

Earnings-related benefits in Ireland: rationale, costs and work incentives

Budget Perspectives 2023

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Authors

Theano Kakoulidou

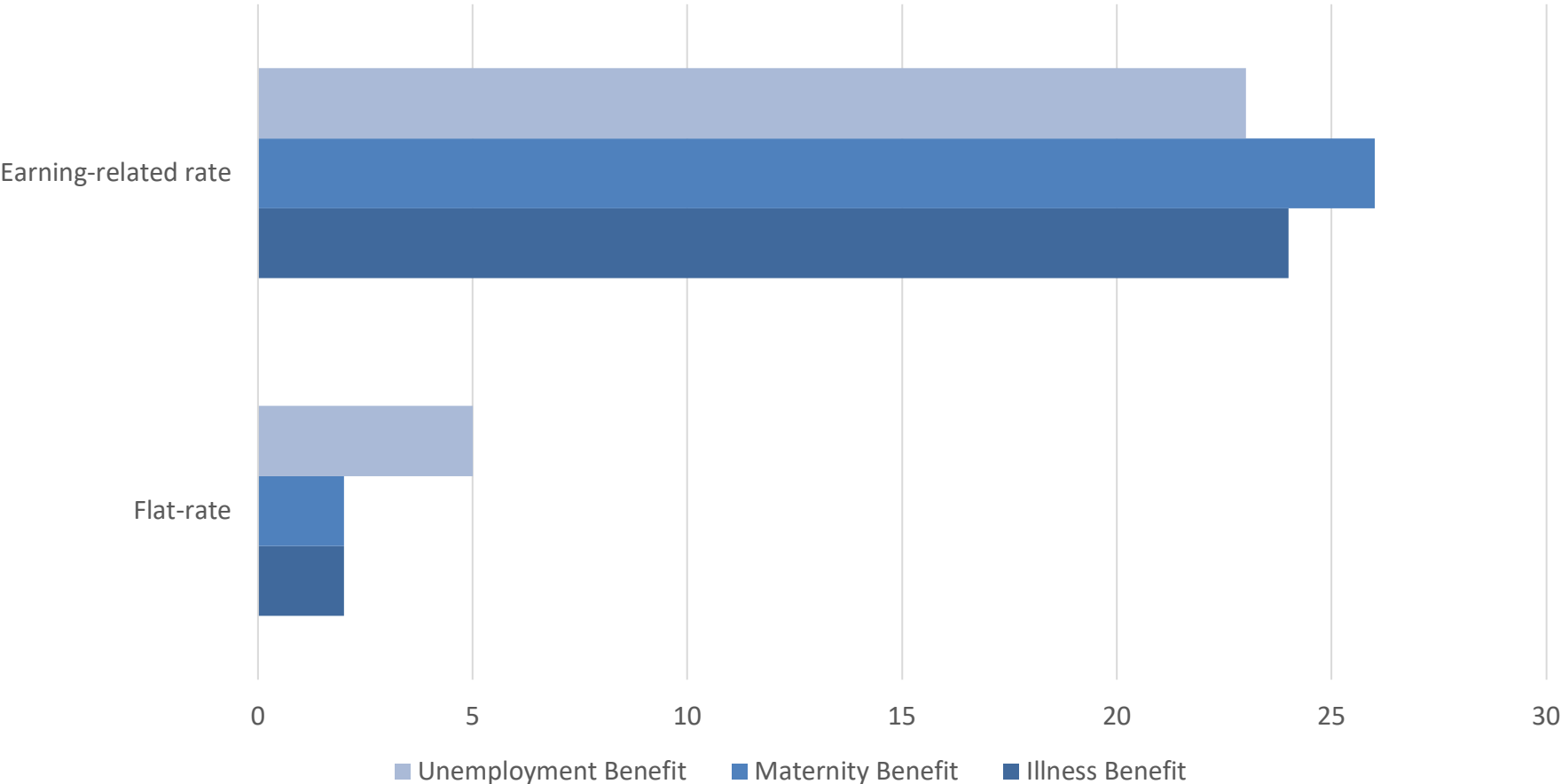
Michael Doolan

Barra Roantree



Flat-rate benefits an exception in EU & UK

Number of EU countries by type of benefit rates



Source: Missoc Comparative Tables
Notes: Author's calculations

Why earnings-related benefits?

- Provide higher cushioning during absences
- Higher payments for pandemic benefits
 - Pandemic Unemployment Payment (PUP)
 - Enhanced Illness Benefit

But

- Worsen financial incentives to work
- Advantage insiders versus outsiders
- Increased spending

Earnings-related benefit for absences from work

Illness benefit

- Relevant public spending in IE only half of EU
- Low benefit rates linked with relapses and work accidents
- Public health externalities

Maternity Benefit

- Income replacement during maternity
IE: 35% - EU: 82%
- Promotes gender equality

Earnings-related benefit for unemployment

- Share of income in unemployment (EU): 60% - 70%
- Greater cushioning during unemployment spell
- Avoid labour market mismatch

But also

- Higher earners likely to have savings
- Weaker financial incentives to work
- Increased cost

What we do...

- Take all employed individuals
- Run simulation
 - All employed become unemployed and eligible for JB
- Do this for baseline and 10 reform scenarios
 - Will only discuss two reforms today
- Compare baseline results to reform scenarios

Scenarios

Name	Reform
'PUP'	60% of previous earnings – maximum caps based on PUP rates

'Mean earnings'

60% of previous earnings – maximum cap set at 60% of mean weekly earnings (cap of €460/week)

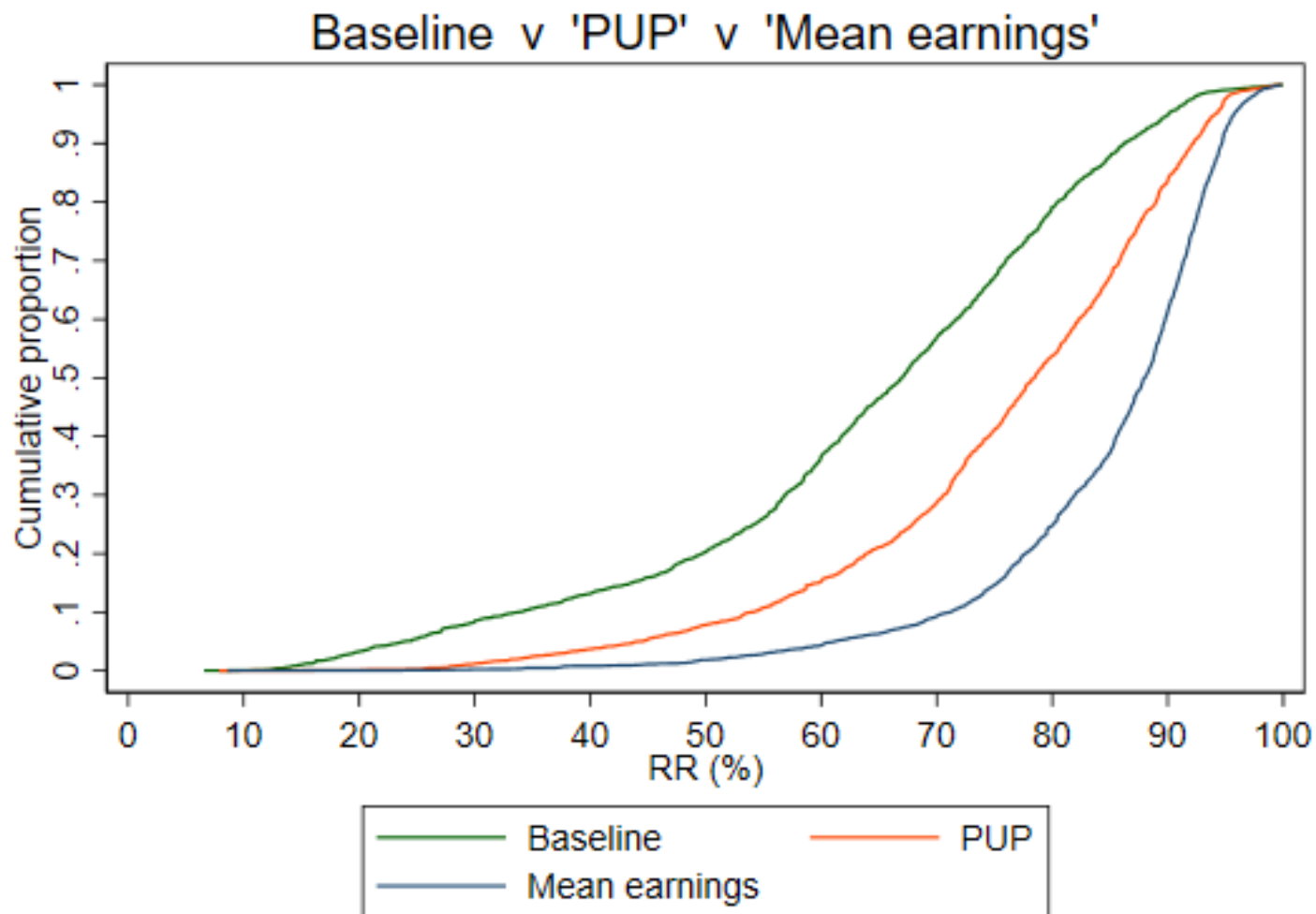
Replacement rates

- Analyse replacement rates to investigate effect of reforms

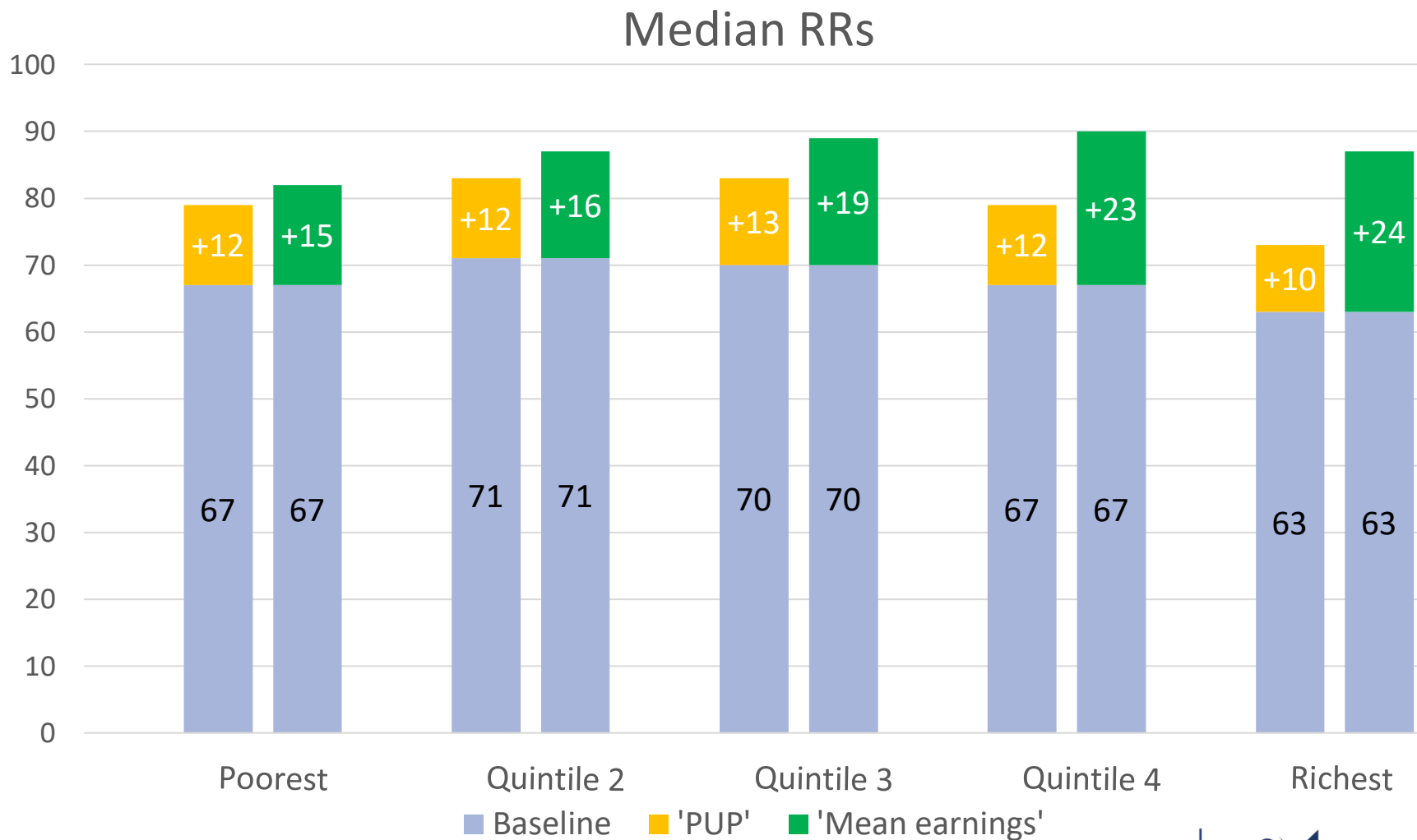
$$RR = \frac{\textit{net income out of work}}{\textit{net income in work}}$$

- Higher RR means:
 - Greater cushioning effect of reform
 - Lower incentive to work

Greater protection provided by reforms...

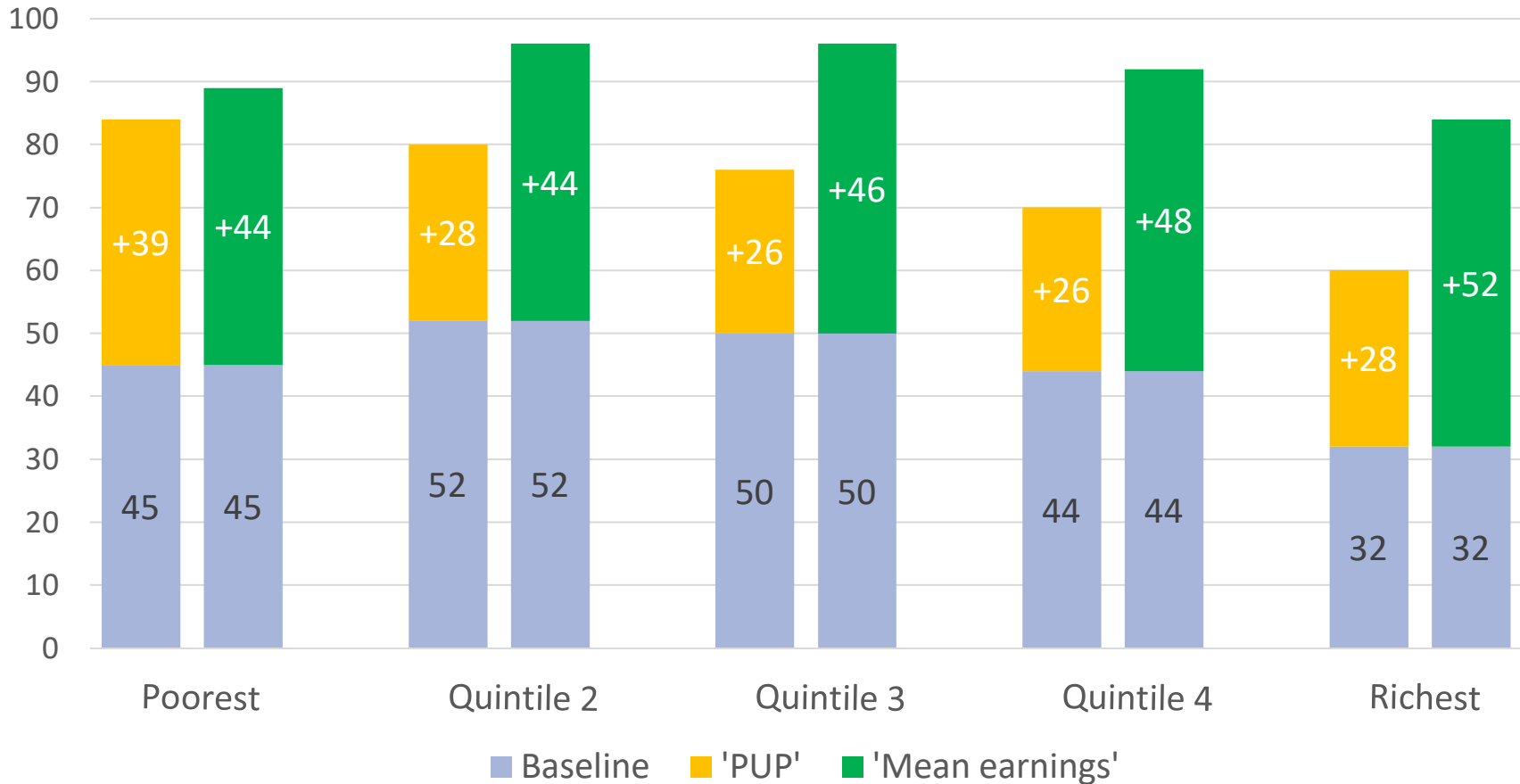


'PUP' cushioning more equitable than 'Mean earnings'...



'Mean earnings' has more perverse work incentive effects..

Share with RR > 70%



Summary

Name	Reform	Median RR (%)	Share with RR > 70% (%)	Additional Spending (€)
Baseline	Baseline	67	43	-
'PUP'	RR: 60% Cap: PUP	78	71	278m
'Mean earnings'	RR: 60% Cap: 60% mean earnings	88	91	588m

In conclusion...

- Coherent economic case for earnings-related JB
 - Short-term cushion
 - Automatic stabilisers
- However, must weight up against:
 - Fiscal cost
 - Perverse work incentives effects
 - Inequitable distribution of gains
- Lower maximum caps ensure more equitable distribution of cushioning effect
- Time limiting of payments reduces issue of weakened incentive to work
- Case for Maternity Benefit & Illness Benefit
- Could potentially finance through PRSI increase

Any
Questions