

**Department of Social Protection**

**Social Welfare Package – 2011 Budget Issues**

**1. Introduction**

The 2011 Department of Social Protection (DSP) Budget package will need to be considered having regard to the following:

- The necessity to reduce current expenditure by up to €2 billion in 2011 as part of the agreed multi-annual budgetary consolidation over the period 2011 to 2014;
- Ensuring that the resources available to the DSP in 2011 are focused towards providing targeted support to those who are at risk of poverty and to reduce long-term dependence on welfare payments through raised employment and participation levels;
- That any measures adopted should be consistent with the longer term development of the welfare system or, at a minimum, should not make such progress more difficult, and
- Ensuring that all Budgetary changes are proportionate, consistent with the principle of fairness and protect the most vulnerable as well as having regard to the cross-cutting impact of the totality of all measures, including taxation and other non-DSP changes, on individuals and families.

These objectives can be achieved through:

- a. the minimisation of reductions, if any, in weekly and monthly income support;
- b. a critical examination of the continuation of entitlement to more than one primary payment;
- c. other structural changes to welfare schemes, such as the relatively generous disregards which apply to certain schemes and other non-income support payments;
- d. the maintenance and strengthening of the social insurance system

**2. Background – Previous Budgets**

For many years, the main factors influencing the Budgetary strategy of the DSP have been the social welfare commitments contained in the various programmes for Government, the social partnership programmes and anti-poverty plans.

The extent and the scope of social welfare spending is such that the income and support services operated by the Department impact on the lives of almost every person in the State. The DSP operates some 50 separate social welfare schemes and services and the needs and requirements of individual claimants can vary dramatically. Over the period since 2004, the increases in the rates of weekly social welfare payments have been well ahead of price inflation (CPI) as illustrated in the following tables.

Table 1: State Pension Contributory: Weekly rates and increases, 2005 to 2010.

Year	Rate	€ Change	% Change	% Inflation Rate <sup>1</sup>
2005	179.30	12.00	7.2%	2.5
2006	193.30	14.00	7.8%	4.0
2007	209.30	16.00	8.3%	4.9
2008	223.30	14.00	6.7%	4.1
2009	230.30	7.00	3.1%	-4.5
2010	230.30	0.00	0.0%	-0.8
<b>2005-2010 €</b>	63.00			
<b>2005-2010 %</b>				37.7%
				10.3%

Table 2: Lowest Rate of Welfare Payment: Weekly rates and increases, 2005 to 2010

Year	Rate	€ Change	% Change	% Inflation Rate
2005	148.80	14.00	10.4%	2.5
2006	165.80	17.00	11.4%	4.0
2007	185.80	20.00	12.1%	4.9
2008	197.80	12.00	6.5%	4.1
2009	204.30	6.50	3.3%	-4.5
2010	196.00	-8.30	-4.1%	-0.8
<b>2005-2010 €</b>	61.20			
<b>2005-2010 %</b>				45.4%
				10.3%

In addition to the improvements above, successive the rates of Child Benefit has risen by €24.40 (19%) (Lower Rate) and €21.70 (14%) (Higher Rate) since 2004.<sup>2</sup> The rate of Qualified Child Increase has also increased substantially, as follows:

Table 3: Qualified Child Increase: Weekly rates and increases, 2005 to 2010

Year	Rate €	€ Change	% Change	% Inflation Rate
2005	16.80	0.00	0.0%	2.5
2006	16.80	0.00	0.0%	4.0
2007 <sup>3</sup>	22.00	5.20	31.0%	4.9
2008	24.00	2.00	9.1%	4.1
2009	26.00	2.00	8.3%	-4.5
2010 <sup>4</sup>	29.80	3.80	14.6%	-0.8
<b>2005-2010 €</b>	13.00			
<b>2005-2010 %</b>				77.4%
				10.3%

<sup>1</sup> The 2010 inflation rate shown is the Budget Day forecast.

<sup>2</sup> When account is taken of the reductions introduced in Budget 2010.

<sup>3</sup> Prior to 2007, there were two other rates of QCI (€19.30 and €21.60). All three rates were standardised at €22 in 2007.

<sup>4</sup> The 2010 increase fully compensated for the reductions In Child Benefit in that year.

Other improvements have included significant enhancements of the Family Income Supplement (FIS) scheme, the introduction of an additional half-rate payment of Carer's Allowance where the carer has an underlying entitlement to another welfare payment as well as significant improvements in the National Fuel Scheme - outlined in the table below.<sup>5</sup>

*Table 4: National Fuel Scheme: Weekly rate and duration 2005 – 2010*

Year	Rate	Duration	€ Change	% Change	% Inflation Rate
2005	9.00	29 weeks	0.00	0.0%	2.5
2006	14.00	29 weeks	5.00	55.6%	4.0
2007	18.00	29 weeks	4.00	28.6%	4.9
2008	18.00	30 weeks	0.00	0.0%	4.1
2009	20.00	32 weeks	2.00	11.1%	-4.5
2010	20.00	32 weeks	0.00	0.0%	-0.8
2005-2010 €			11.00		
2005-2010 %				122.2%	10.3%

### 3. Budget 2009 – Cost Incurring Measures

Budget 2009, contained both cost incurring and savings measures. The former cost a total of €515 million in a full year and included:

- a €7 (3% to 3.3%) per week increase for all pensioners aged 66 or over (€166 million);
- a €6.50 (3.3%) per week increase for all recipients aged under 66 (€262 million);
- improvements for children including a €2 (7.7%) per week increase in the Qualified Child Increase and an increase in the FIS income thresholds (€56 million)
- a €2 (11.1%) per week increase in the national fuel scheme as well as a two week extension of the duration of entitlement (€30 million)

It was estimated at the time of the announcement of Budget 2009 that inflation would average 2.5% for 2009. The outturn for 2009 was -4.5%.

### 4. Budget 2009 & Supplementary Budget – Savings Measures

Both of these Budgets included a range of measures designed to curtail the increase in DSFA expenditure. The detailed measures are outlined in Appendix 1.

<sup>5</sup> The rate of Smokeless Fuel Allowance (€3.90 per week) did not change over the period. However, the duration of payment of this allowance increased in line with the improvements for the National Fuel scheme.

In summary, the measures involved a range of changes in eligibility for social insurance schemes, a reduction in the duration of entitlement for jobseeker's benefit, illness benefit and child benefit, a new lower rate of payment for younger jobseekers, aged 18 and 19, as well as a range of Rent Supplement measures, including a significant increase in the minimum contribution to be made by the tenant.

Most, but not all, of the measures affected new claimants only. This means that these structural changes had a lower first year impact and a greater full year impact (and that the longer term savings are substantially in excess of those achieved in 2009 or 2010). In this regard, it is important to note that the full or first year impact did not necessarily occur in 2010 e.g. the restriction in the duration of illness benefit will take many years to achieve full year savings but will progressively achieve savings starting from the beginning of 2011.

These measures produce savings of €331 m. in 2009, €485m. in 2010 and almost €600m. in a full year.<sup>6</sup> In addition to the measures outlined in Appendix 1, provision was also made for a range of control savings in 2009.

## **5. Budget 2010**

The 2010 Budget package introduced reductions in welfare rates and schemes that will generate €762 million in savings. The main features of the 2010 budget were as follows;

- no change in rates for people aged 66 and over
- reductions in weekly rates of payment for people under 66 years of age of between 3.5% and 4.2%
- reduction in the child benefit rate by €16 per month. Social welfare recipients and lower income workers in receipt of family income supplement were fully compensated through an increase on qualified child payment.
- the weekly rate of €100 to single recipients, aged 18 and 19, of Jobseeker's Allowance was extended to recipients aged 20 to 21 and a reduced rate of €150 per week was introduced for single recipients aged 22 to 24 inclusive. The objective of this reduction was to improve the financial incentive for jobseekers to take up work or training.

It was estimated at the time of the Budget 2010 that the CPI would fall by 0.8% in 2010. Savings measures introduced in the 2010 Budget can be found in Appendix 2.

## **6. DSP Expenditure – 2010**

*Table 5: Trends in expenditure 2005-2010*

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<sup>6</sup> Budget Day estimated savings.

	2005 €m	2006 €m	2007 €m	2008 €m	2009 €m	2010 €m
<b>Net Non Capital Expenditure</b>	12,110	13,504	15,409	17,684	20,435	20,929
<b>Annual Inc.</b>		1,394	1,905	2,274	2,752	489
<b>%</b>		<b>11.5%</b>	<b>14.1%</b>	<b>14.8%</b>	<b>15.6%</b>	<b>2.4%</b>
<b>Avg. Weekly LR</b>		157,558	162,150	222,916	395,459	445,261 <sup>7</sup>

Table 5 shows DSP expenditure from 2005 to 2010. Annual growth in expenditure over the period 2006 to 2009 inclusive ranged from 11.5% to 15.6%, mainly driven by improvements in rates of payment and other structural improvements in 2006 and 2007 and by a higher Live Register in 2008 and 2009. Expenditure growth stabilised in 2010, up by 2.4% despite a further increase in the Live Register.

### 7. DSP Expenditure – 2011

DSP Estimates for 2011 are currently being finalised. It is likely that the expenditure requirement in 2011 on an ELS basis will be somewhat over €21 billion (including the cost of the programmes<sup>8</sup> transferred from the Department of Community, Equality and Gaeltacht Affairs). The average weekly number of overall welfare recipients will be of the order of 1.36 million. Of these, about 0.49 million will be pensioners aged 66 and over.

### 6. Special Group Proposals

The Report of the Special Group on Public Service Numbers and Expenditure Programmes contained a wide range of proposals designed to reduce DSP expenditure.

Of the €1.85 billion of potential full year savings identified, 74% of these savings are accounted for by two measures, namely-

- reductions in weekly personal rates of payment, and
- reductions in monthly Child Benefit.

In addition, the Special Group recommended that some of the other measures identified should apply to new claimants only e.g. discontinuation of certain additional “half-rate” payments. Accordingly, the savings from these types of measures would be relatively low in the first year but would progressively increase in subsequent years towards the full year savings figures shown in the table below.

*Table 6: DSP Measures proposed by Special Group*

	DSP	Annual Savings Identified

<sup>7</sup> As at w/e September 24.

<sup>8</sup> The Rural Social Scheme and the Community Services Programme.

		(Millions)
1.	5% General Reduction in Rates	€850
2.	Administrative Savings	€3
3.	Agency Services	€3
4.	Discontinuation of the Family Support Agency	€30
5.	Change eligibility conditions of Family Income Supplement	€20
6.	Reduce/Standardise Child Benefit Rate	€513
7.	Grading of Jobseeker's Assistance by Age	€70
8.	Discontinuation of Treatment Benefit	€92
9.	Phase out second welfare payment	€100
10.	Discontinuation of Double payments for CE Schemes	€100
11.	Tax Household Benefits Package	€11
12.	Merge Blind Persons scheme with Disability Allowance	€0.0
13.	Re-examine the level of the Rent Supplement payment on a regional basis and reduce the length of time on rent supplement	€35
14.	Legislate for and reduce eligibility for Exceptional Needs Payments	€18
15.	Merge Pensions Ombudsman with the Financial Service Ombudsman	€1
16.	Merge Pensions Board with the Financial Regulator	€1
	<b>TOTAL SAVINGS (Millions)</b>	<b>€1,847.6</b>

## 7. Implementation of Special Group proposals

The following Special Group recommendations were either fully or partially introduced in Budget 2010. The savings were €689 million in 2009 and €737 million in a full year.

- reduction in rates of between 3.5% and 4.2% for recipients under the 66 years of age
- child benefit reductions of €16 per month in both the higher and lower rates.
- the treatment benefit scheme was limited in 2010 to the medical and surgical appliances scheme and the free examinations provided for under the dental and optical benefits scheme.
- reduction in rates of payment of jobseeker allowance and SWA to persons under 25 years of age

- rent limits that apply to new rent supplement agreements were reduced to reflect reductions in private rent levels.

The Special Group also recommended that an increase in the retirement age should be considered. The National Pensions Framework, launched in March 2010, announced major changes to improve pension provision generally. Two key elements included increasing the age at which people qualify for the State Pension – to 66 years of age in 2014, 67 in 2021 and 68 in 2028 – and that the State Pension Transition be abolished in 2014. Both of these measures, if adopted, will curtail expenditure, thereby making pension provision more sustainable in the longer term.

This paper now documents the major proposals made by the Special Group that have not been implemented to date.

## **8. Levels of Weekly Income Supports**

While some reductions in rates of payment of payment were introduced in 2010, these did not apply to pensioners and, where applicable, did not reach the 5% reduction recommended by the Special Group. In the event of consideration of reductions in rates of payment for 2011, the priority should be to minimise any reductions in the levels of support on individual recipients. In considering changes, regard should be had to

- i. movements in price inflation,
- ii. current rates of payment for different groups of recipients,
- iii. the impact on poverty levels and
- iv. the cumulative impact on recipients who experienced reductions in Budgets 2009 and 2010.

It is considered that it would be more equitable to reduce all income support levels across the board rather than exclude certain groups and, in particular, those groups in receipt of higher levels of payment. Such an approach would reduce the impact on individual recipients generally.

## **9. Prices**

Movements in prices are an important factor in any consideration of social welfare rate adjustments. In the twelve months to end-August 2010, inflation has increased by 0.2%<sup>9</sup>.

*Table 7: Consumer Price Index by Commodity Group, CSO, August 2010.*

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<sup>9</sup> HICP annual percentage change to end August 2010 was -1.2%.

<b>2010 – August</b>		
	<b>Percentage Change over 1 month for Consumer Price Index (%)</b>	<b>Percentage Change over 12 months for Consumer Price Index (%)</b>
<b>All Items</b>	<b>0.7</b>	<b>0.2</b>
<b>Food and Non-Alcoholic Beverages</b>	-0.3	-3.2
<b>Alcoholic Beverages, Tobacco</b>	-0.2	-3.2
<b>Clothing and Footwear</b>	-3.7	-8.2
<b>Housing, Water, Electricity, Gas and Other Fuels</b>	3.5	7.9
<b>Furnishings, Household Equipment and Routine Maintenance of the House</b>	0	-4.0
<b>Health</b>	-0.1	0.4
<b>Transport</b>	0.5	2.1
<b>Communication</b>	0.4	2.9
<b>Recreation and Culture</b>	0.1	-2.0
<b>Education</b>	0.0	9.5
<b>Restaurants and Hotels</b>	0.0	2.3
<b>Miscellaneous Goods and Services</b>	0.2	1.3

The rate of inflation in certain commodities is of particular importance for lower income groups. In this regard,

- The bottom two income deciles spend between 30 and 35 per cent of net household income on food while the average expenditure is 17 per cent.
- Low-income cohorts spend between 9 and 13 per cent on domestic fuel, compared to an average of 3.5 per cent.<sup>10</sup>

The rate of inflation in food and non-alcoholic beverages was – 3.2% in the twelve months to end-August. While the cost of housing, water, electricity, gas and other fuels has increased by 7.9%, price movements within this group have varied widely with, for example, mortgage interest increasing by over 24.4%. While electricity, natural gas and solid fuel prices are down by 1.3%, 10.6% and 3.1%, respectively on a year on year basis, the cost of liquid fuels has increased by 26.8%.

## **10. Reduce and Standardise Child Benefit (CB) Rate**

While the Child Benefit rate was reduced in Budget 2010, there are still two rates of payment applied in the scheme, i.e. €150 for the first two children and €187 for third and subsequent children. Social welfare recipients were fully compensated through

<sup>10</sup> Central Statistics Office (2007), *Household Budget Survey 2004-2005 final results*.



an increase on qualified child payment while lower income workers in receipt of family income supplement were also compensated through an increase in the FIS weekly earnings thresholds.

The Group considered it appropriate to comment on possible options (other than the consideration of taxing or income/means testing CB ongoing at that time) to reduce expenditure in the scheme, such as introducing a standard rate of Child Benefit for all children, reducing payments in respect of twins/multiple births and the introduction of means testing. By further reducing the Child Benefit rate to reach the €136 per child per month as envisaged by the Special Group, savings of €279m could be achieved (of which €86 million relates to equalising the two rates).

This would affect 1.12 million children in circa 600,000 families and involve a further reduction of €28 per month (€6.46 per week) in the case of each of the first two children and €51 per month (€11.77 per week) for the third and subsequent child. For a family of three children, this would involve a total loss of €948 per annum (or €18.23 per week). This would be in addition to the €576 per annum loss due to the Child Benefit cuts in Budget 2010.

While social welfare recipients and lower income workers in receipt of family income supplement were fully compensated through an increase on qualified child payment improvements, any further increase could possibly discourage some persons with families from re-entering the workforce.

## **11. Phase out second welfare payment**

In general, a person is entitled to receive only one primary weekly payment at any given time. However, there are some exceptions to this:

- i.** Half-rate Carer's Allowance paid with all other personal social welfare payments other than jobseekers' payments and with all Qualified Adult payments (including jobseekers' payments). ,
- ii.** Half-rate Jobseeker's Benefit or Illness Benefit, paid with Widow's pensions, One-Parent Family Payment (and associated payments such as Deserted Wife's Benefit which are now closed to new entrants) etc.
- iii.** Full-rate Jobseeker's Benefit, Illness Benefit, Maternity and Adoptive Benefit, Widow/er's Pensions, One Parent Family Payment and Health and Safety Benefit paid with Blind Pension.

The provisions at items (ii) and (iii) above are longstanding while the half-rate carers provision (item i) was introduced in September 2007. Entitlement to item (ii) was abolished with effect from January 2004 for new claimants but this measure was reversed with full retrospection in April 2004.

The Special Group proposed that all half-rate entitlements cease for new claimants and be phased out over five years for existing beneficiaries.<sup>11</sup> In making this recommendation, the Group considered it appropriate that these schemes return to

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<sup>11</sup> The phasing out would, in effect, apply to the half-rate Carer's Allowance only as entitlement to half-rate Illness and Jobseeker's Benefits ceases after a maximum period of 15 and 12 months, respectively.

their basic objectives of income support and the introduction of the principle of one primary payment per scheme.

*Table 8: DSP estimated savings and numbers affected, August 2010.*

<b>Item:</b>	<b>Savings €m - 2010</b>	<b>Savings €m full year</b>	<b>Numbers of Recipients</b>	<b>Notes</b>
<b>Half-Rate Carer's Allowance</b>	9	91	19,900	33% are pensioners aged 66 or over.
<b>Half Rate Illness &amp; Jobseeker's Benefits</b>	14	27	5,300	Approximately 70% of beneficiaries are OPFP/DWB recipients, balance on widow/er's payments.
<b>Full rate Illness &amp; Jobseeker's Benefit</b>	0.5	1.2	210	All Blind Pensioners
<b>Total</b>	<b>23.5</b>	<b>119.2</b>	-	-

If the half-rate carer measure was implemented, the losses for those new carers who would have qualified under the current arrangements for a half-rate payment would range from €24.10 per week to €90.00 per week. Half-rate Jobseeker's and Illness Benefit is €98.00 per week with the full rate at €196.00 per week.<sup>12</sup>

## **12. Discontinuation of double payments for CE schemes.**

CE participants receive an allowance of €216.00 per week from FÁS, plus increases of €130.10 per week in respect of any adult dependent they may have and €29.80 per week in respect of any child dependent. The main rate is higher than the personal rate of welfare payments (normally €196.00) and the increases are equivalent to social welfare rates. As CE is insurable employment and subject to labour law (minimum wage requirements etc) income received from it is assessed against persons on means-tested benefits in the same manner as income received from any other employment. Accordingly, in certain circumstances a participant on CE may continue to receive a reduced-rate primary social welfare payment.

People on Jobseeker's Benefit/ Allowance who take up these CE opportunities leave the Live Register as they are obliged to do as they no longer meet the relevant statutory requirements. Parallel payments do not therefore arise in their case. In the case of social insurance schemes such as Invalidity Pension and Illness Benefit, the full rate of these payments continues to be payable provided the CE participation is regarded as rehabilitative.

<sup>12</sup> The Special Group also recommended that Blind Pension should be merged with the Disability Allowance scheme given the similarity of objectives with disability payments. As Disability Allowance does not attract entitlement to half-rate jobseekers or illness payments, the existing half-rate arrangements for the blind would cease.

People on other payments, such as One-Parent Family Payment or Disability Allowance, may continue to receive a reduced rate payment provided they continue to meet the relevant statutory requirements for those schemes.

In the case of One-Parent Family Payment (OPFP), the first €146.50 per week of employment income is disregarded in full and half of any balance between that and €425 per week is also disregarded. Income from Community Employment (CE) is employment income for these purposes. For example, a lone parent with one child who receives €245.80 per week on a CE scheme (€216.00 plus €29.80 child allowance) is regarded as having means of €49.70 for OPFP purposes and consequently, receives €183.30 per week in OPFP (as opposed to the maximum rate of €225.80) in addition to the €245.80 from CE, bringing the total income to €429.10. This method of assessment would be the same if income received was, as mentioned above, derived from any other form of insurable employment. There is however one difference: persons who are employed on a CE scheme are not entitled to Family Income Supplement and therefore, assuming similar circumstances, a person in open labour market employment receives more money per week in total than a person on CE.

The Group has recommended that the concurrent payment of a primary welfare payment while on CE be discontinued for new CE entrants in order to incentivise labour market progression. The Group also stated that existing CE participants should not be affected but should be subject to the new arrangements on renewal or in the case of a new placement. Savings of €38 million in 2010 and €100 million in a full year were identified by the Group.

There are 22,300 CE participants of whom about a half are in receipt of a welfare payment. The latter are divided almost equally between recipients of a OPFP and recipients of an illness or disability payment. If the measure was implemented, the loss over the current arrangements could be up to €196.00 per week (and €183.30 per week in the OPFP case outlined above) assuming that the CE options were taken up as heretofore by affected groups. However, implementation could discourage affected groups from accessing CE.<sup>13</sup>

### **13. Change of eligibility for FIS**

Family Income Supplement (FIS) is an income tested weekly payment for persons with children who are in employment. A person is not eligible for FIS if they are in receipt of certain other social welfare payments. These payments are those which assume non-employment or retirement as a part of eligibility i.e. Jobseeker's Benefit and Allowance, State Pension (Transition) and PRETA. However, persons in receipt of other welfare payments e.g. One-Parent Family Payment, Widow/er's Pensions and Disability Allowance) are entitled to receive a concurrent FIS payment – subject to total family income including the primary welfare payment being below the relevant weekly income threshold.

The Special Group recommends that persons already in receipt of a welfare payment should not be eligible to receive FIS. This recommendation is based on the principle

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<sup>13</sup> Where Rent or Mortgage Interest Supplement is in payment, the means test (for RMIS) takes account of the value of the CE payment resulting in a lower amount of RMIS being paid. The discontinuation of the primary welfare payment would mean that the level of entitlement to RMIS would rise - as overall family income would have decreased.

that, where possible, only one social welfare payment should be received at any given time. Savings of €20 million in a full year were identified. Based on more recent data, DSP now estimate that savings would be of the order of €27 million in a full year and €13.5 million in the first year.<sup>14</sup>

There are currently 27,765 recipients of FIS of whom close to 6,360 (23%) are also in receipt of a primary welfare payment. Of these, 5,899 are in receipt of One-Parent Family Payment with the balance in receipt of a range of other schemes.

The average weekly FIS payment (and potential loss) to persons who are also in receipt of OPFP is high. This could range from €50 per week in the case of a one child family<sup>15</sup>, to circa €185 in the case of a four child family.<sup>16</sup>

Given that the measure would cut a person's secondary payment without affecting their primary payment, it could be argued that it complies with the Government's stated objective to target available scarce resources at those in most need. It would appear less likely that this measure would drive families below the poverty line as it will only operate in the event of certain persons in receipt of the primary payment who also are in employment of a minimum of 19 hours per week.

On the other hand, it could be argued that implementation of the measure will reduce the incentive to take up a reasonably significant level of employment (19 hours minimum) thereby running counter to a Government objective to reform the social welfare system to make it more likely that social welfare recipients will take up employment. The number of OPFP recipients who benefit from the current arrangements is low at just over 8% of the total.

The losses (mainly substantial) would be experienced by a relatively small and well defined group of social welfare recipients. While the majority of those affected would be single headed households (e.g. widows, divorced, separated or lone parents), other recipients would also be affected (e.g. certain disability payments). In this regard, this measure would have to be considered in the context of the cumulative impact of any other measures on affected persons, particularly if personal and Child Benefit rates of payment were reduced.<sup>17</sup>

In addition, a review of Child Income Supports is currently being carried out by DSP in line with the overall objectives of the Government's expenditure review initiative.

The primary programmes covered by this review include Child Benefit, Qualified Child Increases (to primary social welfare payments) and Family Income Supplement

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<sup>14</sup> FIS is payable for a fixed period of one year. At the end of that year, recipients have the payment renewed (at a lower or higher rate) based on up to date income data. The first year savings assume that FIS recipients who are also in receipt of a primary social welfare payment would, at renewal stage, become entitled to one payment only. Depending on family size, the most beneficial option could be either OPFP or FIS.

<sup>15</sup> 5,925 of the 6,358 OPFP families potentially affected have either one or two children.

<sup>16</sup> The position is more complex where an affected person is also in receipt of Rent or Mortgage Interest Supplement. The means test for RMIS takes account of the value of the FIS payment resulting in a lower amount of RMIS being paid. The discontinuation of the FIS payment would mean that the level of entitlement to RMIS would rise (as overall family income would have decreased). In other words, 75% of the loss in FIS would be replaced by an increase in RMIS.

<sup>17</sup> Childcare costs (which are likely to be a factor for this group) rose by 6.4% in the 12 months to end-August, 2009.

(FIS).<sup>18</sup> The review examines the objectives of child income support (CIS) policy, considers if they remain valid, if programme spending and associated administrative costs are well configured to meet these objectives and if alternative approaches would achieve better outcomes and impacts. It may be appropriate to further consider this Special Group proposal following the finalisation of this review over the next few months.

#### **14. Social Insurance**

The social insurance system is a central part of the delivery of social protection in Ireland and this approach should be maintained and strengthened. The Social Insurance Fund is now in deficit and requires substantial transfers for the Exchequer. While the Exchequer has historically funded the Fund on a tripartite basis (except for the period 1997 to 2009), the level of Social Insurance contributions made by employees and the self-employed should be brought into line with the levels of benefits provided. In this regard, it should be noted that (as pointed out in the Actuarial Reviews of the Fund) lower paid workers derive greater value for money from the Fund (as there is no employee contribution payable). There is considerable scope for ensuring greater income for the Fund through bringing contributions more into line with benefits received. This would also ease the financial pressure on the Fund and should help to minimise other social welfare changes.<sup>19</sup>

#### **15. Taxation Changes impacting on Welfare payments**

Review of the taxation treatment of social welfare payments could also reduce tax expenditures and also reduce the extent of welfare changes. The Commission on Taxation recommended that, as a general rule, all social welfare payments should be subject to taxation. It went on to recommend:

- The statutory provisions which exempt from income tax elements of social welfare payments which are otherwise taxable should be discontinued.
- There should be no change in the taxation status of maternity benefit, adoptive benefit and health and safety benefit.
- Specific exemptions from income tax should be introduced for family income supplement, the domiciliary care allowance and the respite care grant.

#### ***Special Exemption – Illness and Injury Benefit***

Illness benefit is tax free for the first six weeks in any year. The effect of this treatment is that there is a net gain to such employees for the first six weeks in any year in which they claim Illness benefit. The Commission examined the special Illness Benefit taxation arrangements in detail and recommended abolition. It pointed out, in particular, that, at certain times of the year, the combination of illness benefit and tax rebates could mean that a person was financially better off by taking a period of sick leave or by not returning to work after a period of illness, as follows:

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<sup>18</sup> The Back to School Clothing and Footwear Allowance (BtSCFA) and the now defunct Early Childcare Supplement were also considered given their potential effect on child-related outcomes.

<sup>19</sup> A separate paper on PRSI issues has already been submitted to the Group.

The Commission's Report does not contain an estimate of the savings which would arise if these arrangements were discontinued.

*Special exemptions – Jobseeker's Benefit*

While Jobseeker's Benefit is a taxable source of income, the child dependant element and the first £13 per week of benefit are exempt from tax. The Commission recommended that the first €13 should be taxable – it did not mention the child element.

Currently Jobseeker's Benefit is not taxable for claimants on systematic short time. Short-time employment means employment in which the employees have been transferred from a normal working week to a short-time working arrangement each week (e.g. 3 days on / 2 days off) The Commission stated that there are grounds for discontinuing the systematic short time relief for equity reasons. However, discontinuation should not be implemented until more favourable labour market conditions apply.

The TSG is invited to discuss this paper.

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Department of Social Protection  
September 2010

## Appendix 1

### Savings Measures - Budget 2009 and Supplementary Budget 2009.

Summary description of adjustment	Effect of Measure 2009 €m	Effect of Measure 2010 €m	Full Year €m
1 (a) Reduce <b>Jobseeker's Benefit</b> entitlement from 15 to 12 months for recipients with 260 or more contributions and (b) Reduce duration of <b>Jobseeker's Benefit</b> from 12 months to 9 months where a person has less than 260 contributions paid.	53	86	86
2. Increase the current weekly earnings threshold for the payment of reduced rates of <b>Illness Benefit, Jobseeker's Benefit and Health and Safety Benefit</b> (known as graduated rates) from €150 to €300.	8	10	10
3. Increase underlying number of paid contributions for entitlement to <b>Jobseeker's Benefit, Illness Benefit and Health &amp; Safety Benefit</b> , from 52 to 104 and introduce a condition whereby 13 paid contributions are required in the relevant tax year (and certain other tax years) for eligibility for <b>Jobseeker's Benefit and Health and Safety Benefit</b> .	11.7	23.1	23.1
4. Limit <b>Illness Benefit</b> to two years duration for new claimants.	0	0	101
5. Halve entitlement to <b>Child Benefit</b> for 18 year olds; Abolish in 2010 and recycle some CB savings for offsetting measures on children to protect social welfare families	27.6	67.2	79
6. Discontinue provision for the <b>Christmas Bonus</b> .	156	171	<b>171</b>
7. Introduce a reduced personal rate of payment of €100 per week for new <b>Jobseeker's Allowance</b> claimants aged 18 and 19 years and new Basic SWA claimants aged under 20 years.	12	26	30
<b>8. Rent/Mortgage Interest Supplement</b> measures including: Increase minimum contribution for Rent and Mortgage Interest Supplement by €11 pw to €24 and Reduce maximum rent limits where appropriate by up to 10% for <u>all new tenancies/renewals</u> and reduce all existing rent supplements by 8%.	69	97	97
<b>TOTAL</b>	<b>331.1</b>	<b>485.1</b>	<b>597.1</b>

**Appendix 2**  
**Savings Measures - Budget 2010**

<b>Summary description of adjustment</b>	<b>Effect of Measure 2010 €m</b>	<b>Full Year €m</b>
<b>1. Child Income Support</b>		
<b>Child Benefit</b> – A reduction of €16 per month in both the Lower Rate and the Higher Rate, bringing the Lower Rate from €166 to €150 per month and the Higher Rate from €203 to €187 per month.	<b>221.1</b>	<b>221.1</b>
<u>Less Compensatory measures:</u>		
<b>Qualified Child Increase</b> – An increase of €3.80 per week in the rate of Qualified Child Increase, from €26 per week to €29.80.	<b>-84.03</b>	<b>-84.03</b>
<b>Family Income Supplement</b> – An increase of €6 per week per child in all Family Income Supplement weekly earnings thresholds.	<b>-14.54</b>	<b>-14.54</b>
<b><u>Child Income Support Total</u></b>	<b>122.53</b>	<b>122.53</b>
<b>2. Weekly Rates of Payment</b>		
<b>Weekly Personal Rates of Payment</b> – A reduction of €8.30 in the weekly personal rate of Jobseeker's Benefit and Allowance, Invalidity Pension (under 65 years), Widow/er's (Contributory) Pension (aged under 66 years), Widow/er's Non-Contributory Pension, Deserted Wife's Benefit (under 66 years) and Allowance, Illness Benefit, Incapacity Supplement, Health and Safety Benefit, Injury Benefit, Pre Retirement Allowance, Disability Allowance, Blind Pension, Farm Assist, One Parent Family Payment, Supplementary Welfare Allowance, Back to Work Allowance and Back to Education Allowance. Lowest rate of €196 per week down from €204.30. Reduction of €8.20 per week in the rates of Death Benefit Pension (aged under 66) and Carer's Benefit. A reduction of €8.40 per week in Disablement Pension and a reduction of €8.50 per week in the rate of Carer's Allowance. A €7.50 (4.2%) reduction in the rate of Guardian's Payment (both Con and Non-Con).	<b>395.97</b>	<b>395.97</b>
<b>Weekly Qualified Adult Rates of Payment</b> – A reduction of €5.90 per week for Invalidity Pension qualified adults aged under 66, from €149.70 to €143.80 per week. A reduction of €5.50 per week for all other qualified adults of working age schemes. Proportionate reductions for all persons in receipt of reduced rates.	<b>29.50</b>	<b>29.50</b>
<b>Maternity &amp; Adoptive Benefit</b> – Reduction of €10 (3.6%) in the maximum rate of Maternity and Adoptive Benefit from €280 pw to €270 and a as well as an €4.50 reduction in the minimum rate, from €230.30 to €225.80 pw. Reduction in the minimum rate takes account of the increase in the QCI.	<b>11.10</b>	<b>11.10</b>
<b><u>Weekly Rates of Payment Total</u></b>	<b>436.57</b>	<b>436.57</b>



<b>3. <u>Activation Measures</u></b>		
<b>Jobseeker's Allowance &amp; Supplementary Welfare Allowance</b> – Introduce a new rate of €100 per week for new recipients of Jobseeker's Allowance & Supplementary Welfare Allowance for persons aged 20 and 21 years of age.	<b>37.89</b>	<b>97.13</b>
<b>Jobseeker's Allowance &amp; Supplementary Welfare Allowance</b> – Introduce a new rate of €150 per week for new recipients of Jobseeker's Allowance & Supplementary Welfare Allowance for persons aged 22 to 24 years of age, inclusive.	<b>15.70</b>	<b>58.90</b>
<b>Jobseeker's Allowance &amp; Supplementary Welfare Allowance</b> – Introduce a lower rate of €150 for Jobseeker's Allowance/SWA for persons who do not avail of labour activation measures and training courses.	<b>40.00</b>	<b>40.00</b>
<b><u>Activation Measures Total</u></b>	<b>93.59</b>	<b>196.03</b>
<b>4. <u>Rent Supplement</u></b>		
Savings arising from a review of maximum rent levels.	<b>20.00</b>	<b>20.00</b>
<b><u>Rent Supplement Total</u></b>	<b>20.00</b>	<b>20.00</b>
<b>5. <u>Treatment Benefit</u></b>		
Limit entitlements under the Treatment Benefit scheme in 2010 to the Medical and Surgical Appliances Scheme and the free examination elements of Dental and Optical Benefits.	<b>54.00</b>	<b>0.00</b>
<b><u>Treatment Benefit Total</u></b>	<b>54.00</b>	<b>0.00</b>
<b>6. <u>Control Savings</u></b>		
Additional Control Savings.	<b>33.31</b>	<b>33.31</b>
<b><u>Control Savings Total</u></b>	<b>33.31</b>	<b>33.31</b>
<b>7. <u>Agencies</u></b>		
<b>Family Support Agency</b> – Reduction in grant to the Family Support Agency.	<b>2.00</b>	<b>2.00</b>
<b>Citizen's Information Board</b> – Reduction in grant to the Citizen's Information Board.	<b>0.33</b>	<b>0.33</b>
<b><u>Agencies Total</u></b>	<b>2.33</b>	<b>2.33</b>
<b>OVERALL TOTAL</b>	<b>762.33</b>	<b>810.77</b>