



**Submission to**  
**Advisory Group on Tax and Social Welfare**  
**Child and Family Income Supports**

**September 2011**

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## Introduction

The National Women's Council of Ireland (NWC) is the national representative organisation of women in Ireland. Our mission is to achieve women's equality, empowering women to work together, while recognising and mobilising difference, in order to remove structural political, economic, cultural and affective inequalities. The NWC is a feminist organisation which works to promote equality for women, primarily in Ireland, but which also works in solidarity with women around the world. As the representative body for women in Ireland, we support and lead our members in advocating for justice and equality for women.

The National Women's Council of Ireland welcomes the opportunity to make a submission to the Tax and Welfare Advisory Group on 'Child and family income supports (in particular child benefit, increases for qualified children and the family income supplement). From an NWC perspective, this submission complements our submission and response to the Department's Value for Money Review of Child Income Supports.<sup>1</sup> The primary focus our response was as follows:

- A combination of universal supports and high quality universal services in childcare, health and education are required to address child poverty and ensure that all children can reach their potential. The NESC Developmental Welfare State identifies the 'radical development of services as the single most important route to improving social protection'.
- Child Benefit is a critical payment for all mothers and children and should remain universal and at current levels.
- Children cannot be viewed in isolation of the status of their mothers, families and communities.

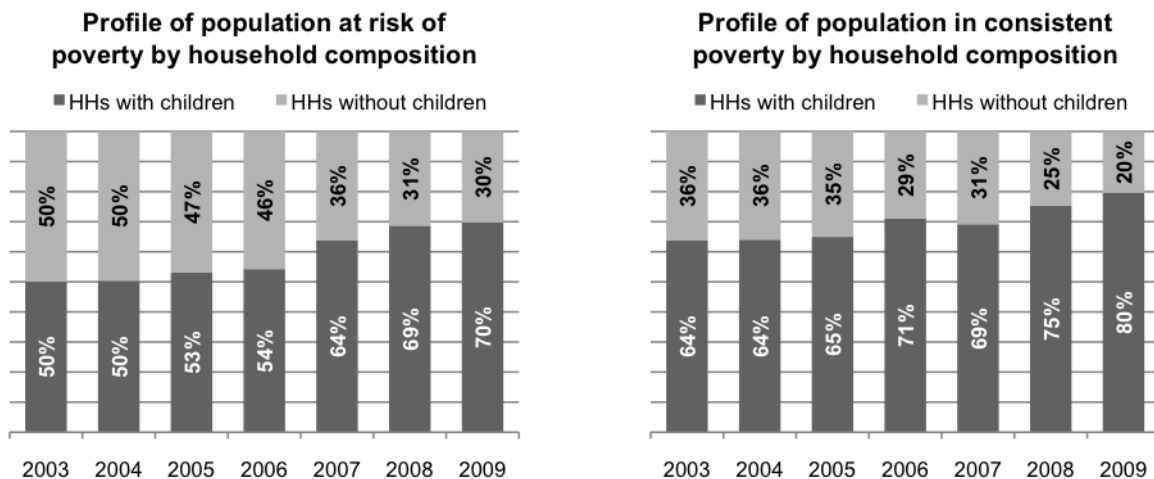
The NWC supports the view expressed by the Minister for Social Protection:

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<sup>1</sup> The Submission to the Value for Money Review of Child Income Supports was a Joint Submission by the NWC, INOU, OPEN, One Family and Treoir.

*'In this country, Child Benefit is society's contribution to the rearing of the next generation. In almost all Scandinavian countries child benefit is a universal payment. In fact, there are many other benefits for children worked into the welfare codes of those countries. In many ways, those are the countries which we ought to aspire to be like. Those are countries where there is a high quality of provision of services for children, including preschool. Rather than a race to the bottom as regards children's welfare, we should try to model ourselves on best practice throughout the European Union.'* Joan Burton T.D.<sup>2</sup>

However, we note that while poverty levels have fallen over recent years, it is increasingly concentrated among households with children, a particularly marked trend since 2006-7. Households with children comprised 70% of all those at-risk-of-poverty in 2009, and 80% of those in consistent poverty.



Source: Survey on Income & Living Conditions, various years

Falling wages and working hours, a steep increase in unemployment combined with social welfare reductions have hit families hard. Families have suffered a double blow in this regard, seeing reductions in adult incomes and cuts to Child Benefit.

<sup>2</sup> Labour Party Private Members Motion on Child Benefit, 1<sup>st</sup> December 2009  
<http://debates.oireachtas.ie/dail/2009/12/01/00025.asp>

## **Child Benefit**

The NWCI has consistently supported a universal Child Benefit as it is the only payment that automatically goes directly to the mother in the family. This payment has a significant positive impact on mothers, and, in particular for mothers on low income. It makes a critical contribution to the cost of rearing children.

Child Benefit was established to support parents to pay for the rearing of children. The Benefit was originally targeted to support larger families. Crucially, it is paid to the mother of the child\children.

Over the last two decades Child Benefit has been used to address a range of policy issues – supporting families, compensating women who stayed out of paid employment to care for their children, combating child poverty, and supporting parents to pay for childcare. In Budget 2001, Minister for Finance, Charlie McCreevy, announced a three year programme to increase the rates of Child Benefit in order to address child poverty and to support parents for childcare. ‘The House will be well aware of the great diversity of views that are held in relation to addressing the childcare issue. The Government's core objective is to provide support which will offer real choice to parents and will benefit all our children. This we can do through Child Benefit’. (December 2000).

Since 2009, there have been successive cuts to the payment rates and coverage of Child Benefit. The NWCI believes there are clear fundamental arguments as to why Child Benefit should remain a universal payment and at current levels in recessionary times;

- Child Benefit is universal and paid directly to the mother and is therefore not subject to the discriminatory nature of the Irish social welfare system which continues to be characterised by the male breadwinner model. Over 70,000 women remain on qualified adult payments in the social welfare system, which means they do not receive their payment in their own right, their husbands/partners receive the payments for them and their children.
- It cannot be assumed that income is shared equally within households, nor that there are equal spending patterns in families therefore the current payment structure is fundamental to ensuring the payment is spent on the well being and

care of the child. Research has shown that payments to mothers are more likely to be spent on costs in relation to children.<sup>3</sup>

- In the absence of government subsidies to pay for childcare and given the abolition of the Early Years Payment, Child Benefit is the only payment to parents to assist with childcare costs. Support for childcare costs is critical for women to make independent choices with regard to participation in employment, education and training and community and social activity.
- Child Benefit was specifically increased to compensate mothers who stayed out of paid employment to care for their children. In the absence of any recognition for mothers who decide to care for their children at home Child Benefit remains the only recognition of care for children in the home.
- Child Benefit should not be targeted as the mechanism for redistribution of wealth in Ireland. The universalist nature of the payment ensures that the wellbeing of all children is recognised by the state. It is neither effective nor appropriate to use Child Benefit as mechanism for redistribution of income. The taxation of earned income and assets provides a clear mechanism for the redistribution of wealth in Ireland and should be used as such in these recessionary times.
- Any reduction to Child Benefit will mean even less choice for mothers with regard to staying in employment, particularly for women who have already had their working hours reduced.
- A straight cut to Child Benefit would disadvantage all families and particularly effect those children and families at most risk of poverty. Lone parents would also be severely effected as they also face one of the highest risk of poverty in Ireland and are dependant on state support for the quality of life of their children. Reducing child benefit will affect families and particularly mothers as it will be more difficult to pay for the basic items that children need.

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<sup>3</sup> Madden, D. (2000) *The Kids are Alright: Who Benefits from Child Benefit? An Analysis Using Irish Data*. UCD, Dublin

Being able to afford food, clothing school items, and toys, out of school activities will become for some very difficult and for others impossible.

### **The Importance of Child Benefit to NWCI members**

In 2009, the NWCI surveyed its members on 'The importance of Child Benefit for Parents' and the potential impact of further cuts or reductions. The survey highlighted the critical importance that parents are currently placing on child benefit and other direct payments. 45% of respondents said that it would be a 'financial disaster' for their families if Child Benefit was to be cut in the Budget. 66.6% of respondents said that Child Benefit is currently a 'critical part' of family income. Some of the comments included:

*"The effects of child benefit being cut for me would mean I could no longer work as I could not afford childcare; this would be a disaster for my physical and mental well-being."*

*"I think child benefit is very important. I rely on it every month to get nappies, clothes, shoes and essentials my son needs. Often, I have relied on it to get extra food and freeze it. Without it my budget would be stretched even tighter and I don't think I would be able to manage."*

*"Child Benefit keeps us off the breadline for one week in every month."*

*"Child Benefit is not a luxury and should not be treated as one. Women in this country receive no recognition for the crucial unpaid role that they play in managing households, providing childcare, elder care and care of people with disabilities. Cutting Child Benefit sends out yet another message from Government that the work that women do is useless and undeserving of State support."*

### **Impact on women in Employment**

For families which have managed to continue working in these unpredictable economic times, Child Benefit has become one of the few reliable sources of income for children. From listening to our members, the payment of Child Benefit makes an important contribution to totalling up the monthly childcare Bill of €800-€1000 per

month, per child depending on where you live in the country. The National Consumer Agency and the Growing Up in Ireland Study show childcare costs ranging from €800-€1000 per month for a full time childcare place. The OECD has calculated net childcare costs (i.e. including the benefit of state supports) as a percentage of the average wage, and of family income; Ireland tops the table as the most expensive of OECD countries. Net childcare costs are 45% of the average wage in Ireland, compared to 16-17% in EU and OECD countries. Calculated as a proportion of family income, the cost is just under 30% in Ireland (only the UK is higher at 33%), compared to an average of around 12.5% in the EU and OECD.<sup>4</sup>

The NWCI does not believe that Child Benefit is the solution to supporting parents to pay for childcare, we have consistently recommended the development of universally subsidised ECCE infrastructure as the only sustainable solution to ensuring high quality childcare for all children<sup>5</sup>.

#### **Recommendations;**

- Maintain the universality of Child Benefit
- Maintain the current rates of Child Benefit
- Build a cross departmental strategy to develop a universally subsidised childcare infrastructure.

## **Family Income Supplement**

### **Introduction**

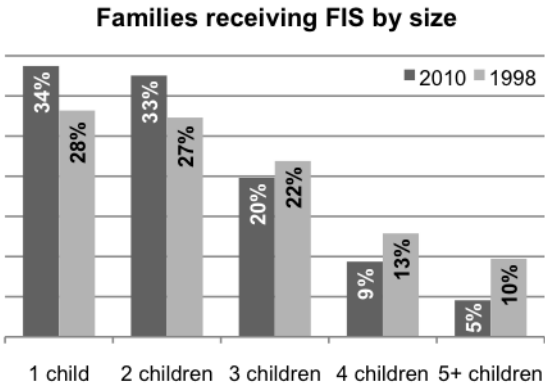
Family Income Supplement (FIS) is a critical payment in the social welfare system, addressing the key concerns of the Advisory Group's Terms of Reference i.e. providing good financial work incentives and addressing poverty, including child poverty.

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<sup>4</sup> [www.oecd.org/els/social/family/database](http://www.oecd.org/els/social/family/database)

<sup>5</sup> NWCI (2004) An Accessible Model of Childcare in Ireland. Dublin, NWCI.

60% of FIS claimants in 2010 were women, and over half of claimants are lone parents, a group with an exceptionally high poverty rate.



Two-thirds of families receiving FIS have one or two children. Over time, families in receipt of FIS reflect overall trends in relation to family size. The decline in family size, along with the decline in their value, is an important consideration in relation to work incentives: Qualified Child Increases no

longer constitute a substantial portion of weekly social welfare payments.

Three quarters of families have income below €500 per week, and over 90% less than €600.<sup>6</sup>

The issues raised below are primarily focused on work incentives, as this is the primary function of the FIS payment. Supporting low paid families, and enhancing incentives to reduce family joblessness, is a key strategy in reducing child poverty, which is strongly associated with unemployment.

**Poverty traps**

As noted by the *Policy and Value for Money Review of Child Income Supports*, families on low incomes can face poverty traps when moving from welfare back into work. FIS should play a key role in addressing these traps. However, smaller families, who account for the majority of families, face a sharp poverty trap and increased replacement rates when moving from a Jobseeker payment into FIS-supported employment.

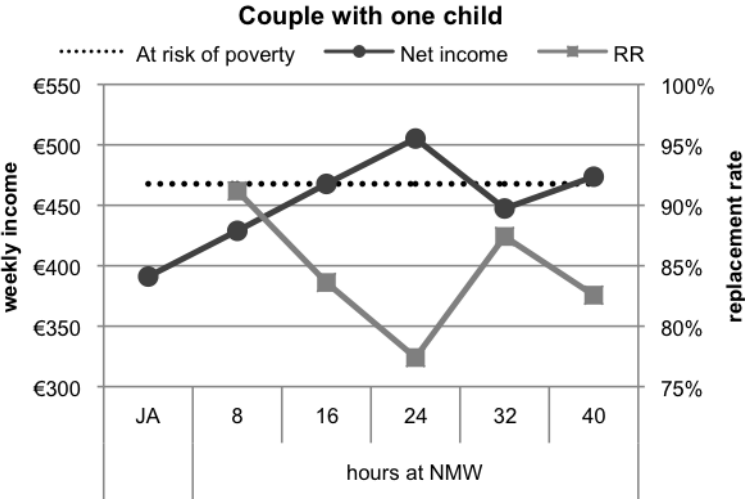
Couples with one or two children face a poverty trap when moving from part time work, where a reduced Jobseeker Allowance is payable, into full time low paid employment (illustrated here at the NMW).

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<sup>6</sup> Department of Social Protection (2011) Statistical Information on Social Welfare Services 2010

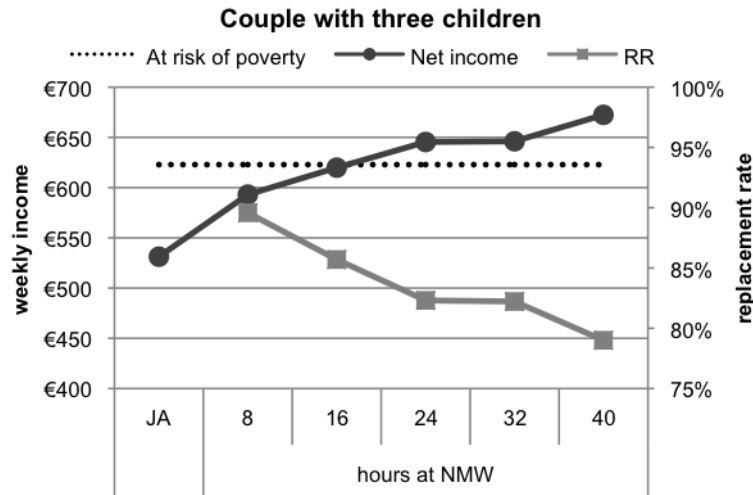
For example, net household income for a one child family with one parent working three days a week is €505, and is above the at-risk-of-poverty threshold<sup>7</sup>. Earning the NMW, this is the only scenario where the replacement rate falls below 80%. Taking on an additional day's employment means the loss of entitlement to JA, but eligibility for FIS. However, this results in a fall of €58 in household income, as the FIS payment doesn't compensate for the loss of (reduced) JA, even taking increased wages into account. The replacement rate rises to 87%. Even when working 40 hours at the NMW, the family's income is lower than when working part-time. While their income is just above the poverty line, the replacement rate remains over 80%.

Couples with two children also face a similar scenario.



However, the policy implemented over recent years of providing more generous increases in the income thresholds for larger families means that a family with three children does not face a *loss* in income when increasing working time from three to four days, however, weekly income increases by only €1. If working 40 hours a week, income rises to €672, almost €50 above the at-risk-of-poverty line. At this juncture, they face a replacement rate of 79%.

<sup>7</sup> At-risk-of-poverty threshold at 60% median equivalised income in 2009, updated in line with CPI



As family size increases, the poverty trap is eliminated. The transition from reduced JA to FIS when increasing working hours provides an increased income, although a substantial proportion of earnings are ‘taxed away’ by the withdrawal of social welfare entitlements.

The means assessment for earned income on Jobseekers Allowance is not very generous: the disregard has not been increased in line with the value of the payment or earnings, it is less than 2½ hours’ earnings at the NMW; 60% of gross (less PRSI) earnings in excess of the disregard are assessed as means. Average weekly paid hours are lower in low paid sectors, with retail, hospitality and other services recording an average of 30-32 hours per week, with lower average hours for women compared to men<sup>8</sup>. For the majority of families on FIS, i.e. smaller families, the supplement does not provide an adequate work incentive, given typical working hours and the legal minimum rate of pay.

This issue can be addressed by either raising the income threshold and/or increasing the payment rate above 60%. Indicatively, it is calculated that an increase of at least €100 to the threshold for a one child family is required to provide a similar net income when working 4 days at the NMW as when working three days and claiming a residual JA payment. Raising the threshold would increase the number of families potentially eligible for the supplement; raising the payment rate would retain the very tight focusing of the payment. However, a FIS supplement paid at close to 90%

<sup>8</sup> CSO (2009) *National Employment Survey 2007*. Dublin: Stationary Office

would be required to prevent a drop in income in the scenario illustrated above, assuming the current income threshold is retained. In practice, a combination of both is probably required.

**Recommendation:**

- Raise FIS income thresholds for smaller families and/or increase the rate at which the supplement is paid to eliminate poverty traps.

**Minimum hours requirement**

While the previous section detailed the poverty traps faced by low paid workers despite being in receipt of FIS, many families are facing even sharper disincentives than illustrated.

The part-time work scenarios outlined above assume that the employee can consolidate their hours into a few days per week. But many low paid employees, the majority of whom are women, work in sectors where shift work is common, and hours are often distributed over the course of the working week. In many instances, these workers are not guaranteed the 19 hours a week required to qualify for FIS.

While this is difficult to capture in published data sources, members of the NWCI, report anecdotally that this is a significant problem for many women workers. In one major retailer for example, it is reported that permanent staff have been reduced to as little as 15 hours work a week; short term staff are hired on the lowest pay rates to fill the schedule (these workers are not likely to be eligible for FIS either, as a 3 month employment duration is required to qualify). Employees cannot secure additional employment, as they are often only notified of their schedule as little as a day in advance, and are required to be available for the full working week. Employers are unwilling to allow their staff consolidate their hours into a few days.

These employees fall through the social security safety net; their employers demand a high level of flexibility, but provide little security. The social welfare system is not equipped to support them, as detailed in the illustrative case study below. Women's

employment is concentrated in the sectors most affected, and so they experience most of the insecurity that results.

### **Illustrative Case**

A retail worker has average weekly hours reduced from 25 to 15 per week. Their working hours exceed 3 days per week. Work schedules are flexible, determined by the employer often on short notice.

- They are no longer eligible for FIS, as hours have fallen below the minimum threshold.
- They do not qualify for Systematic Short Time payments, as there is not sufficient regularity in their working schedule.
- They do not qualify for a reduced Jobseeker payment, as they work on more than 3 days a week.
- They cannot take a second job, as they are required to be available to fill shifts as determined by their employer, often on very short notice.

Such employees, in the absence of other income sources in the household, will find continuing in employment unviable. The danger is that such employees leave the labour market in order to be eligible for some social welfare support.

Should demand return to the labour market, the situation for these workers may improve; there is little likelihood of such a recovery in the short to medium term. However, atypical contracts and part-time working are on the increase. In most European economies, these trends have been apparent for some time; there has been a significant increase in the level of involuntary unemployment in Ireland since the onset of the recession<sup>9</sup>. Part of the solution to this problem may lie in employment regulation, so that a more reasonable balance is struck between employer and employee in achieving the flexibilities required.

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<sup>9</sup> CSO (2011) *Quarterly National Household Survey, Q1 2011*. Dublin: CSO

It is vital that the link with the labour market is maintained for as many women as possible: it is far easier to secure additional or alternative employment when in work than when unemployed. Enabling such employees to qualify for social welfare support, even if it means a temporary adjustment to the eligibility conditions, can play a valuable role in this regard. It is preferable to provide such support via an in-work benefit, rather than through unemployment compensation, to reinforce the connection with the labour market. Introducing greater flexibility with regard to the hours threshold as a temporary measure would play a valuable role in promoting much needed job retention.

**Recommendation**

- Allow employees who have had hours reduced below the 19 hour threshold to retain eligibility for FIS. This may be implemented as a temporary measure, to be reviewed on an ongoing basis in the light of labour market developments.

**Adjustment for wage reductions**

FIS award is made for a year, and is not adjusted to compensate for reduced earnings arising from cuts to pay or hours, or indeed both. For minor reductions, this may not cause hardship, however, particularly in the current context, the cut in earnings can be significant, and may leave workers without sufficient support for a considerable period of time, even where they continue to have sufficient hours to qualify. Such households are at a high risk of poverty, and are likely to suffer increased deprivation as a result.

Where the fall in earnings exceeds a given amount e.g. a proportion of current earnings, employees should be allowed to have their claim reviewed during the course of the year's award.

**Recommendation**

- Where wages are reduced e.g. by 10% or more, review FIS claims and revise the payment accordingly.

## Raising Awareness

A key difficulty with FIS is its low take-up rate. Research commissioned by the Department of Social Protection<sup>10</sup> found that awareness of the scheme was below average among those considered actually eligible. Participants were unfamiliar with terms and conditions - only 1 in 3 were aware of the eligibility requirements, and only 1 in 8 were familiar with the income thresholds - and even after these had been explained, a high proportion remained unclear as to whether they would qualify, and what the benefit would be. Those who were most likely to be eligible, and who would be likely to apply, were more likely not to be familiar with the scheme. Misconceptions were common, including believing that there was a maximum limit of 20 working hours and that getting FIS would mean paying more tax.

The report noted, “interaction between the Department/local Social Welfare offices and actual/potential recipients of benefits is a negative issue in terms of spreading awareness and encouraging take-up of FIS”. Inefficiencies in administration, with applications being lost, and taking a long time process, further reinforced this negative association. The stigma associated with having to have the application stamped by employers was a significant barrier to application.

Awareness and understanding entitlements to FIS was found to have an important impact on participants who were unemployed, they felt it would have a real impact on easing their financial burden if they secured low paid work.

These findings suggest that there is considerable scope for raising awareness of FIS, and how it can benefit low paid employees. Greater awareness could help address the widely reported view that unemployed people are “better off on the dole”, and support better informed decision-making. The findings also suggest that greater efforts need to be made by the Department to promote the scheme, and communicate it in an accessible fashion; Jobseekers and lone parents should be routinely alerted to the scheme. Given the importance of word of mouth, working with local community and voluntary organisations could be an important conduit for disseminating information.

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<sup>10</sup> Millward Brown IMS (2008) *Family Income Supplement Uptake Research*. Available at: <http://www.welfare.ie/EN/Policy/ResearchSurveysAndStatistics/Pages/fisuptakereport.aspx>

Administration of the scheme needs to be enhanced. Applicants report waiting for months for applications to be processed. As the payment can be vital in making low paid work viable, this should be given a high degree of priority.

Finally, many of these issues could be addressed by administering an in-work support through the tax system, as is the case in both the UK and the USA, an issue discussed further in the following section.

### **Recommendation**

The Department of Social Protection should;

- Proactively promote the scheme among it's client base
- Communicate eligibility and benefits in plain, easily understandable English
- Support local community and voluntary organisations to raise awareness of the scheme
- Give priority to significantly enhancing administration.

### **Interaction of tax and welfare systems**

The group should examine the feasibility of administering FIS as part of the tax credit system. A key benefit of such a strategy is that household income is more strongly associated with being in employment, the increased income from being in work is no longer associated with the social welfare system. It could also help to address the barriers identified in research as being implicated in the low take up rates for FIS e.g. the perception that people who are working are not entitled to the income supplement, in addition, there is no stigma associated with applying for a tax credit, and employers may be more willing to complete the required documentation. Administration through the tax system could also facilitate automatic qualification for a FIS type support.

A further advantage of administering via that tax system is that it would facilitate extending coverage to self-employed people (the coverage of self-employed people

in the social insurance system being one of the Advisory Group's Terms of Reference). The UK's Working Tax Credit is available to self-employed people. An income support for this group may make increase the viability of self-employment, particularly in the current economic climate.

**Recommendation:**

- Conduct and publish a detailed feasibility study on delivering FIS through the tax system, to enhance administration, extend coverage, and increase take-up.

