Social insurance and the self-employed

1 Who pays self-employed Pay Related Social Insurance (PRSI)?

All self-employed people aged 16 or over, and under pensionable age (currently 66) with reckonable income or emoluments of €5,000 or more per year, are liable for compulsory social insurance at Class S.

This includes:

- professional people (for example, doctors, dentists, solicitors, etc.)
- sole traders, people in business on their own or in partnership, farmers, religious, contractors, sub-contractors
- people with income from investments, rents or maintenance payments
- employees who are also self-employed in a trade or profession
- company directors, and others, who pay their tax through the PAYE system but who are not regarded as employees for social insurance purposes
- certain artists and childminders who have been made exempt from income tax by the Revenue Commissioners

2 Who is excluded from paying self-employed PRSI?

Certain categories of people are excluded from paying Class S PRSI.

The following are some examples:

- relatives of the self-employed who help out in the running of the business, but who are not business partners
- people with reckonable annual income of less than €5,000
- people who pay contributions at Class A and whose only self-employed income is unearned income such as interest or rent
- people in receipt of an occupational pension whose only self-employed income is unearned income such as interest or rent
- people in receipt of pre-retirement allowance on an ongoing basis
- people not ordinarily resident in the State with unearned income

3 How much do the self-employed contribute compared to employees?

Self-employed workers are liable for PRSI at the Class S rate of 4%.

Employees who are liable for PRSI at Class A rate pay 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%)

Make-up of Social Insurance Fund (SIF) income Employed v Self-Employed

	2010 Outturn	**2011 Outturn**
	€000	**€000**
SIF income from contributions made up of:		
Contributions from employed	6,377,415	7,192,180
Contributions from self-employed	330,603	348,342
Total SIF income from contributions	**6,708,018**	**7,540,522**
Contributions from self-employed as % of total contributions	4.9%	4.6%

Note: Contributions from self-employed Directors are estimated at 1.97% of Schedule E contributions following apportionment exercise completed in Aug 2009, in respect of 2007 receipts data.

4 Why do self-employed people pay a lower rate of PRSI?

All workers, both employed and self-employed, are obliged to pay PRSI contributions as a percentage of their personal reckonable income. These contributions provide entitlement to a range of contingency-based payments under various social insurance schemes, including pensions.

The range of benefits and pensions to which different groups of workers may establish entitlement reflects the risks associated with the nature of their work.

This in turn reflects the rate of contribution payable. Self-employed persons are liable for PRSI at the Class S rate of 4% and are consequently eligible for a narrower range of benefits than general employees who, together with their employers, pay a total social insurance contribution of 14.75%, under the full-rate PRSI Class A.

Self-employed workers are not insured against short-term benefits such as illness and jobseeker's payments – these are only available to persons covered by PRSI Classes A, E, H and P. This reflects the need for coverage for various contingencies, the rate of contributions that self-employed persons pay, the practicalities of administering and controlling access to short-term payments and the annualised system of contributions that these same persons enjoy. A system of separate arrangements for employed and self-employed workers within a social insurance context is common in other European social protection systems.

5 What benefits do self-employed contributors get in return, and how do these compare to employed contributors' benefits?

PRSI Class S provides cover for:

- Widow's, widower's or surviving civil partner's (contributory) pension
- Guardian's payment (contributory)
- State pension (contributory)
- Maternity benefit
- Adoptive benefit
- Bereavement grant

PRSI Class A provides cover for:

- Jobseeker's benefit
- Illness benefit
- Health and safety benefit
- Maternity benefit
- Adoptive benefit
- Invalidity pension
- Widow's, widower's or surviving civil partner's (contributory) pension

- Guardian's payment (contributory)
- State pension (transition)
- State pension (contributory)
- Bereavement grant
- Treatment benefit
- Occupational injuries benefit
- Carer's benefit

6 What "return on investment" do self-employed contributors get out of PRSI?

The 2005 Actuarial Review of the Social Insurance Fund found that paying social insurance represents very good value for money in almost all circumstances. In particular, the Fund favours the self-employed over the employed when both employer and employee contributions are included in respect of the employed person. This analysis demonstrates that, despite the fact that they are eligible for a narrower range of benefits, self-employed persons gain relatively more from the Social Insurance Fund than employees.

The state pension (contributory), in particular, is a very valuable benefit. The current maximum rate of state pension (contributory) is €230.30 per week or almost €12,000 per year; this does not include the value of (means-tested) increases for qualified adults, or other additional benefits which recipients might also receive.

The market cost of an inflation-linked annuity with €12,000 a year in initial benefits is in excess of €300,000. This value is without any associated survivors' benefits, which are available with the state pension. It should be noted that the state pension (contributory) increased in excess of inflation and earnings growth in the period up to 2010 while annuities offer CPI-linked increases at best.

It may be noted that, in 2008, 90% of self-employed contributors had incomes of less than €50,000 – meaning that in building entitlement to a state pension each of these contributors will have paid less than €1,500 per annum in contributions – in most cases substantially less.

7 Can self-employed people qualify for jobseeker’s benefit?

Self-employed people pay PRSI at Class S, which does not provide cover for jobseeker’s benefit. However, if they worked as an employee in the last four years, they may have paid enough PRSI at Class A, H or P to qualify for jobseeker’s benefit and they should apply to their Social Welfare Local Office for this payment.

They may be entitled to jobseeker’s benefit in respect of days of unemployment, provided they satisfy the scheme conditions. Their level of commitment to the business for the days they are not working is taken into consideration. For example, if they had to spend a day doing accounts or buying materials this would be considered a day of employment.

8 How much would self-employed workers have to contribute to get similar benefits to employed workers?

Self-employed contributions are charged at the rate of 4% of reckonable income over €5,000 or €500 per annum whichever is the greater. Class A employees who qualify for all benefits pay 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%).

Any changes to the PRSI system to extend the full range of social insurance benefits, including jobseeker’s benefit, to self-employed persons would have significant financial implications and would have to be considered in the context of a much more significant rise in the rate of contribution payable.

Part of the scope of the Actuarial Review of the Social Insurance Fund as at 31 December 2010 was to project the long-term cost implications to the Social Insurance Fund and the break-even contribution rates (employer, employee and self-employed) required to provide invalidity pensions for self-employed workers and to provide jobseeker’s benefit payments for self-employed workers. In addition the Advisory Group on Tax and Social Welfare has commenced its examination of the issues involved in providing social insurance cover for self-employed persons in order to establish whether or not such cover is technically feasible and financially sustainable.

A detailed examination of the findings of the Actuarial Review of the Social Insurance Fund and the Report of the Advisory Group on Tax and Social Welfare will assist in determining the rate of contribution that would be required if it is decided that it is feasible to extend cover for short term benefits to the self-employed.

9 What other supports are available for the self-employed?

As well as the benefits mentioned at 4 above, self-employed people who are unemployed or who have an illness or disability may be entitled to a means-tested payment such as jobseeker's allowance, farm assist, disability allowance or supplementary welfare allowance.

Where a self-employed person meets the appropriate qualifying conditions and satisfies the relevant means test, they are entitled to these payments in the same way as people who have only ever been employees.

Self-employed people who are no longer earning sufficient income for their work may continue to work and qualify for jobseeker's allowance, provided they satisfy the means test and other qualifying conditions.

Anybody, self-employed or otherwise, who has urgent income support needs can apply for the means-tested supplementary welfare allowance. Over 95% of applications for this allowance are decided on, and paid, within a week.

10 How is the means test for jobseeker's allowance applied to self-employed people?

A self-employed person can apply for jobseeker's allowance if they have become unemployed as a result of their business closing down or if the amount of work they are getting has reduced so much that it no longer provides them with sufficient income. Staff in the Department have also been made aware that a self-employed customer should never be advised to de-register as self employed, as this would negatively impact on their chances of getting future self-employment.

In most such cases, a Social Welfare inspector will interview them to determine their means.

Legislation provides that a person's income in the coming 12 months is the basis of their means. However, while the income from the previous 12 months is used to estimate the person's likely future income, it is not simply assumed that the same level of income will be generated in the succeeding year, and account is taken of the potential for significant downward or upward variations in income.

Social Welfare Inspectors have been advised that they should apply their knowledge of local economic conditions to arrive at a fair assessment of a person's income from self-employment in the coming 12 months, and the Department has compiled a handbook of typical questions that inspectors might find useful during the interview stage of certain investigations. These are intended to help an inspector arrive at an informed opinion of the actual trading position and the level of income of the business or enterprise.

If a self-employed person has ceased their self-employment, and has no reasonable prospect of deriving any income from this source in the coming 12 months, they should not be assessed with means from self-employment.

Assessment of means_derived from self-employment for jobseeker's allowance purposes

- A customer's means from self employment are taken to be the estimated net income that they will earn from the business or enterprise, including farming, in the following 12 months.
- Estimated annual net income is then divided by 52, added to any assessment of weekly means from other source/s (where applicable), and the total weekly means assessment is deducted from the relevant maximum weekly rate of payment appropriate to the family size.
- Estimated annual net income is comprised of gross income less all legitimate (and where applicable, vouched) business expenses. There is no exhaustive list of expenses which may be taken into account but each must be seen to be exclusively related to the business enterprise. Where a specified expense includes

both business and private use, e.g. transport or utility costs, the Social Welfare Inspector will apportion an appropriate percentage of the expense to the business and deduct this amount from gross estimated income.

- Where there are no known or expected changes in circumstances, the net income received in the previous 12 months is generally used as an indication of the level of business and estimated net profit for the following 12 months.
- If the income and expenditure accounts for the previous 12 months demonstrate an incremental and sustained downturn over a period of time, the projected net income for the succeeding 12 months takes account of the diminishing trade. Accordingly the estimated net income, and the consequent means assessment, is reduced on a proportionate basis. (Similarly, account is taken of any expected increase in business, although in such circumstances an early review of the means assessment would be likely).
- Where it is established that the business has ceased trading, no means are assessed on an ongoing basis from that business.
- Where a self employed person's situation changes after they have made an initial claim for jobseeker's allowance, they can apply to have their means reviewed. In addition, it is open to the individual, if he or she is dissatisfied with the means assessed, to make an appeal to the Social Welfare Appeals Office.

11 What are voluntary contributions and what rate of voluntary contributions can self-employed people pay?

Voluntary contributions are Pay Related Social Insurance (PRSI) contributions you can opt to pay if you are between the age of 16 and 66 and are no longer covered by compulsory PRSI by way of insurable employment, self-employment or credited contributions.

Payment of voluntary contributions can help maintain or improve your contributory pension entitlements.

In order to be admitted as a voluntary contributor you must:

- have at least 260 weeks* PRSI paid under compulsory PRSI in either employment or self-employment,

- apply within 12 months after the end of the contribution year during which you last paid compulsory PRSI or had a credited contribution ('credit'), and
- agree to pay voluntary contributions from the start of the contribution week after the week in which you last paid compulsory PRSI or had a credited contribution.

*If you are applying to become a voluntary contributor:

- on or after 6 April 2013, you will need 364 weeks PRSI paid,
- on or after 6 April 2014, you will need 468 weeks PRSI paid or
- on or after 6 April 2015, you will need 520 weeks PRSI paid.

The rate of voluntary contributions payable is always determined by the last rate of PRSI contribution paid by a person. There are three different rates of voluntary contributions.

- **High Rate**: This rate is payable if the last PRSI contribution paid was at Class A, E or H. The amount payable in each contribution year is currently 6.6% of reckonable income in the preceding contribution year. The minimum annual payment is €500.00.
- **Low Rate**: This rate is payable if the last PRSI contribution paid was at Class B, C or D. The amount payable in each contribution year is currently 2.6% of reckonable income in the preceding contribution year. The minimum annual payment is €250.00.
- **Special Rate**: This rate is payable if the last PRSI contribution paid was **Class S – self-employed**. The amount payable is currently **€500.00 per year**.

12 What cover will voluntary contributions provide?

Voluntary contributions provide cover for long-term benefits only, such as contributory pensions.

High rate voluntary contributions provide cover for:

- State pension (transition)
- State pension (contributory)
- Widow’s, widower’s or surviving civil partner’s (contributory) pension
- Guardian’s payment (contributory)
- Bereavement grant

Low rate voluntary contributions provide cover for:

- Widow’s, widower’s or surviving civil partner’s (contributory) pension
- Guardian’s payment (contributory)

- Bereavement grant

Special rate voluntary contributions (those paid be people who were previously self-employed and paying Class S PRSI) provide cover for:

- State pension (contributory)
- Widow's, widower's or surviving civil partner's (contributory) pension
- Guardian's payment (contributory)
- Bereavement grant

13 What is the purpose of the Social Insurance Fund Actuarial Review and what will it tell us?

The Social Welfare (Consolidation) Act, 2005 makes provision for the carrying out of actuarial reviews of the Fund, as follows:

"10 - (1) The Minister shall cause –

(a) actuarial reviews to be made to the financial condition of the Social Insurance Fund by such persons as the Minister may decide for the purpose of determining the extent to which the Fund may be expected, in the longer term, to meet the demands in respect of payment of benefits and other payments, having regard, in particular, to the adequacy or otherwise of the contributions to support benefits and other payments and such other matters as the Minister considers to be relevant as affecting the current and future financial condition of the fund,

The review informs both short- to medium-term and long-term policy development in relation to the Social Insurance Fund generally.

The review will provide information in relation to:

- the short-fall in the Social Insurance Fund
- the level of Exchequer subvention required to maintain current payment levels
- the value for money provided for the various contributors to the fund
- projections reflecting various policy options

Part of the scope of the Actuarial Review of the Social Insurance Fund as at 31 December 2010 was to project the long-term cost implications to the Social Insurance Fund and the break-even contribution rates required to provide invalidity pensions for self-employed workers and to provide jobseeker's benefit payments for self-employed workers. This Report has just been published and is available on www.welfare.ie.