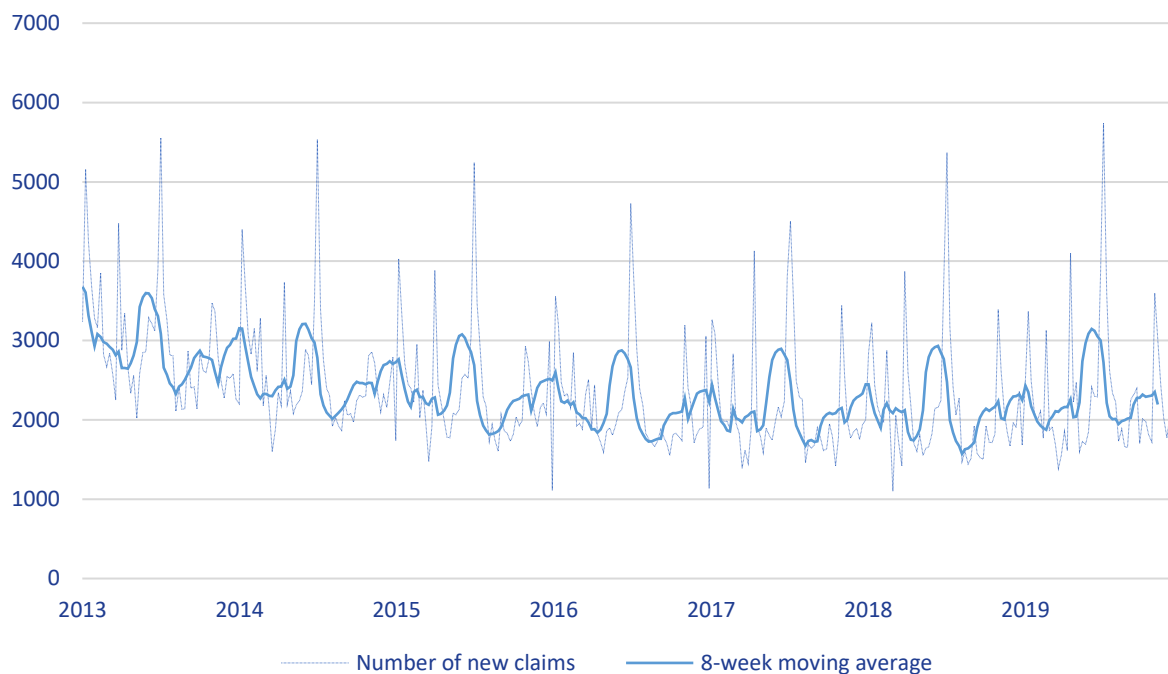
How rapidly people can exit the payment to work depends on the scale and character of the job losses, the success of the Public Employment Service in being able to respond in delivering activation at higher volumes, and the impact of referring jobseekers to relevant education, training and placement

programmes. Figure 2 below shows the in-flows to Jobseeker's Benefit between 2013 and 2019, which shows the fluctuating volume of claims over this time, including seasonality of claim volumes.

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**Figure 2: Weekly inflow to Jobseeker's Benefit, 2013-2019**

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*Source: Department of Social Protection administrative data*

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Of course, part of the justification for pay-related benefits is also to facilitate better labour market matches. As noted in the introduction, insurance-based unemployment schemes have a role to ensure that optimal job matches, based on skills and experience, drive the return to work rather than poorer matches borne out of the necessity to alleviate imminent poverty. It is worth noting that the numbers on PUP, which exceeded 600,000 in 2020, far surpassed previous high points of jobseeker claims (both Jobseeker's Allowance or Jobseeker's Benefit, and also counting those working part-time) as it included many people who would not ordinarily qualify for Jobseeker's Benefit.<sup>19</sup>

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<sup>19</sup> The contributions record requirement will exclude recent labour market entrants, while the requirement to see full-time work excludes students and the habitual residence condition excludes others.