1. INTRODUCTION

Fighting poverty or social exclusion is a key political priority for the European Commission. Since 2010, this has been mainstreamed into Europe 2020, the EU strategy for growth and jobs, which has been built around job creation and poverty reduction. One of the five headline targets of the strategy is to lift at least 20 million people out of the risk of poverty or social exclusion by 2020, thus reducing poverty from 116.4 million in 2008\(^1\) to 96.4 million over the decade. In the aftermath of the global financial and economic crisis however, Europe has drifted away from achieving its poverty target. Making further progress requires renewed efforts for poverty reduction at European and Member state levels. In that sense, a new impetus will be added to these efforts through the European Pillar of Social Rights. The Commission has already adopted a first, preliminary outline, serving as the basis of a public consultation, running until December 2016. Once adopted, the Pillar is expected to become a reference framework for screening employment and social performance of the Member States and to drive reforms at national level. More specifically, it should also serve as a compass for renewed social convergence in the European Union.

The European Union uses a set of indicators to measure poverty or social exclusion. Assessing progress towards the EU poverty reduction target is based on a headline indicator, measuring the number of people at risk of poverty or social exclusion (AROPE).

The EU Statistics on Income and Living Conditions (EU-SILC) survey is the main source for the compilation of statistics on income, poverty, social inclusion and living conditions. The survey includes detailed data on individuals and households in all Member States; yet there is a two-year lag\(^2\) for data to be available for analysis and reporting.

The AROPE indicator consists of a combination of three main sub-indicators:

- **at-risk-of-poverty** (or relative/monetary poverty), measuring the percentage of people living in a household with an equivalised disposable income below the at-risk-of-poverty threshold set at 60% of the national median (after social transfers). The 60% median threshold is conventional and represents the level of income that was achieved by households in the reference period.

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\(^1\) Compared to the latest AROPE data available (year 2008) at the time the Europe 2020 strategy was agreed in 2010.

\(^2\) For example, in 2016 Eurostat published data for 2015, which is based on incomes for 2014.
is considered necessary to lead an adequate life. Persons with an equivalised net disposable household income below the threshold are considered to be at risk of poverty.

- **severe material deprivation** measures the share of people whose living conditions are constrained by a lack of resources and who cannot afford certain items which would normally indicate decent living standards in a given society. It describes the enforced inability to pay for at least four of the following nine items: (1) pay rent/mortgage/utility bills on time; (2) keep home adequately warm; (3) meet unexpected expenses; (4) eat meat, fish or a protein equivalent every second day; (5) one week holiday away from home; (6) own a car; (7) a washing machine; (8) a colour TV; (9) a telephone.

- **households with very low work intensity** measures the share of population aged 0-59, living in households where working age individuals worked less than 20% of their total work potential during the past year.

Alongside the poverty indicators, **two measures of income inequality** provide a broader perspective on social exclusion:

- **Gini coefficient** - the most commonly used measure of inequality. It measures the distribution of income within a country or a region. The higher the coefficient, the bigger the inequality, with a coefficient of 0 indicating perfect equality (everyone has the same income), while a coefficient of 100 indicates perfect inequality.

- **Income share quintile ratio (also called the S80/S20 ratio)** - gives an indication of the disparity in incomes between the 20% of the population with the highest income (the top quintile) and the 20% of the population with the lowest income (the bottom quintile).

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2. **POLICY CHALLENGES: AN OVERVIEW OF PERFORMANCE IN THE EU COUNTRIES**

In 2015 the share of people at risk of poverty or social exclusion is back at its pre-crisis levels of 2008. In 2015, around 119 million people, or 23.7% of the European population, were at risk of poverty or social exclusion. (See Annex, Table 1)

The most widespread form of poverty or social exclusion was the relative/monetary poverty with 17.3% of the European population (or 86.7 million people) affected. The second most common form was severe material deprivation with 8.1% of EU population (40.3 million people) living in conditions constrained by lack of resources. In 2015, the share of people living in jobless households decreased for the first time since 2008, but still remains high at 10.5% (39.3 million people). (See Figure 1)

**Income inequality remains high, indicating ongoing concerns about the fair distributional outcomes for the population.** The income share quintile ratio (S20/S80) has been following an upward trend in the recent years and has peaked to 5.2 in 2015. A comparable trend has been observed in the Gini coefficient, which stands at 31 in 2015.

**With regards to poverty or social exclusion, there are striking differences among the Member States.** (See figure 2) In 2015, more than a third of the population in four Member States was at risk of poverty or social exclusion: Bulgaria (41.3%), Romania (37.3%), Greece (35.7%) and Latvia (30.9%). In contrast, the lowest levels were reported in the Czech Republic (14.0%), Sweden (16.0%), Netherlands and Finland (both at 16.8%). (See Annex, Table 1)

**Poverty dynamics also vary across age groups and population background.** A few groups in the society appear as the most vulnerable:
young people, children, the unemployed and third country nationals. A fifth of Europe’s youth is not able to realize its productive potential and is exposed to increased risk of poverty or social exclusion. Youth unemployment has increased by almost 8%, compared to its pre-2008 levels and stands at 20.3%. At the same time, almost one third (31.2%) of young people (age 18-24) were at risk of poverty or social exclusion in 2015.

Children are another group at a greater risk of poverty or social exclusion. In 2015, the risk for children (0-17) stood at 26.9% - notably higher than the risk for working age individuals (age 18-64, at 24.7%) or elderly (age 65+, at 17.4%). The vulnerability of children is largely driven by the labour market status of their parents, especially when combined with limited access to social services and low income support.

The risk of poverty or social exclusion for unemployed has reached 66.6% in 2015. What is more, the persistence of weak economic and labour market conditions has caused and unprecedented increase in the duration of the unemployment with long-term unemployed reaching 48% of the population.

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the total number in Europe in 2015. Long periods of unemployment can lead to severe skills erosion and also expose those experiencing them to an increased risk of poverty or social exclusion. They also lead to a large part of the long-term unemployed no longer being covered by any form of income support or social protection, thus contributing to the increased levels of poverty or social exclusion.

The situation of the non-EU-born population in EU is especially relevant in light of the increasing need to respond to the inflow or asylum seekers. In 2015, the risk of poverty or social inclusion for the foreign-born was estimated at 40.3% - almost twice the risk of the native born population (21.7%).

Other groups, affected by poverty or social exclusion include single parents (47.7%), families with multiple children, as well as Roma and persons with disabilities. Comparable EU data are not available for all of these groups.

The increase in in-work poverty is another worrying development. In 2015, 9.5% of those who work are reported to have insufficient earnings - a notable increase, compared to the 2008 levels (8.6%). This development is influenced by the proliferation of temporary contracts and part-time jobs, which are often associated with lower remuneration.

**Figure 2 People at risk of poverty or social exclusion (2015*)**: standardized values

Source: Eurostat, Statistics on Income and Living Conditions (EU-SILC), DG EMPL calculations

* 2015, except HR & IE, where 2014 data is available
3. POLICY LEVERS TO ADDRESS THE POLICY CHALLENGES

Preventing and reducing poverty or social exclusion, as well as inequality largely depends on the actions and reforms taken in the Member States. At the same time, the EU supports and complements the Member States' policies in the fields of social inclusion and social protection.

A number of policy levers are available to Member States to improve their national social outcomes:

- **Ensuring adequate income support**, while avoiding unemployment or inactivity traps;
- **Creating inclusive labour markets** by providing opportunities for all to obtain a gainful employment and a living wage. Inclusive labour markets rely inter alia on active labour market policies (ALMP) that improve the matching of workers to jobs and help keeping the unemployed in contact with the labour market;
- **Providing efficient and equitable education and life-long learning systems** to supply people with the skills they need to enter and progress in the labour market. Efforts to ensure that children from disadvantaged backgrounds enjoy equal opportunities at school are essential to break the intergenerational transmission of poverty. Specific efforts are also required to ensure that the low skilled have adequate access to life-long learning;
- **Providing access to high quality health care**, social and other enabling services can remove barriers to the labour market, thus addressing poverty and social exclusion. Childcare services, for example, allow parents to participate in the labour market. Other specific programmes and services are used to reach the most excluded in the society (homeless people, former convicts, mentally ill, drug addicts) and support them through their reintegration in society;
- **Wage-setting policies** ensuring appropriate incomes, while considering effects on competitiveness and job creation;
- **Adopting tax policies** providing the right incentives for all actors (workers, employers and entrepreneurs) to fully engage in economic activities;
- **Ensuring adequate and sustainable pensions**. On average in the EU, pensioners are more protected from the risk of poverty or social exclusion than the total population;
- **Adopting anti-discrimination legislation** addressing the barriers that specific groups may face in finding a job, a place to live or accessing their social rights.

4. CROSS-EXAMINATION OF THE POLICY STATE OF PLAY

4.1. Improving the efficiency and effectiveness of income support

The amount of money spent on social assistance provides some indication of expenditure for income support. Since 2010, the at-risk-of-poverty rate before social transfers is relatively stable at around 26%.

In 2015, expenditure on social protection benefits (excluding pensions) reduced the poverty rate in the EU from 25.9% to 17.3%. Yet, providing the right kind and level of support remains challenging for many Member States and the impact of social protection varies greatly across the EU.

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5 See the European Semester thematic factsheet on Active Labour Market Policies.
6 See the European Semester thematic factsheet on Skills for the Labor Market.
7 See the European Semester thematic factsheet on Health and Health Systems.
8 See the European Semester thematic factsheet on Wage Setting Systems.
9 See the European Semester thematic factsheet on Tax Systems And Tax Administration.
10 See the European Semester thematic factsheet on Adequacy and Sustainability of Pensions.
It is important not only to review the economic stabilisation impact of social policies, but also to ensure that expenditure delivers the best outcomes (effectiveness), at the lowest cost and with maximised spill-overs on employment and growth (efficiency).

Figure 3 illustrates the poverty reduction impact achieved by social protection expenditure. Differences in the effectiveness and efficiency of social spending depend on multiple factors. First, there is great diversity in the level of poverty and inequalities before social transfers, depending on the distribution of original income (i.e. earnings from work, including self-employment income, capital income and pensions\textsuperscript{11}).

Segmented and polarised labour markets\textsuperscript{12} will typically produce high levels of inequality before transfers, which may require a higher degree of redistribution. Second, significant differences in the size and design of social protection expenditure can help to explain differences in the redistributive effects, across income and population groups. Key features include the composition of expenditure by function and by type, the progressivity of taxation, the combination of universal and means-tested benefits and the "labour market friendliness" of spending (i.e. to what degree it supports integration in the labour market and incentivises work).

\textbf{Figure 3 The impact of social transfers on reducing poverty, 2014}

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\end{center}


\textsuperscript{11} Pensions are regarded as original income because they redistribute income over the life cycle.

\textsuperscript{12} Segmentation refers to a situation where a group of well-protected workers coexists with a group of workers in more poorly-paid, precarious jobs, without much opportunity for those in precarious jobs to progress towards better jobs.
4.2. Specific social protection areas

Besides the use of unemployment benefits, **minimum income schemes** (e.g. safety nets of last resort) are used to support the most vulnerable people. For optimum impact, the integration of these schemes with other policy levers is important:

Articulation of minimum income schemes with active labour market policies, in order to avoid any disincentives to work and inactivity traps;

Minimum income schemes need to be streamlined with other social protection services (e.g. housing benefits, healthcare, childcare), so as to facilitate access, maximize take-up and ensure consistency (e.g. avoid duplication of benefits).

**Child and family-support benefits** can have a significant impact on reducing poverty among their beneficiaries. Their poverty-mitigating impact differs across EU Member States, with child and family benefits strongly reducing child poverty in Finland, Ireland, UK and Germany, and with a low child poverty reduction in Spain, Portugal, Greece, Poland, Bulgaria and Italy.

**Minimum wage requirements are widely used across EU Member States to tackle in-work poverty.** However, in several Member States, minimum wages are below the poverty threshold. They must also be consistent with the objectives of competitiveness and job creation. In 2016, 22 EU Member States had a national statutory minimum wage set by government.

In the remaining 6 EU countries, the wage floors were set in collective agreements often at sector level, covering a high share of the labour force. This was the case of Austria, Cyprus, Denmark, Finland, Italy and Sweden.

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**Figure 4 – Poverty reduction effect of family and child benefits for children aged 0-17**

Source: Eurostat, EU-SILC UDB 2013

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13 See the European Semester thematic factsheet on *Unemployment Benefits*. 
In the case of Cyprus, statutory minimum wages were set by the government for specific occupations not covered by collective agreements. Single parents working part-time and families with only one earner face the highest risk of poverty.

4.3. In-work poverty

Labour income does not always provide sufficient revenue especially if dependent on low work-intensity (in terms of hours worked), hence giving rise to in-work poverty.

In 2015, the in-work at-risk-of-poverty rate (AROP) remained stable at 9.6%. The in-work at-risk-of-poverty rate varied greatly across the EU, from 4.0% in the Czech Republic to 18.6% in Romania and 13.4% in Greece.

4.4 Access to quality services

Access to quality services such as childcare, housing, healthcare and long-term care, education and training, contributes to social inclusion.

For instance, access to quality and affordable childcare is key to giving children the best chances in life, regardless of their social background, and eases their parents' integration in the labour market. Yet evidence shows that the most vulnerable children (e.g. children from low-income families or families that are furthest from the labour market, Roma children, children from migrant backgrounds, children with disabilities) generally participate less. This can be attributed to a range of factors such as availability and access, in particular in rural areas, affordability,

Figure 5 – In-work at-risk-of-poverty rate, 2015* by gender

Source: Eurostat, Statistics on Income and Living Conditions (EU-SILC) [ilc_iw01]
* IE data for 2014
eligibility, and parental choice. For example, the cost of childcare can also act as a major barrier to work (e.g. in Bulgaria, the Czech Republic, Ireland, Latvia, Lithuania and Slovenia), where lone parents with low prospective wages are not sufficiently financially incentivised to participate in the labour market and resort to child care services for their children. Adequate access to family services and other services is also crucial to ensure the well-being of children growing up in vulnerable situations.

**Access to high quality healthcare**¹⁴ from an early age is indispensable for people to grow and live healthily and contribute to society. Poverty and inequality in access to healthcare may translate into illness, inability to work, dependency and increased poverty and exclusion. In the poorest EU regions, the risk of a child dying before his or her first birthday is over 5 times higher than in the richest regions; the gap in life expectancy between poor people and the well-off reaches 10 years in some Member States. Particular attention is needed for people in vulnerable situations, such as some older people and people with disabilities, ensuring they have access to health services as close as possible to their community (including in rural areas) thus avoiding institutionalisation.

Provision of **services for the homeless** is also key. A new profile of homeless people is emerging which consists of women, families with children, young people, and people from migrant backgrounds.

Date: 16.11.2016

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¹⁴ See the European Semester thematic factsheet on *Health and Health Systems.*
Table 1 – People at risk of poverty or social exclusion 2008 and 2015

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* Data for 2008 exclude HR, data for 2015 are estimated
: Data not available

Source: Eurostat, (ilc_peps01)