



Staff Paper

An Assessment of the Financial Incentive to Work for Recipients of Illness and Disability Schemes

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This paper has been prepared by IGEES staff in the Department of Social Protection as An input into the Making Work Pay for People with Disabilities Inter-departmental Group. The views presented in this paper are those of the author alone and do not represent the official views of the Department of Social Protection or the Minister for Social Protection.

Summary

- The rules of the Disability Allowance means-test provide for a financial incentive to work but only to a point where their earnings approximate the €120 weekly threshold. Beyond €120 per week, the loss from the reduced rate of payment worth at least 50% of the gain in household income, representing a significant dis-incentive.
- The Disability Allowance disregard for rehabilitative employment carries over into the eligibility criteria for the Medical Card. Combined with reduced payments as earnings increase; the loss of the Medical Card at relatively low levels of income may impart a very strong set of disincentives.
- Where a Carers Allowance is being claimed on behalf of a Disability Allowance recipient, the move into employment results in loss of the Carers payment and Carers support grant and a net loss in overall household income. In the case of the Domiciliary Care Allowance, the transition to Disability Allowance results in a reallocation of resources within the household can distort incentives.
- The incentives analysis for Invalidity Pension and Illness Benefit show that in the single recipient case there is an adequate financial incentive to engage in employment. However, of the two schemes, Illness Benefit has the stronger financial incentives to work.
- The analysis also showed that for both schemes, once partner's earnings are including in cases of couples, the financial incentive to participate in employment is significantly weakened.
- There is a strong financial incentive for both Invalidity Pension and Illness Benefit recipients to move into Partial Capacity Benefit.
- It should also be noted that in spite of the unconditional nature of Partial Capacity Benefit, its uptake is low; this suggests that other important aspects of the benefit system may be more important for policy reform than financial incentives.
- Throughout the Case Studies one feature of the overall benefit system that affects disability related payments no less than other payments, is the role of qualified allowances for adults and children; they generate higher replacement rates, make the system highly complex, and affect the incomes and choices of recipients' partners as well as the recipients themselves.
- The research also showed the complexity and variation of the benefit arrangements across schemes. This complexity reflects the incremental way in which the benefits for PWD have built up over time. From the point of view of a potential recipient the level of complexity presents a significant challenge to navigating the system and identifying what is in his/her best interests.

Part 1: Introduction

This paper analyses the financial incentive faced by people with disabilities (PWD) on the Department of Social Protection's (D/SP) main disability and illness related schemes to take up employment or if employed to increase labour market participation. These include Disability Allowance (DA), Illness Benefit (IB), Invalidity Pension (IP) and Partial Capacity Benefit (PCB). The study has been prepared as an analytical input into the work of the Making Work Pay for People with Disabilities Interdepartmental Working Group Report.

The study maps out the variation in conditionality applied to the eligibility criteria across the D/SP's main illness and disability schemes. In particular, the analysis will draw upon the D/SP administrative data to construct several representative case studies concerning the main disability and illness schemes recipients. The analysis will then examine how the rules governing the treatment of income of the disability and illness schemes impact recipient's incomes and how that in turn affects the financial incentives they face as captured by the replacement rates and marginal tax-benefit withdrawal rates. The objective of the analysis is to assess how well aligned these rules are with respect to ensuring PWD's can financially benefit from participating in the labour market and avoid long term welfare dependency.

Part 2 outlines and compares the individual scheme rules and means tests of the range of supports and schemes available to people with a disability or illness. Part 3 analyses the profile and composition of recipients of each of the main schemes. Part 4 analyses the schemes in terms of incentives by using the results of the compositional analysis to develop a number of representative Case Studies. Part 5 summarises the results of the analysis and draws out a number of conclusions.

Part 2: Eligibility Rules and Means Tests

2.1 Disability Allowance

To qualify for DA, a recipient must pass a means test. To get the allowance your total assessed means must be below a certain amount. The main items that count as means are:

- Cash income that the recipient or his/her partner may have;
- Capital, for example, the value of savings, investments, shares, any property the recipient may have (other than the recipients home). However, the first €50,000 of any capital the recipient has is not taken into account;
- Any maintenance payments paid to the recipient.

Under the rules a DA recipient can engage in rehabilitative work (which includes self-employment) and retain €120 in net income (after deduction of PRSI, any pension contributions and union dues¹) without the payment being affected. Half of any earnings from employment between €120 and €350 are also disregarded from the means test. Any earnings over €350 are fully assessed in the means test.

Where the DA recipient has no dependants, the means are deducted from the maximum personal rate €188. The DA rate² is calculated on the basis of the difference between the means and the personal rate. The rate is derived by deducting €2.50 from the personal rate for every €2.50 the means are in excess of the personal rate up until €187.50, the maximum income threshold for retaining a personal rate of DA. The first €2.50 of assessed means does not affect the rate.

In the case of a single DA recipient with no dependants, if the recipient has no other means, the maximum income he/she can earn from employment is €422.50 and still keep an entitlement to the minimum personal DA payment of €3³.

Couple with Partner Earnings from Employment

In the case of a couple, the means test takes into account both the DA recipients and his/her partner's weekly earnings (from employment, including rehabilitative employment). Under the rules of the DA means test €20 per day (up to a maximum of €60) from work is deducted from the average weekly earnings of the spouse, civil partner or cohabitant's average weekly earnings and then 60% of the balance is assessed as weekly means. The weekly means is then deducted from the combined total of the primary recipient's

¹ Net income is defined as income from employment less PAYE, PRSI and USC. However, the means test for DA includes all income from employment less PRSI, superannuation and union dues. PAYE and USC are not factored into the means test.

² DA is not a taxable payment and is not subject to USC or PRSI

³ Note in respect of the DA means test the €422.50 is comprised of gross income net PRSI. PAYE and USC are not included. In net terms where PRSI, PAYE and USC are deducted this amounts to €376.76 for a DA applicant.

personal rate of DA and any qualified adult increases (QAI) and/or qualified child increases (QCI) if applicable. This formula does not apply to income from self-employment (all income from self-employment is assessed and there are no disregards).

Couple with Partner on welfare Jobseekers Allowance payment from Employment

Where a recipient is living with a partner who also has an income from a social welfare payment, the partner's payment is included as part of the household's means. For example, in the case of a couple with a child dependant where the recipient is on DA and engaged in some employment and the partner is receiving a Jobseekers Allowance (JA)⁴ payment and not in employment, both partners rate of payment are factored into the means test.

Indeed, as both schemes are means tested, the schemes' individual means tests are subject to a particular interaction dynamic known as the Moiety principle⁵. In regard to the DA recipient, means are assessed in the same way as in a single scenario with some exceptions. First, the €120 rehabilitative work disregard is applied as usual, then half of the balance between €120 and €350 is disregarded and the rest is assessed. Then 50% of the remaining means is deducted from the appropriate maximum family rate to obtain the DA rate.

At this point, the Moiety Principle comes into effect. Rather than claiming the QCI as part of the DA family rate, the QCI is split between the JA and DA claims. Therefore the DA family rate is composed of the maximum personal rate and a half rate increase for a qualified child dependant ($€188 + €14.90 = €202.90$). Then 50% of the resulting means are deducted from the family rate to get the value of the DA rate, which is rounded down to the nearest €2.50.

To calculate the JA rate, where the DA recipient has earnings, these are assessed in the partner's JA claim. First, €20 per day is deducted from the DA recipient's earnings (after deduction of PRSI, any pension contributions and union dues) up to a maximum three days⁶. 60% of the remainder is calculated and then the Moiety principle is applied which means that 50% of the resulting means are then deducted from the appropriate maximum JA family rate, i.e. the maximum JA rate plus a half-rate QCI, to get the weekly rate of partner's JA payment.

⁴ Jobseekers Allowance is the primary means tested social welfare assistance payment paid to people who are unemployed and do not meet the minimum number of social insurance contributions to qualify for the unemployment insurance scheme Jobseekers Benefit (JB). In 2016, the maximum personal rate for both JA and JB was €188 per week.

⁵ Note the Moiety Principle is applied in the same way where the partner is also a DA claim or is claiming one of the other working age payments linked to JA.

⁶ Note that this does not apply to partners earnings from self-employment - all income from self-employment is assessed and there are no disregards.

Table 2.1: Means Assessment Rules

	Disability Allowance	Jobseekers Allowance
Means Assessment Rules	Rehabilitative Disregard first €120 50% of earnings between €120 and €350 All income in excess of €350 counted as means	Deduct €20 per day from means up to maximum of three days 60% all additional income
Moiety Rule	50% of assessed means	50% of assessed means

2.2 Invalidity Pension

IP is a taxable weekly payment to people who are covered by PRSI and cannot work because of a long-term illness or disability. At 66, IP recipients transfer automatically to the State Pension (Contributory) at the full rate.

To qualify for IP the recipient must have:

- 260 (5 years) paid PRSI contributions⁷ since entering social insurance;
- 48 contributions paid or credited in the last complete tax year⁸ before the date of the recipient claim.

An IP recipient can apply for PCB to work part-time and keep his/her full social welfare payment. There is no requirement that the work a person does while on PCB has to be for rehabilitative or therapeutic purposes.

The rates of IP in 2016 are set out in Table 2.2 below. Where a recipient has dependants he/she can get an increase in his/her payment for an adult and/or child dependant if they meet certain conditions.

An IP recipient can get a QCI of €29.80 for each qualified child if he/she qualifies for an increase for a QCA or if he/she is parenting alone. However, if the recipient does not qualify for a QAI, he/she is only eligible for a QCI at half rate if his/her spouse/civil partner or cohabitant has income of €400 or less per week. Where the partner's earns between €310 and €400, a half-rate increase for a QCI can be claimed. The full-rate increase for a qualified child is only available where the partner's earnings are less than €310.

⁷ Note that only PRSI paid in classes A, E and H count.

⁸ The last complete tax year is the year before the recipients claim. For example, if an applicant claims IP in 2015, the last complete tax year is 2014.

Similarly where a qualified adult has earnings or income in excess of €100 and up to €310 gross per week, the recipient's personal rate is reduced⁹.

Where a qualified adult has attained pensionable age before 2nd January 2014 the recipient may get an additional increase of €70.90.

Table 2.2: IP Rates of weekly payment

	Rate per Week
Personal rate	€193.50
Increase for Qualified Adult	€138.10
Each Qualified Child (Full Rate)	€29.80
Each Qualified Child (Half Rate)	€14.80

Source: DSP Budget 2016 Factsheet

2.3 Illness Benefit

IB is available to individuals where they cannot work because of an illness and are covered by the appropriate class of social insurance (PRSI) and satisfy the PRSI conditions. IB, both the personal rate and QAI, (excluding increases for child dependants) is considered to be income for tax purposes and it is taxable from the first day of payment.

To qualify for payment of IB the recipient must satisfy two conditions. The recipient must have at least 104 weeks PRSI contributions paid since he/she first started work and either:

- Have 39 weeks of PRSI contributions paid or credited in the relevant tax year, of which 13 must be paid contributions. If the recipient does not have 13 paid contributions in the relevant tax year, then 13 paid contributions in either the last complete tax year (before the year in which the recipient's claim for IB begins) or the current tax year, or
- 26 weeks of PRSI contributions paid in the relevant tax year, and 26 weeks of PRSI contributions paid in the tax year immediately before the relevant tax year.

IB is paid for a maximum of 2 years (624 payment days) if the recipient has at least 260 weeks reckonable social insurance contributions¹⁰ paid since he/she first started work or 1 year (312 payment days) if the

⁹ See link for reduced rates: <http://www.welfare.ie/en/Pages/sw19-appendix1.aspx>

¹⁰ Reckonable social insurance contributions paid in Ireland, EU countries, Channel Islands and the Isle of Man can be combined for this purpose.

recipient has between 104 and 259 weeks reckonable social insurance contributions paid since he/she first started work.

A recipient cannot work while in receipt of IB (although voluntary work is allowable in some cases). Where an IB recipient has been getting a payment for at least 6 months he/she can apply for PCB (see Section 2.4 below). PCB is a scheme which allows a recipient to return to work (where he/she has a reduced capacity to work) and continue to receive a social welfare payment.

IB rates are graduated according to the recipient's average weekly earnings in the relevant tax year. Average weekly earnings are calculated by dividing the total reckonable gross earnings (without deductions) in the relevant tax year by the actual number of weeks worked in that year. In addition recipients can get an increase in their payment for an adult and/or child dependant if they meet certain conditions.

Table 2.3: IB Rates of weekly payment in 2016

Average earnings	Personal rate	Qualified adult rate
€300 or more	€188.00	€124.80
€220 - €299.99	€147.30	€80.90
€150 - €219.99	€121.40	€80.90
less than €150	€84.50	€80.90

Source: DSP Budget 2016 Factsheet

Note, both the IB personal rate and IQA, (excluding increases for child dependants) are considered to be income for tax purposes and it is taxable from the first day of payment¹¹.

2.4 Partial Capacity Benefit

PCB is a social welfare scheme which allows recipients to return to work or self-employment (if the recipient has reduced capacity to work) and continue to receive a payment from the D/SP. To qualify, a recipient has to have been getting IB (for a minimum of 6 months) or IP and wish to return to work. Furthermore, the recipient's restriction on capacity for work must be assessed as moderate, severe, or profound. If it is assessed as mild the recipient will not qualify and his/her continued eligibility to IB or IP will also be reviewed. Payment will last as long as the recipient has an underlying entitlement to IB or IP.

¹¹ IB is paid directly to you without any deduction of income tax. If you are employed, your employer will take your IB into account for PAYE purposes. If you are unemployed, Revenue will take account of the amount of IB paid to you when they adjust your tax credits or review the tax affairs of your spouse or civil partner. Contact Revenue for more information.

There is no restriction on earnings or the number of hours a recipient can work. He/she can work in a self-employed capacity while getting PCB. PCB recipients are not eligible for Family Income Supplement but can get a half-rate Carer's Allowance.

PCB is made up of a personal rate and may include increases for qualified dependents. The personal rate of payment is based on the assessment of the recipient's restriction on capacity for work, whether the recipient was in receipt of IB or IP and the rate of payment on his/her previous scheme. Increases for qualified children and adults continue to be paid at the same rate as the recipients IB/IP claim.

Table 2.4: PCB Personal Rates by Previous Scheme

	% of personal rate	Previous IB Recipient	Previous IP Recipient
Moderate	50%	€ 94.00	€ 96.75
Severe	75%	€ 141.00	€ 145.13
Profound	100%	€ 188.00	€ 193.50

Source: DSP Budget 2016 Factsheet

2.5 Other DSP Supports

2.5.1 Supplementary Welfare Allowance

The basic Supplementary Welfare Allowance (SWA) is a weekly allowance paid to people who do not have enough income to meet their needs and those of their families. SWA also includes a number of supplements for specific costs. These supplements can provide support to meet costs of identified needs including rental costs, mortgage interest (closed to new recipients from January 2014), diet costs (closed to new recipients from February 2014) and other identified needs such as additional heating due to illness and necessary travel costs.

If an individual has no income, he/she may be entitled to the basic SWA. The weekly income is below the SWA rate for the specific family size, a payment may be made to bring the income up to the appropriate SWA rate. Note this means test also holds for the other supplements linked to SWA. However, the SWA rules relating to the SWA Rent Supplement has a number of distinctive features.

SWA: Rent Supplement

Rent Supplement is paid to people living in private rented accommodation who cannot provide for the cost of their accommodation from their own resources. In general, an individual will qualify for a Rent

Supplement, if his/her only income is a social welfare payment and he/she satisfies other conditions. Furthermore, it is not possible to retain Rent Supplement and also be employed full-time, i.e. in excess of 30 hours per week.

There are several income disregards for Rent Supplement. First an amount equal to the SWA rate for the recipient's household circumstances is disregarded from the means tests. In the case of a single DA recipient with no dependants, this equates to €186 per week. A second disregard can then apply to any income in excess of this. A recipient has the choice of one of two disregard options conditional on which is more beneficial for his/her circumstances:

- The first is the rehabilitative training or employment associated with DA, where €120 of earnings from rehabilitative employment is not taken into account.
- The second option involves disregarding the first €75 of any additional household income above the appropriate SWA rate. Furthermore, 25% of additional household income over that €75 is also not taken into account. There is no upper limit on the amount that can be disregarded.

2.5.2 Secondary Supports

Recipients may also access a range of secondary DSP supports once they qualify for the disability schemes. These include Household Benefits (HHB), Free Travel, Fuel Allowance (FA), the Island Allowance and the Living Alone Allowance (LAA). However, these are not available for all of the schemes and have specific conditions:

- Free Travel is available to all DA, IP and PCB recipients and the Household Benefits Package is available to certain DA, IP and PCB recipients who are living alone or only with certain other excepted persons such as an adult or child dependant. However, free travel and HHB package eligibility for PCB recipients will be means-tested after the first 2 years and annually after that¹².
- The Fuel Allowance is automatically available to DA and IP recipients if they are living alone or only with certain other excepted persons such as an adult or child dependant, IB and PCB recipients must pass a means test.
- The LAA is available to DA and IP recipients who are aged less than 66 years old and living completely alone and the Island Allowance is available to DA and IP recipients aged less than 66 years old and living on specified islands¹³.

¹² The means test has a weekly income limit. This limit is the maximum rate of State Pension (Contributory) for the applicant's circumstances (this includes any dependants he/she may have) plus €100. The weekly income limit is then compared to applicant's weekly means in a means test.

¹³ See the following link for list of specified islands: http://www.welfare.ie/en/pages/800_increase-for-living-on-a-specified-island.aspx

2.5.3 Carer's (half-rate) Allowance

Recipients can also access the half-rate Carer's Allowance (CA) on top of their primary payment where they are also caring for someone who requires full-time care. Under the CA rules a recipient must not be engaged in employment, self-employment, training or education courses outside the home for more than 15 hours a week.

If a person qualifies for a CA he/she may also qualify for free household benefits (if he/she is living with the person being cared for) and a Free Travel Pass. CA also provides automatic entitlement to the Carer's Support Grant, an annual payment made to carers in respect of the cost of his/her caring responsibilities, to the value of €1,700 as of June 2016.

The maximum income thresholds are based on family size as follows:

- Single income household: €332.50
- Dual income household: €665.00

2.5.4 Family Income Supplement

Family Income Supplement (FIS) is a weekly tax-free payment available to low paid employees with children. It gives extra financial support to people on low pay. To qualify a recipient must have at least one child who normally lives with them or is financially supported by them. The child must be under 18 years of age or between 18 and 22 years of age and in full-time education.

The recipient must work 38 or more hours per fortnight (any combination of hours that reaches 38 hours each fortnight is acceptable). It is possible to combine the weekly hours of the recipient and the hours of his/her spouse/ civil partner/ cohabitant to meet this condition.

To qualify for FIS, the average weekly family income (the combined income of the recipient and his/her spouse/partner) must be below a certain amount for the recipient's family size. The value of FIS rate is 60% of the difference between the recipient's average weekly family income and the income limit which applies to the number of dependent children¹⁴. Table 2.5 below details the range of income limits.

¹⁴ For more information about average family income see:
http://www.citizensinformation.ie/en/social_welfare/social_welfare_payments/social_welfare_payments_to_families_and_children/family_income_supplement.html

Table 2.5: Income Limits for FIS

Family Size	Income Limit
One child	€511
Two children	€612
Three children	€713
Four children	€834
Five children	€960
Six children	€1,076
Seven children	€1,212
Eight children	€1,308

Source: DSP Budget 2016 Factsheet

2.6 HSE Supports

2.6.1 Mobility Allowance

The Mobility Allowance is a means tested monthly payment payable by the Health Service Executive (HSE). It is paid to people who are aged 16 and over and under age 66, and who have a disability and are unable to walk or use public transport. The Mobility Allowance has two rates of payment; a higher rate worth €208.50 per month and a lower rate for those who are availing of the Disabled Drivers and Disabled Passengers tax relief worth €104.25 per month.

On 26 February 2013, the Department of Health announced that the Mobility Allowanced scheme was closed to new recipients. An alternative scheme is being devised to replace it. In the meantime, Mobility Allowance continues to be paid to those already receiving it.

The means test for the Mobility Allowance is based on the primary social welfare payment that the individual is on. The income limit is the maximum weekly rate appropriate to the individual's circumstances and any amount in excess of the appropriate weekly rate is deducted from the maximum amount of weekly Mobility Allowance payable. For example, in the case of a single DA recipient with no dependants, this would be €188 per week.

2.6.2 The Medical/GP Card

Under HSE guidelines, recipients may be eligible for the Medical Card or GP Card subject to a means test. All sources of income, with a number of exemptions¹⁵, are assessed. Means from employment are assessed as total earnings net PAYE, PRSI and USC. In the case of a couple, the combined means from employment are assessed together. The means limits for the Medical Card and GP Card are differentiated based on the family circumstances of the recipient¹⁶. There are also additional allowances for housing costs and travel to work. Normally, any dependant spouse or partner and children are also covered for the same range of health services. Furthermore, full medical card holders that have an income of less than €60,000 per year, excluding payments from D/SP, is subject to a maximum USC rate of 3%¹⁷.

In addition, there are also several exemptions relating to the circumstances of the recipient. For example Medical/GP Card recipients whose weekly incomes are derived solely from Social Welfare allowances/benefits or other HSE allowances, which are in excess of the Income Guidelines (either at first application or on renewal), may still be granted a Medical/GP Card. Furthermore, where it is considered that “undue hardship” would occur or that it would be “unduly burdensome” for that person to cover the cost of GP, medical or surgical services for him/herself and/or family, he/she may be exempted.

A further distinctive characteristic of the Medical Card concerns the delayed withdrawal once a recipient ceases to be eligible. Unlike most other means tested supports, after a recipient loses eligibility, such as through taking up full time or part time employment, it is possible to retain the Medical Card for three more years.

The means test for the Medical Card is €184 for an adult under the age of 66 whereas the means test limit for a GP Card is €276 for an adult under the age of 66. There are also increases available for child dependants as shown in Table 2.6.1 below.

¹⁵ See the following link for exempted sources of income: <http://www.hse.ie/eng/services/list/1/schemes/mc/forms/medicalcardguidelines2015.pdf>

¹⁶ See the following link for a breakdown of the means limits: <http://www.hse.ie/eng/services/list/1/schemes/mc/forms/medicalcardguidelines2015.pdf>

¹⁷ See following link for details of USC rates: <http://www.revenue.ie/en/tax/usc/index.html>

Table 2.6.1: Income Limits for Medical/GP Card

		Medical Card	GP Card
Single	<66	€184.00	€276.00
	66+	€201.50	€302.00
Single living with family	<66	€164.00	€246.00
	66+	€173.50	€260.00
Married couple/single parent family with children	<66	€266.50	€400.00
	66+	€298.00	€447.00
Child Increases	First 2 children U16	€38.00	€57.00
	3rd and subsequent children U16	€41.00	€61.50
	First 2 children over 16	€39.00	€58.50
	3rd and subsequent children over 16	€42.50	€64.00
	Child over 16 in 3rd level education not grant aided	€78.00	€117.00

Source: HSE 2016

2.7 Local Authority Supports

2.7.1 Home Improvement Loans

These loans are provided by Local Authorities to owner-occupiers to go towards the cost of necessary works to improve, repair or extend their existing houses. To pass the means test, a single individual must have an annual income of less than €40,000, the equivalent of €769 per week.

2.7.2 Mobility Aids Grants

The Mobility Aids Grant Scheme provides grants for works designed to address mobility problems in the home, such as the purchase and installation of grab-rails, a level access shower, access ramps or a stair-lift. The scheme is primarily for older people, but people with a disability can also apply for it. To pass the means test household income must be less than €30,000 per year, or €576.92 per week.

2.7.3 Housing Adaptation for People with a Disability Grant

A housing adaptation grant is available where changes need to be made to a home to make it suitable for a person with a physical, sensory or intellectual disability or mental health difficulty. The means test is the same as that for the Mobility Aids Grant means test.

2.7.4 Local Authority Housing

Local authorities are the main providers of social housing (or housing authorities) for people who cannot afford to buy their own homes. Local authority housing is allocated according to eligibility and need. Rents are based on the household's ability to pay. There are three means test income limits based on the location¹⁸:

Table 2.7.1: Income Bands

	Annual	Weekly
Band 1	€35,000.00	€673.08
Band 2	€30,000.00	€576.92
Band 3	€25,000.00	€480.77

Source: DSP Budget 2016 Factsheet

2.7.5 Housing Assistance Payment

The Housing Assistance Payment (HAP) is a form of social housing support for people who have a long-term housing need. It is being administered by local authorities and will eventually replace long-term Rent Supplement. To qualify for HAP, an individual must be deemed eligible for Local Authority Housing or be in receipt of Rent Supplement.

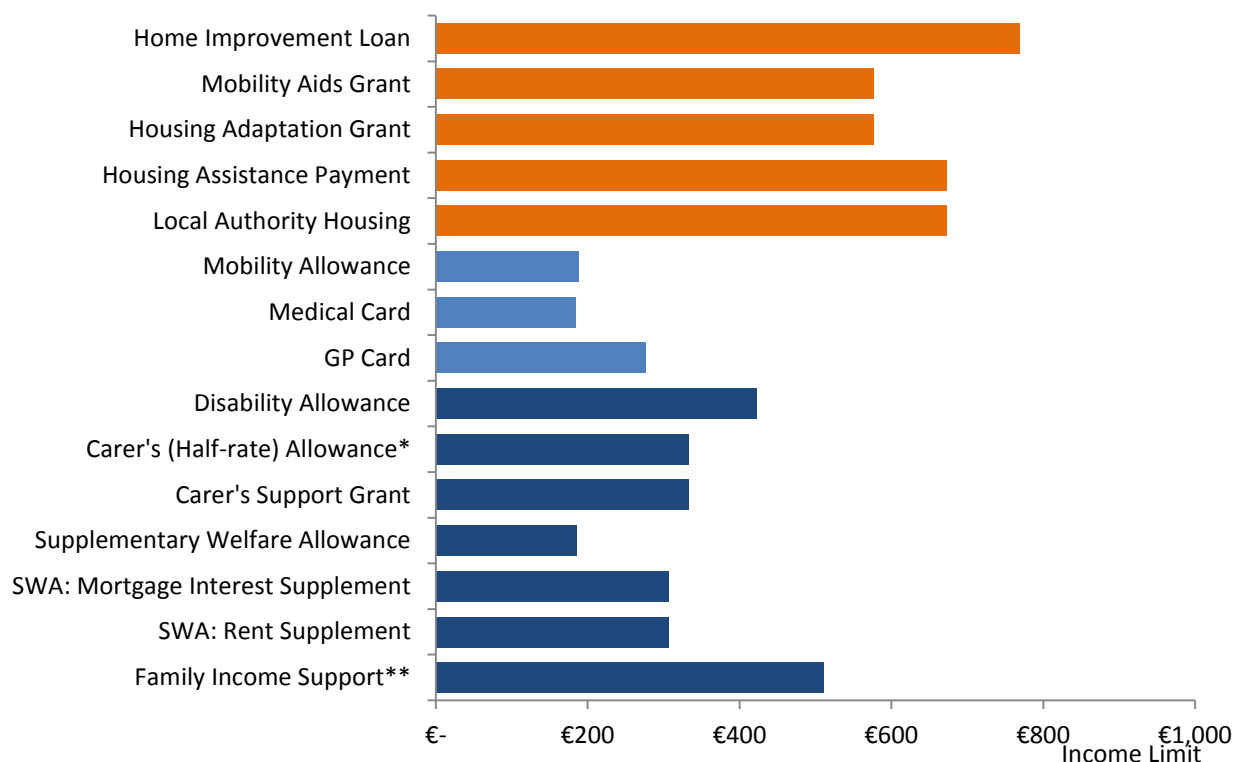
2.8 Summary of Means Limits

Figure 2.8.1 below shows the maximum income limit associated with the range of means tested schemes available to individuals with a disability or illness. For the purposes of ease of comparison, the income limits are based on a single adult recipient with no dependants (except in the case of CA and FIS, which are specifically targeted at adult and child dependants, respectively).

¹⁸ For detail on the locations in each Band see: <http://www.environ.ie/sites/default/files/migrated-files/en/Publications/DevelopmentandHousing/Housing/FileDownload%2C29414%2Cen.pdf>

As can be seen the weekly income limits vary across the schemes, from as low as €184 in the case of the Medical Card to almost €770 for the Home Improvement Loan. However, it is important to note when interpreting these limits, that what is counted as income varies from scheme to scheme. Similarly, how income from employment is treated is variable. For example, SWA and DA include the €120 disregard for rehabilitative employment whereas CA and FIS consider all income. Furthermore, while the DSP schemes define net income from employment as gross less PRSI, USC and Union dues, the local authority schemes and HSE supports focus on income net of all deductions including income tax.

Figure 2.8.1: Overview of Income limits for Means-tested Supports for a Single Adult on Disability Allowance



Source: DSP Budget 2016 Factsheet

* For CA a single adult dependant is the reference case

**For FIS a single child dependant is the reference case

Part 3: Compositional Analysis of Illness and Disabilities Schemes

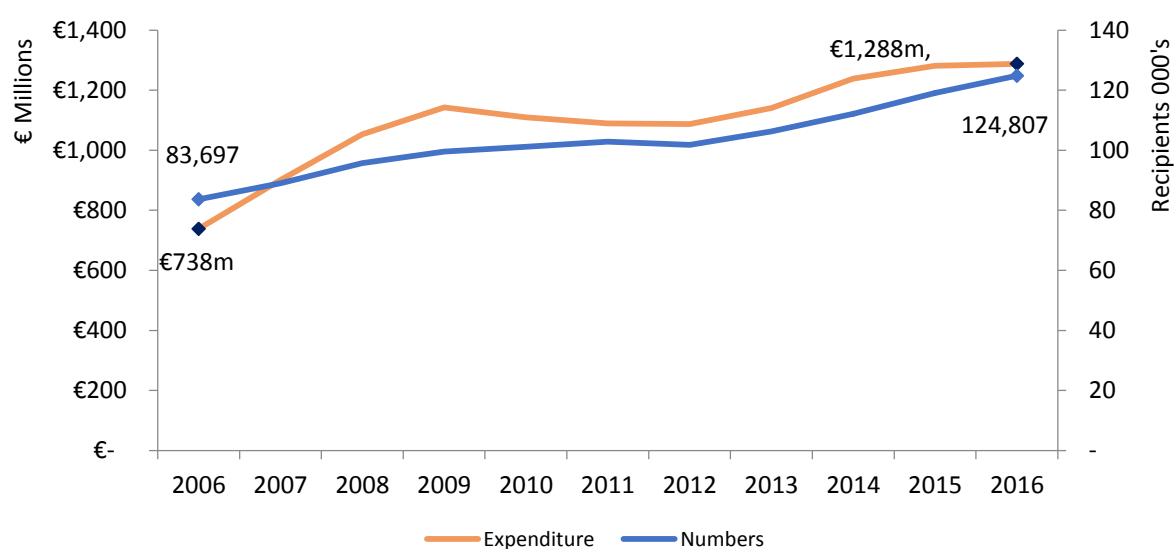
The previous section provides an outline of the main characteristics of the scheme rules and means tests associated with the range of different supports available to people with a disability or illness. This section focuses on profiling the core DSP illness and disability schemes in order to identify representative scenarios to build appropriate case studies to evaluate the incentive structure associated with the rules outlines above. It will also provide a brief overview of the profile of SWA to ascertain its significance amongst PWD. The analysis explores the size, trends and costs of the schemes as well as the characteristics of the scheme recipients.

3.1 Overview of Disability Allowance

3.1.1 Scheme Overview

Over the last 10 years, the number of recipients of DA has increased steadily by almost 50%, from over 83,697 in 2006 to almost 124,807 as of January 2016. Over the same period, as demonstrated in Figure 1, expenditure on DA grew by 73.6% from €738 million in 2006 to €1,238 million in 2015, notwithstanding annual fluctuations over the period. Total expenditure is projected to be €1,288 million in 2016.

Figure 3.1.1: Recipient Numbers and Expenditure 2006 to 2016



Source: Department of Social Protection, Annual Statistical Information Report

3.1.2 Profile of DA Recipients

The main profile characteristics of the DA cohort for January 2016 are detailed in Table 3.1.1 below.

- As of January 2016, the mean age of recipients is 44, while the range was from 16 to 67. The population is predominantly aged 45 or over, accounting for almost 53%. Approximately 12% are under the age of 25 and the remainder between 25 and 44.
- In respect of the gender, 41.9% of DA recipients are female.
- Over three quarters of DA recipients are single, followed by 22.6% who are married, in a civil partnership or co-habiting. The relationship status of 1.8% of the population is unrecorded. In terms of dependants, over 80% of DA recipients have no dependants, meanwhile 5.7% have are claiming for a qualified adult increase (QAI) and at least one qualified child increase (QCI) together, 4.7% are claiming for a QAI only, and 8.7% are claiming for QCIs.

Table 3.1.1 Profile of DA Recipients

Age	< 25	12.0%
	25-34	15.5%
	35-44	19.9%
	45-54	24.1%
	> 55	28.4%
Gender	Male	58.1%
	Female	41.9%
Marital Status	Single	63.1%
	Divorced/Separate/Widowed	12.6%
	Married/Civil Partner	20.1%
	Co-Habiting	2.5%
	Unknown	1.8%
Family Composition	No Dependants	80.8%
	With Qualifying Adult Only	4.7%
	With Qualifying Children Only	8.7%
	With Qualifying Adult and Child	5.7%

3.1.3 Duration of Recipient Claim

Before, examining the duration of DA claims, in order to understand the current trend, it is important to make note of the history of DA. DA has its origins in the Department of Health (D/Health) as the Disabled Persons Maintenance Allowance (DPMA). In 1996, DPMA was replaced by the DA scheme and as such all former DPMA recipients became clients of D/SP. However, at the time the DPMA cohort were treated as new entrants into DA. Therefore, it is not possible to get an accurate estimate of the total duration that many of the former DPMA recipients had been in receipt of disability payments for. Hence, of the current population of DA recipients there are 12% recorded as 19 years or longer.

To help interpret duration as usefully as possible, Table 3.1.2 details the distribution statistics both with and without the DPMA recipients. The mean duration for the total population was 3,049 days (or 8.4 years). When DPMA recipients are excluded, the mean duration falls to 2,541 days (or 7 years) and the maximum duration was recorded as 6,934 days (19 years)¹⁹.

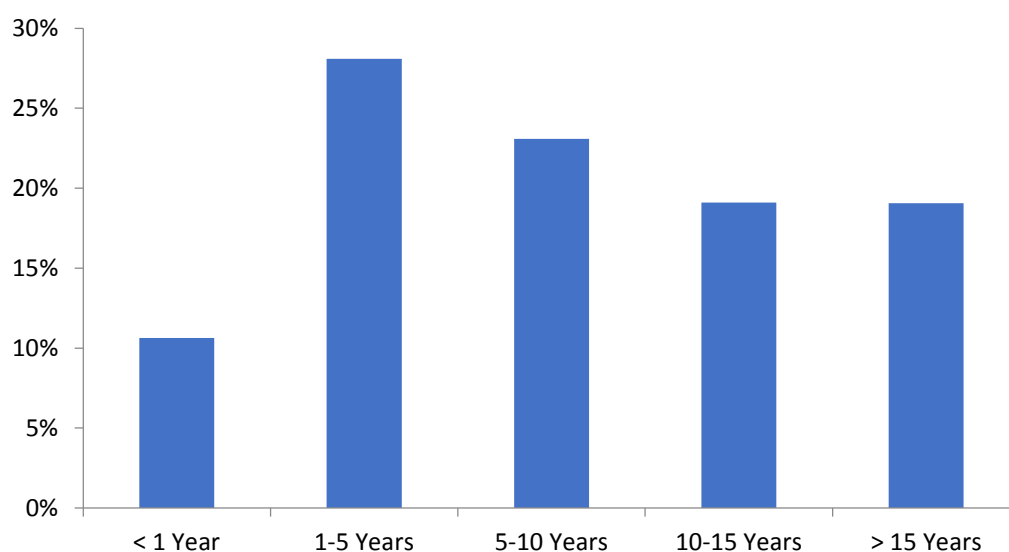
Table 3.1.2: Duration Distribution Statistics (Days)

	N	Min	Mean	Median	Max
Total	124,807	0	3,049	2,789	23,722
Post DPMA	109,874	0	2,541	2,292	6,934

Figure 3.1.2 breaks down the distribution into categories. It is evident that the largest single duration category was within the 1 to 5 years group, 28.1%, which resonates with the recent increases in recipient numbers identified in Figure 3.1.1. The next largest group was the 5 to 10 years or more cohort at 23.1%. The 10 to 15 year cohort and the 15 year plus cohort are the same size at 19%. This is explained by the DPMA cohort which accounts for the majority of the 15 years or more cohort. Overall, the pattern indicates that once people enter DA they tend to remain on it indefinitely.

¹⁹ This reflects when the transition from DPMA to DA occurred in 1996.

Figure 3.1.2: Duration of Recipient Claims by Category



3.1.4 Supplementary Payments

Table 3.1.3 outlines the numbers of DA recipients in 2016 who were also in receipt of payments under the Supplementary Welfare Allowance (SWA) scheme. As can be seen, of the SWA schemes, Rent Supplement was the most common amongst DA recipients at 6.6%, followed by 1.2% in receipt of the Diet Supplementary. Less than 1% of the DA cohort are in receipt of the remaining schemes.

Table 3.1.3: Supplementary Welfare Allowance Recipients

SWA Scheme	Numbers	% of Total SWA Population
Rent Supplement	8,351	6.6%
Diet Supplement	1,464	1.2%
Heating Supplement	467	0.4%
Other SWA	262	0.2%
Travel Supplement	124	0.1%
Mortgage Interest Relief	287	0.2%

3.1.5 Employment and Earnings

As a first step to examining the alignment of the DA scheme rules with the incentive to work it is useful to identify how DA recipients interact with the labour market in the first instance. Drawing on earnings data from the Revenue Commissioners it is possible to examine the cohorts employment history for any patterns or significant behaviours.

Figure 3.1.3 details the employment status of 2016 DA recipients between 2010 and 2014. On the left vertical axis it shows the number of January 2016 cohort of DA recipients that were in employment in each year. The right vertical axis shows the level of annual earnings for each year. Each of the bars show the total number of DA recipients that were in employment in each year. These are divided into the proportion that had were employed and the proportion that were employed but also had a spell on DA²⁰. The dark blue line shows the mean earnings all the DA recipients in each year, while the lighter blue line shows the mean annual earnings for those who were in employment but also had a DA spell in that year.

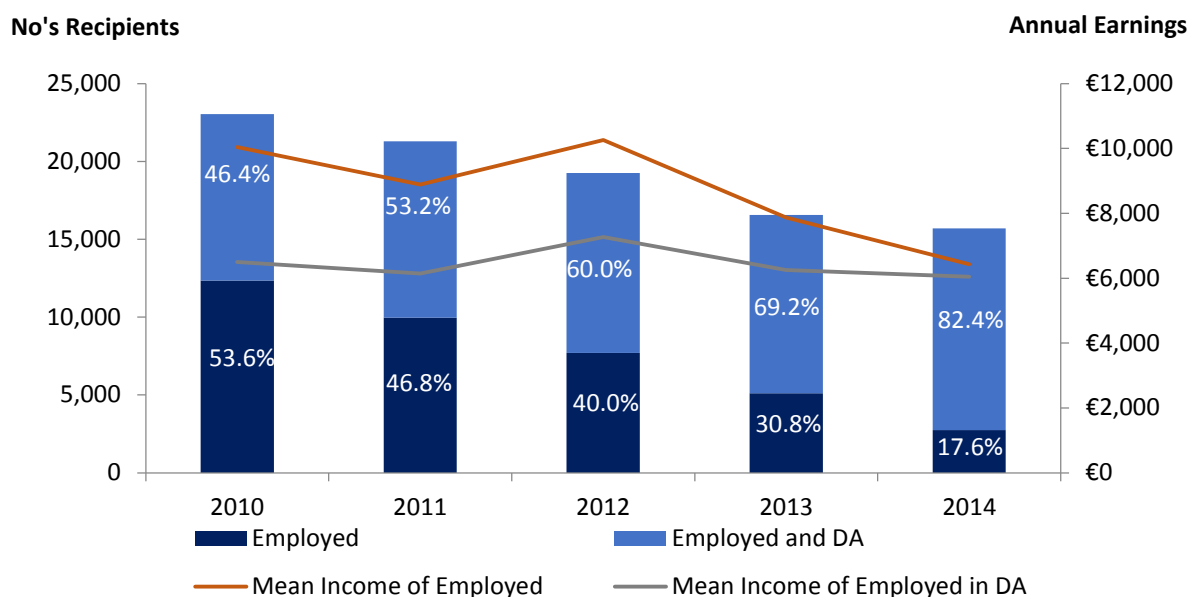
Of the 2016 cohort 18.5% had an employment spell in 2010. However, the proportion with employment declines in later years falling to 12.6% with employment in 2014. The average over the period was 15.4%. The estimated number employed and in receipt of DA went from 10,702 in 2010 to 12,941 in 2014. This equates to an average approximately 9.3% over the period.

The average annual earnings for all those who were in employment during the period were approximately €10,000. Of those who were also in receipt of a DA payment, the average was over €6,400. This indicates that for those in employment and receiving DA at the time, their average weekly earnings corresponded closely to the level of the earnings disregard for rehabilitative employment, €120 per week (€6,240 per annum).

Overall, the mean earnings from employment is quite low amongst this cohort of DA recipients, especially when compared to the mean income of the wider population, which hovered around €35,000 over the period in question. Indeed the mean income is less than the equivalent income associated with full-time earnings at the minimum wage, approximately €19,000 per year.

²⁰ Note these are indicative annual estimates and not exact counts. First, this analysis only focused upon the employment histories of the 2016 cohort and does not reflect the whole DA population in the years 2010 to 2014. Second, the estimate of DA recipients in employment and in receipt of DA was based on an annual count of DA recipients with an employment spell and who also started their DA spell in that year. As it is an annual count, it does not distinguish between DA claims and employment spells that overlapped, were co-terminus or occurred at different times within a given year. Therefore, these estimates should be treated as indicative.

Figure 3.1.3: DA Recipients Employment History: Mean Annual Income and Percentage Employed 2010-2014



3.1.6 Key Findings

- The majority of recipients are male; however, females constitute a substantial minority. Recipients are typically older with almost a third aged over 55;
- They are mainly Irish with the largest densities found in urban areas;
- The majority of recipients are long term with an average duration of 7 years when former DPMA recipients are removed;
- DA recipients are relatively distant from the labour market. Less than 1-in-5 DA recipients in January 2016 had an employment spell in 2010;
- The average annual earnings for current DA recipients were approximately €10,000 in 2010. For those who also were in receipt of a DA payment, the average was approximately €6,500;
- An indicative estimate of DA recipients utilising the rehabilitative work exemption suggested approximately 9.3% of the 2016 cohort took advantage of the rehabilitative work exemption in the years 2010 to 2014.

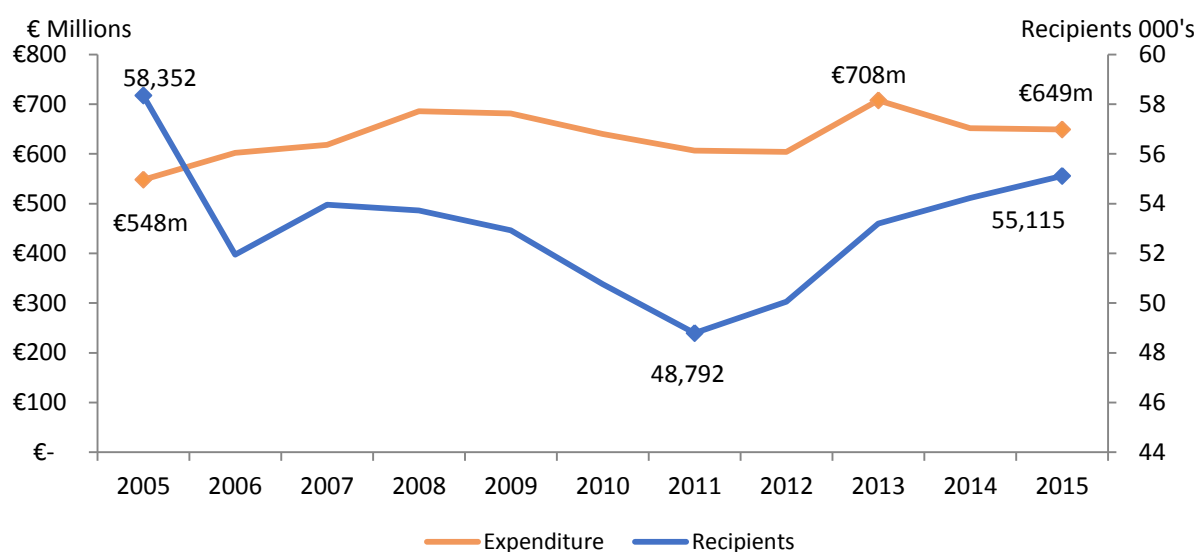
3.2 Overview of Invalidity Pension

3.2.1 Scheme Overview

During the first half of the last 10 years, the number of recipients of IP decreased by approximately 16% from over 58,300 in 2010 to almost 48,800 in 2011. By 2015, the total number of recipients had increased by

13% back to over 55,100. Over the same period, as demonstrated in Figure 3.2.1, expenditure on IP grew by over 29% from €548 million in 2005 to €708m in 2013, notwithstanding annual fluctuations over the period. As of the end of 2015, total expenditure stood at €649 million. It is notable that the cost of the IP scheme does not seem to be well aligned with the numbers of IP recipients. This may be in part explained by the unique way in which QCI's are calculated under the means assessment rules. Unlike the other schemes, the QCI rate is directly linked to partner earnings.

Figure 3.2.1: Recipient Numbers and Expenditure 2006 to 2016



Source: Department of Social Protection, Annual Statistical Information Report

3.2.2 Profile of IP Recipients

The main profile characteristics of the IP cohort for January 2016 are detailed in Table 3.2.1.

- In regard to the age profile, the mean age of recipients was 56, while the range was from 24 to 69. The population was predominantly aged 55 or over, with about a third aged 54 or younger. The cohort aged under 35 represent less than 2%.
- In terms of gender 55% of IP recipients were female;
- About 68% of IP recipients were married or in a civil partnership, followed by 29.7% who were single, divorced or separated. When the IP cohort are broken down in terms of dependants, approximately 75% of IP recipients have no dependants, meanwhile 3.6% have are claiming for a QAI and at least one QCI together, 9.7 % are claiming for an QAI only, and 11.6% are claiming for QCIs.

Table 3.2.1: Profile of IP Recipients

Age	< 35	1.3%
	35-44	8.9%
	45-54	23.4%
	> 55	66.4%
Gender	Male	45.1%
	Female	54.9%
Marital Status	Single	18.2%
	Divorced/Separate/Widowed	11.5%
	Married/Civil Partner	68.3%
	Co-Habiting	1.7%
	Unknown	0.3%
Family Composition	No Dependants	75.1%
	With Qualifying Adult Only	9.7%
	With Qualifying Children Only	11.6%
	With Qualifying Adult and Child	3.6%

3.2.2 Duration of Recipient Claim

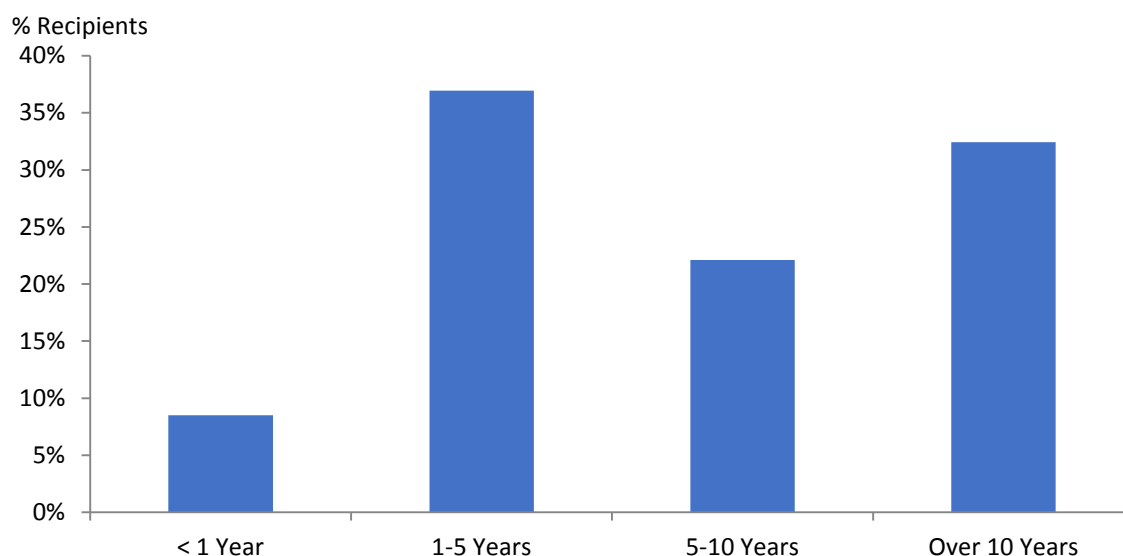
As detailed in Table 3.2.2, the majority of IP recipients have been on the scheme long term. The mean duration was 3,087 days (or 8.4 years); the maximum duration was recorded as 15,071 days (or 41.3 years).

Table 3.2.2: Duration Distribution Statistics (Days)

N	Min	Mean	Median	Max
55,115	0	3,087	2,121	15,071

Figure 3.2.2 shows the significance of the long tail by breaking the distribution down into categories. It is evident that about 45.5% of the total population has been in receipt of IP for less than 5 years, (less than 1,825 days). 22.1% had duration of between 5 to 10 years, while about a third, 32.4%, has duration of over 10 years. Indeed, 10.2% of the population have been in receipt of IP for over 20 years.

Figure 3.2.2: Duration of Recipient Claims by Category



3.2.3 Supplementary Welfare Allowance

Table 3.2.3 outlines the numbers of IP recipients in 2016 that were also in receipt of payments under the Supplementary Welfare Allowance (SWA) scheme. In addition to their primary payment, IP recipients also had recourse to the family of allowances under the SWA scheme. As can be seen, of the SWA schemes, Rent Supplement was the most common amongst IP recipients at 0.7%. The rest of schemes accounted for less than 1% of the IP cohort.

Table 3.2.3: Supplementary Welfare Allowance Recipients

SWA Scheme	Numbers	% of Total SWA Population
Rent Supplement	935	0.74%
Diet Supplement	492	0.39%
Heating Supplement	269	0.21%
Other SWA	25	0.02%
Travel Supplement	25	0.02%
Mortgage Interest Relief	117	0.09%

3.2.4 Key Findings

- There is a weak relationship between the cost of IP and the volume of IP recipients;
- While the majority of recipients are female, males constitute a large minority (45%);
- The majority are aged 55 years or older;

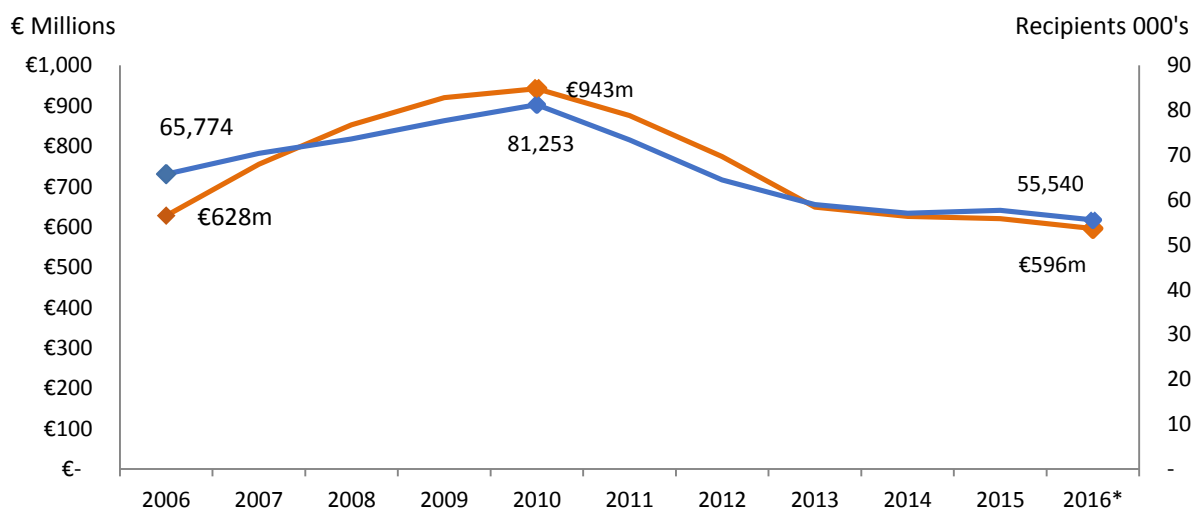
- Recipients are generally long term with an average duration of 8 years. About a third had durations of over 10 years and about 10% were on the scheme for more than 20 years;
- Take up of SWA is quite low amongst IP recipients

3.3 Overview of Illness Benefit

3.3.1 Scheme Overview

Over the last 10 years, the number of recipients of IB increased by approximately 24% to a peak of over 81,000 in 2010. By 2013, the total number of recipients had declined by over 27% back to 2005 levels. Since then the numbers have declined marginally to 55,540 people as of January 2016. Over the same period, as demonstrated in Figure 3.3.1, expenditure on IB payments peaked in 2010 at over €943 million before declining by over 36% back to €596 million as of 2015. The post 2010 trends are in part understood by the introduction of a limit on the duration of an IB claim of two years in 2009. The two year limitation was introduced for new entrant IB recipients. As a result this gradually reduced the overall numbers by stopping inflows into long term dependence.

Figure 3.3.1: Recipient Numbers and Expenditure 2006 to 2016



Source: Department of Social Protection, Annual Statistical Information Report

*Recipient figure for 2016 is based on end of January estimate, while each of the other years is based on end of December estimate.

3.2.2 Profile of IB Recipients

The main profile characteristics of the IB cohort for January 2016 are detailed in Table 3.3.1.

- In regard to the age profile, the mean age of recipients was 49, while the range was from 19 to 67. It is evident that less than 1.2% of the total population of recipients of IB were aged less than 25 years old, whereas the cohort aged 45 or over account for over 63% of recipients.

- As of January 2016, there is a 2:1 ratio of females to males on IB.
- The majority of recipients were in a relationship; approximately two-thirds were either married or in a civil partnership and a further 4% were cohabiting. Of those not in a relationship, 22.2% were single and 7.5% were recorded as formerly in a relationship but were now single.

The overwhelming majority of IB recipients do not have any dependants, approximately 79%. Of the remaining recipients, 4.5% have an adult dependant only, 12.3% have no adult dependants but are claiming for one or more child dependants and 4.5% are claiming for both an adult dependant and one or more child dependants.

Table 3.3.1: Profile of IP Recipients

Age	<25	1.1%
	25-34	12.6%
	35-44	22.9%
	45-54	26.8%
	55+	36.7%
Gender	Male	35.0%
	Female	65.0%
Marital Status	Single	22.2%
	Divorced/Separate/Widowed	7.5%
	Married/Civil Partner	66.3%
	Co-Habiting	4.0%
Family Composition	No Dependants	78.8%
	With Qualifying Adult Only	4.5%
	With Qualifying Children Only	12.3%
	With Qualifying Adult and Child	4.5%

3.3.2 Incapacity Profile

As represented in Figure 3.3.2, of the total population of IB recipients with open claims as of the 1st of January 2016, 7.4% were classified as having a Mild incapacity, while over half had a Moderate incapacity, 14% had a Severe illness or incapacity and almost a quarter were classified as having a Profound incapacity.

Figure 3.3.2: Recipients by Incapacity Type

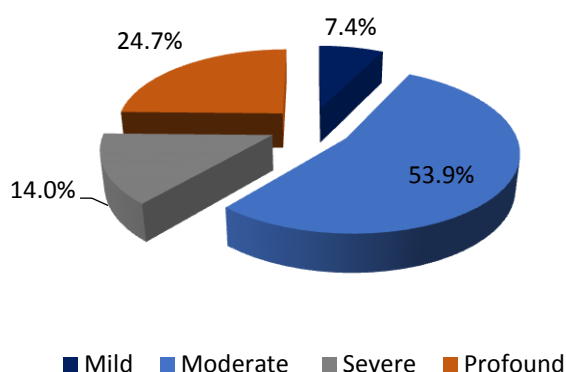
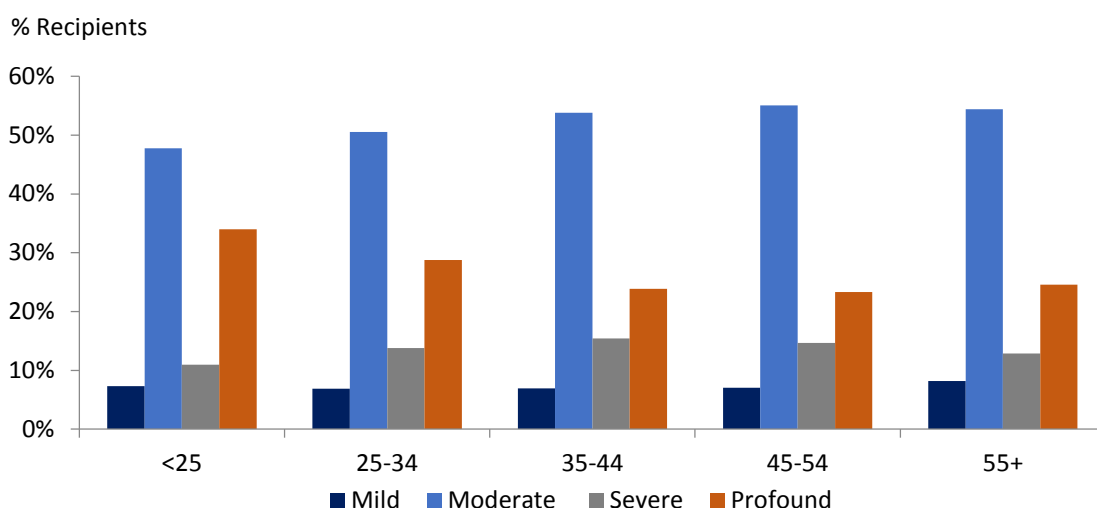


Figure 3.3.3 disaggregates incapacity types by age groups. Across all age groups the ranking of the types of incapacity remains constant, with Moderate and Profound incapacities being the most common, however, the relative difference varies between age groups.

Among the below 25 age group, moderate incapacity and profound incapacity were 47.8% and 34% respectively. However, Moderate incapacity represented more than 50% for all the other age groups. Similarly, the proportion of recipients with Profound incapacity is 28.8% for 25 to 34 year old age group and represents less than a quarter of the older age groups. Meanwhile, recipients with Severe incapacity represent larger proportions of all the older age groups. For example, amongst 35 to 44 year olds, 15.4% have the highest proportion of Severe incapacity. Meanwhile the Mild category of incapacity remains more or less constant across age groups ranging from 6.9% to 8.2%.

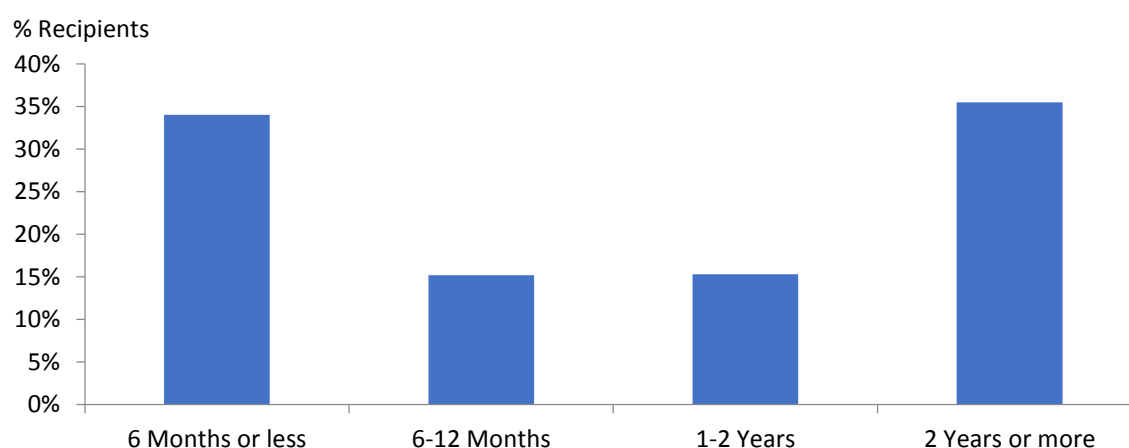
Figure 3.3.3: Incapacity type by Age Group



3.3.3 Duration of Recipient Claim

Figure 3.3.4 details the distribution of duration over the entire recipient population as of January 2016. It is important to note that in 2009, a two-year maximum limit on duration on IB was introduced. Prior to this, individuals could remain on IB indefinitely as long as they met the medical and social insurance conditionality. However, the restriction to two years was introduced for new entrants only. This is reflected in the distinctive u-shaped distribution. As shown, over two-thirds of recipient claims were opened within the last two years. Approximately a third of claims were opened within the last 6 months, whereas just over 15% were opened between 6 months and a year earlier. Similarly over 15% of claims were between one and two years old. The remaining claims, 34.5%, were over two years old. These are the claims which were opened prior to the introduction of the two year time limit.

Figure 3.3.4: Duration of Recipient Claims by Category



Another dimension with which to examine duration is in respect of the Incapacity type. Figure 3.3.5 below breaks down the duration into length of duration and Incapacity type. The general pattern is replicated across all Incapacity types; however, there are variations in terms of the quantum.

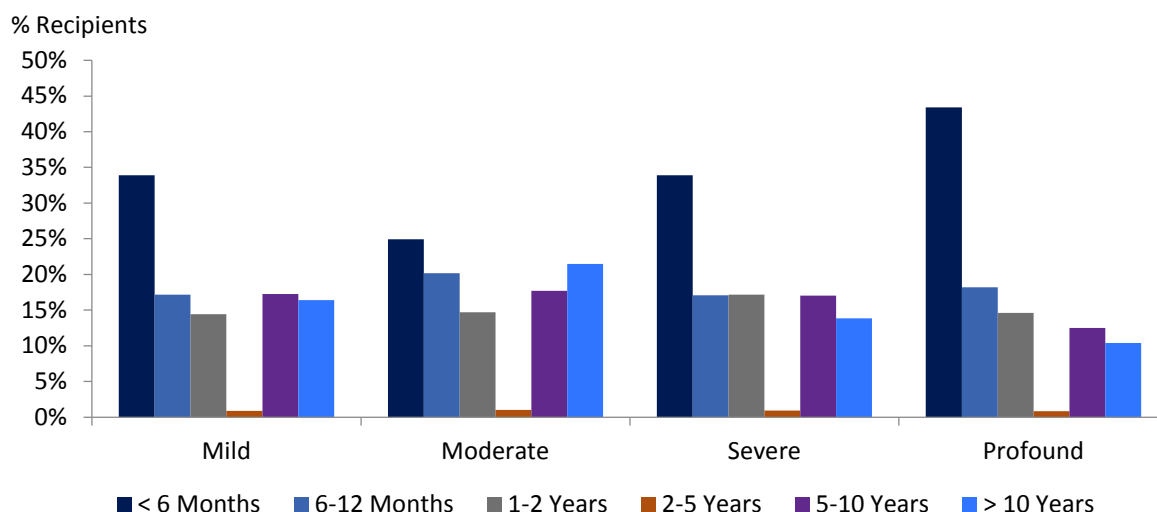
For all Incapacity types, the majority of recipients have been in receipt of IB for 6 months or less. However, this ranges from 43.4% for those with a Profound incapacity to 24.9% for those with a Moderate incapacity. The proportion with duration of between six months and two years remains constant across all Incapacity types, accounting for about a third.

IB recipients with a two to five year duration account for 1% or less for each Incapacity type. The significantly lower proportion of IB recipients with durations between two and five years reflects the impact of the introduction of the two year limit in 2009.

There is notable variation amongst proportion with durations of 5 to 10 years and 10 years or over across Incapacity types. The Moderate incapacity group have the largest proportion of long term recipients at approximately 40% with 5 years or more duration, of which 21.5% have duration of over 10 years.

Meanwhile the proportion of those of Profound incapacity that are long term recipients, i.e. 5 years or more, is the lowest at 22.9%.

Figure 3.3.5: Duration of Recipient Claims by Incapacity Type



3.3.4 Supplementary Welfare Allowance

Table 3.3.3 outlines the numbers of IB recipients in 2016 who were also in receipt of payments under the Supplementary Welfare Allowance (SWA) scheme. In addition to their primary payment, IB recipients also had recourse to the family of allowances under the SWA scheme. As can be seen, of the SWA schemes, Rent Supplement was the most common amongst IB recipients at 1.1%. The rest of schemes account for less than 1% of the IB cohort.

Table 3.3.2: Supplementary Welfare Allowance Recipients

SWA Scheme	Numbers	% of Total SWA Population
Rent Supplement	1,424	1.13%
Diet Supplement	60	0.05%
Heating Supplement	41	0.03%
Other SWA	24	0.02%
Travel Supplement	23	0.02%
Mortgage Interest Relief	148	0.12%

3.3.5 Key Findings

- Recipients are typically female, aged 45 or over, married or in a civil partnership without dependants;

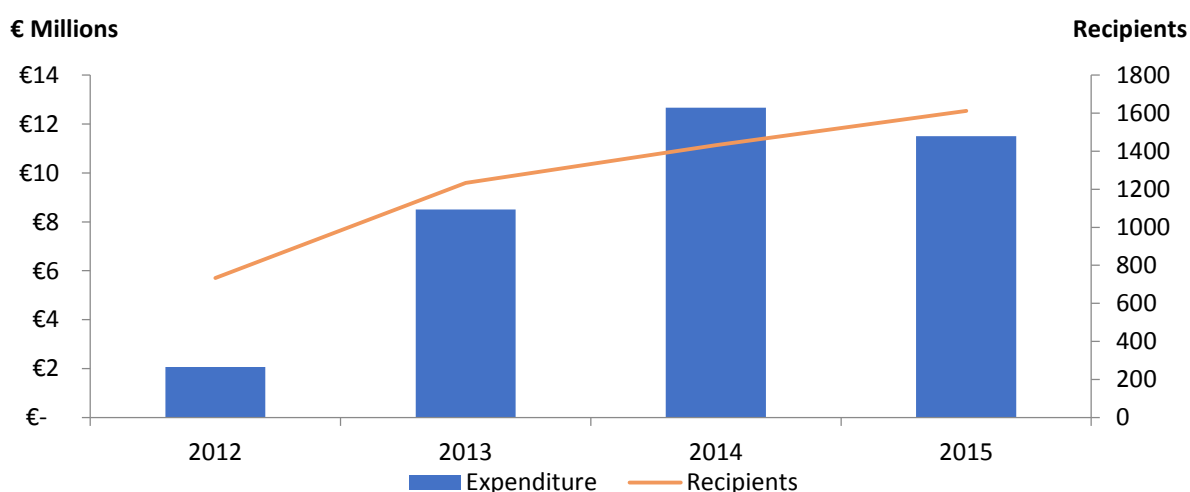
- Over half have a moderate incapacity, whereas over a third could be classified as having a severe to profound level of incapacity;
- In regard duration recipients can be divided broadly into those who entered before the two year limit, about a third, and those who have joined since which constitutes over 65%. There does not seem to be a relationship between incapacity level and duration, except insofar as recipients with a profound incapacity have durations of less than 6 months.

3.4 Overview of Partial Capacity Benefit

3.4.1 Scheme Overview

PCB is a relatively new scheme that was established in 2012 to replace the IB work exemptions. As illustrated in Figure 3.4.1, since its introduction, the number of PCB recipients has steadily increased year-on-year, growing from 733 in 2012 to 1612 at the end of 2015. As the scheme has grown so too has its overall cost, rising from just over €2 million in 2012 to €12.8 million in 2014, as of 2015 it had declined to €11.5 million and has been projected to cost €11.1 million for 2016.

Figure 3.4.1: Recipient Numbers and Expenditure 2012 to 2015



Department of Social Protection, Annual Statistical Information Report

Notwithstanding that PCB has enabled the formalisation of in-work supports for PWD; it does not seem to have encouraged a significant increase in additional recipients of the D/SP's illness and disability schemes taking up supported employment through PCB beyond the numbers who were making use of the work exemptions. In 2011, the year of the introduction of PCB, there were 1,446 using the work exemption. As of the end of December 2015, there were 1,612 PCB recipients.

3.2.2 Profile of PCB Recipients

The main profile characteristics of the PCB cohort for January 2016 are detailed in Table 3.4.1 below.

- In regard to the age profile, the mean age of recipients was 49, while the range was from 28 to 65. It is evident that less than 7% of the total population of recipients of PCB were aged less than 35 years old, whereas the cohort aged 45 or over account for over 68% of recipients.
- As of January 2016, the ratio of females to males was 2:1.
- The majority of recipients were in a relationship; approximately two-thirds were either married or in a civil partnership and a further 1.6% were cohabiting. Of those not in a relationship, 23.4% were single and 8.8% were recorded as formerly in a relationship but were now single.
- The majority of PCB recipients do not have any dependants, approximately 79.3%. Of the remaining recipients, 5% have an adult dependant only, 15.2% have no adult dependants but are claiming for one or more child dependants and 4% are claiming for both an adult dependant and one or more child dependants.

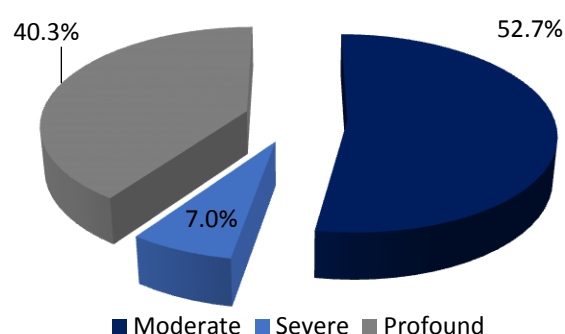
Table 3.4.1: Profile of PCB Recipients

Age	< 35	6.9%
	35-44	24.7%
	45-54	37.2%
	> 55	31.2%
Gender	Male	37.2%
	Female	62.8%
Marital Status	Single	23.4%
	Divorced/Separate/Widowed	8.8%
	Married/Civil Partner	66.2%
	Co-Habiting	1.6%
Family Composition	No Dependants	74.4%
	With Qualifying Adult Only	5.0%
	With Qualifying Children Only	15.2%
	With Qualifying Adult and Child	5.5%

3.4.2 Incapacity Profile

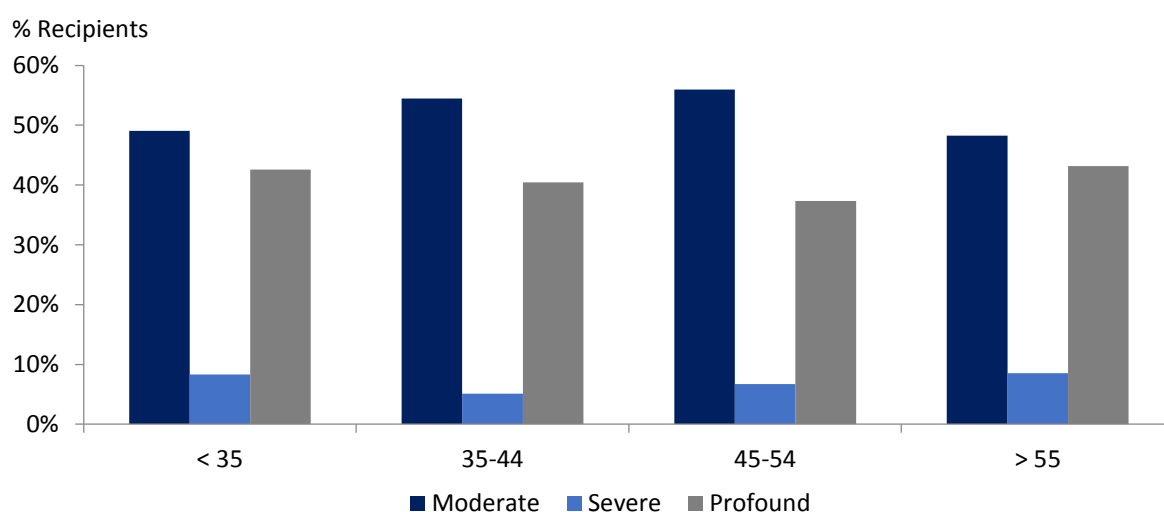
As represented in Figure 3.4.2, of the total population of PCB recipients with open claims as of the 01/01/2016, 52.7% had a Moderate incapacity, while 7% had a Severe illness or incapacity, and almost 40.3% were classified as having a Profound incapacity. The Mild category of incapacity is explicitly excluded from the PCB scheme. Figure 3.4.3 disaggregates incapacity types by age groups. Across all age groups the ranking of the types of incapacity remains constant, with Moderate and Profound incapacities being the most common, however, the relative difference varies between age groups.

Figure 3.4.2: Incapacity by Type



Amongst the below 35 age group, Moderate incapacity and Profound incapacity were 49.1% and 42.6% respectively. This is very similar to the 55 and older cohort; at 48.3% and 43.2% respectively. However, Moderate incapacity represented more than 54.5% for 35 to 44 year olds and 55.9% 45 to 54 year olds. The proportion of recipients with Severe incapacity was highest amongst those aged 55 years old and older at 8.6% and under 35 year olds at 8.3%. The 35 to 44 year old cohort had the lowest proportion with a Severe incapacity at 5.1%.

Figure 3.4.3: Incapacity type by Age Cohort



3.4.3 Duration of Recipient Claim

Figure 3.4.4 details the distribution of duration by breaking down duration into bins. As shown, over half of recipient claims were opened within the last two years reflecting that the scheme has only been in operation since 2011. 15.9% were opened within the last 6 months and 15.8% were opened between 6 months and a year earlier. Over 22% of claims were between one and two years old. Just over 25% had durations of between two to three years, while 20.7% had been on the scheme since its inception.

Figure 3.4.4: Duration of PCB Claims by Category

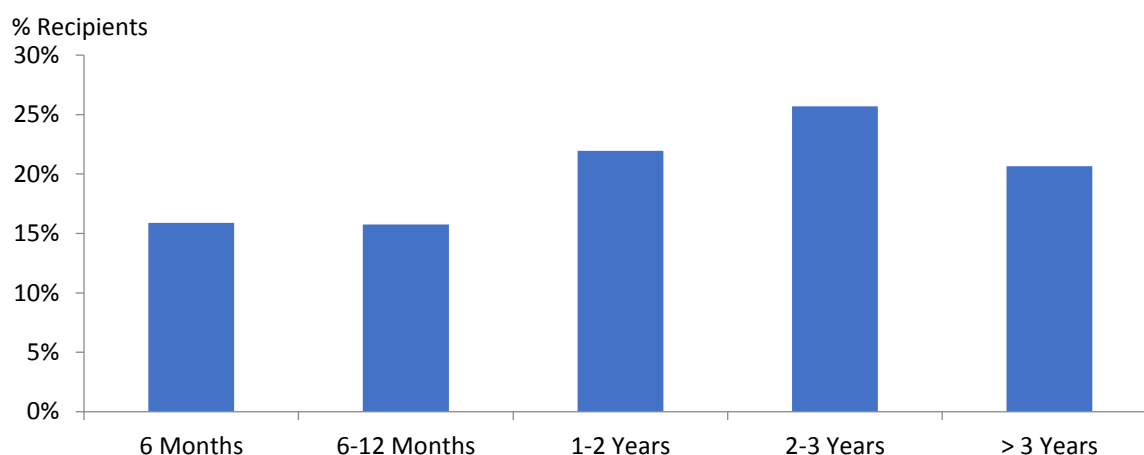


Table 3.4.2 provides the main distribution statistics for the total population as well as by incapacity type. For the whole population, the mean duration was 672 days, with the shortest duration being 7 days and the longest being 1,417 days, or almost 4 years. Essentially, those recipients with the longest durations can be understood to have been on PCB continuously since its introduction.

When the durations are broken down by incapacity code, there is variation in the mean durations; however, the minimum and maximum durations remain consistent. Those with Severe incapacity have the lowest duration at 637 days on average, while Profound incapacity cohort has the longest with an average duration of 692 days. They also have the lowest and highest maximum durations respectively.

Table 3.4.2: Duration by Incapacity Type

	Min	Mean	Median	Max
Moderate	14	666.03	661	1402
Severe	28	637.25	612	1386
Profound	7	691.99	704.5	1417
Total	7	672.07	665	1417

3.4.4 Key Findings

- The PCB is small in respect of the volume of recipients and cost.
- PCB does not seem to have significantly increased the numbers of PWD taking up employment;
- Recipients are typically female, aged 45 or older, married or in a civil partnership without dependants;
- Recipients are largely split between moderate and profound levels of incapacity;
- About half of recipients have been on PCB for over 2 years, with 1 in 5 on the scheme since the year of its introduction. While the duration does vary between levels of incapacity, the differences are not large.

3.5 *Summary of Compositional Analysis*

Drawing on the administrative data available from the DSP as detailed above, the following are the key highlights in respect of the schemes.

To begin with, as reflected in Table 3.5.1, there is a significant level of heterogeneity in regard to the profile of PWD recipients in each of the schemes. In terms of scale DA is by far the largest. IP and IB are similar in terms of numbers, while PCB is quite a small scheme by comparison. In regard to cost, notwithstanding the significant overall cost of DA, in regard to unit cost, IP is the most expensive. It was also noted that unlike the other three schemes, the cost of IP does not seem to be driven primarily by the number of recipients. The unique way in which the value of QCI's are calculated under the means assessment rules may go some way to explaining this discontinuity, however further research needs to be done to explain the trends revealed in this analysis.

In regard to the age profile, DA is the youngest mean age at 44 and IP is the highest at 56, while the mean age of IB and PCB recipients is 49 each. In terms of gender, only DA has a majority of male recipients. However, IB and PCB both have double the number of females over males. Finally in terms of household composition DA stands out with 63% of its recipients classified as single. In each of the other schemes the same proportion is married or in a civil partnership. On the other hand in each of the schemes about three quarters or more had no dependants.

Table 3.5.1: Summary Profile of Main Schemes

	DA	IP	IB	PCB
No. Recipients	124,807	55,115	55,540	1,612
Expenditure	€1282m	€649m	€596m	€11.5m
Unit Cost	€10,272	€11,775	€10,731	€7,134
Mean Age	44	56	49	49
Female	41.9%	54.9%	65.0%	62.8%
Single	63.1%	18.2%	22.2%	23.4%
% without Dependants	80.8%	75.1%	78.8%	74.4%

There are also a number of issues concerning the duration of recipients in regard individual schemes. First, in DA a significant minority of current recipients originally were DPMA recipients. These individuals would have been subject to a different eligibility regime when they first entered DPMA. Furthermore, they were automatically enrolled into DA when DPMA was abolished. Unfortunately, much of the information pertaining to their circumstances was not carried across from the D/Health at the time. Consequently, it is not possible to identify how long this cohort has been in receipt of a disability related support beyond noting that the DPMA cohort have been in payment for 20 years or more.

Interestingly, an equivalent number of IP recipients have also been in payment for in excess of 20 years. Indeed the mean and median duration of IP is very similar to DA when the entire DA population is included. However, given the lack of information available regarding former DPMA recipients, it is not possible to explore these similarities to any meaningful degree.

The IB cohort also has a distinctive profile in terms of duration. The introduction of the two year limit in 2009 has divided the population into two groups. It may be useful in future to analyse the profiles of the pre-2009 and post-2009 recipients to assess whether the introduction of the two year limit has had any impact upon the characteristics or behaviour of IB recipients.

A final set of issues concern the take up of SWA. While PWD are significant users of the SWA schemes in general, DA and IP stand out. In part this may be explained by income. As revealed in the earnings analysis of DA, the mean level of earnings amongst PWD is quite low. Moreover, social welfare payments are likely to be the main source of income for PWD in receipt of illness and disability schemes. It therefore stands to reason that DA and IP recipients may be more reliant upon schemes like SWA to help cover the cost of specialised diets or the cost of heating.

Part 4: Disability and Illness Schemes Case Studies

How individuals respond to financial incentives will vary based on a variety of contextual factors including age, relationship status, the number of child or adult dependants and access to other supports. To examine how the rules of each scheme affect financial incentives, this analysis uses a series of Case Studies to model scenarios based on different contextual settings. It will then assess the interaction between the rules and the financial incentive to participate in employment. The Case Studies have been constructed using assumptions based on the 2016 tax and benefit system²¹. The Case Studies have been constructed to be representative of the profile of recipients of the schemes as revealed in the previous compositional analysis in Part 3.

In regard to DA, the Case Studies look at a single DA recipient scenario as the compositional analysis revealed that this was the most common situation faced by DA recipients. As identified in Part 2, DA has different assessment rules to deal with different types of income. To examine this in terms of financial incentives, the paper also looks at couples where there is one DA recipient and the partner has an income either from employment or from another social welfare scheme, which also includes a child dependent. A further series of issues concerning DA relate to younger recipients, in particular where other family members may be claiming supports on behalf of the DA recipient as carers. To examine these situations, the paper looks at a CA Case Study and a DCA Case Study.

IP, IB and PCB do not have the same level of complexity in terms of how the schemes assess income. Moreover, they are not considered means-tested schemes as eligibility is conditional upon social insurance contributions. With that in mind, the Case Studies for IP, IB and PCB focus on a single recipient scenario and also on couples with a child dependent, where the partner has earnings from employment to capture compositional factors. The PCB Case Studies also account for which feeder scheme the recipient is entering PCB from.

Methods

There are a number of methods to measure the financial incentive to participate in the labour market and the risk of welfare traps. Welfare traps occur when a person's net income when employed compares favourably with his/her net income when unemployed thereby resulting in a disincentive to work. This study uses the Replacement Rates (RR) and the Marginal Tax Benefit Withdrawal Rate (MTBWR)

²¹ See Appendix for further detail

Replacement Rate

The RR gives an individual's out of work income, such as social insurance or assistance payments, as a ratio of his/her in-work income, such a net income from earnings²². The higher the ratio of out-of-work income to in-work income, the less of an incentive there is for an individual to be in paid employment.

$$RR = \frac{\text{net income out of work}}{\text{net income in work}}$$

Given the individual nature of the decision to work there is no specific cut-off level of replacement rate that constitutes a disincentive. In general particular attention is paid to replacement rates of 70% or more²³.

The net income in work is derived using the an earnings level equivalent to full-time employment at the national minimum wage (NMW) which was €9.15 per hour in 2016. The compositional analysis revealed that the mean earnings levels amongst PWD were for the most part quite low. Therefore to provide a realistic view of incentive structure faced by PWD in particular it is appropriate to select an earnings level that is representative of the labour market environment they find themselves in.

Marginal Tax Benefit Withdrawal Rate

The MTBWR is the amount of gross income taken in tax and withdrawn benefits when people enter employment. It captures the “cost in lost benefits” of moving into or increasing employment and provides an insight into how aligned the tax-benefit structure is at incentivising employment.

It divides the change in net income as an individual moves from one level of earnings to another by the change in earnings. In doing so is provides a measure of the proportion of income that is ‘lost’ through lower benefits, higher deductions etc. by increasing earnings.

$$MTBWR = 1 - \left(\frac{\text{Change in Net Income}}{\text{Change in Earnings}} \right) * 100$$

In general the higher the MTBWR, the less of an incentive there is for labour market participation and vice versa. A MTBWR that is zero or negative, indicates that the individual experienced no loss in increasing labour market participation, however, an MTBWR of 100% indicates that all of an individual's earnings would be taken from them through tax or benefit reductions so as to leave them no better off from working.

²² Income from earnings is calculated as income net PRSI, USC and PAYE. For an outline of the tax assumptions underpinning the case studies please refer to the Appendix.

²³ For a discussion of measures of the incentive to work see Callan et al. (2016) ‘Financial Incentives to Work: Comparing Ireland and the UK’ at: <https://www.esri.ie/publications/financial-incentives-to-work-comparing-ireland-and-the-uk/>

4.1 Disability Allowance Case Studies

The DA Case Studies have been designed to capture two dimensions: first, to be a representative of the typical circumstances facing recipients drawing on the findings derived from the compositional analysis in Section 3.1.; second, to examine particular issues pertaining to the design of the scheme. To achieve this five Case Studies have been prepared:

- Single DA recipient with no children;
- Married couple, one DA and one JA recipient with one child;
- Married couple, one DA and one part-time earner with one child;
- Single DA recipient aged 18 with parent in receipt of CA;
- Single DA recipient aged 16 where family was claiming DCA previously.

4.1.1 Disability Allowance Single Recipient with No Dependants

4.1.1.1 Case Study Specifications

In this Case Study the following assumptions are used to frame the incentives analysis:

- A single individual DA recipient living alone;
- Aged between 26 and 66 years old;
- No child or adult dependants and not claiming any carer support for another person.

In this Case Study, the financial incentive is examined in terms of the main financial supports available to typical recipients of disability and illness schemes that fall within the income ranges affected by the rules of the primary scheme. In this case these include the primary DA payment and the relevant secondary supports. The Medical Card and GP Card will be considered in terms of their cut-off points. Carer's Allowance and the Family Income Supplement are excluded as they do not apply in this case.

4.1.1.2 Income Profile

Table 4.1.1.1 below details how the means test interacts with income as referenced against different levels of income. As can be seen, the maximum possible rate for DA in this case is €188 per week in the absence of earnings. As the DA recipient has no dependants, the most that can be paid is the maximum personal rate of €188. Note a single recipient can earn up to €120 and still receive the full rate of DA. However, as income increases beyond the earnings disregard the personal rate is adjusted downwards.

Where a person's earnings are €183 per week, the equivalent of working part-time (approx. 20 hrs p.w.) at NMW, the personal rate is reduced to €158 to account for the additional earnings from employment.

Therefore the total household income would be €341.00 per week. Where a person is earnings the equivalent of working full-time (approx. 40 hrs p.w.) on minimum wage, net earnings are approximately €345 after deductions²⁴, the applicable DA rate is €65.50. This amounts to a total household income of €410 per week.

Table 4.1.1.1: Household Income by Source, Single DA with No Dependents

	Gross Income	A) Net Income	B) DA Rate	(A + B) Total Income
No Earnings	€ -	0	€188.00	€188.00
Rehabilitative Earnings Disregard	€ 120.00	€120.00	€188.00	€308.00
PT NMW	€ 183.00	€183.00	€158.00	€341.00
FT NMW	€ 366.00	€344.93	€65.50	€410.47

As noted above, the rate of DA is related to the level of income, for every €2.50 of assessable means, the rate of DA payable diminishes by €2.50. The graph at Figure 4.1.1.2 breaks down total income for a single DA recipient, who is working on the national minimum wage (NMW), into earnings from work, from DA, and from secondary supports. It also includes the cut-off points for the Medical Card and GP Card based on family composition²⁵.

Note the value of the secondary supports is estimated at weekly value of €42.65 (see Table 4.1.1.2 below). This remains constant as recipients move up the earnings distribution until the maximum earnings threshold for DA which is €422.50 income for a single person. Above this level, single recipients are no longer automatically eligible for a DA payment or any of the other specified other supports.

²⁴ As discussed earlier, the means test for DA assesses income less PRSI only. However, when modelling the household income the study uses net income as derived from gross income less PRSI, PAYE and USC. Moreover, for the purposes of this study the DA applicant is assumed to have a Medical Card and therefore receive the reduced rate of USC. See Appendix X for more detail.

²⁵ Precise estimates for the value of the Medical and GP Cards are not available. However, recent work by DPER using the average cost of pharmacy and GP payments have estimated the value of the Medical Card and GP Card at €973.26 and €243.08 respectively (for more detail see <http://igees.gov.ie/wp-content/uploads/2014/11/Primary-Care-Reimbursement-Scheme.pdf>). These estimates however, are indicative and would not be generalizable to PWD for which the value may be greater. Therefore, this analysis of the Medical Card and GP Cards is confined to the income limits rather than value.

Table 4.1.1.2: Secondary Supports

	Weekly Value
Household Benefits	
Electrical/Gas Allowance	€8.08
TV Licence	€3.08
Fuel Allowance*	€22.50
Living Alone Increase	€9.00
Total	€42.65

* Fuel Allowance is paid for 26 weeks per year

Figure 4.1.1.1 shows that as the person's earnings from work increases (horizontal axis) his/her DA payment decreases. Earnings up to €120 do not affect DA payment. Where a recipient is working part-time (20hrs p.w.) at the NMW earning €183 per week from employment, approximately 41% of his/her income is provided by DA, while 48% is from earnings²⁶. However where a recipient is working full-time (40hrs p.w.) at NMW, the proportion of income provided by DA is 14% compared with 77% from earnings.

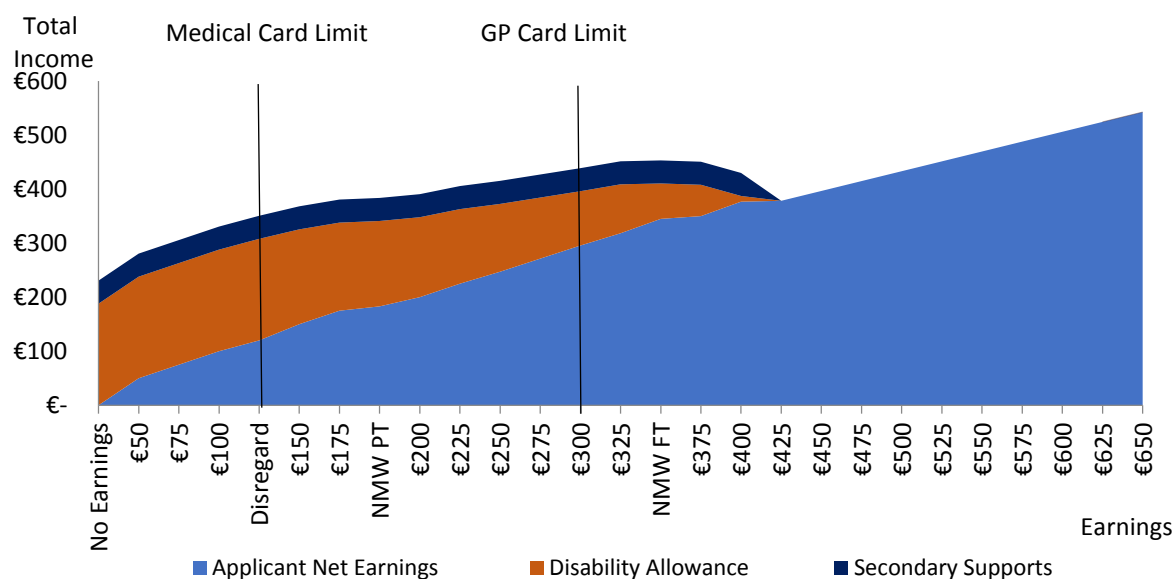
The maximum income possible for a single person, while also retaining the minimum DA payment of €3.00 is €423 per week. Together with a DA rate of €3 and the value of the secondary supports, the total weekly value of payments and earnings equates to €468.15 per week. However as soon as the DA recipient exceeds the upper threshold, he/she will also lose the automatic qualification to the secondary supports. This equates to a drop in total income of €45.15, about 10%. Note this is driven by the loss of the secondary supports package. Due to the tapered structure of DA, there is no significant 'income cliff' in respect of the core DA scheme, once the recipient exceeds the maximum means threshold. When secondary supports are excluded, the loss in income is less than 2%.

Figure 4.1.1.1 also highlights the relevant income threshold for eligibility for the Medical Card and GP Card. Under the Medical Card rules, €184 is the maximum income level for a single recipient living alone once the relevant disregards are applied. Those disregards include the €120 for rehabilitative employment for DA. In this case, the recipient's total income (DA + earnings from work) exceeds €184 at the point where earnings increase beyond the €120 disregard.

The GP Card means limit is €276 after disregards, including the €120 rehabilitative employment disregard. As shown in Figure 4.1.1.1, total income (DA + earnings from work) exceeds the cut-off when gross earnings reach approx. €300 p.w.

²⁶ Note the residual is composed of the value of the secondary supports which remains constant.

Figure 4.1.1.1: Income by Source, Single DA with No Dependents



4.1.1.2 Incentives Analysis

To examine the incentive dynamics associated with the DA means assessment rules, the study applies a MTBWR analysis. It divides the change in net household income; that is total income from earnings plus the value of the DA payment, as an individual moves from one level of earnings to another by the change in earnings. In doing so it provides a measure of the proportion of income that is 'lost' through lower benefits, higher deductions etc. by increasing earnings.

In Table 4.1.1.3, the MTBWR is calculated at different points on the earnings distribution. The incentive for moving from no earnings to €120 is clear as the MTBWR is zero. However, approximately 16% of the increase in earnings from going from €0 to €183, the equivalent of part-time employment at NMW, (i.e. 20 hours per week) is lost. This reflects that the rate of DA is now falling as earnings increase. The MTBWR associated with the move from no earnings to full-time equivalent earnings at the NMW, is over a third of the gain in earnings. These results indicate that as DA recipient's increase their earnings beyond the level of the €120 disregard the loss in DA is an increasing proportion of the gain in net income. This means proportional benefit from increasing earnings is being reduced indicating an increasing disincentive effect.

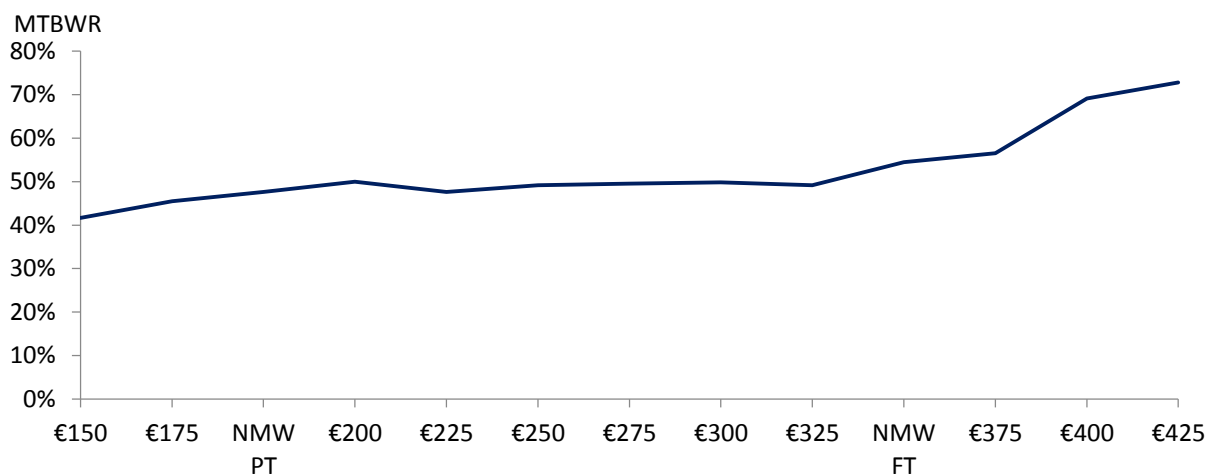
**Table 4.1.1.3: MTBWR Estimates by Income Range,
Single DA with No Dependants**

Range	MTBWR
No Earnings to Disregard	0%
No Earnings to Part-time	16%
No Earnings to Full-time	39%

As identified in Figure 3.1.3 earlier, there was some evidence to suggest that the weekly earnings of many of DA recipients that engage in employment tend to be clustered around the €120 disregard level. This is unsurprising given that the MTBWR for earning up to €120 is zero and it is only after this point that the DA rate is reduced. Therefore it may be more useful to model incentives using the €120 disregard as the reference point rather than not being in employment.

To explore this Figure 4.1.1.2 maps out the range of MTBWR estimates associated with the change in income from €120 up until the point where eligibility of DA is lost. As can be seen, the MBTWR is 42% at €150, indicating that the increase in earnings from €120 to €150 corresponded to a loss in income from DA of 42%. This is not an insignificant trade-off for a DA recipient considering increasing earnings beyond €120. At €200 in earnings, the MBTWR is 50% and does not begin to rise again until earnings exceed €325. At the point where earnings exceed the maximum threshold for DA, the MBTWR has risen to more than 70%.

Figure 4.1.1.2: MTBWR Estimates, Single DA with No Dependants



4.1.1.4 Key Findings

In the case of a single DA recipient with no dependants the above analysis has identified the following issues:

- The analysis of household income showed that the tapered reduced DA rates ensure that the change in household income as earnings increase is smooth and free of abrupt changes. Moreover once earnings exceed the maximum threshold for DA there is a slight reduction in overall income but not enough to be considered a significant income cliff.
- However as revealed by the MTBWR estimates the withdrawal of income from DA after the €120 is not insignificant. While the MBTWR does not dramatically increase beyond 50% until earnings begin to approach the equivalent of full-time earnings at the NMW, at half the value of the gain in income, the loss in DA is likely to have a negative incentive effect.

Taken together, these findings indicate that while there is an incentive to work up to the level of disregard, the DA rules governing the treatment of income can result in a significant trade-off after the disregard. The dis-incentive effect is likely to be exacerbated when the value of secondary supports or the potential loss of the Medical Card are also considered.

4.1.2 Disability Allowance Couple, one DA and one JA recipient, with a Child Dependant

4.1.2.1 Case Study Specifications

This Case Study outlines the financial implications of engaging in employment for a single individual who is claiming DA and has an adult and child dependant. This Case Study is premised on the following assumptions:

- A couple with one DA recipient and one JA recipient;
- Aged between 26 and 66 years old;
- The couple has one child dependant.

In this Case Study, the financial incentive is examined in terms of the main financial supports available to typical recipients of disability and illness schemes that fall within the income ranges affected by the rules of the primary scheme. In this case these include the primary DA payment and associated allowances for dependants, the relevant secondary supports and the Family Income Supplement. The Medical Card and GP Card will be considered in terms of their cut-off points. FIS will also be included in the analysis.

In addition to DA, recipients may also have recourse to a number of other supports from the DSP and HSE. The DSP schemes include FIS as well as secondary supports such as household benefits, free travel, the fuel allowance and supplements under the SWA scheme. Under HSE guidelines, DA recipients also may be eligible for the Medical Card or GP Card subject to a means test.

4.1.2.2 Income Profile

Table 4.1.2.1 below details how the means test interacts with income as referenced against different levels of income. In this case the rate of DA and JA are dependent upon the level of earnings of the DA recipient. As noted in the discussion of scheme eligibility rules in Part 2, in DA and JA couple households, the Moiety rule is applied in cases where the partner also has a JA claim. In this circumstance, only half of the assessed means are applied to the rate calculation of the individual DA and JA rates.

As can be seen, the maximum possible family rate for DA in this case is €202.90 per week²⁷ and for JA is €202.90 per week in the absence of earnings. That is comprised of the maximum personal rate of €188, and the half-rate qualified increase for a child dependant €14.90 for both DA and JA.

A DA recipient can earn up to €120 and still receive the full personal rate of DA plus increases for dependants under the disregard for rehabilitative earnings. However, the JA partner does not have recourse to this disregard. Therefore in this case, while the partners JA rate declines as earnings increase, the DA recipient can still retain the maximum personal rate. As a result, where the DA recipient is earning €120, household income is €507.90 which is also the point where the household is maximising its total income while retaining a JA and DA payment.

Where the DA recipient is earning the equivalent of part-time wages at the minimum wage (approx. 20 hrs p.w.), the DA rate is reduced to €187.90 while the JA rate for the partner is reduced to €166. Therefore the total household income is €536.90 per week including increases for dependants. Where a person is working full-time (approx. 40 hrs p.w.) on minimum wage, net earnings are approximately €355 after deductions²⁸, the applicable rates for DA and JA are €140.40 and €113 respectively. When added together this amounts to a total household income of €608.70 per week. Under this scenario, total means are never below the threshold for FIS. Therefore, this couple cannot claim FIS.

²⁷ Note the DA rate is rounded down to the nearest €2.50

²⁸ Net earnings are gross earnings from employment less PAYE, PRSI and USC. In this Case Study the DA applicant is part of a married couple and is therefore subject to the Married or Civil Partner's Personal Tax Credit. For more detail see the following link: <http://www.revenue.ie/en/tax/it/leaflets/it2.html>

Table 4.1.2.1: Household Income by Source, DA + JA Couple + 1 Child Dependant

	Gross Earnings	A) Net Earnings	B) DA	C) JA	(A+B+C) Total Household Income
No Earnings	0	0	€202.90	€202.90	€405.90
Rehabilitative Earnings Disregard	€120.00	€120.00	€202.90	€185.00	€507.90
PT NMW	€183.00	€183.00	€187.90	€166.00	€536.90
FT NMW	€366.00	€354.67	€140.40	€113.00	€608.70

As noted above, the rate of DA is related to the level of income, for every €2.50, the rate of DA payable diminishes by €2.50. The graph at Figure 4.1.2.2 breaks down total income for this case study into its components including earnings from work, from DA, JA and from secondary supports. It shows that as the person's earnings from work increases (horizontal axis) his/her DA payment decreases. It also includes the cut-off points for the Medical Card and GP Card based on the family size²⁹. In this scenario, the household will lose eligibility for the GP card on a means basis as soon as the DA recipient exceeds €50 per week.

Note the value of the secondary supports is estimated at weekly value of €33.66 (see Table 4.1.2.2 below). This remains constant as recipients move up the earnings distribution until the maximum earnings threshold for DA. Above this level, recipients are no longer eligible for a DA payment or any of the other specified supports.

Table 4.1.2.2: Secondary Supports

	Weekly Value
Household Benefits	
Electrical/Gas Allowance	€8.08
TV Licence	€3.08
Fuel Allowance*	€22.50
Total	€33.66

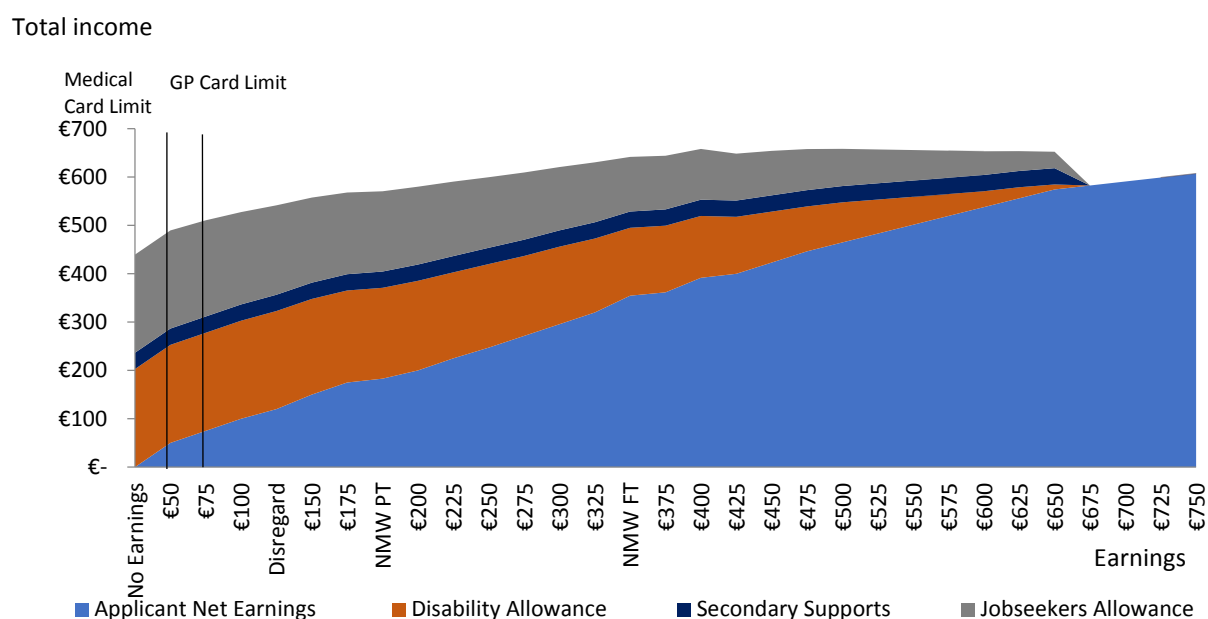
* Fuel Allowance is paid for 26 weeks per year

²⁹ In the Case Study the analysis of the Medical Card and GP Cards is confined to the income limits rather than value.

Figure 4.1.2.1 shows that as the person's earnings from work increases (horizontal axis) his/her DA payment decreases. Earnings up to €120 do not affect DA payment. At the €120 disregard, less than a quarter of income is provided by earnings. Where the DA recipient is earning the equivalent of part-time hours (20hrs p.w.) at the NMW, earning €183 per week from employment, approximately a third of his/her income is provided by earnings while over 61% is accounted for by DA and JA. However, where the DA recipient is earning the equivalent of working full-time (40hrs p.w.) at NMW, the proportion of income provided by DA and JA is approximately 39%, while earnings account for 56%.

It is notable that in this household the DA recipient would lose eligibility for a Medical Card or GP Card as soon as she begins to earn any income from employment. However, given the dependence of both individuals in the household on social welfare payments as the main source of income it is likely that the DA recipient would qualify under the HSE or social welfare income exemption, at least up to the €120 disregard level. Moreover, this household may also meet the exemption for "undue hardship" especially given the presence of a dependent child.

Figure 4.1.2.1: Total Income by Source Incl. DA + Secondary Supports, DA + JA Couple + 1 Child Dependant



4.1.2.3 Incentives Analysis

In Table 4.1.2.3, the MTBWR is calculated at different points on the earnings distribution. The incentive for moving from no earnings to €120 is clear as the MTBWR is 15%, in other words the loss from benefit withdrawal and tax increases equates to 15% of the overall increase in income. However, as earnings increase further, the MBTWR also rises; approximately 28% of the increase in income from going from €0 to €183 per week is lost. At the level of full-time equivalent earnings the MTBWR associated with increasing

from no earnings is 45% of the gain in earnings. This is a significant trade-off in terms of the incentive to earn more. These results point to an increasing disincentive effect as DA recipient's increase their earnings.

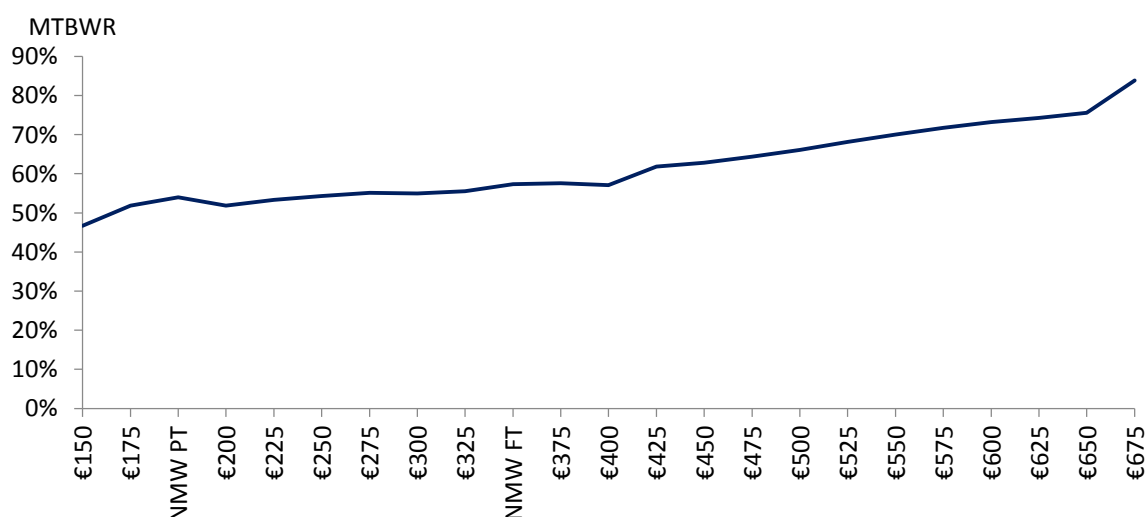
**Table 4.1.2.3: MTBWR Estimates by Income Range,
DA + JA Couple + 1 Child Dependant**

Range	MTBWR
No Earnings to Disregard	15%
No Earnings to Part-time	28%
No Earnings to Full-time	45%

As discussed in Section 4.1.2.2 above, the DA recipient can work up to the level of the €120 disregard before he/she has to worry about losing benefits. Therefore, it may be useful to model incentives using the €120 disregard as the reference point rather than not being in employment.

To explore this Figure 4.1.1.2 maps out the range of MTBWR estimates associated with the change in income from €120 up until the point where eligibility of DA is lost. As can be seen, the MBTWR is at 47% at earnings of €150, indicating that the loss in income from reduced DA associated with the increase in earnings from €120 to €150 equated to 47% of the increase in total household income. At €175, the MBTWR is higher than 50% which means the cost in terms of the DA rate is more than half the value of the gain in overall income. This highlights a growing dis-incentive effect. While the MBTWR does not rise particularly steeply until earnings exceed the equivalent of full time earnings at the NMW, at which point it is 57%, it nevertheless is rising. At the point where earnings exceed the maximum threshold for DA, approximately €644 in net income, the MBTWR is more than 84%.

Figure 4.1.2.2: MTBWR Estimates, DA + JA Couple + 1 Child Dependant



4.1.2.4 Key Findings

In the case of couple with a single child dependant, where one is a DA recipient and the partner is a JA recipient the above analysis has identified the following issues:

- While this household derives most of its income from social welfare payments, it nevertheless is able to sustain a relatively high level of total household income, even before secondary supports are included. Indeed because the means are split between both partners, it is possible to retain a partial payment from both DA and JA up to in excess of €650 in gross earnings;
- On the other hand the MBTWR estimates for DA recipients already at €120 indicate a weak incentive to increase earnings significantly beyond this point. Indeed by €175 per week, the MBTWR already exceeds 50%. The MBTWR continues to rise albeit gradually until earnings exceed equivalent of full-time employment at the NMW. This increasing loss in terms of the reduced rates is likely to act as a dis-incentive.
- The Medical Card may also act to distort incentives in this scenario. As noted, the income cut-off points for both the Medical Card and GP Card are quite low in this scenario given the relatively high level of household income. While it is unlikely that the household would lose the Medical Card because of means, given the exemptions identified earlier, there is nevertheless the possibility that risk-averse DA recipients may be dis-inclined to increase earnings beyond the disregard threshold because retention of the Medical Card is no longer as certain.

Overall, these findings indicate that in this case, the means test rules do not provide a strong incentive to move beyond the €120 disregard level. Furthermore, the fact that the rehabilitative disregard of €120 is used in the Medical Card and the DA scheme is shown again to be of concern.

4.1.3 Disability Allowance Couple, one DA Recipient and the Partner in Employment, with a Child Dependant

4.1.3.1 Case Study Specifications

This Case Study outlines the financial implications of engaging in employment for a single individual who is claiming DA and has an adult and child dependant. This Case Study is premised on the following assumptions:

- A couple where there is one DA recipient and the spouse in part-time employment earning €183 per week (20 hours employed at NMW);
- Aged between 26 and 66 years old;

- There couple has one child dependant.

In this Case Study, the financial incentive is examined in terms of the main financial supports available to typical recipients of disability and illness schemes that fall within the income ranges affected by the rules of the primary scheme. In this case these include the primary DA payment and associated allowances for dependants and the relevant secondary supports. The Medical Card and GP Card are considered in terms of the relevant cut-off points.

4.1.3.2 Income Profile

Table 4.1.3.1 details how the DA means test interacts with household income as referenced against different levels of earnings. As can be seen the maximum possible family rate in this case is €270.10 per week in the absence of earnings. This includes a personal rate of €115 plus the maximum rates for a qualified adult and child. This amounts to a total household income of €453.10 when the partner's earnings are included. At the €120 disregard, this rises to €573.10.

At earnings equivalent to working part-time at NMW, the DA rate falls to €237.60 to account for earnings from employment in excess of the disregard. Therefore total household income is €603.60. At earnings equivalent to working full-time at NMW, the applicable DA rate is €145.10. When added to net earnings³⁰ and the partner's earnings from work, the total household income is €682.77. Indeed, under this scenario it is possible to retain the minimum DA payment up to a gross earnings level of €525, which would be €666 in net household income.

Note, that in this scenario, neither person in this household can qualify for FIS based on means, except where the DA recipient has no earnings. At this point, if the partner is working part-time (i.e. 19 hours per week) at the NMW, the partner could claim FIS. However, as soon as the DA recipient begins to earn wages, household income would exceed the €511, the FIS income limit for a single child household, and the partner would lose eligibility.

³⁰ Net earnings are gross earnings from employment less PAYE, PRSI and USC. In this Case Study the DA applicant is part of a married couple and is therefore subject to the Married or Civil Partner's Personal Tax Credit. For more detail see the following link: <http://www.revenue.ie/en/tax/it/leaflets/it2.html>

Table 4.1.3.1: Household Income by Source, DA + Earner Couple + 1 Child Dependant

	Gross Earnings	A) Net Earnings	B) DA	C) Partner Earnings	(A+B+C) Total Household Income
No Earnings	0	0	€270.10	€183.00	€453.10
Rehabilitative Earnings Disregard	€120.00	€120.00	€270.10	€183.00	€573.10
PT NMW	€183.00	€183.00	€237.60	€183.00	€603.60
FT NMW	€366.00	€354.67	€145.10	€183.00	€682.77

The DA recipient may also be eligible for a number of secondary supports in this scenario. The value of the secondary supports is estimated at weekly value of €33.66 (see Table 4.1.3.2 below). This remains constant as recipients move up the earnings distribution until the maximum earnings threshold for DA. Above this level, recipients are no longer eligible for a DA payment or any of the other specified other supports.

Table 4.1.3.2: Secondary Supports

	Weekly Value
Household Benefits	
Electrical/Gas Allowance	€8.08
TV Licence	€3.08
Fuel Allowance*	€22.50
Total	€33.66

* Fuel Allowance is paid for 26 weeks per year

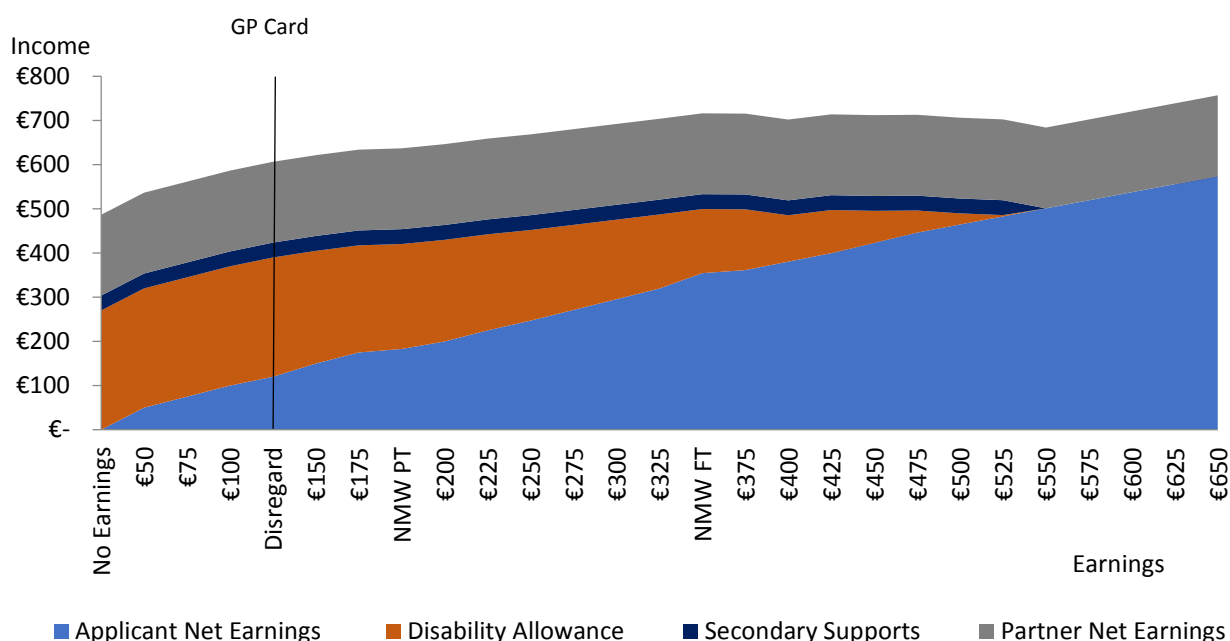
Figure 4.1.3.1 below breaks down the total household income in this Case Study into its component parts at various levels of earnings. It also includes the cut-off points for the Medical Card and GP Card where they apply. The chart shows that as a person's earnings increase (on the horizontal axis), the value of his/her DA payment decreases. Earnings up to €120 do not affect the DA payment.

At the disregard level, 52% of household income is derived from welfare payments including secondary supports. Where the DA recipient is at part-time equivalent earnings, the balance has shifted to where the combined earnings of the recipient and his/her partner constitute 58% of household income. At full-time equivalent earnings, DA and secondary supports account for a quarter of household income. Note also that at this point, the household is maximising its income. The total household income is €716.43 composed of

the DA recipient's net earnings (less PAYE, PRSI and USC) which is €354.67, the partner's net earnings of €183 plus DA at €145.10 and secondary supports at €33.66.

In this Case Study, the combined means for the household exceed the maximum threshold for the Medical Card at any level of earnings. While in financial terms the household would not qualify for a Medical Card, this does not preclude retention of the Medical Card for the other reasons as discussed earlier. The means limit for the GP Card is exceeded once earnings are greater than the €120 disregard level.

Figure 4.1.3.1: Total Income by Source Incl. DA + Secondary Supports, DA + Earner Couple + 1 Child Dependant



4.1.3.3 Incentives Analysis

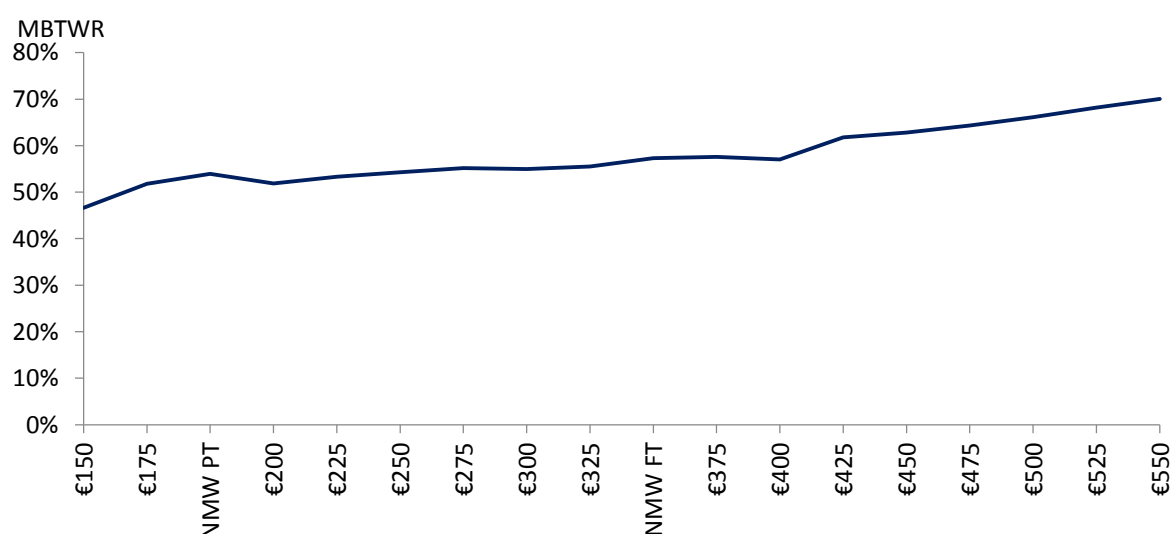
In Table 4.1.3.3, the MTBWR is calculated at different points on the income distribution. The incentive for moving from no earnings to €120 is clear as the MTBWR is 0%, in other words there is no loss from benefit withdrawal and tax increases up to €120. However, as earnings increase beyond the rehabilitative disregard, the MBTWR rises. At €183 the MBTWR is 18% highlighting the impact of the reduced DA payment. The MTBWR associated with the move from no earnings to full-time equivalent earnings at the NMW, is 37% of the gain in earnings. These results point to an increasing albeit weak disincentive effect as DA recipient increases his/her earnings under this scenario.

**Table 4.1.3.3: MTBWR Estimates by Income Range, DA
+ Earner Couple + 1 Child Dependant**

	MTBWR
No Earnings to Disregard	0%
Disregard to Part-time	18%
Part-time to Full-time	37%

As noted earlier it is also useful to look at the incentives from the position of the disregard onwards. Figure 4.1.3.2 below maps out the MBTWR associated with moving above €120 per week. The picture here is notably different, insofar as the even at €150 the MBTWR is already at 47%. At €175 the MBTWR is now 52% reflecting that the cost in terms of the reduced DA is worth over half of the gain in household income. As with the other scenarios, the slope of the curve is relatively gradual as one moves along the earnings distribution. It is not until earnings begin to approach the maximum cut-off for DA that there is a notable increase and even then it only hits 70%.

Figure 4.1.3.2: MTBWR Estimates, DA + Earner Couple + 1 Child Dependant



4.1.3.4 Key Findings

In the case of couple with a single child dependant, where both the DA recipient and the partner are earning, the above analysis has identified the following issues:

- The analysis of household income showed that the tapered reduced DA rates ensure that the change in household income as earnings increase is smooth and free of abrupt changes. Moreover once

earnings exceed the maximum threshold for DA there is a slight reduction in overall income but not enough to be considered a significant income cliff;

- The MTBWR estimates the withdrawal of income from DA associated with the taper is not insignificant. Moreover, when examined in regard to moving beyond the €120 disregard, the MBTWR quickly exceeds 50% of the gain in overall income. While the MBTWR trend line is gradual is nevertheless is increasing and therefore represents an increasing dis-incentive effect;
- The presence of partner earnings will disqualify the DA recipient from the Medical Card on income grounds regardless of his/her level of earnings, even in the absence of earnings. On the other hand eligibility for the GP Card is not lost until earnings exceed the €120 disregard. As discussed earlier this is because both the Medical Card and GP Card means assessment rules include the €120 disregard for rehabilitative employment.

Taken together, these issues indicate there is no significant dis-incentive to increase labour market participation up to the €120 disregard based on the current means test rules for DA. The challenge emerges once earnings begin to increase beyond this point.

4.1.4 Young Disability Allowance Recipients

4.1.4.1 Case Study Specifications

The following are two scenarios exploring the income profile of households where the DA recipient is just come of working age and the recipient's parent is in receipt of a welfare support. The welfare supports include two scenarios where the parent is receiving full rate CA on behalf of the DA recipient and where the family receives DCA for a young person with a disability or illness who is turning 16 and applying for a DA payment.

The scenarios estimate the total income in the household by source and analyse the incentive structure by deriving marginal tax-benefit withdrawal rate (MTBWR) estimates. The MTBWR are based on moving from a no earnings scenario for the DA recipient to the earnings equivalent of 40 hours work per week on the NMW. As this concerns younger new entrants to the labour force, the sub-minimum NMW are appropriate. Two examples are used as details below:

Sub-minimum Wage Rates 2016:

Less than 18 years old:	€6.41 per hour
Over 18 years old in first year of employment:	€7.32 per hour

4.1.4.1 DA with Parent receiving CA

In this scenario, the baseline case has the DA recipient and the parent in receipt of a CA payment; both initially receive the full-rate. When all sources of income are added together including; the weekly value of secondary supports, €33.66; the weekly value of the Carer's Support Grant, €33.69; the CA and DA payments; the total weekly household income is €459.35.

In the under 18 case, where earnings are the equivalent of full-time employment at the NMW, the take home pay (net taxes) is €256.40. The earnings reduce the DA rate to €120.50. In addition, it is also assumed the parent will lose the CA payment and Carer's Support Grant³¹ as the DA recipient is employed full-time. When all sources of income are pooled, the overall weekly household income falls to €410.56.

The net gain in household income corresponds to a very high MTBWR. The gain in earnings accounts for a 119% opportunity cost in the reduction in benefits and increases in tax. In other words, the loss from reduced benefits and increased tax exceeded the value of the gain in earnings, resulting in a net loss in household income and a clear financial dis-incentive to participate in employment.

In the case of DA recipients aged over 18 in their first year of work, their net earnings for 40 hours work at the NMW is €292.80. This corresponds to a DA rate of €103 and also results in the loss of CA and the Carer's Support Grant. The total weekly income, including secondary supports, is then €429.46.

The MTBWR in this case is 110%. This is an improvement on the previous case, but is in excess of 100% of the gain in earnings and therefore represents a net loss in income and a financial dis-incentive.

³¹ This example models the case of a household where a person with a disability has been in receipt of a DA, and another member of the household has been in receipt of a CA in respect of that DA recipient. In the case study, the DA recipient moves into work, and the Carer becomes a Jobseeker, and claims Jobseeker Allowance (JA) from the Department of Social Protection. It is important to note that Carers Allowance and/or Carers Support Grant will not be lost in all cases where a person with a disability moves on to work. Further information on the Carer scheme is available from the Department of Social Protection (www.welfare.ie) or Citizens Information (www.citizensinformation.ie).

Table 4.1.4.2: Weekly Household Income for CA + DA Scenario

	No Earnings	> 18 NMW	< 18 NMW
DA	€ 188.00	€ 120.50	€ 103.00
Net Earnings	€ -	€ 256.40	€ 292.80
Parent's CA	€ 204.00	€ -	€ -
Secondary Supports	€ 33.66	€ 33.66	€ 33.66
Carers Support Grant	€ 33.69	€ -	€ -
Total Income	€ 459.35	€ 410.56	€ 429.46
MTBWR		119%	110%

4.1.4.2 DCA and DA

Domiciliary Care Allowance (DCA) is a monthly payment for a child aged less than 16 with a severe disability, who requires ongoing care and attention, substantially over and above the care and attention usually required by a child of the same age. It is not means tested. Once the child reaches 16, the household can no longer claim DCA on behalf of the child. However, if the child continues to meet the medical criteria, the child will qualify for DA.

In this instance, household income may potentially increase by €116.58 per week, the difference between DCA (€71.42 per week) and the full rate of DA (€188 per week). Moreover, the income from DA is paid to the DA recipient not the carer, such as the parent. Therefore, while the DA recipient has gained, this has come at a loss to the parent even if overall household income increases. Note the potential change to overall household income may vary where the DA recipient chooses to enter the labour market as the loss in income from a reduced DA is compensated for by the additional income from earnings. For more detail about how this may affect income please refer to the single DA Case Study in Section 4.1.1.

How exactly the transition from DCA to DA impacts financial incentives to participate in the labour market within the household will vary conditional upon individual household circumstances. It is not possible to model this effectively with the available information. However, it is very likely that such a change will alter decision-making as resources are reallocated within the household. The sudden financial independence granted to the 16 year old once he/she is awarded DA risks undermining the incentive to pursue further education or employment and consequently encouraging welfare dependence. Furthermore, the relatively low age of 16 as the threshold for DA, represents a discontinuity in respect of the rest of the social welfare system which treats 18 years old as the main entry point into the labour market.

4.1.4.3 Summary

While the two examples above are very limited and should be treated as indicative, they nevertheless highlight the impacts on other household members and how that may affect decision making.

In the first case, the CA claim and the Carer's Support Grant are conditional upon the carer requiring full-time care or attention. In such circumstances, participation in employment would disqualify the parent from claiming CA. Therefore in this scenario, once the DA recipient enters the workforce and has an income equivalent to full-time earnings on the NMW, it is assumed that they no longer require full-time care or attention. In addition, it is also evident that the household is worse off financially.

In the second case, the issue of DCA is addressed. In terms of an incentives analysis, it was not feasible to use MTBWR or RR analysis as with the other scenarios, given limited information to model the unique household dynamics associated with this transition point. However, all things being equal, it is not unreasonable to assume that the absence of a structured labour market activation process for 16 year olds, coupled with achieving sudden 'financial independence' at a young age, risks longer term welfare dependence. Moreover, implied in financial independence is the reallocation of income from parent to child which can have implications for the household budget and decision-making.

4.2 *Invalidity Pension*

4.2.1 Case Study Specifications

In this Case Study three different scenarios are used to frame the incentives analysis:

- A single individual IP recipient living alone, aged between 26 and 66 years old with no child or adult dependants and not claiming any carer support for another person;
- A couple with a child dependant including an IP recipient, aged between 26 and 66 years old, and a partner employed earning the equivalent of part-time earnings at the NMW;
- A couple with a child dependant including an IP recipient, aged between 26 and 66 years old, and a partner employed earning the equivalent of full-time earnings at the NMW.

As there is no provision within the IP scheme for the claimant to work, these case studies look at the financial incentive to work of the spouse/partner of the IP claimant. Where an IP claimant wishes to return to work, they may apply for PCB. The financial incentive is examined in terms of the main financial supports available to typical recipients of disability and illness schemes that fall within the income ranges affected by the rules of the primary scheme. In this case this includes the primary IP payment and associated allowances for dependants and the relevant secondary supports.

4.2.2 Income Profile

Table 4.2.1 details how the IP rules interact with household income as referenced against different family composition scenarios. As can be seen the income and composition of the household and the impact the value of the IP rate.

In respect of the single IP recipient with no dependants, the basic rate is €193.50 per week. Note the recipient may also qualify for secondary benefits such as LAA, Household Benefits and the Fuel Allowance as well as Free Travel. As shown in Table 4.2.2, these secondary supports have an estimated weekly value of €42.65. In total the household income is €236.15 per week. This person will lose all entitlement to basic IP and secondary benefits upon taking up work unless they qualify for PCB.

In the second case the IP recipient has a personal rate of €193.50 and can also claim a qualified adult increase for his/her partner of €81.60 and a qualified child increase of €24.80. When combined with the value of the secondary supports and the €183 of the partner's earnings, this equates to a household income of €521.50.

In the third case the IP recipient still retains the personal rate of €193.50; however, the couple are no longer eligible for the qualified adult increase for the partner as he/she is earning in excess of €310 per week. In addition the value of the qualified child increase is halved as the partners earnings are between €310 and €400. When added together the overall income including earnings, secondary benefits and the family rate for the household, the weekly income is €562.89.

Table 4.2.1: IP Household Income Scenarios

	Personal Rate	Adult Increase	Child Increase	A) Family Rate	B) Partner Earnings	C) Secondary Supports	(A+B+C) Household Income
Single	€193.50	-	-	€193.50	-	€42.65	€236.15
Couple Adult + Child Dependant	€193.50	€81.60	€29.80	€304.90	€183.00	€33.66	€521.50
Couple with Child Dependant	€193.50	-	€14.90	€208.40	€354.49	0	€562.89

Table 4.2.2: Secondary Supports

	Weekly Value
Household Benefits	
Electrical/Gas Allowance	€8.08
TV Licence	€3.08
Fuel Allowance*	€22.50
Living Alone Increase	€9.00
Total	€42.65

* Fuel Allowance is paid for 26 weeks per year

4.2.3 Incentives Analysis

Table 4.2.3 details the RR for each of the previously identified cases in Table 4.2.1³². The RR estimates have been calculated by dividing the IP family rate plus any other household income by the estimated weekly household income where the recipient is working full-time on NMW.

It is evident that the first case has the lowest RR at 56%, which increases to 68.5%, when secondary supports are included. These are both below the 70% threshold and therefore indicate that there is still a meaningful financial incentive to be in employment. In the second case concerning a couple with a child dependant, where the partner is working part-time, the basic RR in respect of household income is already above the threshold at 89.8%. Once secondary supports are included this rises to 97.8%.

In the third case; a couple with a child where the partner is working full-time, the RR is also above the threshold albeit not as high as the previous case. In this case the basic RR is 79.4% and 85.4% when secondary supports are included.

³² It is not possible for the IP applicant to work and receive a payment, unlike DA wherein it is possible for the applicant to retain a partial DA payment while in employment. Therefore, the RR analysis for IP is confined to a simple out of work versus in work framework. This also means that the RR and MTBWR are equivalent insofar as the RR captures the income out of work as a proportion of in work income, which is also the amount of income that is lost as a result of increasing earnings from zero to full-time equivalent earnings at the NMW. Therefore, the incentives analysis will focus on the RR only.

Table 4.2.3 Replacement Rates

	RR	RR incl. Secondary Supports
Single	56.1%	68.5%
Couple Adult + Child Dependant	89.8%	97.8%
Couple with Child Dependant	79.4%	85.4%

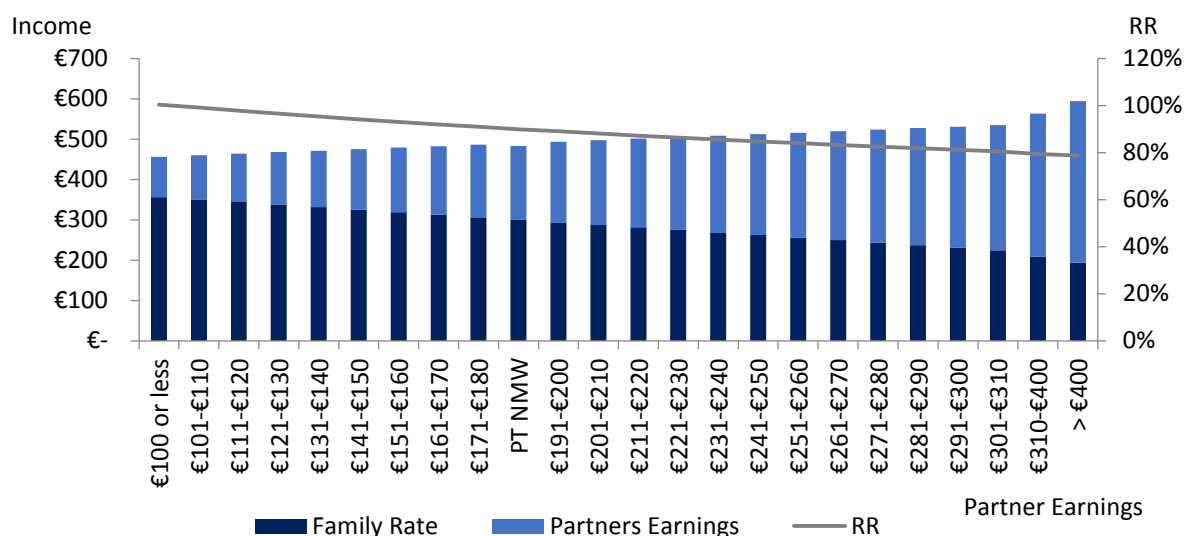
Note as discussed in Part 2 earlier, in the case of a couple, the IP rules treat their income differently to DA. Unlike DA, the value of the qualified adult increase is determined by the level of income the partner being claimed for has. It is therefore useful for the sake of completeness to examine the interaction between partner earnings and the RR when assessing the financial incentive for IP recipients to be in employment. Figure 4.2.1 below shows the relationship between the impacts of the partner's income on the overall household income and how that relates to the RR.

As can be seen, where the partner is earning €100 or less per week, the IP recipient is entitled to claim the full value of the qualified adult increase which for IP is valued at €138.10 per week. This results in a total weekly household income of €456.40, excluding any secondary supports. The associated RR in this case is 100%, which essentially means the income out of work is the same as the income in work, which indicates that in this situation there is no meaningful financial incentive to enter the labour market.

As the partner's income increases, the value of the qualified adult increase declines on average by €6.30 for every €10 of additional means. As noted in Table 4.3 above, where the partner is earning the equivalent of part-time wages on the NMW, the ICA has declined to €81.60, resulting in a corresponding RR of 89.8%. While this is an improvement, it nevertheless is too high in respect of the incentivising labour market participation effectively.

Once the partner earns in excess of €310, the recipient can no longer claim any IQA for his/her and will lose access to the household benefits package and fuel allowance. In addition the value of the QCI is halved. Therefore, as revealed in Table 4.1, where the partner earns the equivalent of full-time wages at the NMW, the family rate is €208.40, equating to a RR of 79.4%. Once the partner exceeds €400 in earnings, the recipient can no longer claim either an increase for an adult or a child. At this point, total household income is €594.50, which has an RR of 78.7%.

Figure 4.2.1: IP Income Distribution and Replacement Rates



4.2.4 Key Findings

In the case of couple with a single child dependant, where the partner are earning, the above analysis has identified the following issues:

- Of the disability and illness schemes, IP has the highest personal rate at €193.50, compared to €188 for DA recipients. Similarly the maximum IQA for IP is worth €138.10 compared to €124.80 for the other disability and illness schemes;
- The high RR for IP in the case of a couple where the partner is earning €100 or less also points to a significant obstacle to encouraging take up of employment. At this point, there is no appreciable gain for the household from the IP recipient engaging in full-time employment;
- It is also evident that RR in the case of a couple at no point is less that the threshold for a meaningful financial incentive.

Taken together, these issues indicate that when examined in terms of financial incentives, the rules governing IP eligibility are not aligned with promoting labour market participation.

4.3 Illness Benefit

4.3.1 Case Study Specifications

In this Case Study, the financial incentives analysis of IB will be examined through several dimensions. Using three family composition scenarios, household income will be modelled in regard to four different previous income scenarios³³. The three family composition scenarios are as follows:

³³ See Part 2 for full details on the interaction between previous levels of income and the personal rate of IB

- A single IB recipient living alone, aged between 26 and 66 years old with no child or adult dependants and not claiming any carer support for another person;
- A couple with a child dependant including an IB recipient, aged between 26 and 66 years old, and a partner employed earning the equivalent of part-time earnings at the NMW;
- A couple with a child dependant including an IB recipient, aged between 26 and 66 years old, and a partner employed earning the equivalent of full-time earnings at the NMW.

The financial incentive is examined in terms of the main financial supports available to typical recipients of disability and illness schemes that fall within the income ranges affected by the rules of the primary scheme. In this case this includes the primary IP payment and associated allowances for dependants and the relevant secondary supports.

4.3.2 Income Distribution

As detailed in Part 2, IB operates using a graduated personal rate conditional upon the level of earnings in the relevant tax year preceding the claim. As shown in Table 4.3.1 below, the value of the personal rate and the IQA are linked to earnings bands.

Table 4.3.1: IB Rates of weekly payment in 2016

Average earnings	Personal rate	Qualified adult rate
€300 or more	€ 188.00	€ 124.80
€220 - €299.99	€ 147.30	€ 80.90
€150 - €219.99	€ 121.40	€ 80.90
less than €150	€ 84.50	€ 80.90

Table 4.3.2 details how the interaction between household income, earnings and IB rates for different family composition scenarios. Starting the top band concerning IB recipients with average earnings of €300 or more per week, it can be seen that in the single recipient scenario, the recipient is receiving the maximum IB personal rate possible. In the couple with a child where the partner earns part-time NMW equivalent earnings, the household benefits from the full personal rate and the full IQA and IQC. Therefore family rate plus the partner earnings equate to €525.60 in weekly household income. In the third family scenario, there is no QAI as the partner is in full-time employment. Also the QCI is now halved. The overall net household income is therefore €557.39.

In the second band, where the recipient had an average of €250 per week, the family rate is reduced. In this case the personal IB rate is €147.30 and the QAI is €80.90. As a result the total household income for each of the family scenarios is reduced. In the single case, income is €147.30, a reduction of 22% on the top band. In the first couple scenario, household income is €441, a reduction of 16% and for the third scenario, the household income is 7% lower at €516.69.

In respect of the third band, the family rate is further reduced. First, in respect of the single IB recipient, the personal rate is now €121.40, a drop of 35% relative to the top rate. In The case of the couple, with a partner with part-time equivalent earnings at the NMW; the personal rate, QAI and QCI amount to a family rate of €227.10. The overall household income is now €415.10, approx. 21% lower than the top band. In respect of the full-time equivalent earner couple, the household income is €490.79, or 12% lower than the top rate.

The lowest band concerns IB recipients with €100 or less average weekly earners in the relevant tax year. In this scenario, the personal rate of IB is €84.50, or less than half of the full rate of IB. The QAI is also €80.90, therefore in the couple with full-time equivalent partner earnings scenario, the total household income falls to €378.20, or 28% less than the top band. Finally, in respect of the couple with full-time equivalent partner earnings, the total household income is €468.79, or 16% lower than the top band.

Table 4.3.2: IB Household Income Scenarios

Earnings Band	Family Scenario	Personal Rate	Qualified Adult	Qualified Child	A) Family Rate	B) Partner Earnings	(A+B) Total Income
€300	Single	€188.00			€188.00		€188.00
	Couple Adult + Child Dependant	€188.00	€124.80	€29.80	€342.60	€183.00	€525.60
	Couple with Child Dependant	€188.00		€14.90	€202.90	€354.49	€557.39
€250	Single	€147.30			€147.30		€147.30
	Couple Adult + Child Dependant	€147.30	€80.90	€29.80	€258.00	€183.00	€441.00
	Couple with Child Dependant	€147.30		€14.90	€162.20	€354.49	€516.69
€150	Single	€121.40			€121.40		€121.40
	Couple Adult + Child Dependant	€121.40	€80.90	€29.80	€232.10	€183.00	€415.10
	Couple with Child Dependant	€121.40		€14.90	€136.30	€354.49	€490.79
€100	Single	€84.50			€84.50		€84.50
	Couple Adult + Child Dependant	€84.50	€80.90	€29.80	€195.20	€183.00	€378.20
	Couple with Child Dependant	€84.50		€14.90	€99.40	€354.49	€453.89

4.3.2 Incentives Analysis

Table 4.3.3 details the RR for each of the previously identified cases in Table 4.3.2³⁴. The RR have been calculated by dividing the IB family rate plus any other household income by the estimated household income where the recipient is working full-time on the NMW.

³⁴ It is not possible for the IB applicant to work and receive a payment, unlike DA wherein it is possible for the applicant to retain a partial DA payment while in employment. Therefore, the RR analysis for IB is confined to a simple out of work versus in work framework. This also means that the RR and MTBWR are equivalent insofar as the RR captures the income out of work as a

It is evident that across each of the previous earnings bands, the lowest RR is for the single scenario. In addition, the RR in each scenario declines as the previous earnings bands. This reflects the link between social contributions and the value of benefits.

It is noteworthy however, that both couple scenarios have an RR either close to or beyond the 70% threshold notwithstanding which earnings band the IB recipient falls into. It is only in the lowest band that the RR for both couple scenarios is actually below 70% and even then it is still very close to the threshold.

Table 4.3.3: IB Replacement Rates

Earnings Band	Scenario	RR
€300	Single	54.5%
	Couple Adult + Child Dependant	96.9%
	Couple with Child Dependant	78.6%
€250	Single	42.7%
	Couple Adult + Child Dependant	81.1%
	Couple with Child Dependant	72.9%
€150	Single	35.2%
	Couple Adult + Child Dependant	76.3%
	Couple with Child Dependant	69.2%
€100	Single	24.5%
	Couple Adult + Child Dependant	69.4%
	Couple with Child Dependant	66.1%

4.3.4 Key Findings

In the case of couple with a single child dependant, where both the IB recipient and the partner are earning, the above analysis has identified the following issues:

- The top band faces the highest RR in each family scenario. As the bands decline in value, the household income in each family scenario also declines contributing to lower RR;

proportion of in work income, which is also the amount of income that is lost as a result of increasing earnings from zero to full-time equivalent earnings at the NMW. Therefore, the incentives analysis will focus on the RR only.

- The couple with a partner with part-time equivalent earnings has the highest RR of each of the scenarios across all bands. Only in the lowest earnings band of €100 or less does the RR for this couple scenario actually fall below the 70% threshold for a meaningful financial incentive and even then only marginally;
- The strongest financial incentive is found in the single scenario across all bands.

Overall, the main sources of distortion in respect of the financial incentive to participate in the labour market are the QAI and QCI. As seen in the single scenario, the personal rate is low enough to provide an incentive to move into employment.

However, once the increases for adult and child dependants are included, the incentive diminishes. This is particularly evident in respect of couple scenarios where the partner has an income commensurate with part-time earnings at the NMW.

4.4 Partial Capacity Benefit

4.4.1 Case Study Specifications

In this Case Study, the financial incentives analysis of PCB will be examined through several dimensions. Using three family composition scenarios, household income will be modelled in regard to the two feeder schemes IB and IP. The three family composition scenarios are as follows:

- A single PCB recipient living alone, aged between 26 and 66 years old with no child or adult dependants and not claiming any carer support for another person;
- A couple with a child dependant including an PCB recipient, aged between 26 and 66 years old, and a partner employed earning the equivalent of part-time earnings at the NMW;
- A couple with a child dependant including a PCB recipient, aged between 26 and 66 years old, and a partner employed earning the equivalent of full-time earnings at the NMW.

The financial incentive is examined in terms of the main financial supports available to typical recipients of disability and illness schemes that fall within the income ranges affected by the rules of the primary scheme. In this case this includes the primary PCB payment and associated allowances for dependants.

4.4.2 Income Profile

As detailed in Part 2, PCB operates using a graduated personal rate conditional upon the incapacity category the recipient is assessed and assigned to and which feeder scheme he/she came from, IB or IP. The value of any qualified adult and/or child increases is carried over from the previous feeder scheme. The following

section will breakdown the income implications in respect of the schemes and incapacity category for each of the scenarios in a series of tables, starting with Table 4.4.1 which deals with IB recipient's to PCB, with a Moderate Incapacity.

As shown in the Moderate case, the recipient qualifies for a personal rate of €94 per week, or 50% of the maximum rate. Assuming the recipient is working and earning the equivalent of full-time wages at the NMW, this would equate to a total income of €438.93. In the second family scenario involving a couple with the partner earning the equivalent of part-time earnings at the NMW, the total household income is €781.27. This is composed of the rate for Moderate Incapacity plus a QCI of €80.90 carried over from IB plus the full QCI rate and the earnings of both the recipient and his/her partner. In the third family scenario, there is no QAI as the partner is earning full-time equivalent wages at the NMW, and the QCI is halved as per the IB rules. The resulting total weekly household income is €818.06.

As shown in Tables 4.4.2 and 4.4.3, the composition of household income is replicated for the Severe and Profound Incapacity categories, with the exception of the differentiated personal rate, €141 and €188 respectively.

Table 4.4.1: PCB Income Breakdown IB Recipient with Moderate Incapacity

	Personal Rate	Qualified Adult	Qualified Child	A) Family Rate	B) Recipient Earnings	C) Partner Earnings	(A+B+C) Total Income
Single	€94.00			€94.00	€344.93		€438.93
Couple Adult + Child Dependant	€94.00	€124.80	€29.80	€248.60	€354.67	€183.00	€786.27
Couple with Child Dependant	€94.00		€14.90	€108.90	€344.53	€344.53	€797.96

Table 4.4.2: PCB Income Breakdown IB Recipient with Severe Incapacity

	Personal Rate	Qualified Adult	Qualified Child	A) Family Rate	B) Recipient Earnings	C) Partner Earnings	(A+B+C) Total Income
Single	€141.00			€141.00	€344.93		€485.93
Couple Adult + Child Dependant	€141.00	€80.90	€29.80	€251.70	€354.67	€183.00	€789.37
Couple with Child Dependant	€141.00		€14.90	€155.90	€344.53	€344.53	€844.96

Table 4.4.3: PCB Income Breakdown IB Recipient with Profound Incapacity

	Personal Rate	Qualified Adult	Qualified Child	A) Family Rate	B) Recipient Earnings	C) Partner Earnings	(A+B+C) Total Income
Single	€188.00			€188.00	€ 344.93		€532.93
Couple Adult + Child Dependant	€188.00	€80.90	€29.80	€298.70	€354.67	€183.00	€836.37
Couple with Child Dependant	€188.00		€ 14.90	€202.90	€344.53	€344.53	€891.96

Tables 4.4.4 to 4.4.6 below address the composition of household income in regard to PCB for IP recipients. As with IB recipient's, the increases for dependants are carried over from IP. Meanwhile, the personal rates of PCB are higher for IP recipients to also account for the IP personal rates. As can be seen in Table 4.4.3, the personal rate for Moderate Incapacity is €96.75 which is 50% of the basic IP personal rate, €193.50.

Table 4.4.4: PCB Income Breakdown IP Recipient with Moderate Incapacity

	Personal Rate	Qualified Adult	Qualified Child	A) Family Rate	B) Recipient Earnings	C) Partner Earnings	(A+B+C) Total Income
Single	€96.75			€96.75	€344.93		€441.68
Couple Adult + Child Dependant	€96.75	€81.60	€29.80	€208.15	€354.67	€183.00	€745.82
Couple with Child Dependant	€96.75		€14.90	€111.65	€344.53	€344.53	€800.71

Table 4.4.5: PCB Income Breakdown IP Recipient with Severe Incapacity

	Personal Rate	Qualified Adult	Qualified Child	A) Family Rate	B) Recipient Earnings	C) Partner Earnings	(A+B+C) Total Income
Single	€145.13			€145.13	€344.93		€490.06
Couple Adult + Child Dependant	€145.13	€81.60	€29.80	€256.53	€354.67	€183.00	€794.20
Couple with Child Dependant	€145.13		€14.90	€160.03	€344.53	€344.53	€849.09

Table 4.4.6: PCB Income Breakdown IP Recipient with Profound Incapacity

	Personal Rate	Qualified Adult	Qualified Child	A) Family Rate	B) Recipient Earnings	C) Partner Earnings	(A+B+C) Total Income
Single	€193.50			€193.50	€344.93		€538.43
Couple Adult + Child Dependant	€193.50	€81.60	€29.80	€304.90	€354.67	€183.00	€842.57
Couple with Child Dependant	€193.50		€14.90	€208.40	€344.53	€344.53	€897.46

4.4.3 Incentives Analysis

The incentives analysis for PCB has two dimensions. The first deals with the incentive to enter PCB from either of the feeder schemes, while the second then examines the incentive to exit support once a recipient has moved onto PCB.

In regard to the first dimension, the RR estimates have been calculated as the ratio of income while on IB and IP to the ratio of being in receipt of the relevant PCB payments and also earning the equivalent of full-time wages at the NMW. This allows an assessment of the financial incentive for IB and IP recipients to apply for PCB.

As can be seen in Table 4.4.7, the RR estimates indicate the presence of a financial incentive to enter PCB in all cases. The strength of the incentive is strongest for the single scenario across all earnings bands. As the partners earnings and increases for child dependants are included, the RR estimates rise and the financial incentive diminishes. Notably the RR estimates are highest in €300 earnings band across all family scenarios and incapacity levels. Of the incapacity categories, the Moderate group fares the worst in terms of the strength of the financial incentive.

Table 4.4.7: Replacement Rates for IB Recipients moving to PCB

		Moderate	Severe	Profound
€300 p.w.	Single	42.8%	38.7%	35.3%
	Couple Adult + Child Dependant	65.3%	61.4%	57.9%
	Couple with Child Dependant	66.9%	63.3%	60.0%
€250 p.w.	Single	35.2%	32.3%	29.9%
	Couple Adult + Child Dependant	61.1%	58.1%	55.4%
	Couple with Child Dependant	65.2%	62.2%	59.5%
€150 p.w.	Single	29.9%	27.8%	26.0%
	Couple Adult + Child Dependant	58.5%	56.1%	53.9%
	Couple with Child Dependant	62.9%	60.5%	58.3%
€100 p.w.	Single	21.8%	20.7%	19.7%
	Couple Adult + Child Dependant	54.8%	53.1%	51.6%
	Couple with Child Dependant	59.5%	57.9%	56.3%

In regard to IP, the general pattern of RR estimates is quite similar to IB. The strongest incentive is in the single scenario, while the Moderate Incapacity category has the weakest incentives relative to the other incapacity categories. However, it is also evident that overall, IP recipients for PCB face higher RR estimates and therefore less of a financial incentive to enter PCB than IB recipients.

Table 4.4.8: Replacement Rates for IP Recipients moving to PCB

	Moderate	Severe	Profound
Single	43.8%	39.5%	35.9%
Couple Adult + Child Dependant	64.7%	60.8%	57.3%
Couple with Child Dependant	70.3%	66.3%	62.7%

As explained in Part 2 earlier, PCB has no restriction on the amount of hours a recipient can work in a week or the amount he/she can earn. It is therefore possible to work full-time hours and still receive a PCB payment. To model how these rules interact with financial incentives, the RR estimates are calculated by dividing total household income on PCB, which includes the appropriate rate of PCB and any increases for dependants plus net earnings from employment of the recipient and his/her partner where relevant, by total household income in the absence of PCB. Unsurprisingly, as shown in Table 4.4.7, the RR in all cases is significantly in excess of the 70% threshold.

Table 4.4.9: Replacement Rates for IB and IP on PCB

<i>Illness Benefit</i>	Moderate	Severe	Profound
Single	127%	141%	155%
Couple Adult + Child Dependant	145%	146%	155%
Couple with Child Dependant	116%	123%	129%
<i>Invalidity Pension</i>			
Single	128%	142%	156%
Couple Adult + Child Dependant	138%	147%	156%
Couple with Child Dependant	119%	126%	133%

4.4.4 Key Findings

The above analysis has identified the following issues:

- The RR analysis showed that for IP and IB recipients with Severe or Profound Incapacity there is a financial incentive to enter PCB, especially in the single case. However, in the case of Moderate Incapacity, the incentive tends to be weaker;
- PCB is worth different amounts to IP and IB recipients. Of the two, IP recipients benefit from the most generous rates regardless of incapacity category;
- Of the disability and illness schemes, PCB has the least conditionality in respect of the treatment of earnings and employment. It is therefore not surprising that PCB recipients face very high RR estimates;
- Another feature of PCB is that in contrast to IP, IB and DA, the dual earning couple scenario has lower RR estimates than the single earner scenario.

In summary, there is a significant financial incentive for IP and IB recipients to apply for PCB and promote labour market participation. However, the low conditionality regarding hours worked or earnings may risk indefinite dependency once an individual has qualified for PCB.

Part 5: Conclusions

The analysis shows the difficulty of attempting any generalisation about financial incentives to work for those in receipt of illness and disability related payments. Before going into the main findings a number of caveats must be acknowledged:

First, the composition of the disability and illness schemes recipients is not homogeneous. The core analysis of incentives was based on case studies which were constructed to be as representative as possible given the available information. Therefore, the analysis cannot comprehensively speak to the variety of individual circumstances that may exist.

Second, by framing labour market choices in terms of financial incentives, this analysis is based on a specific set of assumptions about human behaviour. These assumptions may not hold in all circumstances. Moreover, this analysis does not account for non-financial factors.

Third, relationship between benefits and earnings is varied, and the picture conveyed in the analysis would show further variation – it should be noted – if other earnings benchmarks were to be applied.

Fourth, there is an important distinction between schemes which permit recipients to retain benefits while in employment and schemes which do not. In the former, the design of the benefit system can influence the decision to enter the workforce or the number of hours worked; in the latter, the benefit system may influence only the decision to enter the workforce.

Key Findings

With the above caveats in mind the following findings were identified by the analysis:

First, in relation to the most important payment, Disability Allowance, it is not clear that it constitutes a general barrier to taking up work. The ‘headline’ finding is that for a single person, Disability Allowance is 56% of the net minimum wage, and over a range of modest earnings it allows recipients to retain an allowance and supplement their allowance with income from work. The mix of earnings and benefits is broadly appropriate; as earnings increase beyond a threshold, the rate of the DA payment declines.

Second, the compositional analysis suggests that the Disability Allowance means-test may induce recipients to earn incomes up to about the level of the €120 threshold. This corresponds to the earnings disregard threshold for rehabilitative employment in the case of a single Disability Allowance recipient. In addition, the detailed assessment of the means-tests and entitlements to non-cash, secondary benefits, shows that the loss of the Medical Card on grounds of means also occurs at a similar levels of income (in the range above €120 for a single recipient). Notwithstanding the fact that an individual can still retain the Medical Card for a

further three years after he/she loses eligibility on income grounds, this threshold may combine with tapered reductions in Disability Allowance to create disincentives and uncertainty. In turn, this may constitute a significant barrier to employment.

Third, the financial transition for the families caring for young people with disabilities creates distinct impacts; if a young person works rather than receive the full DA, the combination of the DA and Carer's Allowance means-tests results in withdrawal rates, at household level, in excess of 100%. Equally, while the switch from Domiciliary Care Allowance for the family to DA for the young person at age 16 increases household income, there is also a reallocation of resources within the household which will inevitably impact decision-making.

Fourth, throughout the cases analysed one feature of the overall benefit system that affects disability related payments no less than other benefits is the role of qualified allowances for adults and children. In effect, the rules about these allowances constitute another 'means-test', and in all the scenarios studied they contribute to higher replacement rates and withdrawal rates, as well as adding to complexity.

Fifth, the one benefit characterised by uniformly low withdrawal rates is the Partial Capacity Benefit; the unconditional nature of the personal rate of PCB moderates the withdrawal rates. Even here, however, the adult and child allowances engender high withdrawal rates for recipients' spouses.

Finally, the Working Paper's attempt to identify financial barriers and disincentives yielded one striking finding; the extreme complexity of the benefit system. In addition to the variation of rules governing eligibility across the primary disability and illness schemes, there are also different eligibility rules for secondary supports as well as the range of supports being offered by other government departments and agencies. Quite independently of the actual financial implications of employment-related decisions, the level of complexity may, in itself, deter recipients - or their spouses - from actively considering employment.

The policy implications of the Staff Paper's findings as well as recommendations for reform are discussed in Chapter 5 of the Making Work Pay for People with Disabilities Report to Government.

Appendix: Tax Assumptions for Case Studies

Universal Social Charge (USC)

In the study, the recipients are assumed to be in receipt of a Medical Card and therefore are subject to a reduced USC rate. Individuals (aged under 70) who hold a full medical card whose aggregate income for the year is €60,000 or less are subject to the following rates:

- 1% on the first €12,012;
- 3% on the balance.

However, in the couple scenarios, the partner's income is subject to the normal USC rate. The standard rates of Universal Social Charge are:

- 1% on the first €12,012;
- 3% on the next €6,656;
- 5.5% on the next €51,376;
- 8% on the balance.

PAYE

In this study the couple scenarios are modelled on the basis that they are married and being assessed jointly. Under Joint Assessment, the tax credits and standard rate band can be allocated between spouses or civil partners to suit their circumstances.

The study adopts the conservative assumption in the DA couple with partner earnings case study that the DA recipient is the beneficiary of the PAYE tax credit for a married couple.

PRSI

The scheme recipients in the scenarios are assumed to be Class A employees and therefore are subject to the tapered PRSI rate.

Class A employees pay a 4% PRSI rate on gross weekly earnings. However, for gross earnings between €352.01 and €424 in a week, the 4% PRSI charge is reduced by a PRSI Credit. The amount of the PRSI Credit depends on gross weekly earnings.

At gross weekly earnings of €352.01, the maximum PRSI Credit of €12.00 per week applies. For earnings between €352.01 and €424, the maximum weekly PRSI Credit of €12.00, is reduced by one-sixth of earnings in excess of €352.01.

The calculation of the new PRSI charge for Class A, with gross weekly earnings between €352.01 and €424, involves 3 separate calculations:

1. Calculate the PRSI Credit
2. Calculate the PRSI charge @ 4%
3. Deduct the PRSI Credit from the 4% PRSI charge