



Indexation of Social Welfare Rates

Review and further proposals by *Social Justice Ireland*

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Introduction

This paper makes proposals regarding current social welfare rates and indexation and also reviews the process by which the basic social welfare payment became benchmarked to 30 per cent of Gross Average Industrial Earnings. This material underpins the development of many of the key policy priorities we outline on income distribution in [Social Justice Matters 2019](#).

How many have incomes below the poverty line?

Table 1.1 outlines the findings of various poverty studies since detailed national poverty assessments commenced in 1994. Using the EU poverty line set at 60 per cent of median income, the findings reveal that almost 16 out of every 100 people in Ireland were living in poverty in 2017. The table shows that the rates of poverty decreased significantly after 2001, reaching a record low in 2009. These decreases in poverty levels were welcome. They were directly related to the increases in social welfare payments delivered over the Budgets spanning these years.¹ However poverty increased again in the period since then as the effect of budgetary changes to welfare and taxes, as well as wage movements and unemployment, drove more low income households into poverty. These increases were tempered over recent years by increases in core social welfare payments.

Table 1.1: Percentage of Population Below Various Relative Income Poverty Lines, 1994-2017

	1994	1998	2001	2005	2009	2013	2016	2017
50% line	6.0	9.9	12.9	10.7	6.9	8.5	9.2	8.1
60% line	15.6	19.8	21.9	18.3	14.1	16.2	16.2	15.7
70% line	26.7	26.9	29.3	28.0	24.5	23.9	26.0	24.6

Source: CSO SILC reports (various years) and Whelan et al (2003:12).

Note: All poverty lines calculated as a percentage of median income.

Poverty and social welfare recipients

Social Justice Ireland believes in the very important role that social welfare plays in addressing poverty. As part of the *SILC* results the CSO has provided an interesting insight into the role that social welfare payments play in tackling Ireland's poverty levels. It has calculated the levels of poverty before and after the payment of social welfare benefits.

Table 1.2 shows that without the social welfare system just over 4 in every 10 people in the Irish population (43.8 per cent) would have been living in poverty in 2017. Such an underlying poverty rate suggests a deeply unequal distribution of direct income. In 2017, the actual poverty figure of 15.8 per cent reflects the fact that social welfare payments reduced poverty by 28.1 percentage points.

Looking at the impact of these payments on poverty over time, the increases in social welfare over the period 2005-2007 yielded noticeable reductions in poverty levels. The small increases in social welfare payments in 2001 are reflected in the smaller effects achieved in that year. Conversely, the larger increases, and therefore higher levels of social welfare payments, in subsequent years delivered greater reductions. This has occurred even as poverty levels before social welfare increased.

A report by Watson and Maitre (2013) examined these effects in greater detail and noted the

¹See table 3.8 below for further analysis of this point.

effectiveness of social welfare payments, with child benefit and the growth in the value of social welfare payments, playing a key role in reducing poverty levels up until 2009. The CSO have also shown that in 2009 poverty among those aged 65 plus reduced from 88 per cent to 9.6 per cent once social welfare payments were included. The same study also found that social welfare payments (including child benefit) reduced poverty among those under 18 years of age from 47.3 per cent to 18.6 per cent – a 60 per cent reduction in poverty risk (CSO, 2010:47).²

These findings, combined with the social welfare impact data in table 1.2, underscore the importance of social transfer payments in addressing poverty; a point that needs to be borne in mind as Government forms policy and priorities in the years to come.

Table 1.2: The Role of Social Welfare (SW) Payments in Addressing Poverty

	2001	2004	2007	2010	2013	2017
Poverty pre SW	35.6	39.8	40.9	50.2	49.5	43.8
Poverty post SW	21.9	19.4	16.5	14.7	16.2	15.7
The role of SW	-13.7	-20.4	-24.4	-35.5	-33.3	-28.1

Source: CSO SILC Reports (various years) using national equivalence scale.

Analysis shows that many of the groups in Irish society which experienced increases in poverty levels over the last decade have been dependent on social welfare payments. These include pensioners, the unemployed, lone parents and those who are ill or have a disability. Table 1.3 presents the results of an analysis of five key welfare recipient groups performed by the ESRI using poverty data for five of the years between 1994 and 2001. These were the years that the Irish economy grew fastest and the core years of the ‘Celtic Tiger’ boom. Between 1994 and 2001 all categories experienced large growth in their poverty risk. For example, in 1994 only five out of every 100 old age pension recipients were in poverty. In 2001 this had increased ten-fold to almost 50 out of every 100. The experience of widow’s pension recipients is similar.

Table 1.3: Percentage of Persons in Receipt of Welfare Benefits/Assistance Who Were Below the 60 Per Cent Median Income Poverty Line, 1994-2001

	1994	1997	1998	2000	2001
Old age pension	5.3	19.2	30.7	42.9	49.0
Unemployment benefit/assistance	23.9	30.6	44.8	40.5	43.1
Illness/disability	10.4	25.4	38.5	48.4	49.4
Lone Parents allowance	25.8	38.4	36.9	42.7	39.7
Widow’s pension	5.5	38.0	49.4	42.4	42.1

Source: Whelan et al (2003: 31).

Table 1.3 highlights the importance of adequate social welfare payments to prevent people becoming at risk of poverty. Over the period covered by these studies, groups similar to *Social Justice Ireland* repeatedly pointed out that these payments had failed to rise in proportion to earnings and incomes elsewhere in society. The primary consequence of this was that recipients slipped further and further back and therefore more and more fell into poverty. In 2019, as talk of wage increases and income tax cuts continues, it is important that

² This data has not been updated in subsequent SILC publications.

adequate levels of social welfare be maintained to ensure that the mistakes of the past are not repeated.

Indexation and Older people

According to the CSO's 2016 *Census Results* there were 637,567 people aged over 65 years in Ireland in 2016. The CSO noted that this age group experienced the largest increase in the population since the previous Census in 2011. Of those in this age group, more than a quarter live alone comprising almost 98,000 women and 59,000 men (CSO, 2017). When poverty is analysed by age group the 2017 figures show that 8.6 per cent of those aged above 65 years live in relative income poverty.

Among all those in poverty, the retired have experienced the greatest volatility in their poverty risk rates. As table 1.3 shows, in 1994 some 5.9 per cent of this group were classified as poor; by 1998 the figure had risen to 32.9 per cent and in 2001 it peaked at 44.1 per cent. The most recent data records relatively stable poverty rate, of almost one in ten pensioners, with the reduction over the last decade driven by increases in old age pension payments. While these decreases are welcome, it remains a concern that so many of this county's senior citizens are living on so little.

Table 1.4: Percentage of Older People (65yrs+) Below the 60 Per Cent Median Income Poverty Line, 1994-2017

	1994	1998	2001	2004	2008	2012	2017
Aged 65 +	5.9	32.9	44.1	27.1	11.1	12.4	8.6

Source: Whelan et al (2003: 28) and CSO online database.

Benchmarking Social Welfare Payments, 2001-2011

Here we examine the transition to benchmarked social welfare payments. That process centred on three elements: the 2001 *Social Welfare Benchmarking and Indexation Working Group* (SWBIG), the 2002 *National Anti-Poverty Strategy (NAPS) Review* and the *Budgets 2005-2007*.

Social welfare benchmarking and indexation working group

In its final report the SWBIG agreed that the lowest social welfare rates should be benchmarked. A majority of the working group, which included a director of *Social Justice Ireland*, also agreed that this benchmark should be index-linked to society's standard of living as it grows and that the benchmark should be reached by a definite date. The working group chose Gross Average Industrial Earnings (GAIE) to be the index to which payments should be linked.³ The group further urged that provision be made for regular and formal review and monitoring of the range of issues covered in its report. The group expressed the opinion that this could best be accommodated within the structures in place under the NAPS and the *National Action Plan for Social Inclusion* (now combined as *NAPinclusion*). The SWBIG report envisaged that such a mechanism could involve:

- the review of any benchmarks/targets and indexation methodologies adopted by government to ensure that the underlying objectives remain valid and were being met;
- the assessment of such benchmarks/targets and indexation methodologies against the

³The group recommended a benchmark of 27 per cent although *Social Justice Ireland* argued for 30 per cent.

various criteria set out in the group's terms of reference to ensure their continued relevance;

- the assessment of emerging trends in the key areas of concern, e.g. poverty levels, labour market performance, demographic changes, economic performance and competitiveness, and
- identification of gaps in the area of research and assessment of any additional research undertaken in the interim.

National Anti-Poverty Strategy (NAPS) review 2002

In 2002, the NAPS review set the following as key targets:

To achieve a rate of €150 per week in 2002 terms for the lowest rates of social welfare to be met by 2007 and the appropriate equivalence level of basic child income support (i.e. Child Benefit and Child Dependent Allowances combined) to be set at 33 per cent to 35 per cent of the minimum adult social welfare payment rate.

Social Justice Ireland and others welcomed this target. It was a major breakthrough in social, economic and philosophical terms. We also welcomed the reaffirmation of this target in *Towards 2016*. That agreement contained a commitment to 'achieving the NAPS target of €150 per week in 2002 terms for lowest social welfare rates by 2007' (2006:52). The target of €150 a week was equivalent to 30 per cent of Gross Average Industrial Earnings (GAIE) in 2002.⁴

Table 1.5 outlines the expected growth rates in the value of the minimum rate based on this commitment and indicates that the lowest social welfare rates for single people should have reached €185.80 by 2007.

Table 1.5: Estimating Growth in €150 a Week (30% GAIE) for 2002-2007

	2002	2003	2004	2005	2006	2007
% Growth of GAIE	-	+6.00	+3.00	+4.50	+3.60	+4.80
30% GAIE	150.00	159.00	163.77	171.14	177.30	185.80

Source: GAIE growth rates from CSO Industrial Earnings and Hours Worked (September 2004:2) and ESRI Medium Term Review (Bergin et al, 2003:49).

Budgets 2005-2007

The NAPS commitment was very welcome and was one of the few areas of the anti-poverty strategy that was adequate to tackle the scale of the poverty, inequality and social exclusion being experienced by so many people in Ireland today. In 2002 *Social Justice Ireland* set out a pathway to reaching this target by calculating the projected growth as per table 1.5 above between 2002 and 2007 when it is indexed to the estimated growth in GAIE.

Progress towards achieving this target had been slow until Budget 2005. At its first opportunity to live up to the NAPS commitment the government granted a mere €6 a week increase in social welfare rates in Budget 2003. This increase was below that which we proposed and also below that recommended by the government's own tax strategy group. In Budget 2004 the increase in the minimum social welfare payment was €10. This increase was again below the €12 a week we sought and at this point we set out a three-year pathway (see table 1.6).

⁴GAIE is calculated by the CSO on the earnings of all individuals (male and female) working in all industries. The GAIE figure in 2002 was €501.51 and 30 per cent of this figure equals €150.45 (CSO, 2006: 2).

Table 1.6: Proposed Approach to Addressing the Gap, 2005-2007

	2005	2006	2007
Min. SW payment in €'s	148.80	165.80	185.80
€ amount increase each year	14.00	17.00	20.00
Delivered	✓	✓	✓

Following Budget 2004 we argued for an increase of €14 in Budget 2005. The Government's decision to deliver an increase equal to that amount in that Budget marked a significant step towards honouring this commitment. Budget 2006 followed suit, delivering an increase of €17 per week to those in receipt of the minimum social welfare rate. Finally, Budget 2007's decision to deliver an increase of €20 per week to the minimum social welfare rates brought the minimum social welfare payment up to the 30 per cent of the GAIE benchmark.

Social Justice Ireland believes that these increases, and the achievement of the benchmark in Budget 2007, marked a fundamental turning point in Irish public policy. Budget 2007 was the third budget in a row in which the government delivered on its NAPS commitment. In doing so, the government moved to meet the target so that in 2007 the minimum social welfare rate increased to €185.80 per week; a figure equivalent to the 30 per cent of GAIE.

Social Justice Ireland warmly welcomed this achievement. It marked major progress and underscored the delivery of a long overdue commitment to sharing the fruits of this country's economic growth since the mid-1990s. An important element of the NAPS commitment to increasing social welfare rates was the acknowledgement that the years from 2002-2007 marked a period of 'catch up' for those in receipt of welfare payments. Once this income gap had been bridged, the increases necessary to keep social welfare payments at a level equivalent to 30 per cent of GAIE became much smaller. In that context we welcomed the commitment by Government in *NAPinclusion* to 'maintain the relative value of the lowest social welfare rate at least at €185.80, in 2007 terms, over the course of this Plan (2007-2016), subject to available resources' (2007:42). Whether or not 30 per cent of GAIE (or equivalent values) is adequate to eliminate the risk of poverty will need to be monitored through the SILC studies and addressed when data on persistent poverty emerges.

Maintaining an Adequate Level of Social Welfare

Budget 2019 delivered a welcome increase to the minimum social welfare payment. From March 2019 onwards it increased by €5 per week (to €203) complementing similar increases in Budgets 2017 and 2018. The Budget 2017 increase was the first increase to these payments since 2011.

As outlined earlier, a lesson from past experiences of economic recovery and growth is that the weakest in our society get left behind unless welfare increases keep track with increases elsewhere in the economy. Benchmarking minimum rates of social welfare payments to movements in average earnings is therefore an important policy priority.

Just over a decade ago Budget 2007 benchmarked the minimum social welfare rate at 30 per cent of Gross Average Industrial Earnings (GAIE). This was a key achievement and one that we correctly predicted would lead to reductions in poverty rates, complementing those

already achieved and detailed earlier.⁵ Since then the CSO discontinued its *Industrial Earnings and Hours Worked* dataset and replaced it with a more comprehensive set of income statistics for a broader set of Irish employment sectors. A subsequent report for *Social Justice Ireland* found that 30 per cent of GAIE is equivalent to 27.5 per cent of the new average earnings data being collected by the CSO (Collins, 2011). A figure of 27.5 per cent of average earnings is therefore the appropriate current benchmark for minimum social welfare payments and reflects a continuation of the previous benchmark using the current CSO earnings dataset.

Table 1.7 applies this benchmark using CSO data for 2017. The data is updated using ESRI projections for wage growth in 2018 (2.6 per cent) and 2019 (2.9 per cent). In 2019 the updated value of 27.5 per cent of average weekly earnings equals €210.13 implying a shortfall of €7 between the minimum social welfare rates being paid from March 2019 (€203) and this threshold.

Table 1.7: Indexation of Social Welfare Payments for 2019 (€)

Year	Average Weekly Earnings	27.5% of Average Weekly Earnings
2017*	723.76	199.03
2018**	742.58	204.21
2019**	764.12	210.13

Notes: * actual data from CSO average earnings.

** simulated value based on CSO data and ESRI QEC wage growth projections.

Given the importance of this benchmark to the living standards of many in Irish society, and its relevance to anti-poverty commitments, the current deficit highlights a need for Budget 2020 to further increase minimum social welfare rates to ensure that they contribute to a route out of poverty. *Social Justice Ireland* would argue that it is, in fact, now time to look beyond 30% of GAIE / 27.5% of average weekly earnings as the benchmark and to develop a programme to move it towards a higher target (e.g. 30% of average weekly earnings) so as to bring it closer to the Minimum Essential Standard and the EU-recognised poverty line.

We will develop this proposal further in our pre-Budget submission, *Budget Choices*, in mid-2019.

⁵ Annex 3 outlines how this significant development occurred.

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Online databases

CSO online database, web address: <http://www.cso.ie/en/databases/>