



# MINIMUM ESSENTIAL STANDARD *of* LIVING

# 2016

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## VPSJ PUBLICATIONS

VPSJ publications including Research Reports, Update Papers and Working & Technical Papers

### MESL REPORTS & UPDATE PAPERS

2015	Minimum Essential Standard of Living Update
2015	The Cost of a Healthy Food Basket: <i>Pilot study for six household types in the Republic of Ireland</i>
2015	The Cost of a Minimum Essential Food Basket in Northern Ireland: <i>Pilot study for two household types</i>
2014	Living Wage Technical Document
2014	Minimum Essential Standard of Living Update
2012	The Cost of A Child
2012	A Minimum Income Standard for Ireland
2010	Minimum Essential Budgets for Households in Rural Areas
2008	Minimum Essential Budgets for Six Households: <i>Changes in the Cost of a Minimum Essential Standard of Living from 2006-2008</i>
2006	Minimum Essential Budgets for Six Households (Urban)
2004	Low Cost but Acceptable Budgets for Three Household Types
2001	One Long Struggle – A Study of Low Income Households

### MESL WORKING & TECHNICAL PAPERS

2016	Low Hour Work & Income Adequacy
2015	Living Wage 2015 Update
2015	From Welfare to Work: Examining the impact of retaining benefits when returning to work
2015	Minimum Income Standard & The Cost of Childcare
2014	Minimum Household Energy Need – Technical Paper
2014	Housing Tenure & Its Impact on the Cost of a MESL
2014	Comparing the Cost of a MESL Between Ireland & The UK, for one household type
2014	A 'Living Wage' In Ireland: Examining the process & potential result of calculating a 'Living Wage' for working age households in Ireland
2014	An analysis of the addition of a cohabiting couple without children to the MESL dataset
2013	Changes in the Cost of a MESL in Comparison to CPI Inflation
2013	Comparison of the Household Budget Survey to MIS / MESL Data
2013	Comparison of the 2012 Poverty Line and the MESL Data
2012	Review of the MESL Baskets and Addition of 3 <sup>rd</sup> & 4 <sup>th</sup> Child to Household – Briefing Note

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#### DISCLAIMER

This project was supported by the Department of Social Protection as part of its agreement for funding the Vincentian Partnership for Social Justice. The VPSJ is solely responsible for the views, opinions, findings, conclusions and recommendations expressed in the report and for the accuracy of the report.

The contents of the report are not attributable to the Minister for Social Protection or the Department of Social Protection.

## INTRODUCTION

This paper presents the 2016 update of the Minimum Essential Standard of Living dataset, and a summary of the minimum expenditure and income needs of a set of twelve representative household types.

The MESL expenditure needs data is based on research which establishes a negotiated social consensus on what people believe is required for households to have a minimum socially acceptable standard of living. The data specifies the minimum expenditure required to live and partake in Irish society at a standard of living which members of the public agree nobody should be expected to live below.

## MINIMUM ESSENTIAL STANDARD OF LIVING

The VPSJ has conducted Consensual Budget Standards research since 2004 to establish the robust and detailed Minimum Essential Standard of Living dataset. Over the course of multiple research projects and extensive work with focus groups, detailed baskets of the goods and services vital to a household type's minimum needs have been established. These baskets are comprised of over 2,000 goods & services and define the minimum needs for households to live at a socially acceptable level.

A Minimum Essential Standard of Living (MESL) is a standard which no one should be expected to live below. It is the minimum needed to live and partake in Irish society today, meeting the physical, psychological and social needs of individuals and households. It is derived from a negotiated social consensus on what people believe is essential for an acceptable minimum standard of living. It defines a minimum standard for everyone, not just those in poverty, identifying the cost of a dignified standard of living which allows participation in the norms of Irish life. An income below the MESL threshold means individuals & households must go without in order to make ends meet, and must forego items deemed essential for being part of Irish society.

The MESL specifies the average weekly cost of all the goods and services necessary to enable a socially acceptable minimum standard of living, for 90% of households in Ireland. The data details the cost of an MESL for the following household types in Urban & Rural areas:

- Two parent households with 1 to 4 children, across multiple age-groups
- One parent households with 1 to 4 children, across multiple age-groups
- Working age adults, without dependent children, both single adult and couple households
- Pensioner households, both a pensioner living alone and a pensioner couple

The MESL data uniquely provides an evidence based benchmark against which to assess the adequacy of minimum rates of pay, and shines a light on the extent to which individuals and households can afford a standard of living which enables participation in the social and economic norms of Irish society.

The value of this evidence based measure which is grounded in the lived experience of households has seen considerable growth in the multiplicity of uses and applications of this data in Ireland, to assess the minimum expenditure needs and income adequacy for a wide range of household compositions.

## MESL 2016

This report presents the cost of a Minimum Essential Standard of Living in 2016, and benchmarks the adequacy of current social welfare supports and the national minimum wage for a set of common household types.

The costs of the MESL baskets are adjusted annually (from March to March) to account for changing prices, and the income calculations are updated to reflect the current tax and social welfare system.

The MESL dataset specifies the minimum expenditure needs of 142 household compositions, and differentiates between the minimum needs of households in urban and rural areas.

This report focuses on 12 representative household compositions, presenting the minimum expenditure need for the households in both urban and rural areas. The household types and compositions presented in this paper are only a small sample of the full range of households covered by the MESL expenditure needs data.

The minimum income needs of the households are analysed, assessing the income adequacy of social welfare supports and the minimum wage for multiple employment scenarios. Finally, the Minimum Income Standard, the actual gross salary needed to enable an MESL is presented for the 10 working age household compositions, when living in an urban area.

The appendix, at the end of this report, includes detailed income calculation tables for each of the 12 household compositions in all the scenarios presented throughout this report.

## **ADDITIONAL DATA**

Further information on the household budgets, including detailed individual expenditure tables and research reports are available on the VPSJ consensual budget standards website, [www.budgeting.ie](http://www.budgeting.ie).

The core MESL expenditure need for the full 142 urban and 142 rural household compositions is available on the MESL budget standards research website, [budgeting.ie](http://budgeting.ie).

The Minimum Income Standard calculator, [www.MISc.ie](http://www.MISc.ie), is a tool which enables individuals and organisations tailor outputs from the MESL 2016 data to their specific needs. The website can be used to examine the minimum expenditure and income needs of the household composition(s) relevant to a user, allowing the user to specify household composition, location, housing type & cost and employment/income scenario.

## COST OF AN MESL 2016

The total core cost of a Minimum Essential Standard of Living (excluding housing and childcare) has decreased in 2016. The average change in the core MESL cost from 2015 to 2016 is -0.7%, this follows a similar decrease in 2015 to give a cumulative change of -1.6% over the two years from 2014 to 2016. Despite this reduction, the core MESL cost is 4.6% higher in 2016 than the recession low point of 2010. Furthermore, when the cost of childcare and private rent is included, the overall cost of an MESL has increased by an average of 3.0% in the last year, and by 7.7% since 2010.

### Core Minimum Essential Standard of Living

The core Minimum Essential Standard of Living costs specify the core minimum costs, and exclude housing costs (e.g. rent), categories of expenditure which may vary by employment pattern such as childcare, and also the effect of secondary benefits such as a medical card.

These additional costs (housing and childcare), and relevant adjustments for secondary benefits, are included in the overall cost of an MESL in scenarios assessing households' minimum income needs and in the examination of the adequacy of social welfare supports and the national minimum wage.

The core weekly MESL for 12 representative household compositions is presented in Tables 1 & 2 for Urban and Rural based households respectively.

Two Parents with One Child	an infant (aged under 1)	TP 1
Two Parents with Two Children	one in pre-school & one in primary school (ages 3 & 6)	TP 2a
Two Parents with Two Children	one in primary school & one in secondary school (ages 10 & 15)	TP 2b
Two Parents with Three Children	an infant, one in pre-school & one in primary school (ages under 1, 3 & 6)	TP 3
Two Parents with Four Children	two in primary school & two in secondary school (ages 8, 11, 14 & 17)	TP 4
One Parent with One Child	in primary school (aged 6)	OP 1
One Parent with Two Children	one in pre-school & one in primary school (ages 3 & 6)	OP 2a
One Parent with Two Children	one in primary school & one in secondary school (ages 10 & 15)	OP 2b
Single Adult, of Working Age	living alone, no dependent children	SA
Couple, or Working Age	co-habiting, no dependent children	CP
Pensioner	living alone	LP
Pensioner Couple		PC

Table I **2016 URBAN** Core MESL Weekly Expenditure Budget

*Excludes Housing, Childcare and the effect of secondary benefits*





























		TP 1	TP 2a	TP 2b	TP 3	TP 4	OP 1	OP 2a	OP 2b	SA	CP	LP	PC
	Food	92.13	121.20	145.58	151.00	228.84	70.02	93.15	117.53	55.23	81.28	67.03	79.78
	Clothing	27.71	23.26	29.99	38.17	47.17	13.23	17.67	24.40	9.83	12.80	9.48	15.80
	Personal Care	24.10	17.90	24.46	27.95	34.88	9.33	10.65	17.21	13.04	15.94	9.19	13.33
	Health	13.57	14.35	17.03	19.24	25.39	9.62	11.42	14.10	6.25	9.50	12.29	24.50
	Household Goods	23.81	19.70	20.61	28.90	26.27	16.07	18.58	19.49	5.61	6.53	16.29	17.59
	Household Services	9.53	9.53	9.53	9.53	9.53	7.60	7.60	7.60	4.03	5.95	7.04	9.15
	Communications	13.99	13.99	18.62	13.99	23.26	9.35	9.35	13.99	9.39	14.03	13.04	12.90
	Social Inclusion	54.93	71.11	91.88	72.87	130.59	45.11	49.13	69.89	38.01	69.00	40.51	53.99
	Education	1.30	8.08	24.28	8.08	47.25	8.08	8.08	24.28	4.96	8.75	0.00	0.00
	Transport	55.00	60.00	60.00	60.00	65.00	30.00	32.50	32.50	32.70	65.40	0.00	0.00
	Household Energy	45.02	43.55	43.55	47.80	49.10	43.28	43.28	43.28	27.99	30.89	49.58	51.44
	Personal Costs	7.92	8.02	8.02	8.13	8.23	7.76	7.87	7.87	7.66	13.11	6.08	6.24
	Insurance	35.57	40.21	39.73	44.84	48.52	21.15	25.79	25.31	16.17	30.59	13.63	25.16
	Savings & Contingencies	26.65	32.40	32.40	38.15	43.90	21.54	27.29	27.29	11.50	17.25	11.50	17.25
	<b>Core Expenditure</b>	<b>431.24</b>	<b>483.29</b>	<b>565.67</b>	<b>568.66</b>	<b>787.92</b>	<b>312.16</b>	<b>362.36</b>	<b>444.74</b>	<b>242.37</b>	<b>381.03</b>	<b>255.65</b>	<b>327.15</b>

Table 2 **2016 RURAL Core MESL Weekly Expenditure Budget**

*Excludes Housing, Childcare and the effect of secondary benefits*

	TP 1	TP 2a	TP 2b	TP 3	TP 4	OP 1	OP 2a	OP 2b	SA	CP	LP	PC
 Food	99.15	133.48	159.54	163.28	249.74	76.09	101.38	127.44	51.19	78.73	65.64	86.31
 Clothing	28.73	24.54	31.29	39.45	48.76	13.51	18.04	24.79	7.32	13.88	10.84	18.15
 Personal Care	23.65	17.33	23.46	27.39	33.33	9.52	10.63	16.76	7.15	15.65	9.50	13.23
 Health	13.02	13.26	15.86	18.13	23.57	8.93	10.51	13.12	5.98	9.07	12.17	24.18
 Household Goods	24.77	20.57	21.43	30.00	27.30	17.02	19.52	20.38	15.52	7.57	16.95	18.99
 Household Services	13.57	13.57	13.57	13.57	13.57	11.23	11.23	11.23	11.09	10.10	9.15	11.07
 Communications	13.99	13.99	18.63	13.99	23.26	9.35	9.35	13.99	9.39	14.03	13.04	12.90
 Social Inclusion	57.91	73.94	93.63	75.69	131.10	48.08	51.64	71.33	45.96	68.62	40.51	53.99
 Education	1.30	8.93	23.06	8.93	44.82	8.93	8.93	23.06	4.71	8.25	0.00	0.00
 Transport	110.43	110.43	110.43	110.43	121.48	62.85	62.85	62.85	53.32	53.41	49.44	49.54
 Household Energy	46.32	44.84	44.84	49.10	50.40	44.59	44.59	44.59	35.24	38.72	43.14	44.97
 Personal Costs	8.66	8.76	8.76	8.87	8.97	8.50	8.61	8.61	8.40	13.85	6.81	6.98
 Insurance	52.63	57.27	56.79	61.90	65.55	30.80	35.44	34.96	24.83	40.03	21.74	32.59
 Savings & Contingencies	26.65	32.40	32.40	38.15	43.90	21.54	27.29	27.29	11.50	17.25	11.50	17.25
<b>Core Expenditure</b>	<b>520.81</b>	<b>573.32</b>	<b>653.70</b>	<b>658.89</b>	<b>885.75</b>	<b>370.93</b>	<b>420.00</b>	<b>500.38</b>	<b>291.60</b>	<b>389.16</b>	<b>310.41</b>	<b>390.16</b>

There has been a general trend of marginal decreases in costs across the majority of categories of expenditure in the last year. However, there were exceptions to this trend, with increases in education, health related costs, and insurance costs. Nevertheless, the trend is of an overall reduction in the minimum core expenditure need for working age adults without children, pensioners and parents, from 2015 to 2016.

The reduction in adult's core MESL expenditure need is approximately 1% in urban areas, amounting to an average weekly reduction of €2.89 for a pensioner living alone and €1.78 for a working age single adult. The reduction in adult's core MESL expenditure is greater in rural areas, approximately 2% to 4%, as the effect of lower oil costs is evident in reduced household energy costs (home heating oil) and transport (petrol for private car); this lead to an average weekly reduction of €11.69 for a pensioner living alone and €8.81 for a working age single adult. Nevertheless, core MESL costs (excluding housing and childcare) remain higher for the majority of rural household types & compositions.

The introduction of free GP care for under-sixes has contributed to a notable reduction in the MESL cost for children under six. Children in older age-groups are not eligible for this new service; this combined with a slight increase in education costs has resulted in the core MESL cost for primary school and second level age children increasing in 2016. Consequently households with more children of school age have an increase in core MESL costs this year.

**Table 3 Core MESL Expenditure Need for 12 Urban Household Compositions, € per week**  
*Excludes Housing, Childcare and Effect of Secondary Benefits*

Two Parents					
	1 child Infant	2 children (a) Pre-School & Primary School	2 children (b) Primary School & Second Level	3 children An infant, 1 Pre-School & 1 Primary School	4 children 2 Primary School & 2 Second Level
2015	436.41	485.86	566.64	574.05	787.57
2016	431.24	483.29	565.67	568.66	787.92

One Parent			
	1 child Primary School	2 children (a) Pre-School & Primary School	2 children (b) Primary School & Second Level
2015	313.79	365.05	445.83
2016	312.16	362.36	444.74

	Single Adult Working Age	Couple Working Age	Pensioner Living Alone	Pensioner Couple
2015	244.08	382.17	258.54	332.59
2016	242.37	381.03	255.65	327.15



Of the twelve household compositions examined, the Two Parent household with four children (TP4) is the only composition to demonstrate an increase in core costs this year. This household composition's four children are of school age, two of primary school age and two of second level age. While individually the increase in costs for school age children is marginal, the cumulative effect is enough to offset the reduction in core MESL costs for the parents, leading to the household's core MESL need increasing this year.

## INFLATION AND THE CHANGING COST OF AN MESL

The MESL household expenditure budget is more concentrated on basics such as food, electricity and home heating, than that of the average household. Consequently the cost of an MESL changes at a different rate than that indicated by the average CPI rate.

The Minimum Essential Standard of Living expenditure data is adjusted to reflect changes in prices annually, adjusting from March to March each year. The consumer price index (CPI) is calculated on the basis of a much broader basket of goods and services than that necessary for an MESL. In order to exclude the influence of price fluctuations in these additional items, the MESL adjustment uses a subset of CPI detailed sub-indices.

Basic areas of expenditure such as food and household energy make up a greater proportion of the MESL household budget, than that of the average household. As a result changes in these areas of expenditure having a greater impact on the overall cost of an MESL than the CPI rate would indicate.\*

The MESL research has tracked the changes in the cost of an MESL against the headline CPI inflation rate, and has found that the CPI headline inflation rate tends to under-estimate changes in the cost of an MESL. The disparity between changes in the MESL and the CPI index re-enforces the point made by the CSO, that the CPI is not a cost of living index<sup>†</sup>, and echoes the findings of a recent ESRI paper demonstrating the different (higher) rate of inflation experienced by households on lower incomes when compared to the national average<sup>‡</sup>.

### CPI CHANGES V MESL CHANGES

In the twelve months to March 2016 the CPI rate shows an average drop in prices, with a rate of -0.3%. The change in the core cost of a MESL (costs excluding housing, childcare, and the effect of secondary benefits) is calculated for the same period, for a set of representative household compositions. The core cost of an MESL changed by -0.7% between March 2015 and March 2016.

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\* The MESL household expenditure budget is more concentrated on basics such as food, electricity and home heating, than that of the average household. Approximately one third of household expenditure is allocated to these categories in the MESL budgets; by comparison the Household Budget Survey shows that these areas account for a quarter of the average household's expenditure.

For more information on the annual adjustment methodology and the CPI Detailed Sub-Indices rates used see VPSJ (2013) Working Paper 'Changes in the cost of a MESL in comparison to CPI Inflation', available on [www.budgeting.ie](http://www.budgeting.ie)

<sup>†</sup> CSO, 2015. CSO Consumer Price Index Methodology. Published on-line [www.cso.ie/en/media/csoie/surveysandmethodologies/surveys/prices/documents/introductiontocpi2.pdf](http://www.cso.ie/en/media/csoie/surveysandmethodologies/surveys/prices/documents/introductiontocpi2.pdf)

<sup>‡</sup> Callan, T. & Colgan, B., 2015. ESRI Research Note: The Distributional Impact of Inflation: 2003-2014. Published on-line [www.esri.ie/publications/the-distributional-impact-of-inflation-2003-2014/](http://www.esri.ie/publications/the-distributional-impact-of-inflation-2003-2014/)

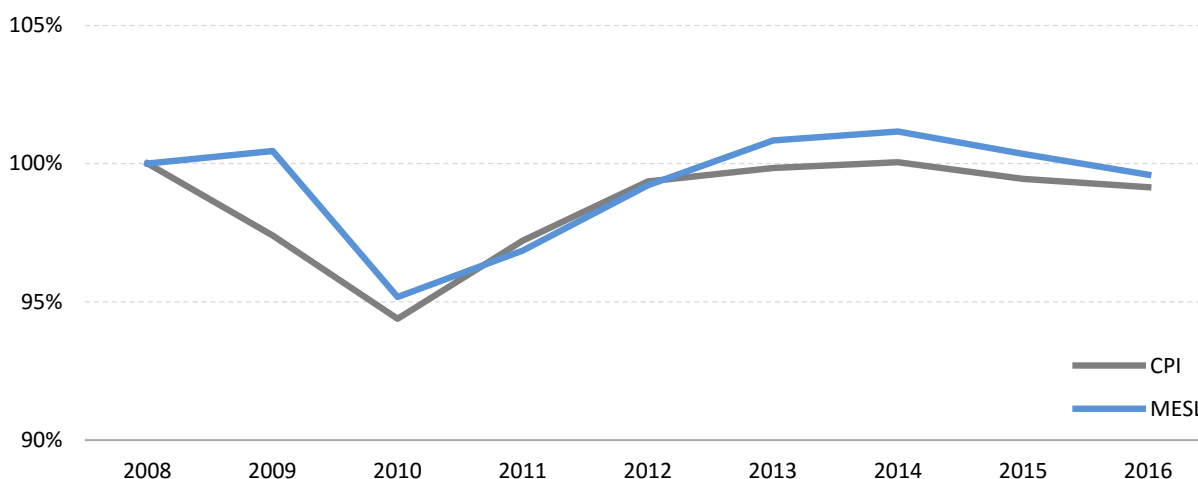
This CPI rate is an average of decreases in some areas of and increases other areas, as demonstrated below

Decreases		Increases	
Household Goods	- 2.5%	Health	1.0%
Clothing & Footwear	- 2.3%	Education	3.8%
Transport	- 5.9%	Home Insurance	9.5%

The decline in the price of oil over the last year is one of the main factors contributing to the average decrease in prices measured by the CPI. The effect on the CPI is shown in the areas of transport and household energy, especially home heating oil\*. The reduction in costs in these areas also contributed notably to the decrease in the core MESL, as household energy and transport together account for up to a quarter of core MESL expenditure need.

During the recession core prices declined to a low point in 2010, but have increased since. Over this longer period the average core cost of an MESL has increased by 4.6% (from 2010 to 2016).

Graph I Cumulative change in Core MESL and CPI, 2008 to 2015



## THE EFFECT OF HOUSING COSTS

Looking beyond the core MESL costs the cost of private rented accommodation has risen by an average of 9.2%, as examined in more detail throughout this report, and childcare has also increased by an average of 1.2%. Consequently the cost of an MESL has increased significantly for household types requiring expenditure in these areas.

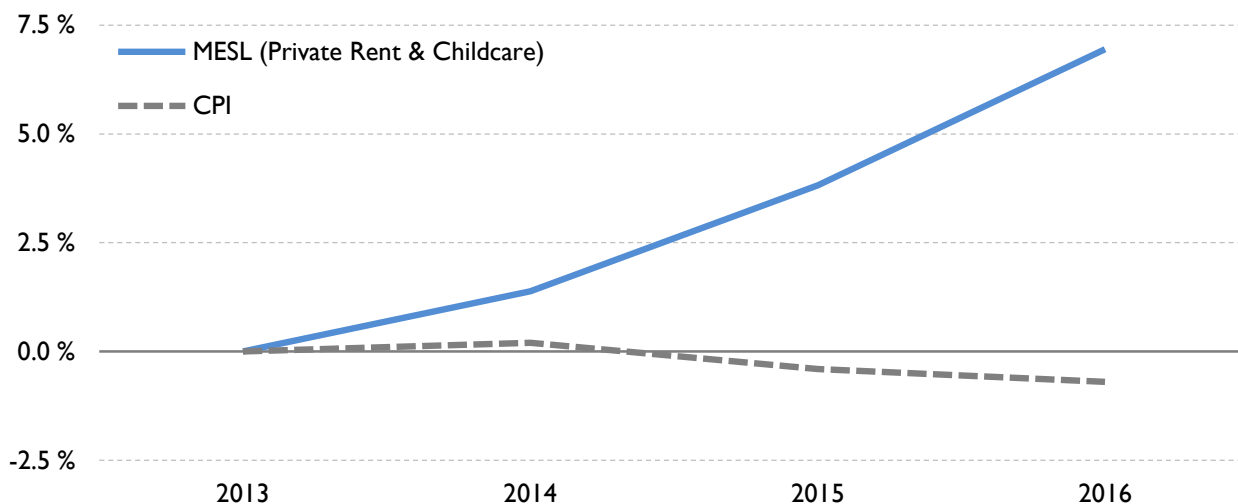
The CSO note that the decrease in mortgage interest payments (-7.6%) is a primary contributor to overall the negative inflation rate. This is despite a national average increase in private rents of 9.2%, as the greater proportion of households with a mortgage, compared to those in private rented housing, meant that increasing rents only partially offset the effect of decreasing mortgage interest on the overall average CPI inflation rate.

\* CSO, 2016. Consumer Price Index March 2016. Published on-line, accessed 7th April 2016.  
<http://www.cso.ie/en/releasesandpublications/er/cpi/consumerpriceindexmarch2016/>

Private rents have increased each year since 2012 (as measured by the CPI), with increases of 8% to 10% in each of the last three years. The increases from 2014 to 2016 cumulatively amount to an average increase in rents of 30.1%.

In the last year rents in the Dublin area increased by 10.9% for a one bed dwelling, 9.3% for a two-bed dwelling and 8.9% for a three-bed dwelling. Such increases have led to dramatic rises in the overall cost of an MESL for households unable to access social housing and a differential rent.

Graph 2 Cumulative change in MESL (Private Rent & Childcare) and CPI, 2013 to 2015



There has been a 3.0% increase in the overall cost of an MESL (including private rent\* and childcare†) in the last year. In the last three years of accelerated growth in private rents, the cost of an MESL increased by 6.9%. The cumulative change in the CPI for the same period shows a decrease of -0.7%. Consequently, over the last three years the CPI has under-estimated the change in the expenditure required for an MESL (where private rent is required) by 7.6%.

The impact of increasing private rents is returned to later in this report, where it is examined in the context of income adequacy, and the income needs differential between households in social housing and private rented accommodation.

\* Based on 90% of the average Dublin rent for a dwelling size appropriate to the household composition.

† Where required by the household composition.

## INCOME ADEQUACY – SOCIAL WELFARE

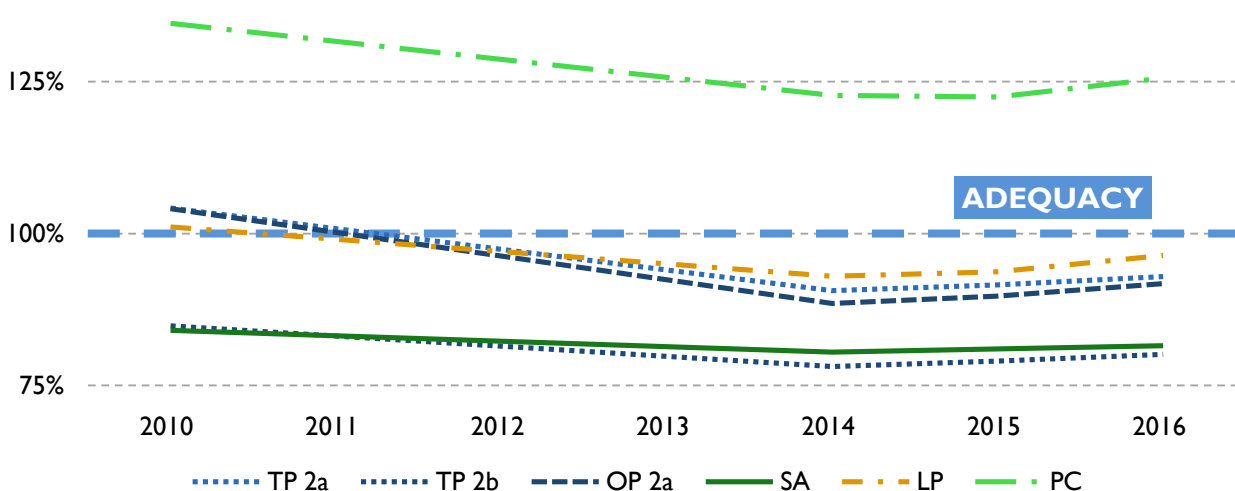
The MESL data provides a unique evidence based benchmark against which to assess the adequacy of social welfare supports. This analysis measures the extent to which these income supports enable individuals and households to afford an acceptable minimum standard of living which allows for participation in the social and economic norms of Irish society.

The analysis assesses social welfare supports against each of the household compositions' total MESL cost (including housing) adjusted for the effect of secondary benefits (primarily the medical card). The discussion in this section focuses primarily on urban based households. Housing costs are based on social housing for all households with children and pensioner household types. The working age single adult and couple household types' housing costs are based on private rented accommodation and are set at the Rent Supplement ceiling limits appropriate to their situation in Dublin.

*Details of the social welfare incomes are provided in the tables in the appendix (pages 4A to 7A), for the 12 household compositions in both urban and rural areas.*

### SOCIAL WELFARE ADEQUACY SUMMARY

Graph 3 Proportion of MESL Expenditure need met by social welfare



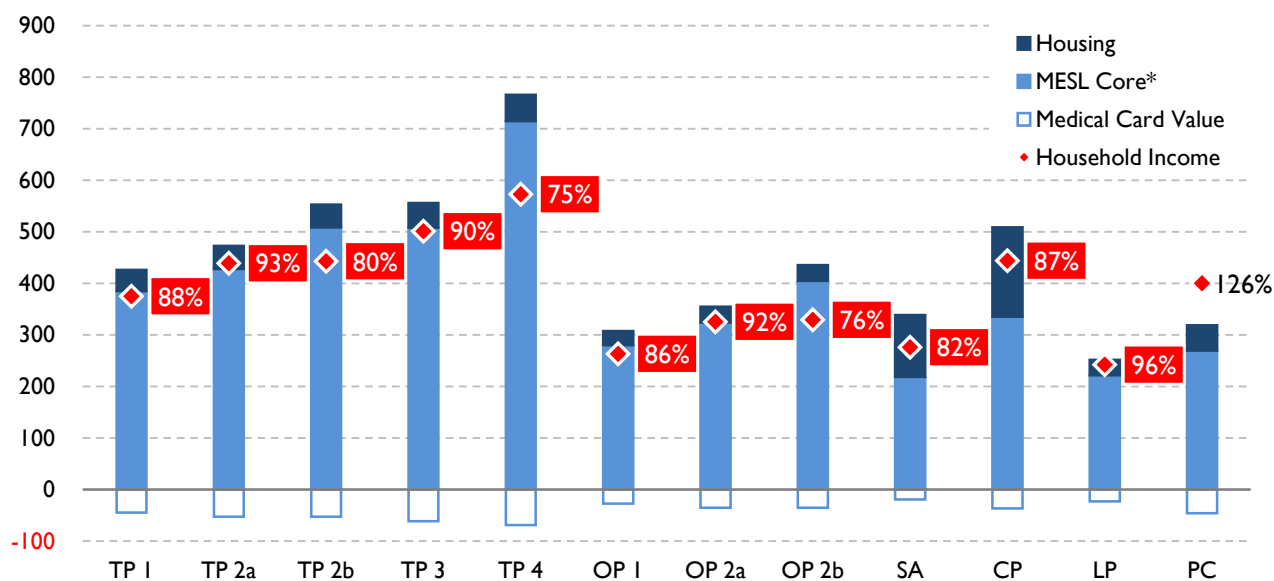
- 2016 is the second year in a row to demonstrate an improvement in the position of social welfare dependent household types. While social welfare does not provide for an MESL for the large majority of cases examined, the proportion of minimum expenditure need met by social welfare supports is increasing for many household types.
- Graph 3 illustrates the percentage of MESL expenditure need met by social welfare for six household types, five of which have an inadequate income. However, in each of the five cases the proportion of the MESL met by social welfare has increased since 2014. However, for the five household types social welfare continues to provide an inadequate income.

- In 2016 social welfare continues to provide an inadequate income for each of the family household compositions with children analysed.
- The degree of income shortfall varies by household composition and location. Social welfare meets the greatest proportion of MESL need for the Two Parent household with a pre-school and primary school age child, TP2a, in both urban and rural areas.
- The higher MESL needs adolescent second level age children results in households with a child in this age-group having the greatest income inadequacy when reliant on social welfare (see TP 2b, TP 4 & OP 2b).
- Social welfare also continues to provide an inadequate income for the working age households without children.
- The State Pension, Contributory and Non-Contributory, provides the basis of an adequate income for Pensioner Couple household types living in social housing.
- The Non-Contributory Pension and Living Alone Allowance do not provide an adequate income for the Pensioner Living Alone household type. However, when in receipt of the Contributory Pension this urban household type moves to marginal income adequacy in 2016.
- Rural households living in social housing and dependent on social welfare tend to face greater income deficits than their urban counterparts due to the need for private transport in rural areas and higher home heating costs (oil versus gas).
- Services, such as access to adequate social housing and the medical card, play a crucial role in reducing the minimum essential expenditure needs of households. Availability of and access to affordable, quality services coupled with adequate income is vital if social welfare dependent households are to reach a minimum essential standard of living.
- The adequacy of social welfare incomes in 2016 is discussed further below.

## SOCIAL WELFARE RATES 2016

- The weekly rate of payment for the majority of primary social welfare payments remains unchanged in 2016, this includes the Jobseekers (JS) personal and qualified adult rates, the One-Parent Family Payment (OFP), and Qualified Child Increase (QCI).
- Child Benefit is increased by €5.00 per month for all children, bringing the rate to €140.00 per month. This returns the payment to the 2012 value for the first child in the household.
- The State Pension (Contributory & Non-Contributory) was increased, for the first time since 2009, by €3.00 per week, with accompanying increases for associated Qualified Adult payments.
- The Fuel Allowance is increased by €2.50 per week, to €22.50 per week for 26 weeks of the year.
- Rent Supplement thresholds remain unchanged.
- The Christmas Bonus, payable to those in receipt of a long-term social welfare payment, increased to 75% of the standard weekly payment.

Graph 4 Urban MESL Expenditure and Social Welfare\* Income Adequacy, € per week



## HOUSEHOLDS WITH CHILDREN

- Of the 12 household compositions analysed in detail, eight are households with children. Social welfare does not provide an adequate income for any of the eight compositions in either an urban or rural area.
- The households experiencing the greatest shortfall in income are households with adolescent children. The urban Two Parent household with a primary and secondary school age child has a shortfall of €110 per week, as social welfare provides only 80% of the households MESL expenditure need.
- Child income supports (with the exception of the BSCFA) do not take account of increasing costs in adolescence and at this age the gap between minimum essential expenditure and income supports widens. As a consequence social welfare dependent families with adolescent children face severe income inadequacy.
- The combination of increased Child Benefit and slightly decreasing MESL costs have resulted in the depth of income shortfall reducing marginally for the majority of family household compositions examined.
- Households with Pre-School age children have the lowest level of income inadequacy. As detailed in the next section, child related social welfare supports provide in excess of the direct MESL cost of a Pre-School age child. This surplus effectively subsidises a portion of the income inadequacy for siblings of other ages and the parents MESL needs.

\* The social welfare income scenarios assume full entitlement to payments relevant to the household scenario:

TP	JS Personal Rate + Qualified Adult + Qualified Child, Child Benefit, Back to School Allowance
OP	OFP / JST + Qualified Child, Child Benefit, Fuel Allowance, Back to School Allowance
SA & CP	JS Personal Rate, Rent Supplement
LP	Non-Contributory Pension + Living Alone Increase, Fuel Allowance, Household Benefits Package
PC	Contributory Pension + Qualified Adult, Fuel Allowance, Household Benefits Package

- Within the full range of family household compositions covered by the MESL data, seven compositions which demonstrated income inadequacy in 2015 have moved to income adequacy in 2016.
- The One Parent households would be entitled to the Christmas Bonus. For OP2a (the household closest to income adequacy), the Christmas Bonus would not significantly change the level of income inadequacy. It equates to an average of €3.93 per week over the year, reducing the income inadequacy from €29.32 to €25.39 per week.

## **WORKING AGE HOUSEHOLDS WITHOUT CHILDREN**

- The data shows that working age households without dependent children are also experiencing income inadequacy when dependent on social welfare.
- The single adult household faces income inadequacy of €63 per week, despite receiving Rent Supplement and the full rate of Jobseekers.
- The minimum expenditure required for food and household energy amounts to almost half (44%) of a single adults primary social welfare payment. The income deficit for the single adult household type indicates that the rate of Jobseekers is insufficient to meet the cost of living for this household type. Expenditure on food and household energy alone consume 44% of this household's primary social welfare payment.
- When in receipt of a Jobseeker's payment for over 15 months, the Single Adult household may be eligible for the Christmas Bonus and the Fuel Allowance. These payments would contribute an average of an additional €13.96 per week over a full year, and would continue to leave the household with a notable income shortfall.
- Similarly, when dependent on social welfare the couple of working age has a shortfall of €65 per week. While both adults are in receipt of a full Jobseekers payment and Rent Supplement, they nevertheless have an inadequate income and cannot afford to meet their minimum essential needs.
- These scenarios are based on the household's receiving Rent Supplement. However, there are ongoing issues regarding the chronic lack of availability of rental accommodation within the Rent Supplement limits<sup>\*</sup>, the reported practice of top-up payments<sup>†</sup>, and questions regarding the quality of dwellings available to RS tenants<sup>‡</sup>. Combined these issues mean the results of the RS scenarios must be treated with caution, as additional hidden expenditure may be required in the form of payment of unofficial top-ups to landlords.

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<sup>\*</sup> The Simon Community conduct regular availability surveys, and have found an ever decreasing number of units available within the RS limits nationally. In the January 2016 survey only one property was found across the country with the RS limits for a single adult (Simon, 2016).

<sup>†</sup> Threshold have reported that around half of Rent Supplement recipients pay additional 'top up' payments to landlords, in addition to the tenant contribution required under the RS scheme (Threshold, 2014).

<sup>‡</sup> The gap between RS limits and average rents results in issues regarding the quality of those few properties available within the RS limits. Focus Ireland (2012) have reported on this issue, highlighting situations of damp, mould and infestation in the rental properties available within RS limits which often still require top-up payments.

## ADULTS UNDER 26

- The reduced rate of Jobseekers Allowance (JSA) for younger adults has been retained in 2016, maintaining the €100 rate for adults aged 18 to 24 years, and the €144 rate for 25 year olds.
- The cost of an MESL for an unemployed young adult living in the family home is €154 per week, more than 1 ½ times the reduced rate of JSA for adults aged 18 to 24.
- The MESL cost is based on a young adult living as part of the parental household, and qualifying for a full medical card. It is clear the reduced rate of JSA falls short of providing an MESL for adults under 26, and an individual in this situation would require significant familial support in order to afford an MESL.

## PENSIONER HOUSEHOLDS

- The increases to the State Pension rates and Fuel Allowance have improved the social welfare income for all pensioner household types examined.
- The Pensioner Couple household type can afford an MESL when living in social housing, and reliant on a State Pension, in both urban and rural areas.
- The Pensioner Living Alone household type continues to be vulnerable to income inadequacy. When living in urban social housing and receiving a Non-Contributory pension the household type has an income shortfall of €9.00 per week. However, when on a Contributory Pension, the increase to the State Pension and Fuel Allowance have moved this household to marginal income adequacy, when in an urban area.
- It is regrettable that Budget 2016 did not build on the 2015 increase in the Living Alone Allowance, the first increase since 1996. The Living Alone Allowance is €9.00 in 2015, and will remain at this level in 2016.
- The Pensioner households would be entitled to the Christmas Bonus. For the Lone Pensioner in receipt of the Non-Contributory Pension, the payment would equate to an average of €3.49 per week, reducing the income inadequacy from €9.03 to €5.54 per week.

## SOCIAL WELFARE ADEQUACY – 214 TEST CASES

- To broadly track the changing trend of social welfare income adequacy the annual MESL update report assesses the social welfare income adequacy for 214 separate test cases
- In 2016 social welfare does not provide an adequate income for 183 of 214 urban cases examined. This is an improvement from 2015 when 191 household compositions were in a position of income inadequacy when solely dependent on social welfare
- Eight cases have which had inadequate income in 2015 have moved to adequacy in 2016. This continues the trend from last year, when the number of cases demonstrated inadequacy moved from 199 in 2014 to 191 in 2015
- Seven of the eight cases which have moved to adequacy are household compositions with a Pre-School age child. This is the age-group where the direct cost of a child's MESL is at the lowest. Consequently, the combination of a slight decrease in MESL costs for this age-group and an increase in Child Benefit, has seen these household compositions move into income adequacy, when living in social housing in an urban area



- The Pensioner Living Alone household type moves to income adequacy, when in receipt of a Contributory State Pension. The increase in the State Pension (the first since 2009) and slight reduction in MESL costs have combined to move this household type to have a marginally adequate income

**The source of the 214 Test Cases:**

The MESL data defines the minimum expenditure a specific household composition requires for an acceptable standard of living. The MESL requirement changes to reflect the make-up (composition) of the household, varying with the adults and children (number and age-groups) in the household.

The MESL data can distinguish between the MESL expenditure needs of 69 compositions of 1 to 4 children across four age-groups, this results in 69 Two Parent household compositions and 69 One Parent household compositions. Further permutations may be introduced through examining different income scenarios, housing tenures, etc.

It is this flexibility that enables the benchmarking of social welfare adequacy for 214 test cases. The cases are comprised of the following households and income scenarios:

Two Parents	1 to 4 children, 4 age-groups	Social Housing	1 Jobseeker & 1 Stay-at-home	69
Two Parents	1 to 4 children, 4 age-groups	Social Housing	2 Jobseeker	69
One Parent	1 to 4 children, 4 age-groups	Social Housing	OFF / JST / Jobseeker	69
Working Age	Single Adult & Couple	Private Rented	Jobseeker & Rent Supplement	2
Pensioner	Living Alone & Couple	Social Housing	State Pension	5

## THE COST OF A CHILD

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A child's needs vary with age and to reflect this the MESL data defines four child age-groups and identifies the direct weekly cost of a Minimum Essential Standard of Living for a child at each stage.

A family household, when compared to a household without children, have different minimum costs due to various needs associated with family life, such costs are included in the MESL budgets for parents as they are not specific to a particular child or age-group. The direct cost of a child is based on expenditure needs which can be attributed solely to a child and consequently exclude wider household costs.

The cost of a child's MESL is higher in infancy, declining at pre-school age and then rising as children grow older. The cost is highest at second level age, as an adolescent child's MESL cost is more than 2 ½ times that of a pre-school age child. However, the cost of childcare has a significant impact on the cost of an MESL, multiplying the core MESL cost by almost 5 times for a pre-school age child and 3 ½ times for an infant. The inclusion of full-time childcare makes infancy the most expensive stage, with costs declining for each subsequent age-group.

Aside from childcare, food is the largest area of expenditure for each age-group, followed by clothing for an infant and social inclusion for a primary school and secondary school aged child. A school age child's social inclusion budget includes participation in various physical and sports activities, such as swimming and football, a bicycle, an allowance for attending several friends' birthday parties and three trips to the cinema a year.

Identifying the cost of a socially acceptable minimum standard of living for a child, a child's MESL, enables an assessment of the adequacy of child related social welfare supports. While this exercise is informative, and highlights the need to differentiate the level of support in line with a child's age, it must be borne in mind that the MESL expenditure need detailed is the direct cost of a child as part of a family household.

Therefore, the child's MESL needs and income adequacy must ultimately be assessed in the context of the overall household minimum needs. As where the cost of a child's MESL needs are in principle adequately provided for by child social welfare supports, if that child is part of a household which as a whole has inadequate income, the child cannot be assumed to have an adequate income.

### COST OF A CHILD 2016

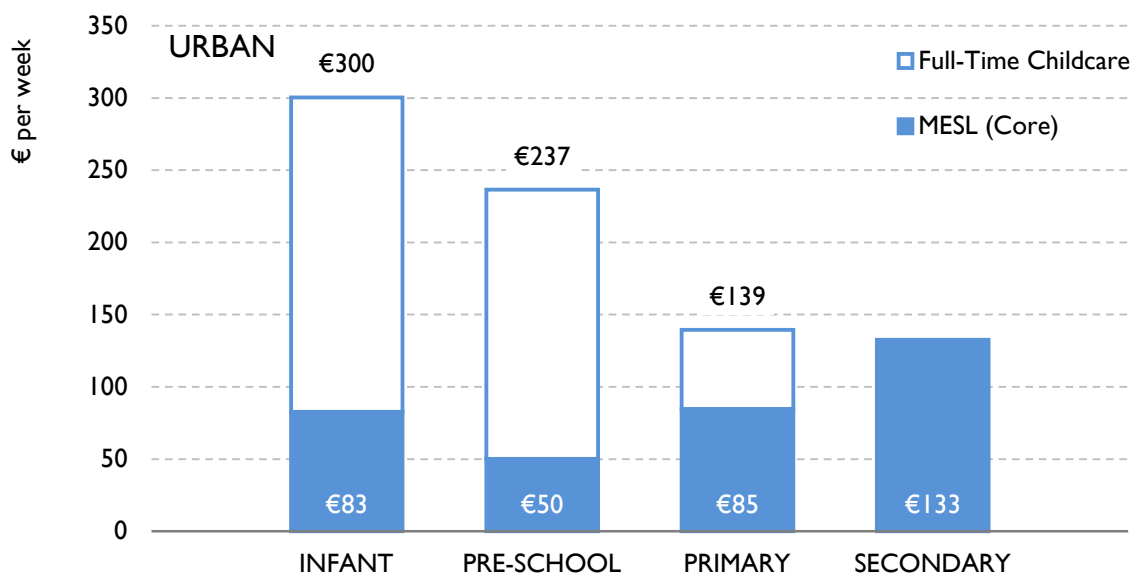
In 2016 the core cost of a child's MESL, excluding the effect of secondary benefits, ranges from €50.20 (Pre-School age) to €132.58 (Secondary School age) per week. The inclusion of full-time childcare for children up to (and including) primary school age, makes infancy the most expensive stage at €300.37 per week, with costs declining in each subsequent age-group.

The introduction of free GP care for under sixes has reduced the core MESL costs for an infant and pre-school age child, with a decrease of between 2% and 3% when compared to 2015. However, a

1.2% increase in the cost of childcare has offset some of the benefit of reduced health costs for these age groups. Health costs have increased for children in older age-groups, bringing a marginal increase in the overall MESL cost for these age-groups.

When childcare costs are excluded, and the expenditure reduction effect of a Medical Card is included, the MESL cost of a child has decreased by an average of 1.1% across the four age-groups.

**Graph 5** Direct Cost of a Child's MESL, per week, by child age-group  
*Excludes the effect of secondary benefits*



The cost of full time private childcare for an infant in an urban area is over €11,000 per annum. While the ECCE scheme reduces the cost of childcare for a pre-school age child, through the provision of a free pre-school place\*, the cost of full-time care remains at over €9,500 per annum, accounting for almost four fifths (78.9%) of this age-groups total MESL costs.

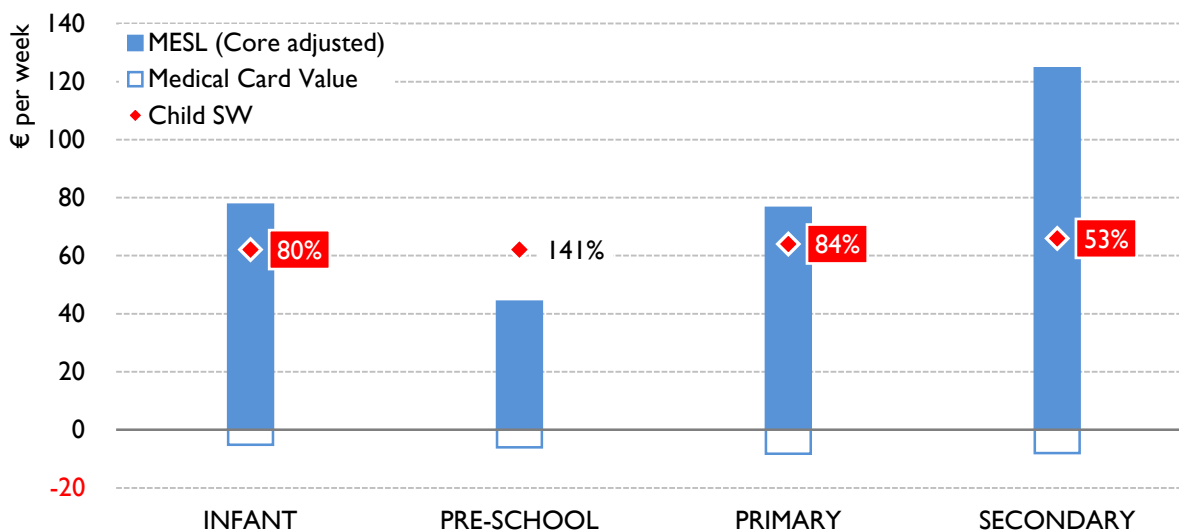
## ADEQUACY OF CHILD RELATED SOCIAL WELFARE SUPPORTS

The MESL expenditure needs data provides a benchmark against which to assess the adequacy of social welfare payments. This is done at a household level in the various social welfare scenarios discussed in the previous section of this report.

The adequacy of the primary child related payments typically available to a social welfare dependent household are benchmarked against the MESL Core cost for each child age-group. The core cost is adjusted to reflect entitlement to a full Medical Card. The results of this assessment are illustrated in Graph 6, and detailed in Table 5.

\* The ECCE scheme provides a pre-school place, 3 hours per day for 38 weeks of the year. The scheme effectively reduces full-time childcare costs by €62.50 per week, for 38 weeks of the year, or an average of €45.67 per week.

Graph 6 Cost of A Child, adjusted urban MESL, and Social Welfare Adequacy



The MESL costs of a child vary with age, but the primary social welfare supports of Child Benefit and the Qualified Child Increase do not, consequently the proportion of a child’s minimum needs met by these supports depends on the child’s age.

The combination of the €5 per month increase in Child Benefit and the marginal decrease in the MESL costs, has resulted in social welfare providing for a slightly larger proportion of a child’s MESL in 2016 than in 2015.

The MESL costs are lowest at Pre-School age, and child related social welfare payments amount to almost 1 ½ times the cost of a pre-school child’s MESL. However, this apparent adequacy must be examined in the context of a wider household as the inadequacy of supports for other child age groups and parents mean a pre-school child can live in a social welfare dependent household with notable income inadequacy, e.g. the One Parent household type with a pre-school and primary school age child illustrated in Graph 4 has an income shortfall of €29.32 per week.

Child related social welfare payments meet slightly over half of the MESL costs for a second level age child. The cost of an MESL is highest at this stage of childhood, excluding childcare, and yet the Back to School allowance provides only an additional €200 per year (€3.85 per week) for this age-group.

Social welfare rates, in particular the Qualified Child Increase (QCI), need to reflect the changes in minimum expenditure as children age. To maintain the proportional support provided by the QCI, in relation to the cost of a child, the QCI should be paid at a higher rate for second level age children.

**Table 4** The Direct Weekly Cost of a Child 2016  
*excluding entitlement to secondary benefits, e.g. medical card*

		INFANT	PRE-SCHOOL	PRIMARY	SECONDARY
<b>URBAN</b>	MESL (Core)	82.81	50.20	84.66	132.58
	Full-Time Childcare	217.56	186.34	54.81	...
	Total	300.37	236.54	139.47	132.58
	Childcare as a % of total	72.43%	78.78%	39.30%	0.00%
<b>RURAL</b>	MESL (Core)	82.85	49.06	86.29	129.44
	Full-Time Childcare	177.59	141.59	54.84	...
	Total	260.43	190.65	141.13	129.44
	Childcare as a % of total	68.19%	74.27%	38.86%	0.00%

**Table 5** Comparison between the Cost of a Child\* and Child Income Supports, per week

		INFANT	PRE-SCHOOL	PRIMARY	SECONDARY
<b>URBAN</b>	MESL Core (adjusted)	77.62	44.13	76.46	124.57
	Child Benefit	32.31	32.31	32.31	32.31
	Qualified Child Increase	29.80	29.80	29.80	29.80
	Back to School	...	...	1.92	3.85
	Total Social Welfare	62.11	62.11	64.03	65.95
	% of MESL met by SW	80.0%	140.7%	83.7%	52.9%
<b>RURAL</b>	MESL Core (adjusted)	77.65	43.09	78.38	121.72
	Child Benefit	32.31	32.31	32.31	32.31
	Qualified Child Increase	29.80	29.80	29.80	29.80
	Back to School	...	...	1.92	3.85
	Total Social Welfare	62.11	62.11	64.03	65.95
	% of MESL met by SW	80.0%	144.1%	81.7%	54.2%

*Detailed MESL Cost of a Child budgets are included in the appendix, page 3A.*

\* Cost of a Child's MESL, excluding Childcare, adjusted for full Medical Card

## INCOME ADEQUACY – NATIONAL MINIMUM WAGE

This section benchmarks the adequacy of the National Minimum Wage, and relevant social welfare supports, for working age households in various full-time and part-time employment scenarios. Where the analysis finds income inadequacy, the next section presents the calculation of the Minimum Income Standard (MIS) gross salary rate the household composition would need to earn in order for the household to afford an MESL.

Where a household's net income is below the expenditure required for an MESL, it indicates that households of this type would have to forgo items deemed essential in order to make ends meet, and therefore would not be able live at an acceptable minimum standard and fully partake in the norms of Irish life.

The analysis assesses total household income against each of the household compositions' total MESL cost (including housing) adjusted for the effect of secondary benefits (primarily the medical card). Household income is comprised of NMW salary earnings after tax (PAYE, USC & PRSI), and social welfare supports as applicable, primarily Child Benefit, Family Income Supplement and the One-Parent Family Payment.

The discussion in this section focuses primarily on urban based households. Housing costs are based on social housing for all households with children (in the NMW scenarios). The working age single adult and couple household types' housing costs are based on private rented accommodation, renting a one bedroom dwelling in the Dublin area at 90% of the average monthly rent.

For households with children, income adequacy is assessed for a range of employment scenarios, and applicable childcare costs are included in each scenario.

The employment scenarios examined are listed below. In all cases full-time employment is based on 37.5 paid hours per week and part-time employment is based on 19 paid hours per week.

Two Parents – 1 Full-Time & 1 Stay-at-home	One Parent – Part-Time
Two Parents – 1 Full-Time & 1 Part-Time	One Parent – Full-Time
Two Parents – 2 Full-Time	
Singe Adult – Full-Time	Couple – 2 Full-Time

*The full set of National Minimum Wage income scenario tables for the ten working age household compositions in both urban and rural areas, are provided in the appendix (pages 8A to 16A).*

### CHANGES IN 2016

- The rate of the National Minimum Wage (NMW) was increased to €9.15 per hour in 2016.
- This was the first increase, above the previous rate of €8.65, since July 2007. The new rate of €9.15, while remaining significantly below the Living Wage rate (€11.50 per hour in 2015) and

the low pay threshold of two-thirds median hourly earnings, has nevertheless contributed to increasing the net salary of those on the lowest rate of pay.

- In addition to the NMW increase, several other changes are also reflected in the 2016 employed income scenarios. These include the introduction of a PRSI tax credit to address the 'step effect', and adjustments to the Universal Social Charge rates.
- The Family Income Supplement income thresholds were also raised by €5 per child.

## WORKING AGE HOUSEHOLDS WITHOUT CHILDREN

The single adult and couple household, without dependent children, are assessed in full-time employment scenarios, where all adults in the household are in full-time employment. The effect of the increase to the NMW rate, and adjustments to USC and PRSI are demonstrated in both cases.

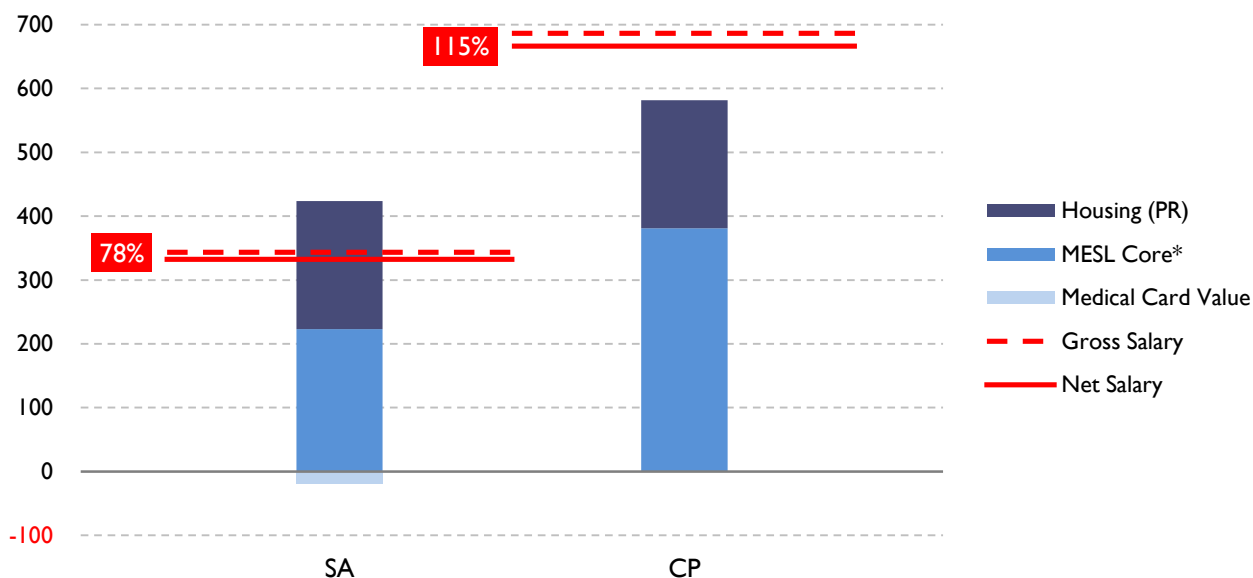
Housing costs for working age households without children are derived from the average cost of renting a one bedroom dwelling in Dublin, the cost is 90% of average rent for Q4 2015 (PRTB, 2016). The average monthly cost of renting a 1 bed unit in Dublin in this period is €964.62 per month, 90% is €868.16 per month.

Private rents for one bed dwellings in Dublin have increased by 10.9% in the last year. This increase in expenditure need more than offsets the income gains from the minimum wage increase, and changes to USC and PRSI.

### SINGLE ADULT

- A single adult in full-time employment (37.5 hours per week) earning the National Minimum Wage is €16 better off per week in 2016 than in 2015. This is due to the combination of the adjustment to the USC, measures to address the PRSI step effect and increase of the NMW.
- The cost of an MESL, including private rent, has increased by almost €18 per week to €423.53 in 2016. The high cost of private rented accommodation results in housing accounting for almost half (47%) of this household types MESL expenditure needs.
- When earning the NMW and with housing costs of €200 per week (€868 per month), this household type will qualify for a full medical card. The medical card effectively reduces the core weekly MESL cost by €19, for this household type.
- Despite the increase in net salary this household type has a greater income shortfall in 2016 than in 2015, facing inadequacy of over €90 per week.

Graph 7 Urban MESL Expenditure and NMW Adequacy, € per week



### COUPLE HOUSEHOLD

- When both adults in the household are employed full-time on the NMW this household type has a sufficient income to meet their minimum essential expenditure needs, including the cost of renting a one-bedroom dwelling in the Dublin area.
- However, the housing costs account for 30% of the household's joint net income.
- This household type's net salary has also increased due to the changes to the NMW, USC and PRSI.

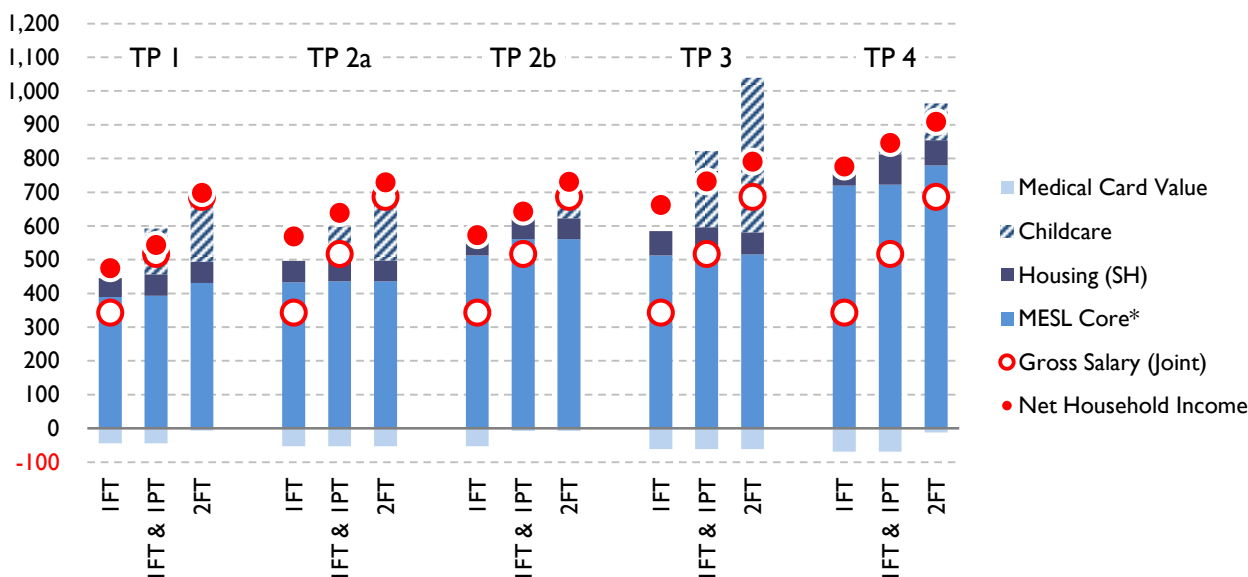
### TWO PARENT HOUSEHOLDS

In addition to the increase in the National Minimum Wage and adjustments to USC and PRSI, this household type has also benefited from the increase in Child Benefit and the increased thresholds for the Family Income Supplement.

The scenarios presented for the two parent household compositions examine single and dual income situations. Housing costs are based on social housing. Childcare costs are based on the use of formal childcare for a pre-school age child, and are net of the ECCE scheme. Costs for a primary school age child are based on informal care provided by a friend or relative and therefore do not demonstrate the cost of formal private childcare. Childcare costs are included in dual income scenarios only.



Graph 8 Urban MESL Expenditure and NMW Adequacy, € per week



### SINGLE INCOME SCENARIOS

- The NMW may provide the basis of an adequate for Two Parent households with one parent employed full-time and the other a full-time stay-at-home parent, when there is not an adolescent in the household.
- Costs rise significantly when there is an adolescent in the household, however social welfare supports, with the exception of the Back to School Allowance, are paid at a single rate irrespective of the age of a child and so the increase in expenditure at adolescence is not matched by an increase in social welfare supports.
- Single income two parent households with younger children only, can have a sufficient income on the NMW which enables the household to meet their MESL expenditure needs.
- The above is true when the households are able to access adequate affordable housing, i.e. social housing, and pay a differential rent.\*
- Family Income Supplement (FIS) makes an important contribution to household income. Following the increase to the NMW, the level of FIS support provided to a household with one full-time minimum wage earner has decreased. For example, the household with four children (TP4) received FIS of €304 in 2015, and now receives €298. However, overall household income has improved and the depth of income inadequacy faced by this household type has lessened in 2016.

### DUAL INCOME SCENARIOS

- The data demonstrates that when both parents are engaged in NMW employment, the end result may not be an improvement in the household's income adequacy. As gains in net salary may be offset by both the cost of childcare and reduced eligibility for supports such as FIS and the Medical Card.

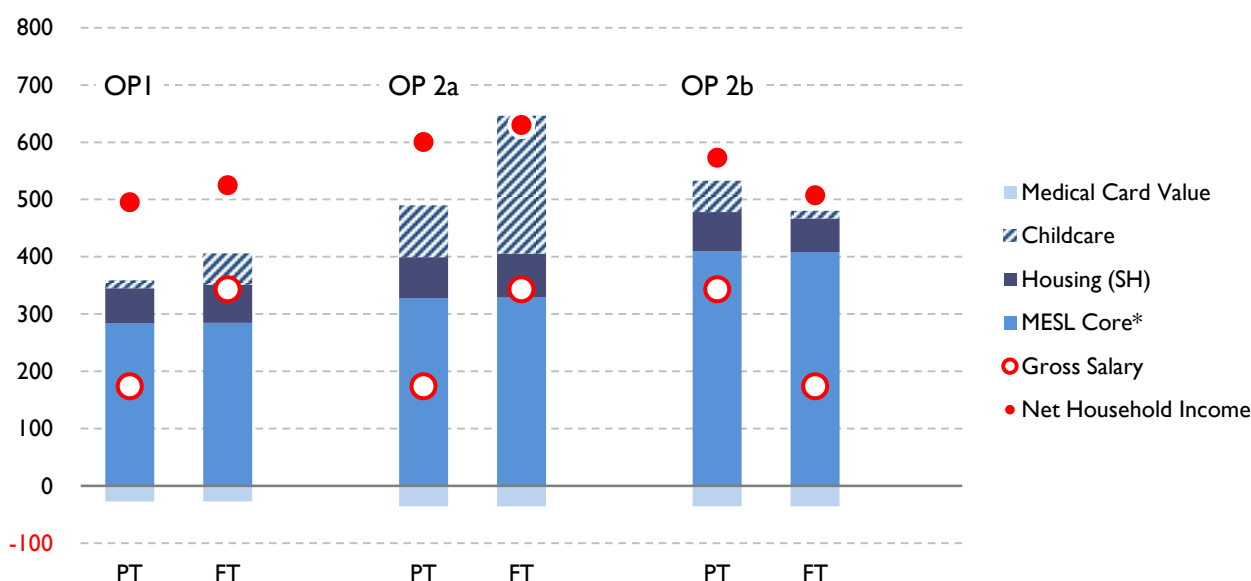
\* The additional earnings required when the housing costs are based on private rent are examined for Dual Income scenarios in the next section.

- The high costs of childcare for an infant outweigh the benefit of a second minimum wage income to the household. This is demonstrated by both TP1 and TP3 moving from a situation of income adequacy in a single income scenario, to income inadequacy when the second parent is engaged in either part-time or full-time minimum wage employment.
- Family Income Supplement reduces significantly when a household moves from a single NMW income to a dual NMW income scenario. In the case of the household with three children (TP3) FIS decreases from €226 when one parent is employed, to €122 when one parent is working full-time and one is working part-time, to €29 when both are in full-time employment on the NMW.
- Similarly, for the household with an infant (TP1) FIS entitlement is lost when the second adult takes up part-time minimum wage employment.
- As with the other working age household types, the increase to the NMW has increased household net salary. However, as the Medical Card income guidelines have not been updated in line with the adjustments to the NMW, it is possible that households eligible for a medical card in 2015 will not be eligible in 2016.
- The Two Parent household with four children (TP4) demonstrates this. In 2015 this household type was eligible for a full medical card when both adults were in full-time minimum wage employment. In 2016, the same household composition in the same employment scenario is eligible for only a GP Visit card due to increase in net salary.

## ONE PARENT HOUSEHOLDS

In addition to the increase in the National Minimum Wage and adjustments to USC and PRSI, this household type has also benefited from the increase in Child Benefit and the increased thresholds for the Family Income Supplement.

Graph 9 Urban MESL Expenditure and NMW Adequacy, € per week



The scenarios presented for the one parent household compositions examine part-time and full-time employment situations. Housing costs are based on social housing. Childcare costs are based on the use of formal childcare for a pre-school age child, and are net of the ECCE scheme. Costs for a primary school age child are based on informal care provided by a friend or relative and therefore do not demonstrate the cost of formal private childcare.

### **PART-TIME EMPLOYMENT**

- The National Minimum Wage provides the basis of an adequate income in each of the three part-time employment scenarios examined.
- The part-time scenario is based on consistently working 19 hours per week, enabling the household to qualify for both the Family Income Supplement and the One-Parent Family Payment (OP 1 and OP 2a only).
- In the two child household with a primary and second level age child, OP 2b, the youngest child is aged over seven. Therefore the household is not eligible for the OFP; consequently this household's net income and income adequacy are notably lower than the other One Parent household composition with two younger children (OP 2a), which is eligible for both OFP and FIS.
- A recent MESL working paper<sup>\*</sup> demonstrated the complexity and precariousness of combining lower hour part-time employment and social welfare for One Parent households, and the vulnerability to income inadequacy if the working hours available are insufficient to enable the household to qualify for the Family Income Supplement.
- The difference between 18 hours and 19 hours of NMW employment is far greater than an hour's earnings; it is the difference between qualifying for FIS and not, and can result in a difference of €88 per week in social welfare supports for a One Parent household with one child under 7, e.g. OP1.

### **FULL-TIME EMPLOYMENT**

- Full-time minimum wage employment provides the basis of an adequate income for the household with a primary school age child, and the household with primary and second level age children (OP1 and OP 2b). For these two household compositions, the cost of informal after school childcare for a primary school age child requires approximately 10% of the household net income.
- The household composition with a pre-school and primary school age child (OP 2a) does not have an adequate income on the NMW. Childcare costs increase the household's MESL expenditure need by a third, when compared to the part-time scenario. However, household income increases by only 5%.
- The household (OP 2a) receives over €216 from OFP and FIS, when in full-time employment. While this is significant support it is a reduction of €132 from the level of support received when in part-time employed. This offsets the majority (81%) of the €163 increase in net salary from increased employment.

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<sup>\*</sup> Thornton (2016) *Low Hour Work and Income Adequacy: An MESL Working Paper*. Available on [budgeting.ie](http://budgeting.ie)

- The income required for the OP 2a composition to afford an MESL is examined in the next section.
- The change in earnings required when housing costs are based on private rent are examined each of the three household compositions in the next section.

## MINIMUM INCOME STANDARD

The Minimum Income Standard (MIS) model establishes what an adequate income is for a household, by calculating the gross salary required to enable the household afford the cost of a Minimum Essential Standard of Living.

The MIS calculation starts by assessing the adequacy of the household's total income, when each employed adult is earning the National Minimum Wage. The MIS method, calculates the PAYE income tax liability, PRSI contribution and amount of USC payable, and assesses eligibility for any social welfare entitlements applicable to the household type.

Where the minimum wage does not provide the basis for an adequate household income (net salary plus any social welfare entitlements), the MIS method recalculates household income on the basis of incremental increases in salary, re-assessing the adequacy of household income at each increment.

The MIS method involves multiple iterations of these calculations, each iteration representing a €0.10 incremental increase in hourly salary. The Minimum Income Standard for a household is reached at the point where total household income meets the MESL expenditure need of the specified household type.

The section presents the MIS calculations for each of the working age household compositions when living an urban area.

- The calculations are based on all adults in the household being in full-time employment, e.g. a dual income scenario for the Two Parent compositions.
- The MIS need for family households with children is calculated for scenarios with social housing and also scenarios with private rented accommodation.
- Private rent costs are derived from the average cost of renting an appropriate sized dwelling in Dublin, the cost is 90% of the average rent for Q4 2015 (PRTB, 2016). The monthly rents included in the calculations are detailed below.

Dwelling Size	Dublin Average*	90% of Average	Weekly Rent
1 bedroom	964.62	868.16	200.34
2 bedrooms	1,229.51	1,106.56	255.36
3 bedrooms	1,302.12	1,171.91	270.44

*The details of the Minimum Income Standard tables for each of the ten working age household compositions are provided in the appendix (pages 17A to 20A).*

\* PRTB (2016) PRTB Average Monthly Rent Report (Euro) by Location, Property Type and Number of Bedrooms - 2015Q4. Published online, accessed 01/05/2016  
[www.cso.ie/px/pxeirestat/pspn/prtb/homepagefiles/rent\\_index\\_statbank.asp](http://www.cso.ie/px/pxeirestat/pspn/prtb/homepagefiles/rent_index_statbank.asp)

## THE MINIMUM INCOME STANDARD CALCULATION MODEL

### ASSUMPTIONS

- › All adults in the household are employed full-time, e.g. both adults employed in the Two Parent household compositions
- › The adults in the Two Parent household composition are jointly assessed for income tax
- › Households are claiming all applicable tax credits and tax reliefs, as outlined
- › Where the household meets the basic eligibility criteria for the social welfare payments (listed below) the appropriate means test is applied
- › Medical Card entitlement is assessed in accordance with the national guidelines\* (HSE, 2015).

Tax	Tax Credits	Social Welfare Transfers
Income Tax	Single Person	Medical Card (Full & GP Visit)
PRSI	Married Couple	Child Benefit
Universal Social Charge	OPF (One Parent Family)	One-Parent Family Payment (OPF)
	PAYE	Family Income Supplement (FIS)
	Health (Tax Relief)	Back to School Clothing & Footwear Allowance (BSCFA)

### Contribution of Social Welfare

The contribution of direct and indirect benefits reduces both the expenditure and income need of the household compositions. For example, in scenarios where a household composition is eligible for a full Medical Card, this reduces both the expenditure need of the household and the amount of Universal Social Charge levied on the household's gross salary. If a household composition is not eligible for a full Medical Card, but would qualify for a GP Visit card, this has a more modest impact on reducing expenditure need.

A number of direct income supports are included in the income calculations, for households with children.

- › All the households, with children, are in receipt of child benefit.
- › In each scenario the household compositions are assessed for eligibility for Family Income Supplement (FIS), and the Back to School Clothing and Footwear Allowance, and where a household composition is found to be eligible the appropriate rate of payment is included in the household income calculations
- › One Parent household compositions are assessed for the One-Parent Family Payment (OPF) (where the youngest child is under 7), and where the household's earnings from work are below the means test threshold the appropriate rate of payment is included
- › Where a One-Parent household is found to be entitled to the OPF, it assumed that the household is a long-term social welfare recipient and so is also eligible for the Fuel Allowance

\* HSE (2015) Medical Card / GP Visit Card National Assessment Guidelines. Published online: [www.hse.ie/eng/services/list/1/schemes/mc/forms/medicalcardguidelines2015.pdf](http://www.hse.ie/eng/services/list/1/schemes/mc/forms/medicalcardguidelines2015.pdf)

## SINGLE ADULT

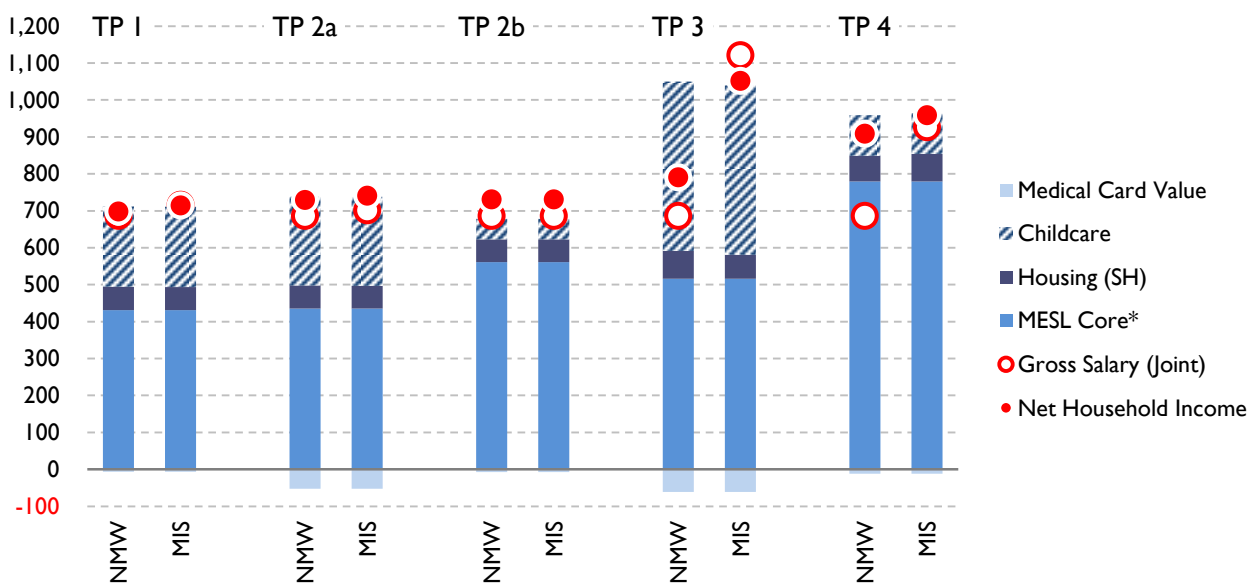
- Full-time minimum wage employment provides a net income which meets 78% of the MESL expenditure need of a single person, without dependents, living in private rented accommodation in Dublin. Household income is €91 short of the minimum expenditure need per week.
- To afford an MESL this household type requires a gross weekly salary of €515. This is equivalent to an hourly full-time rate of €13.75, 1 ½ times the current NMW rate.
- To have an adequate income when earning the NMW a household of this type would require over 56 hours of work per week.
- The MIS calculation is specific to the household type in this specific scenario, and based on a full-time week of 37.5 hours. The Living Wage calculation, which is based on the MESL research and MIS model, calculates the average gross salary needed across Ireland and is based on a 39 hour working week. Consequently the national Living Wage rate will differ from the results of specific MIS scenarios.

## TWO PARENT HOUSEHOLDS

In a dual income scenario of both adults employed full-time, and living in social housing, the NMW provided the basis of an adequate income for one Two Parent household composition. The household with a primary and second level age child (TP 2b) had an income which met the MESL expenditure need.

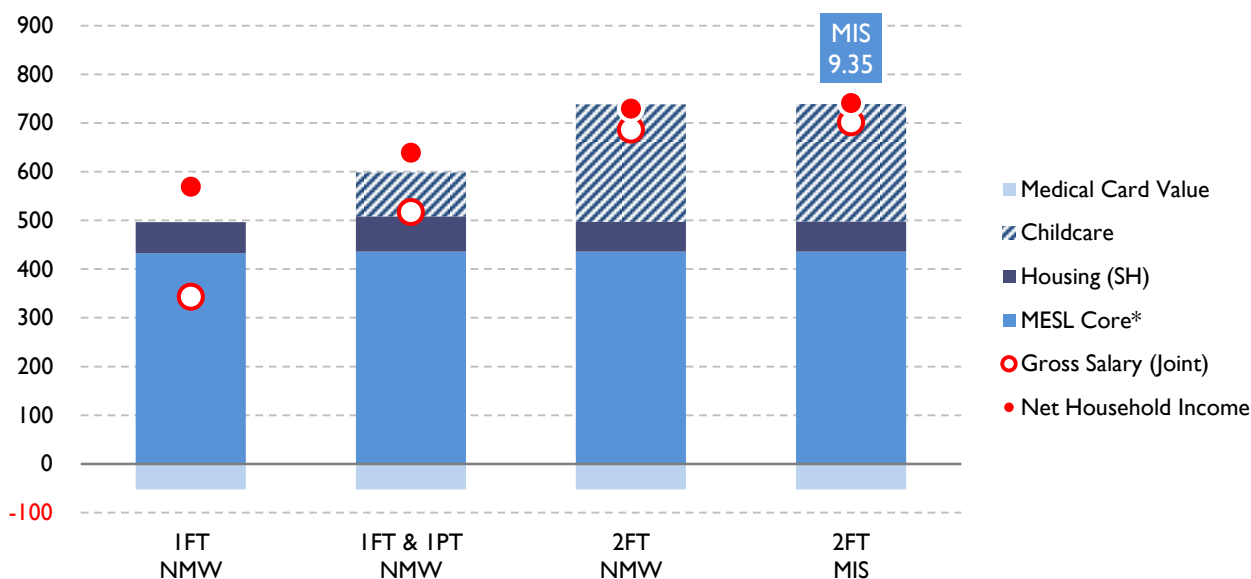
The MIS gross salary income required for each of the four other household compositions is illustrated in Graph 10.

Graph 10 MIS and NMW comparison, Urban Two Parent Compositions, Social Housing



- The compositions TP1 and TP2a illustrate how the withdrawal of social welfare supports when a second minimum wage income is coming into the household results in the requirement for earnings in excess of the minimum wage in order to enable an MESL.

Graph 11 Minimum Wage Scenarios & MIS  
TP 2a Urban Social Housing



### Two Parent Household with two children, pre-school and primary school age

- The minimum wage provides an adequate income for this household type (TP 2a) when one adult is employed full-time and one is a stay-at-home parent, and when one adult is employed full-time and the second part-time.
- The value of engaging in full-time minimum wage employment by the second adult is offset by the cost of childcare and loss of eligibility for Family Income Supplement, as illustrated in Graph 11.
- When both adults are employed full-time this household composition requires each adult to earn marginally in excess of the minimum wage, equivalent to a rate of €9.35 per hour or €351 per week.

### Two Parent Household with three children

- Childcare costs for the household composition TP 3 are 44% of the household's MESL expenditure need, when both adults are in full-time employment.
- The high costs of full-time childcare for three young children result in the NMW providing an income which is almost €250 per week below the household compositions MESL expenditure need.
- To have an income which meets the household's MESL expenditure needs the adult's must earn a combined salary which is in excess of the FIS earnings threshold for this household composition. Consequently, the MIS need for this household is elevated by the loss of FIS.
- To afford an MESL each adult in this household composition needs to earn a gross salary of €561 per week, equivalent to €14.95 per hour.

### Two Parent household with four children

- The additional costs associated with an adolescent result in income inadequacy when reliant on minimum wage for the household composition TP4.



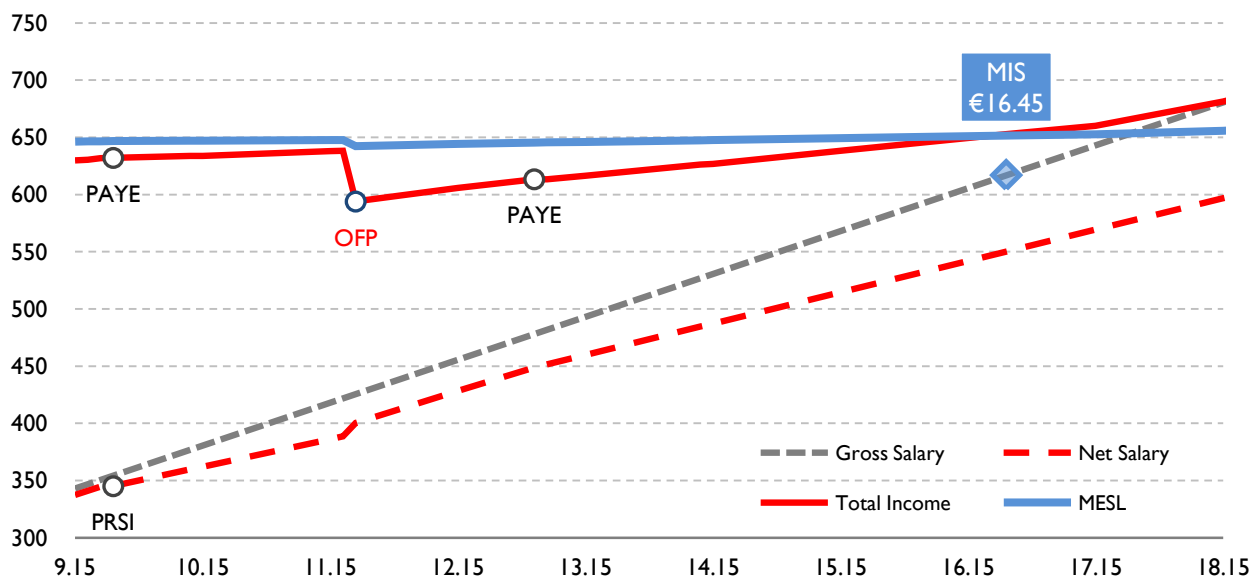
- With both adults in full-time minimum wage employment the household is eligible for FIS, receiving €101 per week. However, this still leaves the household with an income shortfall of €55 per week.
- The MIS gross salary required for this household composition is €463 per adult, equivalent to €12.35 per hour.

## ONE PARENT HOUSEHOLDS

In full-time employment and living in social housing, the NMW provided the basis of an adequate income for two of the One Parent household compositions examined.

- The household composition with a pre-school and primary school age child (OP 2a) has an income shortfall of €16.45 per week, when in full-time minimum wage employment.
- Gross salaries within the One-Parent Family payment means test do not provide an adequate income for this household composition, consequently the salary required must exceed the OFP and make-up for the loss of this income support.

Graph 12 Minimum Income Standard calculation  
OP 2a Urban Social Housing

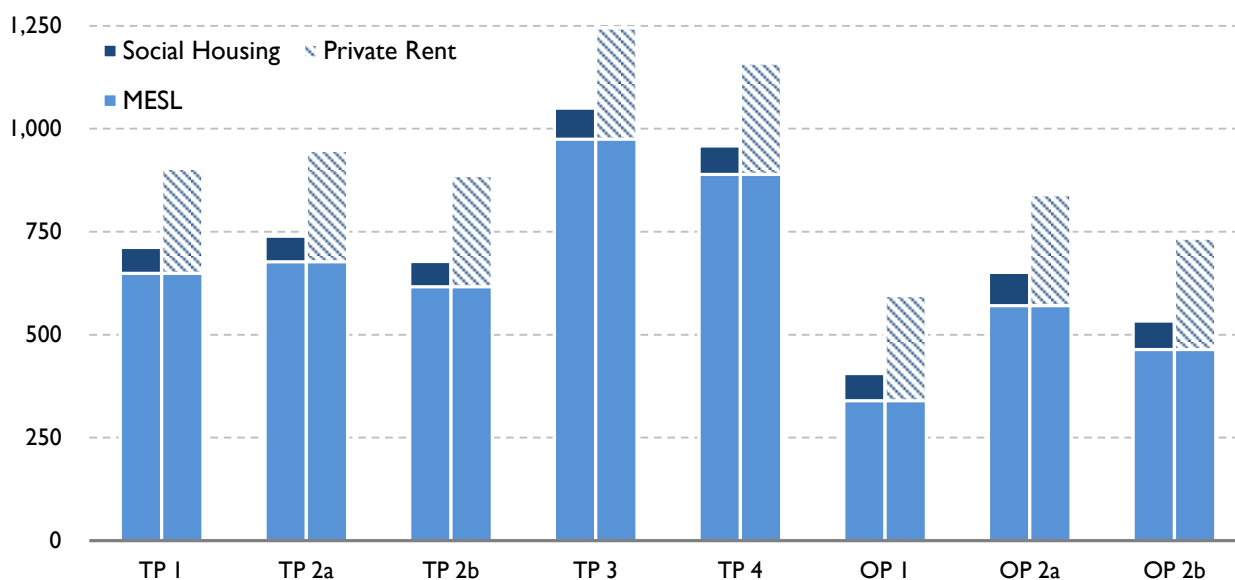


- The point where the OFP is lost is highlighted in Graph 12 above. As illustrated, the moving from a gross salary of €11.25 per hour to €11.35 per hour causes an overall drop in net household income from €638 to €594 per week. At the point prior to the loss of the OFP this household composition would have an income shortfall of €9.45 per week, the shortfall deepens to €48.39 when the OFP is lost.
- Net household income returns to €638 when gross salary reaches €15.15 per hour, this equates to additional earnings of over €145 per week in order to have the same net income.
- Income adequacy is secured for this household composition with a MIS gross salary of €617 per week, equivalent to €16.45 per hour.

## PRIVATE RENTED HOUSING

The discussion to this point has focused on social housing for households with children. However, in scenarios where these household compositions are not located in social housing (and paying a differential rent related to the household income) but instead are in the private rented sector, the overall MESL expenditure need is increased substantially.

Graph 13 MESL Expenditure Need in Social Housing & Private Rented



When located in private rented housing, with rent based on 90% of the Dublin Average, housing costs are approximately €200 more per week than when based in social housing for each of the household compositions. This additional expenditure is to enable the same minimum standard of living, but in a housing tenure where the rent paid by the household is not calculated on the basis of income or affordability.

The impact of this additional expenditure in terms of income requirement is calculated for each of the eight household compositions with children. The MIS gross salary required by the household compositions is listed in the table below, when in social housing and in private rented housing\*.

Table 6 MIS by Housing Tenure, Gross Salary required per adult, per week

	TP 1	TP 2a	TP 2b	TP 3	TP 4	OP 1	OP 2a	OP 2b
SOCIAL HOUSING	358.13	350.63	343.13	560.63	463.13	343.13	616.88	343.13
PRIVATE RENT	511.88	511.88	474.38	710.63	620.63	635.63	1,003.13	804.38
DIFFERENTIAL	153.75	161.25	131.25	150.00	157.50	292.50	386.25	461.25

\* The MIS calculations are detailed in the appendix, pages 19A to 20A for private rented housing and 17A to 18A for social housing.

The additional earnings required for an MESL when in private rented accommodation are substantial in all cases.

#### Two Parent Household with two children, pre-school and primary school age

- In social housing, with both adults employed full-time this household composition requires each adult to earn marginally in excess of the minimum wage, equivalent to a rate of €9.35 per hour or €351 per week.
- In private rented housing the MESL costs for this household are €208 higher. To afford this expenditure the household requires each adult to earn 1 ½ times the NMW, an hourly rate of €13.65 or €512 per week.
- The earnings differential between the two housing tenures is €161 per week for each adult. This equates to an additional earnings requirement of €16,800 per annum for the household (€8,400 per adult).

#### One Parent Household with two children, pre-school and primary school age

- The cost of childcare and withdrawal of social welfare supports require this household composition to earn a gross salary significantly in excess of the NMW when based in social housing. The MIS in the social housing scenario is a gross salary €16.45 per hour, equivalent to €617 per week.
- In private rented housing the MESL costs for this household are €189 higher. To afford this expenditure the household requires a gross salary which is almost three times the NMW rate, €26.75 per hour, equivalent to €1,000 per week.
- The earnings differential between the two housing tenures is over €20,000 per annum, to enable the same minimum standard of living.

## CONCLUSION

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### SUMMARY OF KEY POINTS FROM THE 2016 MESL UPDATE

#### The MESL Data

- › This report presents the cost of a Minimum Essential Standard of Living (MESL) in 2016, and benchmarks the adequacy of current social welfare supports and the national minimum wage for a set of common household types. The report focuses on 12 representative household compositions, presenting the minimum expenditure need for the households in both urban and rural areas.
- › The MESL specifies the average weekly cost of all the goods and services necessary to enable a socially acceptable minimum standard of living, for 90% of households in Ireland. An MESL is a standard which no one should be expected to live below. It is the minimum needed to live and partake in Irish society today, identifying the cost of a standard of living which allows participation in the norms of Irish life.

#### The Cost of an MESL

- › The core cost of an MESL (excluding housing and childcare) has decreased in 2016 by -0.7%, this follows a decrease in 2015 giving a cumulative change of -1.6%. However, the core MESL cost is 4.6% higher in 2016 than the recession low point of 2010.
- › The cost of private rented accommodation has risen by an average of 9.2%, and childcare has increased by an average of 1.2%. The cost of an MESL has increased significantly for household types requiring expenditure in these areas.
- › When the cost of childcare and private rent is included, the overall cost of an MESL has increased by an average of 3.0% in the last year, and by 6.9% since 2013.

#### Social Welfare Adequacy

- › 2016 is the second year in a row to demonstrate an improvement in the position of social welfare dependent household types. While social welfare does not provide for an MESL for the large majority of cases examined, the proportion of minimum expenditure need met by social welfare supports is increasing for many household types.
- › In 2016 social welfare does not provide an adequate income for 183 of 214 urban cases examined. This is an improvement from 2015 when 191 household compositions were in a position of income inadequacy when solely dependent on social welfare.
- › The degree of income shortfall varies by household composition and location. Social welfare meets the greatest proportion of MESL need for the households with younger children. However, the higher MESL needs of adolescent children results in households with a child in this age-group having the greatest income inadequacy when reliant on social welfare.
- › The State Pension, Contributory and Non-Contributory, provides the basis of an adequate income for Pensioner Couple household types living in social housing. The Non-Contributory Pension and Living Alone Allowance do not provide an adequate income for the Pensioner Living Alone household type. However, when in receipt of the Contributory Pension this urban household type moves to marginal income adequacy in 2016.

### National Minimum Wage (NMW)

- › The increase in the NMW (and adjustments to USC and PRSI) has resulted in net earnings from full-time (37.5 hours per week) minimum wage employment increasing by €16 in 2016.
- › The Medical Card income guidelines have not been updated in line with the adjustments to the NMW, it is possible that households eligible for a medical card in 2015 will not be eligible in 2016. The report demonstrates this in the case of the Two Parent household with four children in a dual income (two full-time) scenario.
- › Rent accounts for almost half of a single person's MESL costs; the total MESL need increased by €18 this year. Despite the increase in the NMW, a single person in full-time minimum wage employment has a greater income shortfall this year than in 2015, due primarily to the increase in rental costs.
- › In Two Parent households the high cost of childcare for households with young children can outweigh the benefit of dual income minimum wage employment. The reduction in support from Family Income Supplement (FIS), compared to a single income scenario, combined with the cost of childcare can offset the benefit of increased earnings, and result in income inadequacy for Two Parent households where both adults are in minimum wage employment.
- › One Parent households may have an adequate income from part-time minimum wage employment, when living in social housing, and ensured of a minimum of 19 hours employment per week. In this scenario the household will be eligible for FIS, a social welfare support which is essential for enabling income adequacy in this scenario.
- › The combination of high childcare costs for younger children and reduced support from social welfare can also lead to income inadequacy for One Parent household compositions in full-time NMW employment, compared to adequacy in part-time NMW employment scenarios.

### Minimum Income Standard (MIS)

- › A single adult living and working in Dublin requires a gross salary of €515 per week to afford an MESL, including the cost of renting a one-bedroom dwelling at below the average rent. This is equivalent to €13.75 per hour when working full-time, or over 56 hours of minimum wage employment per week.
- › Childcare costs, the higher costs associated with adolescent children, and the withdrawal rate of Family Income Supplement, can require salary rates in excess of the NMW for Two Parent households with both adults in full-time employment and when a One Parent household is in full-time employment.
- › When in social housing, the rent paid by the household is calculated on the basis of the household's income. The rents payable by households in social housing are substantially lower than those paid by an equivalent household in private rented accommodation. When located in private rented housing, with rent based on 90% of the Dublin Average, housing costs are approximately €200 more per week than when based in social housing, for each of the household compositions with children.
- › Consequently, the MIS earnings needed to enable an MESL are notably lower for household scenarios based in social housing compared to scenarios based in private rented housing. The additional earnings required by household compositions in private rented housing range from €14,000 to €24,000 per annum, depending on the composition in question.

## Finally

- › Services, such as access to adequate social housing and the medical card, play a crucial role in reducing the minimum expenditure needs of households. Availability of and access to affordable, quality services coupled with adequate income is vital if social welfare dependent and low income households are to reach a Minimum Essential Standard of Living.
- › The continuing increases in private rents require many household compositions to have earnings notably in excess of the NMW in order to afford a Minimum Essential Standard of Living. This demonstrates the need for access to adequate housing, where rent is affordable and related to the household's income.
- › There is an ongoing need to differentiate child related social welfare payments by age, as a household with an adolescent needs additional support in order to ensure an MESL for both the child and the household.
- › The withdrawal rate of supports such as the Family Income Supplement and One-Parent Family Payment should be examined. Increases in household salary, whether moving from single to dual income, or part-time to full-time employment can lead to a net loss in income or at least very little gain.
- › The costs of childcare compound the issues regarding reduced support from FIS and OFP when the level of employment in a household is increased. The additional childcare costs when increasing employment in the household may outweigh the benefit of any increases in earnings coming into the household.