

# Social Transfers and Poverty Alleviation in Ireland 2004 - 2011

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This research briefing summarises a report that examines the role of social transfers in income redistribution and poverty alleviation in Ireland. The study covers the period 2004 to 2011, a time of rapid economic change, spanning both strong economic growth and deep recession.

The report provides insights on why social transfers played a greater role in alleviating poverty and deprivation in Ireland between 2004 and 2011, the latest published data. It assesses the impact of social transfers across different life cycle groups and benchmarks Ireland against other EU15 countries.

The report is an output of the Department of Social Protection and Economic and Social Research Institute research programme on monitoring poverty trends.



## Main Findings

- Social transfers represented 30 per cent of gross household income in 2011, which was up from 20 per cent in 2004.
- In 2011, 87 per cent of households received social transfers. The average value of these was €327 in 2011, up from €233 in 2004 (in 2011 prices). Most of the increase was due to a shift in the type of payment received.
- In 2011, 29 per cent of households received unemployment-related social transfer payments. This was an increase from 16 per cent in 2004.
- The effectiveness of social transfers in reducing the **poverty rate** was 71 per cent in 2011. It had increased from 53 per cent in 2004.
- The effectiveness of social transfers in reducing the market income **poverty gap** (the gap between market income and the poverty line) was 88 per cent in 2011. This indicator was already high in 2004 (84 per cent), so there was less scope for improvement.
- The potential of social transfers to bridge the market income poverty gap increased from 1.66 to 1.84 times the size of the poverty gap between 2004 and 2011.
- In 2011, 85 per cent of the income of people in jobless households came from social transfers. For those of retirement age it was 77 per cent and for people with a disability it was 54 per cent.
- In 2011, the poverty reduction effectiveness of social transfers was very high for all groups. It ranged from 84 per cent for working age adults to 95 per cent for retired people. It was 87 per cent for children and people in jobless households.
- Ireland moved from the middle towards the top of the range of EU15 countries in poverty reduction effectiveness between 2005 and 2010.

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## 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 average 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, the research 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. **Box 1** defines the main concepts used in the report. The report presents figures calculated across individuals or across households, depending on which is most suited to the question being addressed.

The report contributes important insights into the poverty alleviation and income redistribution role of social transfers, using the concepts of poverty reduction effectiveness and poverty reduction efficiency. However, the authors caution that what might seem like '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.

The report primarily uses 2011 SILC data, the latest published. Trends since 2011 can be interpreted based on the ESRI SWITCH tax / welfare model. See Callan, T., Nolan, B., Keane, C., Savage, M. and Walsh, J. (2013) *Crisis, Response and Distributional Impact: The Case of Ireland*, Dublin: ESRI.

### Box 1: Measuring the impact of social transfers on income poverty

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

The **market income poverty gap** is the gap between the household's market income and the poverty threshold (i.e. the income below which the household would be deemed poor).

**Poverty reduction potential** is the aggregate spend on social transfers expressed as a ratio to the aggregate market income poverty gap.

> 1.0	amount spent would be enough to bridge the market income poverty gap
< 1.0	not sufficient to bridge the market income poverty gap

**Poverty reduction effectiveness** 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.

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

Although efficiency and effectiveness are measured as percentages, reaching 100% 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 threshold. This could create a very undesirable incentive structure in terms of participation in work.

## Section 1: Social transfers and market income change from 2004 to 2011

The composition of gross income of the average household changed between 2004 and 2011. The share from market income declined from 80 per cent to 70 per cent while the share from 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 in 2004 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 this was due

to increasing payment rates for social transfers between 2004 and 2009 but most was due to a shift in the type of payment received. In particular, with rising unemployment many working-age households with children that previously would have received only child benefit before the recession changed 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, 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 to 12 per cent; occupational pensions increased from 4 to 6 per cent; and child benefit remained stable at about 3 per cent.

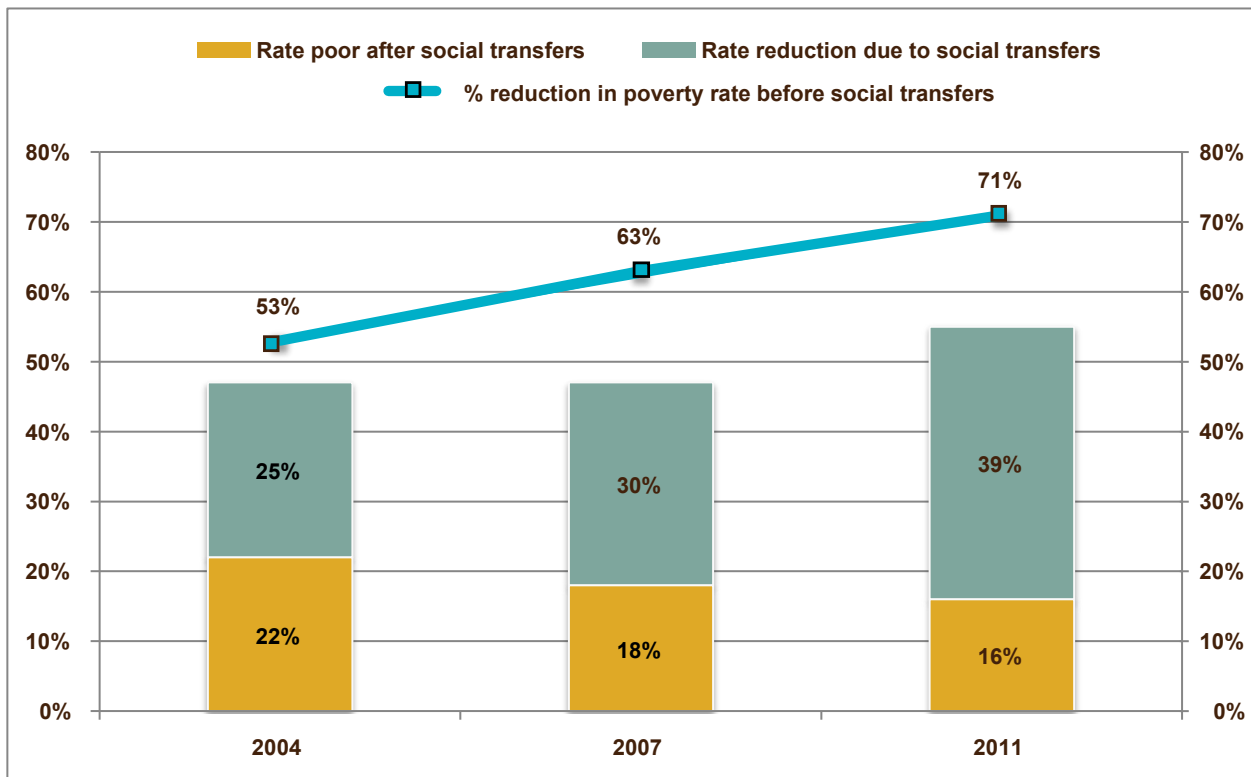
In regard to the scheme category, the main change was the increase in unemployment payments which rose from 12 per cent of social transfer payments in 2004 to 20 per cent by 2011. In 2004, 16 per cent of households received some social transfer income related to unemployment and this had increased to 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 to 8 per cent of gross social transfers).

## Section 2: Change in the poverty reduction effectiveness of social transfers

Figures 1 and 2 show the two measures of the poverty reduction effectiveness of social transfers for 2004, 2007 and 2011 in Ireland. The reduction in the poverty rate (see Figure 1) is based on comparing the percentage of households below the poverty threshold before social transfers (i.e. only taking account

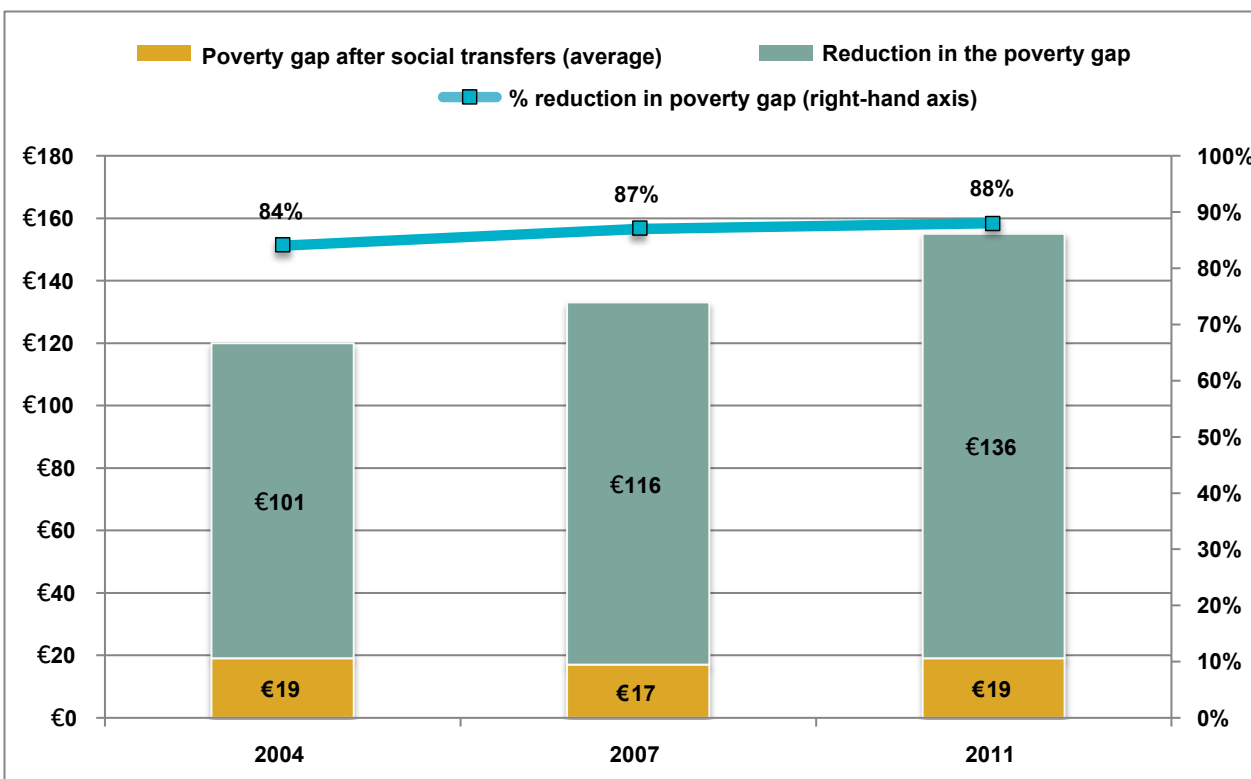
of market income) and the percentage of households below the poverty threshold once social transfers are accounted for. Figure 1 shows that social transfers reduced the pre-transfer poverty rate by 53 per cent in 2004, rising to 63 per cent by 2007 and 71 per cent by 2011.

**Figure 1 Absolute and percentage reduction in poverty rate, 2004 - 2011**



The second measure of effectiveness takes account of the gap between market income and the poverty threshold (set to zero if the household’s market income is above the threshold). It measures by how much the gap is reduced when social transfers are taken into account. The reduction in the poverty gap (see Figure 2) 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.

**Figure 2 Absolute and percentage reduction in poverty gap, 2004 - 2011**



## Section 3: Why the increase in the poverty reduction effectiveness of social transfers?

The main reason for the improvement in the poverty reduction effectiveness of social transfers was that the amount spent had increased substantially relative to the poverty gap. Underlying this were a number of processes:

First, there was an increase in the rates of social welfare payments up until 2009. [Table 1](#) shows that means-tested social transfers, non-means-tested social transfers and other social transfers (mainly occupational pensions) all increased over time, but the largest increase was for means-tested payments. This was primarily due to an increase in the numbers relying on payments, such as jobseeker's allowance.

Second, during the recession :

- more people needed the safety net of

- unemployment-related welfare payments,
- the poverty threshold fell as market incomes declined, reducing the size of the poverty gap,
- the rates of most weekly social welfare payments to older adults were held constant, and
- the rates of payment to younger adults (except those under age 25) fell by a smaller amount than the fall in 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 (see [Table 1](#)). 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.

**Table 1 Average market income poverty gap, average social transfers and potential of social transfers to reduce the poverty gap (2011 prices)**

	2004	2007	2011
Market income poverty gap per week	€120	€133	€155
Total social transfers per week	€199	€236	€286
Social transfers, non-means-tested per week	€104	€123	€135
Social transfers, means-tested per week	€58	€71	€98
Social transfers, occupational pensions etc. per week	€37	€43	€53
Poverty reduction potential	1.66	1.77	1.84
Potential, non-means-tested	0.87	0.92	0.87
Potential, means-tested	0.48	0.53	0.63
Potential, occupational pensions etc.	0.31	0.32	0.34

## Section 4: Change in poverty reduction efficiency of social transfers

The increased spending would not have contributed to poverty reduction if it had not been directed towards households that would otherwise have been poor. The poverty reduction efficiency of social transfers refers to the extent to which the amount spent actually contributes to reducing the poverty gap.

[Table 2](#) shows that the poverty reduction efficiency of social transfers remained at roughly the same level over time (45-50%). When we assess poverty reduction

efficiency as an average across households it declined slightly but when we assess it across individuals it increased slightly between 2004 and 2011.

The difference is due to the fact that poverty reduction efficiency increased for larger households and, because more people live in these households, more 'weight' is given to larger households when we report the results at the individual level.

**Table 2 Efficiency of social transfers: proportion contributing to closing the poverty gap**

	2004	2007	2011
Per cent of social transfers contributing to reduction in poverty gap (household level)	50%	49%	48%
Per cent of social transfers contributing to reduction in poverty gap (Individual level)	45%	45%	48%



## Section 5: Impact of social transfers on poverty by life cycle group

The report considered whether social transfers differed in their impact between life cycle groups (children, working-age adults and retirement-age adults) as well as by disability, 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).

Table 3 shows the poverty reduction effectiveness – measured in terms of reduction of the market income poverty gap – by life cycle group in 2011 and the change in this respect since 2004. The poverty reduction effectiveness 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).

**Table 3 Poverty reduction effectiveness and efficiency of social transfers with respect to poverty gap by life cycle group**

		Poverty reduction effectiveness		Poverty reduction efficiency	
		2011 (%)	Change 04-11 (%)	2011 (%)	Change 04-11 (%)
Gender	Male	85%	8%	46%	11%
	Female	88%	12%	49%	2%
Age group	Children (under 18)	87%	20%	54%	13%
	Working-age (18-64)	84%	11%	44%	20%
	Retirement age (65+)	95%	0%	48%	-24%
Disability	Limited activity	92%	4%	54%	-12%
Work intensity	Very low (jobless)	87%	14%	80%	-9%
Total		87%	10%	48%	7%

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.

The poverty reduction efficiency of social transfer payments is also shown in Table 3. This was much higher for those in jobless households (80 per cent) than for other groups. This is because more of the

social transfers going to jobless households are means-tested and these types of payment 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 above average (54 per cent vs. 48 per cent on average) and showed an improvement since 2004 (13 per cent).

## Section 6: Social transfers in Ireland and the EU15 countries

In order to compare the situation in Ireland to that in other European countries, EU level indicators are used. The EU measure of at-risk-of-poverty (AROP) is used and the poverty reduction effectiveness and efficiency is calculated for the years 2005 and 2010. Following Eurostat conventions, the results are reported across individuals.

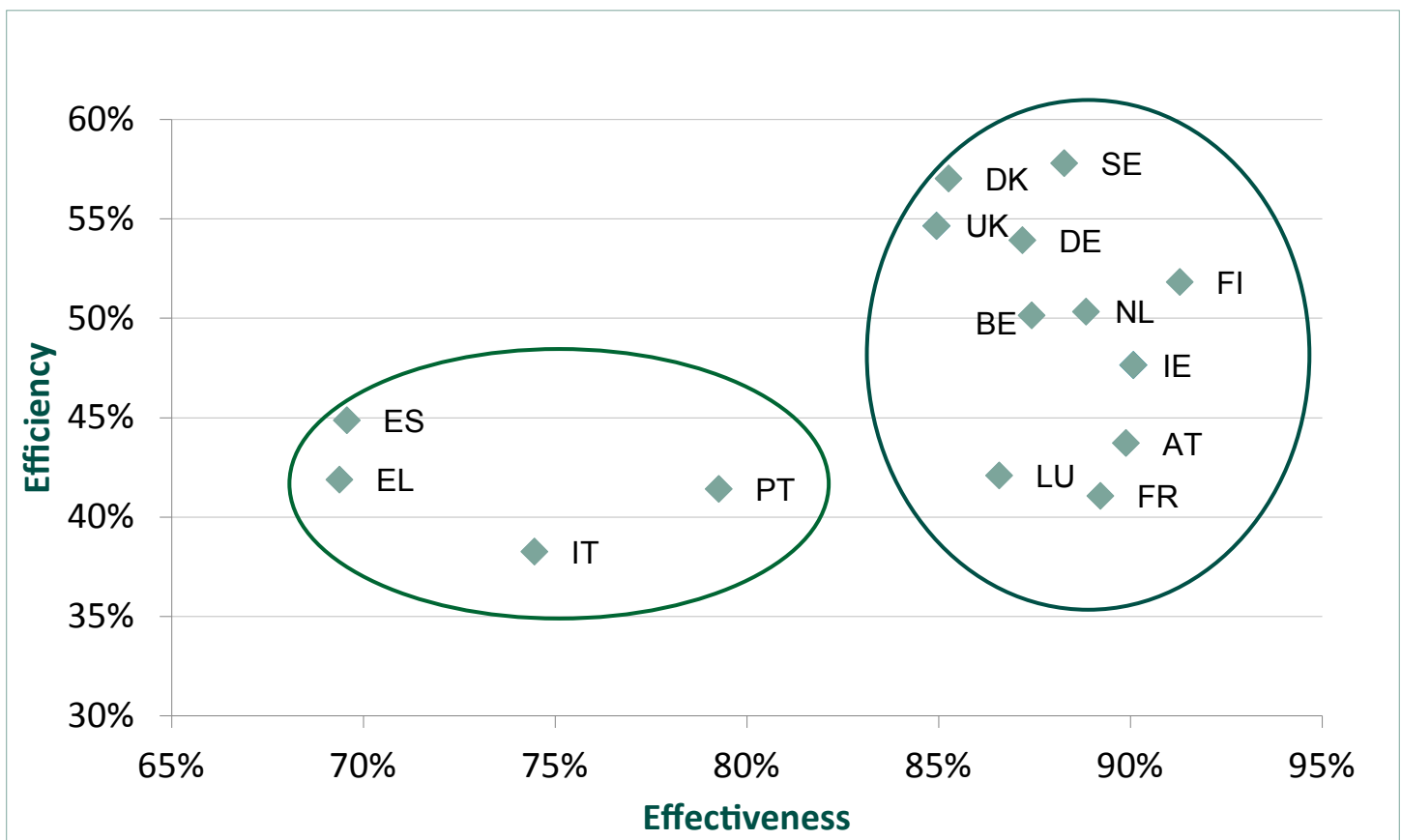
2005 is chosen as the base year because the UK, Germany and the Netherlands were not part of the survey prior to this. At the time of writing, 2011 EU-SILC data was not available for Ireland.

The report notes that 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.

Figure 3 shows the association between poverty reduction effectiveness and efficiency for the EU15 countries in 2010. 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.

**Figure 3 Effectiveness and efficiency of social transfers in alleviating poverty with respect to the poverty gap in EU15, 2010**



In 2010, Ireland was towards the top of the range of EU15 countries in poverty reduction effectiveness of social transfers (90%). 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%), having fallen somewhat since 2005.

## Section 7: Policy Implications

Two general policy implications as well as specific implications for children and jobless households emerge from the report:

### Poverty reduction effectiveness

- The relatively high level of poverty reduction effectiveness in Ireland by EU standards, and the fact that it has risen over time, suggest there is limited scope for new policy interventions to improve the overall level of effectiveness. However, there are certain groups that 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. For instance, the level of withdrawal of benefits needed to achieve a high level of efficiency could create a strong disincentive to work.

### Implications for policy in relation to child poverty

- The poverty reduction effectiveness of social transfers for children is only slightly above 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 important to understand and address child poverty in the context of addressing poverty among those of working age. This is because two-thirds of social transfers going to households with children are not specifically child-related but relate to other risks faced by working-age households (e.g. unemployment, lone parenthood and disability).

- Since the poverty reduction efficiency for households with children is above average, social transfers going to these households are not an obvious target in any effort to improve the efficiency of the social transfer system.

### Implications for policy on household joblessness

- The high level of joblessness in Ireland even during the boom years highlights the need for appropriate labour market activation strategies as we exit the recession. Tailored training and support services should be targeted to people who were not traditionally offered these activation measures (e.g. lone parents and people with a disability).
- A 'whole household' perspective is needed in considering the design of the social welfare system, particularly for means-tested payments. Consideration should be given to how one individual's return to work impacts on the benefit entitlement of others in the same household.
- The emphasis on income protection must continue. Given that one half of those in jobless households are either adults with a disability or children, an overreliance 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 these groups.
- Social transfers received by jobless households in 2011 were considerably above average in terms of poverty reduction efficiency and about average in terms of effectiveness. This being so, it would be unwise to view social welfare payments to jobless households as being 'too generous'.

### Publication Information

The research report *Social Transfers and Poverty Alleviation in Ireland: an Analysis of the Survey on Income and Living Conditions 2004 - 2011* is published at [www.socialinclusion.ie](http://www.socialinclusion.ie) and [www.esri.ie](http://www.esri.ie). An Irish version of the research briefing is available online. References and glossary of terms are available in the research report.

The research report is jointly published by the Department of Social Protection and the ESRI as part of the Social Inclusion Report Series. Within this report, data derived from the cross-sectional EU-SILC (Statistics on Income and Living Conditions, UDB 2005 – UDB 2007–UDB 2010) by the European Commission, Eurostat, are used. Eurostat has no responsibility for the results and conclusions drawn within this report. The authors are solely responsible for the views, opinions, findings, conclusions and /or recommendations expressed, which are not attributable to the ESRI who does not itself take institutional policy positions, nor are the views attributable to the Department. The researchers are responsible for the accuracy of the research and all reports are peer-reviewed.