

# DEVELOPING A FULLY INCLUSIVE SOCIAL INSURANCE MODEL

**A REVIEW BY SOCIAL  
PARTNERS OF POINTERS TO  
REFORM SOCIAL INSURANCE  
IN A CHANGING WORK AND  
SOCIAL CONTEXT**

# CHAPTER 1: INTRODUCTION AND OVERVIEW

## 1.1 Background

The Programme for Prosperity and Fairness (PPF) contained a commitment to the establishment of a Working Group to *"produce proposals for the development of a fully inclusive social insurance model which would facilitate combining work and family responsibilities in the context of changing working and social patterns"*.

The Working Group (WG) was first constituted in May 2002 following nominations from the Social Partners. The WG was chaired by the Department of Social and Family Affairs. This WG met on six occasions between May and November 2002 and identified a number of issues for consideration. The Group commenced work in relation to addressing these issues and prepared a draft interim report in November 2002. However, by that time negotiations on a new partnership agreement had commenced (which subsequently emerged as "Sustaining Progress"), and further drafting was suspended until the outcome of those negotiations was known.

However, under the terms of Sustaining Progress, it was agreed to re-establish the WG to continue the earlier work. A new Working Group was convened in July 2003 and received agreement to examine the issues identified by the previous group, with new nominations from the social partners. The WG met on a further seven occasions until June 2004. The members of the working groups established under both the PPF and the SP agreements are listed below.

### Membership of Working Group

	PPF Group		Sustaining Progress Group	
<b>Department of Social &amp; Family Affairs</b>	Anne McManus* - Chair Carol McGann Paul Cunningham <i>*replaced by John Bohan, August 2002</i>		John Bohan - Chair Paul Cunningham Martin Finucane* <i>*replaced by Siobhan Lawlor, January 04</i>	
<b>Department of Finance</b>	Dermot Quigley Tony Carberry		Dermot Quigley John Fitzpatrick	
<b>Employers Organisations</b>	Jackie Harrison	IBEC	Aebhric McGibney	IBEC
<b>Farming Pillar</b>	Con Lucey	IFA	Con Lucey/Mary Carroll	IFA
	Ciaran Dolan	ICMSA	Paul Brandon	ICMSA
<b>Trade Unions</b>	Joan Carmichael	ICTU	Joan Carmichael*	ICTU,
	Rosheen Callender	SIPTU	Rosheen Callender	SIPTU <i>*replaced by Paula Carey, February 04</i>
<b>Community &amp; Voluntary Pillar</b>	Fr. Sean Healy	CORI	Ray Dooley	
	Orla O'Connor		Children's Rights Alliance	
	National Women's Council of Ireland		June Tinsley	INOUI
<b>Secretary to Working Group</b>	Michelle Ryan	DSFA	Barbara O'Connor	DSFA

Membership of the group was supplemented on a number of occasions by the following persons: Aoife Doyle (IBEC) and Colm McDermott, Elaine Soffe, Leonard Burke, Maeve Farrell and Tom Whelan from DSFA.

## 1.2 Structure of Report

This report reflects the work of the group over all these meetings. The remainder of Chapter 1 provides some background information in relation to the operation of the social insurance system and details some of the changes in the social insurance system that have sought to improve its comprehensiveness over the past twenty odd years. The Chapter also identifies the broad approach of the WG in terms of the range of issues which it addressed. Chapter 2 presents a more detailed discussion in relation to these issues and the conclusions of the WG. Chapter 3 presents these conclusions in summary form. A number of appendices present more detail in relation to some of the issues addressed in the body of the report.

## 1.3 Overview of social insurance system

The importance of social insurance was set out previously by the Commission on Social Welfare (1986) as follows:-

*"We regard the system of social insurance as an expression of social solidarity and citizenship in which the risks, costs and benefits should be shared as widely as possible in the community. Social insurance creates a sense of entitlement to benefits and generates support among the public for their benefits ...In our view, the system of social insurance should be as comprehensive as possible, and all income earners should contribute to, and benefit from, the system" (CSW, page 10).*

The Irish system of social protection is often described as a "mixed" system. It combines a social insurance system whereby entitlement to contingency-based benefits are secured largely on the basis of paid contributions linked with earnings income, with a system of social assistance whereby entitlement for similar contingency-based payments are made on the basis of an assessment of the person's means.

The pivotal role of social insurance was identified by the Department of Social Welfare in 1996 in the following terms:

*"The purpose of Ireland's social insurance system is to provide an income support system to cover insured workers for a variety of life contingencies for which they would otherwise find it difficult, if not impossible, to provide on an individual basis" (DSW, 1996).*

The Department further indicated that the system was based on a number of fundamental principles:

- The Contributory Principle whereby there is a direct link between contributions paid or credited and entitlement to a varying range of benefits which are payable, if and when particular contingencies arise,
- The Solidarity Principle whereby contributions paid by insured persons are not actuarially linked to benefits at the individual level but can be redistributed to support other contributors. It is therefore an expression of solidarity between different earning groups and different generations.

It is often argued that a system of social insurance has a considerable number of advantages over its means-tested counterpart. In the first instance, entitlement to benefit is accrued in the course of paid employment, thereby removing problems of possible stigma and low take-up of benefits. Secondly, benefits are not means tested and this limits possible disincentives to taking up employment. It is administratively simpler to operate, as well as being comprehensive in scope and equitable in effect. On the other hand, some argue that the social insurance system is simply part of the larger Government spending and finance arrangement and indeed that social insurance contributions levied on earnings

can have an effect on employment. The arguments mirror those of the Commission on Taxation (1982) which concluded, with one member dissenting, that “*compulsory social insurance contributions are more appropriately regarded as a tax*”, on the basis that they are a compulsory payment to Government and not directly related to benefits received and that they are included in the classification of taxes published by international bodies such as the IMF as well as in National Income Accounts; The Commission recommended a single social security tax in place of social insurance contributions, to be levied on all income, at a single rate. This view was not shared by the Commission on Social Welfare (1986); it regarded social insurance contributions as having a significant insurance dimension.

## Financing the social insurance system

The system maintains a relationship between labour force status, earnings from work, contributions made and, finally, entitlement to benefits in the event of certain specified contingencies (such as illness, unemployment or old age). As with many social insurance systems throughout the world, the Irish social insurance system is based on the “Pay As You Go” principle, whereby current contributors fund the pensions and benefits of present recipients i.e. previous contributors, while also building up entitlement to their own future benefits, in turn paid for by future contributors.

Contributions paid under Pay Related Social Insurance (PRSI) by employers, employees, the self employed and voluntary contributors are paid into the Social Insurance Fund (SIF)<sup>1</sup>. The Fund then finances the payment of social insurance payments such as short-term benefits and long-term pensions. The system is not strictly actuarially based insofar that there is no direct link at the individual level between contributions and potential benefits. However, the existence of a separate Social Insurance Fund means that such a link can be made at the wider level given the nature of the SIF and PRSI contributions are earmarked for particular social insurance benefits. They are not generally used for purposes other than payment of benefits and are therefore not the same as taxes, duties or other charges which are used to finance Exchequer expenditure generally. In recent years, the first actuarial review of the system was undertaken and such reviews are required under social welfare legislation every five years, so as to gauge the overall long-term sustainability and costs of the system, independently of the broader Government financial picture (Govt. of Ireland, 2002a).

The SIF comprises a current account and an investment account. The Minister for Social and Family Affairs manages and controls the current account of the Fund while the Minister for Finance manages and controls the investment account. Benefits payments are paid from the current account. To the extent that annual income is not required for benefit payments, it is retained in the investment account and this finance together with the accumulated surplus from previous years, is transferred to the investment account which is managed by the Minister for Finance (through the National Treasury Management Agency). Both the income arising from these investments and the capital is available for current payments if and when required. The Comptroller and Auditor General has responsibility for auditing, on a yearly basis, the accounts of the SIF.

## Trends in income and expenditure

Table 1.1 compares total social insurance expenditure with total social welfare expenditure over the past number of years. From 1991 to 2003, social insurance expenditure increased by 251%; it now accounts for almost 46% of total social welfare spending, or almost 55% excluding Child Benefit. The main reason for the increase was the rise in the real value of benefits, as well as an increase in the numbers of pensioners and recipients.

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<sup>1</sup> While the Health Contribution and the Industrial Training (Apprenticeship) Levy are collected with PRSI, these monies are not used for Social Insurance purposes and have no connection with the SIF.

The Table also shows the proportions of SIF income from the various contributor groups over the same period. The proportion of total contribution income paid by employers increased from 60% in 1991 to just under 73% in 2003 while the proportion paid by employees fell from 26% to 21%. Contributions from self-employed workers have risen from almost 4% to 5% over the same period. The table also shows the proportions of SIF income from the various contributor groups over the same period. The State's contribution to the Fund has fluctuated over the years as this is a 'balancing item'. Legally, the Exchequer is the residual financier of the Fund i.e. it meets the deficit between contributions received and benefits paid out in any given year. No contribution has been required since 1996 as the Social Insurance Fund has been in surplus since that time. However, the State continues to make a contribution as an employer. The report on Integrating Tax and Social Welfare (Govt. of Ireland, 1996) held the view that an Exchequer contribution to the Fund should be maintained, reflecting a commitment to social solidarity. It noted the support of the Commission on Social Welfare to tri-partite financing, but not an adherence to a pre-stated share in the Fund.

In recent years, the income of the SIF (including interest and any accumulated surplus) has been in excess of expenditure and a surplus has built up. At the end of 2003, there was an annual surplus of €258m, with an accumulated surplus of €1,531 million. However, before that and for most of the lifetime of the SIF, the Exchequer was required to make up an annual deficit. Perhaps because such surpluses are a relatively recent phenomenon, there has been very little public debate about the desirability or otherwise of taking a long-term 'actuarial' view of them and encouraging their accumulation in order to finance the long-term but predictable increase in costs (e.g. pensions costs).

Table 1.1: Financing of the Social Insurance Fund, 1991, 1996 and 2003.

	1991		1996		2003 (Prov.)	
	€000	%	€000	%	€000	%
<b>INCOME</b>						
State	185,433	9.6%	126,849	5.6%	-	0.0%
Employer PRSI (1)	1,157,804	60.1%	1,547,208	68.1%	3,693,623	72.6%
Employee PRSI (1)	505,492	26.3%	605,541	26.7%	1,077,413	21.2%
Self-Employed PRSI	73,495	3.8%	118,778	5.2%	277,696	5.4%
Other Receipts	3,003	0.2%	281	0.0%	40,737	0.8%
Total Income	1,925,226	100.0%	2,271,806	100.0%	5,089,469	100.0%
<b>Expenditure on</b>						
Social Insurance Schemes	1,925,226		2,271,806		4,833,654	
Surplus(2)	0		0		255,815	

(1) The breakdown between employer and employee contributions requires a detailed analysis of data collected by the Revenue Commissioners. The contributions are apportioned on the basis of the most recently available information and are of necessity provisional.

(2) EUR635m was transferred to the Exchequer in 2002.

<sup>2</sup> The expenditure of the SIF includes the administration costs relating to the payment of the benefits and pensions paid from the fund and the collection of PRSI contributions. Accordingly, administration costs include staff costs, agency costs related to the payment of benefits (e.g. An Post), agency costs related to the collection of PRSI (Revenue Commissioners), accommodation, equipment, supplies, postage, telephone and other related costs are paid from the SIF.

## 1.4 Previous efforts to secure more comprehensive social insurance system

The precursor to the social insurance system was the National Insurance Act, 1911. In its present form, the system extends back over 50 years and has undergone significant changes. In particular, a number of changes to the system in the last twenty years or so have sought to make the system more comprehensive.

The Commission on Social Welfare (1986) accepted the then existing system of contribution conditions with some modifications, and in advancing the arguments for increased comprehensiveness made very significant recommendations in relation to groups which were not then covered by social insurance such as self-employed, part-time workers and public servants.

Subsequent developments in social welfare policy were highly influenced by the importance attributed to the social insurance system by the CSW. Since that time, considerable efforts have been made to improve the comprehensiveness of the system of social insurance and by extension its inclusiveness. These developments include:

- Extension of the coverage of the system to include new groups of workers, such as part-time workers and the self-employed,
- A reduction in the real level of earnings required to secure an insurable employment record;
- Introduction of new benefits;
- Increases in the real value of payments;
- Changes to the conditions for receipt of additional allowances for dependants,
- Changes to the contribution conditions for access to benefits.

Some of the specific changes which have facilitated this development are:-

- 1988:** Social Insurance for the Self Employed introduced;
- 1991:** Part- time Workers (earning in excess of £25 per week, now €38) covered by full rate Social Insurance;
- 1994:** Widower's Contributory Pension introduced;  
Homemakers disregards introduced;
- 1995:** Community Employment workers covered by full rate Social Insurance;  
All new civil and public servants covered by full rate Social Insurance;
- 1997:** Maternity Benefit extended to self-employed contributors;
- 1998:** Introduction of credits for Parental Leave;
- 2000:** Carer's Benefit introduced;
- 2001:** Changes to contribution conditions for short-term benefits to facilitate worksharers;  
Maternity Benefit extended to 18 weeks;
- 2002:** First Actuarial Review of Social Insurance Fund published.

## 1.5 Role of broader labour market developments – participation of women

However, developments in the broader economy and in the labour market in particular have had an important impact on the ability of the social insurance system to provide adequate social protection. The rapid fall in unemployment from the mid-1990s has improved greatly the chances of a person being in paid employment and securing a social insurance record. Reductions in contribution rates for social insurance, especially in relation to low-paid employment, may well have contributed to the rise in employment over the period, together with reductions in broader levels of taxation. Strongly rising educational levels have allowed for a rapid rise in participation rates, thereby strengthening access to

social insurance for a greater proportion of the population. Changing work patterns have also facilitated the growth in atypical working, particularly part-time employment; and with the extension of social insurance to self-employed and part-time workers, this has increased the system's coverage and (given the importance of part-time employment for women) this has been particularly useful in facilitating those women in securing a social insurance record.

It is worthwhile to consider further the effect of the rapid rise in female participation in the workforce over the past twenty years on the ability of the social welfare system to provide social protection for women. Table 1.2 shows that there was an increase of over 420,000 women at work in the period 1991-2003. In the past, the lower rates of participation in the paid labour market by women led to far lower levels of social insurance coverage for women, especially married women, than for men. In recent years, these factors have moderated to an extent. Both the number of single and married women in employment had more than doubled by 2003 compared with 12 years earlier.

Table 1.2: Women at Work 1991, 1996 and 2003

	Single	Married	Other*	Total
1991	191,700	173,800	20,800	386,300
1996	216,200	241,400	30,500	488,000
2003	393,300	363,000	53,000	809,200

Source: CSO (1997) Women in the Workforce and QNHS (Q.3 personal communication)

\*Contains the categories of widowed, separated and divorced

However, even if a woman's marital status is now considerably less significant in terms of labour force participation, the fact that women with a young family have caring responsibilities can be significant. Labour market analysts have pointed out that even though the differences between single women's and married women's participation in the labour market have narrowed, the presence of children can make a significant difference to labour force participation decisions.

Table 1.3 below shows that while the participation rate for mothers has increased, the level of participation decreases where a mother has three or more children. As the OECD has pointed out for Ireland, having more children generally leads to less paid work being possible and increased levels of part-time work being inevitable, and given the link between labour force participation and social insurance contributions, this has clear implications for some women's social insurance contributions (OECD, 2003). It also highlights the fact that in order to secure a social insurance record, wider policy issues such as care of the elderly, people with disabilities and childcare need to be considered. How periods spent outside the work force and involved in caring duties are treated with under the social welfare system form another aspect of this agenda.

Table 1.3: Labour force participation rate of women by number of dependent children 1991, 1996, 2002

Number of dependent children	1991(a)	1996(a)	2002(b)
One	33.1	42.6	55.4
Two	30.2	43.2	52.5
Three or more (c)	21.6	33.2	45.7
Four or more	-	-	31.9

Source: data for 1991 and 1996: CSO (1997) Women in the Workforce, data for 2002: OECD (2003) Babies and Bosses, Reconciling Work and Family Life

(a) data refers to mothers working

(b) data refers to women of working age

(c) data for 2002 refers to three children

## 1.6 Increased number of insured persons

Reflecting the result of previous efforts to make the social insurance system more comprehensive<sup>3</sup> and as a result of labour market changes, coverage under the social insurance system has increased considerably since the Commission for Social Welfare's recommendations were made. The numbers of insured persons grew from almost 1.44 million in 1990/91 to nearly 2.53 million in 2002 (see Table 1.4). This had led to a growth in the numbers of insured employees and self-employed.

Table 1.4 Number of Insured Persons, 1990/91, 1996/97 and 2002

Year (1)	Total Population	Insured Population	% of Population	Working Age Population	% of total Population	Insured Population as % of Working Age Population
1990/91	3,525,719	1,436,427	40.7%	2,141,171	60.7%	67.1%
1996/97	3,636,087	1,925,453	53.1%	2,307,536	63.5%	83.4%
2002	3,917,203	2,534,918 (2)	64.7%	2,621,444	66.9%	96.7%

(1) Population data refers to Census 91, 96 and 2002, Insured Population data extracted from official Departmental statistics

(2) Provisional

The general increase in coverage of the social insurance system has been accompanied by a rise in female coverage and access to benefits, namely: -

- Of the 1.9 million workers insured for all benefits (i.e. PRSI Class A contribution), almost 48% are women<sup>4</sup>,
- Over 293,000 contributors paid PRSI as self employed contributors in 2002, of whom almost 23% were women.

The rise in coverage is also reflected in the data on benefit take-up. Of all weekly social insurance based payments, 53.9% were made to women<sup>4</sup>. Further data on a gender-disaggregated basis is provided in Appendix A, indicating the differences between long-term and short term benefits.

For long term schemes, it can be observed that:-

- female recipients of Old Age Contributory Pension from 1991 to 2003 has remained relatively stable (from 36.1% to 37% of total);
- the percentage of women receiving Retirement Pension has grown from 22.5% in 1991 to 27% in 2002; and
- payments to widowed spouses were paid predominantly to women (89.2% in 2003).

In relation to short-term social insurance payment schemes, the level of payments to women in respect of unemployment has moved from 44.9% in 1991 to 51.2% in 2003 while for disability benefit, it has risen by over 13 percentage points over the same period (from 49.2 to 62.8% of recipients).

It would be expected that due to the nature of the social insurance scheme, it would take some time for the full impact of changes to be seen. Nonetheless, given the significant increase in the participation of women in the workforce and social insurance, increasing coverage of women for social insurance benefits will continue to grow over time.

<sup>3</sup> With a few exceptions, all employees between the ages of 16 to 66 years, whether full-time or part-time pay PRSI. It is also payable by self-employed persons of the same age, with a minimum annual income (currently 3,174 per annum), with limited exceptions.

<sup>4</sup> For social assistance based payments, 55.4% were paid to women. It should be noted that some payments are made exclusively to women i.e. Maternity Benefit, Adoptive Benefit, Health and Safety Benefit, Deserted Wives and Prisoners Wives Benefit and Assistance.



## 1.7 Moving towards full inclusiveness

The WG recognised that social insurance has evolved as a key component of the Irish system of social protection and that considerable improvements in the comprehensiveness of the system have been made. Many groups hitherto excluded, such as self-employed or part-time workers, public servants and various groups of women workers, are now included. However, there are a number of measures which could further improve the inclusiveness of the social insurance system, particularly for women. Specifically, the Working Group sought to identify ways in which the social insurance system could better facilitate the combining of work and family responsibilities.

In its early discussions, the Working Group acknowledged that an in-depth review of all aspects of the social system would not be realistic. The Group therefore identified a number of tangible and specific measures which could make a definite and immediate contribution to improving the inclusiveness of the system.

The WG recognised that inclusiveness was a broad concept and had a number of dimensions. Given the specific links between social insurance and the labour market, the group focussed in particular on issues of gender and family status, recognising that traditionally, many barriers have existed which obstruct full labour force participation by women who have children and that the social welfare system tends to reflect and reinforce these barriers. Specifically, therefore, the WG addressed proposals under a number of headings:

- Issues of access to social insurance: the extent to which the social insurance system provides access to social protection through the accumulation of a contribution record and the interaction of these rules with work and caring duties,
- Particular kind of issues of how the system deals with interrupted work patterns: How social insurance treats workers with gaps in their contribution record such as those with interrupted work patterns,
- Other issues, such as the purposes and objectives of certain benefits and whether these are being met.

The specific issues are discussed in Chapter 2.

### **Workers with a Disability**

The Working Group was aware that a wider concept of inclusiveness might require further consideration, especially in relation to ethnicity and disability issues.

In relation to persons with a disability, the Working Group recognized that this was bound up with broader issues of participation in employment. More generally, the Working Group recognized that very limited data is available on which to base informed discussion on the level of social protection afforded by the social insurance system to groups such as those with disabilities. The data available from the Quarterly National Household Survey, *Disability in the Labour Force*, (CSO, 2002a) indicates that 10% of all persons (or 271,000) aged 15-64 had a longstanding health problem or disability, with those workers in the older age bracket (55-64 years) more likely to experience a disability /health problem. Of the 108,600 person in employment suffering from health problems/disability, over three-quarters (81,700) were in full-time employment, the majority of whom were employees, with some 20% falling into the self-employed and assisting relatives categories.

Some of these issues concerning workers experiencing ongoing health problems/ disability have been considered in the context of the Review of Illness and Disability schemes recently completed by the

Department of Social and Family Affairs as part of a separate exercise (Govt. of Ireland, 2004a). The Report made a wide range of recommendations addressing social welfare benefit and assistance schemes for those who are ill or suffering from an on-going disability. The proposals put forward included improvements in income support, the simplification of schemes, and measures to progress comprehensiveness and consistency. The Group also noted the joint initiative between IBEC and ICTU to promote the employment of people with disabilities. Their *Workway Disability and Employment Guidelines* (IBEC/ICTU, 2004) includes useful guidance to both employers and employees relating to recruitment, training, career progression and developing a disability-friendly and an informed working environment. The guidelines include reference to the use of flexible working arrangements which can help with the retention of people with disabilities and retain employees that acquire a disability over the course of their working lives. The potential impact of flexible working arrangements generally on social insurance is discussed in Section 2.

### **Ethnicity and Entitlement**

Ireland needs immigration in order to use the skills and talents of its minorities to fill jobs and skill shortages which will enable it continue the economic growth of the past decade. With a growing migrant work force, non-discrimination in the working environment is important to attract and retain an enlarged labour force. Non-discrimination legislation and policies can clearly play a key role here in helping to challenge stereotypes and prejudices concerning the ethnic and religious minorities and migrants. Formal equal rights and opportunities are provided for through the Equality legislation. The vindication of these rights is supported through the Equality Authority and the courts. However, the manner in which social welfare systems and procedures are framed and implemented could lead to unintended discrimination indirectly. The social welfare data base does not include a nationality or ethnicity indicator. It is consequently not possible to interrogate the data to ensure comparable entitlement and comparable success in entitlement. However, the Working Group did briefly consider the position of non-EU nationals in the social insurance system and concluded that for people with the required levels of contributions for particular payments, the system would appear to be non-discriminatory. However, some of the Working Group were concerned that recent changes in the social assistance system were less inclusive – although this issue was outside the remit of the Working Group.

### **Data Issues**

As discussed above, the data available was insufficient to draw conclusions as to the extent to which workers with a disability, or from a minority ethnic group, are catered for within the broader social protection system (which, of course, includes social assistance measures).

The issue of improved data collection is being progressed as part of the National Anti-Poverty Strategy and is being driven by the Central Statistics Office (CSO). A recent publication by the CSO noted that Department of Social and Family Affairs is well advanced in the development of a technical infrastructure that will enable the exploitation of its existing data holdings, pointing out that the task now facing the Department is to develop their data holdings in such a way as to allow meaningful analysis to better inform social policy (Govt. of Ireland, 2003). That publication made a number of recommendations relating to vulnerable groups, including the need to consider the inclusion of categorical type questions that would identify ethnic groups and those with a disability.

The Working Group noted the importance of good data to inform policy making and to ensure an evidence-based approach to discussions and proposals. It further suggested that data on vulnerable groups of workers would contribute to measuring how the social protection system impacts on them.

## 1.8 Wider policy context

### Recent Economic trends

Ireland experienced exceptional growth during the 1990's. The key factors allowing for this growth included a sizeable pool of available labour and historically low interest rates. These are not likely to be as significant going forward. In the future, labour supply will be more reliant on migration flows and increased participation rates than in the past, while interest rates are unlikely to remain at their current historically low levels.

The Department of Finance estimates Ireland's medium-term growth potential to be around 5 per cent (Govt. of Ireland, 2004b). They point out that this reality of relatively lower growth, still high by international standards, *"is the context within which expectations must be managed and policies framed"*, adding that *"public spending priorities must be managed within the overall constraint of the growth in current resources and the need to achieve maximum value for money"*. They expect that such sound economic management of the economy should allow the low tax burden to be maintained in order to maximise the economic growth potential. The report emphasizes the importance of strong investment in the productive capacity of the economy and that competitiveness must be a key priority of economic policy and Social Partnership, while also highlighting the significance of downward pressure on costs as being essential to maintain growth.

The Kok report (European Commission, 2003a) referred to above points to Ireland's capacity to attract foreign direct investment as being a significant element in our recent economic success. Social partnership, our tax system, a good regulatory environment and investment in human capital were also considered to be major factors in recent growth to be sustained. The report points to areas that need to be addressed to enable further growth including addressing regional imbalances, the development of human capital through enhanced education and training, further efforts to reduce the non-wage labour costs for low wage earners and ensuring that overall wage developments do not exceed productivity growth.

The report also makes it clear that flexibility in the labour markets is essential while also providing appropriate levels of security for workers, so as to widen the range of choice for both individuals and employers. Governments were urged by the taskforce to promote modern and more flexible work organisation and to remove obstacles to part-time work. The need to achieve better integration of immigrants was considered by the Taskforce as deserving particular attention, including the promotion of business creation by immigrants. Finally, Member States were encouraged to engage in building comprehensive active ageing strategies through providing the right legal and financial incentives for workers to work longer and for employers to hire and keep older workers; increasing participation in training for all ages, especially for the low-skilled and for older workers; and improving working conditions and quality in work.

### Population Trends

The population structure is a key determinant of the financial development of the Social Insurance Fund. The Actuarial Review of the Social Insurance Fund provides some pointers on the likely population changes over the next number of decades (Govt. of Ireland, 2002a). Based on a number of specified assumptions, their data indicates that the "total support ratio" i.e. the total number of those of working age to the number of children and those over pension age, declines over the period from 1.4 in 2001 to 1 in 2056. They also conclude that the "pensioner support ratio" i.e. ratio of people at working ages to people over pension ages, will fall from 5.3 in 2001 to just 1.8 in 2056. The report points to the importance of this ratio because *"in broad terms benefits for those over pension age need to be financed from contributions from working people, unless a significant fund of assets has been built up to help pay*

*for the benefits" adding that "since the most financially significant benefits are paid to the elderly, the pension support ratio tends to be the more relevant measures in a social security context".*

### **Poverty and Social Exclusion**

Poverty trends are directly related to the level and quality of employment and to the systems of income support for those who cannot work or who are retired. The high levels of economic growth experienced by Ireland in recent years has contributed greatly to combating poverty and social exclusion, especially through a major increase in employment participation, greatly reduced unemployment and much greater social investment in income support and other services. The significant increases in resources invested in the social security system has resulted in major reductions in consistent poverty and in the numbers below the 40% and 50% median income thresholds. It is necessary, however, to maintain the economic competitiveness required to ensure growth, while also ensuring that the fruits of that growth are used to best effect in building a fair and inclusive society. This National Action Plan against Poverty and Social Exclusion (NAPS /incl 2003-2005) is designed to achieve that balance. The approach adopted in this plan reflects national circumstances, including economic circumstances, demographic and social developments, the nature of our social protection system and social policies more generally.

### **Family-Friendly Employment**

As noted, the Working Group identified a number of individual issues to be progressed within the social insurance system which can move towards achieving greater opportunities for work and social protection. However, given its link with employment and the broader labour market, the effectiveness of the social insurance system in providing social protection is related to wider moves to promote employment creation and to make employment more family-friendly and more inclusive. Thus the achievement of social protection objectives of this kind will depend, to a large extent, on the achievement of greater social supports for caring and work-life balance generally.

The importance of this wider agenda is recognised at both the national and the broader European level, in particular through the European Employment Strategy and the Lisbon objectives. The Lisbon European Council set ambitious employment targets for the working age population:

- An overall employment rate of 67% in 2005 and as close as possible to 70% in 2010;
- A female employment rate of 57% and more than 60% in 2010;
- An employment rate for older workers (aged 55-64) of 50% in 2010.

In recent years, Ireland has made considerable progress toward achieving the Lisbon target. The female labour force participation rate in Ireland, at 49.4%, is somewhat above the EU-15 average of 47.6%. However for women aged 25 to 54 years, the age group most likely to be in the labour force, the participation rate in Ireland, at 67.8%, lagged behind the 73.2% recorded for the EU-15 region for the same period (CSO, 2002b). The current female participation rate for that age band has since risen and is now almost 74%.

However, the Kok Report referred to earlier has highlighted the fact that more needs to be done if the targets are to be met: *"particular attention should be paid to developing childcare facilities in ... Ireland ... Member States must seek to address the roots of the gender pay gap, which is striking in Ireland (and other countries)"* (European Commission 2003a). Furthermore, the European Commission in its recent communication, Making Work Pay, recommended greater efforts to remove tax barriers, increase the number of affordable childcare places, boost the attractiveness of part-time work and facilitate career breaks and flexible working arrangements and address the factors underlying the gender pay gap. (European Commission 2003b)

The Working Group recognizes the wider social context within which the social insurance system operates and is conscious that enhanced social protection cannot deliver these objectives in isolation from wider social policy developments and financial investment as already spelt out in by both the Kok Report and the European Commission report mentioned above. These include most notably the availability, quality and cost of both childcare and eldercare and the opportunity to avail of family-friendly working arrangements while also ensuring workers are able to enjoy a reasonable standard of living from their employment-derived earnings.

## Conclusion

The Working Group acknowledges that a strong link between these wide range of objectives is essential to further economic growth and investment in these wider social supports is reliant on a good fiscal environment, appropriate policy objectives and a shared understanding and responsibility for achieving progress in these areas. That having been said, the WG turned its attention to those aspects of the social insurance system, which could be considered as part of this broader agenda.

# CHAPTER 2: CONSIDERATION OF SPECIFIC ASPECTS OF SOCIAL INSURANCE SYSTEM

This chapter sets out the consideration given by the WG in relation to the specific issues identified.

## Access to social insurance

This part deals with the extent to which the Social Insurance system provides access to social protection through access to a contribution record. This part (sections 1-3) therefore covers issues relating to the main groups currently without such access, including spouses and assisting relatives in family businesses, workers earning less than €38 per week and workers who prolong their working years, beyond the general pensionable age.

### 1. Insurability of Employment of Spouses and Assisting Relatives

#### 1.1 Current Position

Family members working together are generally not insurable under the Social Welfare Acts. Spouses of an employed or self-employed contributor are specifically excepted from social insurance contributions. However, spouses who are partners in a family business, or who work together in legally incorporated company, can be insurable. The employment of a 'prescribed relative' is similarly excepted from insurable employment or self-employment.

'Assisting relatives', who are defined in relevant regulations as 'prescribed relatives', are generally excepted from social insurance as employees provided that:

- there is no written contract of service or apprenticeship;
- the person is a member of the employer's household;
- the employment relates to a private dwelling house or a farm in or on which both the person and the employer reside.

'Assisting relatives' are also excepted as self-employed contributors, unless they are partners in the business.

This situation compares with a situation where a non-spouse or non-relative, employed in an identical capacity, with earnings of over €38 per week, would be insurable at the Class A rate of contribution and

therefore would be eligible for the full range of benefits, subject to satisfying the normal qualifying contribution conditions.

The lack of social insurance coverage for family members working together was examined particularly as it relates to farming families. However, it was recognised that the issues identified affect other family businesses as well.

## 1.2 Numbers and profile of those affected

The Annual Farm Survey undertaken by the CSO gives details of the number of farm holdings in Ireland, details of those working on the farm and the numbers of hours worked per annum. Although the number of spouses actively involved in farm work has fallen significantly, they nonetheless comprise almost 17% (40,700) of the regular farm workforce and contribute an average of almost 19 hours work per week to the farm. There are, in addition, some 50,000 assisting relatives who contribute over 14 hours per week to the farm business. Of the total number of farm workers, just over a quarter are women (approx. 177,500 are men and 62,700 are women). It may be that these workers have built up a social insurance record either as partners on the farm or through off-farm employment or self-employment, but data is not available to allow this to be assessed.

Table 2.1: Family and regular non-family workers ('000 persons)

Worker Characteristics	1996	1999	2002
Total	301.0	270.0	240.1
Family Workers	287.2	257.0	226.9
- Holder	149.3	143.7	136.3
- Spouse	71.5	49.9	40.7
- Other family workers	66.4	63.4	50.0
- Regular non-family Workers	13.8	12.9	13.1

(Source: CSO, Agriculture Labour Input )

## 1.3 Working Group Discussions

The Group noted that the issue of the insurability of farm spouses for social insurance purposes was previously considered by an Inter-Departmental group, which was chaired by the Department of Agriculture & Rural Development. The Inter-Departmental Group considered a number of alternative solutions to resolving this issue and concluded that *"the formation of business partnerships offers an immediate route of access to social insurance cover as it is based on existing legislation. Such arrangements would not impose any significant additional administration costs on farm businesses; for example, couples who are liable for income tax under joint or separate assessment will continue to make one income tax return each year, the only change being that the income of the farm enterprise will be apportioned in accordance with the partnership arrangements"*.

The WG noted the potential for social insurance coverage if spouses or assisting relatives work in a formal partnership or on a farm in the wider business sector. Both are insurable as self-employed workers if they both make individual tax returns and each has an annual reckonable income of €3,174 per annum. Indeed changes to the taxation system (partial individualisation of bands) and the social insurance system (abolition of earnings ceiling) may have removed disincentives to taking the partnership option.

However, representatives of the farming pillar felt that the vast majority of farming families are unlikely to adopt this approach for the following reasons:

- Under existing legislation, current property rights could be unintentionally altered,
- Succession entitlements could be created which had not been anticipated,
- Department of Agriculture schemes may contain anomalies as regards partnerships,
- Joint herd numbers can present difficulties, in that two or more names can be registered on the application form but only one name is allowed on the actual herd number (in most cases the husband)
- Due to the unique structure and cultures relating to farming, partnerships may not always be simple to get agreement on.

The farming pillar pointed out that the Dept. of Agriculture database shows that only 3% of farms are registered as partnerships, whereas 68% of clients are married. They also suggested that partnerships may work in a minority of situations, predominantly on larger commercial farms, but will not address the requirement for more comprehensive coverage.

The issue raised in relation to the existence of an employment contract has a broader resonance under other aspects of the legal code. The Group noted that the exclusions under social welfare legislation mirror similar exclusions under employment protection legislation such as the Organisation of Working Time Act, 1997 and the National Minimum Wage Act, 2000. Other employment protection legislation covers both employees and self-employed (Safety, Health and Welfare at Work Act, 1979 and Payment of Wages Act, 1991) while the Protection of Employees (Part-Time Workers) Act, 2001 applies to employees working under a contract of service without provision for exclusions.

## EU Directive 86/613/EEC

The issue of whether Ireland is in breach of a European Directive on the application of equal treatment between men and women by not providing access to social insurance for assisting spouses was discussed. Specifically, the Directive states the following:

### *"Article 6*

*Where a contributory social security system for self-employed workers exists in a Member State, that Member State shall take the necessary measures to enable the spouses referred to in Article 2 (b)<sup>5</sup> who are not protected under the self-employed worker's social security scheme to join a contributory social security scheme voluntarily.*

### *Article 7*

*Member States shall undertake to examine under what conditions recognition of the work of the spouses referred to in Article 2 (b) may be encouraged and, in the light of such examination, consider any appropriate steps for encouraging such recognition".*

The Department of Social and Family Affairs in response advised the group that it was not in breach of its obligations as provided for under Directive 86/613/EEC. The Department pointed to a report to the European Parliament<sup>6</sup>, which addresses this issue. The report clearly acknowledges that Directive 86/613/EEC on the application of the principle of equal treatment between men and women engaged in agriculture in a self-employed capacity has been implemented in all Member States stating "*from a strictly legal point of view, Directive 86/613 on the application of the principle of equal treatment between men and women engaged in an activity, including agriculture, in a self-employed capacity... is clearly implemented in the Member States...*". The report recognises that the Directive, particularly as it relates

<sup>5</sup> "their spouses, not being employees or partners, where they habitually, under the conditions laid down by national law, participate in the activities of the self-employed worker and perform the same tasks or ancillary tasks"

<sup>6</sup> Report on Women in Rural Areas of the EU, developed by the European Parliament's Committee on Women's Rights and Opportunities. It was prepared to inform the mid-term review of the common agricultural policy and published in June 2003. Document ref. A5-0230/2003



to issues of social security, leaves it to individual Member States to decide on the appropriate level of social security cover for assisting spouses. Furthermore, while recognising the compliance of all Member States with the Directive, the report goes on to point out the results of the Directive are not satisfactory and that the wording of the Directive is extremely vague.

The Department also pointed to the scheme of voluntary contributions available to all employed and self-employed contributors who cease to be so insured, providing some eligibility qualifications are fulfilled. This enables members of farming families, who have previously been insurably employed or self-employed, to maintain or improve pension entitlements. The scheme does not provide cover for short term benefits.

## 1.4 Conclusion

**The Working Group noted the significance of the partnership option to enable farm workers, especially spouses to build a social insurance record in their own right. It recommended that more information on the tax and social welfare implications of working in a partnership or as a limited company should be available to self-employed families through a joint publication between the Revenue Commissioners and the Department of Social and Family Affairs on the issue.**

**The Working Group recommended that the Departments of Social and Family Affairs and Agriculture and Food should work together with farming representatives to assist them in overcoming the legal or administrative obstacles which will be identified and documented by the Irish Farmers Association as hindering the use of farm partnerships.**

## 2. Persons working at wage levels below the Insurability threshold

### 2.1 Current position

Under social welfare legislation, most people with earnings from employment of over €38 per week are insurable at the Class A rate of contribution and are eligible for the full range of benefits, subject to satisfying the normal qualifying contribution conditions. Employees with reckonable earnings of €38 or less per week are insured for occupational injuries benefits only. When the insurability threshold was introduced in 1991 it was set at £25 or more per week. This was a departure from the previous threshold applied for Class J, which was expressed as 18 hours work per week. The threshold increased to £30 (€38) or more per week on 6th April 1994.

Since then, the threshold has declined considerably in real terms and in particular relative to movements in earnings. Comparisons between the average weekly/hourly earnings and the PRSI threshold from 1993 to 2003 are shown in the Appendix B. Department of Social and Family Affairs data show that the number of workers paying the Class J rate of contribution has fallen dramatically over time. This has contributed to the increased coverage for insurability for those at very low earnings levels. Based on the present level of the minimum wage, €38 equates to 5.5 hours work per week, or less than three hours at average industrial earnings.

## 2.2 Number and profile of those affected

Those paying Class J contributions include:

- People in industrial, commercial and service-type employment who are employees and who have gross earnings of less than €38 per week from all employments,
- Employees age 66 years and over,
- People participating in certain FÁS training schemes,
- People who are insurable as Class B,C, D or H in their main employment and who have a second job, which is considered automatically as subsidiary to their main employment.

The data indicates that fewer than 5,800 Class J contributors had earnings less than €38 per week in 2002; the balance probably comprised pensioners over 66 years and certain FÁS trainees. However, as can be seen from the gender breakdown in Table 2.2 below, women are in the majority among persons with a Class J contribution, presumably reflecting low female earnings and a relatively high level of part-time work for among women.

Table 2.2: Contributors at PRSI Class J

	1991	1995/96	2002
Male	N/A	N/A	7,500
Female	N/A	N/A	10,500
Total	50,700	72,400	18,000
Class J contributors as % of total insured	3.5%	3.9%	0.7%

## 2.3 Working Group Discussions

Two aspects to this issue were discussed:

- the appropriateness of the threshold that currently applies,
- whether or not the provisions in relation to the insurability threshold are in compliance with European legislation in relation to the protection of part-time workers.

### Appropriateness of insurability threshold

The origin of the insurability threshold (expressed in monetary terms as opposed to the number of hours of employment) arose from a commitment given in Programme for Economic and Social Progress to extend full social insurance cover to part time workers. The threshold of £25 (€31.74), effective from the 6th April 1991, was applied for the following reasons:

- a threshold at this limit would ensure that the majority of part-time workers who were then excluded were brought into social insurance;
- it reflected a reasonable level of attachment of workers to the work force and avoids potential disincentives which could arise if very low paid employees have access to short term benefits;
- a simple threshold was easier for employees to comprehend and less costly for employers to administer;
- it would ensure that a minimal level of contribution to the SIF would be made in respect of part-time employees.

The Working Group noted that the real level of the threshold had fallen over time especially with the introduction of the minimum wage, so that a social insurance record could now be secured on the basis of a very limited number of hours worked. The low number of workers with a Class J contribution with earnings less than €38 per week suggests there is very limited scope for improving the coverage of the system by a reduction in the threshold.

Bearing in mind the reduction in the real value of the threshold, the Working Group went on to discuss whether the threshold should be increased now or at some time in the future. The Group acknowledged that a lower threshold allows greater numbers of workers to gain access to a wide range of social welfare benefits and enhanced social protection and in this respect makes the system more inclusive. However, the Group also noted that with the minimum wage now standing at €7.00 per hour, a person working less than six hours per week would be awarded a Class A contribution; it could be argued that someone working just 6 hours a week might have a relatively marginal link with the labour force depending of course on the overall duration of their labour market attachment. Therefore, the Group also questioned whether a higher threshold should be considered for all workers. It did not come to a definitive view on this but felt that the Department of Social and Family Affairs should keep the matter under review, bearing in mind the above points and the unresolved issue of whether, and at what point, it is desirable to put limits on the concept of inclusiveness.

## Compliance with European legislation on protection of part-time workers

The Group discussed whether the mere existence of this or any hours or earnings threshold might be contrary to EU Directive 97/81/EC, which concerns the Framework Agreement on employment conditions related to part-time work in an enterprise. The Group sought the views of the Department of Social and Family Affairs as to whether the Directive had relevance for the existence or the level of a threshold. In response, the Department indicated that it did not believe that the Directive had a direct relevance for the threshold for the following reasons:

- The Framework Agreement upon which the Directive is based specifically excludes social security systems from its scope;
- The legal bases ("competencies") of the Treaty of Rome and its successors in the area of statutory social security are limited and mainly concerned with the right to the free movement of labour within the EU. No such considerations are thought to apply to the part-time workers directive.
- Clause 4 of the Framework Agreement applies the principle of non-discrimination to employment conditions within the enterprise. This contrasts with the role of the threshold, which is to distinguish insurable employment (without distinguishing between full-time and part-time) from 'employment of inconsiderable extent', which is not insurable.

## 2.4 Conclusion

**The Working Group concluded that the fall in the real value of the insurability threshold had probably improved the comprehensiveness of the social insurance system; that there was little prospect of strengthening inclusiveness through a further reduction in the threshold; and that the Department of Social and Family Affairs should keep the level of the threshold under review with a view to maximising inclusiveness while maintaining a reasonable link between social insurance coverage and a reasonable level of attachment to the labour force.**

**The Working Group agreed that the issue related to the Part-time Workers Directive did not warrant further consideration in this context.**

### 3. Issues for Older Workers - Prolonged working years

#### 3.1 Current Position

There are two main old age social insurance pension payments in operation: the Retirement Pension (payable at age 65) and the Old Age Contributory Pension (payable at age 66). In order to qualify for these a person must meet all of the following conditions:-

- enter insurance at least 10 years before they reach pension age;
- pay a minimum number of contributions at the appropriate rate;
- achieve a minimum yearly average contribution rate over their working lives.

Generally speaking, the average contribution rate is calculated from 1953 (or if later, the date a person enters insurance until the end of the last contribution year before s/he reach pension age.) A person's contributions may also be averaged from 1979, but only for the purposes of qualifying for a full rate pension.

The paid contribution requirement, and the average contribution rate required, for various rates of payment are summarised in Table 2.3 below.

In addition to satisfying the relevant contribution conditions, those qualifying for Retirement Pension must be retired from employment/self employment. Retirement is defined as neither having earnings from employment of more than €38 per week, nor earnings from self-employment of more than €3,174 per annum. There is no retirement condition for the Old Age Contributory Pension: entitlement is based on age (plus the other qualifications already listed above). Also, as with other social insurance benefits, there is no means test for either of these contributory pensions. However, eligibility to receive a Qualified Adult Allowance, in addition to the pension, can depend on the earnings/means of the pensioner's spouse or partner.

Table 2.3: Contribution Requirements for Old Age and Contributory Pensions.

Scheme	Qualifying Age	Contribution Class Required*	Paid Contributions Required	Average Required
Retirement Pension	65	A,E,F,G,H,N	260 at present 520 from 2012	24 for a minimum payment at 98% of full personal rate 48 for a full payment
Old Age Contributory Pension	66	A,E,F,G,H,N,S	260 at present. 520 will apply in all cases from 2012	10 for a minimum payment at 50% of full Personal rate 15 for a 75% payment 20 for a 98% payment 48 for a full payment.

\*Classes F, G and N no longer exist but claimants may have contributions paid at these classes at some stage. Voluntary Contributions can also be used to qualify for pension.

The issues raised by the Group in relation to contributory pensions can be summarised as follows:

- the requirement to be retired from ones job in order to receive the Retirement Pension was viewed as a possible deterrent to a person prolonging their working life;
- the operation of the ‘average contribution’ test which can result in people with the same level of contributions receiving different payments; this can also adversely affect the entitlement of someone with large gaps in their insurance record. Replacing this test with a system based on total contributions paid or credited was viewed as a possible alternative which would be fairer and more transparent;
- there is no opportunity for a person to improve on their pension entitlement by continuing in employment after aged 65/66 because (a) employment at that stage is not fully insured and (b) additional contributions are not counted, for purposes of increasing the pension;
- there is no incentive (e.g. in the form of an actuarial or other bonus) for a person to defer claiming their pension, although this could provide an incentive for people to defer their retirement. This is becoming an important issue in the context of the sustainability of pensions systems and EU targets increased for participation of older people in employment, as part of the Lisbon agenda.

### 3.2 Numbers and profile of those affected

The numbers of pensioners is due to rise significantly in the medium to long-term. The most recent actuarial review of the SIF contains population projections over the next 5 decades in which it is estimated that the numbers over age 65 will rise steadily from 428,000 in 2001 to 673,000 in 2021, with a sharp increase to 1,198,000 by 2056 (Government of Ireland 2002a). The trend in the numbers of people of working age, on the other hand, is significantly different, implying a significant increase in the economic dependency ratio. That ratio is expected to peak in the mid-2020s when it will be 10% higher than in 2001, thereafter declining so that by 2056 the working age population will be lower than in 2001.

### 3.3 Working Group Discussion

It was noted that issues surrounding contributory pensions have been examined in a number of recent reports including:

- > Fifth and Final Report of National Pensions Board (1993);
- > Securing Retirement Incomes (NPPI) Report, Pensions Board, (1997);
- > Review of the Qualifying Conditions for the Old Age (Contributory) and Retirement Pensions – Dept of Social and Family Affairs (2000);
- > Labour Market Issues for Older Workers – NESF (2003).

The Group also noted that the Government is committed (as part of its own Government Programme) to eliminating the need to retire before a person can qualify for Retirement Pension. This will be a significant issue to be explored and progressed to ensure effective strategic planning for changing demographics in our society. It also noted that more detailed exploration of these and other related issues will be included in the Phase 2 Report on the Qualifying Conditions for the Old Age (Contributory) and Retirement Pensions which is currently being undertaken by the Department of Social and Family Affairs. The Group was assured that the above mentioned Report would deal with such issues as the cost of removing the retirement condition from entitlement to retirement pension.

With regard to the age threshold for qualification of Retirement and Old Age pension, this issue was

discussed in the Final Report of the National Pensions Board (1993) which concluded that *"in principle, a standard qualifying age of 65 for retirement and old-age pensions should be introduced"* (page 133). However the Board went on to say that it *"would regard this as a low priority given the cost and other recommendations in this report"*. At the time, 1992, the cost of equalising the age for Retirement Pension and Old-Age Pension at 65 would have been about £25 million in 1992 terms and the Board considered that such monies should be used to implement other, more important recommendations it was making. Revised current estimates of the cost of equalizing the age qualification at 65 years would be approximately €78.4 million per annum.

### 3.4 Conclusion

**The Group welcomed the Government commitment in relation to the retirement condition associated with the Retirement Pension and calls for its implementation at the earliest possible date. The Group also welcomed the detailed analysis being undertaken by the Department of Social and Family Affairs in relation to the other issues referred to.**

# GAPS IN SOCIAL INSURANCE RECORDS

This part (sections 4 – 6) considers how social insurance treats workers with gaps in their contribution record such as those with interrupted work patterns. As increasing numbers of workers have more diverse working time schedules such as part-time work and they are increasingly availing of more flexibility in the number of days and hours worked, the Working Group examined how these new work regimes affect their contribution records and entitlement to benefits.

## 4. Worksharers and the PRSI system

### 4.1 Current Position

The current situation for those in employment is that a full-time work pattern will mean the accumulation of 52 paid contributions in a year. For periods of unemployment or illness, credits can be awarded, with the result that a combination of paid or credited contributions can total to 52 contributions. The total number of contributions, both paid and credited, can be significant factors when qualifying for benefits.

For worksharers, the specific pattern of work could impact on a contribution record because of the system of weekly contributions, which is at the heart of the Irish social insurance system. Worksharers with a Monday-Friday week/on week/off pattern can accrue different numbers of contributions depending on the alignment between the working week and the contribution week. Those working on a calendar week-on/week-off basis are generally entitled to 52 contributions when the contribution year does not begin on a Saturday, Sunday or Monday. However, where the working week coincides with the PRSI week, this can lead to fewer PRSI contributions. Worksharers who work a split week (e.g. Wednesday to Tuesday) can similarly be affected during the years when the contributions year commences on a Wednesday.

An analysis of the impact on a personal contribution record for a person entering the workforce aged 22 years and having a total working life of 44 years is shown in Appendix C. Depending on the exact work pattern, worksharers will work 26, 39 or 52 PRSI contribution weeks in a year. During weeks off, the worksharer is not entitled to credited contributions as he or she is not unemployed, but may be able to avail of Homemakers Credits which maintain entitlement to old age contributory pension only, providing certain criteria are fulfilled (see further details at section 2.3). He/she may also be entitled to additional PRSI contributions on the basis of entitlement to public holidays under the Organisation of Working Time Act, 1997<sup>7</sup>.

The analysis indicates some of the different scenarios in which a contribution record would be affected. Where a jobsharer works Monday to Friday week on/week off, there will be 7 contribution years in every 17 for which only 26 PRSI contributions are recorded, as opposed to 52. A jobsharer who works a split week (e.g. Wednesday to Tuesday) will be affected by having 1 year in every 6 wherein 26 contributions are recorded. This analysis does not take into account any additional contributions due under arrangements made between employers and their worksharing employees relating to public holiday entitlements.

## Various Work Scenarios for Worksharers

Three different working life scenarios were analysed for employees entering the workforce in 1988 at the age of 22 years giving a total working life of 44 years. (See Table C2 at Appendix). No reference is made to their potential additional entitlement to homemakers credits which would assist in entitlement to old age contributory pension, nor possible additional contributions due as a result of public holiday entitlements.

**Scenario 1** Mary starts worksharing at the age of 30 and continues to workshare week on/week off Monday to Friday, for the rest of her working life.

**Scenario 2** Gavin starts to workshare at the age of 30, working week on/week off for 17 years in total before returning to full-time employment.

**Scenario 3** Freda workshares for 12 years in total, starting at age 30, working Monday to Friday week on/week off, before returning to full-time employment.

### Scenario 1

At pension age, Mary will have amassed a yearly average of 42 contributions and will qualify for a reduced rate pension. She will not qualify at the full rate as the minimum yearly average required currently for a full-rate Retirement or Old Age Contributory Pension is 48 contributions. She will have a total of 15 years in which 26 contributions are awarded instead of 52. As eligibility for short-term benefits requires 39 paid contributions in the relevant contribution year or 26 paid contributions in the relevant contributions year and 26 paid in the previous year, she will continue to be entitled to short-term benefits. However if, for any reason she has a break in her contribution record due to unpaid leave or a break in employment where she does not have credited contributions, she may break her entitlement to short-term benefits.

<sup>7</sup> Organisation of Working Time Act, 1997 provides for nine public holidays, in respect of each, an employee is entitled to either a paid day off on the holiday, a paid day off within a month, an extra day annual leave, or an extra days pay. If the public holiday falls on a day on which the employee normally works, the employee is entitled to a paid day off for the day. If the public holiday falls on a day on which the employee does not normally work, the employee is entitled to one fifth of his/her normal weekly wage for the day or to either (b) or (c) above as the employer may decide. If the employee is asked to work on the public holiday, the employee is entitled to (b) (c) or (d) above as the employer may decide. The impact of this is that work-sharing employees, depending on the days they are rostered to work and which option is taken, she or he may be entitled to additional PRSI contributions.

### Scenario 2

At pension age, Gavin will have amassed a sufficient yearly average number of contributions to qualify for a slightly reduced Old Age Contributory or Retirement Pension. He will have a total of 8 years in which 26 contributions were awarded rather than 52. Like Mary, as eligibility for short-term benefits requires 39 paid contributions in the relevant contribution year or 26 paid contributions in the relevant contributions year and 26 paid in the previous year, he will continue to be entitled to short-term benefits. However if, for any reason he has a break in his contribution record due to unpaid leave or a break in employment where he does not have credited contributions, he may break his entitlement to short-term benefits. Like Mary, he would not qualify for Invalidity Pension in particular years, but by remaining on DB for a longer period, potentially two years, he will become eligible again through the award of credited contributions. With regards to a Widower's Contributory Pension, depending on the year in the worksharing cycle that his spouse died, Gavin's entitlement could be slightly reduced.

### Scenario 3

Freda would have an average of 49 contributions and so would be entitled to the maximum rate old Age Contributory or Retirement Pension. She would qualify for short-term benefits if there was no period when she was not getting paid period contributions on her record. She would be entitled to a maximum Widows Contributory Pension, should the need arise.

From the worksharer's perspective, it could be argued that these workers in general gain more than they are losing. For 7 out of a consecutive 17 years recurrently, when the working week coincides with the PRSI week, the worker gains only 26 contributions, for the other weeks when the working week spans two contribution weeks, providing the earnings are above the PRSI Class J threshold, the jobsharer:

- benefits from 2 weeks PRSI allowance:
- pay less than half the social insurance contributions being paid by the full-time workers and
- is awarded 52 contributions.

## 4.2 Numbers and profile of those affected

There is no definitive data on the numbers of employees availing of worksharing or jobsharing patterns of employment. Some indication of the scale of this activity can be observed in the Quarterly National Household Survey (QNHS) which records workers as being "part-time, not underemployed" but this does not provide definite estimates of the incidence of worksharing.

Some information on the level of workers employed on reduced-hours contracts is available from published research into family-friendly working arrangements. In small and medium-sized enterprises the evidence is that 23% of respondent organisations made jobsharing working available to employees (Fisher, 2000). The vast majority of those who reported having family-friendly working arrangements report more than one type of working arrangement to cater for reduced hours of work. The organisations most likely to provide family-friendly workplace arrangements were those with more balanced workforces in terms of gender make-up. Child-care was cited as the primary reason by employees availing of family-friendly working opportunities.

There are some additional proxy indicators of the numbers on reduced hours contracts. The staff census of employees working in the health services, which is undertaken, shows in 2002 that of the 95,679 employees (whole-time equivalents) 9,336 (or 4,756 whole-time equivalents) are work sharing (Dept. of Health & Children: personal communication, 14th June 2004). The total number availing of worksharing opportunities in the civil service at end 2002 was 4,429 (or approximately 11% of civil servants) .

<sup>8</sup> Many of these would have been recruited before April 1995 and pay PRSI at a modified rate. They would therefore not be affected by PRSI implications of job-sharing. Details provided by CEN-SIS section, Department of Finance.



### 4.3 Working Group Discussions

The WG reviewed the reasons for the reduced number of contributions and found that it arose from the concept of "week of insurable employment" which plays a key role in the operation of the PRSI system. Employers and employees pay their respective PRSI contributions in respect of any week of insurable employment (providing the employment is insurable and the weekly earnings are in excess of €38 p.w.). In return, the employee is entitled to a PRSI contribution for each contribution week (or part thereof) that he or she is rostered to work and/or payment is due in respect of that work, regardless of when payment is made.

The Working Group was aware that this difficulty arose from the current contribution arrangements, which are centred on weeks of insurable employment. They recognised that any change in this system, for example moving to an annual earnings based system, would have significant implications for all workers and the wider social protection system. While assisting some employees, any change could adversely affect the position of others and increase the costs to the Social Insurance Fund. The WG recognised that this difficulty arose from the weekly basis of the social insurance system but did not consider that this issue warranted a fundamental change to the weekly basis.

The Working Group was more concerned to look at the practical effect that this might have on entitlement to benefits. It therefore looked at the interaction between particular work sharing patterns and the extent to which it affects personal entitlements to benefits. This is central to this issue from the employee's perspective. They also examined the effect of a reduced number of contributions and its implications for future benefits. These were considered for both long term and short-term benefits. It was found that:

- i. In the long-term, depending on the year the worker commenced work sharing, his/her pattern of work sharing and the period spent work sharing, a worker's entitlement to Invalidity Pension and Widow/ers pension may be affected. While it could lead to a reduced rate of old age contributory pension, the consequential loss in monetary terms would be small;<sup>9</sup>
- ii. In the case of short-term benefits, as the contribution conditions for short-term benefits such as unemployment and disability benefit were changed recently to cater specifically for work sharing employees,<sup>10</sup> workers in most cases are fully covered for short-term social welfare benefit. While this improves the situation for the generality of work sharers, any period of unpaid leave (e.g. unpaid maternity leave) could give rise to a potential loss of entitlement.
- iii. The longer a person work shares the more likely it is to affect their actual pension entitlement, although the net effect of this may be relatively small.

The Group noted by comparison that a person working on systematic short-time, on a week on/week off basis, would normally have 52 paid contributions, except where the 'signing' week coincides with the tax week. In such a case they will have 26 paid contributions and be credited with a further 26.

The Working Group considered an alternative approach based on the award of credits to work sharers to make up for a reduced number of paid contributions. However, in this discussion the following points emerged:

- provisions for systematic short-time working could not be compared as they relate to enforced periods of reduced numbers of hours worked whereas the arrangements for jobsharers are voluntary in nature;

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<sup>9</sup> The difference in the rate of Old Age Contributory Pension for a person with an yearly average of 48 contributions, over the payment to another with an yearly average of between 20 and 47 contributions is just €3.50 per week.

<sup>10</sup> In such cases, a claimant can qualify for benefit if she or he has either 39 paid contributions in the relevant contribution year or 26 paid contributions in the governing qualification year and 26 contributions paid in the prior contribution year.

- the award of credits would not assist in meeting the requirement for paid contributions (although it could help towards long term entitlement for pensions);
- credits are usually linked to a contingency-based inability to work (i.e. through unemployment or illness). Any change otherwise could be a significant departure within the social welfare code;
- the award of credits could imply more favourable treatment for worksharers over other types of part-time worker and be regarded as discriminatory.

#### 4.4 Conclusion

**The Working Group did not consider that the potential incidence of a problem with persons not qualifying for benefits would warrant a fundamental review of the weekly contribution basis underlying the social insurance system. However, it suggested that the situation be monitored closely to ensure work sharers were not being unduly disadvantaged by the weekly-based system, especially if they sought to pursue other forms of family -friendly arrangements such as parental leave. The Working Group recommended that data on the impact of work sharing arrangements on social insurance coverage be collated to inform any future developments.**

## 5. Impact of Atypical and Part-Time Working on Unemployment Benefit

### 5.1 Current Position

Availability for full-time work is a basic requirement for participation in the current Unemployment Benefit scheme. The extension of social insurance to part-time employees in 1991 played an important role in extending entitlement to UB to this group of workers. However on becoming unemployed, part-time workers cannot claim Unemployment Benefit if seeking only part-time work, even if they had always worked part-time and are seeking similar type employment again. While some of workers may claim UB, they can only qualify if they declare their availability for full-time employment. The WG wished to consider the possibility of including persons seeking part-time employment in the social insurance code . This issue would also be relevant to workers with disabilities, who may only be in a position to take up part-time work and would never achieve full-time employment.

### 5.2 Numbers and profile of those concerned.

Since 1997, the Quarterly National Household Surveys have shown both a continuing increase in the number of people opting to work solely on a part-time basis and a significant decrease in the number of people in involuntary part-time employment. In 1997, 21,800 people described themselves as working "part-time and underemployed" with 148,100 were working part-time and not seeking additional employment. By comparison, by 2004 those working part-time seeking additional employment numbered just 3,700 and the part-time workers not seeking extra hours of work reached 307,400.

In addition, a changing labour market has resulted in a move away from the more traditional work patterns, with a consequent increase in the number of atypical workers (See Appendix D - Numbers in Atypical Employment). In recognition of these changes, legislation has been introduced to ensure that part-time workers are not discriminated against in relation to their terms and conditions of employment.

### 5.3 Working Group Discussions

The Working Group considered that the issue as to whether the requirement to seek full-time employment fully recognised the newer forms of labour force participation and believed that the DSFA should consider the advantages and disadvantages of adapting the UB scheme (and any wider consideration for the social welfare system) to take account of this. The Working Group agreed that for a fully inclusive system to emerge, there is a need to reconsider the current terms of the Unemployment Benefit payment. (Some of the relevant details of how the scheme operates for part-time workers is outlined in Appendix E).

It was noted that a previous Departmental review of the treatment of part-time and other atypical workers in the Unemployment Benefit scheme recommended a review of the UB scheme to take account of this (DSCFA, 2001). The Department of Social and Family Affairs indicated that it was favourably disposed to the introduction of the principle of a part-time Unemployment Benefit payment into the social insurance system. The Working Group considered a number of interim measures which were proposed by ICTU. These included a change in the rules to allow part-time workers to 'sign-on' and an adjustment to the basis on which entitlement to Unemployment Benefit is calculated. However, after some discussion on these proposals, the Group recognised that the issues involved were complex and would require detailed analysis and consideration.

The Department therefore indicated that a departmental expenditure review group had been established to consider this issue of access to UB for part-time workers. The proposals submitted by ICTU were forwarded to the review group. A meeting was held between both groups to enable the Working Group to highlight some of the issues of concern, particularly:

- the needs for gender and disability issues to be considered;
- a recognition that that the UA/UB system was established when part-time, shift work and Sunday working were not as common as they are today;
- the need for comparisons with alternative systems in other countries;
- to examine whether the scheme should move to hours-based systems;
- to consider whether the main focus should be to adopt a family-friendly approach, or to encourage people into full-time employment, or to make the system more inclusive and more equitable generally.

In relation to disabilities issues, the Working Group referred to the work of the Working Group on the Review of the Illness and Disability Payment Schemes and its discussion on the needs of people with disabilities and long-term illness and specifically, a number of options for these people potentially designed to support those who would only have a partial capacity for work.

Another aspect of this issue is that of credits for periods of unemployment. In order to be entitled to unemployment credits, a person must be available for full-time employment, capable of work and must be genuinely seeking work. The Working Group considered that many workers, as evidenced in the data above, prefer part-time employment as it allows them to reconcile their caring responsibilities with a working life. Where a worker loses a part-time job, she/he is not permitted to sign on for credits unless seeking full-time employment. That stipulation does not recognise, nor accommodate, those who want to keep their contribution record in order and can lead to gaps in an employment contribution record, which can have both short-term and longer-term implications. It also militates against those who are trying to accommodate their caring function while maintaining a link with the workforce. Consequently, it would appear, that for unemployment payment purposes, a number of workers declare themselves to be seeking full-time employment while in fact only considering options for part-time employment and not considering themselves to be "underemployed".

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<sup>11</sup> Such a contingency might have implications also for Unemployment Assistance scheme although the WG did not seek to address this as it was outside its terms of reference.

## 5.4 Conclusions

The Working Group felt that these issues were important if the issue of the inclusiveness of the social insurance system was to be addressed fully. Given the complexity of the issues involved, the Group did not draw any conclusions but suggested the concerns they raised be examined by the Expenditure Review Group.

The Group concluded that any consideration of the provision of part-time availability in the Unemployment Benefit Scheme should also consider the consequent issue of the award of reckonable credited contributions and recommended that this matter should also be addressed by the Expenditure Review Group.

## 6. Carer's Benefit for Part-time Care

### 6.1 Current Position

Carer's leave was introduced in July 2001. A person providing full-time care and attention for an elderly or disabled person may qualify for 15 months leave, during which employment rights are preserved. Subject to contribution conditions, they may receive Carer's Benefit during this period.

Carer's Benefit was introduced shortly beforehand in October 2000. When applying for Carer's Benefit, a carer must have been in full-time employment for the three-month period immediately prior to the commencement of the benefit claim. Full-time employment in this context is defined as insurable employment for at least 17 hours per week or 34 hours per fortnight. This minimum hours threshold was chosen to ensure that the applicant had a recent attachment to the workforce.

### 6.2 Numbers and profile of those affected

There were 639 recipients in 2003, of which 79 were male and 560 female. Over 2,300 carers have benefited from the payment since it was introduced in October 2000.

However, additional information from the Census (2002) shows that almost 149,000 persons (4.8% of the total) aged 15 years and over, indicated that they provide regular unpaid personal help for a friend or family member with a long-term illness, health problem or disability. Women accounted for over 91,000 (or 61%) of all carers and over half of them were in their forties or fifties. Over one in ten women aged 40-59 was reported as a carer. Two thirds of the 85,000 persons at work, who also described themselves as carers, provided care for up to 2 hours per day and worked on average about 37 hours per week.

### 6.3 Working Group Discussions

The Working Group acknowledged that, prior to the introduction of the scheme, and in order to facilitate atypical workers such as part-time and job-sharing employees, contribution conditions for the benefit were made as flexible as possible. The minimum hours threshold was originally set at 19 hours per week or 38 hours per fortnight but was later reduced to facilitate additional atypical workers, mainly job-sharers, while still ensuring that they had a reasonable recent attachment to the workforce.

The Working Group identified some problems with the current arrangements for Carer's Benefit. In some cases, care is shared among family members - for example, instead of one person taking full-time leave, two siblings might work part-time in paid employment, and care for an elderly parent between

them. If an employer gives an employee time off on a part-time basis for caring duties, there is no provision for that employee to receive any form of benefit.

The Group noted the conclusions of the recent study on the Future Financing of Long-Term Care in Ireland (Govt. of Ireland, 2003b) including the following:

- *"there are arguments in favour of providing long-term benefits without means testing or on a universal basis;*
- *statutory entitlement to home care benefits must be introduced if the policy of maintaining people in the community insofar as is possible is to be achieved and*
- *there is scope for demand and consequently costs to escalate if universal entitlements to benefits is provided; this highlights the vital importance of an objective and explicit needs assessment process."*

The Group considered a number of proposals:

- I. a part-time Carer's Benefit to be payable where such care would be provided between two insured workers:
- II. a change in the qualification requirements to make it easier to qualify for Carer's Benefit. In particular, it was suggested that the requirements for Carer's Benefit be amended to having worked a total of 221 hours in the 13 week period prior to the commencement of the benefit claim to facilitate employees with atypical work patterns and
- III. the introduction of social insurance credits for those engaged in caring after the benefit is exhausted. It was also suggested that those returning to work after a period of caring would be entitled to participate in employment incentive schemes for education and training.

The Department of Social and Family Affairs advised the Group that it is currently carrying out an in-house review of Carer's Allowance and Carer's Benefit. The issues mentioned in relation to care-sharing and the definition of full-time employment for Carer's Benefit will be considered in that context. In relation to the award of credits, this is linked to the Homemakers Scheme, which is discussed in the next section.

## 6.4 Conclusion

**The Working Group welcomed the fact that the issues raised are currently being examined by the Department.**

**On the subject of second-chance education and training opportunities, the Working Group considered that more information is required on the employment decisions taken by Carers when the benefit is exhausted, suggesting that a follow-up survey might be undertaken to ascertain the outcomes for these workers following their period of caring and that the situation should be closely monitored.**

# GENERAL INCLUSIVENESS MEASURES

In this part, matters such as the treatment of homemakers (section 7), maternity benefit for the self-employed (part 8), the level of maternity benefit payable (part 9) and how migrant workers are dealt by the social insurance system (part 10) are discussed.

## 7. Homemakers Scheme

### 7.1 Current Position

A scheme which provided for a "Homemakers Disregard" in the calculation of old age pensions was introduced in April 1994 to cater for people caring for children up to the age of six, or incapacitated people. The provisions of the scheme were extended in the Social Welfare Act 1996 by increasing the age of children being cared for from six to twelve from 6th April 1995.

The scheme works by disregarding full years spent on caring duties when a person's social insurance record is being averaged for pension purposes. In 1997 the scheme was extended to allow for the award of credited contributions, specifically for old age contributory pension purposes, in the contribution years in which the homemaking period commences and ends, and for periods of homemaking within the same contribution year. Where a person is worksharing and the week off coincides with the PRSI contribution week, homemakers credits can be awarded for those weeks.

Time spent caring for children up to 12 years of age or for sick relatives can be counted under the scheme, subject to a maximum of 20 years. The scheme will not of itself qualify a person for a pension as the basic qualifying conditions for pensions must also be satisfied including:

- Entering insurance 10 years before pension age;
- Pay 260 full-rate contributions and
- For a minimum pension, achieve a yearly average of at least 10 contributions from 1953, or the time a person first enters insurance if later, until the last complete year before they reach pension age. An average of 48 is required for a full rate pension. Alternatively, a person's record can be averaged from 1979 but only to qualify for a maximum pension. Those caring for elderly or sick relatives must be registered separately.

The Homemakers Scheme has not yet become a factor in deciding entitlement to pensions but it would be expected to so become in future years.

### 7.2 Numbers and profile of those affected

Certification for those taking time out to care for children is generally through the Child Benefit system. There is therefore no need for such persons to formally register as homemakers. In 2002 Child Benefit was paid to 534,009 families, a significant proportion of whom could potentially apply for homemakers disregard into the future. At the end of July 2004, there were 11,739 people formally registered for the Homemakers Scheme. The majority of these do not qualify for the Carer's Allowance and it includes some who are in receipt of Carer's Allowance but do not qualify for credits.

## 7.3 Working Group Discussions

A number of members of the Group raised issues in relation to the operation of the Homemakers Scheme which they considered should be reviewed. These included:

- a change in the way periods out of the workforce are counted under the scheme. Specifically, the Group considered that the use of a disregard should be replaced with a system of credits;
- backdating the scheme to include periods earlier than 1994.

"Disregards" were considered by the group to be of less value than credits. The point has also been made that the term "disregard" does not convey the value attached to parenting and caring work in the home, and the view was expressed that these responsibilities need to be recognised within the social insurance system. Some felt that replacing the current disregard system with credited contributions would be more beneficial and would also be a more appropriate method of recognising the value of caring.

The award of credits has another advantage for customers in that such a system will keep a record active, complete and transparent during periods of mobility between the paid workforce and work in the home. Even if the yearly average test is retained, credits are more advantageous than disregards in that they potentially give a claimant a higher average number of contributions on which their entitlement could be assessed. The extent of this advantage will depend on the nature of the individual's contribution record, as shown below.

### Impact of Homemaker's Credits on Entitlement to Old Age Contributory Pension

Grainne was born in 1960. She entered social insurance in 1978 at age 18. She will reach age 66 (qualifying age for OACP) in 2026. This is a "working life" of 48 years. Let's assume she paid 520 contributions (10 years) and spent 20 years homemaking. The following outlines her entitlement to OACP in 3 different scenarios:

- Scenario A - no homemaker credits or disregards. The yearly average is 10.8 (520/48) and gives entitlement to a 50% pension.
- Scenario B - 20 years homemaker disregard. The yearly average is 18.57 (520/28) and gives entitlement to a 75% pension.
- Scenario C - 20 years homemaker credits. The yearly average is 32.5 [(520+1040)/48] giving entitlement to 98% pension.

The issue of backdating the scheme to a date earlier than 1994 was also raised within the Group. The scheme as it currently operates is only available to persons from 1994, with children under the age of 12 years, or who are caring for sick relatives. For example, it was considered by some that the scheme should be more closely aligned with those women who were obliged to give up work due to the marriage bar, which was in place until 1973.

Some of the Working Group identified more general problems with the Homemakers Disregard. The fact that a person, over their lifetime, may have both credits and disregards makes the system more complicated than it would be if one arrangement (such as credits) covered all relevant gaps in the person's record. However, it was noted that if the use of homemakers credits was extended it would strictly relate to pensions whereas credits could potentially cover the range of social welfare benefits.

The Group noted that the Department of Social and Family Affairs' Phase 1 Review of Qualifying Conditions for Old Age Contributory and Retirement Pensions made a conclusion in relation to the

operative date of the Homemakers Scheme and replacing the system of disregards provided for under the scheme with a system of credited contributions. These issues are being examined in the Phase 2 report, which is due for publication as a discussion document in 2005.

## 7.4 Conclusion

**The Group noted that the scheme is being reviewed as part of an overall review of the qualifying conditions for Old Age (Contributory) and Retirement Pensions and welcomed the fact that the issues which had been raised are on the agenda of the review group.**

## 8. Maternity Benefit for Spouses of the Self-Employed

### 8.1 Current Position

Entitlement to Maternity Benefit was extended to self-employed persons in 1997 subject to meeting the qualifying conditions. Maternity Benefit is only paid if the woman qualifies on her own contribution record: she cannot rely on the insurance record of her spouse.

### 8.2 Numbers and profile of those affected

There were over 293,210 PRSI Class S contributors in 2002. 66,921 (almost 23%) of these are women and already covered for Maternity Benefit under their own PRSI contributions. It is estimated that if cover for maternity benefit was extended to spouses of the self-employed, and on the assumption that these women would not be covered for Maternity Benefit based on their own employment record, an additional 3,550 women would potentially be entitled to Maternity Benefit. This estimate is arrived at by applying the birth rate of 15.7 per 1,000 (CSO, Q1, 2004) to the number of male self-employed contributors.

However, if a system of "derived rights" was introduced for self-employed workers, it might be difficult to argue against its extension to employed workers which could increase this number by several multiples.

### 8.3 Working Group discussions

Some members of the Working Group pointed particularly to the issue of the lack of maternity cover for spouses who are working in the business/farm, but who are not separately insured (see earlier discussion in relation to social insurance cover for spouses of self-employed persons). This was seen to be particularly a feature in farming given the gender profile in that sector. The Group acknowledged that there was little rationale to limiting any such proposal to the spouses of self-employed workers only and, if progressed, the proposal would have to be considered for wider application to spouses of all insured workers.

### 8.4 Conclusion

**The Working Group felt that for reasons of equity, it would not be possible to examine this issue for one category of insured person/spouse without also covering the situation of other insured person/spouses. The Group also felt that this issue should be dealt with in the context of the insurability of working spouses which was addressed above.**



## 9. Level of Maternity Benefit

### 9.1 Current position

Persons with the required number of Class A or S contributions are eligible for Maternity Benefit for a maximum period of 18 weeks subject to being entitled to leave under the Maternity Protection Act, 1994, or being insurably self-employed. The weekly rate of benefit is calculated by dividing the gross earnings in the relevant income tax year by the number of weeks worked in that year (to calculate the level of reckonable earnings) subject to a maximum. 70% of this amount is payable subject to a minimum payment rate linked with the rate of Disability Benefit. In 2004, the minimum weekly rate was €151.60 and the maximum payment (determined in effect by the maximum level of reckonable earnings) was €232.40. The benefit is not taxable.

### 9.2 Numbers and profile of those affected

The Table below shows that while the numbers of claimants over the thirteen years from 1991 to 2003 has grown by some 85%, expenditure on the scheme has nearly quadrupled over the same period. This is despite a fall in the real value of the Benefit, relative to average earnings, as subsequent tables show.

Table 2.4: Changes in Maternity Benefit Scheme 1991-2003

Year	No. of Claims	Expenditure €m
1991	16,357	28.83
1996	17,628	37.88
1999	23,581	52.73
2003	30,211	107.33

A full analysis of a range of issues affecting the scheme and beneficiaries of the scheme is at Appendix F.

### 9.3 Delivery Mechanism of Maternity Benefit

An extension of coverage for Maternity Benefit was discussed earlier. The Group briefly discussed the delivery mechanism for payment of Maternity Benefit and whether this needed to be changed (i.e. whether it should be paid by the employer and refunded from the Social Insurance Fund as opposed to claims being made for payment from Department of Social and Family Affairs). This issue was not progressed as delivery was seen as beyond the main focus of the group and because similar changes in the UK, in relation to Disability Benefit, appeared to have proved problematic.

### 9.4 Issues identified

The Working Group identified two issues that it wished to consider in the context of the level of Maternity Benefit and which, it felt, would make a positive contribution to the inclusiveness of the social insurance system. These were in relation to:

- Percentage applied: the percentage applied to reckonable earnings as an approximation of after-tax income (i.e. the 70% calculation);
- Ceiling on reckonable earnings: the maximum level of earnings at which Maternity Benefit is assessed.

Each aspect of these issues was examined closely. The Group looked in detail at an analysis of the scheme both historically and as it currently operates. Appendix F presents more detailed information in relation to the background to the benefit, eligibility conditions and current numbers of recipients.

## 9.5 Analysis of issues

### Percentage applied

Maternity Benefit was introduced in 1981 alongside the existing Maternity Allowance Scheme. In introducing the new legislation the Minister for Social Welfare said that *"the level of payment is designed to correspond to take-home pay when tax refunds are taken into account. The actual payment will be 80% of the earnings which are reckonable for pay-related benefit purposes ...the new minimum level is based on the average earnings of female workers in employments that were insurable for pay-related benefit purposes"*<sup>12</sup>.

This percentage was reduced to 70% in 1984 reflecting an increase in average tax rates over the period. It has remained at this percentage rate despite significant changes in the tax system in recent years, including reductions in rates and the introduction of individualisation.

An analysis of effective tax rates was undertaken over the period from 1997 to 2002. (Table F5 at Appendix F shows the effect of reductions in the top rate of tax and other changes including individualisation of the tax system on the effective tax rates). Effective tax rates have fallen significantly for all family types over almost all of the income range. For example, for a married couple with two earners, the effective tax rate has fallen since 1997 by between 14.7 and 17.8 percentage points for income over €20,000 per annum. Only single earners over €60,000 per annum have effective tax rates in excess of 30%. Most categories of taxpayers have fallen considerably below this rate. Furthermore, it is those on lower incomes whose effective tax rates are farthest below the 30% withdrawal rates.

### Ceiling on reckonable earnings

The maximum level of earnings, or the ceiling at which Maternity Benefit is assessed, serves to limit the payment to a maximum rate. Despite increases in some years, the increase in industrial earnings over time has meant that the effective maximum payment has fallen relative to earnings.

Table F3 (at Appendix) shows the maximum payment rate as a percentage of average industrial earnings since 1991. In 1991, the maximum payment was the equivalent of 93% of earnings. In 2003, the equivalent figure was 66%. The number of payments affected by the ceiling was examined (Table F4) and it was found that 51% of payments had the ceiling applied while 17% were being paid at the minimum rate of benefit payable.

## 9.6 Working Group Discussions

In reviewing the available data, the Working Group acknowledged that social welfare benefit rates are decided by Government within the context of the wider fiscal environment. However, they were also conscious of the original purpose of this particular benefit, which quite different from that of most other social welfare benefits and of the very gender-specific nature of this scheme.

### Percentage applied

The Working Group noted that recent falls in tax rates had not been reflected in the percentage rate at which the payment was made. The Working Group noted that reductions in personal tax rates would suggest that the percentage rate (70%) at which Maternity Benefit is calculated, could be reviewed by the Department of Social and Family Affairs to better reflect the underlying tax rate as it currently stood. Most of the Working Group felt the analysis of the data, as set out in Appendix F, strongly supports a return to the original rate of 80 per cent of reckonable earnings.

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<sup>12</sup> Speech by Minister for Social Welfare at Second Stage reading of Social Welfare (Amendment) Bill 1981

The option of removing the percentage applied to reckonable earnings and making the benefit taxable was considered. However, the Working Group considered this would increase complexity and result in a transfer from the SIF to general tax Revenue and that maintaining the benefit as non-taxable was preferable.

### Ceiling on reckonable earnings

The Working Group noted that despite increases in the ceiling of reckonable earnings in 1993, 1995, 2000 and 2001, the increase in earnings over the period meant that the maximum payment had fallen considerably as a percentage of average industrial earnings. The Group noted that the rate of benefit had not kept pace with industrial earnings and this in effect limited the level of income replacement relative to earnings, where women earn over the earnings ceiling. This had not arisen as a result of a specific policy direction in relation to the level of the maximum maternity benefit payment, rather it is emerged over a period of 12 to 13 years when other social insurance benefit priorities were followed. Accordingly, the Working Group sought to examine the issue of the ceiling pragmatically and to consider the implications of shifting the parameters within which the scheme currently operates.

## 9.7 Overall options and Impacts

The menu of options identified below, are centered on a revision to the reckonable earnings ceiling and the appropriate percentage to be applied to that ceiling. Two new ceilings on reckonable earnings were considered, which are €502.82pw (based on the up-rating the 1991 ceiling for reckonable earnings) and €540pw (approximating to gross average industrial earnings in 2003). These ceilings were used for illustrative purposes only, with a view to costing potential changes and their impact on the Social Insurance Fund and determining the value of such increases to individual workers.

Table 2.5: Impact of measure on Social Insurance Fund

Percentage applied	No change in ceiling	Ceiling of €502.82pw	Ceiling of €540pw
70%	Nil (Option 1)	€25.7m (Option 2)	€29.3m (Option 3)
80%	€12.7m (Option 4)	€42.2m (Option 5)	€46.2m (Option 6)

Table 2.6: Maximum weekly payment and increases associated with options

Percentage applied	No change in ceiling of €331.95	Ceiling of €502.82pw	Ceiling of €540pw
70%	€232.40	€351.97 (+119.57)	€378 (+145.60)
80%	€265.56 (+33.16)	€402.25 (+169.85)	€432 (+199.60)

## 9.8 Conclusions

**On foot of the analysis presented, the majority of the Working Group agreed that in the short-term the percentage applied should move back to 80% (Option 4 above). The Working Group suggested that this should be implemented incrementally over the next two years.**

Regarding the issue of the percentage level applied to reckonable earnings, the Working Group noted the agreement under the Mid-Term Review of Part Two of Sustaining Progress that over the lifetime of the agreement, the percentage applied should be restored to 80% of reckonable earnings from its current level of 70% .

**Over the longer-term, most of the Working Group considered that the reckonable ceiling applied should move closer to gross average industrial earnings (option 6 above). Given the substantial cost implications, they suggested that it be achieved incrementally over the next five years. They were also of the view that the replacement value of Maternity Benefit should be closely monitored by the Department of Social and Family Affairs in consultation with the social partners.**

The Department of Finance noted that this proposal addressed the rate of maternity benefit rather than the issue of access to, or gaps in, the coverage of the maternity benefit scheme. It noted that Option 6 is based on the approximate level of gross average industrial earnings in 2003 and in that regard the Department would not agree with a conclusion that the ceiling should move closer to the level of gross average industrial earnings over five years and presumably be maintained in line with the change in average industrial earnings thereafter.

The Department of Finance is of the view that decision on the level of the earnings ceiling and therefore the maximum rate of maternity benefit should be a matter for Government to decide in any year (as is the case in respect to the minimum rate of maternity benefit) having regard to fiscal requirements and, in particular, the competing demands and priorities in the wider social and incomes support areas. If the objective of the proposal is to secure a level of maternity income that is more closely aligned to actual or average earnings, then there are other options that could be considered to achieve this such as statutory maternity pay.

## 10. Coverage for Migrant Workers

### 10.1 Current Position

Liability to pay PRSI is generally contingent on realizing an income from an employment or self-employment. Entitlement to an insurance-based payment is dependent on having paid contributions and built up a contribution record against which to claim a payment. A number of measures have been put in place to protect workers from other countries who have not established a contribution record here.

Social security schemes in countries belonging to the EU or the European Economic Area (EEA) are co-ordinated by regulations that protect the acquired social security rights of those moving within the European Union and European Economic Area. The Regulations contain detailed rules that co-ordinate rights granted under the different national legislations (e.g. by requiring one State to take into account contributions paid in another).

In addition, Ireland has entered into a number of reciprocal agreements with countries outside the EU and EEA in relation to social insurance protection. These include Australia, Canada, New Zealand, and

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<sup>13</sup> The percentage applied was increased to 75% with effect from the January 2005 as the first phase of implementing this agreement.

USA. There is also an agreement with the U.K that covers individuals who are not covered by EU law. These reciprocal agreements allow each party to the agreement to set down the parameters within which workers from that state will be receive social insurance protection. In Ireland the scope of the agreements covers workers from these countries for pensions only.

The final group of migrant workers for consideration is those not covered by the above arrangements. These workers in general require work permits.

## 10.2 Numbers and profile of those affected

During 2003, over 47,550 Work Permits were issued by the Department of Enterprise, Trade and Employment. This is an increase of over 19,000 from 2000. 46% of the Work Permits issued were new with the balance being renewals or group permits. It is estimated that some 2,000 - 3,000 of the new work permits were issued in respect of existing permit holders who were changing jobs and the balance of permits issued were in respect of new immigrant workers (per published statistics on D.ET&E website). The figures to 2004 so far show that 75% of these workers are in 25 – 44 year age group (personal communication).

## 10.3 Working Group discussions

The Working Group focused on two themes to review how migrant workers are treated within the social protection system. These related to (i) access to social protection and (ii) the impact, if any, of the new habitual residency condition.

### **(i) Access to Social Protection**

The Working Group noted the Census figures (April 2002) indicating that 150,000 of the 190,000 non-Irish nationals aged 15 years and over were in the labour force<sup>14</sup>. This represents a participation rate of 79 per cent, compared with 58 per cent for the population as a whole. (CSO, 2002a). It was suggested by some members of the Working Group that migrant workers from non-EEA countries might find it difficult to have a full social insurance record, particularly if they arrive in this country in middle or later life. This was considered for both short term and long term benefits.

Pre-entry credits will safeguard short-term benefits for new entrants to the social insurance system, regardless of age or nationality. An insured person who takes up employment for the first time is awarded pre-entry credits from the beginning of the relevant contribution year to the date of entry into social insurance as an employed contributor and for the two previous contribution years. These are awarded as soon as a new contributions record is activated.

For long term benefits, i.e. pensions, the averaging test for pensions gives reasonably favorable treatment for pensions purposes to those contributors who join the system in middle or later life (before reaching 56 years). This might not cover the case of persons who join the social insurance system over the age of 56, be they Irish nationals or migrating workers. However, it was felt by the group that most migrants fell into the younger age groups. In the circumstances, no changes were considered necessary at present. However, in the context of a change to a system of qualification based on total contributions paid or credited, as suggested in the Phase 1 Report of the Qualifying Conditions from Old Age Contributory and Retirement Pensions, this might increasingly become more of an issue for attention.

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<sup>14</sup> These figures do not include asylum seekers living in Ireland under the direct provision arrangements.

## (ii) Habitual Residency Condition

The Group discussed the series of restrictions aimed at securing and protecting the social welfare system, which were came into effect in May 2004. The "Habitual Residency Condition" restricts access to qualification for certain social welfare payments by introducing an additional condition to be satisfied by a person claiming a social assistance payment or Child Benefit. Previously, entitlement to social assistance payments and Child Benefit could be established without satisfying a residency test. As the HRC did not directly affect entitlement to insurance benefits, the group discussed whether or not the issue was appropriate for the group. However, as it was argued that the HRC could affect entitlement to a means-tested payment or CB while a social insurance record was being established through employment, it could indirectly affect access to the social insurance system.

The term "habitually resident" is intended to convey a degree of permanence and to refer to a regular physical presence enduring for some time, usually (but not always) beginning at a date in the past and intended to continue for a period into the foreseeable future. It implies a close association between the applicant and the country from which payment is claimed and relies heavily on fact. The most important factors for habitual residence are the length, continuity and general nature of actual residence rather than intention.

The new residence condition will apply to the following social assistance payments: Unemployment Assistance; Old Age (Non-Contributory) and Blind Pension; Widow(er)'s and Orphan's (Non-Contributory) pensions; One Parent Family Payment; Carer's Allowance; Disability Allowance; Supplementary Welfare Allowance (other than once-off exceptional and urgent needs payments). It will also apply to persons claiming Child Benefit.

### Impact of HRC on Entitlement to specified Short-term Benefits

Immigrant worker from out-side EU/EEA	Immigrant worker, from EU/EEA	Long-term resident‡ Employed previously & re-entered employment after break from workforce	Long-term resident and employed on an ongoing basis, with full contribution record.	Long-term resident, newly employed
Pre-entry credits awarded on commencing employment	Pre-entry credits awarded on commencing employment	No pre-entry credits if awarded previously in working life	Pre-entry credits not applicable	Qualifies for UB/DB once 52 cons. are paid & Mat. Benefit once 39 cons. are paid
Qualifies for UB/DB once 52 cons. are paid & Mat./Adoptive Benefit once 39 cons. are paid	Qualifies for UB/DB once 52 cons. are paid & Mat./Adoptive Benefit once 39 cons. are paid	Qualifies for UB/DB once 52 cons. are paid (including period prior to break in employment) and 39 paid or credited in relevant tax year (of which for DB a minimum of 13* must be paid) or 26 cons paid in both relevant tax year and previous tax year	Qualifies for all short-term benefits on the basis on paid or credited contributions	Qualifies for UB/DB once 52 cons. are paid & Mat. Benefit once 39 cons. are paid
Must satisfy HRC to make a claim for an assistance based payment	Alternatively qualifies for benefit based on combination of Irish and social insurance paid another EU/EEA country			
Must satisfy HRC to make a claim for an assistance based payment	Must satisfy HRC to make a claim for an assistance based payment	Satisfies HRC and entitled to claim assistance-based payments	Satisfies HRC and entitled to claim assistance-based payments	Satisfies HRC and entitled to claim assistance-based payments

‡ Long-term resident for HRC purposes is defined as living in the Common Travel Areas for 2 years or more prior to making a claim for assistance or child benefit

\* If 13 cons. are not paid in the Relevant Tax Year, alternative years can be used; the 2nd and 3rd most recent complete tax years or the last complete tax year or the current tax year.

The test for whether a person is "habitually resident" is based on a number of factors set down by the European Court of Justice. The Court determined that five factors are relevant in determining whether a person is habitually resident, but that this list of factors is not exhaustive. The five factors are;

- Applicant’s main centre of interest
- Length and continuity of residence in a particular country
- Length and purpose of absence from a country
- Nature and pattern of employment in a country
- Future intention of applicant concerned as it appears from all the circumstances.

The Group sought confirmation that it had no implications for social insurance benefits while also acknowledging the measures were a significant departure from qualification conditions heretofore. The Working Group was assured that the new HRC test will not apply to social insurance-based payments such as Disability or Unemployment Benefit, Retirement Pensions etc. and where entitlement is gained by the payment of social insurance contributions. The table below shows, of the cases queried for HRC, the Irish and UK customers are most likely to satisfy HRC requirement. Possibly less predictable is the result that those from the EU-13 most likely to be disqualified under this condition.

Table 2.7 Habitual Residency Condition: Breakdown by nationality and decision

Claims submitted	Irish	UK	EU – 13	Accession States	Other
9,554	2,516 (26%)	1,785 (19%)	1,237 (13%)	1,147 (12%)	2,869 (30%)
HRC satisfied	92%	93%	27%	52%	63%

Based on figures from 1st May to 22nd November, 2004  
 Figures do not include data relating to Supplementary Welfare Allowance

The Group discussed the fact that insured workers are not automatically entitled to Child Benefit. It was pointed out that Child Benefit is a universal payment, and is based neither on social insurance contributions nor means. In addition, it was argued that, whereas a worker living in Ireland for a number of years would be entitled to claim an assistance-based payment in the event of having insufficient contributions to qualify for a payment based on contributions, recently arrived workers generally have no such access to alternative social protection under HRC, although each case is dealt with on its merits. The Group acknowledged that these issues were beyond their remit as they did not relate specifically to social insurance.

## 10.4 Conclusion

**Having reviewed the available data, the Working Group agreed that because the focus of the Group is social insurance, this issue was beyond their remit. However, it suggested that enhanced collation of data would enable a fuller examination of the extent to which migrant workers have access to social insurance in practice, to social protection payments generally and to ensure consistency in the application of HRC.**

## Other Issues discussed by the Working Group

The Group recognised that reviewing all aspects of our social protection system would be an unwieldy and potentially unmanageable task. It therefore identified some aspects which warranted review but could not be looked at within the timeframe available to the Group. The following issues were highlighted as being of concern but were not dealt with by the Group, for the various reasons set out.

### 11. Parental Leave

The Parental Leave Act 1998 provides parents with a non-transferable entitlement to 14 weeks (per child) unpaid leave from work to take care of young children. The leave must be taken before the child reaches the age of five years<sup>15</sup>, except in certain circumstances in the case of an adopted child. The Working Group was conscious that a Review of the Parental Leave Act was published in 2002 (Govt. of Ireland, 2002b). Given that in-depth review, it was agreed that there was little value-added to be derived from a re-examination of the same issues by this Group. However, members of the Working Group wished to re-endorse the conclusions and positions taken by their respective organisations in that report.

### 12. Invalidity Pension for the self-employed

The Working Group noted that the Final Report of the National Pensions Board in 1993 recommended that the question of introducing social insurance cover in respect of incapacity for the self-employed should be reviewed 5 years after the introduction of a disability allowance. With the introduction of the Disability Allowance in 1996, the IFA in particular felt this review is now overdue and that the issue should be examined in the future work programme of the DSFA. Clearly it would be complex requiring costings and analysis on appropriate qualifying conditions. This issue has been raised separately by organizations representing self-employed people, and the Working Group was advised that the issue is being followed up separately by the Department of Social and Family Affairs.

### 13. Carer's Leave

Carer's Leave was introduced in July 2001. The Act provides employees with a statutory entitlement to Carer's Leave in stipulated circumstances. It was agreed that Carer's Leave was outside the remit of the Group, but it noted that the legislation provides for the legislation to be reviewed every three years. The Group suggested that the issues of shared caring and part-time caring should be considered in the review to be undertaken, as well as those issues identified above at section 7.

### 14. Complexity of social insurance system

The social insurance system is necessarily complex, catering as it does for varied sectors of employees with differing insurance needs. The areas of particular complexity that were considered by the Working Group concern (i) the PRSI contribution system and (ii) the benefits payable.

#### (i) PRSI system

There are currently 11 rates of PRSI, with up to 37 subclasses<sup>16</sup>. There are in addition particular provisions relating to special, voluntary and optional contributors. The inclusion and exclusion of particular cohorts of workers under the First Schedule of the Social Welfare Act adds to this complexity. The new measures relating to benefits in kind which employees receive as part of their remuneration, further diminish the potential for simplicity and ease of understanding. Employers who have to operate the system on

<sup>15</sup> Under the provisions of the Parental Leave (Amendment) Bill, 2004, which is currently under consideration by the Oireachtas, this threshold will increase from five to eight years.

<sup>16</sup> The 37 subclasses includes 4 subclasses relating to the PRSI Exemption Scheme but does not include the new PRSI subclass AL, introduced on foot of the Budget 2005 to cater for an increase in the Health Levy threshold with effect from 1st January, 2005.



behalf of their employees have voiced concerns about these complexities, but employees and the self-employed are equally affected.

#### (ii) Benefits payable

Efforts to ensure that the range and rates of benefits available are comprehensive have led to sometimes complex qualification conditions to establish eligibility, most notably for old age contributory pensions. The range of atypical working practices now catered for by the unemployment benefit system reduces the opportunity for simplicity. This potentially limits the extent to which social welfare recipients and beneficiaries can understand the social welfare system, their entitlements and qualification conditions.

A range of issues were raised in the course of Working Group meetings relating to the complex nature of the system. Many of these valid concerns focused on family-related issues. The most pressing ones, as identified by the Group, have been examined and are outlined above. The Group agreed not to widen its scope to look at wider issues of complexity.

## 15. Administrative Individualisation

The subject of administrative individualisation was examined by a previous social partnership working group established under PPF. The previous Group considered two options for delivering direct payment to qualified adults who had a derived entitlement to payment from a claimant social welfare payment:

- Mandatory splitting of the overall payment and automatic issue of separate payments to the claimant and qualified adult or
- Providing an option to a claimant to either receive payment in full or have a portion paid direct to spouses/partner.

The administrative and legal implications of such a measure were examined with a range of views on how best the measure should be implemented and achieved. It was agreed that the measure be implemented on a phased basis, being offered in the first instance to new claimants for specified schemes and extended over time and that the situation be monitored.

This Working Group did not wish to reopen the issue but suggested that implementation of the measure to date be reviewed and that greater awareness of the option to have the payments split could be achieved through a targeted information campaign.

## 16. Impact of Estimates 2004 measures on social insurance system

Following the announcement of the 2004 Book of Estimates, some of the members of the Group voiced concerns about the impacts the measures would have on atypical workers and particularly women. Some felt there were elements immediately relevant to the Working Group, specifically the withdrawal of the half rate CDA for unemployment or disability benefit where the spouse/partner's income was over €300 per week and also the discontinuance of entitlement to half rate unemployment or disability benefits for new claimants who were already recipients of either a Widows/Widowers pension or One Parent Family Payment (since reversed). Although not related to the social insurance system, the increase in the qualification period for Back to Education Allowance – 6 months to 15 months effective from September 2004 – would, it was argued, allow clients become distant from the labour market. Some were concerned that such significant changes should not be progressed without some level of consultation and discussion with the social partners.

# CHAPTER 3: SUMMARY OF CONCLUSIONS

## 1. Insurability of Employment of Spouses and Assisting Relatives

*The Working Group noted the significance of the partnership option to enable farm workers, especially spouses to build a social insurance record in their own right. It recommended that more information on the tax and social welfare implications of working in a partnership or as a limited company should be available to self-employed families through a joint publication between the Revenue Commissioners and the Department of Social and Family Affairs on the issue.*

*The Working Group recommended that the Departments of Social and Family Affairs and Agriculture and Food should work together with farming representatives to assist them in overcoming the legal or administrative obstacles which will be identified and documented by the Irish Farmers Association as hindering the use of farm partnerships.*

## 2. People Earning less than €38 per week

*The Working Group concluded that the fall in the real value of the insurability threshold had probably improved the comprehensiveness of the social insurance system; that there was little prospect of strengthening inclusiveness through a further reduction in the threshold; and that the Department of Social and Family Affairs should keep the level of the threshold under review with a view to maximising inclusiveness while maintaining a reasonable link between social insurance coverage and a reasonable level of attachment to the labour force.*

*The Working Group agreed that the issue related to the Part-time Workers Directive did not warrant further consideration in this context.*

## 3. Issues for Older Workers

*The Group welcomed the Government commitment in relation to the retirement condition associated with the Retirement Pension and calls for its implementation at the earliest possible date. The Group also welcomed the detailed analysis being undertaken by the Department of Social and Family Affairs in relation to the other issues referred to.*

## 4. Worksharers and the PRSI system

*The Working Group did not consider that the potential incidence of a problem with persons not qualifying for benefits would warrant a fundamental review of the weekly contribution basis underlying the social insurance system. However, it suggested that the situation be monitored closely to ensure work sharers were not being unduly disadvantaged by the weekly-based system, especially if they sought to pursue other forms of family-friendly arrangements such as parental leave. The Working Group recommended that data on the impact of work sharing arrangements on social insurance coverage be collated to inform any future developments.*

## **5. Impact of Atypical and Part-Time Working on Unemployment Benefit**

*The Working Group felt that these issues were important if the issue of the inclusiveness of the social insurance system was to be addressed fully. Given the complexity of the issues involved, the Group did not draw any conclusions but suggested the concerns they raised be examined by the Expenditure Review Group.*

*The Group concluded that any consideration of the provision of part-time availability in the Unemployment Benefit Scheme should also consider the consequent issue of the award of reckonable credited contributions and recommended that this matter should also be addressed by the Expenditure Review Group.*

## **6. Carer's Benefit for Part-time Care**

*The Working Group welcomed the fact that the issues raised are currently being examined by the Department.*

*On the subject of second-chance education and training opportunities, the Working Group considered that more information is required on the employment decisions taken by Carers when the benefit is exhausted, suggesting that a follow-up survey might be undertaken to ascertain the outcomes for these workers following their period of caring and that the situation should be closely monitored.*

## **7. Homemakers Scheme**

*The Group noted that the scheme is being reviewed as part of an overall review of the qualifying conditions for Old Age (Contributory) and Retirement Pensions and welcomed the fact that the issues which had been raised are on the agenda of the review group.*

## **8. Maternity Benefit for Spouses of the Self-Employed**

*The Working Group felt that for reasons of equity, it would not be possible to examine this issue for one category of insured person/spouse without also covering the situation of other insured person/spouses. The Group also felt that this issue should be dealt with in the context of the insurability of working spouses which was addressed above.*

## **9. Level of Maternity Benefit**

*On foot of the analysis presented, the majority of the Working Group agreed that in the short-term the percentage applied should move back to 80% (Option 4 above). The Working Group suggested that this should be implemented incrementally over the next two years.*

*Over the longer-term, most of the Working Group considered that the reckonable ceiling applied should move closer to gross average industrial earnings (option 6). Given the substantial cost implications, they suggested that it be achieved incrementally over the next five years. They were also of the view that the replacement value of Maternity Benefit should be closely monitored by the Department of Social and Family Affairs in consultation with the social partners.*

*The Department of Finance noted that this proposal addressed the rate of maternity benefit rather than the issue of access to, or gaps in, the coverage of the maternity benefit scheme. It noted that Option 6 is based on the approximate level of gross average industrial earnings in 2003 and in that regard the Department would not agree with a conclusion that the ceiling should move closer to the level of gross average industrial earnings over five years and presumably be maintained in line with the change in average industrial earnings thereafter.*

*The Department of Finance is of the view that decision on the level of the earnings ceiling and therefore the maximum rate of maternity benefit should be a matter for Government to decide in any year (as is the case in respect to the minimum rate of maternity benefit) having regard to fiscal requirements and, in particular, the competing demands and priorities in the wider social and incomes support areas. If the objective of the proposal is to secure a level of maternity income that is more closely aligned to actual or average earnings, then there are other options that could be considered to achieve this such as statutory maternity pay.*

## **10. Coverage for Migrant Workers**

*Having reviewed the available data, the Working Group agreed that because the focus of the Group is social insurance, this issue was beyond its remit. However, it suggested that enhanced collation of data would enable a fuller examination of the extent to which migrant workers have access to social insurance in practice, to social protection payments generally and to ensure consistency in the application of Habitual Residency Clause.*

## **11-16. Other issues**

*Other issues, including parental leave, invalidity pension for the self-employed, carer's leave, the complexity of the system, administrative individualization and Estimates 2004, were discussed by the group and whilst they could not be addressed within the timeframe available to this group, they were identified as warranting further attention.*

# APPENDIX A

## Recipients of Social Insurance Payments 1991, 1996, and 2003

Table A1: Number of Recipients of Social Insurance Schemes 1991, 1996, and 2003

	1991			1996			2003		
	Male	%	Total	Male	%	Total	Male	%	Total
Old Age Contributory Pension	46,480	63.9%	72,760	42,413	62.4%	67,988	71,916	63.0%	113,970
Retirement Pension	40,500	77.5%	52,240	52,576	75.4%	69,740	63,152	73.0%	86,509
Widow/er's Contributory Pension	0	0.0%	84,493	7,121	7.4%	96,107	11,214	10.8%	103,831
Unemployment Benefit*	38,319	55.1%	69,588	26,522	45.8%	57,908	35,668	48.8%	73,019
Disability Benefit	25,258	50.8%	49,726	18,782	44.2%	42,460	21,378	37.2%	57,464
Total	150,557	45.8%	328,807	147,414	44.1%	334,203	203,328	46.8%	434,793

\* Figures from Live Register Age by Duration Analysis published by CSO in October of each year.

# APPENDIX B

## PRSI Class J

Table B1: Number of Hours Work Needed to Reach Insurability Threshold at Average Earnings and Minimum Wage.

Year	Insurability Threshold €	Average Hourly Pay €	Hours of Work Required	Minimum Wage €	Hours of Work Required
1993	38.09	8.08	4.7	n/a	n/a
1998	38.09	9.53	4.0	n/a	n/a
2000	38.09	10.66	3.6	5.59	6.8
2003	38.00	13.30	2.9	6.35	6.0

The table shows how changes in the average hourly earnings has increased by 64% from 1993 to 2002, while the hours worked by the average workers to gain a Class A contribution has fallen from 4.7 hours to less than three hours over the same period. If the threshold is compared to the minimum wage, the hours required has similarly fallen though less dramatically.

# APPENDIX C

## Jobsharers/Work sharing

Work sharing refers to arrangements agreed between an employer and an employee to work less than the standard 5 day, 40 hour week. Examples can include a 4 day week, a 3 day week, a week on/week off, mornings only, etc. More often than not, the work attendance pattern will overlap with the weeks of insurable employment as defined in social welfare legislation as each successive 7 day week commencing on the 1st January. The insurance record of work sharers is recorded with Class A contributions in respect of each week they have worked provided their weekly earnings exceed €38.

The type of work sharing involved may affect the amount of PRSI the employer and the employee pay and may also affect the number of PRSI contributions the employee is awarded. In some years the employee may be awarded only 26 or 39 weeks contributions because of the work sharing patterns. The exact effect depends on the attendance pattern worked and the level of earnings in any given week.

Table C1: Effect of Worksharing Pattern on PRSI contributions due

<b>Worksharing Pattern</b>	<b>Total Contributions for Year</b>
Full Time	52
4 days every week	52
3 weeks on/1 week off (Mon-Fri)	52 or 39
Working Day 9am - 3pm every day	52
3 days (same days each week)	52
2 days (same days each week)	52
1 day (same day each week)	52
Mornings only	52
Afternoons only	52
Working week on/off (Mon-Fri)	52 or 26
Working a fixed split week	52 or 26

The total number of contributions, both paid and credited, can be significant in terms of qualification of benefit although it is difficult in advance to state the precise importance of this especially for long-term benefits. However the following table outlines potential scenarios where a person working Monday to Friday week on/week off, would be affected in long-term for pension purposes. This scenario does not take account of periods of unpaid leave, or breaks in employment where crediting contributions would not be awarded. It is also predicated on the assumption that earnings remain above the insurable limit for the full period of employment.

Table C2 – Examples of Average Contributions when Worksharing

YEAR	PRSI W/C	AGE	No. of Class A Contributions			Fulltime
			(a) J/S for 36 yrs	(b) J/S for 17 yrs	(c) J/S for 12 yrs	
1988	WEDS	22	52	52	52	52
1989	THURS	23	52	52	52	52
1990	FRI	24	52	52	52	52
1991	SAT	25	52	52	52	52
1992	MON	26	52	52	52	52
1993	TUES	27	52	52	52	52
1994	WEDS	28	52	52	52	52
1995	THURS	29	52	52	52	52
1996	SAT	30	26	26	26	52
1997	SUN	31	26	26	26	52
1998	MON	32	26	26	26	52
1999	TUES	33	52	52	52	52
2000	THURS	34	52	52	52	52
2001*	FRI	35	52	52	52	52
2002	TUES	36	52	52	52	52
2003	WEDS	37	52	52	52	52
2004	THURS	38	52	52	52	52
2005	SAT	39	26	26	26	52
2006	SUN	40	26	26	26	52
2007	MON	41	26	26	26	52
2008	TUES	42	52	52	52	52
2009	THURS	43	52	52	52	52
2010	FRI	44	52	52	52	52
2011	SAT	45	26	26	52	52
2012	SUN	46	26	26	52	52
2013	TUES	47	52	52	52	52
2014	WEDS	48	52	52	52	52
2015	THURS	49	52	52	52	52
2016	FRI	50	52	52	52	52
2017	SUN	51	26	52	52	52
2018	MON	52	26	52	52	52
2019	TUES	53	52	52	52	52
2020	WEDS	54	52	52	52	52
2021	FRI	55	52	52	52	52
2022	SAT	56	26	52	52	52
2023	SUN	57	26	52	52	52
2024	MON	58	26	52	52	52
2025	WEDS	59	52	52	52	52
2026	THURS	60	52	52	52	52
2027	FRI	61	52	52	52	52
2028	SAT	62	26	52	52	52
2029	MON	63	26	52	52	52
2030	TUES	64	52	52	52	52
2031	WEDS	65	52	52	52	52
TOTAL			1898	2080	2132	2288
YEARLY AV.			42	47	49	52

\*PRSI/Tax Year aligned with calendar year. 14 credits awarded for all employees with one (1) PRSI Class A contribution  
 Analysis does not take account of additional contributions which may be due under the organisation of Working Time Act, 1997



# APPENDIX D

## Numbers in atypical working

Estimated number of persons in employment (ILO) classified by working patterns and gender  
- QNHS, 2003 Q.2

Working pattern		Male Thou	Percentage	Female Thou	Percentage	Total Thou
<b>Do you work from home?</b>	Usually	138.2	7.8%	40.0	2.2%	178.2
	Sometimes	64.8	3.6%	32.7	1.8%	97.6
	Never	823.5	46.3%	674.5	37.9%	1,498.0
	Not stated	2.6	0.1%	1.9	0.1%	4.5
	<b>Total</b>	<b>1,029.2</b>	<b>57.9%</b>	<b>749.1</b>	<b>42.1%</b>	<b>1,778.3</b>
<b>Do you work shift work?</b>	Usually	108.7	6.1%	70.8	4.0%	179.5
	Sometimes	59.3	3.3%	37.6	2.1%	97.0
	Never	858.4	48.3%	638.6	35.9%	1,497.1
	Not stated	2.7	0.2%	2.0	0.1%	4.7
	<b>Total</b>	<b>1,029.2</b>	<b>57.9%</b>	<b>749.1</b>	<b>42.1%</b>	<b>1,778.3</b>
<b>Do you do night work?</b>	Usually	67.6	3.8%	33.4	1.9%	101.0
	Sometimes	162.3	9.1%	61.1	3.4%	223.4
	Never	796.6	44.8%	652.6	36.7%	1,449.2
	Not stated	2.7	0.2%	1.9	0.1%	4.6
	<b>Total</b>	<b>1,029.2</b>	<b>57.9%</b>	<b>749.1</b>	<b>42.1%</b>	<b>1,778.3</b>
<b>Do you work evenings?</b>	Usually	101.9	5.7%	56.5	3.2%	158.4
	Sometimes	292.0	16.4%	120.6	6.8%	412.6
	Never	632.5	35.6%	570.1	32.1%	1,202.7
	Not stated	2.7	0.2%	1.9	0.1%	4.7
	<b>Total</b>	<b>1,029.2</b>	<b>57.9%</b>	<b>749.1</b>	<b>42.1%</b>	<b>1,778.3</b>
<b>Do you work on Saturdays?</b>	Usually	269.0	15.1%	137.6	7.7%	406.5
	Sometimes	388.2	21.8%	189.8	10.7%	577.9
	Never	369.5	20.8%	419.8	23.6%	789.3
	Not stated	2.6	0.1%	2.0	0.1%	4.6
	<b>Total</b>	<b>1,029.2</b>	<b>57.9%</b>	<b>749.1</b>	<b>42.1%</b>	<b>1,778.3</b>
<b>Do you work on Sundays?</b>	Usually	163.8	9.2%	76.6	4.3%	240.4
	Sometimes	204.1	11.5%	135.1	7.6%	339.2
	Never	658.7	37.0%	535.4	30.1%	1,194.1
	Not stated	2.6	0.1%	2.0	0.1%	4.6
	<b>Total</b>	<b>1,029.2</b>	<b>57.9%</b>	<b>749.1</b>	<b>42.1%</b>	<b>1,778.3</b>
<b>ILO economic status</b>	In employment, full-time	959.8	54.0%	516.5	29.0%	1,476.3
	In employment, part-time	69.4	3.9%	232.6	13.1%	302.0
	<b>Total</b>	<b>1,029.2</b>	<b>57.9%</b>	<b>749.1</b>	<b>42.1%</b>	<b>1,778.3</b>

Note: Data may be subject to future revision.

Data may be subject to sampling or other survey errors, which are greater in respect of smaller values or estimates of change.

Reference period: Q2 - March to May 2003.

Source: Quarterly National Household Survey, Central Statistics Office, Ireland.

# APPENDIX E

## Unemployment Benefit Payment Schemes

### Part Time and Casual Workers

In addition to the basic qualifying criteria, e.g. the requirements to be unemployed, seeking work and to satisfying the contribution/means conditions, certain other conditions and regulations are particularly relevant when examining the treatment of part-time and casual workers in the context of the Unemployment Benefit and Unemployment Assistance code. This note outlines such areas within the current rules and structure of the unemployment payment schemes as:

#### Requirement to be available for full-time employment

Workers who lose employment and who are only interested in securing part-time work are disqualified from receiving an unemployment payment because of the requirement to be available for full-time employment. The Departmental working group acknowledged that this condition may have forced a number of part-time workers to declare availability for full-time work when applying for Unemployment Benefit or Unemployment Assistance, as to do otherwise would lead to an automatic disqualification.

#### 'Three-in-six' rule

This rule provides for payment only where a person is unemployed in respect of at least three days in any six consecutive days (excluding Sunday).

#### Substantial loss rule (Unemployment Benefit only)

To qualify for payment of Unemployment Benefit, a person must suffer a minimum of one days' loss of employment, coupled with a loss of earnings. Therefore, provided all other conditions are satisfied, a part-time worker who loses one days' work will qualify for payment in respect of each day of unemployment.

#### Day of Employment /Unemployment

As both unemployment payment schemes are based on the concept of a day of employment/unemployment, the inevitable calculation of the 'substantial loss' condition and 'three-in-six' rule in terms of day/s only, excludes certain categories of atypical workers from the unemployment payment schemes, e.g. workers who may suffer a substantial loss of employment in terms of hours without losing any one full day.

# APPENDIX F

## Maternity Benefit Analysis

### F.1 Current situation

Maternity Benefit is a payment made for 18 weeks to employed and self-employed women who are in current employment and who satisfy certain PRSI contribution conditions on their own insurance record. The present version of the scheme was introduced for employees in 1981 and was extended to include the self-employed from 9th June 1997.

For employees, the weekly rate of benefit is calculated by dividing the gross earnings in the relevant income tax year by the number of weeks worked in that year to calculate the level of reckonable earnings. 70% of this amount is payable subject to minimum and maximum payment rates. For self-employed, the weekly rate of benefit is calculated by dividing the gross income in the relevant income tax year by 52 weeks. 70% of this amount is payable, subject to minimum and maximum rates. The higher of the two rates is paid giving an effective minimum rate. The maximum level of reckonable earnings is stipulated by statutory regulations and is currently set at €331.95 per week. The maximum payment is therefore 70% of this rate or €232.40 per week.

### F.2 Spending and number of claims

In 2000, Maternity Benefit expenditure was €58.0 million, and provisional figures show expenditure on this scheme in 2001 to have risen to €78.9 million (an increase of 36%). This mainly reflects payment of the scheme being extended from 14 to 18 weeks in April 2001. A total amount of €96.3 million has been allocated for spending in 2002. At end-August 2002, there were 19,446 current claims. Table F.1 shows the number of claims per annum since 1991.

Table F.1 Trend in number of Maternity Benefit claims awarded per annum since 1991

	No claims in year	% Y/Y change
1991	16,357	
1992	14,876	-9.1%
1993	15,535	4.4%
1994	14,378	-7.4%
1995	15,664	8.9%
1996	17,628	12.5%
1997	19,796	12.3%
1998	22,384	13.1%
1999	23,581	6.6%
2000	24,848	4.2%
2001	27,142	9.2%
2002	29,042	7.0 %

### F.3 Setting the maximum rate of Maternity Benefit

The Social Welfare (Consolidation) Act 1993, provides that the Minister for Social and Family Affairs may set a maximum level of reckonable earnings (or ceiling) on which the rate of Maternity Benefit is calculated. Table F.2 sets out the level of this ceiling since 1991, together with the maximum payment rate (set at 70% of the maximum level of reckonable earnings).

Table F.2: Minimum and Maximum Rates of Maternity Benefit 1991-2002

	<b>Minimum Maternity Benefit payment</b>	<b>Maximum Maternity Benefit payment</b>	<b>Income Ceiling for Reckoning Maternity Benefit</b>
	€	€	€
1991	96.50	195.54	279.34
1992	76.18	195.54	279.34
1993	82.53	201.76	288.23
1994	94.21	201.76	288.23
1995	96.12	206.71	295.30
1996	96.12	206.71	295.30
1997	104.5	206.71	295.30
1998	106.28	206.71	295.30
1999	110.09	206.71	295.30
2000	115.17	219.41	313.44
2001	115.17	232.36	331.95
2002	135.60	232.40	331.95

Note: The minimum and maximum rates specified above came into effect at different dates, depending on when Budget increases take effect

Increases in 1993 and 1995 left the maximum rate of payment 5.7% higher in 1995 than in 1991. The rate was effectively frozen in nominal terms from 1995 to 2000 when it rose by 6.1% and then in 2001 when it rose by 5.9%. There was no effective rise in 2002.

The maximum rate of payment might be compared with indicators of either earnings or of the income ceiling. With the abolition of the employers ceiling, the appropriate comparator might be the employees' ceiling. In relation to earnings, the trend in gross average industrial earnings might be taken as an indicator of broader earnings growth in the economy. Both are shown in Table F.3, which also shows the trend in the PRSI employee's ceiling since 1991.

Table F.3: Trends in maternity ceiling, earnings indicators and PRSI employee ceiling since 1991

<b>Year</b>	<b>Maternity Ceiling</b>	<b>GAIE – Total</b>	<b>Maternity as % GAIE total</b>	<b>GAIE females</b>	<b>Mat. as % of GAIE females</b>	<b>PRSI ceiling (weekly)</b>	<b>Mat. as % employees PRSI ceiling</b>
	€	€		€			
1991	279.34	298.68	93.5%	206.13	135.5%	440	63.5%
1992	279.34	310.16	90.1%	218.04	128.1%	464	60.2%
1993	288.23	327.59	88.0%	233.39	123.5%	488	59.1%
1994	288.23	336.65	85.6%	242.69	118.8%	510	56.5%
1995	295.30	346.44	85.2%	252.00	117.2%	525	56.2%
1996	295.30	360.11	82.0%	261.70	112.8%	545	54.2%
1997	295.30	371.51	79.5%	273.55	108.0%	566	52.2%
1998	295.30	387.56	76.2%	285.32	103.5%	591	50.0%
1999	295.30	409.29	72.1%	298.17	99.0%	620	47.6%
2000	313.44	436.20	71.9%	324.84	96.5%	647	48.4%
2001	331.95	470.96	70.5%	347.39	95.6%	690	48.1%
2002	331.95	501.70	66.2%	364.08	91.2%	745	44.6%

The table shows that the Maternity Benefit ceiling has fallen considerably behind both the earnings and the PRSI ceiling indicator over the period under consideration.

Table F.4: Breakdown of payments for Maternity Benefit (September, 2002)

WEEKLY GROSS EARNINGS	Payment RATE €	NUMBER	% TOTAL
€331.95 or more	232.36 (max)	5,784	51%
€285.71 – €331.90	200.00 – 232.37	1,287	11%
€257.14 – €285.70	180.00 – 199.99	731	7%
€228.57 – €257.13	160.00 – 179.99	747	7%
€200.00 – €228.26	140.00 – 159.99	679	6%
€193.72 – €199.99	135.61 – 139.99	85	1%
€193.71 or less	135.60 (min)	1,923	17%
Other rate		8	0%
All groups		11,244	100%

Note: includes closed claims

Over 50% of total payments were at the maximum level while 17% were at the minimum rate. The maximum rate is therefore a significant factor in the overall level of income replacement that the scheme provides and also of scheme spending. Alternative approaches to the ceiling also therefore have significant impact on the level of income replacement and of spending. A number of alternative approaches to the ceiling were identified and were in turn used for the analysis which follows at paragraph F6.

#### F.4 Withdrawal rate of 30% of payment

Maternity Benefit is not taxable. Instead, benefit is paid at 70% of the maximum rate. Originally, when the Maternity Benefit Scheme for Women in Employment was introduced in April 1981, it was payable for 14 weeks as 80% of 79/80 gross earnings with a minimum rate of €58.09 per week. The percentage figure of 80% was designed to give a payment corresponding to net pay less tax refunds. The maximum rate was effectively the ceiling for PRB and acted as a limit on the amount of benefit payable. It was acknowledged that variations in the percentage would occur in the event of significant changes in rates of inflation or in the PAYE mechanism taking place, e.g., it was geared to a standard rate tax. At the time of enactment, standard rate tax of 35% was paid on most married women’s earnings. The percentage was reduced to 70% in July 1984.

There are a number of arguments in favour and against a withdrawal rate of payment applying to all recipients of a non-taxable maternity benefit.

In its favour, it can be said that the arrangement is convenient both for the recipient and the Revenue Commissioners compared to an alternative arrangement where the recipient would have to submit tax returns at the end of the financial year such as with unemployment and disability benefit. The introduction of such an arrangement would represent a transfer from the Social Insurance Fund to general taxation revenue (i.e. an ongoing increase in fund spending which would be recovered in general government revenue). Furthermore, the benefit recipient would gain an increase in payment immediately and this would not be recouped by the Exchequer through the Revenue Commissioners until possibly a year later.

<sup>18</sup> With the abolition of the self-employed ceiling, this approach would not be practical for self-employed.

However, the current arrangements that provide for the same withdrawal rate for everyone may mean that, at a time when tax rates have come down considerably at the aggregate level, the rate of withdrawal at the individual level might be too high. In effect the 30% rate may be higher than the average tax rate which would have been paid if the amount had been assessed on an individual basis. Furthermore, the rate may systematically mean that lower income earners face a higher tax rate than they would if assessed individually and that the same withdrawal rate for everyone has significant distributional implications.

There are at least two key issues to be considered therefore. The first is whether or not the aggregate 30% withdrawal rate overstates what should be the aggregate effective rate of taxation if the benefit was paid in full and taxable in the hands of the individual. The second issue is whether or not, the common withdrawal rate for all has significant distributional effects. The data below investigates the first of these issues. There was not sufficient data available to investigate the second of these issues.

## F.5 Trends in effective tax rates

The appropriate rate for discussion is the effective or average tax rate. A number of factors determine effective tax rates which include the following: -

- The level of gross earnings
- The extent to which earnings are exempt from taxation (such as through the operation of exemption limits or pension deductions)
- The nominal standard and top rates of taxation
- The tax credits which are available and their level
- The unit of assessment to which a person belongs
- Whether or not social insurance would have been liable on taxable earnings
- For a self-employed person, the level of deduction which can be made to arrive at net income

It is clear that the level of personal taxation has fallen considerably in recent years. This is reflected in Table F.5 which shows effective tax rates by income band in 2002 and the fall since 1997 by household types for full-rate PRSI groups and self-employed. It shows that the effects of reductions in the top rate of tax and other changes including individualisation of the tax system on effective tax rates. It shows that only single earners over €60,000 per annum have effective tax rates in excess of 30%. Most categories of taxpayers have fallen considerably below this rate. Furthermore, it is those on lower income whose effective tax rates are farthest below the 30% withdrawal rates. There is however a number of ways the 30% withdrawal rate might be reviewed and some of these are considered in the next section.

Table F.5: Effective tax rate in 2002 (full rate PRSI and self-employed) for single, & married earners with children, together with changes in effective tax rate since 1997

FULL RATE	SINGLE	SINGLE	M1E+2C	M1E+2C	M2E+2C	M2E+2C
€	2002	Change 2002 over 1997	2002	Change 2002 over 1997	2002	change2002 over 1997
6,000	0.0%	-6.2%	0.0%	-5.3%	0.0%	0.0%
12,000	1.8%	-16.5%	0.0%	-4.8%	0.0%	-2.9%
20,000	13.8%	-14.7%	4.7%	-16.0%	0.0%	-15.9%
25,000	16.2%	-17.5%	7.1%	-16.0%	2.6%	-16.2%
30,000	19.3%	-17.8%	10.2%	-14.4%	7.7%	-15.3%
40,000	26.4%	-14.2%	15.7%	-13.5%	13.8%	-14.7%
60,000	32.4%	-11.5%	25.3%	-11.0%	19.3%	-17.8%
SELF-EMP	SINGLE	SINGLE	M1E+2C	M1E+2C	M2E+2C	M2E+2C
€	2002	Change 2002 over 1997	2002	Change 2002 over 1997	2002	change2002 over 1997
6,000	4.2%	-6.5%	4.2%	-0.3%	8.4%	-0.7%
12,000	10.3%	-12.1%	3.0%	-3.8%	4.2%	-2.7%
20,000	17.4%	-14.9%	6.0%	-17.4%	7.8%	-13.0%
25,000	18.9%	-17.9%	9.8%	-15.6%	10.8%	-12.0%
30,000	21.4%	-18.4%	12.3%	-14.3%	12.9%	-13.6%
40,000	27.8%	-14.6%	17.1%	-14.0%	17.4%	-14.9%
60,000	34.2%	-10.8%	27.1%	-10.4%	21.4%	-18.4%

\* Average Tax Rates: Total of Income Tax, Levies and PRSI as a proportion of gross income. This measure includes only the standard PAYE and personal income tax allowances. It does not include the impact of any other allowances or reliefs.

\*\* The Married Two-Income figures assume that both spouses are earning equal amounts.

Source: Budget tables 2002

## F.6 Possible Options and Analysis

The Working Group considered three options in dealing with the issue of the withdrawal rate. These were:

**Option A:** Maintaining the current situation of setting the payment at 70% of the maximum rate (with the exception of the minimum payment),

**Option B:** Maintaining the current situation of setting the payment at a percentage of the maximum rate, but increasing it to 80%

**Option C:** Making the payment in respect of 100% of the earnings (subject to the maximum) and making the benefit taxable. The corresponding cost would then be gross with the prospect of an increase in tax revenue which would be recouped by the exchequer.

The Working Group combined the illustrations for the ceiling with the withdrawal rate options A and B above. The results are summarised in the table below of possible options for re-structuring of reckonable weekly earnings ceiling and payment rates of Maternity Benefit.

Table F.6: Cost of Various Reckonable Weekly Earnings Ceiling and Rate of Payment Changes and % of Recipients with increased Payment

	<b>70% Cost €</b>	<b>% with Increase</b>	<b>80% Cost €</b>	<b>% with Increase</b>	<b>100% Cost €</b>	<b>% with Increase</b>
Current Ceiling Weekly Income Ceiling of €332	0	0	12.7m	80.3	39.5m	86.1
No Weekly Income Ceiling	55.1m	54.0	76.7m	80.3	118.2m	86.1
Average Industrial Earns June 2003 Weekly Income Ceiling of €540	29.3m	54.0	46.2m	80.3	81.3m	86.1
PRSI Weekly Ceiling Weekly Income Ceiling of €810.76 per week	44.2m	54.0	63.2m	80.3	102.6m	86.1
Ceiling set at the max payment in 1991 adjusted for increase in GAIE - Weekly income Ceiling €502.82	25.7m	54.0	42.2m	80.3	76.3m	86.1

Table F.7: % of Recipients on Minimum and Maximum Payments after Possible Changes in Reckonable Weekly Earnings Ceiling and Rates of Payment

	<b>70%</b>		<b>80%</b>		<b>100%</b>	
Current Ceiling Weekly Income Ceiling of €332	54.2	24.6	54.2	19.7	54.2	13.9
No Weekly Income Ceiling	0	24.6	0	19.7	0	13.9
Average Industrial Earns June 2003 Weekly Income Ceiling of €540	23.8	24.6	23.8	19.7	23.8	13.9
PRSI Weekly Ceiling Weekly Income Ceiling of €810.76 per week	8.3	24.6	8.3	19.7	8.3	13.9
Ceiling set at the max payment in 1991 adjusted for increase in GAIE - Weekly income Ceiling 502.82	28.2	24.6	28.2	19.7	28.2	13.9

Note: The above figures are based on a sample of Live Maternity Benefit cases.

- Currently, 54.2% of recipients are paid at the maximum rate of €232.40. Retaining the current ceiling but increasing the payment rate to 80% and 100% would cost €12.9m and €39.9m respectively. Under these options 54.2% of recipients would continue to be paid the maximum payment.
- Abolishing the ceiling while retaining the current withdrawal rate would cost €55.7m. Increasing the payment rate to 80% and 100% would cost €76.5 and €119.4m respectively.
- Increasing the Reckonable Weekly Earnings Ceiling to the Average Industrial Earnings figure at June 2003, €540.00, at the payment rates of 70%, 80% and 100% would cost €29.6m, €46.7m and €82.1m. This would put 24.6% of all recipients on the maximum payment.



- To increase the Maternity Ceiling in line with GAIE raising the ceiling to €502.82 would cost as follows 70% g26.0m, 80% g42.6m, 100% g77.0m.
- If the PRSI weekly ceiling was applied as the earning ceiling, costs of g44.6m, g63.9m and €103.6m would arise at the respective percentage payment rates. Only 8.3% of recipients would then be at the maximum rate of payment.
- In order to pay for an increase of g50m the Employer rate of PRSI would have to be raised by .0152%. If an increase of €50m were to be funded on the employee side this would necessitate and increase of 0.212% in the Employee PRSI rate.

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