

BUDGET 2014: Minimum Essential Budget Standards Impact Briefing

Key Points

- The VPSJ welcomes the introduction of free GP care for children aged 5 and under. The introduction of this service will reduce the cost of a Minimum Essential Standard of Living for all households with young children. The provision of services is a vital part of ensuring an acceptable standard of living for all, and this measure demonstrates that the introduction of new services can reduce households minimum income needs.
 - This Budget maintains the weekly rate for the majority of primary social welfare payments. However, this results in the real value of payments falling due to the increasing cost of living; the Department of Finance is predicting inflation of 1.8% for the next year¹. However, the cost of a Minimum Essential Standard of Living (MESL) has been increasing at a rate which exceeds overall inflation. Between 2008 and 2013 the cost of a MESL rose by 3.25% on average, while CPI inflation for the same period showed a decline of 0.15%².
 - The failure to at least increase social welfare rates in line with inflation results in an effective cut in the value of social welfare payments to households trying to attain a minimum standard of living.
 - After recent years' budgets, it is to be welcomed that there have been no further reductions to social welfare supports such as the Back to School Clothing & Footwear Allowance or Fuel Allowance. However, the impact of a further increase in the Prescription Charge for Medical Card holders and the removal of the Telephone Allowance from the Household Benefits Package will impact upon household types which already face income inadequacy and cannot afford a Minimum Essential Standard of Living.
 - Budget 2014 is brought forward at a time of growing poverty in Ireland and reliance on state supports. The most recent CSO EU-SILC data shows that the at risk of poverty rate has risen to 16% (up from 14.7%). Furthermore, the reliance on social welfare supports to prevent poverty is growing; the most recent data shows that now over the half population (50.7%) would be at risk of poverty without social transfers.³
 - Social welfare dependent households will face greater difficulty in affording a Minimum Essential Standard of Living next year as a result of the measures in Budget 2014.
 - This Budget has not addressed the higher costs families with teenage children face. If a higher rate of Qualified Child Increase was introduced for teenage children in social welfare dependent households, it would have indicated an acknowledgement of the additional costs of adolescents to families.
 - The Living Alone Increase for Pensioners living by themselves has repeatedly been shown to be insufficient, with this household consistently facing income inadequacy when dependent on the state pension. The combined impact of increases in the cost of living, the increase in the Prescription Charge, removal of the Telephone Allowance and the inadequacy of the Living Alone Increase will see lone pensioner household types facing greater income inadequacy in 2014.
-

INTRODUCTION

The research by the VPSJ on Minimum Essential Budget Standards has repeatedly demonstrated the difficulty low income households face in affording a socially acceptable standard of living. VPSJ analysis found that in 2013 working age social welfare dependent households faced income inadequacy in 197 of 208 scenarios examined⁴.

This briefing analyses the impact of Budget 2014 in the context of the VPSJ Minimum Essential Budget Standards (MEBS) model. This model establishes the expenditure required by specific household types to maintain a Minimum Essential Standard of Living (MESL). The model also examines the Minimum Income Standard (MIS) needed in specific income scenarios for households to afford an MESL.

A MESL is derived from a negotiated social consensus on what people believe is a minimum. Through exhaustive work with many focus groups, detailed baskets of the goods and services vital to a household type's minimum needs, are compiled. These baskets are comprised of over 2,000 items and define the minimum needs for households to live at a socially acceptable level.

The cost of these baskets is adjusted annually by appropriate CPI rates. The costs presented here are based on prices adjusted to March 2013. The costs are projected forward to 2014 using the HICP forecast inflation rate published by the Department of Finance in October 2013.

The 2014 income calculations are based on the available information from Budget 2014 as published by the relevant Government Departments at this time.

This impact briefing focuses on a set of illustrative household types. 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 short-term retention of secondary benefits. Also the unemployed scenarios do not include participation in additional schemes e.g. Jobs Bridge or Back to Education schemes.

Further details of the Minimum Essential Standard of Living expenditure budgets and income analysis are available through the VPSJ budgeting website: www.budgeting.ie. The Minimum Income Standard and expenditure needs of a greater range of households for 2013 may also be calculated using the Minimum Income Standard calculator at www.MIS.ie

Table 1 MESL Expenditure and Incomes 2013 & 2014⁵, for Social Welfare Dependent Households⁶

| | | Two Parent Baby, 3 & 10 | Two Parent 10 & 15 | One Parent Baby & 3 | One Parent 10 & 15 | Single Adult Living Alone | Pensioner Living Alone |
|------|-------------|----------------------------|-----------------------|------------------------|-----------------------|------------------------------|---------------------------|
| 2013 | Expenditure | 573.28 | 566.37 | 366.12 | 445.81 | 344.90 | 255.56 |
| | Income | 494.12 | 438.17 | 317.60 | 323.37 | 278.00 | 236.70 |
| | Shortfall | -79.16 | -128.20 | -48.52 | -122.44 | -66.90 | -18.86 |
| 2014 | Expenditure | 582.93 | 575.94 | 372.32 | 453.45 | 350.59 | 262.13 |
| | Income | 494.12 | 438.17 | 317.60 | 323.37 | 278.00 | 236.70 |
| | Shortfall | -88.81 | -137.77 | -54.72 | -130.08 | -72.59 | -25.43 |

THE RISING COST OF A MESL

The cost of living is rising; inflation is forecast to be 1.8% in the next year¹. In the year from March 2012 to March 2013 inflation rose by 0.5%, however within this there were notable increases in the cost of essentials such as food, electricity and home heating fuel⁷.

These essential items comprise a significant proportion of the cost of a MESL and have undergone greater price increases in recent years than the overall rate of inflation. Consequently, the cost of a MESL has risen at a greater rate than the average CPI rate. The VPSJ's research on the cost of a MESL has shown that the overall price of the essentials for an acceptable standard of living increased by 3.25% from 2008 to

March 2013, while CPI inflation for the same period showed a decline of 0.15%.²

If the trend of recent years continues then the cost of a Minimum Essential Standard of Living will rise by more than the forecast inflation rate of 1.8% in the coming year.

When social welfare rates do not at least keep track with inflation the effective value of the payment declines. The fact that the cost of a Minimum Essential Standard of Living has been rising at a faster rate than inflation makes this situation all the worse, as the gap between social welfare income and households minimum needs widens.

Table 1 details the expenditure needs and social welfare income entitlements for Two Parent

households (one Jobseeker and one Stay At Home parent), One Parent households (dependent on OFP), unemployed Single Adults living alone, and a Pensioner living alone (in receipt of a Non-Contributory Pension). The adequacy of social welfare payments are tested against the minimum expenditure needs of each household. In all cases the household types are eligible for a full Medical Card, and housing costs are based on local authority rents (with the exception of the single adult). The VPSJ MESL research consistently demonstrates these household types as those most vulnerable to income inadequacy.

In all the cases detailed above social welfare failed to provide an adequate income to these household types in 2013. The analysis above demonstrates that under this Budget income from social welfare will remain static for these household types, while at the same time the cost of a MESL will increase. Therefore, in each case the shortfall in weekly income is set to grow in 2014.

Table 2 MIS Expenditure and Incomes 2013 & 2014, for Households in Employment⁸

| | | Two Parent Baby, 3 & 10 | One Parent Baby & 3 | Single Adult Living Alone |
|------|--------------|----------------------------|------------------------|------------------------------|
| 2013 | Expenditure | 826.63 | 802.31 | 390.58 |
| | Gross Salary | 822.08 | 973.13 | 455.63 |
| | - TAX | 84.41 | 170.81 | 65.05 |
| | + SW | 90.00 | 60.00 | 0.00 |
| | Net Income | 827.66 | 804.01 | 391.58 |
| 2014 | Expenditure | 833.82 | 809.08 | 396.72 |
| | Gross Salary | 833.38 | 984.38 | 463.13 |
| | - TAX | 87.42 | 234.60 | 66.36 |
| | + SW | 90.00 | 60.00 | 0.00 |
| | Net Income | 835.95 | 809.78 | 396.76 |

Table 2 examines the income needs of these household types in employment. The Minimum Income Standard⁹ is calculated for each household type, as it stands now in 2013 and under the measures to be introduced in 2014. Total household income is calculated, taking account of tax liabilities and social welfare entitlements.

ADULT OF WORKING AGE, LIVING ALONE

The primary rate of Jobseeker's payment has not been changed in this budget (for ages 26+). For an unemployed adult living alone in urban private rented accommodation, the combination of this payment and Rent Supplement was inadequate in 2013 and this inadequacy is set to increase in 2014.

Based on a 37.5 hour week, a gross salary of €455 per week (€12.15 an hour) was required to afford a MESL in 2013. However, with the growing cost of living, this individual requires a higher gross salary to maintain

the same minimum standard of living in 2014. The Minimum Income Standard for a household of this type in 2014 is a gross salary of €463 per week (€12.35 per hour).

HOUSEHOLDS WITH CHILDREN

For households with children Budget 2014 has maintained the key income supports of Family Income Supplement and the Qualified Child Increase. However, the reductions in Child Benefit for fourth and subsequent children (announced in Budget 2013, coming into effect in 2014) will inevitably have an impact on larger households.

The introduction of universal access to free GP care for children aged 5 and under is to be welcomed. This measure will see the cost of a Minimum Essential Standard of Living reduce for many households with young children. This demonstrates that services can contribute to reducing the minimum income needs of households.

Examining households with two children, where the parent(s) are reliant on social welfare reveals a reduction in income of approximately 8% from 2009 to 2013. While Budget 2014 does not further cut social welfare incomes, it does contribute to the difficult situation of rising living costs by not maintaining the real value of social welfare supports. A one parent household with two young children will face a shortfall of over €2,800 in 2014, when unemployed and residing in social housing.

Cost of an Adolescent

Household types with a teenager, reliant on social welfare, have consistently faced income inadequacy. Budget 2014 does not acknowledge this, and has not introduced a higher rate of Qualified Child Increase for social welfare dependent households with an adolescent.

A social welfare dependent two parent household with one primary school age child and one teenage child now must exist in 2014 with an income which is inadequate by €137 every week, or over €7,160 for the year.

Minimum Income Standard

The MIS required by each household type examined in Table 2 will be higher in 2014 due to increased expenditure need.

The two parent household type with three young children needs the two adults to earn a combined gross salary (one working full-time and one part-time) of over €43,300 per annum; equivalent to €14.75 per

hour. This salary, combined with Child Benefit provides an income adequate to meet the minimum needs of the household in 2014. However, at this salary rate the household does not qualify for additional social transfers, e.g. FIS.

In the case of the one parent household type, the adult will need to earn a gross salary of over €51,100 per annum; equivalent to €26.25 per hour. This salary rate is required to enable the household to afford a MESL. The high cost of childcare accounts for almost half (48%) of this household types expenditure in 2014, and drives much of this salary need.

UNEMPLOYED ADULTS, 25 AND UNDER

Budget 2014 retains the reduced rate of Jobseekers Allowance for younger adults, and extends the €100 rate to adults aged 18 to 24 years, and applies the €144 rate to 25 year olds.

As demonstrated in Table 1 the full rate Jobseekers payment of €188 per week is inadequate for a Single Adult living alone. The reduced rate for younger unemployed adults will require individuals to rely on family support, where possible, and to live in the parental home.

The cost of a MESL for a young adult is €180.74 per week in 2013 and is forecast to rise to €183.99 in 2014. This cost is based on the young adult living as part of the parental household. It is clear that the reduced rates of Jobseekers Allowance fall short of providing for a MESL, and will place a significant burden of support on the parents and family of unemployed young adults.

OLDER PEOPLE

Budget 2014 impacts on older people reliant on a state pension, through the adjustments to the Household Benefits Package, the increase of the Prescription Charge for Medical Card holders and the continued inadequacy of the Living Alone Increase rate.

The VPSJ MESL research has found that Pensioner Couple households may be able to afford a Minimum Essential Standard of Living when residing in urban social housing. However, Pensioners living alone in the same situation face income inadequacy, when reliant on a Non-Contributory State Pension or Contributory State Pension. The combination of the State Pension, Living Alone Increase, Fuel Allowance, Household Benefits Package and the secondary benefits of a Medical Card are not enough in 2013, and will not be in 2014.

The removal of Telephone Allowance equates to an increase in cost of €2.19 per week. This move compounds the cuts made to the Household Benefits Package in Budget 2013. The increase in the Prescription Charge from €1.50 to €2.50 affects all households with a full Medical Card. The combination of these measures increase costs for a household type which already faces income inadequacy.

In 2014 the overall cost of living for this household type is set to increase. The failure to address the ongoing inadequacy of the Living Alone Increase for lone pensioners means this household type must face income inadequacy of over €1,300 in 2014.

¹ Department of Finance October 2013 Economic Bulletin, forecasts a 1.8% increase in HICP

² VPSJ, 2013. *Changes in the cost of a MESL in comparison to CPI inflation*. Available online

www.budgeting.ie/images/stories/Publications/Papers/VPSJ_2013_CHANGES_IN_THE_COST_OF_A_MESL_IN_COMPARISON_TO_CPI_INFLATION.pdf

³ Central Statistics Office, 2013. *Survey on Income and Living Conditions (SILC): 2011 & revised 2010 results*. Available online www.cso.ie/en/media/csoie/releasespublications/documents/silc/2011/silc_2011.pdf

⁴ VPSJ, 2013. *Submission to Advisory Group on Tax & Social Welfare regarding Working Age Supports*. Available online www.budgeting.ie/images/stories/Publications/Submissions/VPSJ_submission_regarding_Working_Age_Supports.pdf

⁵ 2013 expenditure is based on the VPSJ MESL baskets adjusted to March 2013. 2014 expenditure is adjusted by forecast HICP. Incomes calculations for 2014 are based on the available information from Budget 2014 as published at the time of writing.

⁶ The social welfare income scenarios assume full entitlement to payments relevant to the household scenario:

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

⁷ CSO CPI sub-indices 12 month change, March 2013 – Food & Non-Alcoholic Beverages: 1.6%, Electricity: 8.7%, Natural Gas: 9.7%

⁸ The Minimum Income Standard (MIS) is the gross salary necessary for a household's total income to adequately meet the cost of a MESL. The MIS calculations take account of tax liabilities, PRSI, USC and potential social welfare entitlements (including Child Benefit, FIS, OFP, BTSCFA, Fuel Allowance, and Medical Card) and are based on the following scenarios:

| | |
|--------------|--|
| Two Parents | one adult employed full-time and one part-time |
| One Parent | adult employed full-time |
| Single Adult | adult employed full-time |

Housing costs are based on social housing for households with children. Housing costs for the single adult household type are based on the average cost of a private rented one bed flat in Dublin in Q1 2013 [€608.59 per month] (Source: PRTB Rent Index).