The COVID-19 Pandemic: Implications for the Social Insurance Fund

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Key Points

- Given that the Government's return to work roadmap envisages only a phased return to work, and that these phases may be suspended in the case of a COVID-19 resurgence, we can anticipate there will be a continued and significant absence of employees from the labour force in Q3 and Q4 of 2020. This will have a significant impact on the SIF's income.
- Pandemic specific schemes, not funded by the SIF, will largely shield it from additional spending in H1 2020. The extent of the impact on SIF spending in H2 2020 will depend on whether, or not, the temporary Pandemic Unemployment Payment (PUP) and Wage Subsidy (TWSS) schemes are extended beyond mid-June. If those schemes are not extended it may be that there will be a significant increase in applicants for Jobseekers Benefit – the number of such applicants will likely correspond with the sectors most affected by the return to work roadmap. The SIF also funds insolvency and redundancy payments which could increase substantially as a result of the pandemic.
- The pandemic will, at least, reduce the surplus of the SIF in 2020. In a worst-case scenario it will reduce its reserves. In either case, the SIF's financial position is weakened by the pandemic. This may place greater urgency on pension reform.

Introduction

The SIF required an Exchequer Subvention every year up to 1996. It accumulated a surplus every year from 1997 to 2007. The accumulated surplus built up between 1997 and 2007 was eliminated by Q2 2010. It ran a deficit every year from 2008 to 2015 but has had a surplus each year since then.

The PBO's An overview of the Social Insurance Fund (SIF) (2018) describes the function and operation of the Social Insurance Fund (SIF). The key issue relates to the model under which the SIF operates, a model known as Pay As You Go (PAYG) whereby contributions by today's workers meet the current liabilities of the SIF. In simple terms, where the sum of the assets of the SIF and its income are insufficient to meet its in-year liabilities (i.e payments), a subvention (top up payment) can be made from the Employment Affairs and Social Protection Vote (no.37) to the SIF.

Figure 1: Social Insurance Fund reserves

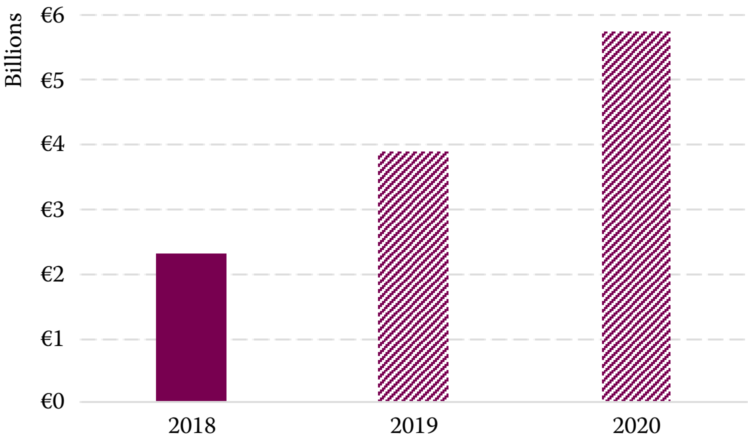

Figure 1 illustrates that, at the end of 2018, the SIF had reserves of almost €2.32 billion.

Based on the provisional outturn for 2019, the SIF's reserves grew to €3.89 billion. Added to the projected surplus income set out in the *Revised Estimates for Public Services 2020* (2019) **the SIF would, in a non-pandemic scenario, have had reserves of approximately €5.75 billion at end 2020**.

Source: PBO, based on Social Insurance Fund: Financial Statements 2018 (2019, p.20) and Revised Estimates for Public Services 2020 (2019). **Note:** 2018 outturn; 2019 and 2020 forecast.

Social Insurance Fund - Income

The SIF is primarily funded by Pay Related Social Insurance (PRSI) contributions. In 2020, PRSI comprised €12.11 billion (99.7%) of the forecast income of the SIF (€12.15 billion, as originally set out before the pandemic).[1] The COVID-19 pandemic has had a very significant impact on the labour market, and will have a significant impact on the SIF in 2020 (particularly on its income).

- As of 11 May 2020, some 456,200 employees had received at least one payment under the Temporary Wage Subsidy Scheme (TWSS).[2] Under current guidance, the TWSS reduced employers' PRSI rate is payable (reduced from 11.05% to 0.5%) and no employee PRSI is payable; however, employees will still build up and accrue insurable weeks.[3]
- As of 11 May, a further 589,000 employees were availing of the Pandemic Unemployment Payment (PUP).[4]
- Illness Benefit for COVID-19 Absences was being paid to 42,000 medically certified workers as of 11 May.[5]

At end Q4-2019 the Irish labour force was approximately 2.47 million, with almost 111,000 unemployed.[6] Based on the latest available data, some 1,087,200 persons are encompassed by the three pandemic unemployment and employment supports outlined above. The absence of these employees from the workforce will have significant implications for the SIF's income in Q2 2020 and beyond.

Social Insurance Fund - Spending

SIF spending is primarily driven by contributory pension payments (71.7% of all forecast 2020 spending). Illness, Disability and Carers payments are also a major component. These payments are unlikely to be significantly affected by the pandemic. SIF income however will be significantly lower than forecast for 2020. In addition, as previously highlighted by the PBO, some employees affected by the pandemic will still avail of pre-existing schemes[7] and will not be included within the cohort of 1,087,200. It is likely therefore that some people will avail of schemes funded by the SIF.

Implications of the Pandemic for the Social Insurance Fund

The *Stability Programme Update 2020* forecasts that PRSI receipts will decrease by 12% in 2020 – largely eliminating the previous forecast excess income over spending for this year.[8] It is also possible that this decrease could be more than 16% in 2020 compared to 2019, and more than 20% when compared to the original 2020 estimate.[9] If this latter scenario transpires SIF income in 2020 might fall, from the €12.15 billion estimated at time of Budget 2020, to around €9.66 billion. This would lead to spending exceeding income in 2020 and the requirement to transfer money from the SIF investment account or an Exchequer subvention. Even in the more conservative scenario set out in the SPU 2020, the phased nature of the Government's return to work roadmap entails a significant risk of eliminating the SIF's forecast surplus for 2020.[10]

1 Revised Estimates for Public Services 2020 (2019).
2 Gov.ie, 'Update on Payments Awarded for Covid-19 Pandemic Unemployment Payment and Enhanced Illness Benefit' (11 May 2020).
3 Revenue Commissioners, Frequently Asked Questions (FAQ V8.0)on: Operation of the Transitional phase of the COVID-19: Temporary Wage Subsidy Scheme (26 April 2020) p.12
4 Gov.ie, 'Update on Payments Awarded for Covid-19 Pandemic Unemployment Payment and Enhanced Illness Benefit' (11 May 2020).
5 Ibid.
6 CSO, 'QLF01: Persons aged 15 years and over in Employment by Sex, ILO Economic Status and Quarter' (2020).
7 PBO, The COVID-19 Pandemic: Employment and Unemployment Supports (2020) p.2.
8 Department of Finance, Draft Stability Programme Update 2020 (April 2020) p.41.
9 PBO correspondence with the Department of Employment Affairs and Social Protection (May 7th, 2020).
10 The Final Stability Programme Update 2020 (p.41) projects a 12% reduction in PRSI. All else being equal, that would reduce the surplus of the SIF in 2020 to €0.4 billion.

The implications of the pandemic for the SIF are unclear. Pandemic specific schemes, not funded by the SIF, have largely shielded it from additional spending. If TWSS and PUP were to expire in mid-June and the recipients of these schemes were still unemployed due to their sectors not returning to work, a proportion of such former employees[11] would apply for Jobseekers Benefit. It would be difficult to put precise numbers on these because of the highly uncertain impact of the Government's return to work roadmap.

In any case, the SIF will see significant reductions in income compared to the 2020 forecast. Should pandemic specific employment and unemployment schemes be discontinued, the impact on SIF spending could be significant. The SIF also funds insolvency and redundancy payments which could also increase substantially as a result of the pandemic.

While the SIF had, before the pandemic occurred, performed better than projected in its 2015 actuarial review,[12] demographic pressures were likely to return the SIF to an annual deficit at some point in the future. The pandemic will, at least, reduce the surplus of the SIF in 2020. In a worst-case scenario it will reduce its reserves. In either case, the SIF's position is weakened by the pandemic. This may place greater urgency on pension reform as set out in A Roadmap for Pensions Reform: 2018 - 2023 (2019) (see also PBO, Demographics and Voted Expenditure (2019) p.28.).

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11 It can be assumed that most of those on the TWSS would be eligible for Jobseeker's Benefit, and a lower proportion of those currently receiving the PUP.

12 See KPMG, Actuarial Review of the Social Insurance Fund: 31 December 2015 (September 2017) p.170.