



The homes of low-paid families with children can't make ends meet, even if they do significant extra work. Unusually low housing costs, at a lower quality, are needed to avoid falling short. This is evident from a survey of low-wage workers which analyses their main financial items; wages, pension contributions, taxes, child- and housing support and total cost of living.

Single parents at minimum pay with one child under the age of 7 need 83,000kr a month to make ends meet in January 2022. By raising their income with extra work from 368,000kr to 450,000kr a month, the deficit is only reduced to about 33,000kr. Abnormally cheap housing is required to avoid a deficit.

Married or cohabiting couples with two children and each on the minimum wage (736,000kr total) has a deficit of 56,000kr a month, after income tax and pension contributions, and after adding child- and housing support. If they add significant overtime to their workload (2x21.5 hours a month) the deficit is reduced to 10,000kr a month. More is thus needed to make ends meet.

## Low-wage households running at a loss

It is a well-worn fact, that you can't live off the minimum wage in Iceland. Once, people were told that growth would eradicate the problem and, by and by, extinguish poverty.

Iceland has seen success in its striving for economic growth for a longer time and is now among the richest societies on Earth. But with a higher level of development come higher prices, and Iceland now has some of the world's highest prices. Even when wages rise, prices rise, and so too the cost of living.

The latest collective agreements provided higher purchasing power, most for the lowest paid. However, housing costs have risen rapidly, greatly exceeding the rise in wages. Since housing costs are a big share of the cost of living, its rapid rise erodes people's financial standing, especially those with the lowest wages, and therefore works against the aim of improving the lot of the worst off.

It is therefore high time to ask, what minimum wage would cover the cost of living in 2022?

### Methodology

We will, below, take a look at the status of single parents with one six-year-old child, and married or cohabiting couples with two children, one six and the other nine years old. We will assume they are receiving minimum wages as they have been since January 1, deducting pension contributions and income taxes and adding child- and housing support. We then compare the result to the updated social affairs ministry cost of living numbers.

Housing costs are then added to the government's cost of living estimates, based on average rent for moderate apartments in the capital area (60 and 80sqm), according to the Registers Iceland statistics. About 40% of Efling members are tenants, often the younger and less paid ones.

## Single parents with one child

First we take a look at single parents with one child under the age of seven, renting a 60sqm flat, receiving minimum wages, child support and a rental subsidy. In the second figure, we add income from additional work.

### Subsisting on the minimum wage: Single parents

A single parent with one child (<7y/o); 60sqm rental flat,  
368,000 kr wages

Low wage subsistence	January 2022
Minimum wage	368,000
Pension contribution	-14,720
Tax base	353,280
Income tax	-57,191
Wages paid	296,089
<i>Cost of living:</i>	
Excluding housing costs	-303,771
Including housing costs (165 thousand)	-468,788
Child benefits	46,750
Housing benefits	42,931
Monthly deficit	-83,018

The minimum wage is 368,000kr a month, as of January 1. This is before deductions for a pension contribution (14,720kr) and income tax (57,191kr) leaving 296,089kr. This has to go into a cost of living that, with rent included, is nearly 469,000kr, according to the government's cost of living estimate and average rent as per Registers Iceland.

Child benefits (46,750kr) and the rent subsidy (42,931kr) are added to the income, leaving a **monthly deficit of 83,018kr**. This doesn't add up. To eke out a living, the parent needs to move to an exceedingly cheap flat and/or add significant overtime.

In the next image we'll see how five extra hours of work (21.5hrs/month) improve the situation. This increases the monthly wages to 450,000kr, but the taxes rise correspondingly to 30,000kr, taking more than a third off the increase gained from the overtime. Low-wage earners are thus punished for their initiative.

The benefits remain stable at these low wages but still there's a **monthly deficit of 33,000kr**. More is needed.

### Subsisting on the minimum wage with extra work: Single parents

A single parent with one child (<7y/o); 60sqm rental flat,  
450,000kr wages

Low wage subsistence	January 2022
Minimum wage + overtime (21.5hrs/month)	450,000
Pension contribution	-18,000
Tax base	432,000
Income tax	-85,947
Wages paid	346,053
<i>Cost of living:</i>	
Excluding housing costs	-303,771
Including housing costs (165 thousand)	-468,788
Child benefits	46,750
Housing benefits	42,931
Monthly deficit	-33,054

To make ends meet, a single parent with wages of 450,000kr a month inescapably needs a very cheap place to live, or to live with parents or relatives. It should be noted that 450,000kr are normal gross wages for low-wage earners. This gives a realistic picture of the prospects of single parents with one child. With more children, the situation would obviously become more dire, since child benefits do not cover the expenses of raising a child.

To make ends meet, single parents on the minimum wage working overtime need higher wages, lower taxes and more welfare contributions.

The prosperous Icelandic state could easily manage this – if the will was there.

## Married or cohabiting couples with two children

The preconditions are similar in a survey of couples' finances, except we allow for a larger rented flat (80sqm), raising the rent to 234,000kr a month. In the first example, we'll assume both parents work full time at the minimum wage.

Gross wages are thus 2x368,000kr, or 736,000kr in all. Pension contributions amount to nearly 30,000kr and the taxman takes just over 100,000kr. This leaves 603,000kr to cover the cost of living.

This cost, including rent, is about 763,000kr each month. To help out, child benefits (57,583kr) and rent subsidy (46,568kr) are paid, which helps, but doesn't suffice. This leaves a **monthly deficit of 56,000kr**.

### A couple with 2x minimum wage

Couple with two children (one under 7); 80sqm rental flat,  
2x368,000kr wages

Low wage subsistence	January 2022
Minimum wage	736,000
Pension contribution	-29,440
Tax base	706,560
Income tax	-136,226
Wages paid	570,334
<i>Cost of living:</i>	
Excluding housing costs	-530,071
Including housing costs (234 thousand)	-763,845
Child benefits	57,583
Housing benefits	46,568
Monthly deficit	-89,360

Of course, it is hard for a couple with two young children to both work full time. It is more common for one of them to work overtime and the other part-time, spending the extra time on caring for the children.

How does the case look if both work full time with an added 21.5 hours of overtime each every month? This is of course a significant burden on a family with young children.

## A couple with 2x minimum wage + overtime

Couple with two children (one under 7); 80sqm rental flat,  
2x450,000kr wages

Low wage subsistence	January 2022
Minimum wage + overtime (2x21.5 hrs/month)	900,000
Pension contribution	-36,000
Tax base	864,000
Income tax	-195,975
<b>Wages paid</b>	<b>668,025</b>
<i>Cost of living:</i>	
Excluding housing costs	-530,071
Including housing costs (234 thousand)	-763,845
Child benefits	57,583
Housing benefits	28,528
<b>Monthly deficit</b>	<b>-9,709</b>

This brings the household's gross income from wages to 900,000kr a month (2x450,000). Even though these may appear to be significant wages, they are well below the average couple's income. Off this sum we deduct 36,000kr due to pensions, and 196,000kr in income tax.

This leaves 668,025kr. That amount goes into a cost of living bill amounting to 764,000kr a month, which is nowhere near enough. Child benefits (57,583kr) and means-tested rent benefits (reduced from 46,568 to 28,528kr due to "high" income) are added, which helps, but there is still **a monthly deficit of nearly 10,000kr**.

It is nigh impossible for both parents of two young children to work full time and add the overtime assumed above. It is more likely that one parent takes on all the overtime, which would be very extensive. This amount of extra work by the parents would presumably increase childcare costs, which would raise the cost of living.

At the high rate of taxation of low wages seen in Iceland, and given the low child- and housing support, it is clear that couples with two young children need to work extreme amounts of overtime and/or move into very cheap and substandard housing to be able to make ends meet. These are dire straits.

## Conclusion

The avenue available to minimum-wage families with children, to make ends meet, is to work a lot of overtime and accept substandard housing. High taxes on low wages erode the possibilities of the worst off and miserly benefits for children and housing don't bridge the gaps as they should.

From 1988 until 1995, the minimum wage bore no income tax. Now, 57,000kr are taken off it each month. The rising taxation of minimum wages has prevented people from making ends meet. At the same time, the tax burden of the highest paid, and those with the highest capital income, was greatly reduced. The continuation of the earlier tax policy would have given us a much more just situation.

In the coming collective agreements, there is a lot of work to be done improving the lot of the worst paid. They need higher wages and lower taxes, as well as competitive child- and housing support.

Sources: Director of Internal Revenue; National Registry; Ministry of Social Affairs; Housing benefit; Statistics Iceland.

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