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ABBREVIATIONS

EU	European Union
GDP	Gross domestic product
GNI*	Modified gross national income
JA	Jobseeker's Allowance
JB	Jobseeker's Benefit
OECD	Organisation for Economic Co-operation and Development
PRSI	Pay-related social insurance
PTR	Participation tax rate
PUP	Pandemic Unemployment Payment
RR	Replacement rate
SILC	Survey on Income and Living Conditions
SWITCH	Simulating Welfare, Income Tax, Childcare and Health policies

ABSTRACT

Ireland is an outlier among EU countries as it does not have a strong link between previous earnings and the level of payment provided to those who have recently lost their job or are on leave from work for the short- to medium-term for reasons of illness or maternity. This paper provides a historical background for earnings-related benefits in Ireland, outlines the rationale behind linking benefits with previous earnings and examines the potential impact of (re)instating them.

SECTION 1

Introduction

The Irish Government responded to the COVID-19 pandemic by expanding the coverage and scale of social protection payments for those who lost their job (Doorley et al., 2020). This experience has given rise to a discussion about the adequacy and future of the social welfare system in Ireland (e.g. NESC, 2020; Keane et al., 2021), with some prominent proposals for a strengthening of the link between earnings and social welfare payments (e.g. ICTU, 2021; MacFlynn, 2021). Indeed, the current Programme for Government commits to the consideration of a more earnings-related benefit for those recently unemployed,[1] with such reform endorsed by the Minister for Social Protection Heather Humphreys, among others.[2]

Ireland is one of the few countries in the European Union (EU) without a strong link between the level of payment provided to those who have lost their job and the level of earnings in that job, at least for an initial period.[3] It is also an EU outlier in respect of payments for short- to medium-term absences from work for reasons of illness or maternity (see Table A.2), which, similarly, are currently largely unrelated to previous level of earnings. However, this was not always the case, with a system of earnings-related benefit for the purposes of unemployment, disability, injury and maternity existing throughout the 1980s.

This paper examines the potential impact of (re)instating a system of earnings-related benefit. Section 2 provides an overview of the historical background to earnings-related benefits and their rationale. Section 3 assesses the potential cost and beneficiaries of strengthening the link between Jobseeker's Benefit – payable to those who have lost their job for a period of up to nine months– and previous earnings. Section 4 concludes with the key implications for policy.

1 See p. 74 of https://www.gov.ie/en/publication/7e05d-programme-for-government-our-shared-future/.
2 See https://www.independent.ie/irish-news/jobseekers-benefit-to-be-linked-to-previous-pay-among-welfare-reforms-revealed-by-minister-41193922.html.
3 See Table A.1 in the appendix.

SECTION 2
Background and rationale

This section provides an overview of the historical background of earnings-related benefits in Ireland, and a discussion of their rationale.

2.1 HISTORICAL BACKGROUND

The Irish social welfare system, based partly on that inherited from Britain, developed in an uneven, fragmented manner. The Department of Social Welfare was established in 1947, taking charge of a disparate system which covered unemployment and national health insurance (which was relatively unchanged from that introduced by Lloyd George's system of national insurance in 1911), old-age pensions, children's allowances, and 'home assistance' (which had its origins in the locally operated Poor Laws).[4]

Under the 1952 Social Welfare Act, unemployment and national health insurance were consolidated and expanded to male employees working in agriculture and private domestic service. The sickness and disablement benefits that constituted part of national health insurance were replaced with a new disability benefit. Contribution conditions were amended, breaking the link between the number of contributions paid and duration of benefit entitlement.

The 1973 Social Welfare (Pay-Related Benefit) Act introduced for the first time an earnings-related component to unemployment and disability benefit. Existing flat-rate payments were supplemented with an earnings-related component largely funded through additional earnings-related contributions above a certain level of earnings.

The move towards earnings-related contributions was cemented with the introduction of pay-related social insurance (PRSI) in 1979. The flat-rate contribution and the three per cent pay-related contribution were replaced by a system based entirely on earnings-related contributions. The new system was more progressive in its nature, with the percentage rate meaning that contributions would now automatically increase when the average level of earnings rose, which had not previously been the case with flat-rate payments. Standard rates for different 'classes' of workers were introduced and the

4 Home assistance was replaced by a scheme called Supplementary Welfare Allowance in 1975. Removing stigma associated with home assistance payments was the main motivation given for this reform, with Frank Cluskey – then Parliamentary Secretary to the Minister for Social Welfare – describing home assistance payments as the legal embodiment of 'harsh and unfeeling attitudes' which had no place in the society of 20th century Ireland (Dáil Reports, 1975).

previously existing differentials between men and women and between agricultural workers and other workers both eliminated. PRSI was partially extended to the self-employed in 1988, and to civil servants, members of An Garda Síochána, registered doctors and dentists in 1995.

It was only in 1981 that a maternity allowance scheme was introduced. This pay-related maternity allowance, limited to women in full-time paid employment, entitled eligible mothers to paid maternity leave and the right to return to work with the same employer after childbirth. Statutory maternity leave lasted for a period of 14 weeks. Payments amounted to 80 per cent of earnings, calculated using the same earnings base as that used for earnings-related benefit, with minimum payments made to those with sufficiently low earnings. A 12-week maternity allowance without the right to return to work with the same employer, dating from 1952, continued to apply to women who did not meet the conditions of the new scheme (OECD, 2022a).

Following a recommendation of the Commission on Social Welfare (1986), earnings-related benefits for unemployment, disability and maternity were phased out over the late 1980s and 1990s. While agreeing there was a case for such earnings-related benefits to 'offer a short-term cushion to recipients to allow an adjustment to a lower level of income', the Commission argued that this was better provided through an enhanced system of (means-tested) social assistance payments available to all, regardless of previous employment history.

We now turn to look at the current structure of unemployment, disability and maternity benefits, in each case assessing the merits of strengthening the link with previous earnings.

2.2 RATIONALE FOR EARNINGS-RELATED BENEFITS

2.2.1 Unemployment

The typical rationale given for unemployment payments being related to earnings or pay is that provided by the Commission on Social Welfare cited above: to 'offer a short-term cushion to recipients to allow an adjustment to a lower level of income'. Earnings-related payments do this by providing a level of payment linked to earnings, and thereby a higher replacement rate (RR) than flat-rate payments for higher earnings (though this is typically subject to a cap). Underpinning this rationale is a concern that such households may have larger outgoings (e.g. a mortgage) for which – since the abolition of mortgage interest support for new claimants in 2014 – no support is provided through the welfare system.[5] From a

5 See https://www.independent.ie/irish-news/jobseekers-benefit-to-be-linked-to-previous-pay-among-welfare-reforms-revealed-by-minister-41193922.html.

macroeconomic perspective, higher RRs might also enhance the role of automatic stabilisers, allowing aggregate shocks to be smoothed to a greater extent (Stovicek and Turrini, 2012). There is empirical evidence to support such arguments. Gruber (1994a), for example, find that a 10 percentage points increase in the unemployment insurance RR in the United States could lead to a 2.7 per cent lower fall in consumption during the spell of unemployment, while Ganong and Noel (2019) find even larger consumption-smoothing gains from extending the duration of unemployment insurance. Another argument sometimes advanced by proponents is that earnings-related unemployment benefit can help reduce labour market mismatch. Marimon and Zilibotti (1999) raise the argument that in a labour market with search frictions, higher unemployment benefits tend to reduce job mismatch.

However, higher earners are more likely to have accumulated savings, which they may be able to draw on during a period of temporary unemployment (Lydon and McIndoe-Calder, 2021). Moreover, Haan and Prowse (2020) point to a three-way trade-off between moral hazard, insurance and redistribution in determining the optimal mix and generosity between unemployment insurance and social assistance payments. The moral hazard element of this trade-off arises because by replacing a higher level of in-work income, earnings-related unemployment benefit weakens the financial incentive to find or take up a new job.[6] Additionally, linking unemployment benefit to previous earnings disadvantages the so-called 'outsiders', e.g. women, young people and migrants (Esping-Andersen, 1996).

Cross-country evidence suggests that countries with higher RRs and longer benefit duration tend to have comparatively higher unemployment rates (e.g. Layard et al, 1991; Ljungqvist and Sargent, 2005; Eugster, 2015). Empirical analysis, however, has shown that the negative impact is mostly due to role of the duration of the benefit and not due to the RRs (Nickell, 1997). For this reason, unemployment benefit schemes with higher RRs tend to be limited in duration or involve escalating activation requirements (see Table A.1 in the appendix for a summary of such conditions across European Union (EU) countries).

Most newly unemployed individuals in Ireland are entitled to a payment called Jobseeker's Benefit (JB), conditional on meeting criteria related to previous PRSI contributions. The weekly main rate is €208, increased if the unemployed claimant has adult or child dependants. If the claimant was earning less than €300 per week when in work, a reduced rate of benefit is payable. The reduced rates range from €93.30 to €162.90 per week, depending on the claimant's previous earnings.[7] In

6 See, for example, Layard et al (1994), Nickell (1998), Krueger and Meyer (2002).

7 For further information. See https://www.gov.ie/en/service/1221b0-jobseekers-benefit/.

2019, 35,000 individuals received the JB with the annual spending amounting to €350 million.[8]

Those who do not qualify for or have exhausted their entitlement to JB can instead claim Jobseeker's Allowance (JA). This is a means-tested benefit with a two-tier flat rate payment, one for individuals above 25 years old (€208 per week) and one for those 18 to 24 years old (€117.70 per week), which can be increased in case of dependants.[9] The annual spending for the JA in 2019 was €1.6 billion for 124,000 recipients.[10]

Table A.1 in the appendix shows that whereas most EU countries provide significant income RRs during the first months of unemployment (e.g. ranging from 55 per cent in Austria to 90 per cent in Denmark, with most countries having around 60 per cent), Ireland does not do so.[11] In this sense, the structure of payments in Ireland is closer to that of the British than the continental European model, with a greater role for social assistance payments like JA than unemployment insurance payments like JB.

2.2.2 Illness

Sick pay leave and sick benefits aim at providing income continuity for workers during the period that they are unable to work. Most EU countries have some form of illness benefit schemes, in which the employer covers an initial period of sick leave in the form of sick pay. Following the initial period of illness, almost all countries provide publicly paid sickness benefits linked to earnings for up to a year (OECD, 2020).

The generosity of sick leave schemes is typically restricted for the same reasons as unemployment insurance: reducing moral hazard. However, given potential externalities from the transmission of communicable diseases in workplaces, the case for such restrictions would appear weaker than for unemployment benefits. Indeed, the COVID-19 pandemic saw sick leave policies across the OECD enhanced to permit workers to self-isolate and thus prevent the further spread of the virus (OECD, 2020).

In addition, the common design for sick leave benefits – with RRs low at the beginning, due to waiting periods, and increasing with the length of the illness – is the reverse of how optimal unemployment insurance is usually designed (Shavell

8 The 2019 SISWS file is available here: https://www.gov.ie/en/publication/02f594-annual-sws-statistical-information-report/.

9 For further information, see https://www.gov.ie/en/service/1306dc-jobseekers-allowance/.

10 The 2019 SISWS file is available here: https://www.gov.ie/en/publication/02f594-annual-sws-statistical-information-report/.

11 Differences in unemployment benefit schemes not only relate to the way the main rate is calculated but also to duration of the benefit, the eligibility criteria and the existence or not of increased rates for dependants.

and Weiss, 1979). Such practices are thought to increase the duration of existing sick pay leave; employees are disincentivised from returning to work if there is a possibility that they would need to take sick leave again, as they would not be compensated for the first days of their absence (Petterson-Lidbom and Thoursie, 2013; Pollak, 2017). At the same time, lower RRs are thought to incentivise shorter sick leaves (Ziebarth and Karlsson, 2014), though they may also be linked with an increase in relapses and work accidents (Marie and Vall Castello, 2022). Taken together, these facts suggest a stronger case for linking the level of Illness Benefit, rather than unemployment benefits, to earnings.

Illness Benefit is a flat-rate payment with similar structure with that of JB. The payment for a full-time employee is equal to €208 per week, higher if the employee has an adult or child dependant.[12] Before the COVID-19 pandemic, the first three days were classified as 'waiting days' that were not payable to claimants. The annual spending for Illness Benefit in 2019 was €600 million for 49,000 recipients.[13]

An enhanced Illness Benefit was introduced during the COVID-19 pandemic. The benefit was payable from the first day of infection or self-isolation due to probable infection and could be paid for up to ten weeks and seven days respectively. The main rate of the payment is €350 per week, with increases depending on the dependants of the beneficiary.[14] Between its introduction and 8 February 2022 (latest available information), almost 390,000 individuals claimed it, amounting to €236 million in spending.

A new mandatory sick leave and pay policy was introduced in 2022. Under this new scheme, employees are guaranteed three sick days per year for the years 2022 and 2023, increased to five days in 2024, seven days in 2025 and ten days in 2026 and onwards. The rate of payment for statutory sick leave is set at 70 per cent of an employee's wage (with a maximum daily wage of €110), paid by employers.[15] After exhausting their paid sick days, an employee can apply for the pre-existing Illness Benefit.

Ireland's new sick pay policy is in line with most EU countries.[16] However, regarding its sickness policy for absences due to illness that lasts more than ten days but less than a year, the country is somewhat of an outlier. In such cases, most EU countries have benefits that are linked with the employee's previous income. Ireland's

12 For further information, see https://www.citizensinformation.ie/en/social_welfare/social_welfare_payments/disability_and_illness/disability_benefit.html.

13 See https://www.gov.ie/en/publication/02f594-annual-sws-statistical-information-report/.

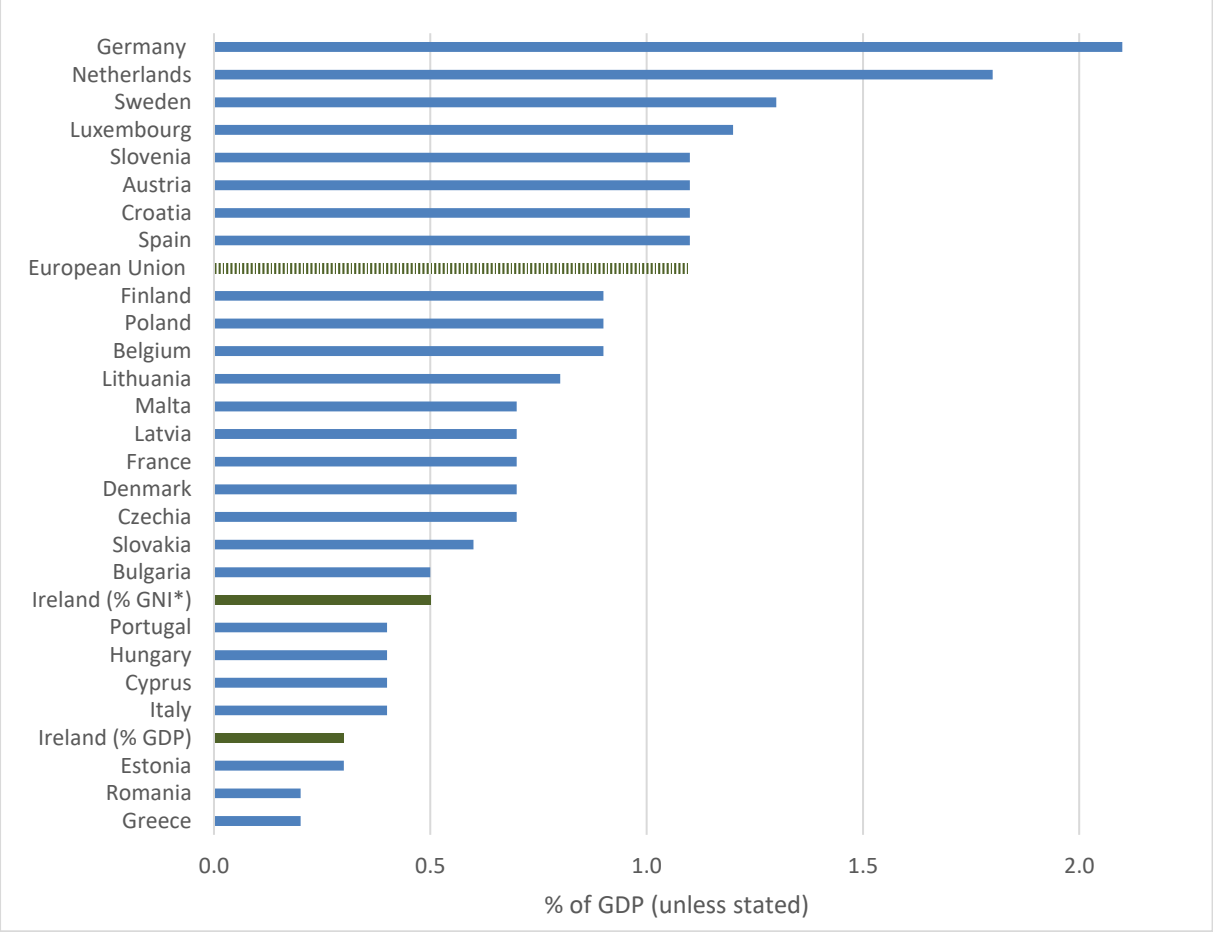
14 The scheme is set to expire by the end of June 2022. For further information, see https://www.gov.ie/en/service/df55ae-how-to-apply-for-illness-benefit-for-covid-19-absences/#rate-of-payment.

15 For further information. see https://www.gov.ie/en/press-release/fee76-tanaiste-announces-details-of-statutory-sick-pay-scheme/.

16 For more information about illness benefits in the EU, see Table A.2 in the appendix.

outlier status is also highlighted by the comparatively low spending in this area shown in Figure 2.1. Only 0.5 per cent of Ireland's modified general national income (GNI*) is spent on this scheme, less than half of the EU average (1.1 per cent of GDP).

FIGURE 2.1 PUBLIC SPENDING IN PAID SICK LEAVE BENEFIT AS A SHARE OF ECONOMIC ACTIVITY, 2019

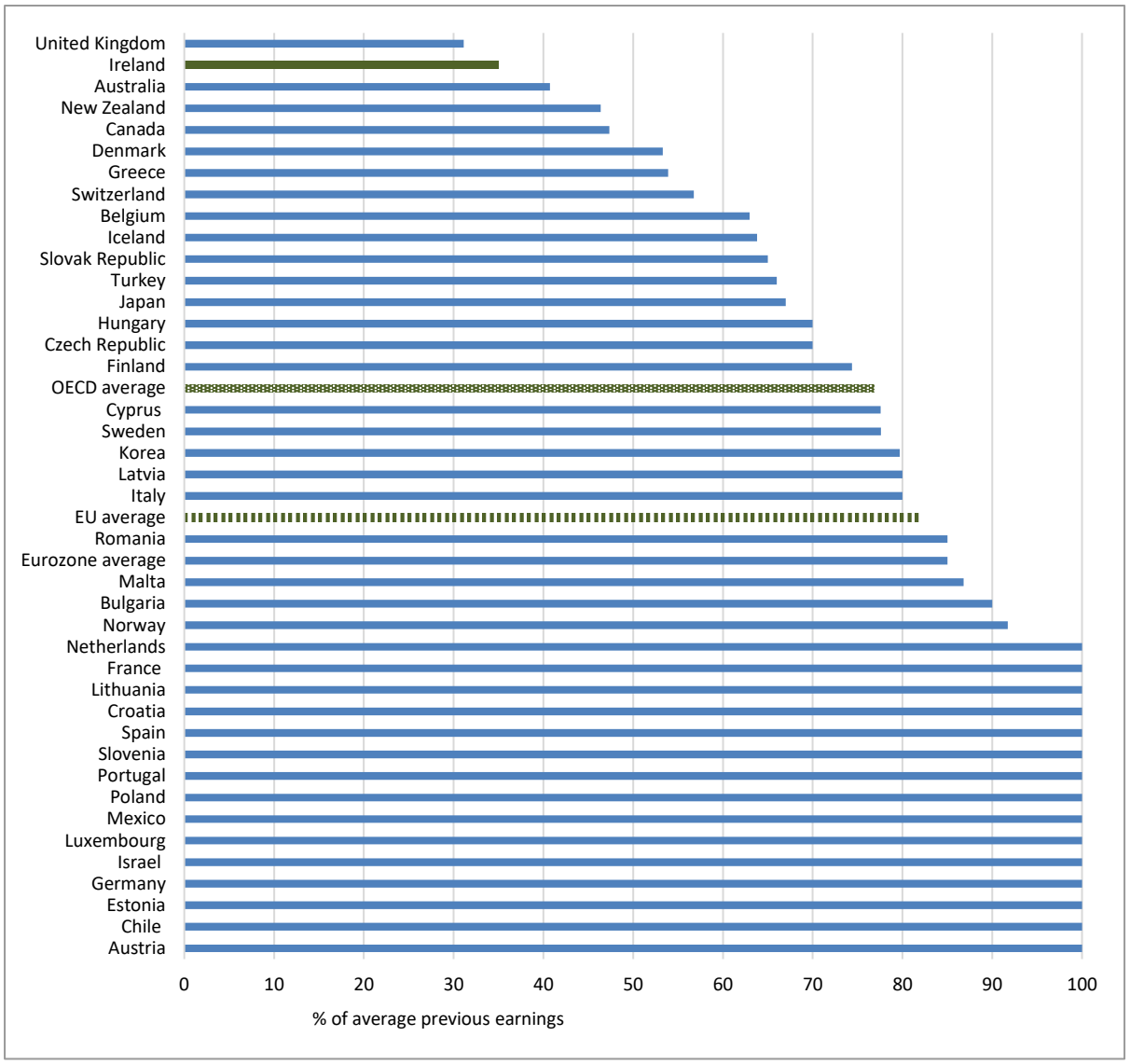


Source: Eurostat ESSPROS Expenditure (Eurostat, 2022).
Notes: Ireland (per cent of GNI*) figure calculated by authors.

2.2.3 Maternity

The main argument for the existence of paid maternity leave is that it provides a period for the mother to fully recover from giving birth and to bond with her new-born, without undermining her employment security (Baker and Milligan, 2008). Additionally, such policies address important societal goals like increasing gender equality and parental investment in children, while at the same time encouraging higher levels of overall fertility (Dahl et al, 2016).

FIGURE 2.2 MATERNITY BENEFIT AS A SHARE OF AVERAGE EARNINGS, 2014



Source: OECD Family Database (OECD, 2022b)

Maternity Benefit in Ireland is a payment made to employed women who are on maternity leave and fulfil certain contribution criteria. The payment is a flat rate of €250 per week. In case of dependants, the rate is compared to Illness Benefit, which includes increases for dependants, and the higher amount of the two is paid. If an employer pays their employee in full during maternity leave, then Maternity Benefit is paid directly to the employer.[17] Annual spending for Maternity Benefit in 2019 was €270 million for 49,000 recipients.[18]

As with Illness Benefit, in most EU countries Maternity Benefit is linked with an employee's earnings (for more details, see Table A.3 in the appendix). Only two countries have a flat rate: Ireland and Malta. Figure 2.2 shows that Ireland has the

17 For further information, see https://www.gov.ie/en/service/apply-for-maternity-benefit/.

18 The 2019 SISWS file is available here: https://www.gov.ie/en/publication/02f594-annual-sws-statistical-information-report/.

second lowest RRs among all OECD countries, standing at 35 per cent of average earnings, compared to 76.8 per cent for the OECD and 81.9 per cent for the EU on average (Figure 2.2). Although Maternity Benefit has a low replacement rate compared to other countries, some companies and the public sector provide a higher income replacement to their employees for the duration of maternity leave, which tends to favour more advantaged social groups.

In order to promote gender equality in the workplace, it is likely that the State will need to be responsible for ensuring the continuation of income for new mothers, as evidence suggests making employers liable for such payments can lead to fewer women being hired or to lower female wages (Schönberg and Ludsteck, 2014). Research has also found that while generous leave policies are linked to higher female employment, they can also result in lower wages for women relative to men (Ruhm, 1998), as employers tend to shift any increased costs to women's wages (Gruber, 1994b). Given these considerations, the case for a public earnings-related maternity benefit appears to be strong in principle.

SECTION 3

Strengthening the link between Jobseeker's Benefit and earnings

In this section, we assess potential reforms that would strengthen the link between the current system of Jobseeker's Benefit (JB) and earnings. We focus on JB rather than Maternity Benefit or Illness Benefit due both to data limitations and the explicit commitment of Government to consider strengthening the link between earnings and JB.[19] While, as discussed in the previous section, the economic case for strengthening the link between the latter benefits and earnings is at least as strong in principle, consideration of such reforms requires information on existing provision of maternity and sick leave by firms, which is not available.

Each of our potential reforms has an earnings-related component, linking benefit entitlement to a recipient's previous earnings. This contrasts with the predominantly flat rate payments made under the current system. We identify which households would benefit most from strengthening this connection between earnings and JB payments and the fiscal cost this would entail. We consider ten reform scenarios in total, though we only present a detailed discussion for the two most relevant ones; results relating to the others can be found in Appendix B.

The impact of the reforms is best illustrated through changes in the replacement rate (RR): individuals' net income when out of work as a share of that when in paid work. This gives an indication of both how well an individual would be able to maintain their consumption were they to suffer an unemployment shock, as well as the overall strength of their financial incentive to work. We also present estimates of participation tax rates, another key measure of financial work incentives. Additionally, we present how these changes affect households of different rank in the income distribution.

3.1 MEASURING FINANCIAL WORK INCENTIVES

3.1.1 Methodology and data

We use SWITCH – the ESRI's tax and benefit microsimulation model, described comprehensively in Keane et al. (2022) – to assess how each hypothetical reform scenario would affect estimates of financial work incentives faced by households.[20]

19 Regarding data limitations, assessing reforms to Maternity Benefit would reduce our sample to women of child-bearing age (a far smaller group than employees potentially affected by changes to JB) and would require detailed information on the terms of individual-level employer-provided Maternity Benefit, which is not available in the data used here. Similarly, assessing reforms to Illness Benefit would require detailed information on the sick leave provided by firms, which is also unavailable.

20 This section draws on the discussion in Callan et al. (2016) on how to measure financial work incentives.

SWITCH allows us to calculate households' social welfare entitlements, tax liabilities and net incomes, both in terms of their actual circumstances as well as a set of hypothetical scenarios, with different employment statuses captured in the differences between our hypothetical scenarios and the baseline. We run SWITCH (v4.6) on data from the 2019 Survey on Income and Living Conditions (SILC), uprating monetary variables to 2022 levels using outturn and forecast earnings, output and price growth. The scale, depth and diversity of this survey allows it to provide an overall picture of the impact of the policy changes on Irish households (see Appendix A).

Our sample of interest for this analysis comprises individuals who are currently employed. We take as our baseline the tax and benefit system in place at the beginning of 2022, which includes current Jobseeker's Benefit (JB) policy. We ignore the temporary COVID-19 related measures such as the Pandemic Unemployment Payment (PUP) and the Employment Wage Subsidy Scheme. We calculate a range of financial work incentive measures for this baseline system and compare them to those from two other systems, with both containing a reformed JB policy. In this analysis, financial work incentives act as a measure of welfare maintenance during the transition from employment to unemployment.

3.1.2 The financial incentive to be in paid work

There are two main measures of the incentive to be in paid work. The replacement rate (RR) gives an individual's out-of-work income as a percentage of their in-work income, and is defined as:

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

For example, an individual whose net weekly out-of-work income was €200 and whose net in-work income was €450 would have an RR of 44 per cent.

The participation tax rate (PTR) gives the proportion of earnings that are taken away in tax or lower benefit entitlements when an individual starts work, that is:

$$PTR = \left(1 - \frac{net\ income\ in\ work - net\ income\ out\ of\ work}{gross\ earnings}\right)$$

For our example individual with weekly gross earnings of €568, this gives a PTR of 56 per cent.

For both the RR and the PTR, lower numbers indicate stronger financial incentives to work and higher numbers indicate weaker financial incentives to work.[21]

Net income means income at the household level after benefits have been added and taxes deducted. We examine the impact of each reform on financial work incentives by calculating the measures under current JB policy versus the reformed policy. We calculate the RRs and PTRs for the employed only. Net income in work never changes for any individual, only net income out of work, which could potentially increase or decrease. In all cases, partners' behaviour is held constant when calculating an individual's financial work incentive so as to capture the work incentive for an individual of being in paid work (rather than both members of a couple). Both these measures attempt to capture the incentive to work or not, but they are conceptually different. Broadly speaking, the RR measures the absolute strength of financial incentives to work whereas the PTR measures the effect of the tax and benefit system on work incentives. To better understand this, consider: a) an equal cash gain in each of in-work and out-of-work incomes; and b) an increase in the hourly wage:

- An increase in income of a constant euro amount at all hours (including zero) does not change the PTR but increases the RR – that is, the PTR would suggest no change in incentives, but the RR would suggest that they have grown weaker;
- At a given level of hours of work, an increase in the gross hourly wage will strengthen work incentives according to the RR but will have ambiguous effects according to the PTR.

From the above example, it is clear that the RR measure of financial work incentives captures the effect not only of the tax and welfare system but also earnings power. By contrast, the PTR is driven largely by how the tax and benefit system, rather than potential wages, affects the financial incentive to work. In other words, while the RR can conflate the incentives created by taxes, welfare payments and earnings power, the PTR distinguishes – to a greater extent – between whether a reduced reward to work is caused by higher taxes and benefits or lower wages. Both are of interest, and because of this difference in what the two measures are describing, the empirical analysis that follows will use both.

We use work incentive measures to understand the extent to which each reform scenario compares to current policy in terms of insulating the incomes of individuals against unemployment shocks. For example, given that net income in

21 A PTR of 0 per cent would indicate that an individual did not have to pay any tax on their earnings and did not lose any benefit entitlement when they started work, whereas a RR of 0 per cent would indicate that an individual would not receive any income if they did not work. A PTR or RR of 100 per cent would indicate that all of an individual's earnings would be taken from them in tax or lower benefit entitlements if they worked, so they would be no better off working than not.

work will not change for any individual under any of these JB reforms, an increase in the RR can be understood as an increase in a household's out-of-work income. Such a household would be better protected against temporary unemployment. In addition, attention must be given to the absolute values of the work incentive measures observed. Reforms that better protect households may unintentionally reduce the incentive to work to below optimal levels. Analysing RRs and PTRs also enables us to observe who would benefit most under each reform scenario.

3.2 ANALYSIS OF REFORMS

This section presents the reform scenarios examined and the results of our analysis.

3.2.1 Reform scenarios

We investigate the impact of introducing set rates of previous earnings for the benefit's main rate, linking to previous earnings, and of imposing a maximum cap on the weekly benefit payment, on RRs, PTRs and additional spending.[22] For the rates of previous earnings, we employ three different rates – 60 per cent, 65 per cent and 70 per cent – based on the comparative analysis of what applies to other EU countries (see Table A1). For the payment caps, we explore the impact of three different options:

- being equal to the PUP rates (see Table 3.2 for more information about the rates);
- imposing the same rule that Government legislated for the new sick pay, namely the cap being based on the mean daily earnings (€110);[23] and
- setting a goal for the additional spending on the benefit (at €400 million and €500 million per annum), satisfied through the maximum caps imposed, set at 43 per cent and 51 per cent of average daily earnings.

In each reform examined, a different combination of the above is explored. Table 3.1 gives details for each of the scenarios examined. Linking the main rate of the JB to previous earnings seems to have a similar effect on the RRs and PTRs in the scenarios examined. Introducing different caps on the payment seems to change the pattern between the scenarios examined as, in effect, a different spending limit is imposed in each case.

22 In all the scenarios examined, we keep the existing additional rates for dependants (increased qualified adult and increased qualified child). In the changes examined, however, we set an additional cap to the payments, making sure that the total JB payment is not higher than the individual's previous earnings.

23 For more details on the mean daily earnings, see https://www.gov.ie/en/press-release/fee76-tanaiste-announces-details-of-statutory-sick-pay-scheme/#:~:text=Sick%20pay%20will%20be%20paid%20by%20employers%20at,order%20in%20line%20with%20inflation%20and%20changing%20incomes.

In the next section, we present the analysis for the first two scenarios (keeping the RR at 60 per cent in both cases but imposing caps either based on PUP rates or on the mean daily earnings). In Appendix B, we present the analysis for all 10 scenarios.

TABLE 3.1 UNEMPLOYMENT BENEFIT REFORMS

No.	Reform
1	60% of previous earnings – maximum caps based on PUP rates
2	60% of previous earnings – maximum cap set at 60% of mean daily earnings
3	65% of previous earnings – maximum caps based on PUP rates
4	70% of previous earnings – maximum caps based on PUP rates
5	65% of previous earnings – maximum cap set at 65% of mean daily earnings
6	70% of previous earnings – maximum cap set at 70% of mean daily earnings
7	60% of previous earnings – maximum cap set at 43% of mean daily earnings
8	70% of previous earnings – maximum cap set at 43% of mean daily earnings
9	60% of previous earnings – maximum cap set at 51% of mean daily earnings
10	60% of previous earnings – maximum cap set at 51% of mean daily earnings

TABLE 3.2 WEEKLY PANDEMIC UNEMPLOLYMENT PAYMENT RATES

Previous weekly income (Y)	Weekly PUP payment
Y < €150	€150
€150 ≤ Y < €220	€203
€220 ≤ Y < €300	€250
€300 ≤ Y < €400	€300
Y ≥ €400	€350

Source: Rates from October 2020, see https://www.gov.ie/en/publication/0b0fc-covid-19-pandemic-unemployment-payment-rates/#rates-from-7-september-2021.

3.2.2 Results

This section presents the main results relating to Reforms 1 and 2, including their fiscal cost, the increased protection against unemployment they provide, as well as perverse work incentive effects associated with their implementation. We compare each reform with the current JB structure (baseline). Throughout the analysis, our sample consists of those who are currently employed. For all employed individuals in the sample, we generate an out-of-work disposable income by setting employment earnings to zero and using SWITCH to calculate benefit entitlements in accordance with their reduced means. Self-employed individuals, though eligible for JB, were not included in the analysis as their previous earnings might present higher fluctuation throughout the years.

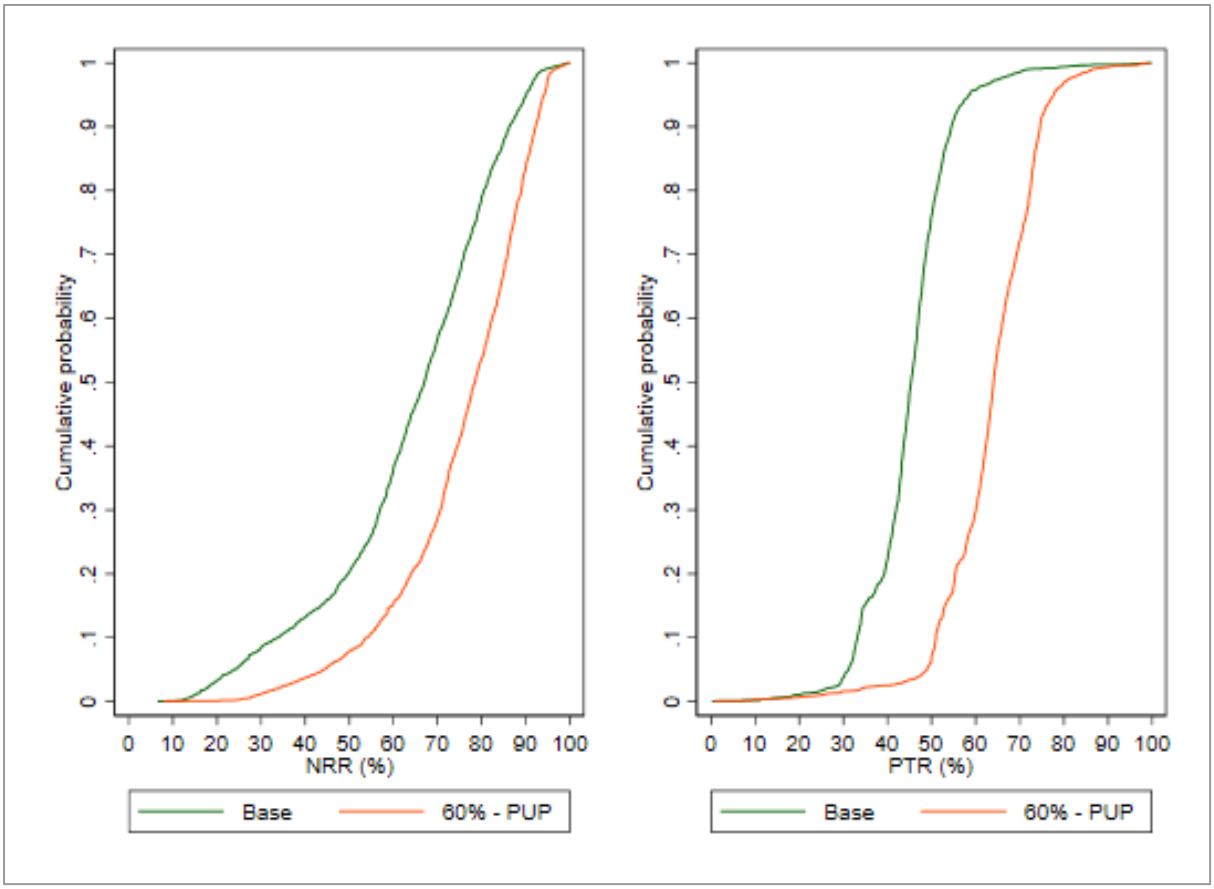
TABLE 3.3 WORK INCENTIVES AND ADDITIONAL SPENDING REQUIRED

No	Reform	Median RR (%)	Share with RR > 70% (%)	Median PTR (%)	Share with PTR > 70% (%)	Additional spending (€)
Baseline	Baseline	67	43	45	1	n/a
1	RR: 60% Cap: PUP	78	71	64	28	278m
2	RR: 60% Cap: 60% mean earnings	88	91	79	74	588m
3	RR: 65% Cap: PUP	79	72	64	28	282m
4	RR: 70% Cap: PUP	79	72	64	28	285m
5	RR: 65% Cap: 65% mean earnings	89	92	80	75	636m
6	RR: 70% Cap: 70% mean earnings	89	93	81	76	681m
7	RR: 60% Cap: 43% mean earnings	84	81	72	59	399m
8	RR: 70% Cap: 43% mean earnings	84	81	72	59	405m
9	RR: 60% Cap: 51% mean earnings	86	87	76	69	496m
10	RR: 70% Cap: 51% mean earnings	86	87	76	69	504m

Source: Authors' estimates using the SWITCH model and data from the 2019 Survey on Income and Living Conditions (SILC).

The effect of each reform on financial work incentive measures shows both their impact on the incentive to work, but also the increased security they provide against unemployment. Table 3.3 includes the changes in the median RR and PTR, the share of individuals with RR and PTR greater than 70 per cent – capturing the percentage of the population that has low incentive to work – and the additional spending required for each reform scenario examined.

FIGURE 3.1 REPLACEMENT RATE AND PARTICIPATION TAX RATE, BASELINE AND REFORM 1



Under Reform 1, JB payments are set equal to 60 per cent of a recipient's previous income, with maximum caps imposed following the PUP rates (see Table 3.1 above). The additional spending for such reform is estimated at €278 million per annum (Table 3.3). Figure 3.1 plots the cumulative distribution of RRs and PTRs for individuals under the baseline (current policy) and Reform 1. The left panel depicts the cumulative distribution of RRs, with the right panel showing the same for PTRs. An increased RR means that in the event of an individual losing their job, their JB payment will replace a greater proportion of their previous in-work income. This can be seen as both providing a higher level of support in the event of unemployment as well as a weaker financial incentive to be in paid work. Under the reform, the RRs increase substantially from a median of 67 per cent to a median of 78 per cent.

Most of the increase in RRs occurs at the lower end of the cumulative distribution, among those with the lowest RR values in the baseline. There is a group of individuals in the highest income quintile who have very low RRs in the baseline. These individuals usually have high in-work earnings and current JB policy would only replace a small share of this, hence the low RR. This subgroup of high earners benefits to a large extent under the reform, with JB payments now linked to earnings. This is reflected in the considerable outward shift that takes place at the

bottom of the cumulative distribution. However, there is also an increase in the share of individuals with RRs in excess of 70 per cent: up from 43 per cent to 71 per cent. This suggests that the reform has considerably weakened work incentives and leaves the majority of the population with a very low incentive to work.

Such an impression is reinforced by the impact of the reform on PTRs. Around 2 per cent of the sample maintain a PTR below 30 per cent under the reform, almost identical to the baseline. However, substantial increases are observed in the third percentile and beyond, particularly between the third and seventh percentiles. The median PTR increases from 45 per cent in the baseline to 64 per cent in the reform. The proportion of the sample with a PTR greater than 70 per cent increases from 1 per cent in the baseline to 28 per cent in the reform (Table 3.3).

FIGURE 3.2 REPLACEMENT RATE AND PARTICIPATION TAX RATE, BASELINE AND REFORM 2

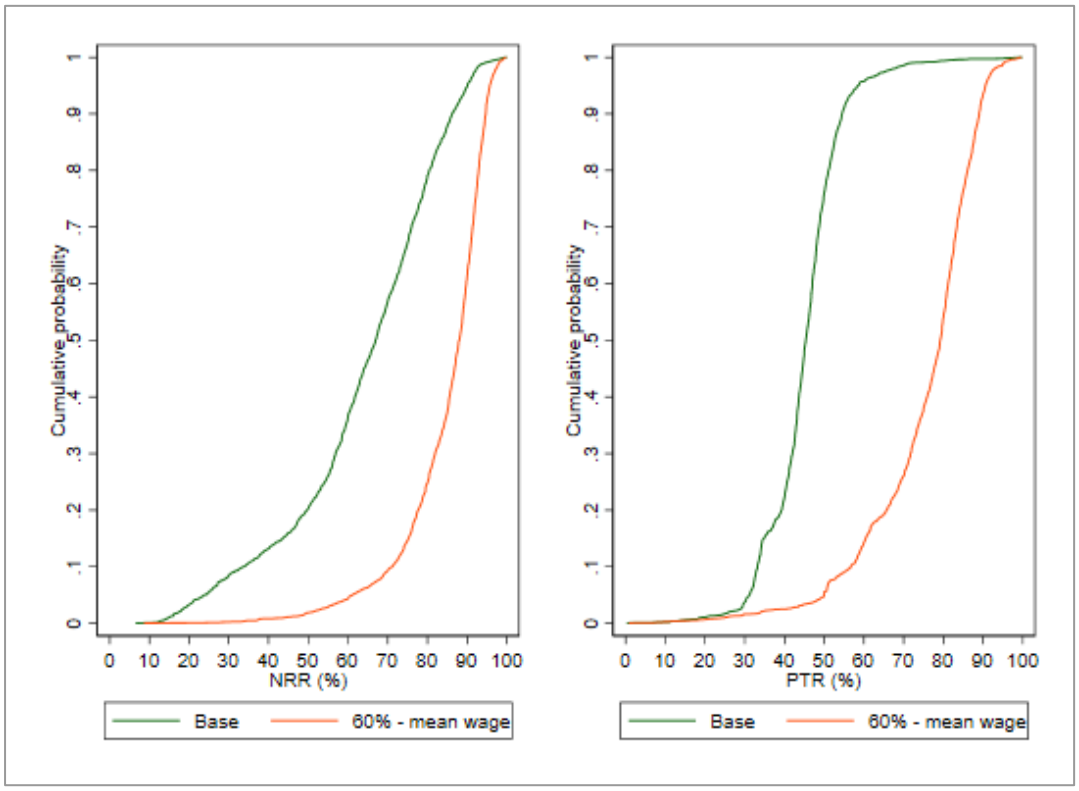


Figure 3.2 contains plots produced under Reform 2, where JB entitlement would equate to 60 per cent of previous earnings with maximum caps set at €66 per day or €462 per week (60 per cent of the average daily earnings). The additional required spending for this reform is estimated at €588 million annually.

We observe significant increases in the RR, with the median RR increasing from 67 per cent in the baseline to 88 per cent under the reform. The majority of the increase in RRs is concentrated towards the lower end of the distribution. Those

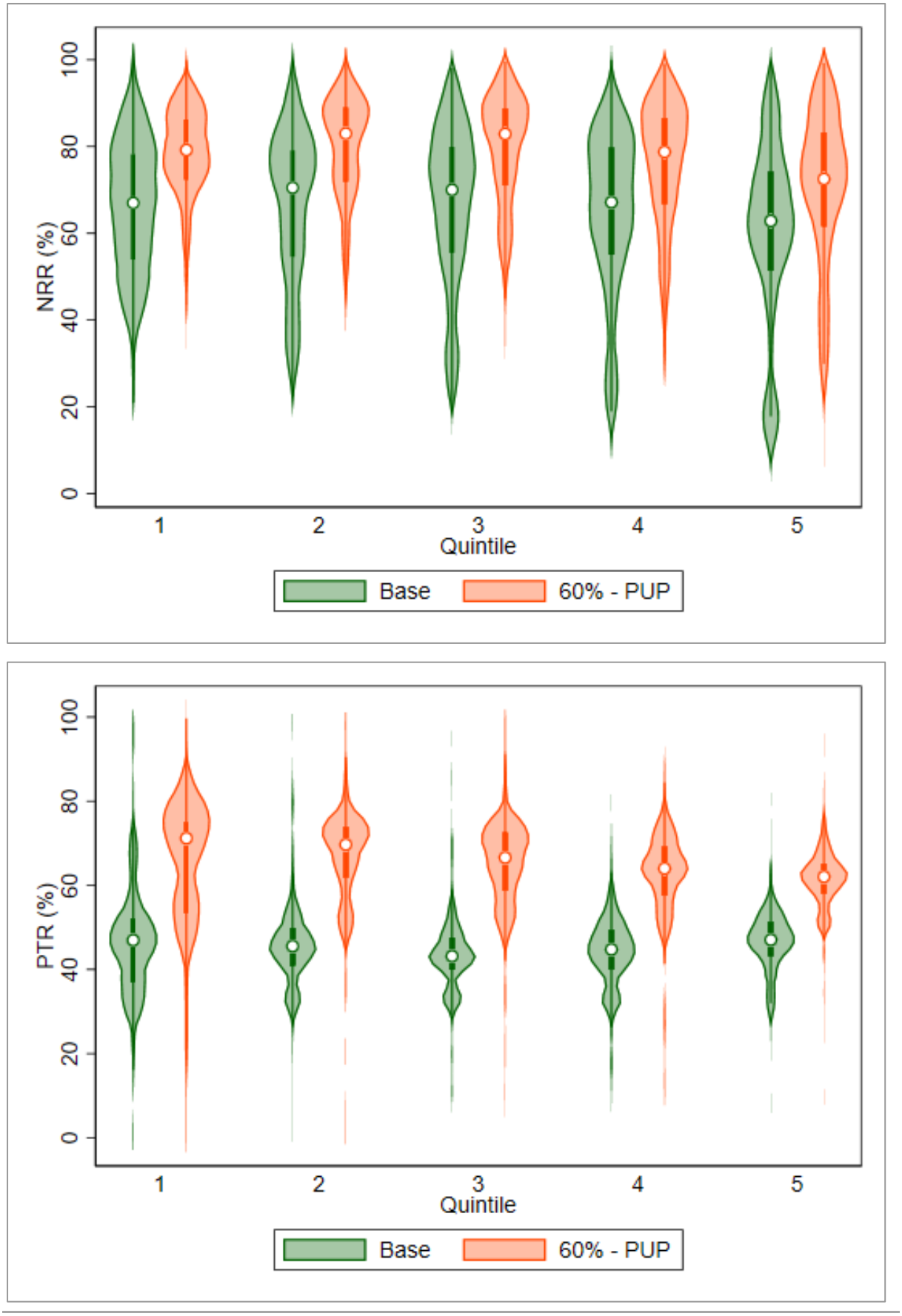
with the least protection against employment shocks currently would absorb most of the gains from this reform. The share of individuals with an RR greater than 70 per cent increases from 43 per cent to 91 per cent. This represents a greater than two-fold increase in the share, showing that the reform weakens the incentive to work substantially.

Likewise, there is a dramatic increase in the PTRs, with the median value increasing from 45 per cent to 79 per cent. The share of individuals with a PTR above 70 per cent increases from 1 per cent to 74 per cent (Table 3.3). There is little change in the number of individuals in the sample with a PTR of less than 30 per cent following the reform. Beyond this level, there is a dramatic increase in PTRs, highlighting the greater insulating ability of the reform against unemployment shocks.

Both hypothetical reforms have the effect of increasing the RRs and PTRs as compared to the baseline of current JB policy. This means that in the event of a job loss, many households would be better equipped to sustain their previous consumption patterns. The cumulative distributions for both the RRs and PTRs show that much of the increase in their values accrues towards the bottom and middle of the distributions, with the RRs showing a greater increase at the bottom. This means that those currently with the least protection from unemployment benefit to a large extent.

Reform 2 produces the most dramatic shift in the cumulative distributions of RRs and PTRs and achieves the highest median values for these measures. This is a more generous reform scenario, providing the greatest income protection for households during unemployment shocks. However, increasing this cushioning effect against unemployment leads to a drastic reduction in the incentive to work. Social protection benefits, work incentive effects as well as the fiscal cost must be weighed up concurrently when trying to identify an optimal system.

FIGURE 3.3 REPLACEMENT RATE AND PARTICIPATION TAX RATE BY QUINTILE, BASELINE AND REFORM 1

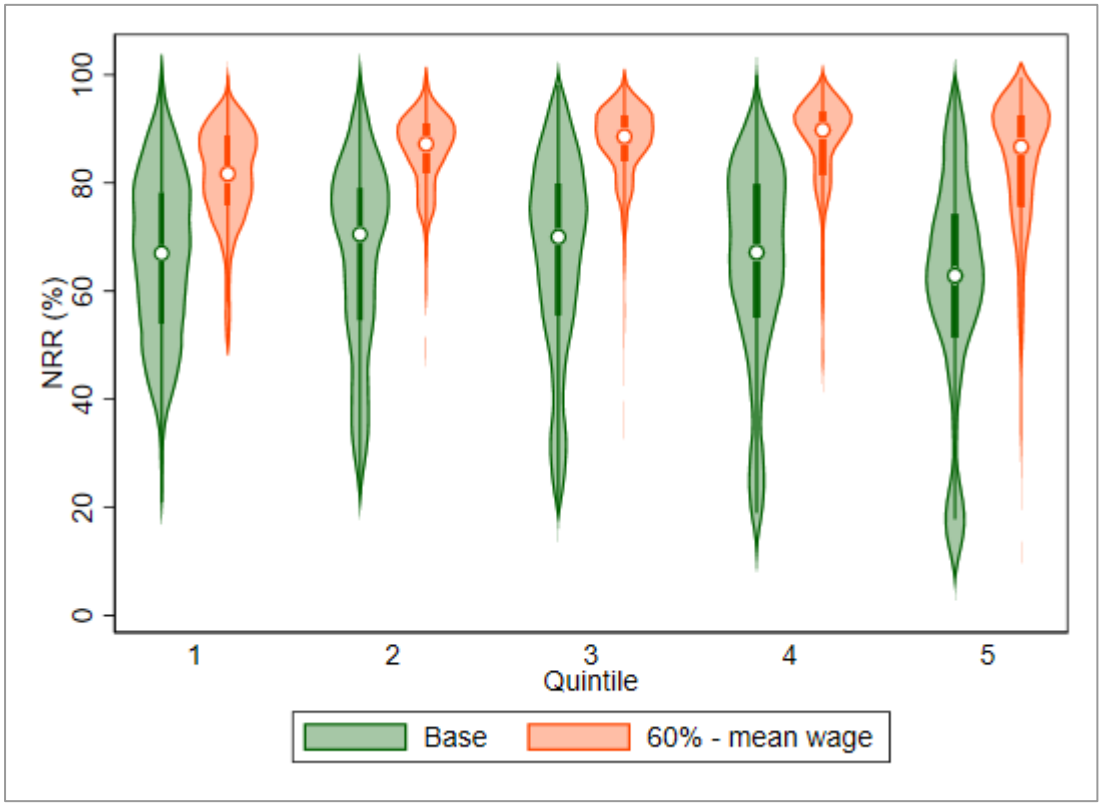


We proceed by presenting results broken down by equivalised household disposable income. Including income as a factor allows us to observe who in the population would gain most from the potential reforms. Figures 3.3 and 3.4 use violin plots to display the RRs and PTRs under the baseline scenario versus the two reforms. Violin plots combine elements of a box plot and a kernel density plot. Similar to a box plot, they show values for the median, 25th percentile, 75th percentile and adjacent values. In addition, they display the distribution density of a variable. In our plots below, the white circle indicates the median value, the thick central bar represents the interquartile range, the thinner central bar represents the range of adjacent values and the curvy outside bars represent the distribution density.[24] Group 1 represents the poorest fifth of individuals who are currently employed, with Group 5 representing the richest fifth. Median values for RRs and PTRs by quintile are also presented in Tables 4 and 6 respectively.

Figure 3.3 displays the violin plots for Reform 1 compared to the baseline. The upper panel depicts the RR values and the lower panel shows the PTR values. The median RR values in the baseline are quite high across all quintiles, ranging from a low of 63 percent in the richest quintile to a high of 71 per cent in the second quintile, which indicates that many households are well insulated from unemployment shocks under the current system. The median RRs increase under the reform across all quintiles, showing the increased unemployment protection it provides. The share of these gains is distributed quite evenly across all quintiles, with the richest quintile benefitting least, but only by a small margin. The median RR increases from 67 per cent to 79 per cent for households in the first quintile and the same increases from 63 percent to 73 per cent in the richest quintile. This increased protection under the reform comes with the cost of reducing the incentive to work in each quintile, again to roughly similar levels. Results for PTRs by decile follow a somewhat similar pattern, although greater increases are in the poorer quintiles. The median PTR increases for those in the poorest quintile from 47 per cent to 71 per cent and for those in the richest quintile from 47 per cent to 62 per cent.

24 The upper and lower adjacent values are defined as 1.5 times the interquartile range. Values outside the upper and lower adjacent values are considered outliers.

FIGURE 3.4 REPLACEMENT RATE AND PARTICIPATION TAX RATE BY QUINTILE, BASELINE AND REFORM 2



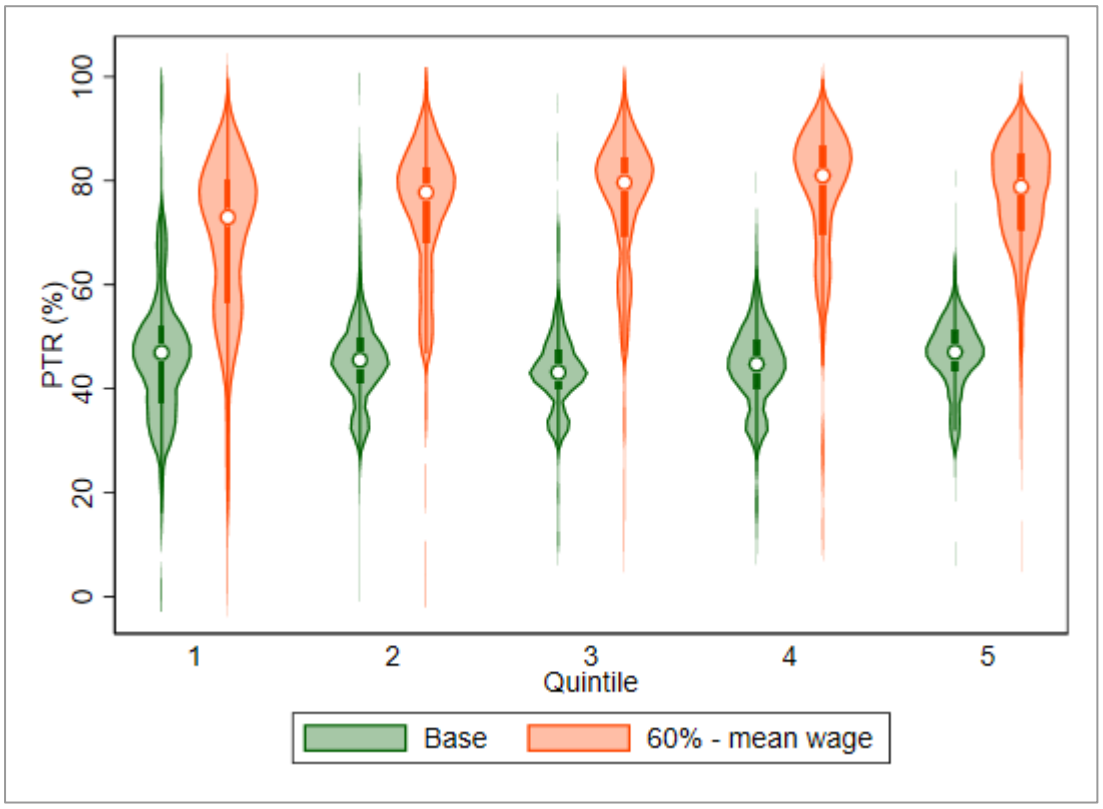


Figure 3.4 contains plots produced under Reform 2. The median RR increases across all quintiles under the reform, highlighting the increased insulation it provides to household incomes in the event of an unemployment shock. The greatest absolute increases in median RR values are observed in the richer quintiles. The median RR value increases from 67 per cent to 82 per cent for households in the first quintile, whereas the same increases from 63 per cent to 87 per cent for those in the richest quintile. Under the reform, the median RR value for the richest quintile is well above that of the poorest quintile, despite the opposite holding under the baseline policy. The same holds for PTRs as well. The median PTR increases for those in the poorest quintile from 47 per cent to 73 per cent and for those in the richest quintile from 47 per cent to 68 per cent. This reveals the extent to which the gains are skewed towards more well-off households under this second reform.

This, in part, can be explained by the higher caps imposed under Reform 2 compared to Reform 1. A disproportionate number of households in the richer quintiles reached the maximum cap for their out-of-work income under Reform 1. These households can now augment their out-of-work income, up to the level of the new higher cap. Many lower-income households also increase their out-of-work income, but not to the same extent as individuals from richer quintiles. Hence, richer quintiles benefit by a disproportionate amount under this reform.

TABLE 3.4 MEDIAN REPLACEMENT RATE

Income quintile	Baseline (%)	Reform 1 (%)	Percentage point change from baseline to Reform 1	Reform 2 (%)	Percentage point change from baseline to Reform 2
Poorest	67	79	12	82	15
2	71	83	12	87	16
3	70	83	13	89	19
4	67	79	12	90	23
Richest	63	73	10	87	24

Source: Authors' calculations using SWITCH and data from the 2019 Survey on Income and Living Conditions (SILC).

Across all quintiles, the median RRs increase under both reform scenarios (Table 3.4). This means that in the event of an unemployment shock, an individual's JB payment would equate to a higher share of their employment income compared to the current JB policy. This would ensure smoother income and consumption patterns across the job status transition, leading to increased welfare in unemployment compared to current policy. Under Reform 1, the share of these gains is distributed quite evenly across all quintiles, with the richest quintile benefitting least, but only by a small margin. Under Reform 2 though, the richer quintiles observe the greatest reduction in the incentive to work, as well as the greatest increase in unemployment protection. High-earning individuals end up with the lowest absolute incentive to work. This indicates that lower maximum

caps not only reduce the additional fiscal spending required but distribute the gains from the reform in a more equitable manner.

TABLE 3.5 SHARE OF INDIVIDUALS WITH REPLACEMENT RATE GREATER THAN 70 PER CENT

Income quintile	Baseline (%)	Reform 1 (%)	Percentage point change from baseline to Reform 1	Reform 2 (%)	Percentage point change from baseline to Reform 2
Poorest	45	84	39	89	44
2	52	80	28	96	44
3	50	76	26	96	46
4	44	70	26	92	48
Richest	32	60	28	84	52

Source: Authors' calculations using SWITCH and data from the 2019 Survey on Income and Living Conditions (SILC).

Table 3.5 displays the share of individuals in each quintile with an RR greater than 70 per cent. Under Reform 1, the poorest households experience by far the greatest percentage point increase in the share of individuals with an RR greater than 70 per cent, increasing from 45 per cent to 84 per cent. This highlights the very significant effect of cushioning the negative income shock of unemployment. Under Reform 2, the biggest increase in this share is for individuals in the richest quintile (from 32 per cent to 84 per cent), with the two poorest quintiles having the smallest increase in the share (from 45 per cent to 89 per cent and 52 per cent to 96 per cent, respectively). The absolute values of the shares demand careful consideration, highlighting a low incentive to work, particularly for those in the lowest four quintiles. The vast majority in these quintiles face an RR greater than 70 per cent.

TABLE 3.6 MEDIAN PARTICIPATION TAX RATE

Income quintile	Baseline (%)	Reform 1 (%)	Percentage point change from baseline to Reform 1	Reform 2 (%)	Percentage point change from baseline to Reform 2
Poorest	47	71	24	73	26
2	46	70	24	78	32
3	43	67	24	80	37
4	45	64	19	81	36
Richest	47	62	15	78	31

Source: Authors' calculations using SWITCH and data from the 2019 Survey on Income and Living Conditions (SILC).

Like the RRs, the median PTR values increase across all quintiles (Table 3.6). Under Reform 1, the lowest three quintiles absorb a greater share of the gains, with the median PTR values increasing by lower absolute amounts in the fourth and fifth quintiles. The median PTR in the first quintile increases from 47 per cent to 71 per cent, with the same metric in the fifth quintile growing from 47 per cent to 62 per cent. The incentive to work is reduced across all quintiles, with the greatest reduction occurring in the poorer quintiles. Under Reform 2 though, the greatest

increase in median values occurs in the third and fourth quintiles, increasing from 43 per cent to 80 per cent and 45 per cent to 81 percent, respectively. Similar to what we see for the RRs, this indicates that most of the gains of the reform can be attributed to the richer quintiles. Again, the incentive to work is greatly diminished, most noticeably in the richer quintiles.

TABLE 3.7 SHARE OF INDIVIDUALS WITH PARTICIPATION TAX RATE GREATER THAN 70 PER CENT

Income quintile	Baseline (%)	Reform 1 (%)	Percentage point change from baseline to Reform 1	Reform 2 (%)	Percentage point change from Baseline to Reform 2
Poorest	6	53	47	57	51
2	3	50	47	73	70
3	2	38	36	75	73
4	0.6	21	20	75	74
Richest	0.2	9	9	78	78

Source: Authors' calculations using SWITCH and data from the 2019 Survey on Income and Living Conditions (SILC).

Examining the share of individuals with PTRs greater than 70 per cent by quintile, we see once again a different impact from Reform 1 than from Reform 2 (Table 3.7). Under Reform 1, the greatest increases in this share occur in the lowest two quintiles, with each successive increase diminishing. In the first quintile, this share increases from 6 per cent to 53 per cent. Under Reform 2 though, the greatest increase in this share occurs in the richest quintile, with increases diminishing as one descends through the lower quintiles. The absolute values of the PTRs are lower than their RR counterparts but remain high and, as such, they should not be ignored.

Although high RRs and PTRs may mean that individuals face low financial work incentives, in such situations some people still choose to stay in employment. Research has shown a vast majority of those with RRs close to 100 per cent to actually be in employment (Savage et al., 2015). A number of reasons could explain this. For example, young individuals could have low financial work incentives at the beginning of their career but remain in employment as they expect their situation to change in the future (Keane et al, 2021). Additionally, non-financial reasons, such as social interaction or status linked with a particular job, can incentivise individuals to stay in employment.

SECTION 4

Conclusions

This paper has examined the case for strengthening the link between previous earnings and certain social welfare payments: a matter currently under consideration by Government. Ireland is one of the few countries in the European Union (EU) without a strong link between previous earnings and the level of payment provided to those who have recently lost their job or are on leave from work for the short- to medium-term for reasons of illness or maternity. However, this was not always the case. Indeed, a system of earnings-related benefit for the purposes of unemployment, disability, injury and maternity existed throughout the 1980s, before being phased out following a recommendation of the Commission on Social Welfare (1986).

There is a coherent economic case for linking such benefits to previous levels of earnings, at least for an initial period. In the case of unemployment, the primary rationale for such payments is to offer a short-term cushion to those who lose their job, allowing them to smooth their level of consumption more effectively through a short-term period of joblessness and provide more extensive macroeconomic automatic stabilisers.

However, such advantages need to be set against the non-trivial cost and weaker financial work incentives that would arise from adopting a system of earnings-related unemployment payment. Our analysis in Section 3 shows that setting Jobseeker's Benefit (JB) to 60 per cent of earnings with a cap of €350 per week would cost an estimated €278 million per year more than the current system, while substantially increasing the share of employees with replacement or participation tax rates in excess of 70 per cent. In addition, higher maximum payment caps would lead to high earners seeing the largest increase in replacement rates (RRs), a group that research suggests is more likely to have accumulated savings that can be drawn on to sustain higher levels of consumption through economic shocks (Lydon and McIndoe-Calder, 2021). One way Government could ameliorate these impacts is by more tightly time-limiting the higher level of JB; for example, by reducing the maximum duration that it can be claimed or by reducing the RR by – say – ten percentage points every three months.[25]

Although the policy discussion in Ireland has focused on strengthening the link between JB and previous earnings, there is at least as strong a case for linking Maternity Benefit and Illness Benefit to previous earnings. International evidence suggests that linking Maternity Benefit to new mothers' previous earnings could

25 Given Jobseeker's Benefit can be claimed for a period of up to nine months, this would entail up to two reductions in the new higher rate of payment before claimants were required to make a claim for (means-tested) Jobseeker's Allowance.

reduce the gender wage gap, while a similar reform to Illness Benefit could have public health benefits. While we do not analyse the impact of such reforms in this paper, due to data constraints, consideration should be given to such reforms alongside any move to strengthen the link between JB and previous earnings.

The reforms examined here could be quite costly. While the expansion in benefit generosity could be financed through reductions in spending elsewhere or increases in general taxation, Government has suggested it will do so by increasing rates of pay-related social insurance (PRSI) (Government of Ireland, 2020).[26] Kakoulidou and Roantree (2021) show that a 1 per cent increases in all rates of PRSI would raise almost €1 billion per year. While the initial short-run incidence of such increases would primarily be on higher-income households and employers, international evidence suggests much of the increase is likely to be passed on over time to workers through lower wages or employment and to consumers through increased prices (Gruber, 1997; Anderson and Meyer, 1997; 2000). However, evidence on the nature of long-run PRSI incidence in Ireland is limited.[27] Given the inceased level of discussion of raising PRSI in the policy debate, building a broader evidence base around this and other effects of PRSI increases is an important direction for future research.

26 Such an approach to financing this increased generosity has also been suggested by ICTU (2021) and Mac Flynn (2021), among others, who point to the comparatively low share of revenues raised here in social security contributions. Figure A.1 in the appendix shows that such revenues account for less than 17 per cent of total taxation in Ireland, whereas in most EU countries they exceed 25 per cent.

27 To the best of our knowledge, Hughes (1985) is the last to have examined this issue, though Hargaden and Roantree (2019) and Hargaden (2020) both examine the incidence of PRSI in the shorter run.

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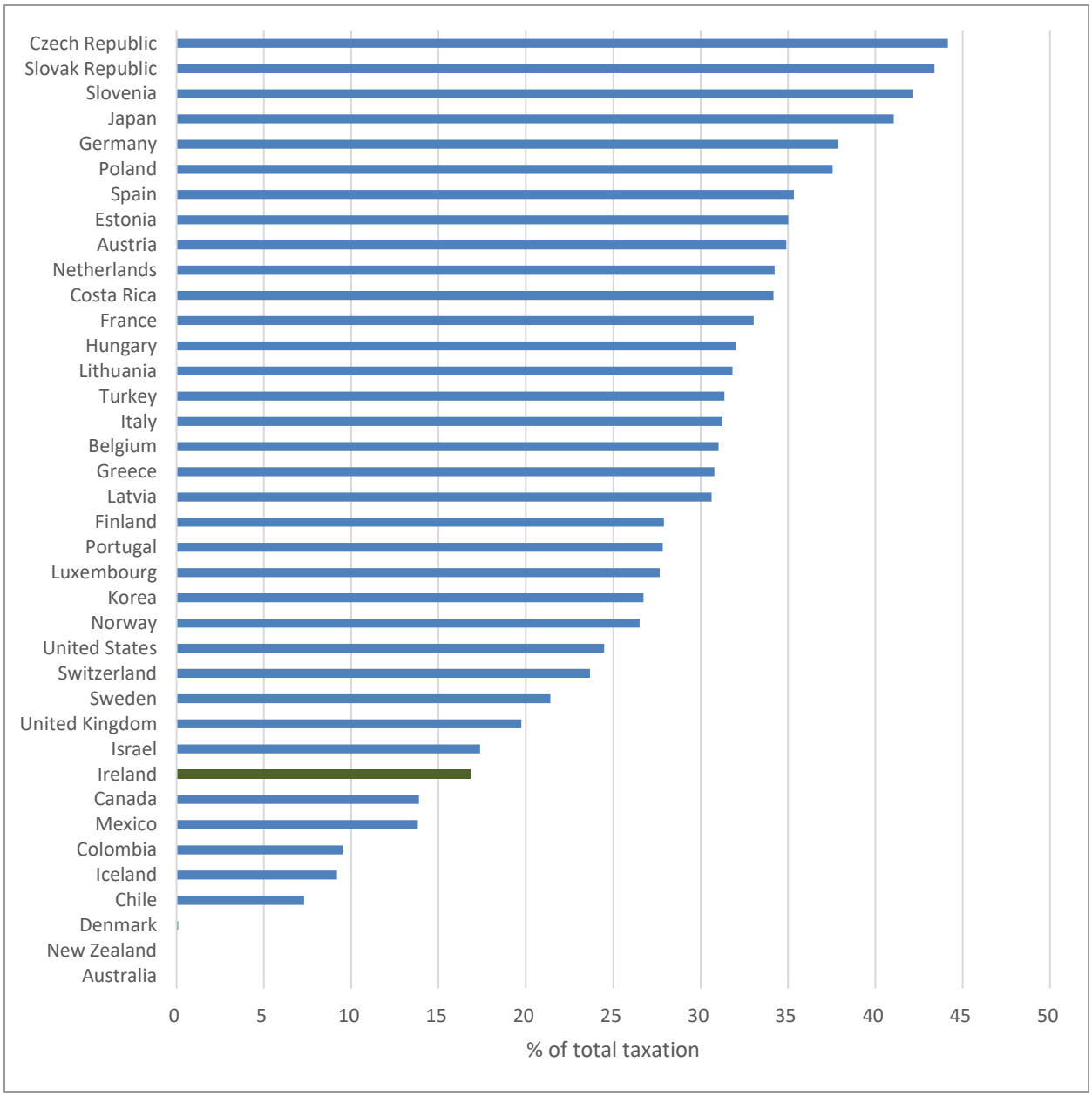
APPENDIX A

ABOUT SWITCH

The results presented in this paper are derived from SWITCH, the ESRI's direct tax and benefit microsimulation model. SWITCH simulates the direct tax liabilities and social welfare entitlements of the Irish population using the nationally representative Survey of Income and Living Conditions (SILC). SILC is an annual household survey conducted by the CSO that collects detailed information on individuals' incomes, along with detailed demographic information. The data have also been reweighted to match 2019's official statistics about employment, unemployment and the gender-age profile of the population – as reported by the CSO – as well as a forecasted version of the 2019 income distribution for employees and the self-employed. In the reweighting process, existing targets set by the CSO for the SILC weights about the household composition and the regional distribution of the population were also kept. We uprate these quantities to 2022, then use SWITCH to simulate the net change in household disposable income for each of the reforms examined in the paper.

Our estimates assume that households' behaviour remains unchanged in response to a change in relative prices of goods/services and labour/leisure. This means the results are best interpreted as showing the initial 'first round' effects of the reforms considered. For more information about SWITCH, see Keane et al. (2022).

FIGURE A.1 REVENUE FROM SOCIAL SECURITY CONTRIBUTIONS AS A SHARE OF TOTAL TAX REVENUE, 2019



Source: OECD Revenue Statistics: Comparative tables.

TABLE A.1 UNEMPLOYMENT BENEFITS IN EU COUNTRIES AND THE UK

Country	Unemployment insurance benefit						Unemployment assistance benefit
	Replacement rate	Increase due to dependants	Refence income	Minimum/ maximum rate	Contributions needed	Duration of benefit	
Austria	55%	Yes	Daily net income	Yes	First-time applications: 52 weeks within previous 24 months.	20 weeks to 52 weeks depending on length of insurance record and age.	Yes, 92% of unemployment benefit.
Belgium	First 3 months: 65% Next 3 months: 60% Following 6 months: 55%.	Yes, for the second year of unemployment.	Last salary received	Maximum rate only	Between 312 working days during the previous 21 months, and 624 working days over the previous 42 months, depending on age.	Unlimited (provided that the person actively seeks a job and in particular to participate in a course).	No
Bulgaria	60%	No	Average insurable income	Yes	12 months insurance in previous 18 months.	Varies from 4 months to 12 months, depending on the insurance history.	No
Croatia	First 3 months: 60% Thereafter: 30%.	No	Average monthly gross earnings over the previous three months.	Yes	9 months of previous employment or payment of insurance contributions during the last 24 months.	90 days – 450 days duration, depending on length of employment period previously completed.	No

TABLE A.1 (CONTD.) UNEMPLOYMENT BENEFITS IN EU COUNTRIES AND THE UK

Country	Replacement rate	Increase due to dependants	Refence income	Minimum/ maximum rate	Contributions needed	Duration of benefit	Unemployment assistance benefit
Cyprus	60% of weekly value of insurance point at basic insurance over relevant contribution year	Yes	Gross insurable earnings over the relevant contribution year.	Yes	More than 26 weeks	156 days	No
Czech Republic	First 2 months: 65% of reference earnings * Next 2 months: 50% of ref. earnings, * 45% of ref. earnings for remainder.	No	Average net monthly earnings over last quarter.	Maximum rate only	12 months basic pensions insurance in past 2 years.	Varies from 5 months to 11 months, depending on age.	No
Denmark	90% of previous gross earnings less labour market contribution.	No	Average gross earnings less labour market contribution from the 12 highest paid months during the preceding 24 months.	Maximum rate only	Unemployment fund member for at least one year.	2 years within a 3-year period.	No
Estonia	* 60% of reference earnings up to 100 calendar days of unemployment, * 40% of ref. earnings thereafter.	No	Average salary	Yes	12 months insurance contributions in 36 months before registering as unemployed.	* 180 calendar days if employed les than 5 years * 270 calendar days if employed 5 to 10 years * 360 calendar days if employed more than 10 years.	Yes, flat rate of €9.42 per day (more than 50% of min wage of previous year).

TABLE A.1 (CONTD.) UNEMPLOYMENT BENEFITS IN EU COUNTRIES AND THE UK

Country	Unemployment insurance benefit	Unemployment assistance benefit	Unemployment insurance benefit	Unemployment assistance benefit	Unemployment insurance benefit	Unemployment assistance benefit	Unemployment insurance benefit
Finland	Basic allowance (BA) + 45%* (daily wage-BA days).	Yes	Average gross earnings over 26 weeks qualifying period.	No	26 weeks employment during last 28 months and at least 18 hours work during each week & have been a member of an unemployment fund during while satisfying these requirements.	400 days (or 300 days if beneficiary's employment history <3 years).	Yes, €33.78 per day, 5 days p/w (€734.72/m). If participating in employment promotion measure, e.g. retraining, it can be increased to €38.78 per day.
France	Highest of: 40.4% of reference daily wages (RDW) + €12.12 per day **OR** 57% of the RDW to max of 75% of the RDW. After 9 months, decreases.	No	Earnings on which contributions have been paid.	Yes	At least 4 months during the last 24 months.	Number of days worked in qualifying period x 1.4. Varies depending on age from 730 days to 1,095 days.	Yes, means tested.
Germany	60% of reference earnings.	Yes	Average daily gross wage during the last year.	Maximum rate only	12 months' worth of compulsory unemployment insurance payments in last 30 months.	Varies from 6-24 months depending on age and compulsory insurance payments made in last 5 years. Max 12 months for anyone under 50 years.	

TABLE A.1 (CONTD.) UNEMPLOYMENT BENEFITS IN EU COUNTRIES AND THE UK

Country	Unemployment insurance benefit	Unemployment assistance benefit	Unemployment insurance benefit	Unemployment assistance benefit	Unemployment insurance benefit	Unemployment assistance benefit	Unemployment insurance benefit
Greece	€399.25 per months for full time employees Reduced rates for part time employees	Yes, for dependent family members. 10% increase in benefit for each dependant family member	No	Yes	More than 125 days of work during the 14 months before unemployment	Varies between 5-12 months, depending on length of employment periods	Yes, means - tested benefit equal to €207.61 per month
Hungary	60% of average wage.	No	Contribution base of previous 4 calendar quarters.	Maximum rate only	At least 360 days of insurance during the previous 3 years.	90 days	No
Iceland	70% of ref income.	Yes. Additional €132.56 paid for each dep child.	Average gross monthly income based on 6-month period ending two months before unemployment.	Maximum rate only	Have worked at least 25% of FT employment in 3 of the last 12 months before unemployment.	3 months	Yes
Ireland	€203 per week for full-time employees. Reduced rates for part-time employees.	Yes	Weekly reference income: (gross earnings in relevant tax year/no. paid contributions in (RTY)).	Yes	*104 weekly contributions since started working and 39 weekly contributions paid or credited during the relevant tax year, of which a minimum of 13 must be paid contributions **OR** *26 weekly contributions paid in relevant tax year and year before relevant tax year.	9 months but limited to 6 months if applicant has paid less than 260 weekly contributions since first entering insurance.	Yes, flat rate *€112.70 per week if claimant 18-24 years. *€203 per week if claimant >24 years.

TABLE A.1 (CONTD.) UNEMPLOYMENT BENEFITS IN EU COUNTRIES AND THE UK

Country	Unemployment insurance benefit	Unemployment assistance benefit	Unemployment insurance benefit	Unemployment assistance benefit	Unemployment insurance benefit	Unemployment assistance benefit	Unemployment insurance benefit
Italy	75% of average gross monthly earnings to ceiling.	No	Average gross monthly income earned by the worker in the last four years.	Maximum rate only	13 weeks of work insurance during the 4 years prior to unemployment and at least 30 days of work insurance during last 12 months prior to unemployment.	Number of months equal to half the number of monthly contributions paid in the last period.	No
Latvia	Depends on insurance contribution years and income base. Ranges from 55% to 65% of average wage and decrease over time.	No	Ref inc. is average insurance contributions wage for the 12-month period before the disregarded 2 calendar months.	No	*Socially insured for at least 1 year *Paid at least 12 months of contributions in 16 months before registering as unemployed.	8 months	No
Liechtenstein	70% of reference earnings.	Yes	Average daily earnings on which insurance contributions paid.	Maximum rate only	12 months of contributions in 2 years before unemployment.	260-500 daily allowance depending on age and no. of insurance contributions.	No

TABLE A.1 (CONTD.) UNEMPLOYMENT BENEFITS IN EU COUNTRIES AND THE UK

Country	Unemployment insurance benefit	Unemployment assistance benefit	Unemployment insurance benefit	Unemployment assistance benefit	Unemployment insurance benefit	Unemployment assistance benefit	Unemployment insurance benefit
Lithuania	Fixed: 23.27% of min monthly wage. Variable: 38.79% of average monthly income for first 3 months, 31.03% for 4-6 months, 23.27% for 7-9 months.	No	Average insured income during 30-month period which ends at the calendar quarter prior to the quarter in which unemployment is registered.	Yes	12 months insurance payments in the 30 months prior to registering unemployment.	9 months	No
Luxembourg	80% of previous monthly earnings.	Yes	Gross earnings during the 3 months which precede unemployment.	Maximum rate only	26 weeks employment in previous 12 months.	*365 calendar days max during a reference period of 24 months *182 extra calendar days for persons particularly 'difficult' to place.	No
Malta	€8.58 per day.		No	No	50 weeks of paid contributions and at least 20 paid or credited in previous 2 calendar years.	Depends on contribution history but max 156 working days (6 working days considered per week).	Yes, €109.43 per week for household head.
Netherlands	*75% reference wage during the first 2 months, *70% thereafter.	No	Average daily wage received during last 12 months.	Maximum rate only	At least 26 weeks of employment.	Ranges from 3 months to 24 months depending on contributions.	No

TABLE A.1 (CONTD.) UNEMPLOYMENT BENEFITS IN EU COUNTRIES AND THE UK

Country	Unemployment insurance benefit	Unemployment assistance benefit	Unemployment insurance benefit	Unemployment assistance benefit	Unemployment insurance benefit	Unemployment assistance benefit	Unemployment insurance benefit
Norway	62.4% of reference income.	Yes	Annual income in last 12 month or average annual income in last 36 months.	Maximum rate only	Received basic pay of ≥ €13,946 in preceding 12 months (or two times that the last 3 years).	52-104 weeks, depending on previous income.	No
Poland	Varies according to years of contribution from €220 pm €330 pm but decreases after the first 3 months.	No, but duration increases if caring for children.	N/a	No	At least 365 calendar days of paid employment during the 18 months preceding the day of registration.	*6 months in areas with unemp. rate < 150% national average *12 months in areas with unemployment rate of ≥150% of nat. average.	No
Portugal	65% of monthly ref. wage.	Yes	The ref. wage is sum of wages for first 12 calendar months of last 14 months, starting from month prior to commencement of unemployment, divided by 360.	Yes	At least 360 days of employed work and contribution payment in the 24 months preceding commencement of unemployment	150 days of payment to >1,000 days of payment, depending on age and number of contributions.	Yes: With dependents: €438.81 pm (100% of IAS) Living alone: €351.05 pm (80% of IAS).
Romania	Depends on the contribution history of the employee.	No	Average gross monthly income during the last 12 months.	No	12 months during the 24 months preceding the application date.	Varies from 6 months to 12 months, depending on contribution history.	No

TABLE A.1 (CONTD.) UNEMPLOYMENT BENEFITS IN EU COUNTRIES AND THE UK

Country	Unemployment insurance benefit	Unemployment assistance benefit	Unemployment insurance benefit	Unemployment assistance benefit	Unemployment insurance benefit	Unemployment assistance benefit	Unemployment insurance benefit
Slovakia	50% of ref. income.	No	Average gross earnings during last 2 years.	Maximum rate only	At least 2 years of insurance contributions during last 4 years	6 months	No
Slovenia	*First 3 months: 80% of the reference income, *4-12 months: 60% of the ref inc., *12 months+: 50% of ref inc.	No	Average gross monthly earnings received during the 8 months before unemployment.	Yes	6 months insurance during previous 24 months.	Depends on age and contribution years.	No
Spain	70% of the calculation basis for first 180 days. 50% thereafter.	Yes but indirectly. The min and max increases if the beneficiary has children.	Average of contribution base during the 180 days immediately preceding unemployment or up to the date when the obligation of making compulsory contributions ended.	Yes	At least 360 days of insurance contributions during the 6 years immediately preceding unemployment.	4 months to max of 2 years. Depends on no. contributions over preceding 6 years.	Yes, €463.22

TABLE A.1 (CONTD.) UNEMPLOYMENT BENEFITS IN EU COUNTRIES AND THE UK

Country	Unemployment insurance benefit	Unemployment assistance benefit	Unemployment insurance benefit	Unemployment assistance benefit	Unemployment insurance benefit	Unemployment assistance benefit	Unemployment insurance benefit
Sweden	80% of reference income during first 200 days; 70% during next 100 days.	No, but period receiving benefit increases for child dependants.	Daily average income during previous 12 months.	Maximum rate only	**For basic insurance:** More than 6 months employment and more than 80 hrs of work per month during the last 12 months	300 days (increased for those with child dependants).	No
Switzerland	70% reference income.	Yes	Average monthly pay over last 6 months.	Maximum rate only	12 months contributions in two years preceding unemployment	200-520 daily allowances, depending on age and no. contributions.	No
UK	**Flat rates:** ≤24 y/o: €70.83 p/w >25 y/o: €89.37 p/w.	No	No	No	Individual who has worked and paid Class 1 National Insurance in last 2-3 years is eligible. Quantity not specified.	Up to 182 days	No

Source: Missoc Comparative Tables for 2021, updated 1 July 2021.

TABLE A.2 ILLNESS BENEFITS IN EU COUNTRIES AND THE UK

	Rate	Duration	Waiting period	Statutory continued payment by employer
Austria	50% of gross wage, increased after 42 days	26 weeks	3 days	6 to 12 weeks full wage and 4 week half wage
Belgium	60% of gross earnings with a cap	1 year	No	White collar workers: 1 month, blue collar workers: 7 days
Bulgaria	80% of daily gross earnings	Until recovery or establishment of invalidity	No	First 3 days, 70% of daily gross salary
Croatia	70% or more depending on collective agreement	1 year	No	First 42 days
Cyprus	60% of gross earnings	156 days	3 days	–
Czech Republic	60% of daily gross earnings, increased over time	380 days with a possible extension for another 350 days	No	First 14 days paid by employer, 60% of the hourly average earnings
Denmark	100% of gross earnings with a cap	22 weeks	No	Depending on collective agreement
Estonia	70% of gross wage	182 days	3 days	From 4th to 8th day of sick leave
Finland	Calculated through formula based on wage level	300 days	9 working days	First 9 days
France	50% of daily earnings with a cap	12 months	3 days	No
Germany	70% of normal wage	78 weeks	No	Up to 6 weeks
Greece	50% of first 12 days, increased to 100% after and with increases for dependants	From 182 to 720 days, depending on contributions	No	First 3 days, 50% of wage
Hungary	60% of daily gross earnings	1 year	No	Up to 15 working days per annum, 70% of the daily gross earnings
Ireland	€203 per week with increases for dependants	From 1 year to 2 years depending on contributions	3 days	No

TABLE A.2 (CONTD.) ILLNESS BENEFITS IN EU COUNTRIES AND THE UK

Country	Rate	Duration	Waiting period	Statutory continued payment by employer
Italy	50% of earnings the first 20 days, increased afterwards	6 months	3 days	Yes for the whole duration of the benefit. The benefit is paid to the employer
Latvia	80% of gross wage	26 weeks	1 day	10 days, 75%-80% of earnings
Lithuania	62.06% of wage	4 months	No	First 2 days, 62.06% of wage
Luxembourg	100% of wage	78 weeks	No	First 77 days, but employer is refunded 80% of salary
Malta	€14.01 per day, increased to €21.64 in case of dependants	156 working days	3 days	Yes, for the whole duration of the benefit. The benefit is paid to the employer
Netherlands	No, but continuance of payment	104 weeks	2 days	Paid by the employer for the whole duration, 70% of wage
Norway	100% of wage but with cap	1 year	No	First 16 days paid by the employer
Poland	80% of wage	182 days	No	First 33 days. 80% of wage
Portugal	55% the first 30 days, increased over time	1,095 days	3 days	No
Romania	75% of gross earnings	183 days	No	First five days
Slovakia	55% of daily earnings	1 year	No	First 10 days paid by employer, 25%-55% of wage
Slovenia	90% of wage	No limitation	No	First 30 days
Spain	60% of wage the first 16 days, increased to 75% afterwards	1 year	3 days	From the 4th to the 15th days, 60% of wage
Sweden	80% of income * 0.97 for the first three months	No limitation	No	First 14 days paid by employer, 80% of wage
UK	No, but continuance of payment	28 weeks	4 days	£99.35 per week paid by the employer

Source: Missoc Comparative Tables for 2021, updated 1 July 2021 .

TABLE A.3 MATERNITY BENEFITS IN THE EU COUNTRIES AND THE UK

Country	Rate	Duration
Austria	100% of net earnings	8 weeks
Belgium	82% of gross daily wage (no cap)	17 weeks
Bulgaria	90% of daily income	410 days
Croatia	100% of monthly earnings	6 months
Cyprus	72% of weekly earnings, increased for dependants	18 weeks
Czech Republic	70% of daily earnings with cap	28 weeks
Denmark	based on wage with cap	6 weeks
Estonia	100% of wage	140 days
Finland	90% of wage with lower replacement rates after a wage threshold	105 days
France	100% of wage with a cap	16 weeks
Germany	100% of wage (partly compensated by employer)	14 weeks
Greece	67% of wage with a cap	119 days
Hungary	100% of daily gross wage	24 weeks
Iceland	80% of previous income	12 months
Ireland	€245 per week, increased for dependants	26 weeks
Italy	80% of earnings	5 months
Latvia	80% of average gross wage	112 days
Liechtenstein	80% of wage	20 weeks
Lithuania	77.6% of wage	126 days
Luxembourg	only if wage is discontinued	20 weeks
Malta	€99.59 per week	14 weeks
Netherlands	100% of daily wage with a cap	16 weeks
Norway	no public benefit -16 months paid by the employer	6 to 10 months
Poland	100% of wage	20 weeks
Portugal	100% of wage	6 weeks + 150 days
Romania	85% of wage	126 days
Slovakia	75% of earnings	34 weeks
Slovenia	100% of earnings	105 days
Spain	100% of earnings	16 weeks
Sweden	80% of income * 0.97 for the first three months, reduced after	390 days
Switzerland	80% of average income	14 weeks
UK	90% of weekly earnings for first 6 week, with cap for the next 33 weeks	26 weeks + 26 weeks

Source: Missoc Comparative Tables for 2021, updated 1 July 2021.

APPENDIX B

FIGURE B.1 REFORM 1 BASELINE VERSUS 60% OF PREVIOUS EARNINGS WITH MAXIMUM CAPS BASED ON PUP RATES

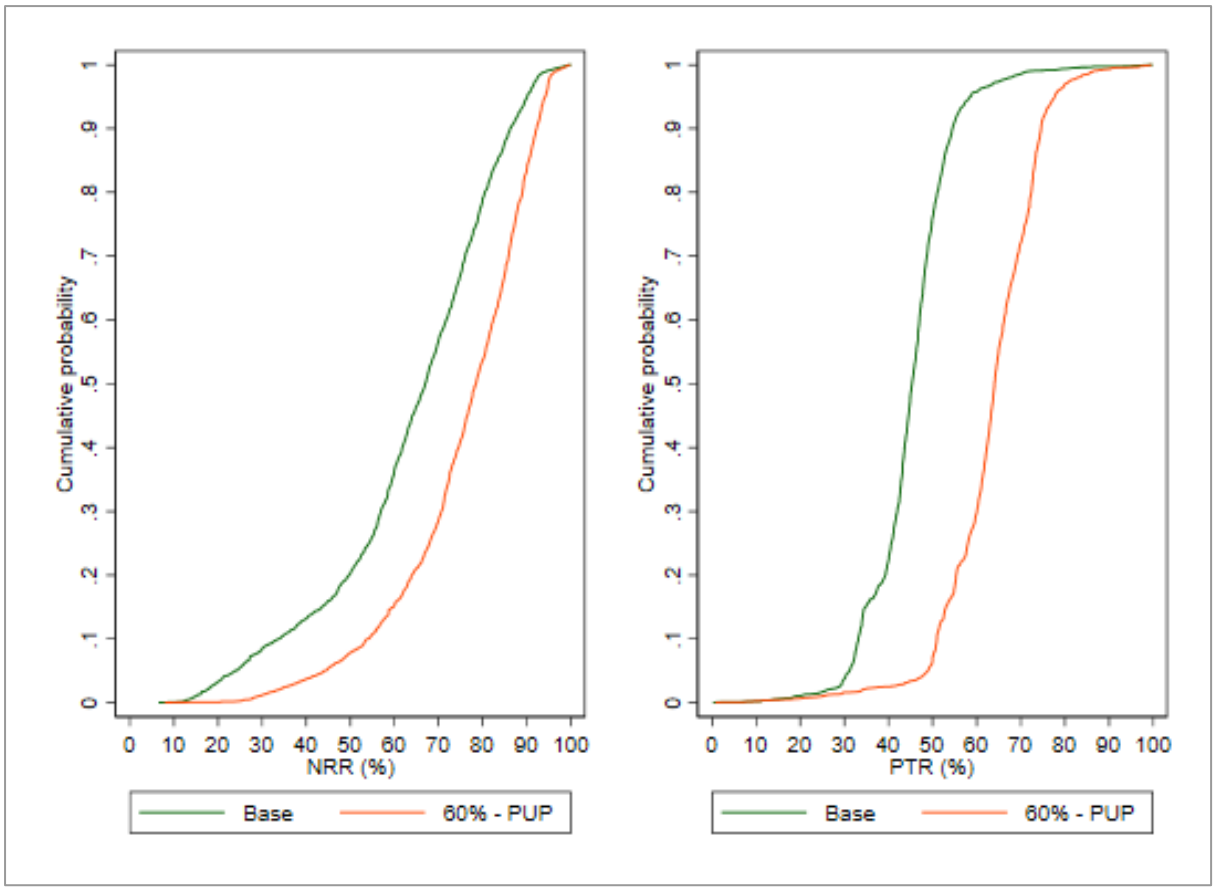
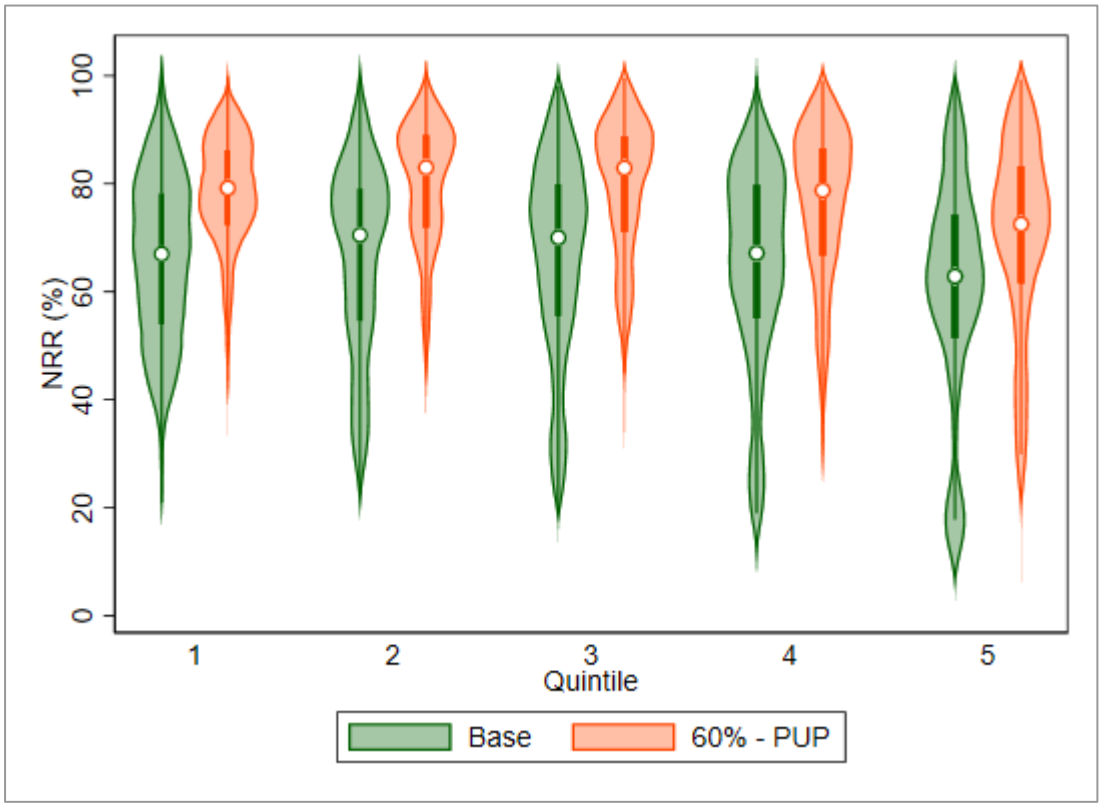


FIGURE B.1 (CONTD.) REFORM 1 BASELINE VERSUS 60% OF PREVIOUS EARNINGS WITH MAXIMUM CAPS BASED ON PUP RATES



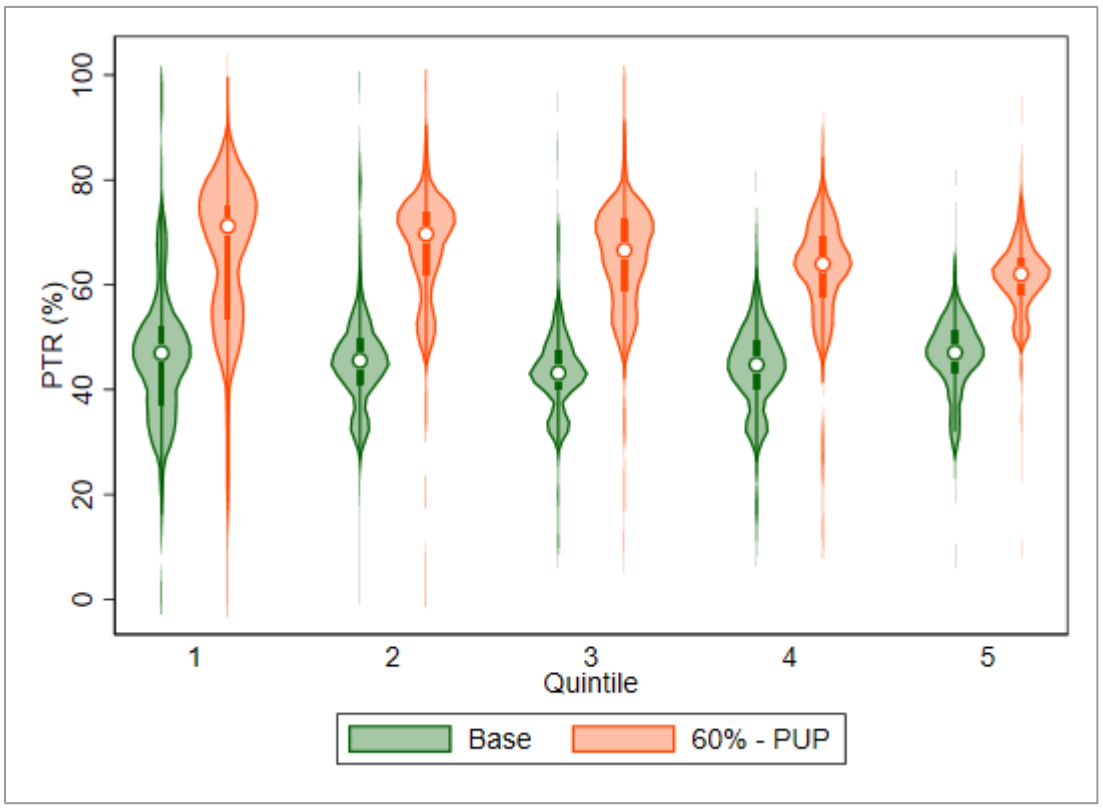


FIGURE B.2 REFORM 2: BASELINE VERSUS 60% OF PREVIOUS EARNINGS WITH MAXIMUM CAP SET AT 60% OF MEAN WAGE

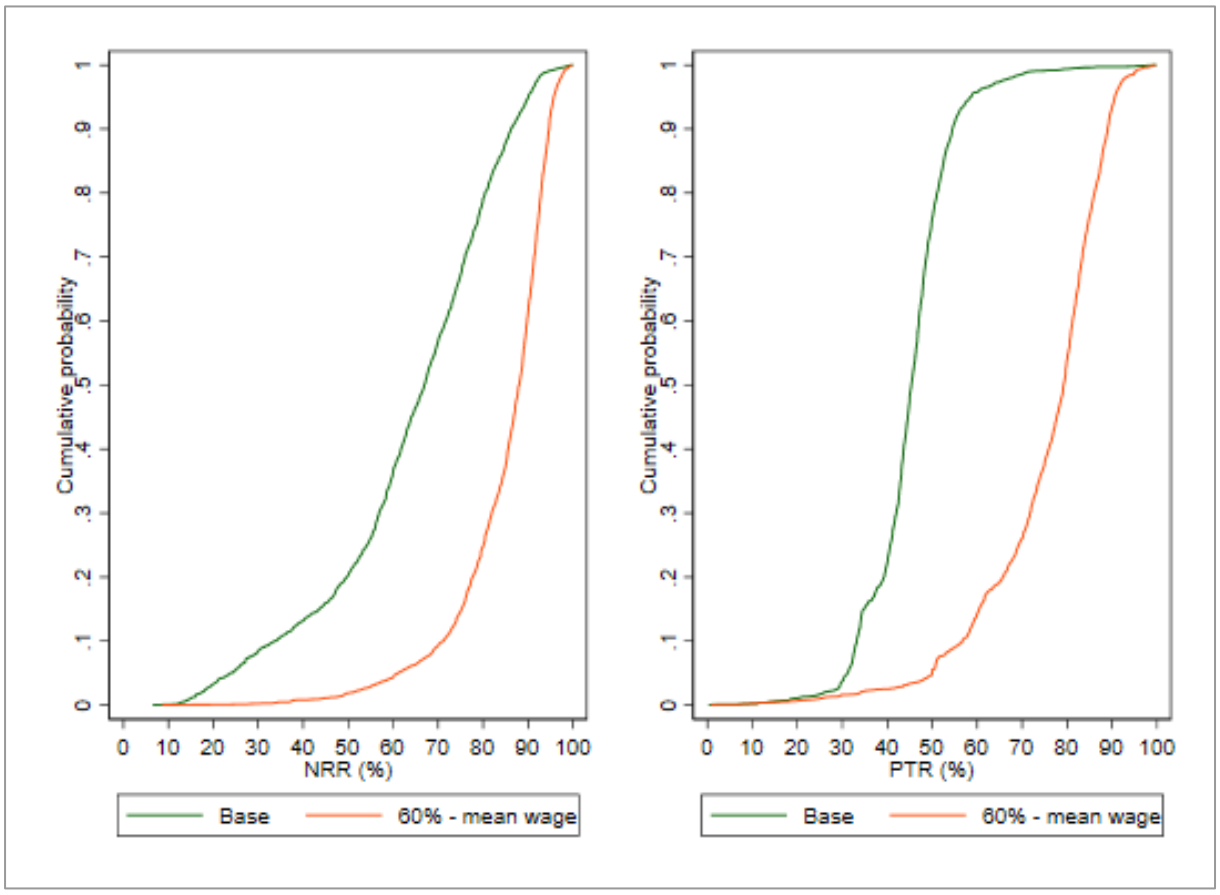


FIGURE B.2 (CONTD.) REFORM 2: BASELINE VERSUS 60% OF PREVIOUS EARNINGS WITH MAXIMUM CAP SET AT 60% OF MEAN WAGE

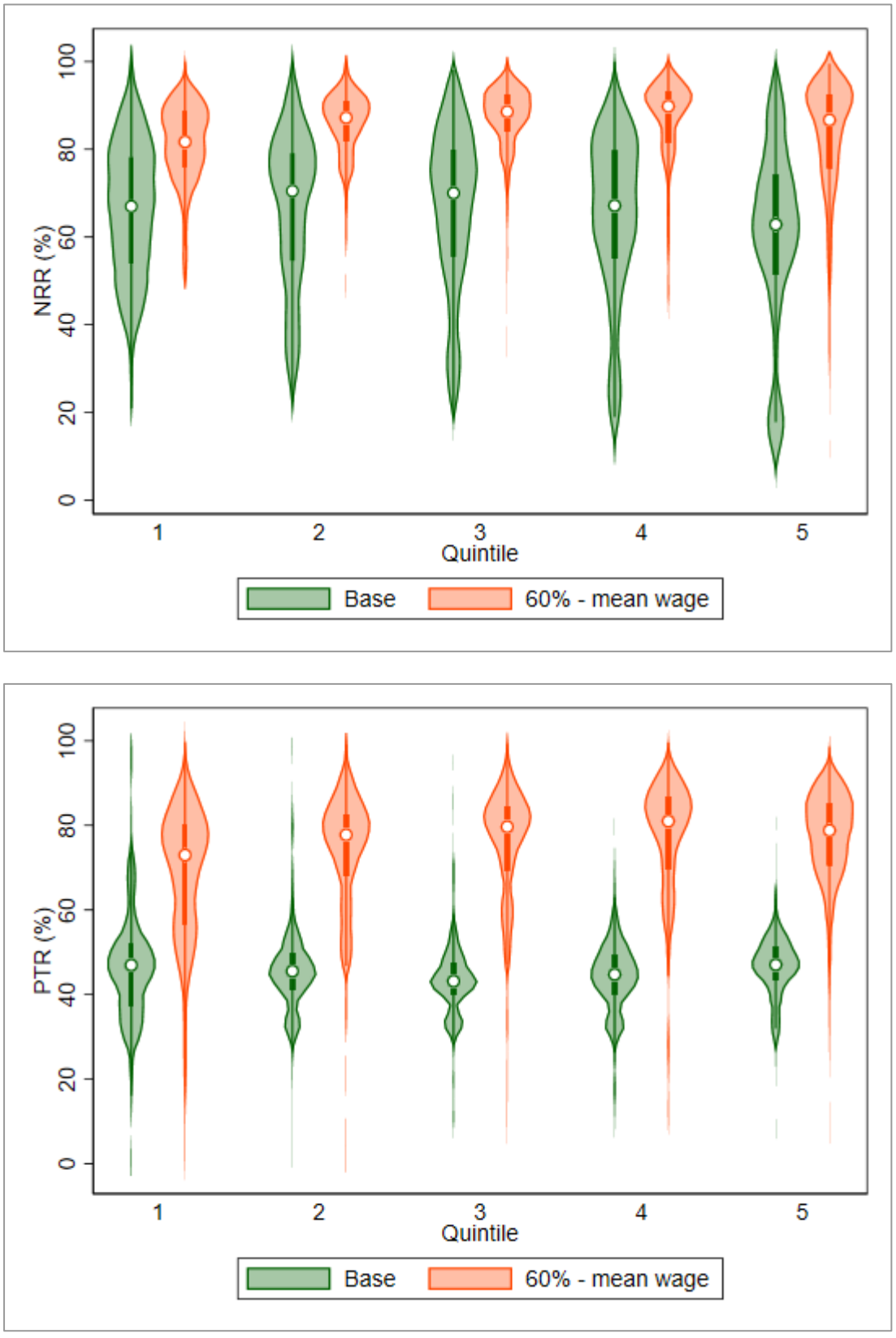


FIGURE B.3 BASELINE VERSUS 65% OF PREVIOUS EARNINGS WITH MAXIMUM CAPS BASED ON PUP RATES

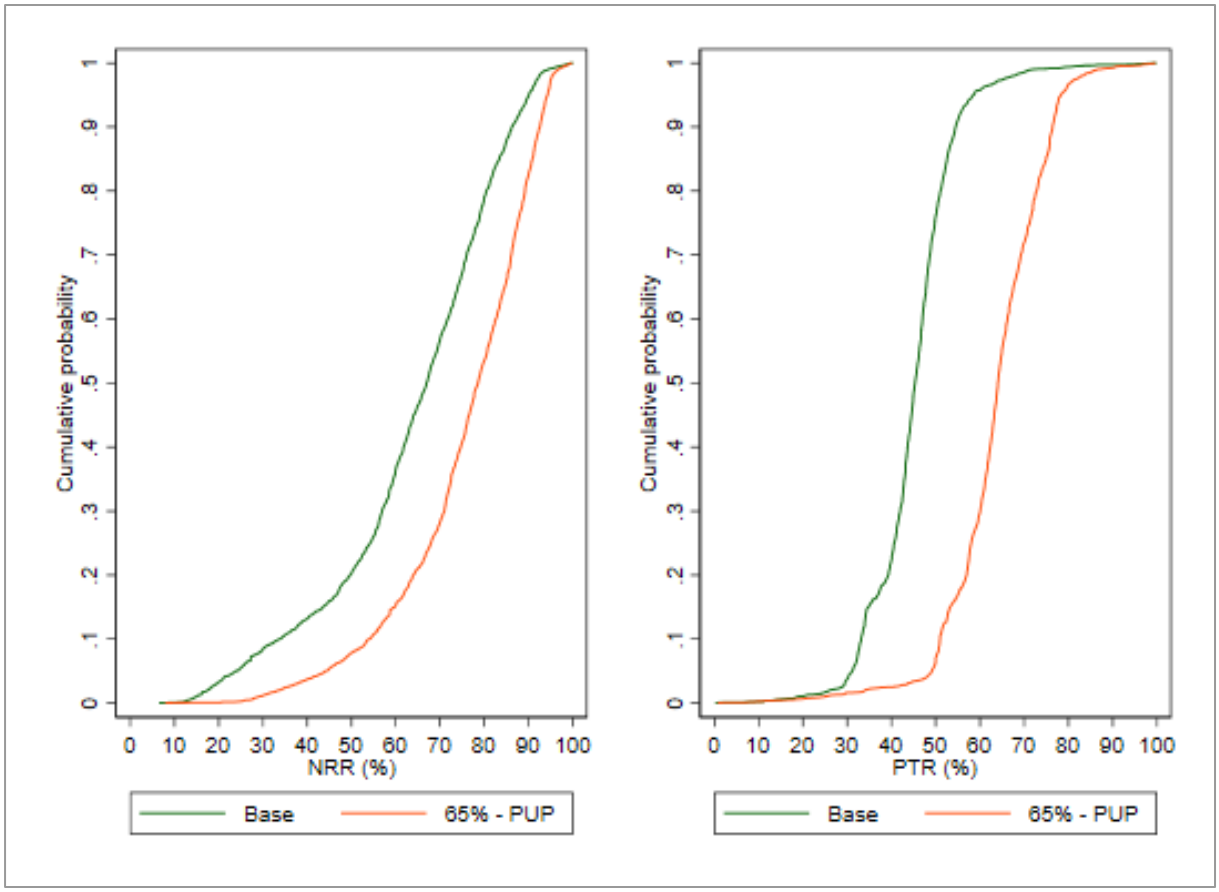


FIGURE B.3 (CONTD.) BASELINE VERSUS 65% OF PREVIOUS EARNINGS WITH MAXIMUM CAPS BASED ON PUP RATES

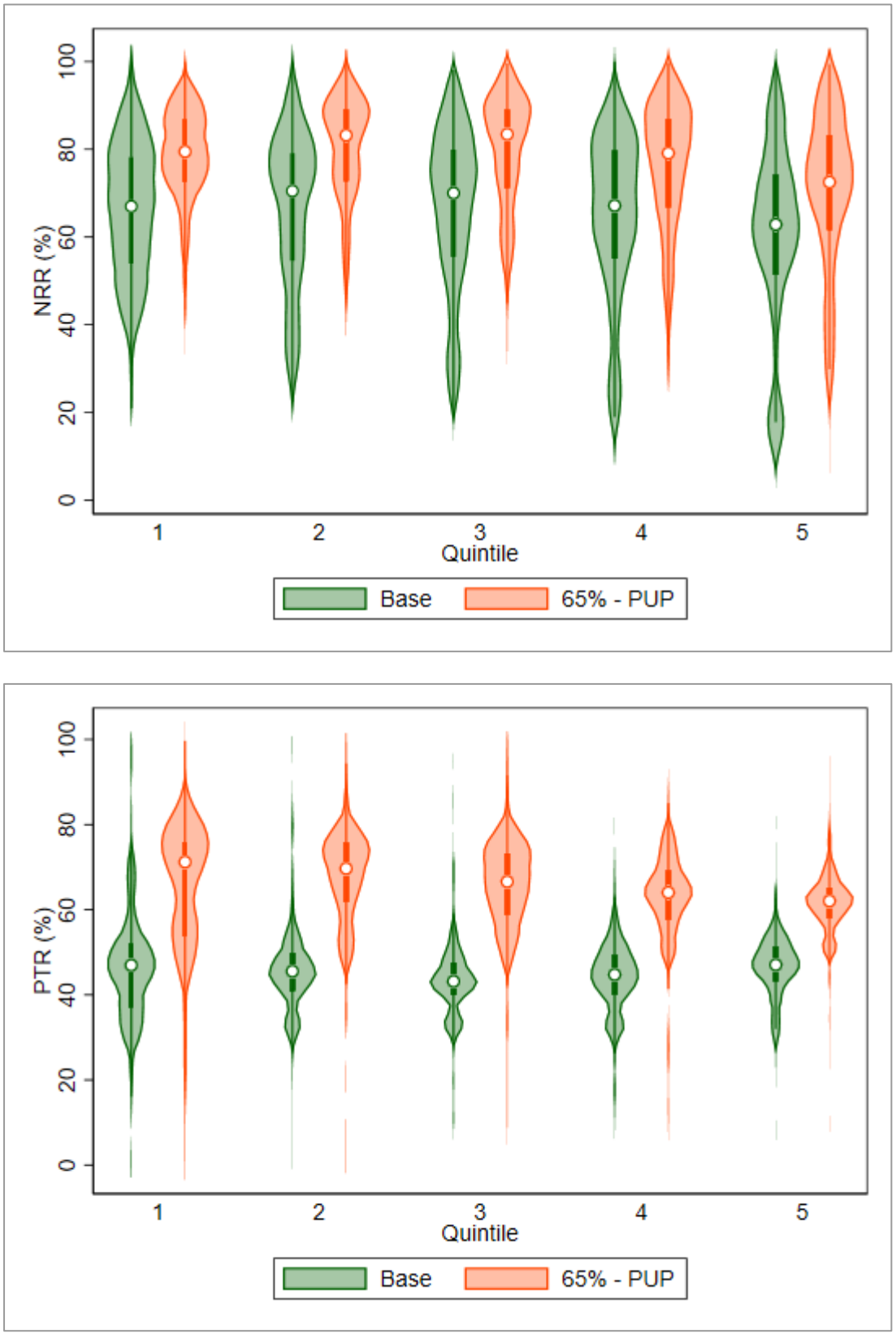


FIGURE B.4 REFORM 4: BASELINE VERSUS 70% OF PREVIOUS EARNINGS WITH MAXIMUM CAPS BASED ON PUP RATES

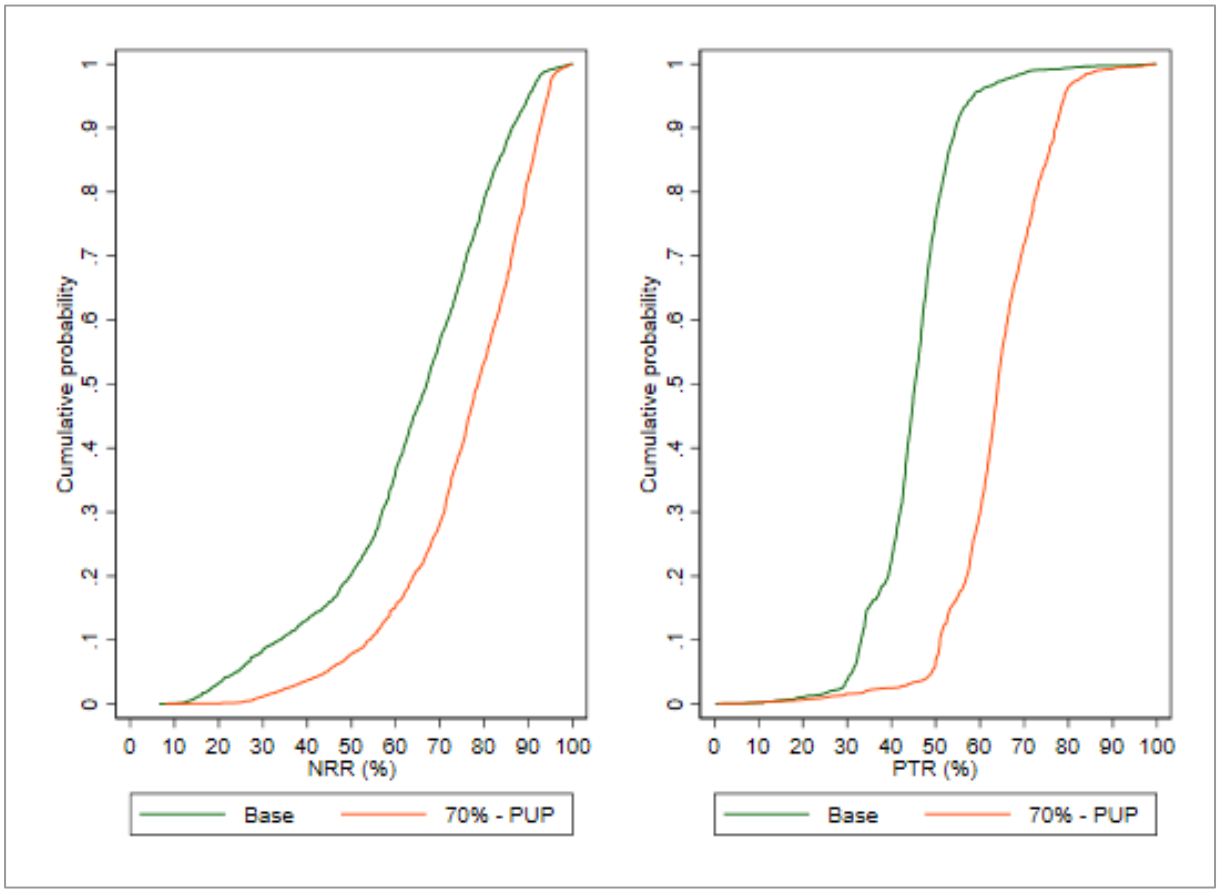
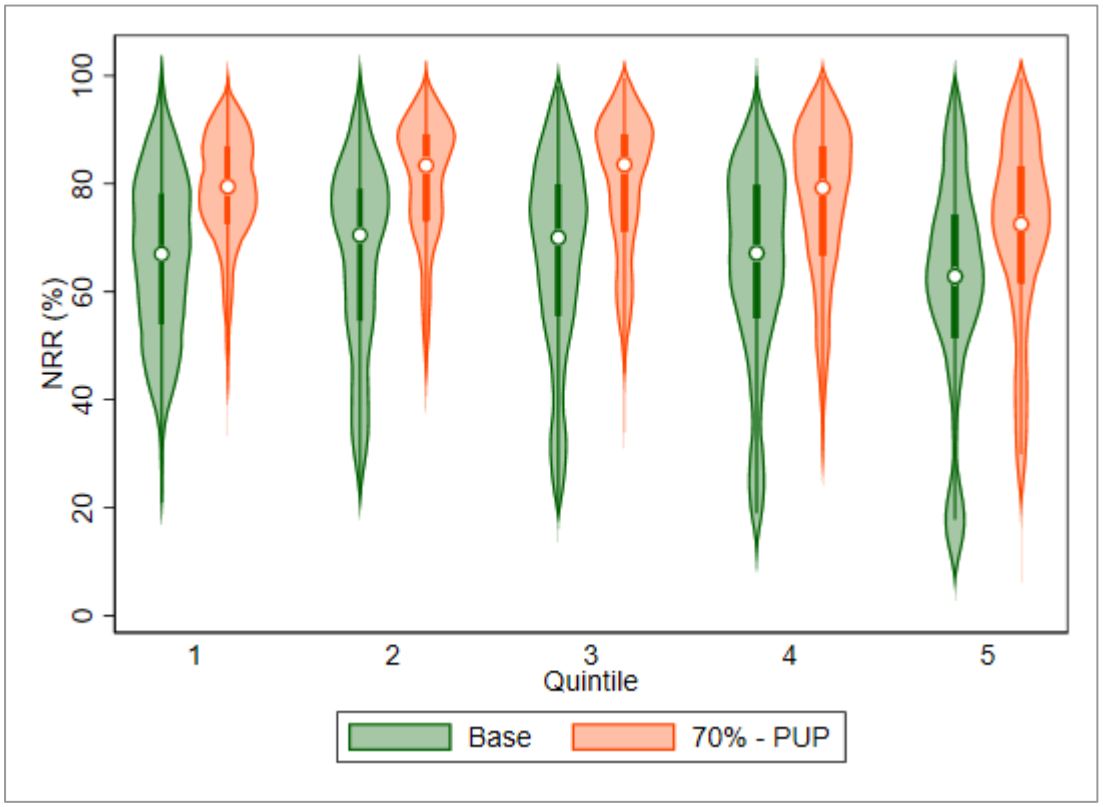


FIGURE B.4 (CONTD.) REFORM 4: BASELINE VERSUS 70% OF PREVIOUS EARNINGS WITH MAXIMUM CAPS BASED ON PUP RATES



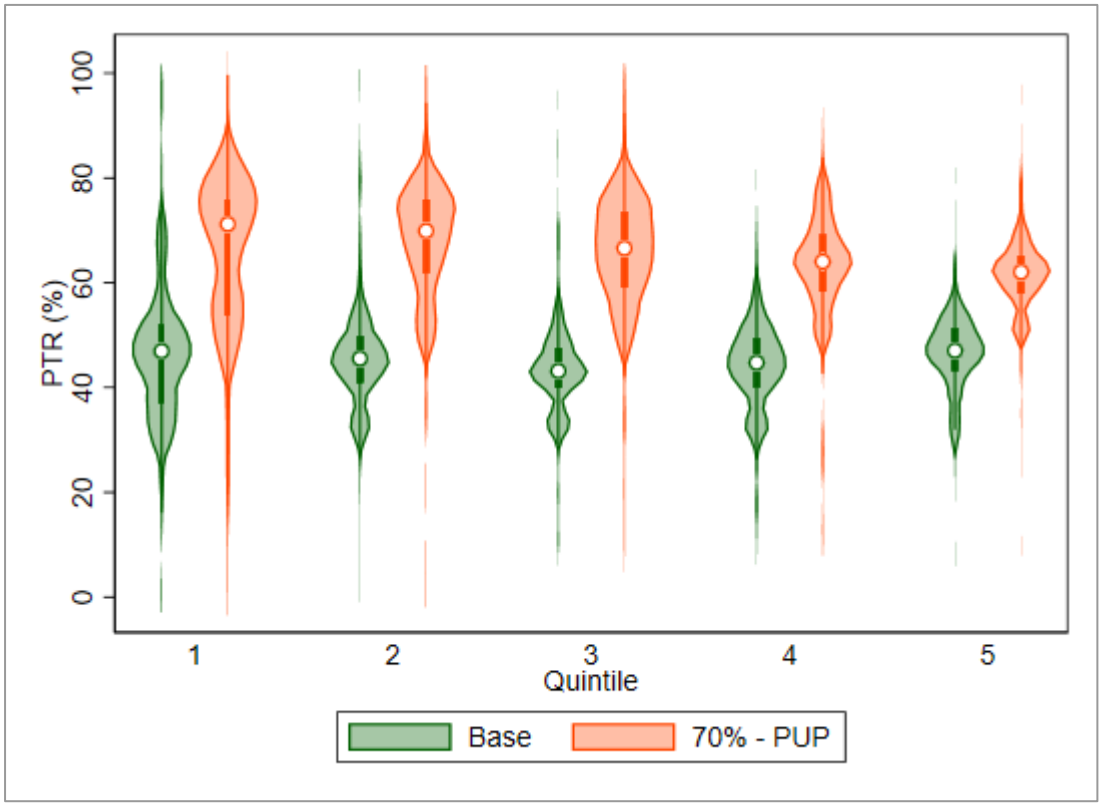


FIGURE B.5 REFORM 5: BASELINE VERSUS 65% OF PREVIOUS EARNINGS WITH MAXIMUM CAP SET AT 65% OF MEAN WAGE

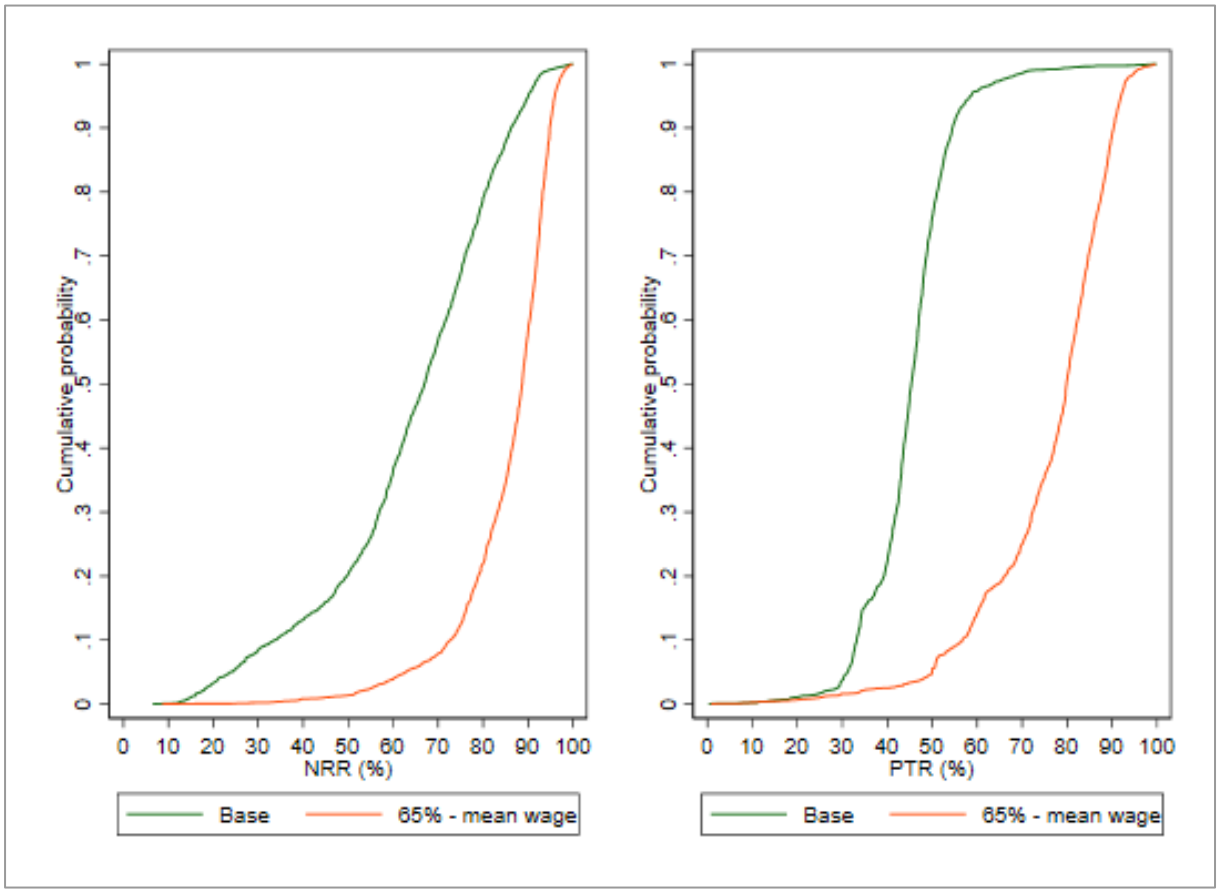
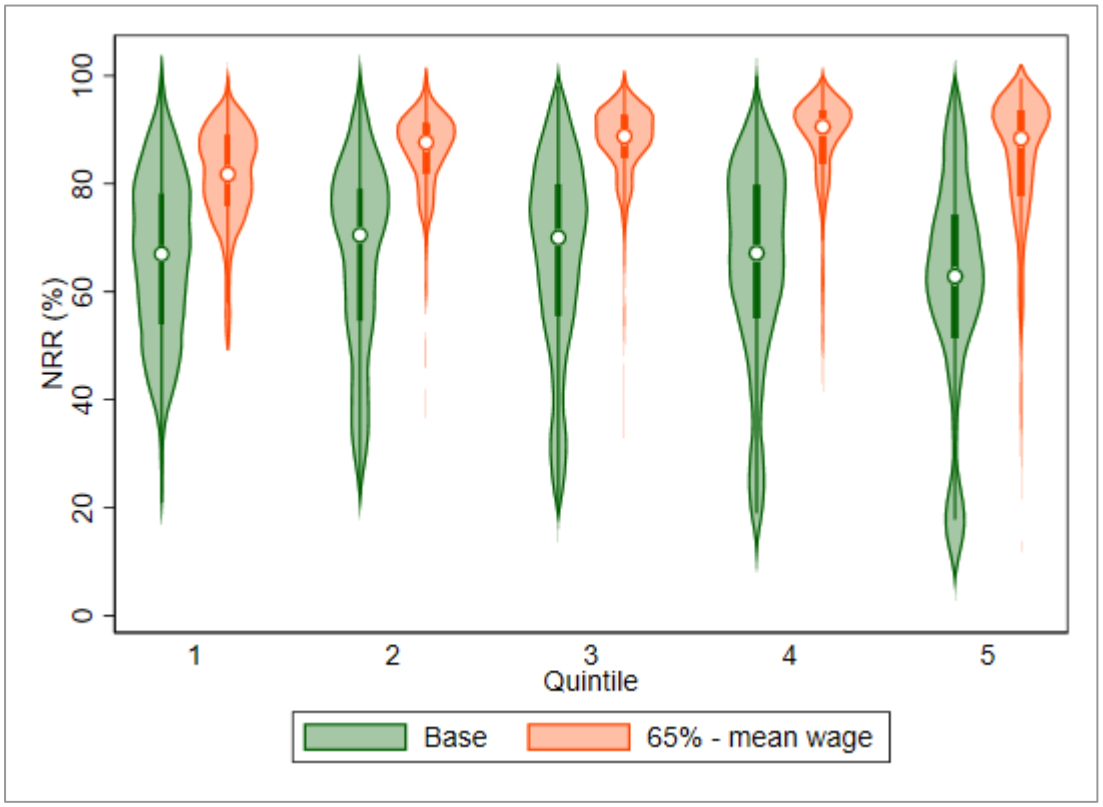


FIGURE B.5 (CONTD.) REFORM 5: BASELINE VERSUS 65% OF PREVIOUS EARNINGS WITH MAXIMUM CAP SET AT 65% OF MEAN WAGE



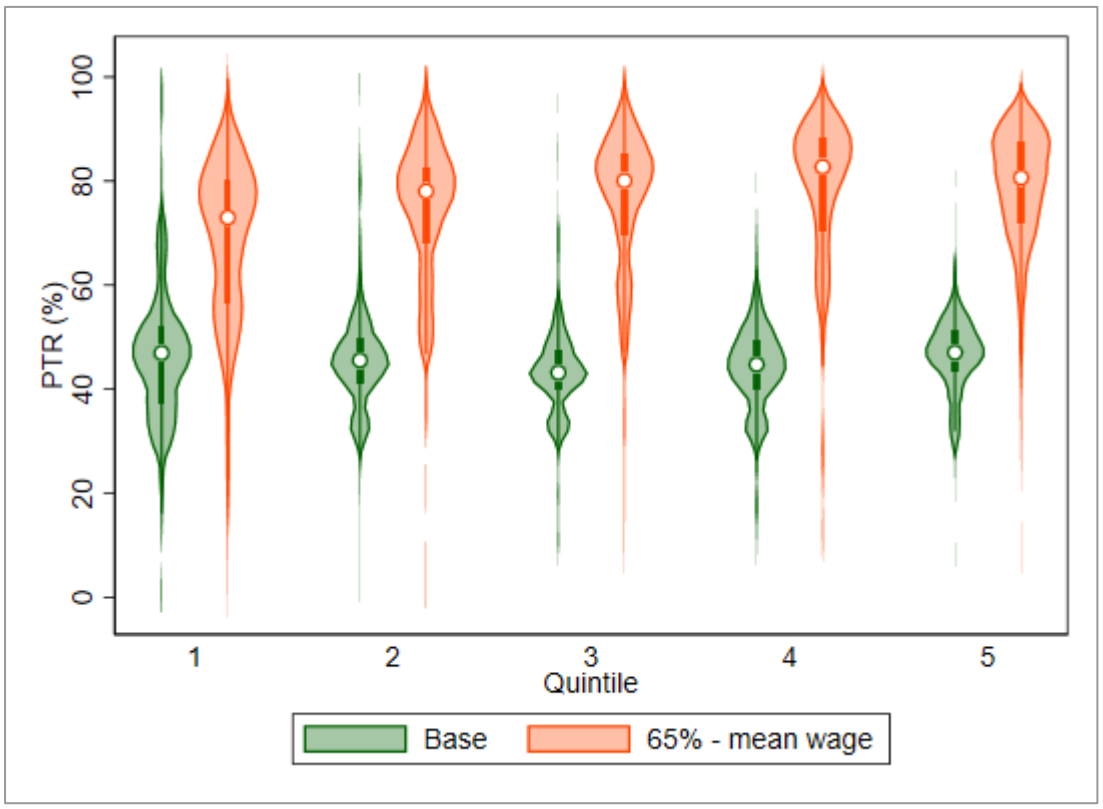


FIGURE B.6 REFORM 6: BASELINE VERSUS 70% OF PREVIOUS EARNINGS WITH MAXIMUM CAP SET AT 70% OF MEAN WAGE

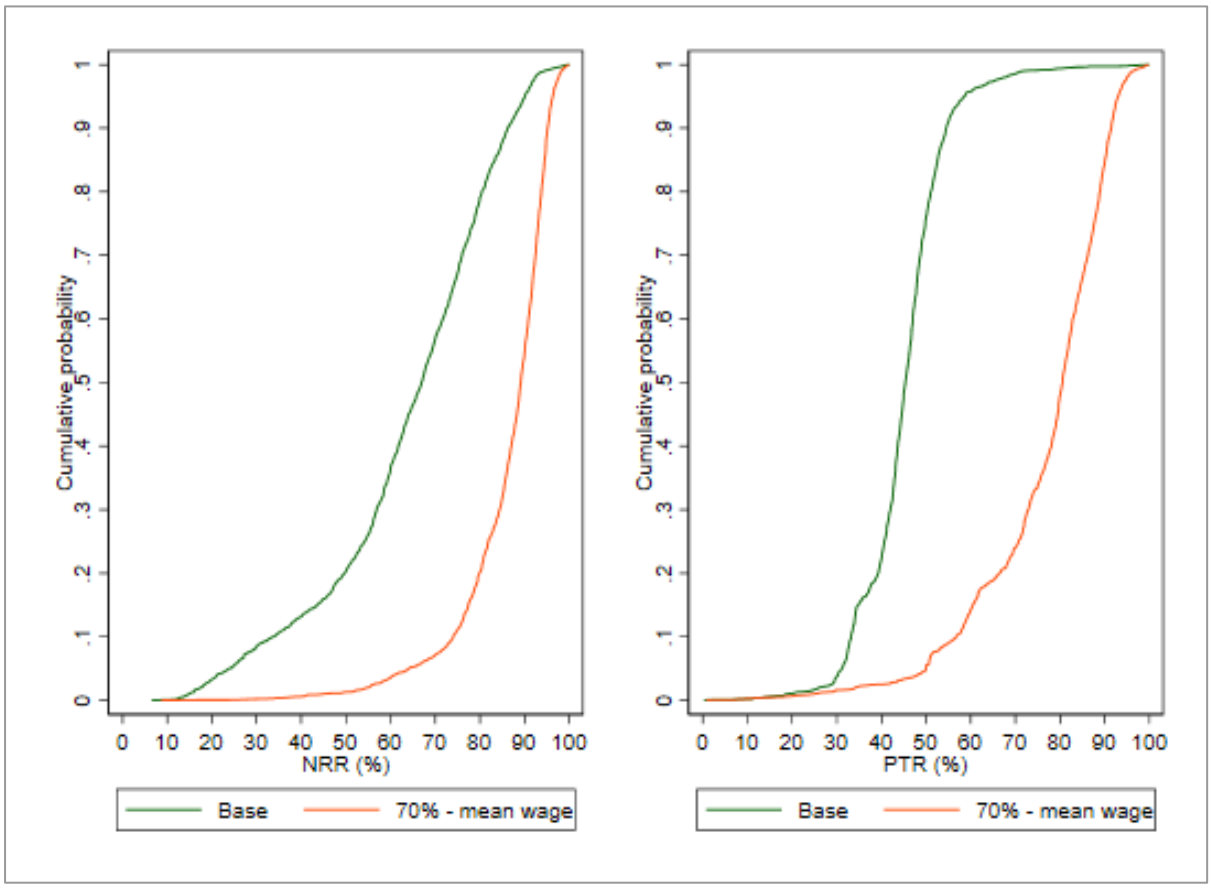
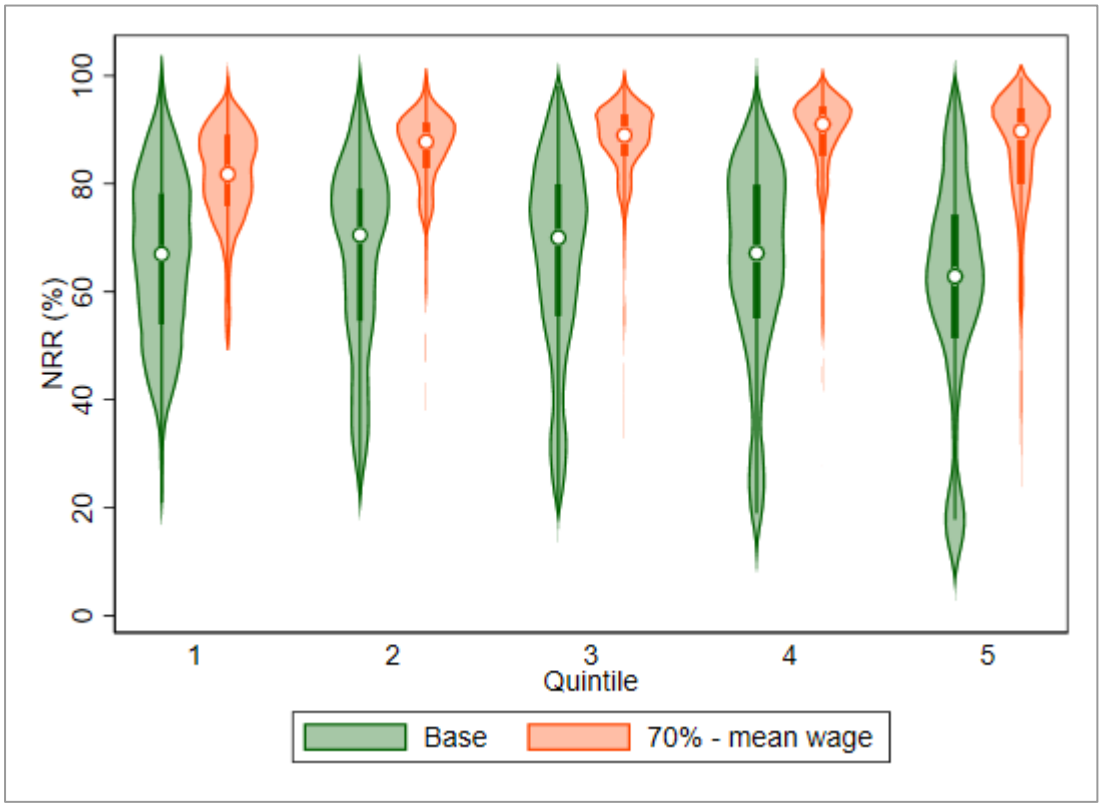


FIGURE B.6 (CONTD.) REFORM 6: BASELINE VERSUS 70% OF PREVIOUS EARNINGS WITH MAXIMUM CAP SET AT 70% OF MEAN WAGE



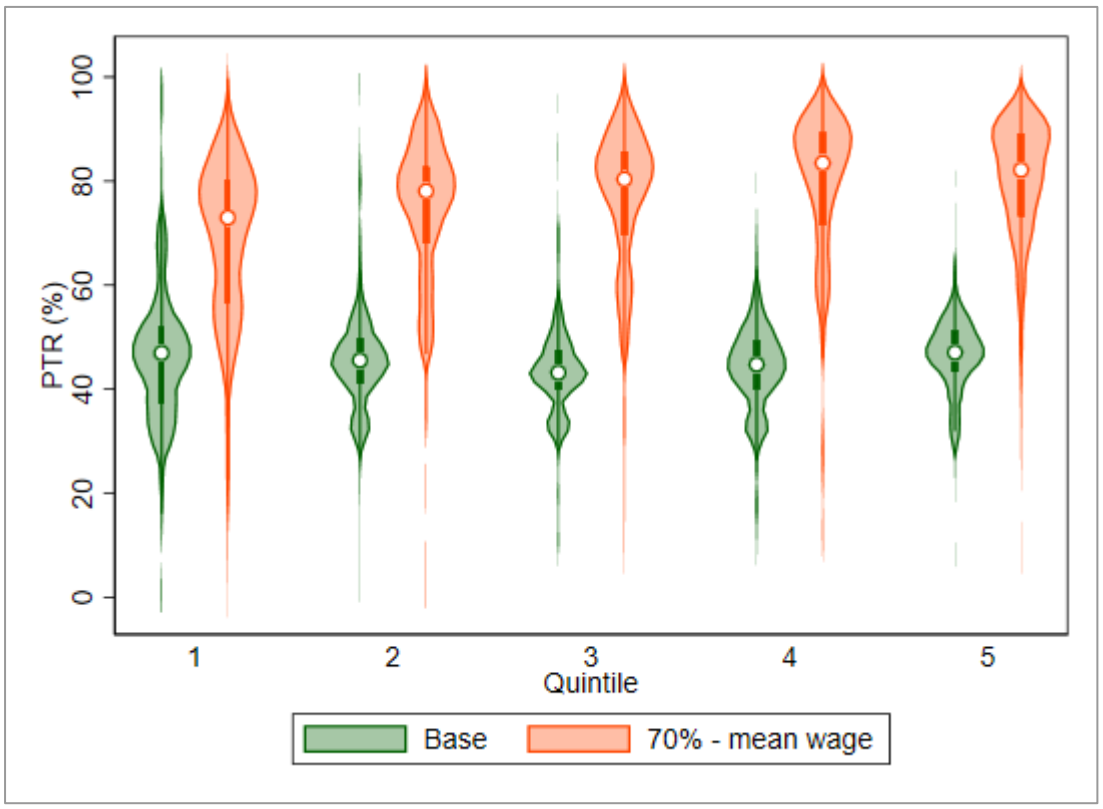


FIGURE B.7 REFORM 7: BASELINE VERSUS 60% OF PREVIOUS EARNINGS WITH MAXIMUM CAP SET AT 43% OF MEAN EARNINGS (TO GIVE COST OF C. €400M)

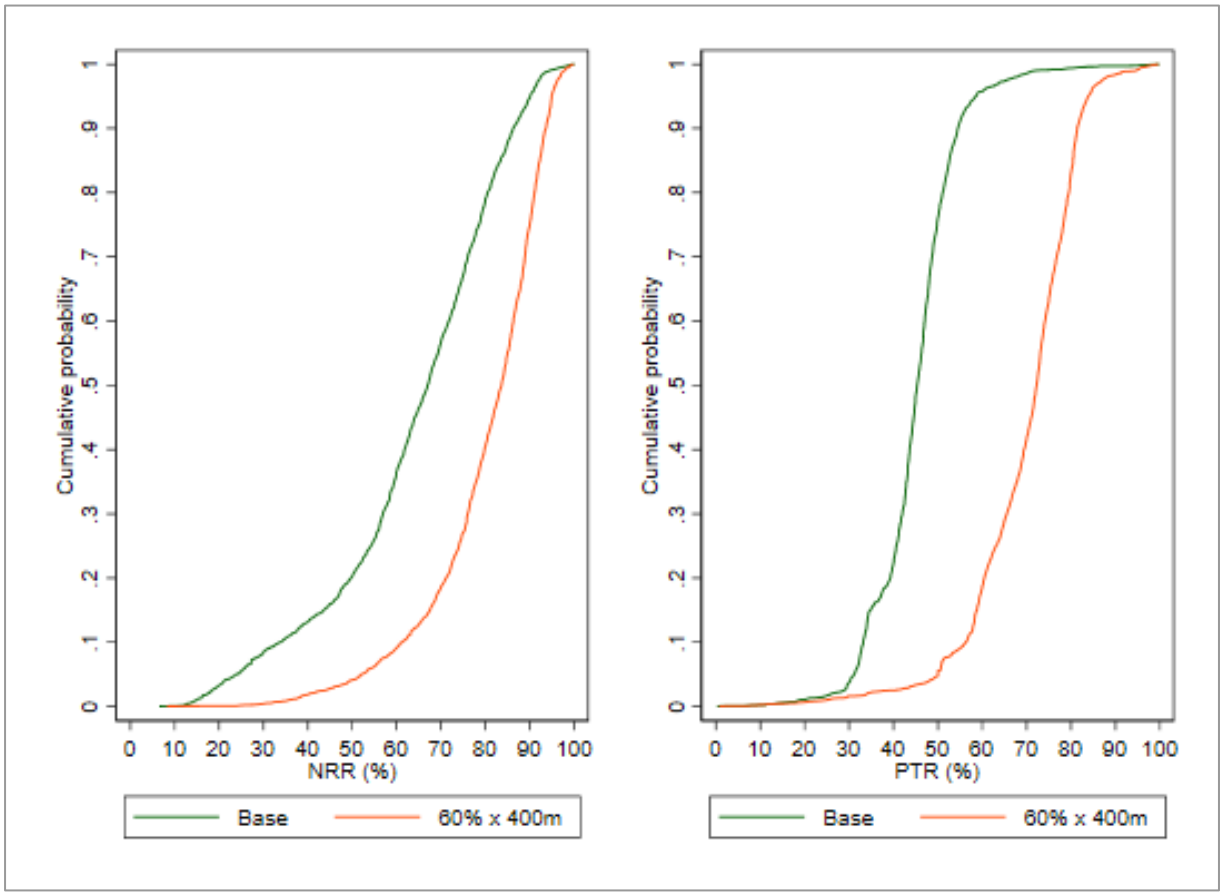
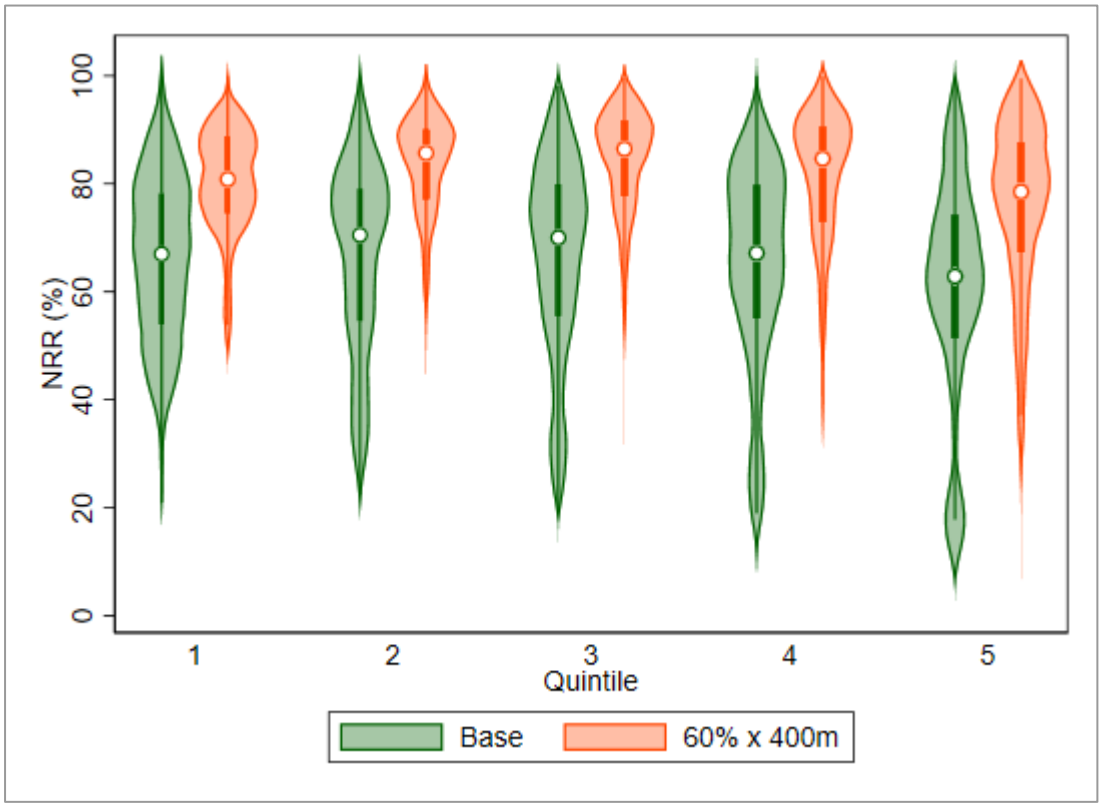


FIGURE B.7 (CONTD.) REFORM 7: BASELINE VERSUS 60% OF PREVIOUS EARNINGS WITH MAXIMUM CAP SET AT 43% OF MEAN EARNINGS (TO GIVE COST OF C. €400M)



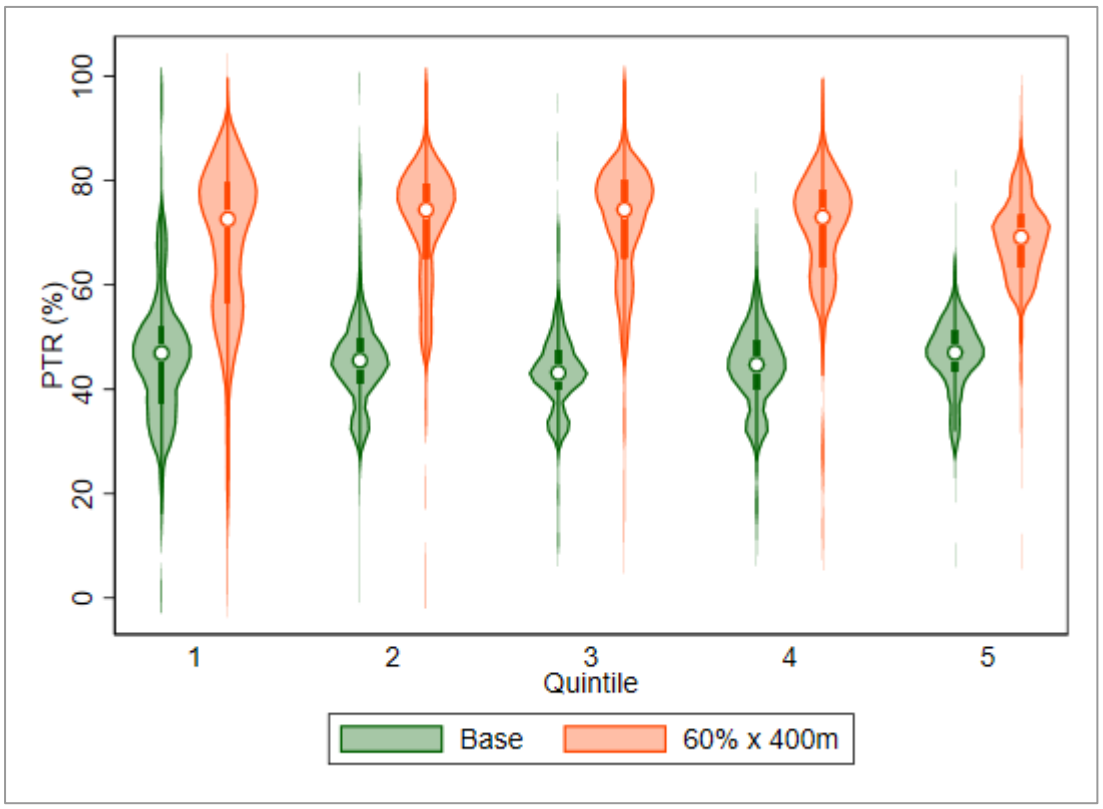


FIGURE B.8 REFORM 8: BASELINE VERSUS 70% OF PREVIOUS EARNINGS WITH MAXIMUM CAP SET AT 43% OF MEAN EARNINGS (TO SHOW WHAT DIFFERENCE GOING TO 70% MAKES)

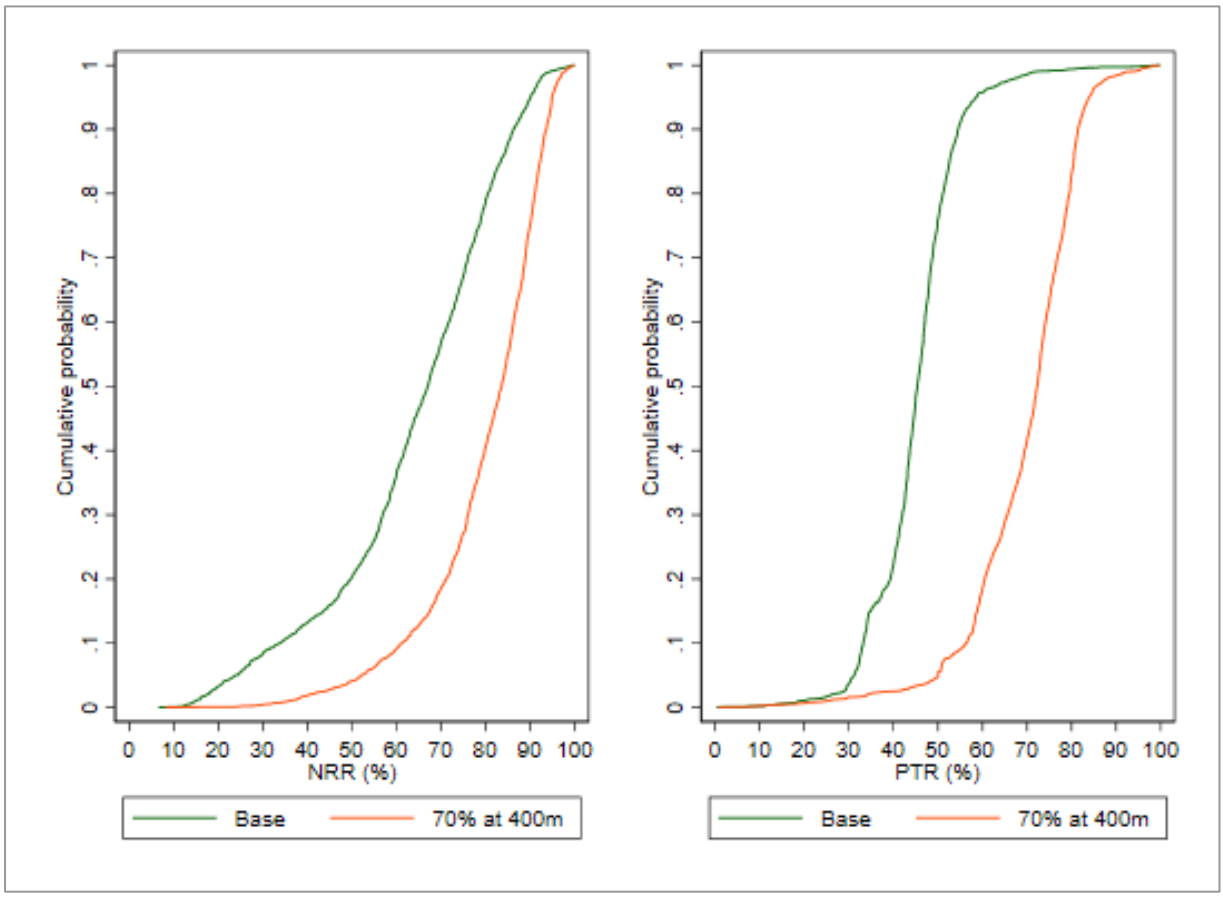
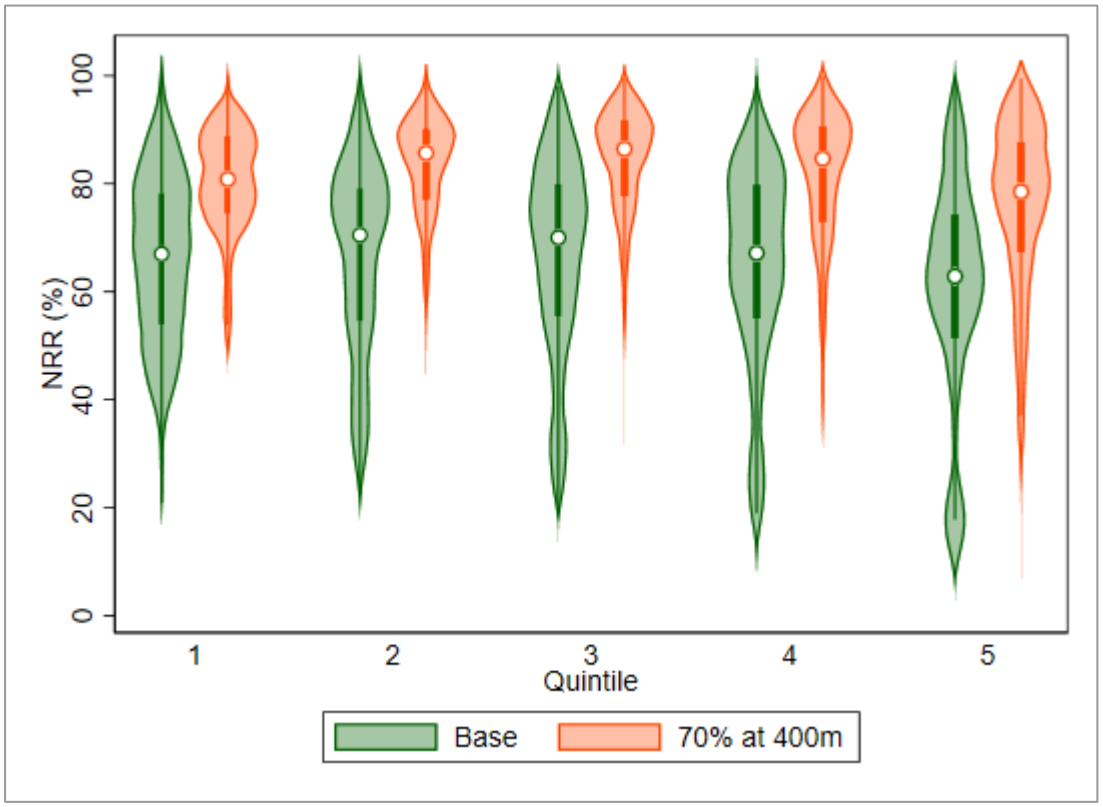


FIGURE B.8 (CONTD.) REFORM 8: BASELINE VERSUS 70% OF PREVIOUS EARNINGS WITH MAXIMUM CAP SET AT 43% OF MEAN EARNINGS (TO SHOW WHAT DIFFERENCE GOING TO 70% MAKES)



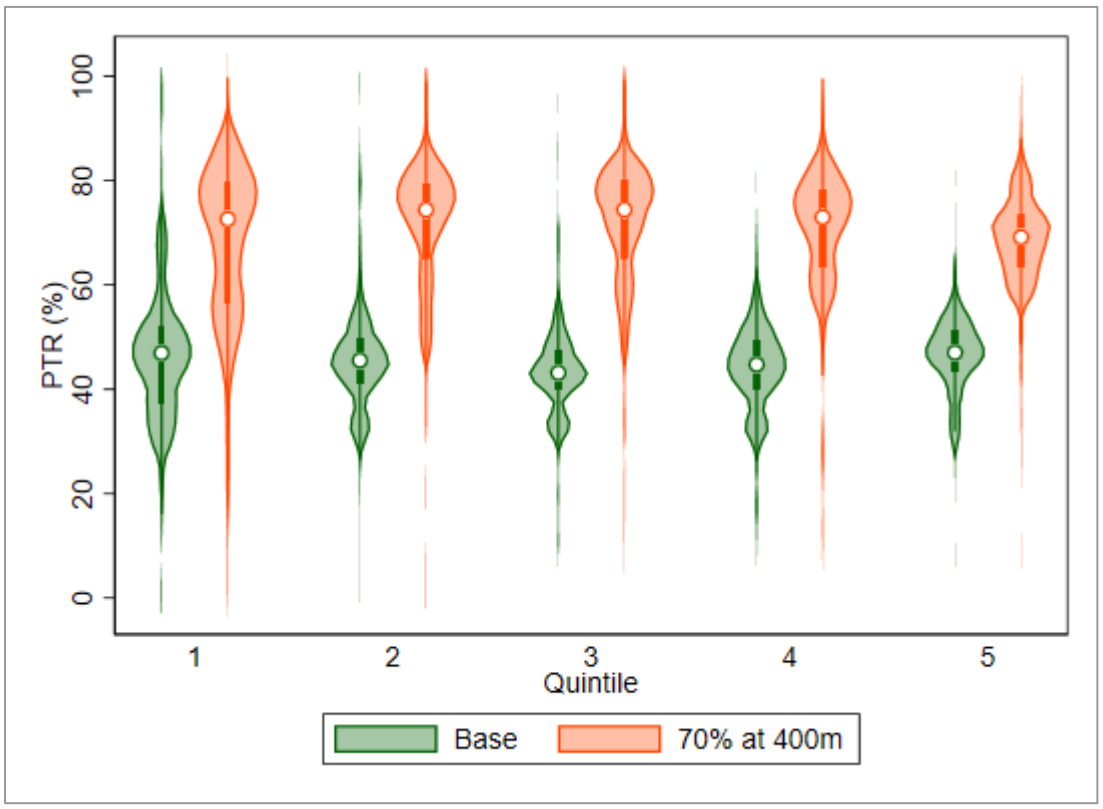


FIGURE B.9 REFORM 9: BASELINE VERSUS 60% OF PREVIOUS EARNINGS WITH MAXIMUM CAP SET AT 51% OF MEAN EARNINGS (TO GIVE COST OF C. €500M)

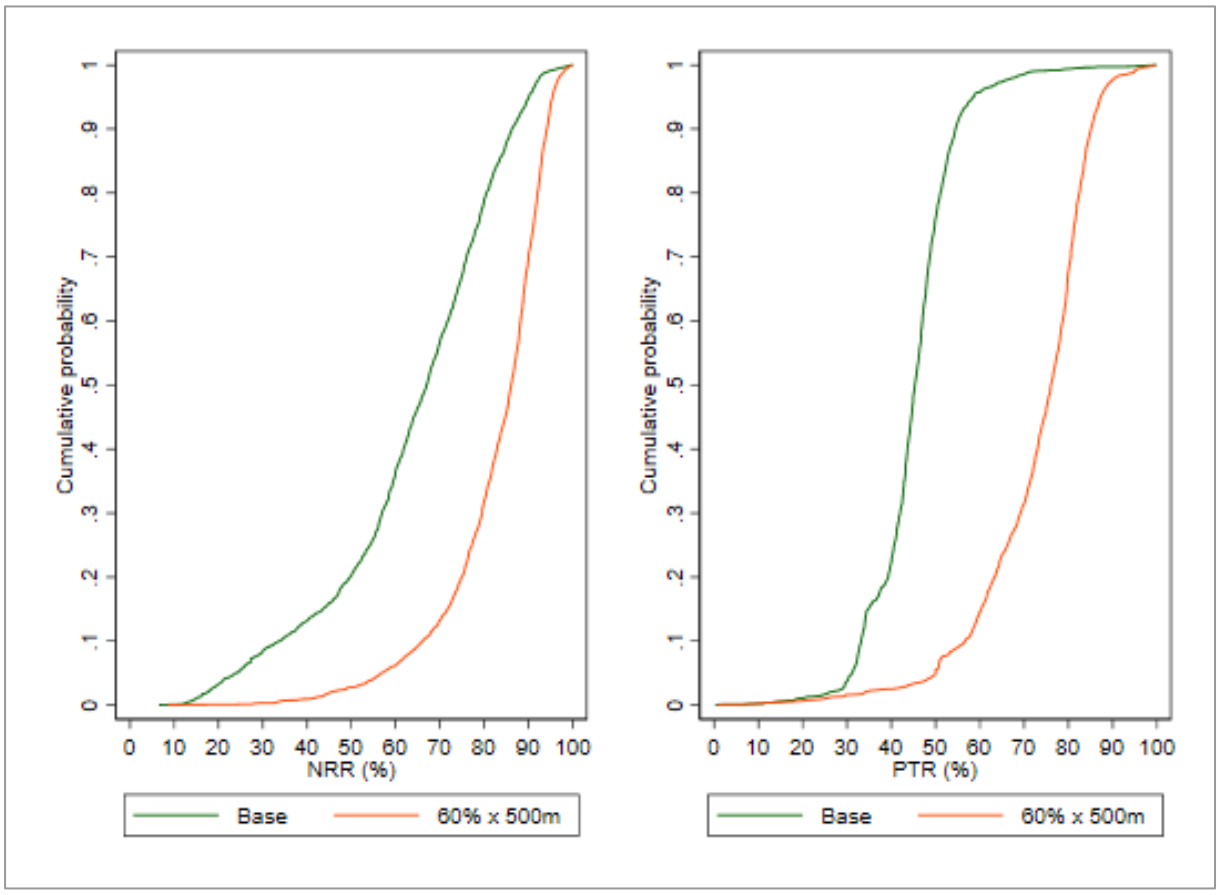
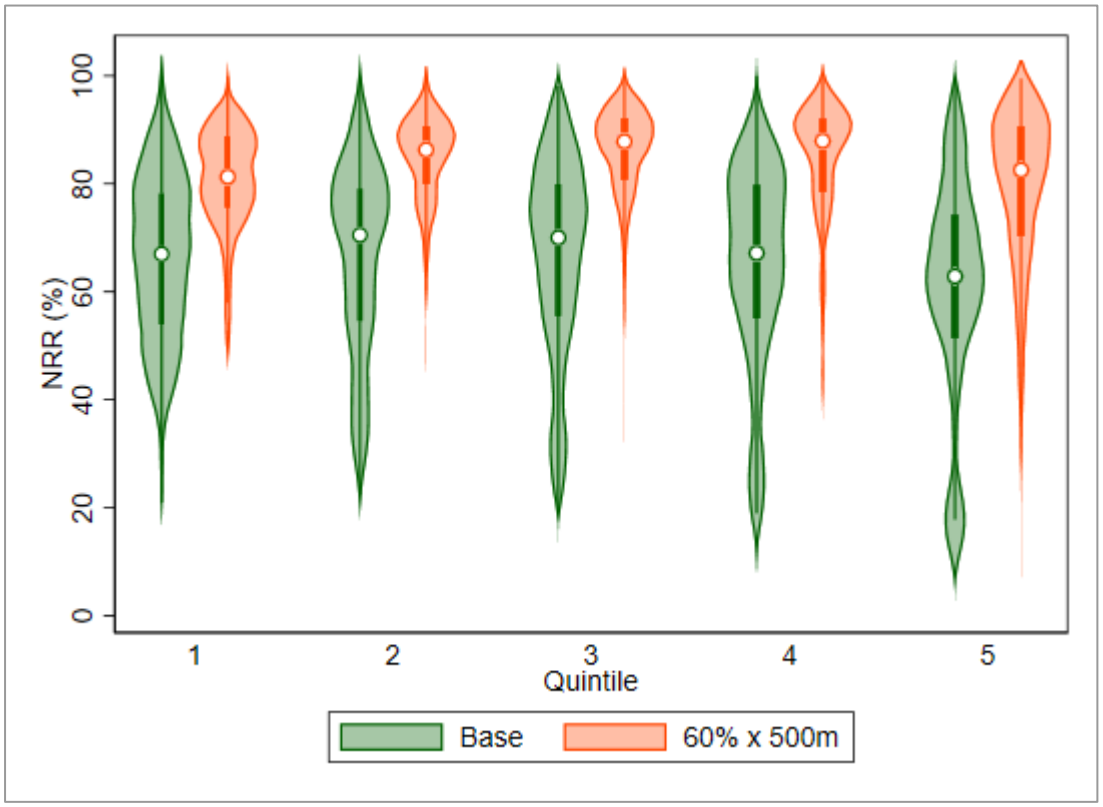


FIGURE B.9 (CONTD.) REFORM 9: BASELINE VERSUS 60% OF PREVIOUS EARNINGS WITH MAXIMUM CAP SET AT 51% OF MEAN EARNINGS (TO GIVE COST OF C. €500M)



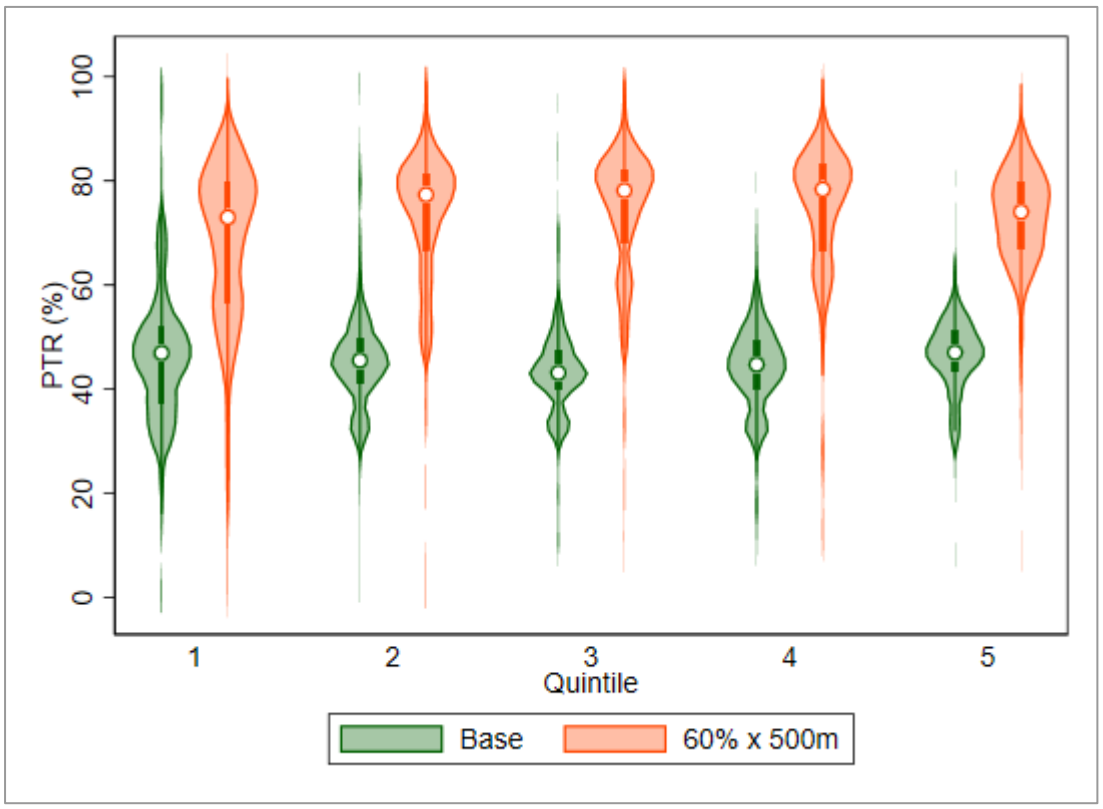


FIGURE B.10 REFORM 10: BASELINE VERSUS 70% OF PREVIOUS EARNINGS WITH MAXIMUM CAP SET AT 51% OF MEAN EARNINGS (TO SHOW WHAT DIFF GOING TO 70% MAKES HERE)

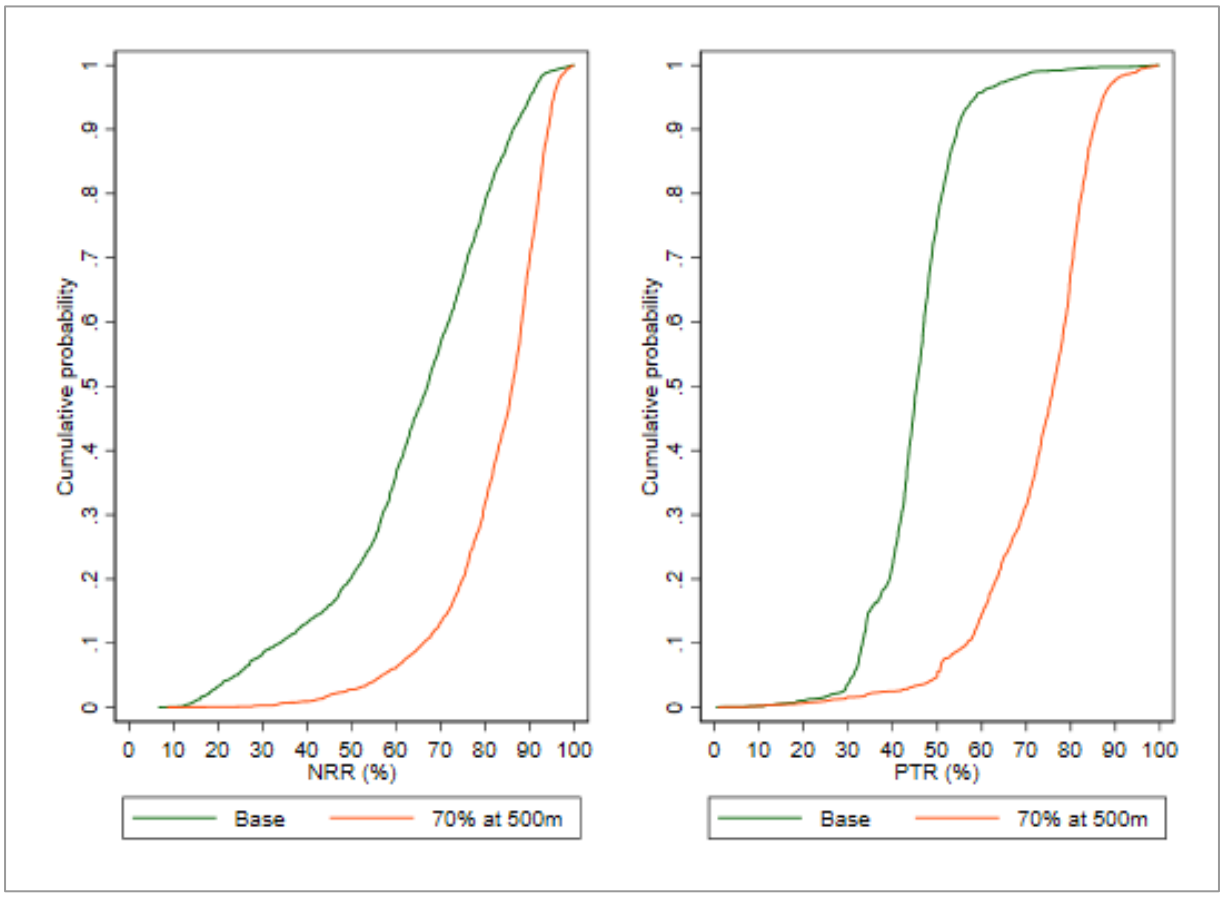
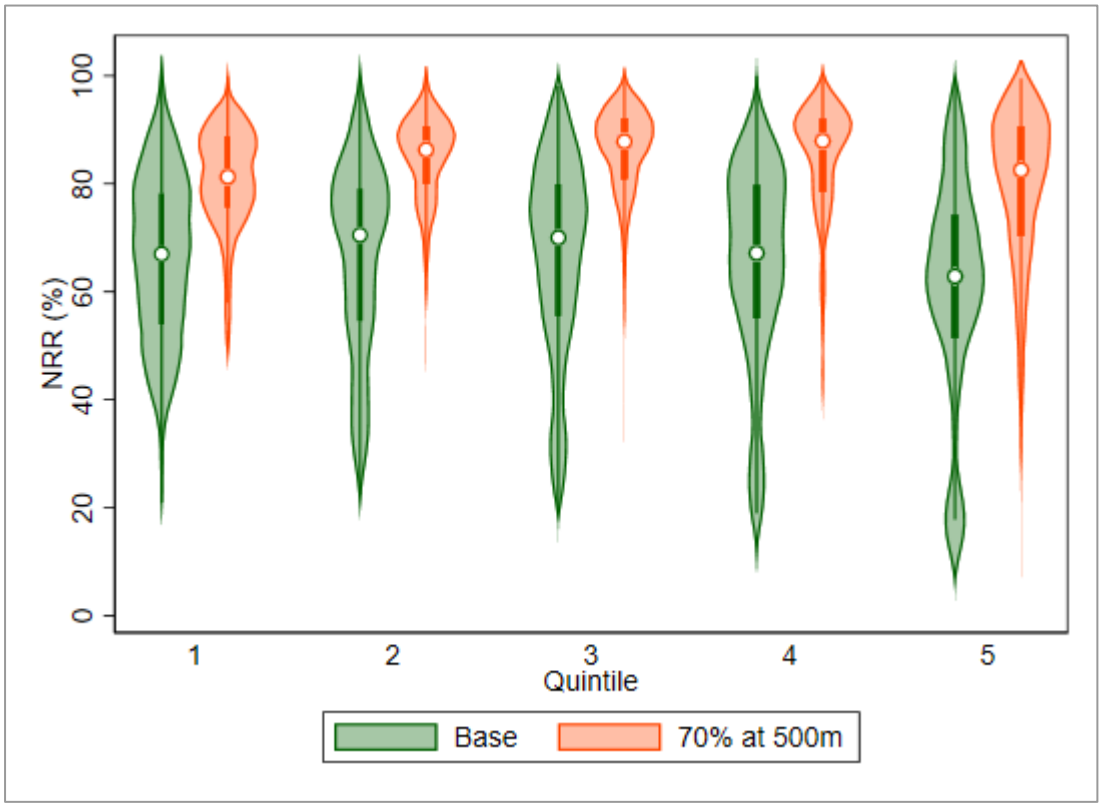
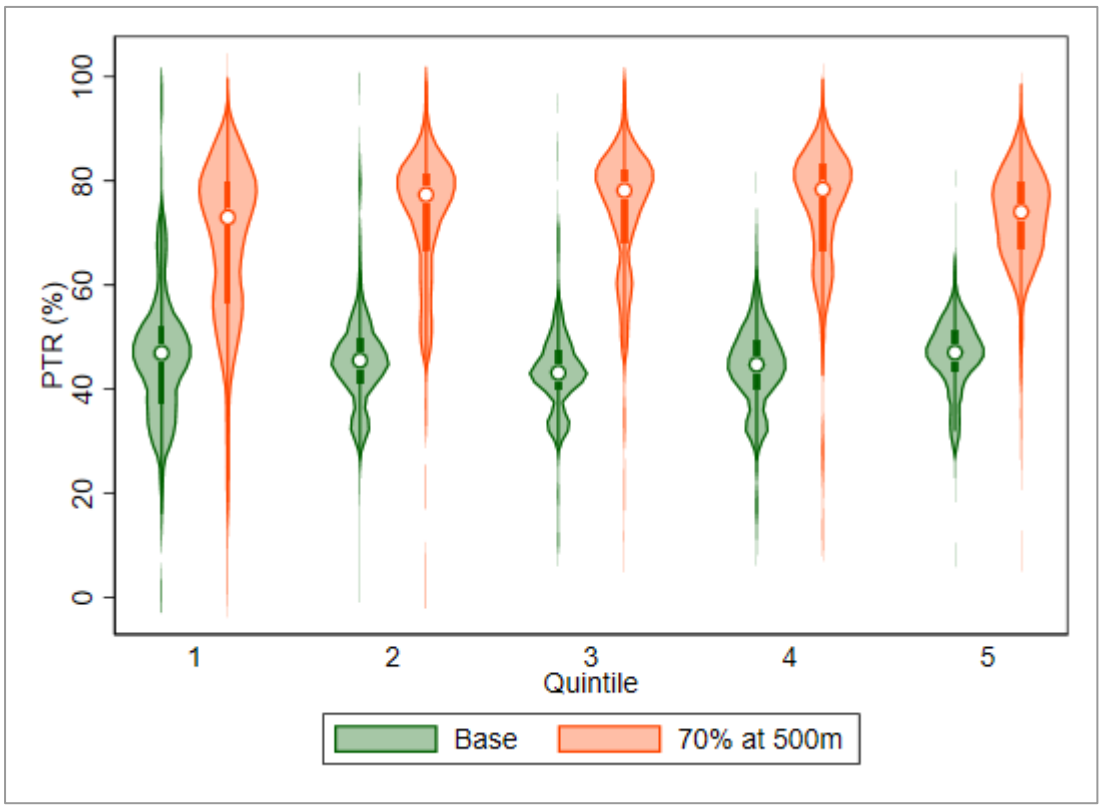


FIGURE B.10 (CONTD.) REFORM 10: BASELINE VERSUS 70% OF PREVIOUS EARNINGS WITH MAXIMUM CAP SET AT 51% OF MEAN EARNINGS (TO SHOW WHAT DIFF GOING TO 70% MAKES HERE)





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