MINIMUM ESSENTIAL BUDGET STANDARDS RESEARCH CENTRE

OCTOBER 2019

Budget 2020

# MESL IMPACT BRIEFING

## KEY POINTS

The higher rate of Qualified Child Increase for children aged 12 and over was established in 2019. Budget 2020 continues to recognise the additional needs of older children, increasing the higher QCI rate by €3 per week. This is a positive, evidence-based response to the higher risk of income inadequacy and poverty amongst this age-group.

Budget 2020 also brings a welcome adjustment of €2 to the Qualified Child Increase for younger children.

It is regrettable that these increases in QCI are not accompanied by an increase in the adult personal rate. Child poverty and income inadequacy can only be fully addressed when the minimum needs of the entire household are considered.

Prices generally, and the cost of a Minimum Essential Standard of Living in particular, are likely to increase by 2.2% by the end of 2020. To not increase primary rates, particularly for those groups most at risk of income inadequacy and poverty, at a time when living costs are likely to rise, is in effect a cut to these rates.

It is disappointing that the primary Jobseekers rate for working-age households is not increased in Budget 2020. A working-age single adult consistently demonstrates deep income inadequacy, this is predicted to become more severe in 2020 due to rising MESL costs.

From 2014 to 2019 the MESL analysis has tracked a reduction in the rate and severity of income inadequacy. Budget 2020 is predicted to reverse this trend of improvements in the position of households reliant on social welfare.

The restoration of the full Jobseeker's Allowance (JA) rate for 25-year olds is a very welcome measure. There are also welcome steps towards equalisation for 18 to 24-year olds.

The postponement of an increase to the National Minimum Wage is regrettable. As costs rise in 2020 the inadequacy of the current minimum wage rate is forecast to become more acute.

It is predicted that in 2020 a single adult will need to have over 61 hours of minimum wage employment per week to afford an MESL when living in the Dublin area. A standard full-time minimum wage salary will meet 71% of MESL needs.

The €15 increase to the earnings disregard for One-Parent Family Payment and Jobseeker's Transition is welcome, enabling lone parents in employment to retain a greater rate of support. This measure has effectively restored the income disregard in relation to the increased National Minimum Wage rate.

Budget 2020 brings welcome increases to the Working Family Payment income thresholds, rising by €10 for the first three children.

In the context of rising costs and a stagnant minimum wage rate, these measures will help low-income families absorb increases in MESL costs and maintain a minimally adequate income.

Increasing the Living Alone Allowance by €5 per week represents a welcome evidence-based approach to improving supports. This support makes a vital contribution towards meeting the minimum needs of the group of older people which have tended to demonstrate greater risk of income inadequacy.

Budget 2020 increases the Fuel Allowance by €2 per week. The increase will make a notable difference to the long-term social welfare recipient households which qualify for Fuel Allowance.

Budget 2020 brings several welcome measures which could help to reduce costs, when fully developed and implemented. These include the reduction in prescription charges for Medical Card holders, extension of free GP Care to under 8's and Dental Care for under 6's, and the trailing of a free school books scheme at primary school level.

# Table 1 Income Adequacy 2019 and 2020

*Urban MESL Expenditure need, 2020 MESL based on forecast inflation*

| Household | | Social Welfare 2019 | Social Welfare 2020 (Range) | | Employed 2019 | Employed 2020 (Range) | |
|---|---|---|---|---|---|---|---|
| **Two Parent** | **Pre-School & Primary School** | | | | | | |
| | MESL Expenditure | 461.56 | 465.87 | 471.18 | 546.34 | 552.12 | 559.38 |
| | Income (Net) | 473.20 | 477.20 | 477.20 | 659.03 | 665.03 | 665.03 |
| | Adequacy | 11.64 | 11.33 | 6.02 | 112.69 | 112.91 | 105.66 |
| **Two Parent** | **Primary School & Second Level** | | | | | | |
| | MESL Expenditure | 542.31 | 547.54 | 553.9 | 624.87 | 630.74 | 637.98 |
| | Income (Net) | 481.49 | 486.49 | 486.49 | 664.32 | 670.32 | 670.32 |
| | Adequacy | -60.82 | -61.05 | -67.41 | 39.45 | 39.58 | 32.34 |
| **One Parent** | **Pre-School & Primary School** | | | | | | |
| | MESL Expenditure | 347.76 | 351.08 | 355.11 | 520.77 | 527.56 | 535.23 |
| | Income (Net) | 350.62 | 355.69 | 355.69 | 657.62 | 668.88 | 668.88 |
| | Adequacy | 2.86 | 4.61 | 0.58 | 136.85 | 141.32 | 133.65 |
| **One Parent** | **Primary School & Second Level** | | | | | | |
| | MESL Expenditure | 428.50 | 432.75 | 437.84 | 527.23 | 532.15 | 538.14 |
| | Income (Net) | 358.90 | 364.98 | 364.98 | 590.12 | 596.12 | 596.12 |
| | Adequacy | -69.60 | -67.77 | -72.86 | 62.89 | 63.97 | 57.98 |
| **Single Adult** | **Working Age** | | | | | | |
| | MESL Expenditure | 245.39 | 247.27 | 250.07 | 477.68 | 487.49 | 490.34 |
| | Income (Net) | 203.00 | 203.00 | 203.00 | 348.32 | 348.32 | 348.32 |
| | Adequacy | -42.39 | -44.27 | -47.07 | -129.36 | -139.17 | -142.03 |
| **Pensioner** | **Living Alone** | | | | | | |
| | MESL Expenditure | 249.97 | 252.75 | 255.75 | | | |
| | Income (Net) | 260.62 | 266.69 | 266.69 | | | |
| | Adequacy | 10.64 | 13.95 | 10.94 | | | |

The MESL data examined in this briefing, is based on the 2019 MESL expenditure and income data.[1] The MESL 2019 costs are projected forward to the start of 2020 using the Central Bank's forecast inflation (0.9%)[2] and the Department of Finance's estimate of inflation throughout 2020 (1.3%)[3]. This establishes the range of predicted MESL expenditure need for the course of 2020.

This range of MESL expenditure requirements provides a benchmark for measuring the adequacy of incomes for six household types. See Page 11 for details of the income scenarios. The 2020 income calculations are based on the information from Budget 2020, as published by the relevant Government Departments at this time.

# Introduction

The VPSJ aspires for an acceptable minimum standard of living for all, whether dependent on social welfare, in paid employment, or engaged in a caring role. It is recognised that this is a goal that can only be progressively realised through a combination of measures. The annual budget presents the opportunity for taking substantive steps towards achieving a social welfare system that ensures minimum income adequacy and enables a life with dignity.

The Minimum Essential Standard of Living (MESL) research provides an evidence base to inform policy decisions. Based on the 2019 analysis of minimum expenditure and income needs, the VPSJ presented a suite of policy recommendations for Budget 2020. The analysis identified the household types with the greatest degree of income inadequacy and the systemic issues in the social welfare system which contribute to persistent income inadequacy. The measures outlined were vital steps towards progressively ensuring an adequate income for an acceptable standard of living, in the medium term.

The VPSJ recognises the challenges underpinning Budget 2020. While noting the several welcome evidence-based targeted measures and the proposals which when implemented will help to reduce the cost of living for low income households, the VPSJ regrets the failure to increase primary working-age rates, in particular at a time when living costs are likely to rise.

This briefing analyses the impact of Budget 2020, applying the MESL data to forecast the adequacy of social welfare rates and the minimum wage in 2020, and assessing the degree to which they enable a socially acceptable minimum standard of living in the coming year, for a set of illustrative household types.

| Area | MESL Recommendations | Budget 2020 Measures |
|---|---|---|
| **Working Age Personal Rates** | Increase by €8.00 | Retained 2019 rate |
| **Qualified Adult** | Maintain current nominal rate | Retained 2019 rate |
| **Qualified Child (under 12)** | Increase by €3.30 | Increased by €2.00 |
| **Qualified Child (12 and over)** | Increase by €7.00 | Increased by €3.00 |
| **Jobseekers: 25-year olds** | Re-instate full rate of JA for this group | Re-instated to full rate, €203.00 |
| **Jobseekers: 18 to 24-year olds** | Interim rate of €148, ultimately restore | Full rate, €203, when living independently and in receipt of housing support |
| **Fuel Allowance** | Re-instate 32-week season;<br>€830 a year - restoring purchasing power | Weekly rate increased by €2<br>No restoration of season |
| **OFP / JST Income Disregard** | Increase disregard to €166 per week<br>Review gross salary eligibility limit | Increased disregard to €165 per week<br>No review of gross salary eligibility limit |
| **Working Family Payment** | Review income thresholds – adjusting in line with social welfare rate changes | Income thresholds increased by €10 per week for first three children |
| **Child Benefit** | No change | No change |
| **Pensions, Personal & QA** | Retain 2019 rate | Retained 2019 rate |
| **Pensions, Living Alone** | Retain 2019 rate, focus on services | Increased by €5 per week |
| **National Minimum Wage** | Progressive realisation of Living Wage | Low Pay Commission recommendation of €0.30 increase deferred due to Brexit |

## Minimum Essential Standard of Living

The MESL is decided on by members of the public, working together in deliberative focus groups to reach consensus on what is the minimum people need to live and partake in Irish society. It is a standard of living which people agree no one should be expected to live below. It represents the minimum required to meet physical, social and psychological needs, and enable a life with dignity.

The research is iterative, working through multiple phases of deliberative groups, to establishes a negotiated social consensus on what people regard as essential for households to have a minimum, but socially acceptable, standard of living..

In this way the MESL is a tangible measure, grounded in lived experience and derived from social consensus, of what is required for participation, dignity and avoiding poverty. It operationalises the concepts which underpin the Irish Government definition of poverty, the human right to an adequate standard of living, and the key principle set out in the European Pillar of Social Rights that all have a right to an adequate minimum income which enables a life with dignity.

The MESL translates these concepts and ideals into a practical benchmark, as it specifies the average weekly cost of the goods and services deemed necessary to enable a socially acceptable minimum standard of living. In effect it operationalises a direct measure of poverty and a life with dignity.

## Inflation and changes in minimum living costs

The Government is forecasting inflation to increase prices by an average of 0.9% during 2019 and a further 1.3% throughout 2020. A cumulative increase of 2.21% by the end of 2020, with warnings of potentially greater impact in the context of a 'disorderly Brexit'.[3]

There is a body of evidence which demonstrates that inflation, and changes in the overall cost of living, are felt differently by various social groups and at different income levels.

It is likely that those on low incomes, reliant on social welfare and/or low paid employment, will experience a greater increase in minimum living costs than that predicted by average inflation measures. During the 'great recession' lower income households experienced higher rates of inflation than the national average or that experienced by higher income households.[4] Recent, ESRI analysis has shown that low income households are especially vulnerable to post-Brexit food price increases.[5]

The MESL research has tracked the changes in the cost of a Minimum Essential Standard of Living against average price changes, as measured by the CPI, and has found that the CPI rate tends to under-estimate changes in the cost of an MESL.

By its nature the MESL basket is more limited and concentrated on basics such as food and home energy, than the average consumer basket.[6] Changes in prices effect the overall cost of an MESL differently from the national average measured by inflation rates. Households attempting to afford a minimum standard of living are more vulnerable to price changes in essentials such as food, energy and transport, and are less likely to have price increases in these areas offset by reductions in other areas.[7]

In order to ensure that social welfare supports and minimum rates of pay maintain their real value, it is imperative that they are adjusted in line with forecast inflation, at a minimum. Furthermore, given the increased vulnerability of low-income households to increases in minimum living costs, adjustments which exceed forecast inflation are warranted, particularly for households most at risk of poverty and income inadequacy.

To not increase primary rates, particularly for those groups most at risk of income inadequacy and poverty, at a time when living costs are likely to rise, is in effect a cut to these rates. The impact of this will particularly acute on unemployed working-age households without children, which will not be cushioned by the increases to Qualified Child Payment, Living Alone Allowance, nor Fuel Allowance.

# Households with greatest need

The MESL assessment of income adequacy has identified households headed by one adult and households with older children as having the greatest risk of income inadequacy, when dependent on social welfare.

The annual MESL analysis has tracked notable progress in the reduction of the adequacy gap between social welfare rates and the cost of an MESL from 2014 to 2019. Compared to 2014, significantly more social welfare dependent household test cases demonstrate income adequacy, and there is a reduction in the adequacy gap for those household compositions continuing to demonstrate income inadequacy. This progress has been due to increases in the value of primary social welfare rates while the cost of an MESL has remained relatively stable over recent years.

Despite this progress deep income inadequacy persists and in 2019 is exclusively found in households which are headed by one adult, i.e. single working-age adult and lone parent households, or in households with older children.

Nearly a fifth of children (18.4%) in Ireland are 'at risk of poverty' and children make up a third (33.7%) of people living in consistent poverty. The level of consistent poverty among children is above the national average, and the rate is higher for older children (ages 12 – 17) than in younger age-groups.[8] Households with children comprise three-fifths (60.7%) of those 'at risk of poverty' and two-thirds (65.4%) of those in consistent poverty.

Working age households without children comprise a further 18.5% of those 'at risk of poverty' and 22.2% of those in consistent poverty.

Over a third (34.2%) of working-age single adults are at 'risk of poverty', as are two-fifths (39.9%) of lone parent households. A fifth of each are also in consistent poverty, significantly above the national rate of 6.7%.

Conversely, older adults (aged 65+) and two parent households have 'at risk of poverty' and consistent poverty rates below the national average. Older people living alone have a higher risk than older couples, with a tenth (10.0%) 'at risk of poverty' and 2.4% of in consistent poverty.[9]

## Deep Income Inadequacy

For Budget 2020 the VPSJ recommended building on the progress made in restoring the relative value of social welfare rates, by placing an emphasis on addressing deep income inadequacy.

In 2019 the MESL analysis demonstrated that social welfare fell short of providing an adequate income in 132 of 214 cases examined. 63 of the 132 inadequacy cases show deep income inadequacy, where income meets less than 90% of minimum need.

The MESL analysis has found that deep income inadequacy is exclusively found in:

- single working-age adult household types,
- lone parent household types,
- and households with older children.

For urban household compositions reliant on social welfare.

This is due to the current structures of the social welfare system underestimating the minimum needs and costs for one adult headed household relative to two adult headed households, and older children relative to younger children.

In rural areas, households face additional minimum costs in relation to transport and home energy. These contribute to additional deep income inadequacy for rural older people living alone (reliant on the state pension) and some rural two parent household compositions with younger children (when reliant on a JS and qualified adult payment).

From 2014 to 2019 the position of social welfare dependent households has been improving, with a reduction in the incidence and depth of income inadequacy.

It is forecast that this trend will reverse in 2020. Of the 214 test household cases examined 137 are predicted to demonstrate inadequacy in 2020, an increase of five. Deep inadequacy is also predicted to increase to 66 cases.

The measures brought forward in Budget 2020 have not addressed the systemic issues which concentrate deep income inadequacy in households with older children and single adult headed households

# Social Welfare

Budget 2020 has not increased primary social welfare rates, this is regrettable and amounts to a cut in the real value of these rates as living costs are forecast to increase in the coming year.

Budget 2020 adjusts the Qualified Child Increase, adding €2 for under 12's and €3 for children aged 12 and over. This is a positive measure and continues to recognise the additional needs of older children. The higher QCI rate was first introduced in Budget 2019 and represents an evidence-based policy response – the kind of which is required to address income inadequacy and poverty more generally.

Budget 2020's failure to adjust the adult personal rate in conjunction with the child rates will likely result in a deterioration of the position of social welfare dependent families in 2020, as income supports are not forecast to keep pace with rising prices.

The increase to the Fuel Allowance of €2 per week is a positive step. This increase will hopefully assist households in receipt of Fuel Allowance to meet the additional costs from the Carbon Tax. It also makes progress towards restoring the purchasing power of the Fuel Allowance.

Increasing the Living Alone Allowance by €5 per week represents an evidence-based approach to improving supports. The Living Alone Allowance makes a vital contribution towards supporting the group of older people which have a higher risk of poverty and have tended to demonstrate income inadequacy.

The primary Jobseekers support for a working-age single adult without dependents is not increased in Budget 2020. This household type consistently demonstrates deep income inadequacy, and this inadequacy is predicted to become more severe in 2020 as the cost of an MESL increases.

The restoration of the full Jobseeker's Allowance (JA) rate for 25-year olds is a very welcome measure in Budget 2020. It represents the end of the unequal treatment of people in this age-group, which was introduced in 2014. There also welcome steps towards equalisation for 18 to 24-year olds, with the re-instatement of the full rate for those living independently and in receipt of a housing support, e.g. HAP or RS.

It is welcome that the increases announced in Budget 2020 will be implemented from the start of the year. This breaks with the practice of recent years which saw increases delayed until March, meaning households in need missed 12 weeks of increased payments.

While beyond the scope of this analysis, the introduction of a disregard for the Blind Welfare Allowance for social welfare means tests is a welcome development. However, it is regrettable that no further measures to specifically address the additional and different needs of people with a disability were introduced in Budget 2020. Although, those with a disability may be eligible to receive Fuel Allowance and Living Alone Allowance, both of which are increased in Budget 2020.

Additional measures, including the €0.50 reduction in prescription charges for Medical Card holders, the trailing of a free school books scheme at primary school level, and further developments of free GP care for under 8's and dental care for under 6's, all have the potential to contribute toward reduction in living costs, when fully implemented and built upon.

### Supports when in employment

The €15 increase to the earnings disregard for One-Parent Family Payment and Jobseeker's Transition is welcome, enabling lone parents in employment retain a greater rate of support. This measure effectively restores the income disregard in relation to changes in the rate of the NMW over recent years.

Regrettably, the One-Parent Family Payment gross salary limit of €425 remains unchanged for the 13th consecutive year. The failure to adjust this cut-off point to reflect rising costs has eroded its value. Additionally, not adjusting the limit it in line with family size fails to address a systemic issue within the structure of this support.

## Benchmarking Social Welfare Adequacy

The adequacy of social welfare payments is benchmarked against the minimum expenditure needs of each household. Table 1 summarises the expenditure needs and social welfare income for:

- Two Parent household (one Jobseeker and one Stay-at-Home parent)
- One Parent household (dependent on OFP/JST)
- Single Adult, unemployed
- Pensioner living alone (Non-Contributory Pension).

In all cases the household types are eligible for a full Medical Card, and housing costs are based on social housing differential rents (except for the single adult[10]).

The MESL research has found that these household types tend to illustrate particular vulnerabilities to income inadequacy, when reliant on social welfare.

Each of these household compositions have demonstrated persistent income inadequacy over a number of years. In 2017 the pensioner living alone household type moved into income adequacy, and in 2019 the household compositions with younger children moved into adequacy. This progress has been due to the cumulative increases in social welfare rates during a period of moderate change in minimum living costs.

However, households with older children, one-parent households and working-age single adult household types continue to demonstrate greater rates of income inadequacy, and deep income inadequacy.[11]

The targeted measures introduced in Budget 2020 will see the income of a lone pensioner household increase by 2.3%, consequently maintaining the progress made for this household type as the rate of income increase slightly exceeds forecast inflation.

On the other hand, standard social welfare rates for working-age adults will not increase in 2020. Consequently, the position of a social welfare dependent working-age single adult is forecast to worsen as income inadequacy deepens due to the rising cost of an MESL.

Adjustments to the Qualified Child Increase will act as a partial buffer to increasing costs for social welfare dependent households with children, particularly when combined with the increase in Fuel Allowance (available to long-term social welfare recipients). Household income will increase by 0.8% to 1.7% (depending on household composition), which in all cases examined is less than the forecast inflation for the period in question.

Furthermore, the widening gap between market rents and rent limits for HAP recipients will precipitate greater cost increases for households reliant on this housing support.

## Single Adult of Working Age

The standard working-age personal rate for social welfare payments such as Jobseekers has not been adjusted in Budget 2020. Given the forecast inflation for 2020 this is in effect a cut in the real value of this support.

For an unemployed adult living alone in urban private rented accommodation, the combination of a full Job Seekers payment and Rent Supplement was deeply inadequate in 2019, meeting 83% of MESL need. This inadequacy is forecast to deepen in 2020, as the real value of the Jobseekers payment falls due to the predicted rise in living costs. It is estimated that social welfare will meet only 81% of MESL need during 2020.

The above is based on the household living in private rented housing within the current Rent Supplement (RS) limits for Dublin, the housing cost is based on the tenant contribution required under RS (€32 per week in this case). The RS rent limits have not been adjusted for several years and now fall significantly below market rents.

When in a Housing Assistance Payment (HAP) tenancy, the same rent limits apply, however the tenant can be required to pay a top-up to bridge the gap between the rent limit and market rents. In a HAP scenario housing costs add an additional €109 to this household type's 2020 MESL costs.

In 2020 a working-age single adult living in Dublin, in receipt of HAP and a full Jobseekers payment is forecast to have an income shortfall of €156 per week. Social welfare meets only 57% of the cost of essential needs.

If in receipt of a long-term Jobseekers payment, this household would be eligible for both the Fuel Allowance and 'Christmas Bonus'. The Fuel Allowance, increased by €2.00 per week in Budget 2020, equates to an average weekly value of €13.19. The 'Christmas Bonus' of 100% equates to an average of an additional €3.90 per week for an eligible unemployed adult without dependents.

The combination of the 'Christmas Bonus' and Fuel Allowance would reduce the level of inadequacy, to a shortfall of €26 per week in the RS scenario and €131 in the HAP scenario.

### Unemployed Adults, Under 26

The restoration of the full Jobseeker's Allowance (JA) rate for 25-year olds is a very welcome measure in Budget 2020. It represents the end of the unequal treatment of people in this age-group, which was introduced in 2014.

Budget 2020 also brought welcome steps towards equalisation for 18 to 24-year olds, with the re-instatement of the full rate for those living independently and in receipt of a housing support, e.g. HAP or RS.

Reduced JA rates were first introduced in 2009 for those under 20 and expanded in subsequent years. The Budget 2020 measures move towards restoring equal treatment of all adults and will undoubtedly improve the income position of the household types effected.

However, as detailed above, the full JA personal rate of €203 per week is inadequate for single working-age adults living independently, and the inadequacy is forecast to worsen in 2020. This shines a light on the need to benchmark social welfare rates against the cost of an MESL and ensure that minimum income supports enable a life with dignity for all age-groups.

## Households with Children

The MESL research has consistently identified older children as having additional and different needs distinct from children in younger age-groups. The cost of an MESL is highest for older children, aged 12 and over. The MESL needs of older children cost approximately €120 per week, over 63% more than the minimum needs of younger children.

In 2020 social welfare supports are forecast to meet 63% of the MESL costs for an older child, compared to meeting over 90% of MESL costs of younger children.[12]

Deep income inadequacy, where social welfare meets less than 90% of MESL need, is found most frequently in household compositions with older children. Older children in one parent households are additionally affected due to the deep inadequacy risk faced by one adult headed households.

In recognition of older children's additional needs, a higher rate of Qualified Child Increase (QCI) for children aged 12 and over was introduced last year. Budget 2020 builds on this by increasing the older child QCI rate by €3 per week.

This is a positive development and represents the type of evidence-based policy response which is required to address income inadequacy and poverty generally.

In addition to the increase to the higher rate of QCI for older children Budget 2020 also increases the QCI rate for children under 12 by €2.00.

However, these increases fall short of the rates recommended in the VPSJ's Pre-Budget Submission, which set out the interim steps required for social welfare rates to reach adequacy by 2025. Furthermore, it is regrettable that the increase in the QCI rates is not accompanied by an increase in the adult personal rate. Child poverty and income inadequacy can only be fully addressed when the minimum needs of the entire household are considered.

For the two parent household scenarios examined net income from social welfare will increase by 0.8% for the composition with younger children and 1.0% for the composition with an older child.

For the one parent household scenarios examined, it is assumed that the household will be eligible for Fuel Allowance (FA) (as a longer-term social welfare recipient, unlike the Two Parent scenarios examined). The combined increases from QCI and FA will result in household income increasing by 1.4% to 1.7%.

In all cases the increase in social welfare supports will fall short of the inflation in prices predicted for 2020, as a result the position of each household composition is likely to worsen in 2020. For household compositions with younger children, the degree of adequacy is set to decline. The modest cushion of income above MESL need will be eroded, reducing to less than €1 above minimum need for a One Parent household with a pre-school and primary school age child.

For household compositions which include an older child, income supports from social welfare are currently deeply inadequate in 2019, meeting less than 90% of MESL need. However, the depth of inadequacy in 2019 was less than in 2018, due to improvements in supports for these household compositions. In 2020 this situation is likely to worsen as the level of inadequacy will deepen due to rising costs.

In 2019, of 207 cases of households with children examined 130 showed income inadequacy; 62 of which demonstrated deep income inadequacy. Households with older children and one parent household compositions showed the greatest rates of deep income inadequacy.

In 2020 it is forecast that 135 of the 207 test household with children cases will have an inadequate income, an increase of five cases. Of the 135 inadequate cases, 65 will demonstrate deep income inadequacy. The additional cases showing deep income inadequacy are each one parent household compositions.

The continued development of the new older child rate is welcome. However, the predicted worsening of income inadequacy in 2020 demonstrates that in order to make real progress toward achieving the child poverty reduction goal and addressing the multi-faceted consequences of child poverty, it is imperative that substantive steps continue to be taken to enhance supports for families as a whole.

## Older People

Budget 2020 is the first budget in five years to not increase the State Pension rate. Instead an evidence-based approach has brought a significant increase to the Living Alone Allowance, increasing by €5 per week from €9 to €14. This support was last increased in 2015.

The MESL research finds pensioner couple households tend to demonstrate income adequacy when reliant on the state pension. However, a pensioner living alone has tended to show greater vulnerability to income inadequacy. This trend began to change in 2017 with urban households moving into adequacy but remains in rural areas.

The Living Alone Allowance makes a vital contribution towards supporting the group of older people which have a higher risk of poverty and have tended to demonstrate income inadequacy.

Deep income inadequacy persists for the pensioner living alone household type when in a rural area. Due to additional needs in a rural area, primarily transport, the non-contributory State Pension (and secondary supports) will meet only 84% of MESL costs for a rural older person living alone, leaving a shortfall of €52.

An urban based pensioner household can utilise the free travel pass to meet minimum transport needs on public transport. The same is not true for rural pensioner households. The need for a car adds an additional €59 per week to the MESL budget for a lone pensioner in a rural area.[13]

Lack of access to adequate public transport, and the resulting need for a car, result in income inadequacy for the pensioner living alone household type in a rural area. Improved public transport services are key to addressing this deep inadequacy.

The increase to the Living Alone Allowance is welcome, particularly in the context of predicted increases in minimum living costs in 2020. However, the primary driver of income inadequacy for rural older people living alone is related to lack of public transport and the need for a car. Consequently, services to reduce these costs are needed in order to address the underlying factors contributing to this inadequacy.

## Fuel Allowance

Budget 2020 increases the Fuel Allowance rate by €2.00 per week and maintains the 28 weeks season. This is an increase of €56.00 in the year, bringing the annual value of the support to €686, and represents a welcome increase of 8.9% in the value of the Fuel Allowance.

The increase in the rate exceeds the inflation in home energy prices, which increased by an average of 4.6% in the last year.[14]

The increase will make a notable difference to the long-term social welfare recipient households which qualify for Fuel Allowance. However, in the context of longer-term home energy price increases since 2010, the 2020 rate will have 83% of the 2010 purchasing power.

# Income Adequacy in Employment

Employment should enable people to have a 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.

Setting an appropriate wage floor is essential, to address the needs of those without dependent children, and to set a reasonable floor for other social support mechanisms to work from. Decent work, providing an adequate rate of pay and secure hours, is crucial to enabling income adequacy in employment.

Minimum rates of pay cannot provide for income adequacy in isolation. There is a fundamental role for social supports to smooth out the multiplicity of varying additional and different needs of households with children. Well designed in-work income supports (operating in tandem with the tax system) and services which reduce living costs (e.g. affordable childcare and access to adequate affordable housing) need to work effectively in conjunction with an appropriate minimum wage rate, to enable all households to achieve an MESL when in employment.

Table 1 summarises the minimum wage employment scenarios for five working age household compositions. The adequacy of net household income when in minimum wage employment is assessed, taking account of tax liabilities and relevant social welfare entitlements.

The decision to postpone the Low Pay Commission recommendation of a €0.30 increase to the minimum wage, is regrettable. Minimum wage employment falls short of providing a minimally adequate income for a single adult in 2019, and with rising costs predicted for 2020 this situation will worsen.

The households with children demonstrate income adequacy in these scenarios, when paying a differential rent in social housing and receiving targeted support for childcare costs. The adjustments to Working Family Payment and One-Parent Family Payment / Jobseekers Transition, will result in a 0.9% to 1.7% increase in net household income. These increases will offset some of the forecast rise in minimum living costs for 2020, but not all.

## Single Adult

The net income from minimum wage employment will not change in 2020, as there are no adjustments to the National Minimum Wage (NMW) rate or personal taxation for this household type.

Net income for an adult in full-time (37.5 hour) minimum wage employment will remain €348 per week.

Housing costs increased by 9.2% for this household type (in Dublin) from 2018 into 2019 and have increased by a further 3.0% in 2019.[15] The combination of inflation generally and increasing rents result in a predicted increase in MESL expenditure need of €12 (2.7%) per week in 2020, when living and renting in Dublin.

In 2020 income inadequacy will likely deepen for a household in this scenario, with an income shortfall of over €140 per week. The NMW will provide for only 71% of this household's MESL expenditure need.

Based on the current forecast MESL costs for 2020, a single adult would need to have over 61 hours of paid NMW employment per week in order to afford an MESL in Dublin in the coming year.

## Households with Children

Table 1 summarises the position of four household compositions with children, when the adults are in minimum wage employment, housing costs are based on paying a differential rent (social housing), and households with younger children can access targeted support with childcare costs through the CCS plus scheme.[16]

Budget 2020 increases the earnings disregard for One-Parent Family Payment (OFP) and Jobseeker's Transition (JST) by €15. This is an important measure which effectively restores the income disregard in relation to changes in the rate of the NMW over recent years. This will enable eligible lone parents in employment to retain a greater rate of support in 2020, than in 2019.

The increase to the income thresholds for Working Family Payment is also welcome and will provide additional support to lower income households with children. However, the threshold increase is limited to families with up to three children, the threshold for larger families has not been adjusted since 2016.

The adjustments to the Working Family Payment (WFP) result in a 0.9% increase in net household income for the Two Parent and Two Child household compositions examined here.

The One Parent household composition with younger children will benefit from the increase in the OFP disregard, WFP income threshold and increased Fuel Allowance. Combined this results in a 1.7% increase in net household income.

The One Parent household composition with older children is not eligible for OFP, as the children in the household are above the age-limit. Household income is primarily based on NMW employment and WFP. The increased WFP threshold results in a 1.0% increase in net income for this household composition.

The Two Parent household compositions will also benefit from the increase in Working Family Payment income threshold, resulting in a 0.9% increase in net household income.

Minimum wage employment is forecast to continue to provide the basis of an adequate income for both of One Parent and Two Parent household compositions in 2020, when in social housing and accessing support with childcare costs.

## Importance of Services

In-work income supports, when working in tandem with services, can provide income adequacy, as demonstrated in the scenarios above.

The MESL research also demonstrates that where these services are not available the expenditure and income required for a socially acceptable minimum standard of living is significantly higher.

Housing supports are particularly vital. The adequacy demonstrated here for households with children is contingent on access to a differential rent, making housing affordable at lower incomes.

Similarly supports with childcare costs are also essential to ensure that employment can provide an adequate income and improve a household's position.

Budget 2020 introduces a number of additional measures which should contribute toward a reduction in minimum living costs. These include a €0.50 reduction in prescription charges (from July 2020), and the extension of free GP care to children under 8 and dental care for children under 6 (from September 2020). The trailing of a free school books scheme at primary school level is also proposed in Budget 2020.

These have the potential to contribute towards a reduction in living costs, when fully implemented and built upon. Such measures have the potential to make an acceptable minimum standard of living an affordable reality at lower income levels.

# Notes

## Social Welfare Scenario Notes

Housing costs based on social housing (differential rent), except for the Single Adult which is based on Private Rented and receiving Rent Supplement.

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

| | |
|---|---|
| Two Parents | JS Personal Rate + Qualified Adult + Qualified Child, Child Benefit, Back to School Clothing & Footwear |
| One Parent | One-Parent Family Payment / Jobseeker's Transition + Qualified Child, Child Benefit, Back to School Clothing & Footwear, Fuel Allowance |
| Single Adult | JS Personal Rate, Rent Supplement |
| Pensioner | Non-Contributory Pension + Living Alone Increase, Fuel Allowance, Telephone Support Allowance, Household Benefits Package |

Assumed all social welfare dependent households are eligible for a full medical card.

## Employed Scenario Notes

Housing costs based on social housing (differential rent), except for the Single Adult which is based on 90% of average Dublin rent for a one-bedroom dwelling.

Childcare costs included in MESL expenditure need, as appropriate. Cost is net the CCS Plus or ECCE scheme as appropriate for child age and household eligibility.[16]

Two Parent households based on 1 adult in full-time (37.5 hours) employment and 1 in part-time (19 hours), One Parent & Single Adult households based on 1 adult in full-time (37.5 hours) employment.

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.

Income is net household income, after tax (PAYE, PRSI & USC), and includes applicable social welfare supports e.g. Child Benefit. Means tested social welfare supports included for households with children, e.g. Working Family Payment, One-Parent Family Payment, are included as applicable.

Medical card means test applied in each scenario, following HSE Medical Card guidelines.

# Endnotes

1 Analysis of the MESL in 2019 is available in the MESL 2019 Update Report - https://www.budgeting.ie/publications/mesl-2019/

2 Central Bank (2019) Quarterly Bulletin No.2 2019. www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/qb-archive/2019/quarterly-bulletin-q2-2019.pdf#page=6

3 Dept. of Finance (2019). Budget 2020: Economic & Fiscal Outlook. Page 18. budget.gov.ie/Budgets/2020/Documents/Budget/Budget%202020_Economic%20and%20Fiscal%20Outlook_B.pdf

4 Callan, T. & Colgan, B. (2015). ESRI Research Note: The Distributional Impact of Inflation: 2003-2014. www.esri.ie/publications/the-distributional-impact-of-inflation-2003-2014

5 Lawless, M. and Morgenrot, E. (2018) Brexit and Irish consumers. www.esri.ie/system/files/media/file-uploads/2018-03/QEC2018SPR_SA_Lawless.pdf

6 Food represents an average of 23.1% of the MESL basket, household energy 11.2% and public transport 10.6%, these areas represent 10.3%, 3.8% and 1.0% of CPI basket respectively. Approximately 40% of the CPI is comprised of goods and services which are not part of the MESL basket.

7 For a fuller discussion see the VPSJ submission on Social Welfare Benchmarking. www.budgeting.ie/publications/social-welfare-benchmarking/

8 From SILC 2017 data, the national consistent poverty rate is 6.7%., the average rate for children (0 – 17) is 8.8%.
The rate for older children (12 – 17) is higher than for younger age-groups (11.2% compared to 8.2% and 6.2% for younger age-groups). DSP (2019) Social Inclusion Monitor 2017. Table 6.1.

9 CSO (2018) SILC 2017. www.cso.ie/en/releasesandpublications/ep/p-silc/surveyonincomeandlivingconditionssilc2017/povertyanddeprivation/

10 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 90% of the average cost of a private rented one-bedroom dwelling in Dublin. Average rent: €1,287.91; 90% of average: €1,159.12. Rent data from RTB Rent Index, adjusted using CPI sub-index for Private Rents.

11 Additionally, when in a rural area, the pensioner living alone household type and several some two parent household compositions with younger children, also demonstrate deep income inadequacy when reliant on social welfare. This is due to rural households facing additional minimum costs in relation to transport and home energy.

12 Based on 2019 Cost of A Child assessment updated to 2020. See MESL 2019 Update Report page 24 – 25.

13 For further detail see the MESL 2019 Update Report, page 20 – 22.

14 CSO CPI Data (Table CPM16): CPI detailed sub- 'Electricity, gas and other fuels', 12-month change to March 2019.

15 Calculation based on CPI sub-index rate for Private Rents from March 2018 to September 2019. statbank.cso.ie/px/pxeirestat/Statire/SelectVarVal/Define.asp?Maintable=CPM16&Planguage=0

16 The National Childcare Scheme (NCS) is not included in this analysis as the current CCS scheme is being retained (in parallel with the NCS) for the coming year. A more detailed examination of the NCS and comparison with the supports offered under the CCS is beyond the scope of this Budget analysis. However, this may be examined in a separate paper in the near future.