

# Lone Parent Incomes and Work Incentives

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## VENUE

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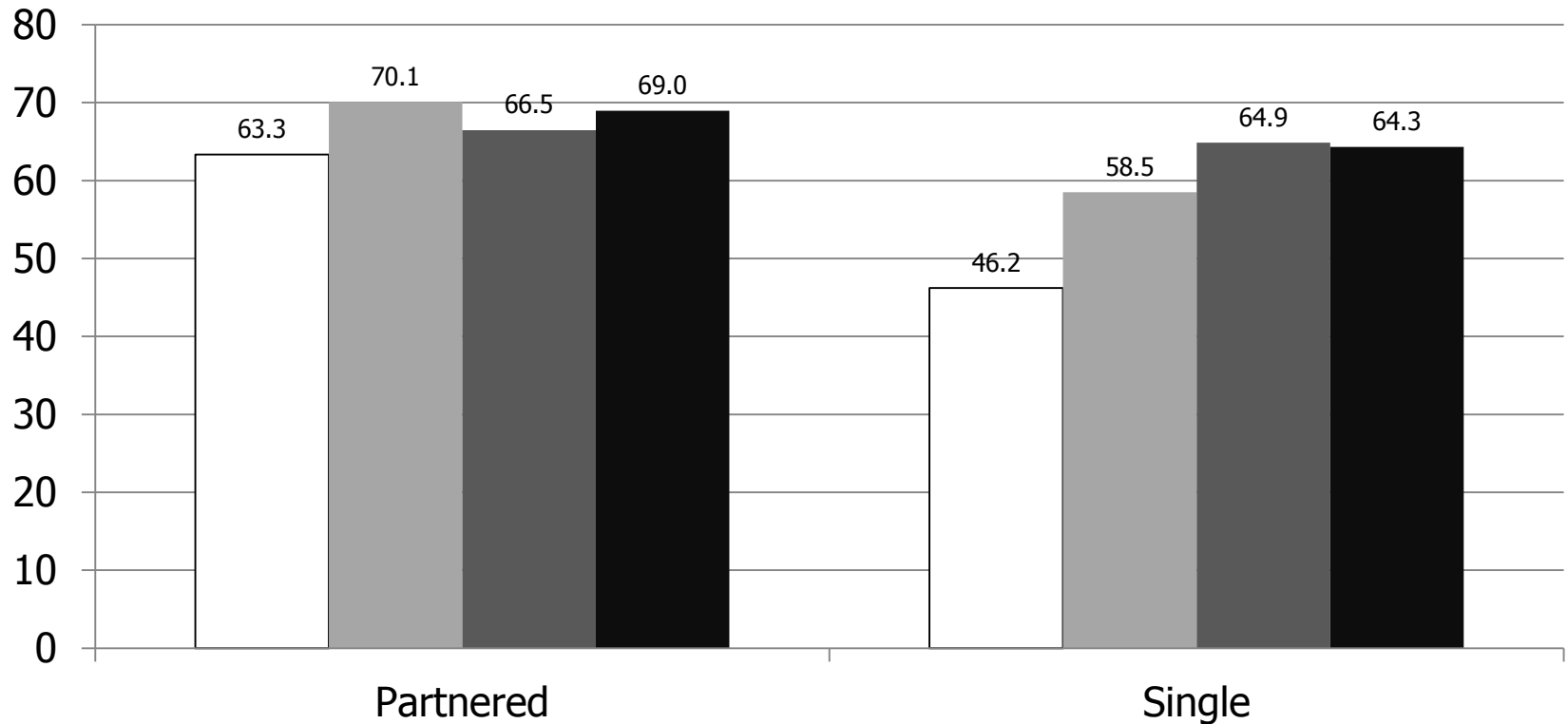
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# Overview

- Employment and income situation of lone parents.
- Social welfare system for lone parents, recent changes.
- Analysis of policy changes on lone parent:
  - Incomes
  - Financial work incentives
- Childcare costs and subsidies – current financial work incentives of lone parents.

# Employment Rates of Partnered and Single Mothers



□ Ireland ■ United Kingdom ■ OECD-31 average ■ EU average

\* 52 per cent of lone parents in employment in Ireland work below 30 hours a week compared to only 21 per cent across the OECD

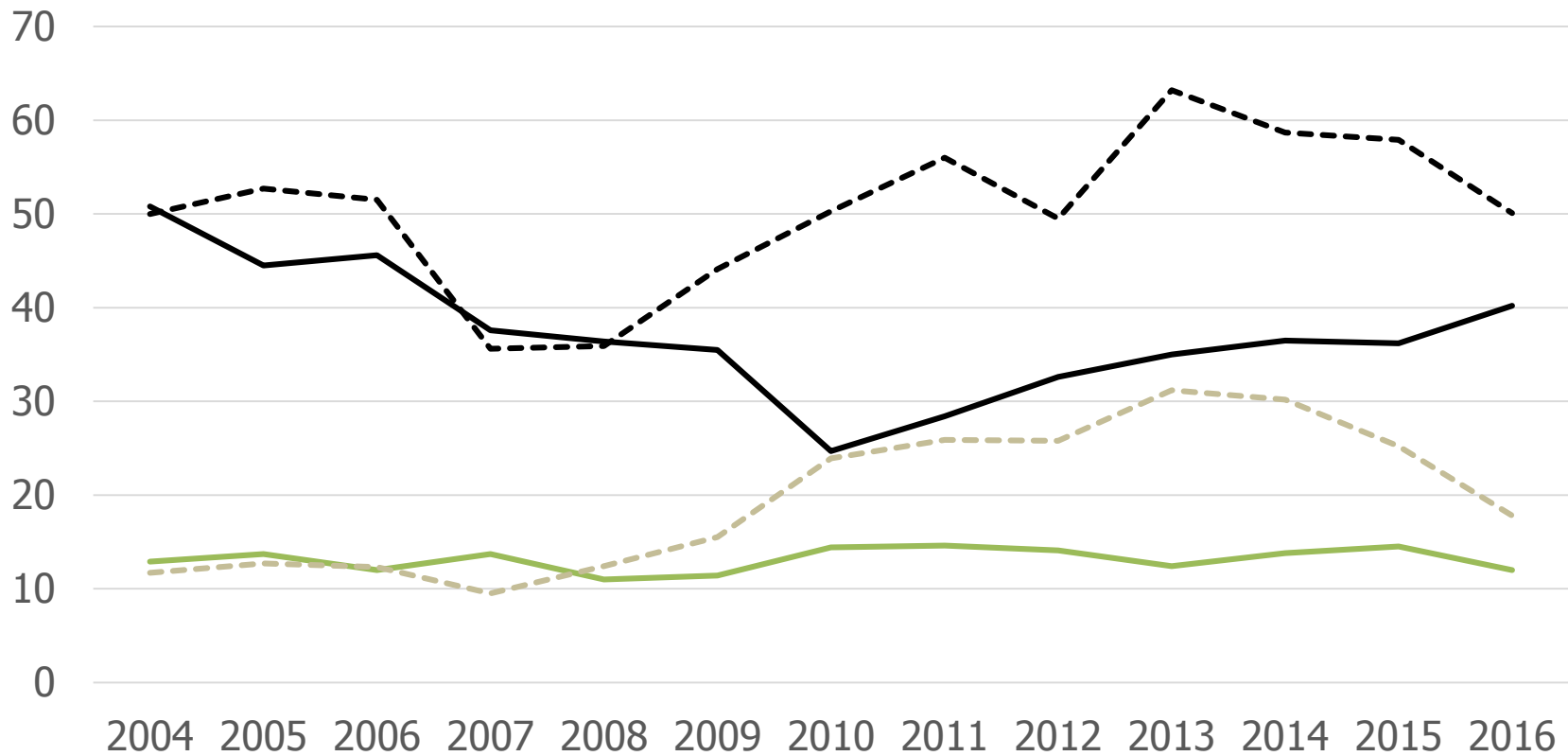
# Income Position of Lone Parents

	Before Transfers	After Transfers
Decile	Average 2013-2015 (%)	Average 2013-2015 (%)
<b>Lowest</b>	<b>33</b>	<b>19</b>
<b>2</b>	<b>23</b>	<b>20</b>
<b>3</b>	16	13
<b>4</b>	8	14
<b>5</b>	4	12
<b>6</b>	3	9
<b>7</b>	4	5
<b>8</b>	4	4
<b>9</b>	3	3
<b>Highest</b>	2	2

Source: Authors' analysis using SILC Research Microdata Files



# Poverty and Deprivation Rates



— Lone Parent - Poverty Rate  
- - - Lone Parent - Deprivation Rate

— 2 Adults with Children - Poverty Rate  
- - - 2 Adults with Children - Deprivation Rate



# One Parent Family Payment Changes

# Background: One-Parent Family Payment (1)



- Means tested payment for lone parents.
- No participation/activation requirement.
- 2011 - Received until youngest child was 18 (22 if in education)
- OECD (2003, 2011) – pointed out Ireland as an outlier in not having parental income support conditional on participation commitments once child was of school age.  
*‘There is a need for earlier and more active interventions to support work by (sole) parents on income support, including childcare support’*
- DEASP (2006) - need to move away from supports that ‘have to date been passive in nature, with no active or systematic supports in assisting the person to take up education, training or employment opportunities’.
- Troika – part of bailout agreement to cut exchequer spending.

# Background: One-Parent Family Payment (2)



- Reforms in Budget 2012:
  - Youngest child criteria: 18 years of age phased to 7 by 2015.
  - Earnings disregard to fall from €146.50 to €60 by 2016 (in line with JSA disregard).

Fell to €90 a week, increased to €130 by 2018.
- Some OPFP recipients moved to other payments dependent on child age.
- Jobseeker's Transitional Payment:
  - Youngest child age between 7 and 13



## Background: One-Parent Family Payment (3)



- Similar to OPFP but must engage with DEASP case officer; penalties for not engaging.
- Others moved to Jobseekers Allowance, WFP etc.
- Intended to reduce payments with no participation requirements to increase labour force participation for lone parents.
- Full changes only in effect since 2015 – too soon to examine impact on lone parent employment, poverty etc.

## Methodology

- SWITCH – ESRI tax-benefit model based on a representative sample of the Irish population.
- Take current population of lone parents and apply current and old OPFP rules to examine the income & work incentive effects of the changes.
- Indexation from 2011 to 2018. Increase monetary values by wage growth (8%). Indexation by average change in social welfare rates (4%) available in paper.
- Seek to isolate the income/work incentive impact of OPFP changes.



# Income and Work Incentive Impacts

# Lone parent income changes, 2011 to 2018

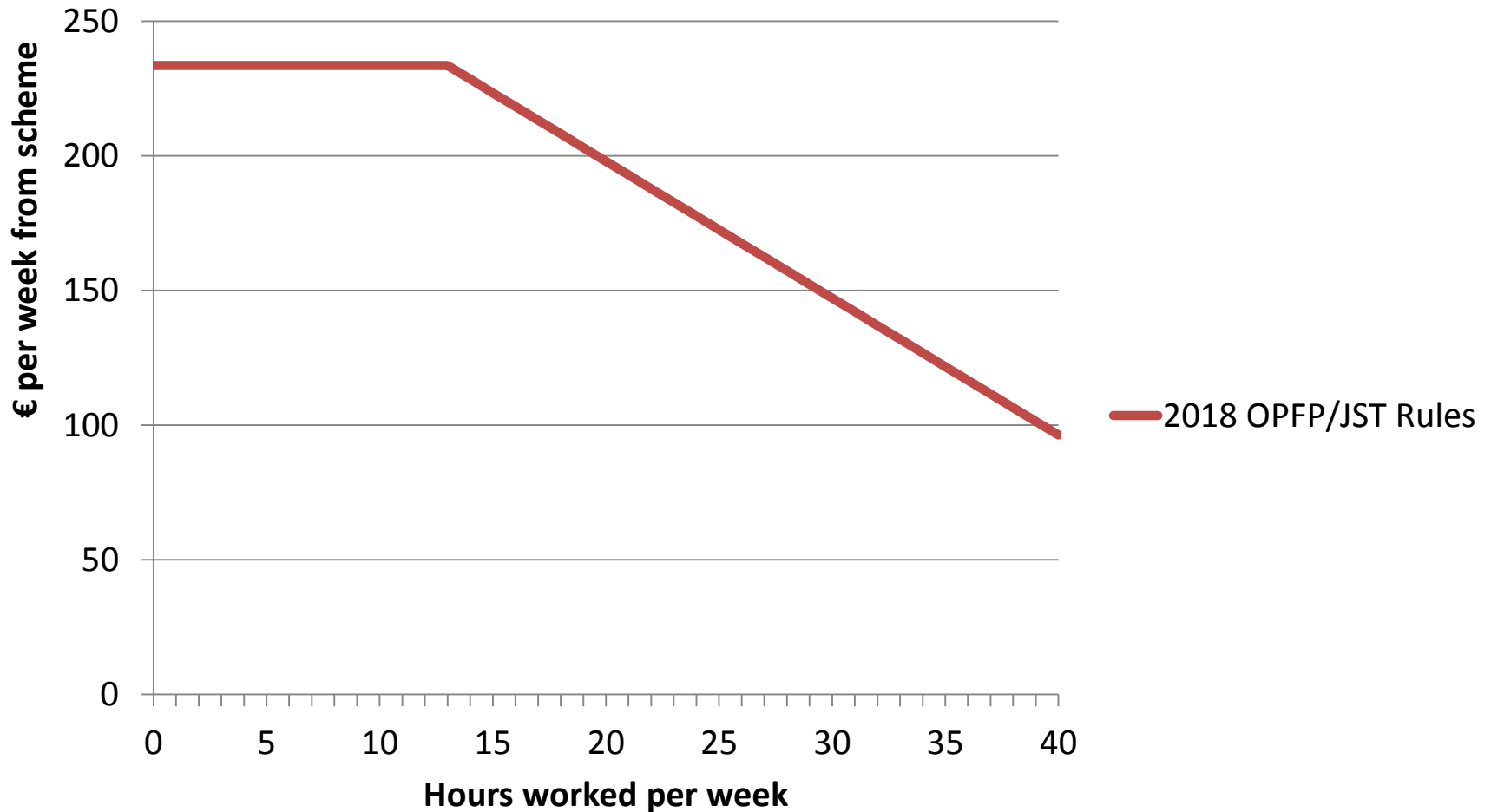
<b>Employed Lone Parent</b>	<b>OPFP Effect</b>	<b>-1.9</b>
	Other Policies	-1.5
	<b>Total Change</b>	<b>-3.4</b>
<b>Non-earning Lone Parent</b>	<b>OPFP Effect</b>	<b>0.0</b>
	Other Policies	-4.8
	<b>Total Change</b>	<b>-4.8</b>

# What do lone parents receive now?

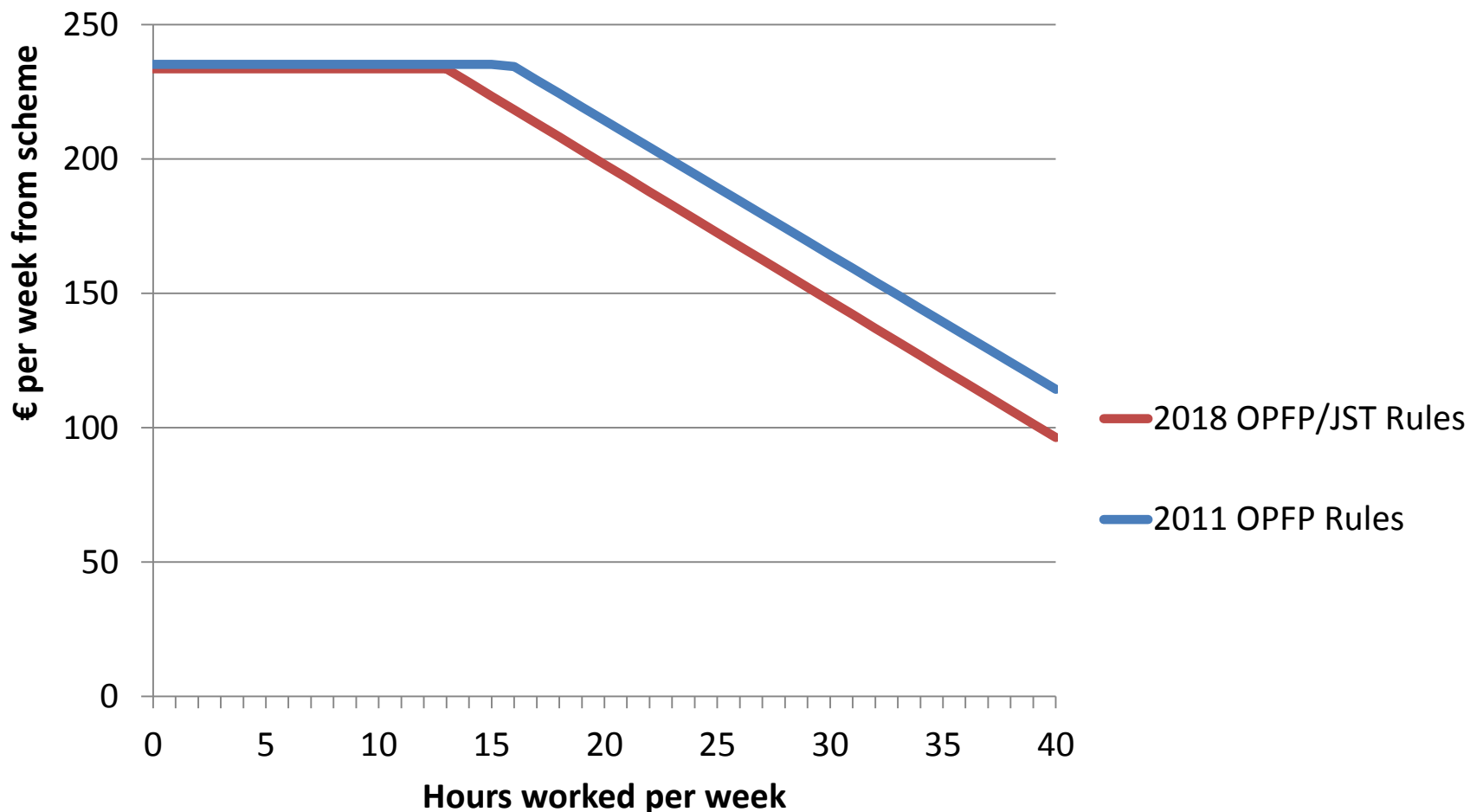
<b>2018 Scheme</b>	<b>Avail of scheme (%)</b>
<b>One Parent Family Payment</b>	53
<b>Jobseeker Transition Scheme</b>	27
<b>Working Family Payment</b>	12
<b>Other</b>	8
<b>Total Families</b>	89,423

*Of those who would have received OPFP under the 2011 rules*

# Weekly payment of social welfare: 2011 vs 2018



# Weekly payment of social welfare: 2011 vs 2018



# Measuring the financial incentive to work



- Focus on the decision to be in paid employment
- Replacement Rate (RR):

$$RR = 100 * \frac{(Out - of - work \ family \ income)}{(In - work \ family \ income)}$$

- Higher RRs indicate weaker financial work incentives



## Creating counterfactual income

- Observe an individual as either employed or unemployed- need a counterfactual income for calculating RRs.
- **Employed:** Simulate income in SWITCH if suddenly they became unemployed.
- **Unemployed:** Predicted hourly wage using education level, age, gender etc. and apply a 10% wage scar. 40 hours work per week.

# Current Lone Parent Work Incentives



Replacement Rate Category	2018 OPFP rules (%)	2011 OPFP rules (%)
>70	20.9	18.5
>80	10.6	9.9
>90	5.0	4.3
>100	2.4	1.2

# Work Incentive Analysis: Caveats

- Aim to capture short-term financial work incentives e.g. Back to Work Family Dividend.
- A lifetime perspective may yield different results, e.g. Callan et al. (2013)
  - Those with RRs greater than 100 per cent were often in-work



# Childcare Costs and the Affordable Childcare Subsidy

# Childcare

- RRs do not tend to take into account childcare costs – just in/out of work income.
- But, particularly important for lone parents in primary carer/earner role.
- Early Childhood Care and Education (ECCE).
- Budget 2018: Single Affordable Childcare Subsidy
  - Means tested childcare subsidy
  - Available to children from 6 months to 15 years of age
- How do these costs and subsidies affect the financial incentive to work for lone parents?

# Including childcare costs in RR analysis



- Employed:
  - Deduct reported childcare costs from in-work income
  - Add the value of subsidy to in-work income
  - Assume no childcare costs when “made” unemployed
- Unemployed:
  - Children under 5, assume national average full-time crèche fee (€174) is paid when returning to work.
  - Children aged 5-12 assume national average part-time crèche fee (€99) is paid when returning to work.
  - Add value of the hypothetical subsidy to in-work income

# Effect of childcare and associated subsidies on replacement rates



Replacement Rate Category	2018 OPFP rules, excl. Childcare Costs/Subsidies (%)	2018 OPFP rules, Childcare Costs incl. (%)
>70	20.9	31.0
>80	10.6	23.4
>90	5.0	17.3
>100	2.4	15.7

# Effect of childcare and associated subsidies on replacement rates



Replacement Rate Category	2018 OPFP rules, excl. Childcare Costs/Subsidies (%)	2018 OPFP rules, Childcare Costs incl. (%)	2018 OPFP rules, Childcare Costs & Subsidies incl. (%)
>70	20.9	31.0	29.5
>80	10.6	23.4	20.2
>90	5.0	17.3	15.5
>100	2.4	15.7	13.3



# Conclusions

- OPFP Changes:
  - Income losses for employed lone parents, neutral/small gains for non-earning
  - Small weakening of financial incentive to be in work
- Sharp impact of childcare costs on financial work incentives for this group with ACS subsidies improving these.
- Too early to examine behavioural response.

# Future Work

- Impact of policy change on employment, education and poverty outcomes of lone parents.
- Work incentive effects of the ACS
  - Intensive margin via marginal effective tax rates
  - Focus on all those with children
  - Childcare behavioural responses