

BUDGET 2015: MINIMUM ESSENTIAL BUDGET STANDARDS IMPACT BRIEFING

Key Points

- The move to increase the Living Alone Allowance is a welcome and vital first step in restoring the real value of this payment, and improving the situation of older people living alone. The Minimum Essential Standard of Living (MESL) research has repeatedly demonstrated the inadequacy of the Living Alone Allowance, and the ongoing income inadequacy faced by Pensioner Living Alone household types as a result.
 - The cost of a Minimum Essential Standard of Living has risen from 2008 to 2014, and has done so at a greater rate than CPI inflation. If this trend continues in 2015, the cost of an MESL will be even higher, as inflation is forecast to be 1.1% in the next year¹.
 - Social welfare incomes have been reduced over the same period that costs have risen. From 2008 to 2014, social welfare supports have been reduced, cutting total income for social welfare dependent households with children by 5%.
 - Budget 2015 maintains the weekly rate of payment for the majority of primary social welfare payments. However, this results in the real value of payments falling as they do not keep pace with the increasing cost of living. The failure to at least increase social welfare rates in line with inflation results in an effective cut in the value of social welfare payments to households trying to attain a minimum standard of living.
 - The €5.00 increase to Child Benefit is a welcome measure, however in the context of rising living costs and water charges the benefit for the most vulnerable is limited. In 2015, it is forecast that social welfare dependent households will face a greater income shortfall than in 2014, despite this measure.
 - VPSJ analysis of social welfare adequacy in 2014 found that social welfare did not provide an adequate income for a Minimum Essential Standard of Living for 199 of 213 urban cases examined³. This situation is forecast to change only marginally in 2015, with social welfare being inadequate in 198 of 213 urban cases.
 - This Budget has not addressed the higher costs families with teenage children face. If a higher rate of Qualified Child Increase was introduced for teenage children in social welfare dependent households, it would have indicated an acknowledgement of the additional costs of adolescents to families.
 - Budget 2015 is brought forward at a time of growing poverty and deprivation. The most recent CSO EU-SILC data shows that the 'at risk of poverty' rate has risen to 16.5% (from 14.4% in 2008), and the deprivation rate has increased to 26.9% (from 13.7% in 2008). Furthermore, data shows the vital role of social welfare, as over the half population (50.3%) would be at risk of poverty without social transfers.²
 - Water Charges add a new utility bill to the cost of a Minimum Essential Standard of Living for 2015. The introduction of the Water Support payment and tax relief on water charges go some way in assisting households meet this new cost. However, the benefit of these measures will not be felt by households who are not long-term social welfare recipients, or have an income which is below the threshold for income tax.
 - The removal of full-time minimum wage employees from the upper rates of the Universal Social Charge is welcome, and will improve the net income for those on lower pay in 2015.
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INTRODUCTION

This briefing analyses the impact of Budget 2015 in the context of the VPSJ Minimum Essential Budget Standards (MEBS) model. This model establishes the expenditure required by specific household types to maintain a Minimum Essential Standard of Living (MESL). The model also examines the Minimum Income Standard (MIS) needed in specific income scenarios for households to afford an MESL.

A MESL 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, are compiled. These baskets are comprised of over 2,000 goods & services 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 sub-rates.

The costs presented here are based on prices adjusted to March 2014. The costs are projected forward to 2015 using the CPI forecast inflation rate published by

the Central Bank in October 2014. The 2015 income calculations are based on the available information from Budget 2015 as published by the relevant Government Departments at this time.

This impact briefing focuses on a set of illustrative household types. The income scenarios examined here focus on broadly applicable situations. Therefore, the employed scenarios are not specific to return to work situations which may include limited term retention of secondary benefits, e.g. the new Back to Work Family Dividend. Similarly the unemployed scenarios do not include supports which are conditional on long-term unemployment, e.g. Fuel Allowance.

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 2014 may also be calculated using the Minimum Income Standard calculator at www.MISc.ie.

RISE IN THE COST OF A MINIMUM ESSENTIAL STANDARD OF LIVING

The cost of living is rising; inflation is forecast to be 1.1% in the next year¹. In the year from March 2013 to March 2014 inflation rose by 0.2%. While the cost of essentials such as food (-1.5%) and clothing (-4.2%) decreased in this period, the cost of other essentials increased e.g. electricity (3.7%) and bus fares (3.4%).

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 a MESL changes at a different rate than that indicated by the average CPI rate.

The VPSJ's research on the changing cost of a MESL has found that the overall price of the essentials for an acceptable standard of living increased by an average of 1.17% from 2008 to 2014, while CPI inflation for the same period was effectively flat (0.05% from March 2008 to March 2014)³.

If the trend of recent years continues then the cost of a Minimum Essential Standard of Living will rise by more than the forecast inflation rate of 1.1% in the coming year.

In the period from 2008 to 2014 social welfare supports were reduced, while the cost of a MESL increased (as explained). The Jobseeker Personal Rate was reduced by 8%, from a high of €204.30 to €188.00. Reductions were also implemented in other social welfare payments, including Child Benefit, Back to School Clothing and Footwear Allowance, and the Fuel Allowance. The combined impact of these reductions in the rates of payment has resulted in a 5% cut to household income for social welfare dependent households with children³.

When social welfare rates do not at least keep track with inflation the effective value of the payment declines. The fact that the cost of a Minimum Essential Standard of Living has been rising at a faster rate than inflation, and in the same period social welfare supports have reduced, has resulted in the gap between social welfare income and households minimum needs widening.

The measures introduced in Budget 2015 do little to address this situation, as the gap between social welfare income and MESL expenditure need continues to widen.

Table 1 MESL Expenditure and Incomes 2014 & 2015⁴, for Social Welfare Dependent Households⁵

		Two Parent 3 & 10	Two Parent 10 & 15	One Parent Baby	One Parent 3 & 10	Single Adult Living Alone	Pensioner Living Alone
2014	Expenditure	479.37	560.96	314.47	361.12	342.99	254.57
	Income	434.32	438.17	257.80	319.52	276.00	236.70
	Shortfall	-45.05	-122.79	-56.67	-41.60	-66.99	-17.87
2015	Expenditure	489.50	571.99	321.01	368.14	348.82	258.82
	Income	436.63	440.48	260.88	323.75	276.00	238.00
	Shortfall	-52.87	-131.51	-60.13	-44.38	-72.82	-20.82

Table 2 MESL Expenditure and Minimum Income Standard 2014 & 2015, for Employed Households⁶

		Two Parent 3 & 10	Two Parent 10 & 15	One Parent Baby	One Parent 3 & 10	Single Adult Living Alone
2014	Expenditure	600.77	608.32	578.89	649.88	428.62
	Gross Salary	488.73	488.73	626.25	654.38	511.88
	- TAX	9.12	9.12	76.24	84.10	81.47
	+ SW	135.92	139.77	30.00	80.00	0.00
	Net Income	615.53	619.38	580.01	650.28	430.41
2015	Expenditure	612.15	619.78	589.09	660.82	434.69
	Gross Salary	488.73	488.73	631.88	660.00	513.75
	- TAX	6.73	6.73	73.22	80.94	78.01
	+ SW	137.23	141.08	31.15	82.31	0.00
	Net Income	619.22	623.07	589.81	661.37	435.74

BUDGET 2015 – INCOME ADEQUACY

SOCIAL WELFARE

The social welfare measures in Budget 2015 have maintained the majority of payments at the 2014 rates. The rate of Child Benefit has been increased by €5 per month for all children. The Living Alone Allowance for pensioners has been increased, for the first time since 1996, by €1.30 to €9.00 per week.

Table 1 details the expenditure needs and social welfare income entitlements for Two Parent household types (one Job Seeker and one Stay At Home parent), One Parent household types (dependent on OFP), unemployed Single Adult household types, and a Pensioner living alone household type (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 full Medical Card, and housing costs are based on local authority rents (with the exception of the single adult⁷). The VPSJ MESL research consistently demonstrates these household types as vulnerable to income inadequacy.

In all the cases detailed above social welfare failed to provide an adequate income to these household types in 2014. The analysis above demonstrates that under this Budget income from social welfare will increase, however the combination of inflation and water

charges will see the cost of a MESL increase at a greater rate.

Therefore, in each case the shortfall in weekly income is set to grow in 2015. (see Table 1, Shortfall line)

ADULT OF WORKING AGE, LIVING ALONE

The primary rate of Job Seekers payment has not been changed in this Budget. For an unemployed adult living alone in urban private rented accommodation, the combination of a full Job Seekers payment and Rent Supplement was inadequate in 2014.

In 2015 assessed water charges of €3.38 per week and overall inflation will increase the cost of an MESL by 1.7% for this household type. Therefore, income inadequacy will increase in 2015 by almost €6 a week, to an income shortfall of over €3,700 for the year.

The additional Water Support payment only applies to a household of this type when in receipt of a Job Seekers payment for over 391 days. Therefore, the payment is not included in this scenario.

HOUSEHOLDS WITH CHILDREN

For households with children Budget 2015 has increased Child Benefit and also maintained the rates for other income supports, including the:

- Qualified Child Increase
- Back to School Clothing and Footwear Allowance

Social welfare dependent households with children have seen an overall reduction in income of 5%

between 2008 and 2014. While the increase in Child Benefit is welcome, this measure alone does not offset the cumulative impact of cuts over recent years, nor does it address the widening gap between expenditure need and social welfare income for households with children.

TWO PARENT HOUSEHOLD TYPE

The increase in Child Benefit brings an increase in household income of €2.31 per week, or 0.51%, for the Two Parent and Two Child household compositions detailed in Table 1.

Assessed (unmetered) water charges add an additional €5.35 to the cost of a MESL for these household compositions. To be eligible for the Water Support payment the household in this scenario must be long-term unemployed, i.e. in receipt of a Job Seekers payment for over 391 days. As the scenario examined is not specific to the long-term unemployed, the payment is not included.

The combination of inflation and water charges will increase the cost of an MESL by 2% for these household types in 2015. Consequently, both Two Parent household types faced an increased shortfall in income in 2015.

Cost of an Adolescent

Household types with a teenager, reliant on social welfare, have consistently faced income inadequacy. Budget 2015 does not acknowledge the additional costs of an adolescent, and has failed to introduce a higher rate of Qualified Child Increase for social welfare dependent households with an adolescent.

A social welfare dependent two parent household with one primary school age child and one teenage child now must exist in 2015 with an income which is inadequate by €131 every week, or over €6,800 for the year.

ONE PARENT HOUSEHOLD TYPE

This household type also benefits from the increase in Child Benefit. Additionally, as this household type is in receipt of a long-term social welfare payment (i.e. the One-Parent Family Payment) the household is eligible for the Water Support payment. The combination of these supports will increase household income by over 1% for both of the One Parent household compositions examined in Table 1.

However, the combination of assessed water charges of €3.38 per week and overall inflation will increase the cost of an MESL by 2% for these household types in 2015. Therefore, in 2015 both One Parent

household types will face deeper income inadequacy, despite an increase in household income.

UNEMPLOYED ADULTS, UNDER 26

Budget 2015 retains the reduced rate of Jobseekers Allowance for younger adults, maintaining the €100 rate for adults aged 18 to 24 years, and the €144 rate for 25 year olds. As demonstrated in Table 1 the full rate Jobseekers payment of €188 per week is inadequate for a Single Adult living alone.

The cost of an MESL for an unemployed young adult living in the family is forecast to be €183.07 per week in 2015. This cost is based on a young adult living as part of the parental household, and qualifying for a full medical card. It is clear that the reduced rates of Jobseekers Allowance fall short of providing for a MESL, and place a significant financial burden on the parents and family of unemployed young adults.

OLDER PEOPLE

The VPSJ MESL research has found that Pensioner Couple households may be able to afford a Minimum Essential Standard of Living when residing in urban social housing, and reliant on a State Pension. However, Pensioners Living Alone face income inadequacy, when reliant on a Non-Contributory State Pension or Contributory State Pension.

The combination of the State Pension, Living Alone Allowance, Fuel Allowance, Household Benefits Package and the secondary benefits of a Medical Card are not enough in 2014, and will continue to be inadequate in 2015.

The combination of inflation and the introduction of water charges see the cost of a MESL rise by €4.25 per week (€221 per annum) for the Pensioner Living Alone household type. Consequently in spite of the increase to the Living Alone Allowance and the introduction of the Water Support payment, this household type will continue to face an income shortfall in 2015 of over €20 a week (over €1,000 per annum).

The MESL research has repeatedly demonstrated the inadequacy of the Living Alone Allowance, and the ongoing income inadequacy faced by Pensioner Living Alone household types as a result.

The measure to increase the Living Alone Allowance to €9.00 per week is a vital, and welcome, first step in improving the situation of this vulnerable household type. The allowance had not been increased since 1996, and has been paid at the rate of €7.70 per week. However, to have maintained its real value the allowance would need to have been increased by €3.80, to a rate of €11.50 per week.

EMPLOYED

Table 2 examines the income needs of these household types in employment. The Minimum Income Standard⁶ is calculated for each household type, as it stands now in 2014 and under the measures to be introduced in 2015. Total household income is calculated, taking account of tax liabilities and social welfare entitlements.

ADULT OF WORKING AGE, LIVING ALONE

Based on a 37.5 hour week, a gross salary of €511.88 per week (€13.65 an hour) was required to afford a MESL in 2014. The Budget 2015 adjustments to the Universal Social Charge mean that a Single Adult earning €13.65 per hour would pay €174 less in USC over the course of 2015.

However, with the growing cost of living, this individual requires a higher gross salary to maintain the same minimum standard of living in 2015. The Minimum Income Standard for a household of this type in 2015 is a gross salary of €513.75 per week (€13.70 per hour).

HOUSEHOLDS WITH CHILDREN

In addition to increasing the rate of Child Benefit, this Budget has maintained the Family Income Supplement income limits. Furthermore, the introduction of the Back to Work Family Dividend is a welcome measure which will partially contribute to 'making work pay' for households re-entering employment from long-term social welfare.

However, the continuation of planned reductions in the income disregard for One-Parent Family Payment recipients in employment reduces the support for a household type that is demonstrated to be at risk of poverty and income inadequacy.

TWO PARENT HOUSEHOLD TYPES

In 2014 the National Minimum Wage (NMW) provided the basis of an adequate household income for the two household compositions examined when one adult is employed full-time and one part-time, and living in social housing.

The adjustments to the USC mean that the net salary for this household type will increase in 2015, and the increase in Child Benefit will also improve household income. However, when earning the National Minimum Wage this household type is below the threshold for Income Tax. Consequently, this household type cannot benefit from the tax relief on water charges in these income scenarios.

In 2015 the NMW will continue to provide the basis for an adequate household income, when combined with Child Benefit, Family Income Supplement and the Back to School Clothing & Footwear Allowance. However, the combination of water charges and inflation have increased the cost of a MESL for both household compositions, and consequently reduced the level of income adequacy. In the case of the household composition with a 10 and 15 year old child, the adequacy is now precarious as the household is left with less than €5 discretionary income per week.

ONE PARENT

In 2015 the NMW will not provide the basis for an adequate income for either of the One Parent household compositions examined, when employed full-time and living in social housing. These two household compositions would face income inadequacy of between €35 and €62 per week when employed full-time on the NMW.

The cost of a MESL will increase for these household compositions in 2015. However, the adjustments to USC and tax relief on water charges will improve the net salary for these household compositions.

To afford the cost of a MESL in 2015 both household compositions require a MIS salary which is significantly above the National Minimum Wage. At these salary rates neither household composition is eligible for support from the One-Parent Family payment, and only the two child household composition receives Family Income Supplement.

The cost of full-time childcare drives up the MIS salary needs of these household compositions. Consequently in 2015 the MIS gross salary need is €16.85 per hour and €17.60 per hour, respectively, for the two compositions examined in Table 2.

Cost of Childcare

The lack of access to affordable childcare imposes a significant burden on family household compositions, where parents are in employment. The cost of full-time childcare ranges from €210 to €53 per week in 2014 (for an infant and primary school age child respectively), and these costs account for a significant proportion of overall cost of a household's MESL.

In 2014 the cost of full-time childcare for a One Parent household with an infant accounted for over a third (36.27%) of the expenditure required for a MESL, and this will continue to be the situation in 2015.

An analysis by the VPSJ demonstrated that in 2014, the MIS gross salary need for a One Parent household

with a baby, in full-time employment is over €32,000 per annum (€16.70 per hour). However, in a scenario where childcare was subsidised and parents paid 60% of the costs, the National Minimum Wage would provide the basis of an adequate income for this household type³.

In 2015 the MIS gross salary need for a One Parent household with a baby, when paying the full cost of childcare, will be €32,800 per annum (€16.85 per hour).

WATER CHARGES

The introduction of water charges adds a new utility bill for household types. This cost is included in the forecast 2015 MESL expenditure needs for each household type. The costs included are based on the assessed (unmetered) annual charges for both supply and waste services, as published by Irish Water⁸.

The cost, net of household and child allowances, equates to €5.35 per week for households with two adults (e.g. Two Parent household types) and €3.38 per week for households with one adult (e.g. One Parent, Single Adult and Lone Pensioner household types).

The Water Support payment will provide €100 per annum to households in receipt of the Household Benefits Package. While this support is to be welcomed, its effectiveness is limited as it does not meet the full cost of this new charge for households already facing income inadequacy.

The move to provide tax relief for water charges is also to be welcomed. However, to benefit from this measure a household must have earnings high enough for income tax to be payable. For example, a single income Two Parent household type, jointly assessed for income tax, and earning the National Minimum Wage is not eligible for income tax and so will not benefit from this measure.

The extension of the Water Support payment to recipients of the Fuel Allowance, who are not in receipt of the Household Benefits Package, is also a welcome measure. However, those not on a long term social welfare payment, e.g. receiving a Job Seekers payment for less than 391 days, do not receive the Fuel Allowance and therefore will not receive the new Water Support payments. Households and individuals in this situation, receive no support to meet the cost of water charges, neither in the form of tax relief, nor direct payment.

NOTES

¹ Central Bank Quarterly Bulletin 04 / October 14, forecasts a CPI annual average rate of 1.1% for 2015

² Central Statistics Office, 2014. *Survey on Income and Living Conditions (SILC): 2012*. Available online www.cso.ie/en/media/csoie/releasespublications/documents/silc/2012/silc_2012.pdf

³ VPSJ, 2014. *Minimum Essential Standard of Living Update 2014*. www.budgeting.ie/images/stories/Publications/MESL_Update_Paper/VPSJ_2014_Minimum_Essential_Standard_of_Living_Update_2014.pdf

⁴ 2014 expenditure is based on the VPSJ MESL baskets adjusted to March 2014. 2015 expenditure is adjusted by forecast CPI inflation. Incomes calculations for 2015 are based on the available information from Budget 2015 as published at the time of writing.

⁵ 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 Increase, Fuel Allowance, Household Benefits Package

⁶ The Minimum Income Standard (MIS) is the gross salary necessary for a household's total income to adequately meet the cost of a MESL. The MIS 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. Housing costs for the single adult household type are based on the average cost of a private rented one bedroom dwelling in Dublin in Q4 2013 [€798.21 per month] (Source: PRTB Rent Index).

⁷ The Single Adult household type MESL expenditure need is based on living in private rented housing.

In the unemployed scenario the costs are based on renting at the Rent Supplement ceiling in Dublin City, and receiving Rent Supplement.

In the employed scenario the costs are based on the average cost of a private rented one bedroom dwelling in Dublin.

⁸ Irish Water website, charges section. Accessed 10th October 2014. www.water.ie/customer-applications/charges/