

MESL PRE-BUDGET 2019 SUBMISSION

Key Points

As a first step towards adequately meeting the minimum needs of older children, the VPSJ recommends that the Qualified Child Increase should provide an additional **€5.00** per week for children aged 12 and over. This is necessary to address the high rates of child poverty found amongst this group.

Benchmark primary social welfare rates against the cost of a socially acceptable Minimum Essential Standard of Living (MESL). Set an interim target to bring the working-age personal rate to **90%** of the MESL need of a single working-age adult.

In order to make progress towards this target, increase the personal rate of primary working-age social welfare supports by **€5.00**, to €203 per week. With proportional adjustments to the Qualified Adult rate (**€2.60**) and the base Qualified Child rate (**€2.90**), per week.

Re-instate the full rate of Jobseeker's Allowance for 25 year olds. Set a timescale for the restoration of the full rate those aged 18 to 24. As an interim step, ensure the rate for this age-group enables an adequate income when living in the family home — increase the current rate to **€149** per week.

For older people living alone, secure income adequacy by increasing the Living Alone Allowance rate by **€3.00**.

Work toward improved public transport options for rural areas, to enable an MESL without the need for (and cost of) private transport, for older people.

Restore the purchasing power of the Fuel Allowance, re-instating the **32 week** season, at a rate of **€24.85** per week.

Review Working Family Payment income thresholds, and move towards restoring relative value in terms of minimum living costs — increase by **€15** for the first 3 children and **€25** for a 4th child.

Restore the nominal value of the earnings disregard for One-Parent Family Payment / Jobseeker's Transition (**€146.50**). Aim to restore the real value in relation to the number of hours NMW work the disregard equates to — based on 2018 NMW, a weekly disregard of **€161** is currently required.

Review the One-Parent Family Payment gross salary limit (€425 per week) and consider equivalising this threshold in line with family size.

Enable lone parents in employment, with children aged between 7 and 14, to be eligible to for both Jobseeker's Transition and Working Family Payment.

Introduction & Context

The **Vincentian Partnership for Social Justice** (VPSJ) welcomes the opportunity to make this submission to the Department of Employment Affairs and Social Protection, presenting evidence based policy recommendations for Budget 2019.

The VPSJ's research works with members of the public to reach agreement on the minimum needed to live and partake in the social and economic norms of everyday life. The research identifies the cost of what is required to enable a life with dignity, at a minimum but acceptable standard—the Minimum Essential Standard of Living—a standard that people have agreed nobody should be expected to live below.

This submission presents a suite of policy recommendations, and the measures proposed are based on the data and analysis of the ongoing Minimum Essential Standard of Living (MESL) research.

The MESL assessment of income adequacy in 2018 has identified the household types with the greatest degree of income inadequacy, and the gaps in social welfare provision which contribute to this inadequacy. This submission is based on the analysis from the *2018 MESL Update Report*.ⁱ

The annual budget presents the opportunity for increases to be made to social transfers which will reduce the impact of poverty on people who continually struggle to make ends meet. This year's budget decisions will either promote or delay a more socially and economically inclusive society.

Adequate Social Welfare Supports

The VPSJ aspires for an acceptable minimum standard of living for all, whether dependent on social welfare, engaged in caring work, or in paid employment. It is recognised that this is a long-term goal that will only be achieved through a combination of measures, which both address the adequacy of income supports (introducing measures to address gaps in current provision where necessary) and develop robust affordable services that reduce living costs.

Progress has been made towards restoring the relative value of primary social welfare rates, in terms of the cost an MESL. The combined trend of recent years, of increases to social welfare rates and decreases in the cost of an MESL, has brought an improvement to the position of social welfare dependent households and restored much of the ground lost during the recession. Nevertheless, the majority of household situations examined in the MESL analysis continue to demonstrate income inadequacy.

It is imperative that the progress made thus far is maintained, and further adjustments to social welfare rates build toward providing a minimally adequate social protection floor for all.

In addition to continuing to improve the adequacy level of general rates, gaps in the current system of provision must be addressed. These gaps contribute to the persistent deep income inadequacy demonstrated by particular households, households with older children aged 12 plus are a case in point.

Older Children Qualified Child Increase

As detailed in the VPSJ's earlier preliminary Budget submission*, the VPSJ considers that a higher rate of Qualified Child Increase for older children (aged 12 and over) should commence in Budget 2019, providing an additional €5.00 per week.

The Minimum Essential Standard of Living (MESL) research has consistently identified older children as having additional and different needs distinct from children in younger age groups.ⁱⁱ The minimum needs of older children, aged 12 and over, cost over €120 per week. This is 63% more expensive than the minimum needs of younger children.

Over ⅔ of the higher MESL costs for older children are due to additional food, clothing, personal care and social inclusion costs. A fifth of the additional cost is related to the additional expenses associated with second level education.

Households with older children are more at risk of deep income inadequacy, making up 80% of cases found in the VPSJ analysis of social welfare adequacy. One parent household compositions demonstrate the greatest level of deep income inadequacy overall, and the greatest rate of older child deep income inadequacy.

Current social welfare supports provide for 90% of a younger school age child's minimum needs, while the supports for older children meets 57% of the MESL cost for children 12 and over. The social welfare system should begin to recognise the greater MESL expenditure need for older children and instigate a higher rate of support for this age-group.

Recommendation

The VPSJ recommends that the QCI should provide an additional **€5.00** per week for children aged 12 and over during 2019. This is necessary to address the high rates of child poverty found amongst this group.

- › The VPSJ recognises that the implementation of a system which adequately meets the additional minimum needs of this age-group can only be developed progressively over the course of several budgets.
- › 102,000 children need to be brought out of consistent poverty, to meet the Government's 2020 target of reducing the number of children in consistent poverty by at least two-thirds.ⁱⁱⁱ
- › Given that older children have consistent poverty rates higher than younger children^{iv}, implementation of the targeted measure we are proposing would contribute towards the achievement of this target.
- › The VPSJ recognises that the introduction of a higher level of support may have administrative and IT implications for the Department of Employment Affairs and Social Protection. We ask the Department to examine solutions to any such issues at an early date, with a view towards implementation during 2019, if Government agrees.

* The VPSJ made a preliminary Budget submission to the Minister for Employment Affairs and Social Protection to focus on the specific needs of low income households with older children, aged 12 plus, in April 2018.
www.budgeting.ie/download/pdf/minimum_needs_of_older_children_vpsj_submission.pdf

Primary Social Welfare Rates

Progress has been made in restoring the relative value of primary social welfare rates, in relation to the cost of a Minimum Essential Standard of Living. The combined trend over recent years of increases to social welfare rates and decreases in the cost of an MESL has reduced the adequacy gap between income supports and expenditure need to approximately 2010 levels.

This progress is welcome, however social welfare rates remain below the MESL need benchmark for the majority of household types examined in the VPSJ’s 2018 analysis of social welfare adequacy^v.

The current personal rate of working-age payments (Jobseeker’s Payments, One-Parent Family Payment, etc.), and associated qualified adult and child rates, do not provide the basis of an adequate income for either single adult households without dependents or the majority of household compositions with children examined in the MESL research.

The VPSJ recommends building on the progress to date, in restoring the relative value of social welfare rates, maintaining momentum and now addressing deep income inadequacy, by moving toward bringing the working-age personal rate to 90% of a single adult’s MESL expenditure need.

- › Benchmarking against the MESL needs of a working-age single adult, when unemployed, the current 2018 Jobseeker’s rate meets 81% of need. To meet 90% of need, the Personal Rate would currently need to be €221 per week.
- › Meeting this benchmark should be an interim term goal; with an ultimate aim of ensuring social welfare supports are benchmarked against the cost of a socially acceptable Minimum Essential Standard of Living.
- › The VPSJ recommends a series of adjustments to the Personal Rate (and proportional adjustments for the Qualified Adult and base Qualified Child rates) to bring the working-age adult personal rate to the current 90% benchmark. The recommended rate of increase for subsequent years is subject to review in light of changing MESL costs in the coming years.

Working Age Rate Adjustments

Subject to review following annual MESL updates

	2018	2019	2020	2021	2022
Personal Rate	198.00	203.00	208.90	214.90	220.80
Qualified Adult	131.40	134.00	137.90	141.80	145.70
Qualified Child	31.80	34.70	36.60	38.60	40.60

Recommendation

Benchmark primary social welfare rates against the cost of a socially acceptable MESL. To make progress towards this target, increase the personal rate of primary working-age social welfare supports by **€5.00**, to €203 per week. With proportional adjustments to the weekly Qualified Adult rate (**€2.60**) and the base Qualified Child rate (**€2.90**).

Adults, aged under 26

The cost of an MESL for an unemployed young adult living in the parental family home (and qualifying for a full medical card) is €149 per week^{vi}. The cost of an MESL for an unemployed working-age single adult, living independently, is €245 per week.

For adults under 25, the reduced rate of Jobseeker's Allowance (JA) was increased in 2018, to €107.70. This rate of payment meets less than ¾ of MESL need. Consequently an individual in this scenario would require significant financial support from their family in order to afford an MESL.

In addition, the JA payment for those aged under 25 is subject to a means test dependent on their parent's income, potentially requiring individuals to be even more reliant on parental support.

The reduced rate of JA for 25 year olds (€152.80) provides a marginally adequate income, in the context of the adult continuing to live in the parental family home. To live independently, adults aged under 26 have the same MESL needs as older adults, and therefore require the same level of income support.

It is essential that moves toward restoring the full Personal Rate for adults aged 18 -25 are made, abolishing the unequal and inadequate reduced rate of JA for younger adults. This is a vital step towards enabling all adults to have an acceptable minimum standard of living.

Recommendation

Re-instate the full rate of Jobseeker's Allowance for 25 year olds. Set a timescale for the restoration of the full rate those aged 18 to 24. As an interim step, ensure the rate for this age-group enables an adequate income when living in the family home — increase the current rate to **€149** per week.

Older People & the State Pension

Increases in the State Pension rate over the last three budgets have improved the position of older people reliant on the state pension.

The MESL expenditure need of a single pensioner is 80% that of the pensioner couple household. However, household income from the State Pension (and secondary supports) for a pensioner living alone, is between 50% and 60% of a pensioner couple household's.

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. This trend has begun to change for urban households, but remains in rural areas.

In 2018, additional supports have added almost €8 per week to household income for a pensioner living alone. The Non-Contributory Pension, and secondary supports, now provide an income that is 3.5% above the MESL floor need when in an urban area and living in social housing.

It is welcome that an urban pensioner living alone (in social housing) will now receive the basis of an adequate income, in 2018, when in receipt of a full non-contributory or contributory pension.

This is an improvement from previous years, but it begs the question, is an income 3.5% above the minimum threshold for a socially acceptable minimum standard of living where ambition should stop when supporting older people in retirement?

For those who will be in a position of ongoing social welfare dependency social welfare supports, such as the State Pension, should ensure that people are maintained above the minimum floor of acceptability.

Living Alone Allowance

The VPSJ recommends an increase to the Living Alone Allowance of €3 per week, to move toward ensuring older people living alone have an income more than marginally above minimum needs.

Rural Transport

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.^{vii}

Due to additional needs in a rural area, primarily transport, the non-contributory State Pension (and secondary supports) meet only 82% of MESL costs for a rural older person living alone.

Services are key to addressing the deep inadequacy faced by older people, living alone, in rural areas. Improved public transport options, enabling a minimum acceptable standard of living without the need for a car, could reduce MESL costs significantly and enable income adequacy.

Recommendation

Increase the Living Alone Allowance rate by **€3.00** per week in 2018.

Work toward improved public transport options for rural areas, to enable an MESL without the need for (and cost of) private transport.

Fuel Allowance

Home energy prices increased by an average of 5.2% in the last year. This has added to the ongoing rising cost of home energy, which have increased by an average of 24.2% since 2010.^{viii}

In 2010 the Fuel Allowance was paid at the rate of €20 per week for 32 weeks of the year. Giving an overall value of €640 over the year. In 2018 the restoration of the Fuel Allowance season began, moving from the reduced 26 weeks (introduced in 2012) to 27 weeks. With a weekly rate of €22.50 per week, the Fuel Allowance has a cumulative value of €607.50 in 2018.

Based on analysis of average fuel price developments from 2010, the Fuel Allowance now requires an annual value of €795, to restore 2010 purchasing power and enable the same amount of energy to be purchased in 2018.^{viii}

Recommendation

Restore the purchasing power of the Fuel Allowance, re-instating the 32 week season, at a rate of **€24.85** per week.

Employment & Social Welfare

Employment should enable working-age adults to ensure a decent and adequate Minimum Essential Standard of Living for themselves and their families. Having an income below this standard of living means doing without goods and services which are seen as vital for taking part in the norms of everyday life in Ireland

Decent work, providing an adequate rate of pay and secure hours, is crucial to enabling income adequacy in employment. However, 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.

Adequate affordable services, such as affordable childcare, housing, and health, can reduce the cost of an MESL. In conjunction with services well designed in-work income supports (operating in tandem with the tax system) have the potential to supplement incomes to address the additional needs of households with children, where necessary, ensuring an MESL is a reality for all.

Current income supports, when working in tandem with services, have the potential to provide income adequacy. However, there are points within the current system where the interaction of supports produces negative results. The VPSJ highlights the following findings from the ongoing MESL research, regarding in-work income supports and the need for access to services.^{ix}

Working Family Payment

The Working Family Payment (formerly Family Income Supplement) is a crucial support, reducing the gap between a household's income from low paid employment and the cost of an MESL. However, analysis of various employment scenarios has demonstrated incongruous situations where the current tapering and withdrawal of WFP can result in households with higher work intensity / higher rates of pay being worse off than equivalent households with lower income.

Eligibility for the higher rates of Community Childcare Subvention being contingent on qualifying for WFP serve to compound this issue, as the significant difference in support provided for childcare costs has much greater impact than failure to qualify for the minimum rate of WFP.

- › This issue is demonstrated for several Two Parent household compositions with younger children, comparing the position of single and dual employment situations, and the adequacy level at varying levels of work intensity.
- › It is found that ineligibility for WFP for households with higher work intensity contributes to income inadequacy, compared to situations of adequacy with single income or less hours worked.
- › Potential poverty traps are identified, where household scenarios based on minimum wage employment may demonstrate adequacy, but earning less than €1 above the NMW rate results in inadequacy due to WFP ineligibility and a lower level of CCS support.

One Parent Family Payment

The increase to the earnings disregard for One-Parent Family Payment (OFP) in 2018 has contributed to improving household income for recipients in employment.

- › The relative value of this disregard has fallen in relation to the minimum wage rate (NMW).
- › The disregard equates to earnings from the first 13.6 hours of NMW work per week in 2018, compared to 16.9 hours per week from 2008 to 2011.

The combined tapering of OFP and WFP remains very steep, with a Marginal Effective Tax Rate of 84% evident on the change in earnings from part-time to full-time minimum wage employment. Resulting in minimal net gain to household income from increased work intensity.

- › The steep withdrawal rate, combined with the OFP salary limit (maximum of €425 gross salary per week) combine to create a significant income trough, with earnings of €425 to €580 per week resulting in lower net household income than minimum wage employment.
- › For example, earning double the NMW (€720 per week) can result in a household income only 7% higher than household income when earning minimum wage (€358 per week).

The structure of the OFP gross salary limit makes no allowance for the number of children in a lone parent household. Consideration should be given to equivalising this threshold, to ensure larger households (with higher costs) can retain support at greater salary levels.

Recommendation

Review Working Family Payment income thresholds, move towards restoring relative value in terms of minimum living costs, increase by **€15** for the first 3 children and **€25** for a 4th child.

Restore the nominal value of the earnings disregard for One-Parent Family Payment / Jobseeker's Transition (€146.50), with an aim of restoring the real value in relation to the number of hours NMW work the disregard equates to — **€161** per week is required.

Review the One-Parent Family Payment gross salary limit (€425 per week) and consider equivalising this threshold in line with family size.

Enable lone parents in employment, with children aged between 7 and 14, to be eligible to for both Jobseeker's Transition and Working Family Payment.

ⁱ VPSJ, 2018. MESL 2018 Update Report. Published on-line: www.budgeting.ie/publications/mesl-2018/

ⁱⁱ See VPSJ's MESL 2018 Update Report, page 11 and pages 15–18.

ⁱⁱⁱ DSP (2017) Social Inclusion Monitor 2015. Page 35.

^{iv} 11.8% compared to 8.4% and 8.5% for younger age-groups, DSP (2017) Social Inclusion Monitor 2015. Table 6.1

^v Of 214 test household cases, social welfare did not meet the benchmark of MESL expenditure need for 157. A detailed examination of social welfare adequacy can be found in the MESL 2018 update report p. 8 – 18; the calculations are presented in the MESL Appendix Tables, p. 4A – 7A.

^{vi} See VPSJ's MESL 2018 Update Report, page 12.

^{vii} See VPSJ's MESL 2018 Update Report, page 13–14.

^{viii} Based on analysis of annual energy price developments, CPI Sub-Indices 'Electricity, gas and other fuels' data.

^{ix} See VPSJ's MESL 2018 Update Report, page 19 – 26 and MESL Appendix Tables, p8A – 21A.