An Chomhairle Náisiúnta Eacnamaíoch agus Shóisialta
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Social Insurance and the Welfare System: Towards a Sustainable Developmental Welfare State

Background Paper

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Social Insurance and the Welfare System: Towards a Sustainable Developmental Welfare State

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Dr Helen Johnston
Dr Anne-Marie McGauran

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This background paper provided additional empirical and analytical material on the issues discussed in the main Council report on *The Future of the Irish Social Welfare State: Participation and Protection.* It was considered by the Council in September 2018.

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Chapter 1:
Introduction

1.1 Rationale for the work

NESC is undertaking this work at the request of the Department of Social Protection (DSP). The exploration of how to move towards a more sustainable and integrated social welfare system builds on previous NESC work on the Developmental Welfare State (NESC, 2005), supports for the long-term unemployed (NESC, 2011a), standards in human services (NESC, 2011b, 2012a, 2012b, 2012c, 2012d, 2012e, 2012f, 2012g), and how the system engages with low work intensity households (NESC, 2018).

The paper explores the emerging challenges for the social insurance fund and the wider welfare system, which align with many of the issues raised in the study of low work intensity households. Many of the themes identified resonate with concerns addressed in the Developmental Welfare State (DWS) and make a case for exploring how to move towards a sustainable development welfare state.

1.2 Five Propositions

This paper advances a number of propositions:

i. Further changes in the social insurance system are inevitable, given the demographic, economic and social changes underway;

ii. Although the funding pressures will become more serious, given the long-term nature of the underlying drivers, the Irish welfare system is not in crisis and continues to play an important economic and social role;

iii. Social insurance and social assistance should not be considered as two entirely distinct systems, but should be considered as a whole;

iv. Indeed, both social insurance and social assistance should be considered as part of the wider social welfare system which, as well as income transfers, contains a services and innovation element—as understood in the Developmental Welfare State; and

v. The social welfare system interfaces with the tax system in redistributing income and providing income supports and social services.

These propositions have implications for how the Council should respond to the DEASP request for a NESC analysis on social insurance and welfare. This paper begins that exploration by discussing the idea that Ireland move towards a more integrated income support system in which social insurance and social assistance are more closely aligned.

1.3 Methodology

The methodology employed in preparation of this paper includes a review of relevant Irish policy documents, reference to some international responses and exploratory interviews with key Irish stakeholders, including personnel in the Departments of Social Protection, Finance, and Public Expenditure and Reform, employers' organisations, trade unions, relevant state agencies and NGOs. The interviews were undertaken on a confidential basis with interviewees remaining anonymous. They helped to inform thinking about the key concerns facing the social insurance system and potential ways forward. As expected, there is a range of views reflecting the complexity of the system and the need for trade-offs and balances. One of the benefits of NESC work in this area is constructive deliberation on future possibilities.

1.4 Structure of the Paper

The next section identifies the principles underpinning the social welfare system, and discusses the origins of social insurance. Section 3 sets out the emerging challenges to social insurance funding and welfare, concluding with the identification of some reform possibilities. These are discussed in an initial way in section 4 where possibilities of a more integrated system are considered. The final section identifies further lines of inquiry for the Council's work on this project.

Chapter 2:

Evolution of Social Insurance: Mixed System-Mixed Messages?

2.1. Evolution, Principles and Understandings

In facilitating deliberation on the future of the social insurance system, it is necessary to jointly consider the evolution of the system, the principles associated with it and the understandings of its purpose and nature. One reason is that somewhat different principles can be enunciated with respect to various parts of the system:

- In considering social insurance systems, it is common to cite the 'solidarity' principle and the 'contributory' principle (see further below);
- The 1986 *Report of the Commission on Social Welfare* (Department of Social Welfare, 1986) and the 1996 review *Social Insurance in Ireland* (Department of Social Welfare, 1996) identified the key principles underlying the social welfare system as adequacy, redistribution, comprehensiveness, consistency and simplicity;
- The *Roadmap for Pensions Reform* states that the principles that should guide the evolution and development of the pensions system are adequacy, sustainability and equity (Government of Ireland, undated).
- The nine principles listed differ somewhat from one another, and are sometimes in tension with each other. More importantly, like almost all principles, none of them has an unambiguous meaning and, therefore, each requires further factors to be taken into account in their application in any given context.
- A brief sketch of the evolution of the welfare system illustrates the way in which this has been done and also some of the reasons why it is now time think about the next phase of development.
- Ireland, like Britain, has developed a mixed system of 'assistance' and 'insurance'. The current system of statutory social welfare payments evolved on a piecemeal basis over a period of 180 years. It developed from one funded entirely by general taxation, providing very basic support to people suffering extreme destitution in the institutional setting of 'poor houses', to one providing a range of over 70 different cash payments to people in varying situations.
- Reflecting its roots, and in common with some other countries, the Irish welfare system has developed as a mixed system. Payments are made either where there is a clear and critical income need arising from a particular contingency (e.g. unemployment, illness) or where entitlement is based on a social insurance record, even where the contingency involved does not create a critical income need.

- Thus, the statutory social assistance system, originating with the poor law of 1838, provides income support to people based on an assessment of their income need arising from a specified contingency. The amount paid varies depending on the level of income need assessed, with no payment for those whose means exceed specified levels. The social insurance system on the other hand, which developed at a later date,[1] provides support, in the event of an insured contingency, to people who have 'paid-in' contributions from their earnings. In Ireland, the amount paid as benefit is independent of any assessment of objective need and is not nowadays pay-related.

2.2 Origins of Social Insurance[2]

While the statutory system of social assistance originated with the poor law, the system of social insurance can be traced back to social thinking and reforms in the 19th and 20th centuries, most notably that developed by Bismarck, Beveridge and others.

Bismarck's approach (1883) was a fully insured model. Benefits were only paid to workers who had made contributions and the level of benefit was directly linked to the value of contributions made and therefore prior earnings. His primary concern was the maintenance of popular support for a liberal market economic system in the face of growing support for socialist/communist politicians.

In post-War Britain, Beveridge (1942) was more concerned with the alleviation of poverty. He adapted the insurance principle and favoured payment of a fixed minimum (subsistence) rate to all people satisfying a contingency test to be funded by insurance contributions to be paid by all, including those in self-employment and, notionally, those without employment.

Although their starting points may have been different, in both models welfare was to be both 'social' and 'insurance' based in a number of senses.[3]

Both were 'social' in the sense that the system of social insurance was a common endeavour in which employers, employees and the State were jointly engaged. Both were also social in the sense that everybody with earnings paid contributions in order that those who could no longer earn,[4] including contributors if they ever encountered an acute loss of wealth or an income contingency, could be assured of an adequate level of income. The systems were also social in the sense that premiums or contributions paid by any individual are not varied in line with assessed risk but are standardised, in law, across all of society. Finally, each was social also in the sense

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1 The first 'insurance' scheme—Unemployment Benefit—was legislated for in 1911 (introduced in 1912) and the Social Insurance Fund was established in 1953.

2 For an overview of how the social insurance system works in Ireland see Appendix A.

3 Also in both systems the State is, in practice, the 'residual' financier redirecting general tax receipts to 'top-up' social insurance funds that were not, in either model, self-financing.

4 In the Beveridge model this included those who never had the opportunity or the ability to earn and make contributions.

that what was ultimately being insured was the maintenance of social order. The availability of welfare would help to mitigate the impact on society of the most egregious failures in the free market system. It would do this by addressing destitution and facilitating a more equitable (though still very unequal) distribution of wealth and income, so ensuring that the wider economic and social system, based largely on the operation of the market, would, itself, not fail.

Each system also had a significant insurance dimension. The cost of providing social benefits would be borne by many even though the direct 'payment' of benefits would be realised by few. In other words, the 'risk' of an acute loss of income would be syndicated just as the risk of other events (fire, theft, etc.) are syndicated in private insurance. Under this model, only those who suffer a relevant loss or experience a contingency (often, in private insurance, subject to an 'excess') can draw down on the insurance cover. Consequently, there is no guarantee that those who 'pay-in' will ever receive a 'pay-out', though in reality many people who 'pay-in' expect, and receive, a state pension (contributory). For the range of payments paid through social insurance see Box 1.

As noted above, these concepts of 'social' and 'insurance' are reflected in the principles most often quoted as characterising the system of social insurance—the 'solidarity' principle and the 'contributory' principle.

Box 1: Payments made through the social insurance system

A single social insurance scheme was established in Ireland in 1953, replacing a number of separate schemes for unemployment, widow's and orphan's pensions and national health. The Social Welfare Act 1952 established the single social insurance fund into which all social insurance contributions were to be paid from then on, and out of which all social insurance payments would be made. The payments made from the social insurance fund, include the following:

- Jobseeker's Benefit
- Illness Benefit
- Maternity Benefit
- Paternity Benefit (Contributory)
- Adoptive Benefit
- Treatment Benefit
- Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension
- Health and Safety Benefit
- Invalidity Pension
- State Pension (Contributory)
- Guardian's Payment
- Occupational Injuries Benefit
- Carer's Benefit

2.3 Mixed system—Mixed messages?

In practice, the Beveridge model of social insurance implemented in Ireland and Britain was, of necessity, overlaid on top of the existing assistance schemes. As this 'mixed' system evolved it gave rise to 'mixed' messages and understanding of these principles and the purpose of social insurance tended to become clouded.[5]

It is not uncommon, for example, to hear it argued that those who 'pay-in' should get the value of their contributions back through benefit payments (i.e. in the nature of an 'investment' rather than an 'insurance' fund) or that social insurance payments should be higher than social assistance payments (implying social insurance is a 'higher' form of welfare reserved for those who have, or once had, the resources to contribute). Similarly, it is sometimes argued that social insurance contribution rates and/or benefits should be tailored to different types of worker to reflect their differing likelihoods of requiring welfare supports (which can be seen as a direct challenge to the concept of a 'social' or community rating).

Table 1 presents selected social insurance and social assistant payment rates in 2021. The table demonstrates the range of payment amounts, with payments slightly higher, in most cases, for social insurance benefits, the exception being Jobseekers Benefit. The table only shows the full personal rate, while in reality there are also qualified adult and child dependent rates, plus in many cases people receive partial rather than full payments, depending on contributions and or earnings (insurance) or means (assistance). When means are used to assess the amount of payment due (if any) thrift can be penalised, providing a disincentive to save. Additions, such as the fuel allowance, living alone allowance, may be available, depending on circumstances.

[5] Indeed, the message also tended to confused by the use of the term 'pay related social insurance' and by comparisons between Ireland's Beveridgian approach and the Bismarckian 'pay-related' model of most continental European countries.

Table 1: Selected Social Insurance and Social Assistance Rates, 2021

Social Insurance		Social Assistance	
Payment	**Rate**	**Payment**	**Rate**
State Pension (Contributory) (Aged 66 and under age 80)	€248.30	State Pension (Non-Contributory) (Aged 66 and under 80)	€237.00
Jobseekers Benefit	€203.00	Jobseekers Allowance (Aged 26 or over)	€203.00
Maternity/Adoptive/Paternity/Parental Benefit	€245.00		
Invalidity Pension	€208.50	Disability Allowance	€203.00
Illness Benefit	€203.00		
Carer's Benefit	€220.00	Carer's Allowance (under age 66)	€219.00
Widow's/Widower's/Surviving Civil Partner's (Contributory) Pension/Deserted Wife's Benefit (under 66)	€208.50	Widow's/Widower's/Surviving Civil Partner's (Non-Contributory) Pension	€203.00
		One-Parent Family Payment	€203.00
		Supplementary Welfare Allowance (Aged 25 or over)	€201.00

Source: https://www.gov.ie/en/publication/9e914-dsp-budget2021/ (accessed 21st April 2021)

It can be argued that these kinds of mixed messages have always been present to some degree, given the mixed nature of the overall welfare system, the tension between the various principles and, indeed, the ambiguity inherent in most of them. But these divergent understandings could become more pronounced as the challenge of funding comprehensive social insurance becomes more acute. This could lead to greater contention between 'who pays' and 'who gains'.

Chapter 3:

Putting the Challenges to Social Insurance in Context

3.1 The Emerging Challenges to Social Insurance Funding and Welfare

Many developed countries, including Ireland, are grappling with the challenge of financial sustainability in their social insurance funds. This is becoming of increasing importance due to a number of trends: the ageing of the population reflecting underlying demographic factors, the emergence of new family forms, changes in the labour market, such as the increase in atypical work and globalisation, and changes in the investment environment (OECD, 2017; Hemerijck, 2013).

3.1.1 Demographic changes

On the ageing of the population, a key concern is that contributions to social insurance funds will not be able to cover the payment of benefits from them, as the ratio of older people to working age people increases. In addition, people are living longer, and so pensions have to be paid for a longer period.[6]

Changes in family form include those arising from longer periods in education, later childbirth, and lone parenthood, as well as increased labour market participation by women. This tends to have a number of effects on social insurance funds. While more women have entered employment and so pay social insurance contributions, there has also been polarisation between highly skilled, dual income families, and low-skilled single income (or no employment income) households, which could contribute to lower contributions from some groups.

3.1.2 Changes in the labour market

Atypical work has always been difficult to incorporate into social security systems which are based on the notion of a unique employer-employee relationship, a

[6] It is worth noting some of the options which have been adopted in other countries to address this problem. These include increasing contributions, as happened in Germany in the 1990s. It is also common for eligibility criteria to be tightened, so that less is paid out from the social insurance fund. A number of countries, including Ireland, have increased the age at which a state pension can be drawn down. Other options include the State paying a smaller proportion of sickness benefits, or reducing the time during which unemployment benefit is paid (options which were adopted in Ireland during the recent austerity period). In some countries, a number of benefits are privatised, with contributions required into, for example, a fund to support workers during illness, or during retirement.

standard 40 hour a week job, and the same employer over the long-term.[7] However, there is now an increasing number of workers who only work occasionally and/or have multiple jobs and income sources, with no statutory working hours or minimum wages. Some do not even have worker status. Some who are self-employed have more than one job—one as a self-employed person and others as an employee (OECD, 2017). The difficulty for social insurance systems is that atypical workers often pay less, or sometimes no, contributions into the fund. As a result, the cost of the benefits they later receive may be less fully covered than is the case for more typical workers. The workers themselves often face greater difficulty meeting eligibility criteria to access social insurance benefits. A 2014 EU study estimated that 13 per cent of all those in employment aged 15-64 were at risk of not being entitled to unemployment benefits (of those 62 per cent were self-employed), and 8 per cent were at risk of not being entitled to sickness benefits (of those 72 per cent were self-employed) (European Commission, 2020). The self-employed in Ireland have historically had less entitlement to these benefits than the employed, although there have been recent improvements, see Box 2.

Meanwhile, globalisation is being increasingly facilitated by greater digitalisation. This has a number of impacts, such as less job opportunities for low skilled workers in developed countries, and more precariousness and less security in work, leading to lower contributions to social insurance funds, and more demand on the expenditure side.[8] There can also be competition between countries to attract multi-national companies to their country as employers, which could lead to pressure to reduce social security contributions as they make up part of the tax wedge, see Box 3.

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7 Beveridge (1942: 10) recognized the role of 'independent workers' in his six-fold classification of the UK's social security system, stating that in relation to social security the population falls into four main classes of working age and two others below and above working age respectively, as follows:

I. Employees, that is, persons whose normal occupation is employment under contract of service.
II. Others gainfully occupied, including employers, traders and independent workers of all kinds.
III. Housewives, that is married women of working age.
IV. Others of working age not gainfully employed.
V. Below working age.
VI. Retired, above working age.

8 The options which are suggested by the OECD (OECD, 2017, 2018b) to address these issues include tailoring social security systems to the new forms of employment, or decoupling them entirely from people's work history and status. Developing countries, which are new to social security systems, are sometimes in a better position to develop models of social security which deal with atypical work. Some freelancer platforms also offer unemployment insurance and workers' compensation coverage (e.g. Upwork), although clearly not all do. A number of countries are also increasing their focus on activation, including Ireland, to move more people into the labour market, and so increase the number paying social security contributions. A focus on re-skilling can also be relevant, to ensure that those who do lose their jobs in sectors at risk are able to retrain and so gain new employment, and so continue to contribute to social insurance.

Box 2: Recent Social Insurance Changes for the Self-employed

The self-employed, who pay Class S social insurance, are eligible to claim fewer benefits that Class A (and some other) contributors. Those in Class S first became eligible to contribute to, and claim for, State Pension (Contributory) (SPC) for themselves and their dependents in 1988, with eligibility extended to allow them to claim Maternity and Adoptive Benefits in 1997, Invalidity Pension and Treatment Benefit in 2017, and Jobseekers Benefit (Self-Employed) in 2019. Illness Benefit is the only key benefit which is not currently available to the self-employed.[9]

Class S is paid by farmers, self-employed professionals (e.g. doctors, solicitors, IT professionals), sole traders and partners, those with income from investments and rents, some artists and childminders who are exempt from income tax, and some people who work part-time as self-employed. The Labour Force Survey for Q4 2019 (pre Covid-19) showed that were 331,200 self-employed; 30 percent of whom had employees, while the remaining 70 per cent, often called 'own account' workers, did not.

Contributions for the self-employed are relatively low, at 4 per cent of earnings, or a flat rate €500, whichever is greater for those earning over €5,000 per year. Only the employee part of the contribution is paid, and not the employer part (for class A, the employer contribution is 10.75 per cent and makes up the bulk of social security contributions). As KPMG (DEASP, 2017a:111) note 'self-employed contributors who pay the minimum contribution of €500 and who build up a sufficient contribution history to qualify for the SPC are getting exceptional value for money. To put this in context individuals paying at the minimum €500 per year over a full working life will receive a pension of €238.30 [now 248.30 in 2021] per week (circa €12,292 [now €12,911.60] per annum) for each and every year during retirement'.

This means that the gap between expenditure and contributions is likely to grow further. In a representative survey of the self-employed in 2016, 88 per cent of respondents said they would be willing to pay a higher headline rate of PRSI in return for at least one additional social insurance benefit. Some 74 per cent would welcome an option to continue paying the current PRSI rate, but to also be able to pay additional voluntary contributions in return for extra benefit coverage (DSP, 2017).

9 Both employees and self-employed people can qualify for the Covid-19 Enhanced Illness Benefit.

Box 3: The Tax Wedge

Internationally, Ireland's social insurance contributions are low when compared to the average rates in the EU, and the OECD. In the OECD member states, on average 26 per cent of tax revenue comes from social security,[10] but in Ireland it was 17 per cent in 2014 and 2015 (OECD, 2018a), ranking Ireland 27th out of the 35 OECD countries. France, Germany, Austria and Belgium, in general, have higher social security contributions. The development of social security systems in each EU country occurred independently, and so they are quite different in structure and amount of contributions, and cover different contingencies. Ireland's social insurance fund pays less than, for example, those of France or Belgium, in terms of pensions and unemployment benefits, as well as having lower contribution rates.

However, in terms of a tax wedge, in Ireland a much greater proportion of state revenue comes from personal tax, on income, profits and gains, than the average in the OECD. Thirty two per cent of tax receipts in Ireland came from this in 2014 and 2015, compared to an average of 24 per cent in the OECD. [11] Ireland ranked 7th highest in the OECD on this in those years. Nonetheless, when social security and personal tax contributions are combined, the proportion of State revenue in Ireland from these two sources is 49 per cent, almost exactly the OCED average, which is 48 per cent (all figures in this paragraph are from OECD, 2018a).

3.1.3 Changes in the Shares and Distribution of Income and Wealth

The nature of income and its distribution is changing. Sources of income other than employment, such as rents and investment income, are making up a greater share of overall income. This poses the question of the appropriateness of basing social insurance contributions on income gained through employment, though it is noted that Class K collects contributions on unearned income, but without associated benefits (though most Class K contributors also contribute through Class S, or sometimes Class A). Authors such as Piketty (2014) have highlighted the return on capital being higher than economic growth so that wealth is becoming increasingly concentrated at the very top end of the income distribution.[12]

Income inequality, as measured by the disposable income Gini co-efficient, however, shows that the distribution of income in Ireland has remained fairly stable, and at a lower level, in recent years, particularly in comparison with other countries such as the UK and USA, see Figure 1. It has been observed that over the 1987-2014 period, changes in tax and welfare policy led to increases which were greatest for the lowest 20 per cent of households. Much of this differential growth has been attributed to implementation of the proposals of the Commission on Social Welfare (Department

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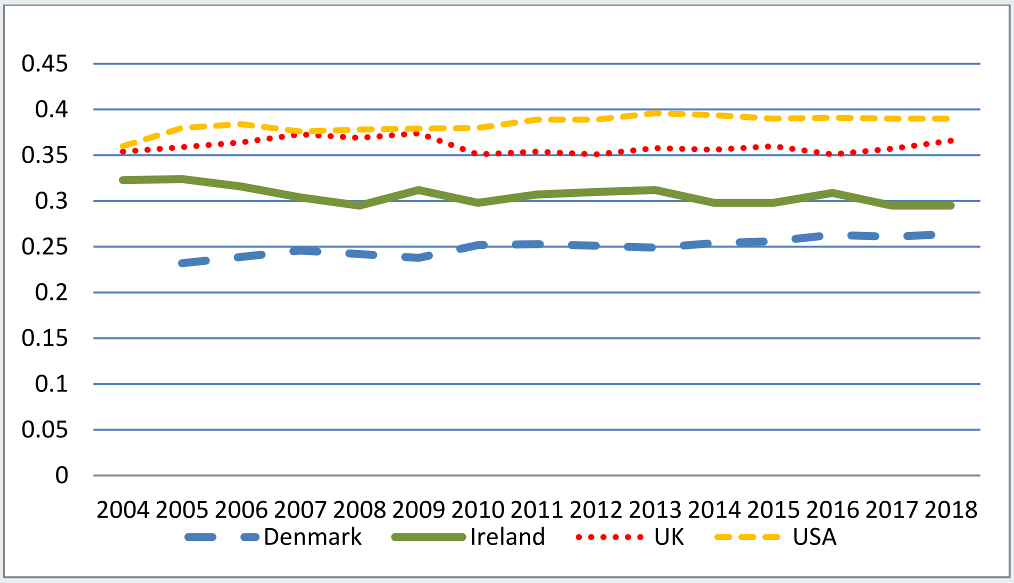
[10] The OECD uses the term 'social security' in its publications, and not social insurance. However, the terms are usually used interchangeably.

[11] This figure is the average, but other OECD analysis, e.g. (Quinn, 2016), shows great variability in the tax wedge by family type in Ireland.

[12] To address this issue Piketty has called for a progressive global wealth tax.

of Social Welfare, 1986) who recommended raising payment rates for those on the lowest payment levels (Callan *et al.*, 2018: 1).

Figure 1: Gini measure of income inequality in selected countries



Note: Disposable Income Gini Co-efficient
Source: http://www.oecd.org/social/income-distribution-database.htm

3.1.4 New Social Risks

New social risks are alluded to throughout this paper and have been a major theme in international analysis and policy discussion on systems of social protection in recent decades. It is useful to explicitly name them as they are having a profound impact on the operation of welfare states throughout developed countries. New social risks are defined as the risks people now face in the course of their lives as a result of the economic and social changes associated with the transition to a post-industrial society (Tayor-Gooby, 2004). In international research and policy analysis, these have been identified as follows:

a) Changes in the nature of employment with fewer unskilled and low skilled industrial jobs but an increase in tertiary and service jobs. These changes make it more difficult for people with poor education and skills to get an adequately paid job requiring opportunities for reskilling, upskilling and life-long learning. There is also often a requirement for in-work benefits where jobs are low paid and/or sporadic in nature.
b) The increasing number of women in the workforce with implications for changes to the vestiges of the male breadwinner model on which the welfare state was based. There is also an increasing dichotomy between dual income and single income or no-paid income households.
c) Changing family structures with a need to balance paid work and family responsibilities. This can be particularly acute for one-parent families, but also

means care needs (for young children, or older frail or disabled relatives) are increasingly shared between the family, private providers and the state.

d) The changing nature of welfare provision with use of private providers as well as the state with implications for standards and who pays, i.e. the individual and/or the state.

3.1.5 Changes in the Investment Environment

As these pressures make it increasingly difficult for governments to finance pensions through fiscal expenditure in the longer term, many Governments are placing increasing emphasis on pension schemes building assets in order to finance future retirement income, as opposed to retirement benefits being provided solely through current revenue. At the same time, the investment environment for pension funds (and indeed other forms of investment) has changed significantly over the past decade in OECD countries. There has been low growth, low inflation, and low interest rates, all of which pose serious challenges to pension systems, including those funded through social insurance. These factors make it more difficult to earn a return to meet future obligations, as well as increasing pension liabilities (OECD, 2015, 2016). In Ireland, the social insurance fund is made up of a current account and an investment account managed by the Minister for Social Protection and the Minister for Finance, respectively.

3.2 The Inevitability of Change

Given the pressures described above, it is inevitable that the social insurance system will have to change to address the resulting funding challenges. The most recent actuarial review of the social insurance fund projected a funding deficit in 2020 of around €200m, rising to about €1bn in 2023 and continuing to increase thereafter DEASP, 2017a). In 2055, given current population projections, the deficit in the fund is estimated to amount to 3 per cent of GDP, see Box 4. Consequently, if the social insurance model is to be retained in anything like its current form, it is inevitable that measures will have to be taken to either increase contribution rates or reduce benefits or a combination of the two.

Box 4: The Financial Situation of the Social Insurance Fund

For much of its existence, the Social Insurance Fund (SIF) has had to be supported through a subvention from the Exchequer, and has only been in surplus during the boom years of the Celtic Tiger, and again more recently as employment has increased, prior to the Covid-19 pandemic. During the recession following the 2008 financial crash, the surplus built up during the Celtic Tiger period was quickly wiped out due to a combination of high expenditure on Jobseeker's Benefit, as well as a decline in contributions due to the growth in unemployment.

The long-term ageing of the population means that the social insurance fund will move increasingly into deficit. The population over State pension age is projected to increase from 12 per cent in 2015, to 17 per cent in 2035, and to 23 per cent in 2055. The pensioner support ratio is projected to decline from 4.9 workers for every individual over age 66, to 2.9 workers in 2035, and to 2.0 workers by 2055 (DEASP, 2017a). Since 2005, an actuarial review is carried out of the social insurance fund every five years. The most recent available, for 2015 carried out by KPMG, outlines starkly the deficit which will face the fund in future. While the precise amount of the deficit cannot be projected, the underlying trend is clear, and outlined in the table below.

Income and Expenditure Projections for the Social Insurance Fund (€bn)

Year	Receipts	Expenditure	Surplus / (Shortfall)	Shortfall as a per cent of GDP
2015	8.5	8.6	-0.1	0.00%
2020	10	10.3	-0.2	0.10%
2025	10.7	12.4	-1.7	-0.50%
2030	11.3	14.6	-3.3	-0.90%
2035	12.1	17.8	-5.6	-1.40%
2045	14.2	25.6	-11.4	-2.40%
2055	16.9	34.2	-17.3	-3.10%
2071	22.5	44.7	-22.2	-2.90%

Note: All figures shown are in 2015 real price terms

Source: (DEASP, 2017a: 8)

It will be a significant challenge to ensure that those paying PRSI now will still have a state pension awaiting them when they retire, some of them in fifty years' time.

3.3 Towards Identification of Reform Possibilities: The Case for Considering Social Insurance and Social Assistance Together

Given the underlying trends and resulting pressures, it is timely to identify, analyse and deliberate on the possible directions of reform.

In embarking on that exercise, it important to be clear about the context. The Irish welfare system, which was improved significantly over the 1990s and the early years of the 21st century, played an important role in providing social protection during the huge financial crisis of 2008.[13] The system is not in crisis and continues to play a hugely positive role, both socially and economically. Nevertheless, the scale and prevalence of loss of income and wealth, as well as economic stress, seen in Ireland during the Great Recession (2008 – 2012) underlines the extent to which the crisis posed challenges to the overall system of social protection and taxation. The differential effects of the crisis in some of the countries hardest hit, across the income and social class spectrum, are analysed in Whelan and Nolan (2017).

In addition, there is little evidence that Irish perceptions and understandings of the welfare state have changed strongly or become more polarised, as seems to have happened in the UK. In his 2015 analysis of the 'welfare myth of them and us', Hills shows how British perceptions of the welfare state have become negative and, importantly, extremely inaccurate (Hills, 2015). Two myths are particularly widespread, and incorrect: 'first, that the beneficiaries of the welfare system are largely an unchanging group and are different from the rest of us who pay for them through our taxes; and, second, the bulk of this huge amount of spending goes on hand-outs to a group of people who are out of work, often claiming fraudulently' (Hills, 2015: 249). Likewise, Taylor-Gooby's focus group research on attitudes to welfare in Norway, Germany and the UK—exploring the relative emphasis on contribution/ reward, equality and need—highlights the degree to which British perceptions focus on unemployment, individual responsibility and immigration (Taylor-Gooby, 2018).

In Ireland, it is useful to identify one direction of change that is likely to surface, but does not seem wise to analyse or pursue in great detail. Given the unavoidable need to respond, in the coming years and decades, to the increasing funding pressures there is likely to be some focus on who pays and who gains. In that context, the option of controlling expenditure by placing greater emphasis on equity at the individual level (people should benefit relative to what they pay-in), rather than social equity, is likely to be canvassed.

This is not a new question. Although the original rationale for social insurance clearly prioritised social over individual benefits, it has long been accepted that the funding of social security, if it is to have popular support, needs to perceived as providing a

[13] This paper was written and considered by the Council prior to the Covid-19 pandemic. Nevertheless, it is worth noting the important role played by the social welfare system during the pandemic.

personal as well as a social benefit. This recognised that, certainly in earlier times, the principle of solidarity was probably not sufficiently strong or clear to secure support at an individual level for the payment of contributions. There was a pragmatic acceptance that some direct personal benefit was required if employee and employer acquiescence, if not support, is to be secured for the levying of contributions. This personal benefit is therefore made manifest in the provision of 'rights to benefit' in return for the payment of 'insurance' contributions.

However, recognising the need for a direct personal benefit does not mean that we should afford it primacy in debates about how best to address the future funding challenge. It is important not to lose sight of the fact that the primary benefits that social insurance is designed to deliver are the alleviation of poverty and the maintenance of social cohesion—through the provision of an incentive, at the individual level, of the 'insurance' of a personal risk. We need to be careful, therefore, that we do not unintentionally create a situation where social insurance, rather than being a mechanism for cohesion, becomes a vehicle for division by focussing too much on the individual incentive and thereby positioning the system itself as 'personal' rather than 'social'.

In that regard, it is also important to recognise that the funding challenge to be faced in the future, although much more acute than ever before, is not essentially new. The Irish social insurance system is not a 'pre-funded' system. It is a 'pay as you go' system with current benefits funded from current receipts. In fact, over its history the aggregate value of benefits paid from the social insurance fund to contributors is significantly in excess of the aggregate value of contributions, with the deficit being funded from general taxation. Moreover, the value of social insurance payments is not set by reference to an actuarial assessment of what the social insurance fund can sustain; rather, they are set as part of the annual exchequer budgeting process. For example, in recent years the value of increases made to social insurance payments has been the same absolute amount as the increases in social assistance payments.

More significantly, given that all social assistance is funded through general taxation, for the most part levied on taxpayers who are also social insurance contributors, and given that any displacement from social insurance has, to some extent at least, to be absorbed by social assistance, it is also arguable that the principles of 'solidarity' and 'contribution' need to be viewed in terms of the overall system of social welfare—assistance and insurance—rather than just insurance alone. This is particularly the case in situations where, like Ireland, the social insurance fund is heavily sub-vented by general taxation and social insurance benefits are not pay-related but are fixed at a level just above social assistance rates. Table 2 provides an overview of the expenditure and numbers of beneficiaries of the main social welfare insurance and assistance payments.

The highest level of expenditure (€5.6bn) and beneficiaries (493,000) is on the social insurance contributory state pension, followed by the social assistance disability allowance (€1.7bn, 207,000) and jobseekers allowance (€1.6bn, 263,000). Widowers' and surviving civil partners' contributory pension also has high levels of expenditure and beneficiaries (€1.6bn, 133,000). At an overall level, just over half (52 per cent) of expenditure is on social assistance payments (€10.9bn), while almost three quarters of welfare benefits' beneficiaries (73 per cent, 2.4m) are in receipt of social assistance payments.

These considerations suggest that the option of addressing the funding pressures by strengthening the individual aspects of the social insurance system—strengthening the link between those who pay and those who benefit—should not be one of the general lines of development.

We can go further. Our summary of the evolution, principles and pressures suggests that social insurance and social assistance should not be viewed as two separate systems but need to be seen as a whole. Accordingly we should not, in seeking to resolve the funding challenges facing the social insurance system, focus on the system of social insurance in isolation but instead consider it as part of a wider social welfare system. This wider system includes not only social assistance, but also the other pillars of the welfare system—the social services and innovation as understood in the *Developmental Welfare State*.

The next section discusses one perspective on how we should jointly consider social insurance and social assistance in the wider welfare state: the idea that social insurance and social assistance should be more integrated. Wider dimensions are flagged in section 5.

Table 2: Expenditure and Beneficiaries of main social insurance and social assistance schemes, 2019

Payment	Expenditure (€ 000)	Beneficiaries
State Pension (Contributory)	5,603,130	493,367
State Pension (Non-Contributory)	1,042,830	98,553
Jobseekers Benefit	348,010	43,338
Jobseekers Allowance	1,629,030	262,709
Maternity/Adoptive/Paternity Benefit	280,840	23,825
Widow(er)s' and Surviving Civil Partners' Contributory Pension	1,558,920	132,999
Widow(ers)s' and Surviving Civil Partners' Non-Contributory Pension	13,940	1,373
Invalidity Pension	728,110	76,577
Illness Benefit	607,220	64,195
Disability Allowance	1,705,970	207,004
Carers' Benefit	43,290	3,177
Carers' Allowance	862,560	134,662
One Parent Family Payment	533,070	112,810
Supplementary Welfare Allowance	120,180	25,306
Working Family Payment	397,200	172,575
Total Social Assistance	*10,889,660 52%*	*2,399,955 73%*
Total Social Insurance	*10,019,520 48%*	*866,788 27%*
GRAND TOTAL	**20,909,190**	**3,366,743**

Note: Figures in the table do not add to the totals, as only the main insurance and assistance schemes are presented, while the totals include all the relevant payments.

Source: Department of Social Protection (2020) *Statistical Information on Social Welfare Services: Annual Report 2019.*

Chapter 4:
Towards an Integrated System?

Given the evidence and arguments set out above, one view is that the social insurance and social assistance systems should become more closely integrated. Without anticipating or prejudging the arguments, that direction of change could be seen to reflect the original purpose of welfare as a system (poverty alleviation and social cohesion), to accept the reality of their evolution to date, to eliminate any unnecessary contention between forms of welfare and, through clarifying the role and purpose of welfare, to support more focussed discussion on the appropriate range and level of social welfare payments, and the most appropriate mechanism to fund these payments.

Here we set out three further, related, propositions. First, the case for closer integration of the social insurance system and social assistance is strengthened, at this time, by a number of other considerations and developments. Second, movement towards a more integrated system opens the possibility of addressing the funding pressures, although this naturally depends on *how* integration is achieved and the detailed provisions on contributions, payments, services and the approach to identifying and addressing unmet needs. Third, integration could take a number of forms, some of which are unlikely to be attractive. The most feasible is probably a hybrid model.

The first two propositions are outlined in Section 4.1, where the attractions of greater integration are identified and we outline some initial ideas on its potential to help address the funding challenges. In Section 4.2 we briefly consider different possible versions of integration of social insurance and social assistance. To assist in understanding ongoing changes, recent policy developments in relation to the social insurance system are summarised in Box 5.

Box 5: Recent Policy Developments in Relation to Social Insurance

A range of changes since 2009 have had a positive impact on the funding of the social insurance fund in Ireland. These changes include increases in some contribution rates, the abolition of the employee ceiling for PRSI, and broadening of the base on which PRSI is charged through the abolition of exemptions. In addition, there have been extensive expenditure-reducing measures, including stricter contribution conditions for entitlement, and reductions in duration of entitlement, most notably for Jobseeker's Benefit and Illness Benefit; removal of entitlement to concurrent social insurance payments; increases in the pension age to 66 years; and changes in the level of entitlement to the State Pension (Contributory) where people do not have a full contribution history, (DSP, 2017).

The Minister for Finance also established an inter-governmental working group to look at the merger of PRSI and USC. Its terms of reference were to examine and present options for the amalgamation of PRSI and USC, bearing in mind a number of criteria, such as the need to preserve the tax base while having regard to the need for certainty, equity, and ease of compliance and administration, and the current and future funding challenges facing the social insurance fund (Department of Finance, 2018). The Minister for Finance said that his plan was to merge USC and PRSI into a single social insurance payment, and that the objective of the approach was to strengthen the contributory principle of social insurance (Burke-Kennedy, 2017).

In addition, at a broader level, the Government has adopted a five year *Roadmap for Pension Reform* (Government of Ireland, undated).[14] This includes actions that apply much more broadly than just social insurance changes, including a new automatic enrolment retirement savings system from 2022. In terms of social insurance, the Roadmap commits to introducing a Total Contributions Approach (TCA) for the contributory state pension. This will more fully align contributory pensions to the contributions paid over the years, as well as expanding home maker credits. The Roadmap also commits to maintaining the value of State pension payments at 34/35 per cent of average earnings, with future increases explicitly linked to changes in prices and/or wages. This will ensure adequacy of income for pensioners, but clearly has impacts for expenditure required from the social insurance fund.

[14] The Government established, in November 2020, a Commission on Pensions to examine sustainability and eligibility issues in respect of the State Pension and the Social Insurance Fund.

4.1 Considerations Relevant to Closer Integration

4.1.1 Promote horizontal equity: treating people in similar situations in a similar way

Although payment rates are already closely aligned, the rates of payment on social insurance schemes are in most cases higher, for the same contingency, than the equivalent social assistance payments. The close proximity of rates is understandable if it is taken that the purpose of social welfare is to provide a minimum, but adequate, substitute in the event of a critical loss of income, and that this level of income should insulate the recipient against persistent poverty, but not be so high as to act as a disincentive to labour market participation. If these principles are accepted, then there is a limited range within which payments can differ. Given the reality of this limited range it can be argued that there is little merit in maintaining a differential in payment rates. More pointedly, however, it seems difficult to sustain a situation whereby two people with the same contingency are assessed to have a different income need simply by virtue of whether or not they ever paid social insurance contributions. For example, is it justifiable that a person born with a profound disability is assessed to have a different income need than one who acquired the same disability during their working life? The answer may seem obvious, but in practice under our current system, the person born with a profound disability will never receive the same weekly welfare support as a person with an acquired disability.

4.1.2 Respond to changes in the nature of income, poverty and the labour market

Movement towards an integrated system may also make it easier to respond to changes in the nature of income, poverty and the labour market. Although this warrants considerable further analysis, it possible to identify a number of relevant changes.

The nature of income—and as a consequence what constitutes an insurable income contingency—is changing. In the past, an inability to earn income through paid employment was a very strong proxy for an income contingency. This is changing.

On the one hand, as other sources of income (e.g. rents and other investment income) constitute a higher share of overall income, it is no longer the case that a loss of employment necessarily creates an acute income need. Consequently, it might be argued that loss of (or an inability to take up) employment (whether through unemployment, retirement, or ill health) should not automatically create an entitlement to a social insurance benefit, independent of any assessment of need.

On the other hand, neither is it clear that having employment is an indicator that a person does not merit welfare support. It is increasingly recognised that people in employment may not earn sufficient income to support a standard of living that is deemed acceptable by society. Reflecting this, the role of welfare has been extended to provide in-work income supports to those at the lower end of the income scale, or with significant family responsibilities. In this situation, employees, even as they pay contributions into the social insurance fund from their earnings, can also be in receipt of social assistance payments and may be net beneficiaries, on an ongoing basis, from the overall social welfare system.

4.1.3 Promote vertical equity: an appropriate degree of progressivity and redistribution

Integration may also facilitate the promotion of greater vertical equity. One of the central tenets of the social welfare/social insurance approach is that it should be progressive in the sense that it is intended to deliver a more equitable, and therefore sustainable, distribution of income than would be delivered by an unfettered free market. Means, or needs-based, testing of benefits delivers on this objective. Similarly, insurance based access results in a re-distribution of income from all those who contribute into the system to those faced with a loss of income (and, as noted above, personal rights acquired through the insurance system also help to sustain support for contributions by those who contribute). However—given the increased concentration of income and wealth among the top 10 per cent of earners, evidenced across western societies—the question arises, as to whether insurance-based access should be entirely rights-based, or whether there should be some assessment of objective need, particularly for those with very high incomes or with significant wealth. This question is particularly relevant considering that social insurance contributions made in respect of employed workers represents a higher share of their earnings than that paid by the owners of capital who tend to constitute the bulk of the top earners in an economy.[15] It might be argued that in these cases the system of social insurance as it currently operates, rather than being progressive, is regressive in nature. It is, of course, partly an empirical question whether adding some assessment of objective need in the case of those with very high incomes and wealth would greatly increase the progressivity of the social insurance system and, indeed, whether it could make a significant contribution to meeting the underlying funding deficit. It is also relevant to ask whether adding assessment of objective need, i.e. more means testing, might have other negative effects on the overall welfare system.

4.1.4 Recognise and provide for the growing share of social insurance payments

Integration might also make it easier to recognise and take account of the increasing share of social insurance system payments. As the social welfare system in Ireland has evolved, as the economy and employment markets strengthen, and as individual employment insurance records mature, the share of overall payments being distributed as social insurance payments as compared to social assistance payments will grow (excluding cyclical impacts impacting unemployment/jobseekers assistance payments). This trend is already very evident in the area of pensions where the proportion of pensioners in receipt of an insurance-based pension has increased from 59 to 88 per cent since 1995. Given that the Irish social insurance system is not pre-

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15 While most of these contributions are paid by employers, studies on the incidence of taxation indicate that given the relative elasticities of labour supply and demand most, if not all, of the employer contributions' burden is ultimately carried by employees. Hence, employees are most likely to pay a higher effective rate insofar as they are indirectly paying, by and large, 4 per cent + 10.85 per cent vis-à-vis 4 per cent.

funded, but is a 'pay as you go' system, this raises obvious issues. The underlying dynamic of ageing and increasing access to the contributory pension means that, unless there are significant changes to insurance contribution rates, an increasing share of total insurance benefits will be funded by general taxation—just as social assistance payments are funded. If social insurance and social assistance will increasingly share a common revenue base, it can be argued that entitlements and conditions should eventually converge also.

4.1.5 The social insurance and social assistance systems already share a number of features, including some eligibility tests

In considering the possibility of moving towards an integrated system, it is relevant to take note of the fact that the insurance and assistance systems are not entirely distinct. They already share certain characteristics, including a degree of conditionality. As the welfare system developed it has come to be accepted that income transfers might alleviate poverty at an individual level in the short to medium term, but cannot, on their own, resolve the individual experience of poverty in a sustainable manner. Accordingly, as emphasised in the Developmental Welfare State and the 'social investment' perspective, income supports should be combined with a range of services which enhance capacity and capability. A subset of these are labelled 'activation'—the provision of services such as training, counselling and work placement to support people dependent on welfare to secure employment as a means to reduce that dependence. Such activation is now a core part of the fabric of the welfare system in Ireland and elsewhere. Indeed, the development of activation has introduced another element of conditionality into the determination of entitlement to benefit. In order to claim entitlement to some types of benefit (whether insurance or assistance) the person claiming entitlement must co-operate with, and participate in, activities designed to improve their prospects of securing employment. This 'third' conditionality means that there is no longer, for some schemes, and automatic entitlement to benefit based only on a record of paying contributions. This suggests that it is possible, and might be socially acceptable, to integrate additional conditionality into insurance-based schemes. Considerable analysis and deliberation are required to identify what further conditionality, if any, might be appropriate.

4.1.6 Simplify Choice and Administration

Integration might also make it easier to address some of the complexity of the welfare system for both citizens and those who administer it. As the social welfare system has developed it has tended to develop parallel 'assistance' and 'benefit' schemes. If the difference between these schemes was only in the mechanism through which entitlement to a payment was established then this might not present a significant difficulty. However, as previously referenced, payment rates differ albeit by small margins. In addition, criteria, other than means and contribution requirements, also differ across the parallel schemes and access to ancillary benefits (e.g. rights to transition at age 66 to the state pension) can also differ. These differences have created a very complex 'menu' of options for citizens, a range of 'arbitrage' opportunities and a very complex administrative overhead. For example, the Department of Social Protection is required to calculate a person's pension entitlements under both social assistance and social insurance and select the most advantageous option for the person.

In the past, the integration/unification of the contributions and the means-testing system, although acknowledged as being conceptually desirable, was also presented as being too complex to build and administer. However, as IT capability has advanced (e.g. the development in DSP of common means assessment) and as the PAYE system is being modernised it is now possible that the complexity of operating two parallel systems is greater than that of operating a single system.

4.2 If Integration is a Good Idea, Which Model of Integration is Best?

The unification/integration of insurance and assistance models is not a new idea. As initially conceived, the Beveridge system of social insurance adopted in Ireland was intended to ultimately replace, rather than augment or overlay, social assistance. Beveridge was clear that his model of social insurance should over time, and for most welfare recipients, get rid of the means test. Even where social assistance was retained he was of the view that administrative unification should be used to avoid overlaps and ensure uniformity in benefit rates and conditions and procedures for determination of claims. However, as the system evolved, social insurance has come to sit alongside rather than replace social assistance. Although there has been administrative unification this has not resulted in the uniformity of benefit rates and conditions envisaged by Beveridge.

It is now timely, given the considerations set out above, to consider whether the two systems should continue as is or, as originally envisaged by Beveridge, be deliberately integrated into one coherent system of social security.

A more integrated system could take a number of possible forms:

a) An insurance-based system paying, as Beveridge envisaged, a fixed minimum rate to all people satisfying a contingency test that is not means dependent.
b) A fully means-tested system, as in Australia, in which all welfare benefits are assessed based on need and are funded entirely via general taxation. Or
c) A hybrid model—a single system in which all entitlements are funded through an earmarked contribution or tax but are assessed both with regard to insurance contributions and need/means, rather than separately assessed, as is the case at present, by reference only to means in the case of assistance or only to contributions as in social insurance.[16]

[16] An approach Beveridge anticipated and called the double re-redistribution of income based on insurance and need, and which he used to justify the payment of child and adult dependent allowances to social insurance contributors.

In practice, movement to a completely means tested and tax-funded model such as in Australia is likely to be seen as retrograde and is unlikely to receive popular support.

Transition to a fully insurance-based model as envisaged by Beveridge may, in the view of many, not pass the test of being truly progressive in terms of income distribution. Given the comparatively narrow range of income levels and the distribution of income that obtained in the 1940s this was not considered a significant failing at the time (and to the extent that it was considered a failing it was a price worth paying to get rid of the indignity of a means-test and secure middle class support for social insurance). However, given the evolution of income distribution since the mid-20th century, granting an entitlement uncapped by reference to income level may be seen as problematic. This will be particularly evident as the population ages and the underlying contingency becomes one of age, without reference to wealth or earnings. Similarly, the Beveridge model, being of its time, is based on payment of a minimum or subsistence payment and did not envisage the payment of in-work supports either as part of an activation regime or to reflect changes in societal definitions of what constitutes poverty.

If Ireland were to move towards a single system—and within that to address the issues of equity, purpose, changes to income/work, gender, funding and administration as discussed above—then it could be argued that the best approach is to move from having a mixed model of two parallel systems to a hybrid model which combines features of both systems into one new system.

Chapter 5:
Further Lines of Inquiry

This paper has discussed social insurance in the context of the wider welfare system. These reflections suggest that the future of the social insurance and wider welfare system needs to be viewed through the dual lens of social welfare and sustainability. While there are others looking at some of the specifics of these issues—such as the reform of pensions, the amalgamation of PRSI and USC, eligibility criteria for entitlement to pensions, contribution rates and coverage, payment rates—the trends, challenges and ideas discussed in this paper suggest the need for a wider review in the context of movement towards a sustainable developmental welfare state.

This preliminary exploration has identified further lines of inquiry as follows.

- ***Assessing Integration:*** The idea of integrating the two systems of social insurance and social assistance will require careful consideration, significant consultation and debate, and detailed financial evaluation. As noted in the previous chapter, integration also raises questions in relation to how the overall system is funded and how international obligations for portability of social insurance rights and payments might be affected.

- ***Including the self-employed:*** Social insurance coverage for the self-employed, the rates paid and the benefits received, are recurring themes in discussion of the social insurance fund. Further consideration is required on the extent to which the self-employed are included in the social insurance fund and the wider welfare system, and the implications of this.

- ***Changing nature of work:*** Related to these deliberations is the changing nature of work, particularly in relation to part-time, atypical and precarious work, the scale and likely trend in these types of work and their implications for social insurance and the wider social welfare system. Relevant to these discussions is the role that activation plays in supporting people back to work, and how that is done, as well as the use of in-work supports.

- ***Gender and Family*:** As discussed earlier, the original welfare system was based on a male breadwinner model. While there have been many modernisations to the system since then, vestiges of the male breadwinner system remain. Family forms are changing, there is greater female participation in the labour force, people parenting alone have a high risk of poverty, demands on carers are highlighted and there are ongoing challenges of balancing work and family commitments. These issues are germane to the operation of the social insurance and wider income support system as well as to the provision of services, such as childcare, and indeed interaction with the tax system.

- ***Welfare, Income and Wealth*****:** The interaction of the tax and welfare systems work to redistribute income from the better-off to the less well-off and to provide a system of social services for the population as a whole. Adherence to the principles set out earlier in this paper—solidarity, contributory, adequacy, redistribution, comprehensiveness, consistency, simplicity, sustainability and equity—and the tensions and balances between them clearly have a bearing here. In moving towards a more integrated income support and social services system, the interaction with the tax system will also need to be considered.

Work will be undertaken on each of these lines of inquiry. The overarching thrust of the analysis will towards a sustainable developmental welfare state. Individual pieces of analysis and reports will be connected through this overarching focus.

Appendix 1

An Overview of how the Social Insurance System works in Ireland

Most employers and employees (over 16 years of age and under 66) pay social insurance—PRSI—contributions into the national social insurance fund, as do many self-employed. In general, the payment of social insurance is compulsory. Social insurance contributions are divided into different categories, known as classes. The class of contribution paid by an individual is determined by the nature of their work. Altogether there are 11 classes of social insurance, and 24 sub-classes (Tax Strategy Group, 2017). Class A is paid by most employees, and Class S applies to the self-employed. Most of the other classes apply to a small number of people under particular circumstances, for example, there are Classes C and H for the Defence Forces, B and D for public and civil servants recruited before 1995, class P for share fishermen. Most of these classes pay lower contributions, and this is reflected in the fact that those paying them are entitled to a smaller range of benefits than those paying Class A contributions. Table A1 outlines the main classes of PRSI payment, the number of contributors in each, and the benefits which those paying into each class are entitled to.

Table A1: PRSI classes, contributor numbers and rates, and benefits which can be claimed

Class	Who pays in this class?	Number of contributors, 2018	Benefits which can be claimed	Contribution rates—ER (employer) and EE (employee)—% of gross salary
A	Industrial, commercial & service sectors	2,219530	All Benefits	ER: 0.5-11.05%, EE: 0-4%
B	Civil servants, gardai, recruited before 1995	16,944	Widow/Widower's or Surviving Civil Partner's Contributory Pension, Guardian's Payment, Carer's Benefit, Parent's Benefit, some injuries benefits	ER: 2.01%, EE: 0-4%
C	Army officers & nurses recruited before 1995	270	Widow/Widower's or Surviving Civil Partner's Contributory Pension, Guardian's Payment, Carer's Benefit, Parent's Benefit	ER: 1.85%, EE: 0-4%
D	Other public sector, recruited before 1995	39,918	Widow/Widower's or Surviving Civil Partner's Contributory Pension, Guardian's Payment, Carer's Benefit, Parent's Benefit and Occupational Injuries Benefit	ER: 2%, EE: 0-4%
E	Church of Ireland clergy	156	All Benefits	ER: 6.87%, EE: 0-3.33%
H	Defence Forces NCOs, enlisted personnel	7,880	Widow/Widower's or Surviving Civil Partner's Contributory Pension, Treatment Benefit and Carer's Benefit are paid in service. All benefits except Occupational Injuries Benefit are paid on discharge.	ER: 10.35%, EE: 0-3.9%
J	Industrial, commercial & service earning below €38 per week	44,480	Occupational Injuries Benefits.	ER: 0.5%, EE: 0
K	Public officer holders earning over €5,200 pa	19,855	No Social Insurance benefits.	ER: 0, EE: 0-4%
M	Employees under 16, over 66, or earning under €100 per annum	348,203	Occupational Injuries Benefits in certain circumstances.	ER: 0, EE: 0
P	Share fishermen & women	0	Treatment Benefit and limited Jobseeker's and Illness Benefits.	0-4%
S	Self-employed	306,049	State Pension (Contributory), Widow/Widower's or Surviving Civil Partner's Contributory Pension, Guardian's Payment, Maternity, Paternity and Adoptive Benefit, Parent's Benefit, Jobseeker's Benefit (Self-Employed), Treatment Benefit, Invalidity Pension, Partial Capacity Benefit	4%
TOTAL		**3,003,285**		

Notes: In this table, the Guardian's Payment referred to is contributory.

Source: (Department of Social Protection, 2020); and https://www.gov.ie/pdf/?file=https://assets.gov.ie/11117/6beb1ad2f51346f4ad6f27db1c473e59.pdf#page=1, downloaded 21/04/21.

Each class of PRSI has a number of subclasses, based on amount of gross pay, with variations in the rate of contribution depending on the amount of pay. For example, Class A has six subclasses, as outlined in Table A2 below.

Table A2: Subclasses of Class A of PRSI

Subclass	Weekly pay band	Rate of contribution—employee	Rate of contribution—employer
AO	€38—€352	Nil	8.60%
AX	€352.01—€398	4%	8.60%
AL	€398.01—€424	4%	11.05%
A1	More than €424	4%	11.05%
A8*	Up to €352	Nil	0.50%
A9*	More than €352	4%	0.50%

* Subclasses A8 and A9 apply to those working in a Community Employment scheme

Source: https://www.gov.ie/pdf/?file=https://assets.gov.ie/11117/6beb1ad2f51346f4ad6f27db1c473e59.pdf#page=1, downloaded 21/04/21.

Classes A, B, C, D, and H all have subclasses which mean that employees earning up to €352 per week pay no contribution, while between earnings of €352 and €500 they pay a contribution, and when earning over €424 or €500 they usually pay a higher contribution again.[17] The employer generally pays the same rate of contribution no matter what the earnings of the employee are.[18] However, the rates of contribution the employer pays vary depending on the range of benefits which the employee can access.

For Classes A and H there is also a tapering PRSI credit, of a maximum of €12 per week. The credit reduces the amount of PRSI payable for people earning between €352 and €424 per week. The full €12 credit is awarded to those earning €352 per week, and the amount of credit reduces gradually up to gross earnings of €424 per week, after which no credit is applied.

People who are absent from work because of illness, disability or unemployment, and who have been making PRSI contributions, may qualify for a credited contribution. People may also qualify for credits for some education programmes, and during maternity/paternity/adoptive leave. Those who give up insurable work to look after a child under 12 years of age, or a disabled child or adult, may qualify for home maker credits.

This description of the classes, sub-classes, and tapering credits in the PRSI system outline its complexity.

[17] There is a further split for classes B, C and D. In these classes, the contribution rate paid by employees on the first €1,443 earned (once the person earns over €500 a week) is less than the rate they pay on income over €1443.

[18] In class A the employer rate increases from 8.8 per cent to 11.05 per cent when the employee earns more than €398 per week.

A person's entitlement to benefits paid from the social insurance fund depends not only on the class of social insurance they have paid, but also on a number of other factors, particularly the number of contributions paid and over what time period. These factors determine what benefits can be claimed, as well as the level of payment.

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