WORKING FOR SOCIAL & ECONOMIC CHANGE, TACKLING POVERTY & SOCIAL EXCLUSION

BUDGET 2018

MESL PRE-BUDGET SUBMISSION

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22 YEARS
1995 – 2017

MINIMUM ESSENTIAL BUDGET STANDARDS
RESEARCH CENTRE

JULY 2017

DISCLAIMER

The MESL research is supported by the Department of Social Protection as part of its agreement for funding the Vincentian Partnership for Social Justice.

INTRODUCTION

The Vincentian Partnership for Social Justice (VPSJ) welcomes the opportunity to make this pre-budget submission to the Department of Social Protection. The annual budget presents the opportunity for increases to be made to social transfers which will reduce the impact of poverty on people who continually struggle to make ends meet. This year's budget decisions will either promote or delay a more socially and economically inclusive society.

The recommendations made in this submission are based on the evidence and data established through the VPSJ's ongoing Minimum Essential Standard of Living (MESL) research. This submission is based on the 2017 MESL data and analysis of income adequacy. The recently published MESL 2017 Update Report provides detailed analysis of the minimum expenditure and income needs of a range of representative household compositions.

On the basis of the MESL research, the VPSJ recommends a suite of measures for Budget 2018. The recommended adjustments are based on research identifying the household types with the greatest degree of income inadequacy and the gaps in social welfare provision which drive the inadequacy.

The recommendations made in this submission are set out with the aim of moving toward eradicating deep income inadequacy by 2020. Deep income inadequacy are situations where social welfare supports provide for less than 90% of the cost of a MESL in cases of social welfare dependency.

The value of social welfare payments has fallen relative to the cost of an MESL, primary social welfare rates should be restored to 2010 levels of support, in real terms, by 2020. With the exception of the State Pension, primary social welfare supports were paid at a higher rate in 2010 than they are currently. However prices generally, and the cost of an MESL specifically, reached a low point in 2010, and the average cost of an MESL is 2.1% higher in 2017.

Households with second level age children and pensioners living alone are the two household types which demonstrate the greatest propensity for income inadequacy, when dependent on social welfare. Therefore, in conjunction with restoring rates of support in real terms, further adjustments specific to these household compositions are also recommended.

Additionally, the inadequacy the reduced rates of Jobseeker payments for adults under 26 are also highlighted.

Finally, attention is brought to several issues relating to the in-work social welfare supports for households with children in lower paid employment.

MINIMUM ESSENTIAL STANDARD OF LIVING RESEARCH

The recommendations made in this submission are based on the evidence and data established through the VPSJ's ongoing Minimum Essential Standard of Living (MESL) research.

The VPSJ's MESL research 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.

This understanding of an acceptable minimum standard of living, echoes the concepts which underpin the human right to an adequate standard of living, and the Irish Government definition of poverty which emphasises the ability to have a "standard of living which is regarded as acceptable by Irish society generally" and to participate in normal activities.

The MESL translates these concepts and ideals into a practical measure, which specifies the average weekly cost of all the goods and services necessary to enable a socially acceptable minimum standard of living.

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 recommendations made in this submission are based on the evidence and data established through the VPSJ's ongoing MESL research. This submission is based on the 2017 MESL data and analysis of income adequacy. The recently published Minimum Essential Standard of Living 2017 update report provides detailed analysis of the minimum expenditure and income needs of a range of representative household compositions.

Further information on the research, reports and working papers, and the detailed MESL expenditure and income needs of additional household types can be found on www.budgeting.ie.

KEY POINTS

Begin to move toward eradicating deep income inadequacy by 2020, situations where social welfare supports provided for less than 90% of the cost of a Minimum Essential Standard of Living (MESL). The first step in achieving this goal is to restore primary social welfare rates to 2010 levels of support, in real terms, by 2020.

To provide adequate income supports it is vital to ensure that the position of those reliant on social welfare does not worsen due to supports remaining static in the face of rising costs. Current primary social welfare rates, with the exception of the State Pension, have not kept pace with increases in the cost of an MESL since 2010.

The first step to restore relative social welfare values is a €5.00 per week increase in 2018, to €198 per week. Proportional adjustments to both the Qualified Adult and Qualified Child rates of €3.30 and €2.10 respectively, are also recommended for 2018.

Household compositions with older children are most likely to face deep income inadequacy when dependent on social welfare. The social welfare system should begin to recognise the greater MESL expenditure need for second level age children, and instigate a higher rate of support for this age-group.

In 2018, provide an additional €5.00 per week in support for social welfare dependent households with a second level age children, as a first step in addressing the additional needs of this age-group.

It is essential that moves toward restoring the full Personal Rate for adults aged 18 -25 are made, abolishing the unequal and inadequate reduced rate of JA for younger adults.

Set an initial goal of increasing the rate for adults under 26 to have an adequate income when living in the family home.

For older people, focus limited resources on the households more vulnerable to income inadequacy, Pensioners living alone. Increase the Living Alone Allowance rate by €2.45 to €11.45 per week, restoring the relative value of the payment in terms of price inflation.

Restore the Fuel Allowance to its 2010 purchasing power, taking account of the 18.1% increase in energy prices. Increase the Fuel Allowance to have an annual value of €755, an increase of €6.50 to €29.00 per week, for 26 weeks of the year.

Enable One Parent households with children aged between 7 and 14, to be eligible to for both Jobseekers Transition and Family Income Supplement, simultaneously.

Restore the One-Parent Family Payment (and Jobseekers Transition) earnings disregard to 2010 levels, in nominal terms, returning to €146.50 per week.

Review the level and structure of the One-Parent Family Payment gross salary cut-off point, of €425 per week.

CONTEXT

The core cost of an MESL is 2.1% higher in 2017 than the recession low point of 2010.

The total core cost of a Minimum Essential Standard of Living (MESL) excludes housing and categories of expenditure which may vary by employment pattern such as childcare, and also the effect of secondary benefits such as a medical card.

The total core cost of an MESL has decreased in 2017. The average change in the core MESL cost from 2016 to 2017 is -2.5%, this follows decreases in 2015 & 2016 to give a cumulative change of -4.0% over the three years from 2014.

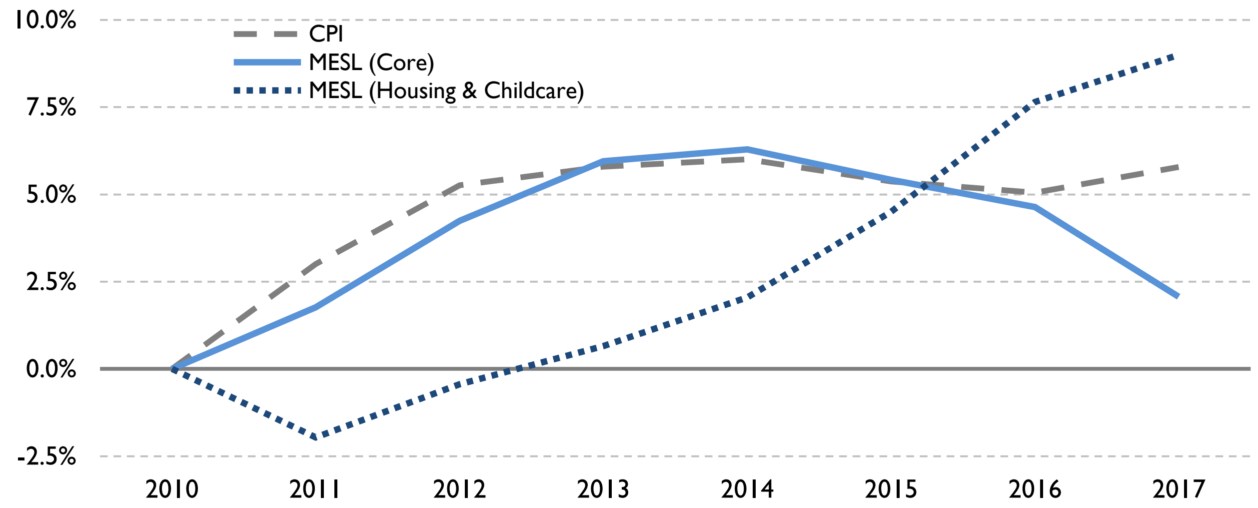
Despite this reduction, the core MESL cost is 2.1% higher in 2017 than the recession low point of 2010.

Looking beyond the core MESL costs the cost of private rented accommodation has risen by an average of 8.6%, and childcare has also increased by an average of 1.5%, in the last year. Private rents have increased each year since 2012 (as measured by the CPI), with increases of 8% to 10% in each of the last four years.

In the last year rents in the Dublin area increased by 7.9% for a one bed dwelling, 6.1% for a two-bed dwelling and 5.7% for a three-bed dwelling. Such increases have lead to dramatic rises in the overall cost of an MESL for households unable to access social housing and a differential rent.

When the cost of childcare[i] and private rent[ii] is included, the overall cost of an MESL has increased by an average of 1.25% in the last year, and by 9.0% since 2010.

Graph 1 Cumulative Change in MESL Expenditure Need and CPI Inflation
(Base = 2010)



SOCIAL WELFARE RATES

The VPSJ aspires for social welfare to provide for an adequate minimum standard of living for all. However, it is recognised that this is a long-term goal and will be achieved through a combination of measures which both increase income supports where necessary and work towards reducing costs through the provision of robust services.

The first step in achieving an adequate income is to ensure that the position of those reliant on social welfare does not worsen due to social welfare supports remaining static in the face of rising costs.

The cuts in social welfare rates during the recession period were applied in the context of a reduction in living costs. The increased cost of a Minimum Essential Standard of Living (MESL) since 2010 demonstrates that continuing to maintain austerity rates of payment in a post-austerity period effectively imposes a further cut on the purchasing power of those least able to afford it.

The 2017 MESL Update Report demonstrated that the increases in social welfare rates this year and reductions in MESL expenditure need (compared to 2016), resulted in social welfare meeting a greater proportion of household minimum expenditure need. However, the level of payment continues to fall notably below the MESL need for the majority of household types and cases examined.

The majority of primary social welfare rates in 2017 remain below 2010 rates, in both nominal and real terms. The current personal rate of Jobseekers, One-Parent Family Payment, etc., is 1.5% below the 2010 rate, while the cost of an MESL is 2.1% higher.

In 2017 social welfare does not provide an adequate income for 169 of 214 urban cases examined. This is a notable improvement from 2016 when 183 cases demonstrated income inadequacy when solely dependent on social welfare.[iii]

The following recommendations for social welfare rates are designed to restore to 2010 levels of support, not simply in nominal terms, but in real terms to account for the relative increase in the cost of a socially acceptable minimum standard of living.

It is accepted that this restoration cannot be achieved in a single budget cycle. Therefore the target of restoration by 2020 is set, and the rate of support required in 2020 is projected on the basis of forecast inflation. The recommended 2018 adjustments to current social welfare rates are the first step in restoring social welfare supports by 2020.

Additional adjustments which target instances of deep income inadequacy are also outlined.

PERSONAL RATE

- The current personal rate of Jobseeker payments and One-Parent Family Payment does not provide the basis of an adequate income for one adult households without dependents or the majority of household compositions with children examined in the Minimum Essential Standard of Living (MESL) research.[iv]
- The gap between social welfare support and the cost of a socially acceptable minimum standard of living has widened, as rates of payment have not kept pace with changes in living costs. For example, in 2010 the adult personal rate met 85% of a single adult's core MESL costs, in 2017 the adult personal rate meets 81% of a single adult's core MESL costs.
- If social welfare supports had been maintained at 2010 levels, in real terms (i.e. adjusting for the increased cost of an MESL), the 2017 Personal Rate would be €200.10.
- The VPSJ recommends a series of adjustments to the Personal Rate, and associated Increases for Qualified Adult and Qualified Child, over the next three years, to restore the real value of social welfare supports by 2020. To restore the relative value to 2010 levels, and keep pace with forecast inflation, a Personal Rate of €207.30 would be required in 2020.[v]
- The recommended rate of increase for subsequent years is subject to review in light of changing MESL costs in the coming years.

RECOMMENDATION

The first step to restore relative social welfare values is a €5.00 per week increase in 2018, to €198 per week.

Proportional adjustments to both the Qualified Adult and Qualified Child rates of €3.30 and €2.10 respectively, are also recommended for 2018.

PERSONAL RATE	2017	2018	2019	2020
€ Per Week	193.00	198.00	202.65	207.30
€ Increase		5.00	4.65	4.65
% Increases		2.6%	2.3%	2.3%
QUALIFIED ADULT				
€ Per Week	128.10	131.40	134.10	136.80
€ Increase		3.30	2.70	2.70
% Increases		2.6%	2.1%	2.0%
QUALIFIED CHILD				
€ Per Week	29.80	31.90	34.00	36.10
€ Increase		2.10	2.10	2.10
% Increases		7.0%	6.6%	6.2%

QUALIFIED CHILD INCREASE

- In conjunction with the increase to the working-age adult personal rate, a commensurate adjustment to the Increase for a Qualified Child of €2.10, to €31.90 per week in 2018, is also recommended.
- The VPSJ recommends that the QCI be paid at a higher rate for adolescent / second level age children, to begin to meet the additional minimum costs associated with this stage of childhood.
- Bringing social welfare supports to a level which will adequately meet the additional minimum needs of children in this age-group should be progressively realised over a number of budgets.
- The Minimum Essential Standard of Living (MESL) data establishes the direct cost of a child's minimum standard of living at four age-groups. An adolescent / second level age child is the most expensive stage (when childcare is not required), at almost 1⅔ the cost of an infant or primary school age child's MESL needs.[vi]
- The combination of the Increase for a Qualified Child (ICQ) and Child Benefit equates to a third of the working age adult Personal Rate. This aligns with the CSO SILC equivalence scales, for younger children. However, the equivalence scales treat a child aged 14+ as another adult, i.e. 66% of the first adult in the household.
- Current social welfare supports meet 54% of the MESL expenditure need of a second level age child, the supports for younger children provide for over 80% of MESL need.
- A second level age child would require an additional €45 per week in support, to proportionately have the same level of support as younger children from the combined value of ICQ[vii] and Child Benefit. A €45 increase in support would remain €9 per week short of direct weekly MESL costs of this age-group, when in a social welfare dependent household.
- The VPSJ acknowledges that an increase of this scale is beyond the scope of a single budget, but nevertheless asks that the first steps be taken in recognising the additional needs of adolescents by setting a higher rate of ICQ for this age-group.

RECOMMENDATION

A first step of an additional €5.00 per week in support for social welfare dependent households with a second level age children.

ADULTS, AGED UNDER 26

- The reduced rate of Jobseekers Allowance (JA) for younger adults has been retained in 2017.
- The Minimum Essential Standard of Living (MESL) needs of an unemployed young adult living in the family home is €151 per week, which is almost 1½ times the JA payment a young adult, aged 18 to 24, is entitled to, and €3 more than the reduced JA payment for a 25 year old.
- The reduced rate of the JA does not provide an adequate income for a young adult to afford an MESL when living in their family home; meaning an individual in this scenario would require financial support from their family in order to afford an MESL, in addition to living without rent costs.
- In addition, the JA payment for those aged 24 or under is subject to a means test dependent on their parent's income. Individuals that receive lower payments after the means test will be even more reliant on parental support.
- To live independently, adults aged under 26 have the same MESL needs as older adults, and therefore require the same level of income support.
- Social welfare rates that restrict opportunities for young adult's growth in employment, education and personal growth are regressive in the long term.
- To live independently, adults aged under 26 have the same MESL needs as older adults, and therefore require the same level of income support.
- It is essential that moves toward restoring the full Personal Rate for adults aged 18 -25 are made, abolishing the unequal and inadequate reduced rate of JA for younger adults. This is a vital step towards enabling all adults to have an acceptable minimum standard of living.

RECOMMENDATION

Set an initial goal of increasing the rate for adults under 26 to have an adequate income when living in the family home.

STATE PENSION & OLDER PEOPLE

Households reliant on the State Pension received a reduction in support from social welfare over the course of the recession, in particular with reductions to the Household Benefits Package and the Fuel Allowance.

Consequently increases to the State Pension in 2016 and 2017 addressed at least a proportion of this reduction in support, and brought the State Pension rates to €8 above 2010 levels.

In addressing this, it is regrettable that the allocation of limited resources did not focus on the older people more vulnerable to income inadequacy, those living alone, and instead opted for the broad measure of increasing pension rates generally.

Whilst the increases in the State Pension will improve the position of the pensioner living alone, the same expenditure of resources could have supported a more substantial increase to the Living Alone Allowance. Therefore, the VPSJ recommends that priority is given to supporting the older people which are most vulnerable to income inadequacy, those living alone. As when resources are limited their distribution should prioritise the most vulnerable.

- The Minimum Essential Standard of Living (MESL) research demonstrates that a Pensioner Couple, living in social housing and reliant on a State Pension (Contributory or Non-Contributory), can afford a socially acceptable minimum standard of living when living in an urban or rural area.
- The same is not true for a Pensioner Living Alone; this household type has persistently demonstrated income inadequacy. This trend has only begun to change for Urban households since 2016, but remains the case for Rural households.
- For the first time since 2010, a Pensioner Living Alone, in receipt of a Non-Contributory Pension and the living alone allowance, when in an urban area demonstrates income adequacy this year. Social welfare supports provide €0.27 per week above this household type's minimum expenditure need, meaning this adequacy is precarious at best. [viii]
- In rural areas where additional expenditure is required on transport and household energy, this household type experiences income inadequacy when in receipt of either a Contributory or Non-Contributory pension.
- The Pensioner Living Alone household type is vulnerable to income inadequacy. The household income from State Pension and secondary supports for a Pensioner Living Alone, is slightly over 50% that of a Pensioner Couple. However, the MESL expenditure need of the Pensioner Living Alone is 80% that of a Pensioner Couple household. [ix]

THE LIVING ALONE ALLOWANCE

- The value of the Living Alone Allowance was allowed to dwindle, as the rate remained stagnant from 1996 until an increase of €1.30 in 2015, brought the rate of payment to €9.00 per week.
- Average prices have increased by 50% since 1996, as measured by CPI inflation. The 2015 increase raised the Allowance by 17%.
- Restoring the real value of the Living Alone Allowance, taking account of price inflation from 1996 to 2017, would require a further increase of €2.45 to the weekly rate.
- Increasing the Living Alone allowance by €2.45 would not resolve the income inadequacy faced by pensioners living alone. However, such an increase would provide over €125 of additional income per annum to a household type which persistently faces income inadequacy.
- Wider measures may be needed to address the causes of income inadequacy faced by the Pensioner Living Alone household type, particularly when living in a rural area.

RECOMMENDATION

Increase the Living Alone Allowance rate by €2.45 to €11.45 per week, restoring the relative value of the payment in terms of price inflation.

FUEL ALLOWANCE

- Home energy prices increased by an average of 1.2% in the last year[x], and despite marginal decreases in both 2015 and 2016 the cumulative trend has been of increasing costs, and since 2010 home energy costs have increased by an average of 18.1%.
- In 2010 the Fuel Allowance was paid at the rate of €20 per week for 32 weeks of the year. Giving an overall value of €640 over the year.
- In 2017 the Fuel Allowance is paid at the rate of €22.50 per week for 26 weeks of the year. This maintained the weekly increase introduced in 2016, and also the reduced number of weeks paid. Cumulatively Fuel Allowance has a value of €585 over the year.
- To restore the payment to its 2010 purchasing power, taking account of the 18.1% increase in energy prices, enabling the same amount of energy to purchased now, the Fuel Allowance would need have an annual value of €755.

RECOMMENDATION

Increase the Fuel Allowance rate by €6.50 to €29.00 per week, for 26 weeks of the year, to have an annual value of €755.

POTENTIAL IMPACT

HOUSEHOLDS WITH CHILDREN

In 2017, with current social welfare rates, of 207 cases of households with children examined, 167 cases show income inadequacy and 109 demonstrate deep income inadequacy (where household income meets less than 90% of MESL expenditure need).

If social welfare rates were paid at 2010 values, in real terms, and the ICQ fully reflected the additional proportion of MESL need associated with second level age children, the incidence of deep income inadequacy for social welfare dependent households with children would be dramatically lower.

Deep income inadequacy among the 207 households with children cases examined would reduce from 109 cases to 37 cases, if the following conditions were in place:

- Rates of social welfare kept pace with the cost of an MESL since 2010
- The ICQ was paid at an appropriately higher rate for second level age children
- The purchasing power of the Fuel Allowance was maintained relative to changes in energy costs

PENSIONER, LIVING ALONE

In 2017, this household type has a marginally adequate income when in receipt of the Non-Contributory Pension and living in an urban area, and income is adequate when in receipt of the Contributory Pension. However, when in a rural area the additional costs associated with the need for private transport (due to inadequate public transport availability) and household energy, result in deep income inadequacy with the Pension and additional supports providing between 81% and 85% of MESL expenditure need.

If both the Living Alone Allowance and Fuel Allowance were increased as recommended, this household type would receive an additional €5.70 per week, on average across the year. This would be sufficient to move the urban household, reliant on the Non-Contributory Pension, to more secure income adequacy.

Overcoming the deep income inadequacy for rural households would require additional supports, through either services or direct social transfers.

EMPLOYMENT & SOCIAL WELFARE

Employment should enable working-age adults to ensure a decent and adequate minimum essential standard of living for themselves and their families. Having an income below this standard of living means doing without goods and services which are seen as vital for taking part in the norms of everyday life in Ireland. Therefore, it is crucial that decent work is available, providing both an adequate wage and adequate hours. However, minimum rates of pay cannot provide for income adequacy in isolation.

There is a fundamental role for social supports (both income and services) to smooth out the multiplicity of varying additional and different needs of households with children, and to support those in lower paid / low hour employment unable to secure an adequate income from work.

It is vital that social welfare income supports adequately supplement incomes to address the additional needs of households with children, where necessary, to ensure a Minimum Essential Standard of Living (MESL) is a reality for all children. Access to adequate affordable services can reduce the cost of an MESL, particularly through the provision of affordable childcare and housing. Well designed income supports, which work in tandem with services and the taxation system, have the potential to provide income adequacy.

The VPSJ highlights the following findings from the ongoing MESL research, regarding in-work social welfare income supports and the need for access to services.

- The tapering of in-work supports, particularly the Family Income Supplement (FIS), and the impact of childcare costs for younger children can result in the incongruous situation of an increase in earnings / employment causing income inadequacy.
- 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 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 where both adults are in minimum wage employment.
- The tapering of FIS results in a Marginal Effective Tax Rate of 60% plus when a Two Parent household moves from single to dual minimum wage employment. [xi]
- 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, thereby being eligible for FIS.
- Full-time NMW employment may not provide an adequate income for One Parent households, despite part-time NMW employment being adequate, due to the combination of high childcare costs for younger children and reduced support from social welfare.

- The combined tapering of One-Parent Family Payment (OFP) and FIS, combined with liability for PRSI and USC, can result in a Marginal Effective Tax Rate of 83%, for a One Parent household with two children moving from part-time to full-time employment.[xii]

ROLE OF SERVICES – AFFORDABLE CHILDCARE

- The Affordable Childcare Scheme, as originally outlined in Budget 2017, demonstrates a model of means-tested tapered support with the potential to overcome the combined poverty-trap of high childcare costs and withdrawal of in-work social welfare, with increases in gross salary.[xiii]
- The case of the One Parent household with a pre-school and primary school age child is highly illustrative. This household moves from income adequacy when in part-time NMW employment to inadequacy in full-time NMW employment due to tapering supports and high childcare costs. However, the subvention from the Affordable Childcare Scheme (ACS) would enable income adequacy from NMW employment for this household type.
- For Two Parent households, in cases where single income scenarios provided income adequacy but scenarios with one adult employed full-time and one part-time resulted in inadequacy, the ACS model shows the potential to make dual NMW employment a viable basis for an adequate income.

FAMILY INCOME SUPPLEMENT

- The Family Income Supplement is a vital support for narrowing the gap between a household's income and Minimum Essential Standard of Living (MESL) expenditure need, in many situations of low-paid / low-hour employment examined in the MESL research.
- The points outlined above demonstrate the need to review the current tapering of Family Income Supplement, and the interaction of the taper with both other social welfare supports and the taxation system. The acceptability of Marginal Effective Tax Rates of 60% and above should be re-considered.
- Households in receipt of FIS received less benefit from the 2017 NMW increase and USC adjustment, as FIS income thresholds were not reviewed in line with these adjustments. Consequently, some of the gains in net salary are offset by a reduction in support from FIS.
- The FIS income thresholds should be adjusted in line with changes to NMW rates and personal taxation, as a matter of course, to ensure low income households with children receive the full benefit of any such adjustments.

RECOMMENDATION
Review FIS taper rates and income thresholds.

ONE PARENT HOUSEHOLDS

- 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 such scenarios the household will be eligible for FIS, which is essential for enabling income adequacy for this household type.
- The changing eligibility for social welfare supports on the basis of the age of the youngest child in one parent households results in complexities in the system and notable income losses at certain points.

ONE-PARENT FAMILY PAYMENT & JOBSEEKER TRANSITION

- The One-Parent Family Payment (OFP) and Jobseeker Transition (JST) not only assess income from employment in different manners, and provide different levels of support for the same wage earned. There is a crucial difference in the change for FIS eligibility, while a household can receive both OFP and FIS simultaneously; dual eligibility is not allowed with JST.
- The inability to qualify for dual supports under the JST can mean a one parent household with one child aged 7+ receives notably less per week in social welfare support, than a similar one parent household with one child aged under 7.[xiv]
- The reduction in support, combined with the precariousness of much low hour employment, places many One Parent households at risk of income inadequacy. The VPSJ recommends examining the potential to enable One Parent households with children aged 7 and over, to receive support from both the Jobseeker Transition and FIS, similar to the position of households with children aged under 7 receiving both OFP and FIS.

EARNINGS DISREGARD

- Budget 2017 increased the earnings disregard for the One-Parent Family Payment (and Jobseekers Transition), from €90 to €110 per week.
- In 2010 the earnings disregard was €146.50. Since 2010 the cost of a Minimum Essential Standard of Living (MESL), including childcare, has increased by 9%, while the National Minimum Wage has increased by 7%.
- Restoring the earnings disregard in real terms would require an adjustment to approximately €160 per week.
- This increase may be too great for a single budget, but restoration in nominal terms should be considered as a first step.

OFP GROSS EARNINGS CUT-OFF

- The current structure of the One-Parent Family Payment (OFP) imposes a cap on gross salary of €425 per week, if earnings are above this level entitlement to OFP is lost. The cut-off point for eligibility has remained at this salary level since 2008.

- At a minimum this threshold should be reviewed in light of changes to prices, the cost of an MESL, increases to the NMW, and increases in average earnings since 2008. It is clear that by any measure the €425 threshold should be adjusted upwards to retain its real value.
- In order to offset the loss of the One-Parent Family Payment, a one parent household with two children would require a salary increase from €420 per week to €583 per week. An increase in salary of anything less than €160 per week would leave this household type with a reduced household income, due to the withdrawal of OFP.[xv]
- The structure of the earnings threshold, the fact that it does not change with family size (unlike the Family Income Supplement income thresholds), and the potential poverty trap it imposes should be reviewed.

RECOMMENDATION

Enable One Parent households with children aged between 7 and 14, to be eligible to for both Jobseekers Transition and Family Income Supplement, simultaneously.

Restore the One-Parent Family Payment (and Jobseekers Transition) earnings disregard to 2010 levels, in nominal terms, returning to €146.50 per week.

Review the level and structure of the One-Parent Family Payment gross salary cut-off point, of €425 per week.

NOTES

i Where required by the household composition.

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

iii Further explanation of the household compositions tested can be found in the 2017 MESL update report p. 17 - 18.

iv A detailed examination of social welfare adequacy can be found in the MESL 2016 update report p. 12 – 15; the calculations are presented in the Appendix, p. 4A – 7A.

v The recommended adjustments take account of cumulative forecast HICP inflation of 3.6% from by 2020. Forecast HICP data from Department of Finance June 2017 MEB www.finance.gov.ie/sites/default/files/MEB%20Juner%202017.pdf

vi Further explanation of the cost of a child can be found in the MESL 2017 update report p. 19-22 and Appendix p. 3A presents a breakdown of the MESL core costs for a child.

vii Based on current Child Benefit level (€140 per month), and the adjusted ICQ for MESL change from 2010.

viii The MESL 2017 update found that, the Pensioner Living Alone household type when living in an urban area and in receipt of a non-contributory pension shows marginal income adequacy. The same household type in receipt of a contributory pension had a marginally adequate income in 2016, and an adequate income in 2017. In cases where the household is living in a rural area household income is inadequate from the Non-Contributory or Contributory Pension.

ix See MESL 2017 Update Report p. 17 for further information on the income (in)adequacy of pensioner household types, and Appendix p. 6A – 7A for an assessment of social welfare adequacy against the cost of an MESL.

x 1.2% in the 12 months to March 2017.

xi See MESL 2017 Update Report p. 26 – 27.

xii See MESL 2017 Update Report p. 28 – 29.

xiii See MESL 2017 Update Report p. 37 – 41.

xiv A one parent household with one child, aged 6, with 19 hours NMW employment per week, would be eligible for supports from both the OFP & FIS, receiving an average of €326 per week in social welfare supports.
For a one parent household with one child, aged 7+, also in 19 hours NMW per week, combining the JST & FIS supports is not allowed. Consequently, a household in this scenario would receive an average of €236 per week in social welfare supports, from FIS, Child Benefit and the Back to School Allowance.

xv See MESL 2017 Update Report p. 36 – 37, for a fuller explanation of changes to household income from the National Minimum Wage, to the point where income adequacy is reached.