



Autoridad Independiente  
*de* Responsabilidad Fiscal

# **First AIReF Opinion**

## **Minimum Living Income**

**July 19<sup>th</sup>, 2022**

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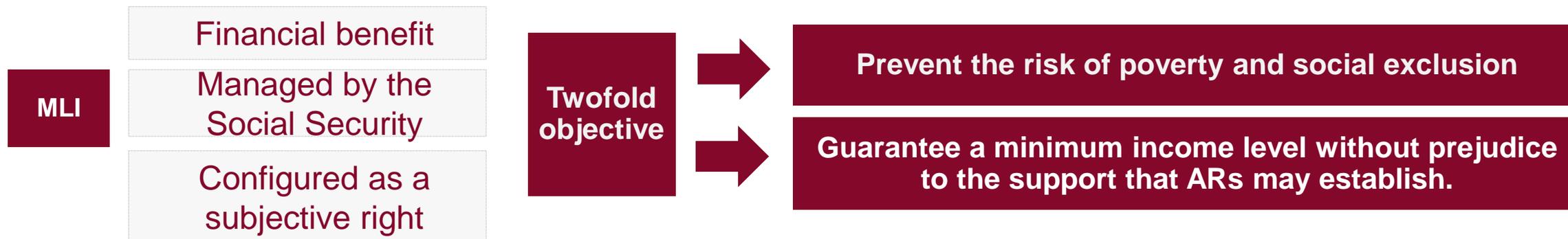
**Proposals**

1

# Overview of the evaluation and main conclusions

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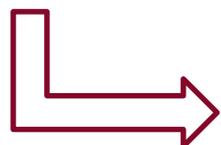
## The Minimum Living Income is configured as a new benefit and designed to be evaluated



The **effects of the benefit will have to be permanently and rigorously evaluated** once it is put in place



**New annual publication** in addition to those provided for in Organic Law 6/2013 on the establishment of AIReF. Law 19/2021 mandates the evaluation to AIReF



In addition to AIReF's powers of evaluation, others are granted to the **Monitoring Committee**, such as:

- Evaluation of the impact of the MLI as an instrument to prevent the risk of poverty
- Monitoring and evaluation of regulatory proposals
- Evaluation and analysis of inclusion policies and measures
- Monitoring of information exchange systems
- Promotion of cooperation among GG



Advice from the **Advisory Board**

## This is not the first evaluation carried out by AIReF in this area and, in fact, the MLI incorporates part of the proposals made by AIReF in 2019

The MLI seeks to fulfil the recurring recommendations to strengthen and organise the existing income guarantee programmes in Spain (European Council 2014 to 2019)



Social expenditure on housing, family and social exclusion is below the EU average and offers lower support to low-income households

**CSR 2017:** “Address regional disparities and fragmentation in income guarantee schemes and improve family support”.

## In 2018, AIReF was commissioned to carry out a study whose proposals are incorporated but not fully

Elements relating to the design are incorporated

Some proposals have been ignored although gradual incorporation over time can be expected

- Those that **improved its effectiveness in eradicating poverty**, with the essential requirement being household income irrespective of the region of residence and eliminating requirements relating to the employment status of potential beneficiaries or compatibility with employment
- Ensuring its **continuous evaluation**: AIReF opinions + MLI Monitoring Committee

- **Ignored proposal**: the MLI is not part of a medium-term budget plan that offsets the increase in the structural expenditure that it entails
- **Proposals that can be expected to improve** with the development of the benefit: improving the fit and coordination between the MLI and minimum incomes; reorganisation of State benefits
- **Limited information** that facilitates monitoring: there is not the same public information as for other services

# It is not a simple evaluation

The objectives of the law are not clearly defined for evaluation purposes. There is no definition of poverty in the MLI. What is meant by poverty? Who is in a vulnerable situation?



World poverty line:  
\$2.15 / day

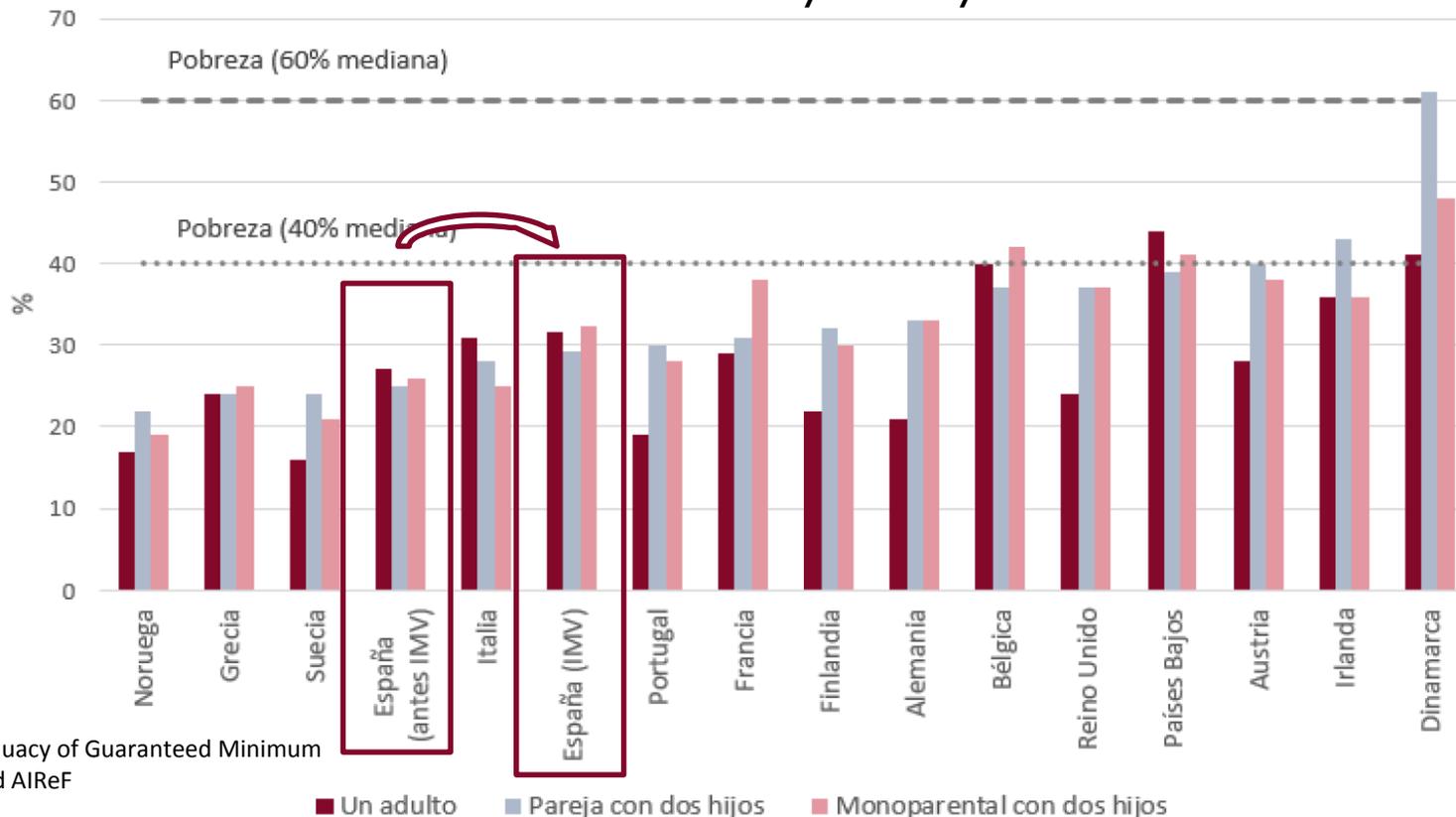


Poverty rate based on deprivation of access to basic services in health, housing and education



Percentage of income over the median individual

Guaranteed income amounts by country. 2020



❑ The introduction of the MLI has placed the amount of guaranteed income **slightly above 30% of median disposable income**

❑ In view of international experience on the amount of guaranteed income by type of household, the Eurostat measurement standards and the levels of guaranteed income of the MLI, **AIReF chooses to consider a household at risk of poverty if the income of its members is below 40% of the median**

❑ **Analysis limited to regions under the ordinary regime given the lack of income and wealth data from the Basque Country and Navarre**

Source: OECD, Adequacy of Guaranteed Minimum Income benefits and AIReF

**And due to the evolutionary nature of the benefit, AIReF has designed a multi-year calendar of evaluation by modules that will be completed as the various inclusion strategies and policies are rolled out**

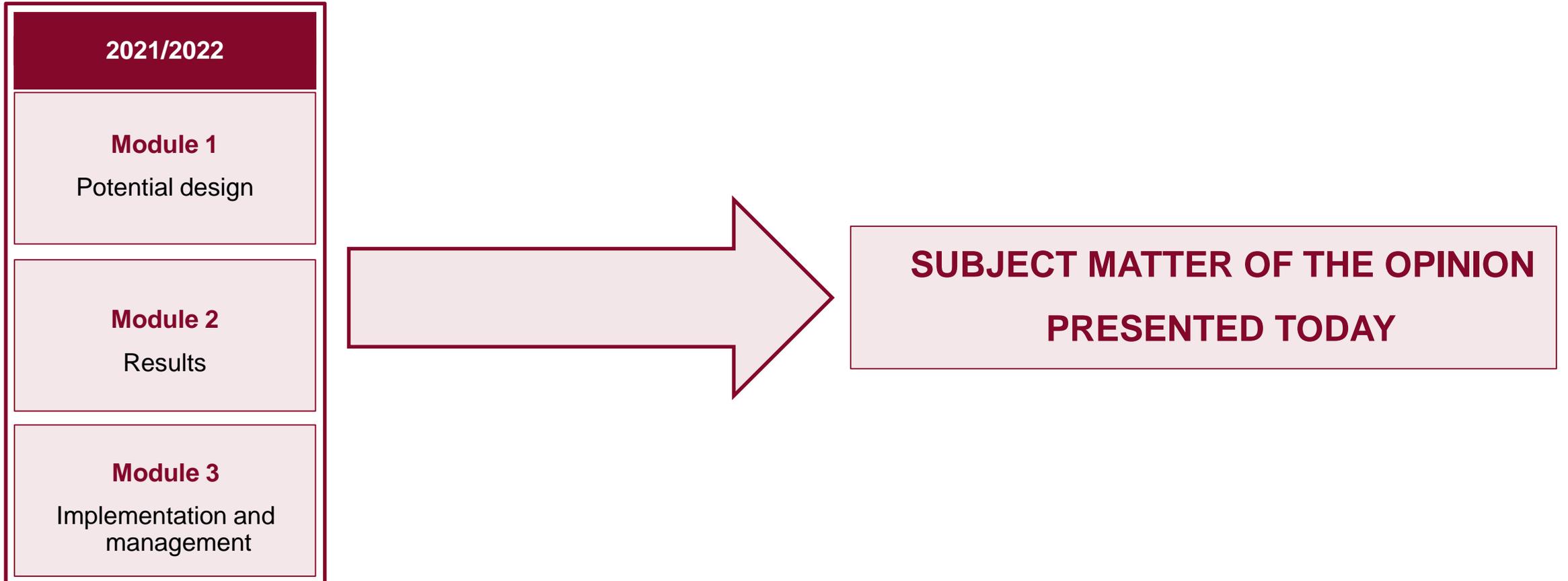
### AIReF MLI OPINION SCHEDULE

2021/2022	2022/2023	2023/2024	2024/2025	2025/2026
<b>Module 1</b> Potential design	<b>Module 4</b> People with severe material needs and single-parent families	<b>Module 6</b> Coverage and scope in situations of transitory poverty	<b>Module 7</b> The inclusion capacity of the MLI and its effects on the labour market	<b>Module 8</b> Complementarity and overlaps with other non-contributory benefits
<b>Module 2</b> Results	<b>Module 5</b> Children and young people (Child supplement)			<b>Module 9</b> International comparison (effectiveness and efficiency)
<b>Module 3</b> Implementation and management				

**Modules from previous years will be updated each year as new modules are published**

**And due to the evolutionary nature of the benefit, AIReF has designed a multi-year calendar of evaluation by modules that will be completed as the various inclusion strategies and policies are rolled out**

## AIReF MLI OPINION SCHEDULE



Modules from previous years will be updated each year as new modules are published

## Methodology and data

### Methodology. Microsimulators developed for the MLI and minimum incomes (MIs) of the ARs

Adapted to the specific characteristics of each regulation

Linked to taxes and benefits to advance the study of complementarity

Linked to other AIReF simulators such as PIT, VAT or simulators of other social benefits

### Data. Three-way agreement AIReF-AEAT-INSS

This agreement **guarantees the provision of the information necessary for the preparation of the rest of modules** and the updating of these modules

Universe of MLI cases processed from May 2020 to December 2021

Universe of income and wealth information for the years 2019 and 2020 of regions under the ordinary regime (44.5m people, 17.1m households). Limits the scope of analysis: Basque Country and Navarre excluded (working on their incorporation)

Other sources have also been used, such as: INE, Eurostat and the Ministry of Social Rights and 2030 Agenda

### Methodology. Interviews with MLI managers, social agents and third sector entities



## Main conclusions: significant progress has been achieved, but there is still room to reach a greater number of families

At 31/12/2021, 40% of eligible households had been reached

284,000  
beneficiary  
households

1,500,000  
applications

Actual annual cost:  
€1.6bn

The start-up of the MLI has been complex

975,000  
cases  
rejected

410,000 due to income criteria

215,000 due to cohabitation  
unit criteria

The processing time has been reduced  
from 150 days at the start to 60 days in  
the second half of 2021

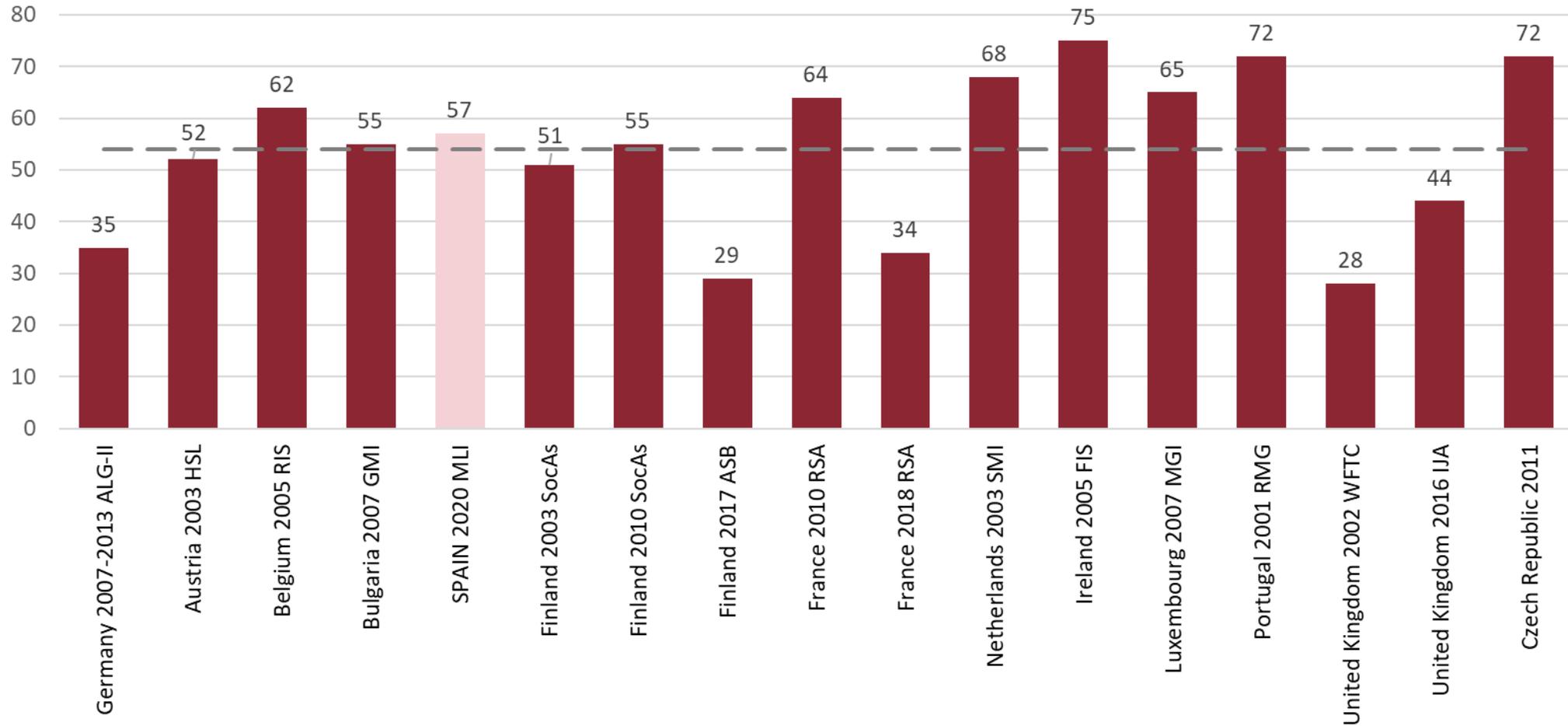
The MLI has the potential to become a more powerful tool in the fight against poverty and social exclusion

700,000 households  
could be  
beneficiaries

400,000 households that are  
eligible have not yet  
requested it (12/21)

Fully deployed, it would  
cost €2.8bn

## The management of this type of benefit is complex: high percentages of non-take-up\* are a common feature of international practice



**Source:** Prepared by the author based on Eurofound 2015; Marc et al. 2022 and author's calculations.

\* Potential beneficiaries of the benefit who do not apply for it

## Bearing in mind the findings made, AIReF makes the following proposals



	<b>Undefined objectives</b>	<b>Specify the objectives to evaluate their fulfilment</b>
<b>Short term</b>	<b>Rejected cases and coverage</b>	<b>Detailed analysis of rejected cases on the grounds of income and cohabitation unit</b>
	<b>High non-take-up</b>	<b>Analyse the nature of household assets</b>
	<b>Overlapping MLI &amp; MIs</b>	<b>Investigate causes, promote publicity, continue simplification</b>
<b>Medium term</b>	<b>Lack of integration with other benefits and taxes</b>	<b>Improve the fit between the two, promote information sharing</b>
		<b>Once all the information is integrated into a common repository</b>
		<b>Move towards a system that starts <i>ex officio</i> and integrates benefits and taxes that pursue the same purpose</b>

# 2

## Findings

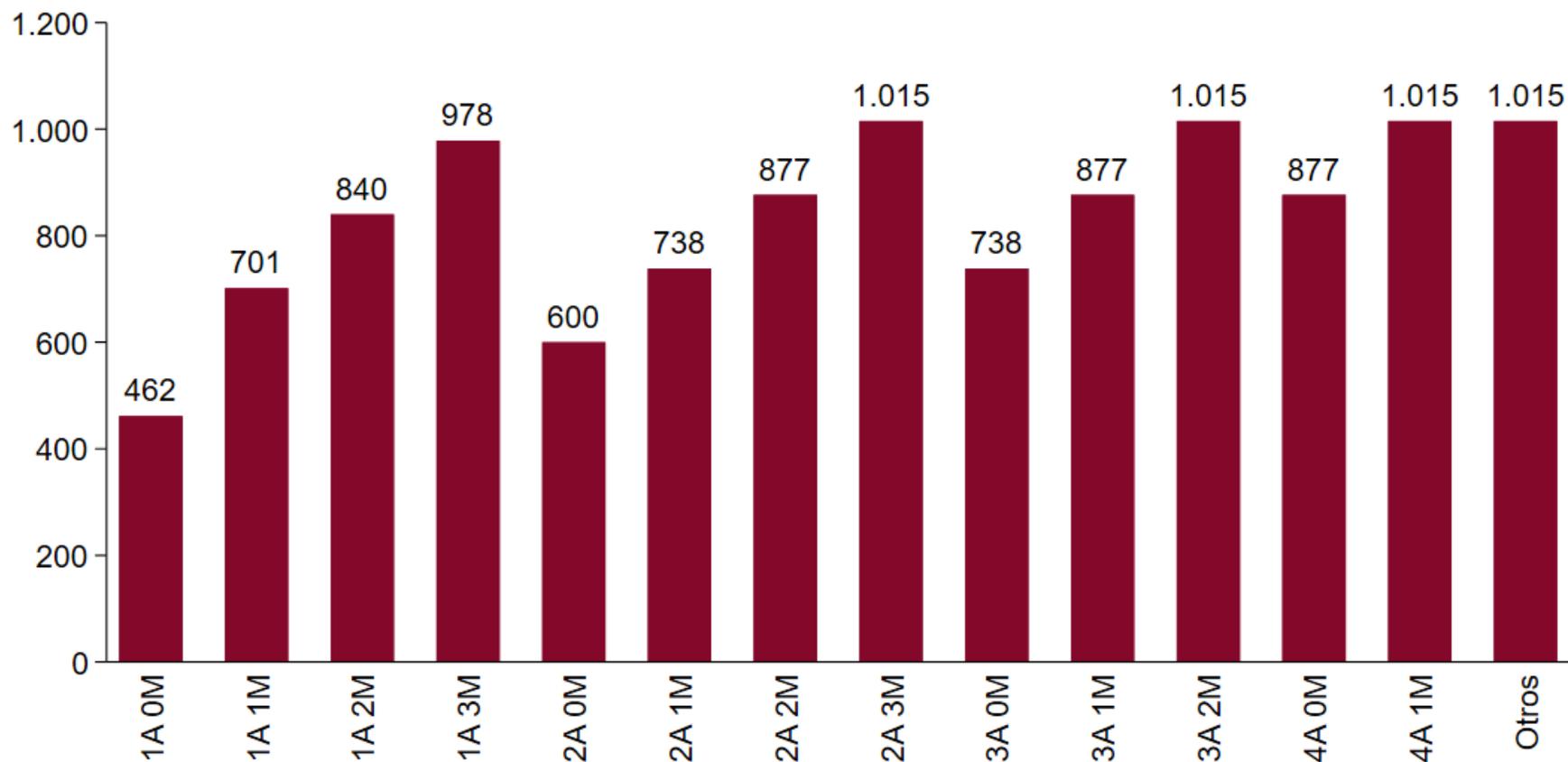
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# Modules 1 and 2: Design and results

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## The MLI guarantees minimum income levels throughout Spain, which vary depending on the type of household

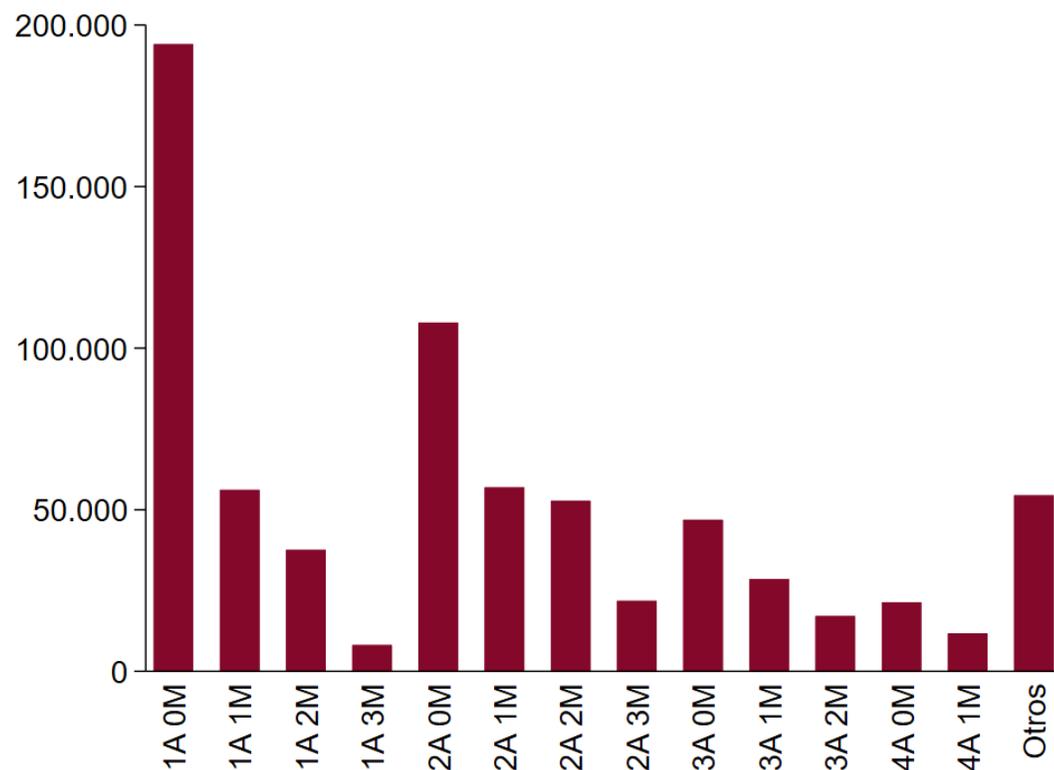
MLI-guaranteed income by household type  
(euros per month, fiscal year 2020)



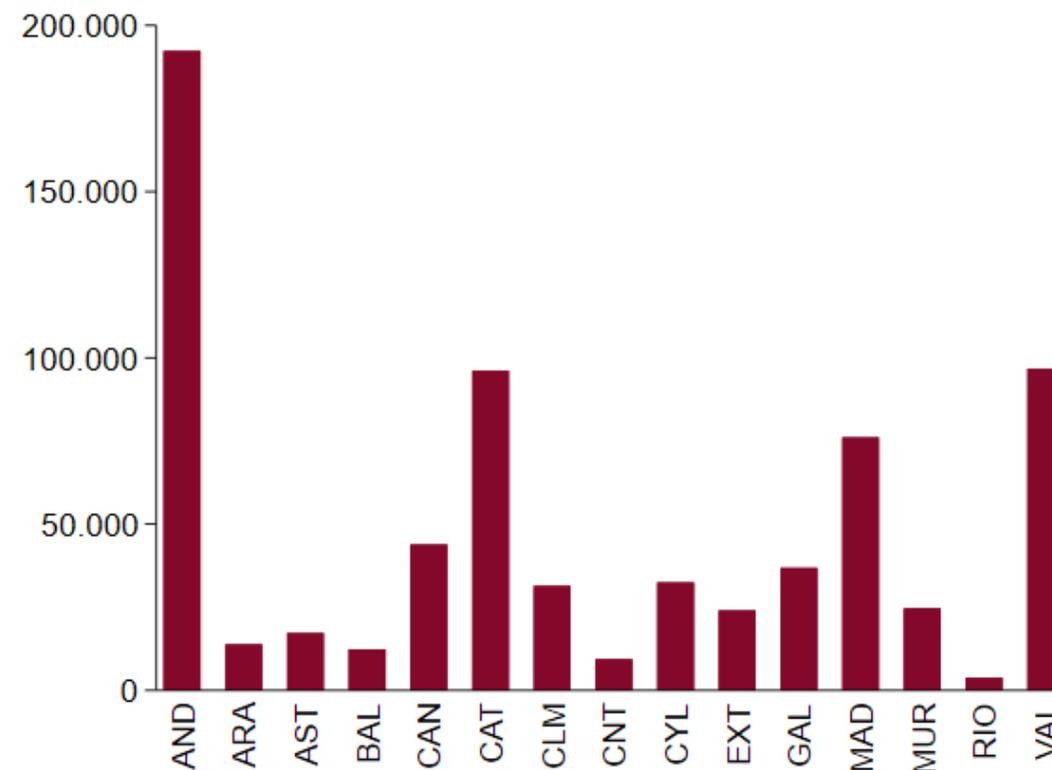
Source: AIReF-MLI\_MI micro-simulator.

## The MLI can cover 700,000 households at a cost of €2.8bn (830,000 households and €3.2 billion including the Basque Country and Navarre)

MLI beneficiaries by household type  
(if fully implemented)



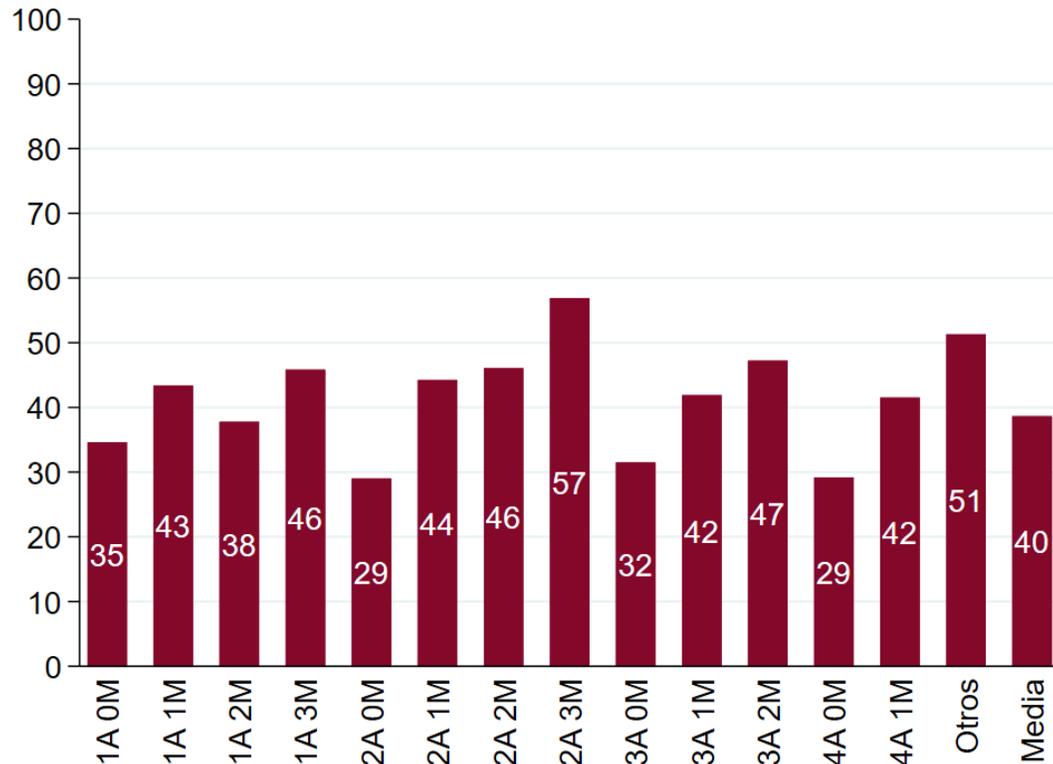
MLI beneficiaries by AR  
(if fully implemented)



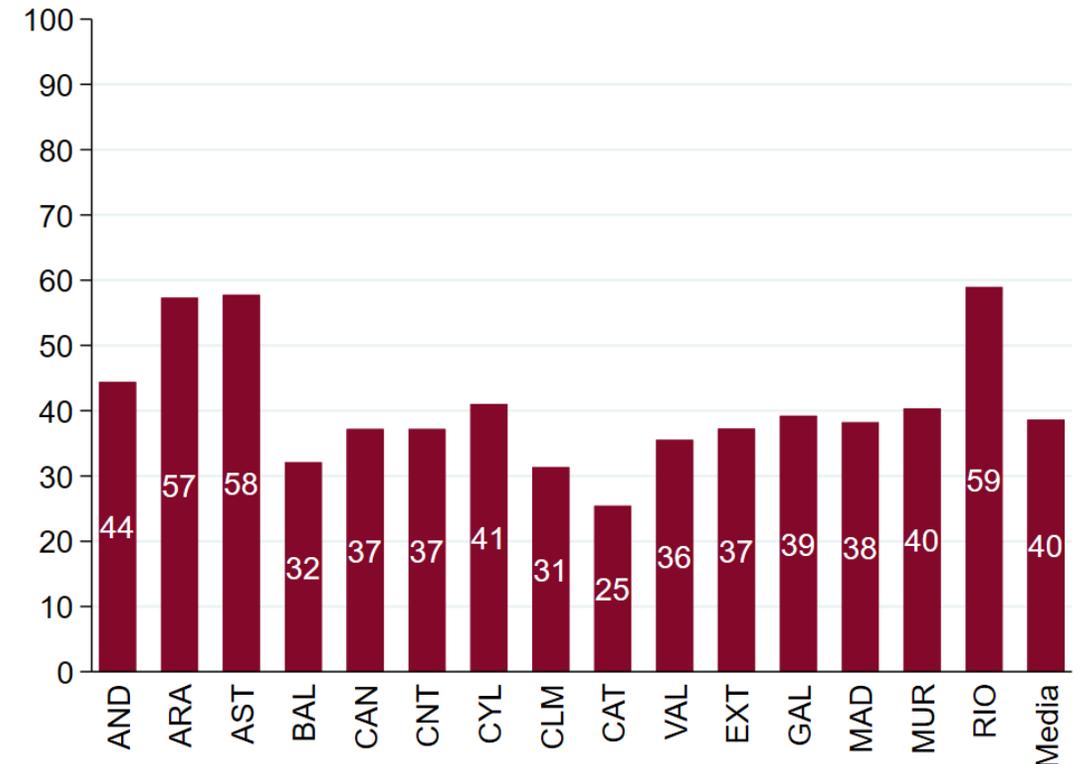
Source: Prepared by the author based on the merger of the AIReF-MLI\_MI Simulator - MLI cases

**At December 31<sup>st</sup>, 2021, the MLI had reached 284,000 households (40% of its potential) with a cost of €1.6bn per year (56% of the budgeted amount)**

**Extent of MLI implementation by household type  
(% of beneficiary households over potential)**



**Extent of MLI implementation by AR  
(% of beneficiary households over potential)**

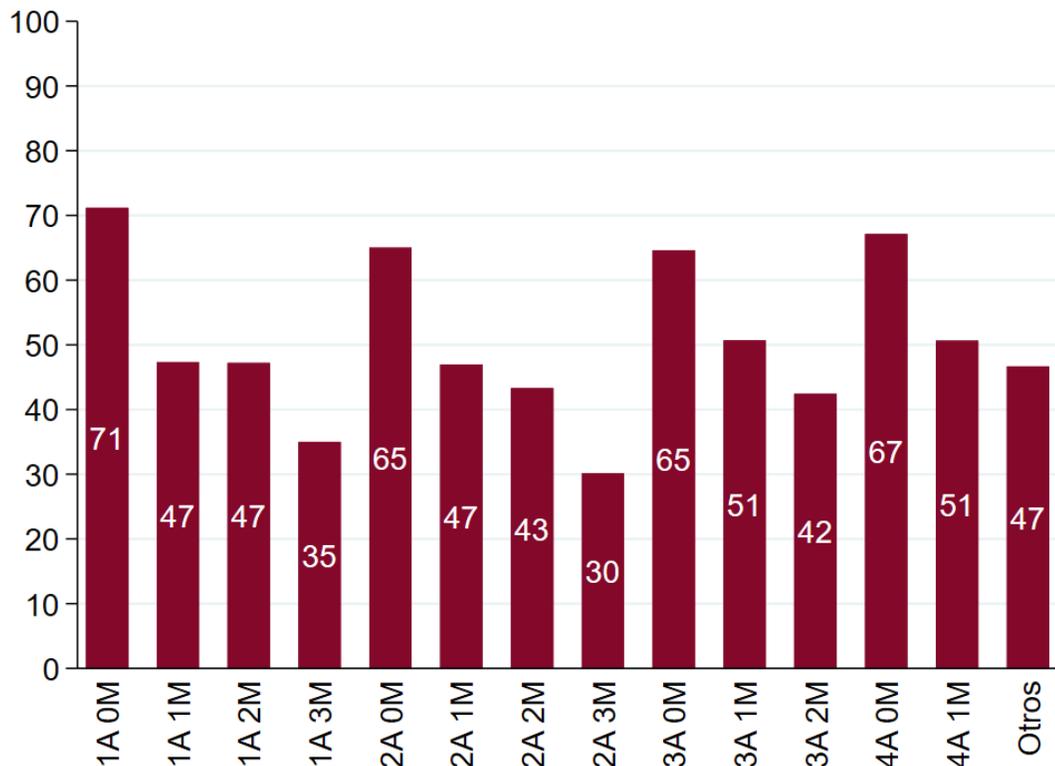


Source: Prepared by the author based on the merger of the AIReF-MLI\_MI Simulator - MLI cases

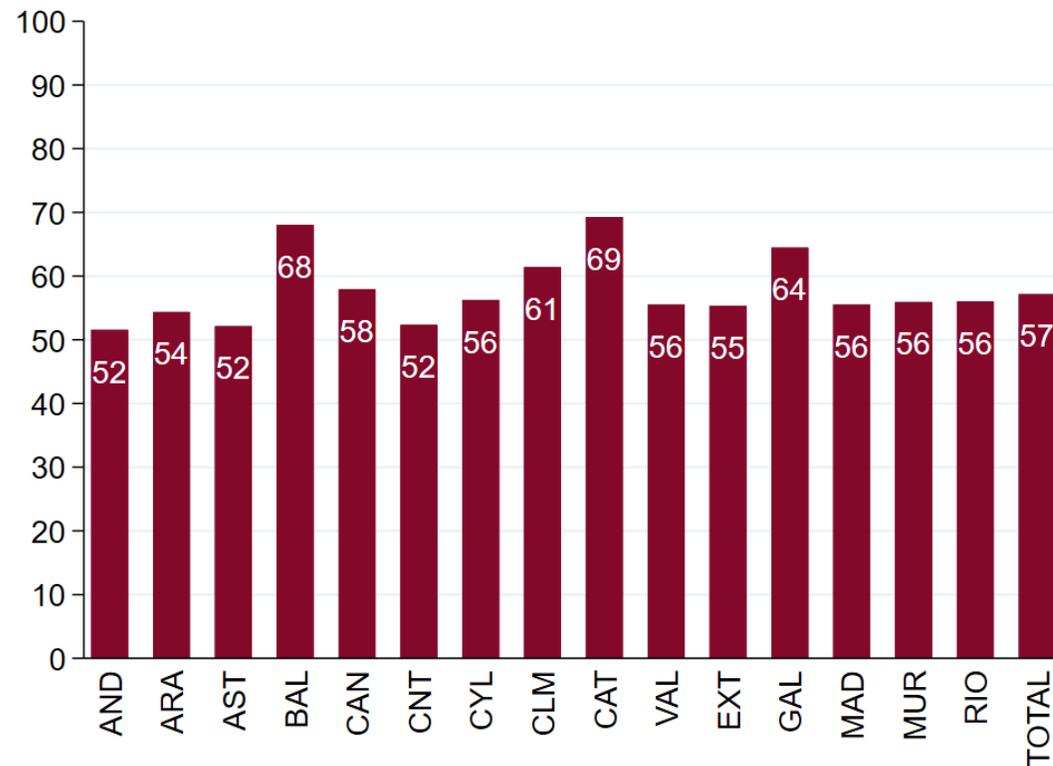
**The MLI has reached more households with children because 113,000 beneficiaries (40%) come from the previous dependent child allowance (automatic conversion May 2020)**

# But there are still 400,000 households that could receive the MLI and have not requested it (non-take-up, 57% of the potential)

Non-take-up by household type



Non-take-up by AR

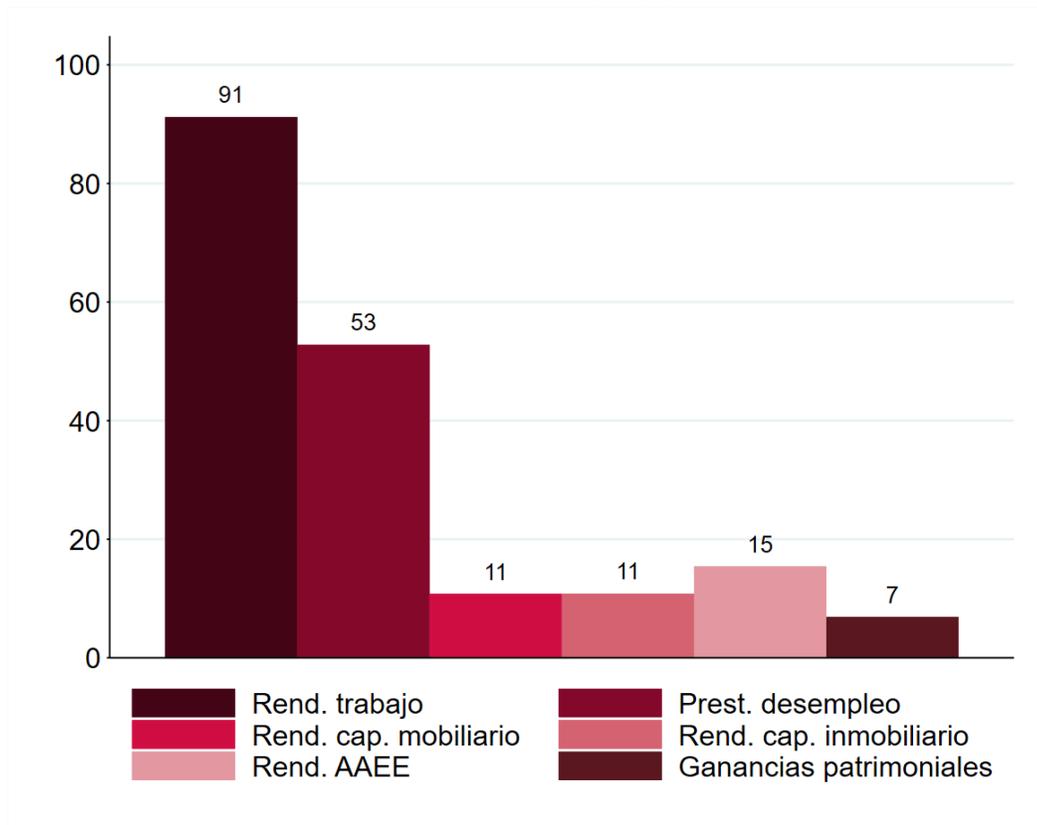


Source: Prepared by the author based on the merger of the AIReF-MLI\_MI Simulator - MLI cases

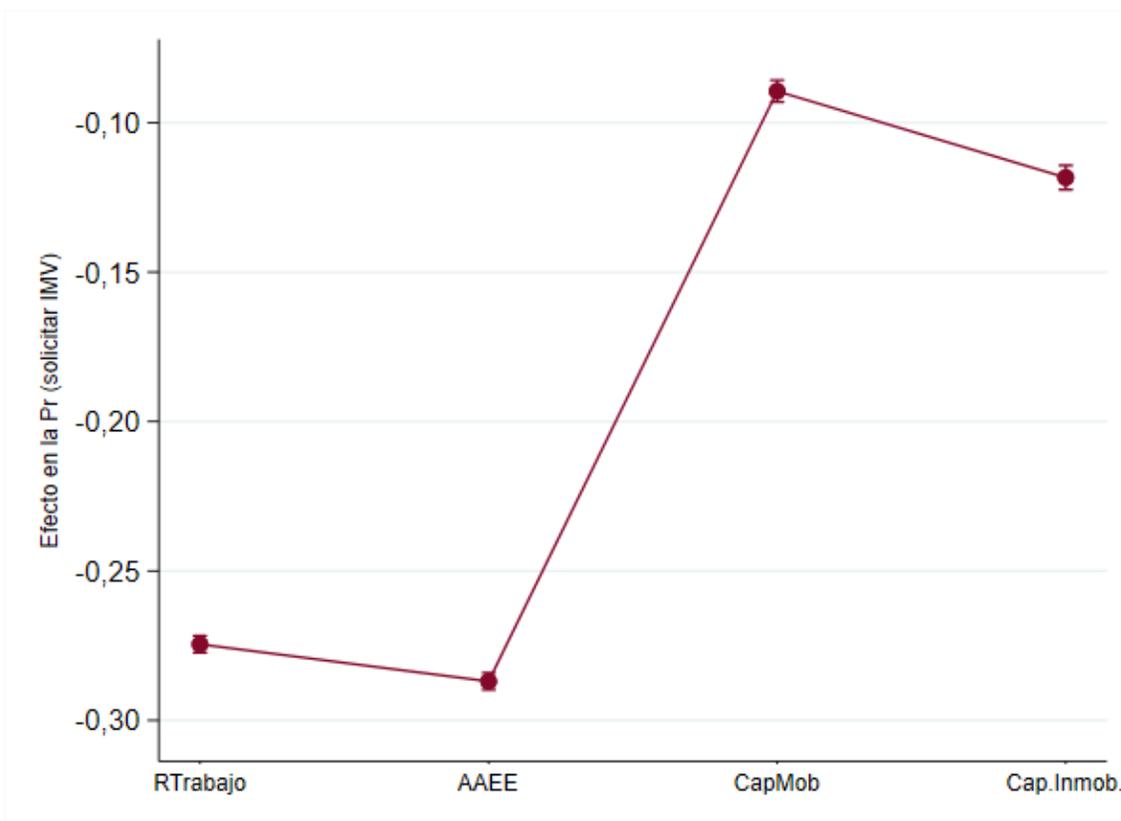
16.000 households (3% of total) which were potential beneficiaries have applied and have been rejected due to formal errors, incomplete information or because, according to the information provided, they were not ultimately beneficiaries

# Non-take-up households have incomes and the fact of having an income reduces the probability of applying for the MLI (extensive margin)

Percentage of non-take-up households that have an income, by type



Probability of applying for MLI (among potential MLI beneficiary households) of income-earning households, by type

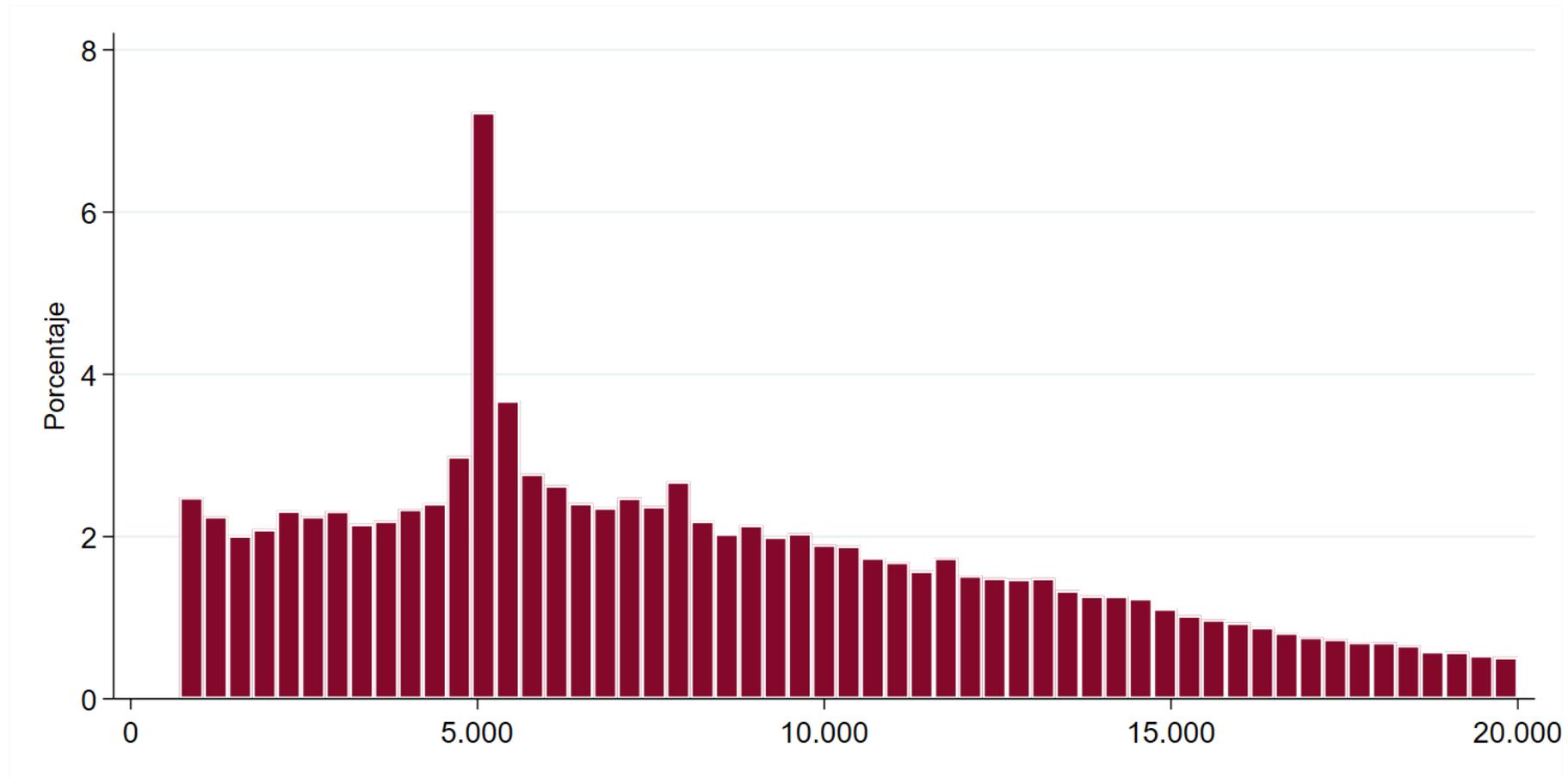


Source: Prepared by the author based on the merger of the AIReF-MLI\_MI Simulator - MLI cases

**NB:** Conditional regression by Autonomous Region, number of minors, income level and age

# There is a concentration of income of non-take-up households around 430.27 euros per month (unemployment benefit for 2020)

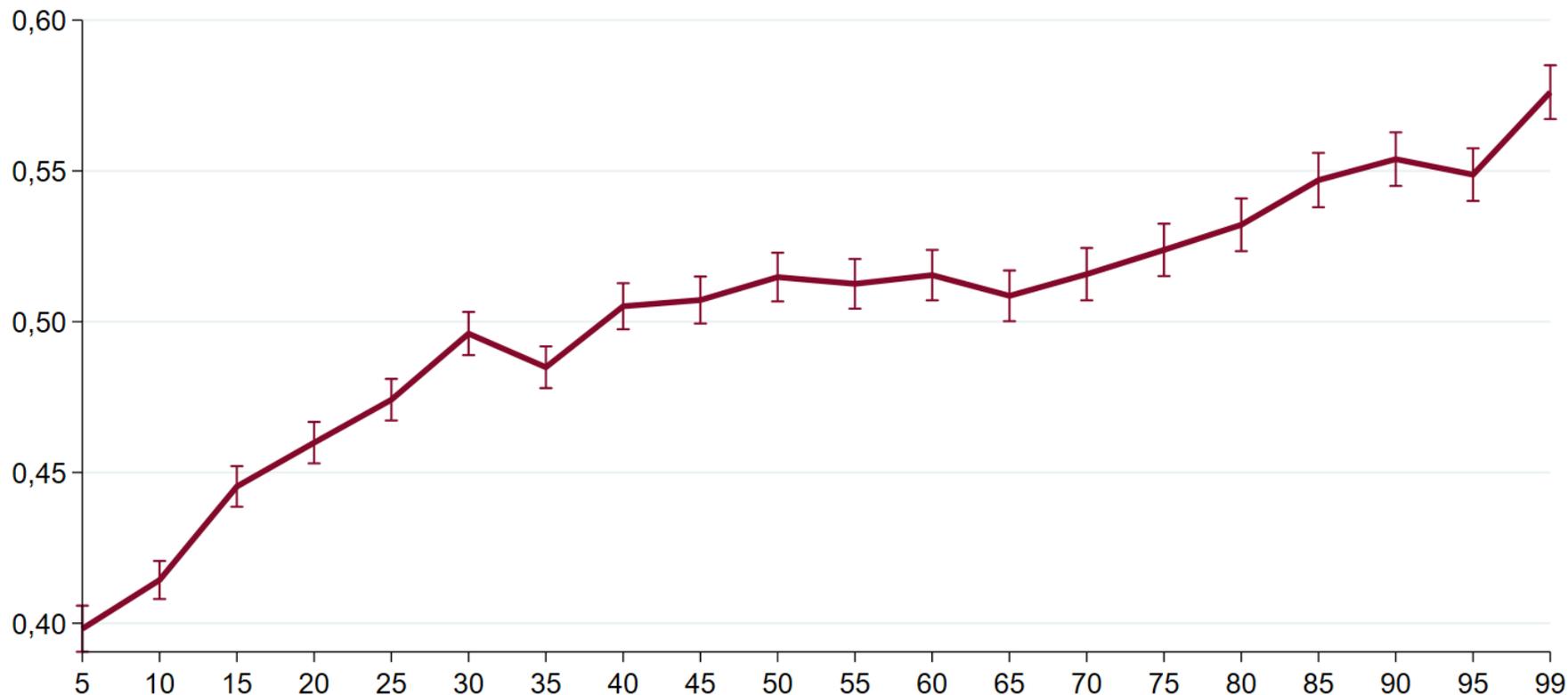
Distribution of non-take-up household income



Source: Prepared by the author based on the merger of the AIReF-MLI\_MI Simulator - MLI cases

# The amount of household income (intensive margin) and, in particular, the gain from the MLI positively affects the probability of applying

Households' probability of applying for the MLI based on the income gain that it would mean for the households

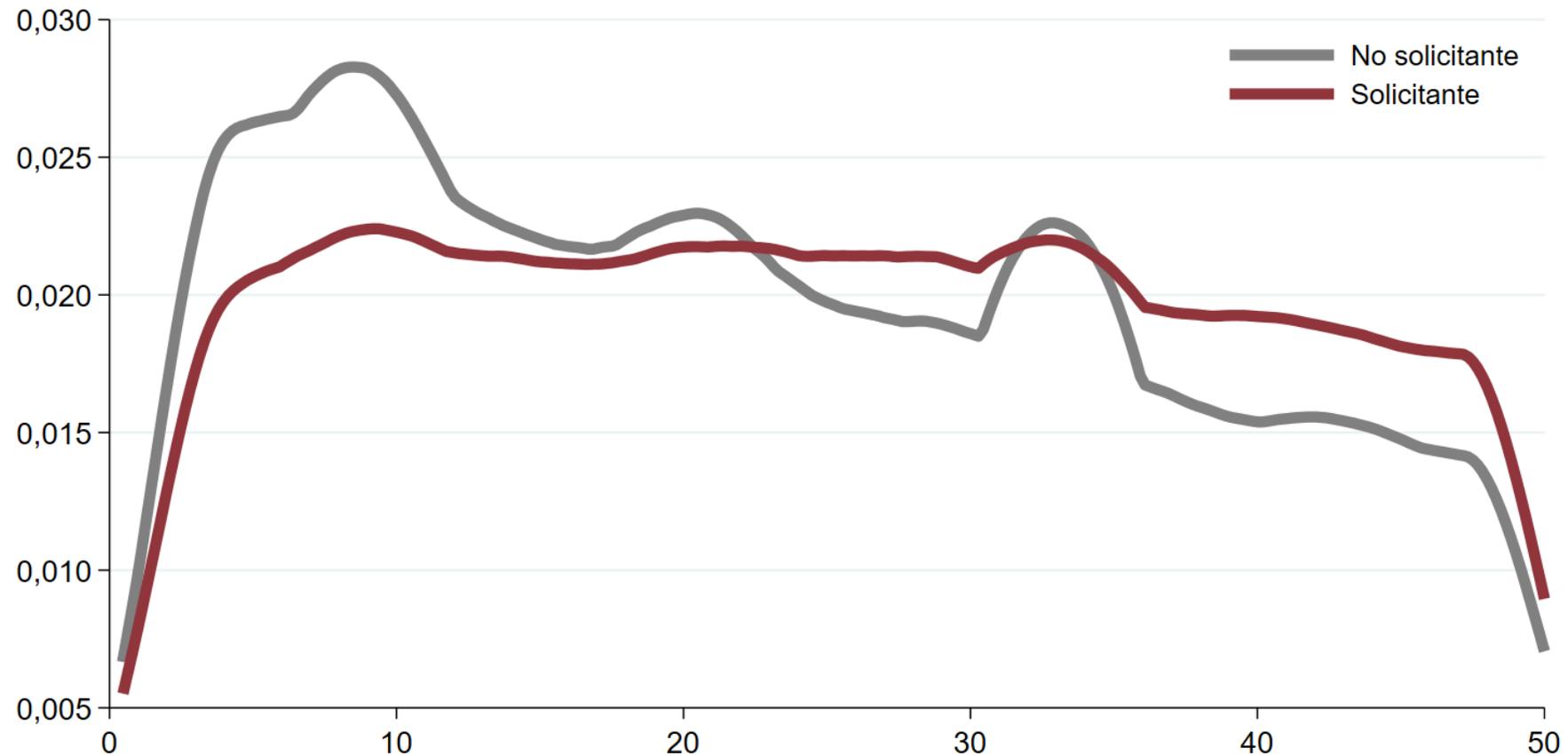


Note: Probabilities conditioned by Autonomous Region, number of minors, income level and age  
Source: Prepared by the author based on the merger of the AIReF-MLI\_MI Simulator - MLI cases.

## Households in which the MLI represents a greater increase in income apply for it more often

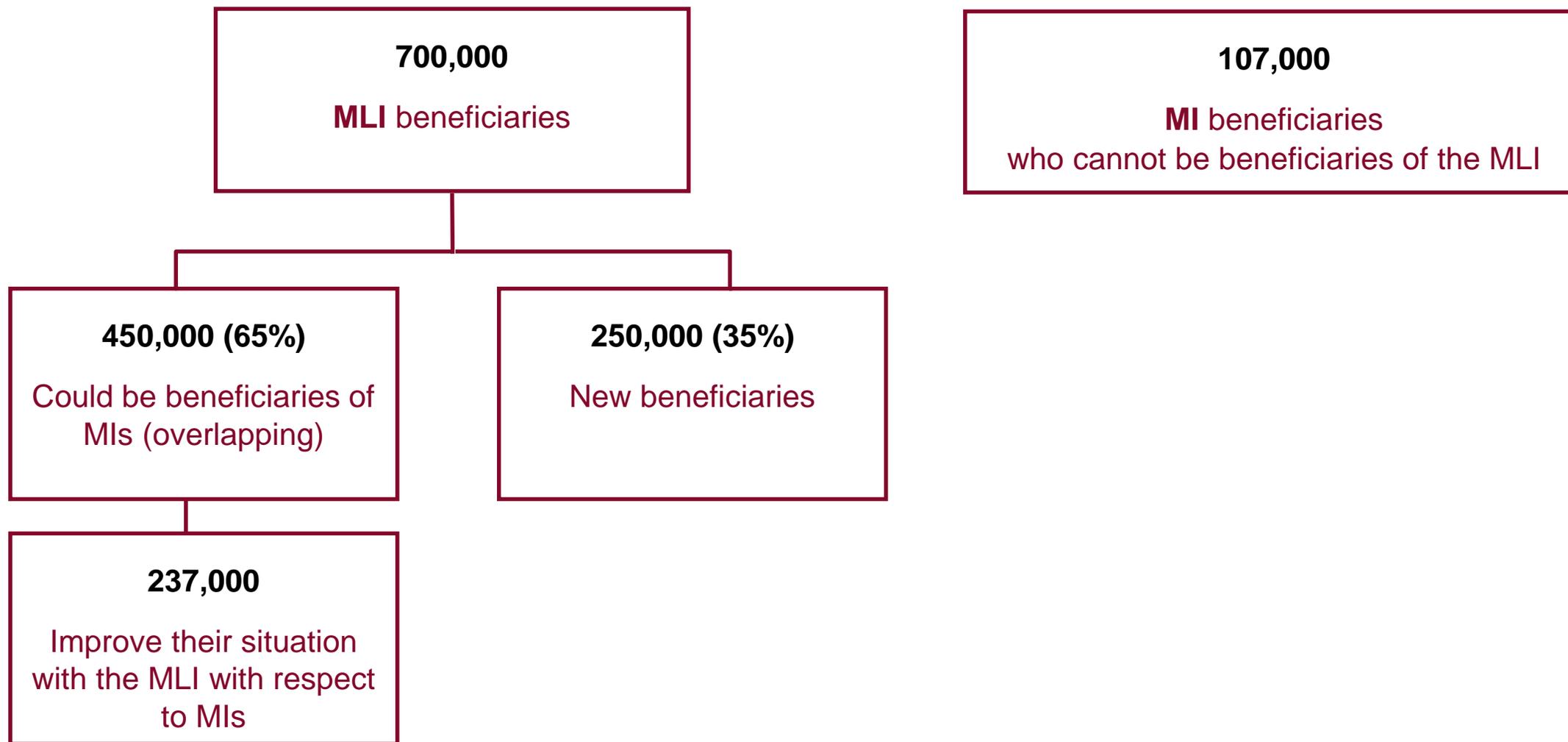
## Non-take-up households are concentrated among those that would obtain a small income gain with the MLI

Distribution of applicants and non-applicants according to potential gain from receiving the MLI



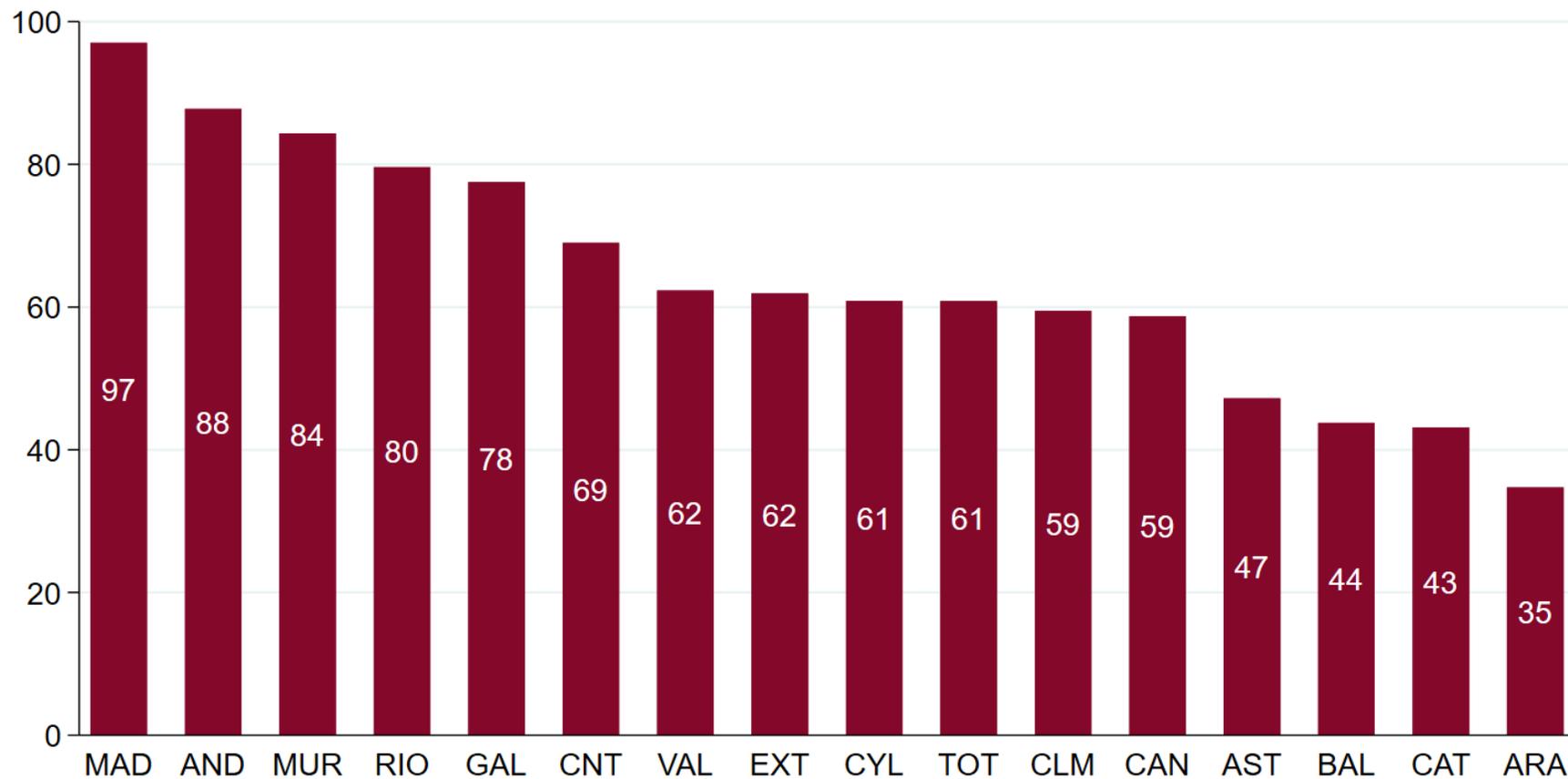
Source: Prepared by the author based on the merger of the AIReF-MLI\_MI Simulator - MLI cases

**Finally, it is important to bear in mind that the beneficiaries of the MLI might be previously covered by the MI programmes of the ARs.**



# The overlap between MIs and MLI frees up resources for the ARs that could amount to €1.68bn

Percentage of the cost of regional minimum incomes covered by a fully implemented MLI



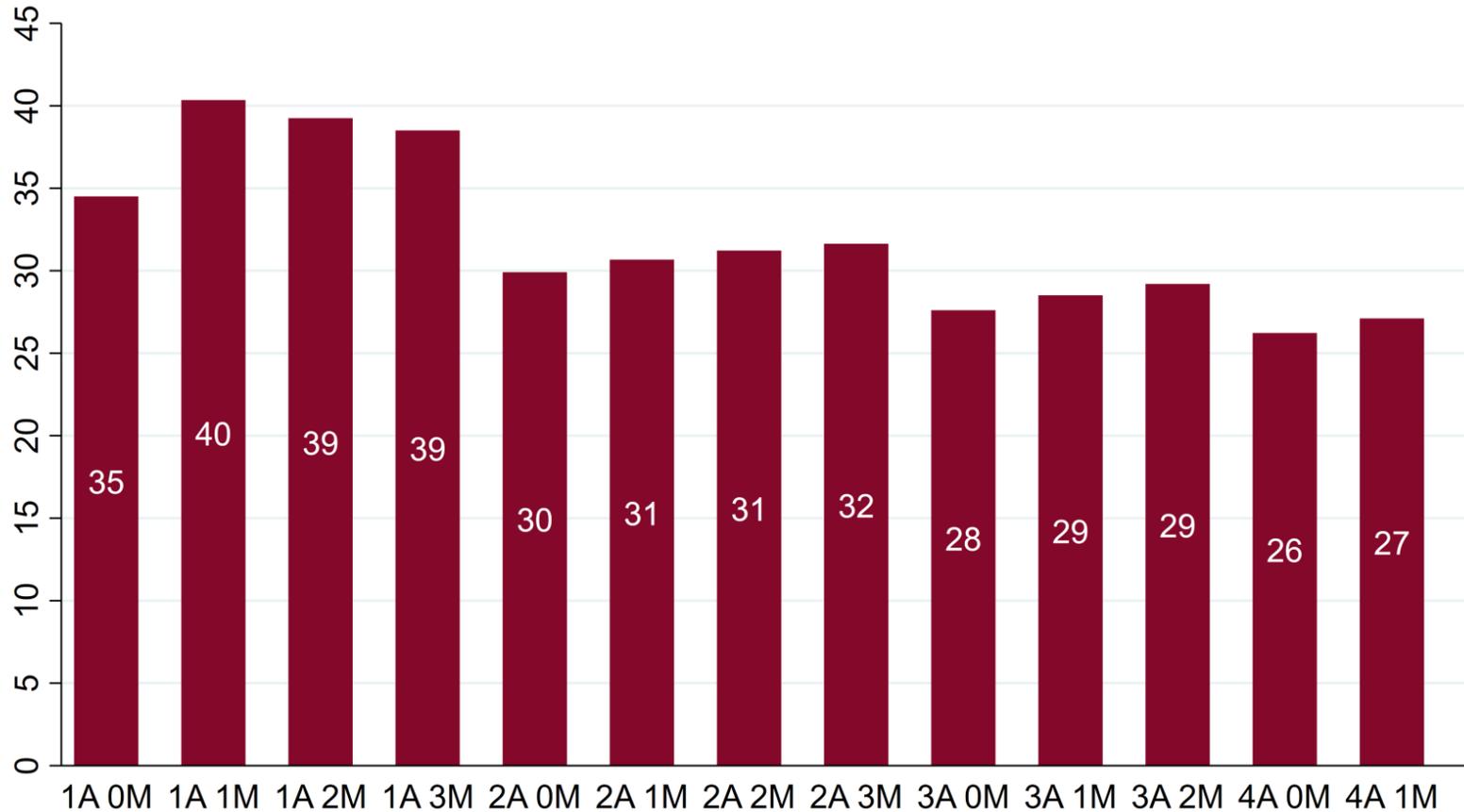
Source: AIReF-MLI\_MI micro-simulator.

# Impact of the MLI on poverty

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**POVERTY: The law on the MLI does not explicitly set a quantitative target of poverty reduction. However, the amounts it guarantees indicate that it is aimed at households with incomes below 40% of the median**

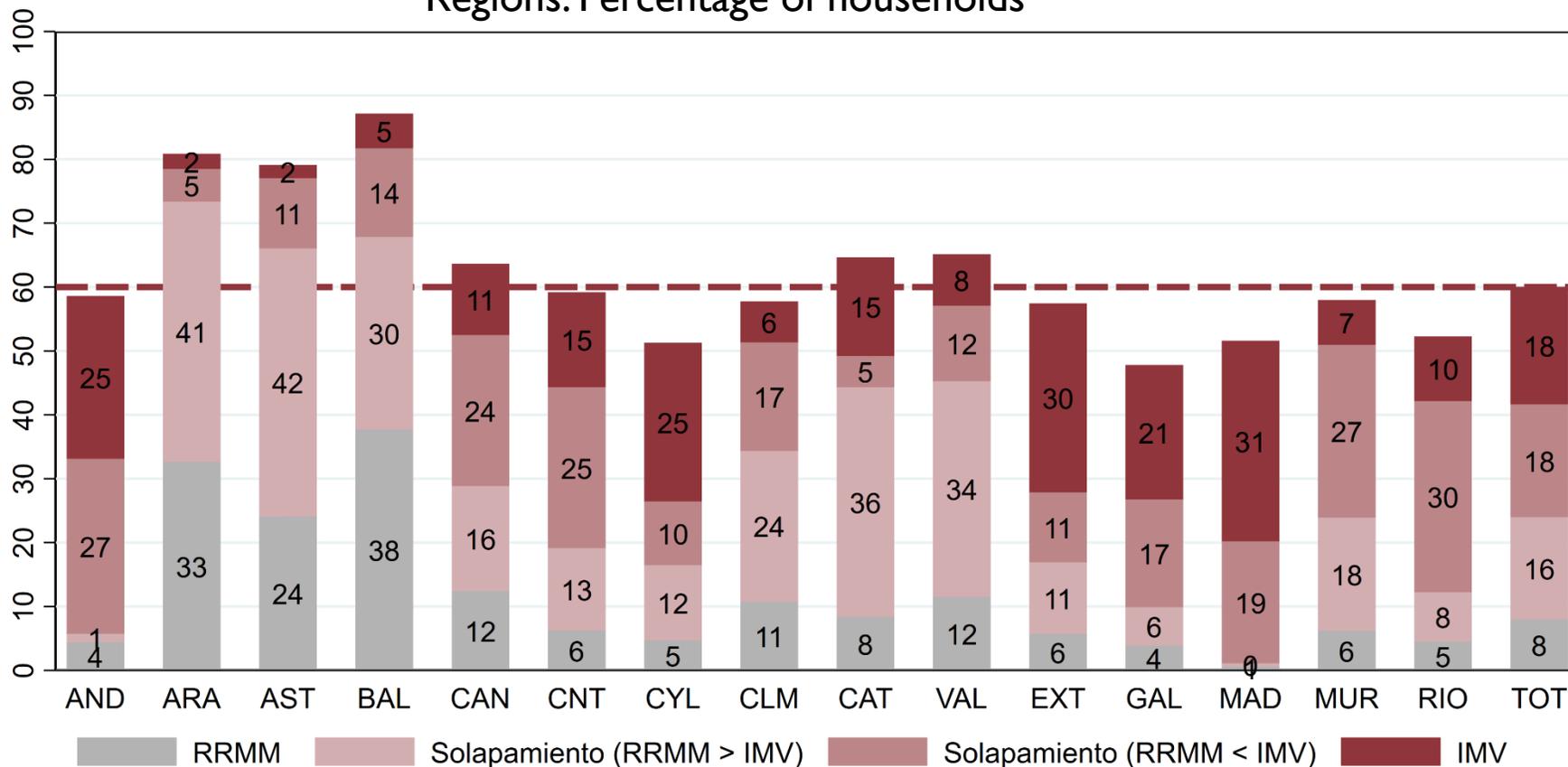
Percentage of the median of income guaranteed by the MLI by household type. 2020



Source: AIReF-MLI\_MI micro-simulator.

## Coverage: the MLI together with the MI programmes (fully implemented) could cover 60% of households at risk of poverty

Coverage of the MLI designed with respect to households in poverty and the incomes of the Autonomous Regions. Percentage of households

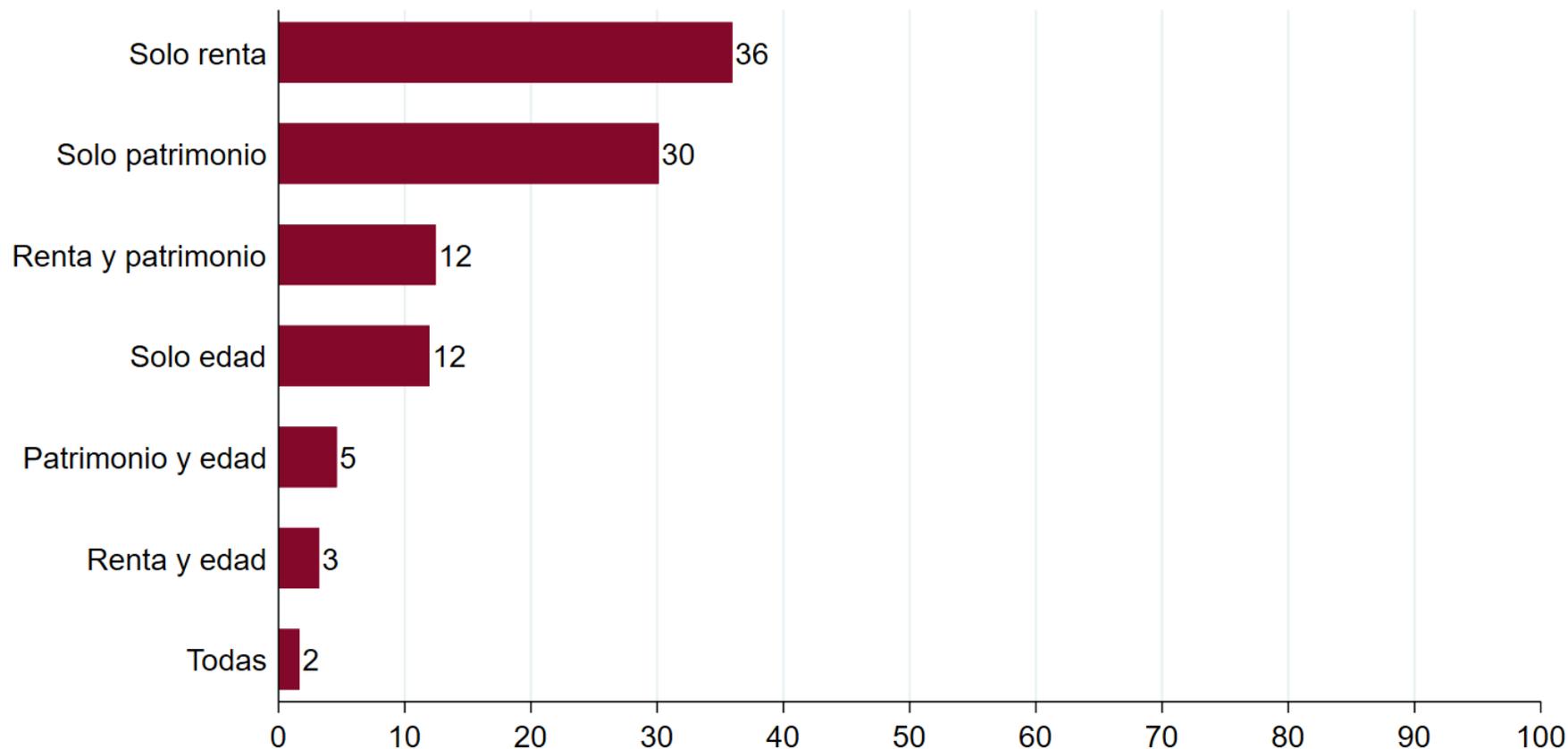


Source: AIReF-MLI\_MI micro-simulator.

**Households at risk of poverty (40% of the median) : 1.3 million households**

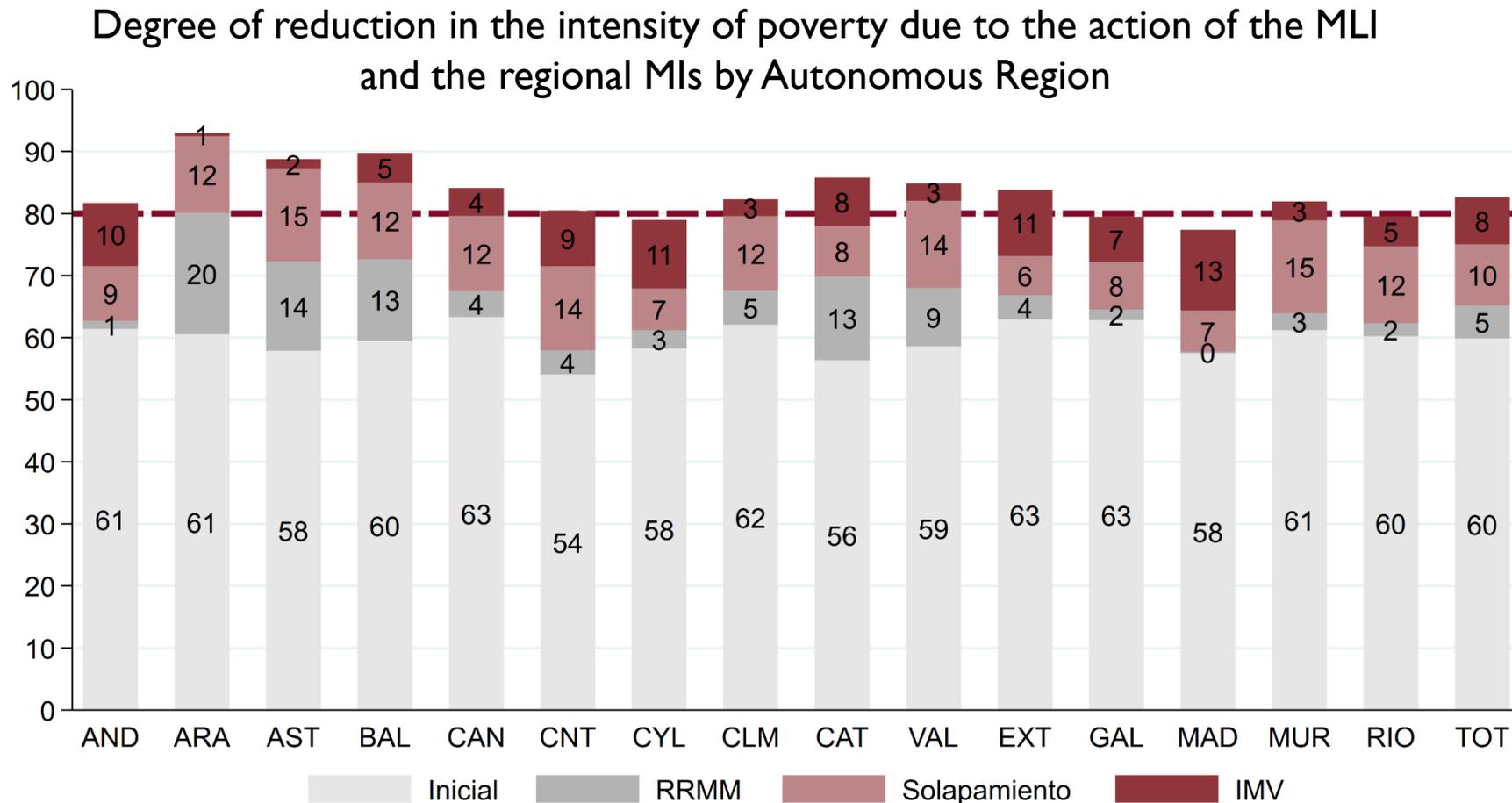
## Coverage: But there would still be 40% of households at risk of poverty who are not entitled to the MLI or the MIs. (540,000 households)

Reasons why households in poverty are not covered by the designed MLI. Percentages



Source: AIReF-MLI\_MI micro-simulator.

## Poverty intensity or gap: the MLI together with the MI programmes equalise the poverty gap of all ARs by around 20%

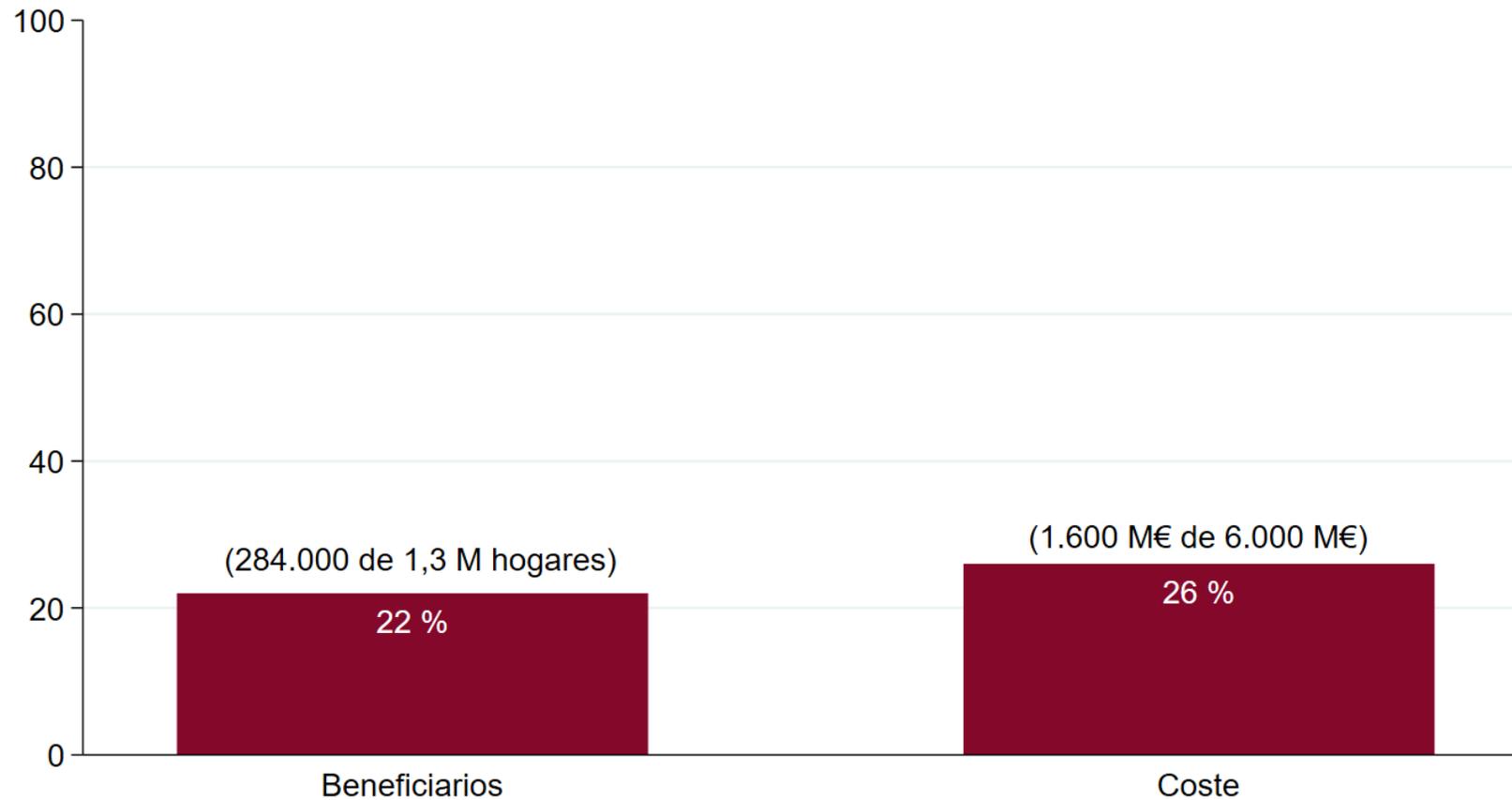


Source: AIReF-MLI\_MI micro-simulator.

Narrows gap by over 10 points in Andalusia, Castile and Leon, Extremadura and Madrid

## Finally, at December 2021, the MLI covered 22% of households at risk of poverty (284,000 out of 1,300,000)

Extent of MLI implementation at 31 December 2021 (by % of poverty)

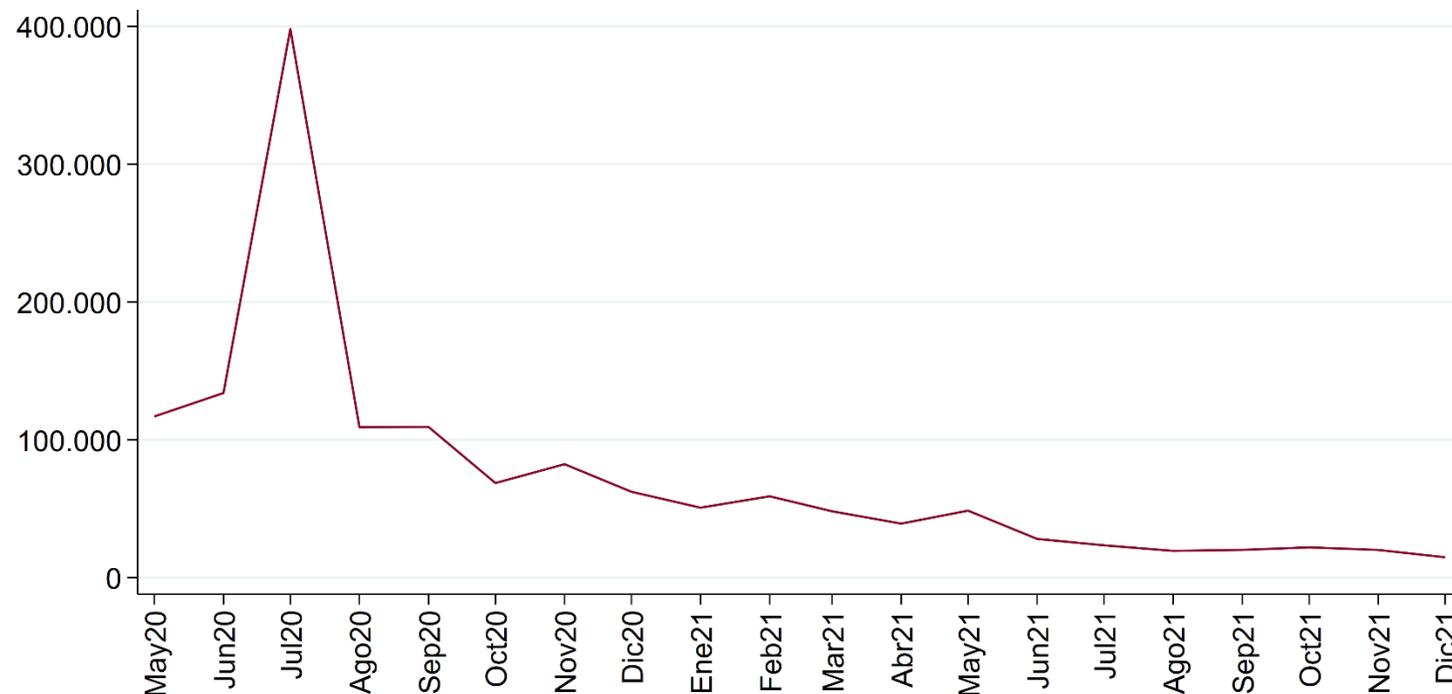


# Module 3: Implementation and management

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## The MLI received 1.5 million applications (1.3m decided on\*) up to December 31<sup>st</sup>, 2021. Most were concentrated in the first few months

Number of MLI applications decided on per month from May 2020 to December 2021



Source: Prepared by the authors based on exploitation of MLI cases.

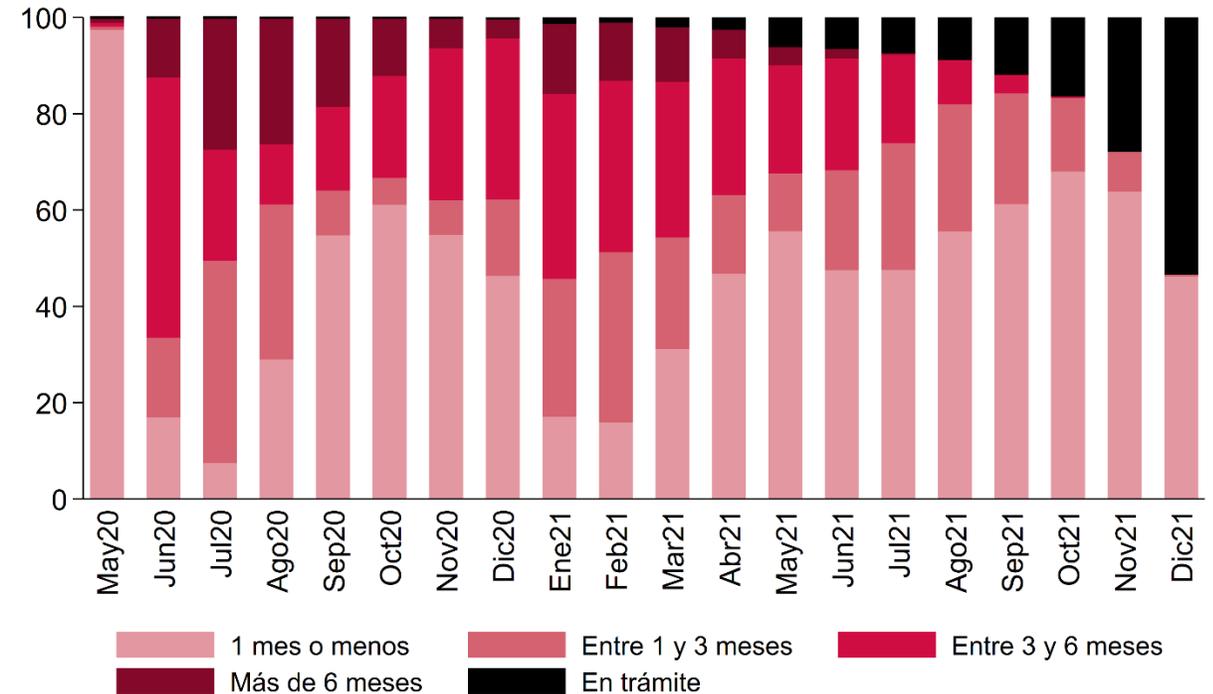
**\*Pro memoria:** (applications decided on: 352,000 applications approved and 975,000 refused or inadmissible); (117,000 cancelled); (31,000 in process)

**The average effective time for deciding on the cases has been reduced from 150 to 60 days. The percentage of cases taking more than three months to be decided on has been reduced (Deadline for deciding on MLI: 6 months)**

Time for deciding on applications between June 2020 and August 2021



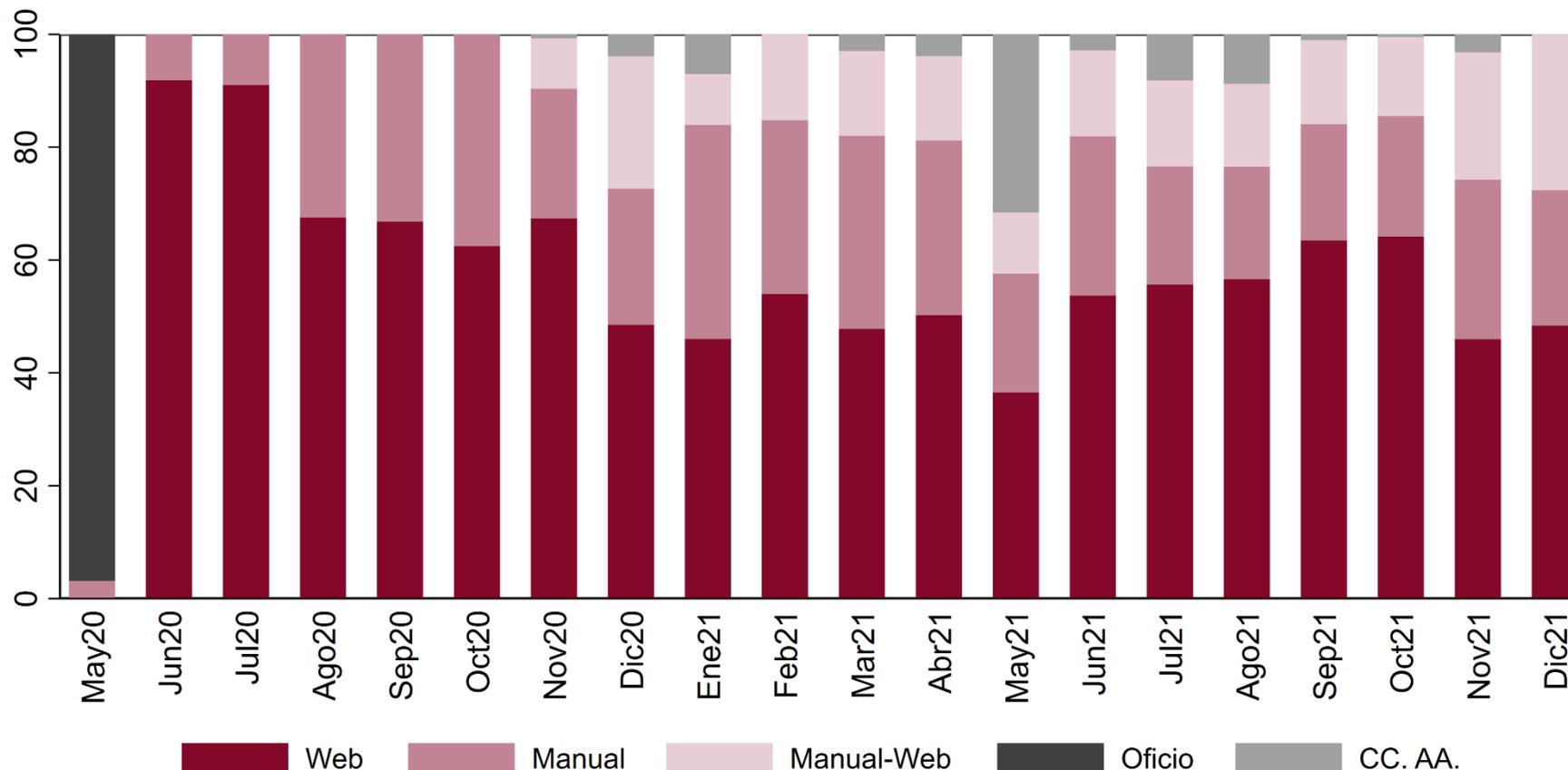
Percentage of cases decided on by timeframe



Source: Prepared by the authors based on exploitation of MLI cases

## 65% of the cases have been processed via the website although the percentage has decreased over time in favour of the manual and mixed channel

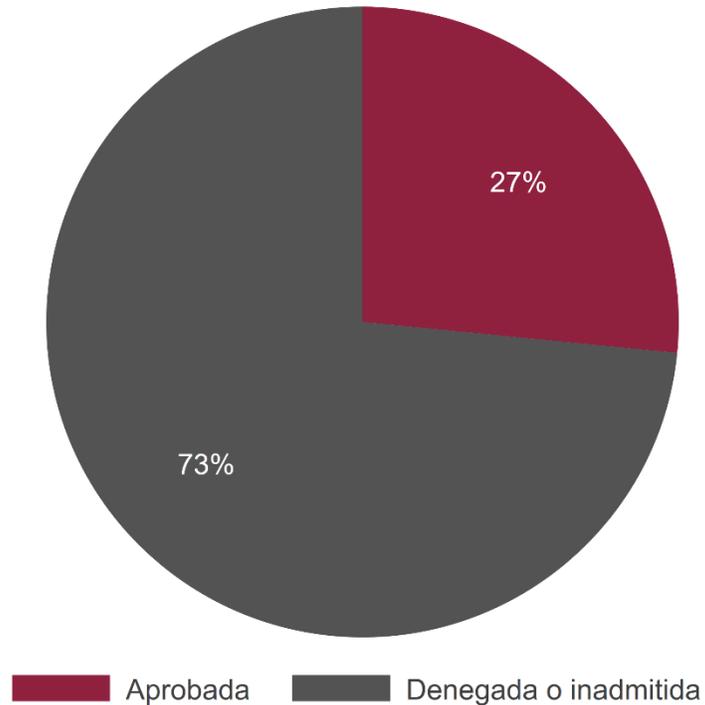
Evolution over time of the channel for processing applications



Source: Prepared by the authors based on exploitation of MLI cases

# REJECTIONS: 975,000 cases have been rejected or deemed inadmissible (73% of those decided on), although this percentage has fallen over time (to 60%)

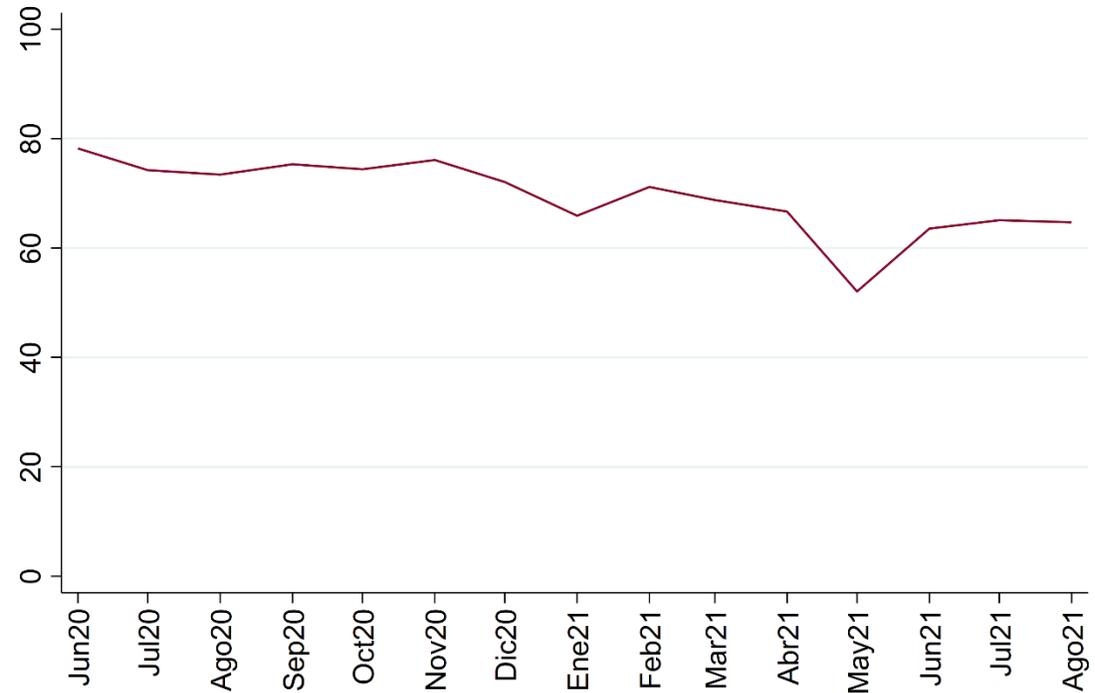
Percentage of applications decided on by status



Note: Excluding cancelled and pending cases.

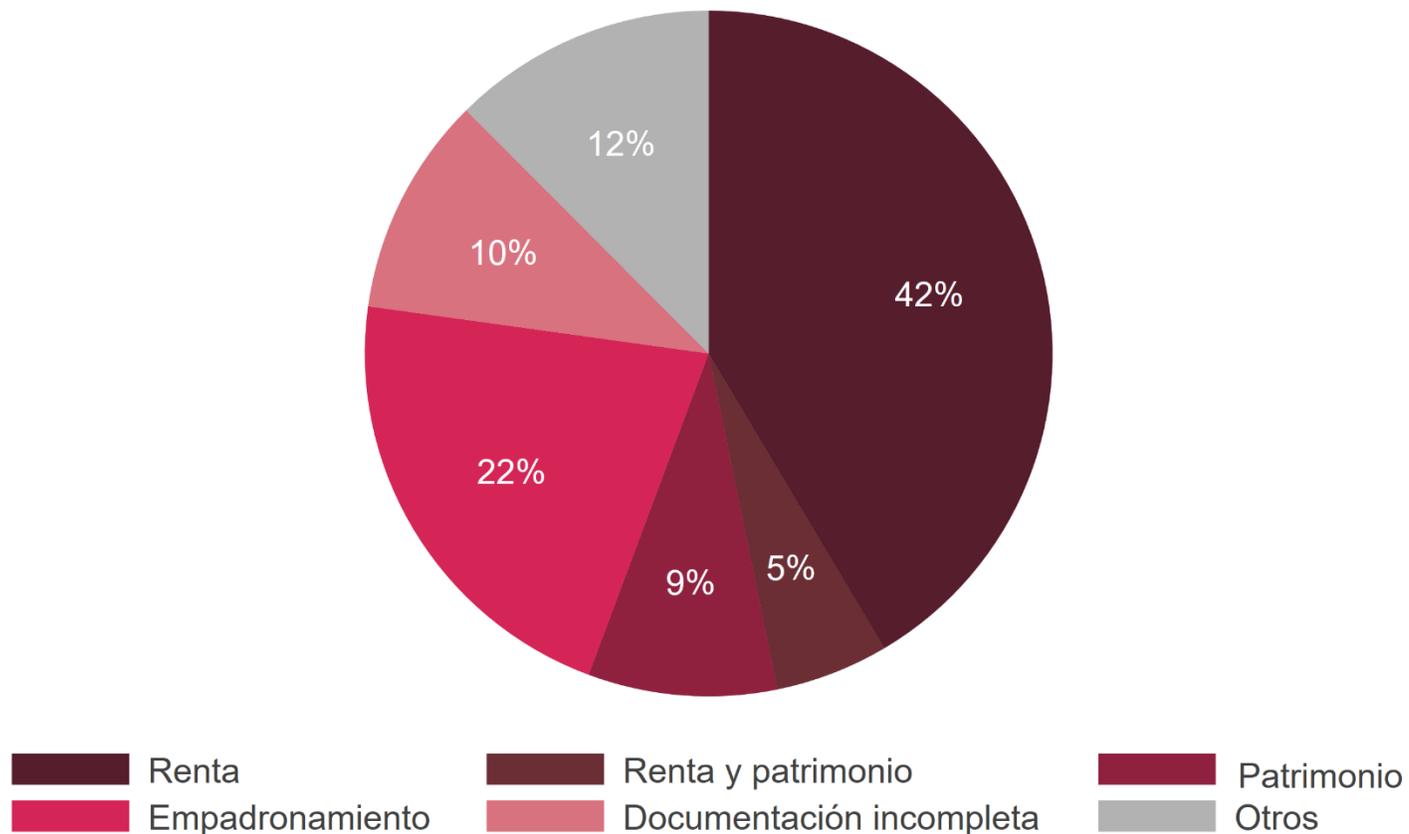
Source: Prepared by the authors based on exploitation of MLI cases

Percentage of rejected applications by month of application



## The main reason for rejection is non-compliance with the income criterion, followed by unit of cohabitation and local registration requirements

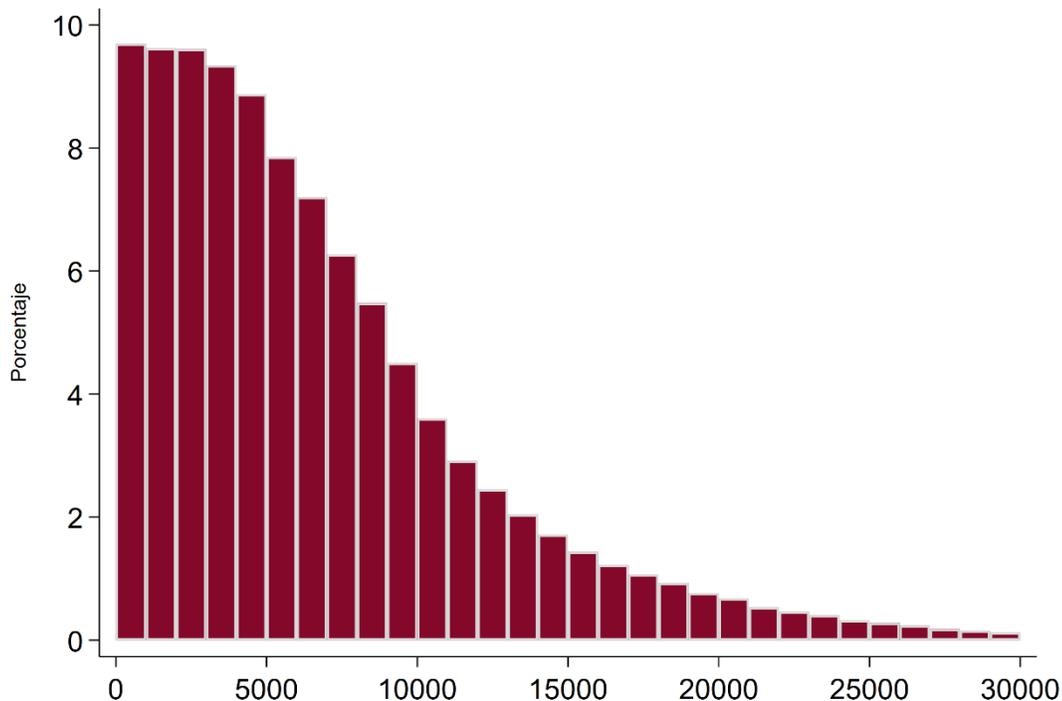
Grounds for rejection of the MLI



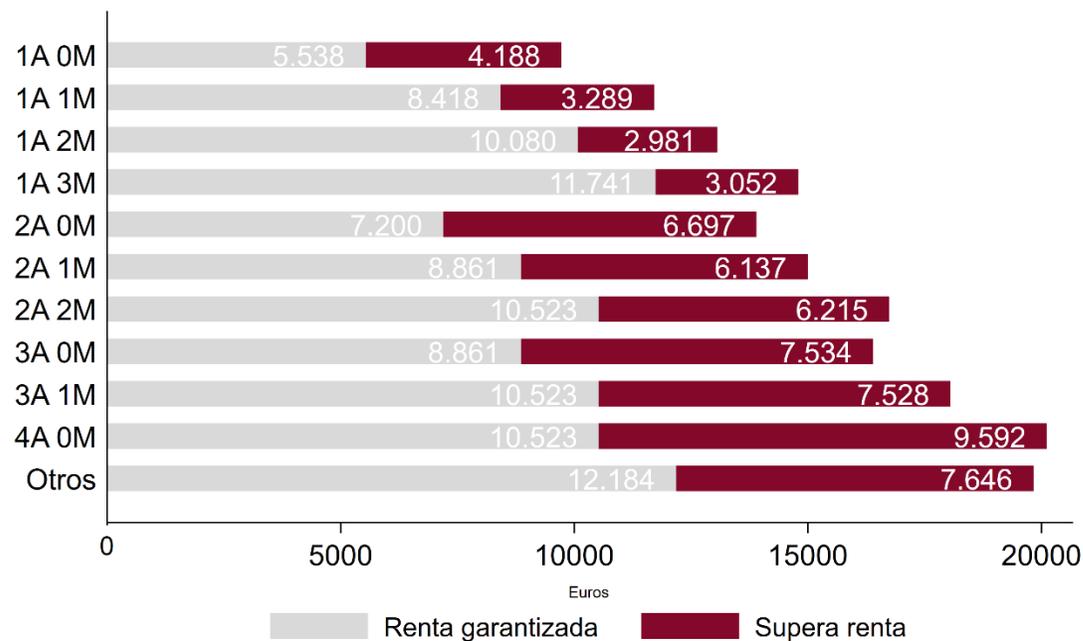
Source: Prepared by the authors based on exploitation of MLI cases

## REJECTIONS DUE TO INCOME: the cases rejected due to income exceed the guaranteed income by 70% (excess: median €5,400)

Distribution of excess income from rejected cases



Median amount of excess by household type

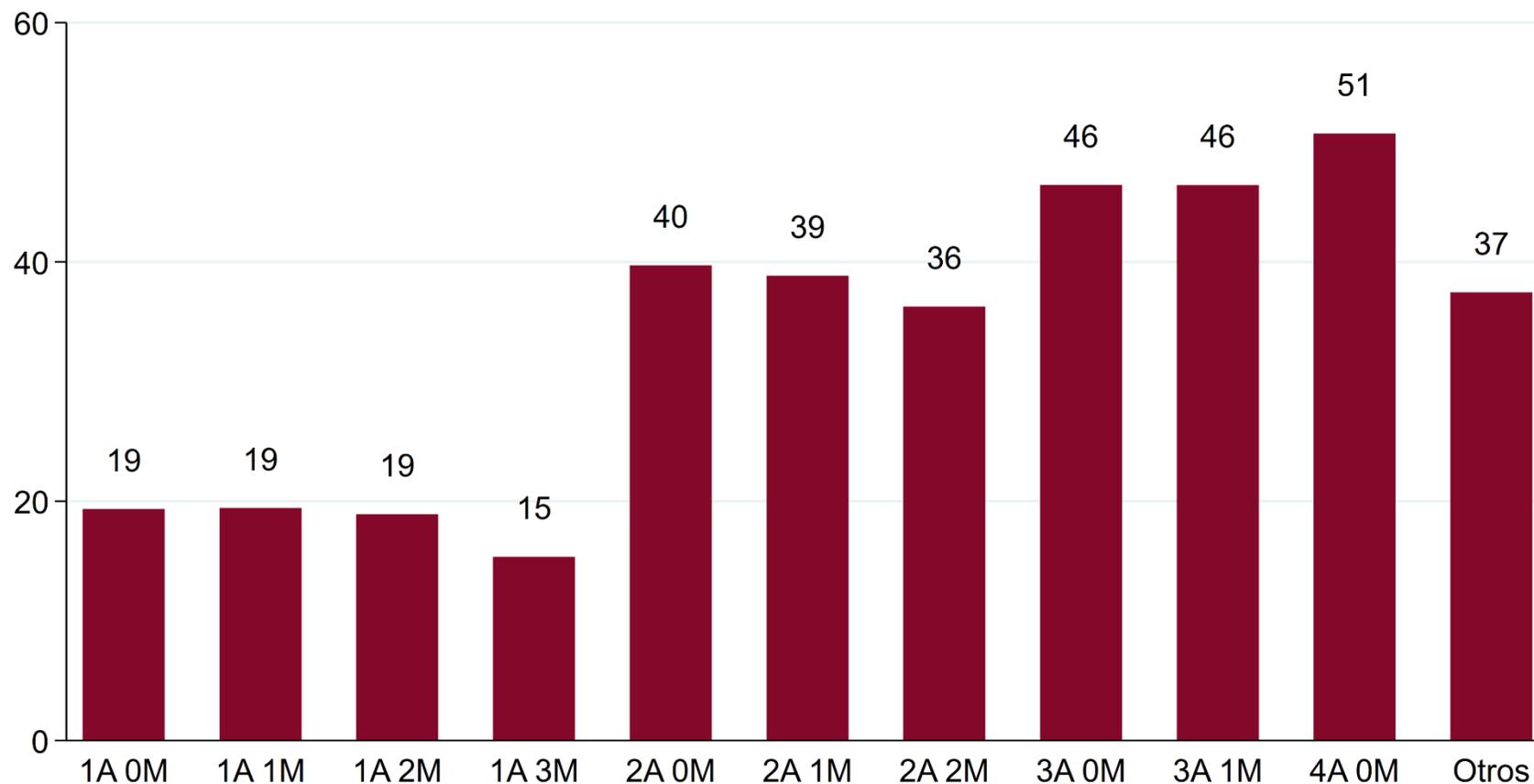


Source: Prepared by the authors based on exploitation of MLI cases

The cases rejected due to income of two or more adults exceed the income to a greater extent, which seems to indicate that they expected a higher guaranteed income when they applied for it

## REJECTIONS DUE TO INCOME: the rate of rejections due to income is higher in households with more than one adult

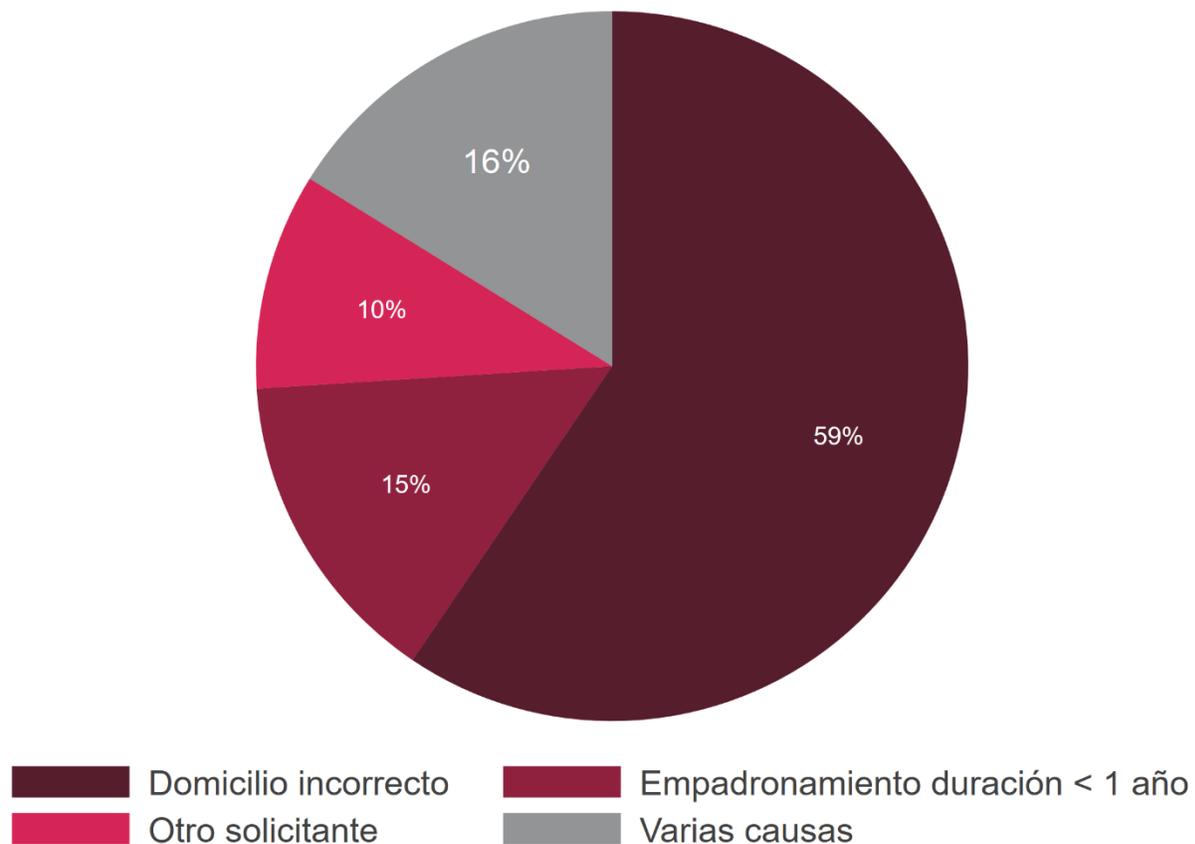
Rate of rejection due to income by household type



Source: Prepared by the authors based on exploitation of MLI cases

**REJECTIONS DUE TO LOCAL REGISTRATION: 210,000 cases have been rejected for this reason, of which 59% are due to the fact that the declared cohabitation unit did not match the one appearing on the municipal register at the address of the application.**

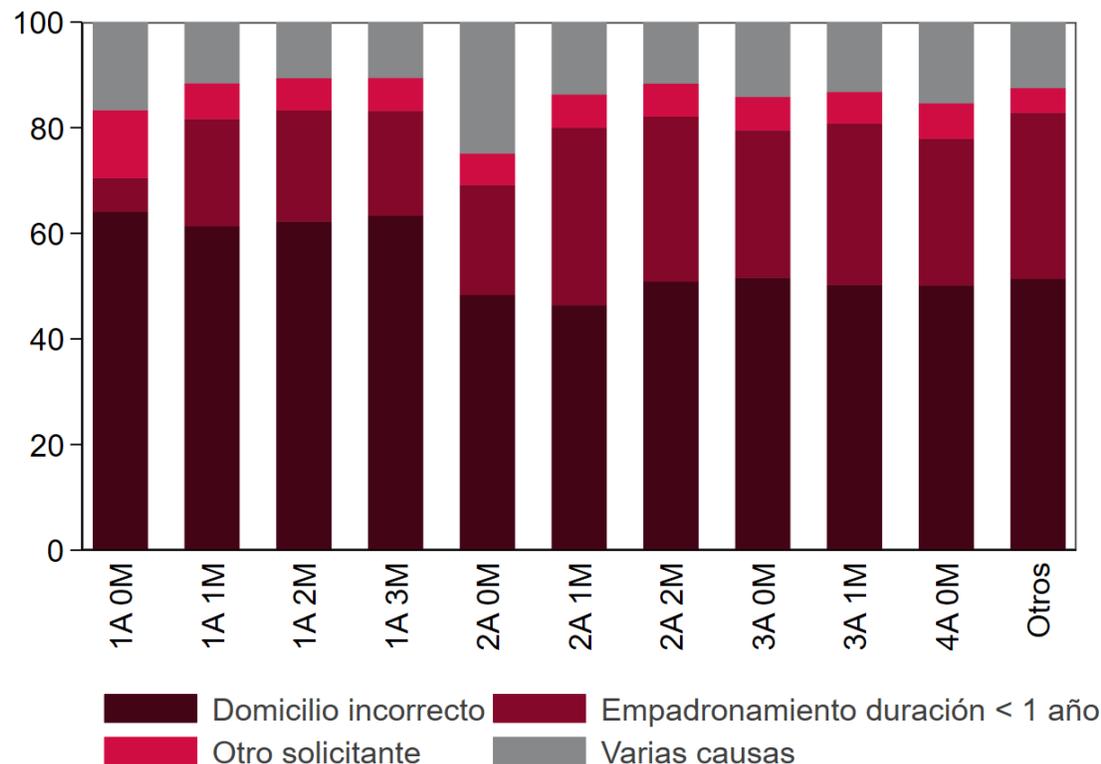
Grounds for rejection of the MLI related to the cohabitation unit



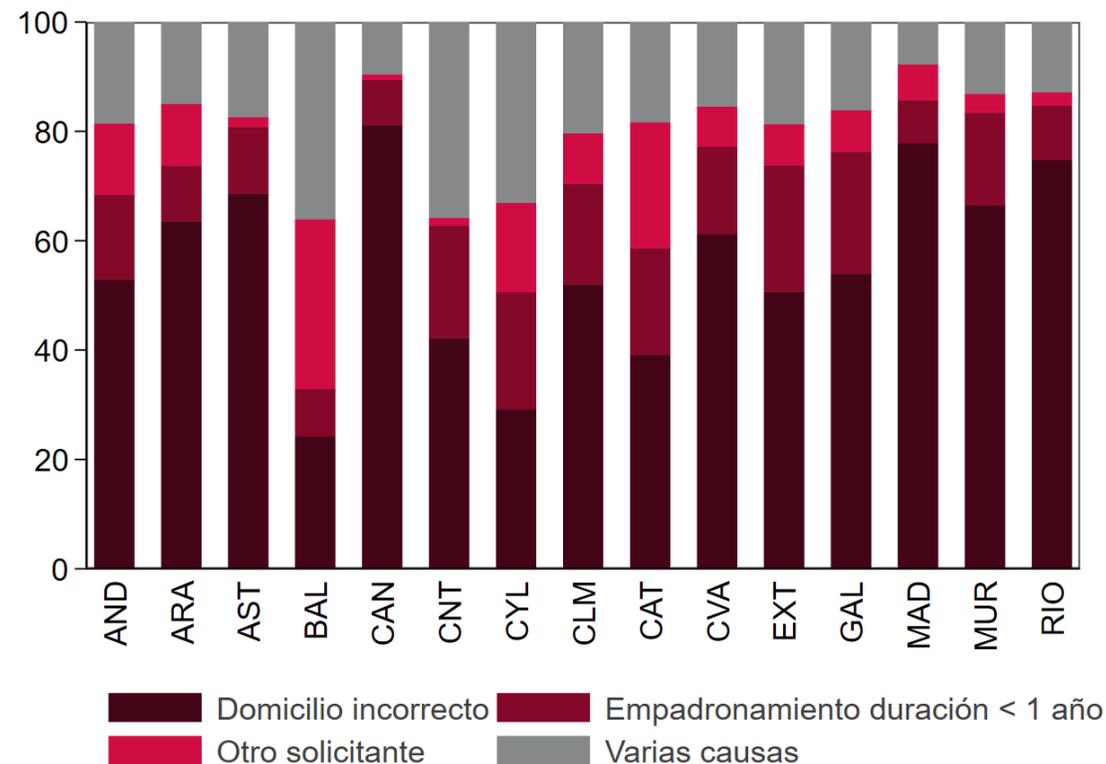
Source: Prepared by the authors based on exploitation of MLI cases

# REJECTIONS DUE TO LOCAL REGISTRATION: households with only one adult and applicants in Madrid and the Canary Islands are those that most declare an incorrect address

MLI cases rejected due to household-type local registration criterion



MLI cases rejected due to local registration criterion by Autonomous Region



Source: Prepared by the authors based on exploitation of MLI cases

# 3

## Proposals

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# Short-term proposals

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## PROPOSAL 1: Specify objective

### Specify the targets of the MLI so that compliance can be evaluated

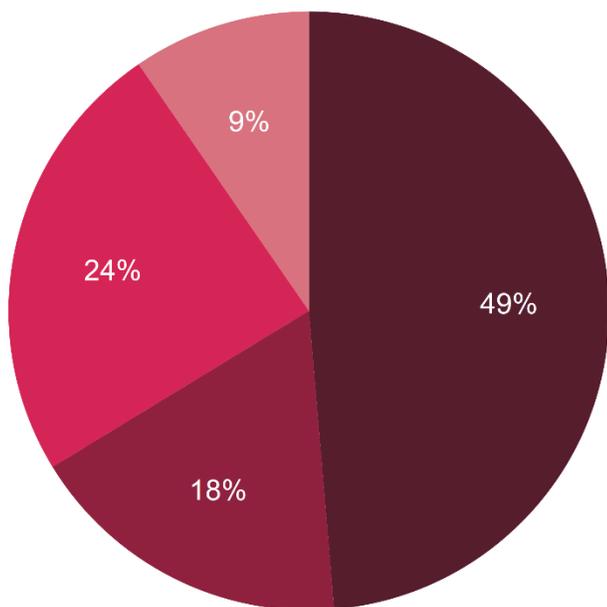
1. **Specify the poverty definitions and indicators** that the MLI uses to set its targets and monitor them. It would be advisable to identify the coverage to be achieved, the reduction of the poverty **rate** and **gap** to be pursued.
2. **Establish the deadlines** by which the MLI performance targets are expected to be met.
3. **Ensure that the targets set are quantifiable and measurable.** Systematically **incorporate** the **MLI information** for monitoring the benefit in the **Social Security Statistics Portal**, as is done for other non-contributory benefits.

## PROPOSAL 2: Wealth definition

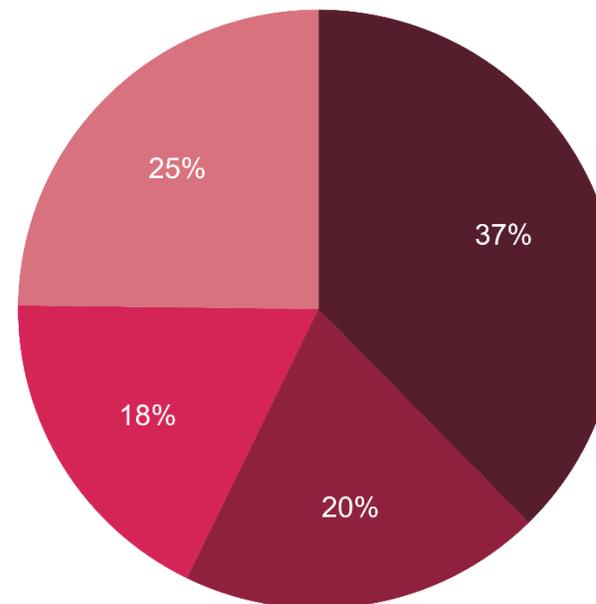
Analyse the nature of the wealth of households living in poverty, in particular, the degree of liquidity of their real assets and their valuation

Composition of net worth of households in poverty (Panel A) vs. other households (Panel B)

(Panel A)



(Panel B)



Patrimonio inmobiliario neto
  Cuentas bancarias y depósitos
  Activos financieros
  Patrimonio societario neto

Patrimonio inmobiliario neto
  Cuentas bancarias y depósitos
  Activos financieros
  Patrimonio societario neto

**If necessary, reconsider the definition of wealth set in order to become a beneficiary of the MLI**

## PROPOSAL 3: Rejected cases:

**Performing a detailed analysis of cases rejected due to non-compliance with the requirements related to income and the cohabitation unit and, where appropriate, reformulating them**

- Conduct a survey among applicants whose cases have been **rejected on the grounds of income** and the reasons for their perceived need. It would be of interest to analyse **other alternative poverty or deprivation indicators** (ARPE among others), collecting the information necessary to build them.
- Carry out a detailed study of the cases **rejected due to the cohabitation unit** in order to **learn more about the characteristics of the households** whose cases are being rejected. For example, analysing the importance of people's geographic mobility.

## PROPOSAL 4: Non-take-up:

### Continue simplifying the application process for the MLI and promote institutional publicity of this benefit

- **Difficulties in the application:** review possible bureaucratic barriers linked to administrative language or waiting times to get an appointment in person.
- **Stigma and anonymity:** analyse the possible impact of the obligation to file an income tax return and registering as a job-seeker (for example, through experimental analysis).
- **Information:** Improve publicity on the existence of the MLI with the support of social services and the third sector.
- **Analysis of the characteristics of non-take-up:** Perform a characterisation of non-take-up by cross-checking with other administrative databases. Continue to launch experimental pilot projects making the benefit more accessible to potential beneficiaries. It would be particularly relevant to know the results of these pilot projects in those Autonomous Regions where non-take-up is higher or among households that have other types of income or receive benefits.

## PROPOSAL 5: Fit MLI – MIs

**Continue to work on the fit between the MLI and the minimum income of each Autonomous Region, within the framework of the Minimum Living Income Monitoring Committee, in order to enhance efficiency in the achievement of the inclusion and poverty reduction objectives and to optimise the use of public resources**

- Strengthen the **exchange and cross-checking of information** on the beneficiaries of the MLI and of the regional programmes for management and evaluation purposes.
- **Evaluate in detail the complementarity between the MLI and minimum incomes** in each Autonomous Region. It should be remembered that the European Pillar of Social Rights Action Plan sets the target of reducing the number of people at risk of poverty in European countries by 15 million by 2030. Therefore, within the Monitoring Committee, it may be appropriate **to study the resources that the MLI releases from the MI programmes.**
- **Share best practices** on the measures adopted in the Autonomous Regions to ensure an effective and efficient fit of both programmes.
- Continue to work on launching **actions to strengthen the link between the MLI and social inclusion** and its complementarity with employment.

# Medium-term proposals

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## PROPOSAL 6: Advance towards a benefit that is *ex officio* and integrated with other benefits

Continue to advance, in the medium term and as information becomes available on the effects that the MLI is having on poverty reduction, inclusion and participation in the labour market, towards a **benefit that is initiated *ex officio* and that integrates the other benefits and taxes with the same objectives** with the aim of improving efficiency

- Previously and in the short term, it would be necessary to **increase interoperability and the exchange** of information between administrations, so that information on residence and type of household, income, wealth, benefits and taxes of all households is available **in a common repository**.
- With the above information, the Government could provide **all citizens with a draft tax return**. This draft would contain all the information on income (including all benefits), wealth and composition of the household of each person, both taxpayers and non-taxpayers.
- Once validated (or corrected) by each citizen, it would allow the Government to **initiate *ex officio* and integrate the benefits** to which they were entitled, including the MLI.

## PROPOSAL 6:

**Example 1: The MLI (and other benefits that pursue the same objectives) could be integrated into personal income tax as a negative tax and extended to the entire population, harmonising the amounts with the Personal and Family Minimum (PFM)**



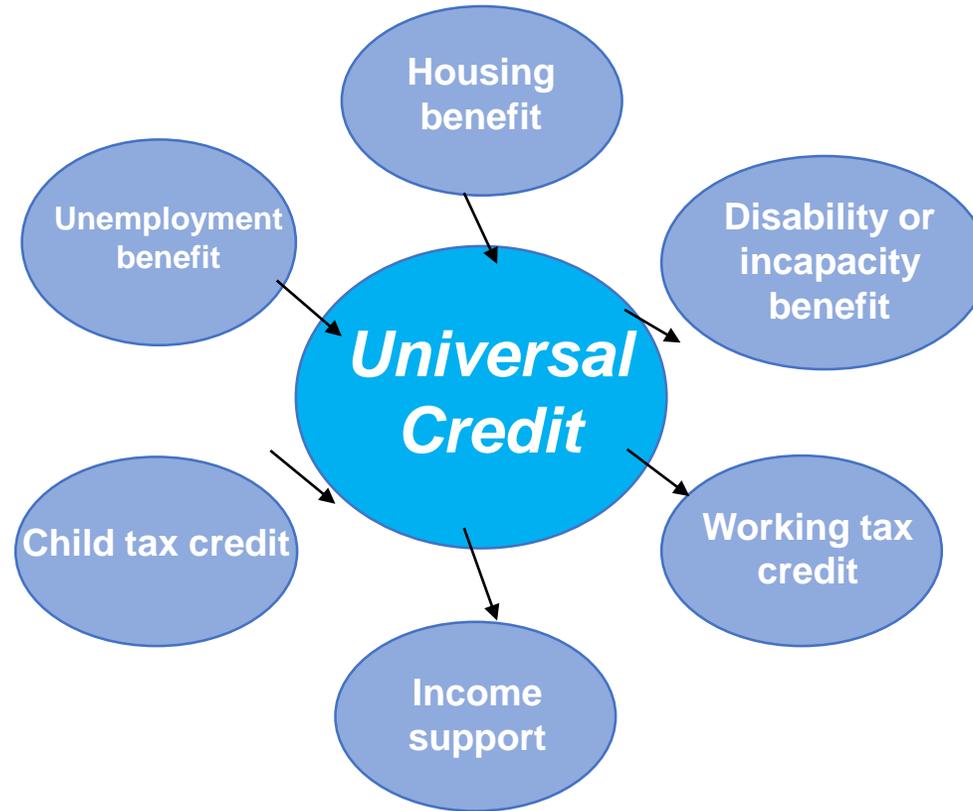
(Earned income tax credit – EICT – United States)

		MLI	PFM
<b>OBJETIVOS</b>		Ensure sufficient financial resources to cover basic needs (Art. 1 – Law 19/2021)	Meet the basic personal and family needs of the taxpayer (Art. 56 - Law 35/2006)
<b>IMPORTES</b>	1 adult - 0 children	€5,900	€5,550
	1 adult - 1 child	€8,967	€7,950
	2 adults - 0 children	€7,669	€11,100
	2 adults - 1 child	€9,439	€13,500
	2 adults - 2 children	€11,209	€16,200
	2 adults - 3 children	€12,979	€20,200

## PROPOSAL 6:

**Example 2: Progress could be made in integrating all social benefits and tax benefits that pursue the same aims into a single benefit (Universal Credit – United Kingdom).**

**UC** *Universal  
Credit*



## PROPOSAL 6:

This proposal would contribute to :

- **Eliminating potential duplication, overlaps or gaps in coverage** that may occur in relation to the fit with other tax credits and benefits that pursue the same purpose.
- **Facilitating integration with other benefits** that pursue the same purpose (employment inclusion).
- **Reducing social signalling costs by not having to be applied for by the person.**
- **Lowering procedural costs both for beneficiaries and for the Government and non-take-up.**

