

Working Family Payment

Submission by the Citizens Information Board (March 2017)

Introduction

The Citizens Information Board (CIB) welcomes the opportunity to make a submission to the Department of Social Protection (DSP) in respect of the Working Family Payment. The Submission is based primarily on feedback from Citizens Information Services (CISs) and the Citizens Information Phone Service (CIPS) arising from queries from people seeking to transition from welfare to work.¹ There continue to be people in the social welfare system who have difficulty making the transition to work. In this regard, it will be necessary to look in more detail at the purpose of the Working Family Payment, i.e., whether it is seen as addressing in-work poverty or improving financial incentives to work, or both. A key question which needs to be asked is whether or not there is a significant group of people for whom the availability of a Working Family Payment would make a difference. An obvious matter to be addressed is how the proposed Working Family Payment would differ from and/or be integrated with Family Income Supplement (FIS).

The promotion of work over welfare through the greater incentivising of work is important for social and economic reasons building on the lessons learned from the various work activation and employment support programmes put in place over the years. While the decision to develop a Working Family Payment is welcome, its success or otherwise will be determined to a large extent by its design. Crucial in this regard will be flexibility and clear, accessible and fluent administrative pathways. The experience of delivering FIS will be most valuable in this regard.

While the proposed Working Family Payment should be underpinned by the notion of making work pay, it is less clear how it will address endemic issues of in-work poverty, income inequality and child poverty. Also, the impact of social transfers in alleviating income poverty in Ireland will remain a crucial consideration. The implications of any scheme for different groups would depend on the design of the scheme, e.g., lone parents, second earners in married/cohabiting couples due to assessment of income at household level.

Relevant factors

In introducing a Working Family Payment, there are a number of relevant considerations:

- How to integrate a Working Family Payment into the overall welfare and taxation system, including, in particular, FIS and the Back to Work Family Dividend
- The need to link the Working Family Payment with minimum wage and living wage considerations
- The need to cater for short-term and long-term unemployment, part-time, casual and atypical working

¹ Citizens Information Services dealt with over a million queries in 2016, 46% of which were social welfare related. These included almost 60,000 jobseeker payment queries; 26,865 FIS queries and a further 15,000 activation scheme queries.

- Identifying and addressing the risk factors for in-work poverty
- The need to identify and examine in greater detail broader issues which affect people's decisions on whether or not to work (and for how many hours), e.g., the impact of replacement rates on people's decision to take up work or not

Replacement Rates

The replacement rate is the most commonly used single measure of the incentive to be in employment. It measures the proportion of in-work income which would be retained or replaced (e.g., by jobseeker payments) when out of work. Since the Working Family Payment would be aimed primarily at making work more financially attractive, the matter of replacement rates must be taken fully into account. ESRI² data shows that almost one-fifth (18.3%) of unemployed people have a replacement rate of more than 70 per cent, while 11% have a replacement rate of more than 80 per cent. However, it is also the case that almost 80% of unemployed individuals have a replacement rate of less than 70 per cent.³ These individuals would see their incomes rise by at least 43% if they were to obtain a job, at a wage corresponding to their qualifications. The ESRI has identified the causes of high replacement rates as: payment of rent supplement⁴; payment of qualified adult and qualified child increases.

In introducing the Working Family Payment, it would be useful to have more detailed evidence as to the precise breakdown of those requiring additional financial incentives to work and also more data as to how and why people make decisions concerning taking up employment (and how this may differ for different groups). There are also potential issues concerning administration and take-up which would need to be identified and addressed. The experience of the FIS scheme and factors influencing decisions on uptake can and should inform deliberations around the establishment of the Working Family Payment.

Welfare to Work: Ongoing Barriers and Difficulties⁵

In addition to the question of replacement rates, there are a number of factors which are likely to impact on the operation of the Working Family Payment. These have been well documented over the years and can be summarised as: childcare costs; housing costs; having a Medical Card; transport costs (in rural areas); and eligibility for Student Grants.

An additional difficulty that has been regularly highlighted relates to transitioning between temporary and part-time work and jobseekers' payments and the fact that in such circumstances, people on the minimum wage may be only marginally better off.

Ongoing problems relating to the administration of FIS that may be relevant to the Working Family Payment

The experience of FIS can inform in a significant manner the way the Working Family Payment could be structured and administered. Despite the increased expenditure on FIS

² <https://www.esri.ie/pubs/BP201602.pdf>

³ Each figure represents the proportion of the population with a replacement rate above a particular value; as they are cumulative totals, the figures are not additive. (ESRI)

⁴ The new Housing Assistance Payment addresses this.

⁵ Some illustrative examples of the difficulties reported are included in an Appendix.

during 2016, issues reported by CISs and CIPS point to a need for further FIS reform. The following aspects of the scheme are identified as having a negative impact on FIS take-up:

- The level at which both the income limits and the working hours threshold is set is not seen to be reflective of the working reality for many people – for instance, people who are working on low pay, zero hours contracts, “if and when” work patterns and seasonal work;
- The amount of FIS is usually established for 52 weeks ahead – if a person’s wages are reduced during that time, the FIS payment will stay the same;
- If the number of hours a person works each week is reduced to below 38 hours per fortnight, s/he is no longer entitled to FIS;
- The prospect of the immediate withdrawal of FIS on loss of a job or reduced working hours can impact on people taking up precarious employment;
- A significant issue identified is the exclusion of CE and TÚS participants from FIS;
- Since FIS also acts as a gateway payment to the Back to School Clothing and Footwear Allowance, non-eligibility for FIS may impact on work take-up;
- FIS does not apply to self-employed people and there are delays reported in relation to spouses of self-employed people being able to establish eligibility for FIS;
- Some people taking up employment of 3 days a week may be better off claiming Jobseekers Allowance for 2 days instead of FIS;
- The FIS income limits do not take sufficient account of housing costs;
- Some families are reported as not taking up FIS on the basis that applications are taking too long to process and a fear that they may have to live on significantly reduced income for a non-defined period – the time frame for processing FIS applications can be up to 4 months.

Other Issues

There are a number of issues that have been identified by CISs and CIPS as impacting on people taking up low paid employment and seeking supports:

- People returning to casual work and who are on flexi docket are being paid in arrears and can be left without adequate income for daily living;
- If both members of a couple are signing on for Jobseekers Allowance, both have to come off the live register in order to apply for the Back to Work Family Dividend – this may mean that one partner is no longer in the system with potential consequences for pension entitlement or social welfare payments in the future;

- The means tests for the various supports can be very confusing and hard for people to determine, e.g., do they go for FIS and the Back to Work Family Dividend or one of the couple claim FIS and the other stay on means-tested JA;
- A person on JA who gets casual hours employment has his/her JA claim moved from being paid in advance to been paid in arrears, which results in a week without payment;

Need for the public to be well informed about employment supports

The following have been identified by CISs and CIPS as areas where the public are not well informed and which, therefore, may have a bearing on whether or not they take up work.

- Many people appear to be unaware that they can retain their Medical Card for three years on taking up employment;
- There appears to be a low level of awareness of the new Back to Work Family Dividend;
- Not all families are aware that couples can combine hours to establish FIS eligibility;
- Some single/separated parents are not aware they can claim FIS once they can prove they are paying maintenance;
- There is an under-awareness of home carers tax credits, bereavement and incapacitated child tax credits;
- Tax incentives and tax implications of work are not widely known or understood.

CISs have noted that some people do not ask about entitlements because of fear that it may impact on their existing social welfare payments.

Impact of increased income on eligibility for social housing

An important issue highlighted recently by a number of CISs is that families that are accessing income supports such as FIS in combination with the Back to Work Family Dividend and income from PAYE employment are finding that they are now no longer eligible to be included on the social housing lists, their new combined income being above the income eligibility threshold. This is a significant issue for families who are living in what they deem inadequate or inappropriate accommodation (See case examples below).

Implementing the Working Family Payment

- The impact of the scheme on different households, e.g., lone parent households, second earners in married/cohabiting couple households would need to be clear;
- There would be much merit in monitoring the UK experience in relation to the Universal Credit⁶ system to see what lessons might be applicable in the Irish context.

⁶ Universal Credit is a single monthly payment being introduced throughout the UK for people in or out of work. It is an integrated payment which replaces some existing benefits and credits -- Income-based Jobseeker's Allowance; Income-related Employment and Support Allowance; Income Support; Child Tax Credit; Working Tax Credit and Housing Benefit.

- The Working Family Payment would need to be tailored in such a manner as to make it applicable to part-time and casual work;
- There is a need to ensure that there is a clear gap between combined income from minimum wage work (which is frequently all that is available) and the Working Family Payment, on the one hand, and social welfare income on the other;
- There should be consistency and transparency in the way low income thresholds and related eligibility for the Working Family Payment are determined;
- The differing treatment between social welfare and income tax provisions for unmarried couples returning to work also need to be reviewed;
- Targeted short-term activation incentives, such as Back to Work Family Dividend, which has a maximum benefit of two years to the claimant should be considered for exemption from income assessed under the Social Housing Assessment Regulations and similar provision might be considered for any Working Family Payment introduced;
- The idea of a mentor or support system may help reduce fears people may have when going back into the work force and should be considered - the Back to Work Enterprise Scheme specifies payments as well as providing ongoing mentoring;
- A calculation of outgoings might be introduced to establish the amount of a Working Family Payment, e.g., mortgage/rent, childcare, medical bills, travel to work costs;
- There should be provision for some incentives for employers to participate in the scheme;
- In the longer-term, there will be a need to explore how developing a system where secondary benefits are more closely related to actual income rather than employment status (as is currently the case with eligibility for FIS and JA) and tapered accordingly to ensure a better fit between social protection and work.

Feedback from CISs and CIPS continually highlights the importance of achieving a fair and transparent balance between incentivising work and the retention of social welfare income supports. For many CISs and CIPS clients who have children, the loss of secondary benefits can make low-paid work unsustainable. One scenario routinely identified by CISs and CIPS is that part-time work opportunities (which sometimes are all that are available or feasible because of child care responsibilities) do not pay enough to make up for the loss of benefits, particularly where the employee has to meet childcare expenses. While part-time work is reported as being available in all parts of the country, the low rates of pay can result in families sometimes being only marginally better off.

According to the ESRI, more than eight out of ten of unemployed jobseekers would see their income increase by at least 40% upon taking up employment. However, weak financial incentives to work are likely to be more pertinent in the case of unemployed persons with a

spouse and children as such families having higher welfare payments. The ESRI has noted that the Back to Work Family Dividend clearly improves financial incentives to work for this group. However, it is dependent on families moving completely *off* social welfare payments and, therefore, may be unattractive for some households.

Summary

Before finalising the structure of the Working Family Payment, an analysis of the cross-cutting financial impact of various social welfare benefits (e.g., Jobseekers Allowance, Rent Supplement and FIS) on actual take home pay should be carried out, taking into account both replacement rates and in-work costs of travel to work and childcare. The advantage of a Working Family Payment is that it could assist in increasing employment take-up for specific target groups in a cost-effective manner by incentivising employment. However, such a payment, if not clearly targeted, could have a negative impact on some wage rates. How the Working Family Payment is to be administered would be of crucial importance, whether through the tax system or otherwise. Clear and effective administrative structures would be required. The likely costs to the exchequer would also need to be examined and a Value for Money analysis carried out.

Selected Case Examples

Case Example 1: Impact of delay in assessing FIS

A lone parent was offered a part-time job that would also qualify for her for FIS. She was concerned she would not be able to manage financially while awaiting FIS to be processed. Her payment took two months to process causing her serious financial hardship. She only managed to cope as her parents assisted her.

Case Example 2: Impact of non-eligibility for FIS

A client with spouse and two children was offered part-time work in a school, starting immediately. The work is over 5 days but the school want the person to work as a self-employed person. The hourly rate is €12.75 for 22 hours a week which is €280.50 a week. Client is not eligible for FIS or for the Part-time Job Incentive (PTJI). There is no pay for holidays, mid-term or days off etc. The Back to Work Enterprise Allowance would take several weeks to process. Jobseekers payment is €342.60 per week.

Case Example 3: Reduction in income due to having to change employment

A man with dependent children was in receipt of FIS but lost his job and signed on for JB. He informed FIS and his payment was discontinued. He then got a new lesser paid job but was informed that FIS cannot be reassessed until his original claim year has expired and that his FIS would be reinstated at previous rate. He now works more hours for lesser pay, with his FIS rate at the previous level.

Case Example 4: Impact of part-time working over 5 days

Caller on JA with one dependent child has been offered 17.5 hour per week over 5 days. She is eligible for the PTJI scheme. However, she cannot apply for FIS because of the 19 hour per week limitation. She will earn €200 per week. She cannot get part time JA because she is working over 5 days, and the 3 day rule discounts her. If she could claim JA she could get €258/week. If she could claim FIS she would get €70 along with the PTJI. She is only gaining €50 per week on the PTJI scheme. The caller was dismayed that she would only benefit by approximately €51 for working a 17.5 hours a week.

“Limitations to accessing supports for part time work need to be reviewed. The limitations are not reflective of the types of part time employment available to people and the patterns of hours and work” (CIS).

Case Example 5: Impact of additional work support income on eligibility for social housing

A CIS client is married with 3 children, 2 of whom are dependent and a child over 18 and living at home. The adult child was placed on a training course by the Intreo Service and receives a training allowance of €160 a week. If the adult child did not engage in the course, he would have been penalised for not doing so. The client commenced work in 2016, after being long-term unemployed, making the client eligible for FIS and the Back to Work Family Dividend. The new income circumstances of the family pushed the family over the social housing income limit (This is a band 3 category and the income limit for a family is between €27,500 and €28,750) resulting in the family being removed from the housing list after 9 years. Their income is not subject to income tax or PRSI as they do not earn enough from employment to do so, thus their gross income and net income are the same, bar some USC.

“In essence, one can qualify in principle for HAP and not qualify to be on the housing list”. (CIS).