European Commission

EUROPEAN SOCIAL POLICY NETWORK (ESPN)

Financing social protection

Ireland

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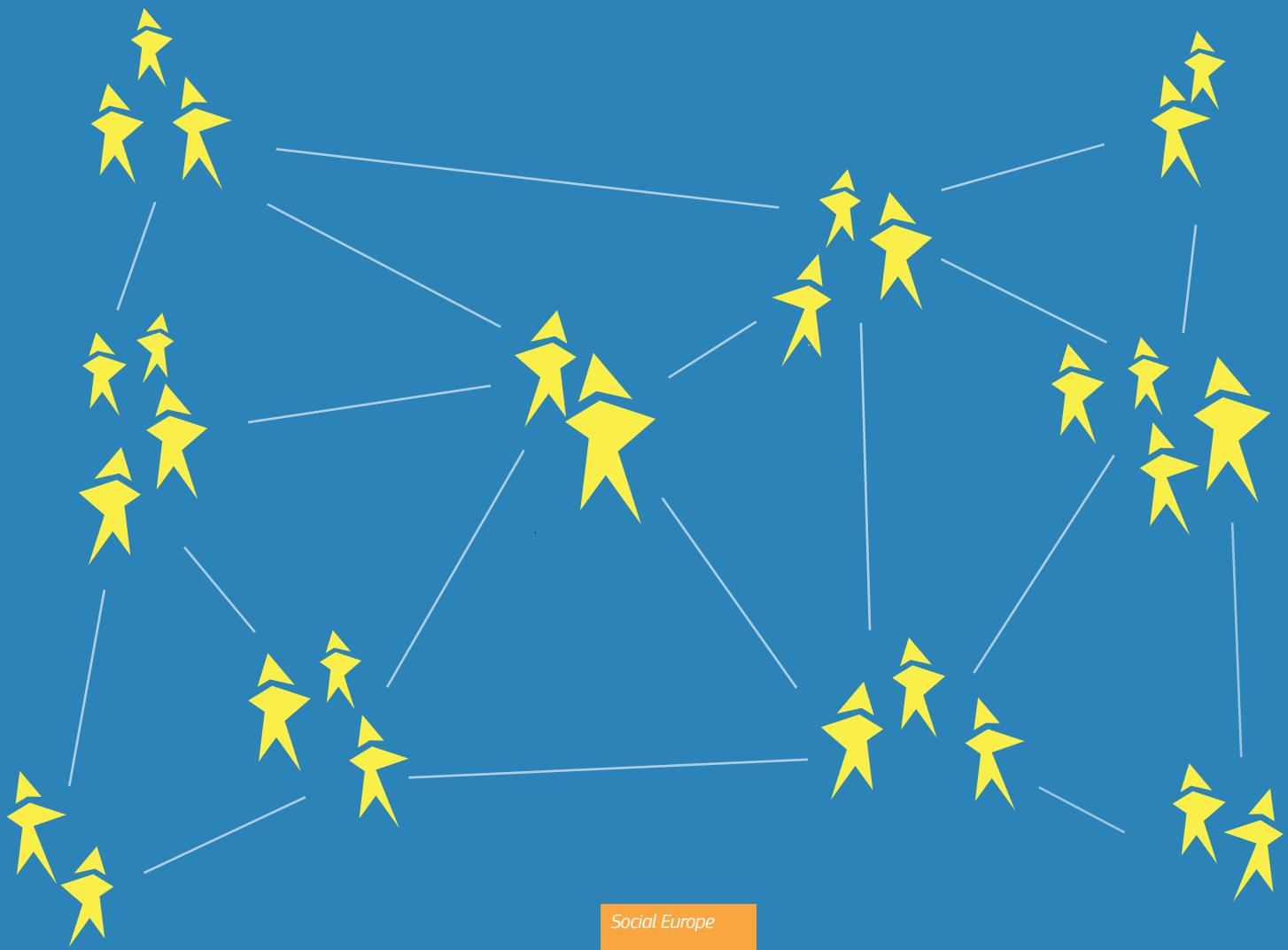

Social Europe

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European Social Policy Network (ESPN)

ESPN Thematic Report on Financing social protection

Ireland

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Directorate-General for Employment, Social Affairs and Inclusion

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The European Social Policy Network (ESPN) was established in July 2014 on the initiative of the European Commission to provide high-quality and timely independent information, advice, analysis and expertise on social policy issues in the European Union and neighbouring countries.

The ESPN brings together into a single network the work that used to be carried out by the European Network of Independent Experts on Social Inclusion, the Network for the Analytical Support on the Socio-Economic Impact of Social Protection Reforms (ASISP) and the MISSOC (Mutual Information Systems on Social Protection) secretariat.

The ESPN is managed by the Luxembourg Institute of Socio-Economic Research (LISER) and APPLICA, together with the European Social Observatory (OSE).

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Summary

Ireland's gross level of social protection expenditure was 15.8% of GDP in 2016, low by EU standards. Social expenditures are highly susceptible to the impact of the economic cycle, in the short-term. In the longer term aggregate expenditure changes reflect changes in three factors: demography, fundamental rules about entitlement, and benefit levels relative to GDP per capita. The analysis stresses that the relative importance of these factors varies across programmes. Ageing has had only a recent and gradual impact on financing and expenditure.

The cyclical impact of recession was compounded by retrenchment, which took two forms: outright reductions in benefits and changes to entitlements that lowered recipient numbers. In relation to entitlements, the pattern of policy change is reducing the insurance character of the system and enhancing the role of means-tests. The latter trend has reinforced Ireland's high reliance on general taxation revenues to fund non-insurance provisions. It has also contributed to a proliferation of means-tests with potentially harmful effects on incentives and labour market inclusion. The potential for income tax to achieve significant net redistribution is limited, because there are only two rates of personal income tax (20% and 40%) and the tax base is narrow

In 2016, Ireland had one of the lowest rates of social contributions to social protection, 38.5%, compared to an average of 54.5% for the EU28. This is a significant weakness in its social protection financing. This is not due primarily to the internal institutional design of social insurance but to the remarkably low rate of social contributions from both employers and employees. During the period under review in this analysis there was no indication that governments intend to consolidate and expand social contributions. In fact, policy opportunities to restructure financing did arise when new forms of health insurance were mooted in 2011 and new sources of revenue introduced in 2009, but these opportunities were not considered. The government plans to implement auto-enrolment for private supplementary pensions in 2022, with contributions from employers, employees and the state. Currently, it is not government policy to lower social contributions from employers and employees to offset the proposed auto-enrolment contributions. From 2022 onwards, auto-enrolment will co-exist with social insurance and government will need to consider these sources of financing jointly; for example, the auto-enrolment contributions may inhibit governments from increasing social contributions in the future. There is therefore a need for debate about the future mix of social and private financing of pensions.

In terms of recommendations, consideration should be given to increasing the contribution rates. Secondly, given the risk associated with the eventual implementation of (private) auto-enrolment on the role of social insurance in the overall edifice of social protection financing, it is recommended that the planned introduction of auto-enrolment should only proceed in a context where social contributions are enhanced. Thirdly, Universal Health Insurance (UHI) was proposed in 2011 but not implemented; the Universal Social Charge (USC) was introduced in 2009; and, *ad hoc* adjustments were made to the financing of public service pensions. If these proposals and actions had been considered in in an integrated way, reforms to strengthen social protection contributions could have been devised These various contribution mechanisms should now be reconsidered in the light of the low share social contributions make to social protection financing. Fourthly, consideration should be given to a graduated income tax rate structure with more rates – even within the limits of the same total revenue - and the role of tax expenditures in social protection financing should be minimised. Finally, during the period under review, the social contribution requirements to obtain benefits were made more demanding, and this contributed to the growth in the numbers in receipt of means-tested allowances. It is therefore recommended that the contributions rules be reviewed to minimise the drift towards a means-tested system.

1 Current levels and past changes in financing social protection

Two preliminary points arise from the data on gross social expenditure as a share of GDP. In every year of the series the Irish figure is significantly less than that for the EU 28; the respective Irish and EU figures for 2016 are 15.8% and 28.2%. This divergence should be viewed in the light of the dramatic cycles of change in the Irish figure. From a base of 16.8% in 2005 the figure for Ireland escalated to 24.8% in 2010, and by 2016 had reversed and declined to 16.8%. The volatility rather than the level of social protection expenditure is the important point. Three other points of interpretation should be noted. First, the volatility in Irish data reflects GDP trends, in part; GDP fell during 2008-2010 and then grew again post-2011 (Table A.1). These sharp swings in GDP and associated changes in unemployment impart significant arithmetic changes in the expenditure/GDP ratio. Second, comparisons of Ireland with the EU should note that GDP is an imperfect, overstated measure of the size of the Irish economy. Third, the changes in social expenditure reflect short-run changes in the composition of social expenditure, with unemployment-related expenditure escalating and then declining. From Table 1 below, it can be seen that Irish expenditure changes in direction as well as in volume. In the sub-periods 2005-2008 and 2008-2010, the percentage point changes were 3.4 and 4.6 respectively, whereas in 2010-2016 the figure was -9.0.

Table 1: Gross social protection expenditure, Ireland and EU 28, 2005-2016

	Percentage share in GDP, selected years			
	2005	**2008**	**2010**	**2016**
Ireland	16.8	20.2	24.8	15.8
EU28	26.0	25.9	28.6	28.2
	Percentage point change in share of GDP			
	2005-8	**2008-10**	**2010-16**	**2005-16**
Ireland	3.4	4.6	-9.0	-1.0
EU28	-0.1	2.7	-0.4	2.2
	Gross real expenditure, annual average percent change			
	2005-8	**2008-10**	**2010-16**	**2005-16**
Ireland	6.9	9.0	-0.6	3.1
EU28	2.1	4.0	1.0	1.9

Source: Spasova and Ward (2019), Annex ESSPROS tables

The lower panel of Table 1 records the annual average growth rates of real expenditure. It can be seen that the EU28 figures record growth across all sub-periods. In contrast, expenditure grew more rapidly in Ireland in the early sub-periods – more rapidly than in the EU - and actually declined by 0.6% during the 2010-2016 period. The sources of these changes are complex and are discussed further below.

Before interrogating the aggregate data, one further defining feature of the Irish social protection system should be described and quantified: the relative importance of means-tested programmes in social protection (see Table 2).

Table 2: Share of expenditure on means-tested benefits, Ireland and EU 28, selected years

Ireland/EU	% Share of expenditure on means-tested benefits				Percentage point change
	2005	**2008**	**2010**	**2016**	**2005-2016**
Ireland	23.4	25.5	29.1	28.5	5.1
EU28	10.3	11.8	12.1	12.1	1.8

Source: Spasova and Ward (2019), Annex ESSPROS tables

The data for all years and countries shows that the Irish figure is in excess of double that of the EU 28 in all of the years of the series. The other pattern revealed by the data for Ireland is the interplay between short-term, cyclical change and long-term trends. According to the annual data (not shown), there was a brief, significant increase in expenditure between 2008 and 2013, and at the latter point the more gradual, long-term trend resumed. In comparative terms the net outcome for Ireland was exceptional: a 5.1

percentage point increase over the period 2005-2016, in contrast to a rise of 1.8 for the EU28. This substantial growth – discussed more fully below - should be viewed in the context of the *decline* in the figure for 14 countries shown in the Statistical Annex (Table 4) The Netherlands too recorded a growth in means-tested spending – a 5.4% rise from 2005 to 2016 – but from a markedly lower base of 9.4% in 2005.

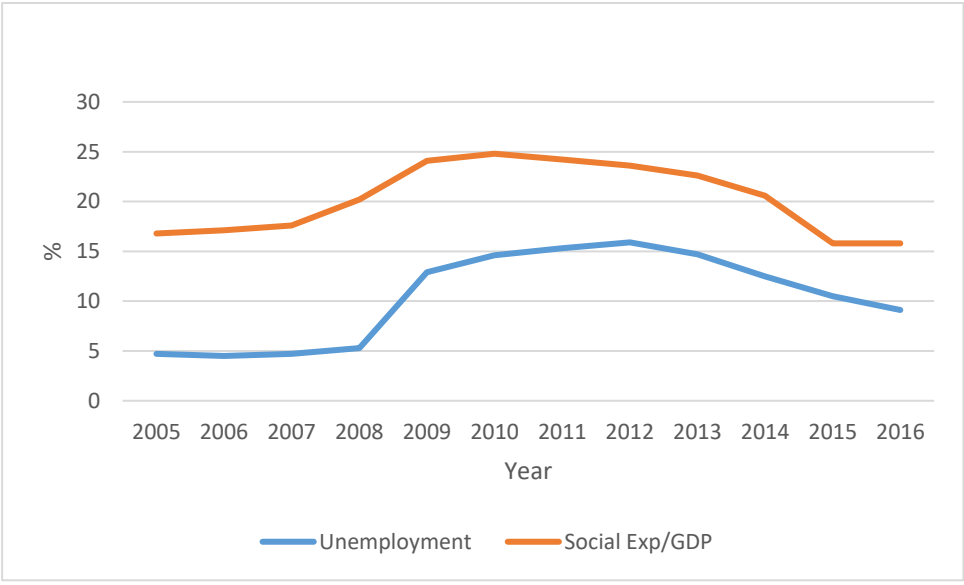
The data on gross expenditure by function in the Statistical Annex (Tables 3a and 3b) show one notable trend. From 2005 to 2016, the share of Old Age expenditures rose from 24.8% to 31.4%: this longer-term trend is obscured in the aggregate data. In relation to tax expenditures, the Statistical Annex data (Table 7) records figures for 20 countries. Of these, five have a figure of 0% of GDP and two have a figure of 0.1% of GDP. The unweighted average for all countries is 0.39%, and Ireland's figure is 0.4%. Therefore, the scale of tax expenditures in Ireland is not insignificant in the context of social protection expenditures overall.

To analyse the sources of expenditure change, the discussion below focuses on the specific questions that arise from the headline data: the boom-to-bust-to-boom pattern of change, the relative influence of demographic and policy variables on expenditure, the sources of the shift towards means-tested programmes and trends in health expenditure.

1.1 Bust-to-Boom

Was the escalation and subsequent contraction in the gross social expenditure figure merely an artefact of the economic cycle? Figure 1 reveals a striking parallel between the unemployment rate and the aggregate social expenditure measure. The details in the Appendix table juxtapose measures of aggregate economic performance (unemployment and GDP growth) with raw data on the numbers of unemployment payment recipients and unemployment related expenditures as a share of GDP.

Figure 1: Unemployment rate % and social expenditure/GDP % Ireland



Source: Central Statistics Office

The dramatic swings in Ireland's economic fortunes are illustrated in the unemployment and GDP indicators in Table A1 in the Appendix. At the beginning of the series in 2005, GDP was rising and unemployment falling; in that year GDP growth was 5.4% and unemployment only 4.7%. This pattern reversed from 2007; in 2008 and 2009 GDP actually declined and by 2010 the unemployment rate reached 14.6%. In 2013 this trend reversed and unemployment fell to 9.1% in 2016. Naturally, the escalation and then reversal in the unemployment rates were reflected in the numbers of recipients of unemployment related payments. In 2005, the weekly average for this figure was 128,000 and between 2007 and 2010 it grew from 153,000 to 418,000, and then declined rapidly

from 2012 to 2016. These trends were mirrored in the figures for unemployment payments' expenditure as a share of GDP. The sharp swings in this figure, from 0.7% of GDP in 2005 to 2.4% in 2010, for example, illustrate the key role played by changes in the unemployment component to changes in total social expenditure.

1.2 Decomposition of Expenditure Change

Old-age benefits

Table 1 above showed that gross (real) social expenditure grew on average in Ireland by 3.1% annually from 2005-1016, in comparison with 1.9% for the EU. It also showed that the pattern of change in Ireland varied from one sub-period to another. To understand this pattern, it is necessary to analyse the mix of variables that affect the share of spending in GDP. Therefore, the analysis now turns to a fuller decomposition of social expenditure, focusing on pensions. As will be appreciated, changes in social/expenditure/GDP arise from a combination of demographic trends, policy changes in relation to eligibility for pensions (measured in terms of the share of the elderly in receipt of a pension), and policy changes in relation to generosity (measured in terms of expenditure per pensioner/GDP per capita). Table 3 summarises an analysis of pension expenditure for four sub-periods between 2005 and 2016.[1]

Table 3: Analysis of changes in expenditure on pensions as % of GDP, 2005-2016

Sub-periods	1. Expenditure as % GDP Initial year	2. Expenditure as % GDP Later year	3. Ratio of 2/1	4. Demography	5. Recipient	6. 'Generosity'
2005-2008	1.82	2.22	1.22	0.97	1.08	1.17
2008-2010	2.22	2.70	1.21	1.05	1.02	1.13
2010-2012	2.70	2.80	1.04	1.06	1.03	0.95
2012-2016	2.80	2.05	0.73	1.10	0.98	0.68
2005-2016	**1.82**	**2.05**	**1.13**	**1.19**	**1.11**	**0.85**

Note: Column 3 is the product of columns 4, 5 and 6; Column 4 reports a demographic component measured as the change in the share of the elderly in the population; Column 5 reports a recipient component, measured by the change in the share of the elderly in receipt of a pension; Column 6 reports a generosity or transfer component which is the change in expenditure per pensioner divided by GDP per capita. By definition, expenditure/GDP is a product of these three components and changes in expenditure/GDP are likewise a product of changes in these components. Figures subject to rounding error.
Sources: Statistical Information on Social Welfare Services (annual)

What does this exercise reveal about the dynamics of social protection expenditure on pensions? The final row of figures shows that pensions expenditure/GDP was 1.82% in 2005 and 2.05% in 2016, an overall increase of 13% - note the ratio of 1.13. This overall change can be decomposed as follows; a rise in the share of the elderly population (ratio of these shares was 1.19), an increase in recipient numbers (the share of the elderly receiving a pension rose by 11% - a ratio of 1.11). But these two effects were offset by a decline in the measure of 'generosity'. This measure, average expenditure per pensioner as a ratio of GDP per head, fell over the time period.

A comparison of the sub-periods reveals changing dynamics. It might be said that the earlier two sub-periods were broadly expansionist as the ratios in excess of one all exerted an upward pressure on expenditure. In these sub-periods, the policy ratios - eligibility and 'generosity' - exceeded one. However, in the later years, the generosity ratios are <1 and exert a downward pressure on expenditure. In fact, by 2016 the only positive effect on expenditure was from ageing. A final comment about the demographic component is

[1] These expenditure data are derived from national data in *Statistical Information on Social Welfare* (annual), and conceptually they are *not* the same as the expenditure figures on Old Age as recorded in the breakdown by function in the tables in *Statistical Annex on Financing Social Protection: Levels and Structure, 2005-2016* The national data allow quite specific recipient categories to be identified that align with the demographic framework for the analysis (McCashin, 2019; 121-138).

warranted. Unlike many of its European counterparts, the share of the older population in Ireland remained stable until 2011 (approximately 11%) and the archetypical European pressure on spending from an ageing population is only now beginning to materialise.

While the arithmetical details of this analysis apply specifically to pensions, it is appropriate to draw on other exercises applying the same framework to offer more general observations (McCashin, 2012, 2019; Cousins, 2016). First, the 2005-2016 comparison obscures qualitatively distinct time periods. Second, the trend in the later years to lower generosity ratios applies also to payments for working-age adults (Illness and Jobseekers Benefits), Child Benefit and disability-related payments. The shrinking eligibility figures apply also to Child Benefit, payments to working age adults, and lone parents' payments (McCashin, 2019: 125-138). The cumulative picture is one of contraction. Third, the natural cycle of economic performance is overlaid with a reinforcing *policy cycle*. As the economy boomed in the years to 2008, policy makers expanded both the scope and generosity of programmes, whereas they reduced programmes post 2008. A range of programmes were cut during the period 2008-12. The cuts included the following: two bouts of reductions to Child Benefit; lower, tiered rates of jobseekers' payments for the younger unemployed; reduction in the core rates of working-age adult payments; a reduction in the duration of entitlement to benefits, *inter alia* (for a fuller account see McCashin, 2016).

The expenditure cycle in Ireland is two-dimensional. Sharp swings in economic performance engender direct effects on expenditure. However, the fact that policy choices reinforce this cycle – cuts during sharp downturns – means that the system of social protection did not fulfil its role in one key respect during the period 2005-16. It did not act as an automatic stabilizer in the economy or sustain social programmes at a time of economic stress.

Means-tested Programmes

The 5.1 percentage point increase in the share of means-tested programmes shown in Table 2 reflects long-term trends - although, as pointed out above, an off-trend increase can be ascribed to cyclical factors. Before identifying the sources of these trends, it is useful first to note why the level of means testing is higher in Ireland than the EU overall – why the 'floor' (as it were) is higher in this country. First, health care provision is not universal; only 40% (approximately, in 2016) of the population is entitled to a full range of publicly provided health care; hence, social expenditures on primary care, medications and a range of health provisions are means-tested, and the decline in incomes during the economic crash would have increased the share of the population entitled to public provision. Second, the long-standing income support benefit for low-paid employees with children, Family Income Supplement, was introduced in 1984, as a means-tested payment and acquired a significant role in social protection; official analysis showed that the number of recipients doubled over a 12-year period to 2009 – an annual rate of growth of 6% (DEASP, 2010A: 90). Third, the comparatively late development of social insurance meant that even in 2005, means-tested, non-contributory entitlements to social protection payments played a role. For example, in 2005, of those in receipt of state pensions, 31% were recipients of means-tested payments. This pattern tends to apply to other programmes such as those for invalidity and survivors also.

But given this floor was under the level of means-testing, why would it continue to rise over time? Addressing this question requires a distinction between fundamental socio-demographic trends and the impacts – intended and unintended – of policy. In relation to the former, Ireland has not been immune to the effects of new social risks (Bonoli, 2005). To the contrary, a comprehensive statistical analysis of the components of social expenditure change showed how, for example, the simple demographic pressure of growing numbers of lone parent families exerted an upward pressure on social protection spending (McCashin, 2019). An equally important, example is disability; the numbers in receipt of the means-tested Disability Allowance grew at an annual average rate of 4.3% from 2005 to 2016 (DEASP, 2010B). This growth, as the OECD's (2015) analysis clarifies, derives from fundamental changes in patterns of morbidity and disability, such as rising life expectancy among the disabled and a higher incidence of longer-term illnesses among

the working age population. The point about these important trends is that they induce a substantial increase in the sub-populations less amenable to social insurance provisions and also facing challenges in the open labour market.

However, these 'new risks' must be viewed in the light of the evolving policy context. In fact, overall policy strategy and specific policy changes have contrived to increase the role of means-tested expenditures. In the case of overall policy strategy, social protection policies to integrate these new risk categories into the labour market and hence social insurance protection have been slow to develop. The cases of disability and lone parenthood illustrate this well. The growing stock of disability-related payments was due - the OECD (2008; 2010) studies point out - to the underlying weakness in training and integration provisions for the sick and disabled and the historic reliance in Ireland on segregated, 'sheltered' training. In a telling analysis, the OECD constructed metrics of the degree to which countries' provisions combine financial support with integration/rehabilitation, and showed that while the Irish measure of financial compensation is at the international average, its index of integration provisions is comparatively low - 17 for Ireland and 25 for the OECD countries (OECD, 2010: 99-102).

A parallel structural issue arises in the case of lone parents (predominantly female). Here too the pattern is one of a rising stock of social protection payment recipients, the demographic origins of which lie in the growing share of such families in total population. In this case the structural obstacle was the absence until 2006 of a wider social inclusion and employment strategy for lone parents. At that point policy makers changed direction, invoked activation principles and then phased in a restructuring that required recipients to job seek once their dependent child reached seven years of age (DEASP, 2006). This reform was actually implemented in 2012, but a structural impediment to employment remained – the shortage of child care for working parents.

These structural attributes that create elevated levels of means-tested expenditures were reinforced by quite specific policy changes. Such changes are many and complex and not readily discernible from aggregate data or high-level description (but are well-documented in McCashin, 2019; 173-179). The list below of some changes between 2005 and 2016 illustrates how policy is inflating the role of means-tested programmes:

- In 2016 the minimum contribution requirement for insurance benefits for the unemployed was 104 contributions, in contrast to the 52 that applied in 2005. This would have excluded some jobseekers from an insurance benefit and pushed them on to the means-tested allowance.
- In 2005 employees with long-term illnesses could (subject to contribution rules) receive benefit indefinitely. By 2016, the indefinite duration entitlement had been abolished and a maximum duration (two years) imposed. Some of the inflow to the means-tested Disability Allowance is from 'insured' workers excluded from insurance benefits because of the tightening eligibility rules.
- In 2012, the minimum requirement for receipt of a (full or partial) state contributory pension was raised to 520 contributions, having been 260 in 2002. This change helped retain a role for the means-tested, non-contributory pension
- The austerity budgets in 2009 and 2010 cut core benefit rates for those of working age and twice reduced Child Benefit. One effect was to push the incomes of some families below the threshold that triggers entitlement to comprehensive health care, in turn increasing spending on this means-tested programme.

The sheer diversity and opacity of these illustrations implies that the comparatively enlarged role of means-tested programmes is unintended. One impact of the trend to means-testing is to further weaken the role of social insurance in the financing of social protection. This merits policy comment which is given in the final section.

Health Expenditure

Table 4 gives the ESSPROS figures for trends in social expenditure in real terms and of gross social expenditure in GDP (total), the share for Sickness/Health and the (derived) share of sickness/health expenditure in GDP. It will be seen that the share of expenditure on sickness/health varies between 41% (2005) and 36.3% (2010).

Table 4: Gross social expenditure and sickness/health expenditure, Ireland, selected years

Expenditure	2005	2008	2010	2016
1.Index of Real (Total) Gross social expenditure**	100	122.3	145.2	140.5
2. Gross social expenditure as % GDP	16.8	20.2	24.8	15.8
3. Sickness/Health as % Gross	41.0	39.8	36.3	38.1
4. Sickness/Health as % GDP	7.0	8.0	9.0	6.0

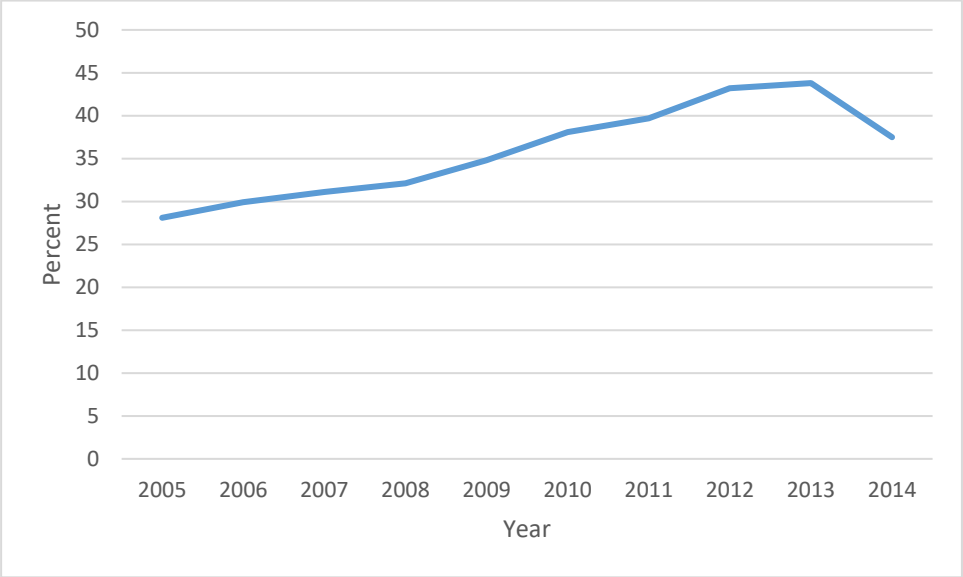
Source: Spasova and Ward (2019), Annex ESSPROS tables
*Note: Col.3 = col. 1*col.2/100. ** 2005=100*

Clearly, the overall pattern of health spending is broadly similar to that of social transfers; expansion in the early years of the series, followed by decline later. To interpret these data, however, it is necessary to recall the overall architecture of health financing. Ireland's system is two-tier, as follows. Approximately, 40% (2016) of the population is in Tier 1; entitled free of charge, at the point of use, to a comprehensive range of health services (as a generalisation). The balance of the population is in Tier 2; entitled to free acute hospital care, but not free primary care and related services, subject to charges for GP visits, medications, ancillary health care services. Accordingly, private, out-of-pocket health spending plays an important role, and private health insurance has a central role in the health system. In 2013, private health expenditure comprised 32% of total health spending, and of this 41% was on private health insurance. (WHO 2015). At the beginning of the period under review, the share of the population with private health insurance was 51% and in 2013, 44.1% (Wren, 2015, Table, A6.12). This 2-tier system is relevant to an understanding of trends in social expenditure on health.

Returning to the overall data, it should be stressed that the recorded decline in spending/GDP for 2010-2016 is not merely a statistical artefact of static health spending (numerator) and increasing GDP (denominator). To the contrary, the scale of the nominal and real reductions is well documented (Burke, 2016; WHO 2012; Wren et al, 2015). For example, in four of the five years 2009-2013 (inclusive) there were nominal reductions; in 2010 alone the reduction was 5.2%. The calculation of this and the subsequent reductions needs to take account of population change. Hence, in the context of an increasing population the decline was greater; the decline per capita in 2010 was 5.6%. The decline in spending on the elderly - again in 2010 - was actually 8.1%, as these nominal reductions coincided with the increase in the numbers of the elderly.

These data therefore present one side of the health protection story; expenditure declines, the impact of which was exacerbated by an expanding and ageing population. A second and contrasting side is the way these pressures intersected with attempts at the expansion of Tier 1. If the beginning of the period under review is adjusted to 2001, policy moved in the direction of greater coverage of the wholly publicly-funded tier. This was achieved by successive expansions of those eligible for Tier 1 health provision; the introduction of a GP-only card for a wider group than that entitled to all services; the extension of Tier1 entitlement to all person aged 70+, and also during the 2011-2016 government the phased implementation of Tier 1 entitlements for children under six years. As Figure 2 shows, there was indeed a significant escalation of Tier 1 coverage. This outcome, however, was partly facilitated by the economic crash. Precisely because entitlement to Tier 1 is means-tested, the impact of falling incomes and rising unemployment between 2008 and 2012 was to widen the share of the population in Tier 1. One set of stylised facts about the years of economic contraction highlights this particular trend; from 2008 to 2009 alone the number of Tier 1 participants rose by 9.7% and in the following year by another 9.9% (Wren et al, 2015:178).

Figure 2: Proportion with Tier 1 entitlement as % of population, 2005-2014



Source: Wren et al 2015

In net terms then the health system from 2005 to 2016 was shaped by a combination of expenditure contractions, increased population, ageing of the population, recession-induced pressures on public spending and expansion of formal Tier 1 entitlements. This convergence of influences could only have prompted some declines in actual provisions. The most important conduit through which these pressures affected public provisions was the reduction in staffing levels; these grew by 9% at the peak of the 'boom', from 2005 to 2007. Then, from 2008 to 2015 these levels fell by 11.6% - in numerical terms a loss of over 11,500. These declines have been documented in detail by the WHO (2012) and are not recounted here, but include the following examples:

- From 2008 to 2015 the total numbers on inpatient or day-case hospital waiting lists rose from approximately 40,000 to almost 70,000;
- The average number of home help care hours per person 65+ fell from 26.2 to 20.7 from 2007 to 2011;
- The number of inpatient cases declined by 3.9% between 2007 and 2011- before the worst impact of the staffing reductions.

Inherently, the wide scope of private health insurance in the population meant that those with insurance were partially protected from the impact of the service reductions

2 Current mix and past changes in the sources of financing social protection

The discussion begins with a summary description of the social contributions system and its coverage, continues with a review of changes to the social contribution base and concludes with some comparative points. Information is not available for Ireland in the Statistical Annex (Tables 8-15) on the breakdown, by source, of the financing of specific expenditures. While there are national data available on recipients and expenditure by function there are no such data on financing.

2.1 Social Contributions

In contrast to the discernible trend of a shift to means-tested programmes within the expenditure aggregates, the sources of financing in Ireland remained stable, as Table 5 shows. Social contributions varied between 33% and 39%, and government revenues between 54% and 63%. Furthermore, within the sub-totals, the sources remained broadly stable. The shares ascribed to general revenue and social contributions varied cyclically; the social contribution share contracted from 2008-2010 and the general revenue share rose, and this trend reversed from 2010 to 2016 when employment rose. The key comparative point about Ireland in these data is the contrast with the EU 28: specifically, the low share of financing from social contributions. In 2016, the figure for EU 28 was 55% and for Ireland, 39%. This overall comparison may understate the contrast. In 2016, 13 countries recorded shares of 60% or more for social contributions and 19 shares of 50% or more. The distinction between gross and net social protection expenditure is slight in the case of Ireland; in none of the three years available in the data in the Statistical Annex (Statistical Annex, Table 5) does this %-point difference even approximate 1%, and in all three years the Irish figure is substantially below the corresponding EU28 figure. This may reflect the fact that social insurance contributions are not levied on benefits (although as, as a generalisation, benefits are included in annual income for tax purposes). Accordingly, the shares of social contributions and general government revenues in *net* expenditure are only marginally different than the (gross) figures given in Table 5 below.

Table 5: Sources of social protection financing percent, Ireland, selected years and EU28, 2016

Source	2005	2008	2010	2015	2016	EU 28 2016
1. Employers	29.3	29.0	25.6	29.2	29.2	34.9
2. Employees	8.7	8.1	6.6	7.7	8.0	15.2
3. Self-employed	1.2	0.9	0.7	1.1	1.4	2.4
4. Benefit recipients	0.0	0.0	0.0	0,0	0.0	2.1
5. Sub-total: social contributions	**39.3**	**38.1**	**33.0**	**37.9**	**38.5**	**54.5**
6. Earmarked taxes	3.4	3.5	4.8	0.0	0.0	n.a.
7. General revenue	50.9	54.0	57.8	58.2	58.8	40.4
8. Sub-total: general government	**54.3**	**57.5**	**62.6**	**58.2**	**58.8**	**40.4**
9. Other receipts	**6.5**	**4.4**	**4.4**	**3.9**	**2.7**	**5.1**
10. Grand total	100	100	100	100	100	100

Source: Spasova and Ward (2019), Annex ESSPROS tables, Table 2b. n. a. is not available

The social contributions by employers and employees relate only to funding for[2] and entitlement to social protection payments. These contributions into the Social Insurance Fund provide financing for insurance benefits, but the Social Insurance Fund is supplemented by an Exchequer subvention if the fund is in deficit. Means-tested allowances are funded from general taxation. The contribution system operates as follows. All employees, aged over 16 and under 66 (whether full-time or part-time) and the self-employed contribute to PRSI. Employees with an income below a minimal threshold (€38

[2] Social contributions affect eligibility for minor health-related services such as some dental, aural and optical services for some categories of contributor.

weekly in 2016) do not have contributor status, nor do self-employed workers with an annual income of <€5,000. In 2016, the rate of employees' contribution was 4% of gross earnings, matched by an employer rate of 8.5% of earnings (for earnings below €356 weekly) or 10.75% (for earnings above €356). For the self-employed, the contribution rate is 4%, and this also applies to other incomes the self-employed may have - such as rental income. This suite of contributions is then combined to create a set of entitlements, based on contribution rules, to social insurance cash benefits (see Table 6). The following qualifications are also important:

- If in any specific week earnings fall below a threshold (€352 in 2016), employees are exempt from PRSI. At 2016 minimum wage rates, employees routinely on the minimum wage would therefore not pay a social contribution while retaining contributor status
- In 2016 a new tapered credit to offset PRSI was introduced, with the credit tiered according to earnings; for earnings between €352 and €424 the maximum credit of €12 is reduced by ½ of the excess over €352.
- Those becoming insured for the first time receive pre-entry (to employment) credited contributions, and there are also credited contributions for those not actually paying contributions while in receipt of benefits.
- The contribution system has always distinguished between Class A (approx. 75% of contributors) and other categories of contributors with lower contribution rates; some of the latter are public sector employees with a separate set of occupational entitlements. In 1995 the lower modified contribution rate was abolished for new public sector recruits and the latter would henceforth pay the same rate, while retaining differentiated benefits. This historic distinction is still reflected in different contributor categories with varying combinations of prospective entitlements.

Finally, those who cease to be insured under PRSI may (if aged under 66, and subject to a minimal past contribution record) opt to become voluntary contributors.

Table 6: Percent distribution of social insurance contributors in Ireland by predominant class, 2005 and 2016

Contribution Class and Benefits	2005	2016
Class A: All benefits	75.6	75.6
Class S: Widows, Survivors, Maternity, State Pension	12.4	10.8
Classes J, M; Occupational Injuries only	6.3	10.8
Others	5.7	2.8
All	**100**	**100**

Source: Statistical Information on Social Welfare Services (annual)

The highlight of the data is the stability of the contribution structure, with three-quarters of the insured population contributing to the full range of social protection benefits. The important point to note is that the system described here has not been subject to fundamental change in terms of coverage, contribution structure or exemptions.

These provisions co-exist with complex and difficult-to-quantify occupational schemes among which retirement pensions may be the most important. In this context there are four points to note. First, there is no overall legal requirement on employers to arrange or participate in occupational pensions. Second, historically and currently public sector employees are members of occupational schemes on a defined-benefit basis. At present, 22% of the labour force is in public administration and this is an approximate indicator of the public-private differential in pension arrangements. In 2015, 47% of the total current workforce were members of occupational (or personal schemes) whereas the figure for public sector employees was 89% (Central Statistics Office, 2015). Third, in the current pensioner population there is a clear socio-economic gradient in the mix of pensions. In the lowest quintile of the income distribution 8.3% have an occupational (or personal) pension, and in the highest quintile the figure is 70.3%. (Hughes and Maher, 2016, Tables 5.1 and 5.2). Finally, in terms of both contributions and pensions, state provisions interact

with occupational (and private) provisions, but the effects and complexities of these interactions are beyond the scope of this analysis.

2.2 Changes to Social Contribution Base

The only fundamental aspect of social protection financing that was the subject of public and political debate was the co-existence of private health insurance alongside social insurance (PRSI) and a two-tier system of health provision. In 2011, in its *Programme for Government,* the Coalition government explicitly committed to ending the two-tier system of health services access and to introduce Universal Health Insurance. As announced, this policy did not clarify how this might be achieved – whether, for example, through mandatory private insurance or an extension of PRSI to fund health care. The non-implementation of this important proposal reflects the fundamental dynamic of health policy making in Ireland - it is 'often best characterised by policies and choices not made, rather than those made' (Burke, 2016: 169). Any version of the announced proposal – whether a social insurance model or mandatory private insurance - could have altered the profile of health care financing. If universal health insurance (UHI) had been implemented by means of a social insurance model linking access and entitlement to contributions, it would have altered social protection finances significantly.

There have been some changes to the contribution and financing base. Most significantly, Ireland had always retained an income ceiling on PRSI, i.e. the rate was applied up to an earnings ceiling. In 2011 this was abolished, making PRSI a broadly proportionate tax. The income base was also widened in two other respects. First, contributors paying a modified rate (pre-1995 public sector employees paying a lower rate) were not subject to PRSI on non-earned income; in 2013 this was abolished and such income became subject to the (usual) 4% rate. Second, prior to 2014 employees and occupational pensioners (under the state pensionable age of 66) were not liable to PRSI on additional unearned income; this too was abolished in 2014 thereby imposing PRSI on investment income, interest and dividends.

One other recalibration was announced in 2010 in the National Pensions Framework (Pensions Board, 2010): a shift in the rules about social insurance governing entitlement to social insurance pensions. Briefly, pension entitlement up until 2019 is based on a complex system of rules that determine a contributor's average number of contributions; these rules relate, for example, to age of first contribution, number of contributions of different 'classes' (see Table 6), credited contributions for periods of illness, unemployment, and family responsibilities. In 2020, a new set of rules called the Total Contributions Approach (TCA) will apply to applicants for the social insurance pension; the purpose of the change is to strengthen the link between the actual number of paid contributions, on the one hand, and eligibility for, and the amount of pension received, on the other. This change is being phased in as this report is being written, and the detailed rules that will apply have not yet been announced. It implies a strengthening of the contribution-benefit link, but the exact impact it will have on future pensioners' entitlements cannot yet be forecast.

2.3 Social Contributions in Ireland Comparatively

Ireland's social insurance fund is comprised of one overall fund, administered by one government department. The contributions are not demarcated by function and there is no predetermined formula about the share of social spending that should be met from contribution income and general taxation. The social insurance laws oblige the government to undertake and publish periodic actuarial reviews of the fund, including forecasts of future revenues and expenditure. However, the government is not legally required to respond to any implicit or explicit recommendations or findings in the reviews.

It is useful to place Ireland in a comparative context (using the MISSOC database), and to compare it with countries with varying political economies: Austria, a typical social

insurance, mature system; Denmark a Nordic system; Latvia, a small, post-Communist country, and Portugal, a semi-peripheral country (Cousins, 2016). There are some strikingly common aspects to the internal design of these countries' systems: family allowances tend to be tax-financed; the strict contributory principle tends to be qualified with some redistributive dimensions; there is a tendency to fund services from taxation and cash benefits from contributions in the important area of sickness and maternity. There is no universal pattern to the overall funding architecture; some countries - Ireland, Latvia and Portugal for example - have one overall contribution rate related to a suite of benefits, while others such as Austria have a range of demarcated contribution rates and funds. However, these institutional features can hardly explain the outstanding aspect of the comparison; the very low share in Ireland, 38.5%, of financing attributed to social contributions. This is explicable by reference to Ireland's very low contribution rates. The rates that apply in other countries with a similar overall rate structure to Ireland's offer appropriate comparisons with Ireland's rate of 14.75%; the respective rates in Portugal and Latvia are 34.25% and 34.09%.

Implicit in this line of comparison is the argument that lower social contributions generate less adequate or less comprehensive benefits, whether measured in terms of benefit replacement rates or policy outcomes such as poverty rates. In much of the international comparative literature, Ireland is indeed grouped with Anglo-Saxon and liberal countries with less generous provision, and this characterisation is plausibly linked to the relative weakness of social insurance (for a review see McCashin, 2014).

3 Strengths and weaknesses of the existing mix of financing options and potential future sources of financing - national debate on the topic

In considering the strengths and weaknesses of social protection financing, an important preliminary point is that in Ireland over the period under review there was an almost complete absence of policy debate about financing options. Such absence of deliberation is particularly problematic in view of the distributive impact of the tax-benefit system. As repeated studies (national and cross-national) have shown, the bulk of the redistributive effort - so to speak - is achieved by the cash benefit system rather than the tax/revenue-raising system (Callan et al, 2010).

Social protection policies in many areas rely considerably on transfers and insufficiently on services. For example, the DEASP (2010A) report on child poverty and child income support documented the persistence of child income poverty in spite of a universal cash payment for families (plus other, targeted income supports), and ascribed this in part to the relatively low level of maternal employment. This critique implied a shift within the social protection system for families from income support to child care and related family policies. A system of subsidisation of market-priced and market-provided child care is now gradually developing, but publicly funded income support is not matched by publicly provided services; nor is the strategic mix of cash-services explicitly deliberated upon. This critique of the cash-rich/services-poor scenario applies also in the areas of disability, carers and provisions for the elderly, as official studies show (DEASP, 2017; DEASP, 1998; Timonen and Doyle, 2007). Therefore, a strength of the system of social expenditures is the wide coverage of the social insurance system for cash benefits, but this is not matched by comprehensive provision of enabling social and health services.

The defining feature of the current financing model is the low share of revenues generated by social contributions. By definition, this feature arises from the combination of the rates of contribution by employers and employees and the income/economic base across which these rates are levied. The rates levied in Ireland are comparatively very low: at average earnings levels the respective rates in 2016 for employees and employers were 4% and 10.75% of earnings, and in 2016 72% of the social insurance fund was derived from employers' contributions (DEASP, 2016). These rates have remained unchanged for over ten years. The simple contribution structure and the low rates - and the fact that these have remained relatively stable – may be a strength of the system. In fact, it can be argued that this system is integral to Ireland's long-term employment and development strategies. (Ó Riain, 2014)

However, while there is no imminent crisis in regard to public pension sustainability stemming from demographic ageing, official projections show that into the next decade the share of the older population (65+) in total population will begin to grow quickly; from 11% of the population in 2010 to 19% in 2030 (KPMG, 2010). This evolving demographic profile should elicit a debate among policy makers and the public about the option of increased contribution rates to strengthen social protection financing. In fact, since 2010 the social protection strategy - specifically, the National Pensions Strategy (Pensions Board, 2010) - has entailed reduced (prospective) pensions rather than increased contributions. A range of restrictions includes a three-stage increase in the age of eligibility to the state pension: to 66 in 2014, 67 in 2021, and 68 in 2028. At the latter point Ireland might then have the highest pensionable age for a state pension in the EU – in return for low contribution rates. Policy makers did not propose higher contribution rates to fund current and future pension benefits. The persistence into the future of the current regime of a wide base and low rate may induce financial weakness in social protection financing, and consideration should be given to increasing the contribution rates.

The increased pension age is one aspect of the government's National Pensions Strategy (Pensions Board, 2010). This strategy also entails a reform of public service pensions, a shift to a simpler, more actuarial system of social insurance contributions, more comprehensive regulation of private and occupational schemes, and, critically the

introduction of auto-enrolment for private, supplementary pensions. The absence of consideration of rate increases in PRSI contrasts with the planned introduction of auto-enrolment requiring additional separate contributions from employers, and employees (and the state) (Pensions Board, 2010). In this context, the significance of the auto-enrolment plan is that, when fully operational, the contribution rates may equal or exceed the rate for social insurance. It is not government policy to displace social insurance either by reducing social insurance contributions to facilitate auto-enrolment contributions, or by allowing employers or employees to opt-out of social insurance: auto-enrolment will add a new layer of pension contributions on top of PRSI. The point is that, in the future, the co-existence of PRSI and auto-enrolment contributions may make it more difficult for policy-makers to increase PRSI contribution rates. It is recommended therefore that the planned introduction of auto-enrolment should only proceed in a context where social contributions are enhanced. It should be noted too that the planned auto-enrolment system will be defined-contribution in nature with pensions based on the returns to individuals' pension investments: this will not improve the net redistributive impact of pension financing.

As regards, the base for social insurance, this is now comprehensive and incorporates the entire labour force, including the public sector and the self-employed, and the income base has widened with the inclusion of the non-earned income of employees.

A potentially important development was the introduction in 2009 of the Universal Social Charge (USC) as a revenue-raising measure in the austerity budget. USC is an additional tax on income, and when first introduced its impact was distinctly regressive, given the rate structure, ceilings and exemptions (Callan et al, 2009; 2010). However, when extended in successive budgets, it evolved a wider base and progressive rate structure. In 2016, USC had five rate bands and an exemption threshold at approximately one-third of average earnings. In the context of social protection, the striking feature of USC – its name notwithstanding – is that it is not a charge, or an earmarked tax, or linked in any way to social protection entitlements: it contributes to the general government budget. The introduction of USC offered an opportunity to reform and strengthen social protection finances, but this opportunity has yet to be grasped.

The pension related changes made in response to the recession calibrated public servants' entitlements in two ways. First, a pension levy on public servants' salaries with graduated rates (5%, for example, on salaries below €25,000) was introduced in 2009, to reflect the value of membership of a defined benefit pension scheme. Second, *recipients* of public service pensions had their entitlements reduced by means of a Public Pension Related Deduction (PPRD) introduced in 2011. These two initiatives were driven by budgetary considerations and the perceived inequity of the relative pension entitlements of public servants and private sector employees. In spite of this sequence of recalibrations and the announced (but not implemented) introduction of UHI, there was no overall policy reform of social protection financing nor any evidence that policy makers intend to strengthen social contributions. There is a strong rationale, for example, for some integration of USC with the established social insurance contribution system (PRSI). In short, the aborted UHI, the introduction of USC and the ad hoc pension adjustments all allowed some scope to strengthen social contributions in an integrated way. These various contribution mechanisms should be reconsidered in the light of the low share social contributions make to social protection financing.

There is no legal basis for the setting aside of income tax revenues for social protection. However, income tax is, arithmetically, the most important component of the government contributions to social protection financing; in 2016, income tax comprised 40% of total tax revenues. Before, and during, the period under review there have been only two rates of tax; in 2016, these rates were 20% and 40%. This important aspect of the tax structure has implications for social protection financing. Currently, social protection payments (with the exception of Child Benefit) are included in annual income for tax purposes. However, the flat-rate structure reduces the capacity of income tax to achieve targeting and redistribution of net benefits; this helps to explain the marginal difference between gross and net expenditures. A graduated rate structure with more rates – even within the limits

of the same total revenue – might achieve greater net redistribution; this should be actively considered.

Tax expenditures have a role in social protection in Ireland; they comprised 0.4% of GDP in 2013. This figure is not disaggregated by function, but it is clear that the scale of these expenditures merits reconsideration. As successive analyses of social spending have shown, one of their weaknesses is that they are not redistributive; the most recent analysis of their impacts in the pension domain characterised them as 'upside down redistribution' (Hughes and Maher, 2016: 93). The scope for more redistributive financing is brought into focus by the following stylised fact: the scale of tax expenditures in 2013 was almost identical to the direct expenditure on one entire, important programme - Illness Benefit for employees. The role of tax expenditures in social protection financing should therefore be minimised.

Finally, this overview of social protection financing observed a cumulative increase in the role of means-tested programmes, an increase partly attributable to changed rules about insurance benefit entitlements. The strength of means-tested schemes is their capacity to target recipients on the basis of income. Equally, widespread means-testing has potentially negative consequences. Access to health care is means-tested and this important means-test interacts (at the lower end of the income distribution) with other means-tests, such that individual households or citizens may be navigating a complex mix of means-tests. In turn, lower-income individuals - and policymakers - face complex choices and the potential for unintended disincentives. The official studies of provisions for children, disability, and one-parent families show that this form of social protection may engender non-employment and social exclusion (DEASP, 2006; DEASP, 2010A; DEASP, 2017). One specific policy change could mitigate this emerging weakness of social protection – a systematic adjustment of contributions rules that maximises the use of insurance benefits as compared with means-tested allowances.

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Appendix

Table A1: GDP, Unemployment, Unemployment Payment Recipients, Unemployment Expenditures and Total Social Protection Expenditures, Ireland, 2005-2016

Year	GDP % Δ	Unemployment %	Payment Recipients 000s	Unemployment Expenditures as % of GDP	Social Protection Expenditures as % of GDP
2005	5.4	4.7	128.1	0.7	16.8
2006	3.7	4.5	147.2	0.7	17.1
2007	4.2	4.7	152.9	0.7	17.6
2008	-3.9	5.3	216.6	1.1	20.2
2009	-4.6	12.9	383.1	2.1	24.1
2010	1.8	14.6	417.6	2.4	24.8
2011	3.0	15.3	415.4	2.3	24.2
2012	0.0	15.9	430.3	2.2	23.6
2013	1.6	14.7	384.5	2.0	22.6
2014	8.3	12.5	348.2	1.7	20.6
2015	*	10.5	309.6	1.2	15.8
2016	5.1	9.1	246.2	1.0	15.8

**The 2015 figure is not reliable as a guide to economic growth in that year*
Sources: Source: Spasova and Ward (2019), Annex ESSPROS tables; Statistical Information on Social Welfare Services (annual); National Income and Expenditure and Labour Force Surveys (annual)

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