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Department of
Social Protection

Social Protection Package - Budget 2018 Issues

Tax Strategy Group 17/05

An Roinn Coimirce Sóisialaí
Department of Social Protection

Social Protection Package –Budget 2018 Issues

Introduction

1. At end May 2017, there were 1.33 million persons in receipt of a weekly welfare payment in respect of 1.99 million beneficiaries. Of these weekly welfare recipients, almost 600,800 were in receipt of pensions, 239,250 were in receipt of jobseeker's payments, 185,600 received a disability allowance or an invalidity pension and 73,000 were in receipt of carer's allowance. In addition, a further 625,300 families received a monthly child benefit payment in respect of 1.2 million children. The scale of these numbers means that the payments and services operated by the Department of Social Protection (DSP) impact, either directly or indirectly, on the lives of everybody in the State in one way or another.

   This paper begins by examining the general role of social transfers[1]. Trends in poverty rates over time and the poverty alleviation effects of social transfers are briefly discussed, followed by progress towards the national social target for poverty reduction.

   The paper presents overall DSP expenditure by its various programmes. Budget 2018 is discussed in the context of the 2018 expenditure ceiling and the Programme for Partnership Government commitments.

   The paper concludes with presenting a range of illustrative welfare Budget measures and provides, in Appendix 1, the distributive and poverty impact of these measures, in order to better inform understanding of the social impact of welfare budgetary policy.

Role of Social Transfers

2. Social transfers play a pivotal role in alleviating poverty, cushioning people from the worst effects of unexpected reductions in income due to unemployment, illness or disability etc. They are essential in supporting well-being and reducing inequalities through the redistribution of income, therefore helping to promote social cohesion. In addition to income adequacy, social transfers are critical to the social determinants of health[2], crime prevention and access to education.

3. Social transfers have also been highlighted as an economic stabiliser for the effect of the crisis. Welfare expenditure contributes, directly or indirectly, to the wider economy, as people spend their benefits and pensions each week, thereby adding to domestic and local employment and economic activity.

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[1] Social transfers include unemployment related payments, old-age social welfare payments, occupational pensions, family / child related allowances, housing allowances and other social transfers such as disability benefits.

[2] See, for example: http://www.euro.who.int/en/health-topics/health-policy/health-2020-the-european-policy-for-health-and-well-being/publications/2013/review-of-social-determinants-and-the-health-divide-in-the-who-european-region.-final-report

4. Throughout the recession social transfers performed strongly in reducing the at-risk-of-poverty rate. In 2015, social transfers (excluding pensions) reduced the at-risk-of poverty rate from 34.9% to 16.9%, or 18 percentage points in absolute terms. This represents a poverty reduction effect of 52%. The comparable figure in 2014 was 52.9%. 3The 2015 figure compares very favourably with the 2005 rate of 42.6%, an improvement of 10.3 percentage points. The impact of social transfers in reducing poverty is the highest in the EU.

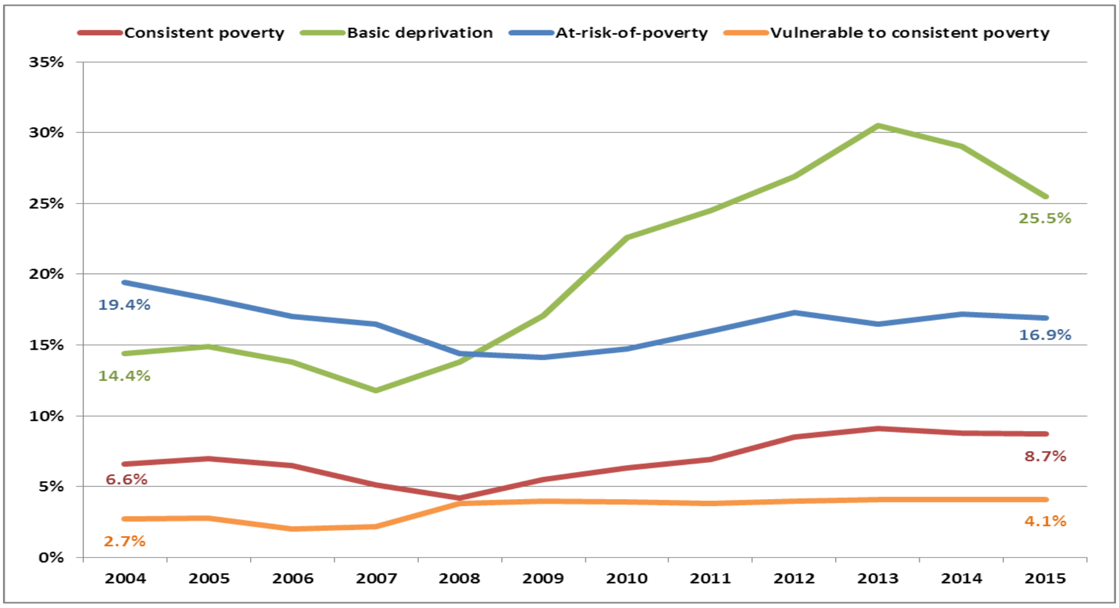
5. Most recently, an ESRI analysis suggests that the tax and transfer system almost wholly offset the increase in market-income inequality that occurred between 2008 and 2013, with the greater "equalizing" impact being from transfers rather than taxation. The equalizing impact resulted largely from the automatic stabilizing effect of the system as it existed at the onset of the recession, although discretionary policy changes during the downturn also played a role.[4]

6. Social transfers also provide support across the life-course, from helping to protect children from the risks of inter-generational poverty and disadvantage to ensuring an adequate standard of living across all life-cycle groups.

Trends in poverty and associated indicators from 2004 to 2015

7. The increases in various poverty indicators from 2009/2010 peaked in 2013 and began to stabilize and decline thereafter (see Figure 1).

Figure 1: Trends in poverty using supporting indicators, 2004-2015



Source: CSO SILC 2004 to 2015

[3] The reduction including pensions was from 46.3 per cent (before social transfers) to 16.9 per cent (after social transfers), a 'poverty reduction effect' of 63.5 per cent.

[4] Callan, T., Regan M., Savage, M., & Walsh, J. R. (2017). Income Distribution in Ireland: Through Recession, Towards Recovery. Budget Perspectives 2018 Paper, 2. Dublin: The Economic and Social Research Institute

8. The full impact of the recovery is not reflected in these 2015 figures. Macro-economic and labour market indicators have shown continued economic and employment growth since then. Unemployment has fallen from 9.5% in mid-2015 to 6.4% in May 2017. The number of people in receipt of working-age income and employment supports continued to fall. The recovery in the labour market is broad based with virtually all sectors in the economy experiencing employment growth. As unemployment is strongly linked to poverty, we can expect to see further decreases in deprivation and consistent poverty when the data for 2016 become available.

    i. The at-risk-of-poverty was 19.4% in 2004 and 16.9% in 2015. Changes in the at-risk-of- poverty rate in 2015 reflect different dynamics: one, the rise in the 60% median income threshold as household incomes have increased with the emerging economic recovery; and, two, the cushioning effect (poverty reduction effectiveness) of social transfers, in reducing pre-social transfer at-risk-of-poverty rates.

    ii. Consistent poverty, the indicator used to set the national social target for poverty reduction, fell from 6.6% in 2004 to a low of 4.2% in 2008. Having fallen from 9.1% in 2013 to 8.8% in 2014, the consistent poverty rate was essentially unchanged at 8.7% in 2015.

    iii. Basic deprivation fell from 14.4% in 2004 to 11.8% in 2007, before increasing to 30.5% in 2013. In 2015, the basic deprivation rate decreased by 3.5 percentage points to 25.5%. This is the second successive year of declining deprivation rates, with the 2014 results representing the first reduction since 2007.

    iv. The risk of being deprived spread to groups that are not income poor, reflecting the social impact of the recession and the broader social impact of economic changes for the Irish population as a whole.

9. The impact of poverty has varied across different groups. While the rate of consistent poverty was 8.7% in 2015, the groups with the highest rates of consistent poverty (25-26%) were individuals who were unemployed and those living in lone parent families or social housing. Those in employment, older people, and people living in owner occupier housing were least affected by consistent poverty.

Meeting the national social target for a reduction in consistent poverty

10. Following a review in 2012, the Government agreed a revised and enhanced national social target for poverty reduction, which is to:

    "reduce consistent poverty (overlap of at-risk-of-poverty and basic deprivation) to 4% by 2016 (interim target) and to 2% or less by 2020, from the 2010 baseline rate of 6.3%."

The target is supported by a wide range of actions across diverse policy areas in the *National Action Plan for Social Inclusion 2007-2016*[5]. The Plan was recently updated for the period 2015 - 2017 to reflect the current issues and interventions to tackle poverty. More recent measures to stimulate social recovery on active inclusion principles are set out in the annual updates of the *National Reform Programme*[6].

11. Progress towards the NSTPR is reported annually in the Social Inclusion Monitor. The recently published Monitor, which is based on the CSO Survey on Income and Living Conditions (SILC) for 2015, points to improvements in living conditions and income inequality in 2015.[7] Consistent poverty was effectively unchanged at 8.7%, leaving a gap of almost five percentage points to meet the interim poverty target of 4% by 2016.

    The national social target includes the Irish contribution to meeting the Europe 2020 poverty target, which is to reduce by a minimum of 200,000 the population in combined poverty i.e. consistent poverty or at-risk-of-poverty or basic deprivation. Combined poverty fell to 37.3% in 2015, from 37.5% in 2014. This equates to about 1.6 million people. 350,000 people will have to be lifted out of combined poverty by 2020 in order to meet the Irish contribution to the Europe 2020 poverty target.

12. In recognition of the higher risks and life-long consequences of child poverty, a new child-specific poverty target is set in *Better Outcomes: Brighter Futures – the National Policy Framework for Children and Young People 2014-2020*[8]. The target is to lift at least 70,000 children (aged 0-17 years) out of consistent poverty, based on the 2011 baseline rate[9].

    There were 139,000 children in consistent poverty in 2015, a decrease of 13,000 children on 2014. This means that an additional102,000 children have to be lifted out of consistent poverty to meet the child-specific poverty target by 2020.

Social Protection Budgets

13. Budgets 2009 to 2014 introduced a very wide range of savings measures, and contributed significantly to the fiscal consolidation effort over the crisis. This included reductions in the weekly rates of payments for those aged under 66 (mainly €16.30 per week or 8%), significant reductions in child benefit, reductions in the duration of certain social insurance benefits (illness benefit and jobseeker's benefit), abolition of certain schemes, and significant reductions in the rates of payment for younger jobseekers.

14. Budget 2015 was the first Budget where there was scope to make some improvements for welfare recipients. Budget 2015 reinstated a partial Christmas Bonus (25%), introduced the Back to Work Family Dividend scheme, increased the number of employees supported through JobsPlus, increased the Living Alone Allowance and Child Benefit

[5] http://www.welfare.ie/en/downloads/National-Action-Plan-for-Social-Inclusion-2007-2016.pdf
[6] http://www.taoiseach.gov.ie/eng/Work_Of_The_Department/Economic_Division/Economic/NRP/
[7] See: www.welfare.ie/en/Pages/Monitoring-Poverty-Trends.aspx
[8] http://www.dcya.gov.ie/documents/cypp_framework/BetterOutcomesBetterFutureReport.pdf
[9] Equivalent to 102,000 in 2015

payments, but did not include increases in the weekly rates of payment. Budget 2016 included a €3 weekly rate increase for pensioners, and increases in Child Benefit, the Carer Support Grant and the Fuel Allowance as well as the introduction of a new Paternity Benefit scheme. In addition, the Christmas Bonus was increased to 75% in December 2015.

15. Budget 2017 introduced the first general increase in the weekly rates of payment since 2009. A €5 increase in the weekly rate of all social welfare payments commenced from March 2017, with proportional increases for qualified adults and those on reduced rates of payment. This equates to a 2.1% increase over the 2016 rates for the State Pension Contributory, and a 2.7% increase for working age jobseeker payments (CPI increased by 0.2% in the twelve months to May 2017). Budget 2017 also introduced a number of measures improving the social insurance coverage of the self-employed. Other Budget measures included improvements for lone parents and farmers, new pre-activation supports for people with disabilities, and increased funding for the School Meals and Community Services Programme.

16. Analysis by the ESRI using the SWITCH tax-benefit model found that Budget 2017 led to small gains for all income groups, with the greatest gains for those on the lowest incomes[10]. Analysis at family unit level revealed that the majority of family types would also benefit.

DSP Expenditure in 2017

14. Overall, €19.854 billion was allocated to DSP in 2017. This is equivalent to 37% of Gross Current Government expenditure.

Table 1: Total Department expenditure by programme, 2014 to 2017

	2014 Outturn	**2015 Outturn**	**2016 Outturn**	**2017 REV**	**% of 2017 REV total**
	€'m	€'m	€'m	€'m	%
Administration	575	583	582	643	3%
Pensions	6,507	6,879	7,090	7,269	37%
Working Age Income Supports	4,883	4,469	3,948	3,666	18%
Working Age Employment Supports	1,078	1,079	1,009	966	5%
Illness, Disability and Carers	3,334	3,546	3,700	3,823	19%
Children	2,301	2,462	2,594	2,625	13%
Supplementary Payments, Miscellaneous Services and agencies	926	887	879	863	4%
Total expenditure	**19,604**	**19,904**	**19,802**	**19,854**	**-**
Change	**-634**	**+300**	**-102**	**+52**	

15. As was the case in previous years where a Bonus was subsequently paid (2014 to 2016 inclusive), there is no provision in the Revised Estimates for the payment (at any rate) of

[10] https://www.esri.ie/publications/distributional-impact-of-tax-and-welfare-policies-budget-2017/

a Christmas Bonus in 2017. The cost of the 85% Bonus paid in December 2016 was circa €221 million.

Expenditure Ceiling 2018

14. The 2018 expenditure ceiling for the Department is €19.936 billion. This is €82 million greater than the ceiling for 2017. The 2018 ceiling allows for an increases in expenditure related to the numbers of people in receipt of pensions and reductions associated with the number of people in receipt of jobseeker payments. Specifically, it allows for a reduction of €150 million in Live Register savings – this is equivalent to a circa 15,000 reduction (c 5 – 6%) in the average weekly Live Register in 2018.

15. It should be noted that the expenditure ceiling for 2018 does not include the carryover costs of Budget 2017 measures (€138.5 million)[11].

Budget 2018

16. The Programme for Partnership Government contains a number of spending commitments in relation to social protection, such as:

    i. *We will increase the State Pension and the Living Alone Allowance above the rate of inflation;*

    ii. *We support an increase in the Disability Benefit and Allowance, Carer's Benefit and Allowance, and Blind Person's Pension;*

    iii. *Introduce a Working Family Payment that promotes work over welfare by supplementing, on a graduated basis, the income of a household, while at the same time incentivising more hours and full-time work;*

    iv. *We will fully protect the Free Travel Pass for all pensioners and work with private and public operators to keep services operating on as many routes as possible*;

    v. *"We will seek to introduce a PRSI scheme for the self-employed"; and*

    vi. *"We will also extend the Dental Treatment Benefit under the Social Insurance Fund to reimburse the cost of some routine dental treatments. For medical cardholders, we will introduce a preventive dental health package also."*

17. It should be noted that the Programme for Government does not specify, for instance, the amount of any proposed increase e.g. in weekly rates of payment or when such increases would apply. However, progress on most of these commitments was achieved in Budget 2017 as outlined earlier. Given that available expenditure resources are likely to be limited in the forthcoming Budget, it should be noted that across the board increases in the weekly rates of payment are very expensive (circa €70 million for a €1 increase).

[11] Many of the measures in Budget 2017 were introduced over the course of the year, rather than from January for the full year e.g. the €5 weekly rate increases commenced in March.

18. An alternative approach might be to focus such resources as are available at targeted improvements for the most vulnerable sectors. For example, increases in the Qualified Child Increase payments and FIS could positively affect child poverty. Such an approach would make the welfare package very progressive in its impact.

19. In addition, other commitments in the Programme for Partnership Government e.g. improved social insurance cover for the self-employed and enhancements to the Treatment Benefit scheme could be funded through increased PRSI rates.

Social Impact Assessment

20. The Department's last two *Social Protection Package - Budget Issues*[12] papers to the Tax Strategy Group contained analysis of the distributive impact of a range of illustrative social protection budget measures.

    The Programme for Partnership Government commits to "*develop the process of budget and policy proofing as a means of advancing equality, reducing poverty and strengthening economic and social rights*". This paper lists a range of illustrative welfare Budget measures and provides, in Appendix 1, the distributive and poverty impact of these measures, in order to better inform understanding of the social impact of budgetary policy.[13] The measures include the main measures contained in the Programme for Partnership Government, which are possible to analyse using the ESRI SWITCH model.

Table 2: Illustrative Social Protection Budget options.

	Illustrative Social Protection Budget Options	Full Year Estimated Cost €m
1.	€5 weekly rate increase for **pensioners** with a proportionate increase for qualified adults.	151
2.	€5 increase in the **Living Alone Allowance**, from €9 to €14 per week.	52
3.	€5 weekly rate increase for all **working-age welfare recipients** with a proportionate increase for qualified adults.	196
4.	€5 weekly rate increase in the personal rate for **people with disabilities and carers**.	70
5.	€3.20 increase in the **Increase for a Qualified Child**, from €29.80 to €33 per week.	61
6.	Increase **Family Income Supplement** thresholds by €10 per child per week.	42

[12] http://finance.gov.ie/sites/default/files/TSG%2015%2011%20Social%20Protection%20Package.pdf and http://finance.gov.ie/sites/default/files/160711%20TSG%2016-07%20Social%20Protection%20Package.pdf

[13] The Department has published post Budget integrated social impact assessments of the main tax and social welfare measures for Budgets 2013 to 2017 inclusive, using the ESRI SWITCH model.

21. Welfare improvements, in general, are progressive and benefit those in the bottom half of the income distribution most given that welfare income forms a greater proportion of the total incomes of these groups. However, as demonstrated in the analysis included in this document, the impact of individual welfare measures does vary with some having little impact on the bottom quintile and some measures having a broader impact across all income groups. Most changes to direct taxation have little or no impact on households in the bottom half of the income distribution (although the impact varies depending on the measures chosen). The Government will need, in the light of its commitment on carrying out social impact assessments, to give consideration to the overall impact of both its expenditure and taxation measures on an ex-ante basis.

22. A detailed Ready Reckoner of the costs of a €1 increase in the weekly rates of welfare payments will be made available to the TSG in advance of the meeting in July.

23. The TSG is invited to consider this paper.

Department of Social Protection
July 2017

Appendix 1 - Social Impact Assessment of Illustrative Welfare Measures

This note presents the results of analysis undertaken in June 2017. It uses the ESRI SWITCH tax / benefit model to assess the social impact of illustrative welfare measures. Social impact assessment is an evidence-based methodology which estimates the likely distributive effects of policies on household incomes, families, poverty and access to employment.

The analysis is based on the September 2016 version of the SWITCH model, which simulates the impact of these illustrative welfare changes on a representative sample of 8,000 households based on the 2013/2014 CSO survey on Income and Living Conditions (SILC), with the data updated to reflect 2017 trends in population, employment and incomes.[14] An updated version will be available from the ESRI later this year (c. September) for ex-ante Budget 2018 analysis.

The analysis reports on the distributive and poverty impact of each option. Distributive impact is measured using ten equally sized equivalised income deciles. The deciles range from one (the poorest) to ten (the richest) and the impact in each sub-group is shown in cash and percentage terms. The unit of analysis is 'income sharing' unit, which is similar to tax unit but includes students.

The distributive impact is also analysed among family types. Families are grouped according to employed or unemployed, retired or working, single or couple with and without children. By doing this we can see the effect on each specific family unit. The abbreviations are as follows:

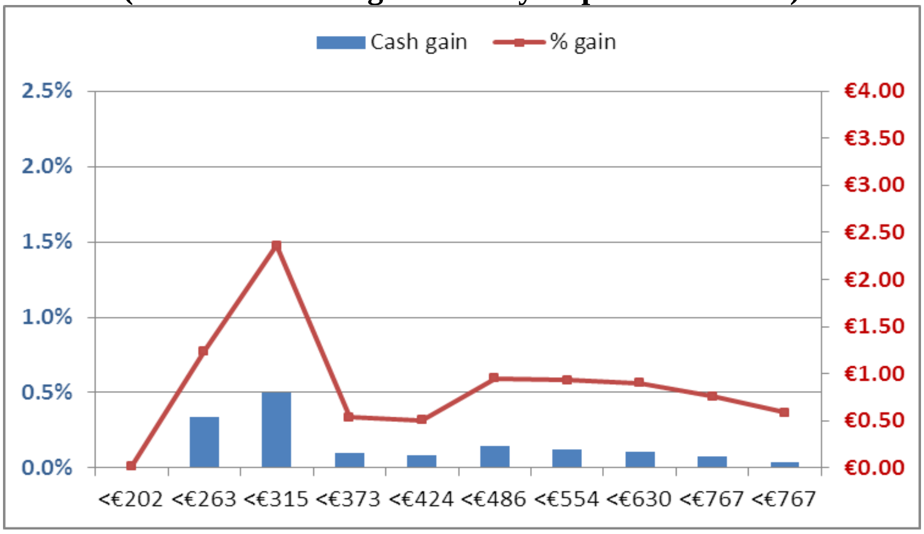
- UE / NE - unemployed
- E - employed
- SE - single earner family
- DE- dual earner family
- C - children
- NC - no children
- R - retired
- RA - relative assisting **(**refers to a Dual Earner Couple with Relative Assisting family type, in which one spouse is in employment, and the other spouse describes themselves as assisting relative(s) in an unpaid capacity).
- Other family type includes a mix of people in education, who are ill/disabled (single, and couples if male is disabled) and single people engaged in home duties.

The poverty impact is measured using the change in percentage of the population at-risk-of-poverty. The population at risk is considered to be those below 60% of the median income. The poverty impact is expressed in absolute terms (i.e. percentage point change).

[14] Information on the design, underlying data and model construction can be found at: www.esri.ie/research/taxation-welfare-and-pensions/

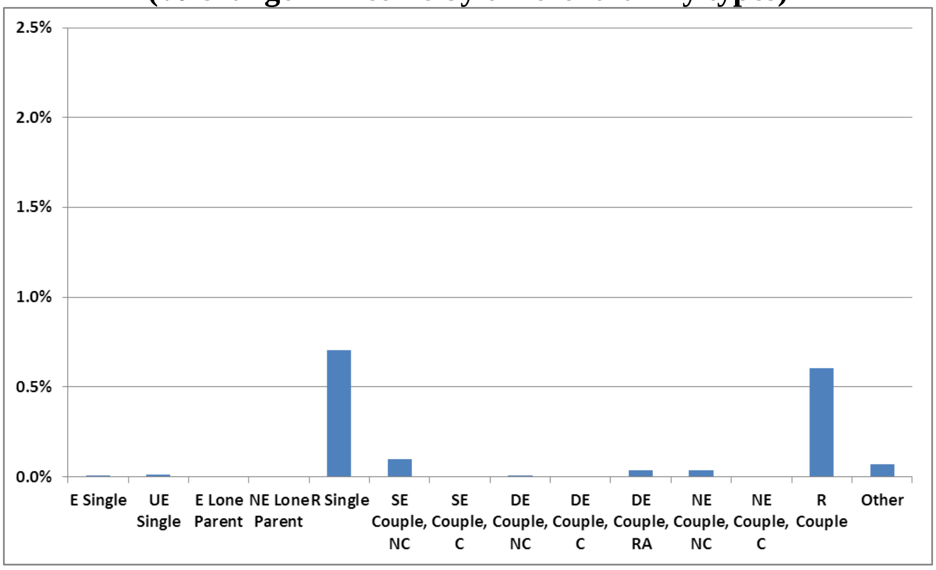
1. **€5 weekly rate increase for pensioners aged 66 and over with a proportionate increases for qualified adults[15]**
    - The average gain in disposable income is 0.1 per cent (€0.90 per week) across all households. The third decile gains most (0.5 per cent or €2.40 per week).
    - Retired singles and couples are mainly impacted by the measure with gains of 0.7 and 0.6 per cent respectively (€3.20 and €5.00 per week respectively).
    - The impact on the population at-risk-of-poverty is small – there is a fall of about 0.2 percentage points in the at-risk-of-poverty rate for older people.

Distributional impact
(% and cash change in weekly disposable income)



Source: SWITCH (2017 weighting) ESRI

Impact by family type
(% change in income by different family types)

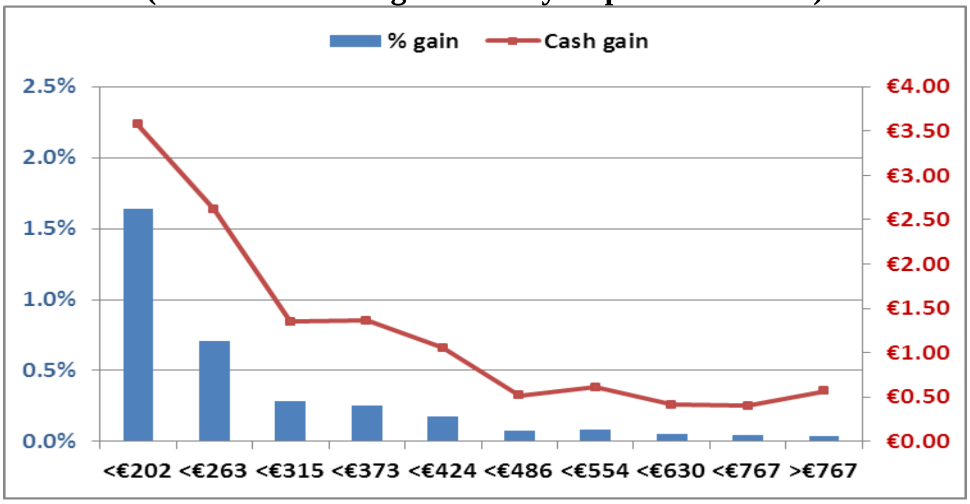


Source: SWITCH (2017 weighting) ESRI

[15] Qualified adult rates for those 66 years of age and over on state pension (contributory) and invalidity pension was increased by €4.50. Qualified adult rates for those under 66 years of age on state pension (contributory) and invalidity pension was increased by €3.30.

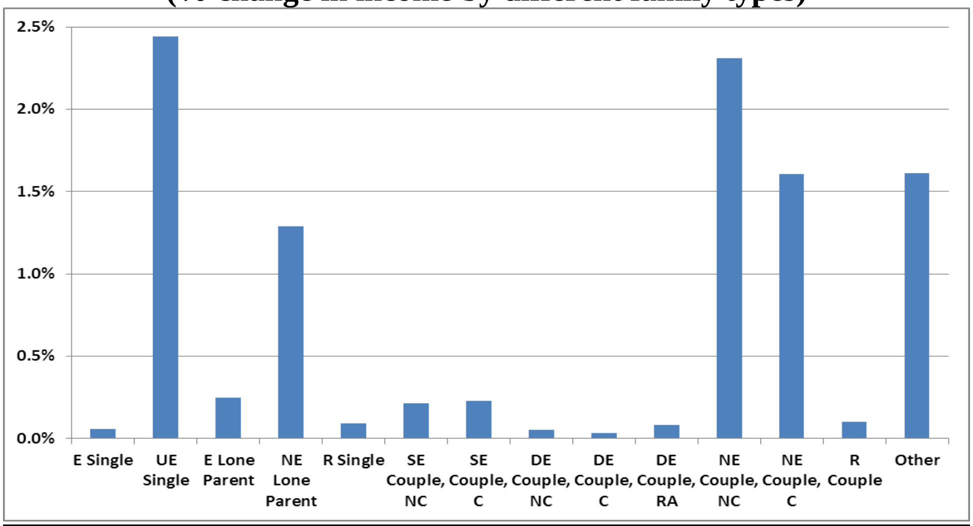
2. **€5 weekly rate increase for working-age welfare recipients with a proportionate increase for qualified adults (€3.30)** [16]
   - The average gain in disposable income is 0.2 per cent (€1.30 per week) across all households. The bottom two deciles gain most at 1.6 per cent and 0.7 per cent (€3.60 and €2.60 per week) respectively.
   - Unemployed singles gain most (2.4 per cent or €3.90 per week), followed by non-earning couples without children (2.3 per cent or €8.50 per week).
   - The impact on the population at-risk-of-poverty is small with a fall of about 0.4 percentage points.

Distributional impact
(% and cash change in weekly disposable income)

3. 

4. *Source: SWITCH (2017 weighting) ESRI*

Impact by family type
(% change in income by different family types)

5. 

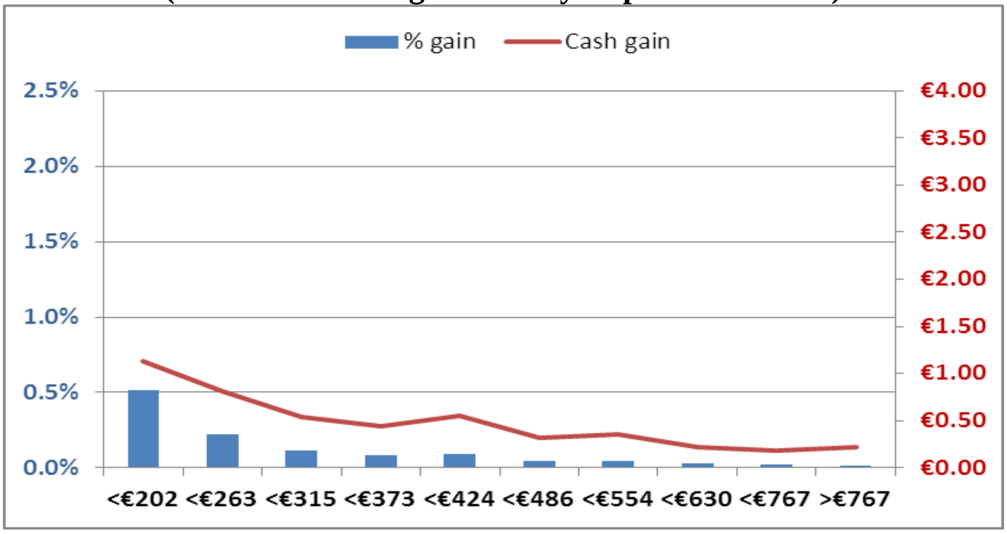
6. ***Source: SWITCH (2017 weighting) ESRI***

[16] Increase jobseekers allowance for 18-24 year olds by €2.70, for 25 year olds by €3.80 and for qualified adults aged 18-21 year olds by €2.70. Increase invalidity pension qualified adult payments for those under 66 years by €3.60.

7. **€5 weekly rate increase in the personal rate for disability and carers payments**

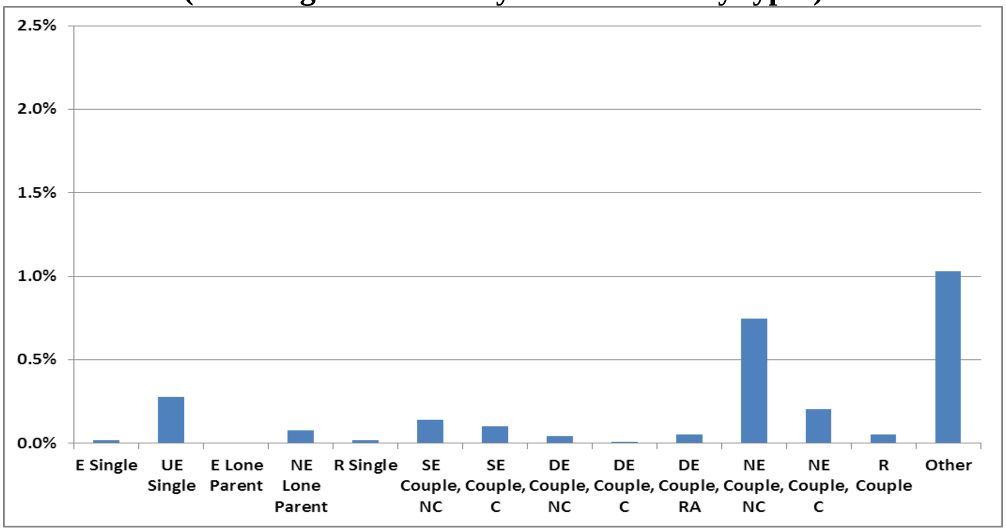
- The average gain in disposable income is 0.1 per cent (€0.50 per week) across all households. The bottom two deciles gain most at 0.5 and 0.2 per cent (€1.10 and €0.80 per week) respectively.
- The average gain in disposable income for households affected by the measure (10.5 per cent of all households) is 0.7 per cent (€4.50 per week).
- Other family type is impacted most with a gain of 1 per cent (€1.70 per week), followed by non-earning couples without children (0.7 per cent or €2.70 per week).[17]
- The impact on the population at-risk-of-poverty is small (fall of 0.15 percentage points).

Distributional impact
(% and cash change in weekly disposable income)



Source: SWITCH (2017 weighting) ESRI

Impact by family type
(% change in income by different family types)

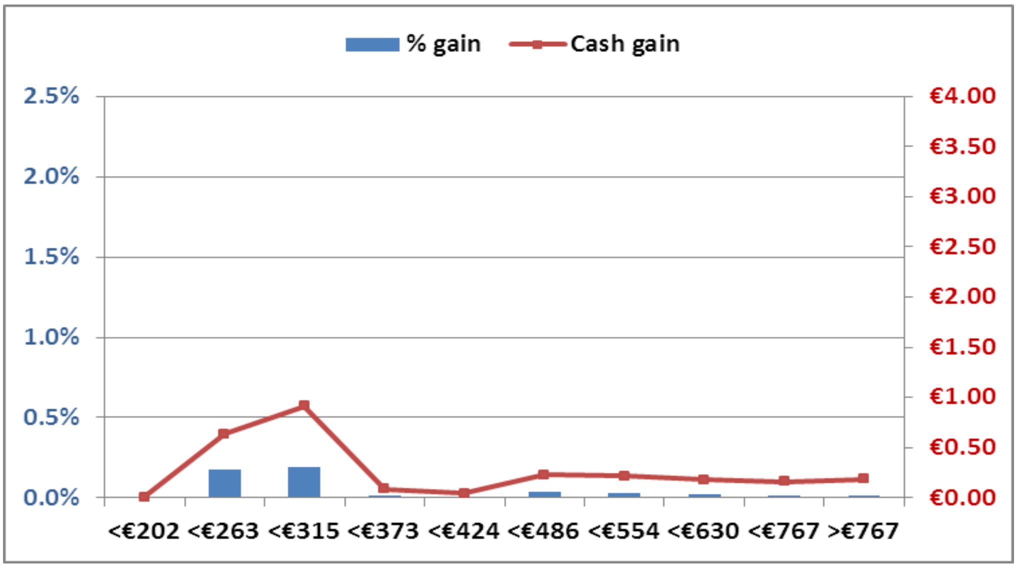


Source: SWITCH (2017 weighting) ESRI

17 The “other” family type includes a mix of people in education, ill/disabled (single, and in couples if male is disabled) and single people on home duties.

8. **€5 increase in the Living Alone Allowance, from €9 to €14 per week**
    - The average gain in disposable income is small at 0.05 per cent (€0.30 per week) across all households. The second and third deciles gain most at 0.2 per cent (€0.60 and €0.90 per week respectively).
    - The average gain in disposable income for households affected by the measure (6 per cent of all households) is 0.9 per cent (€4.20 per week).
    - The impact on the population at-risk-of-poverty is small (fall of 0.20 percentage points).
    - The impact by family type graph is not included as this measure largely impacts retired single people (0.5 per cent or €2.10 per week).

Distributional impact
(% and cash change in weekly disposable income)

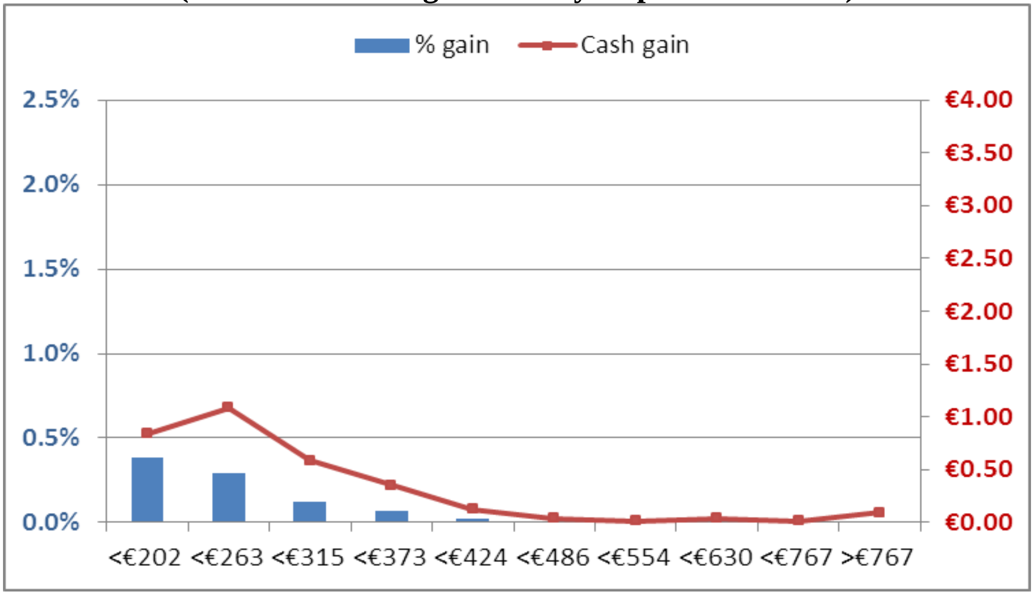


Source: SWITCH (2017 weighting) ESRI

9. €3.20 increase in the Qualified Child Increase, from €29.80 to €33 per week

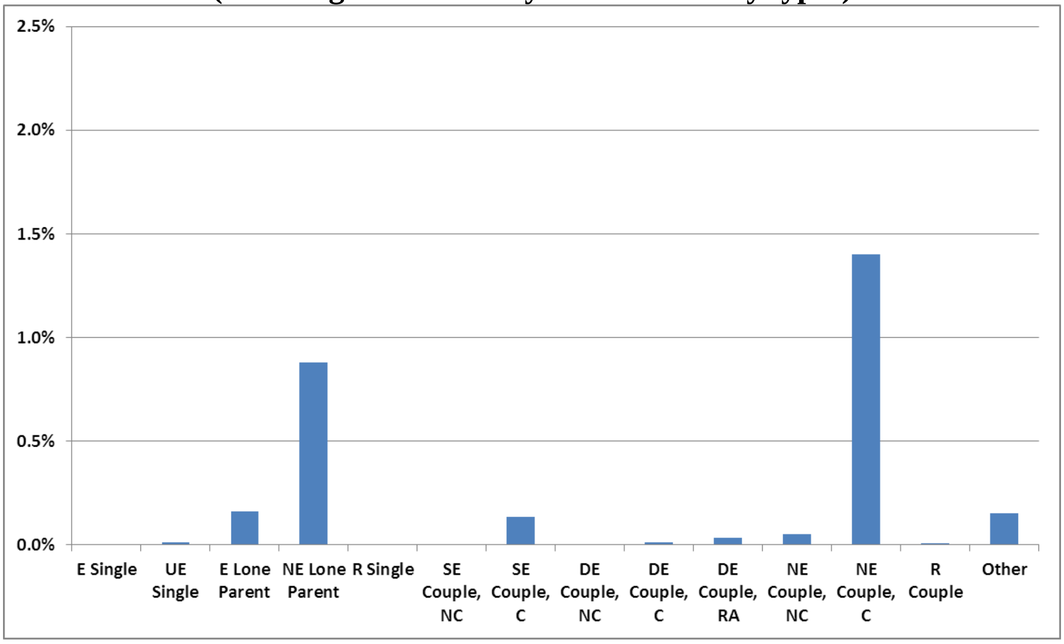
- The average gain in disposable income is 0.1 per cent (€0.30 per week) across all households. The bottom two deciles gain most at 0.4 and 0.3 per cent (€0.80 and €1.10 per week) respectively.
- Non-earning couples with children gain most (1.4 per cent or €7.40 per week), followed by non-earning lone parents (0.9 per cent or €3.30 per week).
- The impact on the population at-risk-of-poverty is small (fall of 0.2 percentage points).

Distributional impact
(% and cash change in weekly disposable income)



Source: SWITCH (2017 weighting) ESRI

Impact by family type
(% change in income by different family types)

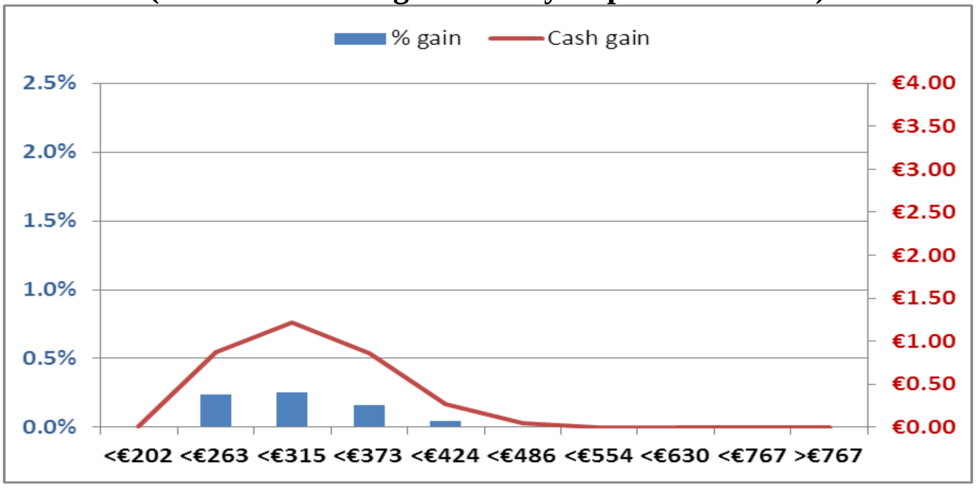


Source: SWITCH (2017weighting) ESRI

10. Increase Family Income Supplement thresholds by €10 per child.

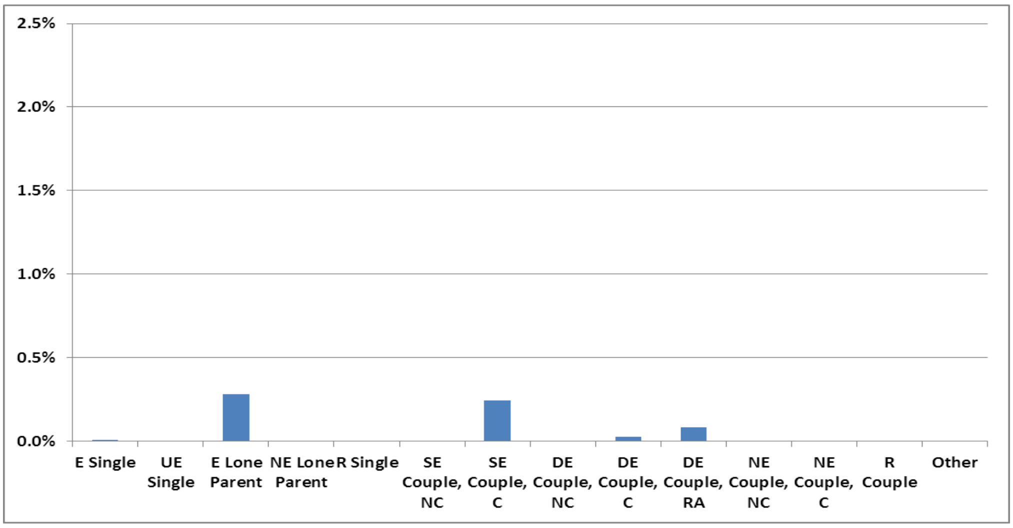
- The average gain in disposable income is 0.1 per cent (€0.30 per week) across all households. The third decile gains the most at 0.3 per cent (€1.20 per week).
- The average gain in disposable income for households with children eligible for FIS (3 per cent of all households) is 2 per cent (€13.00 per week).
- Earning lone parents and single earning couples with children gain most (c. 0.3 and 0.2 per cent respectively).
- The impact on the population at-risk-of-poverty is small – the overall at-risk-of-poverty rate falls by 0.3 percentage points while the child at-risk-of-poverty rate declines by 0.2 percentage points.

Distributional impact
(% and cash change in weekly disposable income)



Source: SWITCH (2017 weighting) ESRI

Impact by family type
(% change in income by different family types)



Source: SWITCH (2017 weighting) ESRI

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