MINIMUM ESSENTIAL BUDGET STANDARDS RESEARCH CENTRE

OCTOBER 2020

Budget 2021

MESL IMPACT BRIEFING

KEY POINTS

The higher rate of Qualified Child Increase (QCI) for children aged 12 is an evidence-based response to the higher risk of income inadequacy and poverty amongst this age-group. Budget 2021 continues to build towards adequacy for this age-group, increasing the higher QCI rate by €5 per week. However, it is regrettable that this falls short of the recommended increase of €10. Budget 2021 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 working-age adult rates. Child poverty and income inadequacy can only be fully addressed when the minimum needs of the entire household are considered.

The lack of further measures to continue progress towards equalising the Jobseeker's Allowance (JA) rate for young adults, aged 18 – 24 years old is regrettable.

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 2021 increases the Fuel Allowance by €3.50 per week. The increase makes a significant adjustment to the purchasing power of this support for qualifying long-term social welfare recipient households. However, the impact of Carbon Tax increases and potential inflation in home energy costs in 2021 may reduce the impact of this rate increase.

The €0.10 increase in the National Minimum Wage and associated adjustment to USC are noted. However, the increase does little to reduce the gap between the inadequate rate of minimum wage and the Living Wage (€12.30 per hour) – despite commitments in the programme for government.

In 2021 a single adult will need to work over 58 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 73% of MESL needs, falling over €130 short per week.

The removal of the salary eligibility threshold for the One-Parent Family Payment is welcome. This measure removes a 'poverty trap' which the MESL analysis has a shone a light on for several years. While the rate of payment for OFP will continue to be means-tested and tapered, the guillotine effect of the €425 salary threshold is set to be removed in April 2021.

Budget 2021 brings welcome increases to the Working Family Payment income thresholds by €10 for the first three children.

Budget 2021 has re-announced the delayed 2020 reduction in prescription charges for Medical Card holders, which is welcome. However, the Budget 2020 extension of free GP Care to under 8's has not been advanced and is absent from Budget 2021.

Table 1 Income Adequacy 2020 and 2021

Urban MESL Expenditure need, estimate of adequacy for 2021 based on 2020 MESL

		Social Welfare		Employed	
		2020	2021	2020	2021
Two Parent	Pre & Primary School				
	MESL Expenditure	484.06	484.66	599.42	601.19
	Income (Net)	477.20	481.20	670.43	678.23
	Adequacy	-6.86	-3.46	71.01	77.04
Two Parent	Primary & Second Level				
	MESL Expenditure	570.49	571.49	670.89	671.69
	Income (Net)	486.49	493.49	675.72	683.52
	Adequacy	-84.00	-78.00	4.83	11.83
One Parent	Pre & Primary School				
	MESL Expenditure	366.27	366.87	542.61	547.10
	Income (Net)	355.69	361.58	669.33	679.57
	Adequacy	-10.58	-5.29	126.72	132.46
One Parent	Primary & Second Level				
	MESL Expenditure	452.70	453.80	552.93	555.52
	Income (Net)	364.98	373.87	622.77	633.07
	Adequacy	-87.72	-79.93	69.84	77.54
Single Adult	Working Age				
	MESL Expenditure	249.90	249.90	484.06	489.60
	Income (Net)	203.00	203.00	354.75	356.90
	Adequacy	-46.90	-46.90	-129.31	-132.70
Pensioner	Living Alone				
	MESL Expenditure	257.75	258.50		
	Income (Net)	266.69	273.58		
	Adequacy	8.95	15.08		

The MESL data examined in this briefing, is based on the 2020 MESL expenditure data.[1] This MESL expenditure requirements provides a benchmark for measuring the adequacy of incomes for six household types.

See Notes on page 12 for details of the income scenarios. The 2021 income calculations are based on the information from Budget 2021, 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 2020 analysis of minimum expenditure and income needs, the VPSJ presented a suite of policy recommendations for Budget 2021. 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 that the impact of the COVID-19 on individuals, families, society, jobs and the economy present many unique challenges, and the unprecedented context informing the decisions in Budget 2021. While welcoming the evidence-based targeted measures and the proposals the VPSJ regrets the failure to increase primary working-age rates. 2021 will be the third year with primary rates at their current level, given the inadequacy of the current rates and uncertainty around future trends in minimum living costs, it is regrettable that broader measures were not taken towards ensuring an adequate income to enable a life with dignity.

This briefing analyses the impact of Budget 2021, applying the MESL data to examine the potential adequacy of social welfare rates and the minimum wage in 2021, 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 2021 Measures
Working Age Personal Rates	Increase by €8.00 to €211 per week	Retained previous rate
Qualified Adult	Maintain current nominal rate	Retained previous rate
Qualified Child (under 12)	Increase by €3.00 to	Increased by €2.00
Qualified Child (12 and over)	Increase by €10.00 to €50.00 per week	Increased by €5.00
Jobseekers: 18 to 24-year olds	Interim rate of €150, ultimately restore	Full rate, €203, when living independently and in receipt of housing support
Fuel Allowance	Re-instate 32-week season; €810 a year - restoring purchasing power	Weekly rate increased by €2 No restoration of season
OFP / JST Income Disregard	Review gross salary eligibility limit	Removal of gross salary limit from April
Working Family Payment	Adjust income thresholds in line with changes in minimum wage & social welfare	Increase income thresholds by €10
Child Benefit	No change	No change
Pensions, Personal & QA	Retain current rate	Retained previous rate
Pensions, Living Alone	Focus on services	Increased by €5 per week
National Minimum Wage	Evidence based rate, progressive realisation of Living Wage of €12.30 per hour	Minimum wage increased by €0.10 to €10.20 per hour

Minimum Essential Standard of Living

The VPSJ's 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; providing an evidence-based benchmark for assessing income adequacy.

Inflation and changes in minimum living costs

The COVID-19 pandemic has brought great uncertainty to how prices and living costs will change in the coming year. The Central Bank[2] note that to date COVID-19 has had a downward impact on consumer prices, with inflation turning negative from April 2020. The Department of Finance[3] similarly note the downward pressure on prices resulting from the economic effects of COVID-19.

All forecasts on the potential change in prices and living costs for remainder of 2020 and the coming year, are subject to an exceptional level of uncertainty due to the potential impacts of both COVID-19 and Brexit.

The forecasts for the remainder of 2020 and for 2021 are subject to caveats regarding the severity of the scenario arising from COVID-19. Further uncertainty is introduced by Brexit, and the potential upward pressure on prices that may result from Brexit in 2021. With the Central Bank noting that forecasts are "subject to more than the usual degree of uncertainty".

The Central Bank are forecasting HICP inflation of -0.6% over 2020, and 0.2% in 2021. The Department of Finance estimates HICP inflation of -0.3% for 2020, and 0.4% in 2021. The estimates indicate the potential for cumulative change in average prices of between -0.4% (CB) and +0.1% (DoF) to end of 2021.

In both cases the potential for changes in energy prices is flagged as the key factor in the rate of change predicted for 2021, with the Dept. of Finance noting the: "increase in headline HICP in 2021 will be driven by rising energy prices" (2020: 24).

The MESL research has previously highlighted issues regarding the appropriateness of standard inflation rates in measuring the change in the cost of a minimum basket of goods and services. 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.

During the 'great recession' lower income households experienced higher rates of inflation than the national average or that experienced by higher income households.[4]

Past evidence suggests that the prices in minimum living costs tend not to reflect the same reduction in prices as the average basket assumed in headline inflation measures.

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.[5]

ESRI analysis has shown that low income households are especially vulnerable to post-Brexit food price increases.[6] Furthermore, the available forecasts point to increasing energy costs being a driving factor for inflation next year.

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 potential changes in minimum living costs.

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 minimum living costs are likely to rise, is in effect a cut to these rates. The impact of this will be particularly acute on social welfare dependent working-age households without children, which will not be cushioned by the increases to Qualified Child Payments, Living Alone Allowance, nor Fuel Allowance.

MESL 2021 Forecast

Due to the high degree of uncertainty in the available forecast inflation rates, and the ongoing concerns regarding the accuracy of headline inflation rates in the context of minimum living costs, a reliable estimate of 2021 MESL costs cannot produced with the available data.

In a departure from previous MESL Impact Briefings, in examining the impact of the Budget 2021 measures on income adequacy the 2020 MESL data[7] will be applied.

Consequently, this analysis will not reflect any potential increase in MESL costs in 2021. While this is regrettable, the 2020 MESL data provides the most robust and valid measure of minimum livings costs currently available.

Therefore, any potential income inadequacy found in the analysis can be viewed as a 'best case' scenario, where minimum living costs do not increase. In all likelihood inadequacy will be deeper, if those on low incomes experience an increase in the cost of a socially acceptable minimum standard of living in 2021

Households with greatest need

In 2020 the MESL assessment of social welfare income adequacy again identified households with older children and households headed by one adult (i.e. single working-age adult and lone parent households) as consistently demonstrating the greatest risk and depth of income inadequacy.

The concentration of deep income inadequacy in these household types 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.

The vulnerability of these household types is also demonstrated in the SILC data. It similarly finds that households with older children and one adult headed households demonstrate greater 'at risk of poverty rates' than other household types.

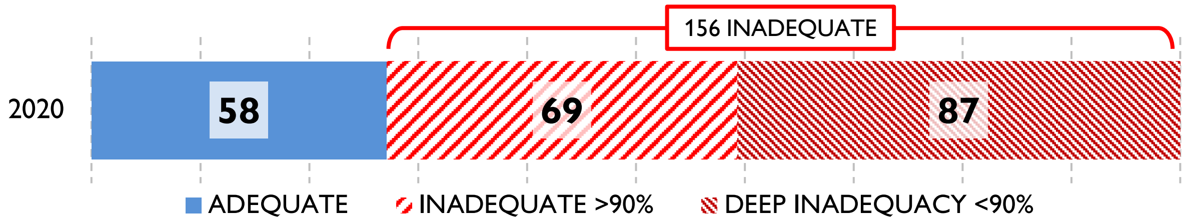
16% of children in Ireland are 'at risk of poverty' and children represent almost a third (29.3%) of people living 'at risk of poverty'. The 'at risk of poverty' rate among children is above the national average, and the rate is highest for older children (ages 12 – 17) than in younger age-groups.[viii]

Households with children comprise over half (57.8%) of those 'at risk of poverty' and almost two-thirds (64.5%) of those in consistent poverty.

Over a third (34.0%) of working-age single adults are at 'risk of poverty', as are a third (33.5%) of lone parent households. Both significantly above the national rate of 14.0%.

Conversely, older adult couples (aged 65+) and two parent households have 'at risk of poverty' and consistent poverty rates below the national average. However, older people living alone have a higher risk than older couples, with a fifth (19.7%) 'at risk of poverty'.[ix]

Deep Income Inadequacy



In 2020 the MESL analysis demonstrated that social welfare fell short of providing an adequate income in 156 of 214 cases examined. Within the inadequate cases 87 show deep income inadequacy, where social welfare provides less than 90% of minimum need.

The current social welfare personal rate (€203) is inadequate to meet the MESL costs of a single adult of working-age and does not provide the basis of an adequate income for the majority of one parent household compositions examined.

The 2020 MESL assessment of social welfare income adequacy found that deep income inadequacy is concentrated in households with older children (aged 12 and over) and one adult headed households, i.e. lone parent households and single working-age adult households. This is consistent with the findings of the MESL analysis in previous years.

One Parent household compositions show a greater incidence and depth of income inadequacy, than equivalent Two Parent household compositions, when dependent on social welfare. This is the case for One Parent households with older children. Also, unlike in Two Parent household types, there is a notable incidence of deep income inadequacy in One Parent households with only younger children.

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.

It is forecast that the measures brought forward in Budget 2021 will not fundamentally alter this situation.

The MESL analysis finds that in 2021 deep income inadequacy will continue to be concentrated in households with older child and one adult headed households. With One Parent household compositions continuing to demonstrate the greatest rates and depth of income inadequacy – when the household includes an older child, and also exclusively to One Parent households, when the household has younger children only.

The continued steps to build towards adequacy for the older child rate of QCI is welcome. However, the QCI cannot work in isolation, and can only be effective when building from an adequate floor rate for the primary working-age personal rate.

It was for this reason that the VPSJ recommended an evidence-based set of adjustments to both rates of payment and a change to the relative structures which inform decisions regarding these rates.

Without measures to progressively realise an adequate primary social welfare rate for working-age adults, the adjustments to the QCI cannot properly address household income inadequacy or child poverty.

Benchmarking Social Welfare Adequacy

The following section examines the new social welfare measures announced on a household by household basis. These are summarised in Table 1 for six household types which illustrate varying aspects of vulnerability to income inadequacy when reliant on social welfare. An assessment of income adequacy is presented for the coming year, based on the current urban MESL expenditure need and income rates as announced in the Budget.

The following household types and social welfare income scenarios examined:

- Two Parent household, (one Jobseeker and one Stay-at-Home parent)
- One Parent household (in receipt of One-Parent Family Payment / Jobseeker's Transitional),
- Single Adult, unemployed (in receipt a Jobseeker's payment and Rent Supplement)
- Pensioner living alone (Non-Contributory Pension).

In all cases the household types are eligible for a full Medical Card. Housing costs are based on social housing differential rents, except for the working-age single adult. In the unemployed scenario the single adult housing costs are based on renting at the Rent Supplement ceiling in the Dublin area, and receiving Rent Supplement.

Social Welfare measures in Budget 2021

Budget 2021 adjusts the Qualified Child Increase, adding €2 for under 12's and €5 for children aged 12 and over. Introduced in 2019, the higher rate of Qualified Child Increase for children aged 12 and over is an evidence-based response to the higher risk of income inadequacy and poverty amongst this age-group.

This is a positive measure and continues to recognise the additional needs of older children, building towards adequacy for this age-group. However, it is regrettable that this falls short of the recommended increase of €10.

It is regrettable that Budget 2021 has repeated the practice of not adjusting the adult rates in conjunction with the child rates. Standard social welfare rates for working-age adults will not increase again in 2021. Consequently, the position of a social welfare dependent working-age single adult and the deep income inadequacy faced will not change in the coming year.

Adjustments to the Qualified Child Increase will act as a partial buffer for social welfare dependent households with children, particularly when combined with the increase in Fuel Allowance (increased by €3.50 per week) for long-term social welfare recipients. Household income will increase by 0.8% to 2.4% (depending on household composition).

Income inadequacy and child poverty can only be fully addressed when the minimum needs of the entire household are considered. Budget 2021 has again missed the opportunity to make progressive steps towards ensuring an adequately benchmarked primary social welfare rate for working-age adults.

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

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.

It is regrettable that there were no further measures to continue progress towards equalising the Jobseeker's Allowance (JA) rate for young adults, aged 18 – 24 years old.

It is most welcome that the improvements in the Qualified Child Increase, Fuel Allowance and Living Alone Allowance, will come into effect from the start of 2021.

The extension of the additional week Christmas payment to those in receipt of a primary social welfare payment for at least 4 months (reduced from the previous 15-month requirement), is very welcome. This will provide a notable additional support to many households attempting to make ends meet.

Budget 2021 has re-announced the delayed 2020 reduction in prescription charges for Medical Card holders, which is welcome. However, the Budget 2020 extension of free GP Care to under 8's has not been advanced and is absent from Budget 2021.

While beyond the scope of this analysis, the increased earnings disregard for the Disability Allowance 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 2021. Although, those with a disability may be eligible to receive Fuel Allowance and Living Alone Allowance, both of which are increased in Budget 2021.

Single Adult of Working Age

The standard working-age personal rate for social welfare payments such as Jobseekers has not been adjusted in Budget 2021. Working-age single adult household types consistently demonstrate deep income inadequacy, and the Jobseekers rate of support is now unchanged since 2019.

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 81% of MESL need.

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 2021 MESL costs.

In 2021 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 will meet 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 €3.50 per week in Budget 2021, equates to an average weekly value of €15.08. 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 €28 per week in the RS scenario, meeting 89% of MESL need. However, in the HAP scenario with these additional supports a weekly shortfall of €137 would remain.

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 €132 per week, 60% more than the minimum needs of younger children.

The improved QCI rates announced in Budget 2021 will see social welfare supports meet 62% of the MESL costs for an older child, compared to meeting at least 88% of MESL costs of younger children.

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 impacted due to the additional 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 2021 continues to build towards adequacy for this age-group, increasing the higher QCI rate by €5 per week. There is also a welcome adjustment of €2 to the Qualified Child Increase for younger children.

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

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 1.4% 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 1.7% to 2.4%.

The household compositions with younger children are predicted to be close to income adequacy in 2021. The extension of the 'Christmas Bonus' to those in receipt of a qualifying social welfare support for four months (reduced from the previous 15-month requirement), has the potential to bring a notable increase to average weekly incomes. Incorporating this additional measure would see both household compositions move to marginal income adequacy in 2021.

The household compositions with an older child are predicted to continue to demonstrate deep income inadequacy in 2021. While the 'Christmas Bonus' has the potential to bring additional support (an average of €8.09 and €5.50 per week for the Two Parent and One Parent compositions, respectively), it is not enough to bring household income out of deep income inadequacy.

The continued development of the new older child rate is welcome. However, the predicted persistence of deep income inadequacy in 2021 demonstrates that to make real progress toward achieving the child poverty reduction goals 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

Over recent years improvements in the State Pension rate have improved the position of all pensioner household types examined in the MESL analysis. While pensioner couple households tend to demonstrate income adequacy when reliant on the state pension, a pensioner living alone has tended to show greater vulnerability to income inadequacy. In 2017 an urban pensioner living alone household type moved to income adequacy when reliant on the Non-Contributory Pension and living in social housing; the first time since 2010.

Budget 2021 follows an evidence-based approach to implement a further significant increase to the Living Alone Allowance, increasing by €5 per week to €19. 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 €51. [10]

An urban based pensioner household can utilise the free travel pass to meet most of their minimum transport needs on public transport, supplemented by the occasional use of a taxi. For rural households a car is a necessity due to the inadequacy of public transport. The need for a car adds an additional €67 per week to the MESL budget for a lone pensioner in a rural area.

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. If the need for a car was removed, thereby reducing MESL costs, the current state pension rate would be adequate for the pensioner living alone household type in both rural and urban areas.

The increase to the Living Alone Allowance is welcome, 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.

Home Energy

Carbon Tax

Carbon Tax is currently charged at the rate of €26 per tonne of CO_2 emitted. Budget 2021 announced an increase in the Carbon Tax to €33.50 per tonne of CO_2 emitted. While the increase applies to vehicle fuels (e.g. petrol and diesel) immediately, it will apply to other fuels from May 2021.

In terms of household energy costs, the 2020 rate of carbon tax equates to a rate of 0.054 cents per unit (kWh) of natural gas consumed. The increased rate in 2021 will equate to a rate of approx. 0.070 cents per unit (kWh) of natural gas consumed.

In 2020 Carbon Tax on natural gas contributes €72 to the annual household energy costs in the urban MESL budgets The increase in carbon tax will see this rise to approximately €93 per year.

The level of Carbon Tax payable on fuels with higher carbon emissions are greater. In 2020 Carbon Tax on home heating oil contributed approximately €83 to the annual household energy costs in the rural MESL budgets. The increase in carbon tax will see this rise to approximately €106 per year in 2021.[11]

Households living in a poorly insulated home can need to consume more fuel to achieve the same level of warmth, in such cases the increased Carbon Tax will have a greater impact.

Fuel Allowance

The Fuel Allowance has been increased from €24.50 per week to €28.00 per week. This represents a €3.50 increase in the nominal weekly rate, bringing the annual value of the support to €784.

This is a significant and welcome improvement in the overall value of the support and comes close to restoring the purchasing power of the allowance.

Based on analysis of average fuel price developments from 2010 the Fuel Allowance would have required an annual value of €810 in early 2020 to restore the 2010 purchasing power and enable the same amount of energy to be purchased in 2020.

The increase is welcome and will undoubtedly contribute towards mitigating against the increase in Carbon Tax for the long-term social welfare recipients which qualify for Fuel Allowance. However, concerns regarding the adequacy and targeting of the support remain.

The potential for increasing energy prices in 2021 is particularly concerning. Home energy costs represent a greater share of the MESL expenditure basket than for households on average. Consequently, any increase in costs in this area has the potential to disproportionately impact on low-income households attempting to afford a socially acceptable minimum standard of living.

Secondly, the Fuel Allowance is not available to all low-income or social welfare dependent households. Many households will not qualify for this support but will however be subject to the increases in Carbon Tax and potential for home energy price inflation.

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 Low Pay Commission's recommendation of a €0.10 increase to the minimum wage in 2021 gives a marginal rise. Consequently, there remains a significant gap between the minimum wage rate and the evidence-based Living Wage rate which is calculated on the basis of minimum living costs.

It is regrettable that Budget 2021 did not make substantive steps towards a Living Wage, despite programme for government commitments. However, subsequent statements regarding the establishment of a Living Wage Commission represent a positive step.

Single Adult

The net income from minimum wage employment will increase marginally in 2021, due to the €0.10 increase in the National Minimum Wage (NMW) rate and related adjustment to the Universal Social Charge (USC).

Net income for an adult in full-time (37.5 hour) minimum wage employment will increase by €2.15 per week, a 0.6% increase.

However, in 2021 income inadequacy will likely deepen for a single adult working-age household in full-time NMW employment, due to increasing rents.

It is estimated that a standard full-time minimum wage salary will meet 73% of MESL needs, falling over €130 short per week, for a single person living and renting a one-bedroom dwelling in the Dublin area.

Based on the 2021 estimate, a single adult would need to work over 58 hours of 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 childcare costs are net of supports from the NCS or ECCE.[12]

The households with children demonstrate income adequacy in these scenarios, when paying a differential rent in social housing and receiving support for childcare.

The increased National Minimum Wage and adjustments to in-work social welfare supports will result in a 1.2% to 1.7% increase in net household income.

Budget 2021 brings a €10 increase to the income thresholds for Working Family Payment (WFP). However, the threshold increase is limited to families with up to three children, the threshold for larger families has not been adjusted since 2016.

In the scenarios illustrated, the Two Parent household compositions will see an increase in net household income of 1.2%. Due to the increase in NMW and the adjustment of the Working Family Payment thresholds.

The One Parent household composition with younger children will benefit from the improvement in the

Qualified Child Increase, as the household qualifies for a partial One-Parent Family Payment (OFP). The adjustment to the WFP income threshold and increased Fuel Allowance also contribute to increasing the household income in 2021. Combined this results in a 1.5% increase in net household income.

In the case of the One Parent household composition with older children, household income is primarily based on NMW employment and the Jobseeker's Transitional (JST) payment. The increased NMW, increased Qualified Child rates, and improved Fuel Allowance contribute to an increase of 1.7% in net household income.

One-Parent Family Payment

Budget 2021 announced the removal of the €425 gross salary limit for the One-Parent Family Payment (OFP). This addresses a long-standing issue which contributed to the creation of a significant 'poverty trap'.

Under the current system the OFP salary limit created a guillotine effect, where entitlement to a means-tested rate of OFP (and associated secondary benefits) is lost if gross salary exceeds €425 per week.

This created a significant income 'trough'. The case of a One Parent household with two younger children is illustrative. When earning a gross salary of €420 per week, the household would qualify for an average of €232 per week in means-tested social welfare supports. After tax and with Child Benefit, household income would total an average of €674 per week.

With earnings at the €425 limit, there is no eligibility for OFP and Fuel Allowance. Total household income would be €608 per week.

This eligibility cut-off point creates a 'trough' in potential income, meaning net income for earnings between €425 and €645 is lower than when earning €420 per week (for a one parent household with a pre-school and primary school age child).

The removal of the income limit in April 2021 will continue to see a means test and taper applied to OFP but will remove this significant 'income trough' effect.

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 the importance of services in limiting the expenditure and income required for a socially acceptable minimum standard of living.

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.

Free GP Care for children

The universal provision of a GP Visit card for children under the age of six demonstrated how effective services can reduce minimum living costs.

It was announced in Budget 2020 that following the success of the Under 6's GP card scheme, that the age limit for free GP care was to be extended to eight. Currently the entitlement for the scheme ends when the child turns six, there has been no movement on the age-limit over the course of 2020. It is disappointing that Budget 2021 now makes no provision for increasing the age-limit in the coming year.

Medical Card

Budget 2021 has announced a reduction in prescription charges for Medical Card holders, by €0.50 per item. Reducing to €1.00 per item for over-70s and €1.50 per item for under-70s.

This measure is welcome and is due to come into effect from November 2020. However, it is notable that this reduction was announced last year in Budget 2020, for implementation from July 2020. As such, this is the welcome implementation of a delayed reduction in health costs for households with a full Medical Card.

Similarly, the Budget 2021 increase in Medical Card income limits for over-70s was previously announced in Budget 2020 for implementation in September 2020. The increase is now to be implemented in November.

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 of the NCS or ECCE scheme as appropriate for child age and household eligibility.

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 Details of the 2020 MESL expenditure data and income scenarios are available at: https://www.budgeting.ie/publications/mesl-2020/

2 Central Bank (2020) Quarterly Bulletin: QB4 – October 2020. www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/qb-archive/2020/quarterly-bulletin---q4-2020.pdf

3 Dept. of Finance (2020) Budget 2021: Economic and Fiscal Outlook. budget.gov.ie/Budgets/2021/Documents/Budget/Budget%202021_Economic%20and%20Fiscal%20Outlook.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 For a fuller discussion see the VPSJ submission on Social Welfare Benchmarking. www.budgeting.ie/publications/social-welfare-benchmarking/

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

7 The 2020 MESL is based on the recently completed basket review and rebase. In addition to reviewing and updating the contents of the MESL basket, this project entailed the direct re-pricing of the entire basket contents and refinement of the adjustment methodology to improve the accuracy of the estimates provided. The latest MESL data has been adjusted to March 2020 using the refined method, and consequently provides the most robust measure of the cost of a socially acceptable minimum standard of living available.

Details of the 2020 MESL data are available at: https://www.budgeting.ie/publications/mesl-2020/

viii From SILC 2018 data, the national AROP rate is 14.0%, the rate for children (0 – 17) is 15.9%. The rate for older children (12 – 17) is higher than for younger age-groups (20.2% compared to 17.0% and 8.9% for younger age-groups).
CSO (2019) Survey on Income and Living Conditions (SILC). Online data. Breakdown by child age-group from Table SIA48

https://statbank.cso.ie/px/pxeirestat/Statire/SelectVarVal/Define.asp?maintable=SIA48&PLanguage=0

ix CSO (2019) SILC 2018. https://www.cso.ie/en/releasesandpublications/ep/p-silc/surveyonincomeandlivingconditionssilc2018/

10 When in receipt of the Contributory Pension income meets 87.6% of MESL need.

11 The MESL budget for Older People and for Households with Children is based on living in a standard sized family home (approx. 100 m^2) with a C2 energy rating.

When in urban areas the budget includes 13,300 units of natural gas per annum to adequately heat the home.

When in rural areas the budget is based on home heating oil, with the household requiring approx. 1,260 litres per annum.

12 For the Two Parent household compositions with one parent in full-time employment and the other in part-time employment, childcare costs are based on the use of a formal provider for a pre-school age child and informal care from a relative/friend for the primary school age child.

For the One Parent household compositions childcare costs are based on the use of a formal provider for both pre-school and primary school age children, when the adult is in full-time employment.

In both cases the subvention for costs from the NCS or ECCE are included where applicable.