Social Welfare Package – 2013 Budget Issues

1. Over 1.4m people receive a weekly social welfare payment and over ½m. families receive a monthly Child Benefit payment, about half of whom are also getting a weekly social welfare payment. Spending on social protection is over €20bn. and accounts for about two fifths of current Government expenditure – see **Table 1**. The scale of the system and its importance to individual beneficiaries demand that great care is taken in formulating changes.

Table 1: Expenditure by Programme – Revised Estimate, 2012 (REV)

Programme	2012 REV Expenditure €million	% of Total Expenditure
1. **Administration**	600	2.9%
2. **Pensions** (Including State Contributory and Non-Contributory Pensions and Widow's, Widower's or Surviving Civil Partners Contributory Pension)	6,255	30.4%
3. **Working Age – Income Supports** (Including Jobseeker's Allowance and Benefit, One Parent Family Payment, Farm Assist, Maternity Benefit, Basic Supplementary Welfare Allowance)	5,707	27.8%
4. **Working Age – Employment Supports** (Including Community Employment Programme, Rural Social Scheme, TÚS, Back to Work Allowance, Back to Education Allowance)	983	4.8%
5. **Illness, Disability and Carers** (Including Disability Allowance, Illness Benefit, Carer's Allowance, Invalidity Pension, Disablement Benefit)	3,439	16.7%
6. **Children** (Child Benefit of €2 billion as well as other schemes such as Family Income Supplement, Back to School Clothing and Footwear Allowance, School Meals Scheme and Guardian's Payments)	2,400	11.7%
7. **Supplementary Payments, Agencies and Miscellaneous Services**	1,164	5.7%
- Rent Supplement	436	
- Mortgage Interest Supplement	51	
- Household Benefits	335	
- Free Travel	77	
- Fuel Allowance	214	
Overall Total Expenditure on Schemes, Services and Administration	**20,547**	**100%**

2. In this paper, the Department of Social Protection reproduces some tables relating to 2013 published as part of Budget 2012 last December (Paragraphs 3 to 5). Some principles that should inform the development of the social welfare elements of Budget 2013 are then set out (Paragraph 6). Paragraphs 7 to 9 give some relevant background information on the composition of social welfare expenditure. The policy context is set out in Paragraphs 10 to 21, including some information on significant changes implemented in recent Budgets. Trends over recent years in social welfare payment rates, prices as measured by CPI, total expenditure and recipient numbers are outlined in Paragraphs 22 to 24. Replacement rate issues are briefly considered in Paragraphs 25 to 29. The remainder of the paper, Paragraphs 30 to 41, addresses issues for consideration in scaling back expenditure.

3. The Comprehensive Expenditure Report, 2012 - 2014 (CER) published in December 2012 provides for additional new expenditure reduction measures of **€1,033 million** over the next two years. This includes **€540 million** of new savings to be achieved in Budget 2013.

4. Tables 2 and 3 below were published in the CER and detail the expenditure ceilings for 2013 and 2014 and how the expenditure reductions might break down.

Table 2: Department of Social Protection Expenditure ceilings, 2012 - 2014 [1]

	2012 € million	**2013 € million**	**2014 € million**
Ministerial Expenditure Ceilings (total allocations for gross current expenditure)	**20,533**	**19,906**	**19,296**
Savings measures introduced in 2012	*475*	*648*	*690*
Savings remaining to be specified		***540***	***1,033***

Table 3: "DSP will be looking to the following broad areas to identify further savings and efficiencies"[2]

	Potential Saving € million
Children and Families	250-400
People of Working Age	350-600
Retired and Older People	150-350

[1] Page 24, Comprehensive Expenditure Report (CER), published by D/PER in December 2011
[2] Page 27, Comprehensive Expenditure Report (CER), published by D/PER in December 2011

5. Reducing overall expenditure in 2013 and beyond, as required by the expenditure ceilings, will require a critical analysis of all social welfare expenditure. Given the scale of the adjustment announced last December and the current and future financing pressures on the Social Insurance Fund, it is not advisable either to exclude any major spending programme for consideration or to over-rely on expenditure curtailment measures relating to any one programme.

   In addition, ensuring that the social welfare pension system is financially sustainable will be particularly challenging and will require critical examination of the potential to increase Social Insurance Fund income and reduce expenditure. It should also be noted that expenditure on pensions (on a no policy change basis) will increase by some €200 million in 2013. This is solely due to demographic change.

6. The development of the 2013 Social Protection Budget package will need to have regard to the following:
   i. Relevant commitments in the Programme for Government;
   ii. The management of the public finances in line with the multi-annual plan set out in the Comprehensive Expenditure Report, 2012 – 2014, including the relevant Ministerial Expenditure ceilings for DSP in 2013 and 2014. A requirement for savings of €540m. in 2013 was announced last December;
   iii. Ensuring an adequate and sustainable welfare system in the years ahead, particularly having regard to the challenges posed by demographic pressures. This includes maintaining, as far as possible, a sustainable social insurance system, based on paid PRSI contributions with an appropriate level of entitlements in due course based on these contributions. The recently launched Actuarial Review of the Social Insurance Fund will inform this consideration;
   iv. Ensuring that the resources available to DSP in 2013 and later years provide effective support to those who are most at risk of poverty;
   v. The refocusing of the DSP corporate structure, including the development of the National Employment and Entitlements Service and the implementation of the Pathways to Work programme, with the aim of reducing long-term dependence on welfare payments through more intensive engagement with individual clients using a case management approach. This will include strengthening links with employers and training providers on a local and national basis, as well as enhanced controls on jobseekers who do not engage with the activation process;
   vi. Reducing the complexity of the system in order to simplify it for both clients and staff, particularly in view of scarce and reducing administrative resources;

vii. Ensuring that payments are delivered only to those with an underlying entitlement, in the most efficient and effective manner;

viii. The recommendations of the Advisory Group on Tax and Social Welfare in relation to the specific issues they have considered; and

ix. Operational feasibility. For example, apart from rate reductions measures, that require primary legislation cannot be implemented from 1st January. Measures which involve changing means testing arrangements, changes to scheme rules, particularly affecting existing claimants, or other changes that require individual claim reviews, necessarily take some months to implement. As a consequence, the yield in 2013 will necessarily be less than the full-year yield in the case of such measures and a greater number of measures is required to achieve a given overall yield. A package involving a large number of measures is problematic for other reasons also, including the potential that multiple measures may affect particular categories of persons.

Scheme Expenditure

7. Budget 2012 provided for €475 million in DSP expenditure savings measures. Overall, **€20.55** billion was allocated in 2012, down from the **€20.97 billion** expended in 2011. This is equivalent to 39% of Gross Current Government expenditure.

8. The Department administers over 70 separate schemes and services which impact on the lives of almost every person in the State. Some 86 million payments are made each year and approximately 1.4 million people receive a payment from DSP each week. Over the period 2009 to 2012 inclusive, Budget savings measures to the value of approximately €2.7 billion in a full year have been introduced. This means that social welfare expenditure in 2013 would be some €2.7 billion higher had these measures not been introduced. About half of the overall value of these savings has come from rate reductions and half from a range of measures that changed in entitlement rules.

9. A relatively small number of the Department's schemes account for over 75% of all expenditure incurred. Table 4 below details the expenditure on these schemes.

Table 4: Scheme areas on which the highest levels of expenditure are incurred – REV 2012

Scheme	2012 REV	Cumulative	
	€m	%	€m
State Pension Contributory and Transition	3,913	19%	3,913
Jobseeker's Allowance and Benefit	3,570	36%	7,483
Child Benefit	2,079	46%	9,562
Widow/er's or Surviving Civil Partner's Contributory Pension	1,349	53%	10,911
One Parent Family Payment	1,063	58%	11,974
Disability Allowance	1,078	63%	13,052
State Pension Non-Contributory	967	68%	14,019
Illness Benefit	847	72%	14,866
Carer's (including Carer's Allowance and Benefit, Domiciliary Care Allowance and Respite Care Grant	780	76%	15,646

Note: The expenditure detailed above does not include the cost of supplementary benefits in cash or in kind which some of the recipients may also be entitled to e.g. fuel allowance, household benefits package, rent supplement etc.

Policy Context

Programme for Government Commitments

10. The policy commitments in the current Programme for Government which specifically relate to DSP are listed in Appendix 1. The principal commitment in the Programme is '*to maintain welfare rates*'.

EU / ECB / IMF Programme

11. The Memorandum of Understanding with the EU/ECB/IMF Funding Group (as at September 2012) includes a specific commitment that DSP will: '*Ensure that activation services are enhanced, to tackle the high and persistent rate of long-term unemployment. In particular the Department of Social Protection will take steps to improve the ratio of vacancies filled off the live register, focus on re-training the unemployed to reduce the risk of long-term unemployment and ensure appropriate incentives through the implementation of sanctions. Generally, the government will advance its plans to introduce new activation measures building on Pathways to Work'*. The commitments relevant to the Department of Social Protection are listed in Appendix 2.

12. It should also be noted that in their most recent Country Report (No. 12/265), the IMF suggested that targeted reforms in selected expenditure items including State Pension (Contributory), Household Benefits Package and Child Benefit should be considered.

Comprehensive Review of Expenditure

13. The Review was completed by DSP and submitted to Department of Public Expenditure and Reform in 2011. The Review is wide-ranging, given the scale and complexity of DSP expenditure, the key role it plays in the wider economy and its importance in any consideration of measures which will contribute to fiscal consolidation. Some 143 options for changes in schemes and services were identified for consideration by the Government, many of which were introduced in Budget 2012. The Review is available at: www.welfare.ie/EN/Policy/CorporatePublications/Finance/exp_rev/Documents/Comprehensive_Review_of_Expenditure_2011.pdf

Economic Impact of Social Protection Expenditure

14. Most Departmental expenditure relates to weekly rates of payments to pensioners, jobseekers, lone parents, carers and people with disabilities as well as monthly Child Benefit payments.

15. The sheer scale of the overall spend and the regular weekly/monthly nature of most of it means that it plays a key role in the economy generally. This expenditure along with the tax

system plays a key role in redistributing resources between income groups and over the lifecycle.

16. The economic crisis has had a major impact on disposable household incomes and on private consumption. This is especially evident through the reduction in consumer demand across all sectors of the economy, thereby creating knock-on effects in terms of higher unemployment and reduced government revenue. In this context, expenditure on social protection can play an important role in stabilising the economy by supporting the overall demand for goods and services in the domestic economy. In turn, this supporting role can contribute to mitigating the societal consequences of the recession.

17. Accordingly, the necessity to reduce overall Government current expenditure must be considered in the context of the primary redistributive role of the social protection system. While the Department has a key objective of helping people of working age to reduce dependence on income support, it has to be recognised that, in the short to medium term, the income supports provided will play a crucial role in the lives of clients and in helping to partially offset the effect of the downturn on the wider economy.

18. The stabilising effect of social protection was examined in a study for the European Parliament on the role of social protection as an economic stabiliser (IZA Research Report, 2010). This estimates that half of a large unemployment shock is absorbed by the welfare system in the EU, compared to 34% in the US. The cushioning of disposable income leads to a demand stabilisation of up to 30% in the EU, compared to 20% in the US. This conclusion is also endorsed in the 2010 *Joint Report on Social Protection and Social Inclusion* by the European Commission and the Social Protection Committee: 'firm policy interventions and automatic stabilisers embedded in European welfare states have limited the economic and social impact of the crisis'.

19. In this regard, the options chosen to reduce overall expenditure will need to be carefully balanced having regard to any potential poverty impacts and the effect on demand in the wider economy. While there is a wide range of possible options to reduce social protection expenditure, choosing specific policy instruments to achieve that balance presents particular challenges.

Structural Reform

20. The social welfare system has developed on an incremental basis over the years. While the system has been continuously evolving, many of these changes have been on an ad-hoc basis and have been targeted at specific groups or sub-groups of recipients. Such an approach has added considerably to complexity generally, thereby consuming administrative resources (staff training, claim administration, IT etc.) as well as making the system somewhat opaque for clients.

Previous Budgetary Changes

21. As mentioned as Paragraph 6 above, a wide range of changes to Social Welfare schemes were introduced in Budgets 2009, 2010, 2011, and 2012 which, in aggregate, account for about half of the €2¾bn. savings in social welfare costs implemented so far. Structural reform initiatives implemented in that context include:

    - the implementation of key features of the National Pensions Framework and reform of the contribution requirements for State Contributory and Transition Pensions including the abolition of the State Pension Transition in 2014, increase in pension age to 67 in 2021 and 68 in 2028 as well as measures in Budget 2012 to more closely align the rate of pensions payable with the number of contributions over a lifetime.

    - In relation to One Parent Family Payment (OFP), the age limit for the youngest child for entitlement purposes is gradually being reduced to seven years of age over the period to 2015. In addition, the amount of earnings disregarded in assessing means for receipt of OFP has been reduced from €146.50 to €130.00 per week in 2012. Further reductions over the next four years will bring the disregarded amount down to €60 in 2016, thereby bringing it into line with the disregard for Jobseeker's Allowance. Both of these measures were provided for in the December 2011 Social Welfare Act.

    - The concurrent payment of Community Employment with certain other social welfare primary payments was discontinued. In addition the concurrent payment of half rate jobseeker's benefit / illness benefit with another DSP payment was also discontinued;

    - Changes to Jobseeker's Allowance and Benefit were introduced – where a Jobseeker's Benefit recipient is working for part of a week, entitlement is now based on a 5 day week rather than a 6 day week. In addition, Sunday working will be taken into account when calculating the amount of Jobseeker's Benefit or Allowance to be paid, from 2013.

    - The rates of Child Benefit applying to the third child and subsequent children were standardised at €140 over two years. The grants of €635 paid on all multiple births and further grants of €635 paid when the children were aged 4 and 12 years of age were discontinued.

Appendix 3 sets out full details of DSP Measures in Budgets 2009 to 2012, inclusive

Levels of Weekly Income Supports

22. Over the period since 2004, the increases in the rates of weekly social welfare payments have been well ahead of price inflation (CPI), rising by about one quarter in real terms, as illustrated in the following tables.

Table 5: State Pension Contributory: Weekly Rates and Increases, since 2005

Year	Rate €	Change €	% Change	% Inflation Rate
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%	-1.0%
2011	230.30	0.00	0.0%	2.6%
2012	230.30	0.00	0.0%	1.6%[3]
2005-2012 €		**63.00**		
2005-2012 %			**37.7%**	**14.7%**

Table 6: Working age schemes (including Jobseeker's Allowance and Benefit, One Parent Family Payment, Disability Allowance), 2005 to 2012

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%	-1.0%
2011	188.00	-8.00	-4.1%	2.6%
2012	188.00	0.00	0.0%	1.6%
2005-2012 €		**53.20**		
2005-2012 %			**39.5%**	**14.7%**

[3] 12 months to end August 2012

Table 7: Qualified Child Increase: Weekly rates and increases, since 2005

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[4]	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[5]	29.80	3.80	14.6%	-1.0%
2011	29.80	0.00	0.0%	2.6%
2012	29.80	0.0	0.0%	1.6%
2004-2011 €	**€13**			
2004-2011 %	**77.40%**			**14.7%**

[4] Prior to 2007, there were two other rates of QCI (€19.30 and €21.60). All three rates were standardised at €22 in 2007.
[5] The 2010 increase was fully offset by the reductions In Child Benefit in that year. QCIs were not increased to compensate for reductions in Child Benefit in 2011 or 2012.

Prices

23. Movements in prices are an important factor in any consideration of social welfare rate adjustments. In the twelve months to end August 2012 inflation has increased by 1.6%.

Table 8: Consumer Price Index by Commodity Group (CSO August 2012)

	2012 (to August)	
	Percentage Change over 1 month for Consumer Price Index (%)	**Percentage Change over 12 months for Consumer Price Index (%)**
All Items	**0.6**	**2.0**
Food and Non-Alcoholic Beverages	0.3	0.4
Alcoholic Beverages, Tobacco	0.1	3.3
Clothing and Footwear	6.6	1.7
Housing, Water, Electricity, Gas and Other Fuels	-0.5	-1.1
Furnishings, Household Equipment and Routine Maintenance of the House	0.7	-2.3
Health	-0.2	0.6
Transport	1.6	8.3
Communication	-0.4	-2.0
Recreation and Culture	0.3	1.4
Education	-	9.6
Restaurants and Hotels	0.2	1.0
Miscellaneous Goods and Services	-	5.4

Pressures on the Social Welfare System

24. The following tables detail trends in beneficiary numbers and social welfare expenditure over the period from 2002. As can be seen, the trend in beneficiary numbers has been steadily upwards even in the period before the current recession. The trend in expenditure has been even more marked with significant increases over the period to prior to 2008; the increase over the period from 2002 to 2007 was circa €6 billion or 63% while the increase over the period from 2007 to 2012 is just over €5 billion or 32%.

Table 9: Social Welfare Expenditure, 2002 to 2012

Year	Total Social Welfare Expenditure €m	Index of Expenditure
2002	9,517	100.0
2003	10,493	110.3
2004	11,291	118.6
2005	12,168	127.9
2006	13,586	142.8
2007	15,518	163.1
2008	17,809	187.1
2009	20,536	215.8
2010	20,850	219.1
2011	20,968	220.3
2012[6]	20,547	215.9

2011 and 2012 expenditure includes schemes transferred to the Department of Social Protection from FÁS and CEGA, including the Community Employment and Rural Social Schemes, involving expenditure of about €½bn. per annum

[6] Revised Estimate, 2012

Table 10: Recipients and Beneficiaries of Primary Weekly Social Welfare Payments, 2002 to 2012

Year	Weekly Recipients	Weekly Beneficiaries
2002	938,971	1,496,714
2003	959,432	1,511,740
2004	957,732	1,463,921
2005	976, 613	1,469,106
2006	1,003,517	1,506,824
2007	1,060,327	1,577,463
2008	1,208,883	1,799,875
2009	1,379,206	2,076,256
2010	1,430,833	2,179,428
2011[7]	1,467,129	2,248,284
2012[8]	1,473,323	2,260,312

Replacement Rates

25. The replacement rate (RR) for given income levels measures the proportion of out-of-work benefits received when unemployed against take home pay if in work.

    While there is no pre-determined level of replacement rate which would influence every individual's decision to work, clearly the higher the replacement rate, the lower the incentive to work. A replacement rate in excess of 70% may be considered problematic.

[7] 2011 and 2012 data include schemes transferred to the Department of Social Protection from FÁS and CEGA, including Community Employment, Rural Social Scheme.

[8] End July 2012

Examination of family types

26. Analysis of replacement rate incidence across the Jobseeker's Benefit and Allowance schemes, using 2012 rates, examined the following family types:
    - Single Claimants
    - Married and co-habitation couples
        - Couple with no Children
        - Couple with 1 Child
        - Couple with 2 Children
        - Couple with 4 Children

    and compared their total income on welfare with total income at National Minimum Wage (NMW) and two thirds of the Average Industrial Earnings (67% AIE).

27. The analysis found that when compared to National Minimum Wage income:

    - 90% of claimants have an RR less than 70%
    - 10% of claimants have an RR between 70 and 80%

    No claimants have an RR in excess of 80%

    When compared to 67% of Average Industrial Earnings income:
    - 82% of claimants have an RR less than 60%
    - 12% of claimants have an RR between 60 and 70%
    - 6% of claimants have an RR between 70 and 80%

    No claimants have an RR in excess of 80%

28. The analysis demonstrates that for the overwhelming majority of social welfare recipients, replacement rates are relatively low – as supported by analysis by the ESRI. High replacement rates are generally associated with a relatively high number of dependent children and receipt of Rent or Mortgage Interest Supplement – but the overall percentage of individuals on Rent / Mortgage Interest Supplement is only 15% of total JA/JB numbers receiving payment for a full week. This demonstrates the imperative of moving as many people as possible on to RAS (Rental Accommodation Scheme) or other social housing scheme. RAS, like local authority differential rent, is assessed on a percentage of income basis and is neutral from a Replacement Rate point of view.

29. The Government has approved in principle the transfer of responsibility for the provision of rental assistance to persons with a long term housing need from the Department of Social Protection (currently provided through Rent Supplement) to housing authorities using a new Housing Assistance Payment (HAP). HAP will be considered again by Government toward the end of 2012 when DECLG and DSP bring specific proposals to Government, including:

- the economic assessment of the proposal;
- analysis of the legal, policy and logistical implications of the wider issue of automated deductions;
- further analysis of the different approaches to implementing HAP; and
- the required Heads of a Bill(s) to amend Housing and Social Welfare legislation as required.

Scaling Back Expenditure on Schemes

30. The types of changes that could be considered tend to fall into a number of categories – policy preference is not implied in the order in which these are listed:
    - Reductions in the weekly and monthly rates of payment;
    - Tightening the eligibility criteria for a scheme such as more stringent social insurance contribution requirements;
    - The introduction of means testing in relation to social insurance based payments;
    - The introduction of means testing in relation to universal social welfare payments;
    - Changes to the means testing arrangements for social assistance payments;
    - Adjustments to allowances other than primary payments, such as the Respite Care Grant, Household Benefits Scheme and Fuel Allowance; and
    - A range of changes specific to a particular scheme or groups of schemes.

Abolition of Primary Social Welfare Schemes

31. Consideration could also be given to the possible abolition of schemes. This is, in general, quite a complicated issue for a range of reasons:
    - The role of most weekly schemes in providing weekly income maintenance to persons who have no or very little income;
    - The underlying and long standing social insurance principle that, on foot of payment of contributions by employees/employers, protection is provided on a non-means tested basis if and when a range of contingencies occur e.g. illness, unemployment, old age;
    - In the event of the abolition of a given social insurance payment, persons would have access to a social assistance payment for the equivalent contingency, e.g. Jobseeker's

Allowance in the case of unemployment. While not all would qualify due to means testing, many would; thereby reducing the overall savings quite significantly;

- Greater reliance on means testing would have significant administrative resource and customer service implications, particularly in the context of the demands imposed on DSP schemes; and
- In the event of the abolition of a social assistance payment, it is probable that all potential recipients of the given scheme would qualify under another contingency or for Supplementary Welfare Allowance (SWA). Savings, accordingly, are likely to be very limited.

Non-Primary Payments

32. An alternative approach to achieving expenditure reductions in 2013 is to curtail in full or in part a number of supplementary cash benefits or benefits in kind and abolishing the remaining instances in which a person can have entitlement to more than one primary weekly payment. If the level of expenditure reduction is significant, this will involve the complete abolition of certain benefits, deep reductions in others and a significant financial effect on certain groups of recipients. A very wide range of measures would be required in order to generate the level of savings announced last December. Supplementary benefits are outlined below in Table 11:

Table 11: Expenditure on supplementary payments in 2012

Scheme	**2012 Expenditure €m**
Rent Supplement	436
Mortgage Interest Supplement	51
Household Benefits Package	335
Free Travel	77
Fuel Allowance	214
Bereavement Grant	19
Widowed Parent Grant	6
Back to School Clothing and Footwear Allowance	64
Respite Care Grant	132

Reform of Child and Family Income Supports

33. An Advisory Group on Tax and Social Welfare was established in 2011 with the aim of harnessing expert opinion and experience to examine a number of issues. These include making cost-effective proposals for improving employment incentives and achieving better poverty outcomes, particularly child poverty outcomes. The Group was has been asked to examine a number of specific issues including child and family income supports. The Group has prioritised this area taking into account the considerable level of analysis that has already taken place.

34. The Group's overall method of working is based on producing modular reports on the priority areas identified in the Terms of Reference. Where possible, the aim is to provide recommendations that can be acted upon in time for the annual budget, estimates and legislative cycle and to allow the Government to best address its commitments under the EU-IMF Programme of Financial Support.

35. The Group's report on family and child income supports was submitted to the Minister of Social Protection earlier this year and has been discussed on two occasions at the Ministerial Steering Group. It is important to note that it will not be possible to implement fundamental reforms of the child income support system in 2013 due to the necessary lead-in time required to implement fundamental change. However, it would be possible to introduce rate adjustments in 2013 (and to realise savings) which are broadly consistent with the overall reform agenda.

36. There have been a series of changes to Child Benefit since 2009. In 2009 the monthly rates of payment of payment were €166 for the first and second child and €203 for each subsequent child. The rates have been reduced each year since then and from 2013 the rate is standardised at €140 per child per month.

37. Budget 2012 discontinued the payment of grants at birth and at ages 4 and 12. In addition the rates of the Back to School Clothing and Footwear Allowance were reduced (from €305 to €250 for children aged 12 or over and from €200 to €150 (for children aged 4-11 years old) and the age at which the Allowance is payable was increased, from age 2 to age 4.

Primary Rates of Payment

38. The Programme for Government contains a commitment "*to maintain welfare rates*". However, if it becomes necessary to consider some level of reduction in primary rates of payment, such an approach should have regard to:

    i. Movements in price inflation;
    ii. Current rates of payment for different groups of recipients;
    iii. The potential impact of any change on poverty levels;
    iv. The role of welfare payments in stabilising the social and economic effects of the downturn; and
    v. The cumulative impact on recipients who experienced reductions in the level of their primary payments (and Child Benefit, if applicable) in Budgets 2009, 2010, 2011 and 2012.

39. A smaller reduction in weekly payment rates is required to produce a given yield if that reduction is applied to all categories of recipient. In this regard, it should be noted that the main personal rate of Jobseeker's Benefit (now €188 per week after the cumulative reductions of €16.30 in Budgets 2010 and 2011) is equivalent to 81.6% of the maximum rate of State Pension Contributory (SPC) (€230.30 per week), a monetary gap of €42.30 per week. In 2009 the lowest rate of payment was equivalent to almost 89% of the SPC rate.

40. Any reductions in rates would, of course, have a negative impact on the households affected. In this regard, it is considered important that poverty impact analyses of the combined effect of potential major welfare and tax packages be carried out prior to Budget 2013 in order to better inform the Government's consideration of possible alternative approaches. This would, of course, require indicative decisions on package content to be made somewhat earlier than was the case in 2011.

41. The table below sets out the cost of / yield from changing primary weekly payments. Up to now, Budget increases or decreases in personal payment rates have been matched by broadly proportionate increases or decreases in payments in respect of dependent adults, which generally are paid at roughly 66% of the value of the relevant full personal rate[9].

Table 12: Cost / Saving of €1 per week change in main rates of payment

[9] The rate of the Qualified Adult Increase paid for persons aged 66 or over with the State Pension Contributory / Transition is equivalent to 90% of the personal rate of payment.

Change of €1 per week in Weekly Rate of Payment	Cost/Saving €m Full Year
Personal Rate of Payment – 66 and Over	24.0
Qualified Adult Rate of Payment – 66 and over – Proportionate Decrease	3.1
Personal Rate of Payment – under 66	40.7
Qualified Adult Rate of Payment – under 66 – Proportionate Decrease	3.6
Total Personal and QA Rates	71.4
National Fuel Scheme (Fuel Allowance)	10.3
Child Benefit (€1 per month)	14.4

The TSG is invited to discuss this paper.

Department of Social Protection
27 September 2012

Appendix 1 – Commitments in the Programme for Government

The Programme for Government contains a wide range of commitments relevant in full or part to the Department as set out below:

- *Halve the lower 8.5% rate of PRSI up to end 2013 on jobs paying up to €356 per week – announced in the Jobs Initiative;*
- *Expand eligibility for the Back To Education Allowance.*
- *The development of a new graduate and apprentice internship scheme, work placement programmes and further education opportunities for our young unemployed providing an additional 60,000 places across a range of schemes and initiatives – announced in the Jobs Initiative.*
- *Provision of a range of initiatives to increase access to further higher level education for the unemployed.*
- *Replacing FÁS with a new National Employment and Entitlements Service so that all employment and benefit support services will be integrated in a single delivery unit managed by the Department of Social Protection.*
- *Maintaining the standard 10.75% rate of employers PRSI;*
- *Introduce a range of measures to tackle the problem of welfare fraud.*
- *Establish a Tax and Social Welfare Commission to examine entitlements of self employed and the elimination of disincentives to employment including the interaction between the taxation and the welfare systems to ensure that work is worthwhile. In particular, it will examine family and child income supports, and a means by which self-employed people can be insured against unemployment and sickness.*
- *Convert the Money Advice and Budgeting Service into a strengthened Personal Debt Management Agency with strong legal powers.*
- *Maintain social welfare rates.*
- *Make greater use of Mortgage Interest Supplement to support families who cannot meet their mortgage payments.*
- *Progressively reduce reliance on Rent Supplement, with eligible recipients moving to the Rental Accommodation Scheme.*
- *Amend the 30 hour rule for Rent Supplement and Mortgage Interest Supplement for people moving from welfare to work.*
- *Review the operation of the Rent Supplement Scheme and introduce a code of conduct for Rent Supplement eligibility similar to that which operates for local authority tenants.*
- *Pay Rent Supplement to tax-compliant landlords registered with the PRTB and offering decent quality accommodation, to root out fraud.*
- *Over time, One-Parent Family Payment will be replaced with a parental allowance that does not discourage marriage, cohabitation or work.*
- *Divert staff from elsewhere in public service to clear the social welfare appeals backlog, and introduce a consolidated appeals process.*

- *Put the Household Benefits Packages out to tender, so that the Exchequer benefits from reduced prices.*
- *Complete and implement the National Positive Ageing Strategy so that older people are recognised, supported and enabled to live independent full lives.*
- *Reform the pension system to progressively achieve universal coverage, with particular focus on lower-paid workers, to achieve better risk sharing, and to provide for greater flexibility for those who wish to retire on a phased basis.*
- *Achieve the national poverty targets in the National Action Plan for Social Inclusion to reduce the number of people experiencing poverty.*
- *Break the cycle of child poverty where it is most deeply entrenched.*
- *Complete and publish a strategy to tackle fuel poverty.*

Appendix 2:
Main Troika Commitments relating to DSP, Q3 and Q4, 2012,

Sixth Update, September 2012

……………

- For the duration of the EU/IMF financial assistance programme the Irish authorities will take all the necessary measures to ensure a successful implementation of the programme and minimise the costs to the taxpayers, while protecting the most vulnerable. In particular, they commit to:

  - Rigorously implement fiscal policy consistent with the requirements of the excessive deficit procedure. … Moreover, the nominal value of Social Welfare pensions will not be increased.

  - Ensure that activation services are enhanced, to tackle the high and persistent rate of long-term unemployment. In particular, the Department of Social Protection will take steps to improve the ratio of vacancies filled off the live register, focus on re-training the unemployed to reduce the risk of long-term unemployment and ensure appropriate incentives through the implementation of sanctions. Generally, the government will advance its plans to introduce new activation measures building on *Pathways to Work* (the government's strategy for institutional reform of the activation system).

1. Actions for the eighth review (actions to be completed by end Q3-2012)

Structural reforms

Efficient social support expenditure

Building on the progress so far and on the data provided at end-June 2012, the Department of Social Protection will:

- continue: (i) the introduction of one-stop shops, (ii) employer engagement by the National Employment and Entitlement Services (NEES); and (iii) the roll-out of job matching;

- continuously monitor the performance of the activation system and report to the staff of the European Commission, the IMF, and the ECB on progress on:

  - Reducing the average duration of staying on the live register

  - Increasing the fraction of vacancies filled off the live register

  - Ensuring engagement with employment services as a pre-condition for receipt of jobseeker payments

  - Carrying out profiling, group and individual engagement through interviews

    - Increasing the number of unemployed referred to training courses and employment supports
    - Providing data on live register broken down by continuous duration, and on probability of exit by various durations
    - Providing summary statistics on those in receipt of penalty sanctions by duration of unemployment and prioritise progress on data analysis by exit destination and length of penalty period.

- Report to the staff of the European Commission, the IMF, and the ECB on continued progress on implementing an improved data collection system to enable ongoing evaluation of activation and training policies, in light of the March 2012 external evaluation.
- In the context of Budget 2013, the Department of Social Protection (DSP) will present options to Government for consideration, having regard, inter alia, to the results of the July 2012 actuarial review of the social insurance fund. The DECLG and DSP will also report on the housing assistance reform, in particular on the introduction of the new Housing Assistance Payment.

2. Actions for the ninth review (actions to be completed by end Q4-2012)

Fiscal consolidation

…

- o Expenditure reductions necessary to achieve an upper limit on voted expenditure of €54 billion, which will involve consolidation measures of **€2.25 billion** on the basis of the MTFS, including:

  - Social expenditure reductions.

  - Reduction in the total pay and pensions bill.

  - Other programme expenditure, and reductions in capital expenditure.

Without prejudice to the minimum consolidation amount referred to in the previous paragraph and to the requirements to achieve the agreed fiscal targets, the Government may, in consultation with the staff of the European Commission, the IMF, and the ECB, substitute one or more of the above measures with others of equally good quality based on the options identified in the Comprehensive Review of Expenditure (CRE).

Structural reforms

Efficient social support expenditure

- The authorities will provide an evaluation of progress in relation to labour market activation measures to enable the unemployed to return to active employment against the targets set out in the 'Pathways to Work' plan.

Appendix 3: DSP Measures in Budgets 2009 to 2012

Table A.1: Details of DSP Budget Package 2012

BUDGET 2012 Measures	**2012 €m**	**2013 €m**	**2014 €m**	**2015 €m**
1. Children & Families 1.1 **Child Benefit:** The grant of €635 paid at birth on all multiple births and further grants of €635 paid when the children are aged 4 and 12 was discontinued.	1.9	1.9	1.9	1.9
1.2 **Child Benefit** was maintained at €140 per month for the first two children. The rate for third and subsequent children was standardised at €140 per child per month from 2013. In 2012, the monthly rate for the third child is €148 and for the fourth and each subsequent child is €160.	42.75	68.75	68.75	68.75
1.3 The age at which a child is eligible for the **Back to School Clothing and Footwear Allowance** increased from 2 to 4 years of age.	9.3	9.3	9.3	9.3
1.4 The **Back to School Clothing and Footwear Allowance** was reduced from €305 to €250 (children over 12) and from €200 to €150 (children aged 4-11 years).	17.0	17.0	17.0	17.0
1.5 The upper age limit of the youngest child for new claimants of the **One-Parent Family Payment** will be reduced to 7 years on a phased basis.	0.3	2.0	5.8	11.9
1.6 Where a person claiming Invalidity Pension, Carer's Benefit, State Pension (Con or Transition) or Incapacity Supplement has a spouse or partner with income of over €400 a week, payment of the half-rate increase in respect of a **qualified child** was discontinued.	0.4	3.1	4.9	5.5
Children & Families Total	**71.65**	**102.05**	**107.65**	**114.35**
2. Working Age Payments 2.1 Where a **Jobseeker's Benefit** recipient is working for part of a week, the payment entitlement is now based on a 5 day week rather than a 6 day week.	5.9	11.6	11.6	11.6
2.2 Sunday working will be taken into account when calculating the amount of **Jobseeker's Benefit or Jobseeker's Allowance** to be paid, from 2013.	0.0	16.0	16.0	16.0
2.3 New applicants for **Disablement Benefit** must have a disability classified at > 15% to qualify for the payment.	2.6	5.0	5.0	5.0
2.4 Restrict access to **Exceptional Needs Payments**.	8.5	8.5	8.5	8.5
2.5 New applicants for **Carer's Allowance**, who are not living with the person for whom they are providing care, are no longer entitled to the Household Benefits package.	1.0	2.2	3.7	5.2
2.6 The employer rebate of statutory **Redundancy** payments was reduced from 60% to 15%.	81.0	122.0	104.0	104.0
2.7 **Fuel Allowance** season was reduced from 32 to 26	51.0	51.0	51.0	51.0

weeks.				
2.8 **Treatment Benefit -** the frequency of the grant for hearing aids increased from 2 years to 4 years. Also, the maximum grant available for one hearing aid was reduced from €760 to €500 and for two, from €1,520 to €1,000.	2.0	3.0	4.0	4.0
2.9 The **training and materials grant** for **CE** participants reduced from €1,500 to €500 per participant per annum.	28.05	28.05	28.05	28.05
2.10 The **Cost of Education Allowance**, the annual grant which accompanies the Back to Education Allowance, was reduce from €500 to €300.	5.4	5.4	5.4	5.4
2.11 Discontinue payment of the training budget for participants of **Jobs Initiative** and reduce the materials allowance by 50%.	2.5	2.5	2.5	2.5
2.12 **Farm Assist** – the assessment of means from self-employment was raised from 70% to 85%. The deductions from income for children were halved to €127 per year for each of the first two dependent children and €190.50 per year for each subsequent child.	5.15	5.15	5.15	5.15
Working Age Payments Total	**193.1**	**260.4**	**244.9**	**246.4**
3. Securing Sustainable Pensions 3.1 A lower pension is payable to new applicants of **State Pension** (from Sept 2012) who have a yrly average of less than 48 PRSI cons.	0.50	2.80	5.50	8.20
3.2 Currently, late claims for certain **contributory pensions** can be backdated for more than 12 mths provided the relevant qualifying conditions are fulfilled. The backdating period will be reduced to a max of 6 mths.	18.50	27.20	27.20	27.20
3.3 The total number of paid PRSI contributions needed to qualify for **Widow(er)'s Contributory Pension and Surviving Civil Partner's Contributory Pension** will increase from 156 to 520 contributions.	0.00	0.50	5.11	10.16
Securing Sustainable Pensions Total	**19.0**	**30.5**	**45.56**	**72.48**
4. Concurrent Payments 4.1 Currently, a person who gets a Widow(er)'s Pension, Surviving Civil Partner's Pension or One Family Parent Payment may be entitled to half rate **Jobseeker's Benefit, Illness Benefit or Incapacity Supplement**. These half rate payments will cease for new applicants.	12.0	22.6	22.6	22.6
4.2 New participants on **Community Employment schemes** will not be able to claim another social welfare payment at the same time.	9.0	26.3	43.7	61.2
4.3 Payment of two qualified child increases where the person is on a **Community Employment Scheme and One Parent Family Payment, Deserted Wife's Allowance/Benefit or Widow(er)'s Pensions** will be	6.25	6.25	6.25	6.25

discontinued for new and existing recipients.				
Concurrent Payments Total	**27.25**	**55.15**	**72.55**	**90.05**
5. Fraud & Control 5.1 Fraud and control measures	41.0	41.0	41.0	41.0
6. Rent & Mortgage Interest Supplements 6.1 The minimum contribution by single tenants for **Rent Supplement** scheme increased by €6 to €30 per week. The minimum contribution payable by couples increased to €35 per week. Rent limits also reviewed**.**	55.0	55.0	55.0	55.0
6.2 The minimum contribution for the purposes of the **Mortgage Interest Supplement** scheme increased by €6 to €30 per week for a single person, and by €5 to €35 for couple. In addition, payment of Mortgage Interest Supplement will be deferred for 12 months while the person engages with the Mortgage Arrears Resolution Process.	22.5	22.5	22.5	22.5
Rent & Mortgage Interest Supplements Total	**77.5**	**77.5**	**77.5**	**77.5**
7. Means Testing 7.1 For new and existing claimants, income from employment as a home help funded by the HSE is now assessed in means tests for **social assistance schemes**.	5.0	5.0	5.0	5.0
7.2 The amount of earnings disregarded for the purposes of the **OPFP means test** reduced from €146.50 to €130 per week in 2012 for all recipients. Further reductions will be introduced over the following 4 years.	14.2	32.0	50.0	63.0
7.3 Income from weekly carers payments is now included for the purposes of calculating entitlement to **Family Income Supplement** in line with other welfare payments.	0.5	1.06	1.06	1.06
7.4 Transitional payment where **One Parent Family Payment** recipient's earnings exceed €425 per week was discontinued. Existing recipients not affected.	0.8	1.03	1.03	1.03
Means Testing Total	**20.5**	**39.09**	**57.09**	**70.09**
8. Miscellaneous Savings 8.1 Savings will be achieved on the Electricity/Gas Allowance of the **Household Benefits Package.**	15.00	15.00	15.00	15.00
8.2 The **Administration** cost to the Dept of medical certs for illness and disability related schemes reduced by 10%.	3.0	3.0	3.0	3.0
Miscellaneous Savings Total	**18.0**	**18.0**	**18.0**	**18.0**
OVERALL TOTAL	**468.0**	**623.69**	**656.5**	**702.95**

Table A.2: Details of DSP Budget Package 2011

Budget Measure	2011 €m	2012 €m	2013 €m	2014 €m
1. €10 per month reduction on both lower and higher **Child Benefit** rates with an additional €10 per month reduction for 3rd child only. New rates of €140 (first and second child), €167 (third child only) and €177 (fourth and subsequent children).	149.38	149.38	149.38	149.38
2. **Weekly Rates of Payment** – a reduction of €8 per week in most payments to people aged under 66 with proportionate reductions for qualified adults. However, the rate of Supplementary Welfare Allowance was reduced by €10 per week and the rate of Jobseeker's Allowance for those aged 22 to 24 years was reduced by €6 per week. The rate of Jobseeker's Allowance for those aged 18 to 21 years was maintained at €100 per week.	384.51	384.51	384.51	384.51
3. The discontinuation of most elements of the **Treatment Benefit** scheme was extended over the period up to 2014.	76.75	76.75	76.75	76.75
4. Efficiency savings in the **energy and communications** elements of the Household Benefits Package.	30.00	30.00	30.00	30.00
5. **R**eform of the **Rent Supplement** scheme including €2 per week increase in the minimum contribution for all non SWA basic recipients - consequent on the extra €2 reduction in SWA.	60.00	60.00	60.00	60.00
6. **Activation Measures** – enhanced activation.	100.00	100.00	100.00	100.00
7. **Other Measures** – various other measures	49.36	68.05	76.61	81.04
8. Savings from efficiencies in administration	11.00	11.00	11.00	11.00
9. Savings on **FÁS Employment Programmes**. These savings are consequential on social welfare rates.	12.00	12.00	12.00	12.00
Overall Total	**873.00**	**891.69**	**900.25**	**904.68**

Table A.3: Savings Measures - Budget 2010

Summary description of adjustment	Saving 2010 €m	Full Year €m
1. **Child Income Support** A reduction of €16 per month in both the Lower and Higher **Child Benefit** Rates, bringing the Lower Rate from €166 to €150 per month and the Higher Rate from €203 to €187 per month.	221.10	221.10
Less Compensatory measures: An increase of €3.80 per week in the rate of **Qualified Child Increase**, from €26 per week to €29.80.	-84.03	-84.03
An increase of €6 per week per child in all **Family Income Supplement** weekly earnings thresholds.	-14.54	-14.54
Child Income Support Total	122.53	122.53
2. **Weekly Rates of Payment** **Weekly Personal Rates of Payment** – 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).	395.97	395.97
Weekly Qualified Adult Rates of Payment – 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.	29.50	29.50
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.	11.10	11.10
Weekly Rates of Payment Total	436.57	436.57
3. **Activation Measures** 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.	37.89	97.13
Introduce a new rate of €150 per week for new recipients of **Jobseeker's Allowance & Supplementary Welfare Allowance** for persons aged 22 to	15.70	58.90

24 years of age, inclusive.		
Introduce a lower rate of €150 for **Jobseeker's Allowance/SWA** for persons who do not avail of labour activation measures and training courses.	40.00	40.00
Activation Measures Total	93.59	196.03
4. **Rent Supplement -** Savings from a review of maximum rent levels.	20.00	20.00
Rent Supplement Total	20.00	20.00
5. 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.	54.00	0.00
Treatment Benefit Total	54.00	0.00
6. Additional **Control Savings**.	33.31	33.31
Control Savings Total	33.31	33.31
6. Agencies Reduction in grant to the **Family Support Agency**.	2.00	2.00
Reduction in grant to the **Citizen's Information Board**.	0.33	0.33
Agencies Total	2.33	2.33
Overall Total	**762.33**	**810.77**

Table A.4: 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 **Jobseeker's Benefit** entitlement from 15 to 12 months for recipients with 260 or more contributions and (b) Reduce duration of **Jobseeker's Benefit** 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 Illness Benefit, Jobseeker's Benefit and Health and Safety Benefit** (known as graduated rates) from €150 to €300.	8	10	10
3. Increase underlying number of paid contributions for entitlement to **Jobseeker's Benefit, Illness Benefit and Health & Safety Benefit,** 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 **Jobseeker's Benefit and Health and Safety Benefit.**	11.7	23.1	23.1
4. Limit **Illness Benefit** to two years duration for new claimants.	0	0	101
5. Halve entitlement to **Child Benefit** 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 **Christmas Bonus**.	156	171	**171**
7. Introduce a reduced personal rate of payment of €100 per week for new **Jobseeker's Allowance** claimants aged 18 and 19 years and new Basic SWA claimants aged under 20 years.	12	26	30
8. **Rent/Mortgage Interest Supplement** measures including: Increase minimum contribution for Rent and Mortgage Interest Supplement by €11 per week to €24 and Reduce maximum rent limits where appropriate by up to 10% for all new tenancies/renewals and reduce all existing Rent Supplements by 8%.	69	97	97
Total	**331.1**	**485.1**	**597.1**