



**An Roinn Coimirce Sóisialaí
Department of Social Protection**

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**Speech by Minister for Social Protection, Joan Burton T.D. to
Chartered Accountants Ireland Cork Society**

Friday 25th November,

Balancing the Social Protection Books: an Accountant's View

Chairman, Ladies and Gentlemen,

Thank you for inviting me here today to address the Chartered Accountants Cork Society.

I would particularly like to thank your society chairman, Anthony Reidy, for hosting this breakfast.

As many of you know, I too am a chartered accountant. In fact, chairman, I trained with PriceWaterhouseCoopers where you are now a partner.

I grew up in a working class family in Stoneybatter in Dublin. I was one of the first people in my area to go to university.

But I wouldn't have been able to make it to university without the help of a scholarship as my parents couldn't have afforded the fees.

I initially wanted to study English.

And I probably would have if it hadn't been for a certain Mr Keogh.

Mr Keogh was a well-known porter in University College, Dublin at the time.

He advised me to study Commerce as he reckoned it would make it easier for me to get a job eventually.

He took the view that a working class girl like me would need to earn her crust at the earliest possible opportunity.

It was partly as a result of his intervention that I started down the road that ultimately led to my becoming a chartered accountant.

I tell this story because it reminds me of two things: the importance of getting a helping hand to overcome financial hurdles – in my case a scholarship - and the importance of balancing your books whether at personal, corporate or state level.

When I came in to the Department of Social Protection, the accountant in me was astonished at the scale of the growth in the social protection budget over the last ten years.



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In 2001 spending on social protection stood at €7.84 billion; by last year this had grown to almost €21 billion – an increase of 266%. Inflation increased by around 30% during the same period.

So while some of the expenditure increase is clearly due to the dramatic rise in unemployment since 2007, the most significant factor is a surge in both rates and the number and size of schemes over a very long period of Fianna Fail government.

Frankly, the increases in social protection payments were often cynically timed to help Fianna Fail win elections. They were funded by tax revenues from the unsustainable property bubble.

As a result, we have inherited a level of social expenditure that is completely out of sync with the funding base of the state. It is clear that we need to put it on a more sustainable footing.

I don't need to remind such a well-informed audience that the gap between what we as a government spend and what we raise in taxes is huge and that the hole is currently being plugged with money borrowed from our partners in the Troika.

Simply stated, citizens will contribute €42 billion in taxes and PRSI this year, while expenditure on public services and salaries will be €60 billion.

The Department of Social Protection alone will spend €21 billion.

The government has signalled in its medium term fiscal strategy that we have to achieve savings of €3.8 billion, of which expenditure reductions must amount to €2.2 billion.

The Department of Social Protection's share of those savings is about €700 million.

One of my key goals is to reform the system of social protection to put it on a sounder financial footing for the future.

One of the matters I am most concerned about is the deficit in the Social Insurance Fund which is expected to amount to €1.9 billion this year. This is the fund out of which benefits are paid to those who have made PRSI contributions.

I can plug this hole either by increasing rates of PRSI, reducing the promised benefits or reforming the system.

I am reluctant to increase PRSI rates, despite the fact that they are low by international standards, as I recognise that businesses are struggling given our current economic difficulties.



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I also do not wish to dismantle the social insurance system which is designed to give people a hand-up when they hit a hard patch and is at the core of the social contract between citizens and the state.

Where possible, therefore, my preference is to reform the system rather than to raise PRSI rates or cut benefits.

One proposal is to reduce redundancy rebates to employers. Currently, the Social Insurance Fund, which is in deficit, refunds employers 60 per cent of the cost of making people redundant.

I do not see why this country should continue to borrow money to plug the hole in the Social Insurance Fund in order to fund the cost of making people redundant - often from very profitable companies.

Another measure I am considering is widening the net to make certain types of unearned income such as rent profits and dividends liable to PRSI. This was recommended by the Commission on Taxation in 2009, but it was not acted upon by the previous government.

I am also planning to put value for money issues at the very top of our agenda. I will achieve this in two ways.

Firstly, I will cut back on schemes which do not offer value for money.

The cabinet is currently burning the midnight oil in an effort to identify schemes which do not offer the taxpayer best value for money.

The Department of Public Expenditure and Reform has been going line by line through the details of every Department's expenditure to see where savings might be made.

One issue that is being closely examined is the question of entitlement to more than one primary social welfare payment.

Another is that we offer schemes which are outliers internationally. The research clearly shows that the best route out of poverty is work, education or training. But our system currently can encourage people to remain out of the workforce for very long periods.

For example, many countries encourage lone parents back to work, education or training when their child is well settled in primary school, whereas we currently pay until the child is 14. Of course, a reform of this kind requires childcare and after school services.

Secondly, I will use the substantial purchasing power of the Department of Social Protection to negotiate better value.



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I have already signalled my intention to seek a discount of eight per cent from the ESB. The Department of Social Protection in 2010 spent €151 million on behalf of its customers, but gets an annual discount of just €1.4 million.

I am also currently exploring ways in which the Department might obtain better value for money on the €542 million a year we spend on rent and mortgage interest supplement.

One of the key issues on my agenda will be encouraging people back to work; and where work is unavailable, to education or training.

I have established the National Employment and Entitlements Service. The idea is to integrate the provision of employment services and benefit payment to ensure that the payment of income supports to the unemployed is directly linked to the equally, if not more important, task of supporting them in finding work or other opportunities.

Jobseekers are expected to engage with this approach and failure to engage will lead to a reduction or cessation of benefit payments. Since the introduction of these arrangements in April there has been a total of 221 rate reductions for failure to engage with the service. As of 10th November, 107 were still on reduced rates.

One key initiative is JobBridge, the National Internship Scheme. JobBridge will provide 5,000 internship opportunities of 6 or 9 months in organisations in the private, public, community and voluntary sectors.

JobBridge participants retain their social welfare entitlements and receive a 'top-up' of €50 per week. About 2,712 people have begun an internship. I would recommend to those of you who might be interested in hosting an intern, or who know people seeking valuable work experience, to check out the JobBridge website.

I would like now to say a few words about pension reform. As you know, the Department of Social Protection is responsible for setting policy not just for the state pension, but also for private sector pensions. Like the Social Insurance Fund, many private sector pensions are in deficit.

My aim is to continue to encourage people to save for their retirements while minimising costs to the Exchequer.

The Programme for Government includes a commitment to capping taxpayers' subsidies for all future pension schemes that deliver income in retirement of more than €60,000.

This reform will have an impact on high earners whether in the public or the private sector. Another way of reducing the cost to the Exchequer would be to reduce the higher rate of tax relief on pension contributions.



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Personally, I favour capping taxpayer subsidies on pension pots that deliver an income in retirement of more than €60,000 rather than reducing higher end tax reliefs.

That is because I want to preserve the incentive for people on middle incomes to continue to save for their retirement. Of course, any decision on policy in this matter rests with my colleague Michael Noonan, Minister for Finance.

I have been impressed by the fact that many in the pensions industry have also lent their support to the idea of capping the size of the pension pot that attracts tax relief, rather than cutting the tax relief itself. That is because they want to encourage the majority of people on middle incomes to continue to contribute to their pension schemes.

Unfortunately, given the size of the pensions currently payable to senior public servants and others, the proposal to cap tax reliefs on pension pots which deliver more than €60,000 a year has the potential to generate large tax bills for well-paid people on the public payroll when they retire.

But I believe there are ways of getting around this problem. One way would be to phase in the introduction of the pension pot ceilings; another would be a simple change in the Finance Bill that would allow a recipient to commute a small amount of his/her pension entitlement rather than facing a big tax bill on retirement.

I am conscious that the reforms which are on the table may be painful for some in the short-term.

But we are constrained in what we can achieve by the fact that we are living on borrowed money, borrowed money which comes with many conditions attached.

I wish I could promise that restoring our economic sovereignty would be quick. I wish I could promise that restoring our economic sovereignty would be painless. But this much I can promise you: I will not allow this terrible crisis go to waste.

I want to use this crisis as an opportunity to reform the system of social protection. I want put the system on a sound financial footing and I want both the public and the private sectors to work together to help us out of our current difficulties.

As accountants, I know you will understand that balancing the books is fundamental to restoring the financial health of this state, restoring our economic sovereignty and laying the foundation stones to rebuild our proud nation once again.

SPEECH ENDS