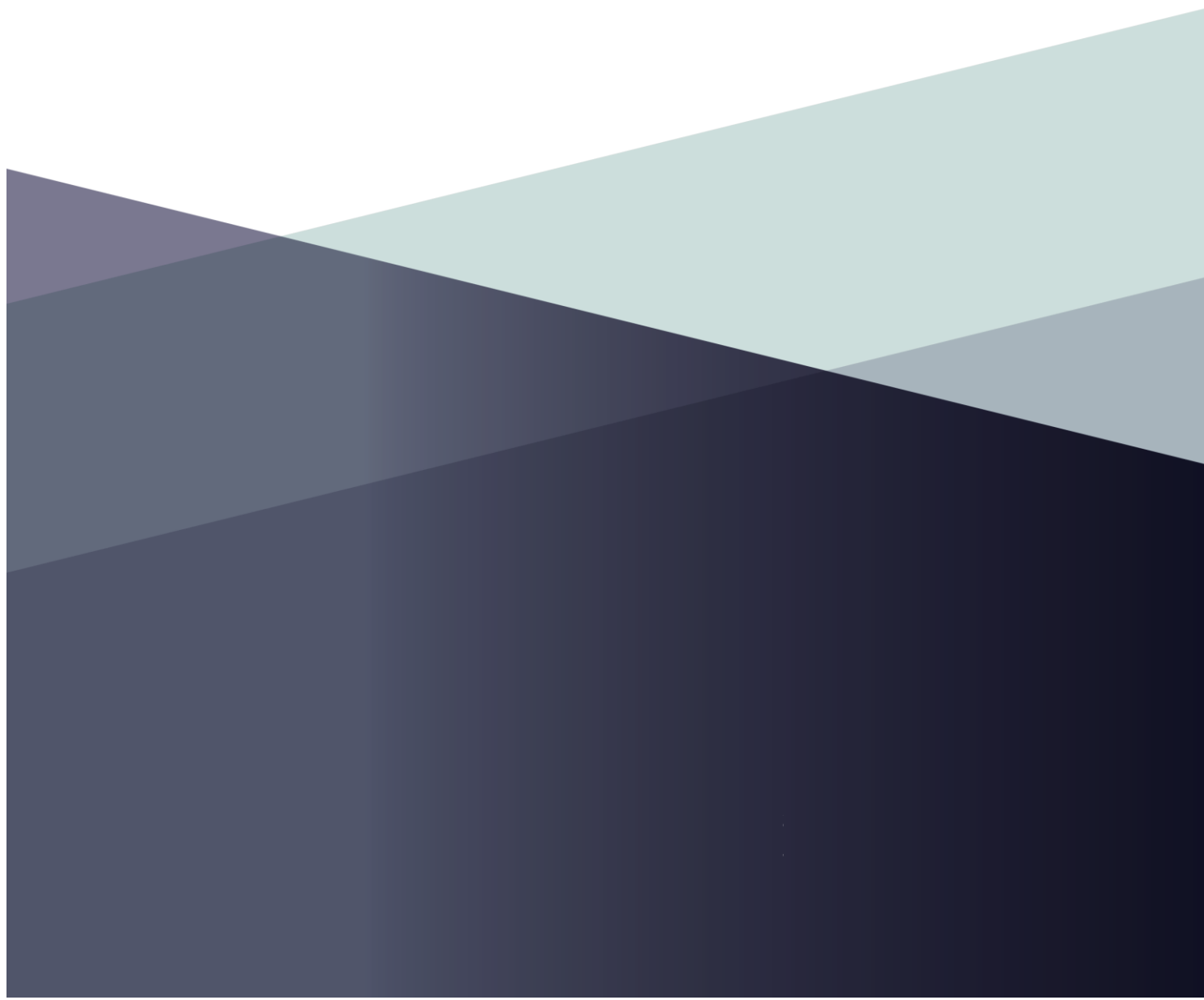


Poverty Prevention and State Pensions

Technical Sub-Committee – Working Paper 3

July 2021



The Pensions Commission established a Technical Sub-Committee. The Terms of Reference for the Sub-Committee, agreed by the Commission, set out that the *“objective of the sub-committee, drawing on relevant material made available to it, is to inform the Commission to enable it to form a view on issues around sustainability and adequacy of the pension system over time (next 30/50 years). It is important that this view is transparent, evidence based and stated in a straightforward manner.”*

The Terms of Reference stated that *“Ideally, advised by the sub-committee, the Commission should reach an agreed view on the data, definitions, analyses, and projections (with sensitivity analysis as appropriate)”*. The specific areas identified by the Commission related to population and labour force projections, expenditure projections, the role of the State pension in preventing pensioner poverty, and the proposed approach to benchmarking and indexation of State pension rates of payment.

The Sub-Committee examined the material made available to the Commission through the Secretariat. This included presentations made by a range of external organisations, and submissions made through the public consultation process. It also sought additional material from the Department of Finance (DFIN), the Department of Social Protection (DSP), the Central Statistics Office (CSO) and the Irish Fiscal Advisory Council (IFAC). Four Working Papers were produced for agreement by the Commission. Any conclusions in these papers relate to the Terms of Reference of the Sub-Committee and should not be construed as recommendations of either the Sub-Committee or the Pensions Commission.

The four Working Papers are:

- Working Paper 1 – Population and Labour Force Projections
- Working Paper 2 – Expenditure Projections
- Working Paper 3 – Poverty Prevention and State Pensions
- Working Paper 4 – Benchmarking and Indexation

Membership of the Technical Sub-Committee

Roma Burke	Chairperson of Sub-Committee Actuary and Partner with Lane Clark and Peacock Ireland Ltd
Seamus Coffey	Economist and Lecturer in University College Cork
Dr. Aedín Doris	Labour Economist, Lecturer in Maynooth University, and Managing Editor of the Economic and Social Review.

Purpose

A Technical Sub-Committee was set up to review relevant data to enable the Commission to form a view on issues around sustainability and adequacy of the pension system over time (next 30/50 years). Ideally, as advised by the Sub Committee, the Commission should reach an agreed view on the data, definitions, analyses, and projections. The Sub-Committee's Terms of Reference includes poverty rate analyses.

The purpose of this note is to set out findings assessing the impact of State Pensions in terms of achieving the Government's policy objective of preventing pensioner poverty, across a range of indicators.

Summary

1. State Pensions reduce pensioner poverty, as assessed across a range of indicators.

- a) The Sub-Committee examined a range of indicators that can provide different perspectives on 'poverty prevention' for older people, including consistent poverty, income poverty, deprivation, and minimum essential standards of living. Using a range of indicators helps to capture the unique situation of pensioner households e.g. in respect of lower consumption patterns, reliance on State Pensions and the significant impacts of associated benefits.
- b) The Sub-Committee concluded that State Pensions have positive impacts on reducing pensioner poverty, across a range of indicators and however 'poverty prevention' is defined. Technical differences between national and EU indicators affect findings.

2. Current State Pensions payments for single adult pensioner households are less effective in reducing poverty in these households, overall and in respect of rural households.

- a) Single adult pensioner households experience greater poverty, across a range of indicators, than do couple pensioner households.
- b) Many of these households are headed by women.
- c) The Living Alone allowance could be a means of addressing this issue.

3. Many pensioner households are close to the national threshold of being at risk-of-poverty.

- a) Changes with respect to State Pensions and associated benefits can affect the proportion of pensioner households at-risk-of-poverty.
- b) The Sub-Committee noted that if the national threshold rises, more pensioner households could fall into at-risk-of-poverty, given that there are many pensioner households close to the current national threshold.

- c) There is some evidence that recent income changes in the general population are pushing pensioner households further down the income distribution, but not below the at-risk-of-poverty national threshold. This may signal future poverty risks in these pensioner households in time.

4. Supplementary income supports, non-cash benefits and services enhance State Pensions' impacts.

- a) The value of supplementary income supports can be quantified but it is difficult to impute a monetary value for non-cash benefits and for services.
- b) Published CSO and Eurostat data do not break down the poverty reduction effect of supplementary income supports.
- c) As a combined package of monetary and non-cash benefits for pensioner households it is therefore difficult to quantify their impacts for reducing pensioner poverty.

5. These findings will feed into the Sub-Committee's consideration of its next paper on benchmarking.

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Poverty and State Pensions' Impact for Older People

1. Introduction

This note provides data from a range of sources that can be used to assess the performance of State Pensions, in respect of its policy rationale of 'poverty prevention' for older people. With caveats as set out in Appendix 1 in mind, these data show that State Pensions have a positive impact on reducing pensioner poverty, however that impact may be defined and captured.

Appendix 1 provides background information to help contextualise and qualify the assessment of State Pensions' impacts on reducing pensioner poverty. First, by summarising broader conceptual and definitional debates. Second, by setting out strengths and weakness of existing indicators for capturing State Pensions' impacts on reducing pensioner poverty. Third, by drawing attention to key differences between CSO and Eurostat analyses and outputs in respect of Survey of Income and Living Conditions data.

2. Key Findings

The performance of State Pensions for reducing pensioner poverty was assessed across a range of indicators, drawn from CSO SILC (Survey of Income and Living Conditions) data, EU-SILC data and from the Vincentian Partnership for Social Justice (VPSJ) analyses of households' minimum income needs to meet a minimum essential standard of living (MESL). Key findings:

- In 2019 the at-risk-of-poverty rate for those aged 65+ was 10.5% and the deprivation rate was 11.2%, lower than any other age group (source: CSO-SILC).
- In 2019 (latest data available) the consistent poverty rate for those aged 65+ was 2.3%, the lowest of any age group. The rate has remained at around 2%, even during the Great recession. (source: CSO-SILC)
- Analyses show that pensioner households are concentrated around the 60% median AROP threshold. In Ireland, 3.1% of those aged 65 and over were below the AROP threshold if defined as 50% of median income rather than 60%, compared to the EU average of 8.4%. However, a third of the population aged 65

and over (33.5%) in Ireland were at-risk-of-poverty at the 70% threshold, compared to the EU 28 average of 26.5%. (source: EU-SILC)

- The share of those aged 65+ experiencing poverty (using any of the main indicators – deprivation, AROP, consistent poverty) population is lower than the share of those aged 65+ in the overall population. (source: CSO-SILC)
- There is some evidence that the quintile share of pensioner households is changing. In 2019, 28% of those aged 65+ were in the bottom quintile compared to 12% in 2013. This suggests that close attention to income distribution changes are needed, as in time these changes may feed through to higher poverty risks. (source: CSO-SILC)
- ‘Old Age and Survivor Benefits’ social transfers reduced the at-risk-of-poverty rate for those aged 65+ from 85.6% to 25% (additional social transfers bring the rate down further). (source: CSO-SILC)
- Single adult pensioner households have higher poverty rates compared to couple pensioner households. CSO SILC data (2019) shows that:
 - 17.6% of all single adult pensioner households were at-risk-of-poverty compared to 6.1% of couple pensioner households.
 - 14.3% of all single adult pensioner households were experiencing deprivation compared to 9.3% of couple pensioner households.
 - In 2011 the consistent poverty rates of single adult and couple pensioner households were the same.
 - By 2019 single adult pensioners households had a consistent poverty rate 4 times that of couple pensioner households (4.1% versus 1%).
- Roughly a third of women aged 65+ live alone, and half of women aged 80+ live alone. This compares to just over a fifth of men aged 65+ and almost a third of men aged 80+. (Source: CSO E4209, Census 2016)
- Using an alternative approach of examining the income needed to meet essential living standards, VPSJ concluded that all urban pensioners households and all couple rural pensioner households had adequate (source: VPSJ)
- However, VPSJ concluded that single adult rural pensioner households in receipt of SPC or SPNC did not have an adequate income to meet their essential standards of living. This was largely due to transport costs. (source: VPSJ)

3. Poverty amongst older people

In Ireland, there are three main indicators of poverty: at-risk-of-poverty (AROP), basic deprivation and consistent poverty (those experiencing both AROP and deprivation)¹. The consistent poverty indicator is the basis of the Irish national poverty target to

Reduce consistent poverty to 4 per cent by 2016 (interim target) and to 2 per cent or less by 2020, from the 2010 baseline rate of 6.3 per cent.²

Trend data are provided where relevant from 2010 (the baseline year for setting the EU2020 Poverty target) to 2019 (most recent SILC data available).

3.1 Single and couple pensioner households

The analyses below include an assessment of poverty rates by household composition, namely by single adult pensioner household and couple pensioner household. It is useful to examine these households further.

Many single adult pensioner households are headed by women. From Census 2016 data, 8.5% of the population live alone. 31.5% of women aged 65+ live alone, while almost half (48.3%) of women aged 80+ live alone. This compares to just over a fifth (21.3%) of men aged 65+ and almost a third (28.8%) of men aged 80+.

Couple households in receipt of SPC will receive 90% of the SPC payment for a qualified adult. In cases where a spouse passes away, there is a considerable drop in household income – in effect, moving from 1.9 to 1.0 household income. The costs of running a household (e.g. heating, electricity, etc.) are the same for single adult and couple pensioner households, so any income shock is likely to be exacerbated as these household-level expenditure needs do not change.

¹ See Appendix 1 for the definition of each of these indicators.

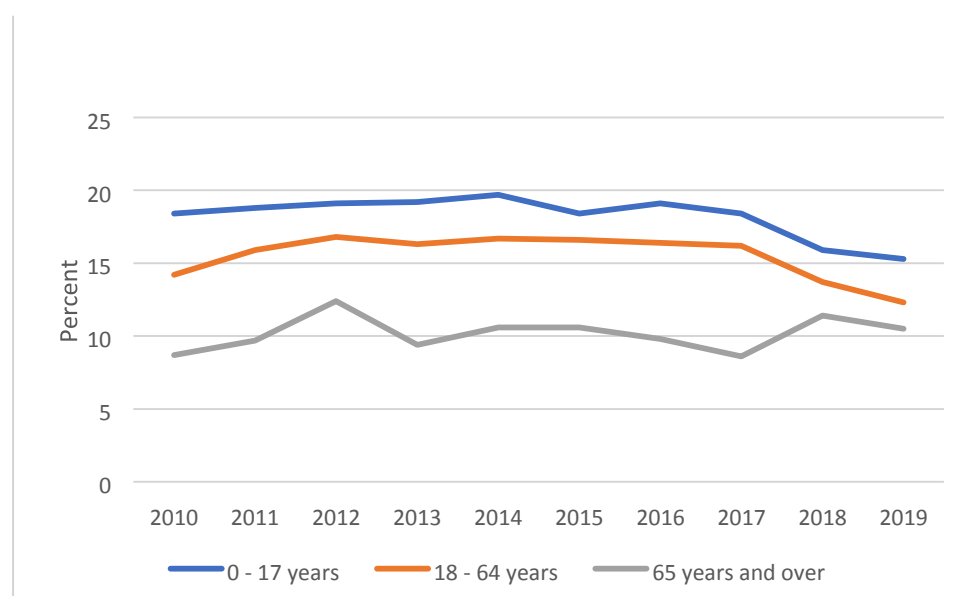
² The consistent poverty indicator is also the basis of the child poverty target, to lift over 70,000 children out of consistent poverty by 2020, a reduction of at least two-thirds on the 2011 level. This target will include reducing the higher consistent poverty risk for households with children as compared to non-child households (8.8% vs 4.2%), and for children as compared to adults (9.3% vs. 6%).

3.2 At-risk-of-poverty

At-risk-of-poverty is defined as below the threshold of 60% of median equivalised disposable household income. It is a 'relative' measure, that is, it will move in line with income changes in the wider population.

Figure 1 shows at-risk-of-poverty (AROP) trends and rates by age group. Those aged 65+ have lower AROP rates over the decade than other age groups. The gap between working adults and those aged 65+ AROP rates has reduced since 2017. The AROP rate has fallen for working age adults (from 16.2% in 2017 to 15.3% in 2019) while the rate for those aged 65+ rose (from 8.6% in 2017 to 11.4% in 2018), then fell to 10.5% in 2019.³

Figure 1 At-risk-of-poverty rate by Age Group 2010 to 2019



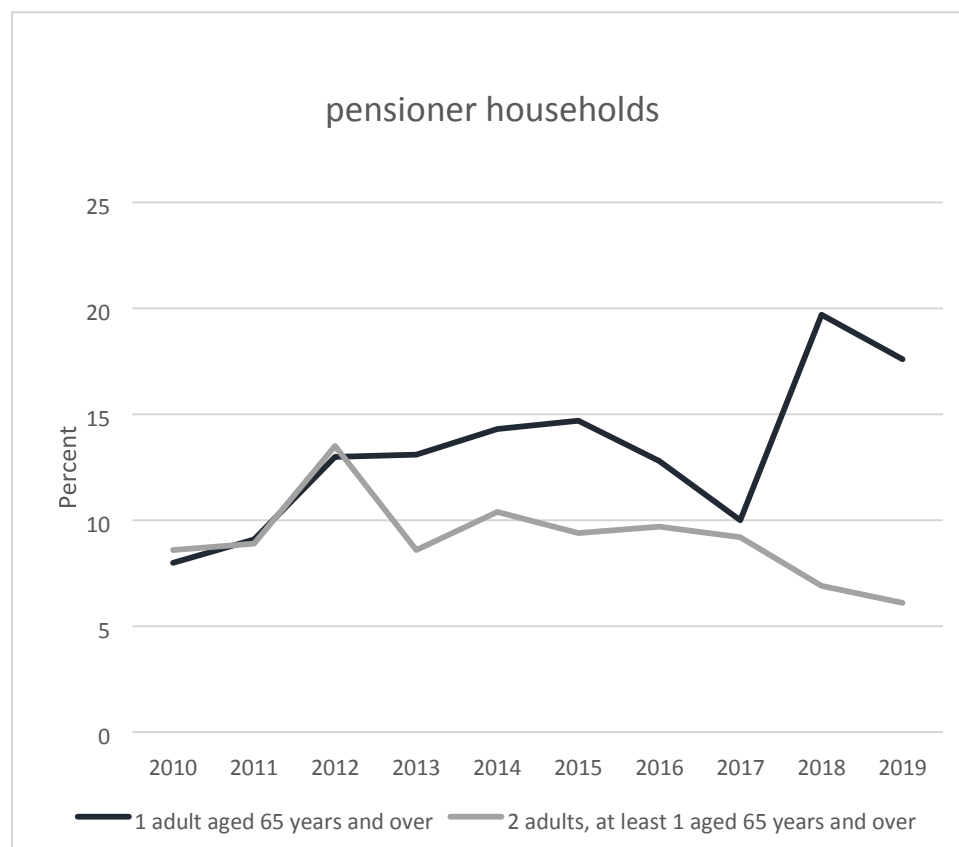
At-risk-of-poverty rate by age group 2010 to 2019

Source: CSO-SILC

³ The CSO provides commentary on whether changes in the headline indicators are statistically significant or not, but significance for disaggregated data is not published.

Figure 2 examines AROP rates and trends by pensioner household composition (i.e. in households where at least one person is aged 65+). Single adult households have higher AROP rates than couple households, at 17.6% in 2019 compared to 6.1%. In the last decade couple households have largely experienced a steady decline in their AROP rate from the highest point of 13.5% in 2012. Over the same period, single adult households' AROP rates show large changes over the space of 1 or 2 years and considerable divergence from couple households. Between 2012 (when both household types had the same AROP rate) and 2019 the AROP rate for single adult households increased by 4.1 percentage points but decreased by 7.4 percentage points for couple households.

Figure 2 At-risk-of-poverty rates, single and couple pensioner households



At-risk-of-poverty rate by single adult and couple

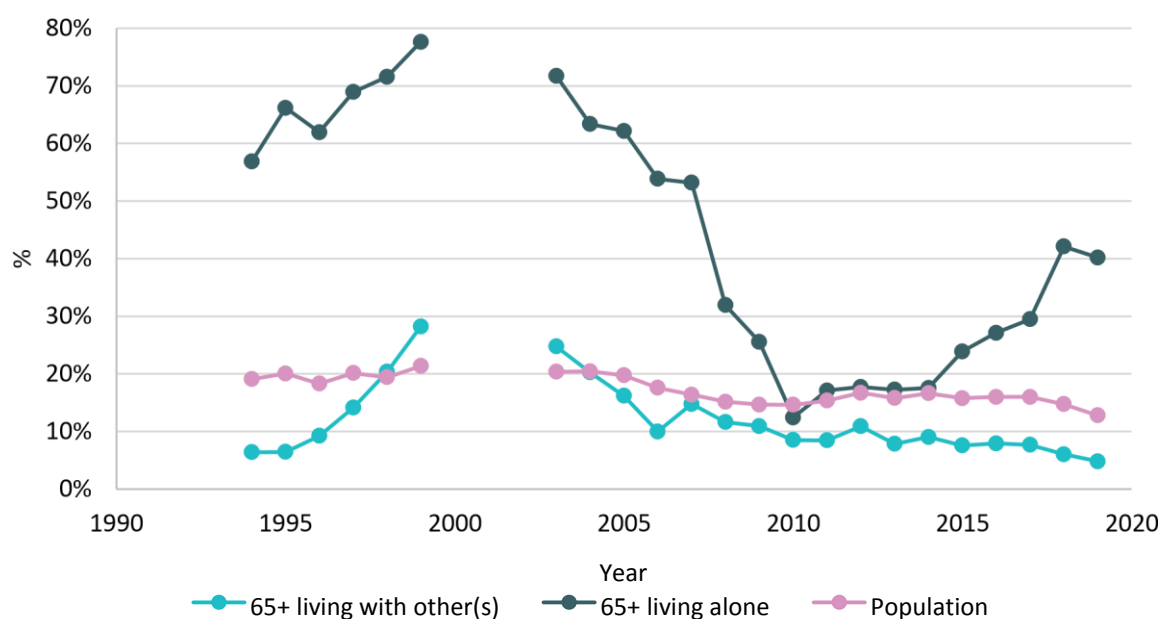
Source: CSO-SILC

Figure 3 shows long-run data (1994-2019) on poverty amongst those aged 65+ by household composition. The ESRI report based on analyses of these data notes that concerted State efforts from the late 1990s have reduced pensioner households'

AROP from the highest rates (in the 1990s) to the lowest (in the 2000s), of any age group.⁴

Figure 3 shows that single adult pensioner households had higher AROP rates throughout the 1990s and early 2000s than couple pensioner households. By 2009 single and couple pensioner households AROP rates are broadly similar. From 2014 to 2018 single adult pensioner households AROP rates increase (from 17.6% to 42.1%) then fall to 40.2% in 2019. Couple households' rates decrease, from 10.9% in 2012 to 4.8% in 2019. By 2019 the AROP rate for single adult pensioner households is approximately 8 times that of couple pensioner households (40.2% vs. 4.8%).

Figure 3 At-risk-of-poverty, single and couple pensioner households, 1994 - 2019



Provided with permission of the author as Figure 3.3 in Roantree, B., Maître, B. et al (2021) Poverty, income inequality and living standards in Ireland, 5. ESRI and the Community Foundation for Ireland: Dublin https://www.esri.ie/system/files/publications/BKMNEXT412_1.pdf

Sources: Authors' calculations using the Living in Ireland Survey and the Survey of Income and Living Conditions RMF.

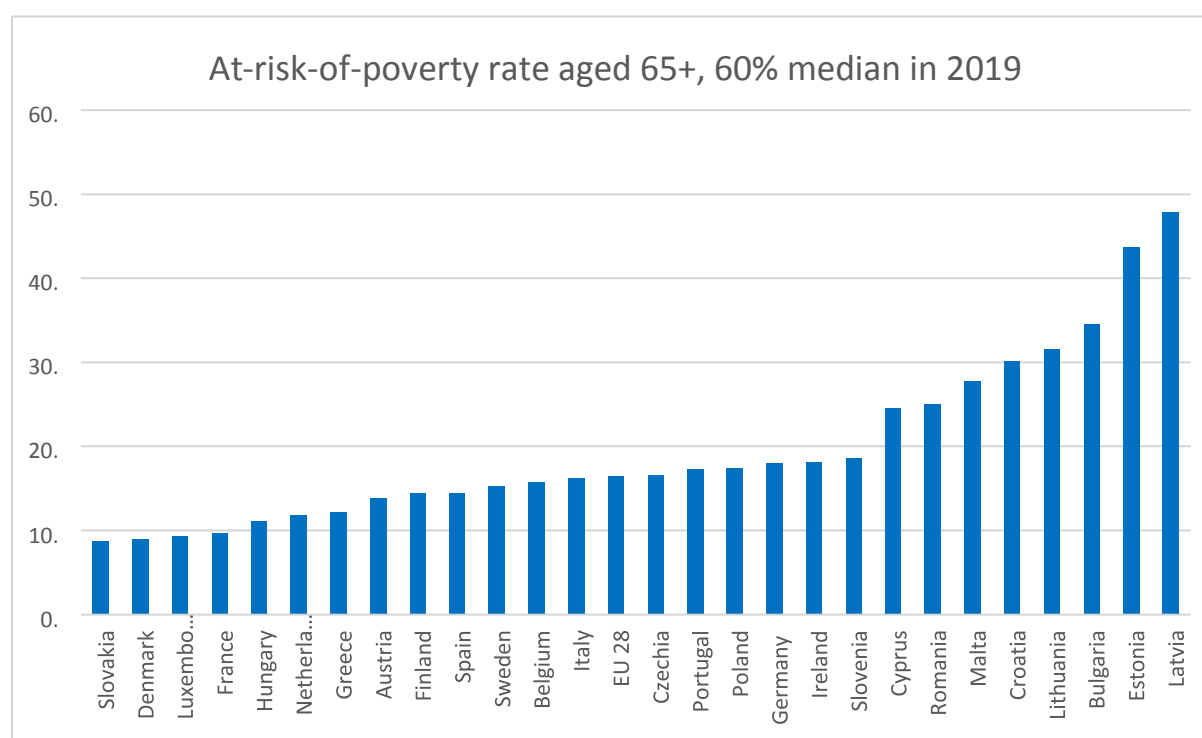
Note: Poverty line defined as 60 per cent of median equivalised disposable income, that is after direct taxes paid and benefits received adjusted for household size and composition using the modified OECD equivalence scales.

⁴ Roantree, B., Maître, B. et al (2021) Poverty, income inequality and living standards in Ireland, pp 14-15. ESRI and the Community Foundation for Ireland: Dublin https://www.esri.ie/system/files/publications/BKMNEXT412_1.pdf

Figures 4 and 5 show AROP rates across the EU to compare Ireland's performance with other Member States. An important caveat is that Eurostat and CSO calculations to equalise household income (to compare like with like) affect the value of the 60% median equivalised income threshold.⁵ Without any change in pensioner household income, this means that many Irish pensioner households are categorised as at-risk-of-poverty at EU level (below 60% median equivalised income) even as they are not categorised as AROP according to the national threshold.

Figure 4 shows AROP rates for those aged 65+ for the EU 27 Member States. In 2019 (latest data available) the EU average AROP rate for those aged 65+ was 16.5%. In 2019 Ireland's AROP rate using Eurostat calculations was 18.1% and using CSO calculations this was 10.5%.

Figure 4 At-risk-of-poverty aged 65+, EU



Source:

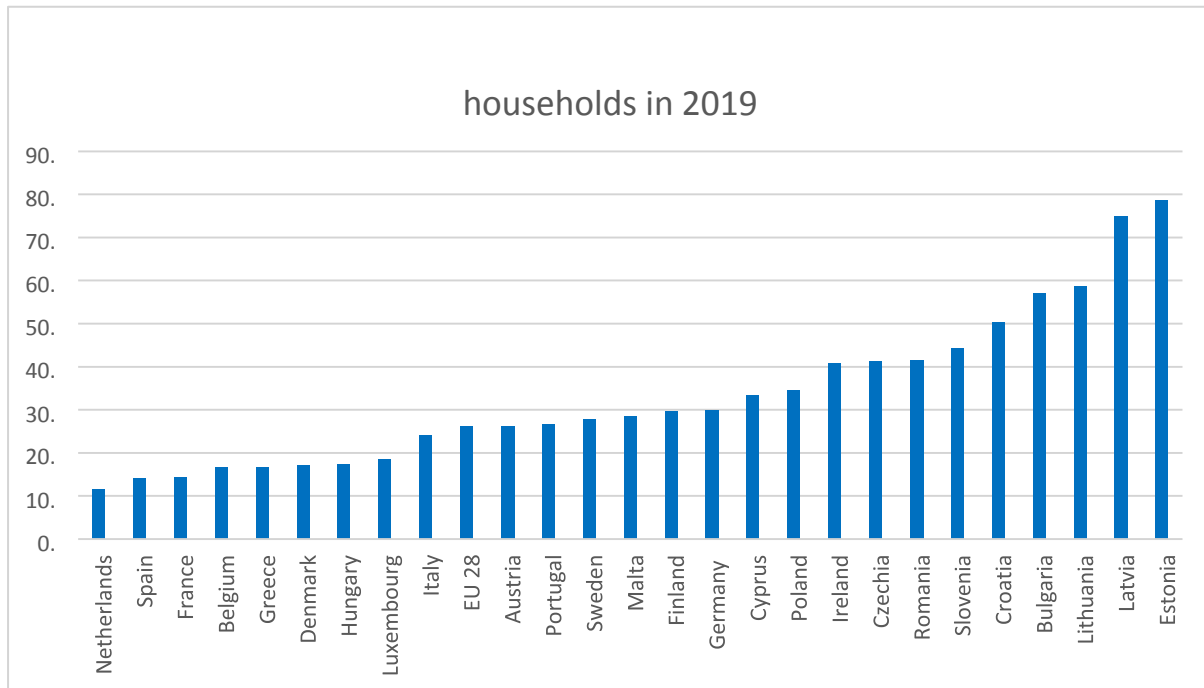
Eurostat,ilc_LI02

⁵ For 2019, the at-risk-of-poverty thresholds (60 per cent of the national median equivalised income) were: CSO €14,387; Eurostat €15,317.

There are different calculations to 'equivalise' households such that their incomes can be compared regardless of household composition (age and number of individuals). 'Equivalised' disposable income is the total disposable income of each household divided by the equivalised household size. In Ireland, a pensioner couple household with no children has an equivalised size of 1.66. In the EU, this is 1.5. The equivalised income value is thus lower in Ireland, meaning the 60% of median income threshold is also lower.

Figure 5 shows that in 2019 the at-risk-of-poverty rate for single adult pensioner households was 40.8% compared to 26.1% for the EU average.

Figure 5 At-risk-of-poverty single adult pensioner households, EU

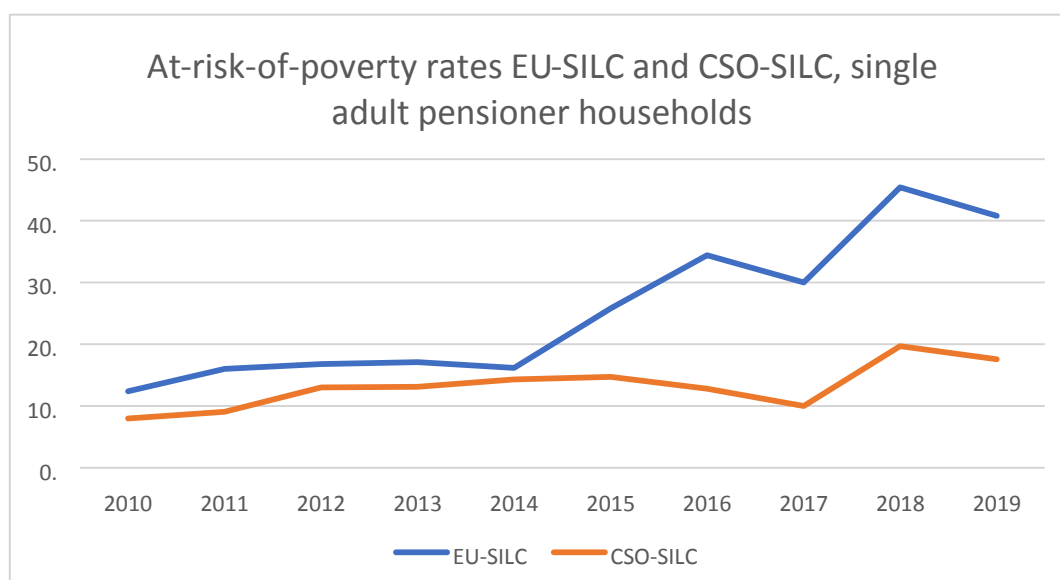


At-risk-of-poverty, 60% median, single adult pensioner

Source: Eurostat, ilc_LI03

Figure 6 illustrates the effect technical differences between EU-SILC and CSO-SILC calculations have on findings using the example of single adult pensioner households⁶.

Figure 6 Comparison of EU-SILC and CSO-SILC AROP rates, single adult pensioner households



Source: Eurostat, ilc_LI03 and CSO, SIA16

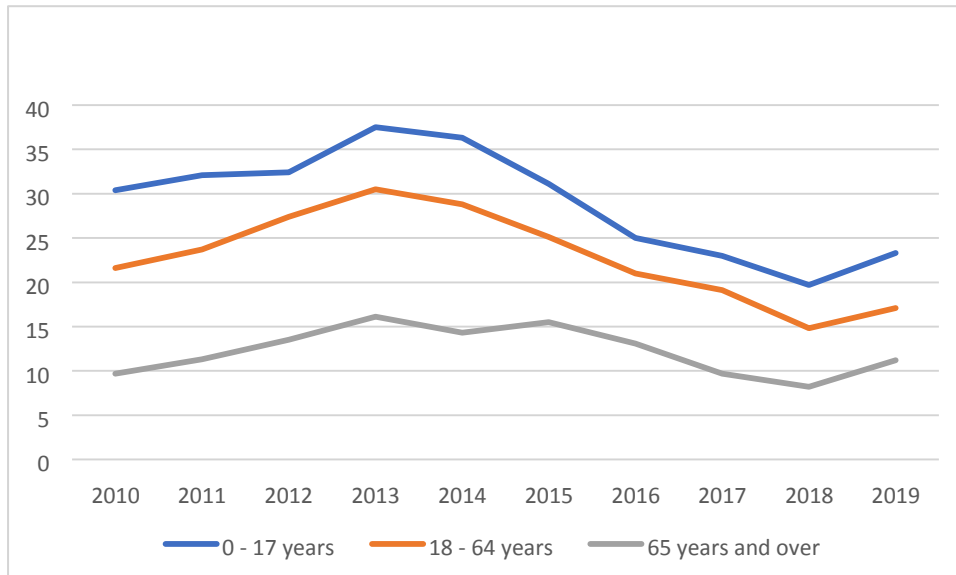
3.3 Deprivation

Deprivation is a composite indicator capturing an enforced lack (cannot afford) of two or more items out of an 11 item list. Items include being able to go out on a meal once a month with friends, ability to replace furniture, etc. It is an absolute measure in that it captures the situation within households. It should be noted that low deprivation rates amongst pensioner households may well be due to lower consumptions patterns and/or not wanting to afford certain items.

⁶ Single adult households have the same equivalence scale of 1 in both Eurostat and CSO calculations. The differences in AROP rates arise from a technical change in the median income, in turn raising the AROP threshold such that many more Irish single adult households are categorised as AROP in Eurostat calculations as versus CSO calculations.

Figure 7 show deprivation rates by age group. As with AROP trends and rates, those aged 65+ have a lower deprivation rate than other age groups.

Figure 7 Deprivation Rate by Age Group 2010 to 2019

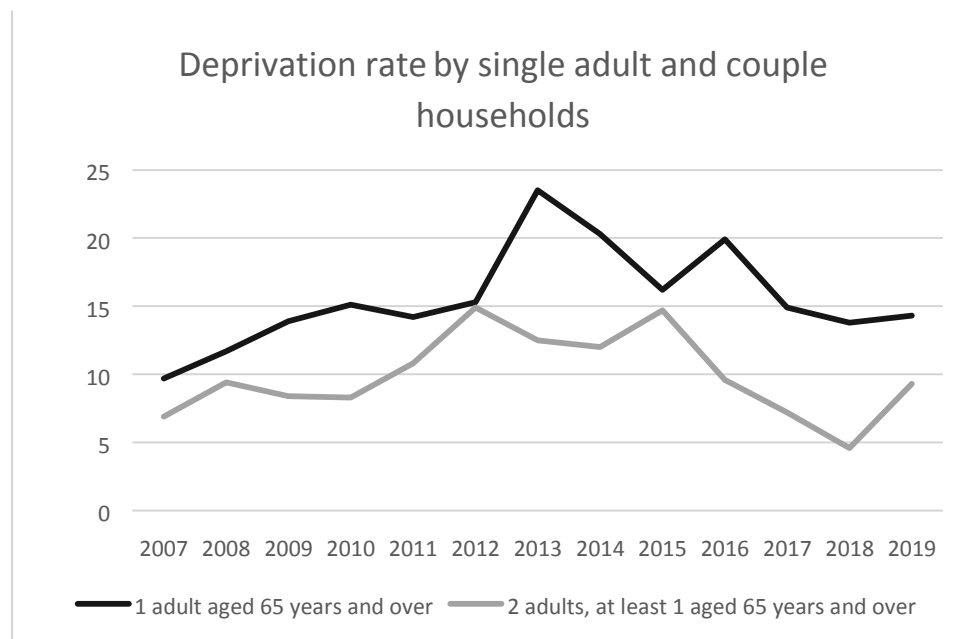


Deprivation Rate by Age Group 2010 to 2019

Source: CSO, CSO-SILC

Figure 8 shows deprivation rates by pensioner household type. The experience of deprivation for single adult pensioner households rose steadily from 2007 to peak at 23.5% in 2013. Thereafter there are relatively large changes (in both directions) in the deprivation rate. Deprivation rates for couple households jump between 2007 and 2008 but then remain reasonably steady until 2010 before peaking in 2012 at 14.9%.

Figure 8 Deprivation Rate by single and couple pensioner households 2007 to 2019



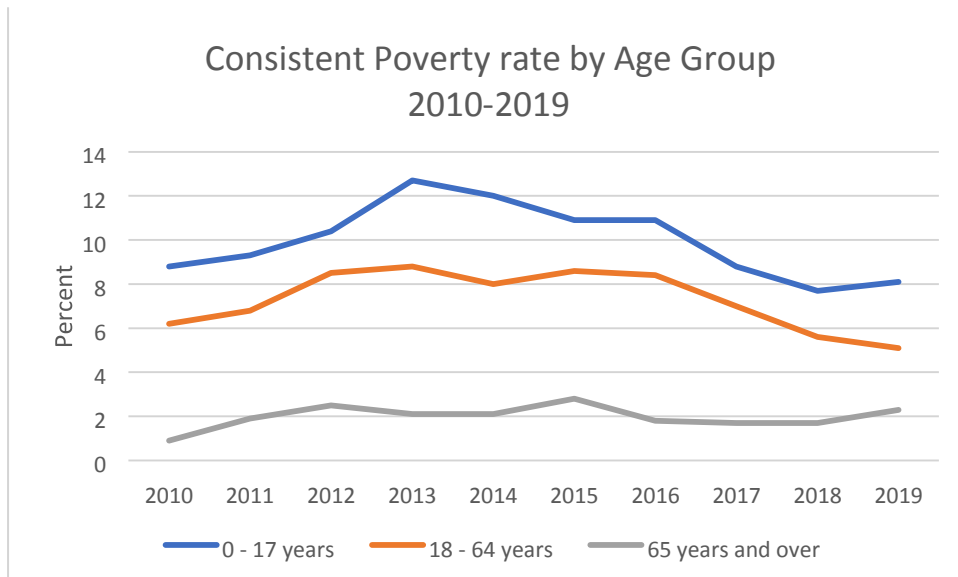
Source: CSO, CSO-SILC

3.4 Consistent Poverty

Consistent poverty is composite indicator capturing those experiencing at-risk-of poverty (AROP) (defined as 60% below median equivalised household income) AND those experiencing deprivation (those with an enforced lack of 2 items of an 11 item list). It thus combines both a relative and an absolute measure.

In 2019, the consistent poverty rate for those aged 65 and over was 2.3%, compared to 5.1% for those aged 18 to 64 and 8.1% for those aged 0-17. Figure 9 shows that consistent poverty rates for those aged 65 and over, in the last decade, have been lower than for those of working age and for children.

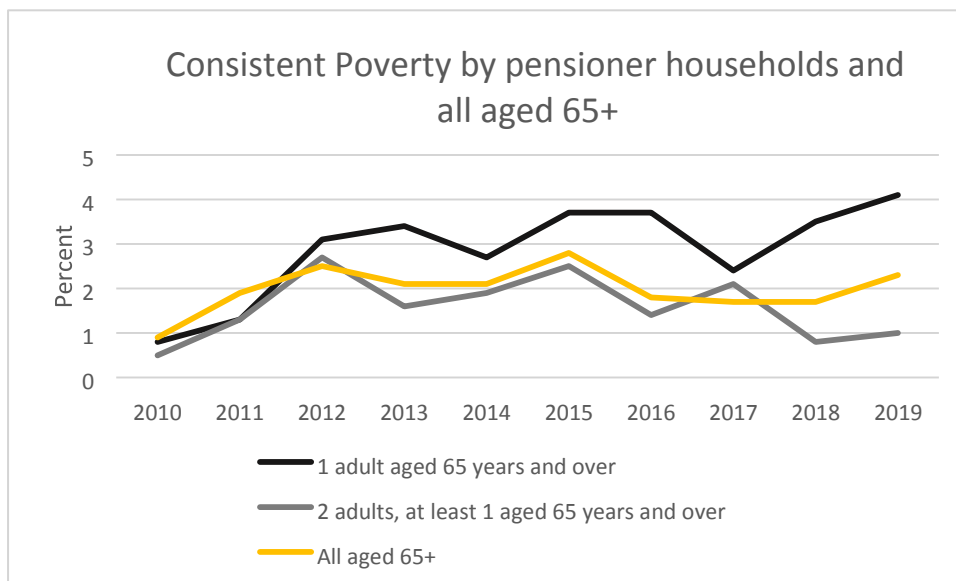
Figure 9 Consistent Poverty by Age Group 2010 to 2019



Source: CSO, CSO-SILC

Figure 10 shows consistent poverty rates amongst single and couple pensioner households. The consistent poverty rate in respect of all those aged 65+ was 0.9% in 2010 and 2.3% in 2019. The consistent poverty rate for single adult pensioner households increased from 1.3% to 4.1% over the period while the rate decreased 0.3 percentage points (from 1.3% to 1%) for couple pensioner households over the same period.

Figure 10 Consistent Poverty by pensioner households and all aged 65+



Source: CSO, CSO-SILC

Conclusion

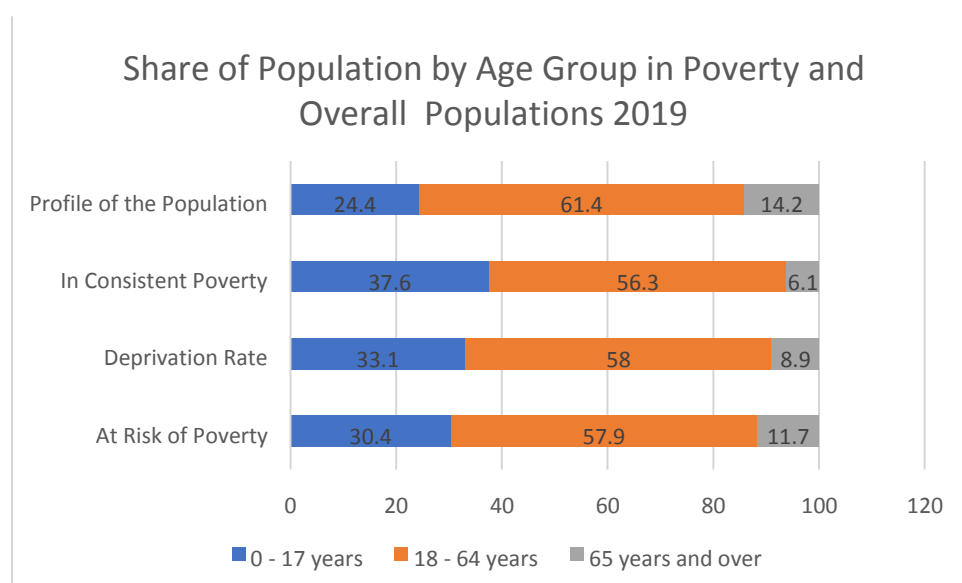
Current State Pensions payments for single adult pensioner households are less effective in reducing poverty in these households.

- a. Single adult pensioner households experience greater poverty, across a range of indicators, than do couple pensioner households.
- b. Many of these households are headed by women.
- c. The Sub-Committee notes the Living Alone allowance could be a means of addressing this issue.

3.5 Share of poverty population

The proportion of a given group within the (consistent poverty, at-risk-of-poverty or deprivation) population, relative to their share in the overall general population, is an indication of proportionate poverty risk. The share of older people in any of the three poverty populations, show that they are underrepresented in these populations relative to the general population (Figure 11).

Figure 11 Share of Population by Age Group in Poverty and Overall Populations



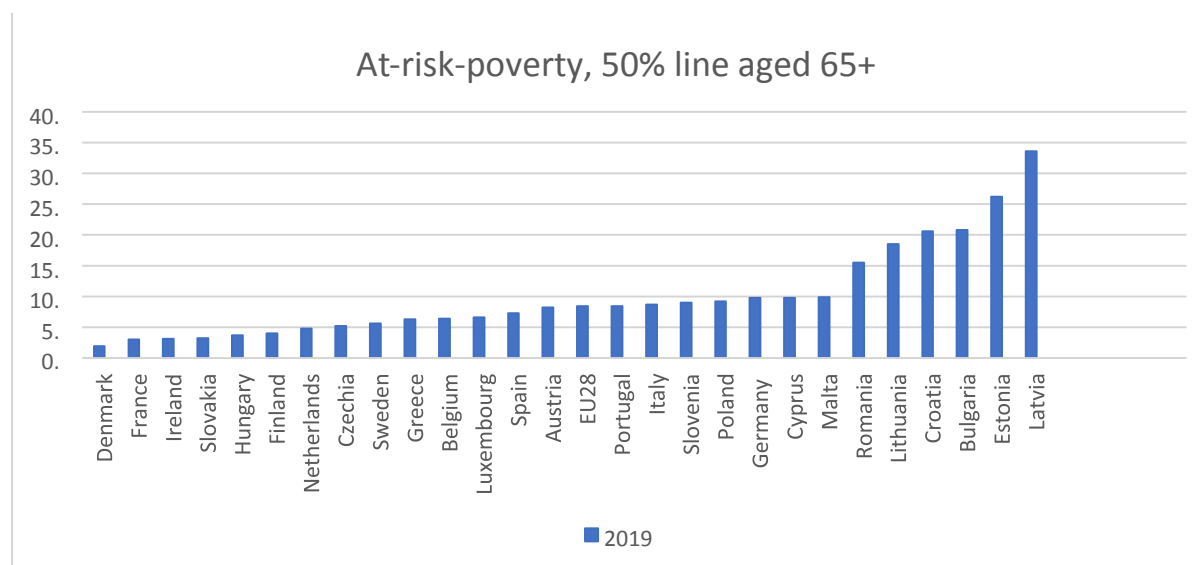
Source: CSO, CSO-SILC

4. Other Measures

4.1 Dispersion around the 60% line

Examining dispersion of the population aged 65 and above around the at-risk-of poverty 60% median equivalised income threshold is another way of assessing the impacts of State Pensions on reducing pensioner poverty. Figure 12 shows that Ireland is below the average EU 28 rate on this measure, at 3.1% vs. 8.4% in 2019. In other words, of those below the AROP threshold (using Eurostat calculations), only a small proportion of these are below the lower threshold of 50% of median income.

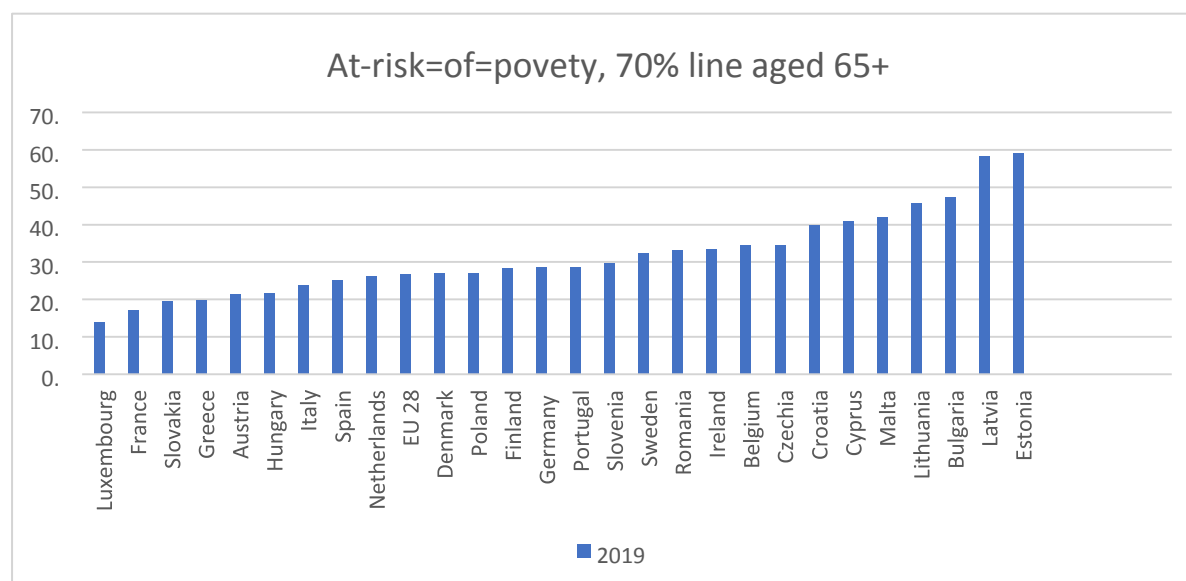
Figure 12 At-risk-of-poverty, 50% median equivalised income for those aged 65+



Source: Eurostat, ilc_PNS8

Figure 13 shows that in 2019 a third of the population aged 65 and over (33.5%) in Ireland were at-risk-of-poverty at the 70% threshold, compared to the EU 28 average of 26.5%.

Figure 13 At-risk-of-poverty, 70% median equivalised income for those aged 65+



Source: Eurostat, ilc_PNS8

The effects on AROP rates using Eurostat calculations (that raise the income threshold) versus CSO calculations, the fact that the AROP rate at the 70% of median is 33.5% and the smaller proportion of Irish pensioner households at the 50% line (compared to the EU 28 average) suggests many pensioner households are just above and just below the at-risk-of-poverty threshold (of 60% median equivalised income).

Conclusion

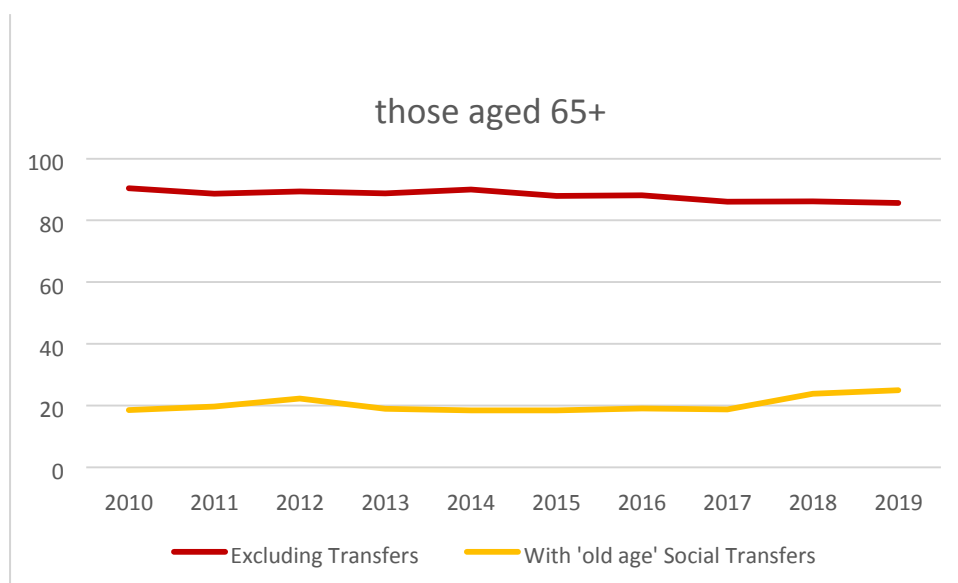
Many pensioner households are close to the national threshold of being at risk-of-poverty.

- a.Changes with respect to State Pensions and other transfer can affect the proportion of pensioner households at-risk-of-poverty.
- b.The Sub-Committee noted that if the national threshold rises, or if the national median income rises faster than the income of those aged 65+ who are currently close to the AROP threshold, then more pensioner households could fall into at-risk-of-poverty, given that there are many pensioner households close to the current national threshold.

4.2 Poverty Reduction Effect of Social Transfers

Another measure to assess the effectiveness of State Pensions on poverty reduction (specifically) is to examine the ‘poverty reduction effect of social transfers’ (PREST). This measure considers the standard at-risk-of poverty rate as based only on market income or other sources of income, i.e. it excludes social transfers. On that basis, Figure 14 shows that without social transfers 85% of those aged 65+ would be at risk-of-poverty without social transfers. With ‘old age and survivors benefits’ social transfer, the AROP rate is reduced to 25% and reduced further by other social transfers (not related to old-age social transfers, e.g. unemployment social transfers) to arrive at the final 10.5%. That is, the poverty reduction effect of old-age social transfers (including State Pensions) lowers the at-risk-of-poverty rate by 60 percentage points.

Figure 14 At-risk-of-poverty rate before social transfer by age group



Poverty Reduction Effect of Social Transfers for

Source: CSO, CSO-SILC

The Sub-Committee noted the role supplementary income supports and in particular the Living Alone Allowance, non-cash benefits and services can have in preventing pensioner poverty, by directly supplementing household income and/or by reducing household expenditure needs.⁷

For example, the qualified adult of an SPC recipient receives 90% of the SPC payment. Other non-cash benefits such as the Household Benefit Package reduce household expenditure needs. While the value of supplementary income supports can be quantified, there are significant difficulties for imputing a consistent, reliable, applicable and timely real cash value for those in receipt of non-cash benefits. Published CSO and Eurostat data do not provide details of the poverty reduction effects of supplementary income supports by age group or by household type.

⁷ A 2001 ESRI study estimates that at the 50% median income threshold non-cash benefits reduces the risk of poverty for pensioner households by over 20 percentage points (from 35% to 14%), and a medical card reduces that risk an additional 7% (from 14% to 7%). The reduction is less pronounced at the 60% median, but still substantial at 17 percentage points (from 57% to 40%). See Nolan, B. and Russell, H. (2001) 'Non-Cash Benefits

Conclusion

Supplementary income supports, non-cash benefits and services enhance State Pensions' impacts.

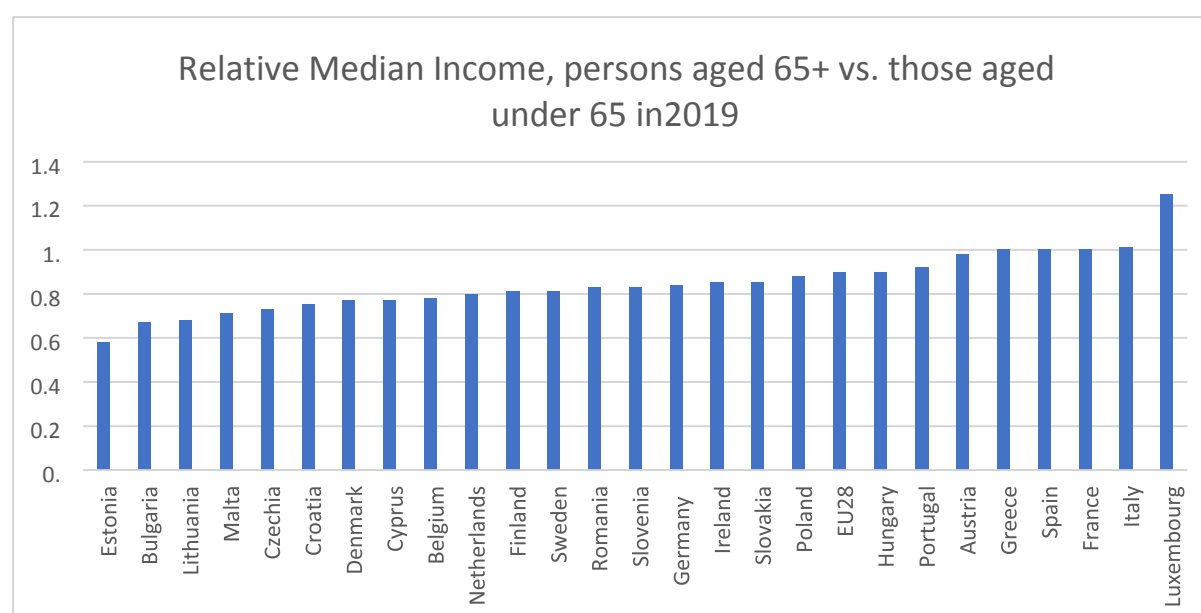
- a. The value of supplementary income supports can be quantified but it is difficult to impute a monetary value for non-cash benefits and for services.
- b. Published CSO and Eurostat data do not break down the poverty reduction effect of supplementary income supports.
- c. As a combined package of monetary and non-cash benefits for pensioner households it is therefore difficult to quantify their impacts for reducing pensioner poverty.

4.3 Income

Figure 15 assesses the ratio of median income for those aged above 65 relative to those aged below 65 across EU Member States. The closer this ratio is to 1, the more parity there is between incomes for those under 65 and those over 65. Ireland is below the EU 28 average (in 2019, at 0.84 vs. 0.91 respectively). In other words, in Ireland those over 65 have proportionally less income relative to those under 65 than is the case, on average, across the EU-28 Member States.

"Non-Cash Benefits and Poverty in Ireland", Policy Research Series Number 39. ESRI: Dublin.
<https://www.esri.ie/system/files/media/file-uploads/2015-07/PRS039.pdf>

Figure 15 Ratio of relative median income: aged 65+ to <65



Source: Eurostat, ilc_PNP2

4.4 Income Distribution and Inequality

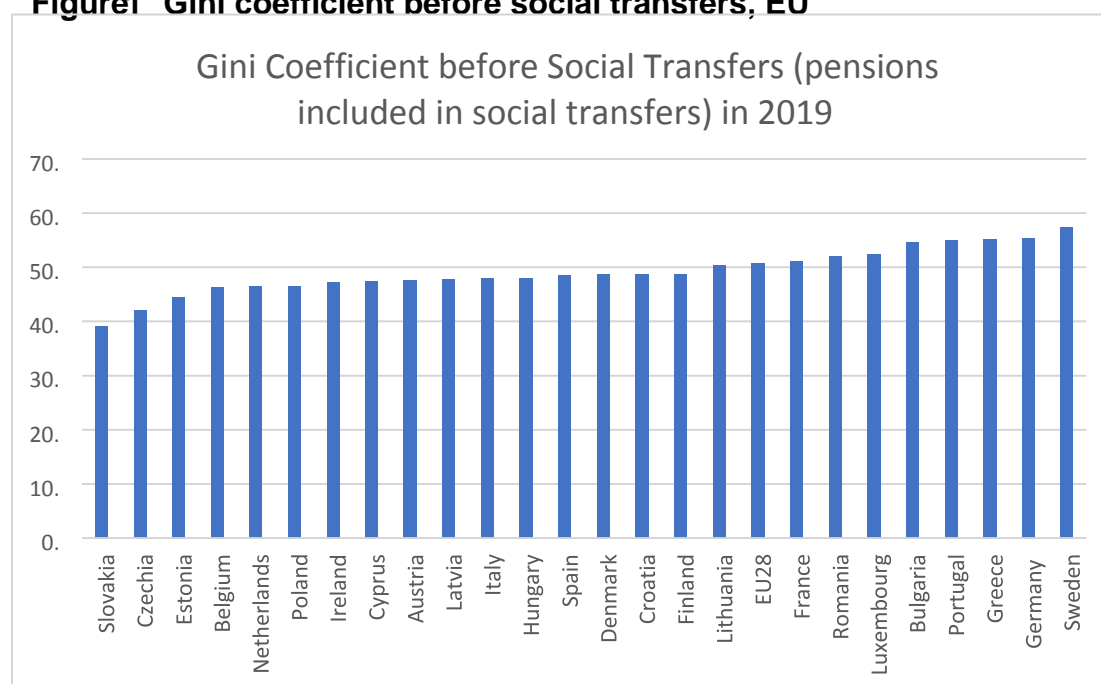
Another way to assess the impact of State Pensions is to examine its redistributive effects to reduce income inequality within and between groups. Two of the most common measures used are the Gini coefficient⁸ and the S80/S20 ratio⁹. For the

⁸ 'The Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. The Gini index measures the area between the Lorenz curve and the hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. A Gini index of zero represents perfect equality and 100, perfect inequality.' OECD Glossary of Terms, <https://stats.oecd.org/glossary/detail.asp?ID=4842> ⁹ The S80/S20 ratio is the ratio of the total income received by the 20% of the country's population with the highest income to that received by the 20% of the country's population with the lowest income. The higher the ratio, the greater the inequality. <https://www.eapn.ie/poverty/incomeinequality/>

Gini coefficient, income inequality is rated from 0 (perfect equality) to 100 (perfect inequality). The S80/S20 is rated as the proportion of income held by top income quintile relative to all others; a higher ratio means greater income inequality.

Figure 16 shows the Gini coefficient in Ireland once pensions-related social transfers (but not other social transfers) are taken into account. Ireland is in line with the EU 28 average (in 2019, this was 47.6 vs. 50.7% respectively).

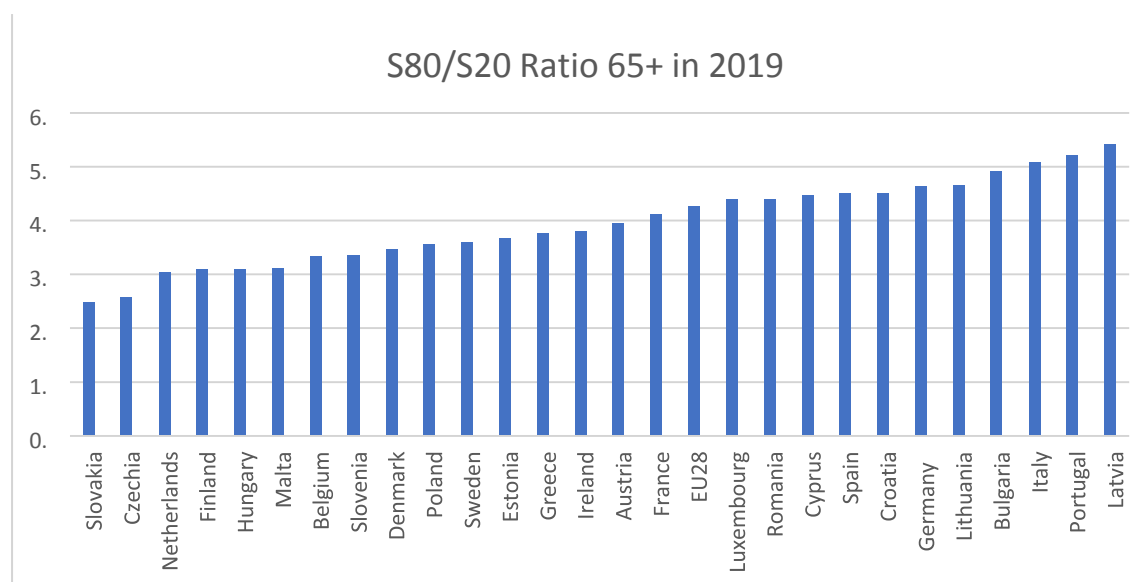
Figure1 Gini coefficient before social transfers, EU



Source, Eurostat ilc_DI12

Figure 17 shows that Ireland generally has lower income inequality than the EU 28 MS average according to the S80/S20 ratio for those aged 65 and over (at 3.8 vs. 4.27 in 2019, respectively).

Figure 17 S80/S20 for those aged 65+, EU

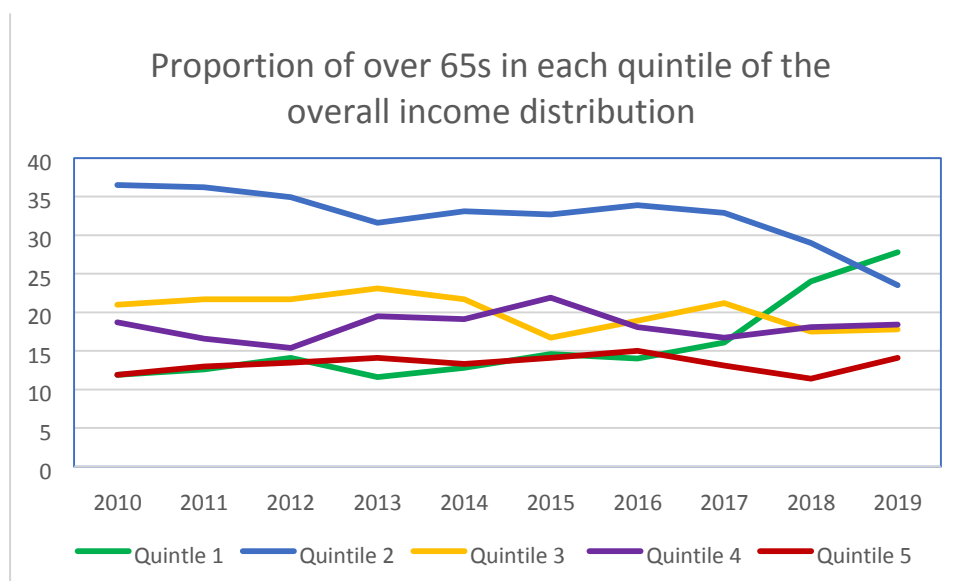


Source:
Eurostat, ilcPNS4

Another approach is to examine income distribution changes over the entire income distribution, i.e. not just of those who are in income poverty. This can show where such changes may feed through to increased future poverty risk, given that many pensioner households are clustered around the AROP 60% threshold.

Figure 18 shows the proportion of all those aged 65+ in each income quintile, or each successive 20% of the household income across all households in Ireland. Looking only at quintiles 1 and 2 (i.e. the bottom 40% of all household incomes), in the early part of the decade to 2017, those aged 65+ were predominantly in quintile 2 with a smaller share in quintile 1. Income changes in 2018 and 2019 have reversed this. In 2019, 28% of the over 65s were in the bottom quintile compared to 12% in 2013. Even so, most are still above the AROP threshold, which was approximately at the 13th percentile of the household income distribution in 2019.

Figure 18 Proportion of over 65s in each quintile of the overall income distribution



Source: CSO SIA38, computed from decile data.

Conclusion

There is some evidence that recent income changes in the general population are pushing some pensioner households further down the income distribution, but not below the at-risk-of-poverty national threshold. This may signal future poverty risks in these pensioner households in time.

5. Meeting the minimum essential standards of living

The impact of State Pensions on poverty can also be assessed by considering whether it provides the minimum income needed to meet an essential standard of living. The Vincentian Partnership of Social Justice use focus group discussion with members of case study household types, and guided by experts, to determine an essential basket of goods and services for a range of urban and of rural households, then costs this basket to derive the minimum income required to purchase it. Finally, a number of income scenarios for these households are generated (based on income from social welfare and from the minimum wage) and assessed to see if they would meet the essential standards of living for a given household.

In 2020 (latest data available), all 5 urban pensioner households income scenarios meet requirements for an essential standard of living.⁹ 3 of the 5 rural pensioner household meet requirements.¹⁰ However, a single adult rural pensioner household in receipt of an SPNC payment of €237.00 (plus other primary and secondary social welfare benefits) falls short of minimum income requirements by €57.71 per week. A single adult household in receipt of a full SPC payment (€248.30) (plus other primary and secondary social welfare benefits) falls short of minimum income requirements by €47.24.

The shortfalls in rural versus urban households largely relate to the costs of transport in rural areas where Free Travel may not be readily available. It should also be noted that full rates of SPC, SPNC and qualified adult payments are factored into the income scenarios. They also find that single urban pensioners are closer to not meeting their minimum living standard than urban pensioner couples, and that rural couples are closer than urban couples to not meeting their minimum living standard.

Conclusion

State Pensions reduce pensioner poverty, as assessed across a range of indicators.

- a. The Sub-Committee examined a range of indicators that can provide different perspectives on 'poverty prevention' for older people, including consistent poverty, income poverty, deprivation, and minimum essential standards of living. Using a range of indicators helps to capture the unique situation of pensioner households e.g. in respect of lower consumption patterns, reliance on State Pensions and the significant impacts of associated benefits.
- b. Overall, the Sub-Committee concluded that State Pensions have positive impacts on reducing pensioner poverty, across a range of indicators and however 'poverty prevention' is defined. Technical differences between national and EU indicators affect findings.

⁹ These households are: 1) Single adult, SPNC; 2) Single adult, SPC; 3) Couple, both SPNC; 4) Couple, SPC and SPNC; 5) Couple, SPC and Qualified Adult. See https://www.budgeting.ie/download/pdf/sw_pen_u-2020.pdf

¹⁰ See https://www.budgeting.ie/download/pdf/sw_pen_r-2020.pdf

Conclusion

These findings will feed into the Sub-Committee's consideration of its next paper on benchmarking.

Appendix 1: Background Information and Caveats

A1 Concepts and Definitions

A1.1 What is poverty?

Ireland was the first EU Member State to adopt a national poverty target in 1997 using an indicator of 'consistent poverty' that had been developed by the ESRI. The consistent poverty indicator continues to be the basis of the Irish National Poverty Target. It is a composite indicator capturing those experiencing at-risk-of poverty (AROP) (defined as 60% below median equivalised household income) AND those experiencing deprivation (those with an enforced lack of 2 items of an 11 item list). This composite indicator thus has both a relative (at-risk-of-poverty) and an absolute (deprivation) component.

This combination seems to work well in terms of capturing real movements in poverty trends over time. For example, the AROP measure can and does perform counterintuitively during economic downturns. During the last recession the AROP rate increased by less than 2 percentage points from 14.7% in 2010 to 16.5% in 2012 and dropped to 15.2% in 2013.¹¹¹² However, deprivation rates rose more slowly (as savings protected many households from the initial income shock), reaching a high of 30% in 2013 and only returning to pre-2010 levels in 2016.¹³ Progress on the national poverty target (as measured by the trends in the consistent poverty indicator) shows a similar lagged effect, rising to 9% in 2013 before dropping to 5.5.% in 2019.¹⁴

The current EU poverty target, to which Member States make a contribution through national-level targets is an additive measure, thus creating a much larger (and heterogenous) target population, defined as at-risk-of-poverty or exclusion (AROPE).

¹¹ Department of Social Protection (2016) *Social Inclusion Monitor 2014*. Government of Ireland: Dublin. See <http://www.socialinclusion.ie/documents/2016-05->

¹² [SocialInclusionMonitor2014withIrishForeword_rpt_Final_002.pdf](#)

¹³ CSO (2019) *Survey of Income and Living Conditions (SILC) Release*, CSO: Cork. See <https://www.cso.ie/en/releasesandpublications/ep/p-silc/surveyonincomeandlivingconditionssilc2019/introductionandsummaryofmainresults/>

¹⁴ Ibid.

That is, the target population are those at-risk-of-poverty, OR those experiencing severe material deprivation, OR those in very low work intensity households.

Ireland's contribution to the EU2020 headline AROPE target is

To lift at least 200,000 people out of 'combined poverty' (i.e. the combination of consistent poverty, at-risk-of-poverty and basic deprivation) between 2010 and 2020.

The most recent *Roadmap for Social Inclusion 2020-2025* anticipates a move away from national indicators to measure progress on 'poverty prevention' (primarily conceptualised as poverty reduction), towards comparative performance with other EU Member States based on EU indicators.

A1.2 What is 'poverty prevention'?

The policy rationale for the Irish State Pension system is to prevent poverty amongst older people. This rationale is underpinned by national commitments, set out for example in the *Roadmap for Pensions Reform 2018 to 2023* and in the *Roadmap for Social Inclusion 2020-2025* as well as through general political consensus and public buy-in to maintain payments rates through budgetary decisions in line with policy commitments.

Poverty prevention can be conceptualised in many different ways. The following are some illustrative examples that show how different policy approaches might be adopted in pursuit of this overall objective, for different target groups and through a range of measures.

Poverty prevention might be conceived as poverty avoidance, that might in turn lead to proactive measures to ensure that State income supports always maintains a certain payment level above a given income poverty target and/or indicator. Policy commitments in respect of a benchmarking/ indexing process are an example of this approach.

Poverty prevention can be conceived as poverty reduction, i.e. seeking to reduce the incidence and/or risk of poverty at a population level, for example through income supports/social transfers as well as non- (or less easily) monetised measures such

as secondary benefits. Closely aligned with this conceptualisation of poverty prevention is the role of the welfare state in protecting people from poverty (i.e. a 'safety net') while experiencing short-term contingencies such as unemployment or ill-health, as well as longer-term contingencies such as retirement. More recently and in particular with respect to the working-age population, the role of the welfare state in 'poverty prevention' has been to provide activation supports and employment services as a 'springboard' from unemployment to employment, i.e. implementing measures to facilitate efforts to earn (and improve) market income as a means of preventing poverty. In Ireland as in most EU member states, efforts to reduce poverty tend to be the most prevalent policy approach for 'poverty prevention'. The welfare state has another role to play in poverty prevention through income redistribution, using a combination of targeted and universal measures across similar households (horizontal redistribution) and across income bands (vertical redistribution).

Another way to conceptualise poverty prevention is by lifting those experiencing 'deep' and/or 'severe' poverty at least closer to if not over a poverty threshold. Defining and identifying those in 'deep poverty' is challenging and as such targeted measures for this group are less common. Goal 1 of the UN Sustainable Development Goals 2030 ('End poverty in all its forms everywhere') includes ambitions to address deep poverty.¹⁴

Yet another way to conceptualise poverty prevention is by reducing the costs of living, for example through the provision of affordable, accessible and high-quality services. Measures to address child poverty as outlined in the *Brighter Outcomes, Better Futures* National Policy Framework and in *First Five* (the Government strategy for babies and young children) particularly focus on developing this policy approach for poverty prevention.

Measures to achieve poverty prevention (however conceptualised) can also be considered over time, for particular groups and geographically. So, for example, measures might seek to prevent persistent poverty that can have knock-on impacts

¹⁴ See, for example, <https://sdgs.un.org/goals/goal1>

for health and well-being; and/or prevent poverty for those living alone and for women; for those that tend to be most vulnerable, e.g. Travellers, lone parent households; for those living in areas experiencing multiple disadvantages; for those living in rural areas.

Finally, Ireland's efforts to prevent poverty have, since 1997 with the publication of the first National Anti-Poverty Strategy, focused on a life-cycle approach and on commensurate measures to address social exclusion and/or promote social inclusion.

A2 Measuring 'poverty' and 'poverty prevention efforts'

Underlying conceptual differences within and between different approaches and the tensions and trade-offs that may therefore arise, mean that even a composite indicator or suite of indicators may not be able to provide a fully comprehensive assessment of progress towards the objective of 'preventing poverty'.

There are also methodological and measurement challenges for capturing multidimensional poverty, and for capturing policy impacts on poverty, which drive ongoing work internationally, at EU level and to a degree in Ireland (for example, the DCEIDY's programme on Child Poverty is investigating ways to improve the measurement and understanding of the lived experiences of child poverty).

Due to the complexity of poverty prevention efforts writ large, the downstream effects of policy efforts, the multi-dimensional nature of poverty (as both a cause and a consequence of many other social policy concerns), the nature, scope and scale of groups affected, political and public understanding and buy-in of poverty prevention efforts etc., national and EU policy performance and progress in respect of poverty prevention (however conceptualised) tends to rely on point-in-time and trend analysis of various indicators. These can provide a good understanding of the direction of travel, of the magnitude of progress and for whom, but they cannot yet provide causal links between policy efforts and outcomes in respect of poverty prevention.

A3 Data sources

From 1994 to 2003, data on the social situation, financial circumstances and living conditions of Irish households were captured through the Living in Ireland survey, part of the European Community Household Panel (EHCP). These data underpinned the adoption of the consistent poverty indicator as the Irish national poverty target in 1997. From 2003, EU legislation established a requirement to conduct an annual Survey of Income and Living Standards (SILC), providing comparable data on income and living conditions across EU Member States. In Ireland, the CSO conducts the SILC survey, producing data for Eurostat (the European statistics body). The CSO produce analyses of SILC data in line with existing targets, indicators and related measures. CSO-SILC data outputs are not necessarily comparable with EU-SILC data outputs. To make these differences clear, this note references CSO-SILC where data outputs are sourced from the CSO, and EU-SILC where data outputs are sourced from Eurostat.



Rialtas na hÉireann
Government of Ireland

An Coimisiún Pinsean
The Pensions Commission