An Oifig Buiséid Pharlaiminteach
Parliamentary Budget Office
Tithe an Oireachtais
Houses of the Oireachtas

The COVID-19 Pandemic: Employment and Unemployment Supports

Contents

Key Points

- Most of the overall COVID-19 spending provision made to date across the public service relates to Employment Affairs and Social Protection (Vote 37). Dáil approval for a new Estimate for Vote 37 will be required in May/June as spending under the Vote approaches the legally mandated limit for 2020 (80% of the 2019 Net allocation).

- The COVID-19 employment and unemployment support costings announced on 9 March (€2.4 billion) and 24 March (the latter for a 12-week period - €3.7 billion) suggested that a total provision had been made for spending of €6.1 billion. On 21 April, the Stability Programme Update 2020 (SPU) provided an estimated cost of €4 - €4.5 billion for the 12-week period. The lack of clarity and detail provided to Dáil Éireann as to the cost of the pandemic in relation to Employment and Unemployment is of concern.

- Based on the most recent recipient numbers for these schemes, the PBO projects that the cost of the schemes announced on 24 March for the 12-week emergency period could exceed the initial €3.7 billion Government costing.

- If non-essential businesses reopen within the 12-week emergency period, there should be savings from reductions in the Pandemic Unemployment Support Payment (PUP) and the Temporary Wage Subsidy Scheme (TWSS). However, these savings could be partially offset by an increased uptake of Illness Benefit for COVID-19 Absences if some of the labour force contract COVID-19 or are directed to self-isolate.

- Illness Benefit for COVID-19 Absences could be a useful indicator of the incidence, or suspected incidence, of COVID-19 in the labour force. However, retained workers under the TWSS, who are not attending work, have little incentive to apply. As such, it may understate COVID-19 rates in the labour force.

Notes

- As the COVID-19 pandemic has led to rapid changes in policy, some of the data and analysis in this publication may quickly become out of date.
- Sources for any references made in this publication are available on request from pbo@oireachtas.ie.

Introduction

The COVID-19 pandemic is probably the most serious public health challenge in Ireland since the Tuberculosis (TB) epidemic of the 1940s and 1950s. It has required a wide range of responses across society. Included in these, and the focus of this publication, has been the closure by Government of non-essential commercial enterprises.

This publication summarises and analyses employment and unemployment supports from Vote 37 (Employment Affairs and Social Protection) that have been announced for employees affected by the pandemic, either through illness, temporary lay-off, or reduced income. In particular, **this Paper focusses on the three schemes announced on 24 March 2020 for a twelve-week period as they comprise the majority of the Government's fiscal response to the pandemic**.

Box 1: Why are costings provided for 12 weeks?

The 12-week period referred to in the various costings is the 3 months following the enactment of the *Emergency Measures In The Public Interest (Covid-19) Act 2020*. S.4 of the Act provides for the potential to extend the emergency period. The legislated end of the emergency period is Thursday 18th June - in the absence of any extension.

In the absence of these income and employment supports, spending on other Department of Employment Affairs and Social Protection (DEASP) schemes would increase. Primarily *Jobseeker's Allowance* and *Jobseeker's Benefit* would be affected. As such, the cost of the new schemes should be considered against the cost of increased uptake of pre-existing schemes - rather than a baseline scenario of COVID-19 having no impact on DEASP expenditure whatsoever. In many cases the COVID-19 specific schemes offer better rates over pre-existing schemes and facilitate greater access (particularly for the self-employed). However, these schemes are paid at a flat rate – with no increases for dependents. This means some workers affected by the pandemic will prefer to avail of pre-existing schemes in order to qualify for increases for dependents.

A broader analysis of the effect of the pandemic on unemployment and Exchequer implications is available in the ESRI's recently published *The Potential Costs and Distributional Effect of COVID-19 Related Unemployment in Ireland*. It should also be noted that the SPU 2020 suggests that the additional fiscal impact on income supports in Q3/Q4 2020 of unemployment projections is €1.3 billion.

COVID-19 Unemployment, Employment, and Illness Schemes

1. COVID-19 Pandemic Unemployment Support Payment (PUP)

This scheme was introduced to assist employees or self-employed persons who were made redundant on (or after) 13 March due to the COVID-19 pandemic. It is administered by the Department of Employment Affairs and Social Protection. It is due to remain in place throughout the crisis. The payment was introduced at a weekly rate of €203; however, on 24 March it was increased to €350.

The PUP was established under Section 202 of the *Social Welfare Consolidation Act 2005* which deals with granting supplementary welfare allowance in cases of urgency. The use of Section 202 does not require a Regulation, Statutory Instrument, or Dáil approval.

2. Temporary Wage Subsidy Scheme (TWSS)

The TWSS was introduced in the *Emergency Measures In The Public Interest (Covid-19) Act 2020* and provides certain employers with funding up to 70% of an employee's net pay. The scheme is administered by the Revenue Commissioners. The employer can make an additional payment to employees (up to a maximum) that is subject to a reduced rate of employer PRSI (0.5%). After the scheme has expired, the names of all employers operating the scheme will be published on the Office of the Revenue Commissioners' website.

Table 1: Temporary Wage Subsidy Scheme Bands

Net Weekly Pay	Max payment
€586 or less	€410
Greater than €586 and less than or equal to €960	€350
Greater than €960	No entitlement

Source: Office of the Revenue Commissioners, *Frequently Asked Questions (FAQ V6.0) on: Operation of the Transitional phase of the COVID-19: Temporary Wage Subsidy Scheme* (2020) p.5.

In order to qualify an employer must satisfy the Revenue Commissioners that several conditions are met including that:

- They are unable to pay an employee's full pay due to the adverse effects of COVID-19; and
- Between 14 March and 30 June 2020 there will be at least a 25% reduction in their business or customer orders received.

Similar schemes have been introduced in twenty other EU Member States although their scope varies. In France, for example, it is reported that it encompasses about 40% of private sector employees and is now estimated to cost €24 billion (three times the initial estimate).

On 15 April 2020 the Minister for Public Expenditure and Reform, and Finance, announced that the TWSS would be modified with effect from 4 May to alter the rate and bands at which the TWSS could be paid. This was in response to reports that some employees were leaving low paid employment to avail of the PUP. These changes include:

- An increase from 70% to 85% of their previous net weekly income for Employees earning less than €412 per week;
- Employees earning between €412 and €500 per week will receive a guaranteed €350 per week; and
- Employees whose pre-COVID salary was greater than €76,000, and their post-COVID salary has fallen below €76,000, subject to certain tiered arrangements and tapering will gain access to the scheme.

The legal mechanism enabling the changes proposed to the TWSS have yet to be clarified by Government. Queries have also been raised about the treatment of women returning from maternity leave and their ability to access this payment.

3. Illness Benefit for COVID-19 Absences

This payment is made to employees who are instructed to self-isolate by a doctor or the HSE or have been diagnosed with COVID-19. It is an enhanced version of Illness Benefit and is paid at €350 per week – the same rate as the *Pandemic Unemployment Support Payment*.

Benefits of the Schemes

These schemes were rapidly introduced to mitigate the severe and sudden economic impact of the COVID-19 pandemic. The Government stated:

> [T]hese measures are necessary to provide support to workers, their families, and companies at a time of great economic and social stress.

Due to the speed at which these schemes were implemented there may be a number of cases in which overpayments are made, or where persons receive payments to which they are not entitled, such as those who were not in employment beforehand, or are not involuntarily unemployed. In order for such cases to be identified the Department will have to be notified of the issue or discover it during an audit process. The Department of Employment Affairs and Social Protection have an established process for recovery of debts.

A recent ESRI paper investigates the potential costs and distributional impact of COVID-19 related unemployment in Ireland. This paper estimates that measures announced by the Government reduce significantly the number of individuals who would lose more than 20% of their disposable income.

If the economic shutdown is concluded, or eased, in a relatively short period of time these schemes should minimise the losses suffered by employees – enabling consumer spending to rebound more quickly once the crisis ends.

If the shutdown is prolonged, the cumulative losses of persons and businesses encompassed by these schemes will likely result in more conservative spending, accumulated household and business debt and increased precautionary saving, hampering any economic recovery.

The Cost of the Three Schemes

A package of supports announced on 9 March implied a **cost of €2.4 billion** for *Working Age – Income Supports* and *Illness, Disability and Carers* schemes. The Government subsequently announced additional supports on 24 March at an estimated a **cost of €3.7 billion** - over a 12-week period. The latter announcement provided for the three schemes discussed in this Paper:

- *COVID-19 Pandemic Unemployment Support Payment* (a Working Age – Income Support);
- *Temporary Wage Subsidy Scheme* (a working age Employment Support); and
- *Illness Benefit for COVID-19 Absences* (an Illness, Disability and Carers payment).

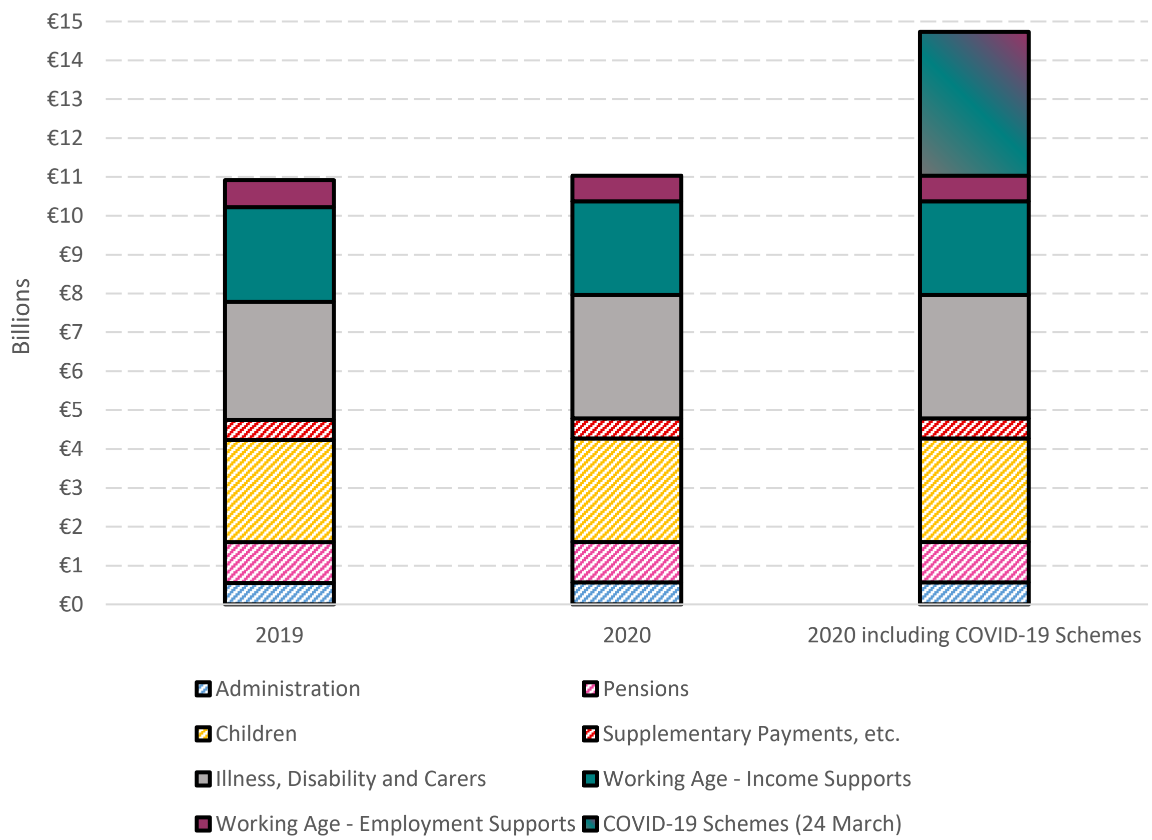
These announcements implied a potential total cost for this sector for the 3-month period of **€6.1 billion**. The SPU has now updated the estimate for the 12-week period to **€4-€4.5 billion**.

Voted Social Protection spending – allocations in 2019, proposed for 2020 and pandemic increases

The lack of clarity over the total cost of supports arises for a number of reasons. The 24 March measures appear to supersede the 9 March provision (but to an unknown extent). Also, no details are provided for the new estimate of up to (at least) €4.5 billion provided in the SPU (except that it is for the 12-week period)**.** The SPU costing may reflect increased payment rates under the TWSS, overall higher uptake of schemes than initially foreseen, as well as additional expenditure under pre-existing supports. Due to the lack of clarity as to what is included in the SPU, this paper will only address the costings provided on 9 and 24 March.

Figure 1 uses only the costing of 24 March added to the existing spending proposed for Vote 37 - as greater clarity exists in relation to these costs, including detailing that some 800,000 workers will avail of one or more schemes (not simultaneously).

Figure 1: Vote 37 Allocations 2019 and 2020 and based on 24 March announcement (Gross total of €14.73 billion)



Source: PBO based on the *Revised Estimates for Public Services 2020* (2019) and Gov.ie, 'Government announces new COVID-19 Income Support Scheme' (2020).

Figure 1 illustrates that an increase of just 1% in gross expenditure for Vote 37 was **originally projected for 2020**. A significant increase in *Illness, Disability and Carers* payments was the main driver in the originally proposed increase with offsetting reductions across other areas.

Income Supports and *Employment Supports* originally had a projected combined gross expenditure of €3.07 billion for 2020 (-1.9% on 2019); while *Illness, Disability and Carers* saw a forecast increase to almost €3.18 billion (+5% on 2019). Together, **these categories of supports total almost €6.25 billion for 2020 (almost 57% of the Vote's total allocation) before any COVID-19 related costs.**

The €3.7 billion costing associated with the three COVID-19 schemes discussed in this publication would increase spending under the categories of *Income Supports, Employment Supports*, and *Illness, Disability and Carers* to **c.€9.95 billion or 67.5% of the total allocation of the Vote.**

Overall, **the €3.7 billion costing would increase spending under Vote 37 to €14.73 billion** (33.5% over the initial allocation sought in REV 2020).

It is unclear if the full estimated costs for Social Protection spending for 2020 should include both the 9 March estimate and 24 March estimate as the second set of schemes appear to somewhat replace the earlier supports. **It seems likely that at least some of the €2.4 billion in initial supports is incorporated within subsequent costings.**

Uptake of the Three Schemes

1. COVID-19 Pandemic Unemployment Support Payment (PUP)

On 14 April 2020 there were 533,000 recipients (including over 50,000 new claims over the preceding week). The Minister for Employment Affairs and Social Protection had suggested this might represent a plateau in the numbers likely to be paid the PUP. However, As of 20 April 2020, there has been a further increase in recipients to approx. **584,000**.

Should the shutdown be prolonged, it seems logical to assume that employees covered by the TWSS may be made redundant as employers struggle to deal with the financial impact of the crisis – leading to a further increase in the numbers of persons availing of the PUP. This could lead to less Exchequer spending as the maximum payment for the PUP is lower than that for the TWSS.

2. Temporary Wage Subsidy Scheme (TWSS)

As of 17 April, there were **45,150 employers** registered for the TWSS - up from 42,100 on 14 April. Some PUP claimants have transferred to TWSS as an increasing number of employers avail of that scheme (as of 9 April, 80% of cessations of PUP related to recipients returning to employment).

As of 17 April, there were approximately **281,200** employees benefitting from the TWSS. Preliminary statistics published by the Revenue Commissioners illustrate that:

- 81.9% of employers availing of the scheme have fewer than 20 staff.
- Almost 70% of employees benefitting from the scheme had average net weekly pay of between €300 and €700.
- 82% of employers are making some level of top up payment in addition to the TWSS. Of these:
  - 31% pay a top up of between €1 and €100;
  - 40% pay a top up of between €101 and €200;
  - 10% pay a top up in excess of €400.
- Uptake of the TWSS is concentrated in a limited number of sectors (representing 57.8% of employers availing of TWSS):
  - Wholesale & retail trade (25.2%);
  - Manufacturing (15.6% of employees);
  - Accommodation & food services (12.9% of employees); and
  - Construction (12.3% of employees).

3. Illness Benefit for COVID-19 Absences

As of 14 April 2020, **27,300** people had applied for *Illness Benefit for COVID-19 Absences*. This means that there were approximately 2.4 times more applications for *Illness Benefit for COVID-19 Absences* than there were confirmed cases on that date (based on data as published by the National Public Health Emergency Team (NPHET)) - bearing in mind that total cases would include people outside the labour force. It should be noted that *Illness Benefit for COVID-19 Absences* does not require a diagnosis of COVID-19 and includes those directed to self-isolate. It gives people a source of income when they either have COVID-19 or are a potential source of infection i.e. a (possible) carrier of the virus.

The closure of non-essential businesses should result in a reduction in community transmission. Should a renewed wave of the virus pass through the population it can be expected that the number of individuals in receipt of this benefit would increase.

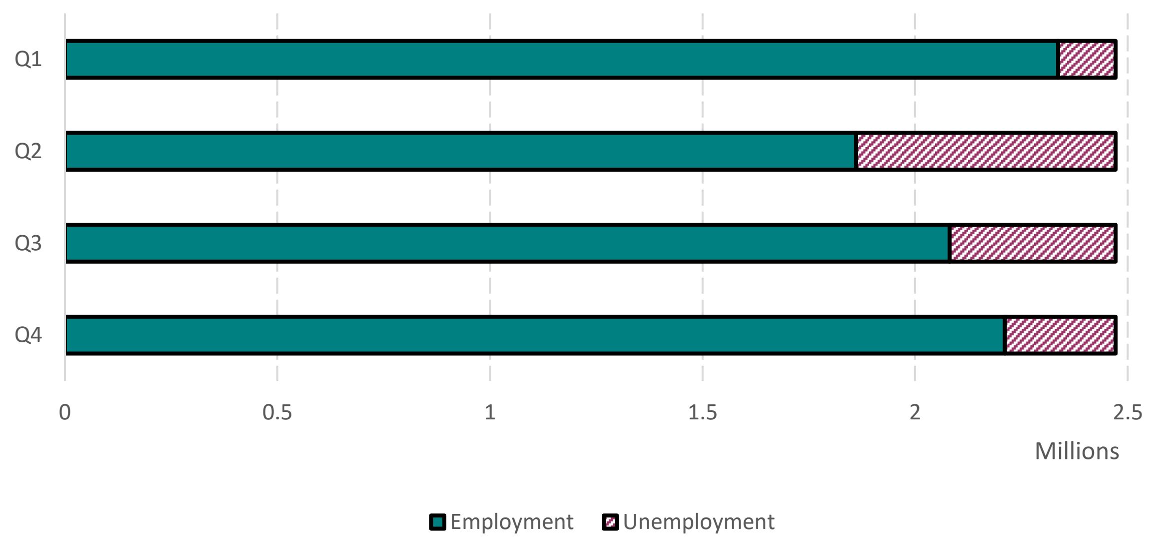
Beyond the Initial Crisis Period

It is highly uncertain as to how long the shutdown of non-essential workplaces will remain in place. Figure 2 illustrates the Central Bank's estimate of the impact of Government restrictions arising from the pandemic on employment for 2020 in a scenario of containment measures:

- Remaining in place fully for a 3-month period;
- Being gradually unwound thereafter; and
- Are successful in limiting the scale and duration of the pandemic.

Subject to these assumptions, unemployment is projected to peak in Q2 2020 (610,600) followed by a decline in Q3 (390,600) and Q4 (260,600). See Box 2 for an explanation of the definition of unemployment and how it is adjusted by the pandemic.

Figure 2: CBI Employment scenario for 2020 as a result of the pandemic



Source: PBO, based on Central Bank of Ireland, *Quarterly Bulletin: QB2 - April 2020* (2020) p.19.

Q3 and Q4 will see substantial increases in other unemployment support payment schemes if the relevant COVID-19 schemes are discontinued. At present it seems more likely that these schemes will be gradually unwound. The SPU 2020 indicates that unemployment income supports will cost approx. €1.3 billion in the second half of 2020.

Box 2: Unemployment Rate in the COVID-19 Pandemic

The number of people claiming State 'unemployment' like benefits including the PUP and the TWSS in addition to traditional unemployment payments has reached approximately one million. The CSO released its March 2020 unemployment statistics in early April. They estimated a traditional unemployment rate of 5.2% and a *COVID adjusted unemployment* rate of 16.5%. This later rate was calculated by adding the number of PUP recipients to the normal estimate of those unemployed. It is likely that the *COVID* adjusted unemployment rate will rise dramatically in April as only 283,000 people were in receipt of the PUP when the statistics were compiled in late March. The Department for Finance projects that the (COVID adjusted) unemployment rate will average 22% in Q2 2020 (April-June).

The International Labour Organisation (ILO) definition of unemployment is a person who is (a) out of work, (b) available for work, and (c) seeking employment. Most individuals who have lost jobs due to the Covid-19 pandemic would not meet the 'available for work' and/or 'seeking work' criteria and thus are not unemployed under this definition. They would be classified as economically 'inactive'. However, according to the CSO those who are expected to return to work with their previous employer within three months (and have a guarantee from their employer to do so) or are receiving over 50% of their previous income from their employer would still be considered employed. This will mean that those on the wage subsidy scheme and perhaps many of those on the PUP will still be considered employed under the traditional definition of unemployment.

Therefore, the normal statistical definition of unemployment and the unemployment rate (the number unemployed divided by the labour force) may not be very useful in the short term during public discussions on job losses or suspensions due to the pandemic. The number of recipients of the various pandemic schemes as well as traditional unemployment payments may be more useful to track. While discussing related issues caution should be used regarding the concept of unemployment and the unemployment rate and how these are calculated.
As restrictions ease and more people return to work or begin to search for employment the traditional meaning of unemployment will have more relevance.

PBO Analysis

As previously illustrated by the PBO (see Figure 2: Net weekly earnings by sector in [PBO *Publication 9 of 2020, Employment in Sectors Most Exposed to the COVID-19 Pandemic*] (March 2020)) most of the sectors classified as non-essential have average net weekly earnings that entitle the average employee of those sectors to the maximum amount under the *TWSS* (€410 per week). The maximum payment under the TWSS is paid to those who had net weekly earnings of €586; however, only 18.6% of employees benefitting from the scheme had earnings of between €500 and €600. This means fewer than 20% would be entitled to the maximum possible payment under the scheme.

If restrictions are eased and employees return to work it is assumed PUP and TWSS recipient numbers will reduce. It can also be assumed that the number of people availing of *Illness Benefit for COVID-19 Absences* could increase. No indication has been given as to whether an extended period of pandemic benefits will be considered, for example if a business cannot provide the same wages/hours as before.

Potential increased costs beyond the provision already made could arise from:

- An extension of the shutdown period and corresponding supports;
- An increase in recipient numbers; and
- Changes to the rates at which the schemes are paid or eligibility criteria.

The impact of COVID-19 on the economy is likely to be prolonged even if businesses are able to reopen in June. The challenge is exacerbated by the global nature of the pandemic which is likely to inhibit some sectors more than others. In particular, tourist accommodation and restaurants and pubs may suffer particularly adverse results due to a likely prolonged reduction in international tourism. This will be determined to some extent by how quickly personal consumption rebounds in countries that are major sources of tourism, potential future restrictions on tourism in Ireland and on how quickly the pandemic is brought under control in those countries allowing a resumption in travel. It may also depend on the extent to which Irish consumers switch to holidaying in Ireland rather than abroad.

Uptake and Administration of *Illness Benefit for COVID-19 Absences*

Due to the administrative burden of applying for a different payment, employers may continue to operate the TWSS for staff who are on sick leave and/or isolating, leading to more recipients on this scheme and fewer on the *Illness Benefit for COVID-19 Absences* scheme.

Employees retained under the TWSS who are entitled to between €350 and €410 per week have no incentive to claim *Illness Benefit for COVID-19 Absences*. Those entitled to €350 per week or less through the TWSS are more likely to avail of *Illness Benefit for COVID-19 Absences*. This suggests that during the emergency period the uptake of *Illness Benefit for COVID-19 Absences* may be lower than the number of workers who are diagnosed with COVID-19 or have been instructed to self-isolate.

An effective system ensuring employees claim the *Illness Benefit for COVID-19 Absences* would reduce the overall cost of the package of schemes by capping payments at €350 per week rather than up to €410 for the two to ten-week duration of a COVID-19 related illness absence. However, employees would prefer not to have their income reduced in this way. This may result in unintended consequences such as an employee not declaring this information to their employer with corresponding potential issues if a resumption of work were to occur during this period.

There may be other costs accrued under Vote 37 because of the pandemic. In particular, some recipients of various schemes may now be entitled to different rates of payment for adult dependants or to reflect lower household income.

Robustness of Government Costing

The costing of schemes announced on 24 March (€3.65 billion) assumes that up to 800,000 people will avail of one or more schemes at an average rate of €380 per week – amounting to €3.6 billion over a 12-week period from 26 March. It further allows €0.5 million per week for increases in qualified adult rates for those in receipt of the standard jobseeker and illness payments (non-COVID-19 schemes).

The PBO have provided an updated costing for the three schemes announced on 24 March in Table 2 based on the latest published figures for recipient numbers, assuming maximum rates of payment.

The PBO also projects a costing for *Illness Benefit for COVID-19 absences*. This scheme has a maximum eligibility of between 2 weeks (suspected cases) and 10 weeks (for diagnosed cases). The PBO provides an upper and lower costing for this scheme based on:

- A maximum possible costing for the scheme based on current recipients and full eligibility to the 10-week payment; and
- Alternate costings (set out in italics) using current estimates of suspected cases and diagnosed cases. This scenario assumes that:
  I. 60% of claimants are entitled to two weeks payment; and
  II. The remaining 40% have eligibility of six weeks on average.

This approach finds that the 12-week cost exceeds the costing provided on 24 March (€3.7 billion) – at between €3.87 and €3.93 billion.

Table 2: COVID-19 Employment Supports (24 March Announcement) costing using maximum rates and current recipient numbers

Scheme	Recipients	Max. Weekly Rate	Spend on scheme per week (nearest €10,000)	Spend on Scheme (nearest €10,000)
TWSS (12 weeks)	281,200	€410	€115.29 million	€1,383.5 million
PUP (12 weeks)	584,000	€350	€204.4 million	€2,452.8 million
Illness (10 weeks)	27,300	€350	€9.56 million	€95.55 million
I. Illness (suspected)	*16,380*	*€350*	*€5.73 million*	*€11.47 million*
II. Illness (diagnosed)	*10,920*	*€350*	*€3.82 million*	*€22.93 million*
Total	892,500		329.25 million	€3,870.7 million to €3,931.85 million.

Source: PBO based on most recent official statistics as of 22 April 2020.

It should be noted that this costing assumes no increase or decrease of recipients, and the maximum payment rates. As regards the individual elements of the costing, Table 2 may overestimate the TWSS cost and the Illness benefit cost, if recipients of each move to the PUP during the 12-week period. Proposed changes to the TWSS (see pp.3-4) effective from 4 May will further increase the cost of the TWSS.

A comparative costing by the ESRI (April 2020) suggested that the TWSS could cost €1.2 billion per quarter and that the change in non-means tested welfare spending would amount to approx. €1.4 billion per quarter. The ESRI (2020, p.17) also estimate that a rise in unemployment will reduce direct tax revenues and increase welfare spending by around €800 million per quarter for every 100,000 individuals that lose their job.

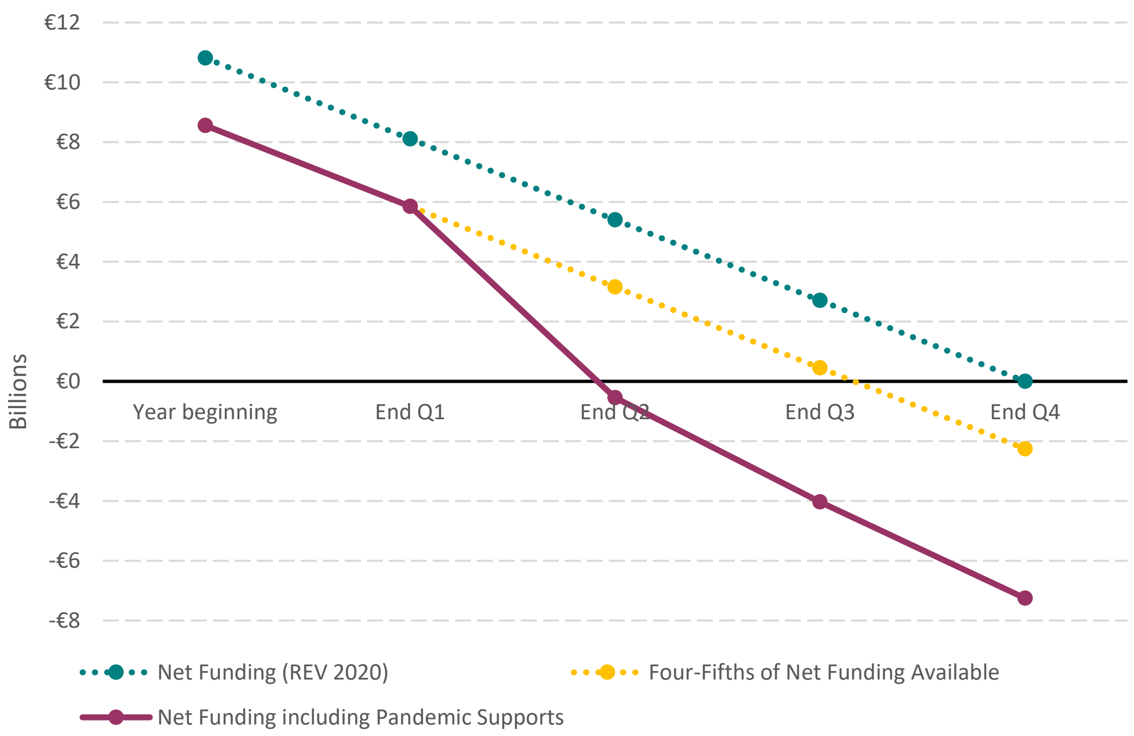
Funding rules impacting COVID-19 Employment and Unemployment Supports

As recently highlighted by the PBO in *The COVID-19 Pandemic – Voted Spending at the end of the first Quarter of 2020* (April 2020), in the absence of Dáil approval for the *Revised Estimates for Public Services 2020*, the Government may only spend four-fifths (80%) of the net allocation of the preceding year. For the Employment Affairs and Social Protection Vote, the 2019 net allocation was approximately €10.7 billion, meaning that the Government may spend up to €8.56 billion in 2020 without Dáil approval. Figure 3 illustrates (in a simplified form) when this may become a concern.

The following assumptions are made:

- The net allocation sought in the *Revised Estimates for Public Services* was to be spent evenly throughout the year (€2.76 billion per Quarter);
- Additional spending arises of €1.3 billion in Q3 and Q4 as per the costing set out in the SPU in the ratio of 60% in Q3 and 40% in Q4 as per the Central Bank estimates; and
- That the additional pandemic spending of €3.7 billion only occurs in Q2 before returning to profile (€2.76 billion per Quarter).

*Figure 3: Vote 37 - Projections of Expenditure in the Context of the 'four-fifths' rule**



Source: PBO based on the Revised Estimates for Public Services 2020; and Gov.ie, 'Government announces new COVID-19 Income Support Scheme' (24 March 2020); and *Draft Stability Programme Update 2020: Incorporating the Department of Finance's Spring Forecasts* (April 2020) p.36.
* Information in the Fiscal Monitor does not provide enough detail to give a more accurate picture of real Q1 expenditure in Employment Affairs and Social Protection.

Figure 3 illustrates that, in the absence of the COVID-19 response package, the Government would likely reach its permissible expenditure early in Q4 2020. This is accelerated considerably by the pandemic supports to the end of Q2-2020. As some pandemic related expenditure would have been spent in Q1 it is likely that Figure 3 may understate how soon the four-fifths limit may be reached.

As previously noted by the PBO, a new Government will wish to reflect the changed circumstances by introducing a new set of Revised Estimates (or Further Revised Estimates) to change the allocations of individual Votes. It will also be necessary to lay new Ministerial/Government expenditure ceilings under the *Ministers and Secretaries (Amendment) Act 2013*.

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