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SECOND TIER CHILD INCOME SUPPORT: THE CASE FOR INNOVATION

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***Abstract*:** Total and per child spending on child income supports are at high levels, and so are child poverty and the proportion of children being reared in jobless households. While the role of child income supports in alleviating child poverty should not be exaggerated, it can be improved. Most of the per child support received by low income families now takes the form of universal payments. These create no employment disincentive but, by giving almost one euro to families in the top half of the income distribution for each euro going to the bottom half, effectively accord child poverty a low priority. There has been a long interest in a new form of targeting that would enable priority be given families on the basis of low income alone, create no employment disincentive and be slowly withdrawn as family income rises. The principal difficulties in paying what would, in effect, be a supplement to Child Benefit but received only by low income families are administrative. Identifying 'family income' and delivering support to parents in work and those reliant on social welfare smoothly and equitably will entail significant innovations in the public administrative system. The requisite steps are identified in this paper. It should also be appreciated that achieving the necessary retooling of data and delivery systems would allow the new form of targeting to be applied to other supports as well (e.g., childcare subventions).

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JEL Classifications: D61, H53, I32, I38, J13

1. INTRODUCTION

This paper examines the five current instruments which deliver child income support in order to assess the case for adopting a new form of targeting children in low income households. Sections 2 and 3 briefly invoke the origins of the current 'system' of child income support and the wider context to combating child poverty[1], while Section 4 summaries the evidence that levels of child income poverty continue at a high level. The heart of the paper is in Sections 5 and 6. Section 5 conducts a detailed examination of the strengths and weaknesses of each current instrument *if further resources were to be channelled through it in a bid to reach the children still below the income poverty line*. Section 6 addresses the question of reform, using some selected international examples to make the case for introducing a new form of targeting. It identifies the practical innovations required of public data and delivery systems in order to implement the new form of targeting.

[1] These are given fuller treatment in NESC Research Paper No.6 (2007).

2. THE RECURRING THEME OF A 'SECOND TIER' TO CHILD INCOME SUPPORT

The effectiveness of Child Dependant Additions (CDAs) and Family Income Supplement (FIS) in functioning as a loosely coordinated second tier of child income support has been under discussion for quite some time. The 1986 report of the *Commission on Social Welfare* (CSW) endorsed what are still the essential contours of Ireland's child income support system. Child Benefit (CB) as a first tier reaches all families, while CDAs and FIS form a second tier for low-income families split into two groups – those reliant on social welfare receive CDAs along with their CB, and those on low earnings receive FIS along with their CB.

Ten years later, an Expert Working Group on the *Integration of the Tax and Social Welfare Systems* (1996) reviewed the system and explored some major alternatives. It was concerned that CDAs and FIS were creating significant work disincentives: CDAs create an 'unemployment trap' because families only received them if they remain on social welfare; FIS creates a 'poverty trap' because the withdrawal of the benefit as earnings rise adds to the onset of other tax obligations to absorb a potentially major part of any increase in earnings.

In the final analysis, the 1996 Report did not recommend fundamental reform but proposed instead (in an Interim and Final Report) a range of partial measures that could be implemented immediately to smooth the transition from welfare to work (e.g., retention of secondary benefits for a period, retention of CDAs for 13 weeks for the long-term unemployed, retention of part of the main welfare payment on a declining basis, higher earnings disregards, etc.). It made several pertinent observations on the balance to be struck between piecemeal and fundamental reform, however, that remain useful and relevant to the contemporary challenge of further improving Ireland's child income supports:

i. Benefit withdrawal rates cannot be avoided 'in any social welfare system (where) earning money implies losing entitlement to benefit' (1996: 7). Either high benefit withdrawal rates are imposed on a relatively small part of the population, or lower tax/withdrawal rates are faced by a much larger section of the population.

ii. Making supports universal (like Child Benefit) avoids imposing benefit withdrawal rates on small or large subgroups in the population but only by imposing higher taxes on the whole of it. A society that provides an extensive range of supports and services, without either income testing or user charges, must levy taxes at a higher level to provide such 'free' access.

iii. Effective social protection, which respects people's capacity and need for self-reliance, requires that its different strands develop in an integrated fashion and not in parallel. The 1996 Expert Group essentially wrestled with the unforeseen by-product of what, in isolation, were each a necessary social development, viz. the protection of the real incomes of people out of work and tax reductions for workers on low earnings: 'several policy objectives being pursued in parallel on their own merits [contribute] to unemployment and poverty traps' (1996: 21).

iv. There is a path-dependence in how instruments of social protection develop: '[Our] options are discrete options, not steps towards a single solution; in other words, it is not a question of beginning with the least expensive option and hoping to move from there towards the more expensive options' (1996: 137). Once an instrument is adopted, it creates constituencies that press for its extension and improvement and a return to basic alternatives becomes more difficult.

In confirmation of this last point, there have been, since 1996, several major extensions and developments in the existing instruments. The calculation of FIS was changed to a net income basis in 1998 and its per-child payments to large families given particularly substantial increases in 2006. A major increase in the value of Child Benefit took place over the period 2001-03, and an Early Childcare Supplement for all children under the age of six was introduced in 2006. The freeze in the value of CDAs was rescinded in the 2007 Budget and they were given their first increase since 1994. The implication of these substantial improvements is, indeed, that it has become more difficult to propose and seriously explore fundamental alternatives to the present instruments.

3. CHILD INCOME SUPPORTS: NOT THE WHOLE ANSWER TO CHILD POVERTY

Countries with low child poverty rates tend, in fact, not to have relied on a 'magic bullet' but on the cumulative contributions of a range of policies: good services for children *and* good child income supports, high employment rates *and* good adult social welfare payments. They typically achieve low poverty rates for adults and children. The particular contribution of a remodelled second tier child income payment to alleviating child poverty, therefore, needs to be part of an integrated strategy that embraces the several channels through which public support is provided to households in which children are being reared.

In fact, as the level of spending on child income support is now high, it can be argued that Ireland's overall strategy for ending child poverty needs to bring complementary factors into sharper focus if we are to increase the effectiveness of any given level of spending on child income supports. While the focus of this paper is on the contribution a reform internal to the system of child income support can make, it is important not to lose sight of other factors with a major role to play.

Four propositions, in particular, can be advanced as central to advancing Ireland's overall strategy for reducing, even ending, child poverty.

i. Families on low incomes need to have access to quality services for their children even while – or if – they remain on low incomes.

ii. Parental well-being is a major mediating factor determining whether and how low family income impacts negatively on child wellbeing, it needs to be independently addressed.

iii. Ensuring parents can earn without sacrificing their caring responsibilities remains the single best route to keeping children from poverty.

iv. Adult welfare payments influence 'children's incomes' as much, or more, than child income supports.

These propositions contextualise the role of child income supports. But they do not negate the important role they still have to play. It remains the case that low household income can, and does, blight childhood, that too many children in Ireland are still being reared in households with seriously low money incomes, and that *how* cash support is provided on behalf of children can, and does, impact significantly on the other, more major sources of household income.

4. CHILDREN IN LOW INCOME HOUSEHOLDS IN IRELAND: THE EVIDENCE

The picture, as sketched by EU-SILC, can be simply described: one in five children in Ireland were 'at risk of poverty' in 2005 and one in ten living in households experiencing significant deprivation. Table 1 shows the 'at risk of poverty' rate for children (at the 60 per cent line) from 1994 to 2005 and compares it with that of working age adults and older people.

Table 1: Percentage of Persons Below 60 per cent Median Income Poverty Line by Age, 1994-2005

Age Group	1994	1997	2000	2003 (revised)	2005
0-14[1]	24.5	23.5	23.7	21.0	21.2
15-64[1]	12.1	14.7	16.4	17.6	17.4
65+	5.9	24.2	38.4	29.8	20.1
All	15.6	18.2	20.9	19.7	18.5

Source: Whelan *et al.* (2003); CSO (2005, 2006)

Note 1: Until 2000 inclusive, the figures are for 0-17 year olds and 18-64 year olds.

From 1994 until the year 2000, almost one quarter of all children were estimated at any one time to be in households where equivalent disposable income was below 60 per cent of the median (Table 1). By 2005, a small improvement had been recorded but 21 per cent of children were still below this income line. The 'at risk of poverty' rate for children had been double that for working-age adults in 1994 but the gap closed markedly, falling from 12.4 percentage points to 3.8 percentage points in 2005. Over the twelve years, children first ceded to older people, and then regained, the regrettable characteristic of being the age group most at risk of falling below the 60 per cent of median income line. The relative incomes of older people deteriorated particularly dramatically over the 1994-2000 period, but a major improvement took place after the year 2000, a tribute to the significant improvements in the rate of the state pension that occurred.

The extent to which each age group is dependent on social welfare transfers to be pulled above the 60 per cent of median income line can be gauged by comparing the at-risk-of-poverty rates before and after social transfers (Table 2). Social welfare transfers of every type lifted 19 per cent of all children (0-14) above the 60 per cent line in 2005, or 47 per cent of the children whose household incomes from market sources alone would have left them below it. They had a similar impact on the circumstances of people aged 15-64 but a much more decisive impact for older people. Social welfare pensions raised two in every three people aged 65 or older above the 60 per cent of median line in 2005; almost 80 per cent of those who would have been below the line on the basis of market income alone were 'rescued' by their social welfare pensions.

Table 2: Percentage of Persons below Different Poverty Lines, Before and After Social Transfers, by Age Group: 2005

	0-14	15-64	65+
Before all social transfers (60% threshold)	40.0	32.3	88.1
After all social transfers (60% threshold)	21.2	17.4	20.1
Proportion below 60% line before transfers brought above it by transfers	47.0	46.0	77.0
Below 60% threshold and basic life-style deprivation ('*consistent poverty'*)	10.2	6.5	3.7
After all social transfers (*50% threshold*)	13.3	10.6	7.2
After all social transfers (*40% threshold*)	4.7	4.9	3.4

Source: CSO (2006)

Where children are below the income threshold that signals a poverty risk, they are *further* below it than older people. Their greater ‘poverty gap’ is confirmed when more stringent income thresholds are used. Over 60 per cent of children below the 60 per cent line were also below the 50 per cent line and 22 per cent of them below the 40 per cent line (extremely low incomes indeed); the same was true of only 36 per cent and 17 per cent of pensioners. It is not surprising, therefore, that the measure of ‘consistent poverty’, which combines low incomes with evidence of enforced material deprivation, estimated that 10 per cent of all children in 2005 were in households with incomes so low that purchases protecting a basic lifestyle could not be afforded. This was almost three times the rate for older people, though the two age groups had similar ‘at risk of poverty’ rates.

In the context of Ireland’s strong economic and employment growth since 1995 *and* of major increases in Child Benefit and improvements to other child income supports since 2001, this outcome for children can only be judged unsatisfactory. Child poverty has stayed stubbornly high despite a buoyant labour market, rising earnings and steady improvements in what has become one of Europe’s best national minimum wages. Ireland, in fact, ranked in the weakest third of EU 15 Member States in 2005.[2] This outcome is doubly disappointing if one accepts that, far from being neglected or ignored, the issue of child poverty has been extensively highlighted and debated by NGOs, policy makers and politicians. In short, ‘the continuing high levels of child income poverty constitute a very poor return to the State and society from the major increase in spending on child income supports which has taken place’ (NESC, 2005: 155). For some insight into what is going wrong, it is useful to recall key features of some analyses of child poverty carried out on data for the second half of the 1990s.

When the population in consistent poverty in the year 2000 was examined, it was clear that parental non-employment rather than family type had become the single most important factor associated with a high risk of child poverty (Table 3). For example, children of couples neither of whom were working ran a poverty risk four times higher than children of employed lone parents. At the same time, however, nearly one half of all children in consistent poverty had at least one parent in employment. This type of evidence was a clear invitation, even then, to develop policy responses to child poverty in a way that *both* encouraged parents to cross from non-employment to work *and* provided in-work support to parents with low earnings.

[2] Ireland was fourth from the bottom along with the UK (22 per cent, at the 60 per cent line) and just ahead of Portugal, Spain and Italy (24 per cent). See Eurostat on-line data.

Table 3: Risk and Incidence of Consistent Poverty (Below 60 per cent Income Threshold and Basic Deprivation) for Children by Household Type and Labour Force Status Of Parents

		1994	2000
Risk of consistent poverty			
At Work	Two parents, both working	4.0	1.2
	Lone parent, working	9.8	8.2
	Two parents, one working	14.5	9.7
Not Working	Two parents, none working	72.5	33.3
	Lone parent, not working	69.3	44.0
Others		16.8	7.2
Total		*25.2*	*8.2*
Incidence of consistent poverty			
At Work	Two parents, both working	3.6	5.9
	Lone parent, working	1.1	4.7
	Two parents, one working	21.8	35.8
Sub-total		*(26.5)*	*(46.4)*
Not Working	Two parents, none working	41.1	15.8
	Lone parent, not working	23.3	22.8
Sub-total		*(64.4)*	*(38.6)*
Others		9.2	15.0
Total		*100*	*100*

Source: data supplied by ESRI for analysis in NESC (2003)

An ESRI team analysed the dynamics of child poverty, covering the 1994-2001 period.[3] Though major policy developments affecting poor households with children have since taken place since, their analysis throws considerable light on the problem policy has, subsequently, been seeking to solve. Their research identified how often and for how long the same child was in a household below the 60 per cent of median income line. The picture that emerged was sobering (Table 4). Over the eight-year period, 1994-2001, more than one fifth of all children were below the 'at risk of poverty' income threshold for a consecutive period of at least three years (termed 'persistent poverty'). A further ten per cent were below the 60 per cent line more than once but not for longer than two years at any one time ('recurrent poverty'). In fact, a sharply polarized picture was painted: one half of all children were never below the 60 per cent threshold during the eight-year period, while one fifth was below it for a continuous period of three years or longer.

Layte *et al.* (2006) also inquired into the characteristics of the households of the 21.4 per cent of children who experienced persistent poverty over this period. Two of their findings are particularly pertinent to this study. A child's risk of 'persistent poverty' was strongly correlated with a high degree of welfare dependence in a child's household at the start of the period. 62 per cent of children in households that relied on social welfare for more than 75 per cent of their total income in 1994 experienced persistent poverty over the next eight years (these children accounted for 12 per cent of the children in the state)[4]. There was, also, a strong correlation between a child's risk of persistent poverty and the degree of attachment of the household reference person to the labour market. Where the household reference person was unemployed or inactive at the start of the period, a child's risk of persistent poverty was four to five times that of children of

[3] Layte, R., B. Maitre, B. Nolan and C.T. Whelan (2006), *Day In, Day Out: Understanding the Dynamics of Child Poverty,* Institute of Public Administration and Combat Poverty Agency.

[4] *op. cit.,* Table 3.8.

employed household reference persons.[5] Where the household reference person was unemployed and had been so for at least 6 months when first interviewed their children were almost six times more likely to experience persistent poverty than children where the household reference person was in steady employment ('employed and no unemployment in last 5 years') (*op. cit*, Table 3.4). More recent evidence suggests that further reductions in the proportion of children living in jobless households have become even more difficult to achieve.

Table 4: Number of Years[1] below the 60 per cent of Median Income Line, Children, Working-Age Adults and Older People, 1994-2001

	Children	Working-age Adults with Children	Working-age Adults without Children	Adults aged 65+	All
	%	%	%	%	%
Never below the line	49.7	53.3	60.4	41.7	52.5
Below the line once but for less than 2 years at a time	19.3	18.2	21.4	19.2	19.4
Below the line more than once but never longer than 2 years at a time	9.7	10.7	5.4	6.9	8.6
Below the line for a consecutive period of at least 3 years	21.4	17.8	12.7	32.1	19.5
Total	*100*	*100*	*100*	*100*	*100*

Source: Layte, Maitre, Nolan and Whelan (2006: Table 3.2)
Note 1: The four classifications of years below the line are termed 'persistent non-poor', 'transient poor', 'recurrent poor' and 'persistent poor' respectively.

Table 5: Share of Children (0-17 years) Living in Households Where No One Works, EU-15, Selected Years

	1994	1997	2000	2003	2006	*Change'94-'06*	Unemployment rate, 2006
	%	%	%	%	%		%
Belgium	11.7	11.8	10.8	13.9	13.5	*1.8*	8.3
Denmark	:	:	:	5.7	5.7		3.9
Germany	8.2	10.2	9.0	10.3	10.5	*2.3*	8.4
Greece	5.7	5.2	5.3	4.6	3.6	*-2.1*	9.8
Spain	12.5	10.6	6.5	6.0	5.1	*-7.4*	8.6
France	9.6	10.1	9.4	9.5	9.5	*-0.1*	9.0
Ireland	18.8	15.7	10.2	11.8	11.3	*-7.5*	4.4
Italy	7.8	8.5	7.6	7.0	5.4	*-2.4*	7.7
Netherlands	9.9	7.5	8.0	7.0	6.2	*-3.7*	3.9
Austria	:	4.3	4.3	4.3	7.2	*2.9*	4.8
Portugal	4.5	5.2	3.9	5.0	4.7	*0.2*	7.4
Finland	:	:	:	5.7	6.6		7.7
United Kingdom	20.6	18.9	17.0	17.0	16.2	*-4.4*	5.3
EU 15	:	11.2	9.8	9.9	9.4	*-1.8*	7.3

Source: Eurostat on-line (March, 2007)

[5] *op. cit.,* Table 3.3.

For example, the proportion of children in Ireland living in jobless households fell by more than in any other EU 15 country over the period 1994-2000 (Table 5). There was no further improvement but a slight increase after the year 2000. Eleven per cent of Irish children were living in jobless households in 2006, the third highest proportion in the EU, even though Ireland was recording the area's third lowest unemployment rate.

Some of the parents of this 11 per cent of children probably have bright futures in the workforce, but need phased and systematic supports to move progressively from their current reliance on social welfare to decent employment. However, it is also the case that some currently non-employed parents are simply not in a position to take employment in, at least, the medium-term because of their poor health, exceptional level of caring commitments, or other difficulties. In their case, an income sufficient to raise their children with dignity remains the responsibility of the state. For both sets of non-employed parents — those who can become self-reliant in the medium-term and those who cannot — a higher adult payment has an important role to play in bringing their children above the income poverty lines.

5. CHILD INCOME SUPPORTS

5.1 Public expenditure on child income supports: an overview

Five instruments transfer cash directly to households on behalf of children being supported in or from those households. Ranked in order of the public expenditure incurred, they are Child Benefit, the Early Childcare Supplement, Child Dependant Additions, Family Income Supplement, and the Back to School Clothing and Footwear Allowance (Table 6).[6] In 2006, some €2.8bn was spent on these child-contingent cash transfers, the equivalent of approximately 6 per cent of tax receipts.

Table 6: Child Income Transfers - Public Expenditure And Child Beneficiaries, 2006

Instrument	*Which families?*	*Annual Cost 2006*	*Estimated No. Children Benefiting*	*Estimated Weekly Value per Child*
Child Benefit	*All habitually resident families and those of EU workers*	*€ 2,040m*	*1,087,000*	*€34.61 (lower) €42.69 (higher)*
Early Childcare Supplement[1]	*All above with a child aged under 6*	*€ 353m*	*350,000*	*€19.23*
Child Dependant Additions	*Families on social welfare*	*€ 295m*	*349,930*	*€16.80*
Family Income Supplement	*Families of low earners*	*€ 94.5m*	*43,788*	*€41.50*
Back to School Clothing and Footwear Allowance	*Families on social welfare*	*€ 25m*	*160,000*	*€2.31 (2-11 yrs) €3.65 (12-22 yrs)*

Note 1: Introduced mid-2006. Cost in a full year.

[6] Supplementary Welfare Allowance Exceptional Needs payments for children's items also transfer money to parents on behalf of their children but on an infrequent basis and small scale.

Table 7 illustrates how the scale and composition of state spending on child income support has evolved dramatically in recent years. For example, over the period 1994-2004, spending on child-contingent cash transfers more than doubled in real terms (though the child population of the State marginally declined). The proportion of total spending by the Department of Social and Family Affairs accounted for by child-contingent transfers rose from 16 to 20 per cent. Spending on CDAs, which had been greater than spending on CB in 1994, was equivalent to only 17 per cent of CB expenditure by 2004.

While the purpose of this paper is to understand the strengths and weaknesses of each of these instruments in reducing child income poverty, several tax expenditures should also be noted as they, too, serve to boost the incomes of households with children. Four take the form of tax credits that reduce the tax-take from individuals as a direct consequence of their responsibility for rearing children — the One-Parent Family Tax Credit, the Home-Carer's Tax Credit, the Widowed Parent's Tax Credit and the Incapacitated Child Tax Credit — while the fifth is the exemption of Child Benefit from income tax. In 2004 (the latest year for which estimates are available), these child-contingent tax expenditures cost €570m. Between cash transfers and tax expenditures, therefore, a sum equivalent to 1.84 per cent of GDP or 2.15 per cent of GNI was given to parents/guardians in 2004 for their children.

Table 7: Public Expenditure On Child-Contingent Cash Transfers And Tax Expenditures, 1994 And 2004

	1994	**2004**
INSTRUMENT		
Child-contingent cash transfers	**€m**	**€m**
Child Benefit	337.15	1,765.12
Child Dependant Additions [1]	362.68	300.89
Family Income Supplement	26.45	55.81
Back to School Clothing & Ft. Allowance	13.84	17.03
Total income transfers	740.11	2,138.85
…as % of GDP	1.59%	1.45%
…as % of GNI	1.73%	1.70%
…as % of total DSFA (net of admin.)	16%	20%
Child-contingent tax expenditures		
Exemption of CB from income tax	84.45	375.00
One Parent Family Credit	23.88	101.20
Home Carer Tax Credit [2]	n.a.	80.00
Widowed Parent Tax Credit	1.14	11.80
Incapacitated Child Tax Credit	2.41	3.70
Total tax expenditures	111.89	571.70
…as % of GDP	0.24%	0.39%
…as % of GNI	0.26%	0.45%

Sources: Statistical Information on Social Services (relevant years); Revenue Statistical Report 1996; TSG 05/14.

Notes:

1. The child dependants of the precursor to Disability Allowance (i.e., the Disabled Person's Maintenance Allowance, then administered by the Health Boards) are included in the 1994 figure. Note that expenditure on CDAs is not recorded separately in the DSFA's Annual publication, Statistical Information on the Social Services. The figures are NESC calculations, based on a 53-week year (i.e., including the 'Christmas bonus').
2. Not all but most dependants for whom the Home-Carer Tax Credit is claimed are children.

5.2 Child Dependant Additions and the Back to School Clothing and Footwear Allowance

Child Dependent Additions[7] (CDAs) are supplements to the weekly social welfare payments of adults made on behalf of children living with them. They have long been an integral part of Ireland's contingency-based social welfare system and respond to the fact that a person with children to support needs more income than a person without children, other things being equal. In total, some 340,000 children benefited from them in 2005 (their parents received either a full-rate or half-rate CDA[8]), a reduction of 129,000 on twelve years previously (1994). One in three of the Child Benefit population, thus, were also beneficiaries of CDAs in 2005, down from 44 per cent in 1994. The steady decline in CDAs is not because fewer adults are in receipt of social welfare (the number of working-age adults in receipt of a weekly social welfare payment has *increased* since 1994) but because the population of welfare claimants in general has shared in the wider societal trend towards smaller families and more one-person households.[9]

Table 8: Number of Equivalent Full-Rate CDAs, and their Distribution by category of Adult Recipient, 1994 and 2005

Adult Recipient	*Equivalent full-rate CDAs*			
	1994		**2005**	
	Number	Distribution	Number	Distribution
One Parent (inc.Widow/er)	104,743	*0.28*	149,587	***0.50***
Ill, Disabled, Carer [1]	47,710	*0.13*	63,016	*0.21*
Unemployed	188,030	***0.50***	44,429	*0.15*
Supported Employment [2]	16,042	*0.04*	15,522	*0.05*
Supplementary Welfare Allowance	12,900	*0.04*	20,705	*0.07*
Pensioner, Pre-Retired	9,578	*0.03*	4,379	*0.01*
Total	*379,003*	*100*	*297,638*	*100*

Source: Statistical Information on Social Welfare Services

Notes:

1. 1994 figure includes Child Dependants of DPMA.
2. Child Dependants of Smallholders are the only Supported Employment category for 1994. Back-to-Work Allowance, Back-to-Enterprise Allowance and Back-to-Education Allowance are additional categories for 2005.

There has been a notable shift in the composition of welfare recipients with child dependants (Table 8). A massive drop has occurred in the significance of unemployment as the reason parents have recourse to CDAs.[10] By 2005, only 20 per cent of CDAs were paid to parents with a status inside the workforce (either as unemployed members of it or in employment and still qualifying for support) as against 54 per cent in 1994. By 2005, CDAs paid with the One-Parent Family Payment accounted for one half of all CDAs, while those paid with Unemployment Benefit or Assistance accounted for only 15 per cent (down from one half in 1994). In addition to

[7] The technically correct term is 'Qualified Child Increases'. In deference to past practice, we continue with 'Child Dependent Additions'. Sometimes, 'Allowance' is used instead of 'Addition' (as in the text of *Sustaining Progress)*. However, 'Addition' communicates more accurately that they are supplements to payments to adults.

[8] They are paid at a half rate where the adult claimant has a spouse or partner earning above a certain threshold (€250 a week in 2006) after which they begin to be withdrawn. If both spouses/partners are claiming social welfare in their own right, each may also receive a half-rate CDA.

[9] The introduction of a lower earnings disregard for spouses and partners of UB and DB claimants in 2003 affected a significant once-off reduction in the number of half-rate CDAs associated with those payments.

[10] In Table 8 and the discussion in the text, two half rate CDAs are counted as one.

the large increase in children of lone parents on welfare since 1994, significant increases also took place in the CDAs paid to parents in two other types of situation; 15,000 more CDAs were associated with parental receipt of a welfare payment for illness, disability or caring (a 32 per cent increase) and 8,000 more child dependants associated with Supplementary Welfare Allowance receipt (a 60 per cent increase).

This shift in composition of the CDA population invites a re-examination of the extent to which the potential labour market disincentive effect of CDAs should be as strong a consideration for policy makers now as in the mid-1990s. Several characteristics of the adults currently receiving CDAs suggest a significant proportion of them are unlikely to enter the labour market — because of the severity of their illness or disability, the number of children for whom they have responsibility, additional caring responsibilities they have in the home, or their age. For example, if receiving CDAs for three or more qualifying children is considered an indicator that a person is unable to participate in the labour market, then at least 32 per cent of the child dependants of recipients of the One-Parent Family Payment and 46 per cent of the child dependants of the recipients of Illness, Disability and Caring Payments had parents in this position in 2004. A conservative estimate would suggest that at least 30 per cent of all children on whose behalf CDAs were paid in 2004 had parents who could not be expected to take employment.[11]

In 1994, the lowest value CDA was equivalent to 22 per cent of the lowest adult welfare payment. This fell to 10 per cent by 2006 as a consequence of the decision to freeze their value in 1994 (Table 9). The decision was taken out of a concern that CDAs created a disincentive for social welfare dependants with large families and weak earning power to take employment, *and* in the context of a major increase in Child Benefit (35%) *plus* commitment to move towards a 'Child Benefit Supplement…that would be paid to social welfare recipients and low to middle income families' (Budget Speech, February 1995[12]). In the event, increases in Child Benefit alone compensated recipients of CDAs for the erosion in their value. Budget 2007 broke the policy freeze on CDAs and raised their value by over 30 per cent to €22, making them equivalent to 12 per cent of the lowest adult welfare payment.[13]

The 1986 Commission on Social Welfare believed that CDAs and Child Benefit (then Children's Allowance) combined 'should provide the full cost of rearing children for families dependent on social welfare payments'. In this combined package, a diminishing role for CDAs and a growing role for CB were widely endorsed as the direction to take (e.g., CSW, 1986; NESC, 1990; TWIG, 1996). No clear policy was enunciated, however, as to how far the process should be taken and the initial intention eventually to introduce a second-tier payment to Child Benefit in *lieu* of CDAs (and FIS) was not acted on.

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[11] To children whose parents are claiming for three or more children, can be added children whose parents/guardians are receiving a pension, pre-retirement allowance, carer's allowance or blind pension. In addition, it is assumed that one-half of the CDAs paid with SWA will see the parents in question transfer to a status outside the labour force.

[12] Minister for Finance, Mr. Ruairí Quinn, T.D.

[13] Budget 2007 also completed the long process of simplifying the rates structure of CDAs. See note to Table 8.

Table 9: The Child Dependant Addition as a Percentage of the Lowest Adult Welfare Payment

	1994 €	1997 €	2000 €	2003 €	2006 €	2007 €
Child Dependant Addition (lowest rate, € weekly [1])	16.80	16.80	16.80	16.80	16.80	22.00
Lowest Adult Social Welfare rate (€ weekly)	77.47	85.73	98.43	124.8	165.80	185.80
CDA as percent of Adult rate	22%	20%	17%	13%	10%	12%

Note 1: Until 2006, there were two higher rates, also frozen in 1994: recipients of the One-Parent Family Payment, Old-Age Contributory Pension and Invalidity Pension received CDAs of €19.30 (42 per cent of all CDA children in 2005); recipients of the Widow/er's Contributory Pension and Deserted Wife's Benefit received CDAs of €21.60 (6 per cent of all CDA children in 2005). The 2007 Budget completed the rationalisation of CDA rates that had been strongly advocated by the 1986 Commission on Social Welfare.

The Back-to-School Clothing and Footwear Allowance (BSCFA) is a further cash-transfer for children paid once a year on behalf of a large subset of the CDA population. It is intended to support families on low incomes with the cost of their children's clothing and footwear at the start of the school year. Its title and timing indicate the purpose for which the payment is intended but, in effect, it functions as an end-of-summer, lump sum supplement for a large subset of families receiving CDAs. This subset must have incomes below specified thresholds and children aged 2-17 ('school going', though 18-22 year olds in full-time education also qualify). In expenditure terms, the BSCFA is a minnow; its €25m accounted for around 1 per cent of total spending on child income support in 2006 (Table 6). However, its weekly value (at the higher rate for children aged 12-17) climbed from 7 per cent to 25 per cent of the lowest CDA between 1994 and 2007[14] as the two rates of payment of the BSCFA increased by 170 per cent (2-11 year olds) and 200 per cent (12-17 year olds) over the period that CDA rates were frozen. The BSCFA is now, therefore, a significant supplement to CDAs for a large subgroup among the CDA population (approximately 46 per cent in 2005, down from 57 per cent in 1994).

The following observations can be made about CDAs. Several of them will serve, later on, to point to features that are desirable in any new instrument that would subsume them.

- It can be assumed that practically all the poorest children in the state have CDAs paid on their behalf. A large part of the expenditure on CDAs, therefore, is effectively targeted.
- Not all families who receive CDAs have low incomes. CDAs paid along with insurance-based benefits (35 per cent of all CDAs in 2003, [DSFA, 2004: 58]) are not means-tested.[15] This means there is some deadweight effect in using even CDAs as an anti-poverty instrument.
- The BSCFA is received only by families on low incomes and functions, in effect, as a lump sum, annual boost to the CDA families with the lowest incomes.
- Children on whose behalf CDAs are paid must have their 'usual abode' in the state. This means there is little or no 'leakage' produced by migration in so far as the contribution of CDAs to reducing poverty within the state is concerned.
- Expenditure data on CDAs are not provided separately in the DSFA's annual report, *Statistical Information on Social Welfare Services* (though data on the numbers of children are). The CSO, for EU-SILC purposes, classifies them under the adult payment

[14] As of June 2007 when the increase announced in Budget 2007 took effect.

[15] No CDAs are paid if spouses/partners have incomes above a limit in certain instances, principally with Unemployment Benefit and Disability Benefit where a spouse's or partner's income above €350 in 2005 cancelled the right to CDAs.

they are paid with and not as child-related income. This contributes to the instrument's relatively low profile as a child income support.

- CDAs are only paid when an adult responsible for a child qualifies for a social welfare contingency. If the qualifying adult leaves social welfare for employment, the CDAs are withdrawn (more often in a tapered manner where the adult avails of the BTWA). There is no automatic transition to FIS or to any other form of in-work child income support.
- A significant number of children benefiting from CDAs have parents who cannot reasonably be expected to take employment in, at least, the medium term. In their case at least, the concern that more generous CDAs would create a disincentive effect does not apply.
- Despite the gradual decline in the significance of CDAs as a source of overall household incomes, there is some evidence that they may still create a disincentive to taking employment: UA claims with CDAs have a duration twice as long as claims without them.[16]

5.3 Family Income Supplement (FIS)

FIS is a weekly payment supplementing the take-home pay of employees with children where disposable family income falls below a specified threshold. Employees must be working at least 19 hours a week, though this can be in conjunction with hours worked by their spouse or partner.[17] Its primary purpose is to provide an incentive to low-earning parents to take up or remain in employment in circumstances where they might only be marginally better off than if they were claiming unemployment benefit. While essentially an employment support, the fact that the amount of FIS paid rises with the number of an employee's children means it is also considered a child income support.

Table 10: Family Income Supplement: Expenditure, Recipients and Child Beneficiaries, 1994 and 2005

	1994	2005
Expenditure (€m annual)	26.448	72.146
Children	32,078	33,956
Actual expenditure per child (€ weekly)	15.86	40.86
Recipient Families	10,671	17,448
... % One-Parent	15%	64%
... % with 3^{+} children	58%	25%

Some 34,000 children were beneficiaries of FIS in 2005, a number that corresponded to eight per cent of the CDA population that year. This was seven per cent less than 11 years earlier (Table 10). Annual expenditure on FIS almost tripled over the same period to reach €72m, and weekly expenditure per qualifying child rose from €15.86 to €40.86. Lone parents accounted for almost

[16] The disincentive effects of CDAs were not accepted by the Commission on Social Welfare (1986: 298). It found that the level and duration of unemployment at that time owed little to the structure of social welfare payments. Analysis of UA claim closures in 2004, however, reveals that claims with CDAs had an average duration of 509 days as against 245 days for claims without. The latter outnumbered the former by a ratio of almost 9:1. The monthly numbers being closed were in the region of 5,500 - 6,000 (no CDAs) and 600 - 700 (with CDAs).

[17] Initially (in 1984), the minimum hours required were 30 a week; this was reduced to 24, 20 and now the current requirement of 19 (or 38 hours per fortnight). The work must also be expected to last at least 3 months—thus, casual work does not qualify; neither does CE. However, Back-to-Work Allowance, Job Initiative, Social Economy Programme, and Part-Time Job Incentive do qualify.

two thirds of recipients by 2005—up from 15 per cent in 1994—while the proportion of recipients claiming for three or more children fell from 58 per cent to 25 per cent.[18]

The amount of the FIS payment a family is entitled to is 60 per cent of the gap between the actual family income and a threshold that — until 2005 — was set at a level approximately two thirds higher than what the family would receive on unemployment assistance. [19] This link to a payment package dominated by adult entitlements means that FIS support was, and still is, particularly generous for the one-child family (Table 11). It is also particularly attractive to the one-parent family which still benefits from the mark-up having been based on a couple's welfare entitlements. Significant recalibrations of the income thresholds took place in 2006 and 2007 that have reduced this bias considerably. For example, before the recalibrations, a three-child family typically received, *per child,* 44 per cent of the payment made to the one child family; after them, it typically received 64 per cent (Table 11).

Table 11: Actual FIS Payments, June 2005 and March 2007 (€ weekly per child)

Number of children	June 2005	March 2007	Per child payment as % one child family (2007)	Increase 2005-2007 (€)	Increase 2005-2007 (%)
1	€70.50	€71.50	100%	€1.00	1.4%
2	€40.90	€52.25	73%	€11.35	27.8%
3	€30.77	€45.67	64%	€14.90	48.4%
4	€26.15	€45.13	63%	€18.98	72.6%
5	€22.83	€45.60	64%	€22.77	99.7%
6	€20.32	€45.67	64%	€25.35	124.8%
7	€19.23	€46.07	64%	€26.84	139.6%
8	€17.94	€48.25	67%	€30.31	169.0%

Source: DSFA

'Family income', for the purposes of FIS, is the joint income of the spouses/partners, net of tax and PRSI. This is established on the basis of earnings details supplied by applicants' employers for a period just prior to the application. Payment of the supplement then normally continues for a full year without formal review. The birth of a further child increases the payment but, otherwise, assuming the qualifying conditions remain, the amount paid does not change with changes in the level of earnings during the course of a year. Employees must take the initiative to apply for FIS, and reapply after each 52 week period. Applying needs the cooperation of one or two employers (where a spouse/partner is also earning) in furnishing earnings details. The withdrawal rate as family income rises is inherent in FIS's intention to close 60 per cent of the gap between actual income and the income level considered appropriate to their circumstances; it is, therefore, also 60 per cent. This is a peculiar structural feature to FIS; the more of the income gap it seeks to close, the higher its withdrawal rate.

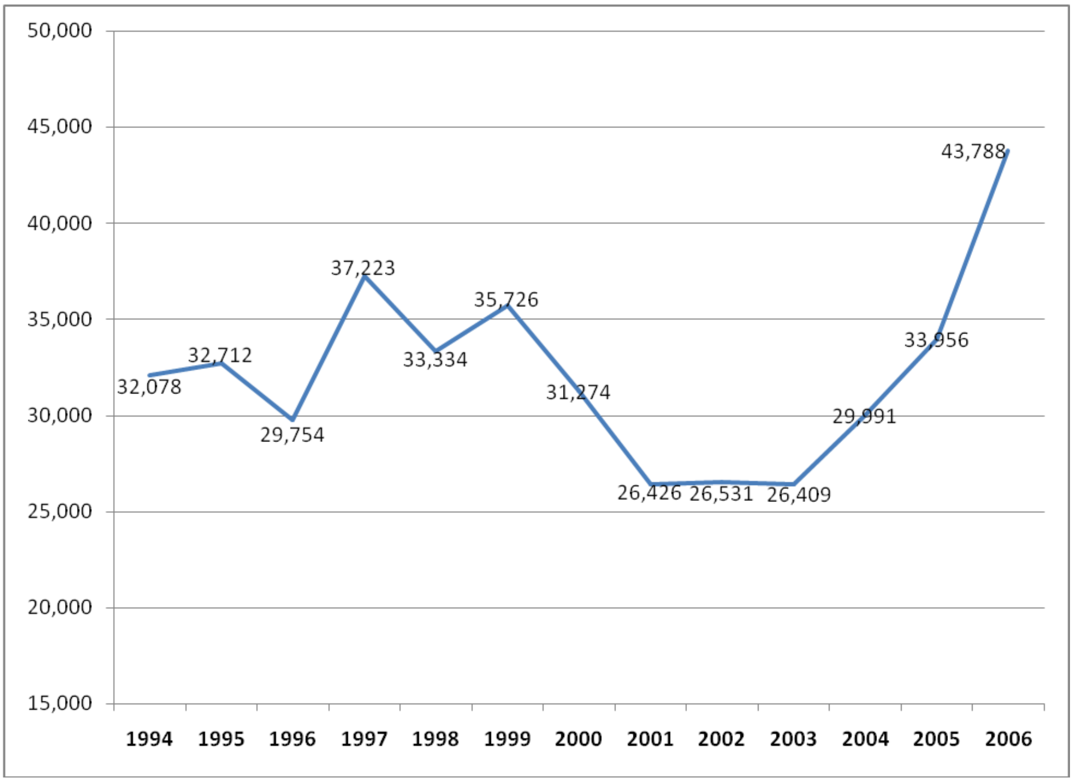
For most of its lifetime, FIS has been considered to have a low take-up. Since 2003, however, there has been a strong rise in the number of children benefiting from it (Chart 1). The reasons underlying this are not yet clear. Previous improvements in the programme's generosity, for

[18] This is partly the consequence of the falling minimum hours requirement (see footnote 31) 'meeting' the generous earnings disregard associated with the introduction of the One Parent Family Payment.

[19] Thus, the actual FIS payment until 2006 was 0.60 {1.66*[UA+ QAA+ n*CDA] - Y} where n is the number of children and Y family net income. The relationship is less clear after recalibrations of the income thresholds in 2006 and 2007.

example, (including its shift to a net income basis in 1998) did not lead to such a sustained rise in the numbers of children benefiting; employment growth was as rapid in years prior to 2003 as subsequently; the increased generosity of FIS to large families in 2006 and 2007 have come after, rather than preceded, the onset of the rise. The large in-migration after the 2004 EU enlargement has played a part; for example, 46 per cent of the new recipients between July 2005 and March 2007 have been foreign nationals (which this begs the question why an application process which Irish workers have found complex and potentially off-putting appears to offer fewer difficulties to migrant workers).

Chart 1: Child Beneficiaries of FIS, 1994 to 2006



FIS enjoys a high profile as the state's main in-work income support for families with children. At the same time, the numbers of children benefiting from it remain small (compared, for example, to the numbers of CDAs) and its undoubted effectiveness in ensuring that employment is a route out of poverty for its recipients (witness its generous levels of payment, Table 11) sits uneasily with continuing evidence that a significant number of children are still in the households of a 'working poor'.

Observations can also be made about FIS that serve to draw attention to some of the features that should be looked for in any new instrument that would subsume it.

- FIS may still have a low take-up, though a significant rise in the number of recipients and child beneficiaries has been occurring since 2003.
- Payment of FIS is not automatic. The initiative lies entirely with the employee who must enlist their employer—and their spouse or partner's employer when s/he is also employed—to complete an extensive application form.[20]

[20] The application form has 55 questions. The applicant must have a bank or building society account; they must provide two recent pay slips, their P60 and their Tax Credit Certificate; they are asked if they are

- Where a new work relationship is tentative on both sides, and employees in particular may be anxious to please a new employer, the application process may be off-putting. In effect, an employer and employee have to agree that the latter's pay is insufficient for their family's needs. An ambitious employee may be unwilling to accept they will be on low earnings (or in the same job) for sufficient time to make application for FIS worthwhile; others may lack the self-confidence and degree of personal organisation successful application requires. The issue has certainly been little researched.
- While FIS is intuitive on one level (the earnings of low-paid workers need to be supplemented if they are to be able to support large families), the amount people stand to receive is difficult to communicate. The basis to the calculation of the thresholds has become even less transparent since 2005.
- FIS feeds complexities. For example, its availability to employees working at least 19 hours a week sharpened the search for complementary in-work supports to people not qualifying. Hence, unemployment benefit/assistance can be paid partially to people who work 3 days or less (with no number of hours specified); formerly unemployed people working less than 24 hours a week may be entitled to part-time Job Incentive; self-employed people with low household means may be entitled to unemployment assistance (and its CDAs) regardless of their hours worked.
- FIS has a high withdrawal rate (60 per cent). This improves its targeting and reduces the number of people higher up the earnings ladder who receive a partial payment. However, in reapplying for a further year, people may experience a significant drop in their recalculated FIS payment.
- FIS is particularly generous towards Lone Parents as its thresholds were originally calculated as a multiple of what a couple, not a single person, would receive on unemployment assistance.
- FIS attempts only a limited responsiveness in its level of payment to changes in a family's circumstances. This both increases income security for recipients and reduces administration costs. Once granted, FIS is paid for 52 weeks and *remains the same even if weekly earnings increase (or decrease)*. If another child is born, the FIS payment is increased as soon as the DSFA is notified.
- Loss of employment or a severe curtailment in regular hours worked (to below 19 hours a week), means a person no longer meets the qualifying conditions and ceases to receive FIS. They then become entitled to Unemployment Benefit or Assistance and their associated CDAs.
- FIS is based on 'family income', which is defined for the programme's purposes and ascertained on the basis of the application form as validated by an employer.
- FIS can be paid in respect of children not resident in the state. It is only necessary that children are supported by employees who meet the other qualifying conditions, not that they reside with them. The large numbers of migrants entering lower paid jobs, since 2004 in particular, make it likely that a growing number of the children being supported by FIS are outside the state.

5.4 Child Benefit (CB) and the Early Childcare Supplement (ECS)

Child Benefit is a monthly cash transfer to households with children from which practically every child in the state benefits.[21] Third and further children receive a higher payment (22 per cent higher in 2007) than first and second children, and multiple births also attract higher support.

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cohabiting and, if ever married, the date of the marriage; they are required to give full details of all their own income sources and of all income sources of their spouse or partner.

[21] The children of refugees and asylum seekers whose claims are being processed and of illegal immigrants do not receive CB. Children of the first group were estimated to number 2,200 in 2006.

Any person legitimately present in the state and with responsibility for a child can apply for Child Benefit. The payment is exempt from income tax and is usually applied for by, and paid directly to, the mother. It is the main instrument through which the state socialises the costs of rearing children. As such, it is, primarily, an exercise in horizontal redistribution — from households without children to households in which children are being reared.

Comparing 2005 with 1994, the number of families receiving Child Benefit rose 12 per cent, though the total number of children benefiting was only marginally higher (Table 12). Until 2001, a fall in average family size more than offset the growing number of families so that the number of child beneficiaries fell; since 2001, the number of families has continued to grow at about 1 per cent a year but family size appears to have stabilised or marginally increased and the child population has been rising. The proportion of families with only one eligible child rose from 34 per cent to 41 per cent over the period, 1994-2005, while those with 3 or more eligible children declined from 33 to 25 per cent. One third of all benefiting children were aged under 6 in 2005.

The rate of payment of Child Benefit was significantly increased in 1995 but truly substantial increases did not occur until 2001 and 2002 (Table 13 and Chart 2). Expenditure on Child Benefit over the five year period, 2001-2005, almost doubled and accounted for 22 per cent of the *increase* in total spending by DSFA. This does not include the cost of its exemption from income tax, estimated at €343m for the tax year 2004 (up from €127.4m in 1999/00).[22] This was approximately the same as total expenditure on CDAs that year.

Table 12: Number of Families receiving Child Benefit, by Number of Eligible Children, 1994 and 2005

	1994		2005	
		%		%
Total number of recipient families	482,592	*100*	547,540	*100*
Per cent with 1 eligible child		*0.34*		*0.41*
2 eligible children		*0.33*		*0.34*
3 or more eligible children		*0.33*		*0.25*
Total number of eligible children	1,055,156	*100*	1,060,740	*100*
Eligible children under 6	301,202	*0.29*	347,019	*0.33*
Eligible children 6-12	432,226	*0.41*	385,631	*0.37*

Source: Statistical Information on Social Welfare Services

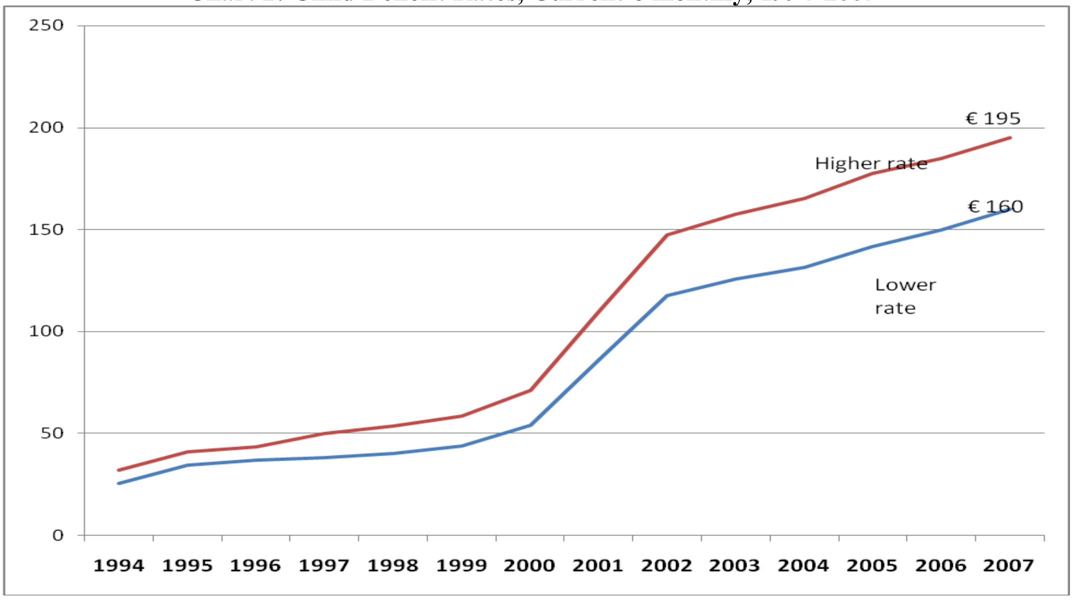
A further policy development occurred in 2006 that can be viewed as part of the unfolding story of Child Benefit. Budget 2006 introduced a new payment of €1,000 annually to be made on behalf of every child under 6. Though termed an 'Early Childcare Supplement', the payment is not conditional on parents incurring formal childcare costs. It is, in effect, distinguishable from Child Benefit only in its restriction to children aged under 6 and being paid quarterly rather than monthly.

[22] *Tax Strategy Group*, paper 22 of 2004.

Table 13: Child Benefit Rates, Current € Monthly, 1994-2007

	Lower	Higher
1994	25.40	31.75
1995	34.29	40.64
1996	36.83	43.18
1997	38.10	49.53
1998	40.01	53.34
1999	43.82	58.42
2000	53.98	71.12
2001	85.73	109.22
2002	117.60	147.30
2003	125.60	157.30
2004	131.60	165.30
2005	141.60	177.30
2006	150.00	185.00
2007	160.00	195.00

Chart 2: Child Benefit Rates, Current € monthly, 1994-2007



There are significant features of Child Benefit from which a new instrument seeking to assist children in low-income families exclusively might usefully learn.

- CB is easy for people to understand. It is easily grasped that support is available and how much that support is. The qualifying condition (rearing a child) has no stigma attached to it.
- CB is the same for people in employment and people on social welfare, for people parenting alone and for couples. It provides uniform support independently of the circumstances of a child's parents and of the choices they make.
- Its direct payment, in most instances, to the mother is regarded as a significant contribution to ensuring that children benefit from the internal sharing of household income.
- CB must be applied for, and key information furnished by, the applicant, but the process — in its case—appears to deter virtually no eligible applicant.

- Arrangements are under way whereby the registration of a first child's birth will result in the DSFA automatically sending an application form without waiting for a parent to request it. No new application will be needed for second or subsequent children but the registration of the child's birth will trigger payment of CB on its behalf.
- As a poverty-alleviation measure, CB is inefficient. It is paid wherever children are present and irrespective of children's actual needs. It has helped reduce the poverty gap experienced by poor children but is insufficient on its own to impact significantly on the child poverty rate.
- The alignment of CB with all children in the state has been blurred by two recent developments. The large numbers of EU nationals working in the Irish economy mean it is now paid on behalf of a non-negligible number of children not resident in Ireland.[23] The introduction of the Habitual Residency Condition for application has made its payment on behalf of the children of 'third country' nationals living in Ireland no longer automatic.
- Because CB is paid on behalf of almost every child in the state, or being supported by an EU national at work in the state and regardless of parental income, it is an expensive programme. For example, the payment of a 10 per cent increase on its 2006 rates would, in three years, pay for a doubling the five-year National Childcare Investment Programme.

5.5 Child Income Supports and the Income Distribution

It is interesting to examine where in the income distribution the principal child income supports are received. The distribution of Child Benefit and the Early Childcare Supplement simply reflect the presence of children in households and it is difficult, in principle, to say whether one should expect their distribution *across families* to follow a progressive or regressive pattern. Large families have become less prevalent in Ireland today and, even though still more associated with poverty than small families, can be expected to be pulling a lower proportion of total CB/ECS spending into the lower income deciles.[24] By contrast, spending on the other child income supports — CDAs, BSCFA and FIS — can be assumed to adopt a largely progressive pattern and to be received in almost their entirety in the bottom half of the income distribution. These expectations are largely confirmed by Table 14 and Chart 3, which show the distribution across family income deciles of spending on the four principal child income supports as estimated by the ESRI SWITCH model for 2006.[25] We see that practically all spending on CDAs and FIS (98 per cent) went to the bottom half of the income distribution, as against just over one half (56 per cent) of spending on Child Benefit and the Early Childcare Supplement. Of the latter two non-means tested payments, CB is more progressive than the ECS—27 per cent of spending on it went to the poorest 30 per cent of families as against 20 per cent of ECS spending. In fact, over one half of spending on the ECS (52 per cent) goes to the top half of the income distribution (as against 41 per cent of CB spending).

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[23] The value of Ireland's CB is significant from the perspective of several of the new Member States also. For example, its value for two children in 2006 (€150 * 2), was greater than the monthly earnings on the minimum wage—adjusted for purchasing power—in Latvia (€240) and Lithuania (€292). (Eurostat, 2006).

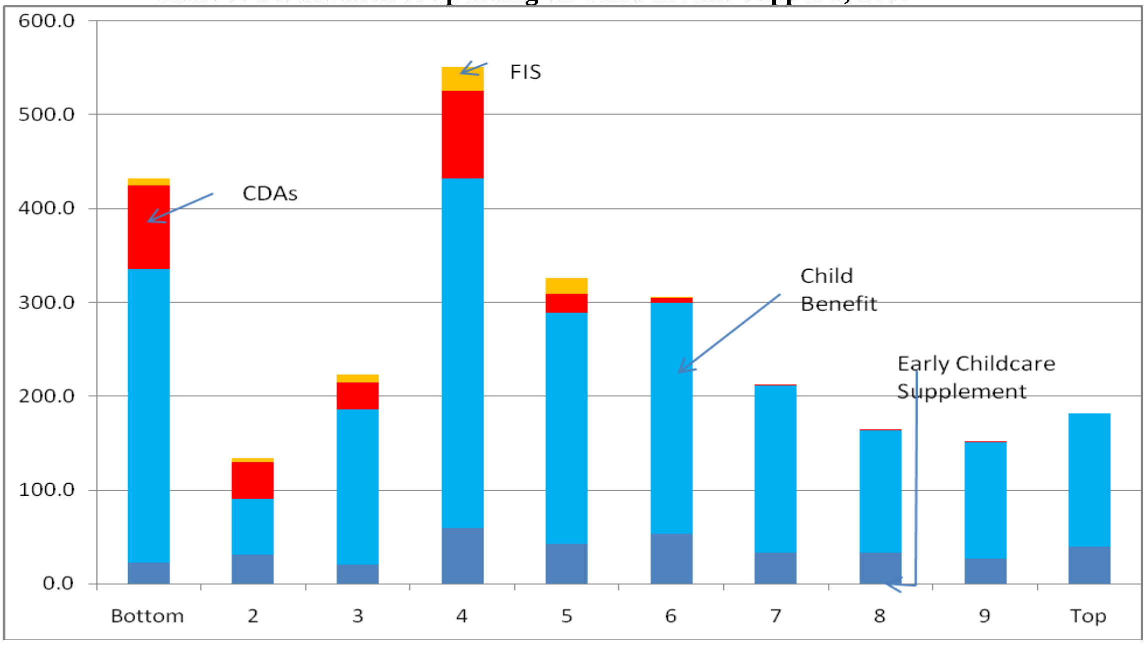
[24] It would be particularly interesting to know if the distribution across income deciles of spending on the higher rate CB differs significantly from the distribution of spending on the lower rate.

[25] Based on March 2006 estimates of full 2006 expenditure. The SWITCH model aligns tax units and households so that the net impact of tax and welfare changes on what it terms 'income units' can be estimated. For this reason, its estimates of spending on child income supports can differ slightly from published data

Table 14: Distribution of Child Income Supports, 2006

Decile	ECS	CB	CDA	FIS	Total	*Per Cent of ECS+CB*	*Per Cent of CDA+FIS*	*Per Cent of Total*
	€m	€m	€m	€m	€m	%	%	%
Bottom	22.0	313.9	89.1	6.9	431.8	*14%*	*28%*	*16%*
2	30.5	59.8	39.6	4.0	133.9	*4%*	*13%*	*5%*
3	19.8	165.7	29.2	8.0	222.8	*8%*	*11%*	*8%*
4	59.2	373.3	93.4	25.6	551.6	*18%*	*35%*	*21%*
5	42.9	245.6	20.4	17.4	326.3	*12%*	*11%*	*12%*
6	53.3	245.9	6.6	0.5	306.4	*13%*	*2%*	*11%*
7	33.2	177.8	1.5	0.0	212.5	*9%*	*0%*	*8%*
8	33.2	131.1	0.6	0.0	164.9	*7%*	*0%*	*6%*
9	27.0	123.5	1.2	0.0	151.7	*6%*	*0%*	*6%*
Top	39.5	141.7	0.0	0.0	181.1	*8%*	*0%*	*7%*
Total	360.6	1978.4	281.6	62.4	2683.0	*100.0*	*100.0*	*100.0*

Chart 3: Distribution of Spending on Child Income Supports, 2006



5.6 The Adequacy of Child Income Supports

The adequacy of child income supports refers, almost always, to their anti-poverty objective. The adequacy of Child Benefit, however, has an additional and – arguably – more important meaning; it refers to the extent to which society believes the costs of children in general should be socialized. As such, there is no accepted yardstick against which to measure it. In the words of the 1986 Report of the Commission on Social Welfare, CB is how the state makes 'a contribution' to the cost of rearing each child. Subsequently, three interrelated but different objectives have variously been cited in support of increasing its rates: (i) an antipoverty objective or, more specifically the transformation of support for poor families in a way that minimises employment disincentives, (ii) support for working parents with the cost of childcare, and (iii) recognition of the value of women's work caring for children in the home (an objective that assumed larger prominence with the removal of children's tax allowances from the income tax code). While these several objectives have been given in support of the decision to prioritise CB, a clear target level for the rate of CB has not been adopted. As noted already, it is not clear what proportion of the costs of rearing a child it is intended that the state should socialise.

As also noted above, since 1986 at least, there has been an acceptance that child income support from the state — from all sources — should be sufficient to meet the full costs of rearing a child in families reliant on social welfare. This is a more difficult proposition than may appear at first sight. In the first place, one cannot lift children out of poverty without lifting their families and households out of poverty. In second place, sums greater than what is potentially needed to cover the 'cost' of a child will be needed in an indeterminate number of cases, as when households have crippling debts or extra-ordinary needs arising from illness or other household conditions. Nevertheless, several benchmarks have been adopted by which the adequacy of the combined child income support package received by low income families can be judged.

The most widely used is that the combined support should be equivalent to a set proportion of what the state considers a minimally adequate income for an adult. This was the approach taken in 1986 (see page 4 above). In a direct continuation of this approach, the Revised National Anti-Poverty Strategy (2002) undertook to raise the combined value of CB and CDAs to 33–35 per cent of the minimum social welfare rate.

A related but similar approach is to apply the same weighting (that accorded a child in an equivalence scale), not to the lowest adult social welfare payment, but to the income poverty line below which people in general are considered to be 'at risk of poverty'. For example, 0.33 of the 60 per cent of median equivalised income is then interpreted as the marginal addition a child makes to the income needs of a household and a valid benchmark for assessing the adequacy of child income supports.[26] A third approach, little used in Ireland, is to establish the direct costs associated with rearing a child at a point in time and see how much of them child income supports cover. This last approach needs not just a tailored price index to capture changes in the price of a 'child's basket of goods and services' over time but regular reviews of the products and services considered essential for rearing children.

[26] Not all agree. Some argue that the actual cost of a child is more properly considered as lying somewhere between 1.0 and 0.33 times equivalised income (Bradbury, 2003).

Table 15: The Adequacy Of Combined Child Income Support (Cb And Cda), 1994-2005

	1994	1997	2000	2003 (r)	2005
	€	€	€	€	€
1. Child Dependant Addition (lower rate)	16.80	16.80	16.80	16.80	16.80
2. Child Benefit (lower rate, weekly value)	5.86	8.79	12.46	28.98	32.68
3. Lowest Combined Support (rows 1 & 2)	22.66	25.59	29.26	45.78	49.48
4. Child Dependant Addition (Lone Parent rate)	19.30	19.30	19.30	19.30	19.30
5. Child Benefit (higher rate, weekly value)	7.33	11.43	16.41	36.28	40.92
6. Highest Combined Support (rows 4 & 5)	26.63	30.73	35.71	55.58	60.22
7. Lowest Adult Social Welfare Payment	77.47	85.73	98.43	124.8	148.80
Combined Support (as %: lowest/highest)	29 / 34	30/ 36	30 / 36	37 / 45	33/ 40
8. Child's imputed marginal addition to income needs of household [1]	25.36	33.80	47.38	58.00	63.60
Combined Support (as %: lowest/highest)	89 / 105	76 / 91	62 / 75	79 / 96	78 / 95
9. Cost of a child (Basic Minimum Standard, Carney *et al*, 1994) [2]	38.10	40.28	44.25	50.26	52.65
Combined Support (as %: lowest/highest)	59 / 70	64 / 76	66 / 81	91 / 111	94 / 114
Consumer price index (1994=100)	*100.0*	*106.6*	*112.6*	*130.5*	*133.8*

Notes:

1. 0.33 of 60 per cent of median equivalised household disposable income.
2. Carney *et al* estimated both a Basic Minimum Standard and a Modest-but-Adequate Standard in 1992 terms for children in three age groups respectively (0-6, 7-12, and 13-18). The Basic Minimum Standard for the three age groups is averaged here.
3. The revised NAPS (2002) proposed that CB and CDA should sum to 33-35 per cent of the lowest adult social welfare payment.

Table 15 shows how the value of Ireland's combined CB and CDA have evolved relative to the minimum cost of rearing a child using these three different benchmarks. By 2005, this package was worth between €49.48 and €60.22 a week per child depending on whether the lowest or highest CDA and CB rates applied. The benchmark provided by a proportion of median income is the most exacting over the twelve year period in question (Row 8). In 1994, CB and CDA combined was equivalent to between 89 and 105 per cent of one fifth of median income (i.e., 0.33 times 0.60) whereas, by 2005, it had fallen to between 78 and 95 per cent of it. The substantial, almost six-fold increase in CB, with no help coming from the frozen CDA, could not keep pace with the rise in median income. The least onerous benchmark is that provided by up-rating what was considered a 'basic minimum standard' for children in 1994 in line with inflation (Row 9). The combined income support package for children was between 94 and 114 per cent of this standard in 2005, up from between 59 and 70 per cent in 1994. The most used benchmark, however, is that set by the evolution in the lowest adult social welfare payment (Row 7). This shows the income support package for children at between 29 and 34 per cent in 1994 but 33 to 40 per cent in 2005.

Table 15 also illustrates the major shift in composition of the combined child income support package. The weight of CB in the package grew from one-quarter to two-thirds; conversely, the weight of CDA fell from some three-quarters in 1994 to one-third by 2005. This makes it interesting to examine what the combined income support package for children would have looked like in 2005 had *the freeze on CDAs had not been implemented* and their value increased in line with the lowest adult welfare rate.[27] CDAs would, then, be 92 per cent higher in 2005 than in 1994 and the lowest rate amount to €32.27 weekly (Table 16). The combined income support package would be evenly composed of CDAs and CB. In the least favourable circumstances (lowest CDA and CB rates), it would have fully covered the income needs of a child as implicit in the equivalence scale.

Table 16: The Evolution of Basic Child Income Support if CDAs had Increased in line with the Lowest Adult Welfare Payment

		1994 €	1997 €	2000 €	2003 €	2005 €
1	Child's imputed marginal addition to income needs of household	25.36	33.80	47.38	58.00	63.60
2	Child Dependant Allowance (lowest rate)	16.80	18.60	21.34	27.06	32.27
3	Child Benefit (lower rate, weekly value)	5.86	8.79	12.46	28.98	32.68
4	Total Child-Contingent Income Support (2+3)	22.66	27.39	33.80	56.04	64.95
	2 as per cent of 4	*74%*	*68%*	*63%*	*48%*	*50%*
	4 as per cent of 1	*89%*	*81%*	*71%*	*92%*	102%

Table 17: Child Income Supports as percentage of Lowest Social Welfare Rate, Post Budget 2007

	Child's Age			
Source of support (€ weekly)	Until 2 years	2 to 6 years	7 to 11 years	12 years plus
	€	**€**	**€**	**€**
Child Benefit	36.92	36.92	36.92	36.92
Early Childcare Supplement	19.33	19.23	0	0
CDA	22.00	22.00	22.00	22.00
BSCFA	0	3.46	3.46	5.48
Total	78.15	81.61	62.38	64.40
Lowest Personal SW rate	185.80	185.80	185.80	185.80
Total Child Income Support (%)	42.06%	43.92%	33.57%	34.66%

Source: Department of the Taoiseach (2007: 83).

[27] We must also assume the same rises in CB would yet have taken place and that there were no behavioural responses to the improvement in CDAs (e.g., that the CWS Report of 1986 was right in discounting their disincentive effect).

A 2007 assessment of the adequacy of child income supports carried out for the social partners includes the weekly value of the Early Childcare Supplement and of the BSCFA and then aggregates *four* sources of income support for children in different age groups. The results, shown in Table 17, are that child income support in the wake of Budget 2007 ranged from under 34 per cent to almost 44 per cent of the lowest personal social welfare rate.[28]

5.7 The Impact of Child Income Supports on Child Poverty

The continuing high levels of child poverty in 2005—both in 'consistent poverty' and 'at risk of poverty' (Tables 1 and 2 above) — might appear to constitute clear evidence that the level of child income support in Ireland is poor and not having the desired impact in reducing child poverty. The picture, however, is more complex. The most widely adopted benchmark of adequacy reviewed above, for example, depicts child income support as, certainly, 'more adequate' in 2005 than 12 years earlier. More intriguing still is evidence from international studies in which child income support in Ireland, even before the large increases in CB that began in 2001, compared favourably with that of other countries (Bradshaw and Finch, 2002; Corak *et al*, 2005). By international standards, Ireland — by 2001 — was already providing a level of child-contingent income support that was high relative to average disposable earnings, to recipient households' total disposable incomes and as a proportion of the overall level of social welfare spending.

There are several reasons why Ireland continues to record internationally high levels of child poverty despite quite substantially increased investment in child income support.

- It has been particularly difficult to record a decline in income poverty of *any* sort over a period when median income by which it is measured rose exceptionally rapidly. Over the period, 1994-2001, for example, Ireland — in one study — simultaneously recorded the largest *reduction and increase* in child poverty of eleven countries, depending on whether a fixed or relative income poverty threshold was applied (Smeeding, 2006).
- The emphasis in Ireland's child income support shifted in a major way from support targeted on low income families with children to support provided regardless of income to all children. As Child Benefit has become more important as a source of income in poor households with children, it has become much more expensive — and increasingly inefficient — to use as an anti-poverty instrument.
- In a significant number of households in which children are being reared, adult welfare payments continue to account for a major proportion of total household income and these rose by considerably less than disposable earnings. If adult social welfare incomes grow more slowly than median income, child income supports in welfare dependent households have to grow by more than median income just to keep child income poverty constant.
- In this context, it is significant that children's greater likelihood of being below the income poverty line than adults *has* been largely erased, for which the major improvements in CB can claim part of the credit. This only confirms, however, that the challenge of ending child income poverty in Ireland is now more tied in with the challenge of reducing *adult* poverty. Countries whose mix of policies is effective in reducing poverty in general also have the lowest child poverty rates.
- Ireland has invested less in the services (principally childcare) that enable parents to combine employment and caring, and parents with low earnings potential who are unable to source unpaid or subsidised childcare face major financial obstacles in attempting to do so.

[28] The Table also shows that younger children attract more support in the current Irish system than older children. This is because of the degree of priority accorded childcare costs, though the actual costs of children increase as they get older.

Clarifying the contribution Ireland's child income supports have made, and can be expected to make, therefore, in reducing child income poverty must reckon with these issues. The evidence that Ireland’s current child income supports are good by international standards, while our levels of child income poverty remain high, suggests that significant reform of the current system should precede or accompany devoting further resources to it. This is what the final section of this paper will address. The power, however, of improvements to the existing social welfare code to reduce the severity of poverty for many of the children currently caught in it should not be underestimated. This is illustrated with two final tables.

In Table 18, the actual ‘poverty gap’ in 2005 (the percentage of the income poverty threshold by which actual income is below that line) for two types of family is estimated as the number of their children increase, i.e., for a couple on unemployment assistance and a lone parent not in employment. While declining marginally as the number of children increases, the poverty gaps were substantial — ranging from 21 to 23 per cent for children of the unemployed couple and from 18 to 22 per cent for the children of the non-employed lone parent. The Table then shows what would have happened to these poverty gaps had the government, in 2005, been in a position to achieve that year its targets for social welfare outlined in the Revised National Anti-Poverty Strategy of 2002 for 2007. Altering the social welfare code in 2005 to bring (i) the basic adult rate to €150 in 2002 terms (the Qualified Adult Allowance remaining at 0.66 of the adult rate) and (ii) the combined CB+CDA package to 35 per cent of the adult rate for *each* child, would have approximately halved the poverty gaps for each type of family, but the gaps would have remained in the range of 11 to 13 per cent.

This begs the question as to what order of change in welfare rate payments would have been required in 2005 to eliminate the poverty gap altogether. Table 19 provides two illustrative examples. It first shows what would happen to the poverty gaps experienced by the selected families if Child Benefit alone were relied upon to raise the children in them above the 2005 poverty line. A *doubling* of Child Benefit would be needed to raise the family unit made up of an unemployed couple and three children to just the poverty threshold, and the one child unemployed couple would still be 14 per cent below it. Lone parent families would fare a little better (as Child Benefit accounts for a larger proportion of their total income) with the three child household being raised 9 per cent above the poverty threshold and the one child household still 9 per cent below it.

Table 18: The Poverty Gap in 2005 for Selected Households with Children - Actual, and if NAPS '07 Targets Attained in 2005 [1]

	Household Type					
	Couple on UA			Lone Parent not working		
	I child	2 children	3 children	I child	2 children	3 children
Actual position, 2005						
	€	**€**	**€**	**€**	**€**	**€**
Income						
Adult rate	148.80	148.80	148.80	148.80	148.80	148.80
QAA	98.70	98.70	98.70			
CDAs	16.80	33.60	50.40	19.30	38.60	57.90
CB	32.68	65.36	106.28	32.68	65.36	106.28
Equivalised household income	149.24	149.34	152.52	150.96	152.27	157.28
Poverty threshold (60 per cent)	192.74	192.74	192.74	192.74	192.74	192.74
Poverty gap	-43.50	-43.40	-40.22	-41.78	-40.47	-35.46
Gap as per cent of threshold	-23%	-23%	-21%	-22%	-21%	-18%
Position, 2005, if NAPS '07 targets already attained						
	€	**€**	**€**	**€**	**€**	**€**
Income						
Adult rate	165.96	165.96	165.96	165.96	165.96	165.96
QAA	109.53	109.53	109.53			
CDA+CB	58.09	116.17	174.26	58.09	116.17	174.26
Equivalised household income	167.63	168.82	169.72	168.46	169.96	170.96
Poverty threshold (60 per cent)	192.74	192.74	192.74	192.74	192.74	192.74
Poverty gap	-25.11	-23.92	-23.02	-24.28	-22.78	-21.78
Gap as per cent of threshold	-13%	-12%	-12%	-13%	-12%	-11%

Note 1: Targets for 2007 as set in Revised NAPS (2002): these are for the adult rate to reach €150 in 2002 terms (assumed adjusted for inflation, 2002-04, inclusive), and combined CDA+CB at 0.35 adult rate.

Table 19: Closing the 2005 Poverty Gap by\; (i) doubling Child Benefit: (2) a 35% increase in Adult Welfare Rate - Selected Households.

	Household Type					
	Couple on UA			Lone Parent not working		
	1 child	2 children	3 children	1 child	2 children	3 children
Actual position, 2005						
	€	**€**	**€**	**€**	**€**	**€**
Income						
Adult rate	148.80	148.80	148.80	148.80	148.80	148.80
QAA	98.70	98.70	98.70			
CDAs	16.80	33.60	50.40	19.30	38.60	57.90
CB	32.68	65.36	106.28	32.68	65.36	106.28
Equivalised household income	149.24	149.34	152.52	150.96	152.27	157.28
Poverty threshold (60 per cent line)	192.74	192.74	192.74	192.74	192.74	192.74
Poverty gap (€ weekly)	-43.50	-43.40	-40.22	-41.78	-40.47	-35.46
Gap as per cent of threshold	-23%	-23%	-21%	-22%	-21%	-18%
Double Child Benefit						
	€	**€**	**€**	**€**	**€**	**€**
CB	65.36	130.72	212.56	65.36	130.72	212.56
Equivalised household income	165.66	177.51	192.63	175.53	191.64	210.68
Poverty gap (€ weekly)	-27.08	-15.23	-0.11	-17.21	-1.10	17.94
Gap as per cent of threshold	-14%	-8%	0%	-9%	-1%	9%
Increase Adult Welfare Rate by 35%						
	€	**€**	**€**	**€**	**€**	**€**
Adult rate	200.88	200.88	200.88	200.88	200.88	200.88
QAA	132.58	132.58	132.58			
CDAs	16.80	33.60	50.40	19.30	38.60	57.90
CB	32.68	65.36	106.28	32.68	65.36	106.28
Equivalised household income	192.43	186.39	184.96	190.12	183.64	183.45
Poverty gap (€ weekly)	-0.31	-6.35	-7.78	-2.62	-9.10	-9.29
Gap as per cent of threshold	0%	-3%	-4%	-1%	-5%	-5%

If the adult welfare payment were relied upon instead to be the sole instrument for levering the household above the poverty threshold, then an increase of 35 per cent would see all families with one child (lone parents and couples) raised to, approximately, the poverty line rather than being left €17 and €27 a week respectively below it as when Child Benefit was doubled. These examples serve to show how weak is the ‘lifting power’ of Child Benefit alone to raise children above the ‘at risk of poverty’ income line and how important it is to reckon also with the lifting power of higher adult welfare rates. The two extreme strategies considered in Table 18, of concentrating wholly on Child Benefit or wholly on adult welfare rates to alleviate child income poverty, do not cost the same. Raising adult welfare payments by 35 per cent would have cost some €500m more in 2005 than doubling CB.[29] However, it would also have made a significant contribution to reducing *adult* poverty by reaching into households where children are not present, which makes comparison of the overall effectiveness of the two strategies difficult.

6. THE QUESTION OF REFORM

6.1 The Appetite for Change

A fundamental question that must first be answered is whether the import of this review justifies undertaking major innovation in how child income supports are currently structured. There is, currently, a high level of child income poverty. This is despite much higher spending on child income support and a well functioning labour market. Each of the current instruments has strengths but also significant flaws if it is to be relied upon to make further inroads into the child poverty that remains. Yet the achievements to date of a pragmatic approach based on repeatedly fine-tuning the current instruments in an effort to reach more of the children still in low-income households should not be underestimated. The introduction of the Early Childcare Supplement, the significant recalibration of the FIS thresholds and the ending of the freeze on the value of CDAs are incremental measures that will have alleviated financial pressures for a significant number of low income families.

Yet, the case for a more fundamental restructuring remains strong. Further increases in CB will reduce the average child poverty gap but not impact much on the child poverty count. The ECS was introduced without any official estimate of the proportion of its child beneficiaries below the income poverty line; it is more regressive than CB and costs as much again as CDAs. Both CB and ECS are paid regardless of the level of family income and, as such, are hugely inefficient as anti-poverty instruments involving, as they do, paying Paul as a condition of helping Peter. The anti-poverty credentials of FIS continue to be challenged by continuing evidence of in-work poverty affecting children, the opaqueness of its thresholds and its demanding application process. If the first increase in CDAs in 14 years is the beginning of regular annual increases, the work disincentive argument that led to the 1994 freeze is certain to return and need to be addressed. It is these underlying weaknesses in the effectiveness of current instruments as anti-poverty measures which continue to suggest that social pragmatism should now also envisage undertaking the merging of CDAs and FIS at least.[30]

6.2 The Direction of Change

Ireland currently lacks an instrument that can channel income support to children in low-income households and that is *triggered solely by low family income*. Ideal objectives for child-income

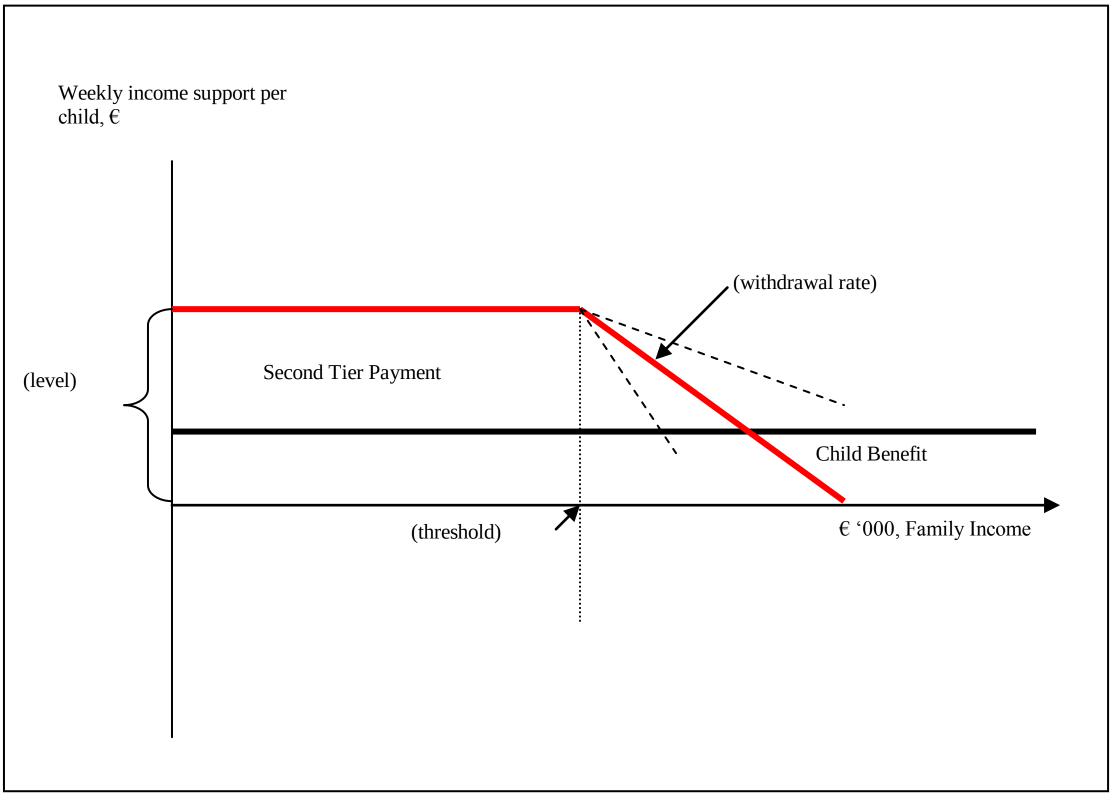
[29] Budget 2006 costed its increases in adult social welfare weekly rates and their associated Qualified Adult Allowances at €808.18m in a full year. These rates are seldom increased uniformly; usually, some sub-group of welfare recipients is singled out for above average increases and Budget 2006 was no exception (Carers in its case). The range of increases in adult rates affected by the 2006 Budget can be generalised at 11 to 12 per cent; thus, the cost of a 35 per cent increase across the board in adult welfare rates and their associated QAAs can be reckoned as triple the cost of the increases actually accorded.

[30] A proposal has also been made to introduce a refundable tax credit for every child irrespective of the employment status of their parents, or their family's income. The intention is that the vast majority of people would add the tax credit to their other tax credits and, thus, reduce their tax payment by the full amount of the credit, while people on social welfare or in very low-paid employment would claim the payment directly. The level of the payment would depend on the resources available to government, but it would be additional to CB (CORI, *Socio-Economic Review 2007*: 92).

support policy over the coming years would be (i) to give priority to children in low-income households in allocating additional recourses, and (ii) treat low-income families equitably.

CDAs currently supplement social welfare incomes only, while FIS tops up the low earnings of only certain workers. One approach to merging them would start by defining the constituency to be served by the new instrument as *the full population of low-income families of which CDA and FIS currently reach only subsets*. The objective would be to ensure the second-tier payment is paid to families with children where family income is below a threshold, regardless of parents' employment or social welfare status, and withdrawn at higher levels of family income. This new measure, therefore, would have a single objective (unlike CB and FIS), to redistribute income towards low-income families with children. And it would do so in a characteristic way, viz., treating all families on the same level of income the same (unlike CDAs and FIS).

Chart 4: The Basic Parameters of an Income-Related Second-Tier Child Payment

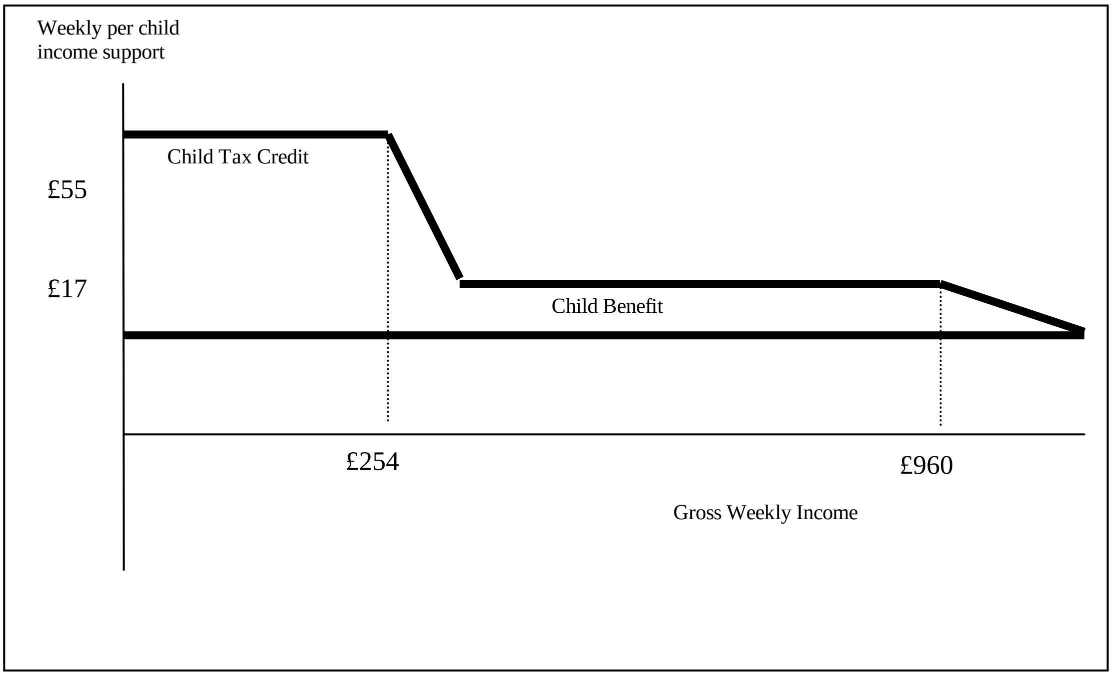


The operation of such a targeted, second-tier payment is illustrated in Chart 4. Where family income is below a certain threshold, the family receives a maximum payment per child, in addition to Child Benefit for that child. Unlike Child Benefit, however, this second-level payment is not universal but is gradually withdrawn accordingly as family income is higher than the set threshold. At high levels of family income families, therefore, do not receive the payment at all but only Child Benefit. As the Chart makes clear, three key parameters largely determine the impact and overall cost of such a payment: the level of family income below which the full payment is made, the level of the full payment, and the rate at which the payment is withdrawn.

6.2.1 The choices made in other countries

There are several design challenges in implementing the simple framework outlined in Chart 4. An appreciation of how some other countries have structured income-related child support helps to illustrate some of the choices that can be made.

Chart 5: Weekly Child Income Support for First Child, UK: 2005



Note 1: The chart depicts the combined child income package available for an eldest qualifying child, in rounded figures for 2003-04.

The operation of Britain's child income supports are illustrated in Chart 5 as a further example of the type of payment proposed for Ireland. The UK pays a universal child benefit at a lower level than Ireland. This constituted about 30 per cent of its combined income support package to children in its poorest households (200 values). The other 70 per cent is made up of an income-related second-tier payment that is in two parts. The largest part is an amount per child paid in full below an income threshold which makes approximately half the country's families eligible — above the threshold it is withdrawn at a 37 per cent rate. A smaller part is an amount per family paid in full up to a much higher threshold, which effectively excludes only the richest 10 per cent of families, before being withdrawn at a rate of 6.7 per cent.[31]

Chart 5 depicts child income supports in the UK that apply to lone parent and couple families alike — the sole qualifying criterion is low family income and neither family type nor the source of the low income affect the payment. It follows that the income in question may be means-tested social welfare income with different types of obligation on the adult recipient attached. A lone parent, therefore, with neither work nor other means can apply for the UK's Income Support and, if on low earnings, for the Working Tax Credit (a subsidy to low earnings). The obligations on lone parents and support services offered them by these other programmes reflect their particular family responsibilities but not the levels of payment they receive which have now been released from the need to acknowledge child dependants by the introduction of the Child Tax Credit.

[31] The income thresholds (2004) were £13,230 p.a. for the per child payment and £50,000 p.a. for the family element.

Chart 6a: Australia's Family Tax Benefit A, 2005

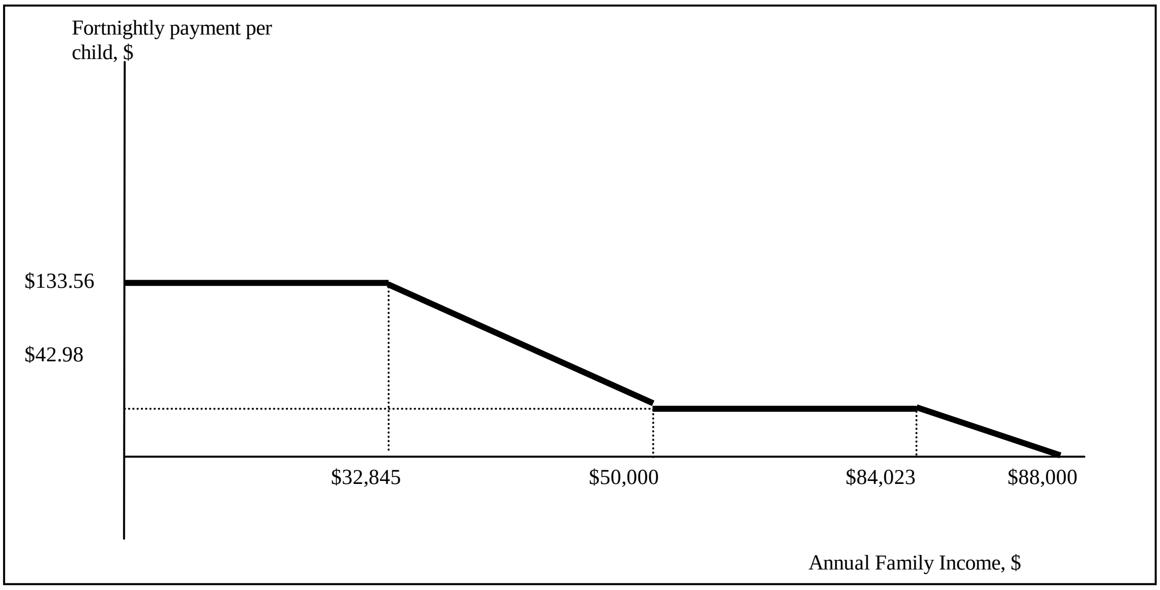
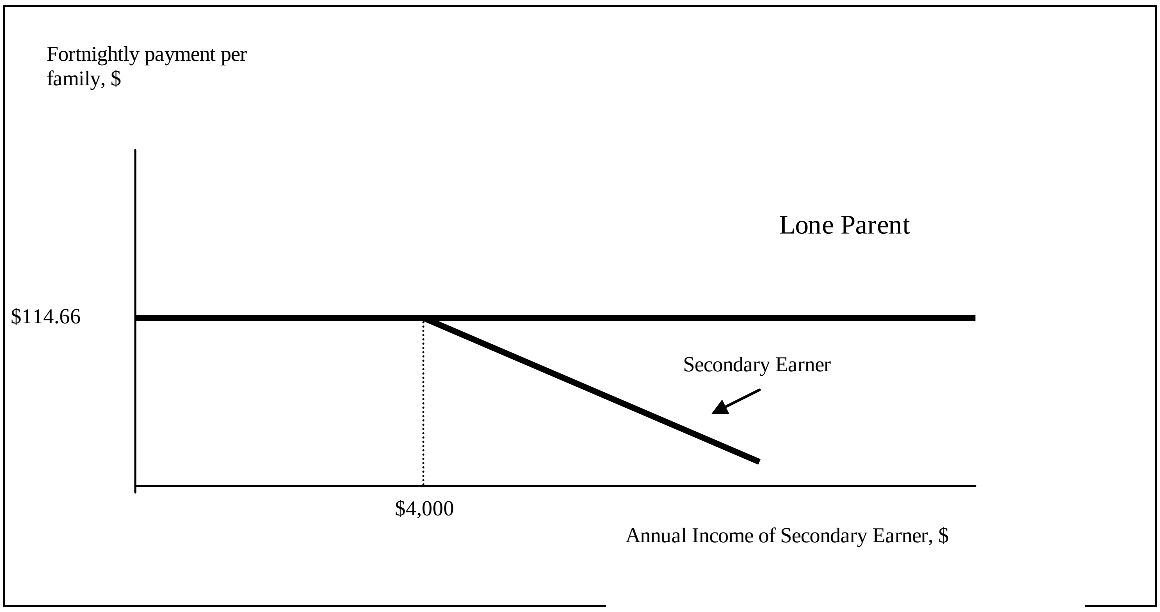


Chart 6b: Australia's Family Tax Benefit B, 2005



A second international example is provided by Australia's Family Tax Benefit. Its operation is illustrated in Charts 6a and 6b. Australia pays no universal Child Benefit. It helps families with the cost of children in two ways — a payment per child which all but around the top 20 per cent of families receive at least partially ('Family Tax Benefit A', see Chart 6a), and a payment per family which goes to all one-parent families and two-parent families where the secondary earner is on low earnings ('Family Tax Benefit B', see Chart 6b). Family Tax Benefit A is paid in full on family income below $32,485 p.a. and then withdrawn in two stages — approximately two thirds of it at a rate of 20 per cent, after which it levels off until family income passes €84,023 and the remainder is withdrawn at a rate of 30 per cent (Chart 6A).[32] Family Tax Benefit B is paid to all one-parent families regardless of their income and the same maximum payment is made to two parent families where the lower earner is earning less than $4,000 p.a., after which it is withdrawn at a rate of 20 per cent as the earnings of the secondary earner rises (Chart 6B).

6.3 Illustrative Costing

The following costing is illustrative only. It is assumed that the second tier income-related payment is set at 1.00 times the weekly value of CB in 2006. This gives a maximum payment of €34.61, more than double the value of CDA at the time. Interestingly, it makes the combined weekly value of CB and the new second-tier payment (€69.22) similar to what the value of CB and CDAs would have been to social welfare dependant families had CDAs been increased in line with the lowest adult social welfare payment since 1996 (Table 16).

Using the SWITCH model's identification of the income distribution of families in receipt of Child Benefit, we assume that the threshold to family income below which there is entitlement to the full second-tier payment is set so that the poorest 30 per cent of families receive it in full. On the basis of a withdrawal rate of 20 per cent, it is assumed that families in each succeeding higher decile receive, on average, a second-tier payment that is 20 per cent less than families in the decile immediately below them. Thus, families located in the top three income deciles receive no second tier payment at all.

The maximum net cost of the programme is estimated to be €775m, having deducted the €344m that SWTICH estimates would be saved from spending on CDAs and FIS. Additional savings are, of course, possible – from, for example, the amalgamation of the BSCFA also in the second-tier payment, the rescinding of the higher rate of Child Benefit for third and subsequent children (it has traditionally been justified on the basis that larger families faced a higher poverty risk), taxing Child Benefit, and lower spending on adult welfare if more parents move from welfare to work as a result of the new measure. In fact, the extent to which the introduction of the second-tier payment with its specific anti-poverty objective is used to simplify the child income support system in general powerfully influences its true and final cost.

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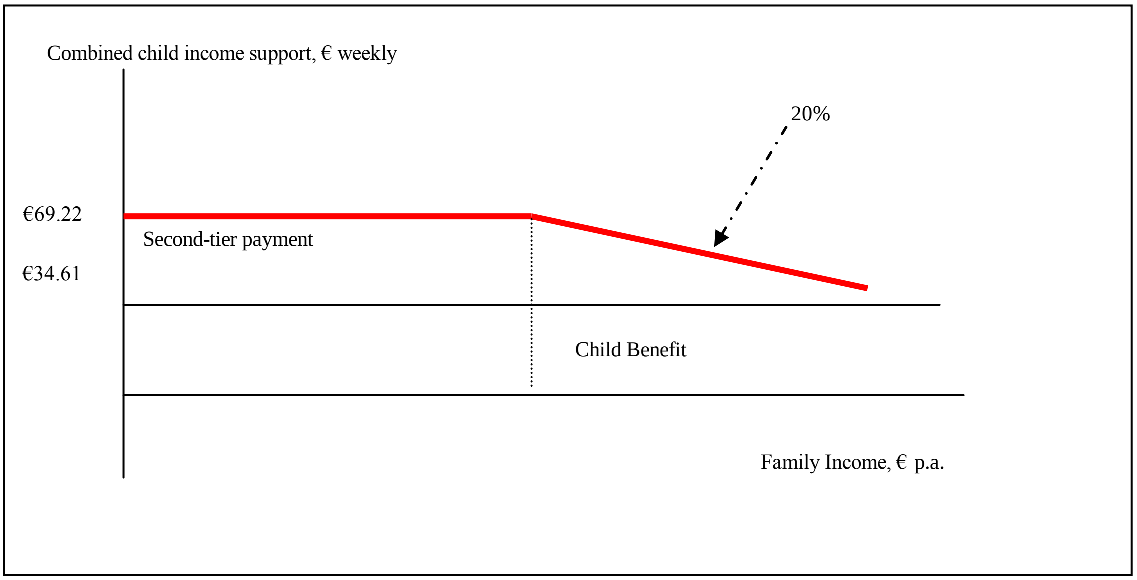
[32] The Charts must slide over many of the details. Thus, Chart 3a depicts the payment for a child aged under 13 (a higher rate is paid for 13-15 year olds) and does not include a supplement that was specific to 2004-05.

Table 20: Estimates of Gross Cost of a Second-Tier Payment, 2006

Decile	No.families	CB per family (actual)	Second-tier payment per family	Additional cost
	'000	€ annual	€ annual	€m
Bottom	78.2	4014.7	4014.7	313.9
2	15.2	3928.6	3928.6	59.8
3	36.4	4552.0	4552.0	165.7
4	95.2	3923.4	3138.7	298.7
5	76.5	3210.4	1926.2	147.4
6	72.0	3415.8	1366.3	98.4
7	52.3	3396.5	679.3	35.6
8	45.9	2859.8	0.0	0.0
9	44.8	2758.2	0.0	0.0
Top	51.1	2775.1	0.0	0.0
Total	567.6	3485.4		1119.35

Source: ESRI SWITCH

Chart 7: Second-tier payment equal to CB and 20 per cent withdrawal rate



6.4 Guiding Principles

Some guiding principles can be suggested, that would help to steer the design of the new payment through the practical circumstances policy-makers in Ireland must deal with.

- Combating child income poverty in Ireland should be its primary and overriding objective.
- Families on the same the level of income - be they parents in employment or on social welfare, employees or self-employed, lone parents or couples, casual workers or full-time workers - should receive the same level of support.
- It should help simplify, rather than add further complexity to, the child income support system. Minimally, it should replace CDAs and FIS in its role as family support. Maximally, it could replace the BSCFA and the higher rate of Child Benefit.
- The level of family income below which the full payment is made and the withdrawal rate should be set at levels that make receipt of the payment sufficiently widespread so that stigma is avoided, i.e., it should be received by low- *and* middle-income families.
- It should have a significantly lower withdrawal rate than that which currently attaches to FIS (60%) to avoid creating a significant poverty trap.
- The level at which the payment is made has to reflect the political decision as to how much resources should be allocated to fund it but, minimally, it should ensure that families in receipt of means-tested CDAs are significantly better off.
- Undertaking to ensure there are no 'losers' from the introduction of the payment should be carefully understood and handled. For example, it would not be a fair test to insist that the level of the payment be sufficient on its own to ensure one-child FIS families and all families receiving CDAs with insurance-based payments are no worse off.[33] *All* would benefit from the employment-neutrality of the new payment and its low withdrawal rate. The terms of payments to current recipients could be met but no new entitlements conferred.
- The level of the payment should be expressed as a multiple of Child Benefit in order to tie the payment as closely as possible to the latter's wide acceptance. While it can and should be presented as a second tier *to* Child Benefit, it should be clearly communicated that is not a second tier *in* Child Benefit but withdrawn as income of the parents/guardians of a child rise.[34]
- The payment should not undertake to be responsive to fluctuations in the level of family income during the course of a year but only to major changes in circumstances (such as losing a job, the birth of a child, etc.). People should reapply for the payment after each 52-week period.
- Evaluating the effectiveness of spending on child income supports in reducing child poverty *within* the State must reckon with the increased EU migration into Ireland. Any family benefit from which an Irish national in employment can benefit must also be

[33] The almost 14,000 CDAs (2005) paid along with the Widow/er's Contributory Pension are a case in point. Sensitive handling, however, should ensure small constituencies do not block a major reform.

[34] Income support provided by the state on behalf of a child can loosely be termed the 'child's income'. The term is most accurate when applied to child trust fund arrangements in which monies are kept until a child reaches the age of majority and is then given autonomy for the first time to use the money as she or he chooses. Child Benefit is sometimes referred to as a 'child's income' and there is anecdotal evidence that parents in households without pressing financial needs frequently do save Child Benefit on behalf of their child. Its status in social welfare legislation supports the view that it is a 'child's income' to the extent that that legal challenges would have to be anticipated if it were to be made subject to tax (discussed in 1996 by the Expert Working Group on integrating tax and social welfare, paragraphs 4.33-4.34). Generally, however, Child Benefit is spent as and how the adult claimant sees fit and there is no legal restriction on its adult claimants as to how they use it. It is, thus, effectively, a subsidy to the costs of parenting.

available to EU nationals working in Ireland, including when their children are resident outside of Ireland. This is a salient new feature of the Irish policy context. It is valid to want to assess the differential types of 'leakage' that may be associated with new instruments and their design whose purpose is poverty reduction within the State. Doing so does not deny the substantial benefits that the Irish economy and society derive from EU immigration.

- The payment should be simple to understand, its purpose and structure clearly communicated, and its introduction carefully prepared for. This will minimise concern, confusion and the number of inevitable teething problems. Ideally, it should be introduced at a time when additional resources are available for child income support in total.

6.5 Getting There: Implementation and Delivery

What has been described and tentatively costed is a new, second-tier child income support that would be paid *only* where family income is below a certain threshold (unlike Child Benefit which goes to every family) and *everywhere* where family income is below it (unlike CDAs and FIS which go to subgroups among low income families). The practical construction and administration of such a payment requires clarifying terms and making a sequence of decisions on a range of issues. On each issue, there are precedents in how current instruments handle them and part of the challenge is to adopt or adapt from among current alternatives the definition of each term that is best suited to the particular objective of the second-tier payment. Four relatively clear cut issues are discussed below before the most complex one is addressed – i.e., finding the measure of income on which to base the support. A way of proceeding in the last instance is tentatively outlined.

6.5.1 Eligible children

The definition of a dependent child differs significantly across the current instruments — by *age* (under 6 if the ECS is to be paid, under 16 if CB is to be paid unconditionally, under 18 if CDAs and FIS are to paid in the ordinary way, while the BSCFA pays nothing for under 2s and more at ages 12-17 than ages 2-11), *place in the birth order* (the higher CB is for third and subsequent children only), *conditionality* (participation in full-time education is required for CDAs and FIS between ages 18 and 22; participation in full-time education, FÁS Youth Reach or being disabled at ages 16-18 for receipt of CB at those ages) and country of *habitual residence* (must be the Irish state for receipt of CDAs).

The definition of a dependent child for the purposes of the second-tier payment should balance its clear anti-poverty objective, the practical benefits of linking its administration with that of Child Benefit, and the desirability of rationalising some of the complexities sketched above. One clear position, for example, would be to adopt the same age cut-off point as CB (up to and including age 18). Some families currently receiving a CDA, FIS or BSCFA on behalf of 19 to 22 year olds in full time education might lose in net terms (the loss of the older child's entitlement more than offsetting increased entitlements of younger children). Arguably, though, the dependent status of such young people in full-time education would be better addressed through some type of educational payment rather than through the welfare entitlements of their parents.

6.5.2 Structure of the payment

Though described as a second tier to Child Benefit, the purpose of this payment makes it, in fact, more similar to FIS, i.e. it is to supplement *family* income so that children are not in need. This suggests (i) that it should *not* be classified as income of the child with the complications that may entail for including it as taxable income, and (ii) exploring the merits of a payment featuring a per family and per child element (similar to Australia's Family Tax Benefit) rather than one that is strictly uniform per child. This would give the new payment a bias towards the small family but one similar to the current One-Parent Family Tax Credit rather than to FIS. The former is fixed, irrespective of the number of children, in recognition of the overheads of running a household (though confined, of course, to lone parents); FIS's bias towards small families, as seen, is based on its objective to reward the step to employment. The empirical evidence on child poverty in Ireland today, reviewed above, suggested it is more accurate to think now of children as being born into poor households rather than as pulling their households below the poverty line. This would seem to support incorporating a significant per family (and, thus, fixed) element for qualifying families into the payment's structure.

6.5.3 Variation in the Amount of the Payment

The smooth withdrawal of the payment as family income rises would, in fact, be an extremely demanding administrative exercise. As we have seen, data on family income in Ireland is simply not routinely gathered, reliable or easily accessible for administrative purposes. Data on the number and ages of children, however, are and the second-tier payment can and should be adjusted soon after changes in the number of eligible children. Transitions between employment and receipt of social welfare can also be captured by existing administrative data relatively promptly. In this case, loss of employment and receipt of social welfare might trigger a rise in the payment but without the converse (exit from welfare and entry to employment) triggering a fall — so that maintaining the full payment until the due renewal date could be seen as providing a window during which a family could recoup some of the resources lost through unemployment. Otherwise, the approach to family income adopted for the purposes of FIS and tax credits could be built on, i.e., keeping the amount of the payment constant for a 52-week period on the basis of data on family income provided at the time people (re-)applied for it. This would impart an upward bias to the programme's costs on the assumption that many recipients experience rising incomes during the course of a year.

6.5.4 The timing of the payment

The current child income supports differ significantly in when they are paid. CDAs and FIS take the form of weekly payments; CB is monthly, the ECS quarterly and the BSCFA annual. It is not clear whether the different timing of child income supports influences the likelihood of their being spent on items or services of exclusive benefit to children. This, for example, is the intention of the timing of the BSCFA but, in effect, it is a cheque made out to households at the start of the school year that is available to cover any household expense. Where low income households are concerned, it can be argued that a higher weekly payment is the more important as children may be most at risk because of stress and deficits caused by the struggle to cover normal household running costs. On the other hand, monthly, quarterly and annual payments can be seen as substituting for savings which the households are unable to make out of weekly income and to provide parents with the money to cover larger and lumpier expenditures on their children.

Either way, trust that the parents will use the extra cash in their children's best interests is, in fact, the basis of all the payments. Because the second tier payment would be replacing the weekly reception of CDAs and FIS for some families, the option should be provided for those families to receive it weekly or elect to have it amalgamated with their monthly Child Benefit.

6.5.5 Identifying the Level of Family Income

The single most difficult challenge in administering a second-tier payment is to find a measure of family income on which to base the payment. Doing so will require new forms of collaboration between the Department of Social and Family Affairs and the Revenue Commissioners. The principal reasons why measuring family income is, currently, a major administrative challenge can be viewed from the position of each organization respectively.

On the side of the Revenue Commissioners:

- In the ordinary run of events, Revenue does not need to know whether a tax payer has children or not. Child data on the Revenue record is confined to exemptions/marginal relief cases (low incomes) and incapacitated children (relatively few numbers)[35];
- Individuals choose between being taxed as individuals or as a married couple. Where they elect the former, Revenue currently has no basis on their tax records for identifying tax payers who are, in fact, parents rearing a child together (apart from the cases referred to above);
- Additional challenges arise for Revenue in measuring *current* earnings. The processing of P35 forms[36] is currently reasonably complete in November of the year after the one in which the earnings occur. The lag is longer, of at least 12 to 14 months, in the case of self-employed people whose self-assessment returns are due by an end of October deadline for the previous calendar year.

On the side of the DSFA:

- The DSFA pays Child Benefit on behalf of most children in the State but no data on applicant's incomes are required or collected. The PPSN of the applicant *is* captured[37] but not that of the applicant's spouse or partner (though asked for on the CB application form, it is not obligatory to supply it nor is it captured even when supplied);
- The DSFA has detailed information on the means of CB households in which individual adults are in receipt of assistance payments but no information on which to measure family income in that large majority of CB households where no adult is in receipt of a means-tested payment.

One possible form of collaboration between the two bodies may be suggested, based on three steps: (i) using the current CB application form to acquire the data that link parents and their children; (ii) providing the second-tier support as a tax credit as a default position; (iii) having DSFA make a direct payment to qualifying parents not in a position to benefit from the full amount of the tax credit and, of course, to parents dependent on welfare and not registered for tax. These steps are briefly elaborated on below, not because they have been tested and are foolproof, but as an illustration of the pragmatism and creativity needed to build out from what current administrative systems are, in fact, good and to equip them to achieve what currently eludes them.

<u>*First Step*</u>

Every Child Benefit recipient would be invited by the DSFA to register as also potentially eligible for the second-tier child income support on the basis that their 'family income' (that of the CB applicant along with that of her or his partner/spouse) is, or could fall, below a clearly communicated threshold. Registering would entail supplying the PPSNs of each of a child's parents (or those acting in *loci parentis* and effectively raising the child). Currently, payment of

[35] It is estimated that 9000 tax payers claimed the additional credit for an incapacitated child in 2003 (cost of €4.6m) and 2,800 tax payers availed of a child addition to the exemption limit (cost of €1.3m) (Office of the Revenue Commissioners, *Statistical Report 2005*).

[36] Submitted by employers to Revenue from mid-February on detailing the deductions made from their employees' total earnings in the previous calendar year.

[37] Data 'capture' means the information is both obtained and entered into the data storage and retrieval system.

CB is completely automated for second and higher births. Consequently, a once-off re-contacting of the existing stock of CB applicants would be required.[38]

Second Step

The DSFA would pass this information on the adults responsible for rearing each CB child to Revenue. On the basis of the most up-to-date data possible on tax payers' incomes, Revenue would administer the second-tier payment as a tax credit to an indicated parent in each qualifying family. Where two parents did not agree on who should receive the new credit, it could simply be halved between them.[39] This would build on the experience of the Revenue in administering tax credits and their wide acceptability. They carry no stigma and their administration is generally considered to be efficient.[40]

Third Step

Revenue would inform parents with incomes too low to benefit from the full tax credit of this fact and invite them to apply to DSFA for a direct payment in lieu of part or all of the tax credit. DSFA will, any way, have to administer the second-tier support as a direct payment in all instances where parents are not registered for tax and reliant on social welfare. The families routed back to DSFA because they cannot avail of the full tax credit will, thus, be additional to the customary clients of the Department's categorical schemes. The application process for the former would be significantly simpler than the current means-test or application process for FIS. This would be important to ensure maximum take-up. It would be possible because eligibility would rest, simply, on the joint income of a child's parents and not on the totality of household 'means'. At the same time, applying for the second-tier as a direct payment would have to entail volunteering some verifiable information on income. Normal penalties would apply where there was evidence of wilful misreporting. As the amount of the payment would be tapered according to the level of reported family income, it would — like CB — not be taxable income, nor would it be assessable as income for social welfare purposes

7. CONCLUSIONS

This study has underlined:

(i) significant dimensions to child poverty to which additional family income is not the answer and which require vigorous responses;

(ii) nevertheless, a continuing serious problem of children being reared in households with low money incomes;

[38] Henceforth, new applicants for CB would find the invitation to register for potential receipt of the second-tier payment integrated into the CB application form.

[39] In applying for several forms of current support—social welfare payments, FIS and tax credits—applicants are required to provide information on their marital status. The key information for the purpose of the second-tier child income support would be whether or not the applicant shared financial responsibility for rearing a child with another tax payer or welfare recipient. Current practice ranges from giving the full support to each partner (the One Parent Family Tax Credit is granted in full to both a child's father and mother if the child resides with each at least part of the year), splitting it equally between the two, or paying all of it to the one partner who is identified by both as the principal carer (in effect what CB is).

[40] Two current tax credits, in fact, already support children. The Home Carer's Tax Credit is applied for by a married couple who have opted for joint assessment, paid on behalf of a CB beneficiary, paid in full if the carer's income is below a threshold and withdrawn at the rate of 50 per cent as the carer's income rises until there is not eligibility for it at all. The One-Parent Family Tax Credit is applied for by a person living on her/his own and who has a dependent child living with them for the whole or part of the year.

(iii) the limited impact that existing child income support instruments (CDAs, ECS, FIS and CB) have made, and can be expected to make, in addressing the issue; and

(iv) the potential of a new second-tier support replacing, minimally, CDAs and FIS to significantly enhance the contribution that child income support can make in alleviating child poverty.

Its analysis finds that the current instruments that target child income support on low-income households have features that do not justify significant extra resources being channelled through them. Consequently, it accepts the argument, long made, that, minimally, CDAs and FIS should be replaced by a new second-tier payment that would be paid *only* where family income is low (thus, distinct from Child Benefit and the ECS) and *everywhere* where family income is low (thus, distinct from CDAs and FIS). This will make significant demands of public data and administrative systems that will take time to implement. It will also need the vigorous and effective communication of the long-term benefits of retooling the public system to conduct a new form of targeting.

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FIRST VOTE OF THANKS PROPOSED BY MR. DAVID DILLON

INTRODUCTION

On foot of a Government commitment in the previous partnership agreement 'Sustaining Progress', the NESC agreed to undertake a review of child income support and in particular the possible merging of family income supplement (FIS) and qualified child increase (formerly child dependant allowance, or CDA) into a "second-tier" child income support payment which would minimise employment disincentives. Dr Sweeney's report is the result of that process and is welcomed as a valuable contribution to informing the discussion in this area.

Following the identification of perceived weaknesses in current child income support measures, the main recommendation contained in the report is the abolition of current FIS and CDA payments and the introduction of a means-based, employment-neutral child income support payment. Dr Sweeney also goes further than previous work in this area by recommending that the 'default' payment should take the form of a tax credit.

While his proposal for a second tier payment appears reasonable in principle, the abolition of existing structures and the considerable administrative issues involved would have very significant implications for both DSFA and the Revenue Commission.

DR SWEENEY'S RECOMMENDATIONS

- Proposes that the initial application would be made via the CB application form, with DSFA forwarding relevant information to Revenue, who would in turn award a child income support tax credit.

- Where a family were unable to avail of all or part of the credit, Revenue would refer them back to DSFA where, following a detailed means assessment, payment would issue directly.

CURRENT CHILD INCOME SUPPORT MEASURES

The report states that, although the achievements to date of current instruments in reaching more children still in low-income households should not be underestimated, each of the current instruments *"has strengths but also significant flaws if it is to be relied upon to make further inroads into the child poverty that remains."* The report concludes: *"It is the underlying weaknesses in the effectiveness of current instruments as anti-poverty measures which continue to suggest that social pragmatism should now entail undertaking the merging of CDAs and FIS at least."*

In its deliberations, the report lists the perceived deficiencies in the three principal existing child income support measures: Child Benefit CB (with the Early Childcare Supplement, or ECS), FIS, and CDAs.

SOME ISSUES RECOGNISED IN THE REPORT

- ***CDA 'losers':*** The report recognises that such a payment would produce 'losers' vis-à-vis current CDA recipients as not all CDAs are means-tested; this primarily relates to CDAs paid across all social insurance payments, e.g. JB recipients who are means tested on their partners means but not their own and may stand to lose out if CDAs are abolished, Widow/ers (Contributory) Pension etc.

- ***FIS 'losers':*** In addition, it is also acknowledged that the new payment could not fully compensate many current FIS recipients, due to the significantly high level of FIS payments, particularly to one child families. This leaves open the question as to what will become of current FIS cases. Proposals in respect of a new payment envisage a weekly rate of c.€35 per child, this compares to similar current FIS average weekly payments of approximately €72 per child for a one child family; €52 per child for a two child family and so on. Clearly any new payment cannot be at the expense of these cases and options would need to be decided upon as to how FIS should continue. Even if FIS rates were to be frozen it would be many years before the proposed scheme would 'catch-up' and real-term losses would likely occur. The administrative gains in this scenario are not clear.

- ***Definition of a qualified child:*** The report recommends payment up to and including 18 years, with any additional payments for older children being addressed in the context of educational support. At present, definition of a qualified child varies across SW schemes as follows:

- CB applies automatically only to a child's 16th birthday, with payment extended to 19th birthday on production of evidence of full-time education (or disability)

- In contrast, CDAs are paid in addition to SW payments to age 18, and extended (in most schemes) to age 22 on production of evidence of full-time education – this definition also applies to FIS and Back to School payment[1] (BTSC&FA)

EXPENDITURE

(a) Dr Sweeney's Estimate

For illustrative purposes and using the SWITCH model's identification of income distribution, the paper takes a child benefit supplement (CBS) rate of €34.61 (equivalent in value to weekly value of CB in 2006), received in full by the poorest 30% of families and withdrawn at 20% per income decile above the 30% threshold. In this example, no CBS would be paid to those in the three highest income deciles. Programme costs are estimated at €775 million net per annum, i.e. after the estimated savings from CDAs and FIS (The illustration also refers to administration savings, although this aspect is not expanded).

(b) ESRI view

In its recent policy research document *'Work Incentives, Poverty and Welfare in Ireland'*, published in December 2006, the ESRI examined "a tapered, employment-neutral Child Benefit Supplement", similar in style to that proposed. This was set at €33 per week with a €500 weekly income threshold and a withdrawal rate of 20% (€33 was equal in value to twice the lowest prevailing weekly CDA rate in 2005). The ESRI estimated the net cost of this policy change to be in the region of €450 million per annum. The ESRI also concluded that:

[1] Back to School Clothing & Footwear Allowance (BTSC&FA) is an annual payment available to social welfare dependent families and families in receipt of FIS, subject to a means assessment, in respect of children aged 2 to 17 years, or 22 years of age if in full-time education. In 2007, BTSC&FA was paid in respect of almost 180,300 children at a cost of €40.18 million (provisional).

- Such a payment would replace all CDAs but would be required to operate alongside a 'residual' FIS payment as, the ESRI acknowledged, the payment could not fully replace FIS due to the higher FIS weekly rates.

- In this scenario, FIS expenditure would only reduce by about one third, i.e. the 'residual' FIS scheme would be approximately two thirds the cost of the current scheme.

- There would be significant administrative difficulties involved.

In another study *('Child Poverty and Child Income Supports in Comparative Perspective': ESRI Budget Perspectives 2007)* and based on 2005 data, the ESRI estimated that the while above policy change would reduce child income poverty (at 60% of median income) by 4.5% full take up of the current FIS scheme would reduce child income poverty by 3%. Given that the ESRI consider the take up of FIS to be under 40% in monetary terms, the cost of achieving full FIS take up (in 2005 terms) would be an estimated €140 million per annum. Thus the extra reduction in child poverty of 1.5% would come at an additional cost of €310 million per annum when compared with full FIS take-up. Though not explored there exists the probability of deadweight under this scenario.

Per **EU SILC** data, 21.2% of children are at risk of poverty, which equates to approximately 192,600[2] children. About half of this group, or almost 92,700 of all children, are estimated to be in consistent poverty, a measurement used in the National Action Plan for Social Inclusion (NAPSincl). **Appendix 2** illustrates that DSFA provides payments in respect of some 379,000 children via CDAs and FIS. It is uncertain where the children most at risk of poverty are not being covered by the existing suite of payments. The situation may arise from the household income level or the distribution of income within households. If the latter is the case, the extent to which child poverty can be reduced via the proposed scheme is unclear.

ADDITIONAL ISSUES

There are also a number of additional factors with significant implications for costing and administering any new scheme as proposed, for instance:

- ***EU Family benefit regulations:***

Currently FIS is classified as a family benefit under Regulation 1408/71 on the basis of the definition of family benefit as, inter alia, all benefits in kind or in cash to meet family expenses. CDA entitlement is contingent on entitlement to primary SW payments which, in the majority of cases, are not classified as family benefits under the relevant legislation and as such are not 'portable' across the EU. Any new payment which is income-based, employment-neutral and which varies according to the number of children in a family would be regarded as a family benefit. The report does state that this issue will need to be considered in the overall costing of a new payment, but does not quantify the additional cost implications.

- ***Inclusion of self-employed:***

It would be difficult to justify the exclusion of certain groups from the proposed new payment as outlined, e.g. self-employed. However, the inclusion of the self-employed would give rise to particular issues, having regard to how their income would be assessed for the new payment, e.g. on the basis of self-assessment income tax returns, etc. Experience in dealing with self-employed

[2] Estimated from December 2007 Child Benefit file. EU-SILC defines a child as <15 years of age. 908,526 child beneficiaries of CB < 15 years of age (Dec 2007).

indicates differences in determination of income for different purposes across various Departments such as DSFA, Education & Science and the Revenue Commissioners, for example.

- ***Information Systems and administration:***

The report proposes that the new payment should be made through CB using child benefit family data and based on family income levels alone, with relevant data being forwarded to Revenue for the purpose of awarding a tax credit – Revenue would then refer back to DSFA, any person not in a position to avail of all or part of the tax credit. DSFA would then carry out a detailed means assessment to determine level of eligibility. In addition to Programme costs, implementation of such a measure would present serious and significant administrative (including IS) challenges, as recognised in the report (and ESRI, as referred to above). These would include, for example, the extension of means assessments to social insurance schemes and to an additional proportion of the population who have no contact (excluding CB) with DSFA at present.

- ***Children over 18 years:***

The draft recommendation regarding the age threshold of 18 years, with any additional payments for older children being addressed in the context of educational support, would have implications for Department of Education & Science.

APPENDIX 1

Average weekly FIS payments by family size (March 2007)	
Number of children in family	**Average weekly payment (€) (Approx)**
1	72.00
2	105.00
3	137.00
4	181.00
5	228.00
6	274.00
7	322.00
8	386.00

Average Weekly FIS per Child June 2005 & March 2007					
	FIS weekly payment per child		**Payment per child as % of one child family**		
Number of children in family	**June 2005**	**March 2007**		**Increase (rounded)**	**% Inc. (rounded)**
1	€70.50	€71.50	100%	€1.00	1%
2	€40.90	€52.25	74%	€11.40	28%
3	€30.77	€45.67	64%	€14.90	48%
4	€26.15	€45.13	63%	€19.00	73%
5	€22.83	€45.60	64%	€22.80	100%
6	€20.32	€45.67	64%	€25.40	125%
7	€19.23	€46.07	64%	€26.80	140%
8	€17.94	€48.25	67%	€30.30	169%

APPENDIX 2

Child Benefit at 30 Jun 2007	
Families	551,521
Children	1,046,612

Number of Qualified Child Increases by Insurance or Assistance in payment at end of June 2007, and Estimated Annual Cost.

Type of Payment	Increases for Qualified Children		Estimated Cost per annum
	Full-Rate	Half-Rate	€
Social Insurance payments			
State Pension (Contributory)	1,635	1,214	2,599,375
State Pension (Transition)	99	75	158,258
Widow/er's (Contributory) Pension	12,443	0	14,426,414
Deserted Wife's Benefit	3,236	0	3,701,984
Health and Safety Benefit	1	1	1,716
Illness Benefit	9,045	20,034	21,806,928
Invalidity Pension	4,828	12,086	12,603,837
Injury Benefit	134	126	225,368
Interim Illness Benefit	94	44	132,704
Disablement Benefit	185	356	420,862
Death Benefit Pension	145	0	168,113
Carer's Benefit	89	2,108	1,325,194
Jobseeker's Benefit	7,560	4,771	11,377,652
Total Social Insurance	**39,494**	**40,815**	**68,948,406**
Social Assistance payments			
State Pension (Non-Contributory)	480	160	649,264
Pre-Retirement Allowance	976	239	1,270,123
One-Parent Family Payment	137,405	93	159,361,269

Disability Allowance	13,397	7,413	19,829,798
Blind Pension	220	158	346,661
Carer's Allowance	4,547	22,754	18,462,286
Jobseeker's Allowance	29,617	7,769	38,841,639
Back to Work Allowance Employee	3,216	708	4,084,080
Back to Work Enterprise Allowance Self Employed First Year	1,527	322	1,931,072
Back to Work Enterprise Allowance Self Employed Years 2 - 4	2,284	548	2,926,352
Back to Education Allowance	248	148	368,368
Farm Assist/Smallholders	4,513	1,603	6,161,631
Supplementary Welfare Allowance (1)	15,509	0	17,742,296
Total Social Assistance	**213,939**	**41,915**	**271,974,838**
Grand Total	**253,433**	**82,730**	**340,923,244**

FIS population (end June 2007)	
Number of recipients (families)	21,134
Number of children	42,907

Christmas Bonus calculated at 70%

Second Vote of Thanks Proposed by Prof. Brian Nolan, School of Applied Social Science, UCD

I would like to start by congratulating the author on this paper, into which he has clearly put a great deal of thought and effort, and I appreciate having the opportunity to respond and join in the debate on this complex but crucial topic of how best to design and deliver income support for families with children.

The paper provides a comprehensive review of Ireland’s current child income support system, and discusses how best to channel more resources in order to reduce child poverty.

So the paper is single-minded in its focus on poverty, while acknowledging that child income support has other aims. Indeed, it could be said that one of the characteristics of debate and policy-making in this area in recent years has been lack of clarity about which instruments and initiatives are targeted at which aims, with increasing Child Benefit being justified in terms of its impact on child poverty, sharing the costs of children, helping with the costs of child-care and thus women’s participation in the labour market, smoothing the transition from welfare to work etc.

The paper recognises that child income supports on their own cannot fully address child poverty, and brings out that in comparative perspective the level of child income support provided in Ireland is now high. So why is poverty higher for children than working-age adults, not only when measured in terms of relative income poverty but also when we incorporate deprivation and focus on “consistent poverty”?

The first point to be made is that this gap is not unique to Ireland; in fact, in a majority of EU countries the risk-of-poverty rate is higher for children than for all persons, and there are only five countries where it is lower (the Czech Republic, Italy, Slovenia, Finland and Sweden). Among those countries where the rate for children is higher, there is a good deal of variation in the gap. The overall EU average rate for children is one-third higher than that for working-age adults, while for Ireland it is more like 15-20% higher. So our relatively generous child income supports may be making some contribution in that respect.

But some countries have managed to close the gap completely, and the labour market situation of parents is certainly critical in that respect. This is reflected in the Irish case in the dramatic divergence in poverty rates between children with a working parent and those without. This leaves us with the puzzle mentioned in the paper that certainly requires more research: why has Ireland still one of the highest proportions of children living in jobless households (11%), despite one of the lowest unemployment rates?

Part of the explanation is that the overall non-employment rate remains quite high - and the number of working-age adults in receipt of social welfare has increased. Children living with lone parents are particularly likely to be in jobless households, but recipients of illness/disability payments and Supplementary Welfare Allowance also feature. The concentration of inactivity in households with 2 or more adults, and the likelihood that this may be due to the incentive structure facing them, is also of particular concern. The paper makes the point that some of the parents in these households – maybe one-third – are not in a position to take up employment. A comparative perspective will be particularly important in teasing out what is going on and the impact of e.g. household incentives in terms of welfare versus work, the costs of working (including child-care). In any case, figures from EU-SILC allow us to update the figures cited in the paper to show that 2/3 of children in relative income poverty are in workless households.

With that level of worklessness, the level of income supports provided for non-working adults becomes critical, certainly to whether they fall below relative income poverty thresholds. The paper notes that child income supports now come to at least 33% of the adult rate, the relativity incorporated into the relative income poverty threshold, but both adult and child support fall below the threshold level; for those not in work, then, a general raising of the adult plus child support levels may be required to bring them above the relative income poverty line.

Still, that leaves 1/3 of poor children in households where someone is in work. This highlights first the role of Family Income Supplement and why some potential recipients may still be slipping through the cracks; there has been a recent sharp rise in the number of recipients, but this seems to have been significantly affected by the number of foreign nationals; the role of employers in this respect is worth investigating.

This brings us to the paper's analysis of the ineffectiveness of current instruments as a channel for extra resources targeted specifically at child poverty. It makes the undoubtedly correct point that Child Benefit is inefficient as a poverty alleviation measure – it has to be, in the sense that most of the payments will go to the non-poor – but as noted the increase in the level of the universal payment in 2001-2003 has helped narrow the gap between adult and child poverty rates. Tim Callan and I estimated in a paper last year that it would on its own have reduced child relative income poverty substantially; so this has reduced the burden that has to be born by the targeted elements of income support - it's a balancing act.

The paper argues for innovation in the structure, and that is of course well worth considering, but it is important to be clear about exactly why and what for. The paper argues that:-

"The evidence that Ireland's current child income supports are good by international standards, while our levels of child income poverty remain high, suggests that significant reform of the current system should precede or accompany devoting further resources to it."

One could of course argue that this actually means child income support is not where attention should be focused in trying to reduce child poverty, but an alternative perspective could justify a focus on reform. However, this does to require the belief that either the current income support system misses significant numbers of poor families with children, or that it serves as a barrier to them working, or of course both.

The paper very usefully looks at the net cost of the proposed unified second tier payment, and at where in the income distribution it would go. It does not have the technology to simulate the impact on the numbers below relative income poverty lines, which would be very useful as this analysis is developed. What one would like to see alongside it, though, is a simulation of the impact of injecting the same overall amount – equivalent to doubling current expenditure – into CDAs and FIS. This would miss the poor low-income households with children not in receipt of either, "hit" by the unified scheme, and it is important to know who these are. They seem to comprise:

- those in work with children below the threshold and eligible for FIS but not in receipt;
- those in work with children below the threshold and not eligible for FIS;
- those not in work with children below the threshold and not in receipt of SW and thus CDAs although eligible.
- those not in work with children below the threshold and not in receipt of SW and thus CDAs because not eligible.

While we know there are problems with FIS take-up, its extent is hard to assess; non-take-up of other schemes is not generally thought to be a problem. So we need to study who exactly will be "hit" by the unified income-tested scheme missed by FIS and CDAs - and one concern would be that farmers and other self-employed reporting low incomes would predominate. This means that an analysis of the effectiveness of the alternatives based on deprivation and consistent poverty, as well as just low income, would be very helpful. It must also be emphasised that most of the spending on the unified scheme will go to the non-poor, in order to allow the withdrawal rate to be tapered gradually.

This brings us to the second and perhaps most important rationale for reform, which is not so much about targeting and effectiveness or hitting groups currently missed by child income support, but about welfare to work incentives and trying to reduce worklessness among families with children. It has to be recognised that this is an expensive business, and one would like to be confident that the disincentive effects of the current system were indeed very substantial – with some support provided by the interesting footnote on the much longer durations of welfare recipients receiving CDAs versus those not in receipt. Without wishing to delay reform, in-depth investigation of the nature of family worklessness and the role of income support versus other factors should certainly accompany it.

Finally, the suggested reform involves major administrative challenges and the paper discusses these in some detail and has useful suggestions. This needs careful teasing out given the negative experiences in the UK, with substantial mis-calculation of payments and all the publicity that goes with trying to reclaim excess payments from recipients. Having both DSFA and Revenue involved seems unavoidable for a payment going to most families, but the position of those who move in and out of work and the long lag with which the Revenue operate in terms of a final assessment of annual income may be problematic.

Let my conclude by congratulating the author once again on his very useful and carefully-argued work, as summarised in this paper, and express the hope that it be taken as seriously as it deserves in pushing the policy debate forward.