

Pay Related Jobseeker's Benefit & Working Age Payment

Introduction

The Vincentian MESL Research Centre at SVP welcomes the opportunity to contribute this submission to the Department of Social Protection's consultation process. The submission will outline points for consideration in relation to the proposals outlined in the Strawman consultation document for Pay Related Jobseeker's Benefit (PRB) and Working Age Payment (WAP).

The Vincentian MESL Research Centre recommends that appropriate consideration be given to the issue of income adequacy (in the context of both European Pillar of Social Rights principles and the Roadmap for Social Inclusion definition of social inclusion). The proposals for the PRB and WAP both represent significant changes to the social protection system, and the issue of income adequacy should be central in their design.

Deliberations on the PRB and WAP should be conducted in conjunction with a commitment to establishing an appropriate minimum income floor, and progressing benchmarking to build towards an adequate social protection system which will enable people to have a decent standard of living and a life with dignity.

The proposed PRB does not include allowances for dependent adults or children. This proposal runs contrary to the principles of adequacy and solidarity, as detailed in the Strawman proposal, as households with two or more dependent children are unlikely to benefit from the PRB proposal. The Vincentian MESL Research Centre recommends that further research and analysis of the impact of not including allowances for dependents is undertaken.

The WAP model proposed would offer clear advantages over the current days-worked approach, however evidence should inform the appropriate upper earnings threshold and taper rate. Initial analysis of the WAP indicates that interaction between a WAP taper, HAP differential rent and Medical Card means test, has the potential to produce counter-intuitive results. Careful consideration should be given to the tapering of all supports, both income and services, and interaction of these schemes when further developing a possible WAP scheme.

An Adequate Social Protection System

The Strawman proposal cites the need to conform to the European Pillar of Social Rights (EPSR), referencing Principle 13 that “The unemployed have the right to ... adequate unemployment benefits of reasonable duration, in line with their contributions and national eligibility rules. Such benefits shall not constitute a disincentive for a quick return to employment”.

Of the 20 principles in the EPSRⁱ, five refer to ensuring an adequate minimum income which enables a life with dignity for working-age people when in receipt of social protection supports or in minimum wage employment.

- 14 Everyone lacking sufficient resources has the right to adequate minimum income benefits ensuring a life in dignity at all stages of life, and effective access to enabling goods and services. For those who can work, minimum income benefits should be combined with incentives to (re)integrate into the labour market
- 12 Regardless of the type and duration of their employment relationship, workers, and, under comparable conditions, the self-employed, have the right to adequate social protection.
- 6 Workers have the right to fair wages that provide for a decent standard of living. Adequate minimum wages shall be ensured, in a way that provide for the satisfaction of the needs of the worker and his / her family in the light of national economic and social conditions, whilst safeguarding access to employment and incentives to seek work. In-work poverty shall be prevented. All wages shall be set in a transparent and predictable way according to national practices and respecting the autonomy of the social partners.

The Directive on Adequate Minimum Wagesⁱⁱ builds on Principle 6 and provides a definition of how adequacy may be measured. The Directive states:

Minimum wages are considered to be adequate if they are fair in relation to the wage distribution in the relevant Member State and if they provide a decent standard of living for workers based on a full-time employment relationship. The adequacy of statutory minimum wages is determined and assessed by each Member State ... For the purpose of that determination, Member States should take into account purchasing power ...

a basket of goods and services at real prices established at national level can be instrumental to determining the cost of living with the aim of achieving a decent standard of living. In addition to material necessities such as food, clothing and housing, the need to participate in cultural, educational and social activities could also be taken into consideration.

These principles clearly establish that social protection rates should be adequate to enable a life with dignity and a decent standard of living. The Directive on Adequate Minimum Wages has proposed measuring what is required to meet this standard through establishing the actual cost of the basket of goods and services required to enable a decent standard of living.

The Roadmap for Social Inclusionⁱⁱⁱ has defined social inclusion as ‘having access to sufficient income, resources and services to enable [people] to play an active part in their communities and participate in activities that are considered the norm for people in society generally’ (2020: 5). While the Programme for Government^{iv} committed to protecting core weekly social welfare rates and recognised the importance of secondary benefits and supports. The Roadmap also pledges, in commitment 25, to examine the application of benchmarking to working-age social welfare payments, in addition to state pension rates.

Given these commitments and obligations the deliberations on a Pay Related Jobseeker’s Benefit and/or a Working Age Payment should be conducted in conjunction with a commitment to establishing an appropriate minimum income floor, ensuring an adequate social protection system which will enable people to have a decent standard of living and a life with dignity.

A Benchmark of Adequacy

The Minimum Essential Standard of Living (MESL) consensual budget standards research establishes the cost of a socially acceptable minimum standard of living. The research collaborates with members of the public in deliberative focus groups to reach consensus on the minimum basket of goods and services people need to live and partake in Irish society, at 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 focus groups, to establish 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.

The MESL operationalises the concepts which underpin the Irish Government definition of poverty and the principles 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. It specifies the average weekly cost of the goods and services agreed as essential for enabling a socially acceptable minimum standard of living.

In practical terms, the MESL establishes a direct measure of the cost of a decent standard of living providing a benchmark of what is required for a life with dignity, to enable participation, and to avoid poverty. In this way, the MESL provides an alternative, and complementary, measure for assessing relative poverty. It also provides a vital evidence-based benchmark for gauging the adequacy of social welfare supports and minimum rates of pay.

The MESL research can contribute to the wider discussion on benchmarking and the establishment of an adequate social protection system. The evidence from MESL can also inform the considerations for setting appropriate rates and thresholds for a future Pay Related Jobseeker’s Benefit or Working Age Payment.

The Vincentian MESL Research Centre recommends that appropriate consideration be given to the issue of income adequacy (in the context of both European Pillar of Social Rights principles and the Roadmap for Social Inclusion definition of social inclusion). The proposals for the Pay Related Jobseeker’s Benefit and Working Age Payment both represent significant changes to the social protection system, and issue of income adequacy should be central in their design.

Pay Related Jobseeker’s Benefit

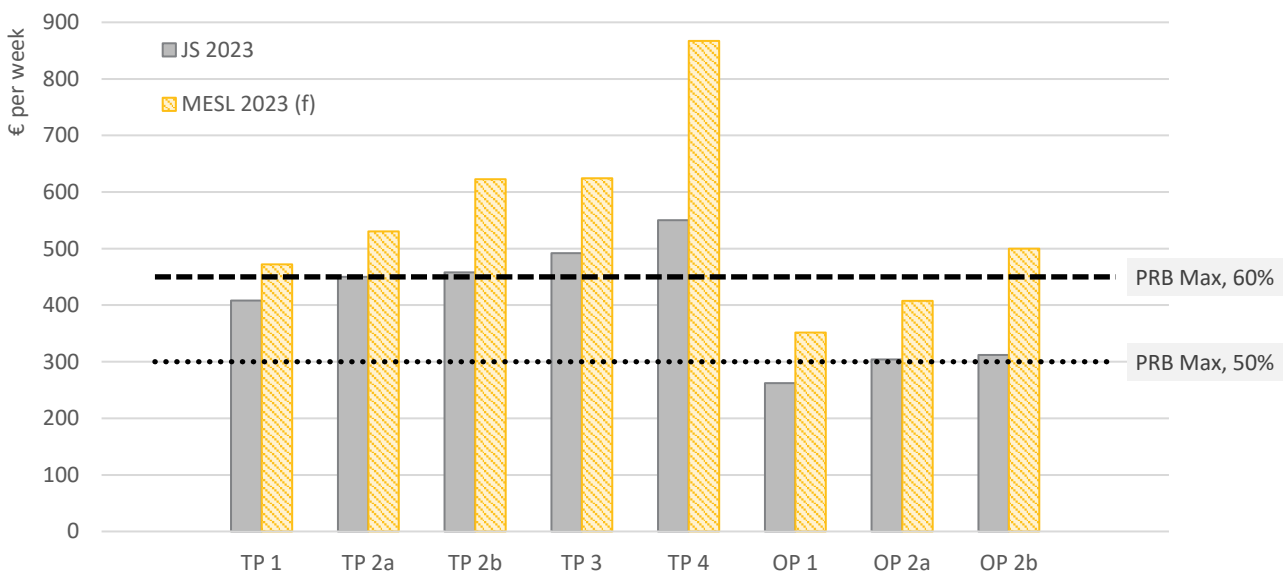
The MESL analysis has consistently found that current full rates of Jobseeker’s Benefit (or Allowance), in conjunction with increases for Qualified Adults and Children, do not provide the basis of an adequate income for a range of household compositions examined. One adult headed households (both lone parent households and single working-age adult households) and households with older children (aged 12 and over) consistently demonstrate the greatest incidence and depth of income inadequacy.^v

The MESL analysis has found that the full working-age personal rate does not provide adequate income for either a single adult, with or without children, nor for an adult in a couple with children. The combination of the personal rate and increase for a qualified adult are also found to be inadequate, due to the shortfall in the adult personal rate. Similarly, income supports for dependent children (both the Qualified Child Increase and secondary supports) are also found to fall short of meeting minimum needs, with the exception of pre-school age children*.^{vi}

The proposal outlined for a Pay Related Jobseeker’s Benefit (PRB) would represent a significant change to the structure of our social protection system, due to the proposed model not including allowances for a dependent adult or children. This has the potential to fall significantly short of meeting the income needs of family household compositions.

According to the Strawman document, over 90% of recipients of the current Jobseeker’s Benefit do not receive Qualified Adult or Child payments. This is presented as a rationale for moving to a system based on prior income only, with no adjustment for household composition. However, this argument would appear to ignore the needs of the 10% of recipients which receive allowances for dependants, and does not pay due regard to income adequacy requirements.

Graph 1 Jobseeker’s income support and MESL expenditure need, by household composition^{vii}



* It cannot be assumed a child has adequate income supports if they are part of a household which has an inadequate income; even if the cost of a child’s MESL expenditure is in principle adequately provided for by child social welfare. Child poverty and income inadequacy can only be fully addressed when the minimum needs of the entire household are met.

Graph 1 compares the income from the full rate of Jobseeker's Benefit (including increases for dependants) to the proposed maximum PRB levels by household composition. A forecast of MESL expenditure need for 2023 is also included, to provide an indication of the potential adequacy or inadequacy of the possible PRB rate.

As the rate of payment of the PRB does not adjust with household composition, the full support from the current Jobseeker's Benefit exceeds the proposed maximum PRB of €450 per week, when compared against the JB (plus qualified increases) for Two Parent households with a dependant adult and two or more children.

For One Parent household compositions the 60% PRB, maximum of €450 per week, exceeds current JB rates. However, the 50% PRB, maximum of €300 per week, is less than the income which would be available from JB for a household with two children. In the case of One Parent household compositions, the overall income support available from One-Parent Family Payment or Jobseeker's Transitional and secondary supports, would also be significantly above the maximum payment under the 50% PRB proposal.

It is stated in the Strawman proposal that where a person entitled to PRB would actually receive a higher rate of support from an alternative social welfare payment they will have the option to apply for that payment. While acknowledging that this should prevent households with dependents being worse off under the proposed PRB system, it would seem to go against the principle of solidarity.

The Strawman makes the case that the PRB aims to cushion the newly unemployed from income shock and to practically reflect the solidarity and contributory principles of the social insurance system. By excluding adjustments for dependents from the proposed PRB scheme it seems likely that the primary beneficiaries will be single working-adults with a sufficient contribution record and prior income level.

Working Age Payment

The MESL analysis has consistently found that single adult households (both with and without children) demonstrate the greatest risk and depth of income inadequacy. In 2022 the personal rate of Jobseeker's Allowance met 79.9% of MESL expenditure need of an urban working-age single adult without children^v, this is forecast to reduce to 78.7% in 2023. In 2023 a full-time NMW salary is currently forecast to fall €147 short per week, of providing a MESL and enabling a life with dignity for a working-age single adult without children.^x

The precarious position of single adult household types is also demonstrated in the SILC data, with one adult headed households demonstrating higher 'at risk of poverty rates' than other household types. In 2022, 32.0% of working-age single adults were 'at risk of poverty', compared to the national rate of 13.1%; and 14.5% were in consistent poverty, compared to the national rate of 5.3%.^{viii}

There is clearly a need for a range of supports, both income and services, for individuals in this group. The Strawman Proposal makes reference to the recommendation of the Commission on Taxation and Welfare^{ix} and the need to ensure against 'subsidising low-paid employment'. It is crucial that development of a Working Age Payment or minimum income guarantee is subject to comprehensive analysis and consultation. It is vital that such a measure does not inadvertently support employers in providing poor labour market conditions.

Proposals to develop this model further should give consideration to the role of adequate minimum wage rates, the development of the Living Wage based on minimum living costs, and measures to support the provision of adequate working hours.

Furthermore, the Commission on Taxation and Welfare also recommended the benchmarking of working-age income supports, the setting of multi-annual, transparent, evidence-based targets to progressively achieve an adequate system of social welfare supports. The development of an adequate social welfare income supports which enable a life with dignity, must inform each stage of the development of a minimum income guarantee / working age payment scheme.

Working Age Payment based on Working Family Payment

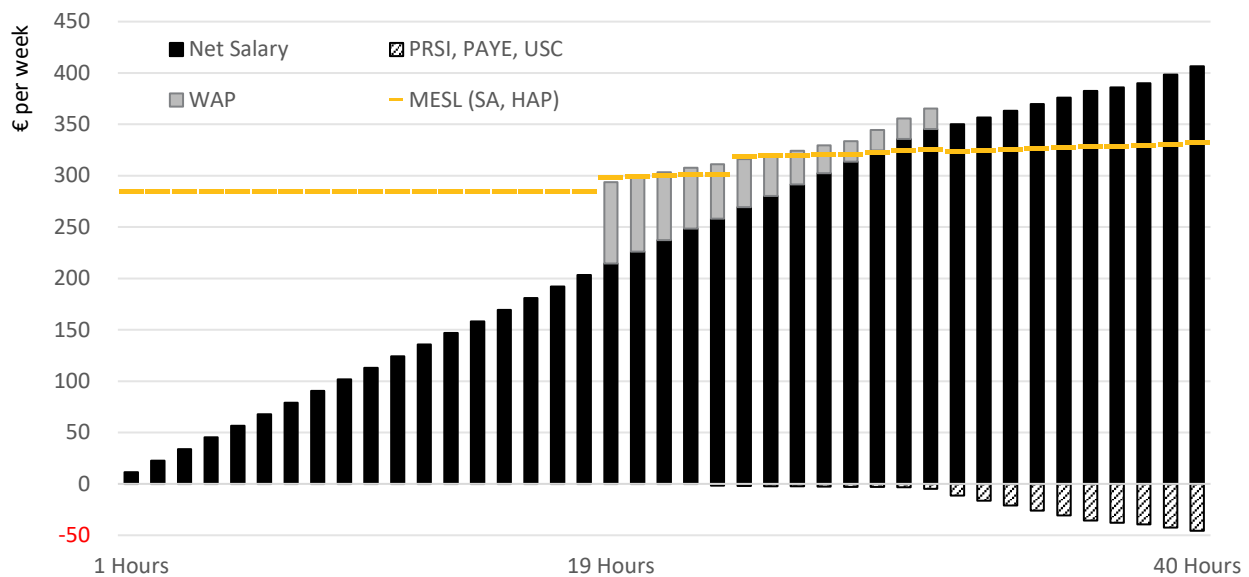
The net income from National Minimum Wage (NMW)* employment and the contribution of the Working Age Payment (WAP) is illustrated in Graph 2, based on the details provided in the strawman proposal. The WAP payable is presented by number of hours NMW employment per week. For this analysis, the WAP is modelled on the basis of the Working Family Payment (WFP) applying the minimum hour requirement (19 hours per week) and minimum payment (€20 per week).

Graph 2 also demonstrates the potential income adequacy from NMW employment and the WAP. The adequacy of net income for a working-age single adult is assessed against forecast 2023 MESL^x needs, when in a HAP tenancy[†].

* 2023 rate, €11.30 per hour

† Based on 90% of average rent for a one-bedroom dwelling in the Dublin area, applying the increased HAP rent limit for one adult (€900 per month) and the 35% flexibility, the average weekly rent is comprised of differential rent and a €10 top-up. The differential rent varies in line with the net salary and level of WAP.

Graph 2 Working Age Payment & Net Salary, by hours of NMW employment per week



The analysis finds that, at the 19 hours minimum requirement of WFP the Working Age Payment would provide €79 per week in addition to net NMW salary. In conjunction with a full Medical Card and HAP, net household income is estimated to fall €5 short of meeting MESL expenditure needs in this scenario.

At 21 hours of NMW employment, WAP would provide €66 per week in addition to net salary. In conjunction with a full Medical Card and HAP, net household income is estimated to be marginally adequate, approximately €3 above MESL expenditure needs.

However, with a gross salary of €266 per week, the household type in this scenario would not be eligible for a full Medical Card. The associated higher MESL expenditure need would result in income inadequacy, despite the WAP providing €50 per week at this salary level.

For the scenario examined, 25 hours of NMW employment and above, demonstrates income adequacy for the household scenario based on an urban single adult in a HAP tenancy.

The model indicates that WAP eligibility would be retained with up to 31 hours of NMW employment. The Working Family Payment provides a minimum payment of €20 per week to qualifying households. If this provision is included in the WAP, the loss of WAP at 32 hours of NMW employment would see a steep Marginal Effective Tax Rate of over 200% when moving from 31 to 32 hours. Household income when working 32 to 34 hours NMW employment would be below that when qualifying for WAP at 31 hours NMW employment.

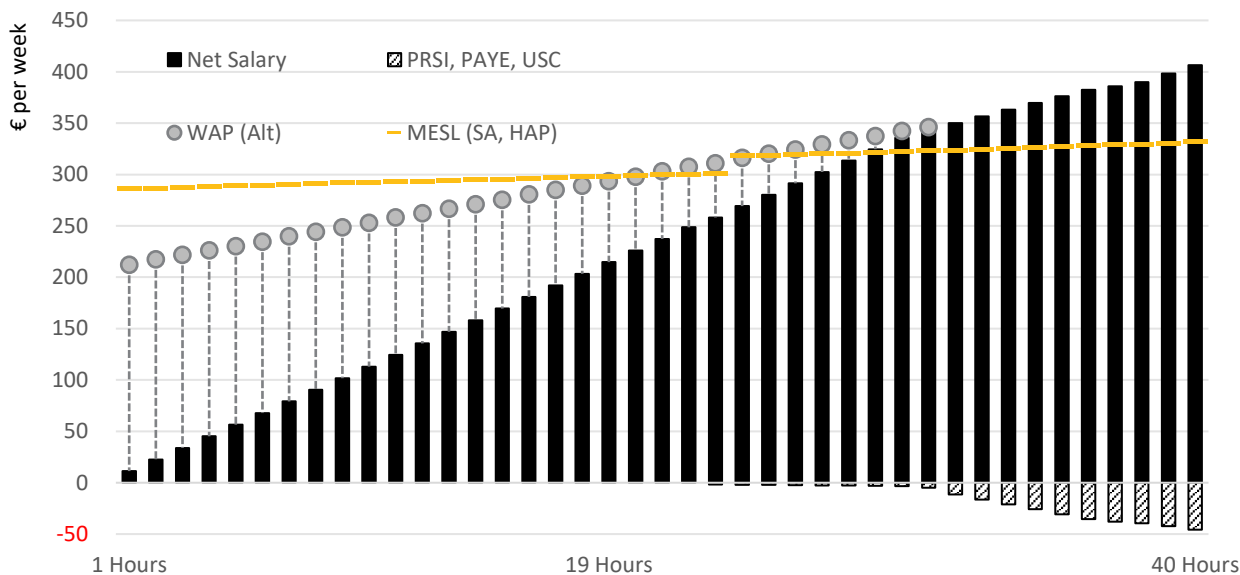
Working Age Payment, no minimum hours or minimum weekly payment

The analysis presented in Graph 2 illustrated the WAP, applying a minimum hours requirement and minimum weekly payment equivalent to the current Working Family Payment model. Attention now turns to examining the WAP without inheriting these conditions from Working Family Payment.

Graph 3 presents this hypothetical WAP alternative model. As above, the analysis finds that 21 hours of NMW employment would provide the basis of a marginally adequate income, with the addition of the WAP in conjunction with a full Medical Card and a HAP tenancy.

Providing access to the WAP at lower levels of employment, i.e. less than 19 hours per week, improves net household income but does not provide an adequate income. It is also noted that making the proposed WAP available at very low hours may not be practical as the resulting net income would be below the standard Jobseeker’s Allowance personal rate.

Graph 3 Working Age Payment & Net NMW Salary, by hours worked per week
No minimum hours or minimum weekly payment



The WFP provides for a minimum €20 per week payment to eligible households. Including this provision in the WAP ensures that the support continues to provide a meaningful contribution to household income at salary levels near the end of the eligibility threshold. However, as shown above it can also result in a steep METR when the earnings threshold is exceeded and could result in a situation where being employed for more hours would result in a lower household income.

The analysis in Graph 3 shows that removing the minimum payment provision and applying the taper rate would, as expected, reduce the level of WAP provided when nearing the earnings eligibility threshold. In this case, 29 to 31 hours of NMW would receive a lower level of support from WAP. However, there is also a removal of the ‘cliff edge’ effect, ensuring there is a net gain to household income with each additional hour of NMW employment.

Marginal Effective Tax Rate (METR)

The Marginal Effective Tax Rate (METR) is a measure of the level of taxation and withdrawal of income supports (and secondary benefits) associated with a given increase in gross salary.

The METR on the change in income from part-time to full-time NMW employment, without a Working Age Payment, is 18%. In other words, of the €209 difference in gross salary, €38 is payable in PAYE, PRSI and USC, resulting in a net increase of €171 per week.

With the addition of the WAP, the METR on the change from part-time to full-time NMW employment is 56%. This higher METR reflects the tapering and withdrawal of the WAP, from providing €79 per week when in part-time (19 hour) NMW employment to eligibility being withdrawn at less than full-time hours (32 hours per week).

Furthermore, the income adequacy found in this analysis is based on a HAP tenancy. The differential rent payable in this scenario is calculated on the basis of both net salary and WAP, therefore as household income increases the rent payable also increases. The increasing differential rent is another form of tapering of secondary benefit, and in effect contributes to the METR.

The combination of tapering of WAP, tax liabilities, and increasing differential rent, results in an average METR of 67% (range of 60% - 72%) for each additional hour worked, over the range of WAP eligibility.

Concluding observations

Measures to introduce a Working Age Payment, of the type proposed, and/or a Pay Related Jobseeker's Benefit, must also be cognisant of the need for income adequacy. Consideration of adequacy and progress on benchmarking will naturally inform determinations on the appropriate base rate and upper threshold for a Working Age Payment.

The analysis of the Working Age Payment presented here has focused on the model outlined in the Strawman Proposal. The proposed model would offer clear advantages over the current days-worked approach, however careful consideration must be given to the appropriate upper earnings threshold and taper rate. The MESL analysis has previously identified circumstances where the structure of the Working Family Payment can produce counter-intuitive situations where increased work intensity results in deeper income inadequacy. The impact of the tapering of WFP is compounded by the tapering of other supports such as the National Childcare Scheme or Medical Card eligibility which results in minimum living costs increasing at a greater rate than household income.^v

The analysis presented above indicates that the interaction between a WAP taper, HAP differential rent and Medical Card means test, has the potential to produce similar counter-intuitive results. Careful consideration must be given to the taper of all supports, both income and services, when designing a possible WAP scheme.

Notes

- ⁱ *The European Pillar of Social Rights in 20 principles.*
https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/economy-works-people/jobs-growth-and-investment/european-pillar-social-rights/european-pillar-social-rights-20-principles_en
- ⁱⁱ DIRECTIVE (EU) 2022/2041 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 19 October 2022 on adequate minimum wages in the European Union. <https://eur-lex.europa.eu/eli/dir/2022/2041>
- ⁱⁱⁱ Government of Ireland (2020). *Roadmap for Social Inclusion 2020 – 2025.*
www.gov.ie/pdf/?file=https://assets.gov.ie/46557/bf7011904ede4562b925f98b15c4f1b5.pdf
- ^{iv} *Programme for Government: Our Shared Future, 2020*
assets.gov.ie/130911/fe93e24e-dfe0-40ff-9934-def2b44b7b52.pdf
- ^v Vincentian MESL Research Centre (2022). *MESL 2022: Annual Update.*
www.budgeting.ie/publications/mesl-2022/
- ^{vi} See MESL 2022 Annual Update, page 19 – 20 and page 24 – 26.
- ^{vii} TP 1 Two Parents with One Child an infant (aged under 1)
TP 2a Two Parents with Two Children one in pre-school & one in primary school (ages 3 & 6)
TP 2b Two Parents with Two Children one in primary school & one in secondary school (ages 10 & 15)
TP 3 Two Parents with Three Children an infant, one in pre-school & one in primary school (ages under 1, 3 & 6)
TP 4 Two Parents with Four Children two in primary school & two in secondary school (ages 8, 11, 14 & 17)
OP 1 One Parent with One Child in primary school (aged 6)
OP 2a One Parent with Two Children one in pre-school & one in primary school (ages 3 & 6)
OP 2b One Parent with Two Children one in primary school & one in secondary school (ages 10 & 15)
- ^{viii} CSO (2023). *Survey on Income and Living Conditions (SILC) 2022.*
www.cso.ie/en/releasesandpublications/ep/p-silc/surveyonincomeandlivingconditionssilc2022/
- ^{ix} Commission on Taxation and Welfare (2022). *Foundations for the Future.*
<https://assets.gov.ie/234316/b4db38b0-1daa-4f7a-a309-fcce4811828c.pdf>
- ^x Vincentian MESL Research Centre (2022). *Budget 2023: MESL Impact Briefing.*
www.budgeting.ie/publications/budget-2023-mesl-impact-briefing/