



Association of Irish Local Government – AILG

Elected Members Class K PRSI Issue

15th July 2016

Current PRSI status for Local Authority Elected Members:

- Local Authority Elected Members are treated as Office Holders. Prior to 2011, all office holders were exempt from PRSI on income received in their capacity as an office holder i.e. as an Elected Member.
- In Budget 2011, a PRSI Charge on Office Holders was introduced and applies to public Office Holders such as the President, members of both Houses of the Oireachtas, members of the judiciary, the Attorney General, the Controller & Auditor General as well as County/City Councillors.
- When introducing this measure it was clearly stated that no social insurance benefits would accrue to holders of Public Office. However other public office holders, such as TD's, judges etc. have other substantial statutory pension entitlements which local elected members do not.

Current PRSI status for Local Authority Elected Members:

- From 1st January 2011, public Office Holders now pay PRSI at the Class K rate of 4% on their income as an Office Holder. For our Elected Members this means an annual PRSI payment of €663 on a representational salary of €16,565 per annum.
- Under Class K, the PRSI of 4% is on all income, where their income is over €5,200 a year.

Class K

Weekly pay Band	How much of weekly pay	All income Employee	All income Employer
More than €100 (€5,200 P/Annum)	All	4.00%	Nil



Current PRSI status for Local Authority Elected Members:

- Concern of our members is that if a member is not otherwise employed/self-employed this will leave them with a gap in their social insurance record and consequently may jeopardize future pension and benefit qualification.



Deputation with Minister Varadkar 6th July 2016

- Minister has a record on this issue
- Article in Examiner Newspaper in March 2011
- Headline Read

“PRSI Rule Unfair for Politicians”

Varadkar: PRSI rule unfair for politicians

Tuesday, March 22, 2011

By Niall Murray

TDs, senators, judges and councillors will be deducted an average of €2,500 a year after a rule that made them exempt

from paying PRSI was scrapped in January.

But Transport Minister Leo Varadkar believes it is unfair that office holders will not be entitled to the same pension, sick pay or other benefits as other workers contributing to the social insurance fund because of the new charge introduced in last December's budget.

He asked then Social Protection Minister Éamon Ó Cuív days after the deduction came into effect what benefits would accrue to those now liable for the 4% PRSI payment. But the reply to his Dáil question said that, while the Government decision was in accordance with the solidarity principle of the social insurance fund, office holders would receive no benefits.

More than 1,300 office holders are estimated to be liable since January 1, including almost 950 city, county and borough councillors. The others are the President, Government ministers, TDs and senators, the country's 12 MEPs, more than 140 judges, the attorney general and the comptroller and auditor general.

Budget 2011 documents suggest the change will bring in €3.3 million a year, giving an average of almost €2,500 each, but Oireachtas member, ministers, MEPs and others will pay significantly more than councillors because of their higher earnings.

Mr Varadkar told the Irish Examiner earlier this month he believes it was always wrong that politicians did not pay PRSI and he has no difficulty with paying it.

"But it's unfair that there is no benefit accruing. There are many different classes of PRSI, but we are now the only ones who pay and get nothing back," he said.

"I also acknowledge that the pension system for politicians is unfair, although we do pay for that too. The superannuation and pension levy is around €10,000 a year and people may legitimately say that doesn't meet the market cost of the pension, but it's not free either."

Mr Varadkar said the universal social charge and PRSI should be abolished and replaced with a new social insurance fund paid into by everyone and giving all contributors the same benefits.

The PRSI charge for office holders applies to all income above €5,200 a year, including salaries and representational payments, but not their expenses.

This means a TD on the basic salary of €92,672 will pay just under €3,500 a year, a Cabinet minister will pay almost €7,500 and Enda Kenny will contribute €8,930 from his €228,466 salary.

All senators will revert to the basic salary of €65,621, regardless of length of service, and incur a €2,416 PRSI charge. A city or county councillor, whose representational payment is €16,724, would pay around €460 a year with €126 payable by 60 borough council members from their annual payment of €8,362.

Because office holders do not have a contract, they are not considered employees for PRSI purposes.

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Direct Quotes from Minister Leo Varadkar Deputation 6th July 2016

“Current position of Class K PRSI is **uniquely** unfair to Elected Members”

“I want to give Councillors fair treatment not special treatment”

“I want to be able to make a decision on this in a matter of weeks”

“I want to legislate for this by the end of the year as part of the Social Welfare Bill following the announcement of the budget”

“Any change would take effect from 1st January 2017”

2 Options are been proposed by Minister Varadkar to address Members PRSI Issue

Option 1:

Members stay within the current Class K but the income threshold upon which members pay a PRSI contribution is raised from its current €5,200 per annum to a figure above the current gross representational payment of €16,565 (say €20,000 - €25,000).

Option 1

Implications

- Elected members stay within the current PRSI Class K **but will no longer pay a PRSI Contribution** as the new income threshold for paying a contribution will be set above the current gross representational payment.
- This will in effect give an elected member an increase in their annual take home pay of €663.

Option 1

Issues to be considered under Option 1:

- Elected Members will still no longer receive any social insurance benefits.
- Currently no income threshold has been indicated by the Minister. If an income threshold is set and the members representational payment is increased into the future above this threshold it will pull the members back into paying a 4% contribution with still no benefits.
- As is the current situation, the issue of concern for some of our members is that if any of our members are not otherwise employed/self-employed this leaves them with a gap in their insurance record and consequently may jeopardize future pension and benefit qualification.

2 Options are been proposed by Minister Varadkar to address Members PRSI Issue

Option 2:

Elected Members would move to PRSI Class S. This would bring councillors into line with self-employed people.

Class S

Sub Class	Weekly Pay Band	How Much of Weekly Pay	All Income from Self-Employment
SO	Up to €500 P/Wk (€26,000 P/Annum)	ALL	4%

Option 2

Implications:

- Elected members will move to Class S and continue to pay a 4% PRSI Contribution.
- Elected Members would be entitled to some social insurance benefits, namely;
 - ❖ Contributory State Pension
 - ❖ Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension
 - ❖ Guardian's Payment (Contributory)
 - ❖ Maternity Benefit and Adoptive Benefit.

Option 2

Implications:

- Elected members over 66 years would pay a nil (0%) PRSI contribution under class S
- The Minister stated that he intends to review social insurance benefits for self-employed persons in general under Class S to see if increased benefits can be given. (Extra possible benefits mentioned by the Minister include invalidity pension and dental benefit)

Option 2

Issues to be considered under Option 2:

- Class S only offers limited social insurance benefits and does not cover any short-term payments including illness and disability payments.
- Class S does not cover Jobseekers Benefit.
- As with the current situation, if a member is otherwise employed/self-employed, and is already paying a PRSI contribution they will continue to pay a 4% contribution but receive no extra benefits.

Other Related Issues to Members PRSI

- The Minister has discounted moving Elected Members to PRSI Class A for the following reasons;
 - ❖ PRSI Class A is for employees and Elected Members are not recognised as employees.
 - ❖ Elected Members do not have a contract of employment.
 - ❖ Moving Elected Members to Class A would involve payment of an Employer PRSI contribution. This would be treated as an extra budgetary cost and would need approval from the Department of Public Expenditure.
 - ❖ Local Authorities would have to provide for this extra cost equivalent to the employer PRSI contribution.

Other Related Issues to Members PRSI

- It is not possible to allow Elected Members choose their PRSI Class individually. PRSI Class for Elected Members has to be universal.
- Any changes will only take effect from January 2017, i.e. retrospective recognition for contributions paid since 2011 will not be possible.



Recap of Options been proposed

➤ **Option 1**

Raise Income Threshold for Class K = No Contribution Payable/No Benefits

➤ **Option 2**

Move to Class S = 4% Contribution with Some Benefits



Questions???