An overview of the Social Insurance Fund (SIF)

PBO Note 8 of 2018

Introduction

This Note focuses on the operation, key data and trends of the Social Insurance Fund (SIF), established in the Social Welfare Act 1952, into which Pay Related Social Insurance (PRSI) contributions are paid to provide funding for social insurance entitlements.

How the SIF operates

The SIF comprises two accounts:

- A current account managed and controlled by the Minister for Employment Affairs and Social Protection; and
- An investment account managed and controlled by the Minister for Finance, which holds current reserves required to meet future SIF shortfalls.

A Paymaster General 'special account' was established in 2012 to hold funds transferred from the Exchequer for the purposes of meeting SIF **short-term funding** (liquidity) challenges. These advances to the SIF *are* repayable.

Long-term funding challenges, which occur when shortfalls cannot be met by expected income, are addressed by:

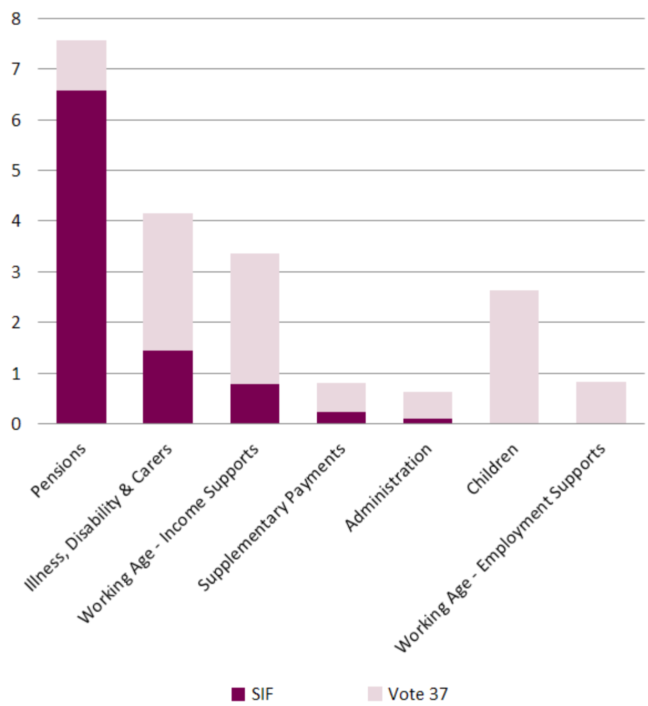
i. Transferring assets from the investment account; and/or

ii. Subvention from the Exchequer (through the supply account of the Paymaster General). Subventions, unlike advances, *are not* repayable.

Fiscal significance of the SIF

It is projected that the SIF will comprise 46% of the Department of Employment Affairs and Social Protection's (DEASP) total expenditure in 2018.[1] The relative distribution of DEASP voted/SIF expenditure is set out in Chart 1.

Chart 1 – DEASP Expenditure 2018 Vote/SIF (€bn)



SIF relationship with the Vote

SIF expenditure is included, for information, alongside voted expenditure in the *Revised Estimates for Public Services* (Vote 37). The SIF is not voted upon by Dáil Éireann; however, Vote 37 contains a provision for subventions to the SIF, to meet liabilities when it cannot meet them from within its own resources.

An IGEES paper (2015) raised issues in relation to the SIF's structure; noting, *inter alia*, that the non-voted nature of the SIF obscures DEASP's expenditure and complicates parliamentary oversight of that expenditure. However, it should be noted that the current accounting arrangements of maintaining a separate Fund gives transparency to the monetary transactions resulting from the SIF's contribution model.[2]

The IGEES paper also suggested that reforms such as aligning SIF contributions with Exchequer income could also lead to further simplification of the tax system.[3]

[1] Parliamentary Budget Office, Revised Estimates for Public Services 2018: Briefing Paper 3 of 2018 (February 2018) p.23

[2] PRSI contributions paid by today's workers offset current liabilities of the SIF (a model referred to as Pay As You Go (PAYG)).

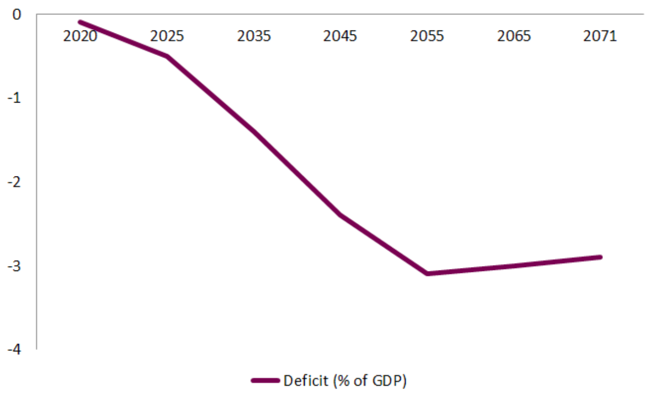
[3] Irish Government Economic and Evaluation Service (IGEES), Vote Management and the Social Insurance Fund (November 2015) pp.2-3

Projections of SIF Income and Liabilities

In the period 2007-2010 the surplus built up over the previous 11 years was exhausted[4] and there was then a requirement for an annual Exchequer subvention to meet current liabilities of the fund. In 2016, the SIF returned to a surplus and at year-end 2016 had accumulated reserves of €454 million.[5]

The *Actuarial Review*[6] projected that SIF liabilities are likely to substantially exceed receipts in the period to 2071; that shortfall will be equivalent to 2.9% of GDP in 2071 as illustrated in Chart 2.[7]

Chart 2 – SIF Deficit Projections (% of GDP)



Source: PBO based on KPMG, Actuarial Review of the Social Insurance Fund: 31 December 2015 (September 2017) p.170

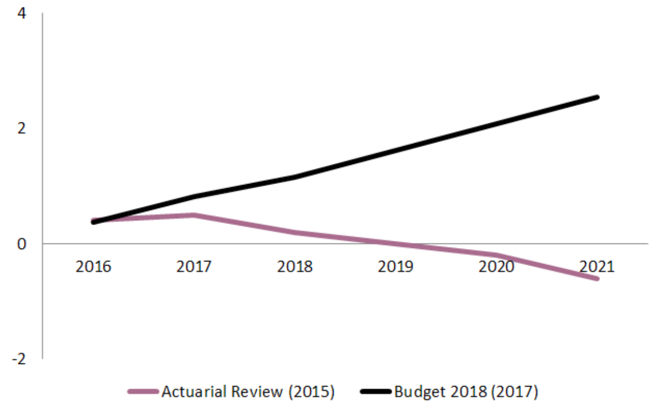
The projected shortfall in SIF receipts relative to liabilities raises **policy questions** as to how to reduce expenditure and/or increase receipts.

It remains open to Government to explore policy options for meeting future shortfalls in the SIF, i.e. expenditure could be reduced by lowering benefit payment rates, further increasing the pension age, adjusting the eligibility criteria for schemes and/or by introducing means testing. The amalgamation of PRSI and USC is another significant policy option which Government is currently considering.[8]

The *Actuarial Review* set out a number of options to address the shortfall based around adjustments to PRSI rates noting, for example, that on a no policy change basis PRSI contributions would need to be increased by as much as 74% for the entire period to 2071 in order to completely provide sufficient SIF income to avert the need for subventions.[9]

The *Actuarial Review's* projections are subject to increasing uncertainty over time, and its results are influenced by the assumptions made.[10] Chart 3 contrasts differing projections of the performance of the SIF over the period 2016 – 2021 and illustrates the uncertainty associated with even short-term projections.

Chart 3 – SIF Net Surplus (Deficit) 2016-2021 (€bn)



Source: PBO based on Government of Ireland, Economic and Fiscal Outlook (October 2017) p.44; and KPMG, Actuarial Review of the Social Insurance Fund: 31 December 2015 (September 2017) p.170

The Actuarial Review may be more reliable in terms of trends and the gap between projected income and expenditure. If so, the increase in SIF reserves over the short-term should be regarded as a temporary increase to the SIF's investment account.

[4] KPMG, *Actuarial Review of the Social Insurance Fund: 31 December 2015* (September 2017) p.30

[5] Department of Employment Affairs and Social Protection, Accounts of the Social Insurance Fund: 1 January 2016 to 31 December 2016 (November 2017) p.7

[6] KPMG, *Actuarial Review of the Social Insurance Fund: 31 December 2015* (September 2017)

[7] *Ibid* p.6

[8] *Income Tax & Universal Social Charge – Tax Strategy Group – TSG 17/02*, p.15

[9] *Ibid* p.73

[10] *Ibid* p.200

Drivers of SIF Liabilities

SIF liabilities are likely to be driven by four primary factors which impact the SIF both in terms of supply (receipts) and demand (liabilities).

1. **The macro-economic position:**
   The use of the PAYG model means that the SIF's ability to meet its liabilities is heavily influenced by external factors e.g. high unemployment reduces PRSI receipts while simultaneously increasing expenditure on working age income supports.

2. **The potential expansion of entitlement to SIF benefits:**
   Future policy choices as to whether or not (or to what extent) to expand entitlement to SIF benefits could determine the extent of the long-term challenges it faces. The *Actuarial Review* found that, if entitlements to a range of benefits were extended to the self-employed, it would be necessary to significantly increase the Self-Employed PRSI contribution rate (Class S) under a scenario of no subvention from the Exchequer to ensure benefits are delivered in a cost neutral manner.[11]

3. **Changes in the number of claimants in other areas of expenditure:**
   Pensions represent c.71% of SIF expenditure in 2018. However, as was highlighted in PBO Briefing Paper 3 (2018) there have been steady increases in the number of claimants of Illness, Disability, and Carers payments (c.16% of SIF expenditure in 2018).

4. **Dependant Support Ratio:**
   This ratio is an age-population ratio of those typically in, and those typically outside, the labour force. It is related to, but distinct from, pressures created by an increasing population of retirees.

   Those typically not in the labour force, by age, tend towards the younger and older portions of a population. In a scenario where both the young and old portions of society grow as an absolute proportion of the population, the labour force shoulders a larger burden to support these groups.

[11]Minister for Employment Affairs and Social Protection Regina Doherty TD, Response to Parliamentary Question [8815/18]

Contact: PBO@Oireachtas.ie

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