



The Working Poor in Ireland:

An Analysis of EU-SILC 2005

Executive Summary

March 2009

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The views expressed in this text are the author's own and are not necessarily the views of the Combat Poverty Agency.

Introduction

This study uses the 2005 EU-SILC to examine the working poor phenomenon in Ireland. 15,539 individuals in 6,085 households were surveyed. The paper presents the EU and national contexts, provides a comprehensive, quantitative account of working poverty in Ireland, and proposes policy responses.

The 'working poor' refers to any individuals who live in a working household whose equivalised income is less than 60 per cent of median equivalised income. A 'working household' is defined as any household that contains at least one individual whose principal economic status (PES) is 'at work'.¹ The 'inactive poor' are defined as any individuals who live in an 'inactive household' whose equivalised income is less than 60 per cent of median equivalised income. Individuals are said to live in 'inactive households' if no member of the household has a PES that is defined as 'at work'.

The objectives of the paper are:

- » To quantify the extent of the working poor and working poor households in Ireland
- » To examine regional variations in the extent of working poverty
- » To identify the employment characteristics of the working poor
- » To explore the demographic and socio-economic characteristics that distinguish the working poor from other groups
- » To investigate the relationship between the working poor and social transfers

The extent of working poverty in Ireland

The study shows that at an individual level, within the PES classification, those 'at work' have the lowest risk of being consistently poor, with only 1.7 per cent of workers living in consistent poverty. The study also shows that those 'at work' are the least likely group to be 'at risk of poverty' – 7 per cent. This percentage is arrived at by combining the two categories of employees and self-employed: 5.8 per cent of employees and 13.3 per cent of the self-employed being 'at risk of poverty'.

Given that people in general do not live as isolated units but as part of households, it is important to look at the economic status of different households and examine their relationship with poverty. The study shows that a 'working household' is far less likely to experience poverty than an 'inactive household'. Of all people living in 'working households', 2.9 per cent are in consistent poverty at the 60 per cent threshold while 10.7 per cent are 'at risk of poverty' at the same threshold. For 'inactive households' the respective figures are 21.9 per cent and 46.8 per cent.

The study also suggests that the poverty gap (i.e. the difference between one's poverty and the poverty line) is smaller for a larger proportion of the working poor compared to the inactive poor.

1 The PES is based on questions in which respondents are asked what is their usual situation with regard to employment. Answers are classified by eight groups: At Work; Unemployed; Student; Home Duties; Retired; Illness or Disabled; Other Inactive Person; Aged <16.

The study shows that working household members constitute a large share of all people in poverty. Indeed under all poverty measures they constitute over 30 per cent of people in poverty, rising to constitute 46.7 per cent of all people in Ireland below 70 per cent median equivalised income. What this amounts to in numerical terms is that approximately 94,000 people living in working households are experiencing consistent poverty while 350,000 people living in working households are 'at risk of poverty' at the 60 per cent median equivalised income threshold. Using the 60 per cent 'at risk of poverty' measure, this group constitutes approximately 8.45 per cent of the total population of Ireland. The study also found that at the 60 per cent level there is an almost equal share of children living below the poverty line in working and inactive households.

Spatial distribution of working poverty

The analysis reveals regional variations in working poverty in Ireland.² Over half of those 'at risk of poverty' in the Border (54 per cent) and Mid-West (52 per cent) regions are living in working households. The largest share of working poor households live in the Border region (21.8 per cent), while 15 per cent live in the Western region and 13.8 per cent live in Dublin. Both the Border and Mid-West regions have a higher likelihood of experiencing basic deprivation *and* of being 'at risk of poverty' compared to the national average. Working households in Dublin are more likely to experience basic deprivation compared to the national average – this probably reflects the higher cost of living in Dublin. However, these same households are less likely to be 'at risk of poverty' compared to the national average. The Western and South-East regions exhibit a higher than average likelihood of being 'at risk of poverty' but a lower than average likelihood of experiencing basic deprivation. Members of working households in the South-West region are less likely to experience basic deprivation and to be 'at risk of poverty' compared to the national average.

Employment characteristics of the working poor

Almost a fifth (19.3 per cent) of agricultural workers are 'at risk of poverty' while 5.9 per cent of industrial workers and 5.7 per cent of service sector workers are 'at risk of poverty'. When examining the incidence of workers 'at risk of poverty' across economic sectors, the study notes that 51.3 per cent are working in the services sector compared to 19.7 per cent who are working in industry and 18 per cent in agriculture. Males constitute 56.9 per cent of workers 'at risk of poverty'. Most are working full-time and are spread across all economic sectors. Females constitute 43.1 per cent of workers 'at risk of poverty'. Most are working part-time and in the services sector.

Among the working poor in the services sector, 29.4 per cent are employed in 'wholesale and retail', 17.6 per cent in 'health' and 16 per cent in 'hotel and restaurant'. Almost 70 per cent of them are highly skilled manual or elementary workers. Overall, the analysis shows that more than half of workers 'at risk of poverty' work in the services sector, in low-skilled jobs or, possibly, poorly paid manual jobs.

2 It is important to note that variations in prices for various goods (e.g. housing) have not been adjusted for in the following analysis. If the appropriate regional price indices were to be applied the variance of poverty across the country would be lower than is reported here. Even so, the analysis is still of much value.

Demographic and socio-economic characteristics that distinguish the working poor from other groups

A regression analysis revealed that the main factors contributing to working households being 'working poor' as opposed to 'working non-poor' include the following:

- » Living in a household where not all adults (16+) work (excluding students and retired, aged 16–64 years)
- » Not having more than one worker in the household
- » The presence of a student (aged ≥ 16 years) in the household
- » The presence of children (aged ≤ 15 years) in the household
- » Having five or more people in the household
- » The presence of a person on home duties
- » Living in a rural area
- » Living in the Border, Midland, Western region
- » Not being a full-time worker
- » Not having a permanent contract
- » Being self-employed
- » Head of household being female
- » Highest level of educational attainment for head of household being lower secondary level or below

Several other factors may contribute to working poverty but had small sample sizes in the study. These include:

- » Living in local authority or tenant purchase accommodation
- » Living in a rented house
- » Head of household being young
- » Being non-Irish
- » Living alone in a one-person household
- » Living in a lone parent household
- » Living in a household that contains an unemployed person

- » Living in a household that contains a person with an illness/disability
- » Level of occupational status

Further analysis revealed that 76.3 per cent of all working poor households have only one worker, compared to 42 per cent of working non-poor households. Only 38.9 per cent of working poor households have a 'Work Intensity' where all working-aged adults worked, whereas 61.3 per cent of working non-poor households share that 'Work Intensity'. Also, 38.3 per cent of working poor households have someone on home duties while 26.1 per cent of working non-poor households have this characteristic.

One third of all working poor households have five or more people in the household, while 20.9 per cent of working non-poor households have a similar number. Further analysis showed that 57 per cent of working poor households are headed by an individual who works full-time, while 89 per cent of working non-poor households have a similar characteristic. Finally, the analysis revealed that just fewer than 40 per cent of all working poor households have students in the household, whereas 19 per cent of working non-poor households have students.

Factors that contribute to 'poor' households being 'working poor households' rather than 'inactive poor of working-age households' are as follows:

- » Having more than one adult in the household
- » Head of household being younger
- » Household being in a rural area
- » Household having five or more people
- » Household head being male
- » Household head being married
- » Not being a lone parent household
- » Not having a person on home duties, unemployed, retired, or with an illness/disability
- » Highest level of educational attainment for head of household being upper secondary/ third level

The study reveals that working poor households have lower education levels than the working non-poor but higher than the inactive poor of working age. The implications are that activation measures for the inactive poor of working age, while reducing poverty by bringing people into the workforce, may also serve to increase the numbers of working poor due to the relatively low skill levels of the inactive poor of working age.

Finally, the study shows that over a series of quality of life indices (basic deprivation; health; housing; neighbourhood; stress; food poverty; and social participation) the working poor have a significantly worse quality of life than the working non-poor. Also, over the same quality of life indices it was revealed that the working poor have a significantly better quality of life than the inactive poor of working age except in relation to the neighbourhood index where there was no significant difference.

Relationship between the working poor and social transfers

The study shows that working poor households have a higher household income than the inactive poor of working age. However, when this income is equivalised, within working poor households it falls to levels that are very similar to those of the inactive poor. The study reveals that working poor households receive 61.7 per cent of their income from employment, with the remaining 38.3 per cent received from social transfers. The corresponding figures for the working non-poor are 86 per cent and 14 per cent and for the inactive poor of working age, 5 per cent and 95 per cent.

Of all social transfers, Child and Family related allowances are the biggest contributor to working poor household income, representing 19 per cent of all income. This group of social transfers constitutes 29 per cent of the income of inactive poor of working age households. Given that there is an almost equal number of children 'at risk of poverty' in working and inactive households, the 10 per cent difference in the contribution of Child and Family related allowances to working poor and inactive poor of working age households is most probably due to the fact that one would expect all inactive poor households with children to be in receipt of 'child benefit' and the supplementary 'child dependent allowance'. However, the supplementary scheme for low-income working households with children, the 'family income supplement', has a notoriously low take-up rate and therefore many working poor households with children may only be receiving child benefit.

The study shows that before social transfers, 20.9 per cent of members of working households are at risk of poverty. Post social transfers, 10.7 per cent are still at risk of poverty, highlighting the fact that social transfers lift fewer than 50 per cent above the poverty line. The study also shows that Family Income Supplement has the potential to reduce poverty by 30–40 per cent; that far fewer of the working poor receive housing allowances and are medical holders compared to the inactive poor; that 47.5 per cent of the working poor pay tax and social contributions; and that refundable tax credits have the potential to reduce poverty by 21–27 per cent.

Conclusion/ Policy Recommendations

The study concludes that poverty is an issue for a substantial number of people in working households and that government policy is not assisting the working poor to a satisfactory level. The study sees that there are two main methods for tackling the problem: firstly, through reform of the social welfare and taxation systems and secondly, through labour market interventions and wider structural reform.

The study recommends that income adequacy be addressed through social welfare and tax reforms by widening poverty reduction targets to beyond consistent poverty and raising current benchmark levels to at least the 60 per cent median equivalised income threshold, with flexibility in means-testing for those in need above this threshold.

The study recommends reforming the Family Income Supplement (FIS) by, if possible, putting in place an automatic payment system and expanding the eligibility criteria to include part-time (mostly female) workers and self-employed workers. Also, to address the needs of children at risk of poverty in working households broader reforms of the FIS should be introduced such as a review of FIS thresholds and the creation of a new 'second-tier' child welfare payment. Additionally, universal eligibility for child benefit should be reviewed so as to better target public expenditure, an extra payment for working poor households with students in higher level secondary education should be investigated, and the adequacy of third level supports should be reviewed for working poor households.

The study recommends that medical card coverage be extended to all working poor households and that, where appropriate, housing allowances to working poor households be extended. The working poor should not be subject to regressive tax regimes, loop-holes in the Irish tax regime should be closed, and possibilities for lifting the working poor out of the tax net should be identified. A policy move away from indirect taxation should be considered and refundable tax credits should be introduced, combined with higher tax credits for households in rental accommodation. Extra tax credits could be used to support individuals who have chosen not to work outside the home, but to stay at home and raise their children.

This study has clearly demonstrated that employment is not a *de facto* route out of poverty. At the same time, it has shown that there are many instances where a clear stratification emerges in terms of those at risk of poverty and/or in consistent poverty. The inactive poor, generally, fare worse than the working poor, who fare worse than the working non-poor. Irish Government policies are currently oriented to the promotion of 'activation' measures, especially into employment, as a means of tackling poverty. In undertaking these measures it is vital that proper supports and equitable employment policies are put in place. Without these, it is unlikely that activation measures will have the desired outcomes.

As such the study recommends that current sector-, gender-, and work-time specific considerations be taken into account to generate appropriate activation measures. Also, if the government wishes to apply activation measures to stay-at-home parents there should be increased provision of affordable, quality childcare and more widespread family-friendly employment practices such as flexi-time, working from home, and job-sharing. The study recommends that low-skilled workers be provided with appropriate training and educational supports and that social supports ensure that when workers are being trained they are not in poverty. If activation measures are successful in bringing unemployed individuals back to work and if this work is only in low-paid employment, the study foresees an increase in the budget for welfare supports for the working poor. The study also supports targeted regional employment policy.

It is recommended that Ireland reconsider its national employment policies. The transition envisaged by the Lisbon Strategy to a knowledge-based economy with high value-added employment will not address the problem of workers 'at risk of poverty'. The reason for this is simple. Not everyone can work in the high-tech sectors and the knowledge economy. Therefore, ensuring that all workers in all sectors receive adequate remuneration is a prerequisite to solving the issue of the working poor.

The social partnership agreements are one possible avenue for change. This study recommends that social partnership agreements be based on flat-rate increases in wages, not percentage increases. Also, a windfall tax could be levied on companies who have rising profits that are not attributable to increased productivity but rather to increased prices and low-paid labour. Such a tax could then be used to support the working poor through existing or new schemes. Workplace-specific/ company-specific agreements could also be promoted where growth in wages is partly tied to growth in profits. These latter two policies would have to be supported by a strong auditing and financial regulation system. The study questions whether global labour market trends towards temporary contracts and the flexibility of workers and work environments promotes 'better jobs and better social cohesion' (European Council, 2000, article 5) and recommends that worker rights in the workplace be enhanced. Finally, it recommends that qualitative research of the working poor is now necessary in order to grasp the intangible aspects of working life below the poverty line.

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