SIPTU Submission to the Commission on Taxation and Social Welfare

January 2022

Fairness at Work and Justice in Society

Introduction

SIPTU would like to thank the Commission on Taxation and Social Welfare for the opportunity to make this submission.

SIPTU's submission will focus on social insurance as part of a new *Social Contract*. Social insurance is a key component in providing economic security for people in work. The pandemic has brought the issue of financial and social security to the fore – what the OECD describes as a '*pandemic of economic insecurity*'.

It has been well established that Ireland has a weak social insurance system compared to other EU countries. Through progressive reforms and modernising social insurance, we can bring considerable and additional assistance to people when they need it most.

Social insurance is the ultimate solidarity programme. People pay according to their ability and receive benefits according to their need. It is made affordable due to a wide pooling of risk throughout the working population as well as across generations. It redistributes resources progressively. Social insurance is the glue that binds the disparate social constituencies in society, across geography, social class, labour market activity and generations.

SIPTU believes that the proposals contained in this submission can help do all this - create that social solidarity and economic security coming out of the pandemic.

Ethel Buckley,
SIPTU Deputy General Secretary

Summary of Proposals

- The main social insurance benefits should be reformed in order to incorporate a pay-related element. Enhanced social insurance benefits should be extended to all employees regardless of which sector or company they work in. To finance this programme, social insurance contributions should be raised to EU levels over the long-term.
- Jobseekers' Benefit should be pay-related - 70 per cent of previous earnings
- Following the full introduction of the Government's current policy, Illness Benefit should be further extended to match best EU practice with employers required to pay 100 per cent of gross wages for four weeks within a year. Following the first four weeks, the Social Insurance Fund would take up the payment with Illness Benefit to be 70 per cent of gross wages for up to one year.
- Maternity and Paternity Benefit to be initially paid at 100 per cent of previous earnings, tapering down to 70 per cent for the next 8 weeks. A First Year Benefit would allow a parent leave for the remainder of the year at 50 per cent of previous earnings. Parent's Benefit to be paid at 50 per cent of previous earnings for the entire period of leave for Parents' and Parental Leave.
- All benefits for those with limited capacity or unable to work (e.g. Invalidity Pension), should be pay-related – 70 per cent of previous earnings.
- Increase employers' social insurance contribution rate by at least 2 per centage points and phase out the low rate.
- Self-employed PRSI contribution rate to increase to increase between 9.5 and 10.5 per centage points over the long-term with the threshold for accessing social insurance benefits to be substantially reduced.
- All gross capital income (e.g. capital gains, capital acquisitions) be subjected to a 'Social Insurance Solidarity Levy' of 4 per cent
- Basic Social Protection payments to be linked to earnings.
- Consider longer-term insurance innovations such as domestic violence paid leave, career break leave and long-term care benefit.

Social Insurance and 'A Pandemic of Economic Security'

The pandemic has brought the issue of financial and social security to the fore – what the OECD describes as a '*pandemic of economic insecurity*'.[1] Whether it is delivered through affordable and timely access to health services, income replacement through temporary periods of inactivity, the jobs market (e.g. a 'living wage', income certainty) – it is clear that people want more security. This has led to calls for a new Social Contract, a new social settlement between people and the state that ensures security.

SIPTU supports this call for a *new Social Contract* - a transformation of our current 'welfare' regime with its focus on poverty amelioration to a new system of social protection; one that truly protects the social.

70 per cent of Irish people want the Government to do more to ensure their economic and social security.[2] The Commission on Taxation and Social Welfare (the Commission) has a great opportunity to vindicate people's desires by proposing a system that provides that security.

While a *new Social Contract* embraces a number of policy areas such as public services and labour market interventions, SIPTU's submission will focus on social insurance as one tool to providing security for people in work.

Social insurance has the capacity to meet people's needs during certain contingencies such as illness, caring and family demands, injury and short-term periods of unemployment. It can

- Deliver universal coverage of basic income security to all employees
- Ensure benefits that are predictable and adequate
- Link contributions to benefits
- Provide adequate resources for funding these benefits

Social insurance is the ultimate solidarity programme. People pay according to their ability and receive benefits according to their need. It is made affordable due to a wide pooling of risk throughout the working population as well as across generations. It redistributes resources progressively. Social insurance is the glue that binds the disparate social constituencies in society, across geography, social class, labour market activity and generations.

The Nature of Social Insurance

Social insurance is not easily categorised. It can be described as a 'tax', an 'insurance premium', 'employees' compensation (or *social wage*)' and a 'hypothecated levy'. In actual practice, social insurance is all of these:

- Tax, insofar as it is a compulsory payment set by Government

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[1] OECD, Risks that Matter: https://www.oecd.org/coronavirus/policy-responses/risks-that-matter-2020-the-long-reach-of-covid-19-44932654/

[2] OECD, Risks that Matter: https://www.oecd.org/coronavirus/policy-responses/risks-that-matter-2020-the-long-reach-of-covid-19-44932654/#section-d1e2066

- Insurance premium, as it provides protection against risk
- Compensation, or a *social wage*, as payments are made by employers on behalf of employees
- Hypothecated, as contributions are directed into a fund that resources social benefits

While the nature of social insurance defies easy conceptualisation, it plays a number of roles in social protection, labour market negotiation and fiscal policy.

SIPTU believes that social insurance should be seen as playing two key roles: as an *insurance programme*, insofar as contributions from employees and self-employed constitutes a premium that protects them from financial risks.

Further, employers' social insurance is part of *employees' compensation*. This is how it is treated in national accounts, national and international data bases. Employers' make payments on behalf of employees into a social insurance or related fund - a fund that employees can access during periods of financial need.[3]

Ultimately, it comes back to solidarity which has been defined as the "*moral infrastructure*" of social insurance arrangements that protect citizens against financial risks and the vagaries of the market.[4] Many commentators debate the question of whether Ireland should be a high or low-taxed economy. We believe public discourse would benefit if we were to debate whether Ireland should be a high or low-insured economy and society.

The Inadequacy of Irish Social Insurance

Social Insurance as a % of Gross National Income: 2019 (%)	
Austria	17.5
France	16.8
Germany	15.3
EU Peer Group	15.0
Netherlands	13.5
Belgium	13.1
Finland	11.7
Sweden	11.6
Ireland (GNI*)	**6.7**

Relative to other EU countries, social insurance plays a relatively small role in government financing. The accompanying table[5] shows the low-level of Irish revenue raised through social insurance (employers, employees and self-employed). Caution must be taken with comparisons. In some countries, social insurance is used to (part) finance health care while almost all EU countries have a higher age demographic resulting in higher pension expenditure, especially as in most countries old age insurance payments are pay-related. In addition, some countries operate social benefits (e.g. unemployment benefits) through voluntary or quasi-governmental agencies which don't fully appear as part of General Government expenditure. A

[3] This is how 'CEO compensation' is treated: it is divided into 'basic pay' and other elements of compensation: share-related bonuses, pension contributions, benefits-in-kind, etc.
[4] Solidarity in Insuring Financial Risks of Illness; Maartje J. van der Aa, Saskia Klosse, Aggie T. G. Paulus, Silvia M. A. A. Evers & Johannes A. M. Maarse; Journal of Comparative Policy Analysis: Research and Practice, 21:2, 2019: https://www.tandfonline.com/action/showCitFormats?doi=10.1080%2F13876988.2017.1415561
[5] Taxation Trends in the European Union: https://ec.europa.eu/taxation_customs/taxation-1/economic-analysis-taxation/taxation-trends-european-union_en Data refers to social insurance and related payroll contributions.

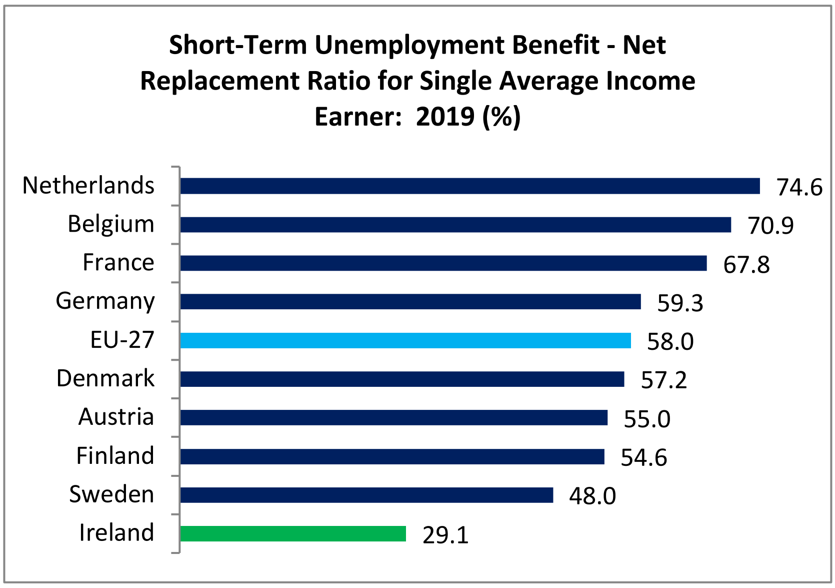
further complication is that Eurostat doesn't recognise all social insurance systems equally or uniformly; for instance, in some datasets, Ireland is not recognised as having a social insurance system, especially in years where there is an Exchequer subvention, while in other datasets it is.

Ireland's low level of social insurance revenue helps explain the low level of social insurance benefits. Irish social insurance benefits are flat-rate as opposed to pay-related payments that exists in almost all other EU countries. That social insurance rates are, for the most part, the same as means-tested social assistance rates only underscores this difference. The National Economic and Social Council states:

> *'With regard to the role of social insurance, the Council has previously observed that the Irish system of social welfare payments is weak in relation to its social insurance element.'*

We can see this in the comparison of replacement ratios for unemployment benefit.[6]

In 2019, the Irish net replacement ratio was half of the EU average and even further behind the best performing countries. To reach the EU average Irish Jobseekers' Benefit would have to increase by €201 per week and increase by €317 per week to reach Dutch levels for a single average income earner.



Ireland's low level of unemployment benefit has a number of negative impacts:

- A substantial and sudden fall in household income, putting strains on ability to make ends meet with all the social and psychological impacts that entails.
- Reduction in consumption which impacts on demand and business income, resulting in a second round of income reduction.
- Loss of tax revenue – both direct and indirect taxation.
- Weak automatic stabilisers in which the economy struggles to maintain output.
- Misallocation of human resources as people are financially forced into employment that may not match their skillset.

The inadequacy of Irish social insurance is not confined to unemployment payments but includes family, illness and injury, and old age programmes.

[6] EU Tax Benefits calculator: https://europa.eu/economy_finance/db_indicators/tab/

The Government's Covid-19 Response

The Government accepted that Ireland's social insurance was inadequate when the pandemic struck and public health measures were rolled out.

Illness Benefit: Prior to the pandemic, Illness Benefit was paid at a flat-rate of €203 per week, with a waiting period for six days before the benefit commenced. Not only was this rate inadequate, people could not afford to go without pay for a week. For those who worked in companies without a sick pay benefit, becoming ill could result in considerable financial penalty. In many cases, people were forced to go to work even though they were sick (resulting in *presentism* which could spread the illness among work colleagues and, so, reduce productivity).

Realising this, the Government increased the Illness Benefit for Covid related illnesses to €350 per week and abolished the waiting period.

Unemployment Benefit: Prior to the pandemic, Jobseekers' Benefit was paid at a flat-rate of €203 per week. With so many business sectors forced to close or reduce operations, households were at risk of severe financial hardship. The Government increased this payment to €350 per week (under a new Pandemic Unemployment Payment) while introducing employment supports such as the Temporary Work Support Scheme.

These two programmes underwent considerable reform to ameliorate the impact on households and the economy, limiting the social damage by providing a stronger economic and social safety net. It is vital that we take note of this.

* * *

Social benefits are inequitably distributed among those in work. As we will see below, employees in particular sectors or companies have access to occupational benefits such as sick pay or maternity leave top-ups; in particular, in high value-added and export-facing sectors, along with the public sector. However, many employees, especially in largely domestic or non-traded sectors, don't receive these benefits. There is no basis in equity for this discrimination.

RECOMMENDATION

In order to promote solidarity, protect living standards, and ensure universal access SIPTU proposes the following principles:

- **The main social insurance programmes be reformed in order to incorporate a pay-related element**
- **Enhanced social insurance benefits be extended to all employees regardless of which sector or company they work.**
- **Social Insurance contribution rates should converge with average EU levels over the long-term**

Benefit Reforms and Modernisation

The following section examines four main areas for reform: unemployment, family, illness, and inability to work. Comparisons with other countries can be difficult given the complexity of social insurance programmes.[7] SIPTU will provide examples of how our proposed principles can operate in practice but these should be treated indicatively. The only exception is family benefits where we make concrete proposals regarding replacement ratios and duration. The key point is that social insurance benefits should be universal and pay-related.

All the proposed pay-related proposals would operate an earnings threshold; e.g. 1.5 times the median annual wage. In 2018, this would mean a threshold of €56,500. This threshold would not exclude employees above this amount, only that the maximum payment would be at the threshold.

Unemployment Benefit

We saw above that the replacement ratio for Irish unemployment benefit falls considerably below the EU average. In addition, the duration of the benefit is nine months, which is on the low side when compared with the standard period of duration in other EU countries:

- Belgium: indefinite
- Denmark: two years within a three year period
- Finland: approximately 13 months
- France: proportional to the qualifying period in number of days worked (duration is 1.4 times the number of days worked in the qualifying period)
- Sweden: 300 days (450 days for recipients with children under the age of 18)

Most EU countries operate an upper earnings threshold that constitutes a maximum payment. Austria, for instance, has an upper threshold of €5,130 monthly while in Germany the threshold is €7,100 monthly in the new Lander and €6,700 in the old Lander (formerly East and West Germany).

RECOMMENDATION

SIPTU proposes:

- **Jobseekers' Benefit be pay-related - 70 per cent of previous earnings**

We suggest 70 per cent replacement ratio, as this will be the rate for the new sick pay scheme to be introduced by the Government. Duration would, initially, be unchanged at 9 months. However, over time this should increase to one year. We note that the Government is already examining introducing a pay-related element to unemployment benefit.[8]

[7] All comparisons with other EU countries are based on data from the EU Commission's Mutual Information System on Social Protection
[8] https://www.rte.ie/news/ireland/2021/0602/1225552-recovery-plan/

Illness Benefit

Many employees still find themselves in the impossible situation of needing to go to work even if they have symptoms of illness in order to make ends meet. SIPTU believes that workers should not be out of pocket when they fall ill. They should be afforded space and peace of mind to recover without worrying about income.

A number of companies operate their own sick pay scheme. The quality of these schemes (measured in terms of replacement ratio, duration, speedy access) varies from excellent to barely minimal. The best schemes can be found in high-value sectors (e.g. modern manufacturing, financial, information & communication), larger enterprises and the public sector. While there is no official data that tracks company coverage, SIPTU estimates that up to one million employees do not have access to a company sick pay scheme. These would be largely, though not exclusively, in domestic-facing sectors, SMEs and among low to average income earners.

Arising from discussions between stakeholders the Government announced a new universal sick-pay scheme: the General Scheme of the Sick Leave Bill 2021. The basic elements of the new bill are:

- Sick pay will be paid by employers at a rate of 70% of an employee's wage, subject to a daily threshold of €110. This threshold equates to €786 weekly or €40,889 annually.
- Employees will be covered for 10 days per year. This will be phased in: 3 days covered in 2022, 5 days in 2023, 7 days in 2024 and 10 days in 2025.
- Following the 10 days, employees will be covered by Illness Benefit

While SIPTU welcomes this as a minimal first step, especially as it acknowledges the pay-related principle, it still falls well short of European norms. Further, the Illness Benefit itself, following the few days covered by the employer, is completely inadequate as replacement income.

Among advanced European economies, full pay or near full-pay is the standard benchmark. For instance, in Germany and Austria full pay lasts for six weeks or more and in Luxembourg for up to 13 weeks. In France, Sweden and the Netherlands the replacement rate can be up to 90 per cent of gross wages for a defined period.

RECOMMENDATION

The Commission has an opportunity to outline a longer-term vision of a comprehensive sick pay scheme that would vindicate employees' social and personal needs and provide stability and predictability for recuperation. SIPTU proposes that in the medium-term, going beyond 2025:

- **Employers be required to pay 100 per cent of gross wage for four weeks within a year. Following the first four weeks, the Social Insurance Fund would take up the payment with Illness Benefit to be set at 70 per cent of gross wages for up to one year.**

Following the first year the payment could be tapered down to the new floor for social protection payments (see below). This would occur over the current two-year duration for Illness Benefit.

This would be of greatest benefit to (a) those who currently do not have access to company sick pay schemes; (b) women (women are twice as likely to access Illness Benefit as men), and (c) lower to average income groups, and unskilled and non-manual workers.[9]

As is done in other EU countries, a programme of Exchequer subsidies to small businesses should be introduced to assist in meeting the cost of this programme.

Family Benefits

Family benefits comprise a range of benefits. Below we focus on Maternity, Paternity and Parental Benefits.

(a) Maternity, Paternity and 1st Year Support

In comparison with other EU countries, Irish family benefits are weak. For instance, Austria, Denmark, France, Germany, and the Netherlands pay 100 per cent of previous earnings for the whole period of leave. In Belgium, maternity benefit is paid at 82 per cent of previous wage for the first 30 days and at 75 per cent of the remaining leave period. In Ireland, maternity benefit is a flat-rate €245 per week, which was 30 per cent of females' average weekly income in 2018.

	Weeks Leave	Payment
Austria	16	100% of previous earnings
Germany	14	100% of previous earnings
Netherlands	16	100% of previous earnings
France	18	100% of previous earnings
Spain	16	100% of previous earnings
Denmark	18	100% of previous earnings
Italy	22	80% of previous earnings
Belgium	15	First 4 weeks: 82%; 75% for remainder
Ireland	**26** *(a further 16 unpaid leave)*	**€245 Flat Rate**

The table above shows that while Ireland has a high level of leave compared to other EU countries, the payment rate is the lowest. By way of comparison, for an average earning female in 2018, Irish maternity benefit would pay €6,240 over the 26 weeks paid leave; in Austria, despite having only 16 weeks paid maternity benefit, the payment over this period would be approximately €12,900. Despite a longer paid leave period, women in Ireland are disadvantaged when it comes to overall financial support.

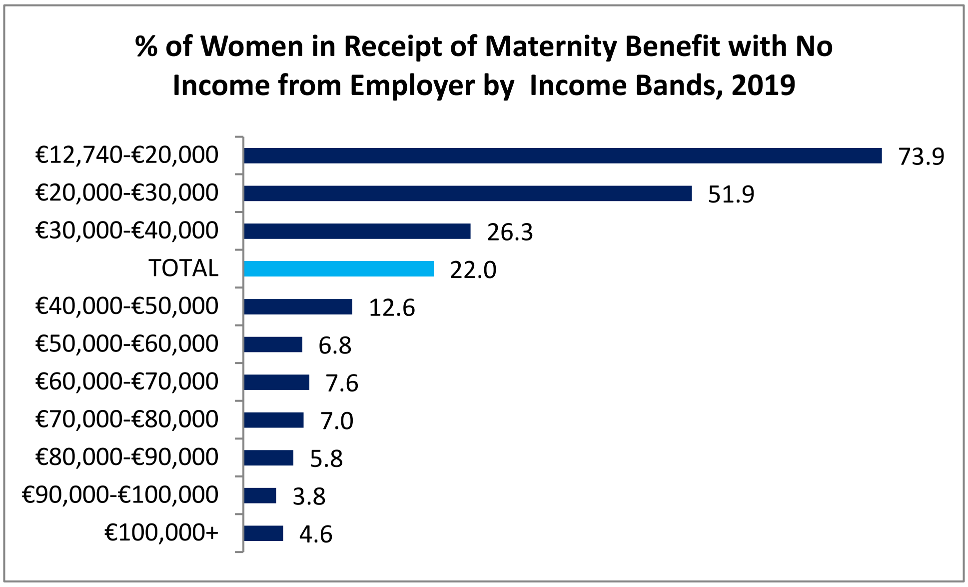
The logic for a high replacement ratio is that the birth of a baby can be a costly period for households. A high replacement ratio ameliorates this while providing support for maintaining fertility rates. SIPTU notes the UNICEF benchmark[10] for paternal leave/benefit:

[9] CSO: Illness Benefits: Employment and Commuting Analysis, September 2020: https://www.cso.ie/en/releasesandpublications/er/ibeca/illnessbenefitsemploymentandcommutinganalysis2016-2017/
[10] UNICEF, The child care transition: https://www.unicef-irc.org/publications/pdf/rc8_eng.pdf

'The minimum proposed standard is that, on the birth of a child, one parent be entitled to leave of at least a year (to include pre-natal leave) at 50 per cent of salary (subject to upper and lower limits).'

This is a modest proposal given the higher levels of support given by other EU countries (at least during an initial leave period). The lower limit refers to a minimum payment to give more support for low-paid parent(s) while the upper limit creates progressivity and targeting.

Company maternity supports are unequally distributed throughout the workforce. The CSO found that while 22 per cent of women in receipt of maternity benefit received no income support from their employer, more than half earning between €20,000 and €30,000 receive no support, rising to 74 per cent among those earning less than €20,000. It should be noted that even among those who received income support, we can't conclude that this support equalled a 100 per cent replacement ratio.



In Ireland, there is provision for an additional 16 weeks unpaid leave, in addition to the half-year paid leave. However, the Irish Human Rights and Equality Commission's *Pregnancy at Work: A National Survey*[11] pointed out:

'The present system involving a significant element of unpaid leave leads to inequitable outcomes. Financial constraints and job insecurity may be forcing women to return to work earlier than they would like and earlier than is optimal for their child's development . . . mothers who took both paid and unpaid leave [were] likely to be in the most advantaged position: they had sufficient resources to be able to afford a period of unpaid leave in addition to the paid leave. These resources may have been provided from their own savings, through the support of a partner or by their employer making a supplementary payment in addition to maternity benefit.'

The current system disadvantages mothers on lower income who are not able to take advantage of the full paid and unpaid leave. For instance, the survey found that two-thirds of lone parents took

[11] https://www.ihrec.ie/download/pdf/pregnancy_at_work_a_national_survey.pdf

only paid leave (that is, did not take up unpaid leave) – compared with just over half of married or co-habiting mothers.

RECOMMENDATION

SIPTU proposes:

- **Maternity Benefit: 100 per cent of previous earnings for 18 weeks, falling to 75 per cent for the next 8 weeks. This would mean a total replacement rate of approximately 90 per cent over the 26 week period.**
- **Paternity Benefit: 100 per cent of previous earnings for the first 4 weeks, 75 per cent for the following 4 weeks.**
- **First Year Benefit: 50 per cent of previous earnings (with a minimum floor of €245 per week) for the 26 weeks following maternity leave, to be split between mother and father as per their choice**

(b) Parent's and Parental Leave, and Parent's Benefit

Currently, there are two types of leave available for parents:

- Parent's Leave: this entitles each parent to 5 weeks' leave during the first 2 years of a child's life (this will increase to 7 weeks in 2022).
- Parental Leave: this entitles parents to take unpaid leave for up to 26 weeks for each child before their 12th birthday.

Parent's Benefit is paid to those availing of Parent's Leave (5 weeks leave during the first 2 years of a child's life). The rate is the same as Maternity Benefit i.e. €245 per week.

RECOMMENDATION

SIPTU proposes merging Parent's and Parental Leave into one paid leave:

- **Parent's Benefit to be paid at 50 per cent of previous earnings for parents taking up 5 weeks' leave for a child up to two years of age and 26 weeks leave for a child between two and 12 years of age**

Inability to Work

There are a range of social insurance benefits covering the contingencies where people are unable to work or only capable of working a limited amount of time.

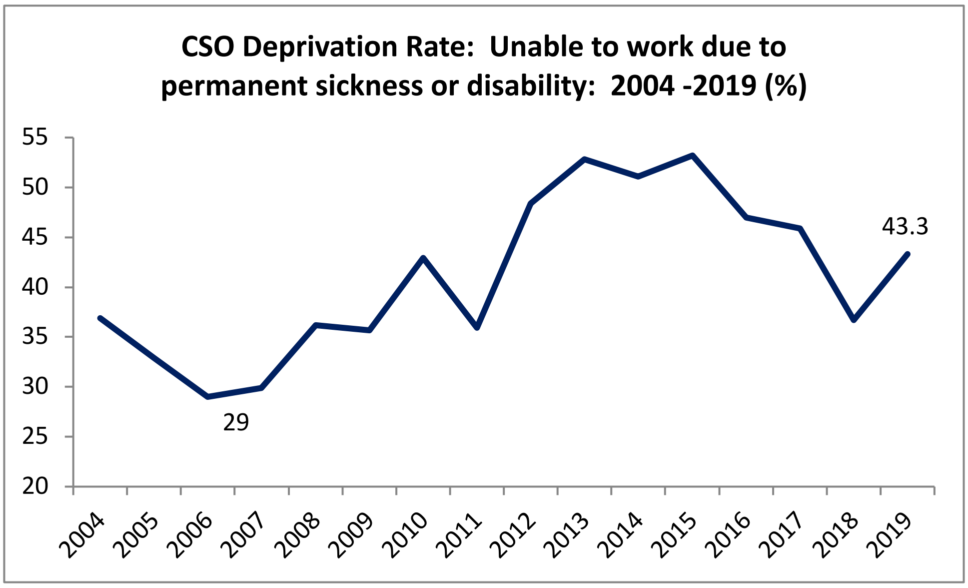
- **Invalidity Pension**: payable to those who cannot work because of a long-term illness or disability
- **Injury Benefit**: payable to those who suffer an accident at work, or while travelling to or from work, or contract an occupational disease

- **Disablement Benefit**: similar to the Injury Benefit but paid where the level of disablement following the accident or disease is assessed at 15% or more. If assessed at 20 per cent or more, recipients are paid regularly (a Disablement Pension). When the rate is assessed at less than 20 per cent, it is paid as a lump sum (Disablement Gratuity).

- **Partial Capacity Benefit**: If a recipient has been in receipt of Illness Benefit (for a minimum of 6 months) or Invalidity Pension and wishes to return to work, they may qualify for Partial Capacity Benefit if their capacity for work is reduced by their medical condition.

These are paid, where relevant, at a flat-rate of between €203 and €208 per week for a single person.

The CSO shows that people who cannot work due to an illness or disability suffer from high levels of deprivation.[12]



In 2019, 43 per cent of those unable to work due to permanent sickness or disability suffered multiple deprivation experiences. This level of deprivation remains significantly higher than pre-crash levels and started rising in 2019. This group would include those on the means-tested Disability Allowance.

We do not propose to address all the programmes grouped under the general category of inability to work. However, in principle:

➢ **All programmes, where relevant, should be pay-related.**

We suggest that the benefit be paid at 70 per cent of previous earnings**,** consistent with the Government's upcoming sick pay scheme. This is most relevant for Invalidity Pensions and Injury Benefit and is the norm in other EU social protection systems. In Denmark and Germany, payments for incapacity to work can reach as high as 80 per cent of previous earnings while in Sweden the replacement ratio can be as high as 100 per cent in certain circumstances.

[12] CSO, Survey of Income and Living Conditions: https://data.cso.ie/#

(a) Support for Those Disabled or Injured Returning to Work

Income support for those disabled or injured but still having the capacity and desire to continue working cannot be viewed in isolation from labour market policies designed to assist people from returning to the workforce. Many EU countries use a mixture of incentives and quotas to assist disabled and partially incapacitated workers back to work.[13]

Employment of People with Disabilities: Quotas and Incentives		
	Quotas	**Financial Support**
Austria	Enterprises must employ a person with disabilities (reduction of earning capacity over 50%) for every 25 employees or pay a compulsory compensation of €257 to €383 per month per available compulsory working place.	For employees: a wage subsidy to compensate for a disability-related reduced capacity For employers: exemption from certain taxes or levies (e.g. local tax, Family Stabilisation Fund, etc.)
Denmark	Public authorities have to give preference to disabled persons who cannot get employment in private enterprises, but who are considered capable of executing the work.	Subsidies are provided to employers offering a job to the disabled
Finland		Pay subsidy can be granted up to 50% of payroll costs. The subsidy period may not exceed 24 months at a time.
France	Companies with 20 or more employees must employ disabled workers, who must represent 6% of total staff. Alternatives for employer: pay annual contributions for each post not filled or implement a programme for the disabled.	
Germany	Obligation to employ severely disabled persons in all enterprises with at least 20 employees, 5% compulsory quota of the staff. Or pay a compulsory compensation of €105 to €260 per month per available compulsory working place.	
Sweden	No special quotas	Persons with reduced working capacity can get various kinds of support, aids and adaptations according to the circumstances. The employer can receive compensation

[13] MISSOC, Mutual Information System on Social Protection, Comparative Tables: https://www.missoc.org/missoc-database/comparative-tables/?test=

	for providing the support and also financial support for wages.

SIPTU proposes that the Commission take note of this in their report as returning to work can result in driving down the high deprivation rates noted above and provide a decent living standard for those with partial incapacity. This has a real impact on both taxation and social protection sustainability.

Funding the New Social Contract

To meet the costs of the *new Social Contract* we are proposing will require increased revenue to the Social Insurance Fund. The primary means to do this is to increase social insurance contributions and extend the current PRSI base. In this section we will examine some options. First, we attempt to provide a rough approximation of costs.

Fiscal Cost of a New Social Contract

It is difficult to accurately estimate the cost of our proposals. The data is either unavailable or has not been published (e.g. the prior earnings of Jobseekers' Benefit recipients) while behavioural changes are difficult to predict. In estimating the cost of some of the programmes, we use €40,000 as a benchmark. For example, in compiling our cost estimate for a 100 per cent pay-related Maternity and Paternity benefit, we assume recipients had earnings of €40,000, or €767 per week.

Estimated Cost of SIPTU Proposals: Based on 2019 Number of Recipients

	Estimated Gross Cost *(€ million)*	**Comments**
Jobseeker's Benefit	570	Replacement ratio of 70% for first nine months of unemployment.
Maternity and Paternity Benefit	485	100% replacement ratio for 18 and 4 weeks respectively; the following 8 and 4 weeks at 70%.
1st Year Parental Benefit	275	Benefit for 34 weeks at 50% replacement ratio. Assumes 66% take up.
Illness Benefit	475	Replacement ratio of 70% following employer payments. CSO states that the majority of Illness Benefit payments are less than four weeks in duration.
Inability to Work	825	70% of previous earnings (refers only to Invalidity Pension; does not include Injury Benefit).

This is only a crude approximation of costs. It may be that on more detailed examination (e.g. a sampling of cases conducted by the Revenue Commissioners) these estimates may be too high or too low. Accepting this, we estimate the additional expenditure to be in the region of €2.5 to €3.0 billion when fully implemented. However, it should be noted that this is a gross cost. The net cost will be significantly less:

1) Insurance benefits are taxed and much of this expenditure will be returned to the Exchequer through the income tax system. Given the high replacement ratios there is a strong

argument to levy the Universal Social Charge (it is currently not levied on social protection income).

2) To the extent that the public sector already pays many of these benefits there is no additional cost. For example, public sector maternity pay is 100 per cent of previous earnings. Therefore, there is no additional cost to the General Government sector by moving the payment from the Exchequer to the Social Insurance Fund. This is particularly relevant to family and illness benefit.

3) With considerably higher replacement ratios, there could be reductions in dependent payments which would still leave recipients with significant increases.

4) The additional income supports can help maintain participation in the consumer economy with associated positive economic spillovers; for example, indirect tax revenue.

This could considerably reduce the gross cost. However, we will still use €3 billion to keep the risks on the downside in our projections.

2. Social Insurance Contributions

The outlay for our proposals will be met through increased social insurance contributions. As noted above, in comparison with our peer group, revenue from social insurance contributions and related payroll levies are low.

Social Insurance and Related Payroll Contributions as a % of Gross National Income: 2019

TOTAL		Employers		Household	
Austria	17.5	France	12.2	Germany	8.8
France	16.8	Sweden	11.5	Netherlands	8.1
Germany	15.3	Austria	9.6	Austria	7.8
EU Peer Group	15.0	EU Peer Group	8.5	EU Peer Group	6.5
Netherlands	13.5	Belgium	7.8	Belgium	5.3
Belgium	13.1	Finland	7.4	France	4.6
Finland	11.7	Germany	6.6	Finland	4.3
Sweden	11.6	Netherlands	5.4	**Ireland GNI***	**2.5**
Ireland GNI*	**6.7**	**Ireland GNI***	**4.3**	Sweden	0.1
Ireland GNI* *(with additional gross spending from SIPTU proposals)*	**8.1**				

Ireland is at the bottom of the table, bar Swedish households. Funding our proposals would require an increase in total contributions of 1.4 per centage points in 2019 – from 6.7 per cent of GNI* to 8.1 per cent. Even with this increase, Ireland would still lag behind all other countries by a considerable amount.

(a) Employers' Social Insurance

Irish employers' social insurance contributions are very low in comparison with our peer group – less than 50 per cent lower. As noted above, PRSI contribution rates need not be as high as other EU countries given our low age demographic. Nonetheless, as we converge demographically with other EU counties, and given the transition to a pay-related insurance benefit system, employers' PRSI revenue will have to increase.

RECOMMENDATION

SIPTU proposes:

- **Increase employers' social insurance contribution rate by at least 2 per centage points**

According to the Minister for Social Protection, this would raise €1.6 billion.[14] While a substantial amount, it would still leave Irish employers' PRSI contribution rates well behind that of our peer group – rising from 4.3 to 5.0 per cent of GNI*. This compares to a peer group average of 8.5 per cent.

While this proposal would increase employers' PRSI there are two points to note:

- For many employers, the increased coverage of social insurance benefits would reduce firm payroll costs. For instance, a firm that currently pays a maternity top-up will be able to reduce this as the social insurance benefit will cover the full earnings. Similarly, with sick pay – firms that currently operate a sick pay plan will be affected only in a limited way by the enhancement proposed by SIPTU, as they pay a sickness benefit to their employees already. Therefore, many enterprises will not experience the full two per centage point increase on their total payroll after these benefit substitutions.
- The increased social insurance payments will help maintain demand and allow households to continue participating in the consumer economy. This is likely to lead to higher business revenue than under the current regime. This would help offset some of the increase in social insurance contributions.

There is also the question of how the per centage point increase is introduced at firm level. This involves an assessment of the incidence of employers' PRSI and the role of collective bargaining. This is explored in more detail below.

(b) Self-Employed Social Insurance

The Commission on Pensions examined self-employed PRSI and stated:

> *'PRSI rates for the self-employed have long been recognised as being disproportionately low for the social insurance benefits received, especially when compared to other workers.'*[15]

In support of this they referred to reports, published by the Commission on Taxation, Advisory Group on Tax and Welfare, the 2015 Actuarial Review, the Department of Employment Affairs and

[14] https://www.kildarestreet.com/wrans/?id=2018-12-04a.1634&s=%22employers%27+PRSI%22+section%3Awrans#g1635.q
[15] Commission on Pensions Final Report Note: TBI

Social Protection, the National Economic and Social Council and the ESRI. The Commission on Pensions went on to state:

> *'In effect, self-employed contributors, in return for a contribution 10.05 per centage points lower than that made in respect of employed contributors, have access to almost all (93 per cent) of the benefits available to employed contributors.'*

The Department of Social Protection found that an overwhelming majority of self-employed would pay additional PRSI in exchange for access to increased social insurance benefits.[16] Despite this willingness to make higher contributions, there has been a significant increase in access to social insurance benefits for the self-employed: Jobseekers' Benefit, Invalidity Pension and Treatment Benefit. Yet, there was no increase in contributions.

A reasonable formula for the self-employed would be a PRSI contribution rate midway between the contribution rate of employees and employers: 9.5 per cent rising to 10.5 per cent under SIPTU's proposals.

RECOMMENDATION

Therefore, SIPTU proposes that:

- **Self-employed PRSI contribution rate to increase from the current 4% to between 9.5 and 10.5 per cent**

This would increase revenue by €870 to €1,030 million as per the Commission on Pensions report. To limit the negative impact of the increase, it should be phased in over a lengthy period (e.g. 10 years) so that annual increases are fractional. Further, self-employed should be able to access social insurance benefits at the same level as employees; that is, €1,981 annually (the current threshold for self-employed is €5,000).

(c) Employees' Social Insurance

While employees' social insurance in Ireland is extremely low by EU peer group it should be noted that income tax is high. Household income tax in Ireland is the second highest in our peer group at 12.1 per cent of GNI* compared to our peer group average of 10.9 per cent of GNI.

We can see this more clearly with employees' personal income tax. This includes income tax, social insurance and other income levies.[17]

Employees' Effective PRSI and Personal Income Tax Rate: 2019			
Effective Employees PRSI Rate *(% of Gross Wages)*		**Effective Employee Personal Income Tax Rate- Social Insurance and Income Tax/Levies** *(% of Gross Wages)*	
Germany	14.5	Denmark	36.5
Netherlands	13.4	Belgium	32.6

[16] Department of Social Protection, A Survey of Class S PRSI Contributors: https://assets.gov.ie/37347/9da24ee6c9354a75a139daf7cdf07007.pdf

[17] Taxation Trends in the European Union

EU Peer Group	11.9	Germany	30.6
Austria	11.8	**Ireland**	**29.2**
Belgium	10.8	Austria	29.0
Finland	9.2	EU Peer Group	28.2
France	8.7	Finland	27.3
Ireland	**3.1**	Netherlands	26.9
Sweden *	n.a.	Sweden	26.0
Denmark *	n.a.	France	22.8
* Denmark and Sweden do not apply social insurance to employees' wages			

While Ireland is at the bottom of the employee PRSI table, Irish personal income tax is above our peer group average. As proposed above, the principle should be to move towards EU averages. Employees' have already converged to the EU average and exceeded it.

RECOMMENDATION

On this basis SIPTU proposes that:

- **There should be no increase in employees' social insurance rates**

(d) Capital Income

One other source of income should be considered – capital income. Capital income is not included in the definition of 'reckonable earnings' for the purposes of social insurance eligibility. However, given that social insurance is a key component of social solidarity and should be based on ability to pay, there is little argument in equity to exempt capital income from participation in this solidarity.

RECOMMENDATION

Therefore, SIPTU proposes in principle:

- **All gross capital income (e.g. capital gains, capital acquisitions) be subjected to a 'Social Insurance Solidarity Levy' of 4 per cent (equal to the employees' contribution)**

We cannot provide a yield estimate due to the fact that much of capital gains revenue comes from companies while a significant proportion of capital acquisitions are exempt. However, such a levy would not only reinforce the solidaristic nature of social insurance, it would contribute to sustainability.

* * *

SIPTU's proposed measures above – increasing employer and self-employed social insurance contributions – would yield close to €2.5 billion. This is at the lower end of the estimated cost of our reforms. However, this is a static estimate and does not take into account the impact on economic and wage growth. Further, it does not include the revenue gains from taxing social insurance benefits.

Implementing the Social Insurance Proposals Collectively

The following section examines issues related to the implementation of our proposals.

Collective Bargaining and Employers' PRSI Incidence

An increase in employers PRSI is an increase in employees' compensation and, therefore, can become part of the wage negotiation or collective bargaining process. This raises the issue of the incidence of employers' social insurance – how much of the increase in employers' social insurance contributions is shifted on to employees through lower wages. As shown in the box, there is no consensus in the literature.

Employers' Social Insurance and Incidence Rates

González-Páramo and Melguizo state that '*The empirical literature is far from being unanimous*.' They estimate the incidence to be 67 per cent, in 'Anglo-Saxon economies'. While dated, the ESRI[18] found that *'the coefficient of the employer payroll tax variable indicates that an increase of one per cent in the payroll tax is associated with a decrease of approximately one half of a per cent in the money wage rate'.*

When Swedish payroll tax rose from 14 to 40 per cent, Holmlund estimated that roughly 50 per cent of the increase was shifted to wages in the short-term.[19] Hamermesh uses the variation in payroll tax rates due to the US social security payroll tax limit to estimate wage offsets; his estimates indicate that from 0 to 35% of the social security tax is shifted to wages.[20]

Bozio et al. find that where there is a strong contribution-benefit linkage, the pass through to employees is high – up to 100 per cent. Without that linkage, the pass through is nil. In a survey of small businesses Englebrecht et al. find that, in general, small businesses are not likely to shift the employer's share of the tax burden to employees.[21] Azémar† and Desbordes estimated that, in the long run, a 1% point rise in the employer social security rate is associated with a 0.55 per cent shift to gross wages. They also show that the distribution of this effect between employer and employees is influenced by the degree of coordination of the bargaining process.[22]

For the purposes of this submission, we assume a shift of 0.5; that is, a 1 per centage point increase in employers' social insurance will be shared by employer and employee.

[18] ESRI, Payroll Tax Incidence, the Direct Tax Burden and the Rate of Return on State Pension Contributions in Ireland, Gerard Hughes, February 1985: https://www.esri.ie/system/files?file=media/file-uploads/2012-08/GRS120.pdf
[19] Holmlund, Bertil. (1983). "Payroll Taxes and Wage Inflation: The Swedish Experience." Scandinavian Journal of Economics 85
[20] Hamermesh, Daniel S. (1979). "New Estimates of the Incidence of Payroll Tax." Southern Economic Journal 45
[21] Payroll Tax Incidence on Small Businesses: An Empirical Investigation of Shifting the Payroll Tax Burden, Journal of Small Business Strategy, Vol. 12, No.2; 2001 Ted D. Englebrecht Louisiana Tech University, Laurie J. Henry Old Dominion University , Govind S. Iyer Arizona State University: https://digitalcommons.odu.edu/cgi/viewcontent.cgi?article=1000&context=accounting_pubs
[22] Who Bears the Burden of Social Security Contributions?, Céline Azémar and Rodolphe Desbordes, European Tax Policy Forum, April 2009: https://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.568.2236&rep=rep1&type=pdf

Bargaining social benefits in conjunction with cash wages already occurs in a number of workplaces. A simple example of this is where 3 per cent is available for a compensation increase in a workplace. Workers, through their trade union, may bargain the full 3 per cent in cash wage or bargain 2.5 per cent in cash wage and 0.5 per cent in new and/or improved benefits (e.g. sick pay, maternity top-ups, pension benefits, etc.). This model of bargaining can be replicated across firms and sectors in the context of an increase in employers' social insurance, either through sectoral or firm-level bargaining.

Using an indicative incidence estimate of 0.5, a 2 per cent increase in employers' PRSI will result in employer's absorbing 1 per cent. If this is phased in over a period of five to seven years, the annual increase will be fractional. If these increases are negotiated at sectoral or firm-level through collective bargaining, then the impact can be further reduced.

Of course, we come up against the fact that Ireland's industrial relations regime does not vindicate employees' right to collective bargaining. This is a major barrier to increasing employees' compensation / employers' social insurance contribution in an efficient and optimal manner. SIPTU suggests that the Commission consider this as part of a general observation on the most effective way to implement social insurance increases.

Social Insurance and Very Low Paid

The Tax Strategy Group has pointed out that the annual threshold at which employees begin paying social insurance contributions is €18,300 or €354 per week.[23] This is considerably higher than other EU countries (e.g. in Germany, France, Italy and the Netherlands there is no threshold while in Sweden the threshold is €1,925 annually). They propose that the threshold be reduced by 29 per cent – from €354 per week to €250 per week.

SIPTU opposes this proposal. While it is true that other EU countries have much lower thresholds at which social insurance is payable it is also the case that in almost all other countries, employees – especially those in low-paid sectors – possess the legal right to collective bargaining. Industrial relations institutions vindicate that right. In Ireland that right and those institutional supports are lacking. This can be seen in the earnings and compensation levels in the 'services of the business economy', essentially, the private services sector.

[23] Tax Strategy Group, Department of Finance, 'Pay Related Social Insurance Rate Setting Options', 2021: https://www.gov.ie/en/collection/d6bc7-budget-2022-tax-strategy-group-papers/

Business Services Sector Earnings and Employee Compensation: 2018			
Median Earnings (€ PPP)		**Mean Employee Compensation (€ PPP)**	
Denmark	18.26	Belgium	34.16
Belgium	15.18	Denmark	32.08
Sweden	14.57	France	32.05
Finland	13.63	Sweden	31.65
Germany	13.57	Peer Group	30.55
EU Peer Group	13.47	Germany	30.32
France	13.03	Netherlands	28.92
Austria	12.18	Austria	28.75
Netherlands	12.07	Finland	26.59
Ireland	**11.73**	**Ireland**	**22.62**

The Irish business services sector makes up 53 per cent of all employees. Ireland is at the bottom of both tables (unfortunately, Eurostat does not report median employee compensation). Low pay is endemic in the economy. Over 25 per cent of business service employees are officially categorised as 'low-paid' (i.e. earn less than 66 per cent of median hourly earnings).

If Irish median earnings are to reach its peer group average, this would require a 15 per cent increase. On a full-time annualised basis this would mean an increase of €4,700 per year, or €90 per week.

Ireland's low-pay crisis can be seen in our National Minimum Wage. Among those peer group countries with a statutory minimum wage, Ireland lags behind considerably.

National Minimum Wage: 2021 (€ PPP monthly)				
Germany	**Netherlands**	**Belgium**	**France**	**Ireland**
1,465	1,461	1,411	1,363	1,267

Ireland's national minimum wage would have to increase by 14 per cent in 2021 to reach our peer group average (consistent with earnings in the private services sector).

In addition to low wages, employers' lower PRSI rate may be creating distortions in the labour market as employees may find it difficult to obtain extra hours of work if that brings them above the low-rate threshold.

Without European-style collective bargaining institutions it would be highly inequitable to impose additional contributions on low-paid individuals. This is especially the case in the context of rising employers' social insurance. Without access to collective representation, workers in many sectors would be vulnerable to employers' shifting the entire amount of the increase on to wages.

RECOMMENDATION

To maximise sustainability, SIPTU proposes that employers assume responsibility for increased social insurance contributions for the very low-paid. This system operates in Sweden.[24] Specifically, SIPTU proposes:

- **The lower rate of employer PRSI be phased out**

This would see the lower rate incrementally rise from 8.5 per cent to the standard rate. It should be noted that no other EU country (apart from the Netherlands) operates a lower employer social insurance rate below the standard rate. In 2018 this measure could yield, based on Government estimates, €90 million.[25]

[24] https://taxsummaries.pwc.com/sweden/individual/other-taxes

[25] https://www.kildarestreet.com/wrans/?id=2017-07-13a.3310&s=%22indicators+for+2018+only%22+section%3Awrans#g3312.r

Managing and Innovating Social Insurance

In this section, SIPTU addresses a number of social insurance and related issues.

Management of Social Insurance Fund

The Social Insurance Fund (SIF) is treated as part of the General Government sector. Any surplus in the Fund – where revenue exceeds expenditure in the year – is placed into an Investment Account. If the SIF falls into deficit, the shortfall can be met by transferring assets from the Investment Account and/or a subvention from the Exchequer. Since the SIF was established in 1951, it has been in deficit for 75 per cent of the time.

Ideally, the SIF should be self-financing – through adequate revenue and, where demand increases (e.g. recession), from the Investment Account. However, while this would negate the need for Exchequer subsidies, for the purposes of the General Government Balance, both surpluses and subventions are included.

The great strength of the SIF is that, unlike general taxation, people can directly link the payment made (PRSI contribution) to the benefit they are entitled to. This can make the increased costs more politically acceptable – whether that cost is the increased contribution from the self-employed or the impact on employees' wages from an increase in employers' PRSI contributions.

It has been suggested that the SIF should be abolished and the Exchequer should take over its functions by making payments out of its own funds. However, in 2019, €10 billion was paid out in social insurance benefits. The Exchequer would have to find this amount out of general taxes. The most efficient way of doing this would be to make similar levies on employees, employers and self-employed (though it wouldn't be called PRSI). The Exchequer would also need to establish entitlement criteria to the various programmes. Again, to avoid disruption and discontinuities, the Exchequer would have to adopt the current social insurance criteria. If the SIF was abolished the first thing the Government would have to do is replace and replicate it. Abolishing the SIF would serve little purpose and could result in considerable transition costs.

Social Protection Floor

While this is related to the means-test social protection basic payment and, so, not part of the social insurance system as such, a social protection floor still plays a role for social insurance recipients. First, following the period in receipt of social insurance payments, recipients will fall back on means-tested programmes (e.g. when the current nine-month Jobseekers' Benefit has been exhausted, recipients then apply for Jobseekers' Assistance). Second, the social protection floor constitutes a minimum payment for very low-income social insurance recipients. For example, under SIPTU's proposals, Illness Benefit would be paid at 70 per cent of the previous wage following the first month. However, for someone earning less than €15,000, this 70 per cent would constitute a payment less than the current Illness Benefit payment. A strong floor helps ensure an adequate income and progressivity in the system.

The current system does not guarantee increases in social protection basic payments. They are subject to policy by the Government and, in many years, social protection has been frozen –

between 2011 and 2016 (following two years of cuts) and, again, in 2019 and 2020. This has meant that social protection payments have fallen behind wage growth, creating a widening gap between the two. Between 2012 and 2019, average earnings rose by 12 per cent while basic social protection payments rose by 8 per cent (this does not include reductions in income tax which provides additional income to earners; those reliant on social protection payments do not benefit from this). This contributes to inequality.

The Government has already committed to linking contributory social protection pension payments to wages: 34 per cent of gross earnings. A similar linkage should be created for basic social protection payments. Social Justice Ireland proposes that social protection payments be set at 27.5 per cent of average earnings.[26] This would have meant an additional €9.46 per week in 2019. There is an argument for a higher per centage of earnings. SIPTU does not propose a specific per centage linkage, just the principle.

RECOMMENDATION

SIPTU proposes:

- **That social protection payments be linked to earnings**

This would help provide an adequate living standard and instil fiscal and household certainty. It would further help in reducing inequality.

Innovations in Social Insurance

While we are not proposing new programmes, SIPTU recommends that the Commission at least refer to the potential of creating new benefits ('insurance products'). Here are some examples:

Domestic Violence Paid Leave: to provide paid leave to victims of domestic violence. This can include violence to children. In New Zealand, employees are entitled to up to 10 days of paid leave each year. Victims also have the right to two months of flexible working arrangements. In 2021 the Irish Government gave an undertaking to introduce a similar benefit.

Career Break Leave: a new benefit could provide up to six months 'career break', paid at a per centage of wage (e.g. 70 per cent) for employees who have contributed for 20 years. This would provide a break to study or retrain, learn a new work or personal skill, travel or take time off to be with the family.

Long-Term Care Benefit: given the inevitable rise in demand for long-term care, a small per centage point increase in social insurance contributions (e.g. 0.75 per centage point) could be raised to ensure that employees and self-employed have access to homecare and nursing home care with new supports provided. This could rationalise the various programmes, including the Fair Deal scheme.

[26] Social Justice Ireland, Budget Choices 2022: https://www.socialjustice.ie/content/publications/budget-choices-2022

These are only examples and are not part of our recommendations. However, we would recommend that the Commission should highlight the potential for expanding social insurance so as to strengthen economic security and life choices.

End of Submission

Fairness at Work and Justice in Society

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