

# Social Transfers and Poverty Alleviation in Ireland

An Analysis of the Survey on Income and  
Living Conditions 2004 - 2011

Dorothy Watson  
Bertrand Maître

**Social Inclusion Report No.4**

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The micro-data analysis in Chapter 5 is based on data from Eurostat, EU-SILC, 2010. The responsibility for all conclusions drawn from the data and any remaining errors and omissions lies entirely with the authors.





## **Foreword from the Minister**

I welcome the publication of this ground-breaking report on the effectiveness and efficiency of social transfers in alleviating poverty in Ireland.

Social transfers include income from State means-tested payments (e.g. Jobseeker's Allowance, Non-contributory State Pension), State non-means-tested payments (e.g. Child Benefit, Jobseeker's Benefit, Contributory State pension) as well as occupational and foreign pensions (e.g. from public or private sector employment). Over 1,469,000 people were in receipt of a weekly social welfare payment at the end of 2012. As these payments included increases in respect of over 202,500 Qualified Adults and over 512,500 children, along with Family Income Supplement and Guardian's payments made in respect of 75,000 children, there were over 2,259,000 beneficiaries in all. In 2012, the Department spent nearly €3.1 billion on Jobseeker's Allowance, €3.1 billion on child-related payments (including qualified child increases) and €6.3 billion on pension-related payments. Social welfare expenditure is estimated to be over €20 billion by the end of 2013, accounting for 37 per cent of all Government expenditure. Basic social welfare rates have been protected in recent Budgets.

A primary function of social transfers is to alleviate poverty. The report examines social transfers' performance over time in cushioning people from the worst effects of rising unemployment and falling incomes. The study finds that social transfers in Ireland increased from a relatively lower base in 2005 (second lowest of the EU15) to a relatively higher proportion of total income by 2011 (second highest). Broadly

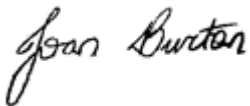
speaking, the report finds a high effectiveness of social transfers. The figures show that social transfers reduced the pre-transfer poverty rate (those who are poor before social transfers but not poor after social transfers) by 53 per cent in 2004, rising to 63 per cent by 2007 and 71 per cent by 2011. The reduction in the poverty gap (the gap between market incomes and the poverty threshold - set to zero if the household's market income is above the threshold) is higher but the increase over time is more modest: from an already high 84 per cent in 2004 to 88 per cent in 2011. This points to the pivotal role of the welfare system in alleviating poverty in Ireland and to the strong Irish performance as compared to other EU 15 countries. Efficiency varied by life-cycle groups and the type of social transfers (means-tested, non-means tested and occupational pensions). Social transfers are especially effective in reducing poverty for jobless households, which are heavily reliant on social transfer income.

Social transfers are essential in supporting well-being and reducing inequalities through redistribution of income, therefore helping to promote social solidarity. They also provide support across the life-course, from helping to protect children from the risks of intergenerational poverty and disadvantage to ensuring an adequate standard of living across all life-cycle groups. Social transfers also play a key role in addressing the social determinants of health (Marmot, 2013).

This report and its findings on the performance of social transfers in reducing poverty provides accurate and robust analysis of where those transfers have been most effective and efficient, highlighting that both the level of income support and targeting are important factors in the strong performance of social transfers in alleviating poverty. This remarkable performance, above and beyond significant increases in demand, does not get adequate recognition in public debates regarding the impact of the crisis on the most vulnerable. However, the effectiveness and efficiency of social transfers is only one part of the picture. We also need active inclusion strategies, such as are set out in the European Commission's Social Investment Package, which combine effective and efficient income support with inclusive labour markets and access to quality services.

One of the key challenges facing policymakers is to ensure that reform of social protection systems, despite the requirement for fiscal consolidation, does not undermine the essential bedrock of a minimum income which lifts people out of poverty. I am proud of the strong performance of social transfers in protecting the most vulnerable and in contributing to the national social target for poverty reduction, which is to reduce consistent poverty to 4 per cent by 2016 and to 2 per cent or less by 2020, from a 2010 baseline rate of 6.3 per cent.

Finally, I would like to thank the research team in the ESRI for this important study of Irish social transfers: Dorothy Watson and Bertrand Maître. I also want to thank the Social Inclusion Division in the Department which initiated the study and managed it through to its publication.

A handwritten signature in black ink that reads "Joan Burton". The signature is written in a cursive, flowing style.

Joan Burton TD

Minister for Social Protection



**Brollach ón Aire**

Cuirim fáilte roimh an tuarascáil cheannródaíoch seo ar a éifeachtaí atá an úsáid a bhaintear ar aistriú sóisialta ó thaobh an bhochtaineacht in Éirinn a mhaolú.

Áirítear ar aistriú sóisialta ioncam ó íocaíochtaí atá faoi réir tástáil maoinne (m.sh. an Liúntas Cuardaitheora Poist, an Pinsean Stáit Neamhranníochach), íocaíochtaí Stáit nach bhfuil faoi réir tástáil maoinne (m.sh. Sochar Linbh, an Sochar Cuardaitheora Poist, an Pinsean Stáit ranníochach) chomh maith le pinsin cheirde agus pinsin choigríche (m.sh. ó fhostaíocht san earnáil phoiblí nó phríobháideach). Bhí geall le 1,469,000 duine ag fáil íocaíocht sheachtainiúil leasa shóisialaigh, ag deireadh 2012. De bhrí go n-áirítear ar na híocaíochtaí sin méaduithe i leith 202,500 Duine Fásta Cáilithe agus breis agus 512,500 páiste, mar aon le híocaíochtaí den Fhorlíonadh Ioncam Teaghlaigh agus d'íocaíochtaí le Caomhnóirí i dtaca le 75,000 páiste, bhí 2,259,000 tairbheach ann san iomlán. In 2012 chaith an Roinn €3.1 bhilliún nach mór ar Liúntas Cuardaitheora Poist, €3.1 bhilliún ar íocaíochtaí a bhain le leanaí (lena n-áirítear méaduithe i leith páistí cáilithe) agus €6.3 bhilliún ar íocaíochtaí a bhain le pinsin. Meastar go gcaithfear breis agus €20 billiún faoi dheireadh 2013, rud arb ionann é agus 37 faoin gcéad de chaiteachas uile an Rialtais. Cosnaíodh na bunrásaí leasa shóisialaigh sna Buiséid is déanaí.

Feidhm thábhachtach atá le haistriú sóisialta ná an bhochtaineacht a mhaolú. Scrúdaítear sa tuarascáil seo a mhéad a chabhraigh aistriú sóisialta in imeacht

ama chun daoine a chosaint ar na héifeachtaí is measa ar an méadú ar dhífhostaíocht agus ar an laghdú ar theacht isteach. Fuarthas sa staidéar gur mhéadaigh aistrithe sóisialta ó bhonn sách íseal in 2005 (an dara bonn ab ísle i measc AE15) go céatadán measartha ard den ioncam iomlán faoin mbliain 2011 (an dara ráta ab airde). I gcoitinne, fuarthas sa tuarascáil go raibh an-éifeacht le haistrithe sóisialta. Taispeánann na figiúirí gur laghdaigh aistrithe sóisialta an ráta bochtaineachta réamhaistrithe (daoine a bhí bocht roimh aistriú sóisialta ach nach raibh bocht ina dhiaidh) de 53 faoin gcéad, ag méadú go 63 faoin gcéad faoin mbliain 2007 agus go 71 faoin gcéad faoin mbliain 2011. Is airde an laghdú sa bhearna bhochtaineachta (an bhearna idir teacht isteach margaidh agus tairseach na bochtaineachta – socraithe ag nialas más airde ná an tairseach ioncam margaidh an teaghlaigh) ach is lú an méadú in imeacht ama ó 84 faoin gcéad, a bhí ard cheana féin, in 2004 go 88 faoin gcéad in 2011. Cruthaíonn sé sin go bhfuil ról ríthábhachtach ag an gcóras leasa ó thaobh an bhochtaineachta in Éirinn a mhaolú agus go bhfuil Éire ag feidhmiú go maith sa mhéid seo i gcomparáid leis na tíortha eile in AE15. Ní raibh na haistrithe chomh héifeachtach céanna i ngach grúpa saolré agus i gcás gach cineál aistrithe sóisialta (íocaíochtaí faoi réir tástáil maoinne, íocaíochtaí nach bhfuil faoi réir tástáil maoinne agus pinsin cheirde). Éiríonn le haistrithe sóisialta an bhochtaineachta a mhaolú, go háirithe i dteaghlaigh gan obair, a bhraitheann go mór ar ioncam ó aistrithe sóisialta.

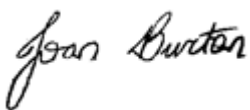
Is den riachtanas é aistrithe sóisialta a dhéanamh chun tacú le folláine agus chun éagothroidimí a laghdú trí ioncam a athdháileadh, ar mhaithe le dlúthpháirtíocht shóisialta a chur chun cinn. Soláthraíonn na haistrithe seo tacaíocht i ngach cuid den saol, ó chosaint do leanaí atá i mbaol ó bhochtaineacht agus ó mhíbhuntáiste ó ghlúin go glúin, go caighdeán dóthanach maireachtála a chinntiú do gach grúpa saolré. Tá ról tábhachtach ag aistrithe sóisialta i dtaca le deitearmanaint sóisialta na sláinte a mhúnlú (Marmot, 2013).

Gheofar sa tuarascáil seo cuntas ar an tionchar a bhí ag aistrithe sóisialta i bhfoirm anailís chruinn urrúnta ar an úsáid ab éifeachtaí a baineadh as na haistrithe sin, agus an chaoi ina dtaispeánann siad gur mó tionchar a bhíonn ag leibhéal na tacaíochta ioncaim agus ag an spriocdhíríú a dhéantar air ar a fheabhas a dhéantar

an bhochtaineacht a mhaolú. Níor tugadh dóthain aitheantais roimhe seo i ndíospóireachtaí poiblí maidir le tionchar na géarchéime ar na daoine is leochailí, don toradh suntasach seo, a baineadh amach d'ainneoin an mhéadaithe mhóir ar éileamh. Aithnítear a éifeachtaí atá aistrithe sóisialta, ach níl ansin ach cuid den scéal. Tá gá againn, leis, le straitéisí maidir le cuimsiú sóisialta, ar nós na straitéisí atá leagtha amach i bPacáiste an Choimisiúin Eorpaigh maidir le hInfheistíocht Shóisialta, ina gcomhcheanglaítear tacaíocht ioncam éifeachtach le margaí saothair cuimsitheacha agus le rochtain ar sheirbhísí den scoth.

Ceann amháin de na dúshláin éagsúla atá le sárú ag déantóirí beartais ná a chinntiú nach bhfeictear lagú ar dhúshraith riachtanach an bhunioncaim – an t-ioncam a chosnaíonn daoine ar an mbochtaineacht – de thoradh athchóiriú ar chórais slándála sóisialta, d'ainneoin an éileamh ar chomhdhlúthú fioscach. Táim mórtasach as an méid atá déanta ag aistrithe sóisialta chun cabhrú leo siúd is leochailí agus mar chuid de na hiarrachtaí chun an sprioc sóisialta náisiúnta le haghaidh laghdú na bochtaineachta, a bhaint amach. Is é an sprioc sin an bhochtaineacht leanúnach a laghdú go 4 faoin gcéad faoin mbliain 2016 agus go 2 faoin gcéad nó faoina bhun faoin mbliain 2010, ó 6.3 faoin gcéad de ráta bonnlíne in 2010.

Mar fhocal scoir, gabhaim buíochas leis an bhfoireann taighde san Institiúid Taighde Eacnamaíochta agus Sóisialta a rinne an staidéar tábhachtach seo ar aistrithe sóisialta in Éirinn: Dorothy Watson agus Bertrand Maître. Ba mhaith liom mo bhuíochas a ghabháil, chomh maith, leis an Rannán um Chuimsiú Sóisialta sa Roinn a thionscain an staidéar agus a bhainistigh é suas go dtí uair a fhoilsithe.



Joan Burton TD

Aire Coimirce Sóisialaí

## Executive Summary

### Introduction

This report examines the role of social transfers in tackling poverty in Ireland from 2004 to 2011, a period that included both strong economic growth (2004 - 2007) and a sharp fall into recession (2008 - 2011). During the period of economic growth the rates of social transfer payments increased more quickly than median incomes. The economic crisis in Ireland beginning in 2008 was particularly profound with sharp falls in Gross National Product and in employment. This, in turn, had major consequences for the level of household dependence on social transfers. Nevertheless, European statistics indicate that Ireland makes particularly effective use of social transfers in alleviating poverty when compared to other European countries.

Against this background, this report draws on the Central Statistics Office *Survey on Income and Living Conditions* (SILC) to examine the poverty reduction effectiveness and efficiency of social transfers in Ireland in the period from 2004 to 2011, the latest published data. Box 1, below, defines the main concepts used in the report.

The main strength of the analysis undertaken here derives from the detailed income and socio-demographic information available in the SILC dataset. This allows us to examine the effectiveness and efficiency of social transfers with respect to poverty reduction over time and across life cycle groups and, by using European SILC data, to benchmark these indicators for Ireland against other EU15 countries.

The focus on poverty reduction effectiveness and efficiency in the report contributes important insights into the poverty alleviation role of social transfers. However, the authors caution what might seem like 'ineffectiveness' or 'inefficiency' with respect to poverty reduction may well be a by-product of designing social transfers to address other goals such as promoting work, enhancing social involvement or encouraging skills development. In many cases, it will be necessary to balance the goal of increasing poverty reduction efficiency against other aims of policy.

## Box 1: Defining key concepts

**Social transfers** include income from State means-tested payments (e.g. Jobseekers Allowance, Non-Contributory State Pension), State non-means-tested payments (e.g. Child Benefit, Jobseekers Benefit, Contributory State pension) as well as occupational and foreign pensions (e.g. from public or private sector employment).

**Market income** includes income from employment and self-employment, interest and dividends from savings and investments, and income from property.

**Disposable income** refers to income from all sources after taxes and social insurance contributions have been deducted.

**Disposable market income** refers to market income minus tax and social insurance contributions.

The **poverty threshold** is the level of income below which a household is considered to be at-risk-of-poverty. It is set at 60% of the median household income, after adjusting for household size and composition.

The **market income poverty gap** refers to the gap between the household's disposable market income and the poverty threshold.

In examining the impact of social transfers on income poverty, we draw on three additional concepts:

The **poverty reduction potential** of social transfers refers to the aggregate spend on social transfers expressed as a ratio to the aggregate market income poverty gap. Where the ratio is greater than 1.0 the amount spent would be enough to bridge the market income poverty gap; while a ratio less than 1.0 indicates that the amount would not be sufficient.

The **poverty reduction effectiveness** of social transfers refers to the extent to which social transfers contribute to a reduction in poverty. It can be measured in terms of a reduction in the poverty rate or a reduction in the market income poverty gap. The second measure is better since it takes account of how far below the poverty threshold people's incomes lie.

The **poverty reduction efficiency** of social transfers refers to the proportion of social transfers that contribute to reducing the market income poverty gap.

In the remainder of this executive summary we outline the main findings under the following headings:

1. How did Irish social transfers and market income change from 2004 to 2011?
2. By how much did the poverty reduction effectiveness of social transfers improve?
3. Why did the poverty reduction effectiveness of social transfers increase?
4. Did the impact of social transfers on poverty vary by life cycle group?
5. How do social transfers in Ireland compare to those in the EU15?
6. What are the implications for policy?



## **How did social transfers and market income change in Ireland from 2004 to 2011?**

- The composition of gross income of the average household changed between 2004 and 2011. The proportion from gross market income (from work, savings, investments and property) declined from 80 per cent to 70 per cent while social transfers increased from 20 per cent to 30 per cent.

### Changes in the level of market income

- In 2004, 76 per cent of households received some market income, falling to 71 per cent by 2011. At the same time, the average gross market income in households receiving some market income fell from €1,044 to €939 per week in 2011 prices.

### Changes in the level of social transfer income

- In 2004, 85 per cent of households received at least some social transfer income, rising to 87 per cent in 2011. This represents a relatively small change in the proportion of households receiving *some* income from social transfers. The figure is high because all households with dependent children receive child benefit and virtually all adults of retirement age receive social transfers related to old age.
- The change in the average amount among households receiving some social transfer income was more substantial. The average gross amount of social transfers in households receiving any income of this type increased from €233 per week in 2004 to €327 per week in 2011, in 2011 prices. Part of the increase was due to increasing payment rates for social transfers between 2004 and 2009 and part was due to a shift in the type of payment received. In particular, with rising unemployment many working-age households with children would have changed from receiving Child Benefit only before the recession to receiving Child Benefit plus an unemployment-related welfare payment after the recession.

### Changes in composition of social transfer income

- Looking at broad categories of social transfers, we saw that State means-tested social transfers increased as a proportion of gross household income from 6 per cent in 2004 to 10 per cent in 2011; State non-means-tested payments increased

from 8 per cent to 12 per cent; occupational pensions increased from 4 per cent to 6 per cent; and Child Benefit remained stable at about 3 per cent.

- In regard to the scheme category, the main change was the increase in unemployment payments, which rose from 12 per cent of social transfer payments in 2004 to 20 per cent by 2011. In 2004, 16 per cent of households received some social transfer income related to unemployment and this had increased to 29 per cent by 2011. At the same time, there was a large increase in unemployment payments that were means-tested (from 5 per cent of all social transfers in 2004 to 12 per cent by 2011), while non-means-tested unemployment payments increased only slightly (from 7 per cent to 8 per cent of gross social transfers).

### **By how much did the poverty reduction effectiveness of social transfers improve?**

- As noted in Box 1, there are two measures of the poverty reduction effectiveness of social transfers. The reduction in the poverty rate is based on comparing the percentage of households below the poverty threshold before social transfers (i.e. only taking account of market income) and the percentage of households below the poverty threshold once we take account of social transfers. The figures show that social transfers reduced the pre-transfer poverty rate by 53 per cent in 2004, rising to 63 per cent by 2007 and 71 per cent by 2011.
- The second measure of effectiveness takes account of the gap between market incomes and the poverty threshold (set to zero if the household's market income is above the threshold) and measures by how much the *gap* is reduced when social transfers are taken into account. The reduction in the poverty gap is higher than the reduction in the poverty rate, but the increase over time is more modest: from 84 per cent in 2004 to 88 per cent in 2011. Because this indicator of effectiveness was already high in 2004, there was less scope for improvement.

### **Why did the poverty reduction effectiveness of social transfers increase?**

#### Overview

The main reason for the improvement in the effectiveness of social transfers was that the amount spent had increased substantially relative to the poverty gap, while

the poverty reduction efficiency of social transfers remained at roughly the same level. Underlying this were a number of processes:

- The increase in the rates of social welfare payments up until 2009;
- During the recession,
  - more people needed the safety net of unemployment-related welfare payments,
  - the poverty threshold fell as market incomes declined so that social transfers had a smaller gap to bridge,
  - the rates of most weekly social welfare payments to older adults were held constant, and
  - the rates of payment to younger adults (except unemployed adults under age 25) fell by a smaller amount than the fall in the poverty threshold.

#### Change in poverty reduction potential

- The poverty reduction potential of social transfers refers to the total social transfer amount relative to the poverty gap. In 2004, the total amount spent on social transfers to households was 1.66 times the size of the market income poverty gap but this had increased to 1.84 times by 2011. State means-tested social transfers, State non-means-tested social transfers and other social transfers (mainly occupational pensions) all increased over time, but it was the increase in the means-tested payments that was largest. This increase was primarily due to an increase in the numbers relying on weekly means-tested payments related to unemployment, such as Jobseeker's Allowance.

#### Change in poverty reduction efficiency

The increased spending would not have contributed to poverty reduction if it had not been directed towards households that otherwise would have been poor. The poverty reduction efficiency of social transfers refers to the proportion of social transfers that contribute to a reduction in the pre-transfer poverty gap.

- The poverty reduction efficiency of social transfers changed only a little. When we assess it as an average across households it declines slightly but when we

assess it across individuals it increased slightly between 2004 and 2011. The difference is due to the fact that the poverty reduction efficiency increased for larger households and larger households are given a greater 'weight' when we calculate the level of efficiency across individuals.

### **Did the impact of social transfers on poverty vary by life cycle group?**

We considered whether social transfers differed in their impact between life cycle groups (children, working-age adults, retirement age adults and people with a disability) or by gender and household joblessness. This analysis was conducted at the level of the individual because gender, age and disability status are characteristics of individuals.

- The life cycle groups differed in the extent to which they depended on social transfer income. In 2011, the highest level of dependency on social transfer income was for people in jobless households (85 per cent of their income came from social transfers) and those of retirement age (77 per cent). The level was also high for people with a disability (54 per cent).
- The poverty reduction effectiveness with respect to the poverty gap in 2011 ranged from 84 per cent for working-age adults to 95 per cent for retirement age adults, with figures of 87 per cent for children and people in very low work intensity (jobless) households. The biggest percentage (relative) improvement in poverty reduction effectiveness since 2004 was for children (20 per cent improvement).
- Social transfer payments were particularly effective at reducing poverty among adults of retirement age. This was linked to the greater prevalence of non-means-tested payments and occupational pensions among this group.
- On the other hand, social transfers were far more efficient at reducing poverty for those in jobless households (80 per cent). This is linked to the greater prevalence of means-tested payments among this group (means-tested payments tend to be more efficient in terms of poverty reduction).

- The poverty reduction efficiency of social transfers with respect to child poverty in 2011 was only slightly above average (54 per cent vs. 48 per cent on average) and showed an improvement since 2004 (13 per cent).

### **How do social transfers in Ireland compare to those in the EU15 countries?**

There are some differences between the Irish approach and the European Commission approach to measuring poverty. In order to compare the situation in Ireland to that in other European countries, we switched to the indicators used at EU level. We used the EU measure of at-risk-of-poverty (AROP) and calculated poverty reduction effectiveness and poverty reduction efficiency with respect to income adjusted for household size and composition, for the years 2005 and 2010. 2005 is chosen as the base year because the UK, Germany and the Netherlands were not part of the survey prior to this. At the time of writing, 2011 EU-SILC data was not available for Ireland.

- Compared to other EU15 countries, Irish social transfers increased from a relatively lower proportion of income in 2005 (second lowest of the EU15) to a relatively higher proportion by 2010 (second highest). This was partly due to the fall in market income as a result of the recession, but there was also a real increase in the levels of social transfer payment in Ireland up until 2009.
- Across the EU15 countries, the levels of poverty reduction effectiveness and efficiency tend to be positively associated: countries with a higher level of efficiency also tend to have a higher level of effectiveness. This suggests that it is possible to design a social transfer system to achieve relatively high levels of both poverty reduction effectiveness and efficiency.
- In 2010, Ireland was towards the top of the range of EU15 countries in poverty reduction effectiveness of social transfers (90 per cent). This was an improvement on 2005, when Ireland was only in the middle of the EU15 range.
- In 2010, the poverty reduction efficiency of social transfers in Ireland was towards the middle of the EU15 range (48 per cent), having fallen somewhat since 2005.

## **Policy implications**

In the following we draw out two general implications for policy as well as specific implications for children and jobless households.

### Poverty reduction effectiveness

- The overall poverty reduction effectiveness of social transfers in Ireland when assessed with respect to the poverty gap is relatively high by EU standards and has increased slightly between 2004 and 2011. This suggests that the scope for further policy interventions to improve the overall level of effectiveness may be limited. However, there are certain groups such as children, where the poverty reduction effectiveness is about average and which may benefit from increased attention.

### Balancing poverty reduction efficiency against other policy goals

- Improvements to poverty reduction efficiency may be possible, but this needs to be weighed against other policy goals such as encouraging labour market participation. The level of withdrawal of benefits needed to achieve a high level of efficiency could create a strong disincentive to work. In the long run, placing too much emphasis on a narrow conception of poverty reduction efficiency could have negative consequences for other goals, such as reducing the rate of household joblessness.

### Implications for policy in relation to child poverty

- The poverty reduction effectiveness of social transfers for children is only about average across life cycle groups. Taken together with the negative long-term consequences of child poverty, this reinforces the importance of the emphasis on child poverty in the national social target for poverty reduction.
- It is worth noting that specifically child-related payments (mainly Child Benefit, but also Maternity, Adoptive and Guardian's benefits) accounted for only about one third of the social transfer income going to children's households in 2011. The bulk of social transfer payments going to households with children are associated with schemes addressing other categories of need such as unemployment, lone parenthood and disability. This means that we need to understand and address

child poverty in the context of addressing poverty among those of working-age more broadly.

- While the poverty reduction effectiveness of social transfers is about average for households with children, the poverty reduction efficiency for this group is above average. This suggests that social transfers going to households with children would not be an obvious target in any effort to improve the efficiency of the social transfer system.

#### Implications for policy on household joblessness

- While addressing household joblessness must begin with strategies to increase employment, there is also a need to emphasise appropriate labour market activation. The high level of joblessness in Ireland even during the boom years suggests the need for labour market activation strategies as we move out of recession.
- To tackle household joblessness, tailored training and support services within activation strategies need to be targeted to people who were not traditionally offered these measures, such as lone parents and people with a disability.
- In addition, we need to consider the impact of one individual beginning to earn market income on the benefit entitlement of others in the same tax/benefit unit. In other words, a 'whole household' perspective is needed rather than a purely individual focus which has arisen because of the design of the social welfare system, particularly for means-tested benefits.
- Emphasis on income protection must continue. Given that one half of those in jobless households are either adults with a disability or children (Watson, Maître and Whelan, 2012), an over-reliance on activation strategies that do not protect individuals in jobless households from poverty would be misplaced and would interfere with the capacity to meet the goal of reducing poverty among children and promoting social inclusion among people with a disability.
- The analysis in the report shows that social transfers received by jobless households in 2011 were considerably above average in terms of poverty reduction efficiency (80 per cent, compared to 48 per cent on average) and are about average in terms of effectiveness (as measured with respect to the poverty

gap, 87 per cent). It would be unwise, therefore, to view social welfare payments to jobless households as being 'too generous'.



## Introduction

One of the major functions of the Welfare State is to redistribute income collected through taxation via social transfers, so as to alleviate poverty and income inequality (Atkinson, 1995; Esping-Andersen and Myles, 2009). Social transfers also play a role in meeting other goals of the Welfare State such as adjusting income to economic needs and to the particular circumstances of the life cycle (e.g. Child Benefit, pensions). Finally, social transfers protect people from the consequences of economic shocks such as unemployment.

This report is concerned with the effectiveness and efficiency of social transfers in alleviating poverty in Ireland in the period from 2004 to 2011. The role of social transfers is particularly relevant in the context of recession with increasing demands on the social protection system and therefore on public finances. In 2006, before the recession, OECD figures showed that Ireland ranked 12<sup>th</sup> of the EU15 in per capita social spending while being one of the EU countries where social transfers had the biggest impact on moving people out of poverty.<sup>1</sup> Since the start of the recession, Ireland's social protection expenditure has increased considerably. Recent national figures published by the Central Statistics Office showed that the impact of Ireland's social transfers on poverty reduction has also increased since the recession began (CSO, 2013, Table 4, p. 12).

Against this background, we address three key research questions in this report:

1. Why did social transfers play a greater role in alleviating poverty in Ireland by 2011 than in 2004? (Chapter 3)
2. Does the impact of social transfers in alleviating poverty vary by life cycle group (children, older adults, working-age adults, people with a disability, jobless households) or by gender? (Chapter 4)
3. How does the poverty reduction effectiveness and efficiency of social transfers in Ireland differ from that in other EU countries? (Chapter 5)

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<sup>1</sup> See the OECD website [www.OECD.org](http://www.OECD.org) SOCx database for per capita social spending in constant prices and constant purchasing power parity (PPP) [accessed 07 Nov 2013].

The focus of the paper is very specifically on social transfers as a component of income and the poverty reduction efficiency / effectiveness of these social transfers. A full account of policy impact, as noted in the report, would require attention to taxation as well as transfers and would require attention to a broader range of policy goals. Moreover, we do not seek to establish a causal link between specific policies or specific benefit packages and poverty outcomes. We do note how policy had changed in the period covered by the report and comment on how outcomes had changed at the same time. However, given the dramatic changes in the economy in the period, it would be foolhardy to attribute changing outcomes to policy change.

### **Report outline**

The first Chapter describes the policy background to the focus on social transfers in the Irish context and provides a brief overview of what is known in the area from previous research.

In Chapter 2, we discuss the SILC data, the measurement of the main indicators used in this report: social transfers, market income and the types of social transfers (means-tested vs. non-means-tested, and a classification by scheme category). We provide an overview of how these have changed in Ireland between 2004 and 2011.

Chapter 3 discusses the role of social transfers in alleviating income poverty in Ireland, examining the role of non-means-tested and means-tested social transfers in this respect. We also examine the association between receipt of social transfers and both basic deprivation and consistent poverty.

We turn in Chapter 4 to consider receipt of social transfers by different life cycle groups. The analysis considers children, working-age adults, adults of retirement age and people with a disability and also examines variation by household joblessness and gender. At this point we switch from a household-level to an individual-level analysis because characteristics such as gender, age and disability are individual attributes.

In Chapter 5, we draw on EU data to examine the level of social transfers in Ireland compared to other EU countries and differences between countries in the effectiveness / efficiency of social transfers in reducing poverty.

Finally, in Chapter 6, we draw together the results in order to highlight the main findings of the report and point to their implications for social policy.

## **Chapter 1: The Conceptual and Policy Context**

### **1.1 Introduction**

This report examines the role of social transfers in tackling poverty in Ireland from 2004 to 2011. Although the focus is on a single country, Ireland in this period is a particularly interesting case in terms of what we can learn about the significance of social transfers. First, statistics indicate that Ireland is exceptional in the European context in making particularly effective use of social transfers in alleviating poverty (Eurostat 2010; Cantillon, 2011). Second, the period in question (2004 - 2011) covers both strong economic growth (2004 - 2007) and recession (2008 - 2011). The economic crisis in Ireland beginning in 2008 was particularly profound, as it led to a bursting of the property bubble and to a fiscal crisis in the State, whose revenues had become overly dependent upon taxes on property transactions. Gross National Product (GNP) fell by 10 per cent between 2007 and 2009 (CSO 2012b, Table 1). Total employment fell by 16 per cent between 2007 and 2011 (CSO, 2013). This, in turn, had major consequences for the level of household dependence on social transfers. Finally, the level of household joblessness is high in Ireland by European standards (Watson, Maître, Whelan, 2012), leading to a concern that this pattern may be linked to the way in which social transfers are configured.

### **1.2 Conceptual issues**

Broadly speaking, the alleviation of poverty and inequality has been considered one of the main goals of the Welfare State and social transfers are one of the main instruments through which this is achieved. Atkinson (1995) notes that these are not the only goals of the Welfare State, as the Welfare State also provides a kind of insurance against economic shocks (such as unemployment), distribution across the life course (e.g. pensions) and between social groups at different life cycle stages (e.g. Child Benefits) which the private sector is unwilling to provide or which individuals themselves often neglect to provide for (pensions). Nevertheless, the effectiveness and efficiency of social transfers in alleviating poverty have become the focus of considerable research and policy attention in recent years (Korpi and Palme, 1998; Heady, Mitrakos and Tsakloglou, 2001; LeFebvre, 2007; Caminada et al., 2010; Esping Andersen and Myles, 2009).

One strand of this research links the effectiveness of social transfers to the level of spending, while cautioning that other factors matter as well. Heady, Mitrakos and Tsakloglou (2001) find that distributional impact of social transfers is greater in countries that spend a higher proportion of income on them but that there are other important determinants, including the distribution of funds between different types of transfers and the degree of targeting for each transfer. They note that Ireland ranked higher in terms of reducing poverty than in terms of reducing inequality, attributing this, in part, to a high proportion of means-testing in Ireland's social transfers (p. 18). Caminada et al. (2010) also find a strong negative relationship between the level of public social expenditure and poverty among 28 OECD countries, but other factors matter as well, including the age structure of the population and the unemployment rate.

The type of social transfers, particularly the mix of universal and targeted payments, also makes a difference, though there has been some dispute as to precisely how. 'The Robin Hood' thesis (Esping Andersen and Myles, 2009) implies that targeting benefits to the poorest will yield the strongest redistributive effect. On the other hand, the 'paradox of redistribution' thesis (Korpi and Palme, 1998) holds that because narrowly targeted policies have less electoral support, they are usually less generous and potentially stigmatizing and, as a result, produce less equalisation than universal benefits.

The perceived legitimacy of social benefits varies across types of payment and across countries. Using a Qualitative Comparative Analysis<sup>2</sup>, Peillon (1996) examined the link between the perceived legitimacy of different types of social welfare programmes and the dimensions of need (means testing), merit (contributory benefits) and right (universal benefits), as well as the scope of the programme and whether it involves the provision of social transfers or services. He finds that merit and need are relatively unimportant factors in determining whether a programme will

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<sup>2</sup> Qualitative Comparative Analysis (QCA) is a technique to solve problems that are caused by making causal inferences on the basis of only a small number of cases. It is mainly used in comparative research or with qualitative data.

be supported. However, widespread coverage and provision of services tends to attract more support.

The impact on redistribution of different income sources can be strongly conditioned by the national context. LeFebvre (2007) breaks down the marginal effect of earnings, property income, private pensions and public transfers on inequality. Earnings, property income and private pensions contribute to inequality in general, but the impact of private pensions differs by country. Private pensions reduce inequality in France and raise inequality in Sweden, because in France, private pension schemes are mandated by government with near-universal inclusion among employees while in Sweden the private pension system is smaller in terms of coverage with the benefits linked to earnings.

In Ireland, the most recent analyses of the impact on income distribution of changes in State policies during the recession show a larger reduction in disposable income for households that were in the top income deciles (Callan et al., 2013). Taking account of changes between 2008 and 2013 in tax, welfare and public sector pay, Callan et al. find that policy changes tended to reduce disposable incomes by more than average for the top two deciles and less than average for other groups. The pattern was not even, however, and the bottom decile experienced a larger reduction than the next two deciles. The authors point to the importance of reductions in social welfare payment rates for people of working-age while payment rates for pension benefits increased in 2009 and remained constant thereafter. As a result, losses were lower in the deciles that contained higher proportions of pensioners (the second and third deciles) than in the bottom decile.

Esping-Andersen and Myles (2009) note the importance of taking account of taxation as well as social transfer payments. There are important differences between countries in the extent to which social benefits are taxed and these have a significant impact on the increase in purchasing capacity associated with receipt of these benefits. Caminada et al. (2010) argue that it is important to take account of the taxation of social transfers and the level of indirect taxes – both of which reduce the purchasing power of social transfers – and also of the use of tax deductions or

credits in place of social transfer payments. In an analysis of 28 OECD countries, they find that once taxes are controlled, the link between social spending and poverty levels across countries becomes insignificant. In an Irish context, analyses by Callan et al. (2013) suggested that the impact of changes in government policy on redistribution of income between 2008 and 2011 was primarily through the transfer system. The impact of the transfer system in this period was about three times larger than that of the tax system (Table 9, p. 16).

### **1.3 Poverty reduction effectiveness and efficiency of social spending**

Social spending is often assessed in terms of its poverty reduction effectiveness and efficiency. The effectiveness of spending refers to the extent to which it achieves the desired goal of reducing poverty while poverty reduction efficiency is concerned with 'value' – how much of a reduction in poverty (or in the poverty gap) is achieved for a given level of spending (Beckerman, 1979a, p. 275). The measurement of both of these concepts is explained more fully in Chapter 3.

Poverty reduction efficiency has become a particular concern in the context of the constrained budgetary climate of the recession. Assessing the efficiency of public spending is a challenging empirical issue, in part because there is no consensus on how to measure and compare aggregate social spending across countries (European Commission, 2008, p. 5; see Tausch, 2011, for one approach).

Note that when we assess the effectiveness and efficiency of social transfers with respect to poverty, we are deliberately adopting a narrow focus. We are focusing on social transfers, but not taking account of taxation or of services that are directly provided by the State. Both of these are particularly important in comparing the situation across countries because the level of public service provision in Ireland is lower than in many other EU countries, particularly the Scandinavian countries (Alber, 1995; Jensen, 2008).

The focus on effectiveness and efficiency with respect to poverty reduction also ignores the fact that social policy also has other goals. Apart from poverty reduction, other goals include maintaining work incentives, promoting and developing access to

social and health services and enhancing social and political participation. These different objectives can sometimes be very difficult to reconcile. Cantillon et al. (2012) point to the tension between three objectives of social welfare systems: to maintain living standards in the face of adverse social risks, to combat poverty by guaranteeing a minimum income and to foster 'active inclusion'. The authors argue that an increased emphasis on the third goal – fostering employment and independence from welfare – has dominated in recent European policy. As a result, Cantillon argues that there has been insufficient attention to poverty reduction in recent European social policy, particularly for households remaining outside the labour force (Cantillon, 2011, pp. 439-440). Ireland has been something of an exception to this general pattern, with a fall in the risk of poverty associated with being in a jobless household (Cantillon, 2011; Watson, Maître and Whelan, 2012). Cantillon et al. (2012, p. 29) report that, while most EU15 countries in the 2000s saw a decline in the net social assistance benefit package relative to the poverty threshold, there was a net increase in Ireland. This was almost entirely due to the increasing generosity of the social security system relative to the income poverty threshold, rather than to any change in targeting of benefits (Cantillon et al., 2012, p. 21).

It is worth noting that socio-demographic changes in the population can have an impact on the poverty reduction efficiency / effectiveness of social transfers, even in the absence of any change in policy. In particular, if social transfers for the unemployed are more effective or efficient in terms of poverty reduction, an increase in the numbers unemployed may lead to a change in the measured effectiveness and/or efficiency of social transfers without any change in policy. As such, poverty reduction effectiveness and efficiency – while influenced by social protection policy – are also influenced by a range of other factors that have little to do with social policy.

#### **1.4 Policy context**

In the European context, the social investment approach is receiving increasing attention in social policy circles. This approach, which has grown in the European context since the 1990s, emphasises market income from work as the preferred means of avoiding poverty for those of working-age (Giddens, 1998; Esping-



Andersen, 2002; Rodrigues, 2003; Diamond and Liddle, 2011). The role of the Welfare State is seen in terms of addressing social risks such as population ageing, single parenthood, precarious forms of job contract, work–family conflict, and the obsolescence of skills (Morel, Palier and Palme, 2011). Social inclusion is to be fostered primarily by facilitating access to the labour market for groups that had been traditionally excluded, such as women, lone parents and people with disabilities (European Commission, 2007b).

The role of work is also emphasised in the Europe 2020 strategy for ‘smart, sustainable and inclusive growth’ (European Commission, 2010a). The strategy includes five measurable targets to be achieved by 2020, one of which is concerned with poverty and social exclusion. The target concerning poverty and social exclusion aims to lift at least 20 million people out of the risk of poverty and social exclusion by 2020. The platform against poverty and social exclusion (European Commission, 2010b) defines the target more specifically in terms of three indicators: at-risk-of-poverty; severe material deprivation; and being in a household with very low work intensity (European Commission, 2010b, p. 3). Very low work intensity occurs when the working-age adults in the household are in employment for less than one fifth of the available time. The population ‘at risk of poverty or exclusion’ is the population identified on any one of these three measures, that is, being income poor or being deprived or living in a household with very low work intensity.

The international literature (OECD, 1998, 2004, 2009a) has shown strong evidence of the relationship between low income and low work intensity. However, in spite of this association, de Graaf-Zijl and Nolan (2011) found that there was a relatively weak link between household joblessness and income poverty and deprivation. Analysing the 2006 EU-SILC, the authors found that in most EU countries little more than half the working-age adults in jobless households are either income poor or deprived. Neither is there a systematic association at the country level between trends in very low work intensity and trends in income poverty and deprivation (*ibid.*, p. 428). The Irish case illustrates this clearly. The very low work intensity rate increased from 15 per cent to 22 per cent between 2005 and 2010 while over the

same period the at-risk-of-poverty rate decreased from 20 per cent to 16 per cent (Watson, Maître and Whelan, 2012).

The policy context in the report focuses on social transfers and poverty alleviation. A broader discussion of social protection systems and European developments with regard to this is beyond the scope of the research.

### **1.5 Irish policy**

During the period of economic growth, the rates of most social welfare payments had been increased substantially so that, despite the cuts to certain payments after 2009, the rates in 2011 were higher than they had been in 2004. For instance, looking at change in real terms (controlling for inflation) the rate of payment for Jobseeker Allowance rose by 23 per cent between 2004 and 2007. The rates continued to rise between 2007 and 2009 before being cut again so that the 2011 level, when we control for inflation/deflation, was essentially the same as the 2007 level<sup>3</sup>. In the case of the State Pension (contributory), the rate increased by 12 per cent between 2004 and 2007 and by a further 9 per cent between 2007 and 2011 (standing at 22 per cent higher in 2011 than in 2004). Unlike the payments for working-age adults and Child Benefit, the rates of pensions had not been cut after 2009<sup>4</sup>.

The overarching context for policy in Ireland from the middle of the 2004 - 2011 period was the difficult environment resulting from the national and international fiscal crisis. This required very substantial reductions in public expenditure. In July 2011, a new Department of Public Expenditure and Reform was established to oversee the process of reform in the public sector while ensuring cost reductions. At the same time, there was a commitment in the *Programme for Government, 2011 - 2016* to protecting the most vulnerable (Department of the Taoiseach, 2011). This has led to an emphasis on maintaining the levels of the main weekly social welfare payments, although there have been cuts in unemployment-related payments to young adults and in Child Benefit after 2009.

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<sup>3</sup> These figures are for an adult over age 25. From 2010, a lower rate was introduced for adults under age 25 unless they had children.

<sup>4</sup> Calculation by authors from Social Welfare Rates of Payment and CSO Consumer Price Index.

Recent reforms to social welfare benefits and social welfare services have emphasised labour market activation as a remedy for social exclusion among working-age households (OECD, 2009; Department of Social Protection, 2011). Significant institutional changes have already taken place, including merging functions formerly housed in separate departments under the umbrella of the Department of Social Protection. The Government's 2012 *Pathways to Work* (Government of Ireland, 2012) strategy details a comprehensive policy on labour market activation, including greater engagement with people who are unemployed; greater targeting of activation programmes; incentives to take up employment; job creation; and improving delivery of services.

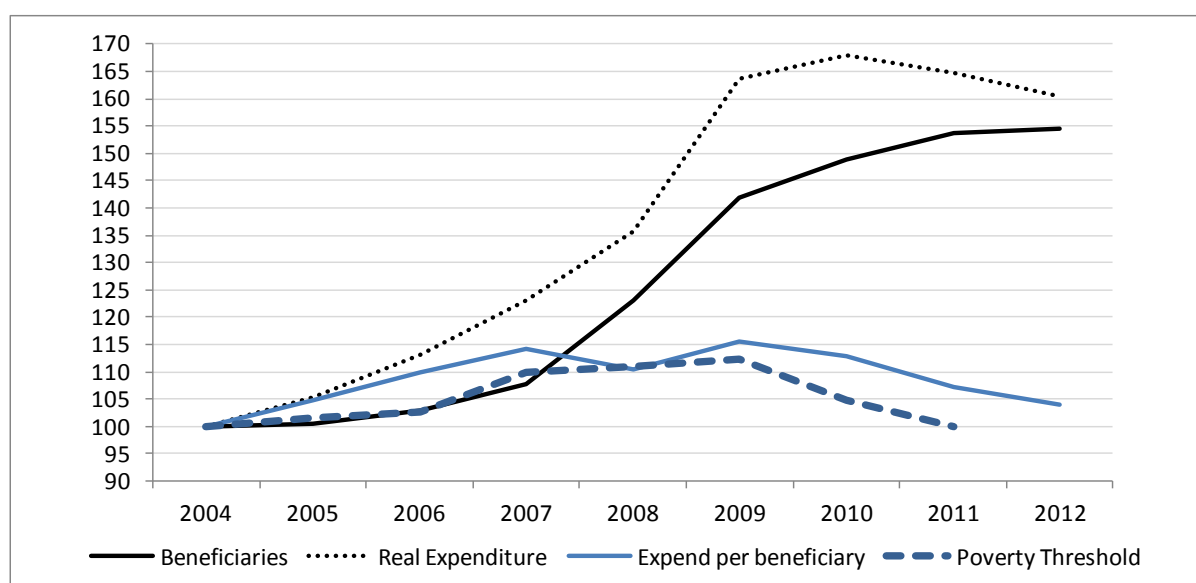
Also in 2012, a new national social target for poverty reduction with sub-targets was adopted (Department of Social Protection, 2012). While continuing to emphasise a reduction in consistent poverty as the key indicator for the headline target, there is a commitment to develop sub-targets for two groups that have a high risk of consistent poverty and are important from a range of social policy perspectives: children and jobless households (p. 50). This, again, reflects an increasing concern with the promotion of work as a route out of poverty for working-age households, many of whom will also include children.

## **1.6 Trends in social spending in Ireland**

As background to the data presented in this report, we provide some key indicators of change in the period since 2004. The period of economic growth up until 2007 made an increase in social spending possible, so that spending on social transfers grew. Figure 1.1 shows the trend in expenditure on weekly social welfare payments since 2004 as well as the trend in the number of beneficiaries of these payments and the amount of benefit per beneficiary. The trends are shown as an index value, where 2004 = 100. The expenditure figures are adjusted for inflation, using the CSO Consumer Price Index. For reference, the figure also shows the trend in the poverty threshold (adjusted for inflation), which is linked to median income across persons. This allows us to see whether the average social benefit payment was changing at a similar rate to the median incomes.

The number of beneficiaries rose between 2004 and 2007 (from index = 100 to index = 108), but began to rise very rapidly thereafter with the onset of the recession, reaching an index value of 154 by 2011 and 2012. The average expenditure per beneficiary also increased in real terms until 2009 (index value = 115). Thereafter it declined, reaching an index value of 104 by 2012. The total expenditure is influenced mainly by the number of beneficiaries, reaching a peak in 2010 of 168. Thereafter, as a result of a reduction in the average amount of payment per beneficiary, it fell slightly to 160 by 2012.

**Figure 1.1 Changes over time in beneficiaries of weekly social welfare payments, expenditure on social welfare and poverty threshold, 2004 - 2012**



Notes: Source: Department of Social Protection statistical report 2012, Table A8 and Table A8, calculations and chart by authors. 2004=100. Central Statistics Office, SILC reports for the poverty threshold. Expenditure is annual. We would expect a drop in expenditure per beneficiary when numbers of beneficiaries are rising because not all are receiving weekly payments for the full year.

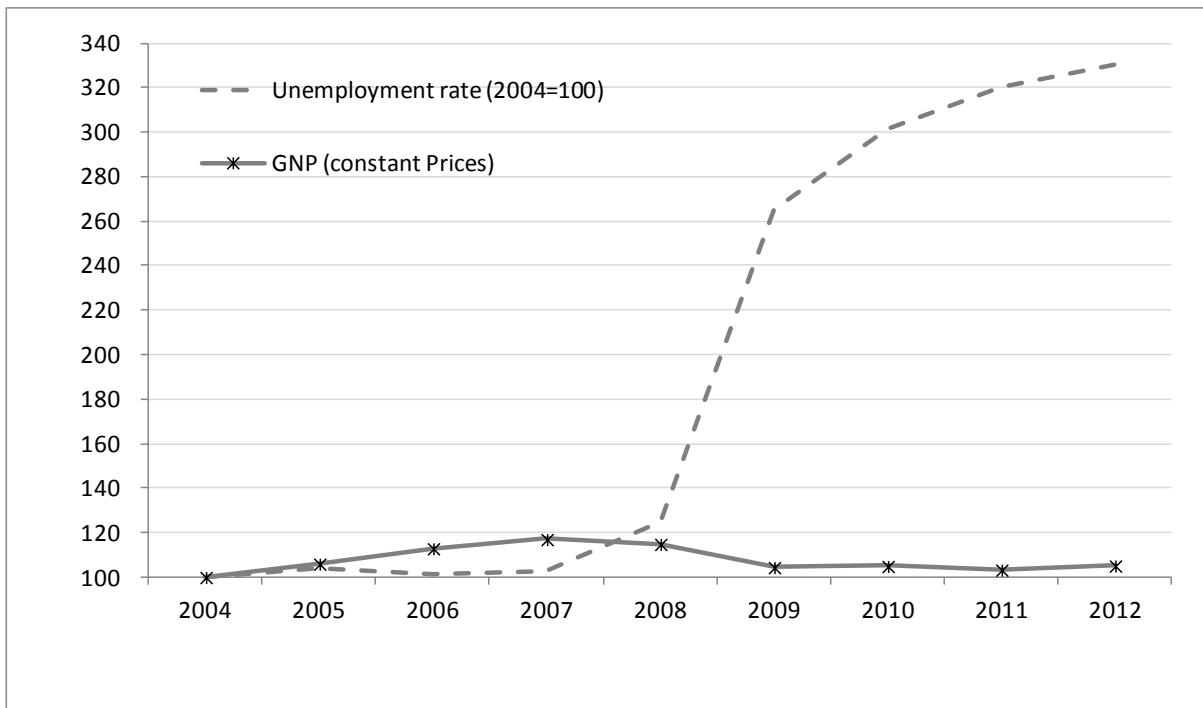
The poverty threshold, which is linked to the median household income calculated across persons, increased in real terms between 2004 and 2007 and fell after 2009. The increase between 2004 and 2007 was more moderate than the increase in the average weekly social welfare expenditure per beneficiary and the fall after 2009 was sharper than the fall in the average social welfare expenditure per beneficiary.

As noted above, the years from 2004 to 2012 cover two very different periods: the last years of strong economic growth from 2004 to 2007 and the sharp recession

beginning in 2008. The changes in the amount of benefit reflect large shifts in the proportion of expenditure going to different categories of need, particularly unemployment (Department of Social Protection, 2013, Graph A2 and A3, p. 10).

Figure 1.2 shows the trend in GNP in constant prices and the unemployment rate for the same period. Again, the figures are presented in the form of an index where 2004 = 100 so that indicators with very different metrics can be shown on the same chart.

**Figure 1.2 GNP per capita and unemployment rate in Ireland (2004 = 100), 2004 - 2012**



Source: CSO (2013b) *Statistical Yearbook of Ireland, 2013* (Tables 2.1 and 8.2).

Because the unemployment rate in 2004 was so low (at 4.6 per cent) and had risen to 15 per cent by 2012, the index value for unemployment reached 331 by 2012, with most of the increase taking place between 2008 and 2009 (from index values of 125 to 265, or from 5.7 per cent to 12 per cent). The fall in GNP in constant prices took place at the same time. GNP rose from an index value of 100 in 2004 to 117 by 2007 before dropping to 105 by 2012. The sharpest drop (from 115 to 106) was between 2008 and 2009.

## **1.7 Strengths and limitations of the analysis in this report**

In this report, we will draw on SILC data for Ireland to examine the role of social transfers in the alleviation of income poverty. The main strength of the analysis undertaken here derives from the detailed income and socio-demographic information available on the SILC dataset. This allowed us to look at social transfer income in the context of household characteristics and the level of market income received by the household. Administrative data on social welfare benefits has information on the number of recipients and the number of beneficiaries, but not on the number of other people in the household. These other people may not benefit directly from the social welfare payments (in being counted as qualified adult or child dependents), but may benefit indirectly by sharing in the overall standard of living. In addition, other people in the household may contribute to total expenses.

A full understanding of the impact of the State on poverty would require us to take account of taxation as well (Esping-Andersen and Myles, 2009; Caminada et al., 2010). Disposable income may be increased via tax credits or a reduction in tax liability. On the other hand, indirect taxes may erode the purchasing power of disposable income. However, a consideration of the impact of taxation was beyond the scope of the analysis undertaken here.

It is also worth noting, particularly when comparing the impact on poverty of social transfers across countries, that this is a partial view. It does not take account of social spending on services and as such is not a full measure of the social protection effort within the different countries.

We also note that when examining the effectiveness and efficiency of social transfer payments, our focus is a narrow one in this report: emphasising their role with respect to the reduction of income poverty. Social policy has several other goals, including encouraging labour market participation, social involvement and active citizenship. Social transfer payments that appear 'inefficient' or 'ineffective' with respect to poverty reduction may be important to promoting participation in one of these other ways.

Finally, we did not analyse the effectiveness and efficiency of particular social welfare payments. This exercise would not be possible in many cases because of the small number of cases receiving individual payments in the SILC dataset. In other cases, such as for unemployment payments or Child Benefits, the number of cases might be adequate for some analysis, but the sample weighting would need considerable additional checks to ensure that the representativeness of the sample receiving each type of payment was adequate for this purpose.

## **1.8 Summary**

In this chapter we described the conceptual and policy background to the present research on social transfers and poverty alleviation. The period covered by the analysis, from 2004 to 2011, was one of very dramatic change in Ireland, with a transformation from economic growth to profound recession taking place in a very short period. We reviewed the role of the Welfare State in alleviating poverty, primarily via social transfers, and noted that the success of European welfare states in this respect had been limited in the 2000s, but that Ireland had been somewhat more successful. We also noted the trend in social policy responses and reforms towards an increasing emphasis on work and market income as the primary means of alleviating poverty for those in working-age households and a re-orientation towards an emphasis on activation as well as on income support.

## Chapter 2: Methodology and Background on Trends, 2004 - 2011

### 2.1 Introduction

In this chapter we begin by discussing the data and measurement of the key indicators of market and social transfer income. We then present some results on trends between 2004 and 2011 in income from the different sources.

### 2.2 The SILC data

This report analyses data from the Survey on Income and Living Conditions (SILC) for Ireland. This survey collects information on the income and living conditions of households as well as a large range of socio-demographic data about household members, including personal characteristics, labour market position, education, disability and health status. The data are based on a voluntary survey of private households carried out by the Central Statistics Office (CSO). The survey has been carried out annually, beginning on a small scale in 2003 and reaching its full size by 2004. Interviews take place throughout the year and data is collected from the household reference person and from every adult (age 16 and over) in the household. The number of households in the completed sample varied from 4,300 to 6,000 between 2004 and 2011. In 2011, the total completed sample size was 4,333 households and 11,005 individuals. A two-stage sample design was employed, with eight population density stratum groups<sup>5</sup> (based on the 2006 Census of Population) with random selection of sample and substitute households within blocks and the application of an appropriate calibration weight (CSO, 2011, pp. 7-9).

### 2.3 Key indicators of income, poverty and deprivation

#### 2.3.1 Measurement of income – unit of analysis and reference period

Income is measured at the household level over the twelve months preceding the interview. All sources of income of all household members are included. The figures reported on the charts are estimated weekly amounts, for ease of interpretation, and are converted into 2011 prices (using the Consumer Price Index) to control for the effects of inflation. Income, in this context, refers to cash income as well as the imputed income value of certain non-cash benefits (see Figure 2.1).

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<sup>5</sup> A group of population divided into homogeneous sub-groups (strata).



The unit of analysis in this chapter and the next is the household rather than the individual. This is done because some components of income (such as housing-related benefits) are only recorded at the household level. It also facilitates the presentation of average amounts of different types of income received by households. In Chapter 4, where we examine receipt of social transfer income by characteristics of the individual such as age and gender, we take the individual as the unit of analysis and examine whether individuals live in a household where someone receives each type of income.

The measurement of income poverty takes account of household size and composition by using an equivalisation scale. This involves an adjustment to income so that we can compare incomes of households that differ in size. The Irish national equivalisation scale allows a weight of 1 for the first adult in a household, 0.66 for each subsequent adult (over age 14) and 0.33 for each child. Equivalised income is a household's disposable income divided by the household equivalisation scale. A household is income poor if its equivalised income is below 60% of the median equivalised income.

### 2.3.2 Measurement of income – market income and social transfer income

Market income is income that derives from the labour, savings, investments and property of household members<sup>6</sup>. It includes cash and near-cash income from employment or self-employment (including farming) and income from property or investments. The latter includes income from rent, royalties, interest and dividends and Special Savings Incentive Accounts which matured in 2006 - 2007<sup>7</sup>. 'Near cash' income includes benefits in kind (such as a company car) or the value of goods taken from a business for personal use (such as food from a farm). In contrast to the indicator of 'direct income' used by the Central Statistics Office, gross market income does not include employer's social insurance contributions made on behalf of the

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<sup>6</sup> We use the term 'market income' to avoid confusion with 'direct income' because, as used by the CSO, direct income includes employer's social insurance contributions and lump sum payments (e.g. redundancy lump sums).

<sup>7</sup> Special Savings Incentive Accounts (SSIAs) were a government-backed five-year savings scheme in which the Exchequer topped-up, by way of a 25 per cent tax credit, subscriptions made by an individual to his or her SSIA. They commenced from 1 May 2001 to 30 April 2002 and matured between 31 May 2006 and 30 April 2007.

employee and it also excludes lump sum payments such as redundancy and retirement lump sums, which are not a regular source of income.

### Box 2 Key income indicators relevant to social transfers

Measure	Base and Measurement
<b>Type of Income</b>	<ul style="list-style-type: none"> <li>Market income (cash and non-cash income from employment and self-employment, income from property, savings or investments). Note that we do not include employer social insurance contributions in market income in this report.</li> </ul> <p>Social transfer income broken down into three categories:</p> <ul style="list-style-type: none"> <li>State means-tested social transfers (e.g. Jobseeker Allowance, State Pension-Non-Contributory, One Parent Family Payment);</li> <li>State non-means-tested social transfers (Child Benefit, payments linked to previous social insurance contributions such as State Pension-Contributory, Jobseeker's Benefit, Maternity Benefit);</li> <li>Other social transfers – mainly occupational pensions (including pensions linked to occupations in the private sector and in the public sector, such as civil service, teaching, An Garda Síochána as well as foreign pensions).</li> </ul>
<b>Components of Social Transfer Income (Scheme Category)</b>	<ul style="list-style-type: none"> <li>Old age – State Pension (Contributory or Non-Contributory), State Pension (Transition), Pre-Retirement Allowance, as well as occupational pensions, foreign pension;</li> <li>Widow(er)s – payments to surviving spouses / civil partners and deserted wives (Widow / Widower or Surviving Civil Partner Contributory or Non-Contributory pension; Widowed Parent / Surviving Civil Partner Grant, Deserted Wife's Allowance or Benefit, Death Benefit);</li> <li>Lone parent – One Parent Family Payment;</li> <li>Child – child-related payments (Child Benefit, Maternity and Adoptive Benefit, Health and Safety Benefit, Guardian's Contributory and Non-Contributory Payment, Back to School Allowance);</li> <li>Disability-related – payments to people with a disability and carers (Illness Benefit, Invalidity Pension, Disability Allowance, Injury Benefit, Blind Pension, Respite Care Grant, Carer's Benefit, Carer's Allowance, Disablement Benefit, Constant Attendance Allowance, Infectious Diseases Allowance);</li> <li>Unemployment – (Jobseeker Benefit, Jobseeker Allowance, redundancy payments expressed as average over weeks in year received);</li> <li>Employment support payments (Family Income Supplement, Farm Assistance, Back-To-Work Allowance, Back-To-Enterprise Allowance, Back-To-Education Allowance, Job-Incentive Allowance);</li> <li>Extra Benefits – (Fuel Allowance, Smokeless Fuel Allowance, imputed value of free schemes such as Electricity/Gas/Telephone/TV Licence Allowance, Bereavement Grant, Dietary Allowance, Heating Allowance);</li> <li>Supplementary welfare - Supplementary Welfare Allowance;</li> <li>Housing-related – (Rent and Mortgage Supplement);</li> <li>Grant-related (education and training grants).</li> </ul>

We adopt the same definition of social transfers as the Central Statistics Office (2013, p. 18). Social transfer income is income from State and private sources (such as pension schemes, charities) not directly related to work, savings, investments or

property. The main components are the State social welfare allowances and benefits but occupational pensions are also a significant source of social transfer income for those who are retired. Box 2 shows the components of market income and social transfer income in more detail.

As well as weekly social welfare payments, less frequent payments are also included (such as Child Benefit, which is paid monthly, and payments such as 'Back to School Clothing and Footwear Allowance) and the cash values of near-cash benefits (e.g. free electricity, gas and TV licence).

In analysing social transfers, we group them according to two classification systems. One classification is based on whether the social transfers are means tested, not means tested or other (mainly occupational pensions). The other classification is based on the category of need for which the payment is made, using the categories implicit in the main social welfare schemes, such as old age, unemployment, child-related, disability-related (including carers), lone parenthood, unemployment support, supplementary welfare, housing benefits and grant-related payments (see Box 2). Note that any given household may be receiving social transfer income from more than one of these sources.

The classification of schemes into three broad categories (State means-tested, State non-means-tested and occupational etc. pensions) facilitates the analysis of their role in poverty alleviation. We would expect, for instance, that means-tested payments would be more closely targeted to those who would be poor in the absence of social transfer income. Occupational pensions, on the other hand, are likely to be linked to earnings while in employment and we might expect these to be more generous in terms of the average level of payment.

Each payment in the 'scheme category' groups includes any amount paid to the recipient in respect of adult or child dependents. Thus the payment to someone receiving unemployment benefit in respect of a qualified adult or child dependent is included in the 'unemployment' category.

### 2.3.3 Measuring poverty and deprivation

In Ireland, poverty is measured using three national indicators: at-risk-of-poverty (or income poverty), basic deprivation, and consistent poverty. The at-risk-of-poverty indicator is based on living in a household where the income, after adjusting for household size and composition, is below 60% of the median income across individuals. Basic deprivation means living in a household that lacks 2 or more of 11 basic goods and services, such as adequate food and clothing, adequate heat for the home and the ability to afford to socialise. Consistent poverty involves being below the at-risk-of-poverty threshold *and* lacking 2 or more of these basic goods and services.

In the next chapter, we will also introduce a number of other related concepts: the poverty rate before social transfers, the poverty reduction potential, poverty reduction efficiency and poverty reduction effectiveness of social transfers.

## **2.4 Overall trends in market income and social transfers**

At this point we present data on the trends in market income and social transfers between 2004 and 2011. Table 2.1 shows the overall trends in market income, as defined in this report, and social transfers between 2004 and 2011. There was a major shift in the relative importance of market income and social transfers in the period. Market income from work and property accounted for 80 per cent of total household gross income in 2004 but had fallen to 70 per cent by 2011. At the same time, income from social transfers rose from 20 per cent to 30 per cent of gross income.

There are two components to the change: an increase in the percentage of households receiving some social transfer income and an increase in the average amount of social transfer income per household. In fact, the percentage of households receiving some social transfer income (defined as more than €1 per week) was already very high in 2004 (85 per cent) and increased only slightly to 87 per cent. The drop in the percentage of households receiving market income was somewhat larger but still modest, from 76 per cent to 71 per cent.

**Table 2.1 Trends in market income and social transfers, 2004 - 2011**

	2004	2007	2011
<b>As % of total gross income</b>			
<b>Market income</b>	80%	78%	70%
<b>Social transfer income</b>	20%	22%	30%
<b>Percentage receiving &gt;€1 per week</b>			
<b>Market income</b>	76%	80%	71%
<b>Social transfer income</b>	85%	85%	87%
<b>Average amount in 2011 prices, where receiving €1 per week (household level, gross)</b>			
<b>Market income</b>	€1,044	€1,061	€939
<b>Social transfer income</b>	€233	€277	€327

Source: SILC 2004 - 2011. Base = all households, household level, household weight. Income refers to the actual (i.e. not equivalised) gross household income expressed in 2011 prices (to control for inflation). Figures have been rounded to the nearest whole number.

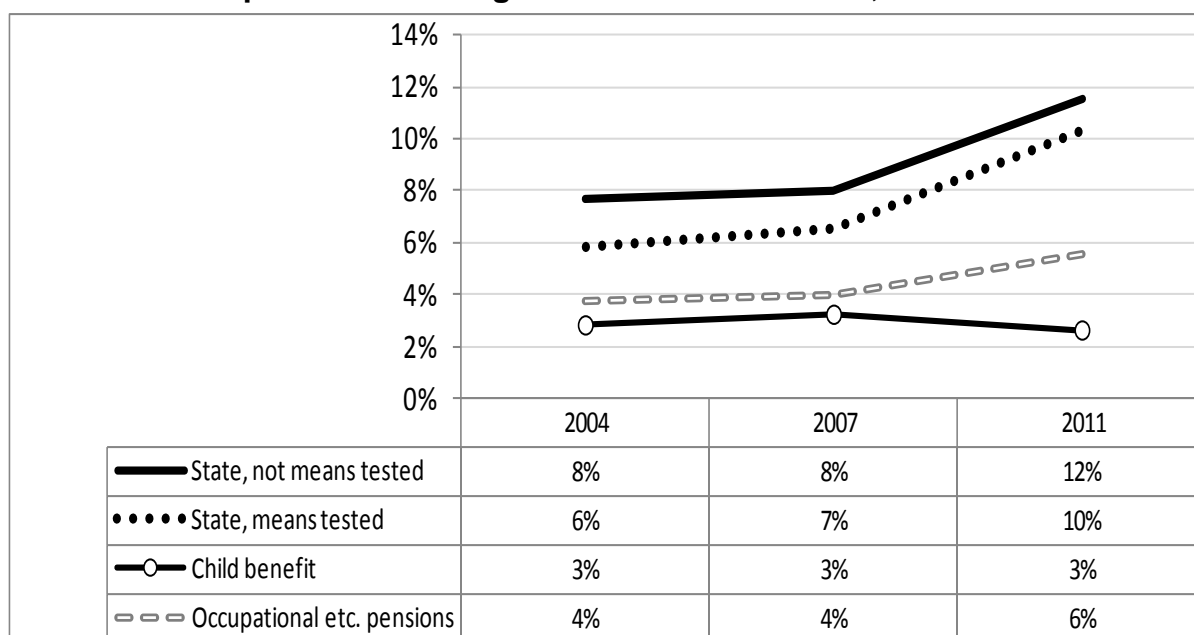
The changes in the average amounts of market and social transfer income were larger. The figures are shown in 2011 prices, to control for the impact of inflation. Among those households receiving at least some market income, the average fell from €1,044 in 2004 to €939 in 2011. The corresponding figures for social transfer income were €233 in 2004 and €327 in 2011. These average figures do not reveal the full picture, as we shall see in later analyses. In particular, they provide no information on how the need for income support changed due to factors such as rising unemployment. For instance, we might observe an increase in the average payment that is not due to any change in the level of benefit paid in each scheme, but due to an increase in the extent to which households with children are receiving social transfer payments related to unemployment. Since these younger households tend to be larger than pensioner households, the level of social transfers at the household level will also tend to be larger.

## **2.5 Type of social transfer income, 2004 - 2011 Trends**

We have seen that social transfer income increased in importance between 2004 and 2011. Did this differ depending on whether the income was from a means-tested or non-means-tested State benefit or an occupational pension? Figure 2.1 shows the percentage of total household income coming from different types of social transfers: not means-tested, means-tested, Child Benefit and other. The payments that are not

means-tested are those based on social insurance (such as Jobseeker Benefit or Old Age Contributory Pension). We distinguish Child Benefit separately, as this payment is made based on membership of a specific demographic group rather than being linked to risk (such as the means-tested payments) or previous social insurance payments (such as the non-means-tested benefits).

**Figure 2.1 Types of social transfers (means-tested and otherwise) as components of total gross household income, 2004 - 2011**



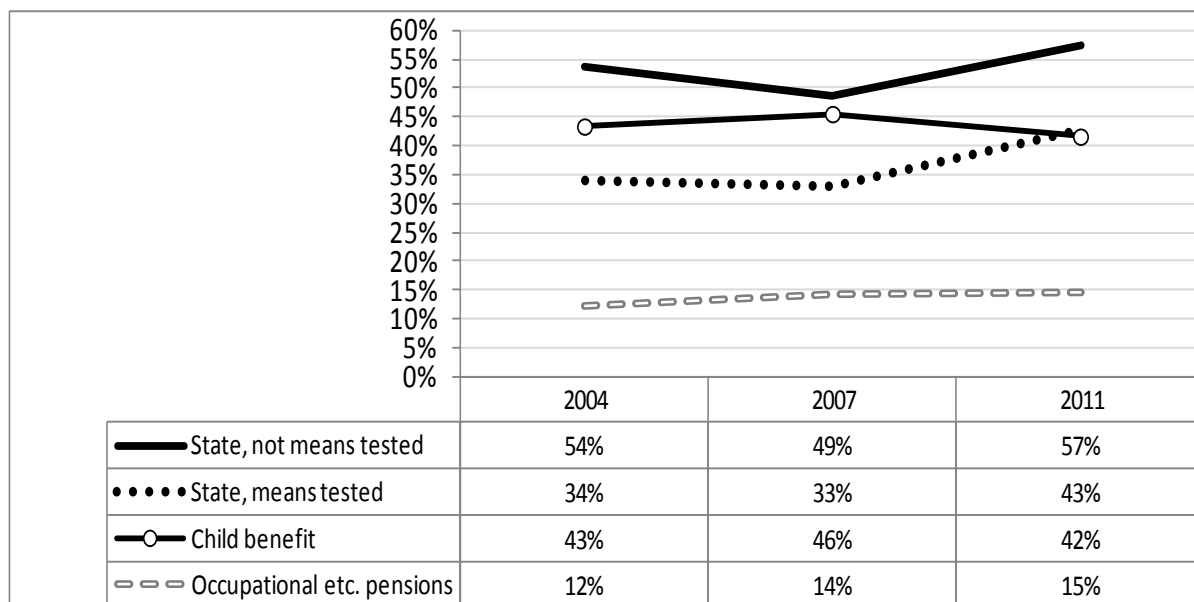
Source: SILC 2004 - 2011. Base = all households, household level, household weight. Percentages have been rounded to the nearest whole number.

From Figure 2.1 we can see that apart from Child Benefit, which remained relatively stable, the other types of social transfers grew over time as components of total income, particularly after 2007. This is consistent with the drop in market income with the recession: as market income falls, social transfers would become a larger component of total income even if there were no change in the percentage of households receiving this income or in the average amount of social transfer income received.

Figure 2.2 shows the trend over time in the percentage of households receiving any income from each type of social transfer. The percentage of households receiving any income from non-means-tested payments was the highest of these types and increased after the start of the recession, reaching 57 per cent in 2011. The

percentage receiving income from means-tested benefits was lower but rose from 34 per cent in 2004 to 43 per cent in 2011, with most of the increase after 2007.

**Figure 2.2 Percentage of households receiving any social transfer income (means-tested and otherwise), 2004 - 2011**



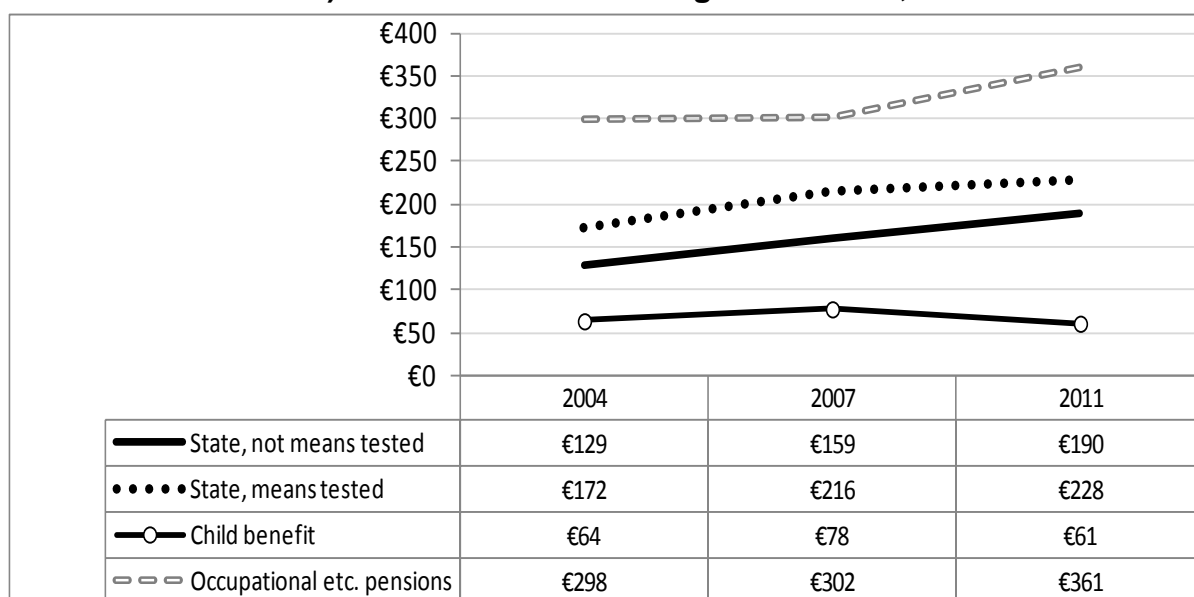
Source: SILC 2004 - 2011. Base = households, household weight. Percentages have been rounded to the nearest whole number.

In 2011, 42 per cent of households received some income from Child Benefit. This figure was substantially the same as in 2004, although it had reached 46 per cent of households in 2007. The percentage of households receiving income from occupational pensions also rose, from 12 per cent in 2004 to 15 per cent in 2011. In this case, the bulk of the increase was between 2004 and 2007, before the start of the recession.

Figure 2.3 examines trends in the average amount of social transfer income (in 2011 prices) among households receiving at least some income from each source. The average amount received in real terms increased over time for all types of social transfers, except Child Benefit. Throughout the period the highest average was associated with occupational pensions, followed by means-tested payments. In 2011, among households receiving income from this source, the average was €361 for occupational pensions, €228 for State means-tested payments and €190 for State non-means-tested payments. Part of the reason that non-means-tested

payments were lower was that the main recipients of State non-means-tested payments were people in retirement. These adults are less likely than recipients of means-tested payments to claim an additional payment for dependent children. Among households receiving Child Benefit, the average amount increased from €64 per week in 2004 to €78 per week in 2007 before dropping back to €61 per week in 2011. Child Benefit was the only type of payment for which the average amount was lower in 2011 than in 2004. Child Benefit rates had increased until 2009 before being cut again as part of the State's fiscal consolidation.

**Figure 2.3 Average weekly amount of social transfer (means-tested & otherwise) in households receiving this income, 2004 - 2011**



Source: SILC 2004 - 2011. Base = households receiving > €1 per week from each source, household level, household weight. Figures have been rounded to the nearest whole number and show the amount received in 2011 prices.

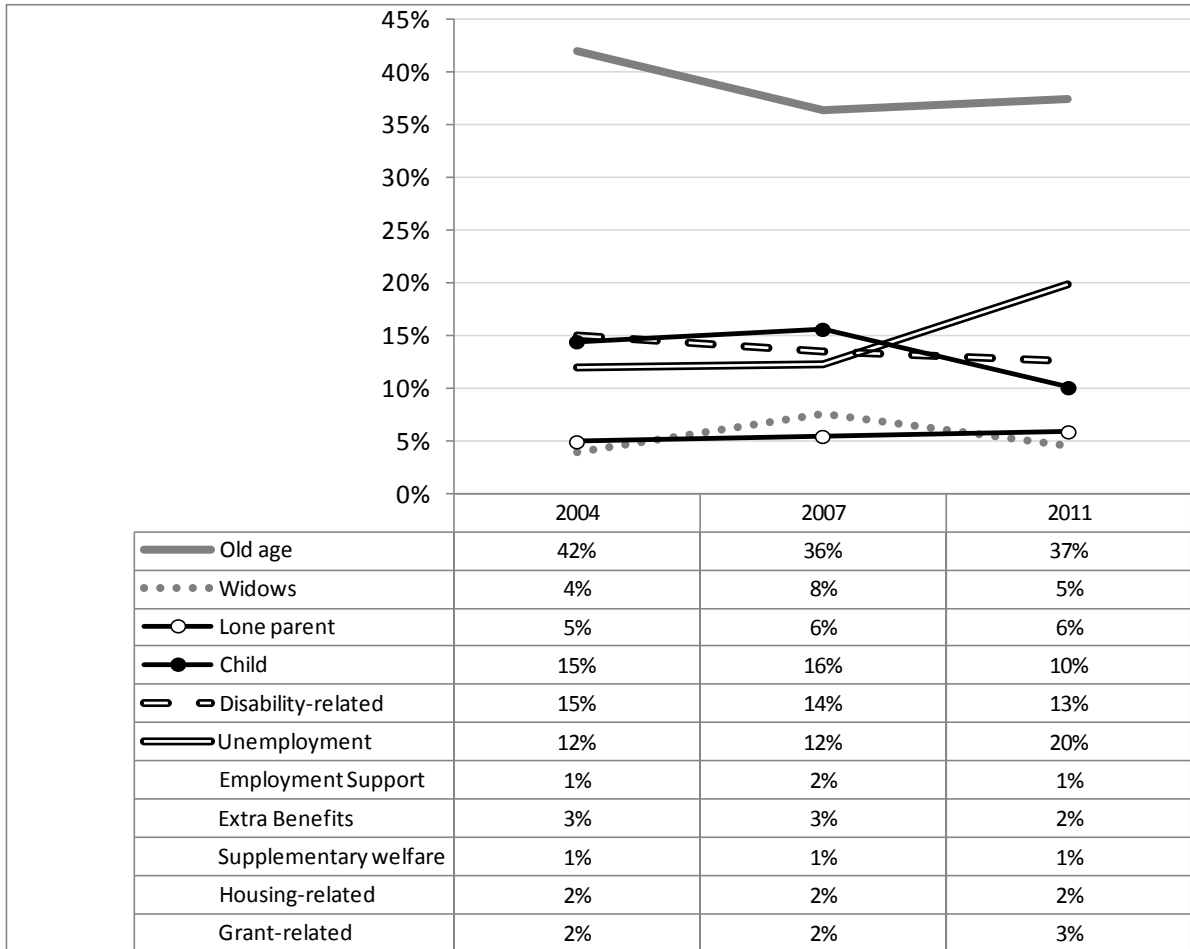
## 2.6 Social transfer income by scheme category, 2004 - 2011 trends

In this section we turn to the categories of social transfers distinguished on the basis of scheme category. Figure 2.4 shows that the largest category, in terms of the percentage of total income, is that of old age-related payments (37 per cent in 2011), followed by unemployment (20 per cent in 2011), disability-related (13 per cent) and child-related (10 per cent). Payments to lone parents accounted for about 6 per cent of total gross income in 2011 while payments to widowed persons accounted for about 5 per cent. The other types of payment (employment support, extra benefits,



supplementary welfare, housing-related and grant-related) each accounted for 3 per cent or less of total gross social transfer income in all years.

**Figure 2.4 Percentage of social transfer income in each scheme category, 2004 - 2011**



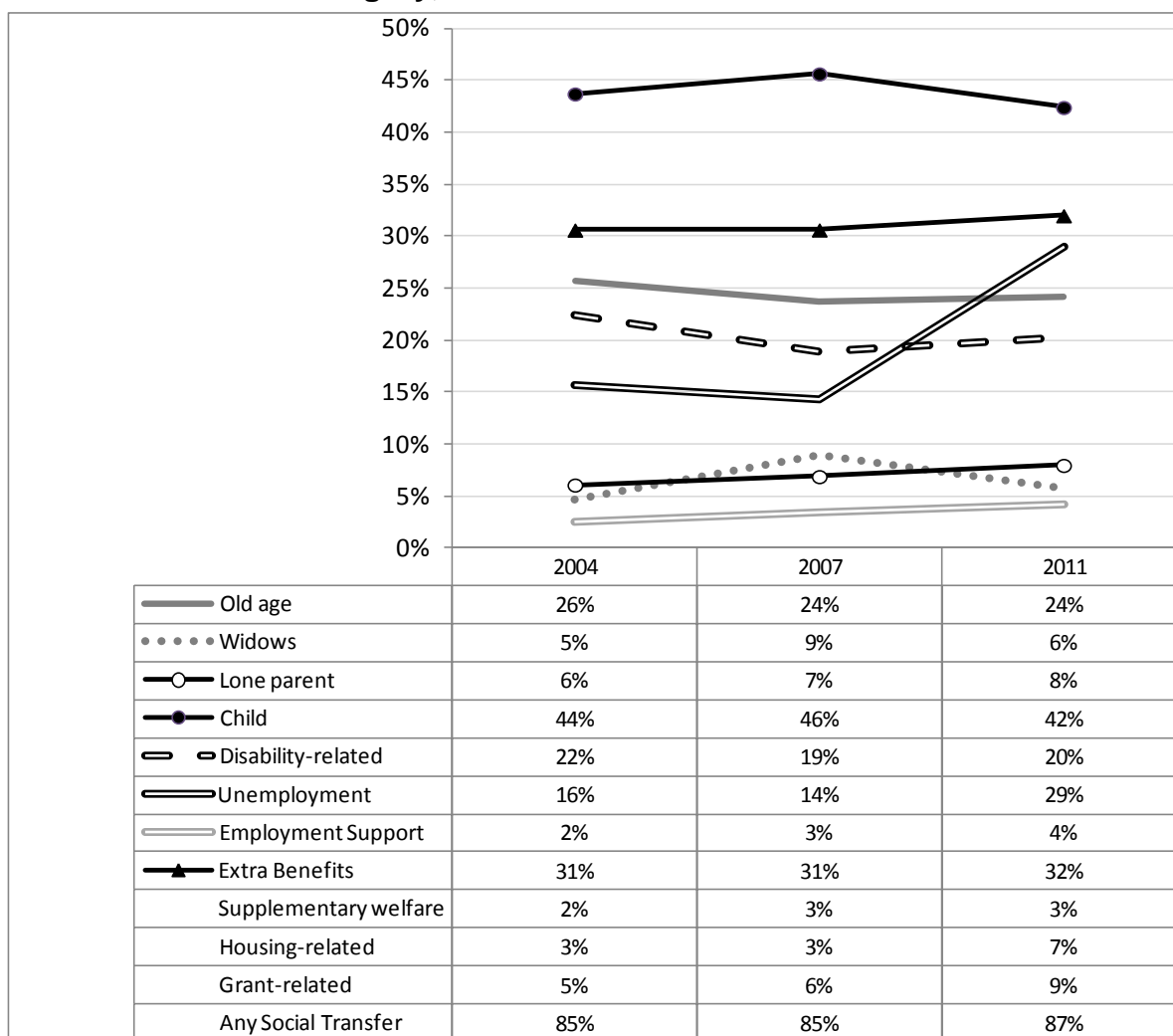
Source: SILC 2004 - 2011. Base = all households, household level, household weight. Figures refer to the gross social transfer income and have been rounded to the nearest whole number. Chart shows the percentage of social transfer income in each scheme category.

Note that these categories do not reflect the characteristics of the recipients but instead reflect the classification of benefits. For instance, people receiving an old age payment may also have a disability or households receiving unemployment-related benefits may include children who also benefit from the payment. We will examine receipt of benefits by characteristics of the individuals in the next chapter.

The picture is slightly different when we look at the percentage of households receiving any income (more than €1 per week) from these sources because some of

the benefit amounts are quite small but are received by a relatively high proportion of households. Figure 2.5 shows the percentage of households receiving more than €1 per week (in 2011 prices) from each source.

**Figure 2.5 Percentage of households receiving any social transfer income by scheme category, 2004 - 2011**



Source: SILC 2004–2011. Base = all households, household level, household weight. Figures have been rounded to the nearest whole number. Since households may receive social transfer income in more than one category, percentages do not sum to the total percentage of households receiving any social transfer income. Note that ‘Child’ payments include Child Benefit, Maternity and Adoptive Benefit, Health and Safety Benefit, Guardian’s Contributory and Non-Contributory Payment, and Back to School Allowance.

The highest figure in 2011 was for child-related payments, mostly Child Benefit, (42 per cent of households), followed by extra benefits (32 per cent), unemployment-related payments (29 per cent), old age-related payments (24 per cent), and disability-related payments (20 per cent). Less than one household in ten received any income in 2011 from the other sources (lone parent payments, widowed person

payments, employment supports, supplementary welfare, housing-related payments, grant-related payments).

The main change between 2004 and 2011 was the very large increase in the percentage of households receiving some unemployment-related social transfer payment, from 16 per cent in 2004 to 29 per cent in 2011. There was also an increase in the percentage of households receiving any income from grant-related payments (from 5 to 9 per cent), associated with an increase in demand for supports related to education and training. Any changes in the percentage of households receiving the other types of benefit were small by comparison.

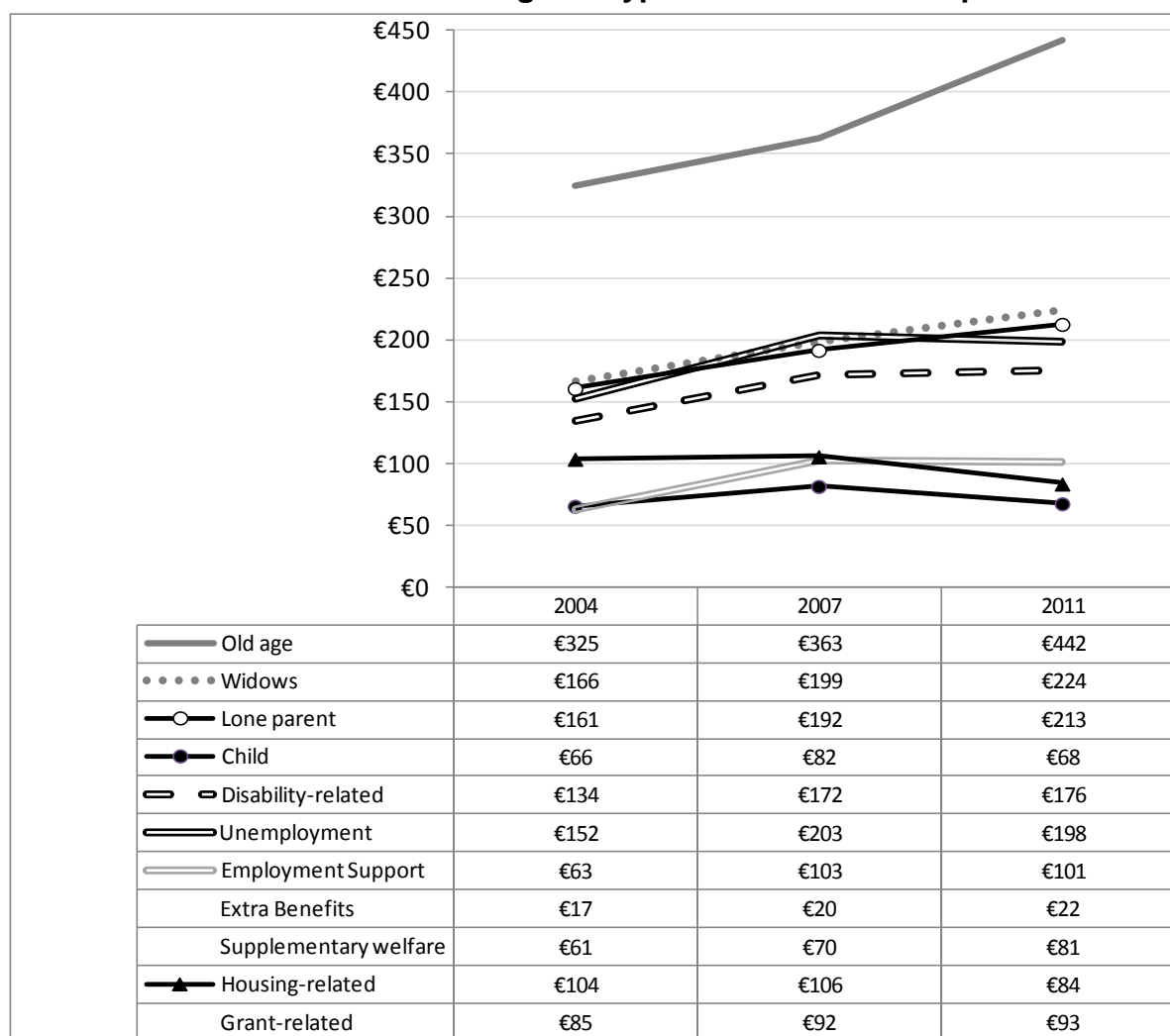
How did the average weekly amount of payments in the different need categories change, for those households who received these sources of income? Figure 2.6 addresses this question. The figure shows the average weekly amount of the different categories of payment at household level, in 2011 prices, for those households receiving each payment.

Looking across the categories in 2011, the highest average is associated with old age payments (€442 per week). We saw earlier that this was a mixture of means-tested, non-means-tested and occupational pension payments, with the occupational pensions being the highest. This is followed at some considerable distance by payments related to widowhood (€224), lone parenthood (€213), unemployment (€198), and employment support (€101). The average weekly amount for payments related to childhood, supplementary welfare, housing and education/training grants are in the €50 to €100 range, while the average is €22 per week for the extra payments such as fuel allowances.

It is worth noting that the average amount is the average across households and across the one-year reference period. Households may have more than one member receiving a social welfare payment. For example, two adults may receive unemployment benefit or contributory old age pensions. In addition, households may receive income from a particular source for only part of the year. This is particularly relevant in considering payments that will be affected by employment transitions,

such as employment-related payments, unemployment-related payments and the old age payments linked to retirement. The average will be higher to the extent that more than one household member receives a payment and lower to the extent that the household members were eligible for only part of the year.

**Figure 2.6 Average weekly amount of social transfer income in each category in households receiving that type of income in 2011 prices**

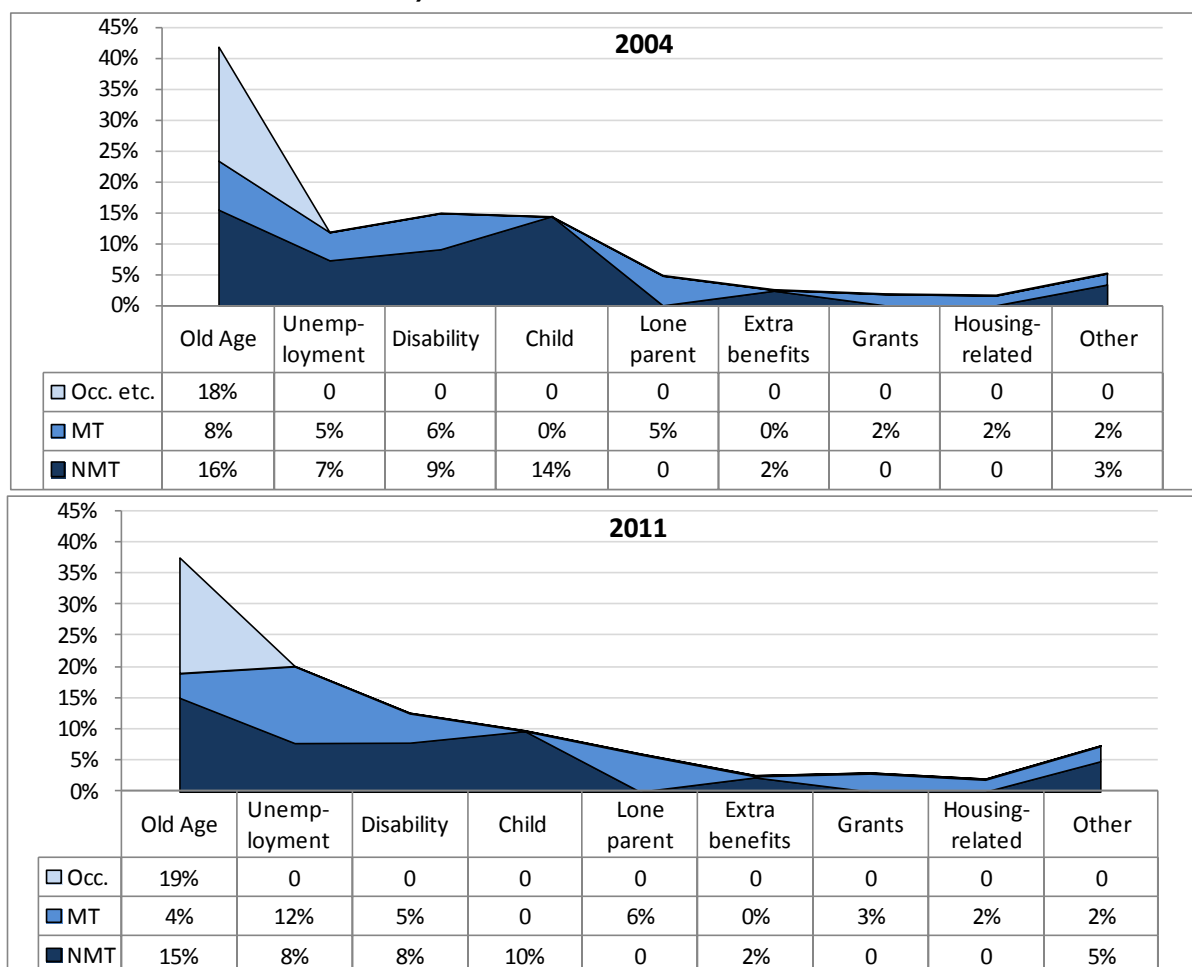


Source: SILC 2004 - 2011. Base = all households receiving at least €1 per week from each source, household level, household weight. Figures have been rounded to the nearest whole number. Households may receive social transfer income in more than one category.

It is worth examining the overlap between the scheme category of the payments and whether they are means-tested (MT), non-means-tested (NMT) or other (primarily occupational pensions, 'Occ. etc.'). This is shown in Figure 2.7, which shows the percentage of household gross social transfer income from each type of social transfer in 2004 and in 2011. In this Figure, for ease of presentation, we combine

Child Benefit with the non-means-tested payments. In terms of scheme category, we combine several of the smaller categories into one group, labelled 'other': including payments related to widowhood, employment support, supplementary welfare, extra benefits and grant-related payments.

**Figure 2.7 Scheme category by whether means-tested, non-means-tested or occupational, 2004 and 2011 (percentage of household gross social transfer income)**



Source: SILC 2004 and 2011. Base = all households, household level, household weight. Figures have been rounded to the nearest whole number. Households may receive social transfer income in more than one category. 'Other' includes payments related to widowhood, employment support, supplementary welfare, extra benefits and grant-related payments.

Turning first to whether payments related to each scheme category were mainly means-tested or non-means-tested in 2011, we see that payments related to old age fell into all three categories, with the smallest amount (4 per cent of gross social transfer payments in 2011) coming from means-tested payments and the largest amount (19 per cent) coming from occupational pensions. Unemployment payments

were more likely to be means-tested in 2011 than non-means-tested (12 and 8 per cent, respectively) while the reverse was true of disability-related payments (5 per cent means-tested and 8 per cent non-means-tested). Child-related payments were mainly from Child Benefit, which was not means-tested and which accounted for 10 per cent of total gross social transfer income in 2011. Lone parent allowance is means-tested and accounted for 6 per cent of household social transfer income in 2011. The extra benefits, such as fuel allowance and non-cash benefits such as free electricity, gas, telephone and TV licence, were non-means-tested (2 per cent of total). Education and training grants were means-tested (3 per cent of total) as were housing-related payments (2 per cent of total). The social transfer payments related to other categories of need were mainly non-means-tested (5 per cent, with 2 per cent means-tested).

The biggest change from 2004 to 2011 was the increase in the proportion of household social transfer income coming from unemployment-related payments. Within the unemployment-related payment category it is also striking that the increase in the proportion of social transfer income coming from non-means-tested unemployment payments was relatively modest (from 7 to 8 per cent) but the increase in the percentage coming from means-tested unemployment payments was more dramatic (from 5 to 12 per cent of total gross social transfer income). This pattern was linked to an increase in long-term unemployment and to the high level of unemployment in 2011 among young adults who had not worked before so they were not entitled to non-means-tested payments. Non-means-tested payments are time-limited, after which the unemployed person may move to a means-tested payment. Because of the greater relative importance of unemployment payments in 2011, the proportion of social transfer income accounted for by most of the other types of payments fell. Two exceptions were lone parent allowances (rising from 5 to 6 per cent of total social transfer income) and education and training grants (increasing from 2 to 3 per cent). In both these cases, we might expect an increase in take-up related to the recession. In the case of lone parent allowance, job losses among lone parents would have increased the reliance of this group on social transfers. At the same time, the reduction in job opportunities has encouraged a

larger number of school-leavers to enter further education than during the boom years (Department of Education and Skills, 2013).

## 2.8 Social transfer income by level of market income, 2004 - 2011 trends

The final table in this chapter examines the contribution of social transfers to reducing inequalities by focusing on the amount of social transfer income going to groups with different levels of market income. Table 2.2 shows the average amount of social transfer income going to households at each level of market income in 2004, 2007 and 2011. The bottom three deciles in terms of pre-transfer or market income are combined, because the majority of households in these deciles have zero income before social transfers. The fourth to tenth market income deciles are shown separately. The amounts are shown in Euro per week in 2011 prices, to control for inflation.

**Table 2.2: Average amount of social transfer income per week by level of market income**

	Average Amount of Social Transfer income per week		
	2004	2007	2011
<b>Market income decile</b>			
<b>Bottom 3</b>	€317	€355	€399
<b>4th</b>	€230	€341	€423
<b>5th</b>	€187	€219	€330
<b>6th</b>	€146	€175	€274
<b>7th</b>	€144	€152	€213
<b>8th</b>	€112	€147	€163
<b>9th</b>	€109	€132	€127
<b>Top</b>	€109	€130	€133

Source: SILC 2004 and 2011. Base = all households, household level, household weight. Amounts are rounded to the nearest whole number and are shown as a weekly amount in 2011 prices.

As the level of market income rises, the average amount of social transfer income received by the household drops steeply. In 2004, the average amount of social transfer income received by a household in the top market income decile was about one third that received by a household in the bottom three deciles (€109 compared

to €317). This relative position remained very similar in 2011 (€133 and €399, respectively).

In 2011, there was a divergence from this fall in social transfer income as market income increased in the case of the fourth decile. In 2011, the average amount of social transfer income received by the fourth market income decile was higher than for the bottom three deciles (€423 compared to €399). A more detailed examination of the types of social transfer income shows that the 2011 pattern was mainly due to the fact that the amount of occupational and other pensions was higher for the fourth than for the bottom three deciles (See Appendix Table A2.1).

Nevertheless, the overall pattern is one where the level of social transfer income is greater where market incomes are lower. As a result, social transfers make an important contribution to reducing inequalities in income, particularly at the bottom of the income distribution where households are totally reliant on social transfer income.

## **2.8 Summary**

In this chapter, we focused on change between 2004 and 2011 in market income and social transfers as background to our treatment of the link between social transfers and poverty.

We saw that there was a major shift in the relative importance of market income and social transfers in the period, with market income falling from 80 per cent to 70 per cent of the income of households between 2004 and 2011 while social transfer income increased from 20 per cent to 30 per cent. Apart from Child Benefit, which remained relatively stable at about 3 per cent of total income, the other three main types of social transfers all increased in relative importance: means-tested payments rose from 6 per cent to 10 per cent of gross income; non-means-tested payments rose from 8 per cent to 12 per cent and other social transfers (mainly occupational pensions) rose from 4 to 6 per cent.



The biggest share of social transfers comes from State non-means-tested payments. More than half of households receive some income from these sources (57 per cent in 2011). The highest average payments among those receiving at least some income from the source are found for occupational pensions, followed by means-tested payments and then by non-means-tested payments. Child Benefit was the only broad type of payment where the level of payment was lower in 2011 than in 2004.

Looking at social transfers by scheme category, the main change in the period was the very substantial increase in income related to unemployment. These social transfers rose from 12 per cent of total gross household income in 2004 to 20 per cent in 2011. There was also a shift in the type of unemployment payment from mostly non-means-tested in 2004 to mostly means-tested by 2011. This was associated with youth unemployment and long-term unemployment.

We found that, as the level of market income rises across income deciles, the average amount of social transfer income received by the household drops steeply. There was a slight divergence from this pattern in 2011, as market income increased in the case of the fourth decile. This was mainly due to the fact that the amount of occupational and other pensions was higher for the fourth than for the bottom three deciles. The overall pattern shows that social transfers make an important contribution to reducing inequalities in income, particularly at the bottom of the income distribution scale where households are totally reliant on social transfer income.

## Chapter 3: Poverty, Deprivation and Social Transfers

### 3.1 Introduction

As we shall see in this chapter, social transfers played an increasingly important role in alleviating poverty over the 2004 to 2011 period. In 2004, just over half of those who would have been poor before social transfers were above the poverty threshold after taking account of social transfers but this had risen to over 70 per cent by 2011<sup>8</sup>. In this chapter, we ask why social transfers played a greater role in alleviating income poverty in Ireland by 2011 than in 2004. Social transfers can play a greater role in reducing income poverty under a number of circumstances:

- (a) Where there is an increase in the percentage of households that would otherwise be below the poverty line receiving any social transfers and/or
- (b) Where the amount of social transfers becomes more effective in raising the household's income above the poverty line, and/or
- (c) Where the poverty threshold falls due to a drop in market incomes.

In other words, both the targeting and level of social transfers are important and also the level of market incomes. The poverty threshold rose in real terms in Ireland between 2004 and 2009 (by about 12 per cent from €209 per week to €235 per week, in 2011 prices). The threshold fell between 2009 and 2010 by 7 per cent and by 5 per cent between 2010 and 2011, in 2011 prices (i.e. controlling for inflation)<sup>9</sup>. So even if there was no change in the level of social transfer payments in real terms, we might expect to see an increase in their effectiveness in these later years. In fact, as noted in Chapter 1, the rates of most social welfare payments had been increased substantially between 2004 and 2009, so that despite the cuts to certain payments after 2009, the rates in 2011 were higher than they had been in 2004. The Jobseeker Allowance rate was 73 per cent of the poverty threshold in 2004 but had risen to 83 per cent by 2007 and 90 per cent by 2011. The corresponding figures for the State Pension (contributory) were 90 per cent in 2004, 92 per cent in 2007 and 110 per cent in 2011 (see Appendix Table A3.1).

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<sup>8</sup> See Figure 3.1.

<sup>9</sup> Figures calculated by authors from CSO SILC report for 2011 and for 2006 and from Consumer Price Index.

These are the issues we consider in the present chapter. As well as examining the link between social transfers and income poverty, we ask to what extent households receiving social transfers are below the national basic deprivation threshold. Section 2.3.3. above describes the main poverty indicators used in Ireland: at-risk-of-poverty (or income poverty), basic deprivation, and consistent poverty.

### **3.2 At-risk-of-poverty before and after social transfers**

In this section, we distinguish three groups with respect to their income poverty status before and after social transfers:

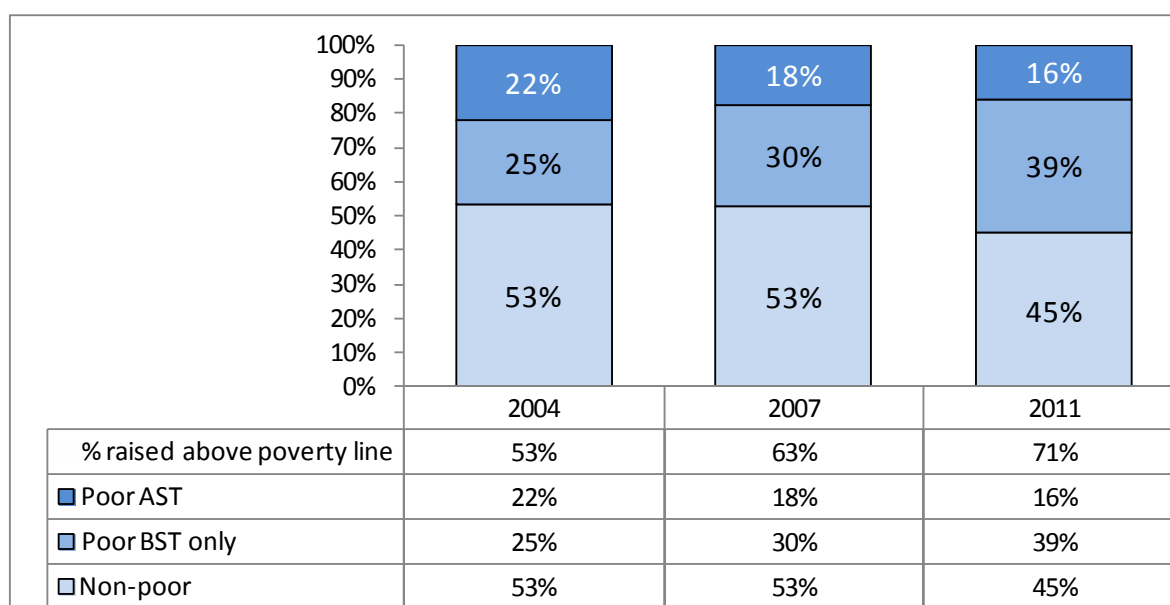
- Non-poor – those who have enough market income (market income from employment, savings, investment and property) to place them above the 60% median income poverty threshold (i.e. non-poor, even before social transfers);
- Poor before social transfers (BST) only – those whose market income would leave them below the poverty line, but when social transfers are added they are above the income poverty line;
- Poor after social transfers (AST) – those who are below the income poverty line before social transfers and who remain below this threshold even when social transfers are taken into account.

Note that the same income threshold is used in calculating poverty before and after social transfers – the threshold is the one based on median equivalised income after social transfers. In this chapter, we present figures at the household level, for ease of interpretation. In other words, when we report amounts in Euro, the amount is an actual amount of income rather than ‘equivalised income’. To facilitate comparison across years and take account of inflation, all amounts are expressed in 2011 prices as 2011 is the latest year for which we have data. Although the poverty status of households is determined based on equivalised income, the income figures we report are actual household income levels (that is, not divided by the equivalence scales).

Figure 3.1 shows the percentage of households falling into each of these three categories in the period. We can see, that following the start of the recession, there was a sharp fall in the non-poor from 53 per cent of households in 2004 and 2007 to

45 per cent by 2011. This implies that the proportion of households poor before social transfers remained static between 2004 and 2007 at 47 per cent, but increased to 55 per cent by 2011. Elsewhere (e.g. Watson, Maître and Whelan 2012) we have noted the persistence of relatively high levels of household joblessness even during the boom years and the significance of this pattern in accounting for pre-transfer poverty levels.

**Figure 3.1 Income poverty before and after social transfers, 2004 - 2011**



Source: SILC 2004–2011. Base = all households, household as unit of analysis. Figures have been rounded to the nearest percentage. 'AST' = after social transfers; 'BST' = before social transfers. The '% raised above poverty line' is calculated as 'Poor BST' / ('Poor AST' + 'Poor BST').

At the other end of the spectrum, we have households whose income, even after social transfers, places them below the poverty threshold. This group had become smaller over time: from 22 per cent in 2004 to 18 per cent in 2007 and falling further, to 16 per cent of households, in 2011. This reflects the fact that social transfers are playing an increasing role over time in removing from poverty those who would be below the poverty line without social transfers.

The third group consists of households whose income is raised above the poverty threshold by social transfers. This group had dramatically increased in size over the period, from 25 per cent in 2004 to 30 per cent in 2007 and 39 per cent in 2011. The

increase after the start of the recession was sharper than the increase in the earlier period as market income was eroded.

The figures below the chart show the percentage of those who would be poor in the absence of social transfers who are no longer poor when social transfers are taken into account. This figure was 53 per cent in 2004, 63 per cent in 2007 and 71 per cent in 2011.

### 3.3 When social transfers fail to bridge the market income poverty gap

We now ask what distinguishes the two groups that are poor before social transfers. Is one group lifted out of poverty because more of them qualify for, and receive, a social welfare benefit; or because the social welfare payment is more adequate (i.e. of a sufficient amount to raise them above the poverty line)? And in the latter case, is this because the amount is higher or because their existing income before social transfers is higher?

An examination of the data reveals that the large majority (97 to 98 per cent) of households with market income below the poverty threshold receive at least some social transfer income (Table 3.1).

**Table 3.1 Receipt of social transfers by households that would be below the poverty threshold based on market income, 2004 - 2011**

	2004	2007	2011
<b>% of non-poor receiving any social transfers</b>	75%	74%	76%
<b>% of poor before social transfers receiving any social transfer income</b>	97%	98%	97%
<b>Average amount of social transfers where at least some social transfers received</b>			
<b>Poor before social transfers only</b>	€372	€417	€475
<b>Poor, even after social transfers</b>	€228	€259	€245

Source: SILC 2004, 2007 and 2011. Base = all households, household level, household weight. Figures have been rounded to the nearest whole number and are expressed in 2011 prices.

The percentage of households that have market incomes below the poverty threshold and that receive no social transfer income is very low: in the 1 to 2 per cent range. Therefore, it is not that the households are receiving no social transfer income at all but that the social transfer income they receive is not adequate. Turning to those households receiving at least some social transfer income, as shown in the lower panel of Table 3.1, the average amount received is higher in households that are poor only before social transfers (€475 per week on average in 2011) than in those that remain poor after social transfers (€245 per week in 2011)<sup>10</sup>. In other words, one factor distinguishing the group that remains poor after social transfers is that the level of social transfer income received by these households is lower than the level received by households who are no longer poor after social transfers.

Another way to examine the adequacy of social transfer income is to ask how much of a gap there is between the poverty threshold and the household's market income. Market income is income from work, savings, investments and property. Is this gap larger for households that are not raised above the poverty line by social transfers? How much market income is received by the two groups of households? This is shown in Table 3.2.

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<sup>10</sup> Both these groups receive a higher level of social transfers than the non-poor. The non-poor receive the lowest average amount of social transfer income: €191 in 2011.

**Table 3.2 Market income, market income poverty gap and equivalence scale by poverty status of households before and after social transfers**

		2004	2007	2011
<b>Market income per week</b>	Non-poor	€1,368	€1,468	€1,344
	Poor BST	€176	€183	€123
	Poor AST	€95	€100	€84
<b>Market income poverty gap per week</b>	Non-poor	€0	€0	€0
	Poor BST	€214	€245	€261
	Poor AST	€303	€344	€334
<b>Average household size (equivalence scale)</b>	Non-poor	2.28	2.22	2.08
	Poor BST	1.76	1.77	1.77
	Poor AST	1.84	1.90	1.97

Source: SILC 2004, 2007 and 2011. Base = all households, household level, household weight. Euro figures have been rounded to the nearest whole number and are expressed in 2011 prices to control for inflation. 'BST' = 'before social transfers'; 'AST' = 'after social transfers'.

The average market income is highest for the non-poor. Expressed in 2011 prices, it rose between 2004 and 2007 (from €1,368 to €1,468 per week) before dropping back again in 2011 (to €1,344 per week). This pattern – rising between 2004 and 2007 before falling back in 2011 is also true of the households that are poor before social transfers. Within this group, the market income of households raised above the poverty threshold after social transfers is higher (€123 on average in 2011 compared to €84 for those remaining poor even after social transfers).

Table 3.2 also shows the 'market income poverty gap'. This is the poverty threshold minus the market income of the household minus taxes and social insurance contributions, expressed in Euro per week in 2011 prices<sup>11</sup>. As we might expect, the 'market income poverty gap' is smaller for the group raised above the poverty threshold by social transfers. In other words, social transfers had a smaller gap to bridge for this group (€261 per week in 2011) than for those remaining poor after social transfers (€334 per week in 2011).

<sup>11</sup> The poverty threshold is conventionally expressed as an amount in terms of equivalised income. For our purposes here, the poverty gap in equivalised income is calculated and then converted into a non-equivalised value by multiplying by the household equivalence scale.

The table also shows the equivalence scale – the indicator that captures the assumptions about how much larger than the income of a single adult the household income would need to be in order to achieve a comparable standard of living. The Irish national equivalence scale is used. This allows a ‘weight’ of 1 for the first adult in the household, 0.66 for each subsequent adult and 0.33 for each child. Examining the equivalence scale allows us to ask whether differences in household size and composition might also be a factor in accounting for why some households remain poor after social transfers.

The equivalence scale is highest (2.08 in 2011) for non-poor households, lowest for those poor only before social transfers (1.77 in 2011) and at an intermediate level for households remaining poor after social transfers (1.97).

In this section we have seen that those remaining poor after social transfers have a lower market income, a larger market income poverty gap, have a larger average equivalised household size and receive a lower level of social transfer income than those who are lifted above the poverty line by social transfers. In the next chapter we will examine how these groups differ in terms of life cycle stage.

### **3.4 Measuring poverty reduction potential, efficiency and effectiveness**

We now discuss the measurement of three concepts that are important to assessing the poverty reduction impact of social spending: the poverty reduction potential, effectiveness and efficiency of social transfers. The measurement of these concepts is summarised in Box 3.

#### **3.4.1 Measuring poverty reduction potential of social transfers**

The poverty reduction **potential** of social transfers refers to the extent to which the total amount spent on social transfers is sufficient to bridge the gap between household disposable income before social transfers and the poverty threshold across all households (Longford and Nicodemo, 2010). The concept of poverty reduction potential is similar to that of the ‘adequacy’ of social welfare payments as used by Callan et al. (1989), except that the potential refers to the total level of



payment rather than the payment to a particular individual or household. A formal definition of potential is shown in Box 3. The ratio has a value below 1.0 if the average spending on social transfers to households is lower than the average poverty gap and greater than 1.0 if the spending is greater than the poverty gap. In essence, the poverty reduction potential is concerned with whether the total amount spent on social transfers is enough in terms of poverty reduction.

For the purpose of the three measures discussed here we do not change the poverty threshold when considering the poverty status and poverty gap of households before social transfers. This is in line with the approach adopted by the CSO (2013). Our reasoning is that changing the poverty threshold in this manner makes the results difficult to interpret since the threshold before social transfers is a somewhat artificial construct.

#### 3.4.2 Measuring poverty reduction effectiveness of social transfers

The poverty reduction **effectiveness** of spending refers to the extent to which it achieves the desired goal of reducing poverty. This can be assessed in terms of reducing the poverty *rate* (e.g. European Commission, 2007) or in terms of reducing the poverty *gap* (that is, the gap between household disposable income before social transfers and the poverty threshold).

**Box 3: Measurement of key concepts related to poverty reduction impact of social transfers: potential, effectiveness and efficiency**

Concept	Measure
<b>Poverty Reduction Potential</b>	<p>The extent to which the total amount spent on social transfers is sufficient to bridge the total gap between household disposable income before social transfers and the poverty threshold.</p> <p>The poverty reduction potential (P) is calculated as:  <math>P = ST / (PG_{bst})</math> where</p> <ul style="list-style-type: none"> <li>• ST is the average amount of social transfers from all sources</li> <li>• <math>PG_{bst}</math> is the average gap between the poverty threshold and the disposable income of the household before social transfers.</li> </ul> <p>The ratio has a value below 1 if the average spending on social transfers to households is lower than the average poverty gap and greater than 1 if the spending is greater than the poverty gap.</p>
<b>Poverty Reduction Effectiveness</b>	<p>Poverty reduction effectiveness refers to the extent to which social transfers achieve the goal of reducing poverty.</p> <p>Poverty reduction effectiveness with respect to the poverty <i>gap</i> (E1g) is:  <math>E1g = (PG_{bst} - PG_{ast}) / PG_{bst}</math>, where</p> <ul style="list-style-type: none"> <li>• <math>PG_{bst}</math> is the average gap between the poverty threshold and the disposable income of the household <u>before</u> social transfers (the market income poverty gap).</li> <li>• <math>PG_{ast}</math> is the average gap between the poverty threshold and the disposable income of the household <u>after</u> social transfers (poverty gap after social transfers).</li> </ul> <p>Poverty reduction effectiveness with respect to the poverty <i>rate</i> (E1r) is given by:  <math>E1r = (PR_{bst} - PR_{ast}) / PR_{bst}</math>.</p> <ul style="list-style-type: none"> <li>• <math>PR_{bst}</math> is the total percentage of persons below the poverty threshold <u>before</u> social transfers</li> <li>• <math>PR_{ast}</math> is the percentage of persons below the poverty threshold <u>after</u> social transfers.</li> </ul>
<b>Poverty Reduction Efficiency</b>	<p>Poverty reduction efficiency refers to the extent to which the amount spent on social transfers is no more than is necessary to achieve the goal of poverty reduction.</p> <p>Poverty reduction efficiency with respect to the poverty gap (E2g) is measured as  <math>E2g = (PG_{bst} - PG_{ast}) / ST</math> where</p> <ul style="list-style-type: none"> <li>• <math>PG_{bst}</math> is the average gap between the poverty threshold and the disposable income of the household before social transfers</li> <li>• <math>PG_{ast}</math> is the average gap between the poverty threshold and the disposable income of the household after social transfers</li> <li>• ST is the average amount of social transfer income.</li> </ul>

A drawback of limiting attention to the impact on the poverty rate is that it ignores any changes in the distance below the poverty threshold. It can also lead to some counter-intuitive results. For instance, it would count as an improvement in effectiveness a transfer of €10 from someone €100 below the poverty threshold to someone €10 below the poverty threshold because such a transfer would reduce the number below the poverty threshold. For this reason, Beckerman (1979a and b) and Longford and Nicodemo (2010) prefer an emphasis on the impact of social spending

on the market income poverty gap. Box 3 shows the formal definition of both measures of effectiveness. While the measure based on the poverty gap is preferable, we also present the measure of poverty reduction effectiveness with respect to the poverty rate since this indicator is frequently cited (e.g. CSO, 2013).

### 3.4.3 Measuring poverty reduction efficiency of social transfers

The poverty reduction **efficiency** of social transfers refers to the extent to which the spending on social transfers is targeted specifically towards poverty reduction, both in terms of the amount spent and whether the groups receiving social transfers would have been poor otherwise. Poverty reduction efficiency is concerned with 'value for money' in terms of poverty reduction. While it would be possible to present a measure of efficiency with respect to the poverty *rate*, as we did for poverty reduction effectiveness, we do not do so here because of the undesirable properties of such an indicator. Specifically, the focus would be purely on whether the recipients would have been below the poverty threshold without the social transfers, without paying attention to how much of the payment would have been needed to bridge the gap between the before-transfer income and the poverty threshold. Box 3 shows a formal definition of poverty reduction efficiency.

As noted in Chapter 1, when we assess the effectiveness and efficiency of social transfers with respect to poverty, we are deliberately adopting a narrow focus in two respects. First, we are focusing on social transfers but not taking account of taxation or of services that are directly provided by the State. Second, we are focusing only on the poverty reduction impact of social transfers, leaving aside other potential goals of social spending, such as promoting employment, promoting investment in human capital and enhancing social participation.

It is worth noting that although efficiency and effectiveness are measured as percentages, 100% effectiveness or efficiency with respect to poverty reduction should not be seen as achievable or as a 'gold standard'. Among other things, a social transfer system which is 100% efficient with respect to poverty reduction would impose a 100% benefit withdrawal rate at the poverty line. This could create a very undesirable incentive structure in terms of participation in work.

#### 3.4.4 Trends in poverty reduction potential of social transfers

In Table 3.3 we show the average amount of social transfers received by households, the average market income poverty gap and the poverty reduction potential of social transfers. As before, the unit of analysis is the household and figures are reported in 2011 prices (non-equivalised).

The market income poverty gap is the poverty threshold minus the disposable market income of the household. If the household market income is above the poverty threshold, the market income poverty gap is set to zero. All amounts are expressed in Euro per week in 2011 prices.

We can see from Table 3.3 that the total social transfer amount has the potential to bridge the poverty gap. In all years, the ratio of the average social transfer amount to the average poverty gap was greater than 1.0, with values of 1.66 in 2004; 1.77 in 2007 and 1.84 in 2011. In fact, the potential of the social transfer spend, relative to the poverty gap, has increased over time.

We can also see from Table 3.3 that none of the three broad types of social transfer payment – State non-means-tested (which includes Child Benefit), State means-tested or occupational pensions – would have the capacity to bridge the gap on their own. The change over time was slightly different for the three broad types of social transfer. The potential of non-means-tested payments increased from 2004 to 2007 before dropping back again in 2011 so that the 2004 and 2011 levels were identical. The poverty reduction potential of the means-tested payments increased by nearly one third over the period, especially after the start of the recession, while the potential of occupational and other pensions increased only very slightly.

**Table 3.3 Average market income poverty gap, average social transfers, potential of social transfers to reduce the poverty gap (2011 prices)**

	2004	2007	2011
<b>A. Market income poverty gap per week</b>	€120	€133	€155
<b>B. Total social transfers per week</b>	€199	€236	€286
<b>C. Social transfers, non-means-tested per week</b>	€104	€123	€135
<b>D. Social transfers, means-tested per week</b>	€58	€71	€98
<b>E. Social transfers, occupational pensions etc. per week</b>	€37	€43	€53
<b>F. Poverty reduction potential (B / A)</b>	1.66	1.77	1.84
<b>G. Potential - non-means-tested (C / A)</b>	0.87	0.92	0.87
<b>H. Potential, means-tested (D / A)</b>	0.48	0.53	0.63
<b>J. Potential, occupational pensions etc. (E / A)</b>	0.31	0.32	0.34

Source: SILC 2004, 2007 and 2011, analysis by authors. Base = households. Figures have been rounded to the nearest whole number.

### 3.4.5 Trends in poverty reduction effectiveness of social transfers

Table 3.4 shows the two measures of the poverty reduction effectiveness of social transfers: the indicator based on reduction in the poverty rate and the indicator based on reduction in the poverty gap. We can see from Table 3.4 that the reduction in the poverty rate attributable to social transfers was 53 per cent in 2004, 63 per cent in 2007 and 71 per cent in 2011. This suggests a very significant improvement in the effectiveness of the system in the period, with improvements evident both before the recession and afterwards.

The second indicator is the percentage reduction in the aggregate poverty gap. As noted above, this is a better indicator since it takes account of the entire poverty gap not just changes with respect to the poverty threshold. As before, we keep the poverty threshold constant at the level it would be with social transfer income included. The market income poverty gap is the poverty threshold minus the disposable market income of the household; setting the figure to zero if the household market income is above the poverty threshold. The poverty gap after social transfers is also shown. The figures in Table 3.4 are displayed as the average amount across households in 2011 prices, to control for inflation. The reduction in the poverty gap is larger than the reduction in the poverty level. In 2011, the poverty

gap after social transfers is only €19, on average across households. This represents a reduction of 88 per cent. This indicator of poverty reduction effectiveness has also improved over time, increasing from 84 per cent in 2004 to 87 per cent in 2007 and 88 per cent in 2011. The improvement in effectiveness is less dramatic when assessed with respect to reduction in the poverty gap than when assessed with respect to reduction in the poverty rate. This is because the effectiveness as assessed with respect to the poverty gap was already quite high in 2004.

**Table 3.4 Poverty reduction effectiveness of social transfers: percentage reduction in poverty rate and percentage reduction in poverty gap, 2004 - 2011**

		2004	2007	2011
<b>Measure based on poverty rate</b>	<b>A. % poor before social transfers</b>	47%	47%	55%
	<b>B. % poor after social transfers</b>	22%	18%	16%
	<b>C. % reduction in poverty rate: (A-B) / A</b>	53%	63%	71%
<b>Measure based on poverty gap</b>	<b>D. Market income poverty gap (average)</b>	€120	€133	€155
	<b>E. Poverty gap after social transfers (average)</b>	€19	€17	€19
	<b>F. % reduction in poverty gap: (D-E) / D</b>	84%	87%	88%

Source: SILC 2004, 2007 and 2011, analysis by authors. Base = households. Figures have been rounded to the nearest whole number.

It is worth noting that if we measure the effectiveness of social transfers with respect to the gap between disposable income and a poverty threshold anchored at the 2004 level (adjusted for inflation), the comparison between 2004 and 2011 remains unchanged (an increase from 84 per cent poverty reduction effectiveness to 88 per cent), though the effectiveness appears somewhat higher (at 90 per cent) in 2007 (See Appendix Table A3.2). This is because, controlling for inflation, the poverty threshold in 2011 was very close to its level in 2004.

### 3.4.6 Trends in poverty reduction efficiency of social transfers

While the effectiveness of social transfers refers to the extent to which social transfers achieve policy goals such as poverty reduction, the efficiency refers to the

extent to which this is achieved at the lowest possible cost. As noted in Chapter 1, the global efficiency of social spending would be extremely difficult to assess in practice since social and economic policies have more than one objective. Social transfers may appear to be inefficient with respect to one objective (such as poverty reduction) when they are designed, in part, to achieve another objective (such as maintaining work incentives). Therefore, when we focus on poverty reduction efficiency, we deliberately take a narrow focus in order to make the task manageable. We focus specifically on the efficiency of social transfers with respect to the reduction of income poverty. This does not imply that the social transfers are efficient or inefficient with respect to other goals of policy.

Table 3.5 examines the poverty reduction efficiency of social transfers: the extent to which the amount of the social transfer is appropriate to the size of the poverty gap. This is calculated as the percentage of total social transfer payments that contribute towards a reduction in the aggregate poverty gap. In 2004, for instance, the average household received €199 in social transfers per week and the average reduction in the poverty gap was €100 per week. This means that, on average, €100 of the €199 -- or 50 per cent -- contributed to a reduction in the poverty gap. Over time there was a very slight reduction in the poverty reduction efficiency of social transfers measured in this way, from 50 per cent in 2004 to 49 per cent in 2007 and 48 per cent in 2011.

**Table 3.5 Efficiency of social transfers: proportion contributing to closing the poverty gap**

	2004	2007	2011
<b>A. Average social transfer payment (€, in 2011 prices)</b>	€199	€236	€286
<b>B. Average reduction in poverty gap (€, in 2011 prices)</b>	€100	€116	€136
<b>C. Per cent of social transfers contributing to reduction in poverty gap: (B) / (A).</b>	50%	49%	48%

Source: SILC 2004, 2007 and 2011, analysis by authors. Base = households. Figures are averages across households in 2011 prices, rounded to nearest whole number.

We conducted some additional analyses to check the extent to which this pattern of slightly declining efficiency at the household level might be influenced by changes in the levels of occupational and foreign pensions (See Appendix Table A3.3). Although

the efficiency in each time period is slightly higher if we focus only on the State means-tested and non-means-tested payments, we still see a slight decline in efficiency over time for the indicator based on reduction in the poverty gap assessed at the level of the household.

### **3.5 Social transfers and basic deprivation and consistent poverty**

Before leaving this chapter it is worth asking to what extent households experiencing basic deprivation or consistent poverty are in receipt of social transfer income. We are not able to conduct the analysis in the same way as we did for income poverty – looking at the before and after transfer status of the household – because we have no way of knowing what the basic deprivation status of a household would be in the absence of social transfers. Nevertheless, it is worth examining whether there has been a change over time in the extent to which households that are deprived or households that experience consistent poverty are receiving social transfers.

#### 3.5.1 Basic deprivation and social transfers

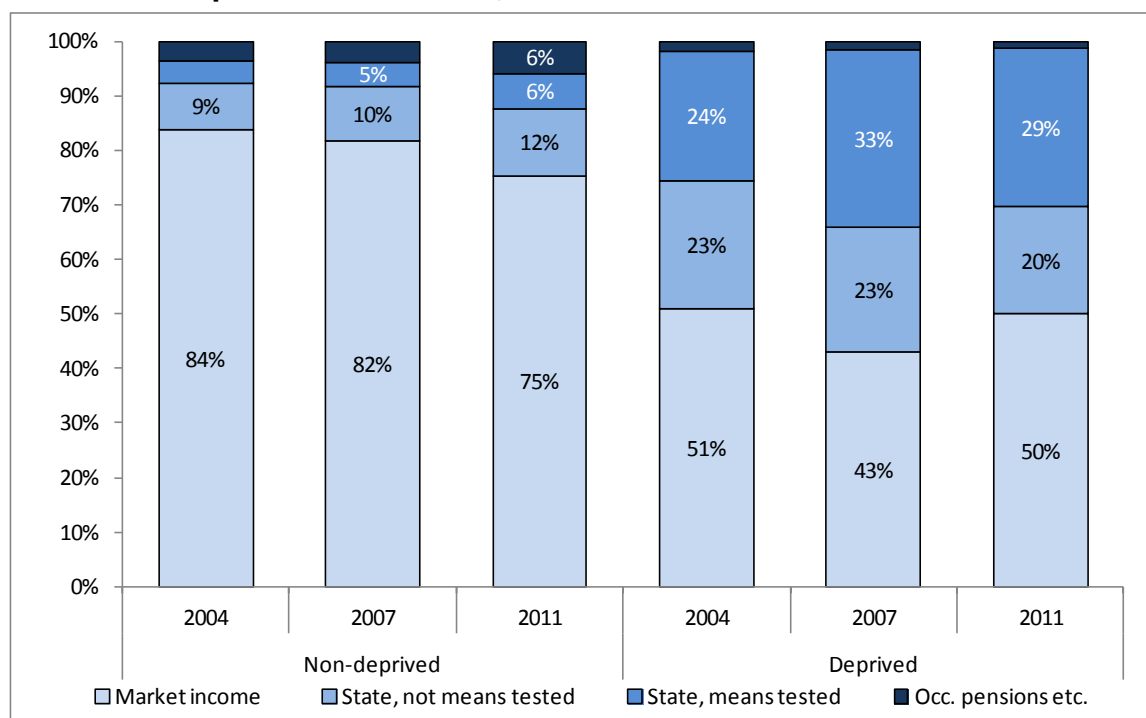
Basic deprivation involves an enforced lack (i.e. due to inability to afford) of 2 or more of 11 basic goods and services, such as adequate food, clothing, heating for the home, and ability to participate in social activities. Basic deprivation is associated with income poverty, but it is not identical to it. There are some aspects of a household's command over resources that affect levels of basic deprivation even though they do not affect income, including levels of accumulated debt and savings, access to credit and the ability to obtain financial help from family and friends. Figure 3.2 shows the relationship between household social transfers and basic deprivation from 2004 to 2011.

We can see that deprived households received more income from social transfers than non-deprived households (50 per cent vs. 25 per cent in 2011). Moreover, the social transfer income of non-deprived households was about twice as likely to come from non-means-tested sources (12 per cent) as from means-tested payments (six per cent). This is not surprising as non-deprived households will tend to have higher incomes that often make them ineligible for means-tested benefits. On the other hand, the social transfer income of deprived households is about 50 per cent more



likely to come from means-tested benefits than from non-means-tested benefits (29 per cent vs. 20 per cent). Although occupational pensions form a small component of income overall, they account for a higher proportion of the income of non-deprived households (six per cent vs. one per cent in 2011).

**Figure 3.2 Market income and social transfers (means-tested and otherwise) as components of total gross household income of deprived and non-deprived households, 2004 - 2011**



Source: SILC 2004-2010, analysis by authors. Base = all households. Figures have been rounded to the nearest whole number.

### 3.5.2 Social transfers by consistent poverty and vulnerability to consistent poverty

Consistent poverty is a key national indicator of social exclusion that draws on both income poverty (at-risk-of-poverty) and basic deprivation. It is used to set the national social target for poverty reduction. A person is consistently poor if he or she lives in a household with equivalised income below the 60% of median income threshold *and* they lack 2 or more of the 11 basic deprivation items. In other words, someone is consistently poor if they are *both* income poor and deprived. Because consistent poverty is based on both income and deprivation, the percentage of households in consistent poverty will be lower than the percentage that are either income poor or experiencing basic deprivation. The rate of consistent poverty will

change over time in response to changes in both of these components as well as in response to the extent to which income poverty and deprivation overlap.

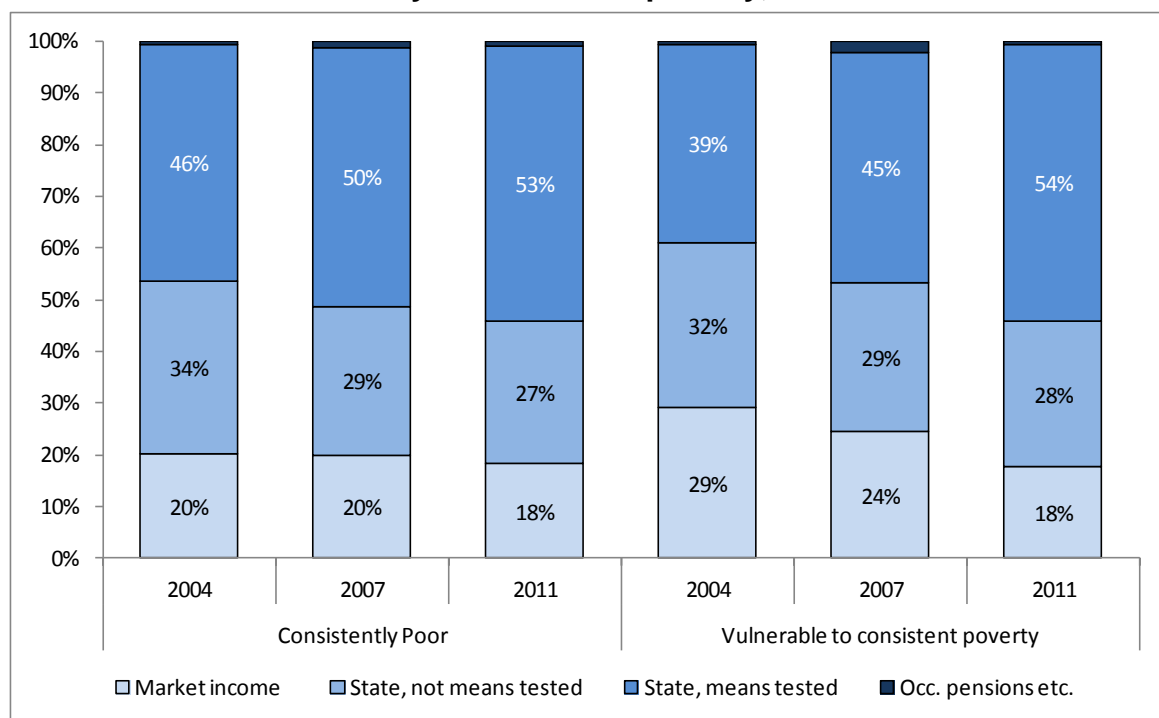
An alternative indicator, proposed by Watson, Maître and Whelan (2012), considers the group 'vulnerable to consistent poverty'. Those 'vulnerable to consistent poverty' include the consistently poor but also include those who have equivalised household income that is slightly higher than the consistently poor but with the same level of basic deprivation. They have an equivalised household income below the 70 per cent of median income threshold, but still lack 2 or more of the 11 basic deprivation items. This indicator is useful, considered together with consistent poverty, in a period where rapid changes in income (such as the fall in income generally accompanying the recession) may make the poverty threshold less reliable as an indicator of change over time in the material well-being of households. For instance, if the median income falls as a result of a recession, we might see a drop in the percentage of people below the 60% of median income threshold – an apparent fall in poverty rate – that is not accompanied by any real improvement in the living standards of the people who are now just above the threshold. Combining those vulnerable to consistent poverty and those who are consistently poor allows the basic deprivation indicator to do more of the work in a period where an income-based measure may be less trustworthy.

Figure 3.3 shows receipt of social transfers by consistent poverty and vulnerability to consistent poverty between 2004 and 2011. The consistently poor were very dependent on means-tested social welfare benefits, which accounted for 53 per cent of their income in 2011. Non-means-tested payments accounted for 27 per cent and market income accounted for only 18 per cent with occupational pensions making only a tiny contribution. The extent of dependence on means-tested benefits has increased over time from 46 per cent in 2004 to 53 per cent in 2011.

The income composition is very similar for those vulnerable to consistent poverty by 2011, although they had a lower dependence on means-tested payments and a higher level of receipt of market incomes in the earlier years. By 2011, those vulnerable to consistent poverty had an equally high level of dependence on State

means-tested benefits to the consistently poor and similar levels of income from State non-means-tested payments and from market sources.

**Figure 3.3 Market income and social transfers (means-tested and otherwise) as components of total gross household income by consistent poverty and vulnerability to consistent poverty, 2004 - 2011**



Source: SILC 2004, 2007 and 2011, analysis by authors. Base = households. Figures have been rounded to the nearest whole number.

### 3.6 Summary

In this chapter, we focused on the relationship between social transfers and poverty. Our goal was to examine why social transfers played a greater role in alleviating income poverty in Ireland by 2011. In 2004, 53 per cent of households that would have been below the poverty line before social transfers were raised above the poverty line by social transfers. By 2011, this had increased to 71 per cent.

We noted that this measure of the poverty reduction effectiveness of social transfers focuses on the poverty rate: whether a household is above or below the threshold. We suggested that a better measure would take account of the extent to which social transfers bridged the market income poverty gap – the gap between a household's income from market sources (work, property, savings and investments) and the

poverty threshold. According to this measure, we also see an improvement in poverty reduction effectiveness between 2004 and 2011, but the improvement was less dramatic (from 84 per cent to 88 per cent) because the effectiveness was already high in 2004.

The main reason for the improvement in the effectiveness of social transfers was that the amount spent had increased substantially relative to the poverty gap, while the poverty reduction efficiency of social transfers remained at roughly the same level. The poverty reduction potential of social transfers refers to the total social transfer amount relative to the poverty gap. This increased from 1.66 in 2004 to 1.84 in 2011. So, even though the market income poverty gap increased very substantially between 2004 and 2011 (from €120 to €155 on average in 2011 prices), the average amount of social transfers increased even more (from €199 to €286 in 2011 prices). The increase in potential was mainly driven by the increase in means-tested payments.

The poverty reduction efficiency of social transfers refers to the proportion of social transfer spending that contribute towards a reduction in the aggregate poverty gap. This was 50 per cent on average in 2004 and 48 per cent by 2011. The combined effect of the substantial increase in the poverty reduction potential of social transfers, together with the fact that the efficiency of social transfers declined only slightly, meant that the effectiveness of social transfers assessed with respect to the poverty gap increased slightly.

As well as examining the link between social transfers and income poverty, we asked to what extent households receiving social transfers are below the national basic deprivation threshold. Households experiencing basic deprivation received a larger proportion of their income from social transfers than non-deprived households (50 per cent vs. 25 per cent in 2011) and are more likely to receive income from means-tested social transfers (29 per cent vs. 6 per cent). We saw that households in consistent poverty (both at-risk-of-poverty and experiencing basic deprivation) were very dependent on social transfer income (82 per cent in 2011) and especially on means-tested social transfers (53 per cent of their income in 2011).

In the next chapter, we turn to the significance of social transfers in alleviating the income poverty of different life cycle groups: children, working-age adults, jobless households, retired adults and people with a disability.

## Chapter 4: Social Transfers and Life Cycle Groups

### 4.1 Introduction

In the last chapter, we examined why social transfers played a greater role over time in alleviating income poverty and noted the importance of the increase in the poverty reduction potential of social transfers as spending increased faster than the poverty gap. In this chapter, we ask whether the impact of social transfers in alleviating poverty varies by gender, life cycle group and household joblessness.

While the analysis in the last chapter was conducted at the level of the household, both for ease of interpretation and so that we could get an accurate assessment of the efficiency of social transfers, we switch to the level of the individual in the current chapter because age, gender and disability status are characteristics of individuals rather than households. Household income and household receipt of social transfers are attributed to all individuals in the households.

The groups we examine in this chapter are men and women, age groups (children under age 18, working-age adults aged 18 to 64 and retirement age adults, aged 65 and over), people with a disability and those in very low work intensity (jobless) households. We refer to these collectively as 'life cycle groups', while acknowledging that a full life-course analysis would also require a distinction between families in terms of marital or partnership status, presence of children and ages of children. The life cycle groups identified in the National Action Plan for Social Inclusion 2007 - 2016 are children, people of working-age, people of retirement age and people with a disability. We consider these groups, and also examine whether there are differences by gender and by household joblessness. Household joblessness is relevant to a life cycle analysis because it focuses on work as the most important income source for people of working-age and their children.

Disability is measured in terms of whether, in the last six months, the adult has been limited in terms of the activities people usually do because of a health problem. It is

based on an item on the individual questionnaire. People who respond that they are limited or strongly limited are regarded as having a disability.

Household joblessness is measured using the EU work intensity indicator. Work intensity refers to the proportion of potential working time the working-age adults (aged 18 to 59, excluding students under 25) in the household spend in employment. The Eurostat work intensity indicator focuses on the population aged 0 to 59 and is not reported for older persons. Very low work intensity (VLWI) refers to households where the working-age adults were in employment for less than 20 per cent of the available time in the previous 12 months (European Commission, 2010b). In the majority of cases, the adults in the household have not been at work at all, i.e. the household is 'jobless'. When we use the term 'jobless households' in this report, we are referring to very low work intensity households. Note that pensioner households with no adult of working-age are not included in this indicator and are not regarded as 'jobless' even though none of the adults are at work.

Although the work intensity indicator is only relevant to persons aged 0 to 59, the incomes of all persons in the households (including those over age 60) are included when calculating household income and related indicators such as poverty status and the poverty gap.

## **4.2 Social transfers by life cycle group**

Table 4.1 shows the percentage of total household income coming from social transfers by gender, life cycle group, disability status and household joblessness. Looking at the pattern in 2011, we see that the highest level of dependence on social transfer income is found among those in very low work intensity or jobless households (85 per cent) and among adults of retirement age (77 per cent). The lowest level of dependence on social transfers is among working-age adults (23 per cent). Over half of the household income of adults with a disability comes from social transfers (54 per cent). The differences between men and women and between working-age adults and children are rather small.

The percentage of income from social transfers increased for all groups over time. The increase was somewhat less for those who were retired (about 20 per cent increase) and those in very low work intensity households (about 11 per cent increase) because these groups already had a very high dependence on social transfer income in 2004 (64 per cent and 77 per cent, respectively).

**Table 4.1 Percentage of total income in household coming from social transfers by gender, age group, disability status and work intensity**

		2004	2007	2011	Change to 2011 as % of 2004 figure
<b>Gender</b>	<b>Male</b>	16%	19%	26%	63%
	<b>Female</b>	18%	20%	28%	59%
<b>Age group</b>	<b>Children (under 18)</b>	16%	19%	25%	53%
	<b>Working-age (18-64)</b>	14%	16%	23%	68%
	<b>Retirement age (65+)</b>	64%	67%	77%	20%
<b>Disability</b>	<b>Limited activity</b>	37%	41%	54%	45%
<b>Work intensity</b>	<b>Very low (jobless)</b>	77%	82%	85%	11%

Source: SILC 2004, 2007 and 2011, analysis by authors. Base = all persons. Figures have been rounded to the nearest whole number. See Appendix Table A4.1 for the sizes of the different groups.

Table 4.2 shows the percentage of people in households receiving any social transfer income. This follows a slightly different pattern than the previous set of figures, which gave a picture of the extent of dependence on social transfers. This is because some people may be in households that receive a relatively small amount of their total income from social transfers. All children are in households receiving some social transfer income because Child Benefit is a universal categorical payment, although the level of payment is lower than the weekly social welfare payments. In 2011, over 87 per cent of all groups were in households receiving some social transfer income.



**Table 4.2 Percentage of persons in households receiving any social transfer income by gender, age group, disability status and work intensity**

		2004	2007	2011
<b>Gender</b>	<b>Male</b>	89%	89%	91%
	<b>Female</b>	91%	91%	92%
<b>Age group</b>	<b>Children (under 18)</b>	100%	100%	100%
	<b>Working-age (18-64)</b>	84%	84%	87%
	<b>Retirement age (65+)</b>	98%	98%	98%
<b>Disability</b>	<b>Limited activity</b>	95%	95%	96%
<b>Work intensity</b>	<b>Very low (jobless)</b>	98%	99%	99%

Source: SILC 2004, 2007 and 2011, analysis by authors. Base = all persons. Figures rounded.

Table 4.3 shows the average amount of social transfer income received per week (in 2011 prices) in households that received at least some income from this source. Turning first to 2011, we see that there was little difference in the average amount received in households of males and females, at €326 and €330 respectively, because, to a large extent, they were found in the same households. The same is true of children and working-age adults (€288 and €310, respectively). The amount was somewhat lower for children because the universal Child Benefit amount is lower than the weekly social welfare payments and some working-age adults who do not live with children will receive weekly social welfare payments related to unemployment, disability or employment support. The amount was highest in households of retired persons in 2011, at €505 per week, and was also high in jobless households (€469 per week) and in the households of those limited by a disability (€427 per week).

**Table 4.3 Average amount of social transfer income received in household by gender, age group, disability status and household work intensity**

		2004	2007	2011	Change to 2011 as % of 2004 figure
<b>Gender</b>	<b>Male</b>	€228	€277	€326	43%
	<b>Female</b>	€227	€277	€330	45%
<b>Age group</b>	<b>Children (under 18)</b>	€201	€255	€288	43%
	<b>Working-age (18-64)</b>	€215	€259	€310	44%
	<b>Retirement age (65+)</b>	€351	€423	€505	44%
<b>Disability</b>	<b>Limited activity</b>	€298	€361	€427	43%
<b>Work intensity</b>	<b>Very low (jobless)</b>	€361	€454	€469	28%

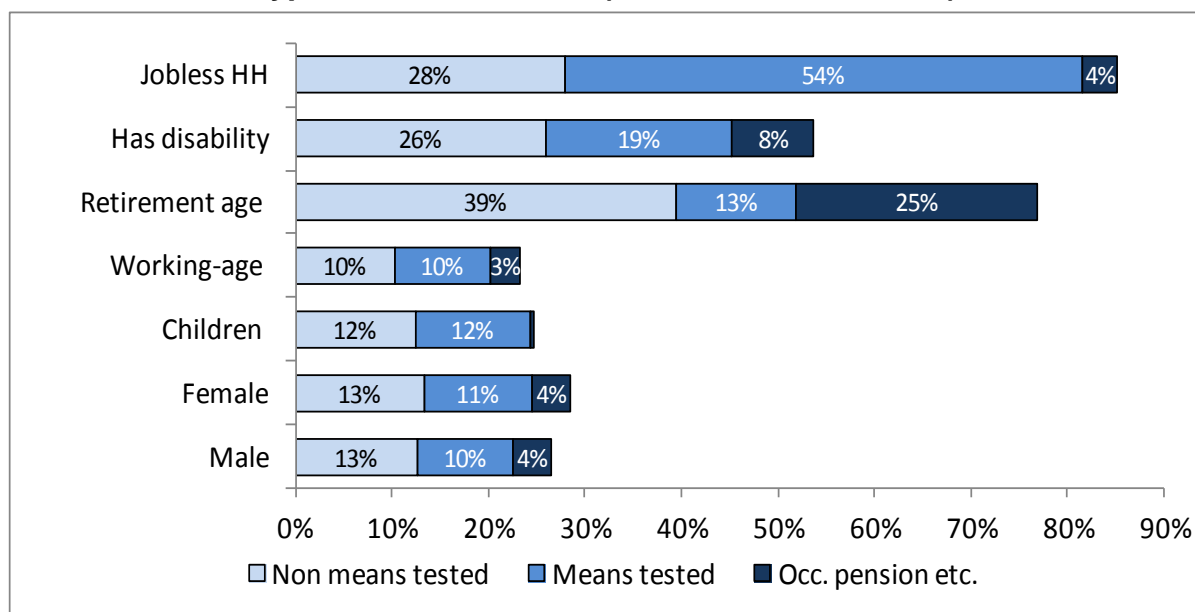
Source: SILC 2004, 2007 and 2011, analysis by authors. Base = all persons in households receiving at least some (over €1 per week) social transfer income. Figures have been rounded to the nearest whole number and are shown in 2011 prices.

The average amount received increased over time for all groups. The increase was smallest for those in jobless households (from €361 to €469, or 28 per cent). The increase was in the range from 43 per cent to 46 per cent for all the other groups shown in the table.

#### **4.3 Type of social transfer payment by life cycle category**

In Figure 4.1 we examine how the social transfer incomes of each group are broken down between State means-tested, State non-means-tested and occupational pension payments in 2011. The two groups most dependent on social transfers – retired adults and those in very low work intensity households – differ in terms of the type of social transfers received. Retired adults receive a higher proportion of their total household income from State non-means-tested payments (39 per cent vs. 28 per cent for those in jobless households) and from occupational pensions (25 per cent vs. 4 per cent in jobless households). Those in jobless households, on the other hand, receive a higher proportion of income from means-tested payments (54 per cent vs. only 13 per cent for retired adults). The other group with a high dependence on social transfer payments, those limited by a disability, falls somewhere between these two, with 26 per cent of income from State non-means-tested payments, 19 per cent from means-tested payments and 8 per cent from occupational pensions.

**Figure 4.1 Percentage of total gross income in the person's household from each type of social transfer (means-tested or other), 2011**



Source: SILC 2004, 2007 and 2011, analysis by authors. Base = all persons. Figures have been rounded to the nearest whole number.

The differences between males and females and between children and working-age adults are not as marked. Again, this is because males and females most often live in the same households (as husbands and wives, partners or siblings) and children most often live with working-age adults (as parents and children).

A second classification of social transfer payments is by the scheme category they are designed to address, such as old age, unemployment, childhood and so on. Table 4.4 shows the proportion of social transfers related to each scheme category for the life cycle groups. There is a strong association between old age and social transfer payments related to old age, as we would expect: 81 per cent of the social transfers going to older adults are related to old age. Apart from payments related to old age, however, what is striking is the absence of a strong relationship between the life cycle category of the person and the scheme category of the social transfer payment received by their household. For instance, in 2011 30 per cent of the social transfer payments going to the households of children were from child-related payments, but the percentage coming from unemployment-related payments was almost as high, at 28 per cent. A further 14 per cent of the social transfers going to

the households of children came from lone-parent related payments and 10 per cent came from disability-related payments.

**Table 4.4 Proportion of social transfer income at household level related to each scheme category for different life cycle groups in 2011**

Scheme category	Group						
	Male	Female	Children (under 18)	Working-age (18-64)	Retirement-age (65+)	Adult with disability	In Jobless HH
<b>Old Age</b>	28%	27%	3%	20%	81%	41%	8%
<b>Widow(er)</b>	2%	4%	1%	2%	6%	5%	2%
<b>Lone parent</b>	5%	9%	14%	6%	0%	2%	12%
<b>Child-related</b>	15%	15%	30%	13%	0%	4%	12%
<b>Disability-related</b>	13%	13%	10%	17%	5%	25%	17%
<b>Unemployment</b>	26%	22%	28%	30%	3%	14%	34%
<b>Other schemes</b>	11%	11%	14%	11%	5%	9%	15%

Source: SILC 2011, analysis by authors. Base = all persons. Figures have been rounded to the nearest whole number. 'Other' includes payments related to employment support, supplementary welfare, extra benefits and grant-related payments.

Child-related payments accounted for 13 per cent of social transfers going to the households of working-age adults and 12 per cent of the social transfers going to people in jobless households. Among adults with a disability, because of the strong association between age and disability, old age payments accounted for a higher proportion of social transfer income (41 per cent) than disability-related payments (25 per cent). Those in jobless households received just over one third of their social transfer income from unemployment-related payments, but payments related to disability (17 per cent), other (15 per cent), lone parenthood (12 per cent) and childhood (12 per cent) were also important.

#### **4.4 Poverty reduction potential, effectiveness and efficiency by life cycle group**

In the previous chapter we examined the poverty reduction potential, effectiveness and efficiency of social transfer payments with respect to the poverty gap at the level of the household, and saw that the poverty reduction effectiveness increased slightly between 2004 and 2011 while there was a slight fall in poverty reduction efficiency.

In this section, we examine the poverty reduction potential, effectiveness and efficiency of social transfers for the different life cycle groups as well as by gender, disability and household joblessness.

Because gender, age and disability status are characteristics of individuals, our unit of analysis in this chapter is the individual. Income and poverty status are assessed at the level of the household and are attributed to all individuals in the household. The results on poverty reduction effectiveness and efficiency may differ to those reported in the previous chapter if there are differences in this respect by household size. If social transfers are more efficient with respect to poverty reduction in larger households, for instance, the results for efficiency may be higher in the tables here than those reported in the last chapter. This is because the analysis at individual level gives a greater 'weight' to larger households.

#### 4.4.1 Trends in poverty reduction potential by life cycle group

Table 4.5 shows the potential of social transfers to close the poverty gap. This is measured as the ratio of the average social transfer amount received by the group to the average market income poverty gap of the group. Where the potential is greater than 1, the amount received in social transfers by each group exceeds the amount needed to close the poverty gap. The ratio was greater than 1 for all groups by 2011, ranging from 1.08 for jobless households to 1.98 for those above retirement age.

The biggest increase in the ratio between 2004 and 2011 was for those of retirement age (31 per cent increase from 1.51 to 1.98). The increase was also substantial for those in jobless households: a 25 per cent increase from 0.86 to 1.08. Those in jobless households were the only group for whom the potential of social transfers in 2004 and 2007 fell short of what would have been needed to close the poverty gap. By 2011, the potential had just exceeded the amount needed, but it remained the lowest across the groups shown in Table 4.5.

**Table 4.5 Potential of social transfers to close the poverty gap by gender, age group, disability and work intensity.**

		2004	2007	2011	Change 04-11
<b>Gender</b>	<b>Male</b>	1.91	1.93	1.86	-2%
	<b>Female</b>	1.65	1.80	1.80	9%
<b>Age group</b>	<b>Children (under 18)</b>	1.52	1.70	1.61	6%
	<b>Working-age (18-64)</b>	2.05	2.04	1.90	-7%
	<b>Retirement age (65+)</b>	1.51	1.68	1.98	31%
<b>Disability</b>	<b>Limited activity</b>	1.43	1.47	1.71	19%
<b>Work intensity</b>	<b>Very low (jobless households)</b>	0.86	0.94	1.08	25%
<b>Total</b>		1.77	1.87	1.83	3%

Source: SILC 2004, 2007 and 2011, analysis by authors. Base = all persons. Work intensity is recorded only for persons age 0 to 59.

#### 4.4.2 Trends in poverty reduction effectiveness by life cycle group

We focus on the measure of effectiveness with respect to the poverty gap: the amount by which social transfers reduce the gap between disposable market income and the poverty threshold for each group.

We can see from Table 4.6 that in 2011 the poverty reduction effectiveness measured across individuals was 87 per cent on average and ranged from 84 per cent for adults of working-age to 95 per cent for adults of retirement age. The final column in the table reports the percentage change in this effectiveness indicator between 2004 and 2011. The effectiveness of social transfers in closing the market income poverty gap improved for all groups between 2004 and 2011, except for the retired for whom it was already very high (over 95%). The improvement was greatest for children (from 72 per cent to 87 per cent), and was also substantial for those in very low work intensity households (from 76 per cent to 87 per cent).

**Table 4.6 Poverty reduction effectiveness of social transfers with respect to poverty gap by gender, age, disability and household work intensity**

		2004	2007	2011	Change 04-11
<b>Gender</b>	<b>Male</b>	79%	85%	85%	8%
	<b>Female</b>	79%	84%	88%	12%
<b>Age group</b>	<b>Children (under 18)</b>	72%	82%	87%	20%
	<b>Working-age (18-64)</b>	76%	82%	84%	11%
	<b>Retirement age (65+)</b>	95%	97%	95%	0%
<b>Disability</b>	<b>Limited activity</b>	88%	88%	92%	4%
<b>Work intensity</b>	<b>Very low</b>	76%	82%	87%	14%
<b>Total</b>		79%	85%	87%	10%

Source: SILC 2004, 2007 and 2011, analysis by authors. Base = all persons. Work intensity is recorded only for persons age 0 to 59. Figures have been rounded to the nearest whole number.

#### 4.4.3 Trends in poverty reduction efficiency by life cycle group

While effectiveness in the context of poverty reduction is concerned with the extent to which social transfers reduce poverty, efficiency is concerned with the extent to which they do so without excessive cost. As in the previous chapter, we caution that social policy has several goals and that what might seem as ‘inefficiency’ with respect to poverty reduction may well be an inevitable consequence of designing social transfer schemes in order to contribute to another policy goal, such as promoting labour market participation or encouraging skills development.

Table 4.7 shows the poverty reduction efficiency of social transfers as measured by the extent to which social transfers going to each group contributed to a reduction in that group’s market income poverty gap. Overall, the efficiency as measured by this indicator was 48 per cent in 2011, ranging from a low of 44 per cent for working-age adults to 80 per cent in jobless households.

**Table 4.7 Poverty reduction efficiency of social transfers with respect to poverty gap by gender, age group, work intensity and disability**

		2004	2007	2011	Change 04-11
<b>Gender</b>	<b>Male</b>	41%	44%	46%	11%
	<b>Female</b>	48%	47%	49%	2%
<b>Age group</b>	<b>Children (under 18)</b>	48%	48%	54%	13%
	<b>Working-age (18-64)</b>	37%	40%	44%	20%
	<b>Retirement age (65+)</b>	63%	58%	48%	-24%
<b>Disability</b>	<b>Limited activity</b>	62%	60%	54%	-12%
<b>Work intensity</b>	<b>Very low</b>	88%	87%	80%	-9%
<b>Total</b>		45%	45%	48%	7%

Source: SILC 2004, 2007 and 2011, analysis by authors. Base = all persons. Work intensity is recorded only for persons age 0 to 59. Figures have been rounded to the nearest whole number.

The efficiency was slightly higher for females than males (49 per cent vs. 46 per cent); higher for children than for adults (54 per cent vs. 44 per cent for working-age adults and 48 per cent for retired adults); higher for people with a disability than for the general population (54 per cent vs. 48 per cent average).

When assessed at the level of the individual, there has been a very slight improvement in efficiency overall, from 45 per cent in 2004 to 48 per cent in 2011. The biggest improvement in efficiency was found for working-age adults (20 per cent higher in 2011) while the efficiency declined for retirement age adults (24 per cent reduction), for people limited by a disability (12 per cent reduction) and those in very low work intensity households (9 per cent reduction).

The trend here is different to that observed in Chapter 3, Table 3.5, which reported analysis at the level of the household. While both analyses report similar levels of poverty reduction efficiency in 2011 (48 per cent), the household level analysis suggested a slight fall since 2004 (from 50 per cent) whereas the individual level analysis suggested a slight increase (from 45 per cent to 48 per cent). This is because the efficiency tended to increase for larger households and the individual level analysis reported in Table 4.7 gives a greater 'weight' to larger households. From Table 4.7, for instance, we can see that poverty reduction efficiency increased



for households with children (which tend to be larger) and decreased for households with people of retirement age (which tend to be smaller in size).

We checked whether the fall in poverty reduction efficiency for people of retirement age was being driven by occupational pensions. We conducted a separate piece of analysis to check whether the results would be substantially different if we grouped occupational pensions with market income to form 'private income' and looked at the impact of State social transfers on reducing the 'private income poverty gap' (the gap between the poverty threshold and private income). While the percentages changed a little, the overall patterns did not change appreciably (Appendix Table A4.2). We still see that poverty reduction efficiency improved slightly across all individuals, fell for people of retirement age and was highest for jobless households in all periods.

#### **4.5 Summary**

In this chapter we examined the impact of social transfers on the poverty risk of different life cycle groups (children, working-age adults, retirement age adults, people with a disability) and by gender and work intensity. Since gender and age are individual characteristics, we conducted this analysis at the level of the individual, attributing household income and poverty status to all individuals in the household.

Two groups were very dependent on social transfers. People living in jobless households relied on social transfers for 85 per cent of their gross incomes in 2011, with 54 per cent of the income coming from means-tested social transfers. People above retirement age relied on social transfers for 77 per cent of their incomes, with 39 per cent from non-means-tested payments, 25 per cent from occupational pensions and only 13 per cent from means-tested payments.

The effectiveness of social transfers, as measured in terms of reduction in the poverty gap, was very high for all groups, ranging from 84 per cent for working-age adults to over 90 per cent for adults with a disability and those of retirement age.

Apart from those of retirement age, there was an average improvement of about 10 per cent between 2004 and 2011 in the poverty reduction effectiveness of social

transfers as measured by reduction in the poverty gap. The improvement in effectiveness as measured by this indicator was largest for children (20 per cent improvement). This was despite the cuts in Child Benefit after 2009. Part of the explanation for this is that Child Benefit accounted for only 30 per cent of the social transfer income received by the households of children. Almost the same proportion came from unemployment-related payments in 2011. As a result, the impact of the reduction in Child Benefit would have been diluted.

Taking the individual as the unit of analysis as we do in this chapter, the poverty reduction efficiency of social transfers has improved slightly since 2004. This contrasts with a small decline in efficiency reported in the previous chapter when we reported analyses at the level of the household. This suggests that the efficiency as measured by reduction in the poverty gap improved more in larger than in smaller households – larger households are given more ‘weight’ when the analysis is conducted at individual level. In 2011, the poverty reduction efficiency of social transfers was highest by a considerable margin for people in jobless households (80 per cent), followed by those limited by a disability (54 per cent) and children (also 54 per cent).

## Chapter 5: Social Transfers in Europe

### 5.1 Introduction

In this chapter we examine Ireland in a European context by exploring the impact of social transfers on lifting people out of poverty across time and through different stages of the life cycle. As well as reporting results for individual countries, we report the overall figures for the EU15. This refers to the Member States of the EU prior to May 2004, i.e. Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom. The EU comparison emphasises the EU15 as these countries share more in common in terms of living standards and social protection traditions than is the case between the EU15 countries and the EU12 countries. However, we do provide an overall figure for the EU12 – the 12 countries that joined the EU since May 2004 but before 2011: Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.

Our goal in this chapter is modest. We seek to document the cross-national pattern in social transfers as a component of income and in terms of their poverty reduction impact and any changes in this pattern since 2005. As in earlier chapters, we do not address the issue of differences in taxation or the issue of differences in the direct provision of public services. A more thorough approach would involve consideration of these factors, as is attempted in the ‘transplant-and-compare’ approach (see for example Lambert, Nesbakken, and Thoresen, 2010). This is beyond the scope of the present analysis, however.

### 5.2 Data and methodology for the cross-national comparison

The data analysis in this chapter comes from two sources: published figures from Eurostat as well as the analysis of the EU-SILC micro-data. In order to get the most recent figures we used the 2011 EU-SILC published figures extracted from the Eurostat portal, where this was possible. In the course of the chapter when we required some specific results that had not been published by Eurostat we ran micro-data analysis. At the time of writing, the 2011 EU-SILC micro-data for Ireland was

not yet available to the public, so the most recent harmonised data available for Ireland in the micro-dataset is for 2010. In this chapter we explore the trends in social transfers over time for the EU15 countries with the year 2005 as the base year, as the UK, Germany and the Netherlands were not part of the EU-SILC survey prior to 2005 (2003 and 2004).

So far, in this report we have used the SILC micro-data (the Irish component of the EU-SILC) supplied by the CSO while in this chapter we use the full European micro-data (EU-SILC) as supplied by Eurostat. There are some differences in the methodology used by the CSO and Eurostat in the definition and the measurement of some variables. Indeed, the CSO and Eurostat use two different definitions of income as well as two different equivalence scales, which are used with the income variable. One of the main differences for the income component is before 2011 Eurostat did not include in the definition of gross income the income from individual private pensions. From the 2011 survey onwards, this latter component has been included<sup>12</sup>.

The second difference is the equivalence scale used by Eurostat and CSO to construct the equivalised household income that is used for the at-risk-of-poverty measure. In order to allow comparisons across individuals in different household types we need to correct for the variations in household size and composition (adults and children). The correction is done by using an equivalence scale. The CSO uses the Irish national equivalence scale while Eurostat uses the modified OECD scale<sup>13</sup>. The main difference between the two is that the Eurostat approach 'allows' less additional income for larger households.

As with the analysis in earlier chapters, the income reference period is annual. Apart from the UK and Ireland, the income reference period is the calendar year prior to the survey year. In Ireland the income reference period is the last 12 months and in

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<sup>12</sup> See Atkinson and Marlier (2010) for a detailed description of the Eurostat measure of income and CSO (2012) for a description of the differences between the Eurostat and the national measures of income.

<sup>13</sup> The Irish national scale attributes a weight of one to the first adult (aged 14+) and 0.66 to each subsequent adult and a weight of 0.33 to each child. Eurostat uses the modified OECD scale which attributes a weight of one to the first adult (aged 14+) and 0.5 to each subsequent adult and a weight of 0.3 to each child.

the United Kingdom current income is annualised and adjusted to refer to the current calendar year.

### **5.3 Social transfers over time in the EU15**

The role played by social transfers in alleviating poverty will depend, among other factors, on the proportion of the population receiving social transfers. We draw on the EU-SILC micro-data to examine receipt of social transfer income between 2005 and 2010 by the population of the EU15.

#### **5.3.1 Receipt of any social transfer income in the EU15, 2005 - 2010**

In Table 5.1 we present the percentage of households receiving any social transfer income from 2005 to 2010. The countries are sorted by increasing order of the 2010 results. This analysis comes from the EU-SILC micro-data.

With the exception of two countries, Greece and Spain, and across all years, over 70 per cent of households receive at least some social transfer income. Only five countries have values of eighty per cent or over for the entire period: Portugal, the Scandinavian countries and Ireland. For most of the countries the percentage of households receiving social transfers has been quite stable or increased very little between 2005 and 2007.

After the recession occurred, most countries experienced an increase in the percentage of household receiving social transfers. This is particularly true in Greece and Spain where the percentage increased respectively from 57 per cent and 58 per cent in 2007 to 61 per cent and 64 per cent in 2010. It also increased in Ireland from 85 per cent in 2005 to 88 per cent in 2010.

**Table 5.1 Percentage of households receiving any social transfers across country by year**

	2005	2007	2010
AT	76.9	77.8	79.3
BE	78.4	78.8	79.8
DE	78.3	76.2	75.8
DK	80.9	80.5	80.3
EL	54.2	56.9	61.3
ES	56.4	57.6	63.5
FI	83.4	82.4	84.9
FR	78.1	80.0	82.3
IE	84.7	85.3	87.6
IT	73.6	73.6	74.4
LU	74.0	75.7	76.7
NL	76.4	76.9	78.1
PT	82.4	82.3	79.9
SE	80.7	81.5	79.9
UK	73.1	73.7	76.3
EU15	74.4	74.4	75.9
EU12*	77.6	78.3	77.1

Source: Analysis of EU-SILC micro-data by authors. Base=households. \*The micro-data for the EU12 includes 9 countries in 2005, 11 countries in 2007 and 12 countries in 2010.

### 5.3.2 Social transfers as a percentage of household income in the EU15

The period covered in this analysis includes the pre-recession years from 2005 to 2008 – which for Ireland was characterised by strong economic growth – and then the beginning of the Great Recession from 2008 onwards. In Ireland, both periods had major implications for the composition of household income. During the first period, when Ireland had a high level of employment and a low level of unemployment, income from work was a very large component of total household income. In the period of the recession, with rising unemployment, there has been an increase in the number of people receiving social welfare payments across a wide range of schemes (Department of Social Protection, 2013).

We now look at the change in the composition of household income and how Ireland compares with other EU countries. We do so in Table 5.2 by examining the change in the contribution of social transfers to household disposable income. The table

reports equivalised income from social transfers as a percentage of total equivalised disposable household income. Here we also distinguish total social transfers with old age and survivor's benefits included and then with these benefits excluded. This distinction within social transfers is a useful one because we would expect the contribution of old age and survivor benefits to be less affected by the recession than social transfers, which include payments related to unemployment. The figures in Table 5.2 are drawn from the analysis of the 2010 EU-SILC micro-data as Ireland was not available in the 2011 wave. The unit of analysis is the household.

Turning first to total social transfers in 2005, for the majority of countries equivalised income from social transfers amounted to around 31 to 35 per cent. The lowest figure was for Spain, at 26 per cent, and the highest was for France, at 40 per cent. Ireland was among the countries with the lowest percentage of equivalised income from social transfers at 28 per cent.

In the second column we now exclude the old age and survivor's benefits from the social transfers and we observe a dramatic fall in the percentages. For most of the countries it falls below 10 per cent with a few exceptions. The countries that now have the highest percentages are the Scandinavian countries such as Denmark, Sweden and Finland at 18 per cent, 16 per cent and 14 per cent respectively. The next countries are Ireland at 13 per cent and Belgium at 12 per cent. So, while in 2005 Ireland was still in a period of economic growth, the percentage of income coming from social transfers other than those related to old age and survivors was relatively high compared to most of the countries.

**Table 5.2 Proportion of equivalised household income drawn from social transfers across the EU15 (with and without old age and survivor benefits), EU-SILC 2005 - 2010**

	2005		2007		2010	
	Social Transfers ( <i>incl.</i> old age & survivor benefits) as a % of total disposable income	Social Transfers ( <i>excl.</i> old age & survivor benefits) as a % of disposable income	Social Transfers ( <i>incl.</i> old age & survivor benefits) as a % of total disposable income	Social Transfers ( <i>excl.</i> old age & survivor benefits) as a % of disposable income	Social Transfers ( <i>incl.</i> old age & survivor benefits) as a % of total disposable income	Social Transfers ( <i>excl.</i> old age & survivor benefits) as a % of disposable income
AT	37.0	8.5	37.6	8.9	36.0	8.6
BE	31.9	12.5	33.9	12.9	34.3	12.5
DE	37.9	9.6	36.0	9.3	37.8	9.6
DK	31.4	18.2	30.7	16.0	35.9	17.9
EL	29.4	2.8	30.1	3.1	31.5	3.8
ES	25.6	4.5	25.5	4.6	29.4	7.4
FI	32.3	14.4	31.7	13.8	32.9	13.2
FR	40.4	9.9	41.1	10.5	38.7	9.0
IE	28.3	12.9	28.4	14.0	39.7	20.4
IT	35.2	4.6	34.3	4.1	35.9	4.8
LU	31.6	8.1	30.8	7.8	33.2	9.5
NL	32.1	10.0	30.7	9.3	32.5	9.7
PT	31.3	6.1	33.0	5.6	34.1	5.9
SE	35.9	15.8	35.5	14.2	41.3	13.0
UK	29.7	9.5	29.4	8.5	32.7	9.9
EU15	34.5	9.0	33.9	8.7	35.8	9.1
EU12	36.2	8.6	34.3	7.8	34.2	7.4

Source: EU-SILC micro-data (to 2010). Unit of analysis = household. Social transfers and incomes are equivalised disposable amounts. \*The micro-data for the EU12 includes 9 countries in 2005, 11 countries in 2007 and 12 countries in 2010.

For the period 2005 to 2007, in most countries we observe in column three either a slight fall or stability in the percentage of income coming from social transfers. The percentage for Ireland in 2007 is identical to 2005 at 28 per cent. Looking now to



column four (excluding old age and survivor benefits), while the Scandinavian countries still have the highest percentages of income coming from social transfers, the level is lower than in 2005. This is particularly true in Denmark and Sweden where it drops two percentage points. Ireland is the only country where the percentage increases in that period, but the change is small – from 13 per cent in 2005 to 14 per cent in 2007.

Finally, in the last two columns we look at the period covered by the economic crisis. For 12 countries the percentage of income coming from social transfers (including old age and survivor's benefits) had increased between 2007 and 2010. The increase is particularly strong in the Scandinavian countries such as in Sweden and Denmark: it increased from 36 per cent to 41 per cent in Sweden and from 31 per cent to 36 per cent in Denmark between 2007 and 2010. However, the largest increase is observed in Ireland, where the percentage of disposable income coming from social transfers rose from 28 per cent in 2005 and 2007 to 40 per cent in 2010. Only in Belgium did the percentage remain at the 2007 level while the percentage fell in Austria and France.

In the final column, for most of the countries we observe an increase between 2005 and 2010 in the percentage of income coming from social transfers (excluding old age and survivor's benefits). While in Spain the level is still low at 7 per cent, it increased by about 64 per cent from the 2005 figure. However, the most striking result was a very large increase found in Ireland, from 13 per cent in 2005 to 20 per cent on 2010. This means Ireland has the highest percentage of income coming from social transfers (excluding old age and survivor's benefits), ahead of the Scandinavian countries. Denmark has the second highest value at 18 per cent.

Over time Ireland's position in relation to the contribution of social transfers to household income has changed dramatically. In comparison with other EU countries and during the period of economic growth Ireland had a similar, or even lower, level of income coming from social transfers. When we excluded old age and survivor's benefits from social transfers, Ireland's level of social transfers was just behind the Scandinavian countries. However, as Ireland entered into recession, with rising

unemployment and falling wages and salaries we observed a fall in the proportion of income from work. Since the level of welfare benefits did not fall as much as market income, as we saw in Chapter 2, and since more individuals began to receive social transfers, the net result was a major increase in the proportion of income from social transfers.

#### **5.4 At-risk-of-poverty before and after social transfers in the EU15**

In this section, we draw on the most recent data available from the Eurostat website on the risk of poverty before and after social transfers. We first report the results for 2011 and then report how the pattern changed over time, since 2005.

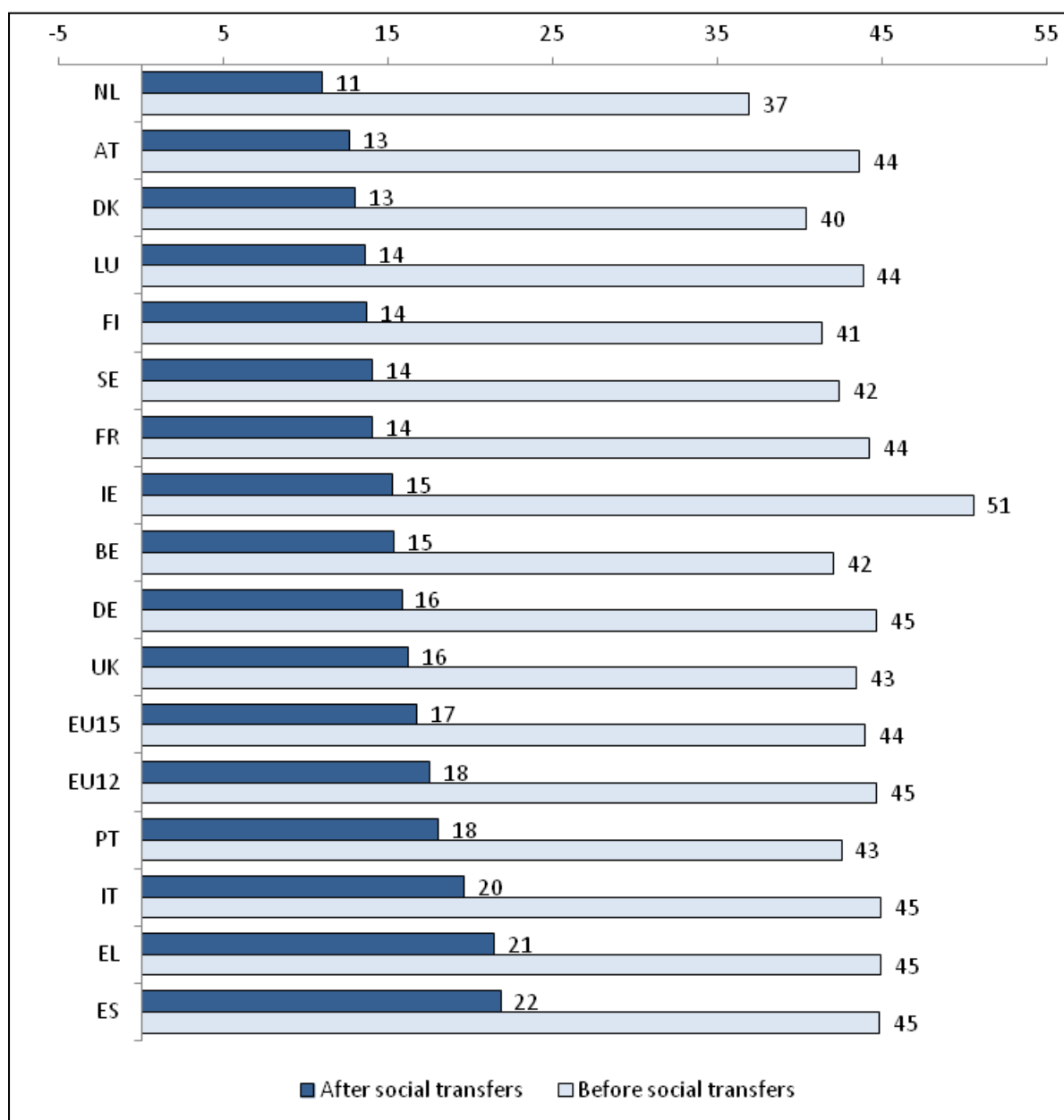
##### 5.4.1 At-risk-of-poverty before and after social transfers in 2011

We report in Figure 5.1 the at-risk-of-poverty (AROP) rates before and after all social transfers across the EU15 countries for the year 2011<sup>14</sup>. This is the measure of income poverty, calculated using the EU equivalence scale and definition of income, at the 60% of median threshold. The countries are sorted in increasing order of AROP after social transfers. We focus first on AROP before social transfers. With the exception of the Netherlands at the lower end and Ireland at the upper end, the range for the AROP rate before social transfers is quite narrow, from a low 40 per cent in Denmark to a high figure of about 45 per cent in Germany, Spain, Italy and Greece. With the exception of Portugal and Ireland, the general pattern is that Northern European countries have the lowest AROP rate before social transfers and the highest rates are found in the Southern European countries. Ireland, however, has the highest AROP rate before social transfers at 51 per cent. The UK, whose social protection system has many similarities with the one in Ireland, has an AROP rate of 43 per cent. There is virtually no difference in the overall level of AROP before social transfers between the EU15 and the EU12 at 44 per cent and 45 per cent respectively.

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<sup>14</sup>The at-risk-of-poverty rate before social transfers is the share of persons with an equivalised disposable income, before social transfers, below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income (after social transfers). The same threshold is used for assessing poverty status before and after social transfers. This parallels the approach to analysing the Irish SILC data in earlier chapters.

**Figure 5.1 At-risk-of-poverty (%) before and after social transfers in the EU15 in 2011**



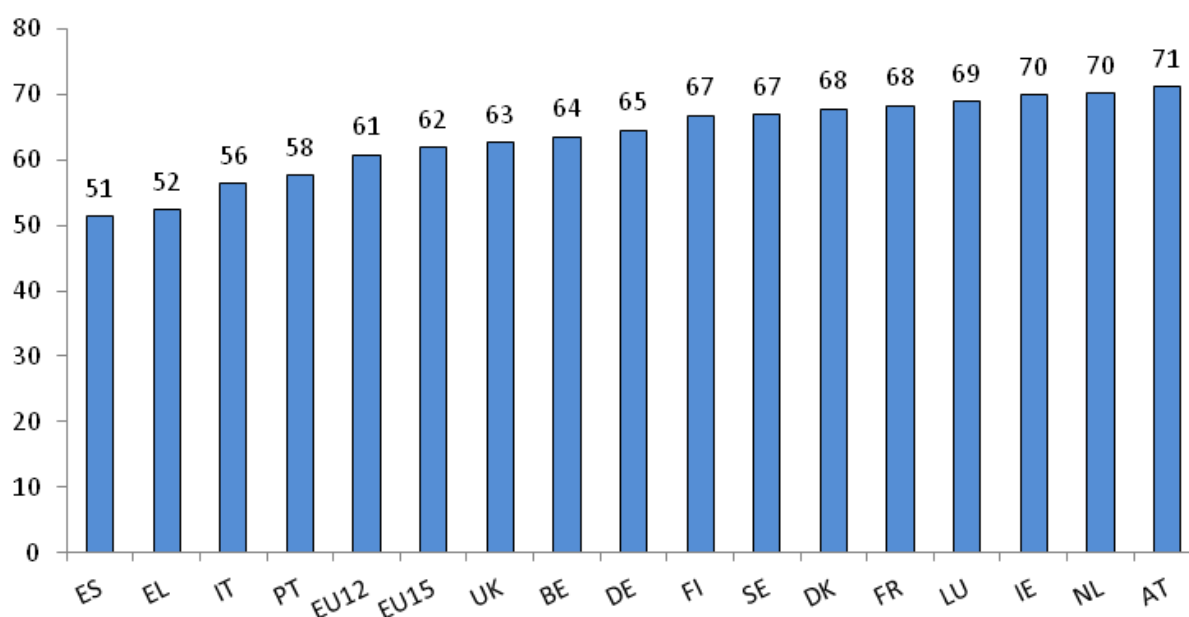
Source: EU-SILC tabular data from Eurostat website (<http://appsso.eurostat.ec.europa.eu>; ilc\_li0; last updated 17-09-2013). Base=persons. Figures have been rounded to the nearest whole number.

We now look at the impact of social transfers on the AROP rate. While the range was quite narrow across countries for the AROP rate before social transfers, it is much wider for the AROP rate after social transfers: from a low of 11 per cent in the Netherlands to twice that, at 22 per cent, in Spain. Similar to the previous results before social transfers, the Northern European countries have the lowest AROP rate after social transfers at about 11 to 14 per cent and the Southern European countries have the highest at about 18 to 22 per cent. In contrast to the results before social

transfers, however, Ireland performs better in terms of the AROP rate after social transfers. The rate in Ireland is located just below the average for the EU15 at 15 per cent, while the UK result is now at 16 per cent. Again there is little difference in the overall level of AROP after social transfers between the EU15 and the EU12, at 17 per cent and 18 per cent respectively.

In order to evaluate the size of the impact of social transfers on the AROP rate across countries, in Figure 5.2 we report the percentage reduction in the AROP rate before social transfers when social transfers are taken into account. The larger the percentage, the greater the reduction in the at-risk-of-poverty rate after social transfers. For example, when we take account of social transfers in Ireland, the AROP rate is 70 per cent lower.

**Figure 5.2 Percentage reduction in the at-risk-of-poverty rate after social transfers in the EU15 in 2011**



Source: EU-SILC tabular data from Eurostat website

[http://epp.eurostat.ec.europa.eu/portal/page/portal/income\\_social\\_inclusion\\_living\\_conditions/data/database](http://epp.eurostat.ec.europa.eu/portal/page/portal/income_social_inclusion_living_conditions/data/database).

The reduction of the AROP rate across countries varies between 51 per cent and 71 per cent. The pattern of distribution of countries is very similar to the AROP rate after social transfers, with a few exceptions. At the lower end, in the Southern European countries, social transfers reduce the AROP rate by between 51 and 58 per cent. At the upper end of the distribution among the Northern European countries we now

find Ireland with the third highest percentage reduction, at 70 per cent, while the percentage reduction in the UK is 63 per cent. Clearly Ireland is one of the EU15 countries where social transfers contribute most to the reduction of the AROP rate.

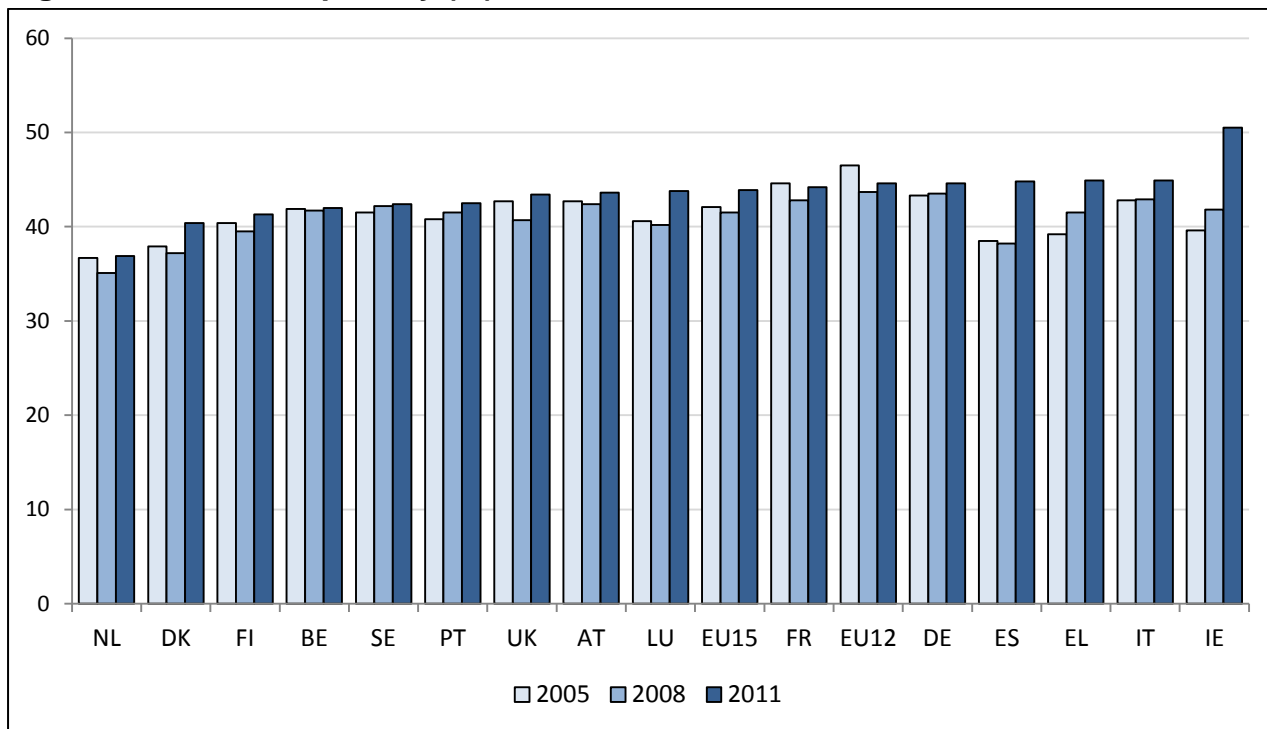
#### 5.4.2 At-risk-of-poverty before and after social transfers from 2005 to 2011

In this section we are interested in trends in social transfers over time, particularly in the context of the economic recession that started in 2008. While the EU-SILC data was collected in some countries since 2004, we use data from 2005 as our starting point because the UK, Germany and the Netherlands only joined the survey in that year. We use data from 2008 as a midpoint, when the impact of the recession had not yet become evident in the incomes, which are measured on a calendar year basis in most countries (so 2008 incomes would refer to the calendar year 2007 for most countries). We also use the most recent year available, 2011.

In Figure 5.3 we present the AROP rate before social transfers across the EU15 at these three points in time. Apart from Ireland in 2011, across all the years the percentage range is quite narrow: from 35 per cent in 2008 in the Netherlands to 45 per cent in Italy in 2011. For the majority of countries, between 2005 and 2008 the AROP rate decreased or stayed stable. In Ireland, while in 2005 the AROP rate before social transfers was among the lowest, it increased slightly in 2008 to reach similar levels to most of the EU15 countries before rising to the highest level in 2011 (51 per cent). The increase after 2008 reflected the impact of the recession on pre-transfer incomes, which was particularly severe in Ireland.

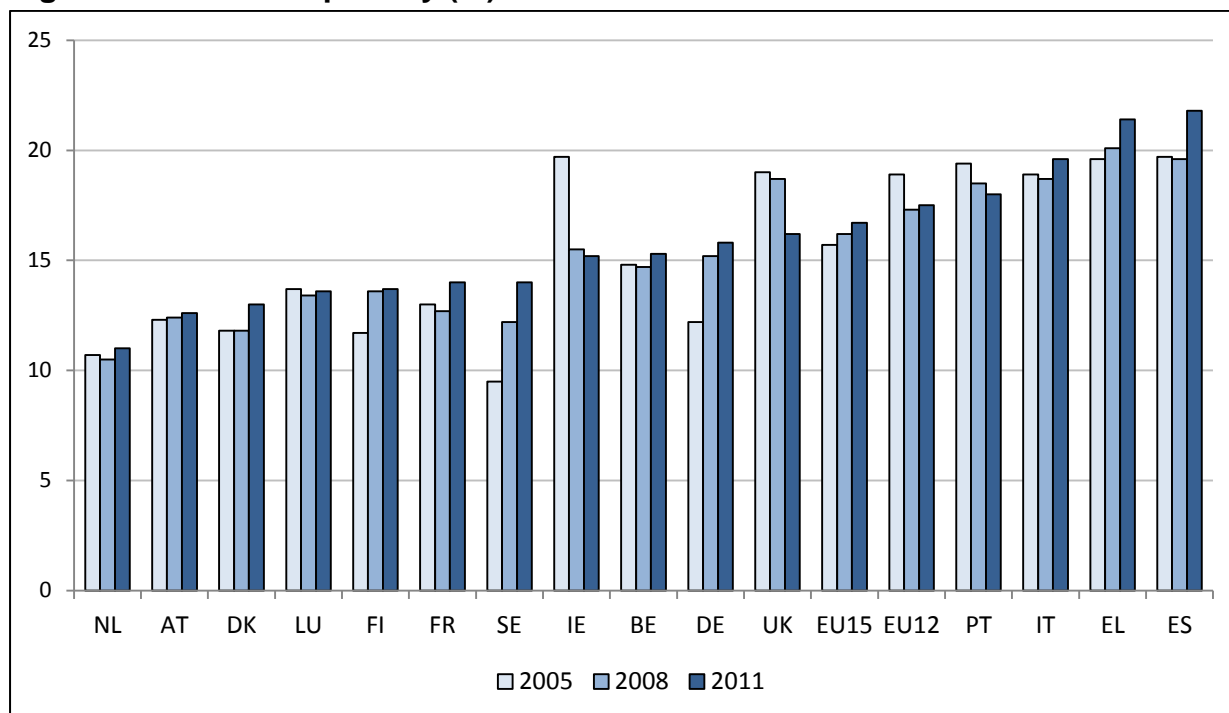
In comparison with 2005, by 2011 the AROP rates had increased in all countries except the Netherlands, Belgium and France. The increase in the AROP rate was particularly strong in Spain and Greece but the increase was greatest in Ireland where the rate rose from 40 per cent in 2005 to 51 per cent in 2011.

**Figure 5.3 At-risk-of-poverty (%) before social transfers in the EU15 over time**



Source: EU-SILC tabular data from Eurostat website, base=persons.  
[http://epp.eurostat.ec.europa.eu/portal/page/portal/income\\_social\\_inclusion\\_living\\_conditions/data/database](http://epp.eurostat.ec.europa.eu/portal/page/portal/income_social_inclusion_living_conditions/data/database) .  
 last updated 11-09-2013).

We now consider the trend over time in the AROP rate after social transfers, as shown in Figure 5.4. Looking first at the rates across time and countries, the percentage range is much wider than for the AROP rate before social transfers: from 10 per cent in Sweden in 2005 to 22 per cent in Spain in 2011.

**Figure 5.4 At-risk-of-poverty (%) after social transfers in the EU15 over time**

Source: EU-SILC tabular data from Eurostat website

[http://epp.eurostat.ec.europa.eu/portal/page/portal/income\\_social\\_inclusion\\_living\\_conditions/data/database](http://epp.eurostat.ec.europa.eu/portal/page/portal/income_social_inclusion_living_conditions/data/database).

In 2005, Ireland, Spain and Greece had the highest AROP rate at roughly 20 per cent while it was 16 per cent in the EU15. For the majority of countries between 2005 and 2008 the AROP rate after social transfers stayed stable. For the same period the AROP rate increased significantly for Finland, Sweden and Germany while it fell dramatically in Ireland, going from 20 per cent to 16 per cent. For most of the countries the rate stayed stable in 2011 in spite of the economic recession. The rate increased only in a few countries such as Spain, Greece, Sweden and France but while for Spain and Greece it exceeded 20 per cent in 2011 for Sweden and France it was only at 14 per cent. In Ireland the AROP rate remained stable at 15 per cent – slightly below the EU15 average of 17 per cent, while the UK experienced a fall from 19 per cent in 2005 - 2008 to 16 per cent in 2011.

### 5.5 Social transfers and life cycle groups (adults and children)

In this section we explore the relationship between social transfers and various stages of the life cycle. This focus comes from the recognition that individuals have different needs at various stages of the life cycle (NESC, 2005). In this section we adopt a restricted view by looking at the level of social protection as measured by the

impact of social transfers on the at-risk-of-poverty rate by broad age group. In Table 5.3 we present the AROP rate before and after social transfers for three different age groups in 2011: children under age 18; adults of working-age (18 to 64) and adults of retirement age (65 and over).

Turning first to the AROP rate before all social transfers for individuals aged less than 18 years, we see quite a large range across countries, from 25 per cent in the Netherlands to a high of 50 per cent in Ireland, with an average of 36 per cent for the EU15. The Scandinavian countries are characterised by having low at-risk-of-poverty rates. The rates are 26 per cent, 30 per cent and 33 per cent in Denmark, Finland and Sweden respectively. The two countries with the highest at-risk-of-poverty rate are Ireland at 50 per cent, followed at some distance by the UK at 43 per cent.

We now focus on the working-age adult population. Overall the AROP rates are lower than for children but the range is also much narrower, from 27 per cent in the Netherlands (the only country to have a rate below 30 per cent) to 43 per cent in Ireland (the only country to have a rate over 40 per cent). Similar to the results for children, the Scandinavian countries are amongst those with the lowest AROP before social transfers. As mentioned earlier, Ireland has the highest AROP at 43 per cent and, while the UK was also quite distinctive in having a high AROP for children, it is no longer the case for the working-age population, with a rate of 32 per cent.



**Table 5.3 At-risk-of-poverty before and after social transfers by age across EU15 countries, EU-SILC 2011**

	AROP before social transfers			AROP after social transfers		
	<18	18 to 64	65+	<18	18 to 64	65+
<b>BE</b>	34.6	31.7	91.2	18.7	12.9	20.2
<b>DK</b>	25.8	31.1	92.9	10.2	13.1	16.0
<b>DE</b>	33.6	31.9	94.1	15.6	16.4	14.2
<b>IE</b>	49.8	43.4	87.8	17.1	15.1	11.0
<b>EL</b>	29.0	37.3	85.3	23.7	20.0	23.6
<b>ES</b>	36.5	36.8	84.6	27.2	20.5	20.8
<b>FR</b>	37.2	35.3	86.3	18.8	13.5	9.7
<b>IT</b>	35.6	34.9	83.8	26.3	18.5	17.0
<b>LU</b>	41.8	35.3	89.1	20.3	13.1	4.7
<b>NL</b>	24.9	27.3	95.1	15.5	10.5	6.5
<b>AT</b>	39.7	32.7	88.7	15.4	11.0	16.0
<b>PT</b>	33.4	33.0	85.0	22.4	16.2	20.0
<b>FI</b>	30.2	30.8	92.3	11.8	12.8	18.9
<b>SE</b>	32.5	30.0	94.4	14.5	12.5	18.2
<b>UK</b>	43.0	31.7	87.3	18.0	14.1	21.8
<b>EU15</b>	36.1	33.5	88.4	19.7	15.9	16.4
<b>EU12</b>	40.7	36.7	85.4	24.0	16.6	13.7

Source: EU-SILC tabular data from Eurostat website. Base=persons.  
[http://epp.eurostat.ec.europa.eu/portal/page/portal/income\\_social\\_inclusion\\_living\\_conditions/data/database](http://epp.eurostat.ec.europa.eu/portal/page/portal/income_social_inclusion_living_conditions/data/database).  
 last updated 11-09-2013). Base=persons.

Turning to the AROP rate for older people, it is no surprise that without any social transfers (since older people are unlikely to have income from work) they are exposed to a very high AROP. This is true across all EU15 countries with an average of 88 per cent. Now, in contrast to the younger cohorts, the Scandinavian countries – together with the Netherlands and Germany – are amongst those with the highest AROP rate for those aged 65+ years, as it reaches 94 per cent in Sweden, 93 per cent in Denmark and 92 per cent in Finland. While for the younger age groups Ireland is quite distinctive in having the highest AROP rate before social transfers, for older adults the rate in Ireland at 88 per cent does not differ to the EU15 average.

In the second part of Table 5.3 we examine the impact of social transfers on the AROP rate *after* social transfers. Starting with children, we see that the Scandinavian countries maintain their positions in having the lowest AROP rate. Of all the EU15 countries, the AROP rate is the lowest in Denmark at 10 per cent, followed by Finland at 12 per cent and Sweden at 15 per cent. While Ireland has the highest child AROP rate before social transfers, it is 17 per cent after social transfers – a level that is lower than the EU15 average at 20 per cent. The highest AROP rates are now found in the Southern European countries with Portugal at 22 per cent, Greece at 24 per cent, Italy at 26 per cent and Spain at 27 per cent. The strongest reduction in the at-risk-of-poverty rate is observed in Ireland, followed by Austria, Finland and Denmark.

Considering the working-age population, the lowest AROP rates after social transfers are found in the Netherlands and Austria at 11 per cent followed by the Scandinavian countries at about 13 per cent. The AROP rate in Ireland is now 15 per cent, representing the strongest reduction across all countries from the AROP rate before social transfers. Again, the highest AROP rates are found in the Southern European countries, reaching 16 per cent in Portugal, 19 per cent in Italy, 20 per cent in Greece and 21 per cent in Spain.

We now look at the at-risk-of-poverty rate for older people. Only three countries have AROP rates after social transfers below 10 per cent: Luxembourg, the Netherlands and France at 5 per cent, 7 per cent and 10 per cent respectively. Ireland follows at 11 per cent with an AROP rate much lower than most of the countries (the EU15 average rate is 16 per cent). Focusing on the size of the reduction in AROP rate, Ireland is the fourth best-performing country for older people.

Across countries Ireland has the highest at-risk-of-poverty before social transfers for children and for the working-age population. The impact of social transfers on the reduction in the at-risk of poverty rate is particularly strong in Ireland. This brings the Irish children at-risk-of-poverty rate to a lower level than the EU15 one, a level similar to the EU15 level for the working-age population, and one of the lowest for older people.

## **5.6 Poverty reduction potential, effectiveness and efficiency of social transfers**

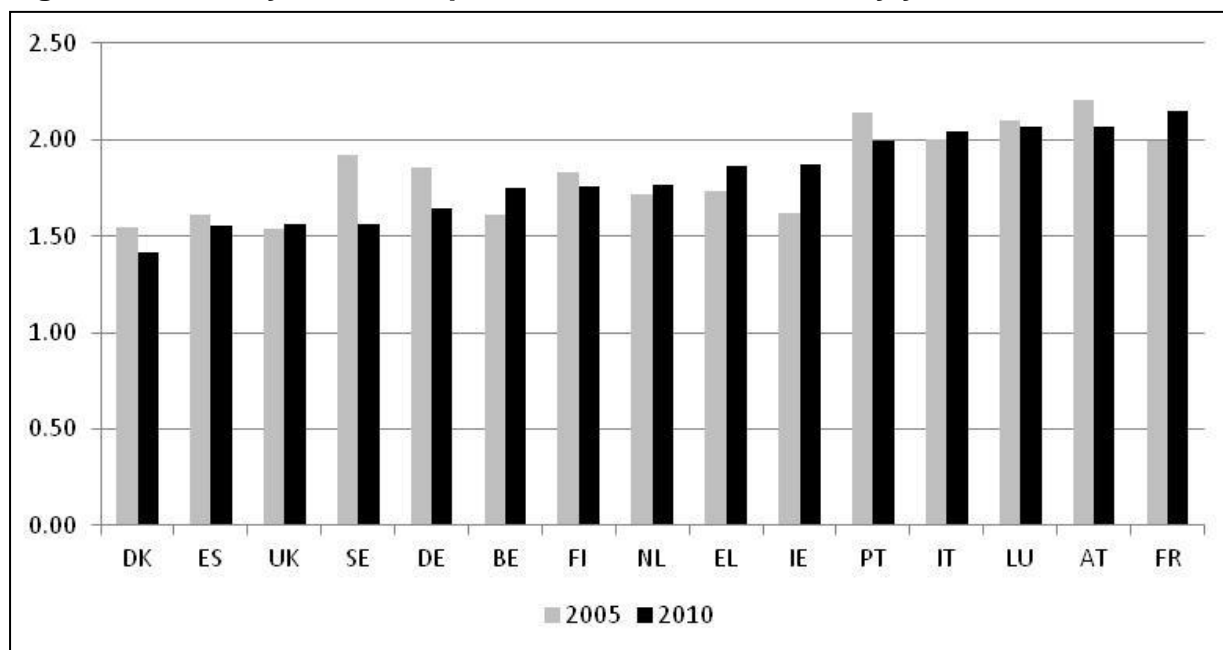
In Chapter 3 we analysed the potential, the effectiveness and the efficiency of social transfers in lifting people out of poverty in Ireland. In this section we conduct a similar analysis for the EU15 countries for 2005 and 2010. How does the effectiveness and efficiency of social transfers in Ireland compare with those in other EU countries in terms of poverty reduction? From what we have seen so far, particularly the marked contrast in poverty before and after social transfers in Ireland, we can anticipate a high 'poverty reduction effectiveness rating' for social transfers in Ireland.

### 5.6.1 Poverty reduction potential of social transfers

We begin by examining the poverty reduction potential of the social transfer system with respect to the poverty gap. This is expressed as a ratio that has a value below 1 if the spending on social transfers to households is lower than the average poverty gap and greater than 1 if the spending is greater than the poverty gap. Figure 5.5 shows the potential ratios for 2005 and 2010. The countries have been sorted by the 2010 ratios.

All the EU15 countries have the potential to bridge the poverty gap and the range of values is quite narrow across countries and across years. The potential ranges from less than 1.5 in Denmark in 2010 to a high of 2.2 in Austria in 2005.

The countries with the greatest potential ratios over both periods are France, Austria, Luxembourg, Italy and Portugal followed then by Ireland and Greece. Denmark is the country with the lowest potential for both periods, although it is comfortably above 1. For the majority of countries their potential ratios fell between 2005 and 2010. Ireland experienced by far the largest increase in its potential ratio (from 1.62 to 1.87), followed by France, Greece and Belgium.

**Figure 5.5 Poverty reduction potential across countries by year, 2005 - 2010**

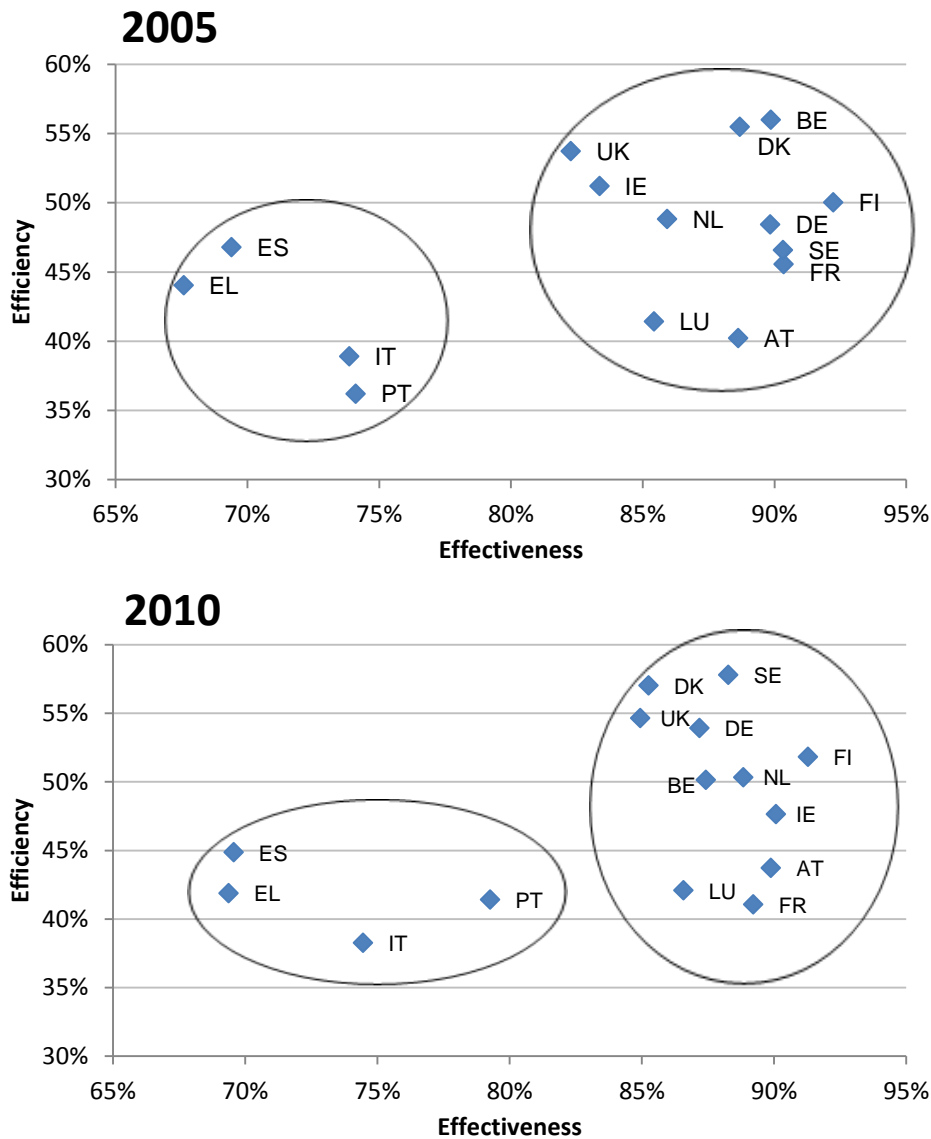
Source: EU-SILC micro-data (to 2010). Unit of analysis = individuals. Social transfers and incomes are equivalised disposable amounts.

### 5.6.2 Poverty reduction effectiveness and efficiency of social transfers

In Chapter 3, section 3.4, we analysed separately the measures of poverty reduction effectiveness and efficiency of social transfers for Ireland. In this section we present both results in a scatter plot, with separate plots for 2005 and 2010, allowing us to explore the relationship between the measures of efficiency and effectiveness across countries as well as the change over time.

In Figure 5.6 we present a scatter plot of the efficiency and effectiveness of social transfers with respect to poverty reduction for the years 2005 and 2010. Both measures are calculated with respect to the poverty gap. The poverty reduction effectiveness of social transfers refers to the percentage reduction in the market income poverty gap when we take account of social transfers. The poverty reduction efficiency of social transfers refers to the percentage of social transfer income that contributes to reducing the poverty gap. Effectiveness is shown on the horizontal axis and efficiency is shown on the vertical axis. We would expect some relationship between effectiveness and efficiency as we can see that there is a weak to moderate tendency for them to be positively associated across countries.

**Figure 5.6 Effectiveness and efficiency of social transfers in alleviating poverty, 2005 and 2010**



Source: EU-SILC micro-data (to 2010). Unit of analysis = individuals. Poverty reduction effectiveness and efficiency (ratios) are calculated for social transfers and incomes expressed in equivalised disposable amounts and with respect to the reduction in the poverty gap.

Looking at the top of the figure for the year 2005 we note first that the countries are dispersed into two groups; the countries with lower effectiveness and efficiency and the countries with a higher level of effectiveness and efficiency. Ireland is located in the middle of the distribution in terms of effectiveness, at a similar level to the UK. At the lower end in terms of effectiveness we find the Southern European countries while the Northern European countries are at the top. Looking now to the level of efficiency, while Ireland was an average performer in terms of effectiveness, it was

among the best performing countries in terms of efficiency, following Belgium, Denmark and the UK.

Turning to the pattern in 2010 we can see that the positions of the countries have changed over time. On the lower left of the chart, the area of low effectiveness and low efficiency, we still see the Southern European countries. While Portugal has improved its performance on both measures, the positions of Greece, Spain and Italy have remained roughly identical to 2005. Looking at the right side of the chart – with higher levels of effectiveness and efficiency – we can see that the majority of countries have improved in terms of effectiveness and the dispersion in terms of effectiveness has narrowed. For most of these countries the improvement has been quite modest, but the improvement was more substantial for Ireland so that it is now second only to Finland in terms of effectiveness.

Finland still combines a high level of performance on both measures while Belgium became less efficient over time. However, these figures show a fall in the level of efficiency for Ireland between 2005 and 2010 so that it is now located in the middle of the distribution in terms of efficiency. This is consistent with the results in Chapter 3, where the household-level analysis showed a drop in efficiency between 2004 and 2011, although the fall was larger in the EU figures. Recall that the individual-level analysis of the Irish SILC data showed a slight increase in efficiency. The differences in results suggest that the patterns differ between larger and smaller households<sup>15</sup>.

Herrmann et al. (2008) argue that there is an almost inevitable relationship between high effectiveness and a high rate of *before* transfer poverty<sup>16</sup>. This does not seem to be the case for 2005 and 2010. Although Ireland is characterised by a very high AROP rate before social transfers and high effectiveness in 2010, and Greece and Spain are characterised by low effectiveness and a low or average before transfer poverty rate, the countries with the highest effectiveness and efficiency do not

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<sup>15</sup> The EU equivalence scale gives a lower 'weight' to larger households and the findings based on the EU data suggest a fall in efficiency, which is a change that is similar in direction to the household-level analysis on Irish SILC data.

<sup>16</sup> Herrmann et al. suggest an alternative method based on whether the poverty rate is 'better than expected' after social transfers, that is, better than we would expect based on the level of spending on social transfers and the poverty rate before social transfers.

necessarily have the highest AROP level before social transfers. In 2005 the highest effectiveness and efficiency was found for a group of countries (Finland – especially for effectiveness, Belgium – particularly for efficiency, Sweden, Germany and France) with a far from uniform AROP rate before social transfers. It was below average in 2005 in Finland, about average in Belgium and Sweden and slightly above average in Germany and France. In 2010, the countries with the highest effectiveness and efficiency were Finland for effectiveness and Sweden for efficiency. The AROP level for these countries in 2010 was slightly below average.

## 5.7 Summary

In this chapter, we evaluated the at-risk-of-poverty (AROP) rate, calculated across households, in an EU context. In 2011, of the EU15, Ireland was the third best performer in terms of the percentage reduction in the AROP level after social transfers: the AROP rate in Ireland was 3.3 times lower after social transfers than the rate before social transfers.

Looking at trends since 2005, we saw that the AROP rates *before* social transfers increased in most countries, but the largest increase was in Ireland (from 40 per cent to 51 per cent). For most of the countries, the AROP rate after social transfers declined between 2005 and 2010, despite the recession (Italy, Greece and Spain – where the rate after social transfers increased – were exceptions). In Ireland the decline in AROP rate after social transfers was largest, but most of the decline happened between 2005 and 2008, before the recession began.

Moving now to focus on life cycle groups, across countries Ireland has the highest at-risk-of-poverty before social transfers for children and for the working-age population. The impact of social transfers on the reduction of the at-risk-of-poverty rate is particularly strong in Ireland. This brings the Irish child at-risk-of-poverty rate to a lower level than the EU15 average, results in a similar rate to the EU15 rate for the working-age population and one of the lowest rates for older people.

We considered the type of social transfers by examining total social transfers and social transfers excluding old age and survivor pensions as a percentage of total

disposable income. In most of the countries, there was little change between 2005 and 2010 in the level of social transfers excluding pensions as a percentage of total income, but the level rose sharply in Ireland as unemployment payments became relatively more important.

As a result of these changes, the effectiveness of social transfers in reducing the AROP rate increased markedly in Ireland between 2005 and 2011.

Finally, we looked at the relationship between effectiveness and efficiency of reducing poverty across countries and time. In 2005, Ireland was an average performer in terms of effectiveness and among the best performers in the EU15 in terms of efficiency. By 2010, poverty reduction effectiveness in Ireland had improved substantially so that it is now second only to Finland in terms of effectiveness. The level of poverty reduction efficiency, however, declined in Ireland between 2005 and 2010 so that it was among middle-performing countries in the EU15.



## Chapter 6: Conclusions

### 6.1 Introduction

In this chapter, we draw together the results to specifically address the research questions outlined at the beginning of the report. We then comment on the implications of the findings for policy. The report focused on the period from 2004 to 2011 in Ireland, a period characterised by economic growth until 2008 and a sharp recession thereafter. The unemployment rate more than tripled after the recession, bringing a sharp reduction in income from work and an increase in social transfer payments related to unemployment. Between 2004 and 2011 there was a 55 per cent rise in the number of beneficiaries of the main weekly social welfare payments and a 60 per cent rise in expenditure on these payments in real terms.

The report has analysed the CSO SILC data for Ireland for the period 2004 to 2011. Key indicators in this report were the level of market and social transfer income in 2011 prices and the poverty reduction effectiveness and efficiency of social transfers.

The scope of the report and the nature of the data did not allow us to examine particular social welfare payment schemes in detail. Instead, we focused on broad categories of social welfare payments, particularly the distinction between means-tested, non-means-tested payments and pensions, and the effectiveness and efficiency of the total social transfer 'package' with respect to poverty reduction for different life cycle groups (children, working-age adults, retirement age adults, people with a disability with some additional analyses by gender and household joblessness). We included some limited analysis of social transfers by type (whether means-tested or not) and by the category of need addressed by the payments. The primary focus was on changes in Ireland over time, but we also included an analysis of the European SILC data in order to assess how the situation in Ireland compares to that of other EU15 countries.

## 6.2 Main trends in social transfer payments

The analysis showed that between 2004 and 2011 market income declined from 80 per cent to 70 per cent of the gross income of the average household while social transfers increased from 20 to 30 per cent. The change was partly a function of changes in the percentage of households receiving income from these sources, and partly a function of changes in the levels of social transfer income and market income received by households. Most of the change was due to the *level* of income from these sources received by households rather than changes in the percentage of households receiving *any* income from these sources. In the case of market income, the percentage of households receiving any income from this source fell from 76 per cent to 71 per cent (a drop of about 7 per cent) while the average amount received by these households fell by an even larger amount from €1,044 per week in 2004 to €939 per week in 2011 (a fall of about 11 per cent).

The percentage of households receiving any income from social transfers was already very high in 2004, at 85 per cent, and increased to 87 per cent by 2011, representing an increase of 2 per cent. However, the average gross amount received by households that received at least some social transfer income rose from €233 per week to €327 per week in the same period in 2011 prices, representing an increase of 40 per cent. The increase in the level of social transfer income was partly a function of the increasing rates until 2009, but the biggest factor was the shift in the composition of social transfers towards an increasing proportion coming from weekly unemployment-related payments. The average payment is higher for unemployment-related payments, for instance, than for Child Benefit.

There was an increase in social transfers from means-tested payments, non-means-tested payments (excluding Child Benefit) and occupational pensions with all three increasing as a proportion of gross income. Means-tested payments increased the most (from 6 to 10 per cent of gross income) and occupational pensions increased the least (from 4 to 6 per cent). Child Benefit remained at about 3 per cent of total gross household income throughout the period. The increase in the relative importance of means-tested payments was mainly driven by the increase in means-tested payments related to unemployment.

Unemployment-related payments increased from 12 per cent of social transfer payments in 2004 to 20 per cent by 2011. In 2004, 16 per cent of households received some income related to unemployment and this increased to 29 per cent by 2011. At the same time, there was an increase in the proportion of unemployment payments that were means-tested (from 5 per cent of all social transfers in 2004 to 12 per cent by 2011, while non-means-tested unemployment payments increased only slightly from 7 to 8 per cent of gross social transfers).

### **6.3 Role of social transfers in alleviating poverty between 2004 and 2011**

#### 6.3.1 Poverty reduction effectiveness of social transfers

One of the striking facts about social transfers and poverty in Ireland is the strong and increasing role played by social transfers in alleviating poverty. The most often-cited measure of the poverty reduction effectiveness of social transfers is the extent to which social transfers raise above the poverty threshold those who otherwise would have incomes below the poverty threshold without social transfers. According to this measure, social transfers accounted for a 53 per cent reduction in the poverty level of households in 2004 but this had risen to 71 per cent by 2011.

Although this measure is frequently cited, it is limited because it focuses solely on whether social transfers move households above the poverty threshold without taking account of the distance from the poverty threshold that needed to be bridged. An alternative measure is one that asks to what extent social transfers bridge the market income poverty gap. In other words, how much of a reduction is there in the aggregate gap between the market incomes of households and the poverty threshold when we take account of social transfers? According to this measure, we still see an improvement between 2004 and 2011, from 84 per cent to 88 per cent, though the increase is less dramatic. The change is more modest because the poverty reduction effectiveness, according to this indicator, was already quite high in 2004.

Why did social transfers play a greater role in alleviating poverty in Ireland in 2011 than in 2004? Social transfers might become more effective at reducing poverty if more households with low market incomes received a social transfer payment; if the

level of social transfer payments going to these households increased; or, even if there were no change in the level or distribution of social transfers, if the poverty threshold fell so that the gap to be bridged was reduced.

We saw that there was no change in the *percentage* of those households that received *any* social transfers that would have been poor before social transfers. This was already very high in 2004, at 97 per cent, and the figure was the same in 2011. However, the *level* of social transfer income increased for households that would have been poor otherwise. There was also a fall in the poverty threshold after 2009. The poverty threshold fell by nearly 12 per cent in real terms between 2009 and 2011. This means that, even if the level of social transfer payments had remained constant, they would have become more effective (according to the measures discussed in this report) at reducing poverty in 2011 than in 2007. However, the change in threshold cannot account for all of the increased effectiveness in poverty reduction between 2004 and 2011 because, when we take account of inflation as well as the falling threshold after 2009, the poverty threshold in 2011 was actually at a very similar level to that in 2004.

In examining why social transfers were effective in bridging the poverty gap for some but not for all, we asked how these two groups differed – those raised above the poverty threshold by social transfers and those remaining poor even after social transfers. The main differences between the two groups were that those escaping poverty after social transfers had higher market incomes, a lower poverty gap, were smaller households, were more likely to receive old age-related social transfers, non-means-tested social transfers and occupational pensions and receive higher average amounts of social transfer income.

### 6.3.2 Poverty reduction potential of social transfers

Another indicator that is useful in understanding the increasing effectiveness of social transfers is the poverty reduction potential of social transfers. This is the ratio of the aggregate amount of social transfers to the aggregate poverty gap. A ratio greater than 1.0 indicates that the amount spent is more than enough to bridge the poverty gap while a ratio less than 1.0 indicates that the amount spent is insufficient.

In essence, the poverty reduction potential indicator asks whether the total amount spent on social transfers is adequate in terms of reducing income poverty. According to this indicator, the poverty reduction potential was already greater than 1.0 in 2004 (1.66) but had increased further to 1.84 in 2011.

### 6.3.3 Poverty reduction efficiency of social transfers

We also examined the efficiency of social transfers with respect to poverty reduction: the extent to which the targeting and levels of transfers are appropriate to the goal of reducing poverty. Poverty reduction efficiency is calculated as the percentage of total social transfer payments that contribute towards a reduction in the aggregate market income poverty gap. There is a slight reduction in the efficiency of social transfers when assessed at the household level (from 50 per cent to 48 per cent) but, as we saw in Chapter 4, a slight increase when assessed at the individual level (from 45 per cent to 48 per cent). This suggests that the efficiency improved over time for larger households. This is consistent with the results in Chapter 4 showing that efficiency tends to be higher for children than for adults, especially by 2011.

Households with children tend to be larger and will get a higher 'weight' when we focus on the individual as the unit of analysis.

While a poverty reduction efficiency of 50 per cent might seem low, it is towards the middle of the range across the EU15. We noted that efficiency here is interpreted narrowly with respect to the goal of poverty reduction. To the extent that social transfers are designed with other goals in mind (such as maintaining work incentives for working-age adults or replacement rates for pensioners), their efficiency interpreted strictly with respect to poverty reduction may be reduced. For this reason, an efficiency rating of 100% should not be seen as desirable or attainable. In practice, it would imply that benefits would be withdrawn at the rate of 100% once household income reached the poverty threshold. This would create some perverse incentives in terms of penalising people as they move from unemployment into work. It is also important to keep in mind that about one fifth of social transfer income in 2011 came from occupational and foreign pensions, which are less amenable to alteration by social policy. Occupational pensions are more common among those whose former occupations were better paid and since the amounts are correlated

with (if not directly tied to) former earnings, they will tend to be less efficient than other types of social transfer.

#### 6.3.4 Summary of reasons for increasing effectiveness of social transfers

The reason that social transfers played a greater role in reducing income poverty between 2004 and 2011, then, was due to the fact that the poverty reduction potential of social transfers increased substantially while the poverty reduction efficiency changed only slightly. There was an increase in the spending on social transfers while the targeting of social transfers towards households that would otherwise have been poor remained at a similar level. Between 2004 and 2009, the increase in spending was due to government budgetary decisions to increase the rates of payment for the main categories of social transfer payment. After 2009, the increase in spending was driven by the impact of the recession on unemployment: expenditure increased because more people were receiving unemployment-related payments, even though the levels of payment either fell (for those under 65) or remained about the same (for those over age 65) in real terms. The recession was also associated with an increase in means-tested payments as those becoming unemployed either used up their entitlement to non-means-tested payments (the insurance-linked Jobseeker's Benefit) or as young adults with no entitlement to insurance-linked payments became unemployed. Another factor, after 2009, was the fall in the poverty threshold by nearly 12 per cent in real terms between 2009 and 2011. This means that, even though the level of most social transfer payments remained unchanged or fell in current prices after 2009, their poverty reduction effectiveness would have received a boost as the threshold fell. This partly counteracted the increasing size of the market income poverty gap after 2009 as market incomes continued to fall.

#### 6.3.5 Social transfers, deprivation and consistent poverty

As well as examining the link between social transfers and income poverty, we asked to what extent households receiving social transfers were below the national basic deprivation threshold. Households experiencing basic deprivation received a larger proportion of their income from social transfers than non-deprived households (50 per cent vs. 25 per cent in 2011) and were more likely to receive income from

means-tested social transfers. We saw that households in consistent poverty (that is, both at-risk-of-poverty and experiencing basic deprivation) were very dependent on social transfer income (82 per cent of their gross income in 2011) and especially on means-tested social transfers (53 per cent). For deprived and consistently poor households, the dependence on means-tested social welfare payments had increased over time. Means-tested payments accounted for 46 per cent of the incomes of consistently poor households in 2004, rising to 53 per cent by 2011.

#### **6.4 Social transfers alleviating poverty by life cycle group**

In Chapter 4 we examined the impact of social transfers on poverty for different life cycle groups (children, working-age adults, retirement age adults, people with a disability) and by gender and work intensity. For the purpose of this analysis, we took the individual as the basic unit rather than the household since gender, age and presence of a disability are individual characteristics. Household income and poverty status are attributed to all individuals in the household. Our question concerned whether social transfers were more effective and efficient at alleviating poverty for some life cycle groups than for others.

##### 6.4.1 Receipt of social transfer income among life cycle groups

We began by examining the percentage of income from social transfers and noted that this increased for all groups between 2004 and 2011. The groups most dependent on social transfers were people living in jobless households and those of retirement age, with 85 per cent and 77 per cent, respectively, of their household incomes coming from social transfers in 2011. These two groups differed in terms of the type of social transfer payment they received, however. In 2011, retired adults were in households that received a higher proportion of income from non-means-tested payments (39 per cent vs. 28 per cent for people in jobless households) or from occupational pensions (25 per cent vs. 4 per cent for those in jobless households). People in jobless households, on the other hand, were much more dependent on means-tested payments. In 2011, these accounted for 54 per cent of the total gross household income of those in jobless households compared to only 13 per cent in the case of retired adults.

#### 6.4.2 Poverty reduction potential of social transfers and life cycle groups

We examined changes over time in the poverty reduction potential, effectiveness and efficiency of social transfers for these life cycle groups. The poverty reduction potential of social transfers refers to the adequacy of the aggregate amount of social transfers expressed as a ratio to the aggregate market income poverty gap.

When we examine the level of social transfers relative to the size of the pre-transfer poverty gap (i.e. the poverty reduction potential of social transfers), we find that this had increased slightly in real terms between 2004 and 2011, with the largest increases for those of retirement age or living in jobless households. The overall poverty reduction potential measured across individuals increased in the period (1.83 in 2011 vs. 1.77 in 2004). In 2011, the poverty reduction potential of social transfers was lowest for jobless households at 1.08 and highest for adults of retirement age at 1.98. The potential was greater than 1.0 for all of the life cycle groups examined here. The biggest increase since 2004 was for adults of retirement age (from 1.51 to 1.98, or 31 per cent increase) followed by people in jobless households (from 0.86 to 1.08 or 25 per cent increase). People in jobless households were the only group in 2004 for whom the potential of social transfers to reduce poverty was less than 1.0.

#### 6.4.3 Poverty reduction effectiveness of social transfers and life cycle groups

We examined the effectiveness of social transfers in reducing the poverty gap for the different life cycle groups. The poverty reduction effectiveness in 2011 was above 80 per cent for all the life cycle groups examined here, ranging from 84 per cent for adults of working-age to 92 per cent for adults with a disability. Apart from those of retirement age, there was an improvement (of about 10 per cent) between 2004 and 2011 in the poverty reduction effectiveness of social transfers. There was no change for those of retirement age, but the poverty reduction effectiveness was already very high for this group in 2004 (95 per cent). The biggest improvement in poverty reduction effectiveness, as measured here, was for children (20 per cent improvement). In 2011, the poverty reduction effectiveness for children and working-age adults lagged behind that of adults of retirement age.



#### 6.4.4 Poverty reduction efficiency of social transfers and life cycle groups

The poverty reduction efficiency of social transfers refers to the extent to which the spend on social transfers meets the goal of poverty reduction. We noted that policy may have more than one goal, and that any deficit in efficiency with respect to poverty reduction may be an inevitable consequence of designing policies to meet other goals such as enhancing labour market participation, developing skills or meeting the needs of children. The indicator of efficiency is concerned with the amount of social transfer income as well as the groups to whom it is directed. It measures the extent to which the social transfers received by a group contribute to the reduction in that group's market income poverty gap. Using this indicator, the poverty reduction efficiency was 48 per cent in 2011 and had improved slightly since 2004 (from 45 per cent). In 2011, the poverty reduction efficiency of social transfers was highest by a considerable margin for people in jobless households (80 per cent), followed by those limited by a disability (54 per cent) and children (also 54 per cent).

#### 6.4.5 Summary findings on social transfers and life cycle groups

To answer the research question, then, there are indeed variations in the poverty reduction effectiveness and efficiency of social transfers across life cycle groups. In 2011, social transfers were most effective in lifting adults of retirement age out of poverty and least effective in the case of jobless households, although the effectiveness with respect to the latter group had shown the most improvement since 2004. Poverty reduction efficiency, on the other hand, was highest for those in jobless households.

While these patterns might seem to suggest that there is a trade-off between poverty reduction effectiveness and poverty reduction efficiency, this need not be the case. Indeed, the analysis in Chapter 5 showed that, when we examined effectiveness and efficiency across countries, the two tend to be positively correlated. At the EU level, those countries with higher levels of poverty reduction effectiveness also tend to have higher poverty reduction efficiency.

## 6.5 Social transfers in Ireland compared to other EU countries

We drew on data from EU-SILC to examine the poverty reduction effectiveness and efficiency of social transfers in Ireland and in a European context. The measurement of income and the adjustment for household size and composition differ slightly between the EU approach and the Irish approach. For the purpose of comparing Ireland to other EU countries, we adopt the EU measure of ‘at-risk-of-poverty’ (AROP).

The percentage of equivalised household income coming from social transfers was low in Ireland in 2005 (28 per cent) – well below the EU15 average of 35 per cent. The Irish figure increased substantially after the start of the recession, reaching almost 40 per cent by 2010 (compared to an EU15 average of 36 per cent).

We considered the type of social transfers by examining total social transfers and social transfers excluding old age and survivor pensions as a percentage of total disposable income. In most of the countries, there was little change between 2005 and 2010 in the level of social transfers excluding pensions as a percentage of total income, but the level rose sharply in Ireland as unemployment payments became relatively more important (from 13 to 20 per cent).

In 2011, Ireland had the highest at-risk-of-poverty (AROP) rate before social transfers across the EU15 countries. The rate in Ireland was 51 per cent compared to 44 per cent, on average, for the EU15. Social transfers in Ireland performed well in reducing the poverty rate, however, and the AROP rate after social transfers (15 per cent) was below the EU15 average (17 per cent). This represented a reduction in the pre-transfer poverty rate of 70 per cent, which was third highest reduction in the EU15.

Looking at trends since 2005, we saw that the AROP rates before social transfers increased in most countries, but the largest increase was in Ireland (from 40 per cent to 51 per cent). Considering the AROP rate after social transfers, in 2005, Ireland, Spain and Greece had the highest AROP rate at 20 per cent. For most of the countries, the AROP rate after social transfers declined between 2005 and 2010,

despite the recession (Italy, Greece and Spain – where the rate after social transfers increased – were exceptions). In Ireland the decline in AROP rate after social transfers was largest, but most of the decline happened between 2005 and 2008, before the recession began.

We examined the poverty reduction potential, effectiveness and efficiency of social transfers assessed in terms of reduction in the poverty gap. All of the countries had a poverty reduction potential above one in both periods. While the potential ratios fell or remained stable in most countries between 2005 and 2010, Ireland had the biggest increase in poverty reduction potential (from 1.62 to 1.87, measured on the basis of equivalised incomes).

In 2005, Ireland was located in the middle of the EU15 range in terms of poverty reduction effectiveness but towards the top of the distribution in terms of poverty reduction efficiency. By 2010, the majority of countries had improved in terms of effectiveness. While the improvement was modest in most of these, the improvement in poverty reduction effectiveness was greater for Ireland so that in 2010 it was second only to Finland. Over time there was a fall in the level of poverty reduction efficiency for Ireland so that by 2010 it was now located in the middle of the EU15 distribution.

In summary, then, the crucial distinguishing features of social transfers in Ireland (particularly when we exclude pensions) compared to other European countries is their increase from a relatively low base in 2005 to a relatively high proportion of total income by 2011. This was partly due to the fall in market income as a result of the recession, which hit Ireland particularly badly, but (as we saw in previous chapters) there was also a real increase in the levels of social transfer payment up to 2009. As a consequence, by 2011 the poverty reduction effectiveness of social transfers was amongst the highest in the EU15, moving up from a position in the middle of the range in 2005. At the same time, the poverty reduction efficiency of social transfers was at about the average across the EU15, although it had dropped somewhat compared to 2005.

## **6.6 Policy implications**

### 6.6.1 Overall poverty reduction effectiveness and efficiency

The overall picture emerging from the analysis here is that the level of poverty reduction effectiveness of social transfers in Ireland when assessed with respect to the poverty gap is quite high. Looking at poverty reduction effectiveness in European terms, the scope for overall improvement may well be limited, although the effectiveness lags behind for certain groups such as children when compared to people of retirement age.

More improvement may be possible in terms of poverty reduction efficiency, but this needs to be weighed against other policy goals. This is clearest with respect to means-tested payments. Because of payment withdrawal as income from other sources increases, these payments have a high level of poverty reduction efficiency. However, means-tested payments may have other problems related to their impact on work incentives. This issue is particularly important given the relatively high rate of household joblessness in Ireland, even before the recession. The fact that Ireland had a high rate of household joblessness even while unemployment was low suggests that it is not enough to consider the disincentive to work that may be created for an individual when his or her own social welfare entitlements are reduced but also the disincentives that may be created for other household members where their means are considered jointly in determining the level of payment. While a tapered withdrawal of social welfare entitlements may reduce the poverty reduction efficiency of social transfers, this is an instance where the overall benefits of encouraging work might well be given greater weight than maximising a narrow understanding of efficiency.

### 6.6.2 Policy implications for children

A central policy concern is with child poverty and a new target is being developed to ensure that child poverty is given priority when monitoring poverty levels. We know from other research that child poverty in Ireland is higher than adult poverty (Watson, Maître and Whelan, 2012). We also know that childhood poverty is a threat to the future well-being; health and productivity of the population (see review by Brooks-Gunn and Duncan, 1997). Given the fiscal pressures arising from the recession,

what does the current analysis have to add to this debate? Although we did not consider individual social welfare payments in this report, we did examine the effectiveness and efficiency of all social transfer payments going to households with children.

It is worth noting that child-related payments (mainly Child Benefit, but also Maternity, Adoptive and Guardian's benefits) accounted for only about one third of the social transfer income going to children's households in 2011. The bulk of social transfer payments going to households with children are associated with schemes addressing other categories of need such as unemployment, lone parenthood and disability. Child Benefit amounts were reduced after 2009. However, this was partly counteracted for welfare dependent households by the increase up until 2009 in most social welfare rates and the fact that the fall after 2009 in the rates of payments going to working-age households was smaller than the fall in the poverty threshold (see Appendix Table A3.1). In addition, the increase in social welfare for a dependent child between 2009 and 2011 helped counter the effects of falling Child Benefit rates for welfare dependent households. The net effect was that the effectiveness of social transfers in reducing the income poverty gap for children increased over the 2004 - 2011 period (from 72 per cent in 2004 to 87 per cent in 2011 – a 20 per cent increase in effectiveness).

Another relevant indicator in understanding how policy is reducing poverty among households with children is the potential of social transfers to bridge the poverty gap. This refers to the average size of the social transfer payments to a group relative to the average poverty gap of that group. A potential ratio of 1 indicates that the average amount is equivalent to the gap, in the aggregate. The level of all social transfer payments going to children's households is larger than the poverty gap (1.61) but it is lower than the ratio for working-age adults (1.80) and for retirement age adults (1.98). This suggests that the total spend on social transfers going to households with children is not excessive when compared to the total spend going towards other age groups.

The extent to which this potential translates into actual poverty reduction depends as well on the poverty reduction efficiency of the social transfers: is the level of payment appropriate given the size of the poverty gap? The poverty reduction efficiency of social transfer payments to the households of children is higher (54 per cent) than for working-age adults (44 per cent) or retired adults (48 per cent).

These findings do not suggest that payments to the households of children taken in the aggregate are an obvious target for efficiencies in the system. While the poverty reduction effectiveness of social transfers is about average for households with children, it continues to lag behind that of households containing people of retirement age. This fact, together with the negative long-term consequences of child poverty, points to the importance of the national social target for poverty reduction continuing to emphasise child poverty alleviation.

### 6.6.3 Policy implications for jobless households

The poverty reduction potential of social transfer payments to individuals in jobless households – the average level of payment relative to the average level of the poverty gap for this group – increased between 2004 and 2011. Jobless households were the one group that came from a position in 2004 of receiving too little social transfer income, on average, to bridge the poverty gap (potential was 0.86) to receiving just about enough in 2011 (potential was 1.08).

Of course, the potential of the social transfers is only part of the story. The other issue is the poverty reduction efficiency of the system: the extent that the level of social transfers is appropriate to the size of the poverty gap. Social transfers received by jobless households are considerably above average in terms of poverty reduction efficiency (80 per cent in 2011 compared to 48 per cent on average). The high efficiency, combined with the modest potential, means that social transfer payments to this group were about average in terms of effectiveness (as measured with respect to the poverty gap) in 2011 (87 per cent), having shown a considerable improvement in this respect since 2004 (76 per cent). This finding cautions against assuming that social welfare payments to jobless households are being 'too generous'. When assessed with respect to the goal of poverty reduction, the social

transfer payments received by individuals in jobless households are no more adequate than the level of payments received by other groups, but have a higher level of poverty reduction efficiency. Neither is it the case that those whose poverty is alleviated by social transfers achieve a high standard of living. In 2010, over half of those living in jobless households experienced basic deprivation (Watson, Maître and Whelan, 2012, Figure 4.6, p. 51).

Given that one third of those in jobless households are children (Watson, Maître and Whelan, 2012), an over-reliance on activation strategies that do not protect individuals in jobless households from poverty would be misplaced and would interfere with the capacity to meet the goal of reducing poverty among children.

Dealing with joblessness requires, first of all, an emphasis on jobs growth. Once there is a demand for labour, labour market activation strategies can begin to bear fruit in terms of moving people from a dependence on social transfers to earning a market income. As noted by Watson, Maître and Whelan (2012) the high level of joblessness in Ireland requires a renewed emphasis on labour market activation as we move out of recession, especially for those to whom training and support services were not traditionally offered, such as lone parents and people with a disability. In other words, activation needs to include all of those of working-age that are able to work, not just the unemployed. In addition, as noted above, we need to consider the impact of one individual beginning to earn market income on the benefit entitlement of others in the same tax/benefit unit. In other words, a 'whole household' perspective is needed rather than a purely individual focus.

## Appendix Tables

Appendix Table A2.1 Average amount of social transfer income per week by level of market income, showing broad types of pre-transfer income

2004 – Market income deciles	Non-means-tested (excl. Child Benefit)	Means-tested	Child Benefit	Occupational etc. pensions
<b>Bottom 3</b>	€116	€124	€13	€64
<b>4th</b>	€84	€79	€25	€42
<b>5th</b>	€80	€46	€32	€30
<b>6th</b>	€62	€28	€34	€23
<b>7th</b>	€63	€20	€37	€24
<b>8th</b>	€47	€16	€37	€13
<b>9th</b>	€37	€12	€38	€22
<b>Top</b>	€41	€10	€35	€22
<b>2007– Market income deciles</b>				
<b>Bottom 3</b>	€142	€131	€19	€63
<b>4th</b>	€101	€150	€34	€56
<b>5th</b>	€84	€67	€38	€30
<b>6th</b>	€72	€32	€48	€24
<b>7th</b>	€52	€29	€46	€26
<b>8th</b>	€59	€18	€44	€27
<b>9th</b>	€46	€13	€39	€34
<b>Top</b>	€32	€10	€49	€39
<b>2011 – Market income deciles</b>				
<b>Bottom 3</b>	€155	€162	€15	€68
<b>4th</b>	€155	€154	€21	€94
<b>5th</b>	€115	€140	€31	€44
<b>6th</b>	€101	€96	€33	€44
<b>7th</b>	€101	€48	€27	€37
<b>8th</b>	€62	€24	€28	€49
<b>9th</b>	€51	€20	€32	€25
<b>Top</b>	€54	€9	€36	€35

Source: SILC 2004, 2007 and 2011. Base = all households, household level, household weight. Amounts are rounded to the nearest whole number and are shown as a weekly amount in 2011 prices.



**Appendix Table A3.1 Poverty threshold, adult rate of payment for Jobseeker Allowance and State Pension (contributory), from 2004 - 2011 (amount per week, 2011 prices, and as a percentage of poverty threshold)**

	Rate for single adult			Rate as % of poverty threshold	
	Jobseeker Allowance	State Pension (contrib.)	Poverty Threshold	Jobseeker Allowance	State Pension (contrib.)
2004	€151.92	€188.54	€209.07	73%	90%
2005	€163.80	€197.37	€212.16	77%	93%
2006	€175.51	€204.62	€214.35	82%	95%
2007	€187.50	€211.21	€229.95	82%	92%
2008	€192.01	€216.76	€231.70	83%	94%
2009	€207.43	€233.83	€234.74	88%	100%
2010	€201.06	€236.24	€219.29	92%	108%
2011	€188.00	€230.30	€208.68	90%	110%

Figures from Department of Social Welfare booklets for each year and Consumer Price Index from CSO. Figures are in 2011 prices and represent the rate for a single adult.

**Appendix Table A3.2 Poverty reduction effectiveness of social transfers: percentage reduction in poverty gap, 2004 - 2011, defined with respect to threshold anchored in 2004**

	2004	2007	2011
D. Market income poverty gap (average)	€120	€116	€155
E. Poverty gap after social transfers (average)	€19	€11	€19
F. % reduction in poverty gap: (D-E) / D	84%	90%	88%

Source: SILC 2004, 2007 and 2011, analysis by authors. Base = households. Figures have been rounded to the nearest whole number. Poverty gap in this table refers to the gap between disposable household income and the poverty threshold anchored in 2004.

**Appendix Table A3.3 Efficiency of State social transfers in reducing the private income poverty gap**

	2004	2007	2011
Average State social transfers (€ in 2011 prices)	€162	€194	€233
Aggregate reduction in private income poverty gap (€ in 2011 prices)	€85	€99	€116
Per cent of social transfers contributing to aggregate reduction in private income poverty gap	52%	51%	50%

Source: SILC 2004, 2007 and 2011, analysis by authors. Base = households. State social transfers include State means-tested and non means-tested payments but do not include occupational and foreign pensions. The Private Income poverty gap is the gap between the poverty threshold and market income plus occupational and foreign pensions.

**Appendix Table A4.1: Sizes of the different life cycle groups (percentage of individuals in each group).**

		2004	2007	2011
<b>Gender</b>	<b>Male</b>	50%	50%	49%
	<b>Female</b>	50%	50%	51%
<b>Age group</b>	<b>Children (under 18)</b>	27%	27%	27%
	<b>Working-age (18-64)</b>	62%	62%	61%
	<b>Retirement age (65+)</b>	11%	11%	12%
<b>Disability</b>	<b>Limited activity</b>	15%	15%	13%
<b>Work intensity</b>	<b>Very low (jobless)</b>	13%	15%	24%

Source: SILC 2004, 2007 and 2011, analysis by authors. Base = individuals.

**Appendix Table A4.2 Efficiency of State social transfers: percentage reduction in private income poverty gap due to State social transfers**

		2004	2007	2011	change
<b>Gender</b>	<b>Male</b>	43%	46%	48%	12%
	<b>Female</b>	50%	49%	51%	3%
<b>Age group</b>	<b>Children (under 18)</b>	48%	49%	54%	12%
	<b>Working-age (18-64)</b>	40%	44%	47%	19%
	<b>Retirement age (65+)</b>	65%	60%	49%	-24%
<b>Disability</b>	<b>Limited activity</b>	63%	62%	55%	-12%
<b>Work intensity</b>	<b>Very low</b>	89%	88%	81%	-9%
<b>Total</b>		46%	48%	50%	7%

Source: SILC 2004, 2007 and 2011, analysis by authors. Base = all persons. State social transfers include State means-tested and non means-tested payments but do not include occupational and foreign pensions. The Private Income poverty gap is the gap between the poverty threshold and market income plus occupational and foreign pensions.

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## Glossary

**At-risk-of-poverty thresholds:** Income thresholds derived as proportions of median income. These are based on household income adjusted for household size and composition (referred to as equivalised income). A household at-risk-of-poverty has an adjusted (or equivalised) income below 60% of the median adjusted household income. The at-risk-of-poverty rate takes account of household income from all sources, number of adults and number of children in the household. There are some minor differences in the income concept and the equivalence scale between the Irish and EU measures of at-risk-of-poverty.

**At-risk-of-poverty:** A term used at EU level to denote whether a household's income falls below 60% of the median income threshold.

**At risk of poverty or exclusion:** This EU measure combines the number of people who are 'at risk of poverty or exclusion' or who experience at-risk-of-poverty, severe material deprivation, defined as a lack of certain items (referred to as indicators), or low work intensity. This measure is the basis for the Europe 2020 poverty target. In cases where people experience more than one of these indicators, they are counted only once. The Irish version of this measure is the combination of at-risk-of-poverty and basic deprivation.

**At-risk-of-poverty anchored in time:** The proportion of people with an equivalised disposable income below the at-risk-of-poverty threshold calculated in survey year N, adjusted by inflation over subsequent years. It essentially measures the percentage of the population falling below an at-risk-of-poverty threshold of an earlier year, after accounting for the effects of inflation. This indicator is also referred to as an absolute measure of poverty, which reflects changes in fixed living circumstances, as distinct from changes in relative living standards.

**Basic deprivation:** People who are denied – through lack of income – at least **2 items from a list of 11 indicators** are regarded as experiencing deprivation. This is enforced deprivation as distinct from the personal choice not to have the items. The following 11 basic items are used to construct the deprivation index:

- unable to afford two pairs of strong shoes;
- unable to afford a warm, waterproof overcoat;
- unable to afford new (not second-hand) clothes;
- unable to afford a meal with meat, chicken or fish (vegetarian equivalent) every second day;
- unable to afford a roast joint or its equivalent once a week;
- without heating at some stage in the last year through lack of money;
- unable to afford to keep the home adequately warm;
- unable to afford to buy presents for family or friends at least once a year;
- unable to afford to replace any worn-out furniture;
- unable to afford to have family or friends for a drink or meal once a month;
- unable to afford a morning, afternoon or evening out in the last fortnight for entertainment.

The indicator **of basic deprivation** was developed by the Economic and Social Research Institute using data from the *Survey on Income and Living Conditions*. See Maître B., Nolan B. and Whelan C. (2006) *Reconfiguring the Measurement of Deprivation and Consistent Poverty in Ireland*, Dublin: ESRI, for further information on the indicator.

**Consistent poverty:** This is a measure of poverty used in the *National Action Plan for Social Inclusion 2007-2016* that takes account of the household's living standards as well as the household size, composition and total income. A household is consistently poor if the household income is below the at-risk-of-poverty threshold (see above) and the household members are deprived of **at least 2 out of the 11 items** on the basic deprivation list.

**Deprivation:** See definition for basic deprivation above.

**Equivalence scales:** A set of relativities between the needs of households of differing size and composition, used to adjust household income to take into account the greater needs of larger households. In Ireland the national scale attributes a weight of one to the first adult (aged 14+) and 0.66 to each subsequent adult and a weight of 0.33 to each child. International comparisons such as that done by Eurostat uses the modified OECD scale which attributes a weight of one to the first adult (aged 14+) and 0.5 to each subsequent adult and a weight of 0.3 to each child.

**Equivalised income:** This refers to household income from all sources adjusted for differences in household size and composition (number of adults and children). It is calculated by dividing total disposable (i.e. after tax) household income by the equivalence scale value. It can be interpreted as income per adult-equivalent.

**EU-SILC:** *European Union Statistics on Income and Living Conditions*; this is a voluntary household survey carried out annually in a number of EU Member States allowing comparable statistics on income and living conditions to be compiled. In Ireland, the Central Statistics Office (CSO) has conducted the survey since 2003. The results are reported in the Survey on Income and Living Conditions (SILC). Any data as compiled by Eurostat and any reference to the questions or questionnaire in the household survey is here referred to as 'EU-SILC'.

**EU12:** This refers to the Member States that joined the EU since May 2004: Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.

**EU15:** Member States of the EU prior to the accession of 10 new Member States on 1 May 2004, i.e. Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom.

**EU25:** Member States of the EU after the accession of 10 new Member States on 1 May 2004, i.e. EU15 plus Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

**EU27:** Member States of the EU since 1 January 2007, i.e. EU-25 plus Bulgaria and Romania.

**Household:** a household is usually defined for statistical purposes as either a person living alone or a group of people (not necessarily related) living at the same address with common housekeeping arrangements – that is, sharing at least one meal a day or sharing a living room or sitting room.

**Household equivalised income:** See 'Equivalised income', above.

**Lone parent:** a parent who has primary custody of a dependent child and is not living with the other parent.

**Low work intensity:** this measure of poverty is used in defining the 'at risk of poverty or exclusion' indicator for the EU poverty target. It is the proportion of people aged 0 to 59 living in households characterised by '**very low work intensity**'; that is, in households in which working-age adults (aged 18 to 59) have worked less than 20 per cent of their total work-time potential during the previous 12 months. The work intensity of the household refers to the ratio between the number of months that all working-age household members worked during the income reference year and the total number of months that could theoretically have been worked by the same household members. A working-age person is defined as a person aged 18 to 59, not being a student aged between 18 and 24.

**Market income:** Market income is cash and non-cash income from work (whether as an employee or self-employed), savings, investments and property. Note that we do not include employer social insurance contributions in market income in this report.

**Market income poverty gap:** This is the gap between disposable household income from market sources and the poverty threshold for a household of that size and composition. It is calculated as the poverty threshold minus the market income of the household minus taxes and social insurance contributions.



**Mean:** the average value (e.g. the average income in a sample obtained via household survey).

**Median:** the value that divides a sample in half (e.g. the income level above and below which half the people in a sample fall).

**Poverty gap:** the shortfall in incomes for those who fall below the at-risk-of-poverty threshold.

**Poverty and social exclusion:** these terms are defined broadly in the *National Action Plan for Social Inclusion 2007-2016* as follows:

‘People are living in poverty if their income and resources (material, cultural and social) are so inadequate as to preclude them from having a standard of living which is regarded as acceptable by Irish society generally. As a result of inadequate income and resources people may be excluded and marginalised from participating in activities which are considered the norm for other people in society.’

The two concepts are very similar when used in Irish policymaking but poverty is sometimes used in the narrower context to refer to low income (or wealth). On the other hand, social exclusion is almost always used in the broader sense, to refer to the inability to participate in society because of a lack of resources that are normally available to the general population.

**Poverty reduction effectiveness:** The poverty reduction effectiveness of social spending refers to the extent to which it achieves the desired goal of reducing poverty. This can be assessed in terms of reducing the poverty rate or in terms of reducing the poverty gap (that is, the gap between household disposable income before social transfers and the poverty threshold).

**Poverty reduction efficiency:** The poverty reduction efficiency of social spending refers to the extent to which the spending is targeted specifically towards poverty reduction, both in terms of the amount spent and whether the groups receiving social transfers would have been poor otherwise. Note that this is a specific and narrow definition of efficiency that focuses only on poverty reduction and does not take account of other potential goals of social policy such as enhancing participation in work or in social life.

**Poverty reduction potential:** refers to the extent to which the total amount spent on social transfers is sufficient to bridge the gap between household disposable income before social transfers and the poverty threshold across all households (Longford and Nicodemo, 2010).

**SILC:** Survey on Income and Living Conditions. In Ireland, the Central Statistics Office (CSO) is responsible for carrying out the EU-SILC survey. They produce analysis in accordance with Irish national poverty targets, indicators and related issues. These results are reported in the Survey on Income and Living Conditions (SILC). Any data or analysis that is sourced specifically from the CSO is here referred to as ‘SILC’.

**Social transfers:** Social transfers are income from non-market sources. This includes State means-tested allowances, State non-means-tested benefits (such as Child Benefit and payments based on prior social insurance benefits), occupational pensions, foreign pensions and other non-market transfers (such as from other households or from charities).

**VLWI (very low work intensity)** is the EU measure of joblessness at the household level. It consists in the adult members of the household working for less than 20 per cent of the potential working time in the reference year. (See also ‘Low work intensity’ and ‘Work intensity’).

**Vulnerable to consistent poverty:** This is a group who experience the same level of basic deprivation as the consistently poor (lack 2 or more of the 11 basic items), but who have a slightly higher household income: their incomes (after adjusting for size and composition) are above the 60% income poverty threshold but below the 70% income poverty threshold.

**Working-age adults:** Two age ranges for working-age adults are used in this report. The work intensity indicator, which is an EU measure of joblessness, focuses on the proportion of potential working time spent on employment by persons aged 0 to 59 years only (excluding students of 18 to 24 years) and does not include older persons. However, the main focus of this report is on working-age adults, who are defined as aged 18-64. This definition is used, for example, when calculating household income, when the incomes of those over age 60 are also included, or when referring to concepts such as the poverty gap.

**Work intensity:** This is an indicator of the amount of available work time the working-age adults in a household actually spend at work. It is calculated as the proportion of person-months over the reference year that working-age adults (18 to 59) actually spend in employment. An adjustment is made to the calculation for those who work part-time. Work intensity is often presented in five categories:

- Very low work intensity = less than 20 per cent;
- Low work intensity = 20 per cent to less than 45 per cent;
- Medium work intensity = 45 per cent to 55 per cent;
- High work intensity = over 55 per cent to 85 per cent;
- Very high work intensity= over 85 per cent to 100 per cent.



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