

Towards adequate and accessible minimum income in Estonia

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Lauri Leppik
Senior Researcher, Tallinn University
Expert of the European Committee of Social Rights

Introduction

- 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

- 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

- 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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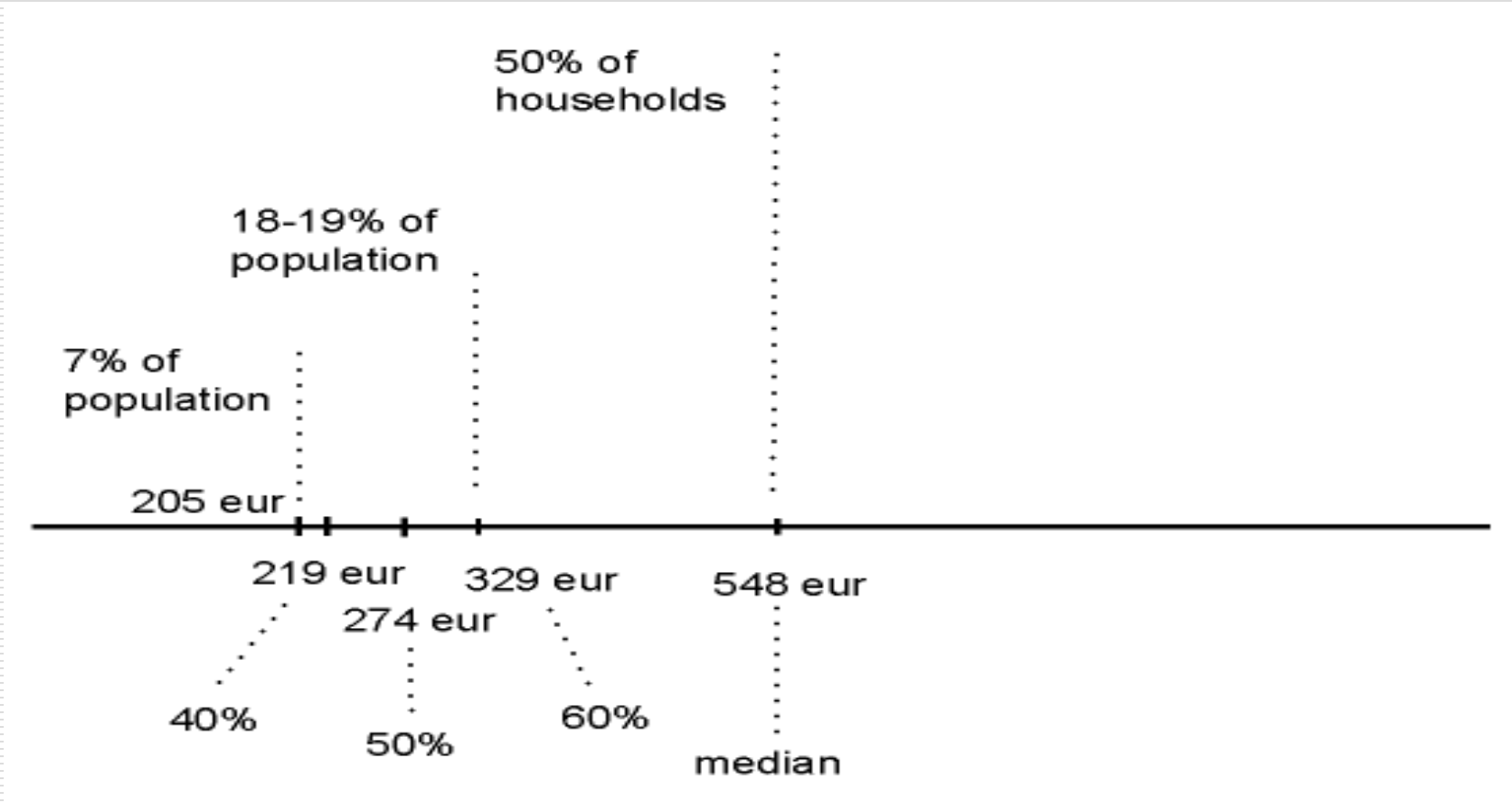
Minimum income thresholds in Estonia: relative poverty

- 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

- 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?

- 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

- ❑ 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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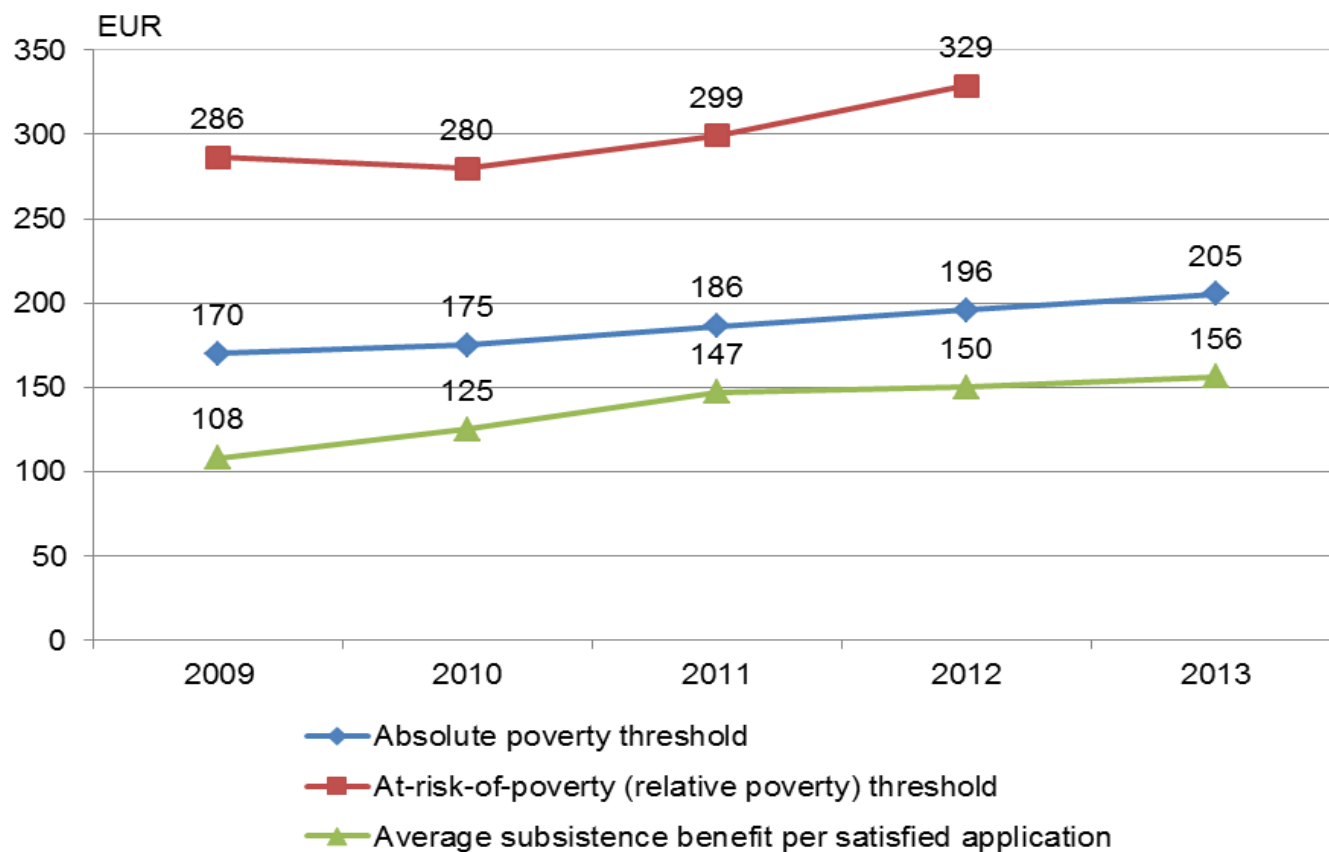
Subsistence benefit – the actual minimum income threshold

- 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

□ 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

- 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

- 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)

- 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)

- 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

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

- 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

- 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

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

- 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

- 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

- 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?

- 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?

- 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?

- ❑ 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 245500×848 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

- 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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