



Peer Review on “Minimum income benefits – securing a life in dignity, enabling access to services and integration into the labour market”

Germany, 15 – 16 November 2018

Peer Country Comments Paper - ESTONIA

Minimum income benefits in Estonia

DG Employment, Social Affairs and Inclusion



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1 Introduction

This paper has been prepared for the Peer Review on "Minimum income benefits – securing a life in dignity, enabling access to services and integration into the labour market". It provides a comparative assessment of the policy example of the Host Country Germany and the situation in Estonia. For information on the host country policy example, please refer to the Host Country Discussion Paper.

2 Situation in the peer country

2.1 Subsistence benefit system

The minimum income in Estonia for an individual or household with lack of resources is the subsistence benefit. It consists of two parts: actual housing costs and a benefit paid at the subsistence level. The benefit is non-contributory, means-tested and not taxable.

The subsistence benefit is granted to a person living alone or with a family whose net income after the payment of housing costs (up to certain limits) is below the subsistence level. The subsistence level is intended to cover minimum expenditures on the consumption of food, clothing, footwear and other goods and services.

The Parliament establishes the subsistence benefit level annually. It is a political decision and the proposal is made by Ministry of Social Affairs. The proposal includes statistical information about trends on subsistence benefit receivers and Statistics Estonia data about subsistence minimum level in Estonia. The benefit level is not automatically tied to the minimum subsistence level calculated by Statistics Estonia (see section 2.2 "Subsistence minimum" below). The latter also corresponds to the absolute poverty line. Being subject to a political decision, the subsistence benefit level may not properly cover the basic needs calculated according to the minimum subsistence level methodology.

Local municipalities administer the subsistence benefit and can exercise discretion within certain limits.

There are currently no parallel minimum income schemes and no plan to introduce them

In 2018, the subsistence benefit level is EUR 140 per month for single person and the first member of a family. The subsistence level for children (below 18) is EUR 168 (i.e. 120% of single rate). For the second and subsequent adult household members, the subsistence level is EUR 112 (i.e. 80% of the single rate). There is a supplement for lone parents of EUR 15 per month.

To calculate the subsistence benefit amount, housing costs are taken into account up to the limits of the specified standards for dwellings. The limit of standards for dwelling is 18m² per each family member and in addition 15m² per family. In case the number of rooms is equal to the number of persons living there, the total area of the dwelling is taken into account. There is an exception considering pensioners and persons with reduced work ability. The limit for them, if living alone, is 51m². If a person or a family has been granted subsistence benefit for at least 6 previous months, a local authority may take into account other housing expenses.

Household net income reduces benefit entitlement on a one-for-one basis. In principle, all income is taken into account, including earnings from employment, social security benefits, including pensions, unemployment and family benefits, and alimony paid to children. However, some income sources are not included in the income measure e.g. single benefits; periodic benefits paid from local municipality budgets which are dependent on family income or granted to compensate for the cost of a specific service; benefits paid to disabled persons, student loans and grants; transport and

accommodation benefits paid to unemployed persons; and earned income received by a dependent child.

The local municipality may refuse to grant the benefit or reduce the sum of the benefit if the applicant or a member of a family applying for a benefit is a person of working age with ability to work, is not working, looking for a job, or studying full time. Benefit applicants who are jobseekers have to comply with the individual action plan by the Unemployment Insurance Fund or receive services offered by local authority. These activity conditions were introduced since January 2018.

The subsistence benefit applicant or a child entitled to receive maintenance has to claim the support from other parent or other obliged party first.

The local authority can take into account the property owned by the subsistence benefit applicant or his or her family and consider the possibility to rent or sale the property.

A new element in the scheme to motivate benefit recipients take up work was introduced in 2018. In the event that a subsistence benefit applicant or a member of a family applying for the benefit starts receiving earned income and was granted subsistence benefit for at least two months, the following shall not be included in the income test:

- 1) 100% of earned income during the first two months;
- 2) 50% of earned income during the following 4 months.

It is possible to use this exception once in 24 months per family member.

Benefit entitlement lasts as long as the means-test and other conditions are satisfied. Subsistence benefit claims are reviewed monthly.

2.2 Subsistence minimum

In relation to the minimum income schemes and measuring the impact of monetary benefits and allowances, the absolute poverty indicator is used in Estonia. The absolute poverty rate indicates the proportion of persons whose income per household member per month¹ remains below the subsistence minimum (absolute poverty threshold). The current subsistence minimum methodology was developed in 2004 and the methodology has not changed since. The researchers and nutritionists, also the representatives of the Ministry of Social Affairs as well as Statistics Estonia participated in the project².

Three main expenditure groups are included in calculating the subsistence minimum: expenditure on food, expenditure on dwelling and non-food expenditures. The basis for calculating food expenditure is the minimum estimated food basket, which was scientifically justified by the Estonian Society of Nutritional Sciences. The minimum estimated food basket is based on the normative method and ensures the general daily need of nutrients, vitamins and minerals per capita without causing health problems. The diurnal energy value of the minimum estimated food basket is 2,400 kcal. The average prices of the expenditure on food in the households with lower income (1st-5th expenditure decile) were used as purchase prices (based on the Household Budget Survey of Statistics Estonia). Starting from 2008, the change over previous year of consumer price index of foodstuffs declared by Statistics Estonia is used in the recalculation of the cost of food basket.

¹ The equalised weight is 1.0 for the first household member, 0.7 for following members aged 14 and over, and children aged under 14 are calculated with the equivalence scale of 0.5.

² [http://pub.stat.ee/px-](http://pub.stat.ee/px-web.2001/I_Databas/Social_life/06Households/02Household_budget/01Annual_expenditure/HH)

[web.2001/I_Databas/Social_life/06Households/02Household_budget/01Annual_expenditure/HH_24.htm](http://pub.stat.ee/px-web.2001/I_Databas/Social_life/06Households/02Household_budget/01Annual_expenditure/HH_24.htm)

The basis of calculation of housing costs was actual expenditure based on data of the Household Budget Survey 2004. The expenditures on dwelling include regular expenditures (rent, maintenance expenditure, refuse collection, sewerage services, water supply, etc.) and repair expenditure.

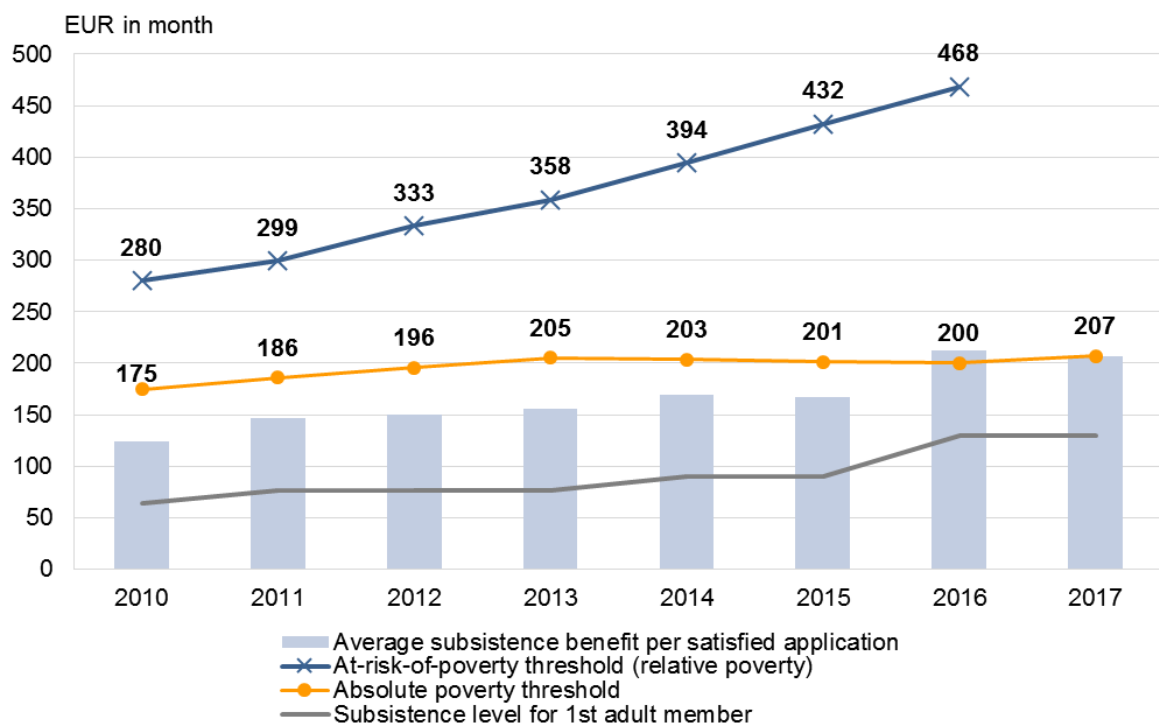
These calculated housing costs are, however, not used for calculating subsistence benefit; instead real housing costs (with limits mentioned above) are covered.

The list of individual non-food expenditure includes eight larger expenditure groups:

- expenditure on clothing and footwear;
- expenditure on household equipment and operation – purchase of furniture, dishes, purchase and repair of household appliances, purchase of cleaning agents, etc.;
- expenditure on medical care and health services – purchase of medicines and miscellaneous goods related to health care and paying for treatment and rehabilitation services, etc.;
- expenditure on education – payment of private lessons and courses, etc.;
- expenditure on communications - services and purchase of telephone and Internet;
- expenditure on transport – expenditure on personal and public transport (excl. the purchase of vehicles);
- expenditure on recreation, leisure and entertainment – sports, purchase of magazines and study materials, hobby, purchase and repair of radios, televisions, computers, etc.;
- expenditure on miscellaneous goods and services – expenditure related to personal care (hairdresser, cosmetics, nappies, payment of kindergarten, etc.).

For average subsistence benefit paid, subsistence minimum level (absolute poverty threshold) and subsistence benefit level please see Figure 1. On the basis of this data, we can conclude that in 2016 and 2017 the actual average benefit paid corresponded to the minimum subsistence level, however, in earlier years the average benefit paid remained under the minimum subsistence level.

Figure 1. Poverty and subsistence benefit thresholds and average subsistence benefit (including dwelling cost compensation) amount, 2010–2017 (income years)



Source: Statistics Estonia, Ministry of Social Affairs.

3 Assessment of the policy measure

3.1 Similarities and differences with the host country example

There are many elements in the Estonian national scheme that are similar to the minimum income scheme of the Host Country. The benefit covers, in principle, the costs of accommodation and standard needs.

In Estonia, there are no special schemes for specific target groups, the specific situations (i.e. presence of children) are incorporated into the main scheme. The incomes of the household members that are taken into account seem to be similar to the Host Country as well as the principles that a) individuals should support themselves first and b) social security benefits come before the social assistance. Recent changes to the scheme intend to create stronger incentives to take up work, just like in the Host Country.

Estonia has had negative experiences with a special social assistance scheme for families with children – the child supplement aimed at reducing child poverty. The needs-based child supplement, established in 2013, was declared invalid in 2018 due to low take-up rates. The aim of the supplement was to offer additional help to families with children in need. The receivers of needs-based child supplement made up only approximately a quarter of the number of beneficiaries expected and half of them also received the subsistence benefit. Low take-up level decreased the expected positive effect of the measure remarkably. Therefore, it was concluded that instead of two national schemes it would be reasonable to sustain one such measure and change the scheme of the subsistence benefit. As a result, the child's weight in the formula of the subsistence benefits was increased in a way that the subsistence level for children was raised to the level of a single or first family member's subsistence level. It was raised again in January 2018, making the subsistence level for children 1.2 times bigger than the single level (EUR 168).

The low take-up level resulted from the fact that the information about the needs-based benefit did not reach all the local governments nor the people entitled to receive this benefit. Also, what hindered the success of this benefit was that there were many families who did not want to apply for social assistance. From 2015 universal child benefits were raised significantly which had a positive effect on child poverty.

The main problems in Estonia are related to the benefit size and the fact that it is determined by a political decision. The benefit level may not cover the costs calculated by the minimum subsistence methodology. Subsistence benefit level does not comply with the standards of European Social Security Code. Thus, it is not clear whether the benefit size is in line with human dignity and principles with the welfare state. It is assumed that minimum participation in educational, social and cultural life is met.

In sum, the positive side is that the actual housing costs are covered, and people do not have to move out from their home due to lack of financial resources.

The methodology of calculation of the minimum subsistence level has been developed and is in use but is not strictly applied to the subsistence benefit. Our challenge is implementing the methodology for automatic calculation of the subsistence benefit level. As mentioned in section 2.1, the increase of subsistence benefit level is a political decision. Therefore, it is possible that even when the statistical information shows the increase of subsistence minimum and absolute poverty threshold, the subsistence benefit level might not increase.

4 Assessment of success factors and transferability

As of 2018, if a beneficiary of the subsistence benefit goes to work, then for 2 months his/her salary will not be taken into consideration as income, following a 4 months period when only 50% of the salary will be taken into account as income when the subsistence benefit is calculated. The aim of this amendment is to motivate people to participate in the labour market and to improve their socio-economic situation. Prior to the amendment mentioned above, a person who had received the subsistence benefit, usually lost the right to the benefit as soon as one started to work. Since many beneficiaries' education and skills' set is limited, the income earned was rather small, but usually high enough to not be able to receive the subsistence benefit. Therefore, working was not motivating for these people and it was more comfortable to stay home and apply for the benefit. Now, depending on the size of one's income, it is possible to receive income and the subsistence benefit at the same time. Earning income is the best protection against poverty, as it contributes in ensuring national sustainable social security system and actively participating in the society offers personal welfare as well as self-realization.

Up to the 2018, there was a negative impact from the benefit on labour supply incentives. The impact of benefit on labour supply incentives was analysed in different surveys and also by using the marginal effective tax rate (METR). The METR shows how much of additionally earned gross wage is taxed away with a combination of increased taxes and reduced social benefits. The subsistence benefit analyses showed that if the non-working persons (also a low earner with increased earnings) would receive income from work, the subsistence benefit was lower, and household experienced the loss of their total income³.

The feedback of this legislative change has been positive by the local municipalities who pay out the subsistence benefit. Since the legislative change is so new, we do not have conclusive data on the effect of this amendment, however we see that the amount of people receiving this exception is growing monthly.

³<http://www.praxis.ee/wp-content/uploads/2014/03/Perepoliitika3.pdf><http://www.praxis.ee/wp-content/uploads/2014/03/Perepoliitika3.pdf>

Estonia is paying attention to administrative simplicity; and local governments can use register data concerning social security benefits received by applicants. A local municipality is obligated to enter necessary data for the application and payment of subsistence benefits in the Social Services and Benefits Registry.

Currently, the Ministry is also analysing the floors of social security benefits. It appears that in certain cases, the recipients of social security benefits (at the minimum level) still apply for the subsistence benefit. As the aim of social security benefits is keep persons from falling into poverty, the minimum amounts of social security benefits are an important issue. A new challenge emerging is the new forms of employment where the borders of employment and unemployment are blurred and the income from work is less easily determined.

5 Questions

- How does the minimum income level in the Host Country relate to the at-rate-of-poverty line?
- How is the assets test applied in practice? Could you bring examples which assets are considered and how.
- What are the impacts on unemployment? How much is the benefit reduction used in cases of no activity?
- Concerning administration, can the administrators use register data or does the applicant have to present all the relevant data himself/herself?

Annexes

Annex 1 Summary table

Situation in the peer country
<ul style="list-style-type: none">• The minimum income benefit in Estonia for an individual or households with lack of resources is subsistence benefit.• The benefit consists of two parts: actual housing costs and a benefit paid at subsistence level.• The subsistence minimum calculation methodology has been developed, however, it is not strictly used in determining the subsistence benefit size.
Assessment of the policy measure
<ul style="list-style-type: none">• There are no parallel minimum income schemes for specific groups.• Benefit appears to be too low to prevent recipients from falling into poverty.• Recently incentives have been added to the scheme to encourage benefit recipients entering the labour market.
Assessment of success factors and transferability
<ul style="list-style-type: none">• A special scheme for families with children in need was abandoned and integrated into the main scheme.• The feedback to new work incentives has been positive so far.
Questions
<ul style="list-style-type: none">• How does the minimum income level in the Host Country relate to the at-rate-of-poverty line?• How is the assets test applied in practice? Could you bring examples which assets are considered and how?• What are the impacts on unemployment? How much is the benefit reduction used in cases of no activity?• Concerning administration, can the administrators use register data or does the applicant have to present all the relevant data himself/herself?

