

NEW VS CURRENT METHODOLOGY: KEY CHANGES

Subsistence minimum

new methodology (at 2024 prices)

443.5 euros

current level (2024)

345.8 euros

Equivalence scales

new methodology

1:0.4:0.4

current methodology

1:0.7:0.5

Subsistence benefit threshold

new methodology (at 2024 prices)

316 euros

current level (2024)

200 euros

WHAT IS THE SUBSISTENCE MINIMUM AND WHY DOES ITS METHODOLOGY NEED UPDATING?

Estimated subsistence minimum

- The minimum amount of money required to cover the daily needs of a one-person household for 30 days.
- It consists of food, housing and other individual non-food expenditures.
- In Estonia, the estimated subsistence minimum serves as the absolute poverty threshold and a reference point for the subsistence benefit threshold.

Why does the current methodology need updating?

- The current methodology is based on a consumption basket that is nearly 20 years old and does not reflect people's changing needs.
- The prices of the goods and services in the basket are updated using the CPI, but the contents of the basket have not been changed.
- The equivalence scales used in the methodology do not match households' actual consumption behaviour.
- The current methodology did not involve the public in compiling the basket.

UPDATED METHODOLOGY

1 Food costs

215.9 euros

Sample menu aligned with the updated dietary recommendations. Food prices based on the median prices paid by households. Costs of coffee, tea and celebrating special occasions were added.

2 Housing costs

127.6 euros

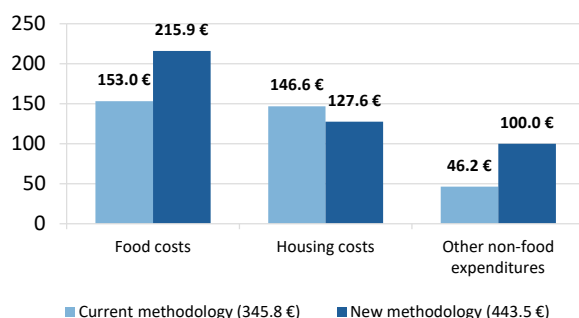
Average costs of households in the 1st to 3rd expenditure deciles based on HBS data. A single nationwide approach; no separate urban/rural or tenure-based subsistence minimum.

3 Other non-food expenditures

100.0 euros

List of goods and services based on COICOP categories, validated by experts and the public in focus group. Average HBS-based spending of households in the 1st to 3rd expenditure deciles for the goods and services in each category.

Cost components of the subsistence minimum (current vs new methodology), at 2024 prices



New equivalence scales

1:0.4:0.4

First adult : each additional adult : child
Reflect actual consumption behaviour in 2019.

The increase in the subsistence minimum for multi-person households is smaller because the new equivalence scales give less weight to additional household members.

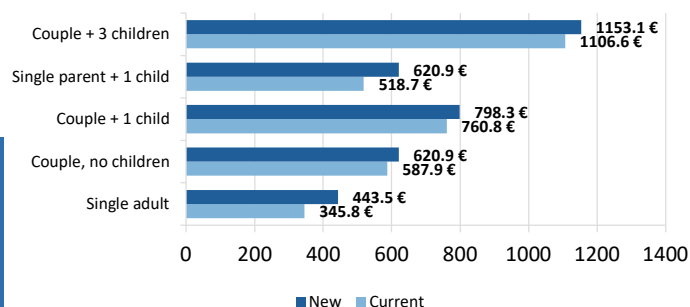
Relation to the subsistence benefit threshold

The subsistence benefit threshold covers the food and other non-food expenditures for the first household member and excludes housing costs.

443.5 - 127.6 = ~316

Subsistence minimum - housing costs = benefit threshold

Examples of household subsistence minima (current vs new methodology), at 2024 prices



PRINCIPLES OF THE METHODOLOGY

1 Up-to-date basket

Reflects a modern basket, including digital and other unavoidable expenses. The food basket follows the new national dietary and physical activity recommendations.

2 Less subjectivity

Housing costs and other non-food expenditures are based on HBS data for the 1st to 3rd expenditure deciles, not on coefficients set by experts.

3 One nationwide subsistence minimum

No separate subsistence minima were created based on region or home ownership.

4 Public input

The disputed items in the goods and services list were checked in public focus groups involving residents from different household types and regions.

1 Option A: implementing the new methodology

New subsistence minimum of 443.5 € (at 2024 prices) and equivalence scales of 1:0.4:0.4. The subsistence benefit threshold consistent with the subsistence minimum is 316 €. This creates a transparent link between the new-methodology subsistence minimum, absolute poverty and the subsistence benefit threshold.

2 Option B: a more conservative transition

A more conservative subsistence minimum of 411 € (at 2024 prices). Housing and other non-food expenditures are calculated from the consumption of the 1st to 2nd expenditure deciles instead of the 1st to 3rd deciles. Under this conservative transition scenario, the subsistence benefit threshold is 297 €. The impact on the budget and poverty indicators is smaller.

Additional policy choice for subsistence benefit

Should the current subsistence-benefit scales of 1:0.8:1.2 remain in place, or should they be aligned with the study's scales of 1:0.4:0.4? The new scales reduce the budgetary impact of the benefit at the same subsistence benefit threshold.

Impact on absolute poverty: example for 2023

- The new equivalence scales lower the absolute poverty rate (proportion of people whose equivalised disposable income is below the absolute poverty threshold).
- A higher absolute poverty threshold (subsistence minimum) moderately increases the absolute poverty rate.

Current methodology: 338.23 € + 1:0.7:0.5 **2.7% | 36,446 people**

New scales only: 338.23 € + 1:0.4:0.4 **2.2% | 29,567 people**

New threshold (option A): 431.84 € + 1:0.4:0.4 **3.3% | 44,142 people**

Conservative threshold (option B): 400.10 € + 1:0.4:0.4 **2.9% | 38,830 people**

Absolute poverty rate | number of people living in absolute poverty

Note: based on the 2024 ESS data, which reflect 2023 incomes. The subsistence minimum and the absolute poverty threshold are expressed in 2023 values.

IMPACT ON SUBSISTENCE BENEFIT

Raising the subsistence benefit threshold increases the number of households receiving the benefit and the total amount of the subsistence benefit, but the increase also depends on whether the current or new equivalence scales are used in the calculations.

Scenario	Subsistence benefit threshold (2024), euros	Equivalence scales	Applicant households* (2024)	Total subsistence benefit* (2024), million euros
Current methodology	200	1:0.8:1.2	15,691	38.7
New threshold + current scales	316	1:0.8:1.2	25,901	68.3
New threshold + new scales	316	1:0.4:0.4	20,876	52.7
Conservative threshold + current scales	297	1:0.8:1.2	23,905	62.3
Conservative threshold + new scales	297	1:0.4:0.4	19,293	48.7

Note: based on the 2024 ESS data, which reflect 2023 incomes. Incomes were converted to 2024 values using average wage growth (Statistics Estonia database, table PA101). The subsistence benefit total amount includes housing costs (housing costs estimated from ESS data).

* A take-up rate of 44.1% was assumed.

IMPLEMENTATION AND UPDATING

1 2027–2028: first update

Adopt the new methodology and carry out the first HBS-based recalculation.

2 Every year

Update food, housing and other non-food expenditures using CPI sub-indices.

3 Every 5 years when HBS data becomes available

Recalculate housing and other non-food expenditures using new HBS data; if possible, also reprice the food basket.

4 When new dietary recommendations are published

Update the content of the food basket when new dietary recommendations are published.

5 Every 10 years

Review the equivalence scales and the list of goods and services of non-food categories, involving experts and the public.