



European Minimum Income Network country report Estonia

Analysis and Road Map for Adequate and Accessible
Minimum Income Schemes in EU Member States

*Lauri Leppik
Tallinn University
Estonian Anti-Poverty Network
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Directorate-General for Employment and Social Affairs and Inclusion
Directorate D — Europe 2020: Social Policies
Unit D.2 — Social inclusion and Poverty Reduction

E-mail: empl-d2-unit@ec.europa.eu

European Commission

B-1049 Brussels

More information: <http://www.ec.europa.eu/social>

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1. Panorama: description of minimum income schemes

According to the Estonian Constitution §28, every citizen of Estonia has the right to state assistance in the case of need. The categories and extent of the assistance, and the conditions and procedure for its allocation shall be provided by law. Unless otherwise provided by law, citizens of foreign states and stateless persons in Estonia enjoy this right equally with citizens of Estonia.

While the Constitution secures a subjective, universal, basic right to assistance in case of need, the further criteria and conditions when a person is to be considered in a state of need, as well as the types and extent of assistance shall be defined by legislation. Hence the Parliament has a wide margin of appreciation in defining the state of need, the level and forms (e.g. in cash or in kind) of assistance. Nonetheless, the Parliament does not have unlimited discretion in giving content to this basic right. Firstly, Estonia is Party to some international treaties regulating the right to assistance.

Estonia has ratified the International Covenant on Economic, Social and Cultural Rights and under Article 11 of the Covenant shall recognize *"the right of everyone to an adequate standard of living for himself and his family, including adequate food, clothing and housing /.../"*. Estonia has also ratified the revised European Social Charter, including Article 13, thereby undertaking to ensure the effective exercise of the right to social and medical assistance, by ensuring that *"any person who is without adequate resources and who is unable to secure such resources either by his own efforts or from other sources, in particular by benefits under a social security scheme, be granted adequate assistance."*

Secondly, the constitutional provision is justiciable and has been subject to judicial scrutiny by domestic courts, including the Supreme Court. In its decision No 3-4-1-7-03 from 21 January 2004 the Supreme Court has stated that the right to state assistance in case of need is a basic social right which is based on the principles of social state and human dignity, and these principles contain an idea about assistance and care for those who are unable to secure sufficient resources for themselves independently. According to the Supreme Court, the human dignity of such persons would be humiliated, if deprived from assistance, which they need to satisfy their basic needs. Such interpretation of the principle of human dignity in the cited decision can be seen as bearing relevance in the context of the level of assistance to be determined by legislation. On the other hand, the Supreme Court in the argumentation of the above referred decision recognised the wide discretion of the Parliament in deciding the level of assistance, as the Parliament is competent in developing economic and social policy and in adopting the state budget. Nonetheless, the Supreme Court emphasised that limitations of budgetary resources do not entail a full freedom for the legislature in deciding who and to what extent shall be secured the rights stipulated in §28 of the Constitution. The right to state assistance is a subjective constitutional right and in case a person is deprived of this right he/she has the

right to apply to court and the court has then the responsibility to control if the laws providing for respective social right are in compliance with the Constitution. On the other hand, court cannot step into the powers of legislative and implementing powers and the constitutional court shall prevent a situation where its decisions would significantly affect the development of state budget. At the same time, to secure the basic right to state assistance, the state shall interfere, if the level of assistance falls below a minimum in order to prevent deprivation of human dignity.

The constitutional right to state assistance in case of need is implemented by the Social Welfare Act. The Social Welfare Act prescribes a mean-tested subsistence benefit, which is a state social assistance cash benefit to guarantee minimum income in case of need. The provision of this benefit is based on the principle that it is a duty of the state to provide assistance in case the resources of an individual and his/her family are not sufficient for coping. Beyond the subsistence benefit as a state cash benefit, the constitutional right to state assistance in case of need is also covered by emergency social assistance granted by local municipalities to persons without sufficient means of subsistence and guaranteeing at least food, clothing and temporary shelter.

Hence (effectively) the minimum income scheme in Estonia is the subsistence benefit scheme. For the purpose of determining eligibility for subsistence benefit and for calculating the amount of benefit, the legislature has linked the concept of need with the notion of a 'subsistence level', defined by Parliament for each budgetary year in the State Budget Act. According to the Social Welfare Act, the subsistence level shall be established on the basis of minimum expenses made on consumption of foodstuffs, clothing, footwear and other goods and services which satisfy the primary needs. The category of other goods and services is interpreted to include goods for basic hygiene, medicines, (visit) fees for doctor's visit, public sauna fees and public transport tickets. The subsistence level does not include minimal housing costs. However, the latter aspect relates just to the particular methodology of how the subsistence benefit scheme is constructed. While the definition of subsistence level excludes housing expenses, the subsistence benefit scheme includes a compensation of housing costs within established limits.

1.1. General overview of minimum income scheme

The subsistence benefit scheme is the last resort benefit scheme intended to ensure a minimum standard of living for individuals and their dependents when no other means of financial support are available. Subsistence benefit is the main form of state assistance to persons in financial difficulties. The stipulated aim of the subsistence benefit scheme is to guarantee that after paying for housing expenses (within established limits) families or single persons still have means (in terms of disposable cash income) at least equivalent to the amount of subsistence level.

The legislation grants the right to subsistence benefit to a single person or a family whose monthly net income, after the deduction of the fixed expenses connected with dwelling (calculated under the conditions provided in the Social Welfare Act), is below the subsistence level.

This means the right to receive subsistence benefit depends on:

- the income of the applicant;
- the subsistence level established by the Parliament;
- housing expenses payable in a given month.

Changes in any of these three factors influence eligibility for subsistence benefit.

The subsistence benefit is paid by local municipality governments, but is financed from the general state budget. Thus the administration of the scheme is decentralised, whereas the financing of the scheme is centralised.

The Parliament (Riigikogu) establishes the subsistence level for each budget year. It is then a political decision influenced by budgetary constraints. Even though, as demonstrated below, the Social Welfare Act stipulates a legal requirement that the subsistence level shall be based on minimum expenses, this has not been applied in practice.

The state budget indicates the subsistence level for persons living alone (i.e. single-person households) or the first member of a family. According to the Social Welfare Act, the subsistence level of the second and each subsequent member of the family is 80% of the subsistence level of the first member of the family. Effectively the legislation stipulates equivalence scales of 1.0:0.8:0.8 for the purposes of calculating the subsistence level and subsequently the subsistence benefit for families/households (as from 1 January 2015 there applicable equivalence scales will be 1.0:0.8:1.0 as the subsistence level for children will be equalised with the first adult member of the household).

According to the Social Welfare Act the subsistence level shall be established on the basis of minimum expenses incurred in the consumption of food, clothing, footwear and other goods and services satisfying primary needs. The State Budget Act for 2014 sets the subsistence level at 90 EUR per month for a person living alone or the first member of a family. Accordingly the subsistence level for the second and each subsequent member of the family is 72 EUR per month in 2014.

In contrast to these politically established amounts, the Estonian Statistical Office calculates an indicator labelled as 'the estimated subsistence minimum'. The methodology of calculating the estimated subsistence minimum has been developed by researchers of Tartu University in cooperation with representatives of the Ministry of Social Affairs, Estonian Statistical Office and the Estonian Society of Nutritional Sciences. The estimated subsistence minimum includes three expenditure groups (see for details below):

- expenditure on food,
- expenditure on dwelling,

- individual non-food expenditures.

Principally, the estimated subsistence minimum is then an indicator validating if the subsistence level established by the Parliament corresponds to the factual minimal expenses. Accordingly, it is one of the indicators of adequacy of the subsistence benefit scheme. In 2013, the estimated subsistence minimum per 30 days for a single-person household was 205.30 EUR.

However, the fact that the subsistence level does not include minimal housing expenses, but these are compensated on top of the subsistence benefit and vary between beneficiaries and local municipalities, makes it difficult to compare directly the subsistence level fixed by the state budget and the estimated subsistence minimum calculated by the Estonian Statistical Office. This practical complication in assessing if the level of subsistence benefit effectively guarantees the constitutional right to state assistance in case of need has been noted also by the Supreme Court in its decision No 3-4-1-7-03 from 21 January 2004 and decision 3-4-1-67-13 from 5 May 2014. In the latter decision the Supreme Court noted that the established subsistence level is lower than the subsistence minimum calculated by the Statistical Office. In this context the Supreme Court also noted that according to the latest assessment of the European Committee of Social Rights from 2013, the Estonian situation is not in compliance with Art.13§1 of the Revised European Social Charter as the level of social assistance granted to persons without resources is manifestly inadequate.¹

The subsistence level is effectively a fixed rate, albeit in practical terms it is calculated per household depending on the number of household members and taking into account the applicable equivalence scales. The subsistence benefit is calculated as the difference between the subsistence level (with consideration to the household size) and the disposable income of the household during a given calendar month. Additionally, the subsistence benefit scheme compensates for the actual housing expenses payable in a given month within limits established by local municipalities (effectively only if the applicant wishes his/her housing costs to be covered). Hence the payable amounts of subsistence benefit amounts are differential, depending on the following factors:

- household size
- disposable income of the household
- actual housing expenses
- limits on housing expenses established by the local municipality where the beneficiary resides.

Subsistence benefit is granted and renewed on a monthly basis by local governments. Municipality may exercise certain discretion within the limits set out by the Social Welfare Act, for example the municipality may refuse to grant the subsistence benefit if it considers that the applicant or his/her family

¹ http://www.coe.int/t/dghl/monitoring/socialcharter/Conclusions/State/Estonia2013_en.pdf

members have real estate or other property enabling them sufficient resources for coping. The legislation thus allows a discretionary asset-test to be conducted by a local municipality.

A subsistence benefit is granted within five working days after the submission of all necessary documents by the applicant. Local municipality shall pay the calculated amount of benefit within three working days after the date on which the benefit granting decision was made. The applicant shall indicate the form of payment, having a choice between the following alternatives: bank transfer to a designated bank account, by post or cash payment.

1.2. Personal scope

According to the Social Welfare Act the right to receive social benefits (including subsistence benefit), social services and other assistance extends to:

- 1) permanent residents of Estonia;
- 2) aliens residing in Estonia on the basis of residence permits or right of residence;
- 3) persons enjoying international protection staying in Estonia.

A permanent resident is an Estonian citizen residing in Estonia or an alien residing in Estonia who holds a long-term resident's residence permit in Estonia or a permanent right of residence. However, the right to social welfare (including subsistence benefit) extends also to aliens residing in Estonia on the basis of temporary residence permits as well as on the basis of EU citizens' right of residence. Nonetheless, one of the conditions for granting the temporary residence permit to aliens is the existence of sufficient legal income allowing the coping of the alien and his/her family members in Estonia. For this purpose of establishing legal income, social assistance benefits are not taken into account.

The Social Welfare Act ensures equal treatment of nationals and non-nationals as there are no nationality requirements to be eligible for subsistence benefit. All citizens of Estonia residing in Estonia and all aliens (both from the EU Member States and from third countries) residing in Estonia on the basis of residence permit or right of residence, have the right to receive subsistence benefit and also other forms of social welfare. Basically all legal residents of Estonia are covered with the subsistence benefit scheme, with the exception of asylum seekers, who do not yet possess a residence permit. However, asylum seekers are granted a special monetary benefit which is equal to the applicable subsistence limit (see below p.3.1 for additional information on monetary benefit to asylum seekers). Hence effectively the minimum income scheme in Estonia covers all lawful residents.

There are also no age requirements to receiving subsistence benefit. As legal representatives of children are their parents (who have the right of custody), the application for subsistence benefit is made by an adult member of the family.

1.3. Means-testing

Eligibility for subsistence benefit and calculation of the amount of subsistence benefit is based on the total net income of all family members or a single person over the previous calendar month. For this purpose all income is taken into consideration, including taxable income, pensions, unemployment benefits and family benefits. In case of a person with no regular income, the average income over a period of six months preceding the application for subsistence benefit shall be taken into account.

However, the Social Welfare Act defines certain exemptions, sources of income which are not taken into account in the context of defining the eligibility and calculating the amount of subsistence benefit. The sources of income which are disregarded in this context are the following:

- lump-sum benefits paid from the state budget or local budgets;
- social benefits for disabled persons paid on the basis of the Social Benefits for Disabled Persons Act, except the disabled parent's allowance;
- student loan granted with security guaranteed by the state;
- grants (i.e. stipends) and transport and accommodation benefits paid to unemployed persons on the basis of the Labour Market Services and Benefits Act;
- needs-based study allowance paid on the basis of the Study Allowances and Study Loans Act;
- child allowance for the third and each subsequent child paid on the basis of the State Family Benefits Act at twice the child allowance rate for each child receiving child allowance;
- needs-based family benefit paid on the basis of the Social Welfare Act.

The last two cases refer to relatively new benefits. From 1 July 2013 child allowances for the third and each subsequent child substantially increased and an additional needs-based family benefit was introduced.

The listed exemptions essentially mean that beyond the variation in the actual amounts of payable subsistence benefits, the effective subsistence level (or in other words, the effective minimum income guarantee) is not fully universal for all types of households and all categories of persons. The exclusion of certain types of benefits from the calculation of disposable income entails a higher minimum income guarantee for households with recipients of such benefits. In a way, it is assumed that the needs of certain categories of persons or certain households are higher due to particular social risks to which they are exposed (e.g. disability, unemployment, raising of 3 or more children, studying etc.), justifying a higher minimum income guarantee.

The adopted legislation entering into force from 1 January 2015 will significantly increase the amount of needs-based family benefits substantially as well as

universal child benefits. Concerning the calculation of subsistence benefit, the principle remains that child allowance for the first and second child will be taken into account as household income, the child allowance for the third and each subsequent child will be taken into account only partly and needs-based family benefit will remain exempted.

1.4. Housing costs

Housing costs (i.e. the actual expenses connected with dwelling subject to limits established by a local municipality) taken into account upon calculation of subsistence benefit are:

- 1) rent or maintenance fee of the apartment;
- 2) value of thermal energy or fuel consumed for heating or supply of hot water;
- 3) value of consumed water and sewerage services;
- 4) value of consumed electricity;
- 5) value of consumed household gas;
- 6) expenses made on land tax, (calculated based on the size of land that equals three times the area under the dwelling);
- 7) expenses made on building insurance, calculated for dwelling in use;
- 8) carriage charge for waste.

The abovementioned housing costs are taken into account only if these expenses are payable during the given month (the month of submitting the application). Also it is important to note that the housing costs are covered within the subsistence benefit scheme only within the limits of so-called socially justified standards for dwellings and within the limits established by local municipality councils. Local municipalities establish limits for each type of housing cost. Effectively then the 'housing allowance' component of the subsistence benefit scheme varies between local municipalities.

According to the Social Welfare Act, the limits on housing costs established by the local government councils shall ensure decent subsistence for persons. Paradoxically then, in a situation where the subsistence level established by Parliament falls below the adequacy standard of the European Social Charter as pointed out also by the Estonian Supreme Court, the legislation sets a requirement for local municipalities to ensure decent subsistence when establishing upper limits for consideration of housing expenses.

On the other hand, the Social Welfare Act sets some standards on the size of the dwelling for the purpose of calculation of housing costs, deemed to be socially justified standards: 18 m² for each member of the household and in addition 15 m² for household.

Accordingly, for a single person the socially justified standard living space is 33 m² and for a family of two persons the standard living space is 51 m².

However, in case the number of rooms in the dwelling equals to the number of persons living in the dwelling and the total area of the dwelling is larger than the socially justified standard, the total area of the dwelling is taken into account.

This means that if a single person lives in a single room apartment (kitchen, bathroom, and toilet are not calculated as rooms) and the size of the apartment is for example 38 m², then 38 m² (and not 33 m²) is taken into account. If a family of two persons lives in an apartment of 2 rooms and the total area of the apartment is larger than 51 m² (for example 60 m²), then also the total area of the apartment is taken into account.

For pensioners (recipients of any type of state pension) living alone in a dwelling the socially justified standard is considered to be 51 m². The latter is an exception to the general rule applying for single persons (33 m²) and serves apparently the purpose of maintaining familiar home setting for persons upon retirement or in case of acquiring disability.

1.5. Examples

To illustrate the granting and calculation of subsistence benefit we present the following example.

A family of 5 persons applies for a subsistence benefit in 2014. The family members are a mother, a father and three minor children. The monthly income of the family is 400 EUR from net wages, plus child allowances. The housing expenses are 200 EUR a month.

The subsistence level for the first member of the family is 90 EUR and the subsistence level for each subsequent member is 72 EUR per month. Accordingly, the subsistence level for the family of 5 persons is $90 + 4 \times 72 = 378$ EUR.

The child allowances for the first two children in the family are 19.18 EUR per child. For the third (and any following) child the child allowance is 76.72 EUR. The total child allowances for a family with three children are $2 \times 19.18 + 76.72 = 115.08$ EUR per month.

Upon calculation of subsistence benefit the child allowance for the first two children (i.e. $2 \times 19.18 = 38.36$ EUR) is taken into account as family income. The child allowance for the third child is taken into account partially. Since child allowance for the third child is paid in the amount of 8 times the child allowance rate (the child allowance rate is 9.59 EUR) and the child allowance for the third child is exempted for the purposes of calculating subsistence benefit at twice the child allowance rate (i.e. $2 \times 9.59 = 19.18$ EUR), the child allowance for the third child is taken into account as family income in the amount of 6 times the child allowance rate, which is 57.54 EUR. Hence in total child allowances paid to the family with three children are taken into account as family income in the amount of 95.9 EUR.

In case the family's housing costs fall within the limits of the socially justified standards for dwellings and within the limits established by the local government councils, the subsistence benefit granted to the family is calculated as follows:

the subsistence level of the family 378 EUR plus housing costs 200 EUR minus wage income 400 EUR minus applicable child allowances 95.90 EUR = 82,1 EUR.

The family in question is paid a subsistence benefit in the amount of 82.1 EUR.

In addition to the subsistence benefit the family is eligible to needs-based family benefit, paid currently at the rate of 19.18 EUR per month.

The total income of the family is then 616.36 EUR, which is composed of the following components:

- net wage 400 EUR
- child allowances 115.08 EUR
- subsistence benefit 82.10 EUR
- needs-based family benefit 19.18 EUR.

From the total income of 616.36 EUR, the family has to pay the housing costs (200 EUR) while 416.36 EUR per month remains for all other types of expenses.

Now, suppose a family with the same composition and the same housing expenses has no wage income. Both mother and father are unemployed and receive state unemployment allowance, which is granted to persons without sufficient unemployment insurance record and in 2014 is 112.22 EUR per month.

The subsistence benefit for such a family would be: 378 EUR + 200 EUR - 224.44 EUR - 95.90 EUR = 257.66 EUR.

The total income of such a family is again 616.36 EUR, which is now composed of the following components:

- unemployment allowances 224.44 EUR
- child allowances 115.08 EUR
- subsistence benefit 257.66 EUR
- needs-based family benefit 19.18 EUR.

It is easy to see that for a family of 5 with two adults and three children the effective minimum income guarantee in 2014 is 416.36 + x EUR, where x is denoting housing expenses insofar as these are within limits established by the local municipality in question. The minimum income guarantee is however not sensitive to the wage income insofar as such earnings are less than the subsistence level plus housing expenses minus applicable child allowances (in the given example, this would be 482.10 EUR, which is higher than the minimum gross wage – 355 EUR in 2014 – and about half of the average gross wage). This implies an unemployment trap, making low-paid work often not paying off.

According to the legislation entering into force as of 1 January 2015, the financial situation of families with children will improve, since the amount of child allowances will be increased. Also the amounts of needs-based families will

increase. Additionally the subsistence level for minors is increased (as the equivalence scales are equalised with the first member of the family).

Taking the same example of the family of 5 persons and assuming there will be no change in the wage income and housing expenses of the family, the subsistence benefit in 2015 will be calculated as follows.

The total subsistence level for the family would be $4 \times 90 + 72 = 432$ EUR (90 EUR per month for the first member of the family and for all three minor children and 72 EUR for the second adult member of the family).

In 2015 the family with three children would receive child allowances in total $2 \times 45 + 100 = 190$ EUR per month (45 EUR for the first two children and 100 EUR for the third child).

For the purpose of calculation of subsistence benefit the child allowances for the first two children are taken into account as family income (2×45 EUR). The child allowance for the third child is taken into account partially, in the amount of 55 EUR (the child allowance for the third child is paid at the rate of 100 EUR while 45 EUR are exempted). In total, child allowance paid to the family with three children is taken into account as family income in the amount of 145 EUR (45 EUR for the first and second child and 55 EUR for the third child).

The subsistence benefit granted to the family is then calculated as:

the subsistence level of the family 432 EUR plus housing cost of the family 200 EUR minus income of the family 400 minus child allowance taken into account as income of the family 145 EUR = 87 EUR.

The family would also be eligible to needs-based family benefit, paid at the rate of 90 EUR per month.

The total the income of the family in 2015 would be 767 EUR, comprising of the following components:

- wage 400 EUR
- child allowances 190 EUR
- subsistence benefit 87 EUR
- needs-based family benefit 90 EUR.

From the total income of 767 EUR, the family has to pay the housing costs (200 EUR) and 567 EUR per month remains for all other types of expenses.

Comparing the situation of the family in question in 2014 and 2015, the total income of the family will increase by 150.64 EUR per month, which is largely due to increases in child allowances and other family benefits, whereas the amount of subsistence benefit will increase only by marginal 4.90 EUR.

These examples illustrate that while the subsistence benefit system in Estonia plays a relevant role in providing basic cash income for individuals and families in severe financial difficulties, the particular design of the scheme outlines a strong interplay with other social benefit schemes. To assess the effective adequacy of minimum income schemes for different household types a broader set of social

benefits is to be taken into consideration. The design of the scheme features also a strong paradox: whereas the actual benefit amounts are quite low, the scheme entails an unemployment trap by setting a relatively high reservation wage threshold for making work pay.

1.6. Other social benefits

As already indicated, there are a number of benefits which can be combined with the subsistence benefit.

1.6.1. Needs-based family benefit

Needs-based family benefit was introduced in July 2013 as an additional targeted (means-tested) scheme for low-income families with children. Similar to the subsistence benefit, the needs-based family benefits are granted and paid by local municipalities, but financed from the state budget.

According to the Social Welfare Act, the family with at least one child who is eligible for child allowance has the right to receive needs-based family benefit provided that:

- 1) the average monthly net income of the family is below the income threshold of needs-based family benefit or
- 2) a subsistence benefit was granted to the family for the month preceding the application for a needs-based family benefit.

The Parliament establishes the income threshold of needs-based family benefit for the first member of a family for each budgetary year by the state budget. The income threshold of needs-based family benefit is based on the relative poverty threshold (which in turn is based on Eurostat at-risk-of-poverty threshold) as published by Estonian Statistical Office by 1 March of the year preceding the budgetary year. Reference to the relative poverty threshold entails that beyond families/households who are beneficiaries of the subsistence benefit scheme; also other low-income families not qualifying for subsistence benefit can receive additional financial support to alleviate the risk of poverty.

The needs-based family benefit scheme applies the same equivalence scales as in the framework of calculating the Eurostat at-risk-of-poverty indicator, i.e. 1.0:0.5:0.3:

- first person in the household is counted as 100%;
- each following household member aged at least 14 years is counted as 50%;
- each household member aged under 14 is counted as 30%.

In 2014 the income threshold of needs-based family benefit for the first member of a family is 299 EUR, for each following household member aged 14 years or over 149.50 EUR and for each child under 14 years 89.70 EUR. From 2015 the income threshold will be 329 EUR for the first member of a family, and

respectively 164.50 EUR and 98.70 EUR for other household members aged 14 years or over, and under 14 years.

The amount of the benefit depends on the number of eligible children in the family. Currently the amounts of needs-based family benefit are very low:

- 9.59 EUR per month for a family with one eligible child
- 19.18 EUR per month for a family with at least two eligible children.

As of 2015, the amounts of needs-based family benefit will significantly increase:

- 45 EUR per month for a family with one child who receives child allowance;
- 90 EUR per month for a family with at least two children who receive child allowance.

Different from subsistence benefit which has to be applied (and reapplied) every month, the needs-based family benefit is granted for three months, and accordingly is to be reapplied every three months.

As derives from the qualifying conditions, all the families with children receiving subsistence benefit are simultaneously eligible to the needs-based family benefit. The applicant only has to submit the corresponding application.

1.6.2. Benefits paid on the basis of the Social Benefits for Disabled Persons Act

As noted above, social benefits for disabled persons are exempted from household income for the calculation of subsistence benefit and accordingly are paid on top of subsistence benefit.

The Social Benefits for Disabled Persons Act stipulates the following categories of social benefits for disabled persons:

- disabled child allowance;
- disability allowance for a person of working age;
- disability allowance for a person of retirement age;
- disabled parent's allowance;
- education allowance;
- work allowance;
- rehabilitation allowance;
- in-service training allowance.

From the listed benefits there is one exception, namely disabled parent's allowance is considered as family income for the purpose of calculating subsistence benefit. The other disability benefits are exempt, meaning that benefits aiming to partially compensate for disability-related additional costs are not regarded as income in the context of the subsistence benefit scheme. In other words, the risks of need and disability are regarded as separate categories,

whereas the state of need for persons with disabilities entails higher financial expenditures than for persons without disabilities.

1.6.3. Needs-based study allowance

Needs-based study allowance is a cash allowance based on the economic situation of the person and is granted to students (except to doctoral students) to cover expenses related to acquisition of higher education. Needs-based study allowance was introduced in September 2013 to students who were admitted to the university in the 2013/2014 academic year.

A student has the right to receive need-based study allowance if:

1) he or she is an Estonian citizen or is staying in Estonia on the basis of a long-term or temporary residence permit or on the basis of a permanent or temporary right of residence;

2) he or she studies full-time and has by the starting semester cumulatively completed the study load subject to completion under the curriculum in the previous semesters or studies full-time in the first semester;

3) his or her average monthly income does not exceed the maximum average income calculated for the receipt of need-based study allowance established annually by the state budget (currently the applicable income maximum is 299 EUR per family member).

The needs-based study allowance is paid at three 75 EUR, 135 EUR and 220 EUR. The receipt and amount of the allowance depends on the average income of the student and their family members in the previous calendar year. The family's average income is calculated on the basis of taxable income in the calendar year preceding the academic year of applying for the allowance.

If the monthly income per family member is up to 74.75 EUR, the allowance is 220 EUR per month; if the monthly income is 74.76 to 149.50 EUR, the allowance is 135 EUR per month; and if the monthly income is 149.51 to 299 EUR, the allowance is 75 EUR per month.

A student is considered to belong to the same family as their parents until the age of 24, unless the student is married, a parent or a guardian: in that case, the student is considered a separate family.

The purpose of the needs-based study allowance is thus to support students from low income families to gain higher education. The needs-based study allowance can be paid on top of the subsistence benefit as it is not regarded as family income in the subsistence benefit scheme.

1.6.4. Grants, transport and accommodation benefits paid to unemployed persons

Provision of labour market services and payment of labour market benefits is regulated by the Labour Market Services and Benefits Act and administrated by the Estonian Unemployment Insurance Fund.

The categories of labour market cash benefits under this Act are:

- unemployment allowance;
- grants/stipends;
- transport and accommodation benefits.
- labour market benefits established by the employment programme.

Additionally, there is an unemployment insurance scheme, based on previous unemployment insurance contributions and paying earnings-related unemployment insurance benefits.

Grants/stipends and transport and accommodation benefits paid to unemployed persons on the basis of the Labour Market Services and Benefits Act are not considered as family income for the purpose of calculating subsistence benefit and hence can be received on top of subsistence benefit. Such grants/stipends, transport and accommodation benefits are granted to unemployed persons who participate in labour market training, work practice or working life coaching organised by the Estonian Unemployment Insurance Fund. In contrast, the state unemployment allowance as well as unemployment insurance benefit are regarded as income for the purpose of calculating subsistence benefit and hence reduce the amount of subsistence benefit

It shall be noted that the grants/stipends, transport and accommodation benefits are modest. In 2014 the daily rate of the grant/stipend is 3.84 EUR. The rate of transport and accommodation benefits is 0.10 EUR per each kilometre between the place of provision of labour market services and the place of residence of the unemployed person. There is a daily upper limit for transport and accommodation benefits, which is 26 EUR.

The unemployment allowance is paid to the unemployed who do not qualify or have exhausted the right to unemployment insurance benefit. The unemployment allowance is granted to a person:

- who is registered as unemployed and is looking actively for work
- whose income is lower than the rate of the unemployment allowance
- who has been employed or engaged in an activity equal to work for at least 180 days during 12 months

The unemployment allowance is means-tested: it is paid only if the person's income is lower than the 31-fold daily unemployment allowance rate (112.22 EUR in 2014). The unemployment allowance is paid up to 270 calendar days.

As noted, the unemployment allowance is counted as income for the purpose of calculating subsistence benefit. However, a large share of beneficiaries of

subsistence benefit is unemployed, and many receive simultaneously unemployment allowance and the subsistence benefit. Hence there is a significant overlap between the two schemes, which has raised doubts and questions from policy analysts about rationality of parallel schemes (both providing means- or income-tested benefits at rather low rates).

1.6.5. Lump-sum benefits paid from the state budget

Lump-sums benefits (i.e. single one-off benefits) paid to the applicant of the subsistence benefit out of the funds of the state budget are not considered as household income in the context of the subsistence benefit scheme. Different state authorities pay different lump-sum benefits. Some of the most common lump-sum benefits:

- childbirth allowance and adoption allowance (320 EUR in 2014)
- business start-up subsidy paid by the Estonian Unemployment Insurance Fund (up to 4474 EUR in 2014)
- home grants for families with at least four children for renovation and reconstruction of the dwelling, or for purchasing a dwelling
- EU or state support for crop farming, animal husbandry, fisheries, development of rural life, industries and forestry

1.6.6. Supplementary social benefits paid by local governments

In Estonia, local municipalities are granted extensive responsibilities in the area of social welfare. In particular, local municipalities have duties for administration of the provision of social services, emergency social assistance and other assistance, grant and payment of some state social assistance benefits (incl subsistence benefit and needs-based family benefit) and granting and payment of any local social benefits.

Local municipalities may establish supplementary social benefits payable from the local government budget. In this case, the local municipality council has a full discretion on setting the relevant conditions and procedures as well as establishing the level of such benefits.

The practice varies greatly from one municipality to another, but virtually all local municipalities pay some local social benefits, perhaps surprisingly less frequently needs-based/means-tested benefits, and more frequently universal albeit categorical local benefits (paid to a particular socio-demographic group, such as elderly persons or families with young children) without explicit needs- or means-test. Examples of such categorical local benefits are birth grants, school grants, birthday allowance for the elderly etc. On the other hand, examples of needs-based social benefits are school lunch support, allowance to buy glasses or medicines, funeral benefit, one-time benefit for emergency expenses, heating allowance etc.

Such supplementary local social benefits are not counted as family income in the context of the subsistence benefit scheme and thus can be combined with the subsistence benefit. In most cases the purpose of such benefits is to partly compensate some one-off expenditures related to some life events, hence are not paid periodically and do not constitute a regular source of income. However, there are also some local social benefits targeted to low-income individuals and families, which are paid on a regular basis as a supplementary income on top of the state subsistence benefit.

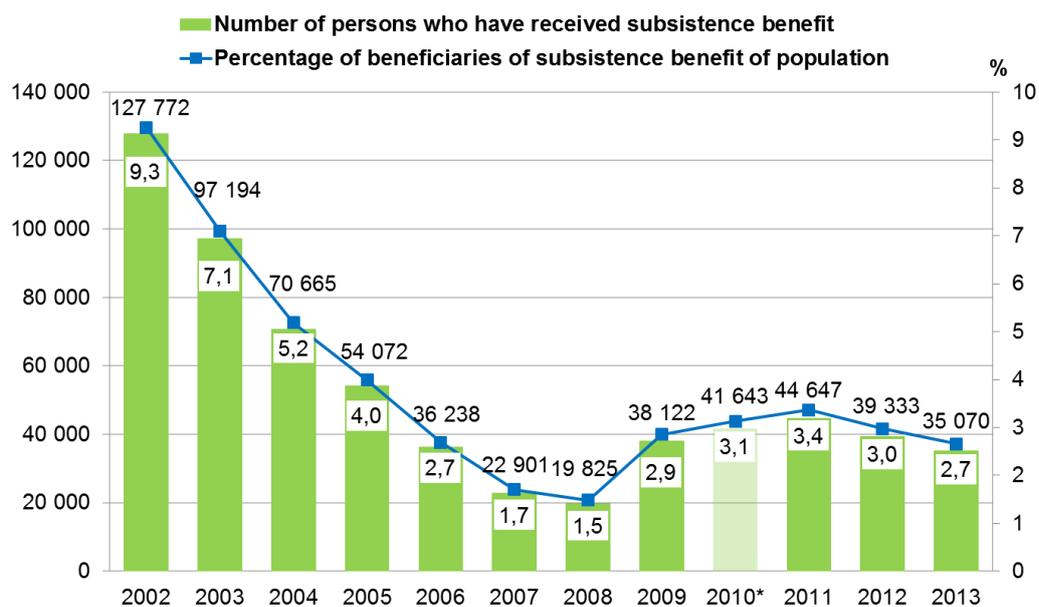
1.7. Trends in the scope of subsistence benefit

The number of recipients of subsistence benefit has greatly changed over the last decade. The administrative data of the Ministry of Social Affairs indicate that there was a steady decline in the number of subsistence benefit recipients from 2002 to 2008. This trend was driven by favourable economic climate – increasing employment rate in the context of strong economic growth, declining unemployment, steady wage growth. From social policy perspective, one contributing factor was the introduction of unemployment insurance benefit scheme (in 2003), which lifted some categories of unemployed persons out of the subsistence benefit scheme.

However, another strong contributing factor for this trend was the relatively modest increase in the subsistence level. Even though the subsistence level for a single-person household in relative terms doubled by 2008 compared to 2002, in nominal terms the increase was a modest 32 EUR. At the same time, the average old age pension increased by 137 EUR (from 103.50 EUR in 2002 to 240.50 EUR in 2008) and the national pension (minimum old age pension) by 41 EUR (from 60 EUR to 101 EUR), lifting many elderly persons out of the subsistence benefit scheme. The minimum wage increased by 160 EUR over the same period (from 118 EUR in 2002 to 278 EUR in 2008) and the average net wage by 365 EUR (from 305 EUR to 670 EUR). By 2008, the share of subsistence benefit recipients in the total population had dropped to 1.5%, a sharp decrease from the level of 9.3% in 2002.

During the years of economic crisis 2008-2010 the number of beneficiaries more than doubled. But despite a sharp decline in GDP in 2009 (-14.7%) and concurrent high increase in unemployment rate (from 5.5% in 2008 to 16.9% in 2010) the number of subsistence benefit recipients remained lower than it was in 2005 when the GDP growth was +9.5%.

Chart 1. Beneficiaries of subsistence benefit 2002-2013



Source: Ministry of Social Affairs

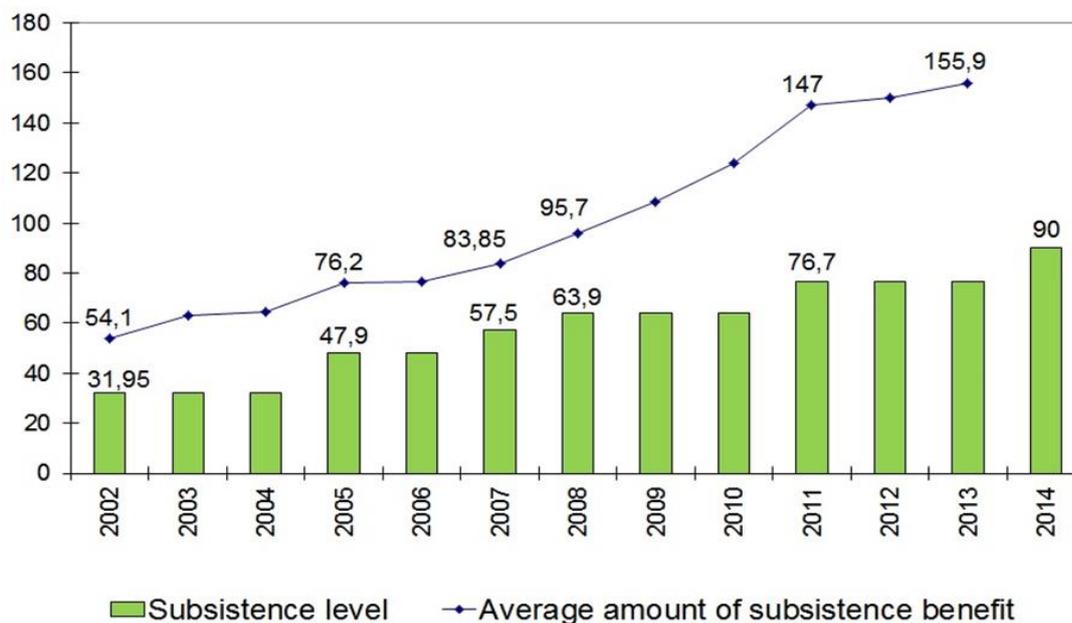
* Covers only II - IV quarter

These trends give indications about the relative roles of economic versus social policy developments and the sophisticated interplay between economic factors (like wage growth and unemployment rate) and social protection system (in particular developments in the minimum rates of social security benefits and targeted policy measures for low income families) on the scope of the residual safety net measure.

The number of recipients of subsistence benefit is strongly influenced by labour market developments (in particular, changes in unemployment rate and evolution of the minimum wage), but also by developments in the benefit rates of major social security benefits schemes (in particular pensions, family benefits and unemployment allowances). Being the last resort safety net measure, the scope of the minimum income scheme is highly dependent on the remaining social protection system, and more specifically, to what extent the other social protection schemes are geared towards low-income individuals and households.

Notably, there have been several occasions when the subsistence level was not upgraded: 2002-2004, 2008-2010, and 2011-2013. The absence of regular indexation/upgrading of subsistence level also contributed to the decline in the number of beneficiaries during the years of economic growth when disposable incomes of households increased (2002-2004 and 2011-2013). The other side of the coin is that the lack of regular indexation of subsistence level entails degradation of its purchasing power in the years when the level was frozen and essentially also means that the benefits of economic growth did not trickle down to the lowest income group.

Chart 2. Development of the subsistence level for a single-person household and the average amount of subsistence benefit 2002-2014



Source: Ministry of Social Affairs

The average subsistence benefit is higher than the subsistence level - in fact, in 2013 twice as high – as housing expenditures (within limits) are compensated on top of securing the subsistence level. As Figure 2 illustrates, the gap between the average subsistence benefit and the subsistence level has increased over the last decade. There are two possible explanations for this, and in fact both are valid. Firstly, housing costs have increased at a higher rate than other expenditures (in particular food, see also figures in Table 3 below) and secondly, compensation of housing costs has followed actual developments in housing prices while there is no regular upgrading of the subsistence level based on price increases.

A closer look at beneficiaries of subsistence benefit (Table 1) reveals the types of households and social groups who are the main beneficiaries of the minimum income scheme. Households with unemployed persons are the biggest group among subsistence benefit recipients. In the prevailing number of cases these are unemployed persons who are not entitled to unemployment insurance benefit or the state unemployment allowance (due to qualifying conditions), or long-term unemployed persons who have exhausted their rights to unemployment benefits (due to expiry of the maximum period of payment of unemployment benefits).

Slightly over 30% of all households benefiting from the subsistence benefit scheme are households with children. Single parent households are the biggest subgroup in this category.

Over a quarter of all households benefiting from the subsistence benefit scheme are households with pensioners. The largest group here are recipients of work-incapacity (disability) pensions. In contrast, the share of old-age pensioners

among recipients of subsistence benefit is relatively low. The old-age pension, despite its relatively low replacement rate, keeps most of the old-age pensioners above the subsistence level. However, some old-age pensioners receiving lower than average pensions may qualify for the subsistence benefit during the winter months when housing expenses on heating are high.

Table 1. Beneficiaries of subsistence benefit by household type in 2013

	Households	
	Number	%
Total	19 320	
With registered unemployed person(s)	12 244	63.4
with child(ren)	3 698	19.1
with long-term unemployed person(s)	3 499	18.1
With child(ren)	6 123	31.7
with one adult (single parent)	3 956	20.5
With pensioner(s)	5 180	26.8
with old-age pensioner(s)	861	4.5
with pensioner(s) for incapacity for work	3 881	20.1

Source: Ministry of Social Affairs

Note: Only the main household types are included in the table. A person may simultaneously belong to several household types, e.g. being unemployed single parent. Therefore the sum of main household types is more than 100%.

2. Link between the right to social integration and active inclusion strategy

In the broader context it is worth to outline the pattern how in the economic cycle in Estonia over the last decade has affected income distribution and the relative welfare position of those in work compared to those out-of-work (either due to unemployment, retirement or other reasons). During the years of economic growth the welfare position of employed persons improved faster compared to those out-of-work as witnessed by developments in disposable incomes and at-risk-of-poverty rates. In contrast, the effects of the economic crisis combined with some social policy measures had a flattening effect on incomes. The at-risk-of-poverty rate declined from 19.8% in 2008 to 15.7% in 2009. Economic recovery since 2011 has increased the relative poverty rate again to 18.7%. The economic crisis caused the decline of the average income of the population, primarily due to the decline in the average gross wage, whereas major income transfer schemes remained intact and pensions were even increased, resulting in smaller income disparities and reduction in the relative

poverty rate, while the periods of economic growth exhibit a reversed trend – increasing income disparities and higher relative poverty rate.

2.1. Inclusive labour markets

Estonian government policy documents strongly subscribe to the view that work is the best protection against poverty. For example, this was the core message in the Estonian National Strategy Report on Social Protection and Social Inclusion 2008-2010, which postulated that *“The highest possible employment rate of the entire working age population is one of the priorities in Government’s general economic policy, but work also has an important role in decreasing poverty and social exclusion and increasing social coherence. Work must secure a better ability to cope economically and a better quality of life than dependency on social benefits. The tax and social protection systems must also favour and support getting work and persistent working.”*² The same principles have been later reiterated in other policy documents and action plans at central and local levels (e.g. the Action Plan of the Ministry of Social Affairs for 2015-2018)³ and in explanatory reports of legislative acts.

Indeed, there is strong empirical evidence about the validity of the claim that employment does provide protection against poverty. Employment strongly reduces the risk of poverty, while unemployment increases the risk of falling below the poverty line.⁴ According to the Estonian Statistical Office, in 2012 the Eurostat at-risk-of-poverty rate for unemployed persons was about 7 times higher than for employed persons (respectively 55% and 7.6%). Obviously, these data also reflect the weakness of social protection against the risk of unemployment.

However, employment is not always enough to get the person out of poverty risk. In 2012 the in-work at-risk-of-poverty rate was 7.6%, which was slightly lower than the EU-28 average (8.9%). From those in work, the poverty rate is considerably higher for self-employed persons compared to those in salaried work. Also, the poverty rate of persons working part time is twice as high compared to persons working full-time. On the other hand, the prevalence of part-time work is not high in Estonia – 9.3% of all salaries workers. The lack of opportunities for part-time work is often considered as an obstacle to enter or re-enter the labour market. However, there are no practical policy proposals on how to promote and increase part-time work. The minimum social tax obligation is often claimed to be a factor inhibiting part-time work. Under the Social Tax Act, an employer is obliged to pay social tax at least on the minimum social tax base,

² <http://ec.europa.eu/social/BlobServlet?docId=2543&langId=en>

³ http://www.sm.ee/sites/default/files/content-editors/Ministeerium_kontaktid/Ministeeriumi_arengukava_ja_tooplaan/sotsiaalministeeriumi_valitsemisala_arengukava_2015-2018.pdf

⁴ Lõbu, K., Sinisaar, H., Leppik, L. (2011). Building the tools to fight in-work poverty. Comment paper - Estonia. <http://ec.europa.eu/social/BlobServlet?docId=7963&langId=en>

which in 2014 is 320 EUR per month (which was the minimum wage in 2013), for each employee working under employment contract, unless the employee is a pensioner, is raising a child under 3-years of age, is under 18 years of age or has been unemployed for at least 6 months during 12 months preceding entry to work. Effectively, the listed exceptions refer to categories of employees who can work part-time and receive wages below the monthly minimum wage without the employer being required to pay social tax at least in the established minimum amount. If not belonging to those recognized categories, working part-time on small pay is subject to a higher marginal social tax rate to be paid by employers, which obviously makes hiring of such employees less attractive.

Another aspect to be outlined here relates to the level of minimum wage. Whereas formally speaking, the minimum wage is negotiated in tripartite negotiations between the Government, trade unions and employers, and the minimum wage is fixed by a Government decree, the Government has not taken particularly active role in the process, there is no minimum wage policy, and the Government has delegated the matter to the social partners.

In 2013, the gross minimum wage was 320 EUR (net minimum wage 278 EUR) per month, against the at-risk-of poverty threshold of 329 EUR. Hence a single person earning just the minimum wage already by definition falls under the at-risk-of-poverty line, while factors like working part time or non-working dependent household members may further complicate the situation.⁵

Causes of in-work poverty remain complex, being related to the structure of the labour market, household composition, work intensity, education and skills, work arrangements and other factors.⁶ In the Estonian case, most vulnerable to in-work poverty are single mothers, persons with low educational attainment, workers receiving minimum wage, part-time workers and self-employed persons, while often multiple risk factors cumulate.

The paradigm of work as the best protection against poverty also includes a focus on incentives of the tax-benefit system to foster transition from benefits to work. However, as noted above, the unemployment/poverty trap of the subsistence benefit scheme remains unaddressed and there are no practical policy proposals in this respect yet. A study commissioned by the Ministry of Social Affairs to analyse the impact of subsistence benefit on motivation to work pointed out that raising the subsistence level considerably reduces the motivation of the subsistence benefit recipients to work, especially in case of low wages, unless the minimum wage is simultaneously increased.⁷ The study also

⁵ Randoja, M. (2010). Poverty patterns. Poverty in Estonia. Statistics Estonia.

⁶ Frazer, H., Marlier, E. (2010). In-work Poverty and Labour Market Segmentation in the EU: Key Lessons. Synthesis Report. European Commission.

⁷ Trumm, A., Kasearu, K. (2011). Uuring 'Toimetulekutoetuse kasutamine ja mõjud leibkonna vaesusele aastatel 2005-2010'. Uuringu lõpparuanne (Study on the use of subsistence benefit and its impact on alleviating poverty in 2005-2010. A final

indicated that the potential benefit from entering employment on minimum wage is highest for single unemployed working-age and young persons receiving subsistence benefit. In contrast, for low income families with children, entry into employment of one of the parents would have marginal effects on wellbeing of the family, in particular when the additional expenses connected with working (e.g. transport) are taken into account.

The emphasis on work as the best protection against poverty also still largely overlooks the problems related to precarious jobs and structural causes of in-work poverty.

A major current initiative of the Government relates to reforming the work-incapacity pension scheme, including redesign of disability assessment principles and methodology, interplay between disability benefits and employment, fostering of rehabilitation services and labour market services for disabled persons with a view to increase employability of disabled persons and eventually the employment rate of disabled persons. The government has announced that it is prepared to devote a significant amount of finances from the EU structural funds to implement this reform. However, the reform plans have met strong opposition from the organizations of disabled persons and from caregivers associations, claiming that the views of the target group have not been duly taken into account in the design of the reform, that the reform is based on false premises and that without quality social services from local municipalities to enable basic access and effective incentives for employers the government-envisaged reform is bound to fail.

Finally, a provision the Social Welfare Act shall be mentioned whereby local municipalities shall organize public works for recipients of subsistence benefit. In fact, public works are also defined as one of the labour market services under the Labour Market Services and Benefits Act. Public works are temporary employment not requiring prior training, such as public maintenance, cleaning of streets, parks and other public space, or different community support works. Participation in public works is not strictly speaking mandatory for unemployed persons, but requires consent of the person, and shall not extend more than 10 working days or 50 working hours in any calendar month. However, the legislation contains so-called activation clause (see below), allowing termination of subsistence benefits in case of repeated refusal to participate in public works. The municipality shall pay remuneration at the rate not less than hourly minimum wage, and such remuneration is counted as income for the purpose of calculation of subsistence benefit. However, municipalities question the financing principles of such activation measure. Organising of such public works and payment of remuneration are obligations of a local municipality, which is saving

state budget resources (as expenditure on financing of subsistence benefit would decline), but increasing expenses of municipalities.

Simultaneously, the Social Welfare Act permits a discretionary punitive action, giving the local municipalities a right to refuse granting of subsistence benefit to a person who is capable to work, but is not working or studying and has, more than once and without good reason declined an offer of suitable work or has refused to participate in employment services, or social services (including public works) or training organised by a local municipality. However, in practice, the latter legal provision is seldom used. Local governments hesitate to implement such sanctions as the refusal of subsistence benefit would leave the person and his household basically with no income at all. This has also raised questions if such activity requirement is in compliance with the constitutional right of every citizen to state assistance in case of need.

2.2. Access to quality services

The abovementioned qualitative study conducted by researchers of Tartu University pointed out the following key challenges on building closer links between social integration and active inclusion:⁸

- cooperation between the Unemployment Insurance Fund and local governments is relatively weak and non-systematic; there is a lack of common approach towards institutional cooperation; the organisational culture does not promote cooperation.
- the systems of labour market services, subsistence benefit and social services operate in a segregated manner, and focus on different problems; this entails a risk that a person with coping problems may 'fall between the systems' and be left without support. In practice, such persons eventually do reach assistance, but the risk that a necessary assistance is delayed is higher for persons with health problems and with caregiving responsibilities.
- a considerable share of persons registering themselves as unemployed do so with the purpose of receiving health insurance coverage; they are not actively seeking employment, while dealing with non-motivated clients is consuming resources (time and money) of the Unemployment Insurance Fund as well as of local municipalities.
- many local governments exhibit rather passive attitudes and lack of interest in developing social services. The responsibility of social work and social welfare at the local level is often interpreted just as granting of subsistence benefits. Fighting against poverty and unemployment are not seen as tasks of the municipality, but rather that of the state. Active development and provision of social services varies greatly between

⁸ Trumm, A., Kasearu, K. (2011). Study on the use of subsistence benefit and its impact on alleviating poverty in 2005-2010. A final research report. Ministry of Social Affairs, Resta, Tartu University. The study was based on interviews with specialists of the Unemployment Insurance Fund and social workers of local municipalities. No interviews with recipients of subsistence benefit were conducted in this study

municipalities and is highly dependent on the motivation and professionalism of responsible persons in a given municipality.

In terms of measures to support and encourage (re)entry of unemployed persons into the labour market, the Labour Market Services and Benefits Act prescribes several targeted labour market initiatives.

Labour market services under the Labour Market Services and Benefits Act are:

- provision of information on labour market services and benefits;
- job mediation;
- labour market training;
- career counselling;
- work practice;
- public works;
- coaching for working life;
- wage subsidy;
- business start-up subsidy;
- adaptation of premises and equipment;
- special aids and equipment;
- communication support at work interviews;
- working with support person.

In 2009, the organisation of labour market services was radically reformed, the former Labour Market Board was merged with the Estonian Unemployment Insurance Fund and since then the latter is responsible for organising and financing of labour market services. The reform also entailed a shift in the service delivery models: the number of employment advisors was substantially increased and a two-tier operation model introduced: work with unemployed clients was divided into job mediation for those clients who are assessed to be more easily employed and case management for those who are considered needing more support.

The Act defines certain categories of unemployed persons as belonging to labour market risk groups, namely:

- persons with disabilities who, due to the disabilities, need additional help upon commencing employment;
- persons of 16-24 years of age;
- persons released from prison within the 12 months preceding registration as unemployed;
- persons of 55 years up to the pensionable age;
- family caregivers of disabled persons, who have been recipients of caregivers allowance from a local municipality and who have not been employed or engaged in equalised activity during the 12 months prior to registration as unemployed;

- long-term unemployed who have not been employed or engaged in equalized activity for at least the 12 months preceding registration as unemployed;
- persons not proficient in Estonian and whose entry into employment has proven difficult for this reason;
- any other unemployed person whose possibility to find employment is particularly hindered.

An Individual Job Search Plan is developed in cooperation between the unemployed person and the official of the Estonian Unemployment Insurance Fund, setting out the activities necessary for finding work, labour market services necessary for employment and other measures, along with division of responsibilities and schedule of implementation. A case management method is applied to implement individual job search plans. However, research evidence on the effectiveness of case management in facilitating (re)entry into employment is still limited. What is known is that 55% of all newly registered unemployed persons find a job within 12 months.⁹

In 2011 the Unemployment Insurance Fund launched a self-service portal making several services of the Fund (which do not require personal contact with the Fund) available online in electronic format as e-services. Job-seekers can use the portal to write a CV, fill in their job-search diary, follow-up applications and decisions. Employers can use the portal to notify vacancies, search for suitable candidates and submitting different applications. Application to register as unemployed can also be made online, making procedures faster both for the unemployed and for the Fund staff.

The Social Welfare Act entrusts local municipalities with the task to provide and finance a set of social services. Local municipality social services are¹⁰:

- social counselling;
- debt counselling;
- home care service;
- personal assistant;
- social housing;
- adaptation of dwelling;
- social transport;
- general care homes;
- child care service.

Obviously, different services have different target groups. However, effective access to services varies considerably between municipalities. Five core services – social counselling, home care services, social housing, social transport and general care homes – are provided (either organised by municipalities or

⁹ Data of the Unemployment Insurance Fund. https://www.tootukassa.ee/sites/tootukassa.ee/files/aastaruanne_2013.pdf

¹⁰ More detailed overview at the Ministry of Social Affairs website: <http://www.sm.ee/eng/activity/welfare-services/local-government-services.html>

subcontracted from other providers) by over 90% of municipalities.¹¹ However, as the coverage is not 100% there are municipalities which do not provide either one or more of those core services. For other services, gaps in coverage are substantially higher.

Table 2. Share of municipalities not providing specific social services in 2013 (n=225)

Social service	Share of municipalities not providing this service
night shelter	62%
personal assistant for disabled persons	61%
day centre for children/youth	58%
support person for adults	56%
child day care service	50%
adaptation of dwelling	49%
child shelter	47%
day centre for disabled persons	42%
support person for children	42%
day centre for elderly	39%
debt counselling	25%

Source: data collected by Kriisk, K. and Piho, M.

The reasons given to non-provision vary from municipality to municipality and from service to service. Frequently local municipality social workers claim that there is no demand for a specific service in their municipality. This is more often so in smaller municipalities. In other cases, social workers recognise the need, but refer to various obstacles why services are not provided, e.g. lack of human or fiscal resources. But even for services which are principally delivered the demand often exceeds supply resulting in waiting lists. This is the case most often with social housing (40% of municipalities recognise that the demand is greater than their ability to supply the service), support person for adults in need (35%) and social transport (33%).

In 2011-2012 the Ministry of Social Affairs elaborated voluntary quality standards, a set of 15 general guidelines for local governments in view to support convergence of quality criteria of social services of municipalities. However, as the instrument is non-binding there is no mechanism to endorse its implementation. No studies are also available to see to what extent, if at all, these quality standards have been actually applied.

¹¹ Kriisk, K. (2014). Social Policy Priorities and Expenditures on Social Protection in Estonian Local Governments. Presentation at Doctoral Seminar. Tallinn University Institute of Social Work..

At the Government level, there is at least general recognition that the absence of some crucial social services has a negative impact on labour supply. This recognition has only arrived after some strong pressure from different civil society groups, including organisations of disabled persons and associations of caregivers. The need to develop support services to reduce care burden of parents with disabled children and facilitate their access to employment is included in the Government action plan and structural funds are planned to be used over the current EU budgetary period to support the development of such services.

3. Identification of obstacles to the implementation of adequate minimum income schemes

In this part we shall firstly analyse some recent trends in poverty and the current adequacy gap of the existing minimum income scheme.

3.1. Poverty thresholds and benefit adequacy

The European Parliament resolution 2010/2039 of 20 October 2010 on the role of minimum income in combating poverty and promoting an inclusive society stresses the need for action at Member States level with a view to establishing a threshold for minimum income based on relevant indicators and suggests that adequate minimum income schemes must set minimum incomes at a level equivalent to at least 60% of median income in the Member State concerned.

The 60% of median equivalised income per household member is an indicator, which has been used in the EU since 2001 in the framework of Lisbon strategy and related open method of coordination to combat poverty and social exclusion as one of the so-called Laeken indicators in the portfolio of indicators developed by the EU Social Protection Committee. It has been labelled as at-risk-of poverty indicator or sometimes as a relative poverty indicator. There is a common Eurostat methodology to calculate values of this indicator. In Estonia the indicator is calculated annually by the Estonian Statistical Office based on data of the Estonian Social Survey.

According to the latest available data, in 2012 the at-risk-of-poverty threshold (the Estonian Statistical Office uses the label of relative poverty threshold for this indicator) was 3947 EUR a year per household member or 329 EUR per month.

While being based on a commonly agreed European methodology, the essence of the 60% of median equivalised income is frequently not understood by the public, in terms of what are the broad policy messages that the indicator carries, and what are the underlying value judgements/choices upon which it is based. The potential issue to be stressed here is that if just perceived as an arbitrary measure, it may prove difficult to build a broad consensus around its use as a legal benchmark. Notably, so far the indicator has been applied only in the field

of policy analysis to assess policy impact, but this is a legally non-binding mechanism. The 60% of median equivalised income threshold has not been previously used as a legal benchmark in national, international or supranational law.

Nonetheless, the European Committee of Social Rights (ECSR), a supervisory body of the Council of Europe monitoring the application of obligations of State Parties under the European Social Charter already in 2004 delivered an interpretative statement whereby the normative content of the right to social security (Article 12§1 of the Charter) and the right to social assistance (Article 13§1 of the Charter) shall include a right to benefit adequacy. The ECSR has concluded that under Art.12§1 of the Charter income replacement social security benefits shall protect beneficiaries from falling into poverty and for that purpose the minimum levels of income-replacement benefits shall not fall below the poverty threshold defined as 50% of median equivalised income and as calculated on the basis of the Eurostat at-risk-of-poverty threshold value. If minimum rates of social security benefits fall even below 40% of median equivalised income, the Committee has considered such benefits being manifestly inadequate. Similarly, 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.¹² In other words, in Committee's interpretation the normative content of the right to social security and the right to social assistance shall include an effective protection against the risk of poverty and the compliance with this obligation is assessed by comparing the minimum levels of benefits with the poverty threshold. However, notably the thresholds referred to by the Committee are at the level of 10 and 20 percentage points lower than the EU at-risk-of-poverty threshold.¹³ Despite this reference to different percentages, the ECSR and the EU mutually reinforce a similar approach towards establishing a common standard on the right to adequate minimum income.

As the 60% of median equivalised income relates to median household incomes and not to arithmetic average incomes, its value is not influenced by incomes of the wealthiest members of society. Median income is derived by lining up all households by their incomes and selecting the median value so that half of the households earn more and half of the households less. Effectively the measure then defines a certain floor on incomes or how big income gaps from the median are still to be considered as socially acceptable.

Principally, there are two alternative approaches towards defining income adequacy. The first one is addressing a question „How big gaps with median incomes are to be tolerated in a society?“ The European Parliament, in its resolution 2010/2039 indicates that the gap with median incomes shall not be

¹² http://www.coe.int/t/dghl/monitoring/socialcharter/Digest/DigestIndex_en.asp

¹³ Eurostat does calculate also poverty rates using 40% and 50% of median equivalised income thresholds, but as reference values to analyse the depth of poverty.

more than 40%, by referring to the 60% of median equivalised income threshold. The ECSR would accept a gap of 50%¹⁴. The second approach can be illustrated by a question: „What income level allows coping in a market-based society?“. Both approaches have been applied also in Estonia. In the first case, the applicable indicator is relative poverty threshold. In the second case, the relevant indicator is that of an absolute poverty threshold. At the first sight, the first approach may look as a value judgement and the second approach as an objective indicator, but there are certainly important value judgements involved also with the second approach. The core question here is – what level of coping? An absolute minimum for physical existence or a minimum for full social participation or something in-between? The second approach is also known as the reference budget method.

In Estonia, two sets of reference budgets have been developed since 2004, both based on a different answer to the above referred core question. As already mentioned above, the Estonian Statistical Office calculates annually an estimated subsistence minimum for a single person. This indicator is in use to measure absolute poverty and it is based on a minimum food basket for physical needs and includes some expenses for limited social participation. In 2004, researchers of Tartu University developed a reference budget (although not labelling it as such) to calculate the costs of raising children, based on an approach of acceptable living standards and minimum for full social participation.¹⁵ However, the use of the latter approach has been limited to families with children and the indicator has been calculated on an *ad hoc* basis (twice over the last decade), which means it is not annually updated.

Both approaches serve some merits and have some limitations and there is no broad consensus as to what is the correct ways to measure poverty and assess the adequacy of incomes. Both approaches have their proponents and critics both in Estonia and elsewhere.¹⁶ As the Estonian Statistical Office regularly calculates both the absolute and relative poverty thresholds, both indicators are in 'official' use in Estonia.¹⁷

The methodology of calculating the estimated subsistence minimum was developed in 2004 by researchers of Tartu University in cooperation with

¹⁴ This presentation is obviously somewhat simplified as applicable equivalence scales also have relevance.

¹⁵ Tiit, E.-M. (2004) Lapse ülalpidamiskulude arvutamise meetoodika. (Methodology of calculating child maintenance costs).

<http://www.andmemasin.eu/reports/failid/608-lapse-ualpidamiskulude-arvutamise-meetoodika.pdf> ,

Sammul, M., Tiit, E.-M., Varblane, U. (2013). Lapse ülalpidamiskulude arvutamise meetoodika uuendamise ja analüüs (Analysis and updating of methodology of calculating child maintenance costs). http://www.sm.ee/sites/default/files/content-editors/Ministeerium_kontaktid/Uuringu_ja_analuusid/Sotsiaalvaldkond/lapse_ualpidamiskulud_lopparuanne_dets2013.pdf

¹⁶ See for example : Atkinson, T., Cantillon, B., Marlier, E., Nolan, B. (2002). Social Indicators : The EU and Social Inclusion. Oxford University Press.

Marx, I., van den Bosch, K. (2007). How poverty differs from inequality. On poverty measurement in an enlarged EU context : conventional and alternative approaches. Paper presented in the 34th CEIES Seminar 10-11 September 2007, Helsinki

¹⁷ <http://www.stat.ee/65388>

representatives of the Ministry of Social Affairs, Estonian Statistical Office and the Estonian Society of Nutritional Sciences¹⁸.

Whereas the at-risk-of-poverty threshold is calculated as a fixed share of median household income (reflecting thus the distribution of disposable income), the estimated subsistence minimum is based on calculated minimum expenses in real prices. Hence the estimated subsistence minimum indicator takes into account also the price level, which is not reflected in the at-risk-of-poverty threshold indicator (except for the wage, which is part of the cost of labour).

The estimated subsistence minimum includes three main expenditure groups:

- expenditure on food,
- expenditure on dwelling,
- individual non-food expenditures.

In 2013 the estimated subsistence minimum for a single person household was 205 EUR per month (Table 3). Food expenses are calculated on the basis of the minimum food basket, priced at 92 EUR in 2013. Minimum expenses on dwelling were counted as 77 EUR. As can be seen, expenditures on food and housing comprise 82% of the subsistence minimum, while 18% (36 EUR) remain for all other types of expenses. However, this 36 EUR for individual non-food expenditure shall principally cover eight large expenditure types:

- expenditure on clothing and footwear;
- expenditure on household equipment and operation – purchase of furniture, dishes, soft furnishings, purchase and repair of household appliances, purchase of cleaning agents (e.g. washing powder), etc.;
- expenditure on medical care and health services – purchase of medicines and miscellaneous goods related to health care (thermometers, vitamins) and paying for treatment and rehabilitation services, etc.;
- expenditure on education – payment of private lessons and courses, tuition fee in private schools, etc.;
- expenditure on communications - services of telephone and data communication (Internet) and purchase of telephones;
- 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.).

¹⁸ http://pub.stat.ee/px-web.2001/I_Databas/Social_life/06Households/02Household_budget/01Annual_expenditure/HH_24.htm

Table 3. Estimated subsistence minimum per 30 days for one person household, EUR, 2008-2013

	2008	2009	2010	2011	2012	2013
Estimated subsistence minimum	169.1	170.0	174.8	186.3	195.6	205.3
Minimum estimated food basket	75.5	75.3	77.6	85.1	88.3	92.0
Non-food expenditures	93.6	94.7	97.2	101.2	107.3	113.3
<i>housing</i>	59.1	59.7	61.4	65.0	70.9	77.1
<i>health</i>	7.2	7.5	7.6	7.6	7.6	8.0
<i>communication</i>	7.4	7.4	7.7	7.4	6.9	6.2
<i>clothing and footwear</i>	4.7	4.7	4.8	5.0	5.2	5.5
<i>education</i>	4.3	4.5	4.6	4.7	5.0	4.8
<i>transport</i>	4.2	3.9	4.2	4.4	4.5	4.4
<i>recreation, entertainment</i>	2.6	2.6	2.6	2.6	2.6	2.7
<i>household goods</i>	1.3	1.3	1.3	1.3	1.3	1.3
<i>miscellaneous goods and services</i>	2.8	3.0	3.1	3.2	3.2	3.3

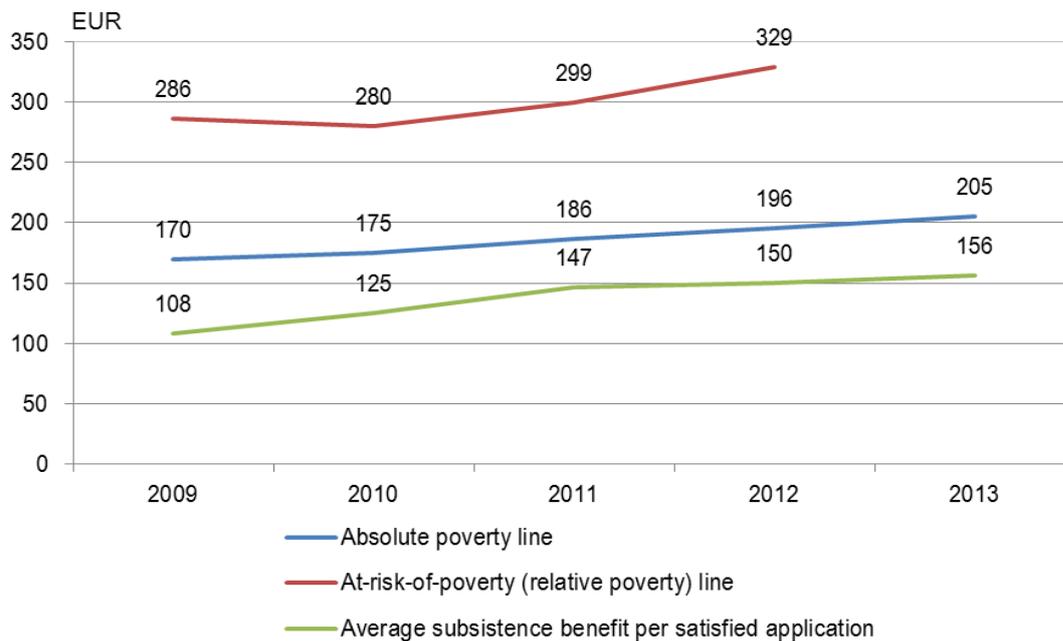
Source: Statistics Estonia

The Estonian Statistical Office also calculates the absolute poverty rate, which indicates the proportion of households/persons whose income per household member per month remains below the absolute poverty threshold (the estimated subsistence minimum). For the purpose of calculating the absolute poverty rate the OECD traditional equivalence scales 1.0:0.7:0.5 are used¹⁹. In contrast, as we know, the EU at-risk-of-poverty rate (or the relative poverty indicator applied in Estonia) is based on the OECD modified equivalence scales 1.0:0.5:0.3. And as noted above, the equivalence scales applied within the context of calculating the subsistence level are 1.0:0.8:0.8 in 2014, to be modified to 1.0:0.8:1.0 as from 2015.

There is thus a significant difference between the three indicators in terms of what relative weight is given to expenditure on children. While the subsistence level and the estimated subsistence minimum are considerably lower than the EU at-risk-of-poverty threshold, the first two give higher weights on the share of children in the total household expenditures. In other words, whereas for single adult persons the difference between absolute and relative poverty thresholds is higher, the difference is smaller for families with children. Giving higher weights to children on one hand has been motivated by the actual expenditure structure of Estonian households, while it is also a political decision in favour of families with children (at least compared to single adults).

¹⁹ Expenses for the first household member are counted as 1.0, expenses for each following household members 14 or more years old are counted as 0.7, and expenses for all children under 14 years of age are counted as 0.5.

Chart 3. At-risk-of-poverty and absolute poverty thresholds and average amount of subsistence benefit per application, EUR, 2009–2013



Sources: Statistics Estonia, Ministry of Social Affairs

Figure 3 illustrates the evolution of the levels of at-risk-of-poverty (or relative poverty) and absolute poverty (or estimated subsistence minimum) thresholds and compares these with the average subsistence benefit per application. Note that the amounts are not directly comparable as the poverty thresholds relate to single person households whereas the average subsistence benefit relates to the average benefit per all households. The average subsistence benefit is higher than the subsistence level as housing expenses are compensated on top of securing the subsistence level (see also Figure 2 and related comments).

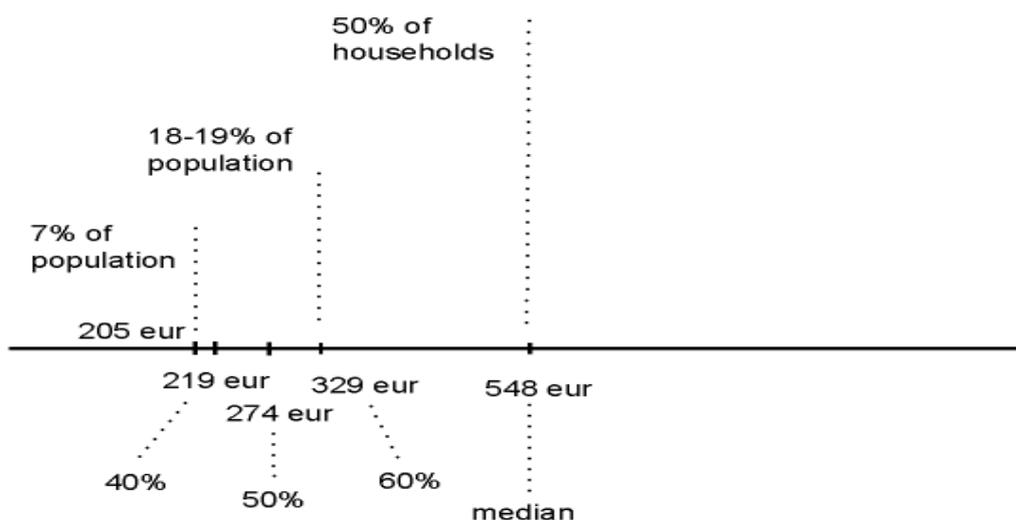
The concept of absolute poverty used by the Estonian Statistical Office and the Ministry of Social Affairs includes a stratified approach to capture different poverty layers. For this purpose four poverty strata have been defined²⁰:

- direct poverty – up to 80% of the absolute poverty threshold;
- poverty endangering subsistence – 81–100% of the absolute poverty threshold;
- poverty risk area – 101–125% of the absolute poverty threshold;
- poverty-risk-free area – over 125% of the absolute poverty threshold.

It follows that according to the Estonian absolute poverty concept a single person with net income over 256 EUR per month (or 125% of 205 EUR) would be considered out of poverty risk, while according to the relative poverty indicator the same person would be considered at risk of poverty. There is thus a substantial gap between those who are considered as poor using the absolute measure and those identified by the relative measure.

²⁰ Laes, T.-L. (2013). Vaesus Eestis / Poverty in Estonia. *Eesti Statistika Kvartalikirj 1/2013. Quarterly Bulletin of Statistics Estonia 1/2013*. Statistics Estonia.

Chart 4. Various income thresholds and the share of affected population



Source: Statistics Estonia, own calculations

Note: Data on median income relate to 2012. Data on absolute poverty threshold relates to 2013.

Figure 4 illustrates the different income thresholds and the size of affected population. In 2012, the median household income was 548 EUR per month, and accordingly 60% of the median was 329 EUR²¹. By definition, half of the households have incomes below the median. 18.7% of the population lived in relative poverty and 7.3% in absolute poverty. In other words, 11.4% of the population fell between the two poverty lines, with incomes per household member over the absolute poverty line, but below the relative poverty line. In absolute numbers, the size of the population falling between the two poverty lines is over 150 000 persons, which is obviously significant.

The Estonian Supreme Court in its above cited case law (decision No 3-4-1-7-03 from 21 January 2004 and decision 3-4-1-67-13 from 5 May 2014) has made direct reference to the estimated subsistence level, i.e. the absolute poverty line. However, in the latter decision the Supreme Court has indirectly, by recognition of the findings of the ECSR on the (in)adequacy of Estonian social assistance benefits, accepted also the relative poverty measure. It is clear though from the wording of its decisions that the Supreme Court is more inclined towards the minimalist approach on adequacy of minimum incomes. In its 2014 decision the Supreme Court took note that in 2011-2013 the subsistence level was 76.70 EUR, while the estimated subsistence minimum in 2011 was 186 EUR. The Court also referred back to its 2004 decision on a related matter, where it had already observed that the subsistence level and the estimated subsistence minimum are not directly comparable as the former does not include minimal housing

²¹ The chart includes also reference values of 40% and 50% of the median equivalised household income, which are the benchmarks used by the European Committee on Social Rights to assess adequacy of social security and social assistance benefits (see above).

expenses. The Supreme Court therefore did not take a clear stance on whether the subsistence benefit scheme complies with the constitutional obligations or not, partly because it had not been asked directly that question. However, the Supreme Court by pointing out the discrepancy between the subsistence level and the estimated subsistence minimum raised at least serious doubts if the actual benefit rates secure the constitutional basic right to state assistance in case of need. In its 2004 decision the Court had explicitly held that the Court shall intervene when the level of assistance falls below the minimum level to prevent violations of human dignity. This leaves a potential legal avenue to test the constitutionality of applicable subsistence benefit rates.

Commentaries of the Estonian constitution written by leading Estonian law professionals from Tartu University²² outline the constitution secures only the right to minimal means of subsistence, which shall at least include sufficient food, clothing appropriate to the weather, a place for overnight stay, which shall be in heated room during the cold season, basic hygiene supplies, washing possibility, basic medical assistance and education to enable coping. It is the state duty to secure to its citizens such subsistence minimum to fulfil this constitutional right. The constitutional minimum does not prevent the legislature developing a social system as it considers appropriate, but it shall not be permitted to fall under the constitutional threshold.

Despite the fact that the subsistence level does not include minimal housing expenses, it is evident that in 2013 the subsistence level for a single person (76.70 EUR) did not cover even the minimal food basket, 92 EUR the same year. According to the Social Welfare Act, the subsistence level shall cover not only minimum expenses on food, but also clothing, footwear and other goods and services to satisfy the primary needs. The gap between statutory rights and the reality is then obvious and considering the developments in 2014 and the draft state budget for 2015, there are no indications about Government plans to close this gap.

As mentioned above, the European Committee of Social Rights supervising the application of the European Social Charter in its 2013 conclusions (published in January 2014) held that the situation in Estonia is not in conformity with Article 13§1 of the Charter (providing for adequate assistance for every person in need) on the ground that the amount of social assistance granted to a single person without resources is inadequate. In its assessment the ECSR took note that the subsistence level of a person living alone was 76.70 EUR (and 61.36 EUR for each following household member) in 2011.²³ The ECSR also noted the levels set are lower than the cost of the minimal basket of food, which according to the Government data was estimated at 85.10 EUR in 2011, while the estimated minimum means of subsistence for a single person was estimated at 186.30

²² Madise, Ü. (Ed.) (2012). Eesti Vabariigi Põhiseadus. Kommenteeritud väljaanne. <http://www.pohiseadus.ee/ptk-2/>

The commentaries are obviously in no way binding to the Supreme Court.

²³ The reference period of this assessment was 1 January 2008 to 31 December 2011.

EUR. The ESCR also took note that according to the Government report the average subsistence benefit per application was 146.97 EUR in 2011 as housing expenses comprise nearly half of the total subsistence benefit. The adequacy assessment of the ECSR is based on the poverty threshold defined as 50% of median equivalised income and calculated on the basis of the Eurostat at-risk-of-poverty threshold value, which was estimated at 233 EUR per month in 2011. In the light of the above data, the Committee held that the level of social assistance for persons living alone is inadequate on the basis that the minimum social assistance that can be obtained falls below the poverty threshold.

To conclude, whatever adequacy indicator is chosen – be it just the minimal food basket, the absolute poverty line (the estimated subsistence minimum), the 50% of median equivalised income threshold adopted by the ECSR or the 60% of median equivalised income threshold (the EU at-risk-of-poverty or relative poverty threshold) – it is evident that the current Estonian minimum scheme i.e. the subsistence benefit is inadequate.

The question is then about what ultimate goals to set – on this matter the views of different social groups and political parties are likely to diverge. Ultimately, the process of reaching higher benchmarks can go only via satisfying first the lower benchmarks. Given that the matter of building adequate minimum income schemes has not been high on the political agenda, there is certainly wide space for consensus-building. Taking the inclusive approach, the voice of the most affected low income groups shall be heard in this process. The key question in this respect is what level of resources is needed to enable full participation in society, not just basic survival, in order for the society to benefit from the potential of each member. Answering this question goes beyond the ambit of the current report, but has currently been undertaken in the framework of another pan-European project on reference budgets.

In 2014 the EAPN Estonia conducted consultations with persons who have experienced poverty and with experts from different organisations – the EAPN Estonia called together a special EMIN working group. Also comments and views of the shelter and social housing clients of the Centre of Social Work of Tallinn (Tallinna Sotsiaaltöö Keskus) were asked using a questionnaire developed by EAPN Estonia. The consultation process was also coordinated by EAPN Estonia.

Persons consulted suggested that the minimum income shall cover the following types of expenses:

- Firstly, regular expenses of the dwelling (rent, maintenance expenditure, garbage collection, water supply, sewerage services etc.) and also include some costs for repair;
- Secondly, food and cost of clothing and footwear – new clothes and footwear are especially important for families with children;
- Thirdly, the need for health services and medical care was stressed. There are currently long waiting lists for doctor's appointments, while private

visits to doctors outside the waiting lists are possible for extra charge, but these are too expensive. This is limiting effective access to health care.

- Another important expense category is communications (phone, computer and internet). Access to internet is increasingly crucial to obtain information on services and benefits, but also for general information and other services, e.g. to pay bills.
- People also expect that a family should afford one-week annual holiday away from home, at least in Estonia.
- Costs of books and magazines shall also be taken into account – if you receive minimum income it should be possible to buy books at least occasionally and also every person should have possibility to have at least one hobby.
- The availability of transport is important (including cost and time schedules).
- Necessity to purchase of furniture, dishes, soft furnishings and domestic equipment.
- It should also be taken into account that persons relying on minimum income, may have some unexpected risks and have to face some unexpected expenses, e.g. when becoming ill, a victim of theft etc.

It was also stressed that in the case of families with children the minimum income should take into account expenditure on children's education (school supplies) and hobbies. In Estonia, all children aged under 19 years of age are covered by health insurance and most health care services are free of charge for all children. The Estonian Health Insurance Fund also covers dental care costs for insured persons aged under 19 (the dentist must have a contract with the Health Insurance Fund). However, children must also have possibilities to go theatre, cinema, to attend friends' birthdays etc. The availability (in terms of costs and waiting list) of childcare services (kindergarten) is important for parents and the minimum income scheme shall cover related expenses.

These consultations with persons experiencing poverty and with experts from different organisations related to qualitative aspects of the content of minimum income guarantees and did not test views on nominal amounts.

3.2. Main obstacles on achieving the adequacy goals

In this section we shall attempt to identify the main obstacles and barriers in the process towards achieving the adequacy of minimum incomes.

In spite of its relatively short history, over the 25 years since regaining independence, Estonia has developed a social protection system which a particular setup and structure. This institutional setup is also exhibiting clear signs of path dependency. While during the first years of independence there was so-called 'window of opportunity' to undertake radical reforms and this window was still open during the period of transition, more recently the system has

become much more rigid, meaning that it is far more difficult to reach consensus on major reforms and if such agreement is reached then preparing the reform takes considerable time to be counted in years. For the purposes of the current analysis, an important aspect concerning the institutional set-up is the particular hierarchy of different social protection benefits.

Table 4. Rates of subsistence level, minimum social security benefits and minimum wage in Estonia in 2014, EUR

Subsistence level	90.00
State unemployment allowance	112.22
National pension	148.98
Minimum net unemployment insurance benefit*	156.64
Minimum net parental benefit*	283.04
Minimum net wage*	305.08

Note: The minimum unemployment insurance benefit is 160 EUR, the minimum parental benefit is 320 EUR and the minimum wage is 355 EUR in 2014, but all constitute taxable income and are subject to income tax at the rate of 21% with 144 EUR non-taxable allowance. Minimum wage is also subject to unemployment contribution at the rate of 2%

The Table 4 shows the minimum rates of main social protection benefits. There are also some social security benefit schemes which have no established minimum, e.g. the sickness cash benefit and caregivers allowance. A part-time employee receiving a fraction of minimum wage would receive in case of sickness 70% of its former taxable income. Caregivers allowance is paid by a local municipality; the rate varies between municipalities, often being very low, in the 20-30 EUR per month for caregivers of adult disabled persons and 70-100 EUR per months for caregivers of disabled children. All those benefits are below the net minimum wage, which in turn is below the EU at-risk-of-poverty threshold (329 EUR in 2012). In this context, raising the minimum rates of benefits at a higher speed than the minimum wage would alter the work incentives, e.g. the motivation of unemployment insurance or parental benefit recipients to return to work. Therefore, maintaining the 'making work pay' principle would require simultaneous increase in the minimum wage. Given the political focus on 'making work pay' principle (as described above), it is highly likely that the issue of work incentives and uncertainties about behavioural impact will be raised.

There are also some further issues relating to the benefit hierarchy. For example, one of the policy constraints is the desire to maintain minimum old age pension (national pension) higher than the subsistence benefit (or the opposite, the keep the subsistence benefit lower than the national pension) in order to prevent a high number of pensioners falling on subsistence benefit scheme, which would significantly increase the administrative burden of local municipalities as well as complicate matters for elderly persons who would then have to apply for different benefits from different institutions. The level of the national pension is in turn influenced by the general distribution of pension levels and by the value of employment credits in old age pension (which determine how many

pensioners fall on the minimum pension). Similar institutional constraints can be observed also in respect of other social security benefit schemes.

To conclude on this point, the benefit hierarchy is complex and there are numerous interplays between different benefit schemes. To achieve the aim of substantial improvement of adequacy of minimum incomes would necessitate a structural reform of the whole benefit package, not just upgrading the subsistence benefit scheme.

Another obvious question, in particular in the Estonian political context where the balance of budget is a norm accepted by all main political parties, relates to the costs - how much would it cost to raise minimum incomes to an adequate level?

We here make just a rough estimation of the fiscal cost to lift the incomes of all persons currently below the at-risk-of-poverty threshold (60% of median equivalised income) at least to that threshold level. The relative median at-risk-of-poverty gap indicator can be used for such rough calculation. The relative median at-risk-of-poverty gap is 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, and the indicator quantifies just how poor the poor are – what is the average gap between their actual incomes and the at-risk-of-poverty threshold. In 2012 the relative median at-risk-of-poverty gap in Estonia was 21.5% or given the 329 EUR poverty threshold, about 70 EUR per month. In other words, to close the gap the incomes of persons at-risk-of-poverty shall be raised on average by 70 EUR per month or 848 EUR per year.

Now, given the 18.7% relative poverty rate, the affected population would be around 247 000 persons (in 2012 numbers). The total fiscal cost would then be 247000×848 EUR or 209.5 mln EUR per year, which is about 1.2% of GDP.

Of course, this is a very simplified calculation and as discussed above such an increase is not achievable as a single-step reform due to complexity of the benefit system and interplay with work incentives. However, it does give some broad cost estimation towards feasibility of such a reform. Obviously, if a lower adequacy target is set first, the fiscal cost would be respectively lower. But to achieve the more ambitious aim would entail (in 2012 figures) lifting the incomes of 18.6% of population on average by 21.5% - for some more and for some less.

While the total fiscal costs of such a reform in certainly not insignificant, it is not fully utopian. For comparison, the total social protection expenditure in Estonia in 2012 was 2690 mln EUR or 15.8% of GDP. It is known that Estonia along with other Baltic states are among the countries with the lowest social protection expenditures as a share of GDP in the EU. At the same time the social protection system is not particularly effective in terms of alleviating poverty (measured by at-risk-of-poverty rate before and after social transfers). What this means is that there shall be some scope for offsetting the additional expenditure by

restructuring the current system of income transfers and gearing it more towards low income households. Notably, currently the share of expenditures on means-tested social benefits as percent of total expenditure on social benefits in Estonia is the lowest in the EU.²⁴

Some share of the additional costs can also be offset by spill-over effects of the reform, e.g. higher consumption of low income groups (which is more likely to be domestic consumption), and more active participation, including economic activity. Nonetheless, it is evident that the reform would essentially mean also more redistribution in favour of low income groups.

It is also noteworthy that the Estonian Action Plan for Growth and Jobs 2008 – 2011 for the implementation of the Lisbon Strategy²⁵ made no reference to the notion of poverty, illustrating that poverty alleviation was still not necessarily recognized as an economic goal within the broader macroeconomic context of increasing competitiveness of Estonian economy just 3-4 years ago. In the more recent “Estonia 2020” competitiveness strategy (first adopted in 2011 and updated in May 2014) the Government does undertake an aim to reduce the at-risk-of-poverty rate to 15% by 2020, compared to 17.5% in 2010²⁶. The shift in the economic goal-setting can be directly linked to the EU influence, of course particularly the Europe 2020 strategy. However, in terms of more practical actions towards this established aim, the approach remains relatively superficial. As the document postulates: *“In the Estonia 2020 strategy, Estonia set as its objective to decrease the at-risk-of-poverty rate primarily through increasing employment and increasing the general educational level.”* The latest, 2014 May update to the strategy for the first time makes any reference to the role of a social protection system in reducing the poverty rate. The latest amendment now pays attention to the risk of poverty of children and low income families with children, outlining the role of targeted social policy measures for these groups and referring more specifically to the increase of child allowances, needs-based family benefits and increase of equivalence scales for children in calculation of subsistence benefit. These are all measures, which have been legislated by now and will enter into force from 2015 (see descriptions above). Nonetheless, no other reference is made towards the role of minimum income schemes in reducing the poverty risk and the current Government action plan for 2014-2018 and the Estonia 2020 strategy includes no further policy plans in this respect. This is an indication that poverty alleviation is not among the current political priorities.

²⁴ http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Social_protection_-_social_benefits_by_function

²⁵ <http://ec.europa.eu/social/BlobServlet?docId=6103&langId=en>

²⁶ <https://valitsus.ee/sites/default/files/content-editors/arengukavad/eesti2020.pdf> and <https://riigikantselei.ee/en/national-reform-programme-estonia-2020>

3.3. Coverage and take-up

As the numbers in Figure 1 (see above) indicate, the share of subsistence benefit recipients in 2013 was less than 3% of population. From 2002 the share of subsistence benefit recipients in the total population has varied between 1.5-9% of population, depending on the economic cycle, the evolution of subsistence level and concurrent changes in other social security benefit rates.

Benefit non-take-up has not been directly studied, and there is no direct information on how many persons who otherwise would be eligible do not submit applications for the subsistence benefit. However, some estimations of non-take-up can be based on comparison of the subsistence benefit data with absolute poverty data.

According to the Ministry of Social Affairs, in 2012 subsistence benefit was paid to 39 333 persons, which was approximately 3% of Estonian population. At the same time, in 2012, 4.8% of Estonian population lived in direct poverty with incomes less than 80% of the absolute poverty threshold (see above) and 2.6% of population lived in poverty endangering subsistence with income between 80–100% of the absolute poverty threshold.²⁷ The share of population below the absolute poverty line was 7.3%.

The direct poverty threshold (80% of the absolute poverty line) in 2012 was 156.80 EUR and as seen, 4.8% of population had incomes below that threshold. On the other hand, 3% of the population received subsistence benefit at the average amount of 150 EUR. The difference (1.8% of population) can then be explained either by factors, e.g. housing expenses of these households being less than 73 EUR per month or by non-take-up.

The estimates from other OECD countries suggest that the non-take-up rate of social assistance benefits may be up to 40% or even over.²⁸ Some studies in Estonia have also suggested that the non-take-up may be quite high in Estonia, although as said no closer estimations have been attempted.²⁹ The main factors behind non-take-up are considered to be low awareness of potential clients about their statutory rights, access to information, fears on complexity of application etc.

The information aspect was also raised during the EAPN Estonia consultations with persons experiencing poverty - they pointed out that the information about different support options is not easily available nor presented in easily understandable form. It was also noted that people should have possibilities to

²⁷ Such assessment method is based on Viies, M. (2009). Minimum Income Schemes. Estonia. A Study of National Policies.

²⁸ Hernanz, V., Franck Malherbet, F., Pellizzari, M. (2004). Take-up of Welfare Benefits in OECD Countries:

A Review of the Evidence <http://www.oecd.org/social/soc/30901173.pdf>

²⁹ Karu, M. (2005). Taotlemine ja mitte-taotlemine: kas sotsiaaltoetused jõuavad sihtrühmadeni? (Take-up and nontake-up: whether social benefits reach the target groups of not?) Acta politica, No 2. Tallinn: Tallinna Ülikooli kirjastus (Tallinn University Publishers). TLÜ Riigiteaduste osakonna väljaanne (A Political Sciences Publication of TLÜ). 21. sajandi sotsiaalpoliitika: uued riskid, uued valikud. (Social policy in the 21st century: new risks, new options).

make their own decisions and to plan their own future. The stigma aspect was also mentioned – that persons who apply for some help are often stigmatized.

4. Suggested next steps to improve adequacy

While it is important to recognise and address possible barriers and risks, the focus shall be on possibilities and advantages rather than on difficulties.

Improving the adequacy of minimum income scheme(s) is not just a policy initiative to support the poorest members of society, but would affect principally the whole society. Obviously, the main focus is on the first two income deciles or the lower income quintile as these are the persons and households to be lifted out of direct poverty or poverty risk. In Estonian context this would concern primarily:

- older (55+) and younger (below 24) age groups
- unemployed
- non-working disabled persons
- people living outside North Estonia
- single parent households
- single elderly persons
- more women than men

As was shown above – whatever adequacy indicator is chosen, be it just the minimal food basket, the absolute poverty line (the estimated subsistence minimum), the 50% of median equivalised income threshold adopted by the ECSR or the 60% of median equivalised income threshold (the EU at-risk-of-poverty or relative poverty threshold) – the current subsistence benefit falls below that adequate indicator.

It is then natural that the first priority shall be to meet at least the lower benchmarks, but as soon as possible. When establishing the subsistence level the Government and the Parliament shall follow the provisions of the Social Welfare Act. The subsistence level shall cover the minimal food basket and other items explicitly listed in the Act in force – clothing, footwear and other goods and services satisfying primary needs. It shall also be secured that the subsistence level is regularly upgraded to prevent its purchasing power from declining either by introducing an automatic indexation mechanism or stipulating a legal requirement for the Government to initiate increasing of the subsistence level to keep at least pace with CPI increases.

Given the low political priority and considering the already existing case law of the Estonian Supreme Court, in particular the statements of the Court on the normative content of the basic right to state assistance in case of need in the Estonian constitution, and the observations of the Court on the adequacy of subsistence benefit level, there is also a potential legal avenue to test the constitutionality of subsistence benefit rates and possibly also the mechanism of establishing the subsistence level. It is however clear that subsistence benefit

recipients are not likely to initiate such a court case due to involved costs and required legal know-how. It would then be only possible if some interest groups act on behalf of recipients of subsistence benefit.

The related target is raising the subsistence level to the level of estimated subsistence minimum, meaning that the subsistence level shall take into account all expenditure categories of subsistence minimum, except housing costs (unless the calculation method of subsistence benefit is altered). This would make the subsistence benefits scheme at least capable of alleviating absolute poverty. In fact, this approach would also entail automatic annual adjustment of the subsistence level.

The next target shall be validating the current methodology of calculation of estimated subsistence minimum through reference budgets for different types of households, in order to take due account of the varying needs of households with different composition. This would pre-require some further analytical and methodological work, firstly at the EU level to develop appropriate reference budget methodology, and then at the country level to calibrate this methodology to Estonian situation. This analytical work has also specific data requirements. To be able to regularly update and validate such reference budgets, household budget data is required. Currently this data is not available for every year.

The goal of raising the adequacy level of minimum income schemes to the EU at-risk-of-poverty threshold is more ambitious and requires consensus-building in society. Persons affected by poverty shall be given a clear voice in this process. Adequate minimum income schemes shall enable full participation in society, and not just basic survival, in order for the society to benefit from the potential of each member.

Given the current gap, it is nonetheless clear that the more ambitious target cannot be achieved as a single step reform or even not just through the regular upgrading of benefit rates. Achieving this goal would require a structural reform of the benefit system and stronger integration of adequate incomes with quality social services and active inclusion into the labour market.

If lifted sufficiently high in the political agenda, the effective implementation of the right to adequate minimum income can be achieved through a series of concerted and sequenced steps, possibly even within the time horizon of the current Europe 2020/Estonia 2020 strategy.

