



Irish Government Economic and Evaluation Service

Labour Market Synopsis

Issue 3

Cost of the Live Register

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The analysis contained within this paper was carried out by members of the Irish Government Economic and Evaluation Service (IGEES). Those views contained within do not necessarily represent those of the Department, the Minister for Public Expenditure and Reform or the Government.

Executive Summary

Jobseeker's Benefit and Jobseeker's Allowance, the schemes analysed within this paper, cost the Exchequer €3.8bn in 2012. The analysis contained within asks whether this level of expenditure is representative of increased unemployment. With the unemployment rate currently stabilising and numbers on the Live Register beginning to fall marginally it is essential that policymakers understand the composition of this expenditure.

Introduction

A key consideration for policy makers in an environment of declining resources and high unemployment is the cost of the Live Register. At over 9% of Voted Exchequer Expenditure in 2012, this level of spending is significant and rarely evades attention when budget-adjustment measures are under consideration.

While spending on labour market activation measures are a significant component of expenditure on unemployment (€950m in 2012), spending on Jobseeker's Allowance and Jobseeker's Benefit totalled almost €3.8bn in 2012. As a point of contrast, and a telling feature of the changes seen Ireland's labour market, expenditure on these schemes in 2006 - a year in which the unemployment rate averaged 4.5% - barely breached €1.2bn

Unemployment is currently at 14.2% with the Live Register numbering 430,000. In light of this the Department of Social Protection (DSP) faces considerable spending pressures with almost one-quarter of its overall budget directed at these schemes. The stabilisation in the labour market over recent months, whilst welcome, has done little to alleviate these pressures.

Overview of the Live Register

The Live Register (LR) is comprised of those in receipt of Jobseeker's Allowance (JA) and Jobseeker's Benefit (JB). It also includes those not in receipt of payment but who have declared unemployment and receive credited contributions on their social insurance record.

With respect to the latter live registrants, which currently amount to 8% of the total LR, there is no expenditure arising to the Exchequer as the purpose of Credits is to protect the social insurance entitlements of people in unemployment. The analysis contained in this paper therefore focuses solely on working-age income supports – JA and JB.

JA and JB are Ireland's two schemes through which income supports are provided to those who are fully unemployed or unemployed for three or more days in a week. Qualifying for JB is contingent on a claimant's Pay Related Social Insurance (PRSI) contribution record.

JA by contrast is a payment to those who are not eligible for JB entitlement or who have already exhausted their JB entitlements, and who satisfy a means test in order to qualify. The same criteria in terms of job-search intensity apply to those in receipt of JA. The maximum weekly rate under both schemes currently stands at €188.

As this paper will demonstrate later however; those claimants with Qualified Adults (QA) and Qualified Children (QC) currently comprise 27% of the LR and receive weekly rates well in excess of the maximum. This level of income supports, especially when combined with supplementary payments such as Rent Supplement, result in high replacement rates that undermine our efforts in the area of labour market activation.

Jobseeker's Allowance and Jobseeker's Benefit Expenditure: 2006 – present

Expenditure under each of the schemes has seen substantial increases. Total monthly expenditure on income supports stood at €113m in January 2007. This has increased by 200% to €340m by January 2013.

The data shows that JB, while still high, is gradually falling. Payments under JB in January 2013 (€60m) were 50% lower and 11% lower than in the same month in 2010 and 2012 respectively. It should be noted however that while the decline in numbers on JB is significant, policy changes related to the amount of PRSI contributions required to qualify, in addition to a reduction in the maximum duration of claims, have contributed to this decline.

Expenditure on JA by contrast continues to increase. The peak-expenditure levels first reached in July 2010 have already been exceeded in 2013 at more than €280m in January – a year-on-year increase of 7%.

Increasing Jobseeker's Allowance as a Proportion of the Live Register

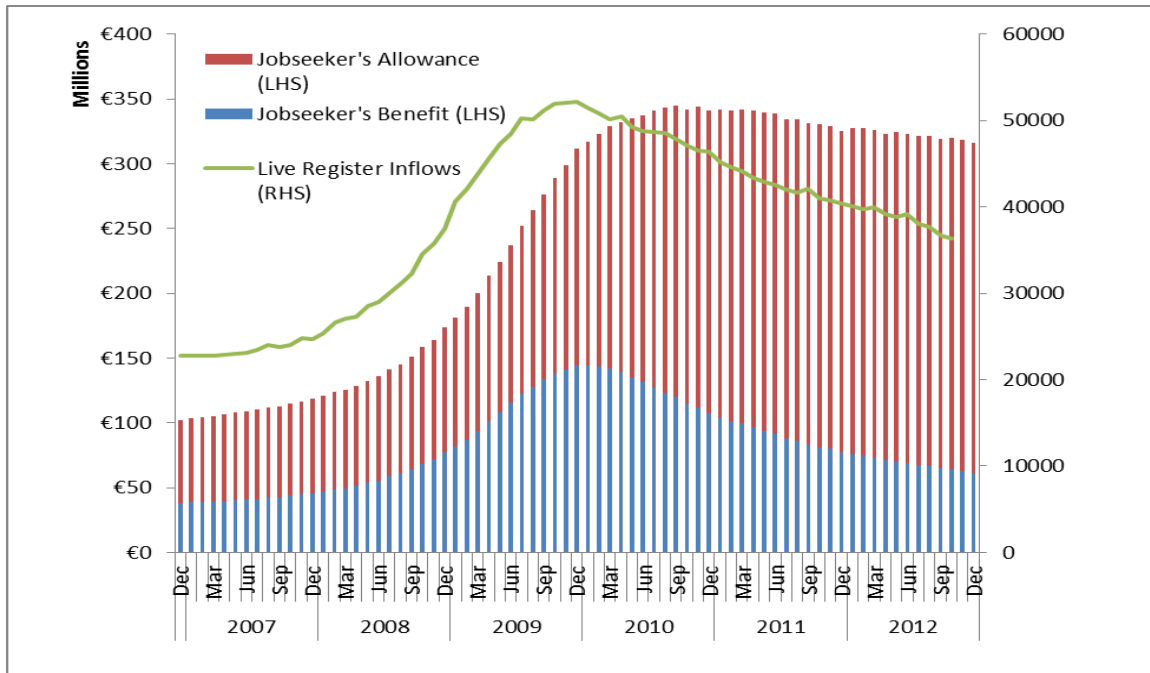
JA now comprises 81% of the total Live Register (LR) expenditure. The heavily skewed nature of the LR stands in contrast to what we had witnessed prior to the recession wherein expenditure was much more evenly shared with JB. For example, monthly expenditure on JB in 2006 as a percentage of total LR expenditure ranged between 34% and 40%.

The graph on the following page shows how payments under JA and JB have increased over the period 2007 – 2012 with payments under JB falling since the beginning of 2010 and the gap being filled through rises in JA expenditure.

LR inflows are included to support the analysis. It is clear that increases in monthly inflows lead to subsequent increases in JB payments. Increases in LR expenditure were

largely a function of higher payments under JB during the initial phase of the recession (2008-2009). The stock of JA claimants remained broadly stagnant during this period but subsequently saw large increases.

Graph 1: Jobseeker's Allowance and Jobseeker's Benefit: 2006 – present (12 MMA)



(Source: Department of Social Protection)

We can hypothesise that the trend line for JB incorporates a time-lag given that payments under the scheme are exhausted depending on PRSI contributions. This time-lag becomes even more pronounced when measuring peak inflows with subsequent peak-expenditures under JA and JB combined.

If we consider the average duration of a JB claim to be less than 9 months, after which period claims transfer over to JA, the peak-level of payments made under JB in late-2009 is a reflection of a peak in inflows at an earlier stage. This assertion is borne out by the data as we find that monthly inflows peaked in January 2009 (70,000) whilst JB payments had peaked by the end of that year.

This tells us that, instead of the majority JB claimants returning to employment during their spell on the Live Register, the cohort who entered into unemployment during the period 2008 – 2010 remained unemployed and transferred over to JA resulting in the heavily biased LR expenditures we are encountering today.

Analysis, even at a high level, shows that the higher proportion of expenditure on JB during times of labour market stability is evidence that unemployment was more short-term than is presently the case. There is therefore a requirement for effective activation

measures as the Live Register has continued to range between 420,000 and 470,000 over the past number of years with the average duration of a claim now at 24 months.

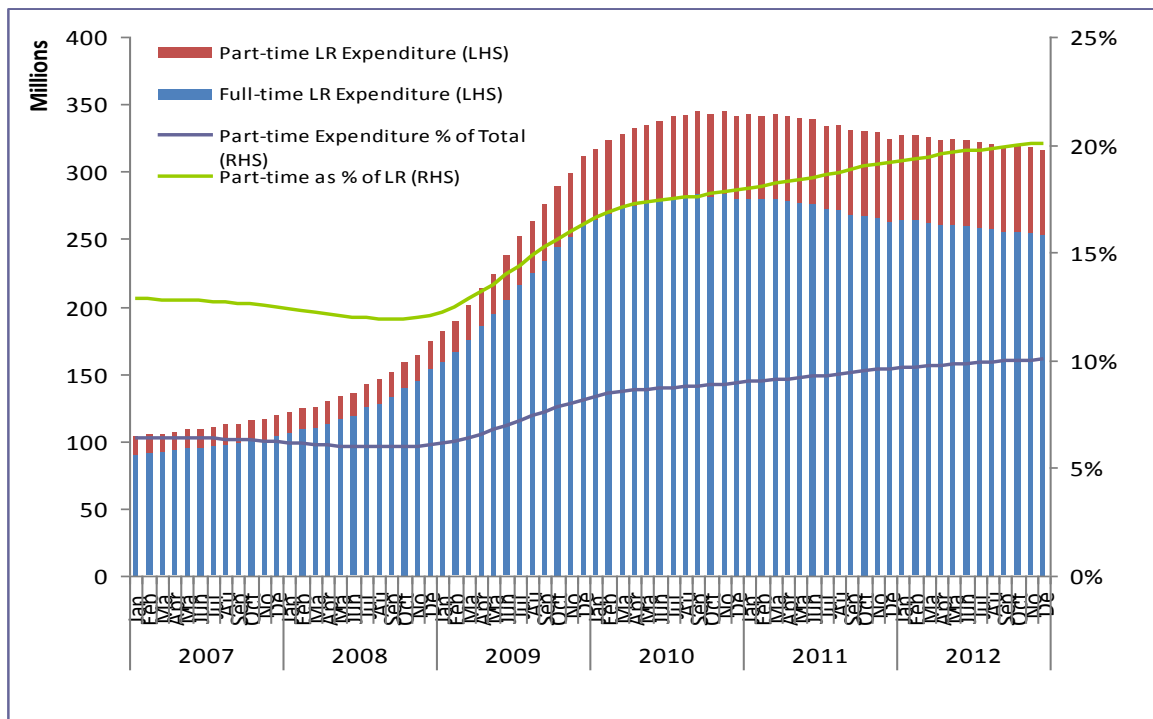
Expenditure on Part-time Claimants on the Live Register

While full-time unemployment statistics are cited most often, the increase in part-time unemployment is also an interesting component of the LR. Including involuntary workers and those only marginally attached to the workforce would push the already high unemployment rate to 23%¹.

The LR is now made up of 90,000 people who are either casual or part-time claimants receiving payment due to a loss of working hours as opposed to facing full-time unemployment. Their proportion of the LR has risen from 12% to over 20% of the total with the expenditure attributable to this group growing in both absolute and relative terms.

The graph below applies the assumption that part-time claimants receive roughly half the income supports of full-time claimants. Combining this assumption with the available data on part-time and casual claimants shows that expenditure on this group now amounts to 10% of the total LR spend.

Graph 2: LR Expenditure (JA/JB) on Full- and Part-time Claimants



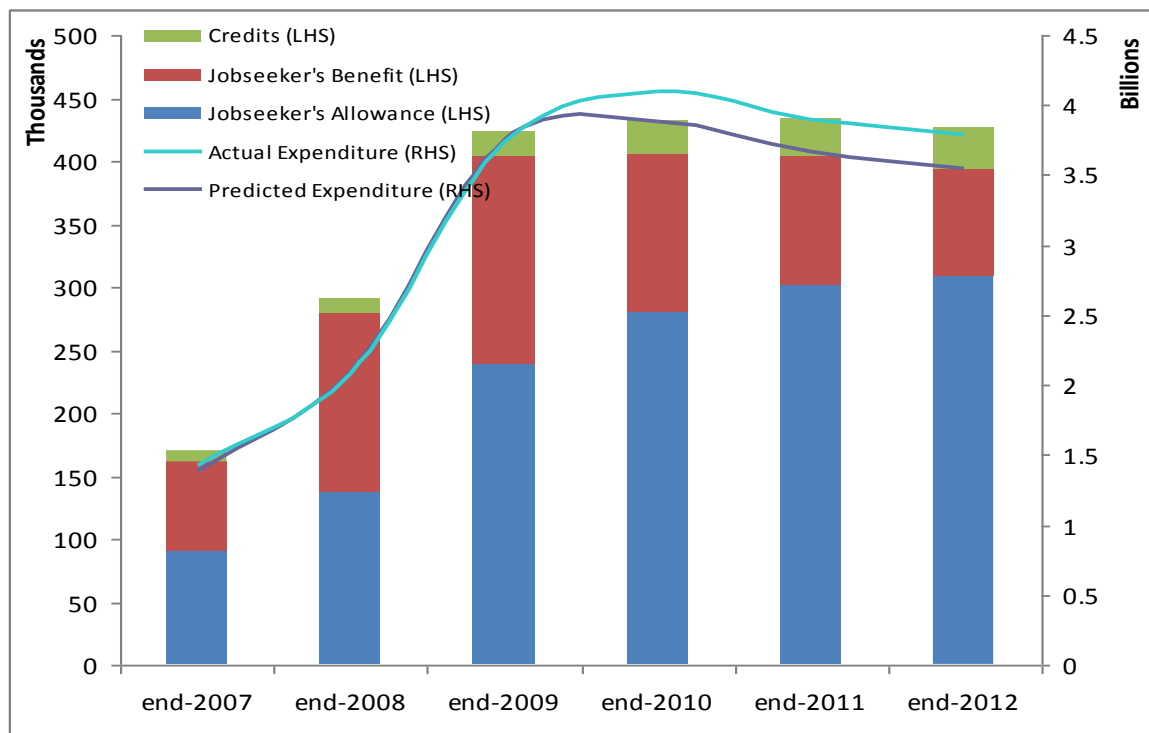
(Source: Department of Social Protection, Central Statistics Office)

¹ International Monetary Fund: Staff Report (April 2013)

Live Register Expenditure Relative to Cohort Size

The discussion on the part-time element of the LR feeds well into the analysis of total expenditure on JA and JB. A key consideration in this respect is whether the Exchequer allocation to income supports is actually representative of the numbers on the LR. If we consider the LR to be composed of only people on a single payment of €188 or less, this is clearly not the case.

Graph 3: Expected and Actual Expenditure on the Live Register



(Source: Central Statistics Office, Department of Social Protection)

The graph above and the following table highlight the changes in payment rates, average number of monthly LR claimants (JA/JB) and the cost of funding the LR since 2007. Through following the changes in each of these over the period we find a clear pattern developing with the stabilisation of the LR and falling payment rates since 2009.

The decline in payment rates has not been sufficient to impact on the overall cost of the LR as the numbers joining have increased substantially. While increased numbers of claimants on the LR has ensured that expenditure remains high, without the declines in payment rates the overall cost would of course be much higher.

There has been a cumulative fall of 8% in rates payable to those in receipt of JA and JB since 2009. Over the same period there has been a 5% increase in numbers of claimants under both schemes with expenditure rising by 1.5%.

Table 1: Expected versus Actual LR Expenditure – JA/JB

	2007	2008	2009	2010	2011	2012
Weekly Rates	€185.80	€197.80	€204.30	€196.00	€188.00	€188.00
Monthly Rates	€805.13	€857.13	€885.30	€849.33	€814.66	€814.66
Annual Rates	€9,662	€10,286	€10,624	€10,192	€9,776	€9,776
YOY Change		6%	3%	-4%	-4%	0%
Claimants (JA/JB)	152,917	216,650	384,747	417,642	415,386	403,269
YOY Change		42%	78%	9%	-0.5%	-3%
Predicted Annual Cost	€1.385bn	€2.094bn	€3.754bn	€3.876bn	€3.671bn	€3.546bn
YOY Change		51%	79%	3%	-5%	-3%
Actual Annual Cost	€1.420bn	€2.088bn	€3.738bn	€4.095bn	€3.902bn	€3.791bn
YOY Change		47%	79%	10%	-5%	-3%
Variance	3%	0%	0%	6%	6%	7%

(Source: Central Statistics Office, Department of Social Protection)

The figures for predicted annual cost of the LR are arrived at through separating the full- and part-time claimants and applying the annual payment rates to each². The following formula is used:

- $(\text{Average monthly full-time claimants}) \cdot (\text{Payment rates}) + 0.5(\text{Average monthly part-time claimants}) \cdot (\text{Payment rates})$

What is interesting is the divergence between the predicted and actual annual cost of the LR. Based on the average monthly JA and JB numbers, there exists a gap of €250m between the predicted and actual annual cost of the LR in 2012. In addition, while divergence between the two moved within a limited range in the years preceding the recession, this has increased to over 7% by end-2012.

At first glance the data suggests that the additional expenditure may be associated with the differing payments that LR claimants receive based on their circumstances. A key consideration in this respect is the prevalence of LR claimants who see increases in their entitlements based on Qualified Adults (QA) and Qualified Children (QC).

² Payments to part-time claimants are assumed to be 50% of the maximum weekly payment under JA and JB.

Table 2: Breakdown of Live Register by QA and QC (March 2013)

Type of Claim	No. on Live Register	% of Total Live Register
No Dependents	311,200	73%
Couples (No Children)	21,500	5%
Couples (1 Child)	18,000	4%
Couples (2 or more Children)	37,500	9%
Personal Rate + 1 Child	15,500	4%
Personal Rate + 2 or more Children	19,800	5%

(Source: Department of Social Protection)

As is broken down in the table above, 73% (311,200) on the LR in March 2013 are claiming without QAs and QCs and therefore receive the maximum weekly payment of €188 *or less*. The additional expenditure on QAs and QCs is therefore concentrated on a relatively small group of LR claimants.

The data can be broken down even further to show that 53% of the LR receives less than the maximum weekly rate:

- 18% (76,972) receive no payment.
- 18% (75,922) receive payment for part of the week only.
- 17% (70,186) receive JA and JB of less than the maximum personal rate of €188.

The figures presented above include only payments made under JA and JB. The Department of Social Protection's (DSP) 2011 Annual Report shows that 14.6% of JA and JB claimants also receive a supplementary payment:

<u>Supplementary Payment</u>	<u>Numbers in Receipt</u>	<u>% of JA and JB</u>
• Rent Supplement	44,636	11.7%
• Mortgage Interest	10,942	2.9%

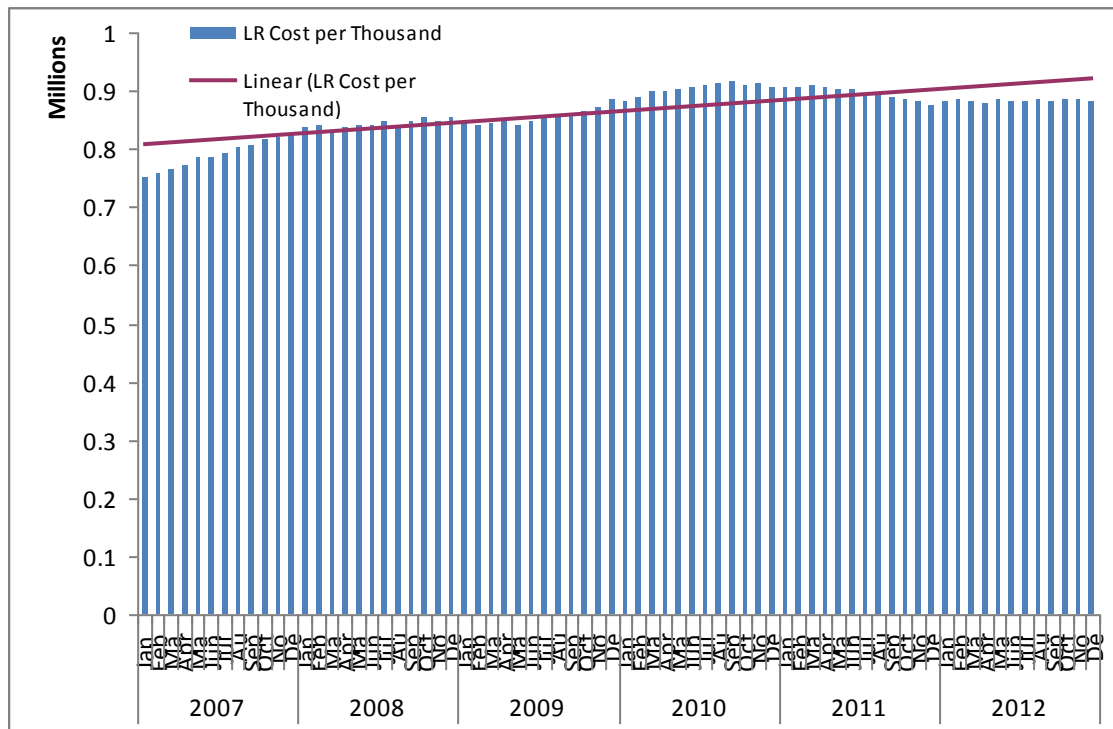
Increases in income of this size are significant for those in unemployment as replacement rates, a measurement of disincentives to work, increase considerably for those in receipt of higher levels of income supports from the State. This is evidenced by DSP data which shows that exit rates decline as payment levels increase. This topic is becoming increasingly relevant as the labour market stabilises and those at risk of unemployment traps become more readily identifiable.

Cost per Thousand on the Live Register

A natural extension to this discussion is the cost per thousand on the LR and how it has evolved post-financial crisis. This is an important theme with respect to exiting the external financial assistance programme as Ireland's creditors have repeatedly raised concerns on what are perceived as high expenditures on income supports.

The graph below relates solely to full-time JA and JB claimants. As can clearly be determined from the trend-line, the average cost per thousand has increased to stand at well over €800k per month at end-2012. This increase comes despite the fact that maximum weekly payment rates have fallen – albeit modestly – since 2009.

Graph 4: Cost per Thousand on the Live Register (Full-time JA/JB)



(Source: Department of Social Protection; Central Statistics Office)

The conclusion that the cost per thousand on the LR has risen since 2007 coincides with what was found in the previous section in that, despite payment rates and numbers on the LR falling, the actual cost of providing income supports has not followed the same trend. While the past year has can be viewed as a period of levelling-off, work is required to ensure that the cost per thousand begins to decline as the labour market continues to stabilise.

Conclusion

The large increases in unemployment witnessed over the past number of years have necessarily prompted higher expenditures on income supports. With stability now emerging in the labour market it is encouraging that total expenditure on JA and JB has fallen from its peak of over €4bn in 2010.

As this paper has highlighted however; a substantial divergence (€250m) has emerged between predicted and actual expenditure on JA and JB. That divergence currently stands at 7% of total expenditure on income supports and continues to widen. In an effort to explain the divergence this paper underlines that high levels of additional expenditure - relating solely to JA and JB payments - are concentrated on 27% of the Live Register.

Increases in entitlements relating to Qualified Adults (QA) and Qualified Children (QC), particularly when combined with further supplementary payments such as Mortgage Interest Relief, create significant disincentives to work for those claimants in receipt. This is also reflected in the cost per thousand on the LR which has risen steadily since 2007.

High replacement rates, while primarily affecting a relatively small group, serve to undermine the progress made in reforming Ireland's labour market activation programmes. This point is especially relevant in today's environment as job creation will remain constrained and act as a depressing influence on in-work incomes.