

Society of St. Vincent de Paul

Submission on the Working Family Payment

To the Department of Social Protection

Social Justice and Policy Team, March 2017



Contents

1. Introduction	2
2. In-work supports: key considerations from the perspective of SVP.....	2
Context.....	2
Effectiveness of current supports	4
Low pay and in-work income supports.....	6
Low hours and in-work income supports	7
Concurrent payments and secondary benefits.....	8
3. Conclusion.....	9

1. Introduction

The Society of St Vincent de Paul (SVP) welcomes the opportunity to make this submission to the Department of Social Protection on the proposed Working Family Payment. As the largest charity of social concern and action in Ireland, the Society of St Vincent de Paul assists many working families who are struggling to get by on a low income.

Persistent high levels of child poverty are a central concern of SVP. In 2015, approximately 135,000 children were growing up in consistent poverty. Worryingly, one in four one parent households are living in poverty, with rates increasing between 2014 and 2015 (CSO, 2017).¹ SVP members know the stark reality behind these statistics; children and families who regularly go without necessities such as nutritious food, clothing and heating. Last year SVP received over 130000 requests for assistance, with the majority of requests coming from households with children.

SVP advocate that well-designed in-work income supports, in conjunction with measures to tackle childcare and housing costs, are essential components for making work pay for low income families. We support the two principles that underpin the proposed *Working Family Payment*; 1) make work pay, 2) tackle child poverty. In this submission we outline additional considerations for the proposed WFP from the perspective of SVP members and the people we assist.

2. In-work supports: key considerations from the perspective of SVP

Context

SVP recognise that employment significantly reduces the risk of poverty, but being at work does not always guarantee a good standard of living, particularly for households with children. In 2015, 13% of those at risk of poverty and 25% of those experiencing deprivation were at work (CSO, 2017). Rates of in-work poverty are roughly double for households with children and three time higher among one parent households.² The Vincentian Partnership for Social Justice show that for some

¹ CSO (2017) Survey of Income and Living Conditions 2015

<http://www.cso.ie/en/releasesandpublications/er/silc/surveyonincomeandlivingconditions2015/>

² Data from EU-SILC 2015 shows that the rate of in-work poverty (at risk poverty rate for those at work) was 6% in households with children, compared with 3% in households without children, the rate increases to 14% for one parent households. Source: Eurostat (ilc_iw02). Note the equivalence scales used in Eurostat differ from the scales used by the CSO. The weighting for a second adult in Eurostat is 0.5 compared to 0.6 for CSO calculations.

families working on the minimum wage, their income falls short in covering a minimum essential standard of living, particularly when housing and childcare costs are included (VPSJ, 2016).³

SVP members regularly visit working families who are struggling to make ends meet on an insecure income. More often than not these families are employed in low hour and low paid work. Families can experience significant stress and strain as they try to cover bills, housing and everyday costs.

“It’s been a terrible summer. I can’t afford to do a shop now after I pay my bills, it’s terrible. I hate to think of the winter as I won’t be able to heat my flat. I’m working 20 hours a week. I can’t get more hours as I have no childcare. I’m trying to get [my son] sorted for going back to school but it’s so hard with no extra money. I was only getting by before the cuts (changes to One Parent Family Payment). Now I don’t know what this winter will bring for us.” (SVP, 2016)

An issue that continually comes up from our members on the ground is the levels of poverty and social exclusion experienced by lone parents both in and out of work. Informed by our qualitative research on the experiences of low income lone parents, in 2015 SVP highlighted the current challenges to supporting pathways to employment for lone parents.^{4 5} In addition to recommendations in relation to childcare and training, this document stressed the importance of tapered in-work income supports in removing poverty traps when taking up or increasing employment.

SVP therefore advocates that in-work payments are important measures to tackle child poverty, particularly when delivered with affordable childcare and housing. The introduction of the Affordable Childcare Scheme in Budget 2017 is a very positive development in this regard. However, we are concerned that the introduction of a WFP could result in gains for some low income groups at the expense of other low income groups. Particular attention needs to be paid to one parent families, regardless of the age of their youngest child, as poverty rates are high in these households, and older children are more likely to experience poverty. SVP is also concerned that poverty or unemployment traps for those engaged in low hour contracts. These concerns are outlined in more detail below.

³ For example, a two-parent family employed on the national minimum wage with two children (primary school and a second level) could not afford a MESL. This was also the case for a one parent family employed on national minimum wage with two children (pre-school and primary school).

<http://www.budgeting.ie/download/pdf/vpsjbudget2017mebsimpactbriefing.pdf>

⁴ Society of St. Vincent de Paul (2014) ‘It’s the hardest job in the world’ An exploratory research study with one parent families being assisted by the Society of St. Vincent de Paul <https://www.svp.ie/getattachment/0dfc3b0e-9165-4792-946e-43f84199eb57/It-s-The-Hardest-Job-in-The-World.aspx>

⁵ Society of St Vincent de Paul (2015) Supporting Pathways for Parental Employment for One Parent Families in Ireland <https://www.svp.ie/getattachment/1e859c0d-3bed-4a57-ba57-4f30e3dac546/Supporting-Pathways-to-Parental-Employment-for-One.aspx>

Effectiveness of current supports

Family income supplement is the main form of support for low income working families. Since its introduction the number of hours' threshold reduced from 30 hours to 19 hours and the percentage of the difference between assessable income and the income limit increased from 25% to current level of 60% (Advisory Group on Tax and Welfare, 2012).⁶ As a result, the numbers of families in receipt of FIS has increased significantly. Between 2014 and 2015 the number of recipients increased by 13% and the number of child beneficiaries grew by 9%. In 2015, approximately 50% of FIS recipients were one parent families (Department of Social Protection, 2015).⁷ Although FIS has a number of shortcomings, which are outlined in more detail below, it remains an important component of income support measures for families, particularly those at significant risk of poverty such as one parent households.⁸

SVP welcomed the introduction of the Back to Work Family Dividend in 2015 as a positive measure to facilitate one parents and long term unemployed moving into employment. Analysis from the ESRI found that the scheme incentivises work for households with children in the short term (Savage et. al. 2015). The Vincentian Partnership for Social Justice (2015) also found that the BTWFD makes an important contribution to household's income and offsets some of the increase in expenditure when transitioning from welfare to work.⁹ The payment is reduced by half in year 2 and ceases after two years' employment. This scheme was introduced as a short-term solution and will cease taking new applicants from March 2018. SVP has expressed concerns about families who are nearing the end of their eligibility for this payment and the impact that this loss of income will have on their family.

Earning disregards, attached to some social welfare payments, continues to be an important in-work support for families who are working part time. Since 2012, the amount of income disregarded in the assessment for One Parent Family Payment has declined from 146.50 euros to a low of 90 euros in 2016. We therefore welcomed the increase in the income disregard for the One Parent Family

⁶ Advisory Group on Tax and Social Welfare (2012) First Report on Child and Family Income Supports <https://www.welfare.ie/en/downloads/Advisory-Group-on-Tax-and-Social-Welfare-First-Report-Child-and-Family-Income-Support.pdf>

⁷ Department of Social Protection (2015) Statistical Report 2015 <http://www.welfare.ie/en/Pages/Annual-SWS-Statistical-Information-Report-2015.aspx>

⁸ Data supplied from the DSP to the NGO subgroup of Better Outcomes; Brighter Futures showed that most family types in receipt of FIS and working 19 hours per week (excluding a 2 adult, 1 child household) secures an income that keep them above the poverty line. These calculations do not consider costs such as transport, housing and childcare.

⁹ Vincentian Partnership for Social Justice (2015) From welfare to work: examining the impact of retaining benefits when returning to work http://www.budgeting.ie/download/pdf/vpsj_2015_from_welfare_to_work.pdf

Payment and Jobseekers Transition Payment in Budget 2017. However, the disregard for Jobseekers Allowance is lower than that for OFP and JST. This means that a one parent in employment who moves from JST to JA when their youngest child reaches 14 see a reduction in their income. SVP members have witnessed first-hand the impact changes in eligibility for the OFP has had on families; many one parents have had to give up work as it was no longer financially feasible to remain in employment.

My benefit changed to JST (Jobseekers Transition). With that, came the decreased earnings disregard and how often my case would be reviewed. I was supposed to substitute again this year, failing to get a full time job. With the rent increase and never knowing what I will be bringing in I handed in my P45 today to social welfare. It is with a heavy heart I say that 'cos I really want to work. It's just been made impossible for me. With kids to support and bills to pay I need as reliable an income as I can get." (SVP, 2016)

SVP strongly advocate that measures to incentivise employment should encompass supports that encourage people to take up work and remain in employment. SVP rejects claims that social welfare rates serve as a disincentive to taking up employment and that cuts to existing social welfare should not be justified by 'making work pay' arguments. A recent report from the ESRI showed that 80% of those in receipt of unemployment benefits would see their incomes increase by 40% when taking up employment, just 3% would be financially worse off (Savage et. al. 2015).

It is envisaged that some trade-offs that are likely to be considered in the design of a new WFP including eligibility for the payment versus the level/generosity of the payment and the level/generosity of the payment versus the withdrawal rate. The payment should be as generous as possible to ensure a significant return from employment for low work intensity households with children. However, it is acknowledged that this may imply a high withdrawal rate. In addressing these challenges SVP recommends that consideration is given to the extent to which existing features of the social welfare system, including earnings disregards, minimum days of unemployment versus minimum hours of unemployment, concurrent payments, schemes such as the Part Time Job Incentive scheme, maximum earnings and means tests for payments like Jobseekers Allowance, One Parent Family Payment, Disability Allowance, Jobseekers Transition etc can be altered to help balance some of the trade-offs that are likely to arise when considering the design of the WFP. The role of the new Affordable Childcare Scheme and affordable secure housing should also be considered when looking at ways and means of addressing trade-offs.

- Inadequate social welfare supports should not be used as a way to incentivise employment. All families both in and out of work should be entitled to an adequate income and good standard of living.
- Any proposed changes to in-work support, particularly if it is intended the WFP will replace existing supports, should not leave any family worse off than under the current system.

Low pay and in-work income supports

As well as incentivising employment, in-work income supports should be designed in a way so families can also progress to higher paid employment. In December 2016, the VPSJ examined in-work social welfare supports and the degree to which the structure of these supports affects the adequacy of the Living Wage for households with children.¹⁰ The analysis focused on the marginal effective tax rates (MERTS) which refers to the proportion of gross income that is deducted through income tax and the rate of withdrawal from social welfare supports such as Family Income Supplement or the One Parent Family Payment. The results showed a greater METR on the lowest salaries, namely those with salaries between minimum wage and Living Wage, than those on higher wages (Thornton, 2016). The steep withdrawal rates of social welfare support from Family Income Supplement (FIS) and One-Parent Family Payment (OFP) was highlighted as particularly problematic. They concluded that when in-work supports are very focused on those in the lowest wages, there can be a disincentive to progress to higher paid employment, as an increase in salary results in very little increase in household income (Thornton, 2016: 11). SVP is therefore concerned that the current system leads to a situation whereby families are trapped in low paid work. Under any proposed changes to existing payments or the introduction of a new WFP a lower withdrawal rate should be considered to ensure earning a higher rate of pay results in being better off.

- Existing payments or any new payments should incorporate a smooth “tapered” approach, whereby payments would reduce by some proportion as income increases, with a lower rate of withdrawal for those on the lowest incomes.
- Rates of payment should be structured in a way that ensures a good standards of living for all family types and compositions.

¹⁰ Thornton (2016) When living wage is not enough
http://www.budgeting.ie/download/pdf/vpsj_2016_when_the_living_wage_is_not_enough_mesl_working_per.pdf

Low hours and in-work income supports

The OECD (2015) suggests that in-work poverty is often the result of low hours, rather than low pay.¹¹ Indeed, in 2015 the poverty rate among those living in 'low work intensity' households was 23% compared to 1.8% in 'high work intensity' households.¹² SVP are concerned about the growing prevalence of low hour contracts and the impact insecure work has on family poverty. As well as the significant stress and strain uncertain work schedules and incomes can have on families, we also know from the experience of our members that precarious work complicates entitlements to in-work social welfare benefits. VPSJ recently examined the relationship between low hours work and income adequacy. They found that the difference in weekly (minimum wage) income for a one parent family working 19 hours versus 18 hours per week is 88 euro due to the loss of FIS.¹³ The difficulties in securing sufficient hours to qualify for FIS is regularly highlighted by members and the people we assist.

"I get penalised for working, trying to make a better life. I was told to get more hours and claim Family Income Supplement. But I work in retail on a twelve hour fully flexible contract. There are no more hours in work so I'm stuck. I'm 31 and feel like I'm going backwards. I can't work full time because of childcare costs. It's a vicious circle" (SVP, 2016)

In addition, the difference in the daily disregard attached to JST and the minimum days' requirement for JA further complicates entitlement to in work support for some families, particularly when one parents transfer from JST to JA when their child reaches the age of 14. The greater flexibility of Part Time Work Incentive compared to the Jobseekers Allowance, which allow the spread of working hours over more than three days, is possibly more beneficial for those engaged in flexible contracts. However, it does not include a Qualified Child increase and there is limited data on the effectiveness of this scheme for families with dependent children.

There is a concern from Government that reducing the minimum hours requirement for FIS will encourage poor labour market practices. SVP acknowledge this concern but also stress that families need certainty in their weekly income. In-work income supports must respond to changes in the weekly income of a household by seeking to compensate people if weekly hours worked fall under a certain level (In the case of FIS, 19 hours).

¹¹ OECD (2015) Minimum wages after the crisis: making them pay <http://www.oecd.org/social/Focus-on-Minimum-Wages-after-the-crisis-2015.pdf>

¹² Low work intensity is defined as working 20% to 45% of the total working hours available. High work intensity is defined at working 85% to 100% of total working hours available. Source: Eurostat (EU-SILC survey ilc_iw03)

¹³ Thornton, (2016) Low hour work & income adequacy http://www.budgeting.ie/download/pdf/vpsj_2016_low_hour_work_income_adequacy.pdf

- The payment must be responsive to the type of employment which is available to people, particularly in relation to irregular employment patterns, self-employment, people who regularly move between welfare and work due to taking on short term contracts/employment opportunities.

Concurrent payments and secondary benefits

The Advisory Group on Tax and Social Welfare Child and Family Income Supports (2012: 12) highlighted that the inconsistency in the concurrent payment of FIS with other social welfare payments ‘weakens the extent to which FIS clearly addresses both in-work poverty and low incomes for families with children’.¹⁴ According to the OECD (2005) in-work benefits are most effective when the scheme is made widely known to the target group and administrative procedures to receive in-work benefits are not excessively bureaucratic. As already highlighted, since the introduction of the reforms to the OFP in July 2015, eligibility for in-work income support has become more inconsistent. SVP have continually recommended that FIS should be available to those in receipt Jobseekers Transitions Payment.

“I started part time work as a home help in February of this year. I was allowed to earn a certain amount which was offset against the One Parent Family Payment, and also claim FIS. My son was 10 in July so I came off the one parent payment and now I get FIS only” (SVP, 2016)

SVP recommend that for in-work supports to be effective, careful consideration of the interaction between income supports and secondary benefits is also required. Housing costs, particularly for those on low incomes living in the private rented sector, continues to be a central concern of SVP. Rent supplement has been identified again and again as a major barrier to those considering taking up employment or increasing their hours at work. The loss of rent supplement on taking up full time employment (over 30 hours) means that some in work on a low income will be unable to meet their housing costs. The roll-out of the Housing Assistance Payment, designed to tackle work disincentives associated with rent supplement is welcome. As HAP does not have an hours-of-work eligibility cut-off this could result in significant improvements in financial work incentives for some unemployed jobseekers transferring from Rent Supplement to HAP (Savage et. al. 2015). At present, there is insufficient data to test the work incentives of HAP but it will be important to monitor and review as the scheme becomes more widely available.

¹⁴ <https://www.welfare.ie/en/downloads/Advisory-Group-on-Tax-and-Social-Welfare-First-Report-Child-and-Family-Income-Support.pdf>

Considerations around retaining the medical card also influence decisions as to entering employment or increasing employment income. Many of the households being assisted by the SVP have children or adults with health problems. The increase in the maximum threshold for the Drug Payment Scheme announced in Budget 2013 made it more difficult for those moving from a full medical card to a GP visit card to afford prescriptions and loss of the full medical card is also a concern for those affected by school transport charges which medical card holders are exempt from paying. One possible solution is a transition period for those increasing their employment earnings to retain the exemption from charges such as the school transport for a certain length of time.

The family size deduction under the proposed Affordable Childcare Scheme is welcome as it addresses the economic vulnerability of large families and the higher cost of taking up employment. However, further analysis by the DSP and DCYA is required to ensure that increases in income from FIS/ proposed WFP rates for larger families isn't negated through a reduction in childcare subsidies.

- Monitor HAP and its interactions with in-work income supports (link with DHPLG).
- Safeguard entitlement to medical and GP cards and exemption from other charges for a certain period after entering employment.
- Ensure that such increase in income from in-work supports (e.g. FIS, BTWFD and/or WFP) rates for larger families isn't negated through a reduction in childcare subsidies (link with the DCYA).

3. Conclusion

Overall, SVP advocate that the principle of 'making work pay' should be part of a broader package of services that supports parents labour market participation and reduce child poverty. A holistic and cross-departmental approach to making work pay and tackling child poverty is required. As outlined by the NGO subgroup of Better Outcomes, Brighter Futures, SVP support the recommendations to ensure children have access to adequate resources as outlined by the European commission in 'Investing in Children: Breaking the Cycle of Disadvantage'. In particular, we hope that the new Affordable Childcare Scheme will ensure that all families, particularly disadvantaged and marginalised families, have effective access to affordable, quality early childhood education and care. The need to provide enhanced support to parents' reintegration into the labour market through training measures should also be prioritised. Finally, we would like to see a system that 'promotes quality, inclusive employment and a working environment that enables parents to balance their work and parenting roles on an equal footing, including through parental leave, workplace support and flexible working arrangements' (European Commission, 2013:5).