JOINT OIREACHTAS COMMITTEE ON EDUCATION AND SOCIAL PROTECTION

Wednesday 3rd October 2012

INTRODUCTION

Chairman, members of the committee,

Thank you for the invitation to meet with you this morning to discuss

(a) the social insurance entitlements of the Self-employed

(b) measures to integrate people with disabilities into the workplace.

You will have received copies of this speaking note. My name is Teresa Leonard and I'm the Assistant Secretary with responsibility for illness and disability policy in the Department of Social Protection. My colleagues Liam Walsh, Principal, and Eoin O Seaghdha Assistant Principals disability policy and Mary Kennedy Principal, and Aideen Mooney, Assistant Principal for PRSI Policy are here to assist me in answering any questions you may wish to raise.

(a) Measures to integrate people with disabilities into the workplace.

At the outset, I wish to stress the Department's continued commitment to providing a wide-ranging system of supports - both in the area of basic income support and of particular relevance here to today, in the area work-related supports – for people with disabilities.

TRANSFORMATION OF DSP

The context in which we seek to carry out our work in this area has been shaped by the wider transformation of the Department arising from the merger between the old Department of Social Protection and significant elements of FAS which took place at the start of this year.

Prior to the merger, the key role of the Department related to the structure of the various welfare payments available to people with disabilities – notably the Disability Allowance scheme, Invalidity Pension, and Illness Benefit together with schemes such as the Back-to-Education Allowance which the Department operated directly. Earlier this year, the range of income support measures was extended following the introduction of the Partial Capacity Benefit scheme - and I'll say a few words about that in a moment.

Our remit has been significantly widened however with the transfer of elements of the FAS services into the Department. These include the range of Disability Support and Awareness measures, the Wage Subsidy Scheme and the Employability programme. I should mention that responsibility for training, per se, remains with the Department of Education and Skills.

Each of the measures for which the Department has responsibility has an important role to play in supporting increased participation in the labour force by people with disabilities. Clearly, the challenge to improve the level of that participation is all the greater when set in the context of the wider economic difficulties which we face at present. But the merger of the two organisations does at least present us with the opportunity to develop a more cohesive and coherent approach to meeting that challenge.

PARTIAL CAPACITY BENEFIT

Put simply, the challenge we face is to further enhance the shift in focus from disability to ability. The introduction of the Partial Capacity scheme in February of this year marked a significant milestone in that process. This scheme recognises that the welfare system, which categorised people as 'fit to work' or 'unfit to work', did not reflect the reality for many existing welfare customers. It provides an opportunity for people with disabilities, and assessed to have an employment capacity which is restricted when compared to the norm, to avail of employment opportunities while continuing to receive a long-term income support payment. The scheme is still in its infancy as yet and it will take time for it to develop – but we believe that it is already starting to serve its purpose in enabling hundreds of people to enjoy the benefits – from both an income and an inclusion perspective – of being engaged in the world of work. Since the scheme was introduced in February last just under 700 claims have been awarded.

DISABILITY ACTIVATION PROJECT

I should mention here too another important measure – the Disability Activation project - which we are undertaking with the support of the European Social Fund. In a process which is being managed for the Department by POBAL, we have invited bids for projects which will test models of activation which can improve access to employment for people with disabilities; for young people with disabilities; for people with acquired disabilities; as well as projects which demonstrate better engagement with employers. The intention is that these projects will be announced by the Minister for Social Protection later this month. The projects will continue until early 2015 across the Border Midland West region. We are hopeful and, indeed, optimistic that they will provide a valuable input into the development of more effective pathways to employment for people with disabilities in the years ahead.

ADDITIONAL PROGRAMMES OPERATED BY DSP

A number of programmes which were formerly operated by FÁS are now operated by the Department of Social Protection. These include:

1. EmployAbility Service (formerly Supported Employment Programme).
2. The Wage Subsidy Scheme
3. The Disability Support/Awareness Grants and Schemes
4. Community Employment

1. EmployAbility Service (Formerly Supported Employment Programme)

The three main aims of the Employ*Ability* Services are:

1. To facilitate the integration of people with disabilities into paid employment in the open labour market;
2. To provide supports to assist with this integration process; and
3. To meet the requirements of employers.

Eligibility criteria: People with a disability who are job ready and need the support of a job coach to obtain employment in the open labour market. The service is open to people between the ages of 18 and 65 years. In 2011, just under 3,000 people with disabilities were supported through this scheme.

2. Wage Subsidy Scheme (WSS)

The purpose of this demand - led programme is to increase the numbers of people with disabilities participating in the open labour market. A disabled employee on the WSS is subject to the same conditions of employment as other employees. The employer must pay the disabled employee the going rate for the job (at least Minimum Wage).

The Wage Subsidy Scheme was placed on a permanent footing from Oct 1st 2008, subject to the annual budgetary process, following the operation of a three year pilot phase.

It is a demand led programme and the capacity is budget determined. The uptake on of the WSS has been incrementally slow since inception. It has taken a number of years to build it to this level of participation. Included in this budget is its predecessor programme – the Employment Support Scheme (ESS) which was frozen to new applicants in September 2005 which was a less sophisticated system. In 2011, Wage Subsidy was paid in respect of 916 people.

3. Disability Support/Awareness

A number of different employment supports for people with disabilities are provided for under this heading.

1. Work Equipment Adaptation Grant
2. Job Interview\Personal Reader Grant
3. Employee Retention Grant Scheme.
4. Disability Awareness Support Scheme
5. Discretionary Fund for Innovative Projects

The purpose of these grants is to:

- Support unemployed people with disabilities to gain access to the open labour market by providing grants for "reasonable accommodations" in the private sector only.
- Support private employers and encourage them in the employment of people with disabilities
- Funding innovative disability projects within DSP Procurement guidelines.

(b) Social Insurance

Social insurance (PRSI) contributions broadly fall into 2 categories. Employers and employees (over 16 years) pay PRSI towards establishing entitlement of employees to a broad range of both short and long term social insurance benefits. A lower rate of PRSI is paid by the self-employed into the Social Insurance Fund (SIF), which provides them with access to long term social insurance benefits.

Self-employed persons are liable for PRSI at the Class S rate of 4% which entitles them to access long-term benefits such as State pension (contributory) and widow's, widower's or surviving civil partner's pension (contributory). Maternity Benefit is also available to the self-employed contributors. Ordinary employees who have access to short-term and long-term social insurance benefits pay Class A PRSI at the rate of 4%. In addition, their employers make a PRSI contribution of 10.75% in respect of their employees, resulting in the payment of a combined 14.75% rate per employee under full-rate PRSI Class A. (For employees earning less than €356 per week, the rate of employer's PRSI is 4.25%).

Self-employed workers may establish eligibility to assistance-based payments such as jobseeker's allowance. They can apply for the means-tested jobseeker's allowance if their business ceases or if they are on low income as a result of a downturn in demand for their services. In general, their means will take account of the level of earnings in the last twelve months in determining their expected income for the following year and, in the current climate, account is taken of the downward trend in the economy. As in the case of a non-self-employed unemployed claimant of jobseeker's allowance, the means of husband/wife, civil partner or co-habitant will be taken into account in deciding on entitlement to a payment.

ACTUARIAL REVIEW OF THE SOCIAL INSURANCE FUND 2010

The third Actuarial Review of the Social Insurance Fund, as at 31 December 2010, was completed by consultants KPMG in June 2012 and was presented to Government on 24 July 2012 and published on 17 September 2012.

The Review covers a 55 year period from 2011–2066 and builds on the findings of the 2000 and 2005 Actuarial Reviews of the Fund.

The scope of the 2010 Review was to update the results of the 2005 Review, taking account of the policy, economic and demographic changes with particular reference to income and expenditure projections as well as break-even contribution rates. The Review also considered the effects of the various policy options, existing Government commitments and planned reforms.

The Review also examined a range of value for money measures to examine the extent to which individuals currently receive value for money from the Fund. In relation to the self-employed, the report states that "the self-employed achieve better value for money compared to the employed – when the comparison includes both employer and employee contributions in respect of the employed person."

In relation to possible future entitlements for the self-employed, the Review examined the break-even contributions rates required, and the potential long-term cost implications to the Fund, of providing invalidity pensions to the self-employed and to provide jobseekers benefit for self-employed workers.

Break Even Contribution Rates Required to Provide Jobseeker's Benefit and Invalidity Pensions

The 2010 Review also looked at the break-even contribution rates required to provide invalidity pensions and jobseekers benefit for self-employed workers. The report found that the effective annual rate of contribution, or the required contribution as a percentage of salary, needed to provide the core full-rate State pension (contributory) is approximately 15%. This compares favourably with the 4% rate currently paid by the self-employed. An incremental increase in contribution rates from approximately 15% to 16% would be required if jobseekers benefit in addition to core State pension (contributory) is provided. The average contribution rate required for the core State pension (contributory) plus the invalidity pension is estimated to be in the region of 17%.

Cost of Providing Jobseekers Benefit and Invalidity Pensions to the Self Employed

KPMG modelled the costs associated with the introduction of these benefits by increasing the incidence by 12% in their models reflecting the increase in potential beneficiaries. This uplift is based on the distribution of PRSI contributors at 31 December 2010. The implicit assumption in this calculation is that the proportion of self-employed accessing these benefits is the same as the existing population with entitlement to access these benefits. For illustrative purposes KPMG costed the extension of these benefits by assuming the extended scheme reaches full "maturity" in terms of the numbers of additional beneficiaries with immediate effect.

In the absence of statistics pertaining specifically to the self-employed, KPMG assumed the incidence rates to be the same as for the overall labour force. This may or may not be appropriate depending on whether or not the self-employed may be expected to behave atypically. KPMG therefore, indicated sensitivities to the incidence rates chosen setting out the range of costs involved where the self-employed numbers accessing jobseekers benefit and invalidity pension are 20% higher or 20% lower than the base-case scenario.

Assuming the incidence rates are the same as for the overall population, KPMG found that the cost of extending jobseekers benefit to the self-employed in 2013 would be €87m. If the incidence rate is 20% lower than the norm the estimated cost would be €73m in 2013 and if the incidence rate is 20% higher than the norm the cost in 2013 would be €105m.

In the case of invalidity pension KPMG's analysis predicted a 2013 cost of €78m where the incidence rate is the same as for the overall population. Where the incidence rate is 20% lower the cost is estimated at €65m and where the incidence rate is 20% higher than the norm the cost would be €94m.

The accumulated cost over the full period up to 2066 of extending jobseeker's benefit and invalidity pension to the self-employed is €2,320m and €4,074m respectively, expressed in current terms.

While, as stated by the consultants, the long-term projections, by their very nature, are unlikely to be borne out in practice, the report emphasises the trends which emerge over the period.

ADVISORY GROUP ON TAX AND SOCIAL WELFARE

Last year the Minister for Social Protection established an Advisory Group on Tax and Social Welfare. Under its terms of reference the Group examines and makes recommendations on a number of key issues, including child and family income supports, working age income supports, the appropriate unit of assessment and interactions in both the tax and social welfare codes, issues concerning social insurance for self-employed people and the Budget 2012 proposals concerning disability allowance and domiciliary care.

The Advisory Group's overall method of working is based on producing modular reports on the priority areas identified in the Terms of Reference. Where possible, the aim is to provide recommendations that can be acted upon in time for the annual budget, estimates and legislative cycle and to allow the Government to best address its commitments under the EU-IMF Programme of Financial Support. The Group has been considering the issue of social insurance coverage for the self-employed and will submit its report once its examination of the various questions has been completed