A Minimum Income Standard for Ireland

A consensual budget standards study examining household types across the lifecycle

Micheál Collins, Bernadette Mac Mahon, Gráinne Weld & Robert Thornton
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INTRODUCTION
• Some simple questions = focus of this research
  – What is a basic standard of living?
  – How much does it cost?
  – How much income do you need to afford this?

• VPSJ working on this for some time

• Gaps to fill and extension to income

• Department of Social Protection & IRCHSS funding for this joint research project

• Provides answers for households across the lifecycle

• Grounded in Budget Standards literature
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METHODOLOGY
Previous Research

• 2000 One Long Struggle – A Study of Low Income Households

• 2004 Low Cost but Acceptable Budget Standards for Three Households

• 2006 Minimum Essential Budgets for Six Households Types (Urban)

• 2008 Minimum Essential Budgets for Six Households Types – Changes during the Period 2006-2008

• 2010 Minimum Essential Budgets for Six Rural Households Types
What is a Minimum Essential Standard of Living (MESL)?

• Derived from negotiated consensus on what households believe is a minimum.

• It is a standard of living which meets individual’s/household’s physical, psychological and social needs.
What is a Minimum Essential Standard of Living (MESL)? Cont’d

• It is calculated by identifying the goods and services required by different household types in order to meet their minimum needs.

• A Minimum Income Standard is the income required in order to achieve a minimum essential standard of living.
How is a MESL Determined?

• Focus groups are established for each household type. In a series of meetings the groups arrive at a negotiated consensus about the goods and services required to have a MESL.

• Experts are consulted to ensure that the negotiated consensus meets certain criteria e.g. Food is nutritionally balanced etc.

• Focus on needs not wants.
What does it Include?

• 16 Areas of Expenditure
• Goods and services priced in shops and providers identified by Focus Groups (approx. 2,000)

<table>
<thead>
<tr>
<th>Food</th>
<th>Clothing</th>
<th>Personal Care</th>
<th>Health Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household Goods</td>
<td>Household Services</td>
<td>Housing (rent)</td>
<td>Communications</td>
</tr>
<tr>
<td>Social Inclusion &amp; Participation</td>
<td>Transport</td>
<td>Household Fuel</td>
<td>Childcare</td>
</tr>
<tr>
<td>Insurance Costs</td>
<td>Education</td>
<td>Personal Costs</td>
<td>Savings &amp; Contingencies</td>
</tr>
</tbody>
</table>
Focus Groups

• Include People from different socio-economic backgrounds (8 – 12 people per focus group).
• Focus Group work preceded by orientation meeting.
• 3 different focus groups for each household type:
  
  **Focus Group 1**: Produces an agreed list of items
  
  **Focus Group 2**: Reviews work of 1st group – reach consensus
  
  **Focus Group 3**: Rechecks items in each category
  Study total costs for each category
  Reaches final consensus
Household Types (urban and rural)

• Single adult of working age

• One and two parent households with two children of different ages – infant to 19 years of age

• Pensioner couple and female pensioner living alone
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EXPENDITURE
Expenditure in Different Income Situations

Weekly Expenditure Presented for the following Situations:

– Excluding Housing, Childcare & Entitlement to Secondary Benefits
– Employed Full-Time
– Employed Part-Time
– Jobseeker/One Parent Family Payment
– In Receipt of the State Pension
Expenditure Fluctuates and is Influenced by the Following:

• Composition of Household and Child Age Group

• Employment Status and Need for Childcare (applies to children in the infant to primary school age brackets)

• Entitlement to Secondary Benefits e.g. Medical Card

• Location
Urban Two Parent, Two Child Household
Weekly MESL Trend

Excluding Housing, Childcare & Secondary Benefits
1 Adult Employed FT
Both Adults Employed (1FT & 1 PT)
Summary of Expenditure

• This study establishes the cost of a minimum essential standard of living across the breadth of the lifecycle for a number of household types in various income scenarios.

• Across the lifecycle expenditure fluctuates according to the needs and particular circumstances of each household and individual.

• Knowing the minimum expenditure needed for a MESL allows for an examination of the adequacy of the minimum wage and social welfare transfers.
### Summary of the Cost of a MESL, Excluding Housing, Childcare and Secondary Benefits

<table>
<thead>
<tr>
<th>Urban</th>
<th>€ per week</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>9 Months &amp; Pre-School</td>
</tr>
<tr>
<td>Two Parent</td>
<td>470.54</td>
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<tr>
<td>One Parent</td>
<td>345.26</td>
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</table>

<table>
<thead>
<tr>
<th>Rural</th>
<th>€ per week</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>9 Months &amp; Pre-School</td>
</tr>
<tr>
<td>Two Parent</td>
<td>536.91</td>
</tr>
<tr>
<td>One Parent</td>
<td>430.20</td>
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</tbody>
</table>
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INCOME & A MINIMUM INCOME STANDARD
Benchmarking Income Adequacy

Test standard income levels in three scenarios

1. **Unemployed**
   Dependent on Jobseeker’s Payment

2. **Minimum Wage**
   One adult employed full-time & one at home

3. **Minimum Wage**
   One adult employed full-time & one part-time
Two Parent, Two Child Household Type

Summary of Income Adequacy

<table>
<thead>
<tr>
<th>School Phase</th>
<th>Income Adequacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>9 Months &amp; Pre-School</td>
<td>€69</td>
</tr>
<tr>
<td>Both Pre-School</td>
<td>€65</td>
</tr>
<tr>
<td>Pre &amp; Primary School</td>
<td>€165</td>
</tr>
<tr>
<td>Both Primary School</td>
<td></td>
</tr>
<tr>
<td>Primary &amp; Second Level</td>
<td></td>
</tr>
<tr>
<td>Both Second Level</td>
<td></td>
</tr>
<tr>
<td>Second Level &amp; 19 Years</td>
<td></td>
</tr>
</tbody>
</table>

Legend:

- Employed - 1 FT & 1 PT
- Employed - 1 FT
- Unemployed
A Minimum Income Standard

Definition:

The Minimum Income Standard (MIS) is the gross salary necessary for a household’s total income* to adequately meet the cost of a Minimum Essential Standard of Living.

*taking account of the household’s tax liabilities and social welfare entitlements
Salary

- Gross Salary
  - Income Tax
  - PRSI
- Universal Social Charge

Social Transfers

- Child Benefit
- Family Income Supplement
- BTSCFA
- Medical Card (impacts expenditure)

Household Income
2 Parent & 2 Children of Second Level Age
Urban, Single income

Minimum Wage: €300
Ineligible for full Medical Card
Ineligible for FIS
Minimum Income Standard
Household Income over MIS

Net Salary: €667
Gross Salary: €670
Social Transfers: €464
Gross Salary: €471

MESL Household Income: €686
MESL Cost: €689
Net Salary: €643
Gross Salary: €709

Social Transfers: €689
Net Salary: €686
Gross Salary: €709
A two parent household with two children of second level age and one adult employed full-time, living in urban local authority housing, need this gross income per week to afford a minimum essential standard of living.
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SOME POLICY IMPLICATIONS
• Key: Chart 1, Tables 16-22, 31-33.
• The MESL and the MIS provide useful benchmarks to assess:
  – The adequacy and appropriateness of current welfare payments
  – The challenges that low income working families face
  – The adequacy of the minimum wage
  – The effectiveness of the interaction between low income households and the welfare system
  – The needs of households with debt issues (MABS etc)
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FUTURE DIRECTIONS
To date:

- The MESL work of the VPSJ:
  - Has been widely distributed
  - Is used in pre budget submissions and post budget analysis
  - Is used in studies on poverty and poverty reduction
  - Is used by organisations working with people on the ground e.g. MABS and SVP
  - Has been used in EU projects to develop minimum income standards
  - Liaising with financial institutions re ‘retention money’

- This work broadens the research and should broaden its use
Current and Future Directions

Current Work

- The Cost of a Child
- Development of a Minimum Income Calculator
- MESL and indirect taxation*

Future Work

- “Poverty Traps”
- Separate output on the 19 year old
- Tracking Changes Over Time
- Annual Update
- Cost of a Disability?
- MESL: Implications for Ireland’s equivalence scales*
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