2.ND OPINION

MINIMUM INCOME SCHEME

EXECUTIVE SUMMARY

OPINION 2/23

AIReF
Independent Authority
for Fiscal Responsibility

EXECUTIVE SUMMARY

This is the second Opinion to be issued by the Independent Authority for Fiscal Responsibility, AAI (AIReF) under Article 31.3 of Law 19/2021, of December 20th, establishing the Minimum Income Scheme (MIS). The MIS is a non-contributory benefit aimed at preventing the risk of poverty for people who lack basic financial resources to cover their basic needs. These welfare benefits protect all those people who, as a result of special or unforeseen circumstances, are not fully covered by the contributory systems.

In Spain, as in many comparable countries, the pace of progress of welfare protection systems has been slower than other contributory systems to the point that guaranteed income benefits, such as the Minimum Income Scheme, have not been rolled out until the 21st Century. However, welfare protection is, by its nature, more complex than contributory protection since it has to address the specific needs and circumstances of each of the beneficiaries and design individualised incentives to help their inclusion and integration in the labour market.

AIReF's first Opinion on the MIS already highlighted some difficulties in the design and rollout of the benefit. For example, it found that the MIS had reached 284,000 households out of a potential 700,000. In addition, the first Opinion noted that, as of December 2021, 400,000 households that could receive the MIS had not requested it (57% of the potential beneficiaries).

In 2022, the Ministry of Inclusion, Social Security and Migration launched a number of actions aimed at encouraging eligible households to apply for the MIS and to enhance the effectiveness of the benefit. The MIS Register of Social Mediators has been created. Currently, over ten social entities with the capacity to certify complex situations of MIS applicant households are registered. An intense campaign has also been carried out to publicise the benefit and make it easier to apply. An example of this is the informative bus which has given advice to a great deal of people interested in the benefit across the country. Moreover, the Ministry of Inclusion, Social Security and Migration, through the General Secretariat of Inclusion and Social Welfare Objectives and Policies, has initiated 34 pilot projects in collaboration with the Autonomous Regions, City Councils, third-sector organisations and academic institutions. These projects offer specific support depending on the needs of each household in order to promote the social inclusion of the beneficiaries. Its evaluation using the randomised controlled trial methodology aims to identify best practices that may

be scalable and contribute in the future to shaping an inclusion policy based on the results of empirical evidence.

This new Opinion and the boxes that accompany it show how the MIS is reaching very vulnerable households. This is shown by new indicators such as the fact that 62% of beneficiaries have received the MIS for over 20 months and that 54% of those who receive it had not received any wage in the three years prior to the benefit. In addition, almost 80% of the increase in expenditure resulting from the extraordinary inflation in 2022 was offset in MIS households thanks to the 15% increase in the benefit introduced by the Government in the decree on extraordinary measures against the rise in prices.

However, this new Opinion also identifies some findings that demonstrate some degree of stagnation over the last year of the results of the MIS and the limited scope of the new child supplement. As of December 2022, there were still the same number of MIS beneficiaries as in the previous year: 284,000 households out of the 800,000 eligible for the benefit, which in turn represents 47% of the potential expenditure. This figure is lower in the new child supplement, which, if fully implemented, could benefit 1.5 million families, while at the end of 2022 it only covered 274,000 beneficiary households.
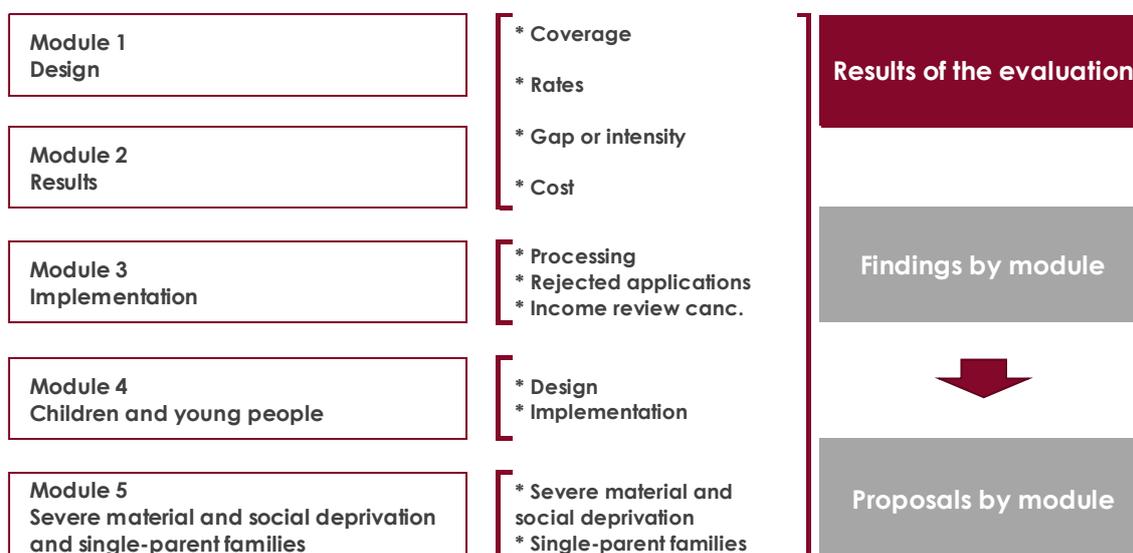
In addition, these difficulties are evident, not only in the area of results, but also in that of management. Thus, the MIS rejection rate in 2022 is 69%, which is very similar to that of 2021. Furthermore, 83% of the beneficiaries of the MIS saw the amount received in their monthly payment modified as a result of the reviews carried out by the National Social Security Institute (INSS). The non-take-up figures stand at the same level as the previous year (58%), while the new child supplement shows that non-take-up in its first year is higher than that of the MIS (76%). This Opinion provides a profile of non-applicant households, which might be useful when designing and targeting outreach and support measures for access to the benefit for those groups whose incorporation is proving more complicated. In addition, this Opinion points to the possibility that part of the non-take-up might be explained because the transfer of beneficiaries from the Regional Minimum Incomes (RMIs) to the MIS has not yet been completed. However, this hypothesis could not be verified due to the poor quality of the data on the beneficiaries of the Regional Minimum Incomes that the Autonomous Regions provide to the Tax Agency (AEAT) and the INSS.

For this reason, the first Opinion already pointed out, and AIReF now highlights, the need to accelerate and strengthen the mechanisms for the exchange of information that the Government has on the vulnerable population, facilitating the interconnection of its data on income, wealth, benefits, taxes and social services assistance. In particular, the importance of the Autonomous Regions speeding up the uniform and consistent uploading of their Regional Minimum Income payments onto the Digital Social Card and in the AEAT registers is stressed.

In addition, all this information could be supplemented by a universal declaration of income and benefits, which would allow progress towards a new management model for the MIS, the granting of which will be initiated *ex officio* or which would be set up as a negative tax. This information and management system would allow the immediate transfer of the beneficiaries of Regional Minimum Incomes to the MIS and could be used to manage other social benefits or direct transfers in a more targeted manner. Along the same lines, the Government could make greater use of the information available on a monthly basis on applicants' income. This would contribute to reducing the high percentage of adjustments and revisions of amounts observed in MIS payments. In addition, the Government could assess the possibility, relevance and feasibility of simplifying the definition of eligible income for access to the MIS on the basis of the monthly information that it already has. All this would also allow the benefit to be modulated according to the actual needs of the beneficiaries at any given moment in time, improving the MIS's capacity to adapt to unforeseen situations of poverty[1].

The main findings and proposals of the five modules included in this assessment are described below.

OUTLINE OF AIREF'S SECOND OPINION ON THE MIS

Module 1 Design	* Coverage	Results of the evaluation
Module 2 Results	* Rates * Gap or intensity * Cost	
Module 3 Implementation	* Processing * Rejected applications * Income review canc.	Findings by module
Module 4 Children and young people	* Design * Implementation	
Module 5 Severe material and social deprivation and single-parent families	* Severe material and social deprivation * Single-parent families	Proposals by module

Source: AIReF.

---

[1] The law on the MIS (Article 11.5) includes a mechanism for claiming the benefit according to the current year's income. This application can be made from April each year, when the INSS has the tax data for the previous year's allocations. If the INSS finds that the MIS can be granted on the basis of the previous year's income, it recognises the benefit on the basis of the previous year's income, ruling out the household's request to take the current year's income into account. Otherwise, the MIS will be granted on the basis of an estimate of the current year's income.

FINDINGS AND PROPOSALS

SECTION I. THE EVOLUTION OF THE MIS

The design of the MIS

FINDINGS	The Law on the MIS still does not explicitly set a quantitative target of households in poverty that it aims to reach. In 2022, 808,000 households residing in Autonomous Regions under the ordinary regime would have been able to receive the MIS if it were fully rolled out. Royal Decree 6/2022 on urgent measures and its extension increases the MIS payment by 15%. This contributes to the increase in the benefit expenditure to €4.1bn (only Autonomous Regions under the ordinary regime). Since the publication of the first Opinion, 11 Autonomous Regions have introduced amendments to regulations governing their Minimum Incomes to adapt them to the State benefit. There is a general tendency for Regional Incomes to be subsidiary to the MIS and in most cases supplementary to the State benefit.

PROPOSALS	To specify the targets of the MIS in quantitative terms so that compliance can be evaluated as established by Eurostat statistics for the measurement of poverty trends (percentage of the median). This requires specifying the definitions and indicators used, clearly and realistically establishing the targets of the process and the desired result of the programme together with the deadlines for achievement, and ensuring that the targets set are quantifiable and measurable.

Results of the MIS in 2022

FINDINGS	At December 31st, 2022, 283,811 households were beneficiaries of the MIS, 35% of its potential, a similar figure to the 284,000 beneficiaries at the end of 2021. In terms of expenditure, in 2022 the MIS amounts to €1.92bn per year (€1.6bn in 2021), 47% of its potential. 58% of households potentially benefiting from the MIS have not applied for the benefit (57% in 2021). These are concentrated in the Autonomous Regions with the highest number of potential beneficiaries (Andalusia, Catalonia, Valencia and Madrid), in adult-only households and in those whose potential gain does not exceed 30% of the guaranteed income. 62% of MIS beneficiaries at December 31st, 2022 have maintained their benefit since 2020. On average, households receiving the MIS receive the benefit for 20 months. The administrative data available do not make it possible to identify the degree of real overlap for the transfer of beneficiaries between the MIS and Regional Minimum Income.

PROPOSALS	In line with the first Opinion, to accelerate the transformation towards a new, more automatic MIS management model based on the integration of governmental sources of information on income, wealth, taxes and total benefits (including Minimum Incomes) of all tiers of government around a common database that could be supplemented by a universal income declaration with the aim of: Moving towards an MIS that is initiated *ex officio* (or in the negative tax format), thus helping to reduce non-take-up. Allowing the immediate transfer of the beneficiaries of the Minimum Incomes of the Autonomous Regions to the MIS. Activating when a situation of unforeseen poverty is identified (crossing of information of universal income declaration and social contributions, TGSS). Serving as a model-platform for other social benefits or targeted direct transfers. Enriching the current public statistics provided by the Social Security system on the number of MIS beneficiaries on its statistics website. It would be advisable to provide data on the total number of households that receive the MIS each month (outstanding balance), so as to have information on the degree of rollout of the benefit. Currently, only information on the total number of registrations is provided, without counting cancellations. Accelerating the creation of inclusion mechanisms or pathways that promote a shorter period of time for households to collect the MIS benefit, in line with the experimental evaluation currently being carried out by the Ministry of Inclusion.

Evolution of processing

FINDINGS	Applications increased by 60% in 2022 compared with 2021. However, it is not possible to break down what part of this increase is due to the entry into force of the child support supplement. The application rejection rate in 2022 is 69%, which is very similar to that of 2021. Exceeding the income threshold continues to be the main reason for rejection. 83% of the households benefiting from the MIS have had the amount of their benefit modified as a result of the revisions made by the INSS on the basis of the final information on the income and wealth of the previous year that they receive from the Spanish Tax Agency (AEAT). 40% of households had received less than their final income entitlement, 27% of households had received more, and 16% of households had been permanently removed as they no longer qualified for the benefit according to the new information. MIS beneficiary households receive on average 97% of their income from two sources: work income and public benefits. This information is available to Social Security on a monthly basis. Verification of the monthly information on these items could allow for an improved adjustment of the benefit amount and reduce the size of revisions due to the time lag generated by tax information.

PROPOSALS	Extend the use of the available monthly data by tiers of government with the twofold aim of: adjusting the amounts of the benefit to the real-time income of beneficiaries, thus mitigating the impact and size of the revisions. assessing the possibility, relevance and feasibility of simplifying the definition of eligible income for access to the MIS, thus enhancing the ability of the MIS to address situations of unforeseen poverty.

SECTION II. CHILDREN AND YOUNG PEOPLE

The design of the child support supplement

FINDINGS	1.5 million households are potential beneficiaries of the child support supplement. Of these, 356,000, or 23%, would also be MIS recipients.
	The maximum annual expenditure of the child support supplement, taking into account the amount in force in 2022, would be €2bn.
	The Law on the MIS does not specify the specific public policy targets for which the child support supplement is established in terms of poverty reduction.

PROPOSALS	To specify the targets of the child support supplement so that compliance can be assessed. This requires specifying the definitions and indicators used, clearly and realistically establishing the targets of the supplement and the deadlines for achievement, ensuring that the targets set are quantifiable and measurable.

The implementation of the child support supplement at December 31ˢᵗ, 2022

FINDINGS	At December 31ˢᵗ, 2022, 273,318 households are beneficiaries of the child support supplement. Of these, 122,789 (45% of the total) are also MIS recipients, while the remaining 150,529 households (55% of the total) exclusively receive this supplement.
	The median annual amount received by beneficiaries of the child support supplement in 2022 was €667. The annual expenditure on the supplement amounted to €400m.
	The supplement has reached 18% of eligible households and has disbursed 20% of the potential annual expenditure.
	76% of the households that could receive the child support supplement have not yet applied for it.

PROPOSALS	Enriching the current public statistics of the Social Security portal with data on the total number of child support supplement recipients in each month, so as to ascertain the evolution over time of the rollout of the supplement.
	Further analysing the reasons why potential beneficiaries of the child support supplement, even when they fulfil the requirements, do not apply for it (non-take-up). It is proposed that an experimental analysis be conducted on whether the non-take-up rate would fall if an application for the child support supplement differentiated from the MIS was designed.
	Promoting institutional advertising of this supplement.

SECTION III. SEVERE MATERIAL AND SOCIAL DEPRIVATION AND SINGLE-PARENT FAMILIES

Severe material and social deprivation

FINDINGS	Around 34% of people suffering severe material and social deprivation would receive the MIS if it were fully implemented. Severe material and social deprivation is most intense among people who would be covered by the MIS. Mortgage or rent arrears are a more frequent cause of severe material and social deprivation among MIS households than among other households.

PROPOSALS	Further studying the situation of severe material and social deprivation of all MIS applicants and their perception of poverty. It would be interesting to analyse other poverty indicators, such as the AROPE (at risk of poverty and exclusion) index, and include them in the MIS application form in order to create a database and facilitate the interconnection of this information with social services.

Single-parent families

FINDINGS	Single-parent households in poverty would be the households most covered by the fully implemented MIS and child support supplement. Single-parent households are the type of household with the best coverage rate at December 31st, 2022. The MIS reaches 47% of potential beneficiary single-parent families. These better MIS results for single-parent households are partly explained by an earlier entry into the benefit, as well as a higher *ex officio* conversion from the dependent child allowance.

BOX 1. EMPLOYMENT AMONG MIS BENEFICIARIES

FINDINGS	54% of adult MIS beneficiaries had not received any wages in any of the three fiscal years prior to the start of the benefit.
	38% of MIS beneficiaries who received wages in 2019 no longer declared them in 2020.
	The wage income of working MIS beneficiaries fell between 2019 and 2020, while it increased between 2020 and 2021.

BOX 2. THE IMPACT OF INFLATION ON MIS BENEFICIARIES

FINDINGS	Although the inflation borne in 2022 by low-income earners was higher than that of high-income earners, the gap narrowed over the months.
	79% of the increase in spending borne by beneficiary households resulting from inflation has been offset by the 15% increase in the MIS payment approved by the Government. For households with low MIS payments, the 15% increase is not an effective measure to offset inflation.