

# The impact of Irish budgetary policy by disability status

## Budget Perspectives 2023

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# Introduction

- Strong culture of distributional impact assessment in Ireland
  - “Poverty proofing” since 1997
  - Social & Poverty Impact Assessment framework for budgetary cycles
- SWITCH tax-benefit model
  - a partnership between ESRI & government departments
- Equality budgeting
  - Gender budgeting (Doorley et al., 2018, funded by PBO)

# Importance of disability budgeting

- Equality budgeting by disability status
- Disability is associated with higher risk of poverty and decreased standard of living (Gannon, 2005; Cullinan et al., 2011)
- Working-age disability relatively constant over time
  - 15% in 2004 to 13% in 2019 (Kelly & Maitre, 2021)
- Important as no in-built indexation rules in Irish tax and welfare policy

# Trends in disability-related welfare payments

- In line with international trends, Disability Allowance caseload has risen dramatically
  - 89,000 recipients in 2007, 147,000 by 2019
- 3<sup>rd</sup> largest social welfare payment by expenditure in 2019: €1.7 billion
  - 1<sup>st</sup>=State contributory pension (€5.6bn), 2<sup>nd</sup>=Child Benefit (€2.1bn)
- Callaghan (2017): 40% of rise in Disability Allowance growth 2012 – 2016 attributable to:
  - Population growth
  - Illness Benefit becoming a fixed-duration scheme in 2009

# Defining disability

- Medical model: classifies individuals with disabilities as having an impairment which precludes them from mainstream social activities
- Social model: societal barriers as a limiting factor rather than the medical diagnosis
- Definition, based on available data
  1. Based on labour force status- “Disabled or/and unfit to work”
  2. In receipt of disability-related social welfare payments
    - Disability Allowance, Invalidity Pension or Illness Benefit
- Better measurement of working-age disability

# Rates of payment 2007 - 2019

- Working-age social welfare payments cut during the austerity period
  - Increased by €5 in Budget 2017, 2018 and 2019
- Disability Allowance matched Jobseeker's Allowance rates throughout 2007-2019
  - does not foster disproportionately weak financial incentives to work
- Earned income is also tapered less aggressively under Disability Allowance than Jobseeker's Allowance

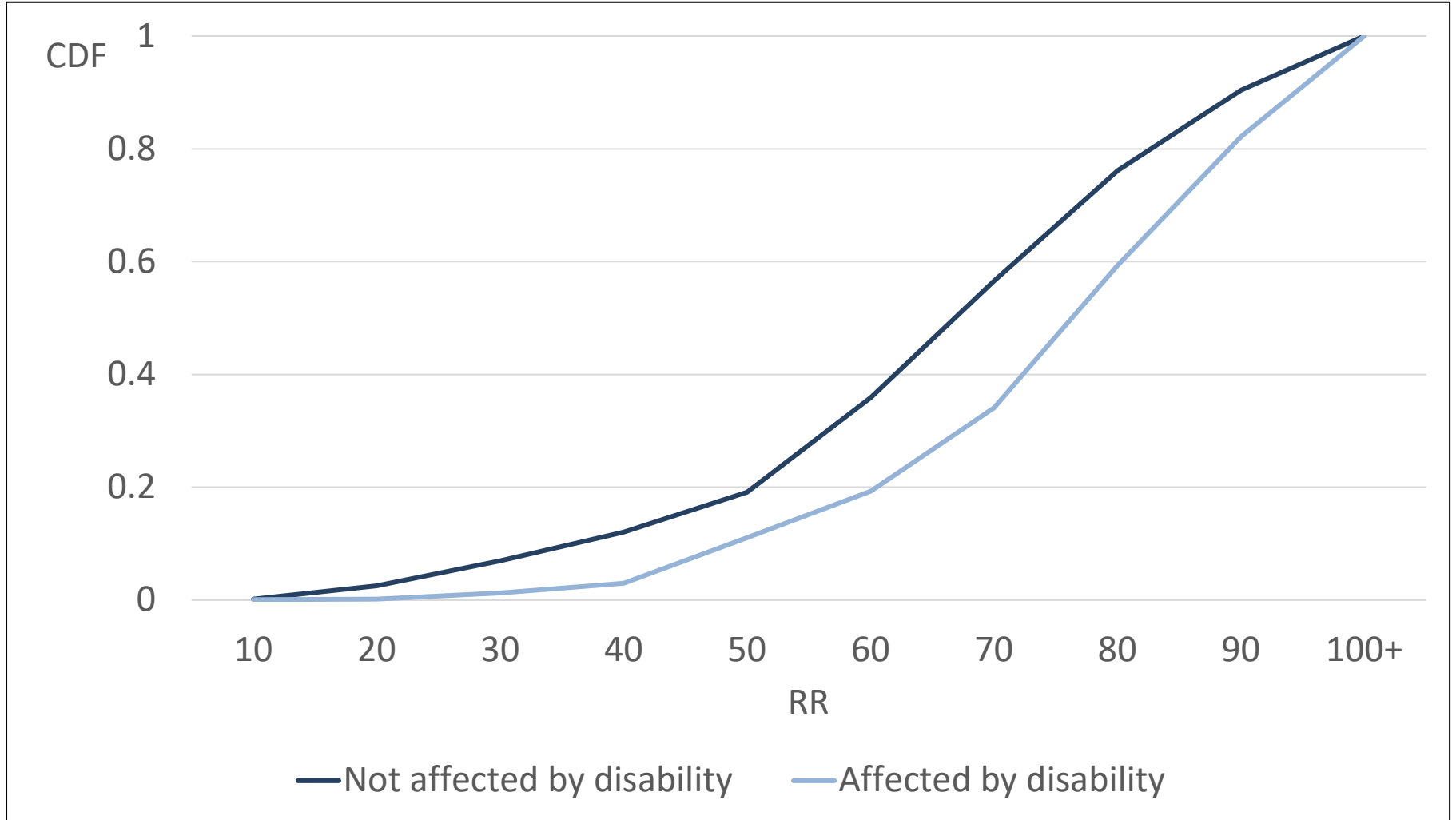
# Financial incentives to be in full-time employment

# Replacement rate analysis

- SWITCH microsimulation model
- 2019 Irish SILC RMF and 2019 tax-benefit system
- Replacement rate:
  - Ratio of out-of-work income to in-work income
  - Higher -> weaker incentive to be in-work
- Caveat:
  - Assume individuals out of work join labour market at the minimum wage



# People with a disability have higher replacement rates



# A profile of individuals and households affected by disability

## People with a disability still work and earn less than those without a disability

	Not affected by disability			Affected by disability		
	2007	2019	Change %	2007	2019	Change %
<b>No. individuals (000's)</b>	3,709	4,029	<b>9</b>	635	935	<b>47</b>
<b>Average age</b>	50.7	48.5	<b>-4</b>	41.9	46.3	<b>11</b>
<b>Employed (16-65)</b>	78.8	83.9	<b>7</b>	41.8	42.8	<b>2</b>
<b>Unemployed (16-65)</b>	4.3	4.0	<b>-7</b>	3.9	3.7	<b>-7</b>
<b>Inactive (16-65)</b>	13.6	9.6	<b>-29</b>	50.4	50.2	<b>0</b>
<b>Average weekly hours worked, in-work</b>	37.0	35.5	<b>-4</b>	34.0	34.7	<b>2</b>
<b>Average hourly wage, in-work</b>	18.7	25.7	<b>37</b>	14.3	21.6	<b>51</b>

*Authors' calculations using EUROMOD linked to EU-SILC data for 2007 and 2019.*

## Market income has grown faster for households affected by disability, partly due to increased work by household members

	Not affected by disability			Affected by disability		
	2007	2019	Change %	2007	2019	Change %
<b>No. of households</b>	1779	2083	<b>17</b>	301	400	<b>33</b>
<b>Average no. household members</b>	3.0	2.7	<b>-9</b>	2.9	3.2	<b>11</b>
<b>Average no. children</b>	0.8	0.8	<b>-10</b>	0.7	0.8	<b>12</b>
<b>Average no. workers</b>	1.3	1.3	<b>-3</b>	1.0	1.2	<b>19</b>
<b>Average weekly hours worked by hh</b>	48.8	46.5	<b>-5</b>	35.6	43.4	<b>22</b>
<b>Average hourly wage in hh</b>	15.4	22.4	<b>45</b>	14.1	21.3	<b>51</b>
<b>Average market income</b>	3942	4633	<b>18</b>	2320	3393	<b>46</b>
<b>Average disposable income</b>	3811	3995	<b>5</b>	3276	3970	<b>21</b>

*Authors' calculations using EUROMOD linked to EU-SILC data for 2007 and 2019.*

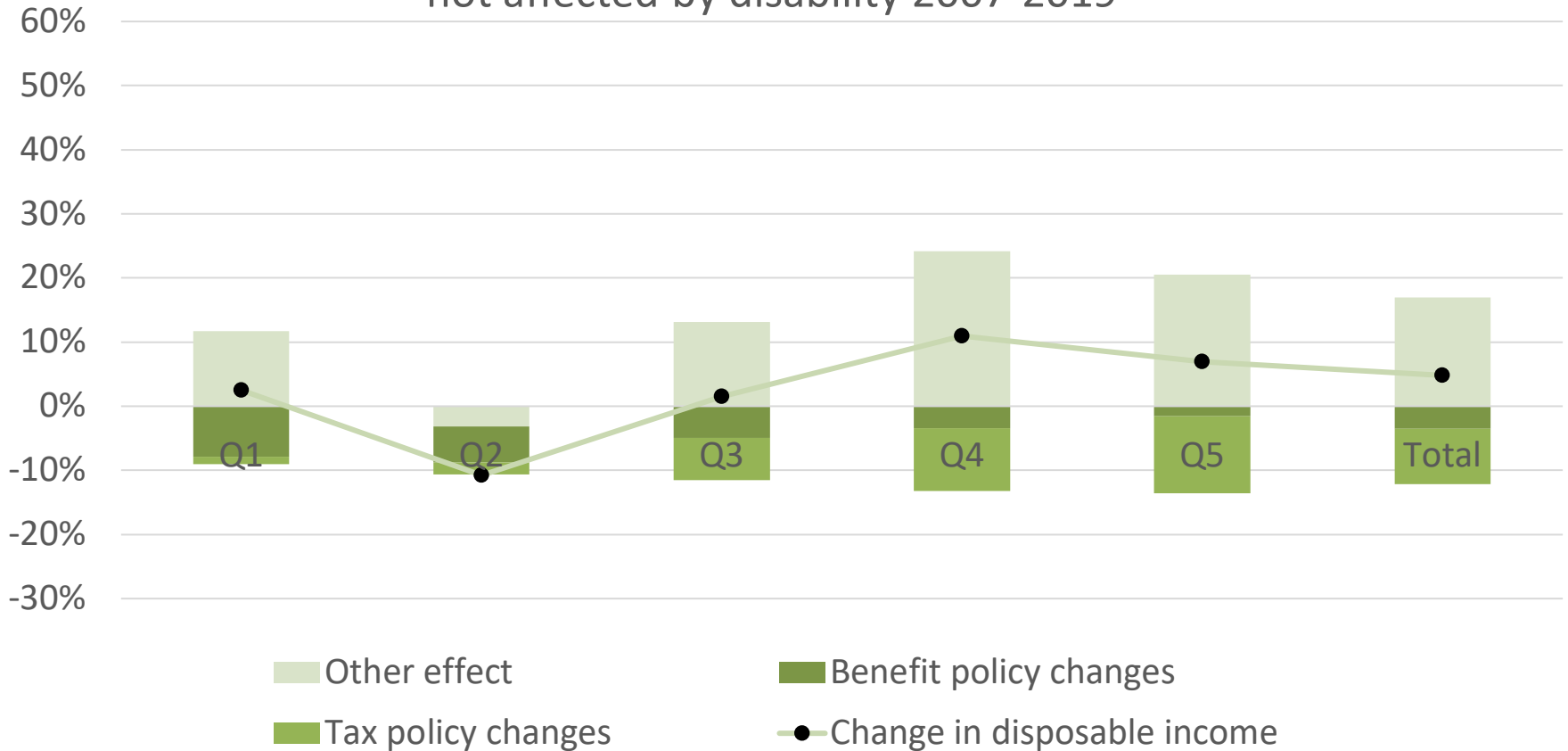
# Equality budgeting

# Method

- Estimate three income distributions using EUROMOD, the harmonised EU tax-benefit model
  - 2007, 2019
  - counterfactual 2019 if redistribution was same as 2007
- Disposable income changes 2007-19 separated into
  - Earnings changes (pre-tax and transfer)
  - Tax and welfare policy changes (compared to indexed policy)

# Disposable income of households not affected by disability grew less than market income due to tax and welfare policy

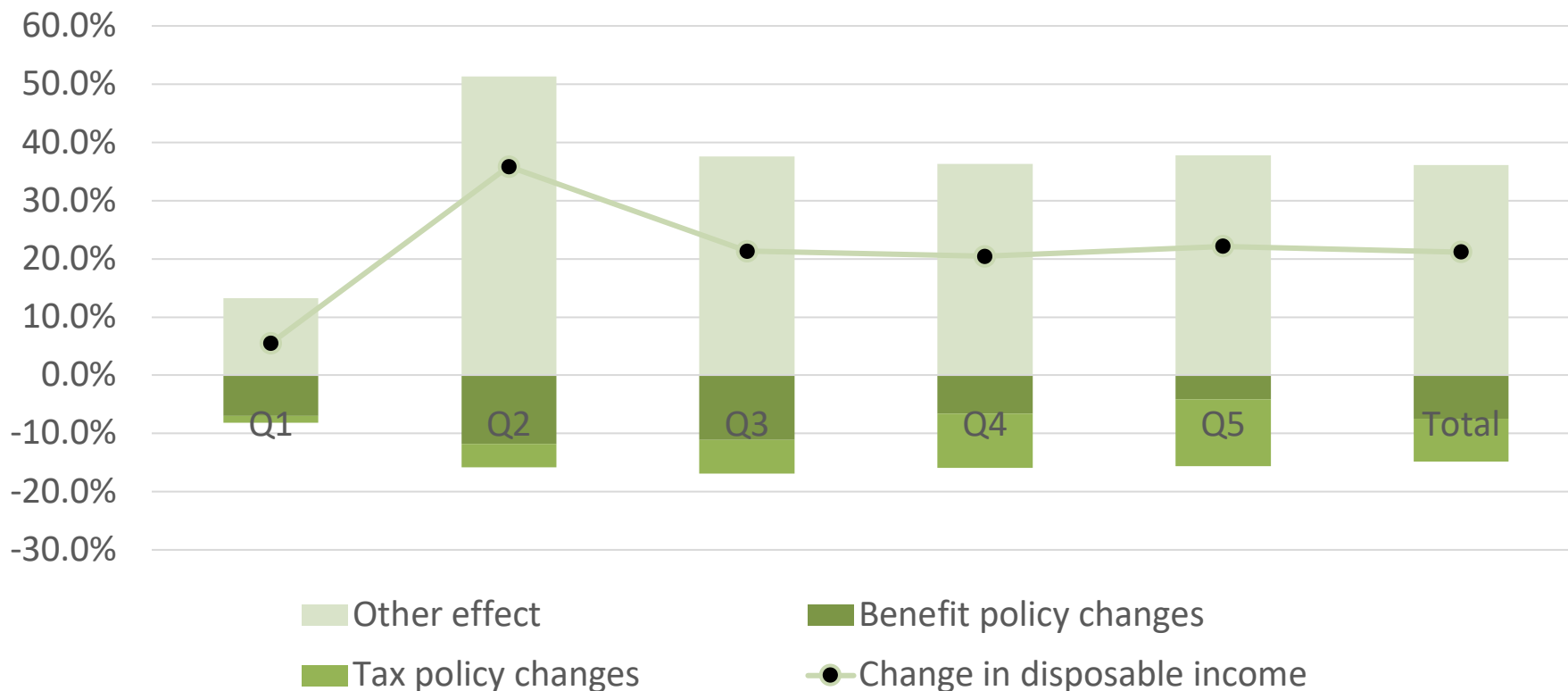
## Components of the change in disposable income for households not affected by disability 2007-2019



*Authors' calculations using EUROMOD linked to EU-SILC data.*

# Households affected by disability experienced higher income growth but were more negatively affected by welfare policy

## Components of the change in disposable income for households affected by disability 2007-2019



*Authors' calculations using EUROMOD linked to EU-SILC data.*



# Discussion

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- The number of people and households affected by disability has grown by up to one-half since 2007
- The average wage of workers with a disability has grown but lags that of workers without a disability
- Members of households affected by disability worked more in 2019 than in 2007
  - Households affected by disability have experienced faster earnings growth than others

## Discussion

- Households affected by disability are more reliant on welfare payments
- Cuts/freezes to payments affect them more, particularly given their higher cost of living.
- Future attempts to equality-proof budgetary policy should consider that welfare changes disproportionately affect households with disabilities
  - role for SWITCH model