

Department of Social Protection
PRSI issues for Budget 2011

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1 Social Insurance Fund Finances

Social insurance spending has traditionally been funded on a tripartite basis – with contributions coming from the Exchequer, employers and employees. Legally, the Exchequer is the residual financier of the Fund and Exchequer contributions were the norm for over forty years – for example, in 1967, the State contribution was 38% of SIF expenditure; and almost 29% in 1985. However, no Exchequer contribution has been required from 1996 as the Fund had been in surplus on foot of contributions from employers and workers.

The Actuarial Review of the Social Insurance Fund, 2005 advised that significant increases in contribution income will be required in future years – if the policy imperative is to be maintenance of current distributions from the SIF. In line with current pensions policy DSP supports the view that progressive action is required if future public pension liabilities (and other SIF liabilities) are to be met. This will involve finding an appropriate balance between the three strands of the tripartite funding system but also building a closer relationship between benefit rates/conditions and contribution rates and gauging the cost of credits.

Financing of the Social Insurance Fund, 2009 (2008)

• Employer PRSI – 72.5% (73%)	• Employee PRSI – 21.4% (20.1%)
• Self-employed PRSI – 4.3% (5%)	• Investment income and other receipts – 1.8% (2%)

Financial position of the Social Insurance Fund – 2008, 2009, 2010

Income Source	2008 €000	2009 Provisional €000	2010 Profile to end August* €000	2010 Actual to end August* €000
Employer/Employee Contributions	7,578,600	6,848,489	4,607,000 (Full year 6,650,000)	3,616,100
Self-Employed Contributions	405,582	315,495	121,400 (Full year 422,000)	100,700
Other Income	160,228	132,996	-	-
Total Income	8,144,410	7,296,980	-	-
SIF Scheme Expenditure	8,393,757	9,777,295	6,254,000 (Full year 9,560,000)	6,225,000
Deficit	249,374	2,480,315	-	-

* Figures in this table are drawn from different sources – for indicative purposes only.

The current estimate for the 2010 Exchequer Subvention to the Social Insurance Fund is **€2,452 million**. This is €900 million or over 58% higher than provided for in the estimates. €690 million of this is related to technical issues of SIF administration and the balance arises from a revision of the distribution of gross receipts as between SIF, Health Contribution and National Training Fund.

GROSS PRSI CASH RECEIPTS (Social Insurance + National Training Levy + Health levy EXCLUDING Schedule D) Received from the Revenue Commissioners

Month	€m 2009	€m 2010	Variation
January	735	772	37
February	863	809	-54
March	729	764	35
April	768	751	-17
May	702	733	31
June	713	688	-25
July	774	733	-41
August	758	708	-50

Trend in SIF income vs. expenditure

The SIF recorded an annual (provisional) operating deficit of €2.48bn in 2009. The most recently available returns demonstrate that thus far in 2010 PRSI is below profile but SIF expenditure is only slightly under profile.

The subvention by the Exchequer will for 2010 be very substantial and points to the fact that, as highlighted in reports such as the 2005 Actuarial Review, PRSI rates are generally too low to support the level of benefits available/manner in which contributions are awarded.

2 PRSI changes advanced by DSP

The Department of Social Protection is strongly of the view that reform of the PRSI system is a priority. In this context PRSI should remain completely outside the USC.

The following issues are largely consistent with the recommendations of the McCarthy group and the Commission on Taxation.

2.1 Greater income generation from a simplified PRSI system

For simplicity the following refers to PRSI Class A only - PRSI Class A encompasses up to 80% of all social insurance contributors and is the standard Class for full-time employees. The following tables give the current PRSI Class A and a simplified Class A structure (without the Health Contribution) – focused on revenue generation.

Current - Class A 2010

Subclass A0					
Weekly pay Band	How much of Weekly Pay	First €75,036 Employee	First €75,036 Employer	Over €75,036 Employee	Over €75,036 Employer
€38 - €352	All	Nil	8.50%	Nil	8.50%
Subclass AX					
Weekly pay Band	How much of Weekly Pay	First €75,036 Employee	First €75,036 Employer	Over €75,036 Employee	Over €75,036 Employer
€352.01 - €356	First €127	Nil	8.50%	Nil	8.50%
	Balance	4.00%	8.50%	Nil	8.50%
Subclass AL					
Weekly pay Band	How much of Weekly Pay	First €75,036 Employee	First €75,036 Employer	Over €75,036 Employee	Over €75,036 Employer
€356.01 - €500	First €127	Nil	10.75%	Nil	10.75%
	Balance	4.00%	10.75%	Nil	10.75%
Subclass A1					
Weekly pay Band	How much of Weekly Pay	First €75,036 Employee	First €75,036 Employer	Over €75,036 Employee	Over €75,036 Employer
More than €500	First €127	4.00%	10.75%	4.00%	10.75%
	€127.01 - €1,925	8.00%	10.75%	4.00%	10.75%
	Balance	9.00%	10.75%	5.00%	10.75%

Simplified Class A

Subclass A0					
Weekly pay Band	How much of Weekly Pay	First €75,036 Employee	First €75,036 Employer	Over €75,036 Employee	Over €75,036 Employer
€38 - €356	First €50	Nil	8.50%	Nil	8.50%
	Balance	2.00%	8.50%	Nil	8.50%
Subclass AL					
Weekly pay Band	How much of Weekly Pay	First €75,036 Employee	First €75,036 Employer	Over €75,036 Employee	Over €75,036 Employer
More than €356.01	First €50	Nil	10.75%	Nil	10.75%
	Balance	4.00%	10.75%	Nil	10.75%

The simplified example above has 3 key features:

1. It relates to PRSI only and does not feature a Health Contribution element.
2. Low paid employees will pay at a rate of 2% rather than being exempt – this is in keeping with the contributory principle of the system and will never cost a low paid employee more than €6.12 per week.
3. The weekly PRSI free allowance is reduced from €127 to €50. This will increase the PRSI take from all workers below the €75,036 ceiling. For a worker on average industrial earnings of €646.80 (as of late 2009) this will increase their weekly contribution from €20.79 to €23.87.

It is estimated that the above example would deliver an additional €180m in contribution income in a full year. If employee rates were also raised 1% (i.e. 3% and 5% as opposed to 2% and 4%) this figure could be in the order of €500m to €600m.

In the context of emerging macro-economic projections, it is proposed that the potential for simplification/income generation in the PRSI system be explored further by DSP and DoF.

2.2. Introduction of a minimum earnings threshold for full-rate PRSI

Class **J0** covers all persons – including medical card holders and certain social welfare recipients – who are employed under a contract of service with reckonable earnings of less than €38 per week. Persons paying Class J rates are covered in respect of Occupational Injuries Benefit. Class **A0** applies to all employees – including medical card holders and certain social welfare recipients who are normally employed under Class A but whose reckonable earnings are between €38 and €352 per week. Neither Class pays an employee or health levy contribution. As it currently stands, an employee working 4.5 hours or less per week at the minimum wage is gaining a PRSI credit and, subsequently, entitlement to social insurance benefits.

As currently constituted, the PRSI Classes allow persons with a minimal attachment to the workforce to obtain the same benefits as full-time employees. This anomaly contradicts the contributory principle of the social insurance system.

If the original contribution level of €38 equivalent had been raised in line with prices since it was first introduced, it would now stand at €55 and represent a more meaningful level of engagement with the labour market before benefit entitlements are receivable. If the €38 equivalent had been raised in line with industrial earnings, it would now stand at circa €70. The Department of Social Protection recommends, as a first step, raising this floor to €50 in Budget 2011.

2.3. Introduction of a minimum income threshold for self-employed contributors

Self-employed persons with a total income of €3,174 or more in the 2009 tax year pay social insurance contributions at the PRSI Class S rate. These contributions are paid on a person's gross income – less capital allowances and allowable superannuation.

- Those who pay their tax directly to the Collector-General will pay their social insurance contribution and their health levy contribution with their income tax. They will have to pay a social insurance contribution of 3% of all income, or €253, whichever is greater, as well as the health contribution, where applicable.
- Those paying PAYE tax will have their contributions deducted from their income by their employers.
- Those who have been told by an Inspector of Taxes that they need not make a return of income must pay a flat rate contribution of €157 to this Department. These contributions can be paid in instalments.
- Those whose main income comes from share-fishing and who have been classified as self-employed workers may opt to pay an extra contribution for certain benefits under PRSI Class P. In addition to the Class S contribution, they will pay a contribution of 4% on income over the PRSI-Free Allowance of €2,500 *per annum*, up to a ceiling of €50,700, or pay €200 – whichever is greater.

These arrangements allow self-employed contributors with reckonable income of €3,174 *per annum* (i.e. €61 per week) access to social insurance coverage – again, representing bad value-for-money and a detriment to the equity and integrity of the social insurance system.

This amount has not changed since it was first introduced in 1988. It was set, at the time, by reference to the rate of the Old Age (Non-Contributory) Pension. While it is not proposed that the PRSI threshold for self-employed persons match the current rate of the State Pension (Non-Contributory) it should be raised to a level that adequately reflects the benefits that can accrue from social insurance coverage. Any move to a more realistic level of contribution in this regard would probably be best done on a phased basis over a period of years.

2.4. Flat rate self-employed contributions and Voluntary Contribution rates.

Self-employed workers aged between 16 and 66 years and with reckonable income that exceeds the current insurable limit of €3,174 *per annum* pay PRSI contributions at Class S. The contributions are due at 3% of reckonable income, or €253, whichever is the greater.

The flat rate of €253 (£200) has been in existence since 2001. If the current insurable limit of €3,174 is to be increased, it would be logical that this flat rate should also rise accordingly. Paying €253 for a full year of contributions represents excellent value for money in terms of accrued pension entitlement – in light of current initiatives regarding the sustainability of the pensions system, allowing such a minimal contribution would appear to be unsustainable.

€253 is also the rate at which formerly self-employed persons pay Voluntary Contributions in order to protect their pension entitlements. If the Class S flat rate is increased, this rate would normally follow suit.

