

Working Age Supports

***A Citizens Information Board Submission to the
Advisory Group on Tax and Social Welfare***

Introduction

Further to our previous submissions to the Advisory Group on Tax and Social Welfare, the Citizens Information Board (CIB) welcomes the opportunity to make a submission on working age supports. There are a number of cross cutting issues identified by CIB delivery partner services¹ relating to working age supports. These refer mostly to specific household situations where social welfare replacement rates result in people being only marginally better off if they take up low-paid or part-time employment which is frequently all that is on offer. Many of the queries dealt with by services reflect the multi-faceted nature of peoples' engagement with the current social welfare system. Administrative delays in social welfare applications, particularly in respect of reclaiming benefits lost in a return-to-work situation, are reported as frequently influencing people's decisions about whether or not to return to work, training or education. Delays in the processing of applications for FIS are also regularly cited as impacting on people's decisions not to take up low-paid work.

This submission outlines a number of overarching considerations, the main issues identified by our delivery partners and sets out some proposals for addressing these issues. Some illustrative case examples are included.

2. Overarching considerations

In addressing the question of working age supports, there are a number of factors that need to be acknowledged – popular perceptions of welfare traps; attitudes to work; targeted education, training and upskilling; dealing with situations where replacement rates are high; the single age payment concept; distinguishing between short-term and long-term unemployment; casual and atypical working; and the role of Family Income Supplement (FIS).

Popular perceptions of welfare traps

It is important not to overstate the proportion of the current unemployment challenge that is due to overly generous social welfare provisions. The ESRI (2012)² Report noted that over 90% of people working in Ireland are better off in work than out of work, even when considering travel and childcare costs involved. However the number of long-term unemployed is continuing to increase. If new jobs cannot be sourced within a reasonable period of time, employment prospects will remain bleak for many despite good advice and active searching.

¹ In 2011, Citizens Information Services nationally dealt with almost 700,000 clients and one million queries from members of the public. The Citizens Information Phone Service responded to 166,619 requests for information and advice from the public. The total active MABS caseload at the end of 2011 was over 26,000 clients and the MABS National Helpline received almost 30,000 calls in 2011. Approximately half of the queries to CISs and CIPS refer to social welfare matters including Rent Supplement and Family Income Supplement. Queries related to training, education and work options also feature consistently.

² Work Incentives: New Evidence for Ireland- Budget Perspectives 2013 (ESRI 2012)

Social welfare replacement rates are low for a large majority of claimants on the Live Register. A clear distinction thus needs to be made between 'nominal' replacement rates (calculated on the basis of 'representative' individuals and without taking the impact of means-testing into account) and 'actual' replacement rates (what individuals actually receive in social welfare after their household means have been assessed). Replacement rates for people with dependent spouses and children may be significantly different than those for single people or people with spouses who are earning. People who have spouses/partners still in employment whose earnings are taken into account in the household means test get reduced amounts of social welfare. Concerns that receipt of secondary payments, in particular, Rent Supplement, raise replacement rates to disincentive levels apply to only small proportions of those on the Live Register (NESC 2011)³. Indeed NESC suggests that concerns that social welfare is having disincentive effects may have a stronger basis in the high marginal effective tax rates that can apply when people who are combining receipt of a social welfare payment with some low-paid, part-time work attempt to earn more. The fact that people on the Live Register and those in receipt of other working-age payments, (e.g., lone parents) can engage in part-time work while retaining their social welfare payments is also an important factor. Thus, as NESC (2011) suggests, the State's ability to pay is the real issue that needs to be addressed rather than the fact that secondary benefits are keeping unemployment higher than it would otherwise be. The availability of jobs is also, of course a crucial factor.

Attitudes to work

Feedback from CIB delivery partners indicates that most of the people using their services who are unemployed want a job and are continuously seeking information on what training/education opportunities are available that would enhance their prospect of employment. The majority of social welfare claimants find being on the Live Register demeaning and have no wish to receive an income for 'doing nothing'. While monetary concerns are important, quite often families and individuals go out to work for little additional financial gain on the basis of the social dimension of work and its perceived value in terms of self-worth and personal development. On the basis of this general disposition on the part of many unemployed people, it should be possible to make some adjustments that would ameliorate the more acute impact of loss of secondary benefits which, in some instances results in people not taking up a job. It should also be noted that a significant number of unemployed are not entitled to any social welfare payment mostly because they have a spouse earning. Of those who leave the Live Register, loss of entitlement to welfare payments outweighs other reasons such as finding work, returning to education or training, or transferring to another welfare scheme (NESC 2011).

Targeted education, training and upskilling

Despite the high level of education among the unemployed (over one-fifth of all the unemployed had a third-level qualification in 2010), there are significant skills deficits currently in the Irish economy (NESC 2011) – supports for further education and training is, therefore, a crucial factor. The need then is to ensure that unemployed people are facilitated in acquiring new or higher skills that will bring available and

³ *Supports and Services for Unemployed Jobseekers: Challenges and Opportunities in a Time of Recession.* (NESC 2011)

emerging jobs within their reach. This requires matching training, education, job-placement and career guidance initiatives with current and emerging national and regional skills sets requirements while at the same time ensuring that the income support available is adequate, easily accessible and non-stigmatising. People who are unemployed need to be able to retain an attachment to and their credibility as members of the workforce. It is equally important to focus on this aspect of unemployment (which affects all those who are unemployed) as on the disincentive effects of replacement rates which affects only a small proportion.

Dealing with situations where replacement rates are high

It is generally acknowledged that there is a need to target households where replacement rates are high due to particular sets of circumstances. The experience of CIB service delivery partners is that there is a cohort of people, many of whom are engaged in atypical type working arrangements, who are reliant on a combination of paid employment and supplementary welfare supports, such as Rent Supplement, Mortgage Interest Supplement and/or FIS for income. For many the balance between income in and outgoings for those in receipt of these secondary benefits swings in favour of welfare reliance and consequently acts as a disincentive when contemplating a return to full time work, an increase in working hours or moving to better paid work.

The rationale for the retention of secondary benefits was to provide a smoother transition from welfare to work. However, there has not been any systematic analysis of the long-term effects of the various incentive measures. It is clear that the retention of benefits has short-term effects but the extent to which the short-term retention of secondary benefits has facilitated people returning to work has not been evaluated.

A further barrier identified to taking up temporary or casual employment, particularly on a self-employment basis, is the fear of a difficulty and time delay in having such payments reinstated if the employment ceases or reduces significantly.

The single age payment concept

The single age payment would enhance the prospect of unemployed people receiving a more comprehensive and effective range of supports than is currently the case in that it would be likely to give them access to a payment more quickly and under more transparent and stable conditions. This would reduce the hazards and negate the advantages of transferring to a different welfare payment and would reduce poverty and unemployment traps. Very importantly, a single age payment would ensure that accessing the payments that provide the more secure income support (e.g., One Parent Family Payment, Disability Allowance) is not conditional on proving an inability to prepare for or seek employment.

Distinguishing between short-term and long-term unemployment

There are two challenges facing the Irish social welfare system: (i) how to support the long-term unemployed in terms of minimising the poverty associated with the status; and (ii) enhancing the employability of those both short-term and long-term unemployed. Adequate rates of primary payments, secondary benefits and access to services are clearly an integral part of such support. Replacement rates are crucial in minimising poverty which may undermine attachment to the workforce in the longer-

term. At the heart of how unemployed jobseekers are supported in the early months of an unemployment spell should be the assumptions that, generally, they are employable, have methods of informal job-search from which they should not lightly be diverted, know with reasonable accuracy the types and terms of employment they are capable of justifying with their performance, and can identify and choose what is best suited to them from among the supports that are available.

Facilitating people to participate in programmes that enhance their employability is another key dimension. How this done is likely to be different for those who are longer-term unemployed (e.g., more than 3 years and some of whom may have become detached from the workforce) and those who have been unemployed for a shorter period of time.

Casual and atypical working

A key issue is how to make the social welfare system more responsive to casual and atypical working and to facilitate people to take up part-time or temporary employment opportunities as they arise and to help to ease moves from welfare to work. The NESF (2011) report concluded that *“it is clear that the social welfare system needs regular review to ensure that it is providing appropriate support for people to move from part-time to full-time work as well as to begin earning something in the first place”* (p. 125). Evidence from our delivery partners suggests that the current criteria of measuring days rather than hours in paid employment for social welfare purposes, offers a significant incentive to individuals to remain welfare dependent- or worse to operate outside of the tax system and participate in undisclosed employment without taxes or regulations, while claiming assistance from the state.

Role of Family Income Supplement (FIS)

A DSP Review of Child Income Support and Associated Spending Programmes in 2010 noted that at the heart of many of the difficulties the public experience with FIS is the fact that FIS has a dual role in addressing both work incentives for adults and child poverty objectives. *“FIS plays an important role in the delivery of supplementary support for low-income families who are not in receipt of a social welfare payment because of employment. Together with the operation of disregards and gradual withdrawal of the Jobseekers Allowance payment, FIS provides additional financial support to many low-income families”*. (DSP 2010: 176). The point is repeatedly made by CIB service delivery partners that, while FIS is a ‘lifeline’ for low income working families, the current income limits and working hours threshold are prohibitive to families with children, and often mitigate against the policy meeting its intended aim to support people in employment who are on low income because of involuntary underemployment.

3. Main Disincentives Identified

General Disincentives for people transitioning from welfare to work

The main disincentives to employment that have been identified by CIB delivery partners are:

- Working hours criteria
- The withdrawal of Rent Supplement

- Non-eligibility for Family Income Supplement for those working less than 19 hours a week
- Different treatment of married and co-habiting couples in the income tax and social welfare codes
- In-work costs (childcare, transport)
- The availability of transport in rural areas⁴
- The loss of the Back to School Clothing and Footwear Allowance (in some cases)
- The impact of the Universal Social Charge
- The loss of a medical card
- Administrative delays

Working hours criteria

The fact that jobseekers' payments for part-time workers are calculated according to days rather than hours worked continues to be problematic for many people who are motivated to find employment – or who are in employment but have experienced a reduction in their working hours. This approach does not take sufficient cognisance of the type of atypical work arrangements that have developed in the Irish economy. The social welfare system measures engagement in the labour market against an outdated model of working. Frequently information services deal with queries from people who have become involuntarily unemployed or underemployed and wish to move into atypical employment, often a combination of part-time working and welfare support, but find that the risk of losing their social welfare entitlement for little or no financial gain is too great.

Rent Supplement⁵

The withdrawal of Rent Supplement for anyone working in excess of 30 hours per week is a disincentive to gaining 'full time' work. The fact that Rent Supplement ceases immediately when a person takes up employment of more than 30 hours per week presents difficulties for many people. There should be some kind of transition⁶

⁴ See Citizens Information Board Report , *Getting There: Transport and Access to Social Services 2010*
http://www.citizensinformationboard.ie/publications/social/social_research.html

⁵ Rent Supplement Submission to Department of Social Protection on (CIB 2012)
http://www.citizensinformationboard.ie/publications/social/downloads/Submission_Rent_Supplement_Nov2012.pdf

⁶ A similar rule was introduced in 1996⁶ and had its origin in a recommendation by the Expert Working Group on the Integration of the Tax and Social Welfare Systems. The Group highlighted the fact that one of the disincentives to taking up employment was the immediate loss of Qualified Child Increases (QCIs). The Group also made the point that while QCIs were lost immediately, FIS did not come into payment for a number of weeks, due to the timescale required to produce evidence of earnings. In order to address this problem the Social Welfare Act, 1996 provided for the retention of the QCIs for a period of 13 weeks.

period, where persons moving from welfare to work continue to receive a Rent Supplement to ease them into their new circumstances. The problem is exacerbated in some instances where tenants had already being making up the balance of the actual rent paid and the rent supplement allowed.

The ineligibility of full time workers for Rent Supplement is out of line with other provisions where there are already disregards in place for earnings from part-time work. It would seem to make sense to have a system where Rent Supplement is continued to be paid but reduced as income from paid work (part-time or full-time) increases so that the amount of Rent Supplement paid is based on actual income rather than working hours . This in effect would mean that the support tapers off as income increases.

Family Income Supplement

One scenario routinely identified by CIB delivery partners is that of part-time work opportunities which do not pay enough to make up for the loss of corresponding benefits particularly where the employee has to meet childcare expenses. While part-time work opportunities are reported as being available in all parts of the country, the low rates of pay result not only in some families being less well off than they would be on social welfare full-time but, also, in a situation that is not financially sustainable for the families concerned. This is particularly the case where the family is not eligible for FIS.

For low income workers with less than the minimum hours of employment or who are working on a casual basis, the loss of social welfare benefits through taking up employment is addressed through the unemployment payments themselves (daily disregards and the tapered withdrawal of payment). However, for those working the required 19 hours but marginally outside the family income rates, (for example, a low income family with three children earning €730 per month will be €27 euro outside the family rate), no system of disregard or gradual withdrawal from welfare support exists to encourage engagement in employment. The fact that the processing of claims for FIS (currently several months)⁷ is a lengthy process, acts as a barrier to taking up low-paid employment.

Universal Social Charge

The fact that the Universal Social Charge becomes payable on all income once it increases beyond €10,036 is a disincentive also. The minimum wage is €8.65 per hour and there is a strong argument to be made that no charge (no tax or PRSI is payable on it) should be made on this if it is the 'minimum' wage (the wage that a full time worker should be receiving from his/her work). There needs to be a greater gap between welfare rates and chargeable / taxable income to create a greater incentive to move to work or increase hours.

In-work costs

⁷The average waiting time for new family income supplement (FIS) claims at the end of June 2012 was 19 weeks. PQ, Dail Written Answers, 17 July 2012

In-work costs such as travel and childcare can act as a disincentive in the move from welfare to work in the current climate. A recent ESRI, 2012 Report⁸ estimated travel costs at €15-25 per week as a basis for analysis of the combined impact of travel to work costs and childcare costs, which it estimated at €94-135 for a child aged under five years. While childcare costs are being acknowledged to some extent through the Community Childcare Subvention and the Early Childhood Care and Education Scheme, this continues to be a significant disincentive for some people.

Different treatment of married and co-habiting couples in the income tax and social welfare codes

Currently cohabiting couples are treated as a couple for the purposes of calculating social welfare entitlement (qualified adults and qualified child increases) but on moving from welfare support to employment, cohabiting couples are not jointly assessed and do not benefit from the 'married persons' tax credits system. This loss of corresponding benefits on take up of paid employment can act as a financial disincentive to families for whom the margin between income gained from employment and replacement rates of income is small.

Administrative Delays

Delays in processing applications, particularly for Family Income Supplement, means that those on low incomes are left for a period when they have to manage on inadequate incomes which is sometimes below what they were getting from welfare benefits. Such delays act as a disincentive to people taking up paid work.

4. Addressing the Issues: Workable Solutions

Impact of secondary benefits retention

An analysis of the long-term effects of the various incentive measures and retention of secondary benefits should be carried out, taking into account the findings of the NESCS 2011 Report.⁹

A greater emphasis on tapered disregards

The basic principle in return-to-work situations should be an initial disregard of some income coupled with a percentage of income from work taken into account which would be set against, for example, rent in the case of Rent Supplement and against the average relevant annual medical expenses in the case of a medical card and against the maximum amount payable in the case of the Back to School Clothing and Footwear Allowance. This would mean that the secondary benefit is related to actual income and tapered accordingly. (People with long-term illness and special

⁸ See Callan, T (Ed.) (2012) **Budget Perspectives 2013**. *ESRI Research Series, No. (28)*. **Chapter 3: Work Incentives: New Evidence for Ireland** presents results based on the ESRI tax-benefit model, SWITCH, which provide an up-to-date representative picture of Replacement Rates in Ireland.

⁹ *Supports and Services for Unemployed Jobseekers: Challenges and Opportunities in a Time of Recession*. (NESCS 2011)

medical needs could continue to be granted a medical card automatically. The sliding income scale could go directly from the full medical card to the GP visit card¹⁰).

Eligibility for jobseekers' payments

- Eligibility for jobseekers' payments should be based on hours rather than the number of days worked to reflect part time and casual work patterns.

Family Income Supplement (FIS)

- FIS income limits and the working hours threshold should be kept under regular review taking account of trends in earnings, changing work patterns, social welfare rates and poverty lines.
- Any administrative blockages to people accessing FIS should be identified and addressed as quickly as possible to facilitate easy transition from welfare to low-paid work.

Rent Supplement

The proposed Housing Assistance Payment announced by the Minister for Housing and Planning in March 2012, when implemented, will address the welfare trap generated by the current Rent Supplement system provided that clear provision is made for all people (whether working or unemployed) to have access to housing support in accordance with their actual means. Pending the introduction of such a provision, two changes to the current system are proposed.

- A Rent Supplement transition period could be introduced that would assist individuals and families to bridge the transition from welfare to work and allow time for household budgets to be re-adjusted in line with in-work costs of travel and childcare, without the additional financial burden of having to meet the Rent Supplement deficit.
- Rent Supplement should be paid on a reduced basis as income from paid work (part-time or full-time) increases so that the amount of Rent Supplement paid is based on actual income rather than on working hours.

The Back to Work Allowance

The Back to Work Allowance Scheme encouraged unemployed people (among others) to take up employment by allowing those getting a social welfare payment for a specified period of time to keep a percentage of their social welfare payment along with secondary benefits for a period of up to three years.

- Consideration should be given to introducing a scheme similar to the Back to Work Allowance scheme on a temporary basis in order to provide a safety net

¹⁰ The proposed introduction of free universal GP care will address this issue.

for those taking up employment (over two years similar to the Back to Work Enterprise Allowance (BTWEA)).

Childcare costs

- There is an argument to be made for actual childcare costs to be tax deductible at the standard rate – however the cost implications need consideration.

Back to School Clothing and Footwear Allowance

- The Back to School Clothing and Footwear Allowance should be assessed based on income and rates should be tapered based on income with applicants qualifying for part payments if they do not qualify for the full payment.

Enhancing the Jobbridge Scheme

- The potential of the Jobbridge scheme should be further examined and explored to ensure that it is a pathway to longer-term employment. The current practice where the training component aspect is self-certified by employers needs to be reviewed.
- Consideration should be given to ways of enhancing the contribution of employers to the Jobbridge scheme by providing for a tax deductible contribution paid by the employer in addition to the €50 currently paid by the State.

Addressing costs of participation in work by people with disabilities

- It would be worth considering including an additional Tax Credit which would benefit those in full-time work and have sufficient income to have a tax liability.
- Another possible solution would be to create a specific rate of Universal Social Charge for people with disabilities maybe 1% or to apply the 2% rate but increase the exemption limit. (It seems counterproductive that all income over the exemption limit becomes liable for the USC).

Facilitating the transition of adolescents and young adults (aged 16 to 24) to working age adults

- There needs to be more enforcement of employment protection legislation around the employment of adolescents and young adults to ensure that they have positive work experiences.
- For young people on Jobseeker's Allowance, the Part-Time Job Incentive Scheme needs to be promoted as a stepping stone to work.

- Creating a tax break ‘honeymoon’ period for new workers might act as an incentive to work.

Employer Job PRSI incentive

The Employer Job PRSI incentive scheme allows an employer who employs an additional member of staff, who had been unemployed for 6 months or more, to be exempted from paying employers’ PRSI for 18 months. Feedback from CIB delivery partners suggests that some employers may not be fully aware of its provisions.

- There should be a more proactive promotion of the Employer Job PRSI incentive scheme.
- Ways of enhancing the scheme should be identified taking into account the crucial need to incentivise job creation by all employers.

Case Examples

Case Example 1: Activation Programmes

One CIS¹¹ highlighted the case of a man who recently started a Tús Internship and wished to check if he should pay PRSI. His total income is €392.50 and he is currently paying €10.62 PRSI and on an A9 class contribution.

His total income is comprised of social welfare of €188 personal rate; and an additional €124.80 for his spouse; €59.40 for 2 qualified children and €20 for his participation on Tús. Once he has paid PRSI, his income is only €9.38 more for working 19.5 additional hours a week.

Case Example 2: Withdrawal of Rent Supplement as a disincentive

A young woman with one child on OFP and Rent Supplement was offered two weeks full time work following her pro-actively seeking work experience or work relevant to her qualifications. As she would be working over 30 hours a week she would not qualify for Rent Supplement for those two weeks as she was afraid that she would be taken off the Rent Supplement system totally and would have to re-apply or that the reactivation of her claim would take too long and that she would not be able to pay her rent. The fact that she would not be much better off financially working for the two weeks (due to the loss of Rent Supplement and reduction in her OPFP) and because of concerns about the length of time it would take to get her Rent Supplement back, resulted in her deciding not to take up work which could have provided her with better job opportunities in the future. The CIS dealing with the query could not assure her that there would not be a delay in re-accessing the Rent Supplement.

Case Example 3 – Financial disincentive to taking up short-term work

¹¹ Citizens Information Service

A father of three children on Jobseeker's Allowance (JA) was offered 8 weeks work up to Christmas for 40 hours a week on minimum wage. He would have to sign off JA as the employment was over a five day period. He was not entitled to claim Rent Supplement as he would be working over a 29 hour week and he could not claim FIS as his job was not for at least three months. The job had the potential to become fulltime but he felt that that he could not manage without some welfare support.

Case Example 4: Anomaly

A young couple called to a CIS to clarify their position in respect of work and benefits. The husband was on Jobseeker's Allowance and his wife worked part-time. They were in receipt of FIS and Rent Supplement. The wife was now on maternity leave and they had lost their Rent Supplement due to the fact that she was now getting Maternity Benefit even though this was less than her income from work. (The Rent Supplement assesses the Maternity Benefit as a social welfare payment and as such disregards applicable to additional earned income cannot be applied). This couple are now worse off on two fronts having lost what rent supplement they were getting and also the additional income from her part-time work. They retain FIS though this cannot be raised as it is in place for one year. The information provider involved commented that it seems there is an anomaly in the system that cuts one secondary benefit in a situation of reduced family income.

Case Example 5: Hours worked

One recent caller to CIPS¹² was a married woman with five children, all under 22 and in full-time education. Her husband had the possibility of a part-time cleaning job. He had been unemployed for some time and was anxious to return to work. The woman had been informed by the DSP that it would take five months to process a FIS application. CIPS confirmed long waiting time for FIS and, also, that as the work would be over five days, part-time, Jobseeker's Allowance would not be an option. He would not qualify for the Part-Time Job Incentive Scheme as work was for over 24 hours per week and he had not yet been on Jobseeker's Allowance for 15 months. While he would 'potentially' still get Rent Supplement as disregards are not 'euro for euro', he would need to check this out. CIPS advised that the family should contact the Community Welfare Officer and ask about entitlement to SWA pending the processing of an application for FIS should he get the job.

Case Example 6: Loss of FIS

A woman who presented at a CIS had just had her hours as a home help reduced. She was in receipt of FIS but this reduction in hours takes her below the 19 hours per week threshold

¹² Citizens Information Phone Service

so her FIS payment would cease. Her part-time hours are spread over five days which meant that she will not qualify for Jobseekers Benefit. Her family income will be greatly reduced as a result of her reduced hours. Her only option financially may be to give up work completely in order that she can sign on for Jobseekers Benefit. She has looked into a change in her hours, but the HSE are unwilling to condense her hours into three days because of the implications for the person for who she gives home help.

Case Example 7: Welfare Trap

A CIPS caller on Jobseekers Benefit is claiming €342 a week for his family. He has an offer of work three 12 hour shifts. Under current social welfare rules, he will not be able to claim JB for the other days each week as he is already working a 36 hours in three days. He would ordinarily still look for work during the other days so he feels that he should be able to get JB for the remainder of each week. His wage for the three days is €300, which is less than he is currently receiving on social welfare so he has decided not to take up the work opportunity.