15 Funding of the Social Insurance Fund

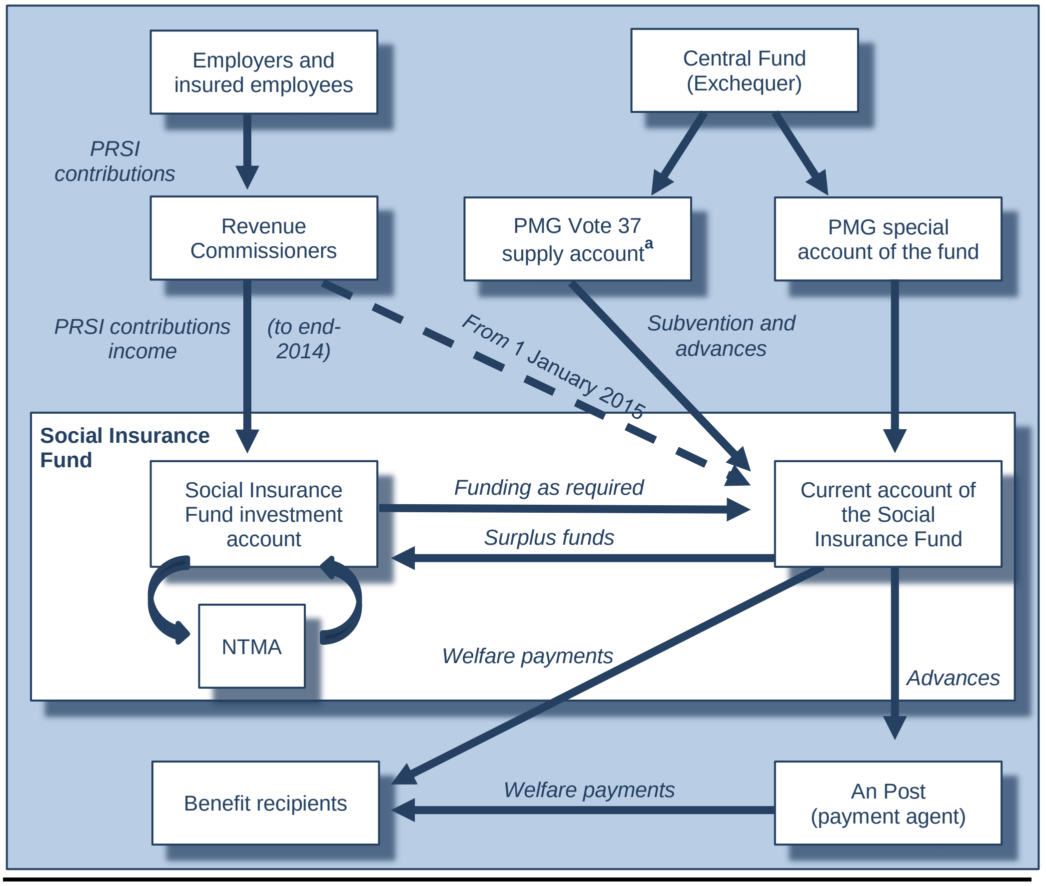
15.1 The Social Insurance Fund (SIF) was established under provisions of the Social Welfare Act 1952. It provides benefits and entitlements to a range of insured persons, funded through pay related social insurance (PRSI) contributions. Where there are insufficient funds from contributions, the deficit can be made good from the Vote of the Department of Social Protection (the Department). The main legislative provisions in relation to the operation of the SIF are now set out in the Social Welfare Consolidation Act 2005.

15.2 Under the terms of the 2005 Act, the resources of the SIF are held in

- a current account, managed by the Minister for Social Protection, and
- an investment account, managed and controlled by the Minister for Finance, that is held in the Central Bank.

15.3 The 2005 Act provides for the receipt of contributions to the SIF into either the investment account or the current account (see Figure 15.1). It also requires surplus funds in the current account to be transferred to the investment account, to allow resources not required for current expenditure to be invested.

Figure 15.1 Funding of the Social Insurance Fund



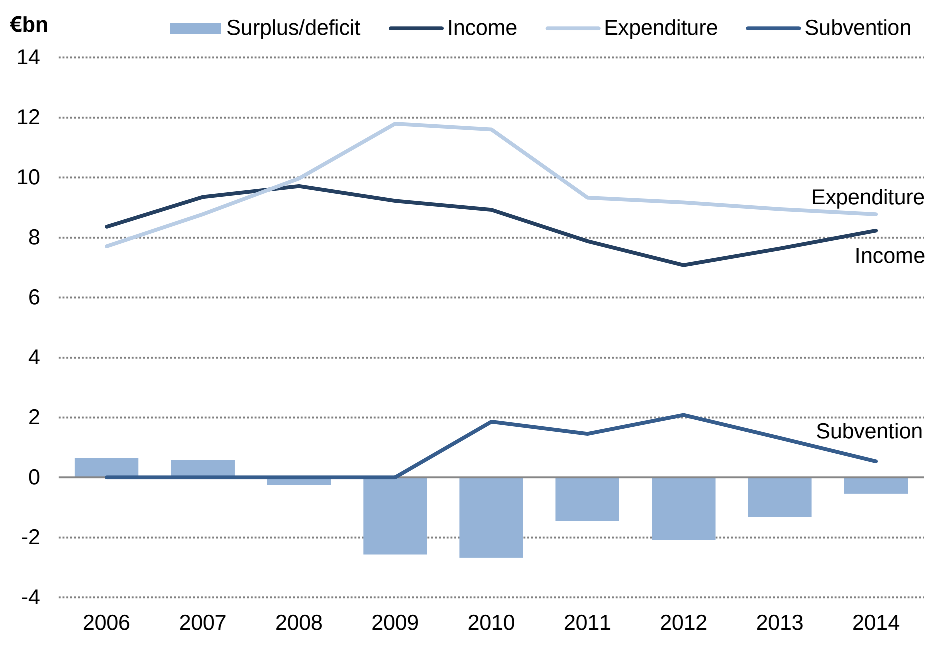
Note: a The PMG Vote supply account acts as a bank account of the Department. Funding is provided by the Exchequer to the PMG account in respect of the services set out in the Department's annual estimate.

15.4 PRSI contributions collected by the Revenue Commissioners were paid into the SIF investment account up to the end of 2014. From 1 January 2015, PRSI contributions income is remitted directly to the current account of the SIF, a commercial bank account controlled by the Department. This change was implemented to avoid a negative interest charge imposed by the European Central Bank in 2014 on certain deposits held within central banks.

Exchequer Subventions

15.5 Since 2008, PRSI contributions received have been insufficient to meet the expenditure of the Fund. Accumulated surpluses held in the investment account were initially used to fund the deficit, but since 2010 the Vote has met the shortfall by way of an annual subvention.[1]

Figure 15.2 Social Insurance Fund Surplus/Deficit, 2006 to 2014



Source: Social Insurance Fund Financial Statements 2006 to 2014

Note: The surplus/deficit shown above does not take into account the movement of balances relating to Health Contributions and the National Training Fund.

15.6 Exchequer contributions to the SIF were not required over the period 1997 to 2007 inclusive, when social insurance income exceeded expenditure. In 2008, the current operating balance of the SIF moved into deficit with expenditure exceeding income by €255 million. This deficit accelerated in 2009 when it reached €2.49 billion and further rose to €2.75 billion in 2010. Since then, an annual subvention has been required. This peaked in 2012. In 2008 and 2009, the deficit was covered by accumulated reserves (held in the investment account) and no subvention was required. The deficit in 2010 was partially offset against the remaining reserves of €890 million. Since then, the State subvention has matched the amount of the deficit. The subvention estimate for 2015 is €180 million.

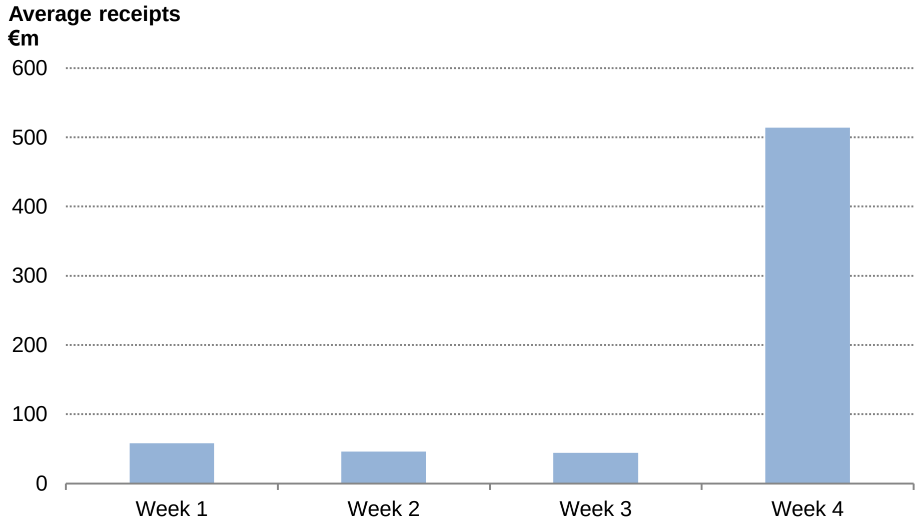
1 The subvention amount for the year is the difference between SIF income and expenditure.

The Need for a Temporary Funding Facility

15.7 SIF expenditure is spread throughout the month, whereas PRSI income is mostly received in the latter days of each month. Without any accumulated reserve to draw on to meet expenditure as it arises, this timing difference gives rise to a temporary cash flow requirement for the SIF.

15.8 A review of PRSI remittances indicated that almost 60% of the total PRSI contributions from the Revenue Commissioners in 2011 were received into the SIF within the last five working days of each month. This increased to 75% of PRSI receipts in 2014 (see Figure 15.3).

Figure 15.3 Timing of PRSI income flows, average amount per week of the month, 2014



Source: Analysis by the Office of the Comptroller and Auditor General.

15.9 From mid-2010, monthly periodic advances from the Department's PMG supply account were used to bridge the cash flow deficit. (Such advances were also used in the period 1953 to 1996 when the SIF was also in receipt of subvention.) In December 2010, the Department of Finance noted that the advances paid to the SIF had caused an over-issue of €110 million on the PMG supply account.[1] Further over-issues arose in 2011 and 2014.

Exchequer Advances

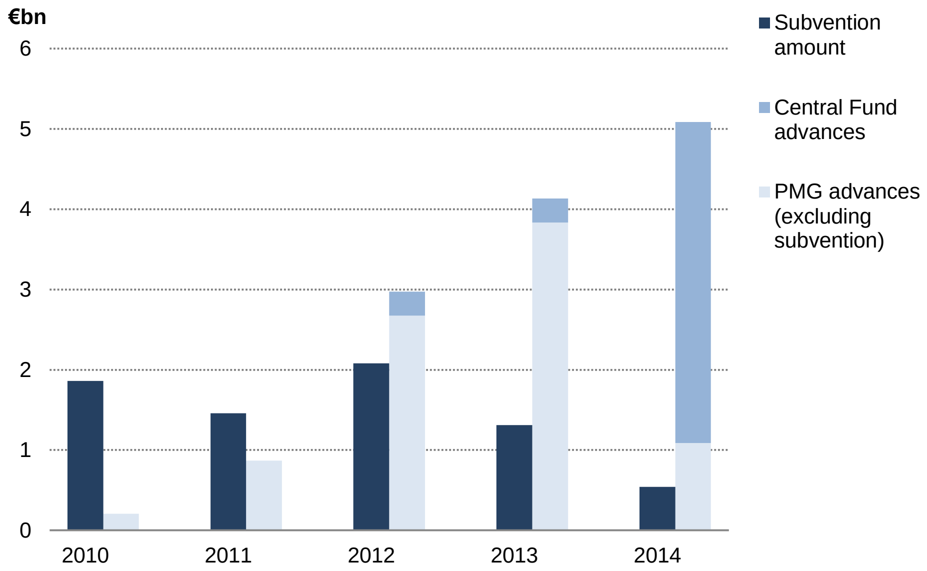
15.10 Section 18 of the Social Welfare and Pensions Act 2012 provides for a new special account of the SIF to hold advances as a source to provide money to the current account of the SIF when the current balance is insufficient to meet sums payable.

15.11 The first drawdown of direct funding from the Exchequer amounted to €300 million in December 2012. This was fully repaid prior to year-end 2012.

1 An over-issue occurs when the amount issued by the Exchequer exceeds the recorded spend by all Departments at month-end.

15.12 From January 2012, the SIF began repaying PMG advances on a monthly basis in an attempt to avoid further over-issues on the PMG supply account. This had the effect of increasing the overall level of advances drawn down in 2012 and subsequent periods. Figure 15.4 shows that recourse by the Department for temporary advances has grown while the subvention required has decreased since 2012. A review of daily cash balances did not indicate excessive drawdown of advances by the Department.

Figure 15.4 Advances and annual subvention charge, 2010 to 2014



Source: Analysis by the Office of the Comptroller and Auditor General.

15.13 Notwithstanding the provisions of Section 18 of the 2012 Act, the Department continued to utilise both streams of funding – advances from the PMG account and the Exchequer – to fund temporary cash flow deficits on the SIF.

15.14 In 2014, the total draw down of €4 billion from the Exchequer for cash flow purposes, together with the 2013 balance carried over of €15 million, was repaid by the SIF.

Views of the Accounting Officer

15.15 The loan facility provided for by Section 18 of the 2012 Act was introduced to assist in the compliance with government accounting rules in order to reduce the risk of over-issues on the PMG supply account. In the absence of direct Exchequer funding, an over-issue may arise principally as a result from the change in pattern of payment methods over the past decade, from manual payments (cheques and payable orders), to electronic pre-funded payments which is now the norm for social welfare scheme expenditure.

15.16 Since the introduction of Section 18, the Department has used this legislative provision to avail of cash flow funding, initially at the year end and now more frequently on a monthly basis, on foot of agreement with the Department of Finance and the Department of Public Expenditure and Reform. The use of direct Exchequer funding has significantly reduced the need to take subvention advances which still remain necessary. Both funding streams are Exchequer neutral from a State funding cost and general government perspective.

Conclusion

15.17 Subvention from the Vote is expected to decrease in 2015 to €180 million as set out in the 2015 revised estimates volume. However, the cash flow timing issues facing the SIF are likely to persist until a substantial surplus of contributions builds up.

15.18 The statutory provision for Exchequer advances to assist with SIF cash flow deficits allows for a clear and transparent drawdown of funding, and should alleviate the necessity to rely on advances from the Department of Social Protection for cash flow purposes.