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Briefing Paper

Examples of issues facing middle-income earners

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Abstract

This briefing paper provides three examples of issues facing middle-income earners in Ireland. Specifically, it discusses two energy schemes (the Better Energy Warmer Homes Scheme and the Better Energy Homes Scheme), the National Childcare Scheme, and the SUSI grant.

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Overview

This briefing paper identifies some examples of issues facing middle-income earners. It provides general background information, evidence from associated reports and links to other resources.

Issue 1: Energy

Background

As noted by the Minister for the Environment, Climate and Communications during parliamentary questions on 19 October 2021:

> "Energy poverty or fuel poverty is influenced by a person's income, the energy efficiency of their home and the cost of the energy they use in their home. My Department defines energy poverty as an inability to heat or power a home to an adequate degree. Analysis carried out in 2016 for the Strategy to Combat Energy Poverty found that 28% of households in Ireland could be in energy poverty i.e. would need to spend more than 10% of their income on their energy needs."

This is reported to have reduced from 28% to 17.5% in 2020. Energy costs are expected to rise this year (see this Irish Times article; RTE article; and Irish Examiner article).

There are two schemes available in Ireland to improve the energy efficiency of your home: Better Energy Warmer Homes Scheme (for those who meet certain eligibility criteria in terms of income), and the Better Energy Homes Scheme. Table 1 provides a comparison of the two in terms of coverage, eligibility, and rates.

Table 1: Comparison of the two schemes

	Better Energy Warmer Homes Scheme	Better Energy Scheme
What's covered?	The Better Energy Warmer Homes Scheme provides funding for: - Attic insulation - Draught-proofing - Lagging jackets - Low-energy light bulbs - Cavity wall insulation - Energy advice Since 1 June 2018, it may cover - External or internal wall insulation - Central heating - Replacement windows These are only covered following a recommendation from an SEAI technical surveyor who decides on a house-by-house basis after a survey of your home.	You can get a grant or the following energy-saving and renewable solutions: a) Attic insulation b) Wall insulation - including cavity wall, internal dry lining and external insulation c) Heating controls upgrade d) Solar thermal solutions e) Heat pump systems A Building Energy Rating (BER) after the energy-saving work is carried out (you **must** get this BER to qualify for the grant)

Eligibility	You must own your home and be living in it. Your home must have been built and occupied before 2006. You must be getting one of the following payments:
	
	• Fuel Allowance as part of the National Fuel Scheme
	• Working Family Payment
	• Jobseeker's Allowance for over 6 months and have a child aged under 7 years
	• Domiciliary Care Allowance
	• One Parent Family Payment
	• Carer's Allowance and live with the person you care for
	
	In addition, you only qualify for the Better Energy Warmer Homes Scheme once.
		You **must have grant approval before you buy materials or start any grant-funded work**. If you have already started work, you will not be eligible for a grant. Once approved, you have 6 months to get the works done and claim the grant.
		
		To qualify for a grant you must:
		
		• Be the owner of a dwelling built before 2006 for insulation and heating control systems
		• Be the owner of a dwelling built before 2011 for heat pump and solar thermal grants
		  • Use a contractor from SEAI's registered list
		  • Use newly fitted materials and products
		  • Have work done that complies with the required standards
		  • Have a BER carried out **after** the works are done
		  • Use a BER assessor from SEAI's National Register
		
		You may not get a grant if the measures do not comply with the required standards, or if the relevant measure (the work on your home) was already incentivised under another grant programme

Rates	You will not be charged for works done under the Better Energy Warmer Homes Scheme.	Grants are paid **after** the work is completed and you have paid your contractor. **Bonuses:** A bonus of €300 is payable when you have completed 3 qualifying measures and a further €100 is payable on completion of a 4th measure. The full grant history of your home is taken into account when calculating whether a bonus is due. A BER does not count as a measure when calculating entitlement to a bonus. Maximum level of grants from the Better Energy Homes Scheme are shown in Fig 1 below.

Figure 1: Maximum levels of grants from the Better Energy Homes Scheme

Measure	Maximum grant value
Attic insulation	€400
Cavity wall insulation	€400
Wall insulation - internal dry lining - Apartment (any) or mid-terrace house - Semi-detached or end of terrace house - Detached house	 €1,600 €2,200 €2,400
Wall insulation - external - Apartment (any) or mid-terrace house - Semi-detached or end of terrace house - Detached house	 €2,750 €4,500 €6,000
Heat pump systems (available from 16 April 2018) - Air to water - Ground source to water - Exhaust air to water - Water to water - Air to air	 €3,500 €3,500 €3,500 €3,500 €600
Heating controls upgrade	€700
Solar water heating	€1,200
Bonus payment after 3rd measure	€300
Bonus payment after 4th measure	€100
A BER assessment after works are done (maximum of 1 grant payable per home)	€50

Source: **Citizen's Information**

Reports evaluating the schemes

In 2020, IGEES published the paper 'Grant Schemes for Energy Efficiency: Better Energy Homes and Better Energy Communities' as part of the Spending Review 2020. Several important findings are highlighted in this report.

IGEES reported that Irish households spend an estimated €5 billion a year on energy costs. However, they report that this is "dwarfed by the scale of the renovation challenge":

> "Previous public estimates from SEAI have suggested that an average investment of €25k per home would be required to upgrade a typical home to a minimum BER rating of B2."

They note that the purpose of the SEAI Better Energy Homes (BEH) grant scheme is to provide "grant support to homeowners who can leverage the grant with their own funds to improve the energy efficiency of their home". However, the level of the grant support has changed over time:

> "Prior to 2017, the grants amounted to approximately 35% of the estimated cost of each eligible measure (Collins and Curtis, 2017b). Due to inflation, SEAI estimate grant level to be approximately 28% of the cost of eligible measures."

In 2019, 18,531 homes applied for the scheme (up 4,300 on 2018) and grant expenditure was approximately €24 million (the highest since 2012).

IGEES evaluate the effectiveness of the BEH Schemes and quantify the benefits versus the cost to the Exchequer. To this end, they discuss factors that influence retrofit uptake by households. They use data from consumer surveys, focus groups, design thinking exercises, pilots and trials and data analysis. They report that a household's decision to invest in a home upgrade is influenced by and is dependent upon a series of factors including:

(a) Insufficient funds and availability of finance

IGEES report that the primary obstacle in the residential section relates to a lack of sufficient funding. **70% of consumers surveyed highlighted insufficient funds as their most relevant barrier to action**:

> "This becomes clear in the case for deep retrofits including external wall insulation and triple glazing of windows, where the total capital investment can reach €30,000-€40,000 for homes that start as G rated on the BER scale. Given that there are 150,000 such properties in Ireland, this will require several billion euro of capital investment."

IGEES further report that:

> "While Government help to reduce the burden through the provision of grants through SEAI, **there is no currently source of accessible and affordable finance to promote energy efficiency measures, meaning that the only households encouraged to undertake the measures are mostly those who have saved or those who have sufficient resources to afford and are willing to expend the required level of upfront costs for a retrofit**."

To address this issue, work is reported as being carried out by the Department of Communications, Climate Action and the Environment's Housing Retrofit Taskforce. They also report that:

> "In addition, **products have been brought to market offering loans at rates of circa 5% if drawn down for the purposes of investment in energy efficiency**. It remains to be seen if these interest rates will be low enough to persuade a greater number of households to invest in energy efficiency."

(b) Consumers' awareness and engagement

Homeowners have different drivers influencing their decision to invest or not in energy efficiency. These drivers include (1) sustainability (e.g. concerned about future and willing to adopt new measures) (2) comfort and value seekers (e.g. long-term benefits of investment in their homes) (3) cost-driven (e.g. looking for short-term benefits)

IGEES report that one key issue around consumer engagement is the **rental market**:

> "According to the recent Census data, 29% of households live in rented accommodation. Private landlords are less likely to invest in energy efficiency due to split incentives, where the landlord makes the capital investment but only receives a benefit where the retrofit increases the rental or re-sale value of the property. The tenant who is responsible for paying the energy bills would thus see the benefit of the work is unlikely to invest in a property that they do not own, may not be in for long, or they may not be permitted to undertake the work."

They report that SEAI commissioned a survey to understand the key drivers of private landlords' investment in energy efficient. 75% of landlords surveyed indicated that they invest in energy efficiency to keep the property well-maintained and to a good standard.

When presented with the idea of minimum energy performance standards tor rented dwellings, **50% of landlords surveyed believed that meeting the energy efficiency standards would be too costly and that it would force them to consider the viability of remaining a landlord**.

In July 2018, the ESRI published a research bulletin which provided an overview of the Better Energy Homes scheme for energy efficiency retrofits of residential properties. They also investigated whether other types of subsidy support might be more attractive to households and encourage greater investment in residential energy efficiency.

As part of their analysis, they reported:

> "The SEAI's 'Better Energy Warmer Homes' scheme already provides energy efficient retrofit support to vulnerable people in, or at risk of, energy poverty. **A policy question is whether there are homeowners who are not eligible for the 'Better Energy Warmer Homes' scheme but their circumstances preclude them from participating in the more general 'Better Energy Homes' scheme**."

The authors note the significant benefits of energy efficiency retrofits for households. They have lower energy bills, increased comfort and environmental improvements, alongside improve health outcomes and improved property values.

Other resources that may be useful:

- L&RS Briefing (2 Feb 2021), Fuel/energy poverty in Ireland. Available here.
- SEAI (2020), Energy security in Ireland. Available here.
- ESRI (2020), Household energy poverty and children's health. Available here.
- SVP and Threshold (2021), Warm Housing for All? Strategies for Improving Energy Efficiency in the Private Rented Sector. Available here.

Issue 2: National Childcare Scheme (NCS)

Background

Research published by the ESRI (2018) reported that childcare costs represent a significant proportion of a family's income (see p. viii):

> "On average, families paying for care spent **12 per cent of disposable income** on the care of [one] three-year-old Study Child. This rose to 16 per cent for lone parent families and 20 per cent for those in the bottom income decile. As these costs relate only to the Study Child, families with other young children are likely to spend a considerably higher proportion of their income on childcare."

The National Childcare Scheme (NCS), provides financial support to help with childcare costs. The scheme aims to provide "a single, streamlined and more user-friendly scheme and will include wrap around care for pre-school and school-age children[1].

The NCS is made up of two components available for children over 6 months of age:

1. A universal subsidy for children under 3. Children over 3 who have not yet qualified for the ECCE are also eligible. It is not means tested.
2. An income-assessed subsidy for children up to 15. It is means tested[2].

Recipients cannot get the universal subsidy and an income-assessed subsidy at the same time. However, they can choose which subsidy is of greatest benefit to them. The subsidy rate per hour are as follows:

1. The universal subsidy is payable at a rate of €0.50 per hour.

2. The rate for income-related subsidies depends on the applicant's reckonable income:
   - Income below €26,000: Applicants with reckonable income (inclusive of any partner's income) at or below €26,000 per annum qualify for the maximum hourly rate of subsidy towards childcare costs. This varies depending on the age of the child but ranges from €3.75 to €5.10 per hour.
   - Income between €26,000 and €60,000: For applicants with reckonable income (inclusive of any partner's income) between €26,000 and €60,000 per annum, the subsidy rate tapers downward as reckonable income rises, declining evenly from the maximum subsidy rate to the minimum subsidy rate. €60,000 is the maximum income threshold for the income-related subsidy.
   - Income above €60,000: If reckonable income is greater than €60,000 per annum, then the applicant does not qualify for an income-related subsidy. However, the applicant qualifies for the universal subsidy if the child meets the age requirements.

Reports evaluating the scheme

In January 2021, an ESRI report used SWITCH, the Institutes' tax-benefit model, to simulate the scale, cost and distributive impact of NCS. Overall, the report found that while the NCS is likely to continue to benefit low and middle-income working families there are factors which could mitigate the benefit of the scheme (see p.15):

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[1] Press release, 11 December 2019. Available here.

[2] National Childcare Scheme, Types of Subsidy. Available here.

- "First off, the price response by childcare providers could offset some of the financial gains. While the subsidy is aimed at benefitting families by offering discounted prices, if demand for childcare services is sufficiently high and insensitive to price, childcare providers could in theory increase their prices by close to the value of the subsidy*"
- "Secondly, families with reckonable income in the "taper" range (€26,000 to €60,000) will face an increase in marginal effective tax rates. If these families increase their earnings (via increased work hours/earnings) they receive a lower subsidy under NCS, which could act as a small disincentive to increase earnings"

*Please note that as part of a new funding stream being introduced as part of Budget 2022, a commitment is being sought from providers not to increase parents' fees for Early Learning and Care (ELC) and School-Age Childcare (SAC).

Changes in Budget 2022

Changes to the scheme were announced as part of Budget 2022. Among these measures was an extension to the universal subsidy to children aged up to 15 from September 2022. This extension will apply to up to 40,000 children at a cost of €5 million. The budget also announced an increase in the number of hours eligible for the subsidy for children who are either in preschool or school.

In their recent Post Budget 2022 Briefing and accompanying discussion (available on YouTube), the ESRI stated that these two reforms would have small positive effects on the disposable incomes of households that use registered childcare services.

However, they also stated that the reckonable income thresholds for the scheme (as above) would be frozen in nominal terms. This means that if a household's income were to increase in 2022 (which is probable giving wage growth and inflation forecasts) they would lose a percentage of their current income-related subsidy.

The ESRI simulated the overall effects of this across 10 groups of households (where Group 1 was the lowest income group and Group 10 the highest). They found that the gain across all groups from the scheme was minimal with an average across all groups of just a 0.02% increase in disposable income.

According to the simulations, some groups across the income distribution, including Group 4 (lower-middle), experience a real loss to disposable income due to changes in the Scheme. This reflects the fact that the combination of income growth and frozen income thresholds in 2022 will mean that some households in this lower-middle income group will lose some of their subsidy.

Other resources that may be useful:

- L&RS Note (2020), Public provision of early childhood education: an overview of international evidence. Available here.
- Unicef (2021), Where do rich countries stand on childcare? Available here. Note: in this paper, the authors built a league table ranking each country on eight indicators grouped into four dimensions: leave; access; quality and affordability of childcare. Ireland ranked 36th out of 41 countries overall. A short summary of the report is provided by earlychildhoodireland and the Independent.
- NERI Research inBrief (2017), The Affordability of Childcare in Ireland: Measuring Regional Disparities. Available here.
- RTE.ie (September 2021), Parents describe increasing difficulty finding childcare. Available here.

Issue 3: Student Universal Support Ireland (SUSI) Grant

Background

The Student Grant Scheme (SUSI grants) makes means-tested financial assistance available through maintenance and fees grants to students in further and higher education for households which meet the eligibility criteria.

SUSI grants are payable at various rates* (please note, this is based on having less than 4 dependent children, other thresholds are available for >4 children). SUSI recipients living beyond 45km* of their educational institution receive a higher grant rate known as the non- adjacent rate:

- **special rate maintenance** (reckonable income threshold ≤€24,500 with grant value between €2,375 and €5,915). To qualify for this special rate, reckonable income must also include one of the long-term Department of Social Protection eligible payments which qualify the person for the special rate. See Special Rate Awards for the list of
- **full maintenance** (reckonable income threshold ≤€39,875 with grant value between €1,215 and €3,025)
- **part maintenance**
    - 75% rate: (reckonable income threshold ≤€40,970 with grant value between €910 and €2,270)
    - 50% rate: (reckonable income threshold ≤€43,380 with grant value between €605 and €1,515)
    - 25% rate: (reckonable income threshold ≤€45,790 with grant value between €305 and €755)
- **No maintenance 50% tuition fees or 100% student contribution**: (reckonable income threshold ≤€49,840)
- **No maintenance 50% student contribution**: (reckonable income threshold ≤€54,240).

Students who receive a maintenance grant, also receive a fees grant, if they meet the other eligibility criteria of the fees grant.

*Please note, these are due to increase as a result of changes introduced via Budget 2022. Specifically, for the academic year 2022-2023, the student maintenance grant will increase by €200. The income thresholds for eligibility for the student grant will increase by €1000. The travel distance for the ‘non-adjacent’ rate will decrease to 30 km from 45 km.

The means test for the SUSI grant is as follows:

> “The means test for a student grant in 2021-2022 is based on you or **your family's gross income for the previous full tax year** (2020). However, if you or your family have had a change of circumstances (which is likely to be permanent) since 31 December 2020, your changed circumstances will be taken into account.
>
> Reckonable income for **a student grant is gross income from all sources**. Some social welfare payments are excluded from 'reckonable income' for the purposes of student grants - see more details on reckonable income on susi.ie and also in the Student Grant Scheme 2021.”

Concerns regarding the SUSI grant – recent examples

RTÉ, 14 October 2021, '[Concerns that SUSI grants system is failing students'] provides examples of issues facing students particularly in relation to the income thresholds and how means testing is carried out:

> "Last year, SUSI was paying Stephen Emmett's college fees and also granting him €750 towards living expenses. However, he lost this maintenance grant and half his fees grant this year when his income from part-time work brought his family income over the SUSI threshold. Stephen's father works as a school caretaker and his mother is a cleaner at the same school. As he puts it: "They don't work luxury jobs."
>
> "I work a minimum of 20 hours a week, just to be able to afford to go to college. It's not like I'm working to have extra money to throw around. But because I earned an extra around €1,000, I'm actually down around €2,500 from SUSI now."

Another student stated that:

> "[He] is earning €10 an hour, but his work this year pushed his family's overall income over the threshold too and he lost his maintenance grant as a result.
>
> "My mam's income stayed the same, but my income pushed us over the limit. I'm working so hard to make money and then at the same time it's being taken away from me when it comes to getting the grant," he told RTÉ News."

Another RTÉ report (14 Oct 2021), 'Fall in number of third level students eligible for SUSI grants' reported that between 2015 and last year, overall student numbers increased more than 17%. However, the number applying to SUSI for grant aid has continued to fall (this year, 95,000 are reported to have applied, compared to 108,000 six years ago). They report that this fall in applications and grant awards is likely due to income thresholds for grant eligibility remaining static for a decade. They state:

> "Wages have risen over the same period so a significant proportion of students who may in past years have been eligible for a SUSI grant, based on their parents' wages, are no longer eligible. Budget 2022 will see income thresholds for eligibility increased by €1000 for next year's applicants. This will see the main income threshold for a full grant rise from €39,875 gross, to almost €41,000. This includes parental earnings from all sources, as well as any money earned by a student during the academic year."

However, the Union of Students in Ireland (USI) reported to RTÉ that:

> "…the lack of a holistic approach to underfunding across the sector was really disappointing for students who are experiencing financial hardship. The financial barrier has always been the biggest in terms of access to education."

During parliamentary questions on 13 October 2021, the Minister for Further and Higher Education, Research, Innovation and Science was asked if the income criteria for the SUSI grant will be reviewed with a view to removing the income of students who defer a year to work or save for college, work part-time or during their holiday periods and not consider this as reckonable income.

The Minister stated that:

> "The decision on eligibility for a student grant is a matter, in the first instance, for SUSI to determine. For the 2021/22 academic year, student grant applications will be assessed

> based on gross income from all sources for the period 1st January 2020 to 31st December 2020.
>
> All applications are assessed nationally with reference to the terms and conditions of the relevant student grant scheme. The terms and conditions of funding are applied impartially to all applicants.
>
> However, if a student or party to their application experiences a change in circumstances that is not a temporary change and is likely to continue for the foreseeable future, such as a termination of employment, they can apply to have their application assessed under the change in circumstances provision of the relevant Student Grant Scheme. The income of all parties to the application will be assessed or reassessed on current income and applicants may also be asked to provide evidence of same.
>
> Also under Article 22(5)(b) of the Student Grant Scheme 2021, income from an applicant's employment which represents "holiday earnings" outside of term time but within the reference period, subject to a maximum of €4,500 can be deducted from the total reckonable income assessed. (This relates to the student's earnings from employment outside of term time i.e. the holiday periods of Christmas, Easter and the summer months)."

Another factor that ought to be considered is the high cost of student accommodation. An Irish Examiner article "Case Study: Student Orla Onoh – SUSI grant doesn't even cover housing" published 12 October 2021, discusses the financial issues facing students:

> "I'm on Susi so that covers my €3,000 a year registration fee and then depending on your income you get a maintenance fee and I get €300 a month. But that doesn't cover all the costs I have"

In this specific case study, the student's accommodation alone costs €6,500 for the year.

Other resources that may be useful

- IGEES (2020), Social Impact Assessment Series: Student Grant Scheme (SUSI Grants) * This report provides a comprehensive overview of the scheme for the 2017/18 period.
- Society of St Vincent de Paul (2021), Review of Student Grant Scheme – SUSI. To Indecon International Economic Consultants.
- Aontas (2021), Submission for the Public Consultation of the SUSI Grant Scheme.

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