



KEY POINTS

Current in-work targeted social welfare supports, principally Family Income Supplement and also One-Parent Family Payment, may enable an acceptable minimum standard of living in conjunction with minimum wage employment, where households can access differential rent and have moderate childcare costs (due to age of children and working patterns).

The current Family Income Supplement taper and withdrawal rates can result in Marginal Effective Tax Rates in excess of 50%, when moving from a single to dual income scenario for Two Parent household compositions.

The combined tapering of Family Income Supplement and One-Parent Family Payment result in Marginal Effective Tax Rates of over 80% for One Parent household compositions moving from part-time to full-time minimum wage employment.

In the development of a Working Family Payment the VPSJ recommends any hours requirement, similar to the current FIS model be examined, due to the growth in part-time and low hour employment in recent years. For example, qualifying for FIS and not, can result in a difference of €88 per week in social welfare supports for a One Parent household with one child under 7, e.g. OPI.

When the withdrawal rates of social welfare supports such as Family Income Supplement (FIS) and One-Parent Family Payment (OFP) are too steep, significantly higher salaries are required to secure a marginal increase in overall household income.

The METR on tranches of salary moving from NMW through low pay are very high, and significantly higher than those further up the income scale. In fact, in the case of the One Parent households examined, the METR was in excess of 100%, creating a significant poverty trap and barrier to escaping low paid NMW (or near NMW) employment.

An METR of over 100% should not exist, it creates a perverse disincentive for both an individual worker and an employer to either earn more or pay more, as the only actor which gains from an increase in salary is the state. The development of a new Working Family Payment must endeavour to remove such anomalies from the in-work social welfare system.

The additional minimum needs and costs of older children are not currently recognised in the primary social welfare supports for families, either in or out of work. It is vital that the structure of any new family support payments, such as the Working Family Payment, be cognisant of the additional needs of adolescent children, and reflects this in the rate of payment provided.

INTRODUCTION

The Vincentian Partnership for Social Justice (VPSJ) welcomes the opportunity to make this submission on the proposed Working Family Payment.

The VPSJ supports the multi-dimensional approach to poverty eradication: adequate income, access to affordable services, and opportunities for reasonable employment. The development of a new Working Family Payment provides an opportunity to address gaps and incongruities in the current structure of income supports, moving toward providing households with an income which adequately meets their minimum needs and enables normal participation in day to day life.

Employment should enable working age adults to ensure a decent and adequate minimum essential standard of living for themselves and their families. Having an income below this standard of living means doing without goods and services which are seen as vital for taking part in the norms of everyday life in Ireland. Therefore, it is crucial that decent work is available, providing both an adequate wage and adequate hours.

However, minimum rates of pay cannot provide for income adequacy in isolation. Wage rates cannot (and should not be expected to) take account of household compositions, and the number of people dependent on a wage. Social supports (both income and services) have a crucial role, and must work to smooth out the multiplicity of varying additional and different needs of households with children.

It is vital that social welfare income supports adequately supplement incomes to address the additional needs of households with children, where necessary to ensure an MESL is a reality for all children. Well designed income supports, working in conjunction with access to affordable services which have the potential to reduce the cost of an MESL, have the potential to provide income adequacy.

SUBMISSION ON THE WORKING FAMILY PAYMENT

This submission brings together relevant evidence from VPSJ's recent MESL research, to inform the design of a Working Family Payment.

The observations made in this submission are based on the evidence and data established through the ongoing MESL research. The recently published Minimum Essential Standard of Living 2016 update report provides detailed analysis of the minimum expenditure and income needs of a range of representative household compositionsⁱ. Additionally, two recent MESL working papers presented in-depth analysis of the adequacy of the payment rates, tapers, and structures of in-work social welfare supports, including Family Income Supplement and the One-Parent Family Payment, for multiple family household compositions.ⁱⁱ

The call for submissions states that the proposed Working Family Payment is underpinned by the key principles of making work pay, and tackling child poverty. The outline approach to the Working

Family Payment makes reference to targeting “low income families”, supplementing low income on a graduated basis while “incentivising more work”, and “preventing families from becoming at risk of poverty”.

This submission shall outline relevant MESL research, in the context of the above issues, specifically regarding:

- › The current adequacy and inadequacy of in-work social welfare supports, for household’s in various scenarios of minimum wage employment
- › The poverty traps and high Marginal Effective Tax Rates that exist within the current system, potentially acting against the aspiration of making work pay
- › The MESL expenditure need and Minimum Income Standard gross salary needs of various household types, in the context of thresholds of ‘low income’
- › The additional MESL needs of older (adolescent) children
- › The difference between the SILC relative income at-risk of poverty measure, and household’s MESL minimum expenditure needs

MINIMUM ESSENTIAL STANDARD OF LIVING RESEARCH

The VPSJ’s Minimum Essential Standard of Living (MESL) research establishes a negotiated social consensus on what people believe is required for households to have a minimum socially acceptable standard of living. The data specifies the minimum expenditure required to live and partake in Irish society at a standard of living which members of the public agree nobody should be expected to live below.

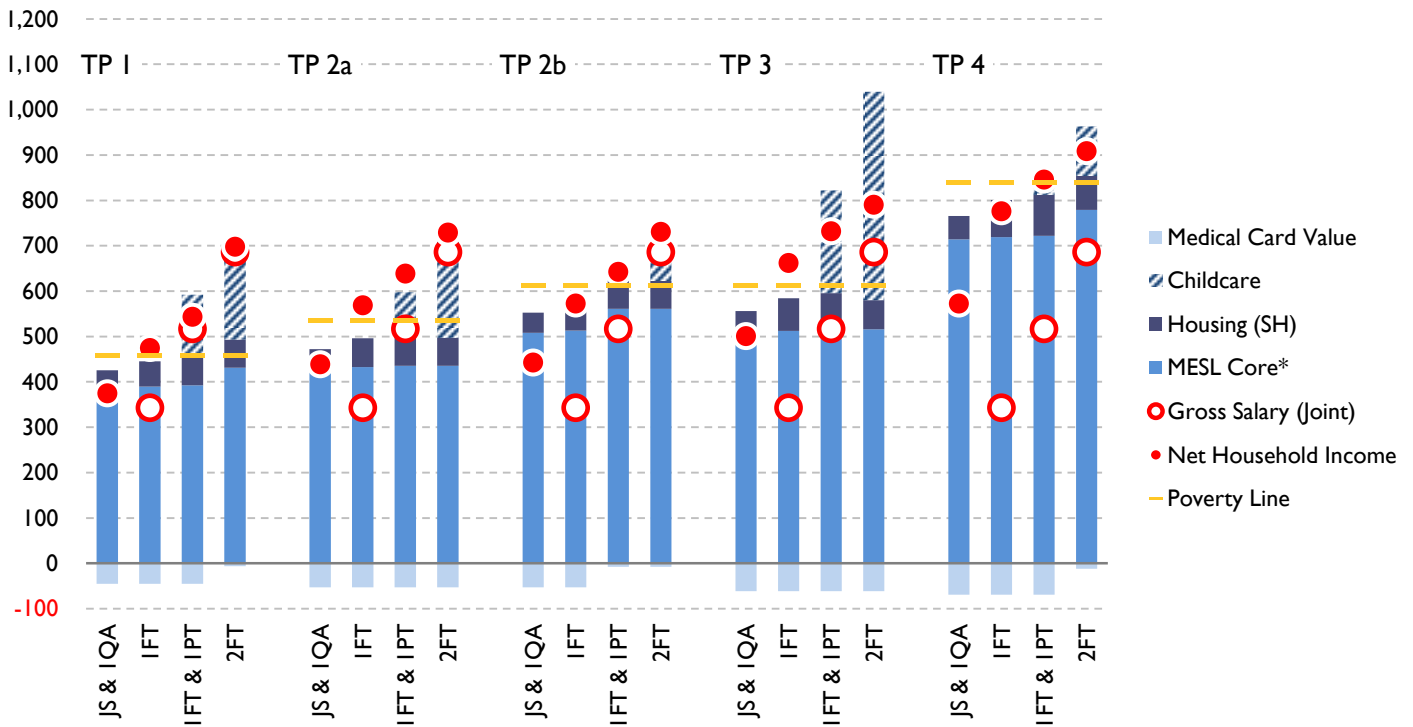
An MESL is a standard which no one should be expected to live below. It is the minimum needed to live and partake in Irish society today, meeting the physical, psychological and social needs of individuals and households. It is a minimum standard for everyone, not just those in poverty, and identifies the cost of a dignified standard of living which allows participation in the norms of Irish life. An income below the MESL threshold means individuals & households must go without in order to make ends meet, and must forego items deemed essential for being part of Irish society.

The MESL data uniquely provides an evidence based benchmark against which to assess the adequacy of minimum rates of pay, and shines a light on the extent to which individuals and households can afford a standard of living which enables participation in the social and economic norms of Irish society.

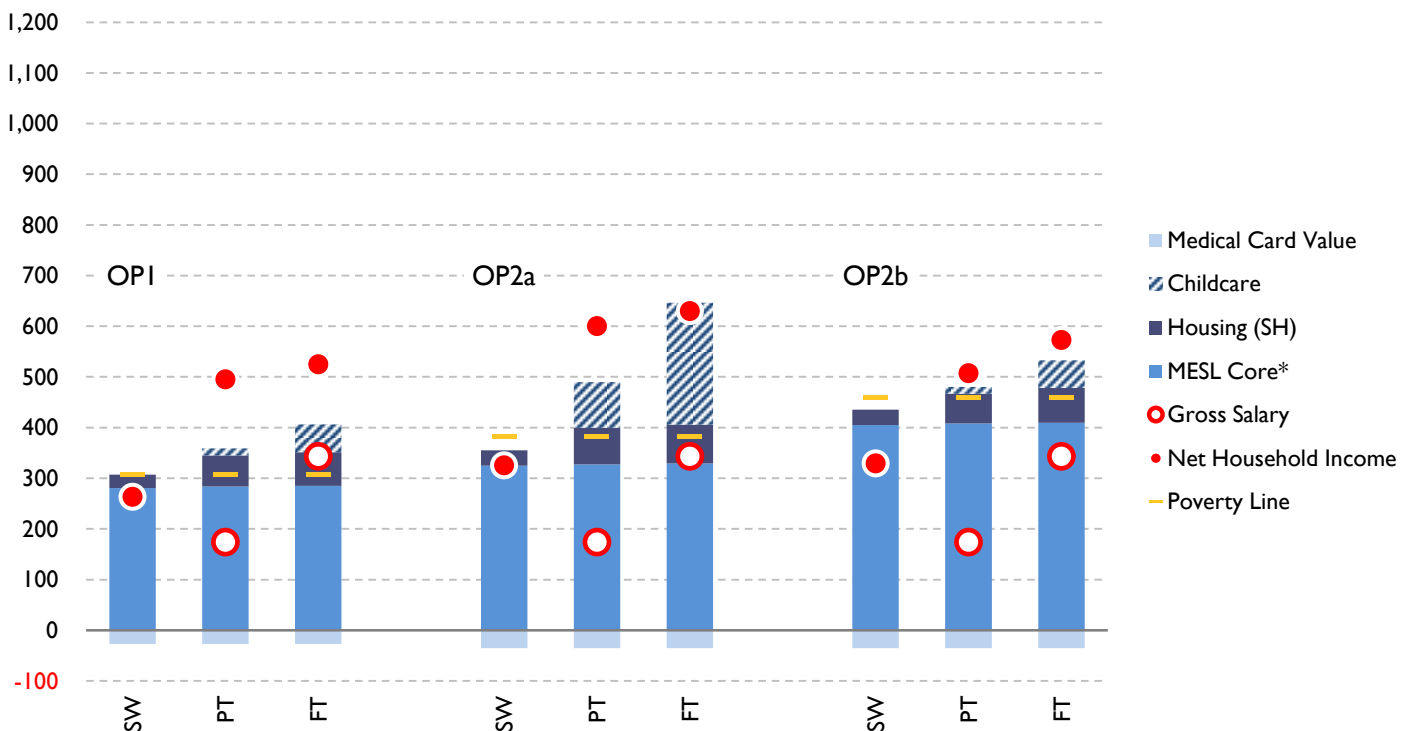
The value of this evidence based measure which is grounded in the lived experience of households has seen considerable growth in the multiplicity of uses and applications of this data in Ireland, to assess the minimum expenditure needs and income adequacy for a wide range of household compositions.

INCOME ADEQUACY – MESL ANALYSIS

GRAPH 1 TWO PARENT HOUSEHOLD COMPOSITIONS – INCOME ADEQUACY BY EMPLOYMENT SCENARIO



GRAPH 2 ONE PARENT HOUSEHOLD COMPOSITIONS – INCOME ADEQUACY BY EMPLOYMENT SCENARIO



INCOME ADEQUACY – MESL 2016 ANALYSIS

The MESL data provides a unique evidence based benchmark against which to assess the adequacy of in-work social welfare supports. This analysis measures the extent to which these income supports enable individuals and households to afford an acceptable minimum standard of living which allows for participation in the social and economic norms of Irish society.

Graph 1 & 2 illustrate the 2016 MESL expenditure need and income adequacy assessment for a set of eight representative family household compositions, when living in an urban area.

The analysis assesses total household income against each of the household compositions’ total MESL cost (including housing) adjusted for the effect of secondary benefits (primarily the medical card). Household income is comprised of NMW salary earnings after tax (PAYE, USC & PRSI), and social welfare supports as applicable, primarily Child Benefit, Family Income Supplement and the One-Parent Family Payment.

Income adequacy is assessed for a range of employment scenarios, and applicable childcare costs are included in each scenario.

The employment scenarios examined are listed below. In all cases full-time employment is based on 37.5 paid hours per week and part-time employment is based on 19 paid hours per week.

Two Parents – 1 Full-Time & 1 Stay-at-home	One Parent – Part-Time
Two Parents – 1 Full-Time & 1 Part-Time	One Parent – Full-Time
Two Parents – 2 Full-Time	

The position of the household when dependent on social welfare only is also included for each household composition, for illustrative purposes.

The full set of National Minimum Wage income scenario tables for the eight family household compositions in both urban and rural areas, are available in the MESL 2016 Update Report,(appendix pages 8A to 16A).

TWO PARENT HOUSEHOLDS

The scenarios presented for the two parent household compositions examine single and dual income situations. Housing costs are based on social housing. Childcare costs are based on the use of formal childcare for a pre-school age child, and are net of the ECCE scheme. Costs for a primary school age child are based on informal care provided by a friend or relative and therefore do not demonstrate the cost of formal private childcare. Childcare costs are included in dual income scenarios only.

SINGLE INCOME SCENARIOS

- The NMW may provide the basis of an adequate income for Two Parent households with one parent employed full-time and the other a full-time stay-at-home parent, when there is not an adolescent in the household.
- Costs rise significantly when there is an adolescent in the household, however social welfare supports, with the exception of the Back to School Allowance, are paid at a single rate irrespective of the age of a child and so the increase in expenditure at adolescence is not matched by an increase in social welfare supports.
- Single income two parent households with younger children only, can have a sufficient income on the NMW which enables the household to meet their MESL expenditure needs.
- The above is true when the households are able to access adequate affordable housing, i.e. social housing, and pay a differential rent.

DUAL INCOME SCENARIOS

- The data demonstrates that when both parents are engaged in NMW employment, the end result may not be an improvement in the household's income adequacy. As gains in net salary may be offset by both the cost of childcare and reduced eligibility for supports such as FIS and the Medical Card.
- The high costs of childcare for an infant outweigh the benefit of a second minimum wage income to the household. This is demonstrated by both TP1 and TP3 moving from a situation of income adequacy in a single income scenario, to income inadequacy when the second parent is engaged in either part-time or full-time minimum wage employment.
- Family Income Supplement reduces significantly when a household moves from a single NMW income to a dual NMW income scenario.
- For example, a Two Parent household with a pre-school and primary school age child (TP2a) may have an adequate income when one adult is in full-time NMW employment, and the second adult either a stay-at-home parent or in part-time NMW employment. However, with both in full-time employment, ineligibility for FIS (and not qualifying for a full medical card) results in income inadequacy.
- The Marginal Effective Tax Rate¹ for TP2a moving from a one adult in full-time employment and one stay-at-home, to the second in part-time employment is 60% and the second in full-time employment is 53%.

ONE PARENT HOUSEHOLDS

The scenarios presented for the one parent household compositions examine part-time and full-time employment situations. Housing costs are based on social housing. Childcare costs are based on the use of formal childcare for a pre-school age child, and are net of the ECCE scheme. Costs for

¹ "Marginal effective tax rates (METRs) measure how much of a given change in gross earnings, is taxed away through income tax, social security contributions and benefit withdrawals" OECD, 2005: 128

a primary school age child are based on informal care provided by a friend or relative and therefore do not demonstrate the cost of formal private childcare.

PART-TIME EMPLOYMENT

- The National Minimum Wage provides the basis of an adequate income in each of the three part-time employment scenarios examined.
- The part-time scenario is based on consistently working 19 hours per week, enabling the household to qualify for both the Family Income Supplement and the One-Parent Family Payment (OP 1 and OP 2a only).
- A recent MESL working paper² demonstrated the complexity and precariousness of combining low hour part-time employment and social welfare for One Parent households, and the vulnerability to income inadequacy if the working hours available are insufficient to enable the household to qualify for the Family Income Supplement.
- One Parent households may have an adequate income from part-time minimum wage employment, when living in social housing, and ensured of a minimum of 19 hours employment per week. In such scenarios the household will be eligible for FIS, which is essential for enabling income adequacy for this household type. However, in reality this household type is more at-risk of being in precarious low and/or variable hour employment.
- The difference between 18 hours and 19 hours of NMW employment is far greater than an hour's earnings; it is the difference between qualifying for FIS and not, and can result in a difference of €88 per week in social welfare supports for a One Parent household with one child under 7, e.g. OP1.

FULL-TIME EMPLOYMENT

- The household composition with a pre-school and primary school age child (OP 2a) does not have an adequate income on the NMW. Childcare costs increase the household's MESL expenditure need by a third, when compared to the part-time scenario. However, household income increases by only 5%.
- The household (OP 2a) receives over €216 from OFP and FIS, when in full-time employment. While this is significant support it is a reduction of €132 from the level of support received when in part-time employment. Consequently, despite gross salary doubling the household's total net income (net salary and social welfare supports) increases by only 5%.
- The Marginal Effective Tax Rate for OP2a moving from part-time to full-time NMW employment is 82%.

² Thornton, R. 2016. *Low Hour Work and Income Adequacy*. Available at www.budgeting.ie/publications/low-hour-work-income-adquacy/.

CHILDREN AGED OVER 7

- The changing eligibility for social welfare supports on the basis of the age of the youngest child in one parent households results in complexities in the system and notable income losses at certain points.
- The One-Parent Family Payment (OFP) and Jobseeker Transitional (JST) provide different levels of support for the same wage earned. Additionally, a crucial difference is the change in eligibility for FIS, while a household can receive both OFP and FIS simultaneously; dual eligibility is not allowed with JST.
- The inability to qualify for dual supports under the JST can mean a one parent household with one child aged 7+ receives €84 less per week in social welfare support, than a similar one parent household with one child aged under 7.ⁱⁱⁱ
- The reduction in support, combined with the precariousness of much low hour employment, places many One Parent households at risk of income inadequacy.
- In the development of a new Working Family Payment, the VPSJ recommends re-examining the potential to enable One Parent households with children aged 7 and over, to receive support from both the Jobseeker Transition and other in-work payments, similar to the current position of households with children aged under 7 receiving both OFP and FIS.

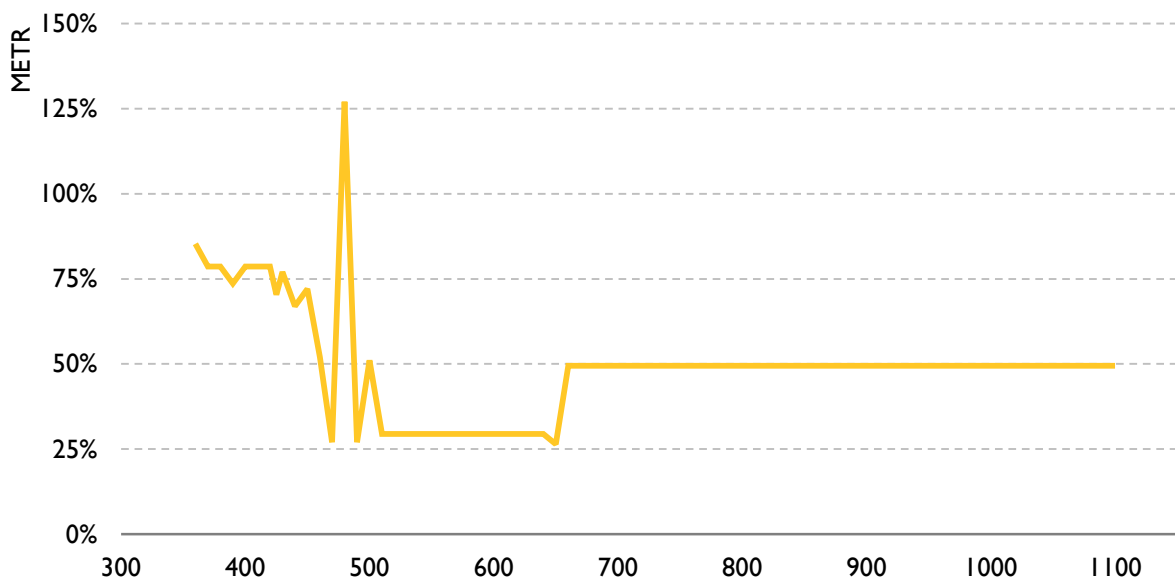
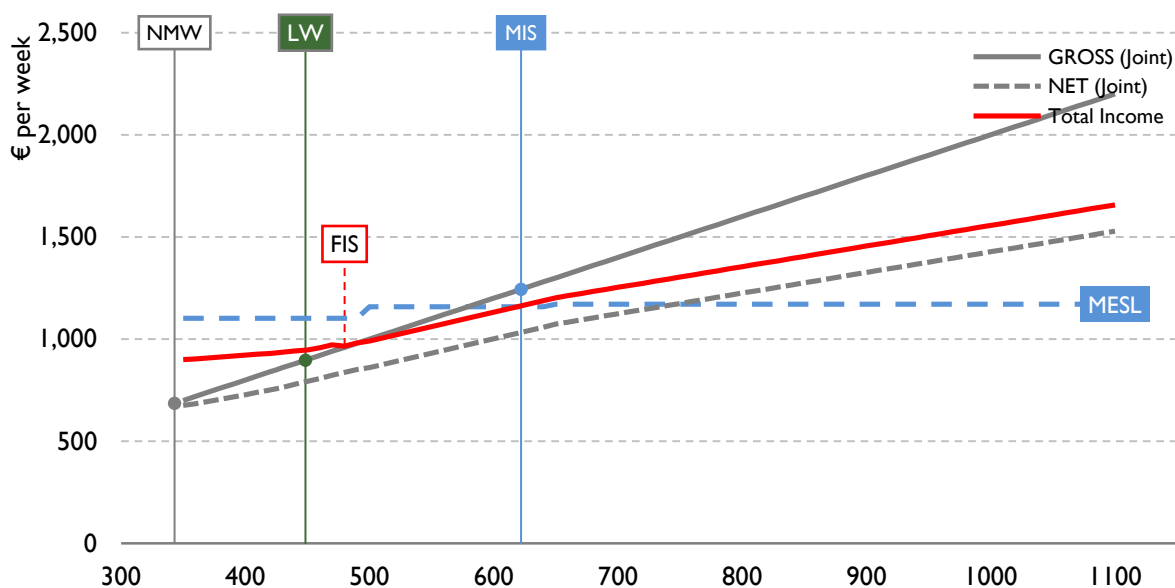
EARNINGS NEED IN EXCESS OF THE NATIONAL MINIMUM WAGE

The recent VPSJ MESL Working Paper, *When The Living Wage is Not Enough*, examined the Minimum Income Standard gross salary need for six family household compositions. The progression of household income from full-time NMW employment to the Living Wage, a threshold of low pay, and above is examined. The analysis of in-work income supports focused on the withdrawal and taper of the Family Income Supplement and One-Parent Family Payment.

The analysis examined the Marginal Effective Tax Rate (METR) for each household composition. Starting with household income based on full-time minimum wage employment, the analysis examines each €10 per week (per adult) increase in gross income. The change in household income and METR for each tranche is presented by household type in the Appendix^{iv}.

The following summarises the METR on increments of gross salary for the Two Parent and One Parent composition with the highest NMW to Living Wage METR, namely the Two Parent household with four children and One Parent household with two children. The households are examined in the context of the Dublin MESL expenditure needs.

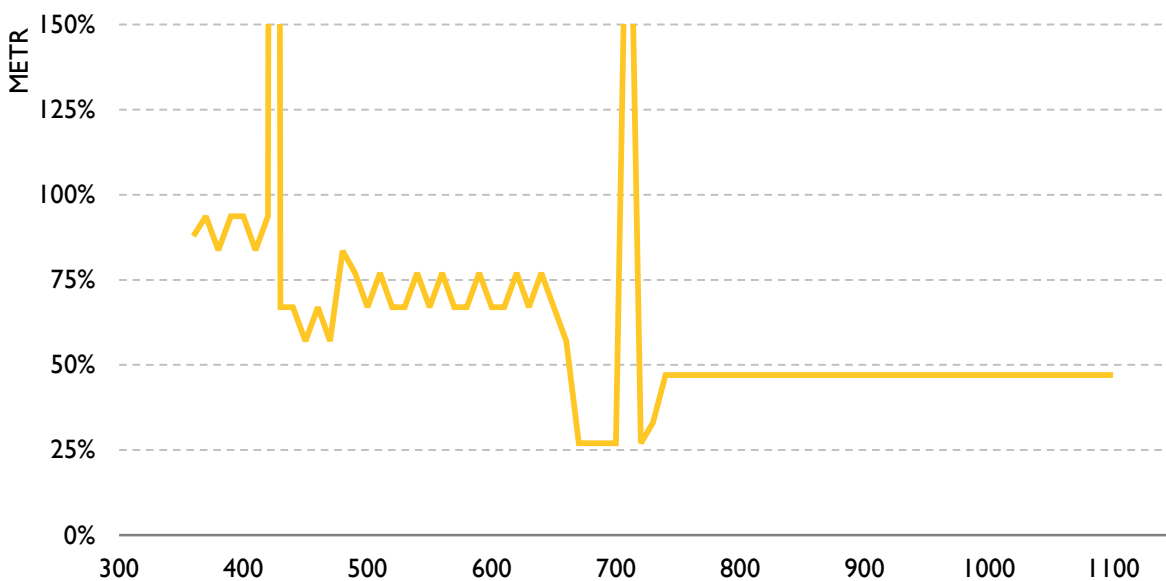
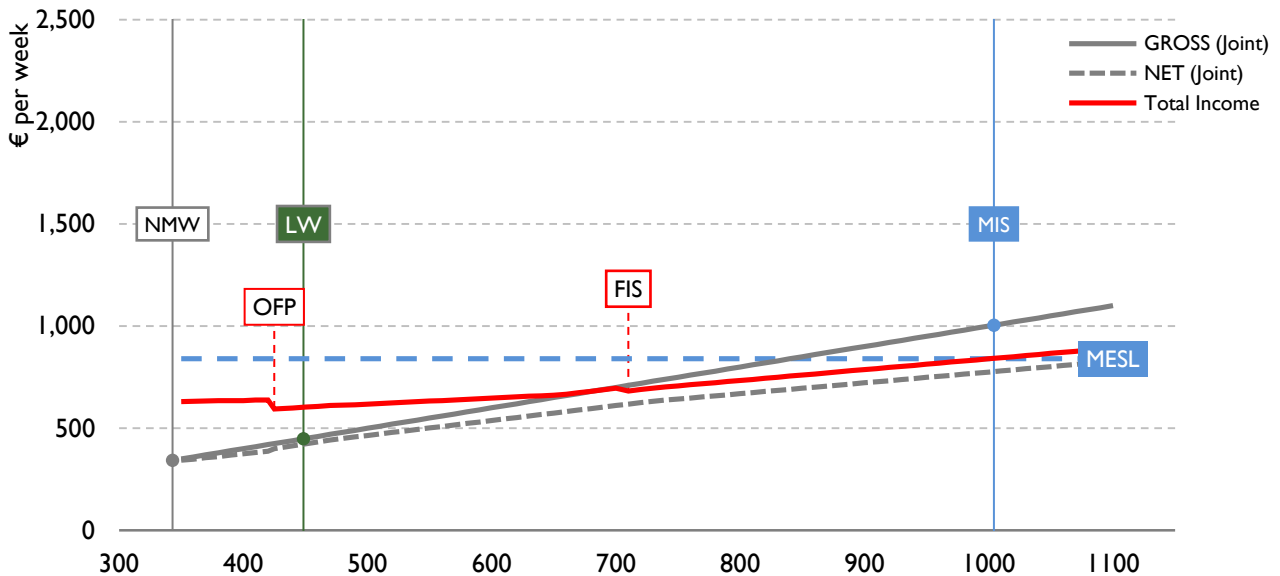
TWO PARENTS WITH FOUR CHILDREN



- Earning the NMW, household income is €908 per week. When earning the Living Wage it is €946. A combined gross salary which is €210 above the NMW, results in a household income which is only €38 above that at the NMW.
- With each increment of salary above the NMW total household income improves slightly, but the tapering of FIS results in a very high METR at each step; the METR from the NMW to the Living Wage is 82%.
- When earning the Living Wage the household would be entitled to a FIS payment of €26 per week, compared to €102 when earning the NMW.
- The point where FIS is withdrawn (€480 per week, per adult) is 40% above the NMW, however household income is 6.5% (€64) above NMW household income.

- Income adequacy is reached at a MIS rate of €15.95 per week, €620 per week. This is 1.75 times the NMW and 1.4 times the Living Wage. The METR from the NMW to the MIS is 54%.

ONE PARENT & TWO CHILDREN, PRE-SCHOOL & PRIMARY SCHOOL (OP2A)



- Earning the NMW, household income is €630 per week.
- When gross salary is €420 per week household income is €638, an €8 improvement from the NMW.
- With the loss of OFP, household income dips and does not return to €638 until gross salary is €570 per week – a difference of €150 per week.
- The One-Parent Family Payment is withdrawn when gross earnings are €425 or above. With the withdrawal of OFP at earnings of €425 per week, household income dips. It is only when gross salary is at €570 that overall household income and degree of shortfall returns to the point when gross salary was €420.

- €570 per week is 1 ½ times the NMW, and only improves the position of the household by €8 per week in comparison to NMW earnings.
- The METR on the change in gross salary from the minimum wage to the Living Wage is 125%.
- The tapering of FIS continues until the gross salary reaches €710. When FIS is lost there is an METR spike of 227%, and an income shortfall of €156.
- Income adequacy is only reached at a MIS rate of €25.75 per hour, €1,000 per week. This is 2.8 times the NMW and 2.24 times the Living Wage. The METR from the NMW to the MIS is 68% overall.
- The fact that earning 1 ½ times the NMW provides only an €8 improvement in household income shows the degree of poverty trap faced by this household composition, and the steepness of the road out of low income and income inadequacy.

Rates of pay below the Living Wage are low pay salaries. The analysis demonstrates that the combination of taxation and tapering of in-work supports creates a greater METR on low pay salaries, than those found on increases in earnings further up the income scale e.g. from the Living Wage to approximately average earnings.

The steep Marginal Effective Tax Rates imposed on changes in salary from minimum wage through to Living Wage, and an exit from low paying employment result in little to no net gain in household income for the households examined, and indeed a worsening of the income position of the One Parent household compositions examined.

The METRs found at this low end of the income scale are notably in excess of the METR on significantly higher incomes. Moreover, where the METR approaches or exceeds 100% a significant poverty trap and barrier to escaping low pay is created.

The rate of tapering and withdrawal of in-work social welfare supports undoubtedly contributes to the high Minimum Income Standard gross salary needs, as there is little to no return to household income from increases in gross salary between the NMW and Living Wage.

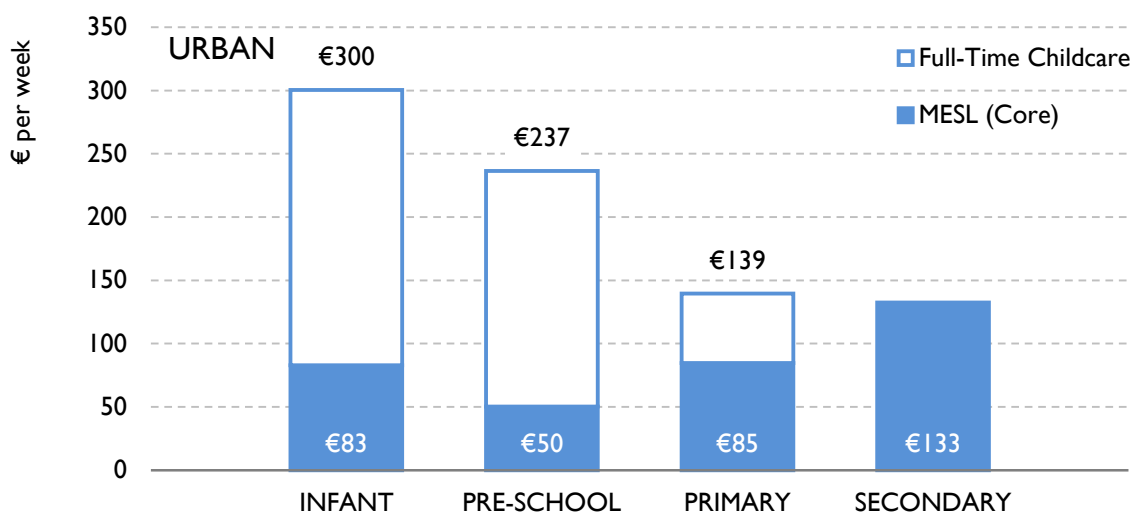
An METR of over 100% should not exist, it creates a perverse disincentive for both an individual worker and an employer to either earn more or pay more, as the only actor which gains from an increase in salary is the state. The development of a new Working Family Payment must endeavour to remove such anomalies from the in-work social welfare system.

MESL NEEDS OF OLDER CHILDREN

A child’s needs vary with age and to reflect this the MESL data defines four child age-groups and identifies the direct weekly cost of a Minimum Essential Standard of Living for a child at each stage.

A family household, when compared to a household without children, have different minimum costs due to various needs associated with family life, such costs are included in the MESL budgets for parents as they are not specific to a particular child or age-group. The direct cost of a child is based on expenditure needs which can be attributed solely to a child and consequently exclude wider household costs.

GRAPH 3 DIRECT COST OF A CHILD’S MESL, PER WEEK, BY CHILD AGE-GROUP
EXCLUDES THE EFFECT OF SECONDARY BENEFITS



The MESL data establishes the direct cost of a child’s minimum standard of living at four age-groups. The cost of a child’s MESL is higher in infancy, declining at pre-school age and then rising as children grow older. An adolescent / second level age child is the most expensive stage (when childcare is not required), at 1½ the cost of an infant or primary school age child’s MESL needs.^v

In the context of the MESL costs for a parent (excluding housing and adjusted for social welfare dependency), the MESL costs for children from infancy to primary school age are between 22% and 38% of an adult head of household. The direct cost of a second level age child’s MESL is almost two thirds (61%) of an adult’s.

The CSO SILC equivalence scales treat a child aged 14+ as another adult, i.e. 66% of the first adult in the household, in the calculation of a household’s ‘at risk of poverty’ threshold.

The additional minimum needs and costs of older children are not currently recognised in the primary social welfare supports for families, either in or out of work. It is vital that the structure of any new family support payments, such as the Working Family Payment, be cognisant of the additional needs of adolescent children, and reflect this in the rate of payment provided.

AT-RISK OF POVERTY & MESL NEED

The MESL data on the cost of a socially acceptable minimum standard of living provides a counterpoint to the SILC data. The two measures, the MESL and the SILC 'At Risk of Poverty' threshold, aim to specify the amount of money which must be available to a household to spend in order to enable participation in the norms of Irish life.

The SILC 'at risk of poverty' threshold is less nuanced than the MESL expenditure needs data. Unlike the MESL, the SILC 'at risk of poverty measure' and equivalence scale does not:

- Differentiate between the needs of working age and older adults
- Separate the minimum needs of children into four distinct age groups
- Allow for childcare costs, by age of child and employment pattern of parent(s)
- Take account of housing costs

While the 'at risk of poverty' threshold is an income measure, and the MESL an expenditure measure, they may be compared. One sets a lower income threshold, relative to incomes generally, below which households are deemed to be at risk of poverty. The other establishes the cost of a set of essential goods and services, establishing a threshold below which people should not be expected to live.

COMPARISON

- MESL expenditure need is illustrated in Graphs 1 & 2 above for Two Parent & One Parent households, based in social housing, and compared to the 'at risk of poverty threshold'.
- The primary change in the MESL expenditure need is due to childcare costs.
- The 'at risk of poverty' threshold is static for each household composition illustrated, consequently it under-estimates need by a greater degree when childcare costs are required.
- The 2015 poverty threshold allows for only 59% to 76% of the 2016 MESL need for households with young children in full-time childcare.
- In unemployed/social welfare dependent scenarios based in social housing, the 'at risk of poverty' threshold is closer to the cost of an MESL.
- The difference between the poverty threshold and MESL need would be greater in situations with higher housing costs, e.g. private rented housing (the illustrated examples are for social housing).
- The 'at risk of poverty' measure and SILC equivalence scales do not operate at the same level of detail and nuance as the MESL data.
- The 'at risk of poverty' threshold under-estimates what is needed for an MESL in certain situations, due to factors such as household composition, housing costs and childcare costs. This suggests that there is a cohort of household types which are not recognised as 'at risk of poverty' but are in fact living below a Minimum Essential Standard of Living.

NOTES

HOUSEHOLD COMPOSITIONS

Two Parents with One Child	an infant (aged under 1)	TP 1
Two Parents with Two Children	one in pre-school & one in primary school (ages 3 & 6)	TP 2a
Two Parents with Two Children	one in primary school & one in secondary school (ages 10 & 15)	TP 2b
Two Parents with Three Children	an infant, one in pre-school & one in primary school (ages under 1, 3 & 6)	TP 3
Two Parents with Four Children	two in primary school & two in secondary school (ages 8, 11, 14 & 17)	TP 4
One Parent with One Child	in primary school (aged 6)	OP 1
One Parent with Two Children	one in pre-school & one in primary school (ages 3 & 6)	OP 2a
One Parent with Two Children	one in primary school & one in secondary school (ages 10 & 15)	OP 2b

ⁱ Mac Mahon, B., Thornton, R. & Moloney, D. 2016. *Minimum Essential Standard of Living: 2016 Update Report*. VPSJ Available at www.budgeting.ie/publications/2016-mesl-update-report/.

ⁱⁱ Two MESL Working Papers:
Thornton, R. 2016. *Low Hour Work & Income Adequacy*.
Available at www.budgeting.ie/publications/low-hour-work-income-adequacy/.

Thornton, R. 2016. *When The Living Wage Is Not Enough*.
Available at www.budgeting.ie/publications/when-the-living-wage-is-not-enough/.

ⁱⁱⁱ A one parent household with one child, aged 6, with 19 hours NMW employment per week, would be eligible for supports from both the OFP & FIS, receiving an average of €321 per week in social welfare supports. For a one parent household with one child, aged 7+, also in 19 hours NMW per week, combining the JST & FIS supports is not allowed. Consequently, a household in this scenario would receive an average of €237 per week in social welfare supports, from FIS, Child Benefit and the Back to School Allowance.

^{iv} The detailed calculation tables are available in Appendix A, available at www.budgeting.ie/publications/when-the-living-wage-is-not-enough/.

^v Further explanation of the cost of a child can be found in the MESL 2016 update report p. 16-19 and Appendix p. 3A presents a breakdown of the MESL core costs for a child.