An Roinn Coimirce Sóisialaí
Department of Social Protection

Social Protection Budget Package – Budget 2023 Issues
Tax Strategy Group -22/05

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Social Protection Package – Budget 2023 Issues

Introduction

The fact that the State had only exited one generational crisis in the shape of the COVID-19 pandemic when it found itself confronted by another major crisis caused by Russia's invasion of Ukraine illustrated the systemic importance of the role of Social Protection in providing support, at key times, to Irish society. As the effects of the pandemic waned, emergency Social Protection supports were again required to assist people coming to Ireland from Ukraine.

At 19th of June, the Department of Social Protection had allocated 38,700 Public Personal Service Numbers (PPSNs) to people who have arrived in Ireland having fled the war in Ukraine. Just under 19,200 income support claims had been awarded across various social welfare schemes supporting just under 33,700 people. 8,225 Child Benefit claims were processed in respect of 12,178 children. Employment support events, specifically for people who had fled the war in Ukraine, have been organised countrywide.

As the COVID-19 pandemic receded, restrictions were eased across society, and the numbers availing of COVID-related supports fell significantly. At the end of May 2022, Revenue figures indicate that 96,000 employees, across 3,800 employers, were supported by the Employment Wage Subsidy Scheme (EWSS). In May, there were 28,900 people on the live register who had transitioned from the Pandemic Unemployment Payment (PUP) – which had closed to new claimants from January 2022. There were less than 4,500 people in receipt of COVID Illness Benefit.

More generally, at end May 2022, of the 1.8 million persons in receipt of a standard weekly social welfare payment, 764,000 were in receipt of a pension payment and 264,000 were in receipt of working age income or employment supports. Some 213,000 received a disability allowance or an invalidity pension and 94,000 were in receipt of Carer's Allowance or Benefit. A further 640,000 families received a monthly child benefit payment in respect of some 1.2 million children.

The planning context for Budget 2023 is very different to the one which was envisaged only a few months ago. While the Irish economy is performing well in 2022, it is clear that the growth rate will be lower than 2021. The ESRI, in its latest quarterly analysis[1], expects GDP to grow

[1] https://www.esri.ie/system/files/publications/QECSUM2022.pdf

by 6.8 % in 2022, and 4.8 % in 2023, driven by strong export growth. However, there remain significant challenges – as noted by the ESRI, after many years as a low/zero inflation economy, Irish inflation has increased significantly and is set to exceed 7 % in 2022 and is projected to be 4.0 % in 2023. The difficulties posed by high inflation are felt most keenly amongst the less well off in society, and this paper therefore features consideration of the cost of living issues which been prevalent in recent months.

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

The paper then presents overall DSP expenditure by its various programmes. Budget 2023 is also discussed in the context of commitments in the *Programme for Government – Our Shared Future*.

A range of illustrative welfare Budget measures are then presented, and the paper concludes with consideration of the Pay Related Social Insurance system.

Finally, it provides, in Appendix 1, the distributive and poverty impact of some of these measures, in order to demonstrate the social impact of welfare budgetary policy.

The Role of Social Transfers

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

2. The role of social transfers has been particularly highlighted throughout the pandemic, where the exceptional deployment of transfers to meet the sudden loss of employment income experienced by workers when most sectors of the economy closed served to address the immediate income needs of those workers. In commenting on the extent to which pre-existing income support systems such as unemployment benefits and PUP and EWSS mitigated the income losses experienced by families, the ESRI[2] found that, in the absence of the PUP and EWSS, household income would have dropped by an average of 7% during the pandemic. The introduction of these two payments more than halved the average income loss to 3%.

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

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

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

5. Throughout the last number of years, social transfers performed strongly in reducing the at-risk-of- poverty rate. In 2020, social transfers (excluding pensions) reduced the at-risk of poverty rate from 36.5% to 13.2% or 23.3 percentage points in absolute terms. This represents a poverty reduction effect of 63.8%[4]. The impact of social transfers in reducing poverty is one of the highest in the EU. This reflects the progressive and targeted nature of social transfers. Other research undertaken[5] suggests that the level of service provision has a significant impact on the expenditure needs of people on low incomes.

6. Social transfers also provide support across the life-course, from helping to protect children from the risks of inter-generational poverty and disadvantage, to helping ensure an adequate standard of living for pensioners in old age.

Poverty Trends in Ireland

7. Poverty trends emerging from the pandemic crisis are now evident. The results of the Central Statistics Office's (CSO) Survey on Income and Living Conditions (SILC) for 2021[6] on which poverty trend analysis is based, were published in May 2022. Key findings from SILC 2021 include:

    - The at risk of poverty (AROP) rate was 11.6% in SILC 2021, compared with 13.2% in 2020.
    - The consistent poverty rate was 4.0%, down from 4.7% in 2020.

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

[4] https://www.cso.ie/en/releasesandpublications/ep/p-silc/surveyonincomeandlivingconditionssilc2020/povertyanddeprivation/

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

[6] See CSO SILC 2021 Publication at - https://www.cso.ie/en/csolatestnews/pressreleases/2022pressreleases/pressstatementsurveyonincomeandlivingconditionssilc2021/#:~:text=In%20SILC%202021%2C%20the%20at,higher%20than%20the%2011.6%25%20rate.

- The median household income in 2021 was €46,471, compared with €43,915 in 2020.

The huge positive impact of the COVID-19 income supports on poverty rates was reinforced by the results of this survey:

- In the absence of the COVID-19 income supports, the AROP rate would have been 8.3% higher overall at 19.9%.
- Specifically, without the impact of the Pandemic Unemployment Payment (PUP), the AROP would have been 16.5% and without the various Wage Subsidy schemes it would have been 15%.
- In terms of particular cohorts, the AROP rate for unemployed persons was 23.2%, which would have been 44.1% without COVID-19 income supports.

COVID-19 income supports accounted for a similar proportion (between 7.4% and 10.8%) of total net household disposable income in each decile from the 2nd to the 8th decile. The 1st decile had the smallest proportion of income accounted for by supports with just 0.6% of income coming from this source followed by the 10th decile with 4.1%.

The impact of poverty varies across different groups. While the consistent poverty rate for the population in SILC 2021 was 4.0% - dropping from 4.7% the previous year, the groups with the highest rates of consistent poverty were individuals who were not at work due to illness or disability (19.2%) and those who were unemployed (10.2%). Those in employment, older people, and people living in owner-occupier housing had the lowest consistent poverty rates. In terms of household composition, individuals in households where there was one adult and one or more children under 18 years of age, had the highest consistent poverty rate (13.1%). Consistent poverty was lowest (2.2%) for households with three or more adults and 2.3% for individuals in households with two adults where at least one was 65 years of age or older and where there were no children present.

Irish Labour Market Trends in 2022

8. Due to the uneven effect of the COVID-19 pandemic, and the consequent staggered amendments in public health restrictions over the past two years, the Irish labour market is recovering strongly in the first half of 2022. Currently, the economy is moving into a post-COVID environment with virtually all restrictions having been removed, resulting in changes in some labour market trends.

9. Given the significant impact of the pandemic on labour market statistics, the CSO introduced specific 'COVID adjusted' figures to address this. In April 2020, the COVID-19 adjusted unemployment rate, which is a calculated estimate of unemployment during the pandemic, peaked at 31.5% - the highest unemployment rate available in CSO records.

Following the cessation of the PUP in March 2022, one could have expected that a sizable increase in the Live Register would follow as PUP recipients transitioned to more traditional measures of unemployment. However, the unemployment rate in May 2022 was 4.7% which is below the pre-pandemic level of 4.8% in February 2020 – suggesting a positive recovery in the labour market, albeit with some supports such as the EWSS still in place to an extent.

10. Furthermore, the size of the labour force, and employment levels are both increasing. In Q1 2022, the labour force was estimated to be around 6.7% (or 165,000 people) larger than it was in Q4 of 2019. Over the same period, the numbers in employment have underpinned this via an increase of 6.3% (or just under 150,000 people). Strong PRSI returns in the first half of 2022 attest further to this positive development.

11. Participation rates and employment rates are currently at record levels, and the unemployment rate continues to fall. The increase in participation and employment rates has been driven mainly by a welcome increase in women entering the workforce. The female employment rate in Ireland is now at the highest level since the series began. Record employment levels have, however, resulted in tight labour market conditions with high vacancy rates and a strong demand for workers across sectors.

12. *Pathways to Work 2021-2025*, the Government's national employment strategy, was published in July 2021. The goal of Pathways to Work is to help ensure that as many jobs as possible go to people who are unemployed. The strategy is not just about those who lost their jobs during the pandemic; it is also about helping those who, prior to the onset of the COVID-19 pandemic, faced disadvantage in the labour market.

    In terms of evaluation of Pathways commitments, progress made with respect to the delivery of its 83 commitments is reported on a quarterly basis. External oversight of the strategy falls under the remit of the Labour Market Advisory Council, and an updated strategy will be published in 2023 in order to ensure that Pathways to Work evolves and adapts as necessary to dynamic labour market challenges in the years to come.

Social Protection Budgets 2018- 2021

13. Budget 2018 continued the improvements in weekly rates of payment of the two previous years. A further €5 increase was introduced in the weekly rate of all pension and working age payments, with proportionate increases for qualified adults and those on reduced rates of payment. A particular effort was made to address the issue of child poverty through targeted increases. Budget 2018 also provided for an increase in the weekly qualified child payments, an increase in income thresholds for the Working Family Payment, improvements for lone parent families, the introduction of a Telephone Support Allowance and the announcement of a new Youth Employment Support Scheme.

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

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

16. As part of Budget 2021, it was announced that the planned increase to the State Pension age would be deferred. The pension age had been due to increase to from 66 to 67 with effect from January 2021. The deferral of the increase was in keeping with the commitment in the Programme for Government. Otherwise, Budget 2021 continued the approach of the previous Budget with a series of targeted measures that focused on the most vulnerable in our society. The Qualified Child Payment was increased by €2 for children aged under 12 and €5 for children aged 12 and over. The Living Alone Allowance was increased by a further €5 per week to €19. The earnings disregard for Disability Allowance was increased by €20 from €120 to €140 per week (from June 2021). The rate of Fuel Allowance was increased by €3.50 to €28 per week. The income thresholds for the

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

Budget 2022

17. Budget 2022 was the largest Social Welfare Package in over a decade with the measures introduced costing €558 million in 2022, and over €600 million in a full year. In 2022, it is estimated that €23.3 billion will be spent on Social Welfare measures.

18. For the first time in three years, the package provided for across-the-board €5 increases in the maximum rate of core weekly payments to pensioners, people with disabilities, carers, lone parents and working age people with additional increases for qualified adults and dependent children.

19. €185 million was allocated to fund a series of targeted measures, with a particular focus on carers, lone parents, low-income families and people with disabilities The income disregard for the Carer's Allowance was increased to €350 per week for a single person and to €750 for a couple. In addition, the capital/savings disregard for the Carer's Allowance means assessment was increased from €20,000 to €50,000, aligning it with that which applies for Disability Allowance. This means more individuals will qualify for Carer's Allowance. These changes were the first changes in the Carer's Allowance means test in 14 years.

20. The Budget package also provided significant supports to help householders with the cost of heating and other energy bills. The Fuel Allowance increased by €5 to €33 per week from Budget week. The weekly means threshold was also increased by €20 from €100 to €120 (above the relevant State Pension Contributory rate for the household type). People on Jobseeker's Allowance or Supplementary Welfare Allowance will become eligible for the Fuel Allowance if they are in receipt of the payment for 12 months (down from 15 months). Some of the funding of Fuel Allowance measures, in addition to funding of Living Alone Allowance and Increases for Qualified Children were provided by the hypothecation of additional Carbon Tax funds.

21. The Hot School Meals programme was extended to a further 81 DEIS schools and available to an additional 16,000 schoolchildren. In 2022, almost 300 schools participate in this programme, benefiting over 55,000 schoolchildren.

22. A 100% Christmas Bonus was paid to Welfare Recipients at estimated cost of over €313m.

23. The weekly rate for a qualified child was increased by €2 from €38 to €40 for children under 12 years of age. This rate increased by €3 from €45 to €48 for children aged 12 years and over.

24. The Budget also provided for an increase of €10 in the weekly income thresholds on the Working Family Payment, regardless of the family size. This measure benefits working families who are receiving this payment by an additional €6 per week.

Social Protection Expenditure in 2022

25. The Revised Estimates Volume (REV) for 2022 published in December 2021 provided for expenditure of €23.35 billion for the Department of Social Protection in 2022. These estimates reflected Government decisions up to and including Budget 2022 (in October 2021), including the public health restrictions in place and envisaged for the months ahead at that time. Subsequent decisions extended the duration of schemes such as the PUP and Enhanced Illness Benefit.

Table 1 – Department of Social Protection Expenditure 2018 -2022

	2018 Outturn	**2019 Outturn**	**2020 Outturn**	**2021 Outturn (Provisional)**	**2022 REV**
	€'m	€'m	€'m	€'m	€'m
Administration	637	639	635	643	694
Pensions	7,758	8,215	8,480	8,931	9,122
Working Age Income Supports	3,422	3,259	8,357	7,230	3,646
Working Age Employment Supports	792	712	4,717	5,172	1,477
Illness, Disability and Carers	4,254	4,506	4,769	4,818	4,922
Children	2,631	2,636	2,630	2,581	2,582
Supplementary Payments, Miscellaneous Services and agencies	816	787	867.463	897	908
Total expenditure	**20,310**	**20,754**	**30,456**	**30,271**	**23,351**

The Social Protection Response to COVID 19

26. The COVID-19 virus was declared as a public health emergency by the WHO in January 2020, with the first Irish case reported at the end of February. By March 2020, the Irish Government was responding at a national level to the public health threat posed by the pandemic.

27. All aspects of the State engaged in the fight against the pandemic – principally in the health sector, but also through unprecedented interventions in the tax and social protection systems designed to support individuals, households and businesses in dealing with the economic shock imposed by the pandemic, and the public health enforced restrictions on society, the economy and all citizens which were a direct consequence.

28. As part of the Government's response to the pandemic, key emergency income support measures for households were introduced. These were met through the Department of Social Protection Expenditure (Vote 37). From March 2020 to February 2021, €6.1 billion was paid in respect of the PUP. The Temporary Wage Subsidy Scheme (TWSS) and the Employee Wage Subsidy scheme (EWSS) were also paid through the Department of Social Protection's Vote. Policy responsibility for the wage support schemes rests with the Department of Finance, and the schemes are administered by the Revenue Commissioners. In the period mentioned €2.7 billion was paid in TWSS payments and €2.1 billion on EWSS.

29. Whilst the majority of restrictions were lifted with effect from February 2022, supports continued beyond this date and, as a result, expenditure continued on some schemes, albeit at a much lower volume than in previous months. In the 12 months from March 2021 to February 2022, over €7.6 billion was spent on COVID related supports by DSP, including over €3 billion on PUP, €4.3 billion on EWSS and €170 million on COVID Illness Benefit.

The Cost of Living

30. A previous section of this paper addressed the headline poverty indicators (such as AROP and Consistent Poverty as reported by the CSO). However these figures are based on the SILC survey which comes with an inherent time lag in the period covered by the indicators. In previous years, this lag has not been particularly critical for the annual budgetary cycle, as the overall macroeconomic trajectory of the economy moved at a relatively slow pace, notwithstanding systemic shocks such as the global financial crisis a decade ago, and the impact of the COVID pandemic in recent years. Unfortunately, the Irish economy has faced

another systemic shock recent months, and one which has had immediate and significant impact on Irish people – the invasion of Ukraine and the consequent impact on both global and national inflation, and the cost of living for everyone in the State. The fallout from this is most evident from the sharp increase in energy and other commodity prices, with consumer price inflation now at multi-decade highs.

31. Prices on average, as measured by the CPI, were 7.8% higher in May this year compared with May 2021. The most notable changes in the year were increases in:

    a. Housing, Water, Electricity, Gas & Other Fuels (+20.9%)

    b. Transport (+16.5%)

    c. Alcoholic Beverages & Tobacco (+7.5%); and

    d. Restaurants & Hotels (+5.9%).

    There were small decreases in Miscellaneous Goods & Services (-1.8%) and Education (-0.8%). The Central Statistics Office (June 2022) has also provided analysis of estimated inflation by household types. It found that, in the year to March 2022, households with lower equivalised gross household income had a higher estimated inflation than the CPI. For example, households in the lowest income decile experienced inflation of 7.5% compared to 6.1% for the highest income decile.

32. In addition, in the 12 months to March 2022, electricity, gas and other fuels was the largest estimated contributor to inflation for households with lower gross household income. Also, households where the reference person was aged 65 and over had higher estimated inflation than other groups, due to electricity, gas and other fuels being a higher proportion of their total expenditure than it is for other age groups.

Government Priorities

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

34. The Programme contains a commitment to "protect core weekly social welfare rates". A range of increases to weekly social welfare payments are discussed in the Budget options below.

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

36. The importance of ancillary benefits, which are paid in addition to the main weekly social welfare payments, is recognised in the Programme for Government. This paper discusses options for potential increases to the Increase for a Qualified Child payment (IQC), which is paid to social welfare recipients in respect of their dependent children.

37. The Programme for Government also commits to ensuring that planned increases to the Carbon tax are progressive, and fuel poverty is prevented by targeting additional resources at the most vulnerable through the social welfare system. This paper discusses a further increase to the Fuel Allowance for the 2022/2023 fuel season, and also explores options to support additional households through increases in the Household Benefits package.

38. A number of other Cost of Living related measures are considered, given the particularly significant increases in inflation in the last number of months.

Social Impact Assessments

39. In recent years, the Department's Social Protection Package - Budget Issues[7] papers to the Tax Strategy Group contained analysis of the distributive impact of a range of illustrative social protection budget measures.

40. This section lists a range of illustrative welfare Budget measures and provides, in Appendix 1, the distributive and poverty impact of these measures, in order to better inform understanding of the social impact of budgetary policy.[8]

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

Review of Potential Budget Measures

42. Costs set out below are related to full year costs in 2023, whereby measures are

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

[8] The Department has produced post Budget integrated social impact assessments of the main tax and social welfare measures for Budgets 2013 to 2022 inclusive, using the ESRI SWITCH model.

introduced with effect from January 2023. **If a decision is made to consider the earlier introduction of certain measures, additional costs would accrue in 2022.**

43. **(i) €15 weekly rate increase for all weekly social welfare payments, with a <u>proportionate increase for qualified adults</u>**

<u>OR</u>

(ii) €15 weekly rate increase for all weekly social welfare payments, <u>personal rate only</u>; and €6.50 increase in the <u>Living Alone Allowance</u>

Weekly rates of social welfare payments were increased in Budget 2022 by €5, the first increase in core rates since March 2019. Budget 2022 also built on recent budget packages, providing for targeted measures to ancillary payments such as increases to payments in respect of qualified children, increases to the Working Family Payment earnings thresholds and increases to the Living Alone Allowance. The aim of this approach was to target resources at those who need them most - all households relying on social welfare saw an increase in their rate of payment, with the most vulnerable receiving a larger increase.

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

A €15 increase would represent a significant change in rates, three times that of Budget 2022 increases. A person on a working age payment would see their personal weekly rate increase to €223 and, if applying scenario (i), a further €153 payment if they have a dependent adult. For a person on the Contributory State Pension, their personal rate would be €268.30 and a further €240.40 if there is an adult dependant.

In scenario (ii) a single pensioner living alone would see an increase of €21.50 per week.

The estimated full year cost of:

(i) a €15 weekly rate increase for all weekly social welfare payments, with proportionate increases for qualified adults and those on reduced rates of payment, would cost **€1,111.7 million**;

(ii) a €15 weekly rate increase for all weekly social welfare payments for the personal rate only (i.e. without proportionate increases for qualified adults), would cost €1,031.5 million; an increase of €6.50 per week in the Living Alone Allowance costs €78.1 million.
The total cost for (ii) **is €1,109.6 million.**

A €15 per week increase in the personal rate would represent an increase of 7.2% for recipients of most working age payments and nearly 6% for those on the Contributory State Pension.

44. **(i) €15 weekly rate increase for all weekly social welfare payments, with a proportionate increase for qualified adults**

OR

(ii) €10 weekly rate increase for all weekly social welfare payments, with a proportionate increase for qualified adults; and

- **€10 increase in the weekly rate of Fuel Allowance; and**
- **€10 increase in the Living Alone Allowance; and**
- **€8 increase for Qualified Children aged under 12 and €14 increase for children 12 and over**

As stated earlier, the Government implemented an approach in Budget 2022 which mixed broad measures, such as a rate increase, with targeted measures such as increases in the Living Alone Allowance, to try to ensure that funds were allocated where they could best alleviate poverty.

Based on ESRI research, Fuel Allowance, Living Alone Allowance and increases for Qualified Children may provide the best mix of targeted supports to alleviate increases in the risk of poverty associated with increased energy costs linked to Carbon Tax increases. The increased funds raised through this increased taxation was hypothecated into supports for the SEAI (to improve the energy efficiency of Irish housing stock), the Department of Agriculture, Food and the Marine (to improve the Climate efficiency of agriculture) and the DSP.

This proposal provides a choice between a single, across the board €15 increase in all weekly social protection payments, or an alternative - *at similar cost* - whereby a €10 across the board increase is accompanied by targeted increases in Fuel Allowance (reaching over 370,000 low-income households, generally on long term social protection supports), people living alone (known to be at higher risk of poverty than those living in multi person households) and people on welfare supports with young children (another

cohort with a higher risk of poverty than the general population).

As stated above, a €15 increase would represent a significant change in rates, three times that of Budget 2022 increases.

In scenario (ii), a single pensioner living alone would see an increase of €20 per week or €30 during Fuel season if they were in receipt of Fuel Allowance.

The estimated full year cost of:

(i) a €15 weekly rate increase for all weekly social welfare payments, with proportionate increases for qualified adults and those on reduced rates of payment, is **€1,111.7 million**;

(ii) a €10 weekly rate increase for all weekly social welfare payments with proportionate increases for qualified adults and those on reduced rates of payment, would cost €741 million; an increase of €10 per week in the Living Alone Allowance costs €96.1 million; an increase of €10 per week in the Fuel Allowance would cost €109.7 million and an €8 increase for qualified children aged under 12 and €14 increase for children aged 12 or over would cost €164.7 million.
Total for (ii) **is €1,111.5 million.**

45. **6.1% increase in the State Pension Contributory, with a proportionate increase for qualified adults using the 'smoothed earnings' approach**

The Government has committed to introducing a smoothed earnings approach to rate setting for the State Pension Contributory.

Calculating the smoothed earnings-based approach based on the latest available Harmonised Index of Consumer Prices (HICP) (the May 2022 HICP figure was 8.3%) and projecting the same monthly value for June and July results in a calculated €15.50 increase in the maximum personal rate for the State Pension Contributory. This increase, with a proportionate increase for qualified adults, would cost **€393.1 million.**

46. **8.3% increase in Pension age schemes, with a proportionate increase for qualified adults using the latest Harmonised Index of Consumer Prices annual percentage increase (May)**

In the alternative, linking to current inflation pressures, and using the May HICP of 8.3%, would result in an increase of €21.10 in the maximum personal rate of all pension age schemes, with proportionate increases for qualified adults, would cost **€777.7 million.**

47. **8.3% increase in <u>all</u> weekly DSP schemes, with a proportionate increase for qualified adults, using the latest Harmonised Index of Consumer Prices annual percentage increase (May)**

As a broad response to current inflation pressures, and using the May HICP of 8.3%, would result in an increase of €21.10 in the maximum personal rate State Pension Contributory, with proportionate increases for other Social Protection schemes and qualified adults, and would cost **€1,424 million.**

48. **An additional week of Fuel Allowance**

The Fuel Allowance scheme is a well targeted policy response to higher costs in relation to fuel, which we have seen is the largest component contribution to price inflation. An additional week of Fuel Allowance payments, reaching over 370,000 low-income households on long term social protection payments would cost **€12.9 million.**

49. **A double week payment for weekly payments (akin to the Christmas Bonus)**

A double week's payment of all weekly social protection payments, on the same basis as the Christmas Bonus, would cost **€311.8 million.**

50. **8.3% increase for all weekly social welfare payments, with a proportionate increase for qualified adults using the latest Harmonised Index of Consumer Prices annual percentage increase (May); and**

- **€5 increase in the rate of <u>Fuel Allowance</u> per week and €10 increase in the <u>Household Benefits Package</u> per month; and**
- **€5 increase in the <u>Living Alone Allowance</u>; and**
- **€5 increase for <u>Qualified Children</u>**

Combining elements of the previous packages, with a targeted, inflation linked increase in all weekly payments (at a cost of €1,424m), coupled with a small increase in Fuel Allowance and a larger increase in the Household Benefits package (at a combined €114.3m), along with a €5 increase for those living alone (€60.1m) and a similar €5 increase for qualified children (€81.2m) would have a **total cost of €1,679.6m**

51. **€20 in the Working Family Payment (WFP) earnings thresholds for all family sizes**

An increase in this threshold would help all low-income families who avail of WFP and would have an annual cost of **€49.6m**

Pay Related Social Insurance

52. This section presents an overview of the financial position of the Social Insurance Fund at the end of 2021 and the magnitude of the funding challenges facing the Fund in the future. It also outlines Government priorities, recent proposals and recommendations made that are aimed at addressing ongoing deficits, and enhancing the sustainability, of the Fund.

Financial Position of the Social Insurance Fund

53. The following table sets out the income and expenditure of the Social Insurance Fund for the years 2016 to 2021 inclusive.

Table 2 – Social Insurance Fund Income and Expenditure 2016 - 2021

	2016	2017	2018	2019	2020	2021*
	€m	€m	€m	€m	€m	€m
Income	9,217	9,816	10,626	11,585	10,645	11,839
Expenditure	8,764	9,085	9,491	10,016	14,107	14,874
Surplus/deficit	**452**	**731**	**1,135**	**1,569**	**3,462**	**3,035**
Accumulated surplus/deficit at end of year	452	1,183	2,318	3,887	425	**2,610**

** 2021 Provisional Outturn*

Source: Department of Social Protection (2022)

Future Funding Challenges

54. The Social Insurance Fund faces demographic challenges which will operate independently of the impact of fluctuations in the economy. The main driver of the increase in overall projected expenditure is pension-related expenditure. The report of the Pensions Commission found that the ratio of the working age population to the older population in the State is changing. In 1991, there were 5 working age people to 1 pensioner, and it is projected that this ratio will fall to 3.5 to 1 by 2031 and to 2.3 to one by 2051.[9] In addition, people are living longer than previous generations and as a result, the duration of State pension payments has been increasing steadily over time and will continue to do so.

[9] Report of the Commission on Pensions: https://www.gov.ie/en/publication/6cb6d-report-of-the-commission-on-pensions/

55. The most recently completed Actuarial Review of the Social Insurance Fund reflects its financial position at the end of 2015. Certain findings of that Review were updated for the purposes of providing the Commission on Pensions with an indication of the sustainability challenges facing the Fund. The updated projections, as set out in the following table, predict an annual shortfall in the Fund of over €2.3 billion in 2030, €13 billion by 2050 with anticipated *annual* shortfalls steadily increasing to some €21 billion in 2070. It is important to note that the figures in the table represent individual projected annual deficits for the years concerned. The 2015 Actuarial Review estimates that the annual deficits compounding over the years will leave the Fund in **a cumulative deficit position of €335 billion by 2071**.

Projected Annual SIF Income and Expenditure, Selected Years

	2030	**2050**	**2070**
Income	€14.64 billion	€20.74 billion	€28.57 billion
Expenditure	€17.00 billion	€34.09 billion	€49.66 billion
(of which) State Pension Contributory	€9.60 billion	€23.12 billion	€33.94 billion
Deficit	€2.36 billion	€13.35 billion	€21.10 billion

Source: Report of the Commission on Pensions (2021), Table 4.6

56. The next Actuarial Review of the Social Insurance Fund based on the 2020 year is underway and will provide updated projections with respect to these funding challenges. The Review, once completed later in 2022, will inform the short, medium and long-term policy development of the social insurance system generally.

Social Insurance Rates

57. The Programme for Government *Our Shared Future* included a specific commitment to act on the rates of social insurance contributions: "*Consideration will be given to increasing all classes of PRSI over time to replenish the Social Insurance Fund to help pay for measures and changes to be agreed including, inter alia, to the state pension system, improvements to short-term sick pay benefits, parental leave benefits, pay-related jobseekers benefit and treatment benefits (medical, dental, optical, hearing).*"

In light of this commitment, social insurance policy papers considered by the Tax Strategy Group in the context of Budgets 2021 and 2022 contained, inter alia, proposals to increase

the rates of social insurance payable by self-employed workers, employed workers and their employers over various timeframes and yields to the Social Insurance Fund.[10]

With respect to the rate of contribution payable by self-employed workers, the proposal in the Budget 2021 paper is to increase it to the standard rate, currently 11.05%, payable by employers over a multi-year timeframe. This approach is considered necessary to rebalance the contributions paid by such workers, which has remained unchanged at 4% since 2011. It is worth noting that at 4%, it is the lowest across the EU and the UK and is over 18% lower than the average EU rate of 22.76%. Self-employed workers are now covered for most of the benefits available under the social insurance scheme which represents approximately 93% of the value of all benefits paid out of the Social Insurance Fund in return for a contribution of 11 percentage points lower than that made in respect of employed workers. The proposal provides that access to the few remaining benefits would be incrementally extended to self-employed workers over the rate adjustment timeframe. Even with this proposed rate adjustment, the rate of social insurance for self-employed workers would still (in 6 years' time) be over 10% less than the current EU average.

The Budget 2022 paper provided a table of social insurance rates applied to employees and employers across the EU and UK. This table clearly shows how Ireland has the lowest combined rate of employer and employee contributions (at 15.05%), the second lowest employee rate (at 4%) and the fifth lowest employer rate (at 11.05%). These rates are considerably lower than the EU average of 14.6% for employees and 22.62% for employers. That paper also contains a number of proposals relating to social insurance rate setting including an employee and an employer contribution rate increase of 1.5% implementable over a five-year timespan. This would mean that the current employee contribution rate of 4%, which has not changed since 2001, would incrementally increase to 5.5% and the employer rate of 11.05% would similarly increase to 12.55%. Furthermore, that paper includes a proposal to phase out the lower rate of employer contribution (currently 8.8%) by increasing it gradually over a five-year timeframe to reach the new standard rate of 12.55%. Even with these proposed rate adjustments, the rate of social insurance for employees would remain the second lowest across the EU and UK, the rate for employers would remain the fifth lowest and the combined rate would be the second lowest. All rates would continue to be considerably lower than the EU averages. The cumulative full year yield to the Social Insurance Fund from implementing these proposals and the proposals with respect to the self-employed, in full as set out in the paper, is estimated to be in the region of €3.6 billion.

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

https://www.gov.ie/en/collection/d6bc7-budget-2022-tax-strategy-group-papers/

Recommendations of the Commission on Pensions

58. The Programme for Government included a commitment: "*Establish a Commission on Pensions to examine sustainability and eligibility issues with state pensions and the Social Insurance Fund. The Commission will outline options for Government to address issues including qualifying age, contribution rates, total contributions and eligibility requirements*."

    The Commission has completed its work and published its report in October 2021. The Commission's recommendations to improve the sustainability of the Social Insurance Fund include:

    - increasing the self-employment contribution rate gradually from 4% to 10% and, in the medium term, to set it at the higher employer contribution rate;

    - increasing the employee and employer rates of employment contribution in accordance with the package of policy options chosen by Government as set out in the report. While each package includes social insurance contribution rate increases, the Commission recommended the package with a social insurance contribution/exchequer contribution/state pension age mix which will require a 1.35% increase in both the employee and employer contribution rates by 2040;

    - broadening the social insurance contribution base by removing the exemptions from a social insurance charge for persons over 66 and those in receipt of occupational pensions.

    These recommendations will be taken into account when considering future social insurance contribution rate setting policy as the sustainability of the social insurance system requires consideration of, and finding a balance between, a range of cost saving and revenue raising measures, including consideration of social insurance contribution rate changes.

Commission on Welfare and Taxation

59. Another commitment in the Programme for Government is to: *"establish a Commission on Welfare and Taxation to independently consider how best the tax system can support economic activity and promote increased employment and prosperity, while ensuring that there are sufficient resources available to meet costs of the public services and supports in the medium and longer term."*

The Commission on Taxation and Welfare was established in April 2021. The Commission was asked, amongst its terms of reference, to examine what changes, if any, should be made to the social insurance system, including structure and benefits coverage, while ensuring sustainability. The Commission is also considering certain recommendations of the Pensions Commission in that regard. Any recommendations made by the Commission regarding social insurance contribution rates will have to be considered in the wider context of the interaction of the social insurance system and the tax system as a whole.

60. The TSG is invited to consider this paper.

Appendix 1 - Social Impact Assessment of Illustrative Welfare Measures

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

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

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

***** The SWITCH appendix will be provided as soon as the figures become available*****