



Changes to Estonian subsistence benefit system make it more flexible and motivate working

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In January 2018, to better help persons in need and at the same time motivate them to accept employment, the subsistence benefit system was made more flexible, while the needs-based family benefit was abolished.

Description

The subsistence benefit is financial state support for persons in need paid by local governments in case all other measures aimed at alleviating poverty have proven inadequate (Social Welfare Act). It is paid to households whose monthly income (including wage, some allowances and benefits) is below the statutory subsistence level (established annually based on an absolute poverty threshold) after the deduction of housing expenses. In 2017, the subsistence level for the first member of a household and for children below 14 was €130 per month; for each subsequent adult household member it was €104 (i.e. the equivalence scale [first household member, subsequent household members and children] was 1:0.8:1). Since 2011, a lump-sum top-up benefit of €15 per month was paid to single-parent households.

Since July 2013, households with children aged up to 16 (19 if the child is still studying) could also apply for the needs-based family benefit. The benefit could be applied if the household received subsistence benefit, or if its average monthly net income during the three months preceding the application was below the income threshold of needs-based family benefit (established annually based on a relative poverty threshold). The threshold for the first household member was €394 in 2017; for each subsequent household adult member it was 50% of the income

threshold of the first member and for children younger than 14 it was 30% (i.e. the equivalence scale was 1:0.5:0.3). The benefit was paid in a lump-sum: €45 per month where there was one child in the household and €90 where there were at least two children in the household.

In 2016, 2.1% of people in Estonia received the subsistence benefit, 70% of them received the benefit at least three months during the year, while a fifth received it 12 months. Among those who received the benefit at least three months in a year, only 13% of people had income from employment in 2016; for those who received it all 12 months, only 10% (Explanatory note of the draft Social Welfare Act). The fact that the wage decreases the size of the benefit discourages those receiving the benefit to return to employment. Already in 2012, Leetmaa et al proposed to consider changing the system so that accepting employment does not result in total loss of the benefit.

Regarding the needs-based family benefit, it has not fulfilled its purpose of reducing child poverty. In 2013, it was expected that 46,000 children would receive the benefit. However, by 2016 the number was only 13,536. Võrk et al (2014) suggested that it was not reasonable to maintain two income-

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dependent benefits with different calculation methods targeting small groups and that it would be more cost-effective to modify the subsistence benefit system to reduce the poverty of children.

It was agreed in 2016 in the Basic Principles of the Government Coalition that the needs-based family benefit will be abolished and the system of subsistence benefit will be made more flexible to motivate employment. The amendments to the Social Welfare Act entered into force on 1 January 2018. These include the following:

1) To motivate working, part of the household's income is now excluded when calculating the benefit. This includes remuneration for work in case of children, and 100% of wage during the first two months and 50% of wage the following four months of employment of the adult who has received the benefit for at least two preceding months in a row without receiving income from employment.

2) All universal child and family benefits are now included as income when calculating the benefit and the needs-based family benefit was abolished; at the same time the share of subsistence level of children was increased from 1 to 1.2 of the first member of the household (i.e. the equivalence scale is now 1:0.8:1.2).

3) The subsistence level increased from €130 to €140 (around 12% of monthly gross wage in 2017), in case of children it increased to €168 (14%).

4) The discretion of local governments was increased. They can now reduce the subsistence benefit in case one of the household members does not fulfil the activity requirements (e.g. actively seeking a job), but they can also decide to exclude some income (e.g. support from other relatives) when calculating the

benefit and to compensate one-off housing expenses.

5) Flexibility is also increased with the possibility to apply for the benefit during the entire month (previously, the deadline was the 20th day of the month).

Outlook & commentary

Benefits paid after explicitly or implicitly checking that the beneficiary's income or wealth is below a specific level (i.e. means-tested benefits) are rare in Estonia. According to Eurostat, benefits paid out after means testing accounted for 10.6% of all social protection benefits in the EU-28 and only around 1% in Estonia. The subsistence benefit is the most considerable means tested benefit in the Estonian social protection system.

The discussions on different benefits in general and family benefits in particular have pointed to fragmentation in the system that results in low take-up and thus low actual coverage. As mentioned above, only about one third of the target group of the means tested family benefits received the benefit. The integration of the benefits could improve the actual coverage of the benefit system as applying for the benefits is less knowledge intensive.

Changes in the system of the subsistence benefit aims at motivating employment and thereby decreasing poverty. The government expects that the absolute poverty rate of households will decrease by 2.8 percentage points as all non-active receivers of the benefit would earn at least the national minimum wage (Explanatory note of the draft Social Welfare Act). However, to fully motivate persons to improve their situation, the fulfilment of the activity

requirements (e.g. actively seeking a job) could be improved. Leetmaa et al (2012) suggested that local governments could play a role in improving this fulfilment. This would require a better integration of the benefit system with social services. This would also require further legislative changes to authorise local governments to reduce the benefit partially to both motivate employment and prevent child poverty due to deduction in minimum income support.

Further reading

Explanatory note of the draft Social Welfare Act:
<https://www.riigikogu.ee/download/8e7744e4-a55b-441b-859b-1327a7f0fc3e>

Social Welfare Act (entry into force; 01.01.2018):
<https://www.riigiteataja.ee/en/eli/ee/516012018001/consolide/current>

Basic Principles of the Government Coalition 2016-2019:
<https://www.valitsus.ee/en/objectives-activities/basic-principles-government-coalition>

Leetmaa, R., Masso, M., Vörk, A., Karu, M., Veldre, V., Paulus, P., Turk, P. (2012). Sotsiaalkaitsehüvitiste- ja toetuste mõju töömotivatsioonile [Social Benefits and Work Incentives in Estonia]. Poliitikauuringute Keskus Praxis.

Vörk, A., Paulus, A., Leppik, C. (2014). Peredele mõeldud toetuste ning alushariduse ja lapsehoiu rahastamise mõju analüüs vaesusele ja töötamise stiimulitele [Impact of Family Benefits and Child Care Services on Child Poverty in Estonia]. Poliitikauuringute Keskus Praxis.

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