

# **Towards adequate and accessible minimum income in Estonia**

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# Introduction

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- The frequently quoted metaphor about fish and hook makes it difficult to debate the 'fish issue' in Estonian society
  
  - There are some problems though with this metaphor
    - access to resources is frequently limited
    - entry to the competitive market has frequently high entry fees and is limited by regulation
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# Aims of a common EU directive on Minimum Income Schemes

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- A common methodology for defining adequacy
  - at-risk-of-poverty threshold: 60% of median income
  - material deprivation
  - reference budgets
  
- Active inclusion strategy
  - integrating adequate income support with a link to the labour market and access to quality services
  
- A positive hierarchy with a minimum wage
  - in order for minimum wage to be higher than minimum income

# 60% of median equivalised income

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- Has been used in the EU from 2000 under the Lisbon strategy and the EU social inclusion strategy as one of the overarching social inclusion indicators
    - at-risk-of poverty indicator
  
  - However, has not been used previously as a legal benchmark in national, international or supranational law
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# Minimum income thresholds in Estonia: relative poverty

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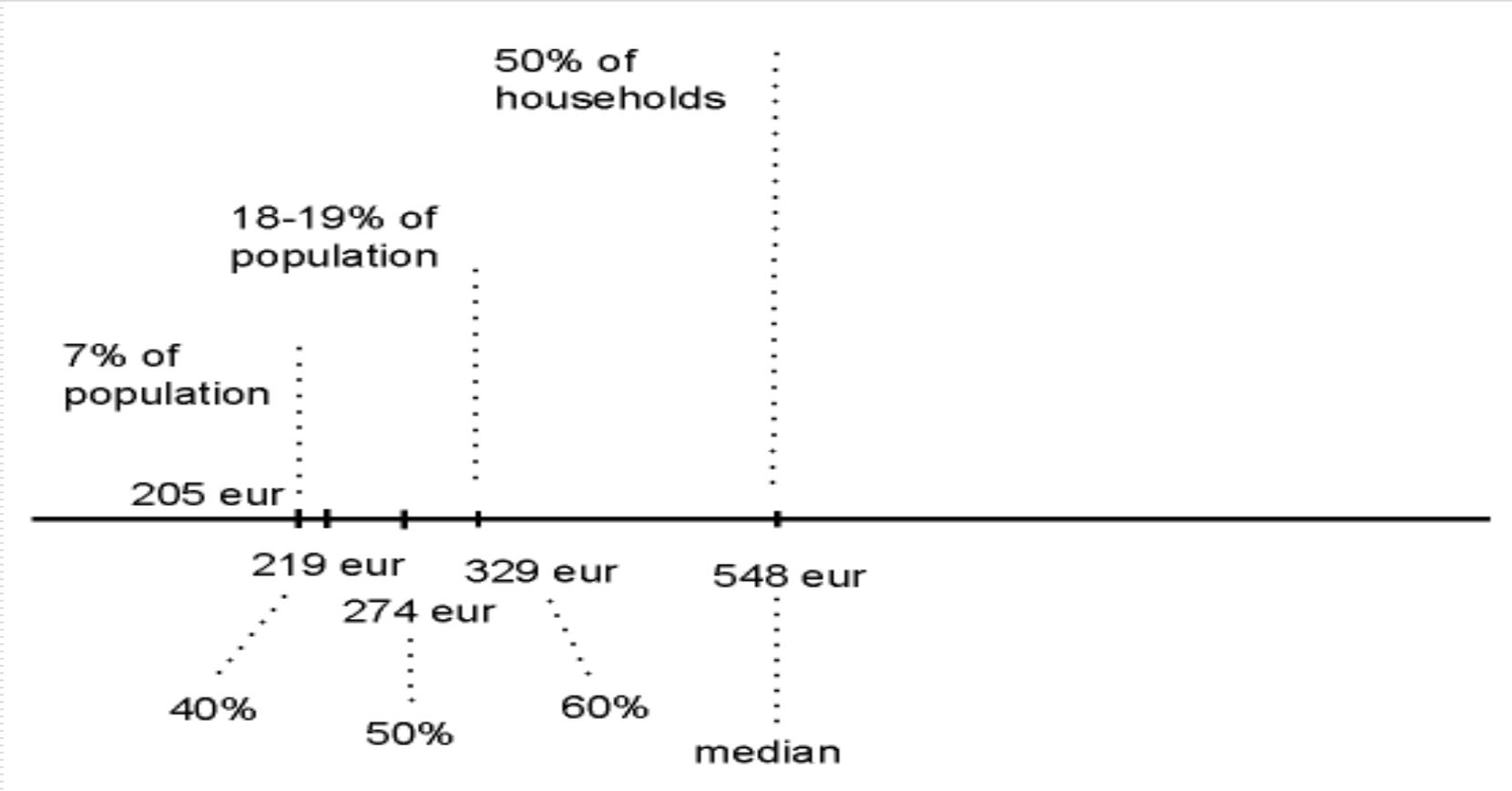
- From 2002 'Laeken indicators' calculated annually by the Estonian Statistical Office based on the Estonian Social Survey, including the *relative poverty* indicator:
    - 60% of median equivalised income per household member
    - in 2012: **329 EUR per month**
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# Minimum income thresholds in Estonia: absolute poverty

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- From 2004 subsistence minimum or *absolute poverty* indicator is calculated by the Estonian Statistical Office, based on a reference budget methodology developed by Tartu University researchers
    - in 2013: 205 EUR per month
      - minimum food basket 92 EUR
      - non-food expenditures 113 EUR
        - *housing 77 EUR*
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# Alternative benchmarks



Note: monthly rates

# Is that an appropriate measure of adequacy?

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- Various benchmarks
    - 60% of median income – 329 EUR
    - 50% of median income – 274 EUR
    - subsistence minimum/absolute poverty – 205 EUR
  
  - Substantial gap between those who are not officially considered as poor using the absolute poverty measure and those identified by the relative poverty measure
    - 11-12% of population
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# Constitutional provisions

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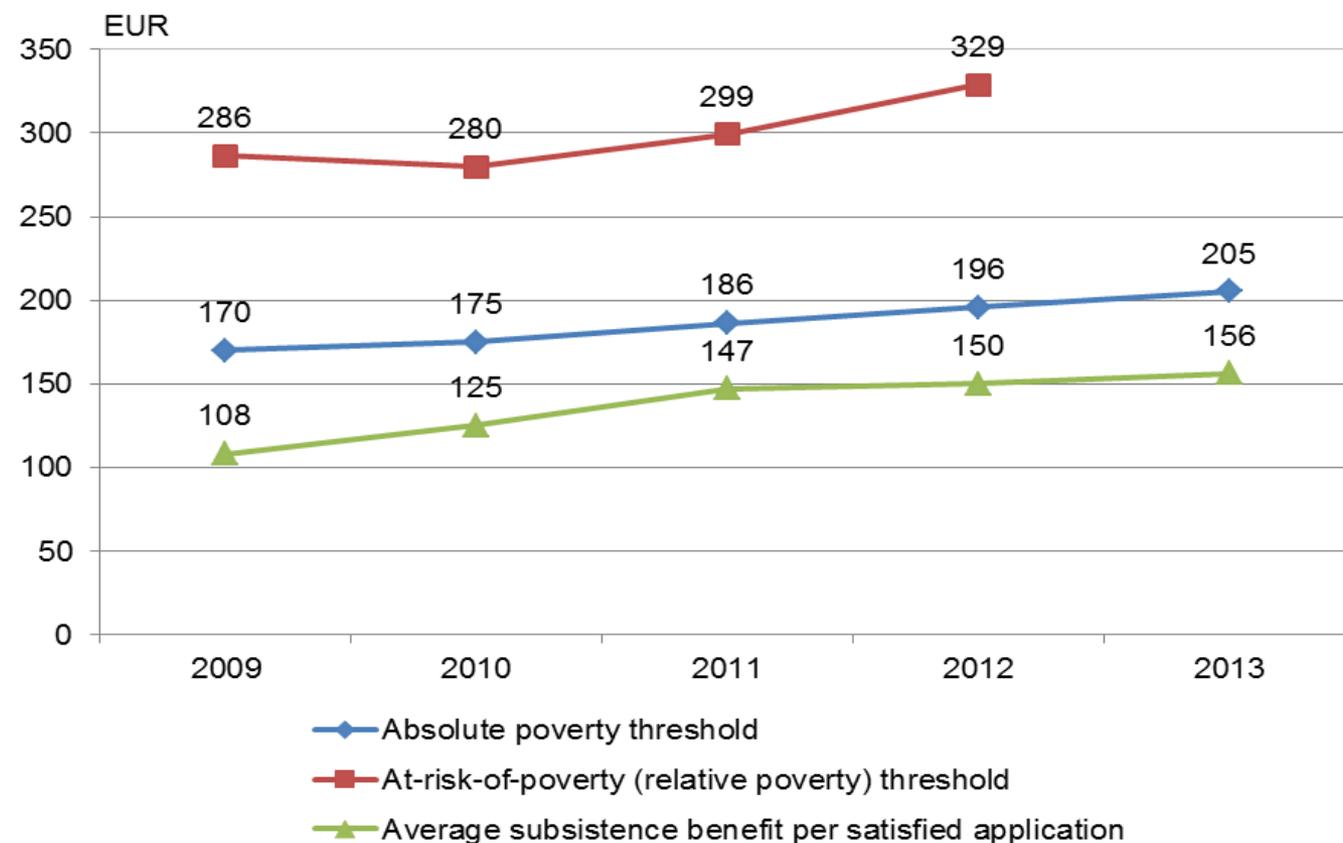
- The right to state assistance in case of need
  - Types and level of assistance, eligibility conditions and payment procedure shall be stipulated by law
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# Subsistence benefit – the actual minimum income threshold

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- Subsistence benefit by Social Welfare Act
    - Minimum income + compensation of housing costs
  
  - Subsistence level established by Parliament for each budget year by the state budget
    - in 2014: 90 EUR per month for the first household member
    - 72 EUR per month (or 80%) for each following household member
  
  - Discretionary decision of the Parliament, no automatic indexation
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# Actual subsistence benefits versus poverty thresholds



Source: Statistics Estonia; Ministry of Social Affairs

# Supreme Court decisions

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## □ 21 January 2004:

- The court shall intervene when the level of assistance falls below the minimum /.../ to prevent deprivation of human dignity

## □ 5 May 2014:

- The state is obliged to provide assistance to citizens to secure them minimum necessary resources to live in dignity
  - Established subsistence level is lower than the subsistence minimum calculated by Statistical Office
  - The Estonian situation is not in compliance with Art.13§1 of the Revised European Social Charter according to the European Committee of Social Rights
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# The European Social Charter

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- Article 12§1 – the right to social security
  
  - Interpretation of the European Committee of Social Rights:
    - income replacement social security benefits shall protect beneficiaries from falling into poverty
    - the minimum level of income-replacement benefits shall not fall below the poverty level defined as 50% of median equivalised income, as calculated on the basis of the Eurostat at-risk-of-poverty threshold value
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# The European Social Charter

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- Article 13§1 – the right to social and medical assistance
  
  - Interpretation of the European Committee of Social Rights:
    - the minimum level of social assistance benefits shall not fall below the poverty level defined as 50% of median equivalised income, as calculated on the basis of the Eurostat at-risk-of-poverty threshold value
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# ECSR conclusions 2013

(published January 2014)

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- Estonia is not in conformity with Article 12§1 of the Charter on the grounds that:
    - the minimum levels of unemployment allowance and unemployment insurance benefit are manifestly inadequate;
    - the minimum level of national pension is manifestly inadequate.
  
  - In 2011, 50% of median equivalised income was €233  
40% of median equivalised income was €186
  
  - In 2011, the national pension rate was €128
    - the total number of recipients was 6428 persons
  
  - The minimum unemployment allowance was €65
  
  - The minimum unemployment insurance benefit was €139
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# ECSR conclusions 2013

(published January 2014)

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- Estonia is not in conformity with Article 13§1 of the Charter on the ground that:
    - the amount of social assistance granted to a single person without resources is inadequate.
  
  - In 2011, 50% of median equivalised income was €233  
40% of median equivalised income was €186
  
  - In 2011, the subsistence level of a person living alone was €76.70, while the average amount of benefit per application was €146.97 as housing costs represented nearly 50% of the total amount of the subsistence benefit
    - in spite of consideration of the housing component the level of social assistance is inadequate
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# Obstacles on establishing adequate minimum income

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- ❑ Complex welfare hierarchy
  - ❑ Benefit take-up issues
  - ❑ Methodological issues
  - ❑ Political concerns
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# Complex welfare architecture

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- Welfare benefit hierarchy in Estonia in 2014
    - subsistence level: 90 EUR
    - *subsistence benefit: ~ 160 EUR*
    - unemployment allowance: 112.22 EUR
    - national pension: 148.98 EUR
      - but this is not actually the minimum pension amount paid out
    - minimum unemployment insurance benefit: 160 EUR
    - minimum parental benefit: 320 eur
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- minimum gross wage: 355 eur
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# Complex welfare architecture

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- Articulated political considerations to maintain the hierarchy – historical ‘path dependency’
    - to maintain the ‘making work pay off’ principle by maintaining minimum wage higher than minimum social benefits
      - but the minimum wage is only slightly higher than the at-risk-of-poverty rate
        - the Government has not taken an active role in minimum wage policy, delegating it to the social partners
    - to maintain minimum old age pension (national pension) higher than the subsistence benefit level to prevent a high number of pensioners falling on subsistence benefit
      - but this is influenced by distribution of pension levels and the value of employment credits in old age pension
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# Complex welfare architecture

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- ❑ Several social benefits have no established minimum
    - ❑ sickness benefit
    - ❑ caregivers allowance
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# Benefit take-up issues

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- The share of subsistence benefit recipients has been recently less than 3% of population
    - But the share in 2000s has varied between 1.5-9% of population, depending on the economic cycle, the evolution of subsistence level and other social security benefits
  
  - OECD estimates that non-take-up may account for over 20% of benefits
  
  - Benefit non-take-up has not been directly studied, but it has been estimated that the non-take-up rate may be relatively high
    - due to insufficient information, fears on complexity of application etc
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# Methodological issues

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- Setting of benchmark values needs an analytical base
    - Linking individual rights to a statistical indicator
      - linking individual benefits to an equivalised household income
    - Median income, reflecting the actual income distribution will be known only retrospectively, whereas benefit rates shall be set prospectively
      - Need for estimates on income distribution developments or setting an appropriate index
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# Political concerns

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- Concerns about costs
    - How much would it cost to raise the minimum income to an adequate level?
    - Who shall pay the bill?
  
  - Uncertainties about behavioral impact
    - What is the impact on work incentives?
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# Who are affected?

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- Principally the whole society
  - The focus is on the first two income deciles or the lower income quintile – to be lifted out of poverty
    - age groups: 65+, 55-64, 16-24, 0-15
      - but 20% of 65+ persons between 50% and 60% median income
    - unemployed
    - non-working disabled persons
    - people living outside North Estonia
    - more women than men
    - single parent households
    - single elderly persons
  - there are also working poor, but often it is the household composition that drags employed persons below the poverty line
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# What would be the fiscal cost?

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- Rough estimation can be calculated using the *relative median at-risk-of-poverty gap*
    - the difference between the median equivalised disposable income of people below the at-risk-of-poverty threshold and the at-risk-of-poverty threshold, expressed as a percentage of the at-risk-of-poverty threshold
    - in Estonia in 2012: 21,5%  
or given the 329 eur poverty threshold, about 70 eur per month
  
  - To achieve the aim, **need to raise the incomes of 20% of population on average by 20%**
    - *to be more accurate, the incomes of 18,6% of population by 21,5%*
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# What would be the fiscal cost?

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- Total population 1 320 000 persons
  - Affected population 245 500 persons
  - At-risk-of-poverty threshold 3947 eur per year
  - Relative median poverty gap 848 eur per year
  
  - Total fiscal cost would then be  $245500 \times 848$  eur or about **208 mln EUR** per year
    - ~ 1,2% of GDP
  
  - For comparison, total social protection expenditure in Estonia in 2012 were 2690 mln EUR or 15,8% of GDP
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# Summary

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- If lifted sufficiently high in the political agenda, the right to an adequate minimum income **can be achieved** in a foreseeable time horizon
    - not to be achieved as a single-step reform, but rather as a structural reform over some years by 2020
    - the structural reform shall intergrate adequate incomes with quality social services and active inclusion into the labour market
  
  - A significant share of costs can be offset by benefits of the reform
    - higher consumption
    - more active participation
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