Tax Strategy Group
Pay Related Social Insurance – Budget 2016 Issues

The Social Insurance System

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

   The basic principle underlying the social insurance system is that people, while they are economically active, make social insurance contributions in accordance with their ability to pay at various rates depending on the range of pensions and benefits for which they will qualify. It is an important vehicle of income redistribution and solidarity between generations and between those in work and those who are not. Contributions finance pension payments to an earlier generation of contributors and also pay for benefits to people who are temporarily economically inactive through illness or short term unemployment. In return, contributors build up entitlements which will be paid to them as of right, without having to undergo a means test, when they themselves need them, for example when they are no longer economically active. This long accepted contributory principle provides a strong rationale for retaining a separate and strong social insurance model based on employer, employee and self-employed contributions and the rights they bestow.

   This paper outlines the financial position of the Social Insurance Fund (SIF), recalls the various expenditure and revenue raising measures of recent years, looks ahead at future financial pressures and details significant issues relating to the possible extension of social insurance cover to the self-employed. Importantly, the paper puts forward proposals relating to:

   i. The PRSI "step effect" which impacts on certain lower paid employments and,

   ii. How the future financial viability of the SIF might be secured in the wider context of a restructuring of the tax (including USC) and PRSI systems.

Social Insurance Fund – Financial Position

2. The Fund operates on a pay-as-you-go basis, with the Exchequer acting as the residual financier of the Fund, where there is a shortfall between PRSI contributions received and the cost of social insurance benefits paid.

   The SIF was established in the early 1950s and annual Exchequer contributions were the norm for over 40 years.[1] However, no Exchequer contribution was required over the period 1997 to 2007 inclusive as social insurance income exceeded Fund expenditure. In 2008, the current operating balance of the SIF moved into deficit and the deficit accelerated rapidly in

[1] For example, in 1967, the State contribution was 38% of SIF expenditure and almost 29% in 1985.

2009 and 2010 when it reached €2.75 billion. This resulted in the requirement for an Exchequer subvention in 2010 as the accumulated surplus was exhausted. The annual deficit has since declined significantly and the Revised Estimates for 2015 provides for a subvention of €180 million. SIF income and expenditure over the past eight years is outlined in the Table below.

Table 1: Social Insurance Fund Income and Expenditure, 2008 - 2015

Year	SIF Income	SIF expenditure	Operating Surplus / deficit	Cumulative Surplus at end of year	Exchequer Subvention Requirement
	€ million	*€ million*	*€ million*	*€ million*	*€ million*
2008	8,144.4	8,399.7	-255.3	3,377.0	
2009	7,297.6	9,784.2	-2,486.6	890.3	
2010	6,709.7	9,460.8	-2,751.2	0	-1,860.8
2011	7,543.9	9,004.2	-1,460.4	0	-1,460.4
2012	6,785.6	8,869.6	-2,084.0	0	-2,084.0
2013	7,317.5	8,631.6	-1,314.1	0	-1,314.1
2014	7,884.7	8,417.8	-533.1	0	-533.1
2015 (REV)	8,235.4	8,415.2	-179.9	0	-179.9

3. The significant deficits experienced over the period 2009 to 2013, inclusive, were mainly, but not exclusively, driven by the recession as PRSI income fell dramatically while demand from the newly unemployed for Jobseeker's Benefit (a time limited payment) and once off Redundancy payments soared. A large number of structural PRSI income measures have been introduced since 2009 which have had a positive impact on the funding of the SIF. These measures included increases in rates of contributions, the abolition of the employee ceiling for charging PRSI, the abolition of relief from PRSI previously applied to employee pension contributions, the abolition of the employee PRSI-free allowance as well as the broadening of the base on which PRSI is charged through the abolition of exemptions. Details of PRSI income measures since 2009 are outlined in the Appendix 1.

4. Over the same period, these revenue raising measures were accompanied by very extensive expenditure reducing measures including stricter contribution conditions for entitlement and reductions in duration of entitlement, most notably for Jobseeker's Benefit and Illness Benefit, removal of entitlement to concurrent social insurance payments, increases in pension age to 66 years[2] as well as the standardisation in the rates of Adoptive and Maternity Benefit and major reductions in entitlements under the Treatment Benefits and Redundancy payments schemes. In addition, contributory pension rates of payment have been frozen since 2009 while the rates of short-term benefits such as Jobseeker's Benefit were reduced in 2010 and 2011 by circa 7.9% in total. The extent of both the income and expenditure measures implemented in recent years means that there is limited scope for further extensive reform.

[2] State pension age will further increase to 67 years from 2021 and to 68 years from 2028.

Looking Ahead

5. The core issue of how to address the current and future shortfalls in the Social Insurance Fund, without unduly penalising any particular sectors of society, involves a balance between:

    i. scheme-related expenditure measures (relating to rates of payment, duration of payment and measures relating to eligibility),

    ii. increases in PRSI contribution rates, and

    iii. structural changes in charging for or coverage of social insurance (including the possible introduction of Paternity Benefit).

    While continuing economic growth will further improve the position of the SIF, the financing of the SIF in the medium and long-term term remains problematical. As highlighted in the last actuarial review of the SIF, published in 2012, financing state pension entitlements, which are largely driven by demographic pressures, will, in particular, pose a major challenge.[3]

    However, another key issue relates to how pension rates of payment are indexed (either explicitly or otherwise) in the years ahead and the timing of the recommencement of annual increases in these rates. Given that weekly contributory pension payments account for 68.1 % of total SIF expenditure in 2015,[4] increases in the level of pension payments generally have a significant impact on the SIF. The financing of such increases need to be taken into account in any consideration of pension improvements.[5]

Programme for Government Commitments

6. The Programme for Government includes a commitment that "*there will be no increase in the standard 10.75% rate of employer PRSI".* Another Programme commitment related to the halving of the lower rate of employer PRSI (from 8.5% to 4.25% for a 2 ½ year period from July 2011 to December 2013). This was implemented as part of the Jobs Initiative announced in May 2011 and the rate reverted to 8.5%, as planned, at the beginning of 2014.

    There are no specific commitments in the Programme for Government relating to the rate of PRSI paid by employees. However, the Programme does commit that it "*will not increase the top marginal rate of taxes on income*".

[3] http://www.welfare.ie/en/downloads/2010actuarialreview.pdf The next actuarial review of the SIF will commence in late 2016 and will be completed in the first half of 2017.

[4] Another 1.6% of SIF payments relates to Household Benefits which largely go to contributory pensioners.

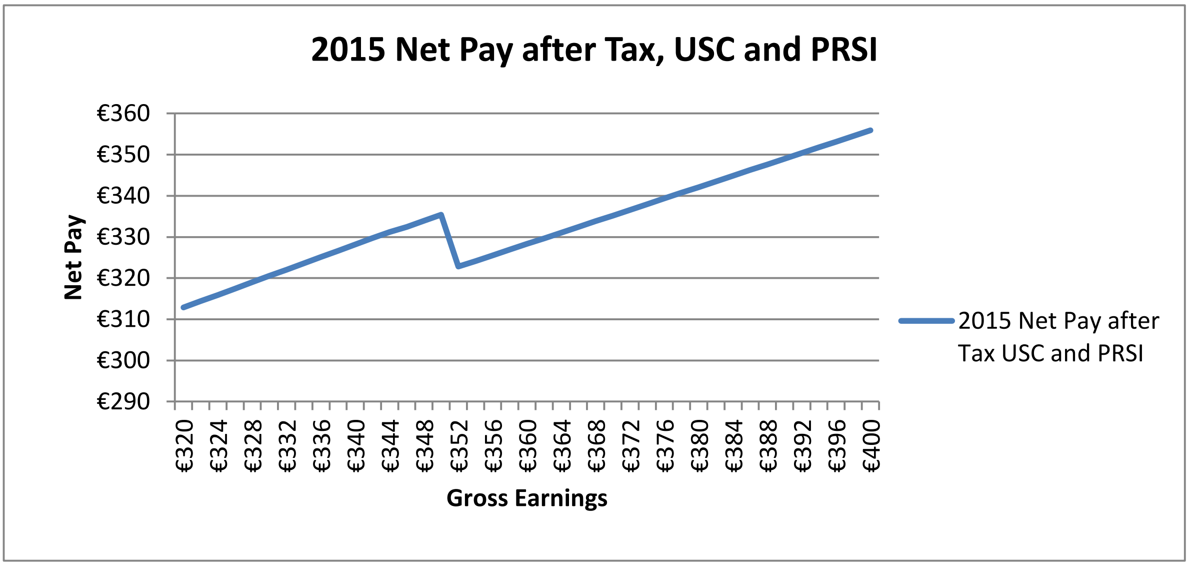
[5] Each €1 per week increase in all contributory pensions (for those aged 66 and over and including proportionate increases for qualified adults) costs €25.02 million. The equivalent figure for all non-contributory pensions (excluding Carer' Allowance) is €5.09 million.

The PRSI “Step Effect” – Employee and Employer PRSI

7. In the case of employees, PRSI is currently not chargeable provided weekly earnings do not exceed €352. Where weekly earnings exceed €352, employees become liable to pay PRSI which is charged at 4% on all earnings. This creates a “step effect” as net income reduces immediately by the full PRSI charge applied to all earnings.

8. A €0.01 increase in weekly earnings of €352 attracts a weekly PRSI contribution of €14.08. This €0.01 increase in gross earnings leads to a loss in net income of €14.08. The following graph demonstrates the impact of the employee “step effect” on net earnings.

Figure 1: Impact of PRSI “Step Effect” on Employee Net Pay



9. The “step effect” has been a feature of the current structure of PRSI since April 2000 when all employees earning less than £226 per week, were exempted from making a contribution.[6] In time the £226 threshold was increased and reached its current level of €352 per week in 2008.[7] The impact of the “step effect” was increased following the abolition of the €127 per week employee PRSI Free Allowance in Budget 2013. Its abolition meant an immediate increase of €5.08 in the PRSI contribution for all employees paying PRSI, regardless of the level of earnings and, accordingly, increased the “step effect”.

   The impact of exempting some employees from making an employee contribution means that:

   i. lower paid and part-time employees obtain significantly better value from the Fund than when compared with higher paid employees, [8]

[6] Prior to April 2000, employees earning between £30 and £226 per week were liable to make an employee contribution.
7 The threshold increased to €300 in 2006 and €339 in 2007.
8 “Those on low incomes fare considerably better than those on higher incomes.” Page 10 of the Actuarial Review of the Social Insurance Fund as at 31 December 2010. (June 2012)

ii. there is a potential disincentive to increase hours worked or earnings, and

iii. the contributory principle is weakened among the group who are more likely to rely on social insurance benefits.

10. Employer PRSI is also affected by a "step effect" but to a lesser degree. Employers pay PRSI at the rate of 8.5% on all earnings where weekly earnings are between €38 and €356. The employer PRSI rate is 10.75% (payable on all earnings) for those earning over €356 per week. Once earnings exceed €356, the employer PRSI charge effectively increases by 2.25% on all earnings, creating a "step effect" by the immediate increase in the employer PRSI charge.

Low Pay Commission

11. The Low Pay Commission was established to advise the Government on the appropriate rate of the Minimum Wage. In its recently published report *Recommendations for the National Minimum Wage,* the Commission recommended that the existing national minimum wage rate of €8.65 per hour for adults should be increased to €9.15. The Commission did note that "*the effect of a change in the minimum wage on hours worked may be more marked, particularly if the anomalous rate structure in the PRSI system is not tackled*." The Commission went on to say *"it is of critical importance to enterprise development that the design of both the tax and PRSI systems creates the right conditions for job creation, including the incentives (from both employer and employee perspectives) for employees to work additional hours and to increase pay where appropriate."*

Currently employees working a 39 hour week on the minimum wage do not pay employee PRSI as their weekly earnings of €337.35 are below the €352 weekly PRSI threshold. An increase in the hourly minimum wage to €9.15 would increase weekly earnings to €356.85. The employee PRSI charge at this level of earnings is €14.27. At gross earnings of €356.85 net income (excluding other statutory deductions) would be reduced to €342.58, effectively eliminating most of the benefit of the minimum wage increase.

12. In its Overview the Commission also stated that "*a moderate increase in the current minimum wage rate without an adjustment in employer PRSI will have a major impact, particularly on small business costs."*

The current minimum wage means that employers pay the lower 8.5% PRSI rate for employees on a 39 hour working week. The proposed increase in the minimum wage to €9.15 brings earnings for a 39 hour week (total earnings of €356.85) attracts the higher 10.75% employer rate, payable on all earnings. In practical terms, the weekly employer PRSI charge would increase from €28.67 to €38.36 – the employer PRSI charge on all earnings increases by 2.25%. The total additional employer costs from the increase in the minimum hourly wage would be €19.50 in additional wages plus €9.69 in additional employer PRSI costs.[9]

13. Under the current PRSI charging structure, the increased PRSI yield from both employee and employer PRSI arising from the implementation of the Low Pay Commission recommendation would be €23.96 per week per employee working a 39 hour week.

Addressing the "Step Effect"

14. One approach to addressing the "step effect" for employees is the introduction of a new PRSI Relief immediately above the current weekly entry threshold. This would differ from a PRSI weekly Free Allowance as formerly applied (to all employees once liable). The proposed PRSI Relief would apply only to those on lower levels of income who are affected by the current "step effect".

15. There are a number of options as to how a PRSI relief system would operate. One option would be to set the maximum PRSI Relief at €14.08 (equivalent to the 4% PRSI charge payable at earnings of €352.01). This would totally eliminate the PRSI charge at weekly earnings of €352.01 but as gross earnings increase the PRSI Relief is withdrawn on a tapered basis. The amount of PRSI actually charged would increase in a progressive manner as gross earnings increase.

    The rate at which the PRSI Relief is withdrawn would determine the income range to which the Relief would apply. For example, withdrawal of the Relief on the basis of one-fifth of the difference between the €352 threshold and gross earnings would mean that the Relief would only apply between weekly earnings of €352.01 and €422. Once weekly earnings exceed €422, the PRSI Relief would no longer apply and PRSI would be charged at the current rate of 4% on all earnings.

    The table below compares, on an illustrative basis, the impact on net income of the current structure of charging PRSI with the position where a maximum PRSI Relief of €14.08 is applied at weekly earnings of €352.01 and withdrawn on the basis of one-fifth of the difference between the €352 threshold and gross weekly earnings, up to earnings of €422.

    Under this option, an employee working a 39 hour week and benefitting from the proposed increased minimum wage would still pay employee PRSI but at significantly lower level. For example, the PRSI charge on weekly earnings of €356.85 would be €1.16 as compared to the current PRSI charge of €14.27. The cost of this option is €19.8 million in a full year and would affect circa 88,400 employments.

[9] It will also be necessary to examine the "step effect" for Class H contributors (NCOS and elisted personnel in the Defence Forces). The overall number of Class H contributors is about 8,000 only.

Table 2: Comparison of Net Income for a Single Taxpayer: 2015 Position and after the 1/5 PRSI Relief option is applied

	2015 Statutory Deductions (Single Person)				PRSI Charge with Maximum PRSI Relief of €14.08 and 1/5 Taper			
Weekly income (€)	**PRSI (€)**	**USC (€)**	**Income tax (€)**	**Net pay (€)**	**PRSI Relief (€)**	**New PRSI Charge (€)**	**New Net Pay (€)**	**Gain in Net Pay (€)**
350.00	0.00	8.05	6.54	335.41	0.00	0.00	335.41	0.00
352.00	0.00	8.19	6.94	336.87	0.00	0.00	336.87	0.00
352.01	14.08	8.19	6.94	322.80	14.08	0	336.88	**14.08**
360.00	14.40	8.75	8.54	328.31	12.48	1.92	340.79	**12.48**
370.00	14.80	9.45	10.54	335.21	10.48	4.32	345.69	**10.48**
380.00	15.20	10.15	12.54	342.11	8.48	6.72	350.59	**8.48**
390.00	15.60	10.85	14.54	349.01	6.48	9.12	355.49	**6.48**
400.00	16.00	11.55	16.54	355.91	4.48	11.52	360.39	**4.48**
410.00	16.40	12.25	18.54	362.81	2.48	13.92	365.29	**2.48**
420.00	16.80	12.95	20.54	369.71	0.48	16.32	370.19	**0.48**
430.00	17.20	13.65	22.54	376.61	0.00	17.20	376.61	0.00

(Income ranges benefitting from tapered PRSI Relief are highlighted.)

The marginal tax rate (comprising all statutory deductions, including PRSI after the PRSI relief is applied) is 51% for those between €352.01 and €422. This means that employees will benefit from about half (in net terms) of the any increase in gross pay during the taper period.

A higher fraction (i.e. one-third of the difference between gross earnings and €352) would reduce the cost of introducing a PRSI Relief by nearly half (from €19.8m to €11.8m) and would impact on a narrower range of income (weekly earnings between €352 and €395), but would increase the marginal tax rate.

Employer PRSI

16. One approach to dealing with the employer "step effect" and the implications of an increase in the minimum wage, if adopted, would be to increase the threshold at which the higher 10.75% employer PRSI is charged from the current threshold of €356. The following table sets out the options for increasing this threshold. All of these options will ensure that employers remain on the lower 8.5% PRSI rate, in respect of employees on the new minimum wage working a 39 hour week.

Table 3: Increase in Threshold for 10.75% Employer PRSI Rate

New Increased Weekly for 10.75% Employer PRSI Threshold	Full Year Cost (€m)	Number of Employments Affected
€357	0.4	1,534
€360	1.8	6,844
€366	3.6	13,946

17. While the approaches outlined above in relation to the employee "step effect" would directly benefit the employees involved, a drawback is that it further erodes the employee PRSI base and does not address the underlying principle that all employees should contribute (to some degree) to the financing of the SIF. Accordingly, reform of the current structure of statutory deductions generally may offer some opportunities in this regard.

Restructuring of PRSI and USC

18. The PRSI contribution paid by employees and the self-employed is one of three statutory deductions from earnings/income – income tax and the Universal Social Charge (USC) being the other two elements. The Government in its Spring Statement has indicated there may be fiscal space to introduce tax expenditure measures of between €600 million to €750 million in the forthcoming Budget. Any consideration of changes to the rates and structure of the USC, in particular, might have regard to PRSI rates and structures generally and the necessity to put the SIF in a better position to face the inevitable financing pressures in the years ahead.

    This approach was identified in the Department of Finance report on *A Strategy for Growth: Medium Term Economic Strategy 2014 – 2020* which recognised that *"a key challenge for the State is to ensure a sustainable and flexible approach to pensions over the medium and long-term that delivers an adequate income in retirement. The additional burden can already be seen in the resources required to fund State pensions, which increased by over €190 million in 2013 alone. Pressures of this magnitude or greater will continue in the medium-term and will therefore be central to any future restructuring of the tax (including USC) and PRSI systems*."[10]

19. USC and PRSI are broadly charged on the same income base (with some important differences). The following are the rates and income thresholds at which USC currently applies.

Table 4: Current Rates and Income Bands for Charging USC

Yearly earnings bands €	Equivalent weekly bands €	0%	1.5%	3.5%	7%	8%
O – 12,012	**0 - 231**	All				
12,012.01 – 17,576	**231.01 - 338**	None	Up to 231.01	231.01 - 338		

[10] Page 27 of report "A Strategy for Growth: Medium Term Economic Strategy 2014 – 2020" published by Department of Finance in December 2013

17,576.01 – 70,044	**338.01- 1,347**	None	Up to 231.01	231.01 - 338	338.01- 1,347	
Greater than 70,044	**Greater than 1,347**	None	Up to 231.01	231.01- 338	338.01- 1,347	1,347+

Note: USC is not payable where total annual income does not exceed €12,012. The self-employed pay 11% once income is in excess of €100,000.

As already stated, employees pay PRSI on all income at 4% once their weekly income exceeds €352. The self-employed pay PRSI at 4% on all income once their annual income from all sources exceeds €5,000.

Any proposed reduction in any of the USC rates or taking persons outside of the scope of USC could be accompanied by a partial offsetting increase in employee PRSI rates while ensuring that the workers concerned saw an increase in net pay. Thus, for example, a 1.25% decrease in any USC rate could be offset by, say, a 0.25% increase in PRSI. Such an approach would require careful calibration at all income levels given that USC liability is based on annual income while PRSI is based on weekly income.

An illustrative example of such an approach would be in the context of any consideration of the reduction in the 7% rate of PRSI. One option would be to reduce the 7% rate of USC to, say, 5.75% while increasing the rate of PRSI to 4.25%. The following table shows the impact on incomes ranging from €30,000 to €80,000.

Table 5: USC/PRSI Illustrative Option

Annual	**Weekly**	**2015 USC**	**2015 PRSI**	**2015 Total USC/PRSI**	***New USC***	***New PRSI***	***New Total USC/PRSI***	***Gain***
		€ Weekly	**€ Weekly**	**€ Weekly**	***€ Weekly***	***€ Weekly***	***€ Weekly***	***€ Weekly***
30,000	576.92	23.93	23.08	47.01	*20.95*	*24.52*	*45.47*	*1.54*
40,000	769.23	37.40	30.77	68.16	*32.00*	*32.69*	*64.70*	*3.47*
50,000	961.54	50.86	38.46	89.32	*43.06*	*40.87*	*83.93*	*5.39*
60,000	1,153.85	64.32	46.15	110.47	*54.12*	*49.04*	*103.16*	*7.31*
70,000	1,346.15	77.78	53.85	131.63	*65.18*	*57.21*	*122.39*	*9.24*
80,000	1,538.46	93.15	61.54	154.69	*80.54*	*65.38*	*145.93*	*8.77*

It would also be necessary in this context to examine further options regarding the position of those earning over €70,000 as the increase in the PRSI rate claws back the gains from the reduction in the 7% USC rate.

However, the yield from any offsetting increases in PRSI would be less than the equivalent USC yield as:

i. USC is charged regardless of age whereas PRSI is not charged for those over pension age;

ii. USC has a wider income base e.g. occupation pensions, and

iii. USC is charged on an annual cumulative basis, whereas PRSI is charged on a "week one" basis (i.e. the PRSI charge only applies where the weekly thresholds are exceeded without regard to the cumulative annual income).

The approach above could be implemented on a phased basis or at different ranges of income over a period of years.

Extending Social Insurance Entitlements for the Self-employed

20. There has been considerable debate on the issue of extending the range of social insurance benefits which self-employed contributors can access. Currently the self-employed pay Class S PRSI at rate of 4% on all income from all sources provided their annual income exceeds €5,000. This entitles them to access the following benefits: Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension, Guardian's Payment (Contributory), State Pension (Contributory), Maternity Benefit and Adoptive Benefit. They are not entitled to benefits, such as Jobseeker's Benefit, Illness Benefit or Invalidity Pension.

Employees who have access to the full range of social insurance benefits pay Class A PRSI at the rate of 4%. In addition, their employers make a PRSI contribution of 10.75% in respect of their employees, resulting in the payment of a combined 14.75% rate per employee under full-rate PRSI class A. (For employees earning less than €356 per week, the rate of employer PRSI is 8.5%).

21. In September 2013, the Advisory Group on Tax and Social Welfare published its third report on *Extending Social Insurance Coverage for the Self-Employed*. The Group was asked to examine and report on issues involved in extending social insurance coverage for self-employed people in order to establish whether or not such cover is technically feasible and financially sustainable, with the requirement that any proposals for change must be cost neutral.

The Group found that the current system of means tested jobseeker's allowance payments adequately provides cover to self-employed people for the risks associated with unemployment. It was therefore not convinced that there was a need for the extension of social insurance in respect of Jobseeker's Benefit.

The Group did however find that extending social insurance for the self-employed was warranted in cases related to long term sickness or injuries. To this end, the Group recommended that Class S benefits should be extended to provide cover for people who are permanently incapable of work, because of a long-term illness or incapacity. The Group further recommended that the extension of social insurance in this regard should be on a compulsory basis and that the rate of contribution for class S should be increased by at least 1.5 percentage points. The Group concluded that "*extension on a voluntary basis, through either an "opt in" or "opt out" basis, could lead to the selection of bad risks and would undermine the social solidarity and contributory principles that underline the social insurance system*."[11]

22. The issue of extending social insurance benefits to the self-employed was examined in the 2010 Actuarial Review of the SIF report, which indicated that:

- "*The effective average annual rate of contribution needed to provide the core SPC (100%) is approximately 15%.*" The self-employed, who pay PRSI at 4%, can establish entitlement to State Pension (Contributory).

- *"The average annual rate of contribution needed to provide Jobseeker's Benefit to the self employed is therefore estimated to typically require an incremental increase in contribution rates from approximately 15% (where only the core SPC is provided) to 16% (where jobseeker's Benefit in addition to the core SPC is provided)."*[12]

- *"The average effective contribution rate required for the core SPC plus the Invalidity pension in addition is therefore estimated to be in the region of 17%."*[13]

23. Further extension of social insurance cover for the self-employed would impose an additional expenditure pressure on the Fund. Given such funding issues, DSP considers that these need to be addressed through additional contribution income from the self-employed or a wider re-balancing of USC/PRSI deductions in favour of PRSI. Finally, DSP is of the view that any extension of cover to the self-employed should be on a compulsory basis only.

Ready Reckoner

24. A PRSI Ready Reckoner is attached at Appendix 2. The financial impact of each of the options therein is presented in isolation and would require further examination if implemented in conjunction with other measures. For illustrative purposes, general increases of (i) 0.5% and (ii) 1% in both employers and employees PRSI would generate the yield outlined below.

Table 6: Increases in Employer and Employee PRSI Rates

	Full year yield 0.5% Increase in PRSI € million	**Full Year Yield 1% Increase in PRSI € million**
Additional employer PRSI*	301.1	602.1
Additional employee PRSI	286.8	573.5
Total Additional PRSI	587.9	1,175.6

**Refers to both 10.75% and 8.5% employer PRSI rates*

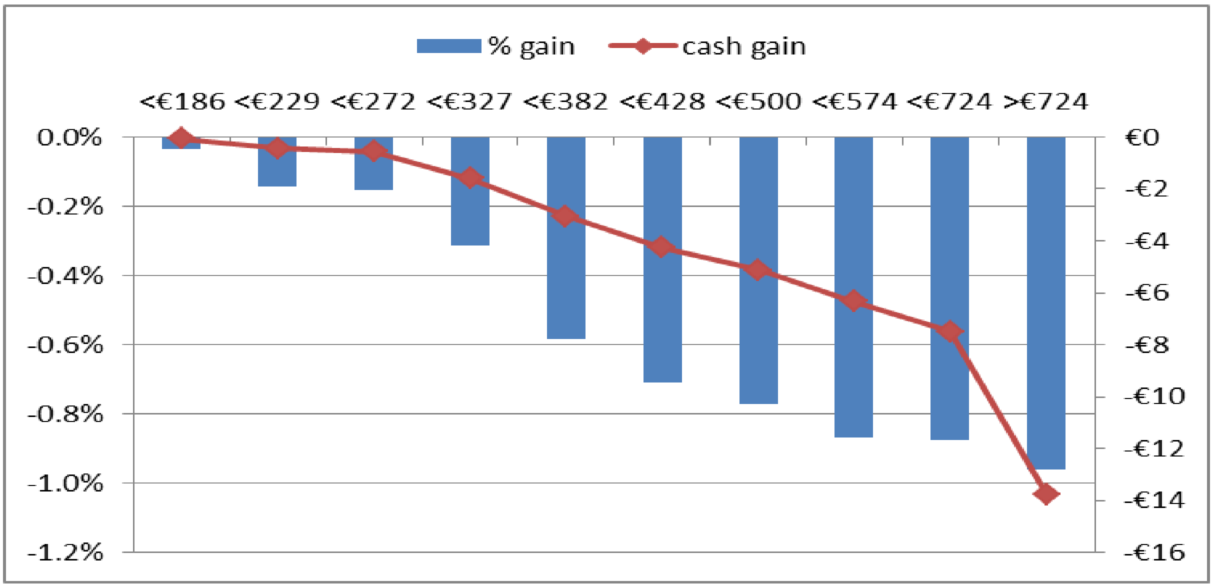
[11] Page 56 of the "Third Report: Extending Social Insurance Coverage for the Self-employed". (May 2013).
[12] Page 90 of the Actuarial Review of the Social Insurance Fund as at 31 December 2010. (June 2012).
[13] Page 91 of the Actuarial Review of the Social Insurance Fund as at 31 December 2010. (June 2012).

The 10.75% and 8.5% rates of employer PRSI include a 0.7% contribution to the National Training Fund, operated by The Department of Education and Skills.

A 1 % increase in the rate of PRSI from 4% to 5% paid by the self-employed would yield in the region of €97.7 million.[14] In this regard, it should be noted that one of the findings of the 2010 Actuarial Review of the Social Insurance Fund was that "*the self-employed achieve better value for money compared to the employed – when comparison includes both employer and employee contributions in respect of the employed person.*"[15]

25. The distributional impact of a 1% increase in Class A and Class S PRSI is as follows:

Figure 2: Distributional Impact of a 1% Increase in Class A and Class S PRSI (% and cash change in weekly disposable income)



Source: SWITCH (2015 weighting) ESRI

It should be noted the average loss in disposable income is 0.7 per cent (€4.27 per week). Bottom deciles lose least, while the highest income decile loses most (1 per cent).

26. In the case of employer PRSI, the 2013 Forfas report on *Costs of Doing Business in Ireland 2012* noted that "*Ireland has one of the lowest levels of employer's social welfare contributions. The Irish rate (9.7%) is significantly lower than the OECD average (14.8%) and the euro area average (18.8%)*".[16] CSO data confirm that employer social security costs here are the fifth lowest across the EU27.[17]

Social Insurance Cover – Entry Threshold

[14] Preliminary estimate based on 2012 data.
[15] Page 10 of the Actuarial Review of the Social Insurance Fund as at 31 December 2010. (June 2012).
[16] Page 24 of report "Cost of Doing Business in Ireland 2012" published by Forfas in April 2013
[17] Pages 35 and 36 of report "Business in Ireland 2011" published by CSO in November 2013

27. Ireland provides access to employee social insurance at very low levels of income. Once weekly earnings exceed €38 and the employer pays PRSI, the worker has access to social insurance. Employees with little attachment to the workforce are therefore entitled to access the full range of social insurance entitlements, at a level of earnings which is well below what was originally intended. By way of comparison the current UK weekly threshold for social insurance is £112, equivalent to over €157 at current exchange rates.

    The threshold for employees paying social insurance was originally a minimum of 18 hours' work. In the early 1990s this threshold changed to a monetary threshold which has not increased since then. Based on the current national minimum hourly rate of pay for employees of €8.65, an employee earning €38 per week now only has to work approximately 4 ½ hours per week – the original threshold was 18 hours.

28. Access to social insurance at the current weekly €38 threshold provides employees with entitlement to benefits which may be disproportionate to their income when in employment:
    i. Over their working life employees on very low earnings levels can establish entitlement to the maximum State Pension (Contribution) rate of €230.30 per week.

    ii. The minimum weekly personal rate of short-term benefits is €84.50 (i.e. Illness Benefit) are payable on weekly earnings between €38 and €150.

29. Consideration therefore needs to be given to increasing the earnings threshold for entry into social Insurance from the current €38 per week. If it was increased to €70 per week, it would be the equivalent to 8 hours' work per week (current minimum hourly rate) or €3,900 per annum if working continually. The annual threshold currently applying to the self-employed is €5,000.

    Increasing the entry threshold to €70 would represent a saving for employers who would no longer pay PRSI at 8.5% for those earning between €38 and €70. While there would be an initial slight reduction in income to the SIF. This would in time be offset by savings on short-term schemes as those earning below the new threshold could not establish entitlement to these benefits. The loss in SIF income of increasing the threshold to €70 per week is estimated to €2.2 million and would impact some 23,490 employments. An alternative approach is to raise the entry threshold over a number of years e.g. to €50 per week, to €70 the following year and so on.

30. The TSG is invited to discuss this document.

Department of Social Protection
August 2015

Appendix 1

Budgets 2009-2015 - PRSI changes

1. The table below outlines the first and full year costs and savings as announced in each of the Budgets over the period 2009 to 2015 inclusive.

Table 7: Social Insurance Fund Income Yield, Budgets 2009 – 2015

Year	Budget Year Yield Increase / (Decrease) €m	Full Year Yield Increase /Decrease €m
2009	69	104
2010	0	0
2011 Budget	296	448
2011 Jobs Initiative	*(88)*	*(185)*
2012	57	74
2013	286	339
2014 Reversal of Jobs Initiative	169	185
2015	-	-
Total Savings	**789**	**965**

All of the measures announced over the period since 2009 are detailed below:

2009

- The annual earnings ceiling for employee PRSI increased by €1,300, from €50,700 to €52,000 and, in the Supplementary Budget in April 2009, this ceiling was further increased from €52,000 to €75,036.

2010

- There were no changes to PRSI in Budget 2010.

2011

Significant PRSI changes were announced in Budget 2011.

- The annual earnings ceiling for the payment of employee PRSI was abolished.
- Office holders pay PRSI at 4% on all income, where their income is over €5,200 per annum,
- The rate of PRSI payable by the self-employed was increased from 3% to 4%
- The threshold for a liability to a Class S contribution by the self-employed increased from €3,174 to €5,000 per annum;
- The rate of employee PRSI payable by certain civil and public servants (Classes B, C and D) was set at 4% where earnings exceed €75,036 per annum (the former employee annual ceiling). These Classes pay 0.9% on weekly income over €26.

- From 2 July 2011 employer's PRSI on those earning less than €356 a week or equivalent has been halved from 8.5% to 4.25%. This change was introduced on a time limited basis for 2½ years and reverted to 8.5% on 1 January 2014
- Relief on employee PRSI in respect of payments by employees to their own pensions and PRSA's was abolished.
- Employer PRSI is payable on half of the employee payment to the pension or PRSA
- Share-based remuneration became subject to employee PRSI **only** at the rate of 4%

2012

- Full abolition of relief on employer PRSI for pension contributions made by employees.
- Phased increase in the minimum number of paid PRSI contributions required to be eligible to become a voluntary contributor from 260 up to 6 April 2013 to 520 from 6 April 2015.

2013

- The weekly PRSI-free allowance of €127 for people paying at Class A, H and E and of €26 for modified rate contributors was abolished
- The minimum flat rate for self-employed contributors was increased from €253 to €500
- The flat rate payment of Voluntary contributors made by former self-employed contributors was increased from €253 to €500
- For those with an annual self-employed income in excess of €5,000 but who have no net liability to tax, the flat rate payment was increased from €157 to €310
- Modified rate contributors were exempt from PRSI in respect of self-employed earned income (from a profession or trade) and any other unearned income. This exemption was abolished and all such income became liable to PRSI at the rate of 4%. Employees with no additional earned self-employed income but who do have unearned income only were not affected by this measure in 2013

2014

- The 4.25% employer PRSI rate applied to employees with weekly earnings of less than €356 reverted to the original 8.5% rate from 1 January 2014
- From 1 January 2014 PRSI at 4% is chargeable on the additional unearned income of
    - Employees or occupational pensioners under pension age
    - where the unearned income is their only additional source of income and it is taxable under the Revenue Commissioners' self-assessed system and
    - the individual is a "chargeable person" for income tax purposes.

2015

- None

Appendix 2

PRSI Ready Reckoner for 2016

3 July 2015

1. Employer PRSI

Current arrangements - Class A:

(i) Class A Employer PRSI is not payable where weekly earnings are €38 per week or less. Where earnings exceed €38 per week, a Lower rate of Employer Class A of 8.5% (comprising 7.8% social insurance and 0.7% National Training Fund Levy) is payable on all earnings up to €356 per week (€18,512 per annum). An Employer Class A Higher rate of 10.75% (= 10.05% SI + 0.7% NTF) is payable paid on all earnings where weekly earnings are greater than €356 per week (>€18,512 per annum).

Changes to the existing Employer PRSI Rates and Threshold - Class A only

(ii) A 1% increase in the social insurance element of Class A Employer PRSI rates would yield

Rate	Full Year Yield	Gainers/(Losers)
Lower Rate: To 8.80%	€29.1m	(540,764)
Higher Rate: To 11.05%	€573m	(1,554,690)

(iii) Full year costs/yields are shown in this document. First year costs/yields are a function of the chosen implementation date of PRSI changes in 2016. If implemented from January 1, it is estimated that 85% of the full year estimate is realised in the first year.

(iv) The above costings are based on the social insurance element of Class A Employer PRSI and do not include the National Training Fund Levy (0.7%).

Employer PRSI Entry Threshold

(v) The cost of increasing the PRSI entry point from €38pw to €50pw is €0.3m based on 4,139 employments. Increasing the PRSI entry point from €38pw to €70pw would cost is €2.2m based on 23,491 employments while of increasing the PRSI entry point from €38pw to €100pw would cost €9.1m based on 72,470 employments.

Employer PRSI Higher Rate Threshold

(vi) The yield from lowering the Employer PRSI threshold from €356pw to €352pw (with the aim of aligning the Employer and Employee PRSI structure and simplifying the contribution classes) is €1.2m based on 5,023 employments.

2. Employee PRSI

Current arrangements - Class A:

(i) Persons with weekly earnings of €38 or less are not insurable and do not pay Class A PRSI. No employee PRSI is paid where weekly income is €352 or less. A 4% rate is paid on all income where weekly income is greater than €352

Changes to the existing Employee PRSI Rates and Threshold - Class A only

(ii) A 1% increase in the social insurance element of Class A Employer PRSI rates would yield:

Rate	Full Year Yield	Gainers/(Losers)
5.00%	€573.5m	(1,559,713)

(iii) A 1% increase on earnings over €1,346 per week (€70,000 pa) would yield:

Rate on portion over €1,346 per week (€70,000 pa)	Full Year Yield	Gainers/(Losers)
5.00%	€88.4m	(358,146)

(iv)A new 1% employee rate for those with weekly earnings between €38 and €352 would yield:

Rate	Full Year Yield	Gainers/(Losers)
1.00%	€28.5m	(535,741)

(v) A new PRSI-free allowance for employees who pay PRSI (i.e. with weekly earnings over €352) would cost:

Rate	Full Year Cost	Gainers/(Losers)
€50	€106.4m	1,559,713
€75	€159.6m	1,559,713
€100	€212.7m	1,559,713
€127	€270.2m	1,559,713

Class A Entry Threshold - Employee

(vi) The yield from lowering the weekly employee PRSI threshold from €352 to €320 is €18.0m based on 44,432 employments. The yield from lowering the weekly employee PRSI threshold from €352 to €300 is €28.1m based on 72,524 employments. The cost of increasing the weekly employee PRSI threshold from €352 to €356 is €2.1m based on 5,023 employments (thereby aligning the Employer Higher Rate threshold and the Employee entry threshold)..

3. Notes

(i) Any adjustments to the Class A weekly exemption threshold of €352 would have follow through effects on Classes B, C, D, E and H.

(ii) These costings are based on P35 employment returns from the DSP Central Records System for year 2013 and a set of economic indicators provided by the Dept. of Finance on 29 May 2015. Any change in these indicators will impact on the estimates above.

Statistics Unit
Department of Social Protection
3 July 2015