

Consultation paper on

Review of national poverty target

prepared by Social Inclusion Division
Department of Social Protection

1. Introduction

This is a consultation paper on the review of the national poverty target. The Government is undertaking the review to enable it to adopt appropriate and achievable national poverty targets to meet Ireland's contribution to the *Europe 2020 Strategy* and the commitments in the programme for government (*Government for National Recovery 2011-2016*). The review is prompted by two developments. First, the challenging economic and fiscal context, which has led to a trebling of unemployment, reduced wages, higher income taxes and lower working age welfare payments and child benefit. Second, the EU member states have agreed a European poverty target as part of the *Europe 2020 Strategy*, which is to lift at least 20 million people out of the risk of poverty and exclusion by 2020. In support of this target, each member state is obliged to set a national poverty target which will contribute to meeting the European target.

The national poverty target as set out in the *National Action Plan for Social Inclusion 2007-2016* is to reduce the rate of consistent poverty to between 2-4 per cent by 2012 and to eliminate it by 2016, from a baseline rate of 7 per cent in 2005. Based on this target, Ireland's contribution to the European target is to lift at least 186,000 people out of consistent poverty by 2016.¹

The proposal for a review of the national poverty target is set out in *Ireland's National Reform Programme for the Europe 2020 Strategy* (2011) – see the *Europe 2020* website (http://ec.europa.eu/europe2020/pdf/nrp/nrp_ireland_en.pdf). Based on this proposal, the following are the terms of reference for the review of the national poverty target:

- Take account of progress made towards the interim target in the *National Action Plan for Social Inclusion* (reduce consistent poverty to between 2-4% by 2012), including the situation for lifecycle and vulnerable groups, and new data for 2010 which will give a clearer indication of poverty trends since the economic downturn.
- Examine expert opinion about the statistical feasibility of eliminating consistent poverty and the arguments for adopting multiple or tiered poverty targets to address the complexity of poverty.
- Review issues and challenges for the national poverty target in the context of the EU poverty target in the Europe 2020 Strategy, and of good practice in national poverty targets in EU member states.

¹ This target is the number of people who would be lifted out of poverty if the 2008 rate of consistent poverty (4.2 per cent) is reduced to 0 per cent. The figure is based on Central Statistics Office estimate of the national population in 2008 of 4,422,100 people. Similarly, the interim target is to lift between 9,000 and 97,000 out of consistent poverty.

- Consider how Government can set out different levels of ambition for poverty reduction having regard to the economic circumstances, the likely economic and fiscal scenario for the immediate years ahead and EU/ECB/IMF Troika agreement.

The Minister for Social Protection, Joan Burton TD, is overseeing the review and the final report will be considered by the Cabinet Committee on Social Policy. The Social Inclusion Division in the Department of Social Protection is undertaking the review. The review is to be completed by November 2011.

As part of the review, the Social Inclusion Division is consulting with key stakeholders, including technical experts, the social partners, community and voluntary groups, people experiencing poverty, government departments, service providers and the EU Commission. This consultation paper is designed to inform the consultation process. Interested parties can participate in the consultation through

- completing the online consultation survey
- attending a local consultation workshop
- participating in designated meetings (e.g. social partners, technical experts)
- attending the annual Social Inclusion Forum (9th November).

The review will be informed by a research report on poverty indicators prepared by the ESRI and the EU peer review on national poverty targets held in Dublin in June 2011 ([The setting of national poverty targets — Peer Review in Social Protection and Social Inclusion and Assessment in Social Inclusion](#))

The consultation paper begins by examining the indicators used to set the national and the EU poverty targets. The paper then outlines the main issues to be addressed in the four terms of reference for the review.

2. The indicators used to set the national poverty target

Irish national poverty indicators

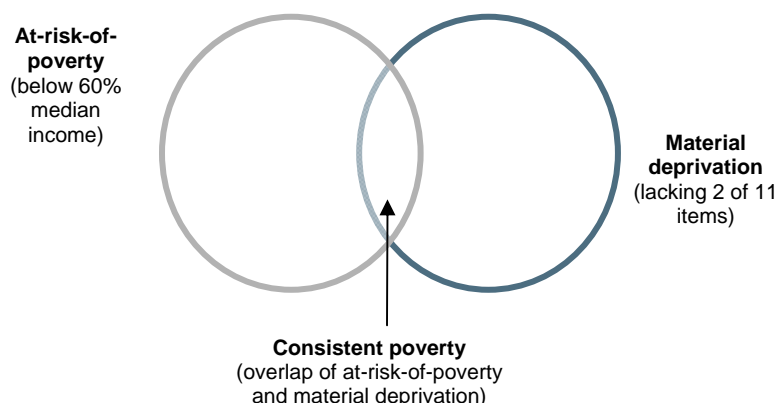
The Irish Government has adopted the following official definition of poverty:

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. 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. (National Anti-Poverty Strategy, 1997)

Reflecting this definition, three indicators are used to set the national poverty target: low income or 'at-risk-of-poverty', defined as individuals whose equivalised income is below 60 per cent of the median; deprivation of material goods, defined as individuals in households lacking at least two of 11 consensual necessities, and the overlap of the two, known as consistent poverty (diagram 1).²

² The 11 consensual necessities are two pairs of strong shoes, a warm waterproof overcoat, buy new not second-hand clothes, eat meals with meat, chicken, fish (or vegetarian equivalent) every second day, have a roast joint or its equivalent once a week, had to go without heating during the last year through lack of money, keep the home

Diagram 1: National poverty indicators



The focus in the national poverty target is on the consistent poverty indicator. This indicator is deliberately designed to identify the segment of the population which has the greatest needs in terms of both low income and lack of resources. Extensive research has shown that consistent poverty is a powerful indicator of the likelihood of a range of economic pressures such as coping with unanticipated expenses, debt problems and arrears, housing costs, and general difficulty in making ends meet. In addition, those in consistent poverty differ sharply from the rest of the population in terms of a range of life-style items.³ To ensure that the consistent poverty measure reflects changes in societal living standards, the measurement of the deprivation component of consistent poverty was reconfigured in 2006 from a lack of one item from an eight item list to a lack of two items from an 11 item list.⁴ This reconfiguration was undertaken to reflect new standards of acceptable household resources and to better capture those experiencing deprivation and economic distress.

The figures for each of the indicators in 2009 are:

At-risk-of-poverty:	14.1 per cent
Material deprivation:	17.3 per cent
Consistent poverty:	5.5 per cent

EU poverty indicators

The EU has an extensive range of 'common indicators' for measuring poverty. For the purposes of the new EU poverty target, the EU prioritized three indicators: at-risk-of-poverty, material deprivation and low work intensity. The first two indicators correspond with the national indicators, though with some definitional differences.⁵ The third EU indicator, low work intensity, is not used in Ireland, as its added value in terms of poverty measurement is unproven.

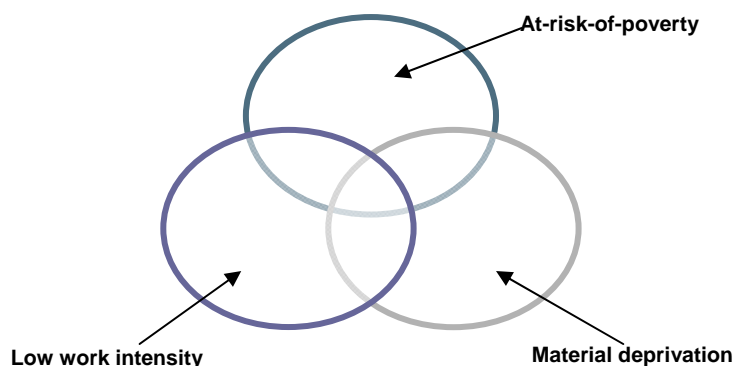
adequately warm, buy presents for family or friends at least once a year, replace any worn out furniture, have family or friends for a drink or meal once a month and have a morning, afternoon or evening out in the last fortnight, for entertainment.

³ The consistent poverty indicator was developed by researchers at the Economic and Social Research Institute (ESRI). The theoretical and methodological basis for the indicator is outlined in Nolan and Whelan (1996), *Resources, deprivation and poverty*, Oxford: Clarendon Press and in journal articles.

⁴ Maitre et al (2006), *Reconfiguring the measurement of deprivation and consistent poverty in Ireland*, Dublin: ESRI.

⁵ There are some minor differences in the income concept and the equivalence scale between the Irish and EU measure of at-risk-of-poverty. The Irish indicator of material deprivation is substantially different to the EU measure in

Diagram 2: EU poverty indicators



The EU combines all three indicators together to identify a total population 'at risk of poverty and exclusion' (those at-risk-of-poverty **or** material deprivation **or** low work intensity). Unlike the Irish indicators, the EU indicators do not differentiate between households with single or multiple forms of poverty. This "additive approach" is a major difference with the Irish use of poverty indicators, which does not add the two national indicators but focuses instead on the "overlap" of the two indicators (those at-risk-of-poverty **and** material deprivation), which is called consistent poverty.

The figures for each of the EU indicators in 2009 are:

At-risk-of-poverty:	15 per cent
Material deprivation:	6.1 per cent
Low-work intensity:	19.8 per cent
<i>Total 'at risk of poverty and exclusion':</i>	<i>25.7 per cent</i>

Determining the Irish target population for EU poverty target

As mentioned above, the EU add all three measures together to determine the total population at-risk-of-poverty and social exclusion. Taking a similar approach to determine the total Irish population means adding those at-risk-of-poverty only (8.6 per cent), those deprived only (11.8 per cent) and the overlap between at-risk-of-poverty and materially deprived (i.e. consistent poverty, 5.5 per cent). Both the totals of the national and the EU indicators are similar at about 26 per cent. It is likely, however, that the composition of the population under the two indicator sets is quite different. Research on this issue is underway.

Key questions in defining and measuring poverty:

- Do the two national indicators of at-risk-of-poverty and material deprivation adequately capture poverty or should other indicators, such as the EU indicator of low work intensity, be used?

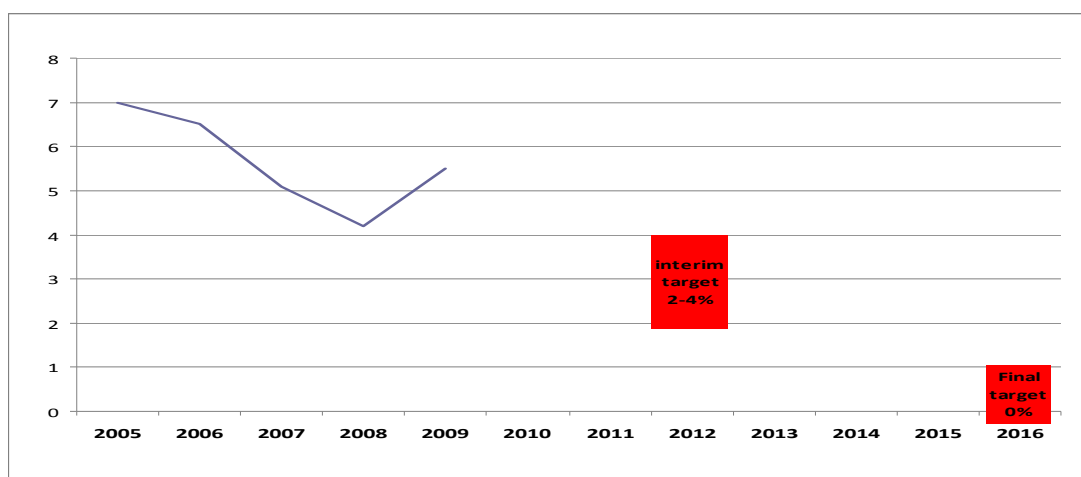
terms of the total number of items (11 vs 9), the actual items (only two items overlap), and the threshold for being considered deprived (Ireland is two or more, EU is four or more).

- How should the different indicators of poverty be combined? Is the overlap of indicators the best way to identify the most vulnerable? Is there a value in adding all the indicators as in the EU approach, or does this broaden the target population both numerically and qualitatively, in terms of the depth of poverty?
- Do the components of material deprivation capture the lack of resources associated with poverty? Is there a need to customise the items for specific groups?

3. ToR 1: Progress towards the national poverty targets

Progress on meeting both the interim and final national poverty targets is outlined in diagram 3. This shows that the consistent poverty rate fell continuously from the baseline rate of 7 per cent to 4.2 per cent by 2008, which was just outside the interim poverty target range of 2-4 per cent. However, in 2009, the poverty rate climbed to 5.5 per cent, which was a return to the previous 2007 figure. This leaves a gap of 1.5 percentage points to be bridged by 2012 if the higher range in the interim target is to be achieved. New data for 2010 is expected from the CSO in November 2011.

Diagram 3: Progress on the national poverty targets, 2005-2016



Source: SILC

There are two elements to the reduction in consistent poverty: the numbers affected by the two main indicators and the extent of the overlap of the two. It is estimated that 50 per cent of the overall reduction in consistent poverty in the period 2005 to 2009 is attributable to the performance of the two indicators, with 50 per cent due to a reduction in the overlap.

The upward trend in the poverty target reflects the deterioration in the Irish economy since 2008, with a rise in unemployment (from 4 per cent to 14 per cent), a reduction in wages, and adjustments in income taxes and welfare rates, all leading to a fall in household incomes. Though the at-risk-of-poverty rate was largely unchanged between 2008 and 2009 at c 14 per cent, the rate of material deprivation increased from 14 to 17 per cent, which led to the rise in consistent poverty in 2009. It should be noted that the time period covered by the two indicators differs: at-risk-of-poverty is based on income in the previous year, while material deprivation is based on current circumstances. Also, as SILC is a continuous annual survey, the point in the year at which people are interviewed may have an influence on their situation.

While the national poverty target is expressed for the whole population, previous analysis has identified certain groups as being vulnerable to poverty within the lifecycle approach. Improving the position of these vulnerable groups is critical to the achievement of the poverty target. The consistent poverty rate and the share of the poverty population for lifecycle groups and households are set out in table 1. This shows that, among lifecycle groups, children face the highest rate of consistent poverty at 8.7 per cent, 1.6 times the norm. They also represent a large share (42 per cent) of the population in consistent poverty.⁶

Table 1: Consistent poverty rates and share for lifecycle groups and select households (2009)⁷

	<i>poverty rate</i>	<i>ratio to average poverty rate</i>	<i>share of poverty population</i>
children	8.7%	1.6	42%
people of working age	4.9%	0.9	56%
<i>unemployed</i>	11.5%	2.1	16%
<i>disabled unemployed</i>	8.8%	1.6	7%
<i>at work</i>	1.1%	0.2	8%
older people	1.1%	0.2	2%
people with disabilities⁸	5.5%	1.0	n/a
lone parent families	16.6%	3.0	22%
jobless households	14.9%	2.7	76%
households in social rented housing	17.9%	3.3	49%

People of working age have a below average poverty risk (4.9 per cent; just less than the norm), but still account for over half of the population in consistent poverty (56 per cent). Within this category, those who are unemployed, including those unable to work due to a disability, are up to two times more likely to be in consistent poverty. Collectively, the unemployed account for almost a quarter of those in consistent poverty. The link between poverty and unemployment is likely to have intensified with the ongoing rise in unemployment and the increase in the proportion of long-term unemployed. The poverty risk for people in work is very low at 1.1 per cent. However, because they are such a large share of the population, they account for 8 per cent of the consistently poor.⁹ The final two lifecycle groups are people with disabilities, who have a poverty risk at 5.5 per cent, the same as the population in general, and older people, who have the lowest poverty risk at less than 1 per cent (a fifth of the norm).

Beyond the lifecycle groups, there are households with far higher rates of consistent poverty due to multiple disadvantages across the lifecycle, including having child dependents, being excluded

⁶ Of added significance are the negative effects of poverty on childhood development and their legacy into adulthood.

⁷ The poverty rates for categories such as women, minority ethnic groups, the working poor and the regions were also examined, but show less evidence of higher poverty risk. However, there is a link between the high poverty risk for lone parents and that for female-head households.

⁸ This is an ad hoc indicator based on people aged 16 and over who self-report a chronic illness or health problem. This does not refer to a discrete section of the population, but overlaps with the three age categories.

⁹ The at-risk-of-poverty rate for those at work is higher at 5.5 per cent, but still only a third of the average rate. Their share of the population at-risk-of-poverty rises to 14 per cent.

from the labour market, and living in social housing. Parents and children in lone parent families have one of the highest consistent poverty rates at 17 per cent, three times the norm. Such families account for one in five people in consistent poverty, including half of all children in consistent poverty. Similarly, people in jobless households are almost three times more likely to be in consistent poverty. Significantly, such households account for the vast majority (three-quarters) of all those in consistent poverty.¹⁰ Individuals living in social rented housing also have a high poverty risk, and account for 50 per cent of those in poverty (though only 13 per cent of the total population). There is likely to be a strong overlap across these three household types.

Key questions ToR 1: Progress towards the national poverty targets

- Should the national poverty target be adjusted to take account of the economic downturn and the new fiscal reality?
- How can the situation of vulnerable groups, with higher poverty rates, be reflected in the national poverty target?

4. ToR 2: Expert opinion on the national poverty targets

Consistent poverty is the exclusive focus of the national poverty target. An argument has been made in the Irish poverty literature for adopting 'tiered' or multiple targets when dealing with a complex and multi-faceted phenomenon as poverty.¹¹ It is suggested that tiered targets would address a number of distinct components of poverty, in keeping with its multi-dimensional nature. Proposed tiered poverty targets would involve:

- Giving priority to reducing absolute poverty, by ensuring that those on low income see their real income rise and their deprivation level fall using a fixed set of indicators.
- Improving relative incomes and deprivation levels, using a set of indicators which changes in line with societal expectations, would fall.
- Reducing the proportion of the population below relative income thresholds.

Each of these targets could be seen as making a contribution to poverty reduction. Such a tiered approach has recently been adopted by the UK in setting its child poverty target.

There is a statistical issue as to whether it is possible to actually eliminate consistent poverty, as aspired to in the national poverty target.¹² This arises from the distribution of material deprivation in the population, with significant levels of deprivation being reported in middle and higher income groups (table 2). This shows the percentage of the population in each decile affected by material deprivation, ranging from 40 per cent in the bottom two deciles to 1 per cent in the richest deciles. What is notable is that the 5th to 8th deciles all report substantial levels of deprivation (an average of one person in every 10). This reporting is likely to reflect consumption patterns and choices, as well as technical issues as to how people respond to the deprivation questions in the EU-SILC. (Cumulatively, these four deciles account for 26 per cent of those in material deprivation.) Table

¹⁰ The problem of jobless households correlates with Ireland's high rate of low-work intensity (20 per cent).

¹¹ See for example Maitre et al, *op cit*.

¹² This issue has been raised by the Central Statistics Office.

2 also sets out 'derived consistent poverty rates' for each decile by applying their deprivation rates to the 14.1 per cent at-risk-of-poverty. This shows that the deprivation rates of those at-risk-of-poverty would have to fall to the rates currently reported by the sixth decile to reach the bottom point in the interim target and would have to become the same as the ninth and ten deciles if the target of eliminating consistent poverty was to be achieved.

Table 2: Deprivation rates and derived consistent poverty rate by income decile, 2009

<i>Decile</i>	<i>Deprivation rates</i>	<i>Derived CP rate (ARoP 14.1%)</i>	<i>Derived CP rate (ARoP 10%)</i>
Bottom	39%	5.5%	3.9%
Second	41%	5.8%	4.1%
Third	25%	3.5%	2.5%
Fourth	20%	2.8%	2.0%
Fifth	21%	3.0%	2.1%
Sixth	11%	1.6%	1.1%
Seventh	7%	1.0%	0.7%
Eight	7%	1.0%	0.7%
Ninth	1%	0.1%	0.1%
Top	1%	0.1%	0.1%

How might a lower at-risk-of-poverty rate alter this scenario? Table 2 illustrates a derived rate of consistent poverty based on an at-risk-of-poverty rate of 10 per cent, a reduction of 30 per cent on the 2009 rate. To reach the 2 per cent threshold, the deprivation rate of the fourth decile would have to apply to those at-risk-of-poverty. Again, for elimination, the deprivation rate would have to equate to that of the ninth and tenth deciles. Of course, reaching an at-risk-of-poverty rate of 10 per cent would be highly challenging, given the already exceptionally high redistributive effect of social transfers, highlighted previously.

Finally, there are technical questions about monitoring of national poverty targets. These relate to the choice of the baseline and end years for the targets and the effects of new data sources on poverty trends. Previous experience of national poverty targets indicate that considerable changes can take place in poverty levels depending on the years chosen due to a lag in data availability. Also, new data sources can artificially change poverty rates and make monitoring poverty targets difficult.

Key questions ToR 2: The setting and monitoring of national poverty targets

- Should there be a differentiated approach to national poverty targets using a range of indicators?
- What would be a statistically feasible target for the reduction of consistent poverty?
- In setting national poverty targets, should the baseline year be that of the latest data available and not the year in which the policy is announced, with a similar adjustment in the timeframe for achieving the target?
- How could the monitoring of the national poverty targets be improved?

5. ToR 3: Issues for the national poverty target in the context of the EU poverty target

The policy context for setting the national poverty target has changed considerably with the agreement on a European poverty target. How Ireland will contribute to the new EU poverty target is based on the existing national target albeit expressed in a different format: the baseline year is 2008 and the target reduction (4.2 per cent to 0 per cent) is given in population numbers (186,000 people to be lifted out of consistent poverty by 2016). Similarly, the interim target is to lift between 9,000 and 97,000 out of consistent poverty.¹³ The choice of baseline year is especially significant in the Irish context, as 2008 represents the lowest point in recent years. The 2009 consistent poverty rate of 5.5 per cent means that 250,000 people will now be required to be lifted out of poverty to meet the 0 per cent target, i.e. the original 186,000 plus a further 64,000, but only the former figure will count towards the EU poverty target.

How the national and EU poverty targets are calculated diverge in a number of ways, such as the choice of indicators and the significance given to the overlap of indicators, as outlined previously. The large and heterogeneous target population under the EU approach (almost one in five of the EU population) means that the EU approach has a number of risks, including creaming (where those who are least poor benefit) and scattering of scarce resources. The difficult circumstances facing Ireland and many other EU member states give a greater urgency to the optimum use of limited public resources. Targeting those experiencing multiple forms of poverty, though making limited inroads into the overall pool of those at risk of poverty and exclusion, may be the better policy response in this context. Further work is planned at the EU level on poverty indicators, including consistent poverty.

The 186,000 figure represents 17.5 per cent of the Irish population at risk of poverty and exclusion, which is similar to the EU poverty target expressed in proportionate terms: 17 per cent. However, there are two issues with translating the national target into the EU target. The first is how closely the two targets correspond, in terms of the profile of the population in poverty. The second concerns how much a reduction in consistent poverty is driven by reductions in at-risk-of-poverty, material deprivation and/or the overlap of the two measures.

Besides the actual target, the policy approach to reaching the target is shaped by the European context. A feature of the EU poverty target is its inclusion as an integral part of a European jobs and growth strategy, along with the four other headline targets. This is significant given the danger that poverty is left to one side while economic development is prioritised. The *Europe 2020 Strategy* seeks to counter this approach by emphasising the equal importance of the social and economic components of policy. This implies that those in poverty should be protected from the burden of fiscal adjustment and that economic growth should be pro-poor.

There is also a question as to linkages between the poverty target and the other headline targets under *Europe 2020*, especially the employment and education targets. One example to illustrate the potential linkage is the connection between early childhood intervention and limiting poverty in adulthood and ultimately preventing the transmission of poverty between generations. Another example is the households with low work intensity and risk of household poverty. The EU poverty target also heightens the scope for mutual learning between member states, as demonstrated by the peer review process.

¹³ The numerical figure is based on Central Statistics Office estimate of the national population in 2008 of 4,422,100 people.

Key questions ToR 3: Aligning the national and EU poverty targets

- Should the national poverty targets be better aligned with the EU target (and vice-versa)? How might occur?
- How might the EU poverty target be harnessed to support the national poverty target?

6. ToR 4: Considering different levels of ambition for poverty reduction

The National Reform Programme notes that the challenge of meeting the national poverty target is considerable, as reflected in the rise in the consistent poverty rate in 2009 and the possibility that the rate may be even higher in 2010. It states that the timescale for achieving the poverty target will be influenced by the pace at which economic and employment growth returns to the Irish economy. It envisages that in the early years fewer people may be lifted out of poverty or indeed the numbers may increase due to the effects of the economic recession and the implementation of the *National Recovery Plan*, in particular changes in the structure and operation of the social welfare system and child income support.

Much of the success in reducing consistent poverty in recent years was due to the reduction in the at-risk-of-poverty rate through higher social transfers, with the poverty reduction effect of social transfers rising from 42 per cent in 2005 to 61 per cent in 2009. Furthermore, the poverty reduction effect of social transfers is now the highest of all EU member states and well ahead of the EU average of 33 per cent.¹⁴ Since 2009, the fiscal crisis facing the Irish state has curtailed scope for further welfare improvements, with even reductions in some welfare rates occurring in 2010 and 2011. There is therefore a question mark as to the continuation of welfare rates as the driver of the national poverty targets. Other policy instruments are likely to be more relevant, in particular active labour market policies.

The national poverty target should take account of evolving policy priorities in the face of rapidly changing economic circumstances. Given the major economic recession which Ireland is experiencing, the policy priority is to maintain real minimum living standards and to protect the most vulnerable from economic and fiscal adjustments. One way to capture this priority is to develop a poverty target based on a measure of absolute poverty (e.g. at-risk-of-poverty rate anchored in time), an approach that France has adopted.

Key questions ToR 4: Setting different levels of ambition for poverty reduction

- Should the focus be on short, medium and long-term poverty targets, with different levels of ambition to reflect current and future economic realities, rather than a single target?
- How can the national poverty target be better integrated with policy actions in the prevailing economic and fiscal circumstances?

¹⁴ See *SPC Assessment of the social dimension of Europe 2020 Strategy (2011)*, February 2011.

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- How can the national poverty target capture the policy priority to protect the most vulnerable from economic and fiscal adjustments?

References

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<http://www.esri.ie/UserFiles/publications/RS17.pdf>

Central Statistics Office Annual reports on EU SILC (2003-2009)

http://www.cso.ie/eusilc/pub_rel_eusilc.htm

Papers from a national seminar on poverty indicators and targets organized by Social Inclusion Division, ESRI and UCD Social Science Research Centre:

http://www.esri.ie/news_events/events/past_events/event_details/index.xml?id=268