

Appendix 5 In-Work Benefits

Option A

- Job Seekers' Allowance (JA) to operate as it does at present – the days structure, income disregard and taper rate is retained and all persons exit JA if they work more than 3 days
- Persons without child dependents will see no change – they will exit the welfare system if they work more than 3 days
- Persons with child dependants and over 15 hours work (within 3 days) will remain within JA
- Persons with child dependants and with over 15 hour work spread over 4 or more days will qualify for a new In Work Benefit (IWB), as follows:
 - Payment is based on JA entitlements (same weekly rates for primary beneficiary, qualified adults and qualified children)
 - The means assessment for IWB will be identical to that in JA, i.e. on the basis of gross income less PRSI
 - Income disregard of €60 per week
 - **Additional disregard of €60 for the first child of lone parent (€120 total)**
 - **Income disregard for a lone parent increased by €45 for the second and each subsequent child**
 - Taper rate of 60%
 - Payment is condition on availability for full-time work and activation
- Job Seekers' Transition (JST) aligns with IWB in the same way as JA
- All claimants of Family Income Supplement (FIS) are transferred onto the new IWB payment

Response to Option A:

Please note that the following costings are based on administrative data records are subject to a margin of error and will require future updates.

A previous costing exercise for an advisory group to the Government produced a cost for the implementation of an in work benefits scheme in 2014. However, there have been a number of important changes that need to be considered in the construction of an in work benefits scheme as proposed above.

- There were approximately 44,000 thousand FIS recipients at the time of the previous costing. There are now approximately 55,700 FIS recipients.
- There have been a number of changes to the taxation and social protection parameters since the previous costing including an increase in FIS thresholds, introduction of the Back to Work Family Dividend, reductions in USC and reductions in PRSI for lower income earners.

- There have been changes to the earnings disregards and means test for the Jobseeker's Transitional Payment and these are no longer in sync with the Jobseeker's Allowance equivalents.
- There have been substantial changes to the one-parent family payment scheme including changes to the qualifying age of children. This has resulted in an increase in former one-parent family payment recipients claiming FIS.
- Incomes have risen, based on CSO data, and the national minimum wage has been increased from €8.65 to €9.15 per hour.
- There has been a substantial improvement in general labour market conditions with large increases in the numbers in employment coupled with a shift from part time to full time employment.

Table 1 below shows the overall cost of the IWB scheme as costed back in 2014 and the updated cost based on the current FIS recipient numbers in January 2016.

Based on current FIS recipient data (excludes new FIS recipients in 2016), the annual cost of FIS is expected to be in the region of €395,380,232 in 2016. Therefore, the cost of the IWB scheme as per Table 1 is estimated to be €346,629,729 which would be over €30m less than the current cost of FIS.

However, Table 1 does not take the potential inflow costs into account. The inflow costs would arise as more recipients would qualify for IWB due to the lower hours threshold (reduced from 19 hours under FIS to 15 hours under IWB) and due to a larger number of one and two child couple recipients qualifying on foot of the IWB income thresholds for these cohorts being higher than the equivalent FIS thresholds.

Behavioural changes may induce further inflows, which have not been factored into the below costings. These may include changes in labour supply and work patterns as well as changes in behaviour of existing social welfare recipients.

The Department of Social Protection is currently waiting on data from the CSO and the Revenue Commissioners, which is required to estimate the number of inflows and the cost associated with them qualifying for IWB. In the absence of this data the Department is currently not in a position to provide updated costings for these elements (**B and C**) contained in Table 1.

Table 1: 2016 IWB Cost vs 2014 IWB Cost

	Cost Elements	Previous Costing 2014	Updated Costing 2016
A	Cost of IWB for advisory group in 2014	€270,072,172	€364,629,279
B	Cost of additional recipients working 15-19 hours	€15,903,576	<i>not costed</i>
C	Cost of additional recipient couples with 1 and 2	€18,164,135	<i>not costed</i>

children		
Total Cost	€304,139,883	€364,629,279*

* This is the cost of existing recipients moving onto the IWB scheme; outflows are included but inflows are not

Gainers and Losers

Tables 2 and 3 below display the results of replacing FIS with IWB. These Tables provide a breakdown of the number of gainers/losers by household composition and the average change in weekly payment by household composition.

Table 2: IWB Gainers/Losers by Household Composition

Household Composition	Lose	Gain	Total
Couple	13,548	16,337	29,885
1 child		4,895	4,895
2 children		10,089	10,089
3 children	7,219	1,353	8,572
4 children	4,394		4,394
5 children	1,373		1,373
6 children	381		381
7 children	123		123
8 children	58		58
Single	25,794		25,794
1 child	13,891		13,891
2 children	7,992		7,992
3 children	2,799		2,799
4 children	793		793
5 children	238		238
6 children	59		59
7 children	16		16
8 children	6		6
Total	39,342	16,337	55,679

Table 2 shows that changing from FIS to IWB will result in gains for couples with between 1 and 3 children but losses for large families and all lone parents. Overall, of the 55,679 FIS recipients, it is estimated that 39,342 would lose financially on foot of the switch to IWB.

Table 3: IWB Average Weekly Payment Change by Household Composition

Household Composition	Number	Average	Average	IWB minus
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		FIS	IWB	FIS
Couple	29,885	€136	€138	€3
1 child	4,895	€89	€148	€59
2 children	10,089	€110	€137	€26
3 children	8,572	€137	€131	-€6
4 children	4,394	€183	€134	-€48
5 children	1,373	€240	€147	-€93
6 children	381	€319	€190	-€129
7 children	123	€408	€226	-€182
8 children	58	€430	€216	-€214
Single	25,794	€138	€112	-€26
1 child	13,891	€113	€91	-€22
2 children	7,992	€149	€123	-€26
3 children	2,799	€182	€150	-€32
4 children	793	€226	€175	-€51
5 children	238	€281	€209	-€72
6 children	59	€325	€237	-€88
7 children	16	€443	€309	-€134
8 children	6	€403	€280	-€123
Total	55,679	€137	€126	-€11

Note: Figures are rounded to the nearest Euro in all instances which accounts for apparent discrepancies

Table 3 shows that couples with 1 and 2 children gain each week under an IWB system when compared with FIS. Lone parents lose in all instances and on average, couples with 3 or more children also lose.

Please note that in relation to the data contained in Table 3 this relates to average payments under both FIS and IWB. The actual gains and losses vary considerably depending on individual circumstances in particular earnings from employment.

Note: The costings above do not take into account administrative costs, including system development costs, associated with the introduction and implementation of a new IWB scheme.

Option B

- Same as Option A except that:
 - o The weekly income disregard for a married couple would be increased by €45 for the fourth and each subsequent child

Response to Option B:

Table 4 below analyses the difference for couples with larger families when increased disregards are applied as per option B in the costing request. The overall number of gainers/losers (as contained in Table 2) remains the same but the losses are reduced for couples with larger families.

Table 4: Average Change in Payments for Couples with Increased Disregards

Household Composition	Number	Average FIS	Average IWB	Revised IWB minus FIS
Couple	29,885	€136	€146	€10
1 child	4,895	€89	€148	€59
2 children	10,089	€110	€137	€26
3 children	8,572	€137	€131	-€6
4 children	4,394	€183	€160	-€23
5 children	1,373	€240	€198	-€42
6 children	381	€319	€266	-€54
7 children	123	€408	€327	-€81
8 children	58	€430	€345	-€85

The annual cost of IWB with these increased disregards is estimated at €376,644,350 (an additional €13 million when compared to the annual cost in Table 1 of €364,629,279). Again inflows have not been factored into this estimate so this cost would rise.

Option C

- Same as Option A except that:
 - o Existing beneficiaries of FIS are entitled to remain on FIS if it is of greater financial benefit (all new claimants would qualify only for the new IWB) – please estimate the additional costs over five years on the basis of stated assumptions regarding exit rates from FIS

Response to Option C:

In cases where it is more beneficial to do so existing FIS recipients remain on FIS (approximately 39,300 cases). However, the 16,337 gainers from the introduction of IWB move to IWB.

In these circumstances the total annual cost of both combined is **very tentatively** estimated to be €424,419,990 (approximately an additional €60m when compared to the annual cost in Table 1 of €364,629,279) for 2016.

This estimate only takes account of the existing FIS population and does not assess potential new claimants that may seek to claim IWB, which would increase the cost further.

It is currently not possible to provide an estimate that would factor in potential inflows into an IWB scheme and potential outflows from amongst the existing FIS population over a five year period.

Note: In addition to the (already mentioned) administrative costs associated with the introduction of a new IWB scheme, the adoption of the approach outlined in Option C would mean two parallel schemes being available for a large number of existing FIS recipients. This would introduce considerable additional administrative complexity and result in a lack of clarity and understanding of in-work supports for both claimants and departmental staff.