

Impact of income support and debt on socio-economic coping and labour market activity rates

BRIEF SUMMARY

In the social protection system of Estonia, income support provides a minimum income to cover essential living expenses. However, low incomes can put households in the difficult situation of no longer having enough money to pay their monthly bills and can fall into debt. Coming out of debt and finding ways to become self-sufficient can be difficult for people on low income. Therefore, in addition to a minimum income, the income support system must also provide support in the form of various services that help people find jobs and, if necessary, cope with debts.

Earned income exception

In order to motivate income support recipients to take up work it's possible to **continue to receive income support alongside wages** from 2018: for the first two months of employment, earned income is taken into account for the payment of income support, whilst for the following four months, half of the earned income is taken into account.

- The majority of households don't use the earned income exception when a member of the household starts working. Only 18% of people who had started working after receiving income support have made use of the earned income exemption as of 2018, and the majority of them (81%) used it for only the first two months instead of the maximum six months permitted by law.
- The share of people who've started working after receiving income support has decreased since 2018. This suggests that the introduction of the exception has not led to an increase in the take-up of employment among support recipients.
- The earned income exception is used more frequently by women with children and more often by people living in Pärnu or Saare County and less often than in South Estonia or Hiiu County. At the same time, the share of income support recipients in South-Estonian counties is among the highest in Estonia.
- According to a survey, 36% of respondents were aware of the option of earned income exclusion. In most cases, people did not apply for support after getting a job because they weren't aware that they could continue to apply for support or because they thought they could no longer do so. Some people (according to the survey, 14% of those who started working) didn't want to apply for support anymore or didn't consider it necessary.
- The implementation of the legal amendment should be improved to make it possible for it to serve its purpose – awareness of the possibility of using it needs to be increased so that it can increase the motivation to take up work.

In order to encourage young people from households on income support to take up work, **the income earned by students has not been taken into account as part of household income for the purpose of calculating income support** since 2018.

- The number of students earning a wage has increased in 2018 and 2019 due to the combined impact of a change in law and the improving economic conditions. The number of working students decreased in 2020 and 2021 as a result of the COVID-19 crisis, as the economic sectors where students most frequently work suffered.

Earned income exception

- Students mainly work during the summer months. Students work somewhat more frequently in households with at least one unemployed parent or with only one parent.
- Following the introduction of the earned income exception for students the amount of income declared increased significantly. This was influenced by the general increase in income and also likely due to the increase in income declaration following the change – families no longer have to fear losing their income support because a child works in summer.

Discretion

The social worker of the local authority has **the right to reduce the amount of income support or suspend its payment if the recipient of the support fails to comply with the agreements** made to support attempts to become self-sufficient.

- Given the total number of applications (more than 60,000), the right to suspend or reduce support is rarely exercised (less than 100 times a year).
- Social workers don't use discretion because the cases where people need help are complicated. There are no alternative options or support systems for people who don't comply with agreements, so social workers don't want to leave people who need help in the lurch.
- Social workers need support in exercising discretion, using case management techniques and sharing best practices. The exercise of discretion requires that each social worker has more time and opportunity to address the problems of an individual and refer them to the necessary agencies and professionals to support compliance with agreements.

Debt counselling

Income support recipients often have to cope with debts, which makes the achievement of self-sufficiency more difficult. Local authorities and the Unemployment Insurance Fund can offer **debt counselling services** to help people cope with debt.

- A significant proportion of income support recipients don't earn enough income to cope with everyday life, so they use loans and hire-purchase as a coping mechanism and run into debt. Approximately one-half of support recipients have taken out a loan, lease or hire purchase, often more than one. More than half of them have at some point run into difficulties in meeting their loan obligations.
- When in debt, people first turn to their family and friends (54%) and only then to the local authority (39%). The social worker of the local authority usually refers a person to debt counselling only when their account statements show that money is being taken from them by bailiffs. Problems with debts should be addressed earlier to prevent bigger problems.
- The debt counselling service generally has a positive effect, but it should also play a preventive role. The problem is the limited accessibility of debt counselling services to many local authorities (some local authorities don't have contract partners) and long waiting lists for the service.

