

Pay-Related Benefits – a fundamental reform of the social welfare system

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Key words: Social protection, pay-related benefit, unemployment

Introduction

The Minister for Social Protection, Heather Humphreys TD, has recently announced that the Government has given approval for the establishment of a new Pay-Related Jobseeker's Benefit System in Ireland.ⁱ This she described as 'fundamental reform of the social welfare system'. It is planned (perhaps optimistically) that the new system will be introduced in the second half of 2024. This paper examines the proposal.

Context

Historically, unlike most European countries, Ireland (and the United Kingdom) have relied on flat-rated benefits which aim to prevent poverty rather than aiming to provide wage-related compensation to people who are out of work due to unemployment or other reasons. Following the then UK approach, a system of pay-related benefits was introduced in the 1970s.ⁱⁱ However, the Commission on Social Welfare (1986, 189) recommended that social welfare payments should be set 'at a level that ensures a minimally adequate standard of living' and that pay-related benefits should be phased out. This recommendation was implemented for unemployment and sickness benefit by 1994.ⁱⁱⁱ Since that time, benefits are generally paid at a flat rate (€232 for many benefits in 2024) with increases for persons with qualified children and adults.^{iv} Subsequently, while there was much debate about the appropriate level of payments, there was a general consensus around flat-rate benefits and little serious discussion of reintroducing a pay-related element.

During the COVID-19 pandemic, the Pandemic Unemployment Payment (PUP) was introduced at a much higher rate than general social welfare payments (€350 compared to €203 in 2020). This was originally flat-rate but in order to reduce 'overcompensation' of people who earned lower wages, a tiered system of payments was later introduced with the level of payment being related to previous earnings. The PUP was abolished in 2022.

It is sometimes suggested that the current proposals have been inspired by COVID-19 but, in fact, they appear to date back to at least 2016. In its' 2016 election manifesto, Fine Gael proposed that a higher rate of benefit (though not pay-related) should be paid to persons during their initial unemployment. Although it did not find its way into the subsequent Programme for Government (Government of Ireland, 2016), Leo Varadkar TD, who was appointed Minister

for Social Protection, discussed this idea later in 2016.^v By 2020, however, the next Programme for Government included a specific commitment to consider the introduction of a pay-related jobseeker benefit payment (Government of Ireland, 2020).^{vi}

The Proposal and its Rationale

In December 2022, Minister Humphreys published draft proposals (described as a ‘Strawman’) for consultation on a new pay-related jobseeker’s benefit (Department of Social Protection, 2022). The proposal provided that people who have been in insurable employment for at least five years (of which six months must have been in the previous 12 months) would receive benefit at 60% of prior gross income up to a maximum payment of €450 per week, while for those with at least two years insurable employment, the benefit would be 50% of prior earnings subject to a cap of €300. The benefit would largely replace the existing jobseeker’s benefit (JSB)^{vii} (formerly unemployment benefit) and would be payable for six months (compared to the current nine months for JSB).^{viii}

The Strawman proposal curiously does not provide any estimate of the costs involved although the ESRI has separately estimated that the additional cost would be close to €200M per annum (Kakoulidou et al., 2023).

The rationale for the proposal has received relatively little discussion. The Strawman proposal (DSP, 2023, 6) described it as twofold.

‘First, to recognise and cushion people against the ‘income shock’ that arises on loss of employment. ... Second, to provide a tangible return to people who make social insurance contributions as a means of better reflecting the contributory principle and strengthening the solidarity principle, both of which are at the heart of the social insurance system.’

The point has also been made that Ireland is an outlier in the EU in not having a pay-related system for unemployment but then this is because we have chosen not to do so and the same argument would apply to almost all other social protection benefits.

As the ESRI discuss, the literature would suggest other possible rationales for such an approach including that it would ‘enhance the role of automatic stabilisers, allowing aggregate shocks to be smoothed to a greater extent’ and that ‘earnings-related unemployment benefit can help reduce labour market mismatch’ (Kakoulidou et al., 2022, 5).^{ix}

The Consultation Response

The Department of Social Protection (DSP) has stated that, as part of the consultation process, 32 submissions have been received from organisations (including ICTU, SIPTU, the Labour Market Advisory Council, Irish National Organisation of the Unemployed and the National

Disability Authority) with a further 80+ submissions from individuals.^x Unfortunately, the Department has not (yet) published these but several are available online.

Again, there is little discussion about the rationale for a rather fundamental change in approach to setting benefits. The assumption seems to be that ‘higher is better’. It is perhaps fair to say that there is a general welcome for the proposal albeit with some reservations. Trade unions suggest that the payment should be higher,^{xi} continue for longer and be made to a wider group of people with extra costs being made through a rise in employers’ PRSI (SIPTU, 2023) or through ‘the range of recommendations put forward by the Commission on Taxation and Welfare to improve the sustainability of the Social Insurance Fund’ (ICTU, 2023).

Some organisations appear to be less enthusiastic. The Society of St. Vincent de Paul (SVP, 2023) expressed its concern that the

‘new payment could signal a tiered approach to who is offered an adequate level of income protection from the state, with a fault line appearing between people who are perceived to have ‘earnt’ (sic.) a decent level of income protection, and those who are considered not to have contributed sufficiently.’

SVP argued that this would impact those excluded from the labour market such as one-parent families, people with disabilities or ill health, carers, and the longer term unemployed who require in-depth support. It suggested that there should be a full equality and poverty proofing for the policy. The NDA (2023) also expressed concerns about the impact on people with disabilities while other agencies suggested that the qualification conditions would disproportionately exclude women and young people.^{xii}

A number of organisations – including the Commission on Taxation and Welfare (2022, 299) and the ESRI (Kakoulidou et al., 2022) - have made the point that the rationales advanced by the DSP for pay-related benefits (PRB) would also extend to other payments to people out of work due to illness, maternity or related events. Thus, the same rationales might justify extending pay-related benefit to illness benefit, maternity benefit, adoptive benefit, carer’s benefit, parents and paternity benefit. To date, the Department has only commented that ‘feedback [on the Strawman proposal] will also help to inform the consideration of potential changes to other short-term schemes, such as parent’s benefit and illness benefit’.

In fact, however, it is not clear that a DSP-provided PRB is necessary or optimal for these broader schemes. Recent data from the CSO shows that more than half of women on maternity leave receive a top-up from their employer and those who don’t are mainly on low pay. As set out in Table 1, more than half (55.5%) of women on maternity leave receive full pay while 85% receive at least 50% of their earnings.

Table 1: Total Pay (Employer plus Maternity Benefit) During Maternity, 2021

Pay band	% of claimants
More than 0% but less than 50% of pre-maternity pay	14.9
Between 50% and 90% of pre-maternity pay	29.6
Full pay	55.5

Source: CSO, *Employment Analysis of Maternity and Paternity Benefits 2019-2022*.

As one might expect, this does vary by size of employment and sector with large employers (250 and over) being more likely to top up wages (only 8% receive less than 50%).^{xiii}

In the case of illness, the Sick Leave Act 2020 now provides for earnings-related pay of 70% of earnings (subject to a cap) but only for 10 days per annum (to be achieved by 2026). In addition, of course, many employers also top up employees' wages contractually although detailed data as to the extent and level of coverage is lacking.^{xiv} However, international experience would suggest that extending sick pay may be the best option both to achieve a pay-related scheme and to control sickness absence (OECD, 2020).

Discussion

It is passing strange that such a 'fundamental reform' of the system should be introduced with so little debate about its rationale. One of the main arguments put forward in the Strawman is cushioning against income shock but, as the ESRI point out, the evidence is that such persons are likely to have savings which can help to cushion against such a shock (Lydon and McIndoe-Calder, 2021). There is also a total lack in the debate of any empirical evidence of a *need* for such a cushion.

The theoretical arguments outlined by the ESRI are also less than convincing in the specific context.^{xv} There is little to suggest that spending an extra €200M will have much of a stabilising effect on the overall economy and there is no evidence to suggest there is currently a problem with job mismatch or that pay-related benefits would help address it.^{xvi}

Rather, the driving rationale for the reform is arguably the second reason put forward by the Department of Social Protection, i.e. to provide a tangible return to people who make social insurance contributions ('people who get up early in the morning'). Thus, PRB can be seen as part of a productivist social protection policy driven by Fine Gael (and, in particular by the current Taoiseach Leo Varadkar TD) which includes the introduction of statutory sick pay, the extension of several social insurance benefits to the self-employed, and the introduction of paid paternity leave (2016) and parent's benefit (2019).

Conclusion

Although the number of persons directly affected (at least initially) may be relatively small, it is fair to describe the PRB reform as fundamental. It reflects a major shift in welfare rate policy which has been based on the concept of adequacy. As such, it is disappointing that it is being made on such a limited evidence base.

Given the high level of employment achieved in Ireland, there is a strong argument for social protection policy to focus more on supporting high levels of labour force participation and on facilitating short-term transitions in and out of work during period of job transition, illness, maternity or care. But, if PRB marks a shift towards such an approach, it is not yet a very coherent one, nor is it clear that PRB would be a top priority.

However, assuming this policy is implemented, it does provide an excellent opportunity to monitor the impact of such a change. Unlike in the past, the Department of Social Protection now has a good data set which could help to explore the impact of the introduction of PRB. Does it lead to people spending longer (or shorter) on welfare, does it allow people to move to better (e.g. higher paying) jobs? Should it be broadened to a wider group of claimants? A thorough impact evaluation could provide much useful information to inform future social protection policy.

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- ⁱ ‘Minister Humphreys secures Cabinet approval for major Social Welfare reforms’, 21 November 2023 available at <https://www.gov.ie/en/press-release/022d7-minister-humphreys-secures-cabinet-approval-for-major-social-welfare-reforms/#:~:text=The%20Minister%20secured%20Cabinet%20Approval,if%20they%20lose%20their%20employment.>
- ⁱⁱ The Social Welfare (Pay-Related Benefit) Act, 1973 introduced an earnings-related component to unemployment and disability benefit. Maternity benefits were also initially pay-related.
- ⁱⁱⁱ Pay-related benefits for maternity continued until 2014.
- ^{iv} Although there is some variation related to the size of the contribution record and to persons on low pay, the Department of Social Protection stated that 85% of people on jobseeker's benefit are on the maximum rate of payment while 90% of JSB claimants are on the personal rate only.
- ^v See, for example, *Irish Examiner*, 25 July 2016 at <https://www.irishexaminer.com/news/arid-20412185.html> . It appears that some work on the issue had been ongoing in the Department of Social Protection at this time.
- ^{vi} Similar commitments were also included in the Government’s Economic Recovery Plan 2021 and Pathways to Work 2021–2025.
- ^{vii} The self-employed and part-time workers would not qualify for the new PRB and would continue to be eligible for JSB.
- ^{viii} The Department has stated that the current average duration of jobseeker’s benefit is 11 weeks with more than 70% of customers exiting the scheme within six months. Of course, this means that 30% do not and would, in future, have to transfer to a means-tested payment if they had not found work. *Dáil Debates*, Wednesday, 19 April 2023.
- ^{ix} The ESRI also point out that the new system would be likely to increase replacement rates.
- ^x *Dáil Debates*, Wednesday, 19 April 2023.
- ^{xi} Although the ESRI show that higher payments are likely to be regressive in terms of income distribution.
- ^{xii} The Department in a presentation to the Joint Oireachtas Committee on Social Protection stated that its’ initial review using a 2019 cohort indicates that the proposed system ‘does not have significant skewing either for or against women or for or against young people’. However, it did not provide any further details or explain the methodology involved. *Dáil Debates*, Wednesday, 19 April 2023. Available: https://www.oireachtas.ie/en/debates/debate/joint_committee_on_social_protection_community_and_rural_development_and_the_islands/2023-04-19/2/
- ^{xiii} Newman and Ryan, 2020 citing a 2018 IBEC survey came to broadly similar conclusions.
- ^{xiv} The [CIPD-IRN private sector pay and employment survey 2022](#) found that 62% of employers stated that they paid sick leave top-up with a similar percentage (63%) paying maternity benefit top-up but only 49% paying paternity benefit top-up and 18% paying parents benefit top-up. Köppe (2023a and b) notes that take-up of paternity benefit in Ireland is low and below the EU average and suggests that this is due to the flat-rate benefit.
- ^{xv} And none are relied on by the Minister or Department.
- ^{xvi} This is not to say that there is not an issue but simply that there is no evidence on the topic.