

BUDGET 2013

ANALYSING THE IMPACT ON LOW INCOME HOUSEHOLDS AND CHILDREN

Key Points

- Budget 2013 introduces measures which move social welfare dependent and low wage households further from having an income that meets their minimum essential needs.
 - Families with children are amongst the hardest hit in Budget 2013. The cumulative effect of reductions in Child Benefit and the Back to School Clothing and Footwear Allowance target children, the group most at risk of poverty in Ireland. Currently, almost one in five children is at risk of poverty and unfortunately, because of the reductions in essential social welfare payments we are likely to see an increase in the number of children at risk of poverty.
 - A household with two children will lose €240 a year in 2013 due to Child Benefit cuts. This increases to €456 a year for a family with three children and €696 a year for a family with four children. Families also in receipt of the Back to School Clothing and Footwear Allowance will be hit harder still, as a family with four children will lose a total of €946 a year with the total cuts.
 - Social welfare dependent households with teenagers will also face even greater inadequate income in 2013, as this Budget once again reduces the Back to School Clothing & Footwear allowance.
 - Budget 2013 fails to address the issue of poverty for those in work. The most recent CSO EU-SILC data indicates that 29.1% of households at risk of poverty are headed by a person in employment; with 7.8% of people in employment at risk of poverty it is clear that employment is not a guarantee of an adequate minimum income¹.
 - The removal of the PRSI allowance is regressive. Any worker with an annual salary of over €18,305 will pay an additional €264 per year in PRSI, this is the same for those on very low and very high salaries.
 - Employed single adults, living alone in an urban area, will need to earn an additional €3,700 in 2013, to ensure a minimum standard of living as newly introduced PRSI requirements and rising living costs increase the burden on this household type.
 - Changes to the Household Benefits Package and the failure to address the inadequate Living Alone Allowance means an urban pensioner, living alone, must contend with greater income inadequacy, as annual income will fall short of minimum needs by over €1,200 in 2013.
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Table 1 MESL Expenditure and Incomes 2012 & 2013², for Social Welfare Dependent Households³

		Two Parent Baby, 3 & 10	Two Parent 10 & 15	One Parent Baby & 3	One Parent 10 & 15	Single Adult Living Alone	Pensioner Living Alone
2012	Expenditure	549.05	537.70	360.40	439.28	313.55	247.89
	Income	503.85	444.71	322.22	329.91	267.62	236.70
	Shortfall	-45.20	-92.99	-38.18	-109.37	-45.93	-11.19
2013	Expenditure	561.88	550.42	370.33	450.24	327.23	259.85
	Income	494.12	438.17	317.60	323.37	267.62	236.70
	Shortfall	-67.76	-112.25	-52.73	-126.87	-59.61	-23.15

Introduction

The research by the VPSJ on minimum income standards (MIS) and the cost of a minimum essential standard of living (MESL) has repeatedly demonstrated the difficulty low income households face in affording a socially acceptable standard of living; this budget will only serve to increase financial hardship for such families who are already suffering the effects of the previous five austerity budgets.

Budget 2013 has the potential to increase the number of low income families at risk of poverty. Families with children are amongst the hardest hit in Budget 2013. The cumulative effect of reductions in both Child Benefit and Back to School Clothing and Footwear Allowance target children; the group most at risk of poverty in Ireland. Currently, almost one in five children are at risk of poverty and unfortunately, because of the reductions in essential social welfare payments there will be an increase in the number of children at risk of poverty.

Reduced Supports & Increasing Costs

Budget 2013 is the sixth austerity budget. Since 2008 households, particularly those dependent on social welfare and earning low incomes, have suffered repeated cuts to social welfare rates and essential payments, changes to eligibility criteria making it more difficult to qualify for payments, increases in tax such as Universal Social Charge and PRSI, and finally the introduction of new taxes and charges such as the newly introduced Property Tax.

This budget comes at a time when the cost of a Minimum Essential Standard of Living is rising (the cost of essentials such as food, transport, home heating & electricity, have all increased in the last twelve months⁴), and is forecast to continue rising in 2013⁵. This increase in costs for 2013 does not take account of any of the additional burden of the property tax and increased carbon tax put forth in Budget 2013.

The VPSJ's research on the cost of a Minimum Essential Standard of Living, shows that the price of

the basic essentials necessary for an acceptable standard of living have, in fact, generally risen since 2010. The cost of a minimum standard of living has risen by around 2% for household types with two children, between 2010 and 2013.

Table 1 details the expenditure needs and social welfare income entitlements for two child households with two parent households (one Jobseeker and one Stay At Home parent), one parent households (dependent on OFP), unemployed single adults living alone, and an older person living alone (in receipt of a non-contributory pension). The adequacy of social welfare payments are tested against the minimum expenditure needs of each household. In all cases the household types are eligible for a medical card, and housing costs are based on local authority rents (with the exception of the single adult). The VPSJ MESL research consistently demonstrates these household types as those most vulnerable to income inadequacy.

In all the cases detailed above social welfare failed to provide an adequate income to these household types in 2012 and will continue to do so in 2013 under the measures introduced in Budget 2013.

Table 2 MESL Expenditure and Incomes 2012 & 2013², for Households with Employment⁶

		Two Parent Baby, 3 & 10	One Parent Baby & 3	Single Adult Living Alone
2012	Expenditure	801.25	795.90	316.62
	Income	716.26	625.29	313.85
	Shortfall	-84.99	-170.62	-2.77
	MIS	742.98	939.38	328.13
2013	Expenditure	816.97	810.91	330.34
	Income	706.53	620.70	313.87
	Shortfall	-110.44	-190.21	-16.47
	MIS	810.78	988.13	399.38

Table 2 examines the income needs of these household types in employment. The Minimum Income Standard⁷ is calculated for each household type, as it stands now in 2012 and under the measures to be introduced in 2013. Total household income is calculated, taking account of tax liabilities and social welfare entitlements.

Single Adults of Working Age, Living Alone

The primary rate of Jobseeker's payment has not been changed in this budget. However, during a period of increasing costs the failure of social welfare rates to at least follow inflation is in effect a cut in the real value of the payment. For an unemployed adult living alone in urban private rented accommodation, the combination of this payment and Rent Supplement was inadequate in 2012 and this inadequacy is set to increase in 2013.

The changes to PRSI greatly worsen the situation of the single adult household type when in employment, see Table 2. In 2012 the national minimum wage provided a marginally inadequate income for this household. Based on a 37.5 hour week, an hourly gross salary of €328 per week (€8.75 an hour) was required to afford a minimum essential standard of living. However, with the removal of the PRSI allowance, this individual requires a notably higher gross salary to maintain the same minimum standard of living. Earning a higher gross salary means the individual would no longer be eligible for a full medical card, thereby incurring additional health expenditure costs. The Minimum Income Standard for a household of this type in 2013 is a gross salary of €399 per week (€10.65 per hour).

Households with Children

For households with children Budget 2013 has maintained the key income supports of Family Income Supplement and the Qualified Child Increase. However, the severe reductions in Child Benefit and the Back to School Clothing & Footwear Allowance will impact greatly upon all low-income households with children. Additionally, the higher reductions in Child Benefit for third, fourth and subsequent children will inevitably have an even greater negative impact on larger households.

Examining households with two children, where the parent(s) are reliant on social welfare (either Jobseeker's or One-Parent Family Payment), reveals a reduction in income of approximately 8% from 2009 to 2013. In 2009 the MESL data demonstrated that it was possible for some household types with children to have an income adequate to meet the needs of a minimum essential standard of living. However, the combination of cuts and rising costs since then have led to a situation of income inadequacy for the vast majority of social welfare dependent household types, as demonstrated in the scenarios outlined in Table 1.

The cuts in Budget 2013 compound an already difficult situation of reducing income supports during a period

of rising costs. A two parent household with three young children will face a shortfall of over €3,500 in 2013, when unemployed and residing in social housing. Similarly, a one parent household with two young children will face an income shortfall of over €2,700.

Household types with a teenager, reliant on social welfare, have consistently faced income inadequacy. Budget 2013 again fails to address this situation, and exacerbates it by once again reducing one of the few child-age related payments (Back to School Clothing & Footwear Allowance). A two parent household with one primary school age child and one teenage child now must exist in 2013 with an income which is inadequate by €112 every week, or over €5,800 for the year.

The reductions in the Back to School Clothing & Footwear Allowance, to €100 for children aged 4 to 11 and €200 for children aged over 12, represent a significant reduction compounding the unacceptable cuts to this support introduced in Budget 2012. This is a targeted payment to assist the least well off meet the costs of education. To cut it when such households already struggle with inadequate incomes has the potential to increase the risk of poverty.

In 2012 the National Minimum Wage did not provide the basis for an adequate household income for either of the example scenarios of households with children in Table 2. The two parent household with three young children had an income shortfall of over €4,400 in the year. This required the two adults to earn a combined gross salary (one working full-time and one part-time) of over €38,500 per annum. This salary, combined with Child Benefit and Family Income Supplement, provided an income adequate to meet the minimum needs of the household in 2012.

In 2013, the combination of reduced Child Benefit, increased PRSI costs, and inflation, result in the need for a higher MIS for this household type. To ensure the same minimum standard of living in 2013 the two parent household type's joint gross salary shall need to increase by over €3,500 to €42,160 per annum. The situation of the one parent household type is similar; the changes for 2013 cause an increase in the MIS requirement of this household type of over €2,500 to a gross salary of €51,000 per annum.

Older People

Budget 2013 impacts on older people reliant on a state pension, through the adjustments to the Household Benefits Package, the tripling of

Prescription Charges for Medical Card holders and the continued failure to address the inadequacy of the Living Alone Allowance.

The VPSJ research for a household type of a pensioner living alone, in local authority housing in an urban area, demonstrates that households of this type already exist on an inadequate income in 2012, when reliant on a Non-Contributory State Pension or Contributory State Pension. The combination of the Non-Contributory State Pension, Living Alone Allowance, Fuel Allowance, Household Benefits Package and the secondary benefits of a Medical Card are not enough.

In 2013 the overall cost of living for this household type is set to increase. Furthermore, at a time of significant home energy cost inflation⁴ the changes to the Household Benefits Package, increased Carbon Tax on coal and turf, and the failure to overturn the reduction in the Fuel Allowance brought in the previous year's Budget, only serve to push households in this situation further below an acceptable minimum standard of living in the coming year.

Finally

These household types have already passed the tipping-point and exist with inadequate incomes. In a period of rising living costs any steps which reduce income for those least able to make ends meet are a cause for concern.

Context

To assess the impact of these changes scenarios are examined for a variety of household types. The expenditure needs of these household types are the product of the consensual budget standards work of the Vincentian Partnership for Social Justice, defining the basic needs of different household types to maintain a Minimum Essential Standard of Living.

A Minimum Essential Standard of Living is derived from a negotiated social consensus on what people believe is a minimum. Through exhaustive work with many focus groups, detailed baskets of the goods and services vital to a household type's minimum needs, and not wants, were compiled. These baskets are comprised of thousands of items and define the minimum needs for households to live at a socially acceptable level.

The cost of these baskets is adjusted annually by appropriate CPI rates. The costs presented here are based on March 2012 pricings, and are the product of the 2012 Basket Review and Update undertaken by the VPSJ earlier this year. The costs are projected

forward to 2013 using the HICP forecast inflation rate published by the Department of Finance in November 2012.

The 2013 income calculations are based on the available information from Budget 2013 as published by the relevant Government Departments at this time.

Further details of the Minimum Essential Standard of Living expenditure budgets and income analysis are available through the VPSJ budgeting website: www.budgeting.ie. The Minimum Income Standard and expenditure needs of a greater range of households for 2012 may also be calculated using the Minimum Income Standard calculator at www.MISc.ie

¹ Central Statistics Office, 2012. *Survey on Income and Living Conditions (SILC)*. Available online www.cso.ie/en/media/csoie/releasespublications/documents/silc/2010/silc_2010.pdf

² 2012 expenditure is based on the VPSJ MESL baskets adjusted to March 2012. 2013 expenditure is adjusted by forecast HICP. Incomes calculations for 2013 are based on the available information from Budget 2013 as published by the relevant Government Departments.

³ The social welfare income scenarios assume full entitlement to payments relevant to the household scenario:

Two Parents	JSB Personal Rate + Qualified Adult + Qualified Child, Child Benefit, Back to School Clothing & Footwear
One Parent	One-Parent Family Payment + Qualified Child, Child Benefit, Back to School Clothing & Footwear, Fuel Allowance
Single Adult	JSB Personal Rate, Rent Supplement
Pensioner	Non-Contributory Pension + Living Alone Allowance, Fuel Allowance, Household Benefits Package

⁴ CSO CPI sub-indices 12 month change, October 2012 – Food & Non-Alcoholic Beverages: 1.0%, Clothing: 1.0%, Transport: 5.8%, Electricity: 8.7%, Natural Gas: 9.3%, Liquid Fuels 13.4%

⁵ Department of Finance November 2012 Economic Bulletin, forecasts a 1.3% increase in CPI and 1.3% in HICP

⁶ Income calculations take account of tax liabilities, PRSI, USC and potential social welfare entitlements (including Child Benefit, FIS, OFP, BTSCFA, Fuel Allowance, and Medical Card) and are based on the following scenarios:

Two Parents	one adult employed full-time and one part-time
One Parent	adult employed full-time
Single Adult	adult employed full-time

Housing costs are based on social housing for households with children and private rented accommodation for the single adult household (€475 per month).

⁷ The Minimum Income Standard (MIS) is the gross salary necessary for a household's total income (taking account of the household's tax liabilities and social welfare entitlements) to adequately meet the cost of a Minimum Essential Standard of Living.

The MIS calculations gauge Income Tax liability, PRSI and USC, and evaluate the level of entitlement to Child Benefit, Family Income Supplement, Back to School Clothing & Footwear Allowance, One-Parent Family Payment, Fuel Allowance and Medical Card, as appropriate to the household composition and scenario.