



Far too many disability pensioners are trapped in poverty by insufficient national insurance pension benefits, excessive reductions and inordinate taxes on their low income. A disability pensioner who earns extra income of up to 200 thousand ISK by entering the labour force or via pension fund savings is barely able to make ends meet because of these reductions and taxes.

The welfare system should contribute much more to the incomes of those who need support and, furthermore, encourage efforts to become independent in the labour force instead of making such efforts much more difficult. The current system is unjust, as well as unsensible. It is past time that these defects of the welfare system should be vigorously addressed.

# Disabled people trapped in poverty

Disabled people and single parents are the members of society most negatively affected by financial decline and poverty in this country. In a significant number of cases, children also suffer (see the report done by Kolbeinn H. Stefánsson in 2019, *Lífskjör og fátækt barna á Íslandi*). The main causes for this are the insufficient payments of the Icelandic welfare system, the excessive taxes on low incomes and, in the case of single parents, the impossibility of providing for one's children with a single income.

Some light will be shed on the situation in which disabled people find themselves by examining the base of national insurance pension payments, the overuse of reductions and the excessive tax burden on low incomes. This will be examined especially in conjunction with the cost of living for both single parents and couples raising children. The focus will mainly be on low-income people with disabilities, who constitute a large portion of that group.

## The insufficient pension benefits of TR (The Social Insurance Administration)

Governments have often been inclined to keep the base of national insurance payments too low, that is, the uncut pension benefits from TR (the maximum amount before reductions have been factored in). Figure 1 shows the uncut pension sum as a ratio of minimum wages from 2009 to 2022. The curve has mostly followed a downward trajectory.

The uncut pension sum of TR as % of minimum wages from 2009 to 2022

Single individuals and couples. The blue line=minimum wage.

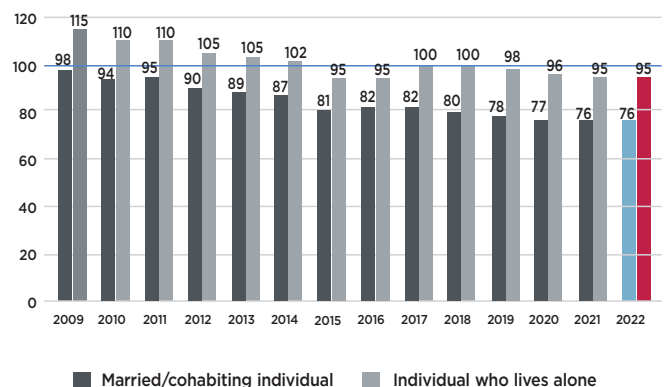


Figure 1: The base of national insurance benefits compared with minimum wages in the labour market (%), 2009 to 2022. Source: TR and Efling-union.

If the maximum pension sum from TR had kept up with the minimum wage during the time period, it would have stayed at 100 for every year in the figure. The blue line represents the minimum wages. In the immediate aftermath of the economic crash of 2008, Jóhanna Sigurðardóttir, then Minister of Social Affairs, requested that the uncut pension amount should be

raised by 20%, which brought it up to 115% of the minimum wage for single individuals and for each married/cohabiting individual it became almost equal to their minimum wage (98%). This was an unusually ample raise for one year and the purpose for it was to keep pensioners over the poverty line during the recession which followed the financial crash.

After that, the ratio decreased and the pension sum fell behind the minimum wage in the labour market, one percentage point by one. In 2015, the maximum pension sum for single individuals had fallen to only 95% of the minimum wage and each cohabiting individual received only 81%, which is very little. With a raise in 2017, the ratio for single individuals reached the level of the minimum wage (100) but no raise followed for cohabiting pensioners. Thus, matters stood for two years, but then the pension amount again fell below the minimum wage. Now the uncut pension sum for single individuals amounts to 95% of the minimum wage in 2022 (including the recent raise of the government) and for each cohabiting individual it only amounts to 76% of the minimum wage.

For the pension of TR to be raised less than the minimum wage in the labour market is a clear violation of Article 69 of the Social Security Act (see the article by Kolbeinn H. Stefánsson, „Lásar gera bara gagn ef þeir eru læstir: Um 69. grein laga um almannatryggingar“)

A base of national insurance pensions this low is especially detrimental for people with low incomes from pension funds or employment concurrent with collecting national insurance pension benefits and this is especially bad for disability pensioners.

It is one thing to keep the base of national insurance payments low but then when it is reduced unusually quickly and rapidly the situation becomes especially disadvantageous for pensioners. The danger of falling into low-income straits looms. This is precisely the situation for disability pensioners today and has been the case for a long time.

Now it's time to examine the ability of disabled people to make ends meet by applying the base of national insurance payments to two examples of extra income from pension funds or employment. These examples will then be contrasted with the cost of living, which is based on the updated base of the Ministry of Social Affairs (consumer standard), in addition to the rental price of an apartment 60 square metres large in Reykjavik or the adjacent municipalities. Housing benefits will be factored in and, in the case of cohabiting disabled people with two children, child benefits will also be factored in.

## The livelihood of single disabled people

First, we will examine the case of a single disabled person who has no extra income from a pension fund (column 1 in the table), then we will turn our attention to a disabled person who receives 100.000 ISK per month from a pension fund (column 2) and then we will examine the case of a disabled person with 200.000 ISK per month from a pension fund (column 3). Changes to the amount paid out by TR as the extra income enters the equation will be demonstrated, as well as the raise in income tax.

A person who has no extra income from pension funds cannot meet the cost of living according to these metrics, and in fact runs a deficit of 44.512 ISK each month. He must either move to a smaller and lesser home or go without daily necessities. If a disabled person with no extra income moves into a rented apartment of 45 square metres, he still comes up short by 4000 ISK each month.

Moving on to column 2 and examining how much difference it makes for the disabled person to receive 100.000 ISK from a pension fund, the result is that, despite the extra income of 100 thousand ISK, the deficit is only reduced from 44.512 to 23.459 ISK. The reason for this insufficient result is that the payment from TR is reduced by more than 63.000 ISK and the income tax is also raised.

Thus, the disposable income of the disabled person has only gone up by a little over 21.000 ISK of the 100 thousand ISK which he receives from the pension fund. The state, however, gains much more from the pension fund savings - about 78.744 ISK. The disabled person receives 21,2% of these pension fund savings, while the state receives about 78.7%. This is so unbelievable that people may be excused for disbelieving it! This is, nevertheless, the way the Icelandic welfare system treats low-income pensioners.

### The livelihood of a disability pensioner in January of 2022

**Individual:** Lives alone in a rented apartment of 60 square metres.  
Became disabled at age 40.

Three equations with differences in income from pension funds

Livelihood of low-income people	TR pension base - no extra income	100.000 ISK from pension fund	200.000 ISK from pension fund
<b>Pension total</b>	<b>364,295</b>	<b>397,903</b>	<b>430,985</b>
- from pension fund	0	100,000	200,000
- from TR	364,295	297,903	230,985
<b>Deducted tax</b>	<b>-60,655</b>	<b>-73,007</b>	<b>-85,561</b>
<b>Disabled person's disposable income</b>	<b>303,640</b>	<b>324,896</b>	<b>345,424</b>
- disabled person's portion of his pension	0	21,254 (21.2%)	41,784 (20.4%)
- the state's portion of his pension	0	78,744 (78.7%)	158,216 (79.6%)
<i>Cost of living:</i>			
<b>Without cost of housing</b>	<b>-215,595</b>	<b>-215,595</b>	<b>-215,595</b>
<b>With cost of housing (165.000)</b>	<b>-380,612</b>	<b>-380,612</b>	<b>-380,612</b>
<b>Housing benefit</b>	<b>32,460</b>	<b>32,257</b>	<b>28,618</b>
<b>Deficit each month</b>	<b>-44,512</b>	<b>-23,459</b>	<b>-6,570</b>

In column three the equation is set up in the same way, with twice as much of the disabled person's savings in a pension fund. By saving up enough to receive 200.000 ISK per month from a pension fund, the home management deficit is only reduced to 6.570 ISK per month. More is required. The reductions and the sizeable tax burden on such a low income combine to make even a 200.000 ISK income from a pension fund insufficient for making ends meet.

The next table outlines the same equations for a disabled person who receives no extra income from a pension fund but earns extra income by joining the labour force, first 100.000 ISK and then column three is based on 200.000 ISK per month.

## The livelihood of a disability pensioner in January of 2022

**Individual:** Lives alone in a rented apartment of 60 square metres.

Became disabled at age 40.

Three equations with differences in income from pension funds

Livelihood of low-income people	TR pension base - no extra income	100,000 ISK in wages	200,000 ISK in wages
<b>Pension total</b>	<b>364,295</b>	<b>399,295</b>	<b>439,651</b>
- from pension fund	0	100,000	200,000
- from TR	364,295	299,295	239,651
<b>Deducted tax</b>	<b>-60,655</b>	<b>-73,535</b>	<b>-88,850</b>
<b>Disabled person's disposable income</b>	<b>303,640</b>	<b>325,760</b>	<b>350,801</b>
- disabled person's portion of his pension	0	22,120 (22.1%)	47,161 (23.6%)
- the state's portion of his pension	0	77,880 (77.9%)	152,839 (76.4%)
<i>Cost of living:</i>			
<b>Without cost of housing</b>	<b>-215,595</b>	<b>-215,595</b>	<b>-215,595</b>
<b>With cost of housing (165.000)</b>	<b>-380,612</b>	<b>-380,612</b>	<b>-380,612</b>
<b>Housing benefit</b>	<b>32,460</b>	<b>32,104</b>	<b>27,665</b>
<b>Deficit each month</b>	<b>-44,512</b>	<b>-22,748</b>	<b>-2,146</b>

In short, it's fair to say that it doesn't make much of a difference. Wages for work leave the person with a bit more because the income threshold is higher than in the case of pension income. In fact, it ought to be a lot more advantageous than this equation demonstrates to have a higher income threshold on wages but because the maintenance insurance, which is especially reduced, is a portion of what disabled people with a total income this low receive from TR, the income threshold is not as advantageous as it should be.

## Very difficult to supplement one's income

The main lesson from these equations is that the systems of national insurance and income tax hinder the efforts of disabled people to supplement their income, whether by way of pension savings or by way of employment. This can only be described as trapping people in poverty.

However, pensioners who receive more than 600.000 ISK in pensions from pension funds and, thus, do not need to rely on national insurance, can add significantly to their incomes by joining the labour force. Thus, the system of reductions to national insurance payments mostly has adverse effects on low-income pensioners.

This arrangement, which combines overuse of reductions with a base of national insurance pension payments which is much too low, is neither just nor sensible.

It should, of course, be easy for disabled people with low incomes to add to their incomes with work if they are able to work. Of course, people's pension fund savings should benefit them more, instead of the state increasingly reaping the benefits.

Let us now examine the situation of a cohabiting disabled person with two children in the home. The spouse works full time and receives a minimum wage.

## The livelihood of cohabiting disabled people

The main difference between being single and cohabiting disabled person is that the cohabiting person loses the housing supplement which means that he will receive substantially less from TR than those who live alone. The combined income of the disabled person and the spouse who works full time and receives a minimum wage, therefore, amount to less than the combined income of a couple where both parties work full time for a minimum wage. The cost of living is the same, however, and housing benefits go up slightly. Thus, the deficit becomes significant, amounting to about 119.000 ISK per month. However, the deficit for a couple of low-wage earners, who have two children and both work full time for a minimum wage, would amount to a little over 89.000 ISK.

### The livelihood of a cohabiting disability pensioner

**Couple:** 2 children (1 younger than 7 years old); live in a rented apartment of 85 square metres. The spouse earns a minimum wage

Livelihood of low-income people	January 2022
<b>Disability pension without reductions</b>	<b>292,261</b>
<b>Minimum wage earned by spouse (- pension premium)</b>	<b>353,280</b>
<b>Deducted tax</b>	<b>-113,070</b>
<b>Take home pay</b>	<b>532,471</b>
<i>Cost of living</i>	
<b>Without cost of housing</b>	<b>-530,071</b>
<b>With cost of housing (234.000)</b>	<b>-763,845</b>
<b>Child benefits</b>	<b>57,583</b>
<b>Housing benefit</b>	<b>54,449</b>
<b>Total income and benefits</b>	<b>644,503</b>
<b>Deficit each month</b>	<b>-119,342</b>

So, there is no way to make ends meet – far from it, in fact. The couple can move into a lesser apartment of 60 square metres, which is difficult for a family of four, but that won't suffice. They must either take on a lot of extra working hours or cut back on the basic daily necessities – probably both. This can only result in them having to struggle to pay their bills.

This inhuman treatment of disability pensioners is thoroughly outlined in the report **Kjör lífeyrisþega**, which Efling published in 2021.

## Conclusion

Financial hardship has been a fact of life for disability pensioners for a long time because the pension provided by the national insurance system is insufficient and is also reduced much too quickly and rapidly, especially when income from pension funds enters the equation.

The system makes it especially difficult for pensioners to improve their lot by entering the labour force while collecting their pension. It's also impossible to adequately utilize one's pension fund savings to add to one's income. Even when a disability pensioner is entitled to 200.000 ISK payments from a pension fund, it's barely enough for a single pensioner living alone to make ends meet.

The income of a cohabiting pensioner with two children is even worse because he loses his housing supplement. A family with a disability pensioner must, therefore, struggle even harder than two breadwinners earning a minimum wage – and that's saying a lot.

Far too many disability pensioners are trapped in poverty by insufficient national insurance pension benefits, excessive reductions and inordinate taxes on their low income.

The welfare system should contribute much more to the incomes of those who need support and, furthermore, encourage efforts to become independent in the labour force instead of making such efforts much more difficult. Such a hindrance is both unjust and unsensible.

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