



An Chomhairle Náisiúnta Eacnamaíoch agus Shóisialta
National Economic & Social Council

NESC's Future of the Irish Social Welfare System: A focus on financial sustainability

Presentation to the Pension Commission,
19 May 2021

Dr Anne-Marie McGauran

About NESC

- Advises Taoiseach on strategic policy issues in relation to sustainable economic, social & environmental policy
- Council members – business, trade union, farming, environmental, C&V, public service, independent
- Work programme determined following discussions between DoT/members/Secretariat
- Reports agreed by Council and approved by Government

About The Future of the Irish Social Welfare System

- 2018 – request from DEASP to look at PRSI
- Expanded to wider overview – but not in detail on pensions, due to work of other groups
- Nine background papers prepared
- 2019 - Working Group, representative of NESC pillars & relevant statutory bodies, chaired by Prof Tony McCashin
- November 2020 - report approved by Government & published
- Co-authored with Dr Helen Johnston

Report covers:

- Challenges to the welfare system
- Future direction of the welfare system, and four proposals for reform:
 1. Ensuring income adequacy and alleviating poverty
 2. Modernising family supports to reflect gender & care needs
 3. Supporting high participation
 4. Enhancing financial sustainability
- Implementation
- Epilogue on Covid-19

Financial challenges

- Increasing dependency ratios (currently)
- Longer life expectancy after retirement age
- Low PRSI rates – PRSI paid does not cover benefits workers are likely to receive
- Self-employed pay less; and ‘bogus’ self-employment and platform work a challenge
- New PRSI benefits without extra contributions
- Impact of rising cost of housing

Enhancing Financial Sustainability

Three sets of recommendations, based on fact that tax and PRSI jointly fund social welfare system

1) Increase funding

- Higher PRSI contributions in general, and in particular from self-employed; reduction in 'bogus' self-employment
- Tax and PRSI contributions on all forms of income
- More income from corporation taxes, REITs, etc
- More capital & property taxes; less exemptions from them
- Annual review of tax expenditures, yearly outline of impact on different income deciles; cap on these
- Consider multiple rates of income tax
- Increase rate and coverage of USC

Distribution of tax allowances at each income decile

	2002	2007	2012
Decile 1	1.1	0.3	0.4
Decile 2	1.1	0.7	1.3
Decile 3	1.8	1.4	2.1
Decile 4	2.4	1.9	2.6
Decile 5	3.1	2.5	3.4
Decile 6	4.0	3.6	4.7
Decile 7	5.5	5.1	6.8
Decile 8	8.1	8.0	9.7
Decile 9	12.6	13.7	15.7
Decile 10	60.2	62.8	53.1

2) Manage expenditure

- Consider pension age - but higher pension age of greater benefit to those who are better off, who live longer
- Benchmark benefits:
 - ❖ Linked to e.g. CPI, wages, a mix; or to life expectancy
 - ❖ Through an advisory group
- Restructure benefits, e.g. through:
 - ❖ Tapered means tested pension (as in Australia) - means-testing to exclude the affluent
 - ❖ Surtax on higher pensions (as in Canada)
 - ❖ Automatic Balancing System for social insurance pensions (as in Sweden)

3) Other 'external' actions

- Increase participation in labour force
 - ❖ Facilitate/incentivise employment of people of pension age
 - ❖ Address jobless households
 - ❖ Support immigration
 - ❖ Support higher fertility rates
- Change taxation of pension contributions & drawdown
- Second and third pillar pensions (suitably regulated)
- Pension Reserve Fund/ Rainy Day Fund
- Affordable housing for those dependent on welfare, and those on low incomes
- Regulation of international online work

Impact of Covid-19

- Significant swift change evident
- Self-employed treated same as employees (PUP, EIB)
- Greater recognition of atypical work
- Tapering in withdrawal of benefits
- Opens doors for greater focus on contributory link
- Increased State debt – OECD suggests carbon & consumption taxes, minimising tax avoidance by large companies, etc
- Changes narratives & expectations

Thank you

www.nesc.ie/publications

<https://www.nesc.ie/news-events/>