

Submission to the Public Consultation on Pay-Related Benefit for Jobseekers

February 2023

**JOBSEEKERS'
ALLOWANCE**

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**Fairness
at Work and
Justice in
Society**

The Services Industrial Professional and Technical Union (SIPTU) is the largest trade union in Ireland, representing workers across a wide variety of industries in both the public and private sector. It has a long history of representing workers in workplace issues, both individually and collectively.

We thank the Department of Social Protection for inviting the union to make a submission to the public consultation on Pay-Related Benefit (PRB) for Jobseekers. Further, we welcome the Government's intention to introduce a pay-related element to unemployment benefit, in line with almost all other EU countries.

Our submission focuses on four elements of the proposed PRB: qualifying conditions, rate of payment, the income ceiling and the duration of payment.

Summary of recommendations

- ★ **PROPOSAL:** Eliminate the two-tier qualifying and payment structure in the Strawman proposals and allow all those who meet the current criteria for the current Jobseekers' Benefit payment to access the maximum payment under PRB.
- ★ **PROPOSAL:** The payment rate for the PRB should be set at 70 per cent.
- ★ **PROPOSAL:** A floor should be established based on the flat-rate payment under the current Jobseekers' Benefit, with adult and child payments.
- ★ **PROPOSAL:** Over the medium-term, the new PRB floor should be raised to an adequate income level established by a verifiable and transparent assessment of needs and living standard adequacy.
- ★ **PROPOSAL:** Set an income ceiling of €550 per week under the PRB, consistent with the income ceiling in the statutory sick scheme.
- ★ **PROPOSAL:** The threshold should be annually indexed to wage growth.
- ★ **PROPOSAL:** The new PRB should be paid over a duration of at least 9 months, with consideration given to phasing down the payment to a lower replacement rate (e.g. 50 per cent) for a further three months.
- ★ **PROPOSAL:** The additional expenditure to fund the PRB should be met by increases in employers' PRSI, phased in over a number of years.

SIPTU further recommends that the Department of Social Protection conduct a profile survey of the recently unemployed to determine the impact of proposals on qualification; and a fiscal assessment of the introduction of PRB under alternative proposals.

Benefits of a Pay-Related Benefit

There are three main reasons for introducing a PRB:

- 1) Cushion the fall in household income when someone becomes unemployed. This can help maintain living standards during short-term unemployment and avoid arrears and debt.
- 2) Maintain demand in the economy, thus contributing to macro-economic stability. This is known as an 'automatic stabiliser'.
- 3) Provide a jobseeker enough time to find a job that matches their skills¹.

A PRB should seek to maximise the benefits arising from these rationales within a sustainable fiscal framework.

Qualifying Conditions

The Strawman proposes a two-tier qualifying system:

- **Basic Payment:** Jobseekers who have less than five years prior contributions but at least two years (of which six months must have been in the 12 months prior to claim). This would entitle a jobseeker to a replacement rate of 50 per cent and a maximum payment of €300 per week.
- **Enhanced Payment:** Jobseekers who have five years paid contributions or more (of which six months must have been in the 12 months prior to claim). This would entitle a jobseeker to a replacement rate of 60 per cent and a maximum payment of €450.

Currently, jobseekers qualify for benefit when they have accumulated two years of contributions (of which six months must have been in the 12 months prior to claim) - the same condition for the Basic Payment as in the Strawman proposals.

To qualify for the Enhanced Payment (i.e. five years' contributions or more) would be unnecessarily restrictive when compared with our peer group in the EU². While care must be taken when comparing social insurance systems given the variety of models (in some countries short-term pay-related benefit is voluntary and even subject to collective bargaining), Table 1 outlines the standard qualifying conditions³.

¹<https://cepr.org/voxeu/columns/impacts-unemployment-benefits-job-match-quality-and-labour-market-functioning>

²Our peer group in the EU (other high-income countries): Austria, Belgium Denmark, Finland, France, Germany, Luxembourg, Netherlands and Sweden.

³Comparative information on unemployment benefit taken from OECD Tax Benefit research - <https://taxben.oecd.org/policy-tables/TaxBEN-Policy-tables-2020.xlsx>

TABLE 1: Qualifying Conditions for Unemployment Benefit: OECD

Country	Qualifying Conditions
Austria	1 out of last 2 years
Belgium	468 days in 33 months
Finland	26 weeks in last 28 months (with 18 hours work per week and minimum income of €1,236 per month) - though conditions may change with a collective agreement
France	130 days or 910 hours of work within past 24 months
Germany	12 months in last 2 years
Luxembourg	26 weeks out of last 12 months
Netherlands	Short-term benefit: 26 weeks in last 36 weeks Medium-term benefit: 26 weeks in last 36 weeks and 4 out of last 5 years
Sweden	At least 6 months (with at least 80 hours per month) in last 12 months, or 480 hours in 6 continuous months (with at least 50 hours per month)
Ireland	104 weekly contributions paid since starting work and 39 of those during the year preceding the benefit year, or 26 weekly contributions paid in each of the two relevant tax years preceding the benefit year

It is evident from the information contained in Table 1 that Ireland’s current system of qualifying conditions is broadly in line with other countries.

The requirement of five years contributions has the potential to penalise young people and women. Employees working in sectors with a higher ‘churn’ in employment could find it difficult to satisfy the five years contributions to obtain the enhanced payment.

For instance, well over half (57 per cent) of employees on temporary employment contracts are under the age of 30⁴.

Young people under the age of 25 years make up 11 per cent of those in total employment. However, they make up 29.7 per cent in the retail sector while making up 38 per cent in the hospitality sector.⁵ Women make up over 55 per cent of employment in these two sectors.

To the extent that the enhanced five years’ contribution qualification excludes young people and women (and potentially other employment segments such as workers with disabilities and migrant workers), this criteria becomes discriminatory. If there is only minimal exclusion, then the qualifying condition is unnecessary.

SIPTU believes there is no need for a less restrictive criteria to qualify for the enhanced payment.

★ **PROPOSAL:** Eliminate the two-tier qualifying and payment structure in the Strawman proposals and allow all those who meet the current criteria for the current Jobseekers’ Benefit payment to access the maximum payment under PRB.

Rate of Payment

The Strawman model proposes that the enhanced payment (which SIPTU proposes be the universal payment for all those meeting the current Jobseekers’ Benefit) be set at 60 per cent of prior gross earnings. This contrasts with the rate of payment under the statutory sick pay scheme which is 70 per cent. SIPTU believes that the new PRB for unemployment should be set at 70 per cent - the same level as the statutory sick scheme.

It is difficult to compare with other countries as pay-related benefits have different thresholds and ‘reference’ earnings. In addition, payment rates can be phased down during the period of receipt of the PRB. Nonetheless, a payment rate of 70 per cent would be consistent with other EU peer-group countries.

- Denmark: 90 per cent of prior earnings
- Finland: up to 84 per cent of average wage
- Luxembourg: 80 per cent
- Sweden: 80 per cent
- France: up to 75 per cent
- Netherlands: up to 75 per cent

⁴Eurostat Temporary Employment: https://ec.europa.eu/eurostat/databrowser/view/lfsa_etgan2/default/table?lang=en

⁵Eurostat Employment by Economic Activity: https://ec.europa.eu/eurostat/databrowser/view/lfsa_egan22d/default/table?lang=en

The lowest payment rate among our peer group is Austria at 55 per cent. A 70 per cent payment rate under PRB in Ireland would be consistent with most of our peer group.

To ensure that low-income earners do not lose out under the new system, a floor should be established. For instance, under a new PRB set at 70 per cent of prior gross earnings, low-paid employees earning less than €315 per week would receive less than they would under the current system. Further, low-paid employees with adult and/or child dependencies, could also lose out.

Therefore, a floor should be established based on the current Jobseekers' Benefit (with payments for adult and child dependencies). Employees should be allowed to choose between the payment of the new PRB and the current Jobseekers' Benefit. This would ensure that no one loses out under the transition to the new system.

This floor is unlikely to add significantly to the cost of introducing a new PRB with a floor. 87.5 per cent of

Jobseekers' Benefit are single persons (i.e. without dependency allowances). Only 3 per cent of recipients have both an adult and, at least one, child dependents' allowance.⁶

Over the medium-term, the new PRB floor should be raised to an adequate income level established by a verifiable and transparent assessment of needs and living standard adequacy. The Vincentians' 'Minimum Essential Standard of Living'⁷ research is one example of such an assessment.

- ★ **PROPOSAL:** The payment rate for the PRB should be set at 70 per cent.
- ★ **PROPOSAL:** A floor should be established based on the flat-rate payment under the current Jobseekers' Benefit, with adult and child payments.
- ★ **PROPOSAL:** Over the medium-term, the new PRB floor should be raised to an adequate income level established by a verifiable and transparent assessment of needs and living standard adequacy.

TABLE 2: OECD Comparisons of Income Ceiling and Duration of Payment

Income Ceiling (% of Average Full-time Wage)		Duration (months)	
Finland	None	Belgium	Unlimited
France	242	Denmark	24 (In 3 years)
Luxembourg	111	France	24
Netherlands	102	Netherlands	24
Germany	95	Finland	18
Belgium	67	Sweden	13.8
Denmark	52	Germany	12
Sweden	51	Luxembourg	12 (Within a 24-month period)
Austria	43	Austria	9
Ireland	23	Ireland (Strawman Proposal)	6

⁶Statistical Information On Social Welfare Services Annual Report 2021: <https://www.gov.ie/en/publication/9262a-2021-annual-statistics-report/>

⁷Vincentian Minimum Essential Standard of Living, 2022: <https://www.budgeting.ie/publications/budget-2023-mesl-impact-briefing/>

Threshold and Duration

(a) Threshold

All EU countries in our peer group (except Finland) operate an upper threshold, or income ceiling, that establishes a maximum payment under the PRB. The OECD table expresses the PRB income ceiling as a percentage of the average wage of a full-time employee.

As shown in Table 2, four countries have an income ceiling which is excess of the average full-time wage, with Germany close at 95 per cent. In 2020, the Irish flat-rate Jobseekers' Benefit payment was 23 per cent.

The Strawman model proposes an income ceiling of €450 per week. In 2021, this would be equivalent to 45 per cent of the average full-time wage. This would leave us at the bottom of the table with Austria.

SIPTU proposes that the income ceiling that applies to the statutory sick scheme be applied to the new PRB, or €550 per week. There is no reason why there should be a different income ceiling for these two social insurance schemes. If set at €550 per week, this would bring the income ceiling up to 55 per cent of the average full-time wage in 2021.

- ★ **PROPOSAL:** Set an income ceiling of €550 per week under the PRB, consistent with the income ceiling in the statutory sick scheme.
- ★ **PROPOSAL:** The threshold should be annually indexed to wage growth.

(b) Duration

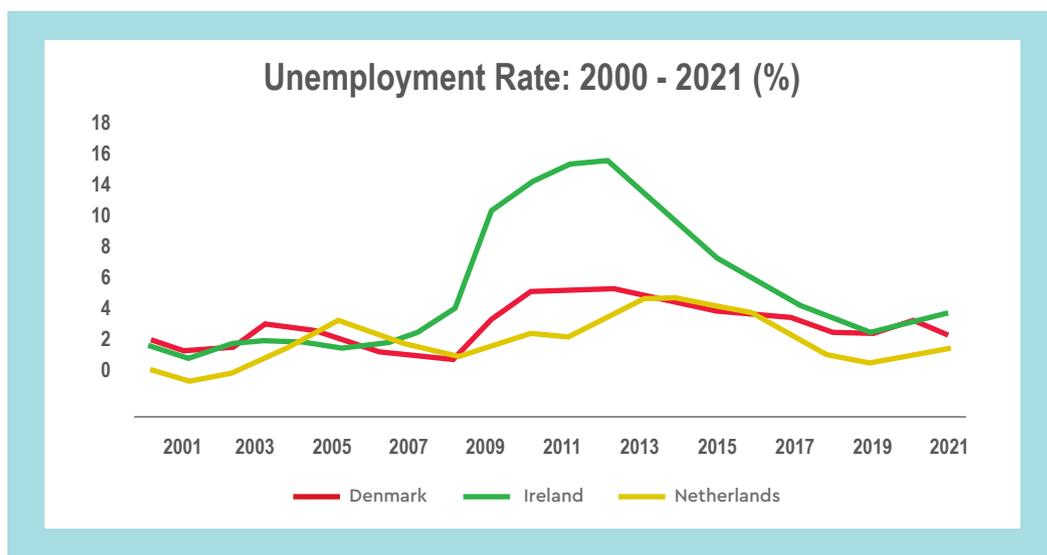
Currently, the duration of Jobseekers' Benefit in Ireland is 9 months for those with 5 years contributions, and 6 months for those with less. The Strawman model proposes that the new PRB be paid over a maximum period of six months. This compares extremely poorly with other countries where duration of one year or more is the norm, as shown in Table 2.

- ★ **PROPOSAL:** the new PRB should be paid over a duration of at least 9 months, with consideration given to phasing down the payment to a lower replacement rate (e.g. 50 per cent) for a further three months.

Phasing down the payment from 70 per cent to 50 per cent for the 10th to 12th month would help households avoid a substantial cliff edge.

It may be claimed that a longer duration of payments set at a higher replacement rate would undermine the incentives to return to work. However, a comparison of unemployment rates with countries that have high replacement rates and lengthy duration of payment does not vindicate such a claim.

Historically, unemployment rates in Denmark and Netherlands - countries with much higher replacement rates and longer duration of payments - have been consistent with unemployment rates in Ireland (save for the austerity and recession period), or even lower. Incentives to employment have not been harmed by their PRB regime.



Strawman and SIPTU Proposals

TABLE 3: Comparison of Current Jobseekers' Benefit, Strawman Proposals and SIPTU Proposals

	Current Jobseekers' Benefit	Strawman Proposals	SIPTU Proposals
Qualifying Conditions	Two years contributions (of which six months must have been made in the 12 months prior to claim)	Two tier PRB system: 2 years for a lower PRB payment; and 5 years for a higher PRB payment	Maintain the current qualifying conditions for Jobseekers' Benefit and scrap the two-tier PRB
Rate of Payment	Flat-rate: €220 per week	60 per cent of gross prior earnings for those with 5 years contributions; 50 per cent for those with 2 years contributions	70 per cent of prior gross earnings
Threshold	Not relevant	€450 for those with 5 years contributions; €300 for those with 2 years contributions	€550 - same as statutory sick pay scheme
Duration	9 months for those with contributions of at least 5 years; 6 months for those with 2 years	6 months	9 months with consideration given to a further 3 months at 50 per cent of prior gross earnings

The SIPTU proposals can maximise the benefits on which the rationale for PRB is based.

- Less restrictive qualifying conditions, a higher replacement rate (i.e. 70 per cent) and a higher threshold can help protect household income in the event of unemployment.
- Maintaining household income will help maintain consumer demand, support business activity and strengthen automatic stabilisers.
- A longer benefit duration can facilitate the unemployed to take up jobs that match their skills, and reduce skills mismatch which can be costly for the employee and the larger economy.

Paying for the PRB

We do not have the data to estimate the cost of introducing a PRB. It should be noted that the consultation document for the Department's Strawman proposals did not attempt to estimate the cost either. This should be addressed through a fiscal impact assessment (see below).

The consultation document stated that a 0.1 percentage point increase in PRSI rates (both for employee and employers) would yield over €190 million in 2023 and almost €200 million in 2024. If the introduction of PRB was to double the amount spent on Jobseekers' Benefit, this would mean an additional expenditure of approximately €350 million. To match this through PRSI revenue would require an increase of 0.35 percentage points in employer contributions.

There is a strong argument that this expenditure should be met by an increase in employers' PRSI. This is based on (a) the relatively low level of employers' PRSI⁸, compared to our peer group; and (b) the relatively high level of personal taxation (income tax and social insurance contributions) already faced by Irish employees.

⁸ Eurostat Unemployment Rates: https://ec.europa.eu/eurostat/databrowser/view/lfsa_organ/default/table?lang=en

⁹ Overqualified third-level graduates in the Irish labour market, NERI Report Series, No.19, Ciarán Nugent: <https://www.neriinstitute.net/research/overqualified-third-level-graduates-irish-labour-market>

¹⁰ Eurostat Data on Taxation, Taxes on Labour: https://taxation-customs.ec.europa.eu/taxation-1/economic-analysis-taxation/data-taxation_en

TABLE 4: Effective Social Contribution and Tax Rates: 2020 (% of Wages & Salaries)

Employers' Social Insurance and Payroll Contributions (including social insurance)		Employees' Personal Taxation	
France	32.0	Belgium	33.4
Sweden	28.6	Germany	30.1
Austria	23.7	Ireland	28.8
EU Peer Group	21.9	Austria	28.2
Belgium	21.7	EU Peer Group	27.8
Finland	18.0	Finland	27.6
Germany	16.2	Luxembourg	27.1
Netherlands	14.5	Netherlands	27.0
Luxembourg	10.5	Sweden	26.1
Ireland	9.6	France	23.4

Table 4 shows that Irish employer social insurance and payroll contributions are the lowest in our peer group - less than half the average rate. At the same time, Irish employees pay a higher effective tax rate than the peer group average. It is worth noting that Irish employees' tax rates are higher than 'high-tax' Sweden and France.

If the additional expenditure of the new PRB (using an additional €350 million as an example) was met by increases in employers' PRSI, it would raise Irish employers' contribution rate from 9.6 per cent in 2020 to 10.0 per cent. This is a fractional increase which would still leave Ireland at the bottom of the table and less than half our peer group average.

There are two considerations regarding additional PRB expenditure being met by employers' PRSI.

- First, employers would receive compensatory benefit through higher consumer spending - a function of automatic stabilisers.
- Second, were the increase to be phased in over a number of years, the annual increase could be as low as 0.1 percentage point. It should be noted that between 2017 and 2020 the National Training Fund levy was increased by 0.1 percentage point annually¹¹ with little resistance from employers or negative macro-economic consequences.

- ★ **PROPOSAL:** The additional expenditure to fund the PRB should be met by increases in employers' PRSI, phased in over a number of years.

Impact Assessments

The Department of Social Protection should:

- ★ **Conduct a profile sample** of those who have become unemployed in recent years in order to assess duration of prior employment and gross pay levels. This would help in determining an optimal level of qualifying conditions and assess the impact of a two-tier qualifying system as outlined in the Strawman proposals.
- ★ **Undertake a fiscal impact assessment** of the (a) gross cost of introducing a PRB based on the Strawman proposals and alternative recommendations; and (b) the net cost of introducing a PRB; namely, the cost after income tax receipts and the economic activity generated by pay-related payments.

This would help ensure that the debate over the introduction of PRB is grounded in verifiable evidence.

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Liberty Hall
Dublin 1

Tel: 1800 747 881

E-mail: info@siptu.ie

www.siptu.ie

