Chapter 2

Working age poverty: what policies help people finding a job and getting out of poverty?[1]

1. Introduction

Poverty among the working age [2] population has increased significantly in two out of three EU Member States over the last four years. More than 50 million people aged 18–64 now live at risk of poverty in the EU; 28 million cannot afford the necessities for a decent life [3]; and over 30 million live in a jobless household [4]. Altogether, this covers nearly a quarter of the working age population.

Poverty among those of working age can reflect both labour market exclusion (not having access to jobs) and in-work poverty (having work, but not earning enough to make a living). The purpose of this chapter is to present evidence on the factors giving rise to working age poverty, and to identify those policies that appear to be best able to tackle and prevent them, through an in-depth analysis of labour market and poverty transitions.

During the crisis, the deterioration of labour market conditions and long-term unemployment in particular have been strong drivers of rising working age poverty. However, past experience has shown that improvements in labour market conditions (as measured by falling unemployment and rising employment rates) do not necessarily lead to poverty reduction [5]. In addition to the improvement of the economic and employment outlook, a combination of effective policy interventions is generally required in order to support returns to work and to ensure that a job enables people and their families to stay out of poverty. This is especially needed for people who have remained out of work for a long time or have weak ties to the labour market, as may be the case of many people after a long period of economic recession.

Member States at EU level have agreed on common principles of active inclusion [6], which should guide the design of strategies combining adequate income support with measures that promote inclusive labour markets and provide access to enabling services such as training or childcare. The analysis presented reviews a number of indicators covering these three dimensions of policy intervention, including the main features of tax and benefit systems and labour market institutions, and relates them to various measures of poverty and labour market outcomes, notably in terms of transitions to the labour market and exits out of poverty. The aim is to shed light on which policies are associated with better outcomes.

In this respect, the evidence shows that adequate and widely available systems of income support for those out of work do not prevent returns to employment if the measures are well-designed (for example, accompanied by job search requirements with a gradual reduction in generosity over time), so as to allow workers enough time to search for a job matching their skills, and to strengthen those skills where necessary.

The chapter is structured as follows:

- In the first section, the drivers of working age poverty – exclusion from employment and low income from work – are discussed and measured at an EU level;
- The second section looks at the characteristics of welfare systems and labour market policies, and relates them to the causes of working age poverty identified in the first section;
- The third section describes the profile of adults at risk of poverty due to in-work poverty and labour market exclusion;

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(2) In this analysis, the working age is set at 18–64. It refers to those aged 18–59 in analysis of work intensity, income composition or poverty and labour market transitions, as the paper is not focusing on transitions to retirement.

(3) Defined as severely materially deprived – unable to afford some items considered by most people to be desirable or even necessary to lead an adequate life (severely materially deprived people - according to the SPC measure - cannot afford 3 out of 9 items: 1. pay rent, mortgage or utility bills; 2. keep homes adequately warm; 3. face unexpected expenses; 4. eat meat or proteins regularly; 5. go on holiday; 6. a television set; 7. a washing machine; 8. a car; 9. a telephone).

(4) People aged 18–59 who live in very low work intensity households.

(5) See European Commission (2009).

(6) 2008 Commission Recommendation on the active inclusion of people excluded from the labour market. See European Commission (2008).

- The fourth section analyzes the role of labour market transitions in helping those out of work and those in work to escape from poverty;

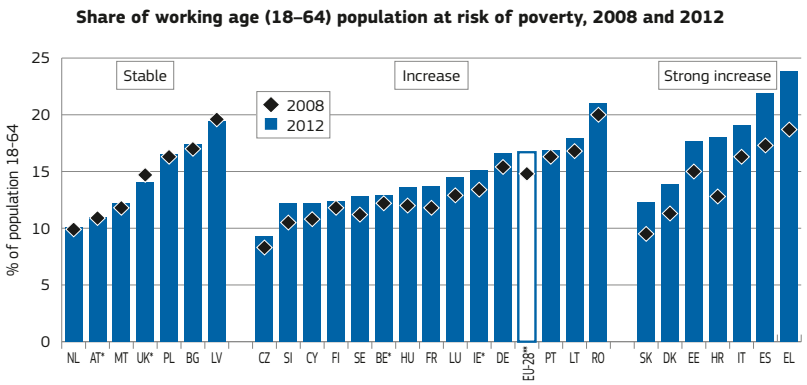
- In the fifth section, Member States' performances in aiding such transitions are examined in terms of the main characteristics of policies across areas such as tax and benefit systems, labour market characteristics and access to services.

2. POVERTY IN WORKING AGE: SERIOUS CONSEQUENCES OF THE CRISIS ON POVERTY OUTCOMES

Poverty among those of working age results from both labour market exclusion and in-work poverty, leading to different profiles of the individuals at risk and calling for different policy intervention.

Poverty is primarily about living on a low income. The at-risk-of-poverty rate ([7]) among those of working age (18-64) was 16.7 % in 2012 (incomes of 2011), compared to 17.1 % for the whole EU population. It has risen by nearly 2 percentage point (pps) in the EU as a whole over the last four years, with significant increases in two out of three Member States (mainly in Southern Europe). The increase exceeded 2.5 pps in Croatia ([8]), Estonia, Greece, Italy and Spain, where the risk of poverty had been already high, but also in Denmark and Slovakia (see Chart 1).

Chart 1: The serious social consequences of the crisis: poverty has increased in most Member States



Source: Eurostat, EU-SILC (2008 and 2012 income year 2007 and 2011) [ilc_li02].

Note: *AT, BE, IE and UK 2011 instead of 2012, **EU-27 in 2008.

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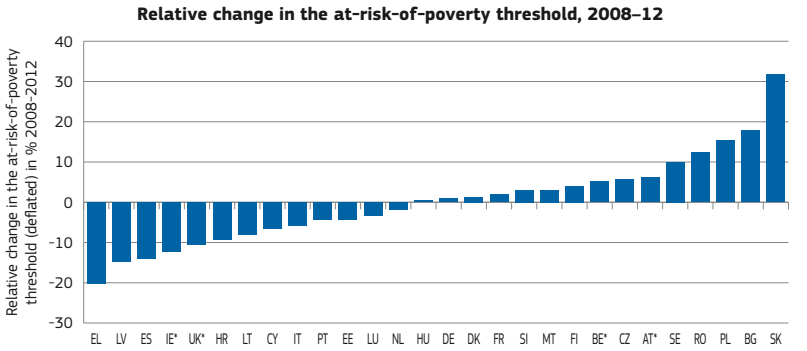
Chart 2: Living standards of the poorest fell sharply with the decline in poverty thresholds in one out of three EU Member States



Source: DG EMPL calculations based on Eurostat, EU-SILC (2008 and 2012 income year 2007 and 2011) [ilc_li01].

Note: At-risk-of-poverty threshold in the national currency deflated (in Euro for CY, EE and SK), *AT, BE, IE and UK 2011 instead of 2012.

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Changes in *relative* poverty have to be viewed, however, against trends in median disposable income, which affect the poverty threshold (see Chart 2). During the crisis, household disposable incomes in several Member States fell notably, and this led to a significant reduction (by 5 % or more) in the poverty threshold in some Member States. Hence people with a constant income might have been classified in 2012 as living just above the poverty line and just below it in 2011. This calculation tends to under-estimate the deterioration of the social situation. Some countries (Croatia, Greece, Lithuania, Ireland and Spain) have experienced both decreases in the poverty threshold and notable rises in the at-risk-of-poverty rate, while in others (Latvia, the United Kingdom) the at-risk-of-poverty threshold dropped and resulted in a stable relative poverty.

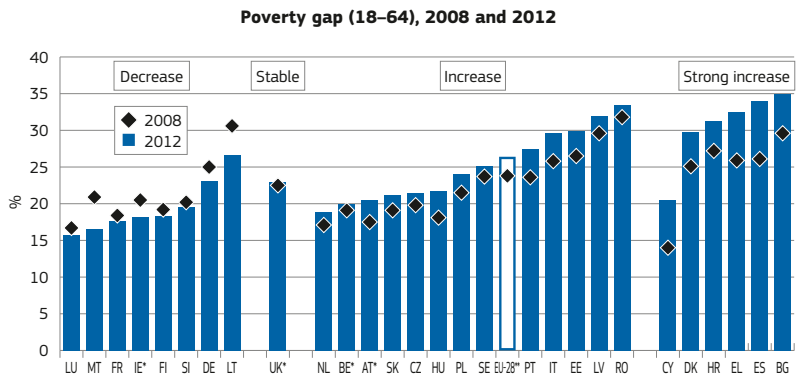
The deepening of poverty over the crisis is illustrated through the widening gap between the median income of the poor and the median income of the total population (or poverty gap ([9])). For the EU as a whole, the poverty gap has increased by 2.6 pps to 26.6 % between 2008 and 2012. Differences across the Member States

([7]) The at-risk-of-poverty rate is the share of people with an equivalised disposable income (i.e. after tax and social transfer) below the at-risk-of-poverty threshold. The equivalised income is calculated by dividing the total household income by its size determined after applying the following weights: 1.0 to the first adult, 0.5 to each other household members aged 14 or over and 0.3 to each household member aged less than 14 years old. Consequently, all household members have the same equivalised disposable income. The poverty threshold is set at 60 % of the national median equivalised disposable income. It is set with respect to incomes in each Member State, not in relation to the EU average. Hence the real living standards of those categorised as (at risk of) being in poverty varies in line with median living standards in their country.

([8]) Croatia is included in section 1; it is excluded from the analysis in further sections due to lack of many indicators.

([9]) The poverty gap is defined as the difference between the median equivalised total net income of persons below the at-risk-of-poverty threshold and the at-risk-of-poverty threshold, expressed as a percentage of the at-risk-of-poverty threshold. It gives an idea of the severity of poverty for those experiencing it.

Chart 3: Depth of poverty intensified severely in some Member States over the crisis



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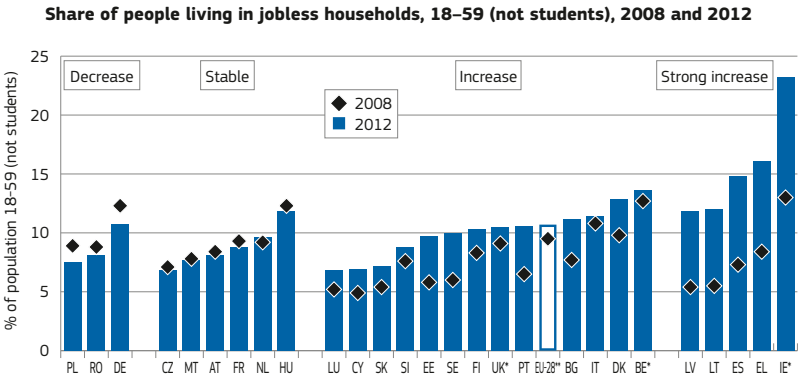
Source: Eurostat, EU-SILC (2008 and 2012 income year 2007 and 2011) [ilc_li11].

Note: *AT, BE, IE and UK 2011 instead of 2012, **EU-27 in 2008.

Chart 4: The deterioration of the labour market during the crisis increased the number of jobless households in most Member States



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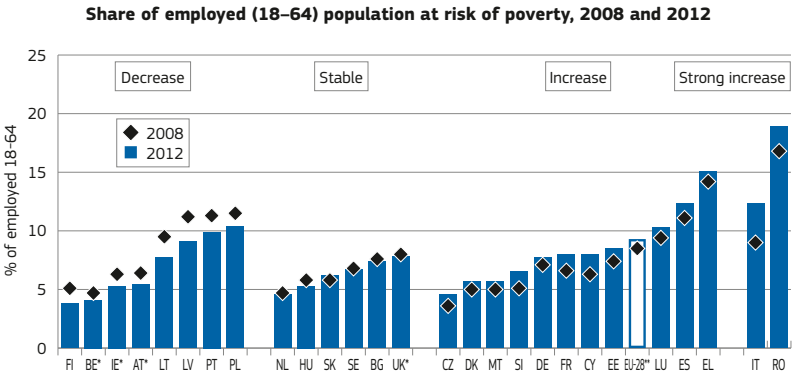
Source: Eurostat, EU-SILC (2008 and 2012 income year 2007 and 2011) [ilc_lvhl11].

Note: *BE, IE and UK 2011 instead of 2012, **EU-27 in 2008.

Chart 5: In-work poverty intensified severely in some Member States over the crisis



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Source: Eurostat, EU-SILC (2008 and 2012 income year 2007 and 2011) [ilc_iw01].

Note: *AT, BE, IE and UK 2011 instead of 2012, **EU-27 in 2008.

are significant, with particularly high poverty gaps (of the order of 30%) being recorded in Bulgaria, Croatia, Greece, Latvia, Romania and Spain in 2012 (see Chart 3).

Exclusion from the labour market is one of the main drivers of poverty in the EU, being particularly evident in households where nobody is in work. Most Member States saw sharp rises in the share of people (aged 18-59) living in such jobless households ([10]). Recent developments are seen as particularly worrying in Ireland, Latvia, Lithuania, Greece and Spain – all of which saw more than a 6 pps deterioration between 2008 and 2012 (see Chart 4).

On the other hand, having a job does not always protect individuals or households against the risk of poverty. In-work poverty is a sizable phenomenon in the EU: one third of adults (18-64) who are at risk of poverty are employed. Altogether, 9.3% of employed individuals were at risk of poverty in 2012, up from 8.5% in 2008. In-work poverty rose significantly in Italy and Romania, and also in half of the other Member States between 2008 and 2012 (see Chart 5).

Rising long-term unemployment and joblessness are strong drivers of rising working age poverty. However, falling unemployment and rising employment rates do not necessarily lead to a reduction in poverty. As highlighted by the European Commission (2009): "employment increases [up to 2009] have not sufficiently reached those furthest away from the labour market, and jobs have not always succeeded in lifting people out of poverty" ([11]).

([10]) People living in jobless households, here based on EU-SILC – with very low work intensity are defined as people of all ages (from 0–59 years) living in households where the adults (those aged 18–59, but excluding student aged 18–24) worked less than 20% of their total potential during the previous 12 months.

([11]) See also Marx, Horemans, Marchal Van Rie, (2013).

3. Mapping the drivers of working age poverty at national level indicates the need to integrate policies

3.1. The drivers of working age poverty vary across Member States ([12])

Poverty among working age adults is driven by many factors, which can be grouped under three headings: exclusion from the labour market, insufficient earnings from work, and inadequate income support. Five indicators have been chosen to cover these dimensions, namely: the share of people living in jobless households; the long-term unemployment rate; the inactivity rate; the rate of in-work poverty; the impact of social transfers on poverty reduction.

In Table 1, countries are grouped according to the challenges they face, as reflected in these indicators. The comparison of each group with the respective poverty outcomes of the Member States concerned (indicated by the poverty rate, the poverty gap and the persistence of poverty ([13])) shows that countries that perform well on all drivers have better outcomes, i.e. a lower risk of poverty, a lower poverty gap and a lower persistence of poverty, while those with a bad performance on one or more drivers have worst poverty outcomes.

This analysis helps in identifying the prevailing drivers of poverty in each country in terms of the lack of inclusiveness of the labour market, and of the weakness of the poverty reduction impact of social transfers. However, it does not provide insight into the specific role played by labour market institutions and tax and benefit systems in explaining the relative performance of countries. The following sections review the institutional and policy characteristics that could explain part of the difference in performance between countries. This review does not include indicators reflecting the financial sustainability and efficiency of the systems (which are beyond the scope of this chapter).

([12]) This section (selection of drivers and grouping of countries) summarises a detailed analysis presented in the Commission Staff Working Document, Social Investment Package http://ec.europa.eu/social/BlobServlet?docId=9767&langId=en

([13]) See footnotes above for an explanation of the poverty rate (footnote 6) and the poverty gap (footnote 8). The persistent at-risk-of-poverty rate shows the percentage of the population living in households where the equivalised disposable income was below the at-risk-of-poverty threshold for the current year, and at least two out of the preceding three years.

3.2. Policies and institutions to prevent and tackle poverty in working age

The policy mix of each Member State, corresponding broadly to the three pillars of active inclusion (adequate income support, inclusive labour markets, and enabling services), can be described through a number of selected indicators or factors.

Table 1: Grouping of Member States based on poverty drivers

	Drivers	Outcome	Countries
Group A	Low share of **jobless households**	Risk of poverty	CZ FR
	Low level of long term unemployment	Poverty gap	NL AT SI SE
	Impact of social transfers is high	Persistent poverty	(CY)
	Relatively high level of activity rate		
	Low level of in-work poverty		
Group B	Relatively high share of **jobless households**	Risk of poverty	BE DK DE
	Low level of long term unemployment	Poverty gap	FI UK
	Impact of social transfers is high	Persistent poverty	
	Relatively high level of activity rate (BE)		
	Low level of in-work poverty		
Group C	Very high share of **jobless households**	**Risk of poverty**	IE
	Very high level of **long term unemployment**	Poverty gap	
	Impact of social transfers is high		
	Low level of **activity rate**		
	Relatively low level of in work poverty		
Group D	Relatively high share of jobless households	**Risk of poverty**	BG RO
	Low level of long term unemployment	**Poverty gap**	HU PL
	Impact of social transfers is very **low**	**Persistent poverty**	IT MT
	Very low level of **activity rate**		
	Relatively high level of in-work poverty		
Group E	Relatively high share of jobless households	**Risk of poverty**	ES EL PT
	Very high level of **long term unemployment**	**Poverty gap**	LV LT EE SK
	Impact of social transfers is **low**	**Persistent poverty**	
	Relatively high level of activity rate		
	High level of in-work poverty		

Source: EU-SILC 2010, and EU-LFS 2011, European Commission (DG EMPL) calculation. Groups are obtained by cluster analysis based on five variables for the working age population: share of the population living in zero or very low work intensity households, long-term unemployment rate, impact of social transfers in reducing poverty, activity rate and in work poverty rate. Country scores are calculated with reference to the EU average.

Notes: LU is treated as a 'shadow country' not influencing the clustering, since it presents outlier values. Countries in brackets are to be considered as on the edge of the cluster.

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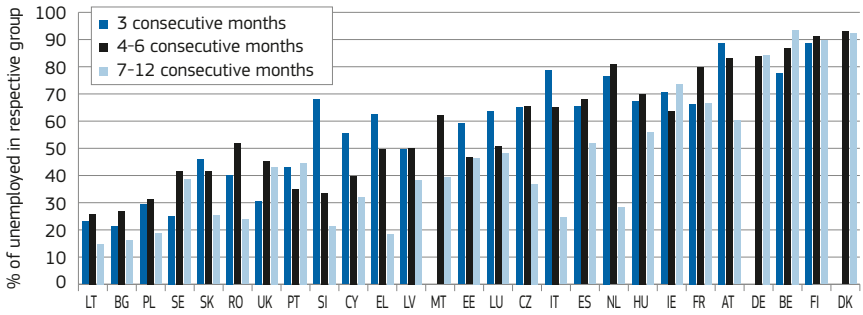
Chart 6: Pseudo-coverage of unemployment benefits

Share of the unemployed aged 18–59 receiving unemployment benefits during the reference period by unemployment duration, 2010



Source: DG EMPL calculations based on Eurostat, EU-SILC (2011 IE 2010).

Note: Reference population: unemployed aged 18–59 having experienced at least 3 consecutive months of unemployment over the previous year.

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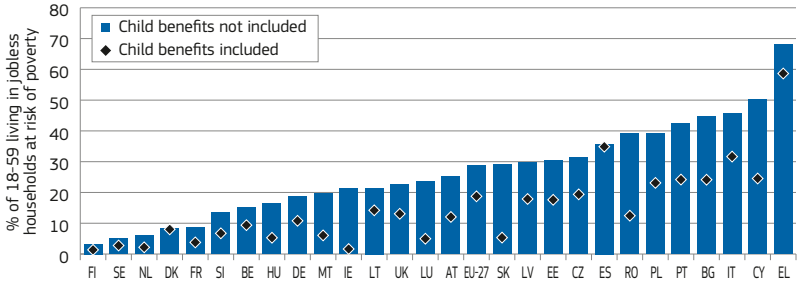
Chart 7: Non-coverage of social benefits

Proportion of 18–59 individuals living in jobless households at risk of poverty, whose total benefits received is less than 10 % of total net disposable household income, 2010



Source: DG EMPL calculations based on Eurostat, EU-SILC (2011, IE 2010).

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In order to assess the effectiveness of income support (1st pillar of Active inclusion), the analysis focuses on income support intended primarily to cover adults of working age who lose their job and/or experienced prolonged exclusion from the labour market (namely unemployment benefits and social assistance). Other benefits, such as child benefits, disability or housing benefits, which may cover other needs, such as the cost of raising children or housing, are taken into account in so far as they contribute to the adequacy of income support, but they are not the main focus of the assessment ([14]).

Inclusive labour markets (2nd pillar of active inclusion) are seen to result from positive interactions between activation policies, labour market institutions that prevent segmentation and limit entry barriers, and well-designed tax and benefits systems. They aim at facilitating access and a return to employment and ensuring a living wage is paid, especially for those who are the most disadvantaged.

Enabling services support addressing barriers to entry into employment, such as care obligations, low skill levels or health problems, and are seen as especially important for parents, including single parents, low-skilled, migrants or the disabled.

A large number of indicators are available to describe these domains of policy intervention. To reduce the number of indicators while retaining a sufficient level of information, policy indicators have been selected to represent all the main aspects of active inclusion, with some of the indicators summarised by synthetic measures based on factor analysis (see Box 2 for a technical description and the table in the Annex).

The resulting factors and selected indicators are used to group countries according to the main characteristics of their policy mixes. These are then related to the prevailing causes of poverty identified in the previous section. The mapping of policy characteristics is also used later to examine the extent to which they can explain the level of returns to employment and exits from poverty.

3.2.1. Coverage and adequacy of benefits varies greatly across Member States

The effectiveness of income support depends on the characteristics of the benefit system, which can be described in terms of: coverage; adequacy; duration; eligibility rules; and labour market friendliness, which can be judged in terms of the financial incentives they offer relative to labour market outcomes (wage levels, working arrangements, etc.) and associated tax-benefit treatments.

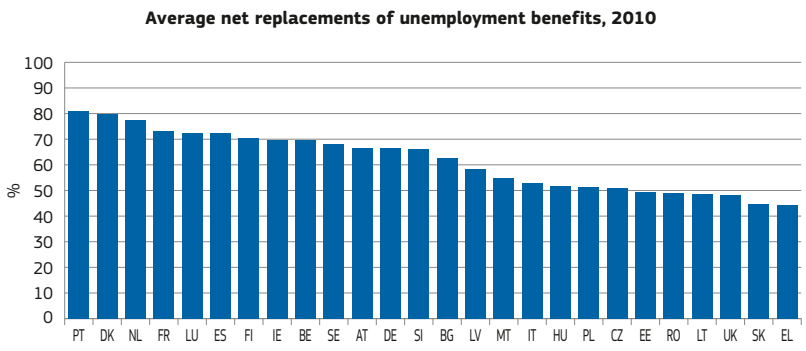
Coverage

In order to assess the effectiveness of a benefit system, it is important to measure to what extent the population at risk is covered by the system and actually receives benefits when the risk occurs. In practice, however, reliable information on benefit coverage is difficult to obtain, especially in the context of cross-country comparisons (see Box 1).

In this analysis, the coverage of unemployment benefit systems is assessed using a pseudo-coverage rate that relates the number of people actually receiving an unemployment benefit (as declared in EU-SILC with potential misclassifications) to the number of people unemployed during at least three months during the past year. The coverage of unemployment benefits varies greatly across countries and varies relative to the length of time spent in unemployment: up until 3 months; between 4 and 6 months; and between 7 and 12 months (see Chart 6).

([14]) Disability benefits covering those who cannot work are not the focus of the analysis, but are taken into account in the assessment of non-coverage.

Chart 8: EU variation in the adequacy of benefits



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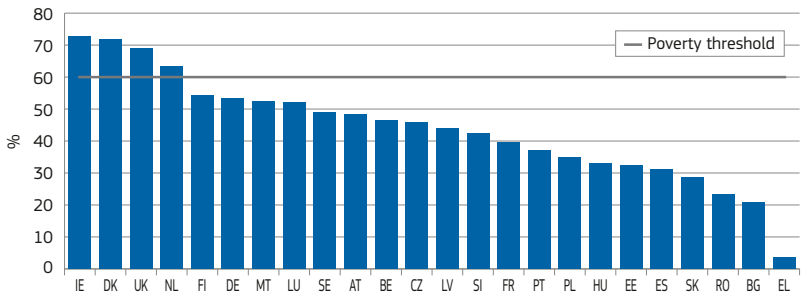
Source: DG EMPL calculations based on OECD-EC tax-benefit model.

Chart 9: EU variation in adequacy of social assistance



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Source: OECD-EC tax-benefit model.

Unemployment assistance or social assistance is generally available to those who are out-of-work but not eligible for unemployment benefits (because they have never worked, did not work long enough to be eligible, etc.), or because they have exhausted the duration of their entitlement. Assessing the coverage (or lack of coverage) of this type of benefit is challenging. In this analysis non-coverage of social benefits is defined as the share of people living in poor and jobless households (a priori in need of support) but receiving little or no benefits (accounting for less than 10% of their disposable income) (see Box 1).

On average in the EU, 20% of adults living in poor and jobless households receive less than 10% of their income from social benefits when child benefits are included, and when child benefits are excluded, the rate increases to nearly 30%. The non-coverage rate varies greatly between countries. It ranges from less than 10% in the North and Centre of Europe, while it exceeds 20% in the Southern countries and Poland (see Chart 7 and Table 2).

A number of countries (Bulgaria, Poland and Portugal) combine a limited coverage of both unemployment benefits and social assistance. This raises issues about the alternative sources of income on which these people may live, such as family solidarity and informal work (see Section 3.3 on the role that elderly pensions play in the disposable income of working age adults).

Adequacy

The adequacy of unemployment benefits is important to assess the capacity of safety nets to provide effective income support to those who need it. The OECD-EC tax-benefit model ([15]) produces two theoretical indicators to reflect this: the net replacement rates of unemployment benefits ([16]) and the net income of people on social assistance relative to the poverty threshold.

Net replacement rates of unemployment benefits vary by eligibility (families that do not qualify for other benefits such as social assistance, family benefits and cash housing assistance and for families that do qualify for such additional benefits); various types of 'stylised' households (single earner, one-earner couple, two-earner couple, each without children and with two dependent children); different wage levels (here 67% and 100% of the average worker's earnings); and different unemployment spells (after two months, half a year and a year of unemployment). The average of the net replacement rates across these dimensions is taken into account in further analysis ([17]).

The average net replacement ranges from 45% in Greece and Slovakia, to over 75% in Denmark, the Netherlands and Portugal (see Chart 8).

The adequacy of social assistance is measured by the net income of people on social assistance relative to the median equivalised income. Countries differ substantially in terms of the minimum safety nets they provide to jobless households, even when they are compared to the at-risk-of-poverty threshold which depends on the living standards within each country. Only a few countries provide households with a minimum income and related benefits (for example housing) that are sufficient to lift them close to, or above, the 60% median income threshold, and this only for some family types (see Chart 9).

([15]) The OECD-EC tax-benefit model is a joint project of the European Commission and the OECD. It aims to assess benefit generosity, work incentives and income adequacy. http://www.oecd.org/els/benefitsandwagesoecdindicators.htm http://ec.europa.eu/economy_finance/db_indicators/tax_benefits_indicators/index_en.htm

([16]) The net replacement rate compares net income while out of work (unemployment benefits plus other potential benefits received minus taxes) to net income while in work (mainly wages and salaries + associated in work benefits – taxes). The benefits may cover unemployment benefits, social assistance, family and housing benefits.

([17]) The high correlation between net replacement rates, which is confirmed by the factor analysis (Chronbach=0.97), led to the selection of the average of the net replacement rates for further analysis.

Box 1 : Estimation of pseudo-coverage of unemployment benefits and non-coverage of social benefits among individuals living in jobless and poor households

Estimating coverage rates is a challenging task that can only be partially fulfilled with currently available data, since it requires identifying (1) the population considered in need of benefits (unemployed in the case of the first level safety net, and those in need of last resort schemes in the case of the second level safety net) as well as (2) information on the population actually receiving the benefits. This box presents two possible methods to calculate the pseudo-coverage of unemployment benefits and the non-coverage of social benefits based on the EU-SILC.

Estimation of pseudo-coverage rates for the unemployed

Levels of benefit coverage of the unemployed should reflect access to some benefits for those in unemployment, as defined by the International Labour Organization (ILO), as well as the duration of the benefits. For varying reasons, such rates are difficult to measure through existing statistical sources (administrative data, the EU Labour Force Survey (EU-LFS), and the EU-SILC survey). First, administrative data on unemployment benefit recipients do not reflect the ILO status of beneficiaries and do not include information on non-recipients. Second, the EU-LFS measures unemployment as defined by the ILO, but cannot measure with sufficient accuracy the receipt of unemployment benefits over time. Last, the EU-SILC measures both benefits recipiency and unemployment status but not as defined by the ILO. The EU-SILC measure has the advantage of providing a full description of incomes; however, income data refer to a whole year with no possible monthly breakdown, while individual unemployment spell do not necessary last the whole year. Therefore, the link between unemployment spells and benefit recipiency remains fragile. The EU-SILC is used in the current analysis to estimate the pseudo-coverage of unemployment benefits by number of consecutive months in unemployment based on the following method.

The pseudo-coverage rate is estimated by the share of the unemployed (during at least three consecutive months over the reference period to avoid variation within coverage of short spells of unemployment) receiving some unemployment benefit during the income reference period, i.e. one year. It is called a pseudo-coverage rate because a number of issues cannot be taken into account. The eligibility rules cannot be checked for each individual, the non-take up cannot be taken into account (see Matsaganis *et al.* 2010, Barton and Riley 2012), and it is assumed that an unemployed person is covered by unemployment benefits if he/she received *some* benefits over the period (e.g. a person who is unemployed for 10 months, which is covered during the first 3 months but not during the last seven months, will be identified as a covered person).

Estimation of non-coverage rates for those jobless and poor

It is difficult to estimate the coverage of the second tier of safety nets as neither the target population of those in need for the last resort schemes is precisely defined nor those who are eligible. The means-tests associated with such schemes generally require detailed information on income and assets. In addition, the individual may receive other benefits that provide adequate resources. To cope with this difficulty, the current method aims at defining those expected to be in need of income support, and measuring the extent to which they receive benefits.

In this analysis, individuals living in a jobless household and at risk of poverty have been identified as a criterion to be used in measuring those in need for last resort schemes.

The non-coverage rate of at-risk-of-poverty and jobless people is defined as the share of individuals aged 18–59, who live in a jobless household and are at risk of poverty, but whose total benefits/allowances received is less than 10% of their total net disposable household income ([1]).

This indicator refers to all benefits received at an individual level by household members as measured in EU-SILC (unemployment, sickness, disability, education-related allowances, family/children benefits, and old age and survivors' benefits received by household members aged less than 60). Pensions (old age and survivors' benefits) received by individuals aged less than 60 are included in the scope of benefits, as they provide income support and are sometimes used as safety nets despite this not being their original aim. Pensions received by the elderly present in the household are not included in the calculation, since they are not received by working age adults, and their primary aim is not to alleviate poverty in working age; they are considered as a separate income source (see Part 3).

([1]) Some robustness tests have shown that various alternative thresholds (0%, 20%) do not change the picture.

Unemployment and inactivity traps

The effectiveness of benefits also depends on their design, including conditionality ([18]) (such as requirements regarding job search or participation in training); the eligibility rules applied ([19]) and their maximum duration (OECD 2007), as well as the interplay of taxes and benefits and earnings from work (see Table 2).

Efforts are generally made to design tax-benefits systems in ways that relieve poverty and at the same time reduce reliance on social benefits and increase self-sufficiency by supporting labour market participation and making work pay. Nevertheless, the combination of low wages and inadequate benefit-tax systems may produce the risk of restrained incentives to take up work. The effect of increased taxes and withdrawn benefits deducted when experiencing transitions from unemployment/inactivity to paid employment (or as will be seen later when increasing the working hours – low wage traps) are captured through the implicit marginal tax rates (unemployment traps ([20]) and inactivity traps ([21])).

The OECD reports that such 'traps' vary across various types of stylised households (single earner, one-earner couple, two-earner couple, each without children and with two dependent children) and different wage levels, and the average trap rates are used in further analysis ([22]).

The average unemployment trap is estimated to range from less than 50 % in Slovakia and the UK, to well in excess of 80 % in Latvia and Luxembourg. As regards inactivity traps (with the potentially associated effect of losing unemployment benefits), these range from between 25 % in Greece and Italy to over 75 % in Denmark (see Table 2).

Nevertheless, financial disincentives are not always associated with poor labour market outcomes. OECD (2004) notes the difference between 'incentives' and 'incentives effects' in so far as these theoretical traps do not turn always into actual ones and vice versa. The presence of the 'incentive effect' results from various specific factors and more general determinants, including the prevailing state of the economy and the general efficiency of the labour market, as well as from proper integration of policy tools, i.e. active inclusion.

In summary, the analysis, including factor analysis, resulted in the selection of six indicators which cover the main aspects of adequate income support (see Table 2 ([23])).

The table indicates that the characteristics of benefit systems vary considerably, from those with wide coverage and high levels of adequacy in the Nordic countries and Continental Europe, to low coverage and low adequacy in Eastern Europe and some of the Southern Member States. Underlying these main dimensions, countries also vary in terms of the compositions of policy instruments (unemployment insurance, unemployment assistance) and their design (adjustment of benefits over the unemployment spell, link to past earnings).

In Section 5, these coverage and adequacy indicators will be related to indicators of labour market and poverty transitions with a view to assessing the importance of these policies for preventing poverty while encouraging labour market participation.

The Member States that provide generous income support in terms of wide coverage and high level of adequacy may often be seen as reducing incentives to work. However, the analysis of this cross-country evidence indicates that the apparent disincentives are more than compensated by success in ensuring re-entry into employment when such schemes are combined with effective activation policies and strictly-enforced job search conditionality terms.

3.2.2. Inclusive labour markets result from interactions between activation policies and LM institutions that prevent segmentation

Policies and institutions promoting inclusive labour markets aim at facilitating access and a return to employment, especially for those who are the most disadvantaged. Inclusive labour markets result from positive interactions between activation policies, labour market institutions that prevent segmentation and limit entry barriers, and well-designed tax and benefits systems.

Activation policies

The key features of activation policies ([24]) are to establish and enforce work-availability and mutual obligation requirements for job seekers. Benefit recipients are expected to engage in active job search and improve their employability in exchange for receiving

([18]) The conditionality of unemployment benefits impacts on incentives to take-up a job without lowering the level of benefits, but it may push people into social assistance schemes, if their efforts to find a job are unsuccessful.

([19]) The eligibility is analysed in Palme (2013). It includes indicators on minimum qualifying period for unemployment: a) employment record needed to qualify, b) reference period used to assess employment records, and c) derived implicit minimum share of months/time worked needed to qualify, and coverage of unemployment insurance among employed.

([20]) The unemployment trap (the implicit tax on returning to work for unemployed persons) measures the part of the additional gross wage that is taxed away in the form of increased taxes and withdrawn benefits such as unemployment benefits, social assistance, housing benefits when a person returns to work from unemployment.

([21]) The inactivity trap (the implicit tax on returning to work for inactive persons) measures the part of the additional gross wage that is taxed away in the case where an inactive person (not entitled to receive unemployment benefits but eligible for income-tested social assistance) takes up a job. In other words, this indicator measures the financial incentives to move from inactivity and social assistance to employment.

([22]) The high correlation between trap rates, which is confirmed by the factor analysis (Chronbach=0.98 for unemployment traps and 0.94 for inactivity traps), led to the selection of the average of trap rates for further analysis.

([23]) Indicators are ordered according to the final grouping based on the three pillars of active inclusion.

([24]) See www.oecd.org/els/employment/almp

Table 2: Pillar 1 Adequate income support – indicators, 2010

	Adequate income support					
	Coverage of unemployment benefits (%)	Non-coverage rate of jobless poor - child benefits excluded (%)	Net replacement rate of unemployment benefits (%)	Net income of people on social assistance relative to median income (%)	Unemployment trap (%)	Inactivity trap (%)
DK	92.6	8.2	79.9	71.7	81.6	78.7
FI	89.8	3.3	70.6	54.3	69.1	57.6
NL	61.9	6.1	77.6	63.3	81.2	66.3
SE	35.1	5.0	67.9	49.0	67.4	53.0
FR	70.9	8.6	73.0	39.7	74.2	48.0
BE	86.1	15.2	69.7	46.3	77.6	60.6
AT	77.4	25.3	66.5	48.3	72.9	61.0
DE	84.2	18.8	66.4	53.3	76.9	61.6
SI	41.0	13.6	66.1	42.3	81.9	60.8
IE	69.3	21.4	69.8	72.7	60.0	60.8
UK	39.7	22.6	48.3	69.0	43.3	57.0
ES	61.7	35.7	72.2	31.0	76.8	37.8
PT	40.8	42.3	80.9	37.0	81.1	39.8
CY						
CZ	55.9	31.5	50.9	45.7	74.4	53.8
IT	56.2	45.7	52.8		74.6	24.6
MT	50.7	19.7	54.9	52.3	51.4	46.2
EE	50.7	30.4	49.4	32.3	62.0	41.9
HU	64.5	16.5	51.8	33.0	74.1	42.2
LV	46.0	29.8	58.4	44.0	86.1	55.6
PL	26.5	39.3	51.5	35.0	63.1	49.2
BG	21.5	44.7	62.7	20.7	80.9	35.6
EL	43.5	68.2	44.3	3.7	53.4	24.5
LT	21.3	21.4	48.7	53.3	63.3	55.5
RO	38.6	39.1	48.9	23.3	53.9	36.8
SK	37.5	29.2	44.6	28.7	43.1	29.8
LU	54.1	23.6	72.2	52.0	86.5	58.4
	SILC 2011 DG EMPL indicator	SILC 2011 DG EMPL indicator	OECD Average	OECD Average	OECD Average	OECD Average

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efficient employment services and benefits. Overall, the effective integration of activation policies and unemployment benefit systems are seen as crucial in containing the potential disincentive effects of benefits ([25]).

Activation policies encompass a range of measures: special support for job search training and education for the unemployed and inactive; job rotation and job sharing; employment incentives and subsidies for taking up jobs; and job creation activities such as community work programmes. They are assessed in this analysis in terms of expenditure in active labour market policies ([26]) and participation in activation measures, including life-long learning. Unfortunately, these indicators cannot reflect the actual effectiveness of intervention in this field. As literature shows that participation is unevenly distributed across population groups, that measures do not always reach those who are most in need and that the impact of individual programs can vary greatly ([27]).

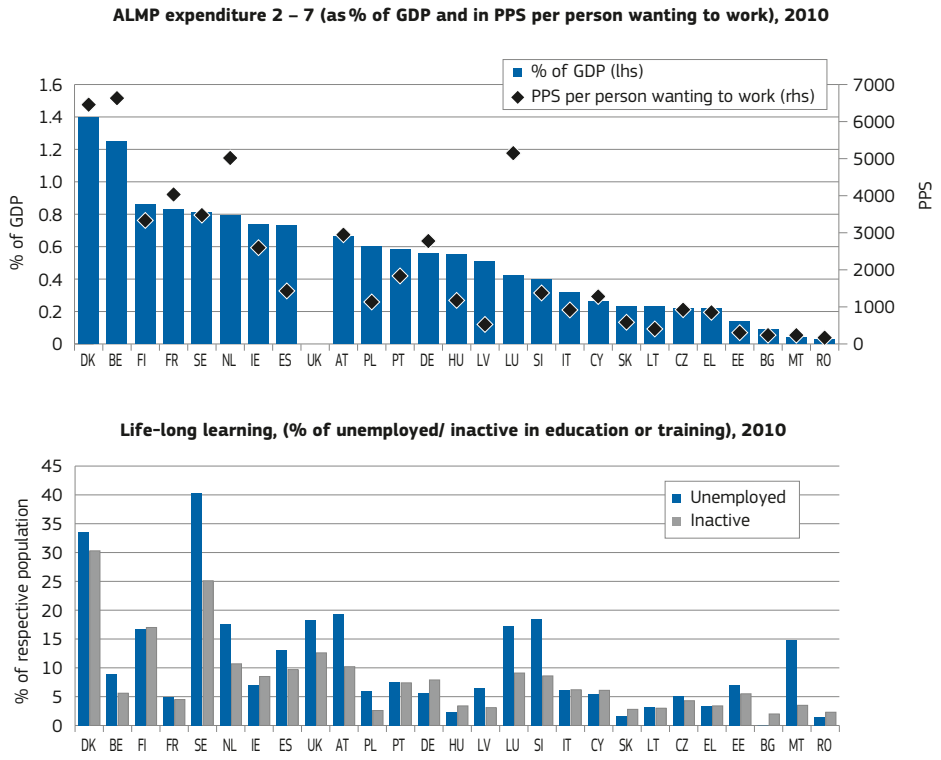
Nordic countries score better in applying activation measures than Southern and new Member States (except for Spain and Portugal), with Denmark and Sweden being particularly strong in terms of life-long learning, and Belgium making particularly important efforts in terms of expenditure on activation measures (see Chart 10).

([25]) This is confirmed by various macro-econometric evaluation studies that have found evidence for interactions between activation policies and other policies, for instance that spending on activation policies mitigates the impact on higher unemployment benefits in rising unemployment (Bassaninin and Duval 2006).

([26]) Expenditure in active labour market policies is expressed as a % of GDP and in relation to 100 people seeking work.

([27]) Participation refers to the use of activation policies, including participation of the unemployed and inactive in education and training (life-long learning). These measures do not take into account apprenticeship schemes, which are of special importance in Austria and Germany; they mainly benefit the young, who experience much better school to work transitions, and are better integrated in the labour market than in other countries. Various other policy indicators, including: the activation of registered unemployed and long-term unemployed, the timely activation of people who had not been long-term unemployed but would add significant information to the analysis, but the figures are unavailable for too many countries.

Chart 10: Activation concentrated in Nordic countries and Benelux



Source: Eurostat, EU-LFS [trng_lfse_02] and LMP database [lmp_ind_exp].

Note: No available LMP data for the UK.

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Policies and institutions to combat labour market segmentation

Labour markets tend to be described as highly segmented ([28]) when different wages and conditions of employment exist within and between different groups on the labour market, whether defined by skill-level, sectors, gender, or type of contract. Highly segmented labour markets tend to trap people in poorly paid or insecure jobs and result in low upward mobility. Limited mobility between 'insiders' and 'outsiders' creates barriers to those seeking to return to work, or enter the labour market, and hence is likely to particularly penalise those in the weakest labour market position (such as young people or the inactive).

Indicators of segmentation and wage rigidity have been brought together under three groups: (1) contractual arrangements through the shares of temporary (involuntary) schemes and involuntary part-time employment (segmentation by contracts); (2) gender segregation; and (3) wage polarisation.

Segmentation by contract results in non-standard forms of employment, such as subcontracting, short-term and fixed contracts, and to some extent part-time work ([29]) (Frazer and Marlier 2010). It results in labour market rigidities by way of employment protection legislation reforms introducing flexibility 'at the margins' deregulating the use of temporary contracts while maintaining stringent rules on permanent contracts (see Employment in Europe, 2010, Cahuc and Postel-Vinay 2002). Segmentation by contract is captured in this analysis through four different measures: the share of employees working in involuntary part-time or involuntary temporary contracts; the lack of transitions from temporary to permanent contracts; the wage penalty associated with temporary contracts (which reflects the fact that employees in temporary contracts tend to receive lower wages than workers on permanent contracts all other things being equal); employment protection legislation (EPL) ([30]) for on dismissal of regular workers and on hiring temporary contracts ([31]).

Gender segregation in the labour market results from underlying factors such as the under-evaluation of skills and occupational segregation, with women more often in jobs where low pay is more frequent (e.g. service sector); discrimination leading to women being paid less than men, even when working in the same positions; and the unequal care burden (Frazer and Marlier 2010, European Commission 2009). Gender segregation is captured here by two indicators: the

([28]) Labour market segmentation (and labour market institutions in general) is not part of the active inclusion strategy, though it enhances the discussion on inclusive labour markets (and reflects on larger problems).

([29]) As documented in Frazer and Marlier (2010), 'the impact of part time work on in-work poverty appears rather uneven, and in many cases the majority of working poor are in full time employment. However, in some countries it can be a factor [of in-work poverty] as it is often associated with poorly paid and insecure jobs.'

([30]) The OECD indicators of employment protection legislation measure the procedures and costs involved in dismissing individuals or groups of workers and the procedures involved in hiring workers on fixed-term or temporary work agency contracts.

([31]) Low employment protection legislation in temporary forms fosters labour market participation for those on the marginsof the labour market (the young, the inactive), but might result in the polarisation of the labour market if associated with a high level of EPL for regular contracts.

Table 3: Pillar 2 Inclusive labour markets – factors and indicators, 2010

	Inclusive labour markets					
	Expenditure on activation - factor	Participation in activation - factor	Segmentation by type of contract - factor	Gender segregation - factor	Low-wage trap (%)	Transitions to higher pay (low wage earners) (%)
DK	2.4	3.0	-1.0	-0.1	76.3	33.0
FI	0.7	1.1	-0.3	0.9	64.4	39.1
NL	1.4	0.5	0.6	-0.1	65.5	24.4
SE	1.0	2.7	-0.6	0.0	55.5	43.1
FR	1.0	-0.5	2.0	0.0	56.5	33.3
BE	2.1	-0.2	0.1	-0.6	63.6	38.2
AT	0.4	0.5	-0.9	0.6	54.5	34.3
DE	0.5	-0.2	-0.1	0.5	65.4	30.8
SI	-0.4	0.3	0.7	-1.2	61.9	34.7
IE	0.4	-0.1	-2.5	-0.1	61.0	
UK	-0.6	0.7	-3.2	-0.1	61.9	36.5
ES	0.1	0.3	2.6	0.2	42.4	36.9
PT	0.0	-0.2	2.1	-0.1	51.5	37.6
CY	-0.6	-0.4	0.5	0.7		28.1
CZ	-0.7	-0.6	0.0	0.9	55.0	32.9
IT	-0.6	-0.3	0.7	-1.1	47.5	35.0
MT	-1.1	-0.3	1.3	-0.7	39.2	32.9
EE	-1.0	-0.4	-0.3	1.9	34.6	33.8
HU	-0.2	-0.8	-0.4	0.5	57.9	39.7
LV	-0.4	-0.7	0.1	0.4	57.8	41.7
PL	-0.2	-0.7	1.7	-0.9	58.5	31.6
BG	-1.1	-0.9	-0.2	0.4	41.0	31.4
EL	-0.8	-0.7	1.4	-1.4	32.7	28.1
LT	-0.9	-0.8	-1.1	0.5	59.7	38.3
RO	-1.2	-0.9	-3.1	-1.3	40.6	21.0
SK	-0.8	-0.8	-1.0	1.4	55.5	35.6
LU	0.5	0.4	1.2	-1.1	68.7	29.6
	LMP Factor	LMP LFS Factor	LFS SILC SES OECD Factor	SES LFS Factor	OECD Average	SILC 2011 Average

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gender pay gap ([32]) and segregation by type of occupation ([33]).

Last, wage polarisation intensifies the risk of limiting the career possibilities for those in the lower end of the wage distribution, and exacerbates problems of job-skills mismatches and over-qualification. European Commission (2011) report an increase in wage polarisation since the recession. Wage rigidities are captured in this analysis by low wage traps ([34]) and limited opportunities for lower wage earners to move up the income ladder ([35]).

Segmentation by type of contract, gender segregation and wage polarisation are features observed on most labour markets, though they tend to prevail differently across countries. Segmentation by type of contracts is commonplace in Greece, France (Blanchard and Landier, 2002), Malta, Poland, Portugal (Centeno and Novo, 2012) and Spain (Amuedo-Dorante, 2000), while it is limited in Ireland, the UK (Booth, Francesconi, Frank, 2002) and Romania (see Table 3). Gender segregation is of more concern in Austria, Germany and Finland, but also in several of the Eastern Member States (the Czech Republic, Slovakia, Hungary, the Baltic States and Bulgaria). Wage rigidities and polarisation, on the other hand, are more commonly seen in the Northern Member States (notably Germany, Denmark, the Netherlands), but also the United Kingdom and Ireland, Slovenia and Romania.

3.2.3. Enabling services support inclusive labour market policies

Enabling services support labour market participation by addressing barriers to people's entry into employment and by facilitating mobility, work and family life reconciliation, and social participation. They include access to early childcare, education and training, health care and housing.

([32]) The gender pay gap measures the difference between men's and women's average gross hourly earnings as a percentage of men's average gross hourly earnings (for paid employees); see Chapter 3 on gender issues.

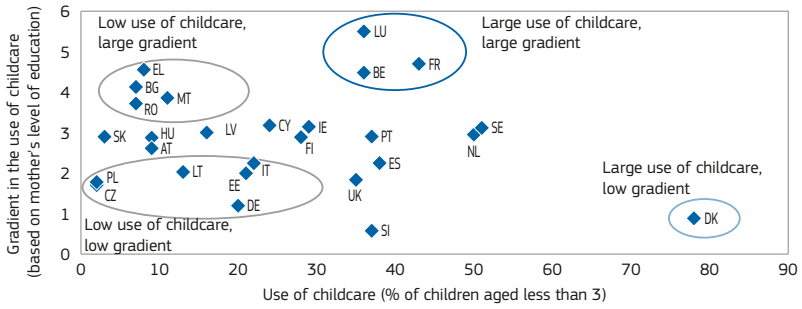
([33]) Gender segregation in occupations is calculated as the average national share of employment for women and men applied to each occupation; differences are added up to produce a total amount of gender imbalance presented as a proportion of total employment (ISCO classification).

([34]) The low-wage trap is defined as the rate at which taxes are increased and benefits withdrawn as earnings rise (due to an increase in work productivity). This kind of trap is most likely to occur at relatively low wage levels, due to the fact that the withdrawal of social transfers (mainly social assistance, in-work benefits and housing benefits), which are usually available only to persons with a low income, adds to the marginal rate of income taxes and social security contribution.

([35]) Net income relative to poverty threshold for a full time minimum wage earner would be an additional relevant indicator, but data is unavailable for too many countries to include in the analysis.

Chart 11: Use and access to early childcare

Share of children in formal childcare and gradient, 2010



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Source: DG EMPL calculations based on Eurostat, EU-SILC (2011, IE 2010).

The provision of formal early childcare (to children less than three years old), as expressed in the share of children cared for in formal arrangements, is complemented by data on the number of hours spent in childcare. The use of childcare is particularly low in some of the new Member States (especially the Czech Republic, Poland and Slovakia), while more than two thirds of young children use childcare in Denmark. In other terms, while in Denmark and Finland children aged less than three years old are cared for, on average, for more than 25 hours per week, the average length of childcare in the Czech Republic, Poland and Slovakia is only one hour.

A combination of various barriers – high costs, deprived neighbourhood, limited availability – might lead to a 'social gradient' in access to services ([36]). Research has shown that many collective services are more intensively used by people with higher educational attainment than by others, which serves to reinforce inequalities – a fact re-enforced if poorer areas have poorer quality services in the first place ([37]). On the other hand, some collective services have been identified as pro-poor, such as bus services ([38]) in cities. Inequalities in access to services are reflected through the observed gradient ([39]) in the use of childcare (see Chart 11) and in the use of education and life-long learning facilities.

Education and life-long learning data cover enrolments by adults (aged 25–64) as well as young people (18–24). Adult participation is broken down by educational attainment: low, medium and high – while young people are assessed in two: medium and higher education. Both measures are aggregated into one indicator representing the use of education and training services, and the social gradient which underlines the relationship between skills and participation in learning activities ([40]).

Two other complementary services are included in this analysis: healthcare and housing. The lack of adequate provision of the health care is captured by the unmet need for medical and dental care, and the lack of adequate support for housing is captured by the housing cost overburden rate ([41]), the overcrowding rate ([42]) and the severe housing deprivation rate ([43]).

3.3. Integrated and comprehensive active inclusion policies are linked to better performance with respect to poverty drivers and poverty outcomes

The active inclusion principles emphasise the need to improve the integration of the three pillars. For instance, adequate income support (carrying potential financial disincentives to labour market participation) needs to be complemented by well-functioning activation policies and enabling services (addressing barriers to taking up work). It is also important that interventions supporting the employability of workers are complemented by measures that address segmentation and segregation on the labour market.

In this section, the characteristics of the various Member States' policy mixes with regard to active inclusion are confronted with the main drivers of working age poverty in each case, as identified in Section 3 of this chapter. Table 5 summarises the main institutional and policy characteristics of the Member States using the indicators selected in the previous section. Overall, countries with the more comprehensive sets of policies tend to have the better outcomes. These indicators reflect the institutional and policy characteristics that could explain part of the difference in performance between countries; however, it is important to keep in mind that they do not include indicators reflecting the financial sustainability and efficiency of the systems (which are beyond the scope of this chapter).

Five groups of Member States in the top left corner have high to medium income support, inclusive labour market policies

([36]) Social gradients reflect the differences between social groups in the use of the services. Social groups are captured here by education level. Complementary work has illustrated that there is a large coherence with other possible measurement of social groups based on labour market participation, income, etc.

([37]) See Bramley and Besemer (2011), Ward and Ozdemir (2012).

([38]) Ibidem.

([39]) Gradients in the use of childcare and ineducation and lifelong learning are estimated as the differences between social groups in the use of the services. The current measure used to summarise the gradient inthe use of childcare over the three education groups is calculated as the square root ofthe ratio A/B between (A) the sum of squared gaps between the use of childcare in each education level and the middle education level and (B) the use of childcare over the whole population.

([40]) The DG EAC study based on the Survey of Adult Skills (PIAAC) reports a high percentage of people caught in a 'low-skill trap', ie. adults with low literacy and numeracy skills not having opportunities to participate in learning activities. See European Commission (2013).

([41]) The housing cost overburden rate is the share of the population living in households where the total housing costs ('net' of housing allowances) represent more than 40% of disposable income ('net' of housing allowances).

([42]) The overcrowding rate estimates the share of population living in an overcrowded household that does not have at its disposal a minimum number of rooms, one room for the household (one room per couple in the household; one room for each single person aged 18 or more; one room per pair of single people of the same gender between 12 and 17 years of age; one room for each single person between 12 and 17 years of age and not included in the previous category; one room per pair of children under 12 years of age).

([43]) Severe housing deprivation rate is defined as the share of population living in a dwelling that is considered as overcrowded, while also exhibiting at least one of the housing deprivation measures (a leaking roof, no bath/shower and no indoor toilet, or a dwelling considered to be too dark).

Table 4: Pillar 3 Enabling services – Factors and indicators, 2010

	Enabling services			
	Early childcare - factor	Life-long learning (%)	Lack of adequate housing (%)	Unmet need for care (%)
DK	2.8	31.6	52.8	3.7
FI	1.5	20.7	20.8	3.4
NL	0.8	16.3	29.1	0.8
SE	1.2	23.5	42.4	4.1
FR	0.9	5.0	26.1	5.9
BE	0.5	7.0	28.9	2.3
AT	-0.9	14.3	32.2	2.0
DE	-0.3	7.2	32.1	4.0
SI	0.7	15.6	34.7	0.2
IE	0.0	6.4	16.4	2.3
UK	0.0	18.6	37.9	2.0
ES	0.5	12.0	26.5	0.4
PT	0.7	7.7	20.7	3.7
CY	-0.1	7.1	12.7	7.8
CZ	-1.2	8.1	45.9	1.0
IT	-0.2	8.4	35.2	7.2
MT	-0.8	9.2	9.9	1.5
EE	-0.1	9.5	41.5	6.3
HU	-0.8	2.8	53.2	2.8
LV	-0.4	4.7	50.5	23.7
PL	-1.2	5.8	48.6	7.5
BG	-0.9	1.6	39.1	22.7
EL	-0.9	3.4	55.4	5.6
LT	-0.6	5.0	44.7	1.4
RO	-0.8	2.1	54.0	7.5
SK	-1.1	5.0	46.9	2.0
LU	0.5	12.3	27.6	1.7
	SILC Factor	LFS Average	SILC Constructed	SILC

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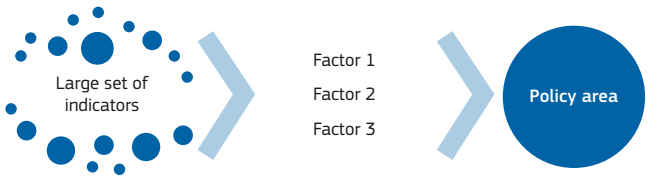
and enabling services, and these coincide with relatively good labour market and poverty outcomes. Conversely, the four groups in the bottom right corner have less comprehensive income support, inclusive labour market policies and enabling services, which undermine the functioning of their labour markets and do not prevent poverty risks.

Box 2: Factor analysis on policy indicators

Any socio-economic concept can be described by one or more statistical measures (indicators). Factor analysis is commonly used to reduce the number of dimensions necessary to represent the concept while maintaining the information from the original data. The number of resulting variables ('factors') depends on the variability of the initial information. If the original set of indicators is limited and covers similar information, one factor might be sufficient to describe all the information. If the original set of indicators reflects two or more issues, then several factors may be needed. The intrinsic cohesion of variables can be assessed by multidimensional analysis, more specifically the alpha Chronbach (1) coefficient, for example.

In this chapter, factor analysis is used to reduce the number of indicators to be considered in each main policy area, with one or two factors in each domain being extracted, depending on the intrinsic variability of the data.

Chart: Factor Analysis reducing the number of indicators in each policy area



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(1) See Guio Marlier Gordon for example.

Table 5: Policy characteristics of Member States based on the three pillars of active inclusion and national drivers of poverty

	Adequate income support *benefits coverage adequacy*	high coverage and adequacy +++ +++/++	high coverage and adequacy ++ ++	high coverage and high to medium adequacy +++/++ +/++	medium coverage and high adequacy + ++	medium coverage and adequacy +- +-	low coverage but high adequacy -- ++	medium coverage and adequacy + +-	medium coverage and low adequacy +- --	very low coverage and adequacy medium [LT]" --/--- ---
	Inclusive labour markets *ALMP expenditure and participation in activation measures*	high spending and participation +++/++ +++/++	high spending and medium[BE]-low[FR] participation +++/++ +-	medium spending and participation + +	medium spending and participation + +	low spending and high participation - ++	medium spending and participation + +	low spending and medium participation -- +/--	medium spending and low participation + --	very low spending and participation --- ---
	Enabling services *Childcare, LLL...*	high use of childcare and LLL ++ +++/++	high use of childcare and medium use of LLL ++ +	SI high, DE medium, AT low use of child-care, medium use of LLL +-/--- +-/++	SI very high and IE medium use of childcare and LLL ++/+- ++	medium use of childcare and good use of LLL +- ++	medium use of childcare and LLL ++ +-	low to medium use of childcare and medium use of LLL +-/-- +-	low use of childcare and medium to low use of LLL -- -+/--	low use of childcare and LLL -- ----
	LM segmentation	wage rigidity/ polarisation	BE wage rigidity/ polarisation FR contract segmentation	DE SI wage rigidity/ polarisation AT DE gender segregation	wage rigidity/ polarisation	wage rigidity/ polarisation	contract segmentation	CY IT MT contract segmentation CZ gender segregation	PL contract segmentation CZ HU LV gender segregation	EL contract segmentation BG SK LT gender segregation
A	Overall good performance	low risk of poverty, low poverty gap, low persistent poverty	NL SE	FR	AT SI				CY CZ		
B	Good overall performance, but joblessness	some risk of poverty, some poverty gap, some persistent poverty	DK FI	BE	DE		UK			
C	Joblessness	high risk of poverty, low poverty gap, low persistent poverty				IE				
D	Lower performance, Inactivity, In-work poverty	high risk of poverty, high poverty gap, high persistent poverty							IT (MT)	PL (HU)	BG RO
E	Lower performance, Long-term unem-ployment, In-work poverty	vary high risk of poverty, high poverty gap, high persistent poverty						ES PT		EE LV	EL (SK) LT

Source: DG EMPL calculations based on Eurostat, EU-SILC 2010 and 2011, EU-LFS and ALMP database, and the OECD-EC tax-benefits database.

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4. THE PROFILE OF ADULTS AT RISK OF POVERTY: FOCUS ON THE WORKING POOR AND ADULTS LIVING IN JOBLESS HOUSEHOLDS

This section analyses the profiles of working age adults at risk of poverty and describes their socio-economic and income characteristics compared to those not at risk of poverty.

The population is described through two main profiles:

- those who are in-work poor (36% of the 18–59 population at risk of poverty);
- those who are living in a jobless and at-risk-of-poverty household (34% of the 18–59 population at risk of poverty.

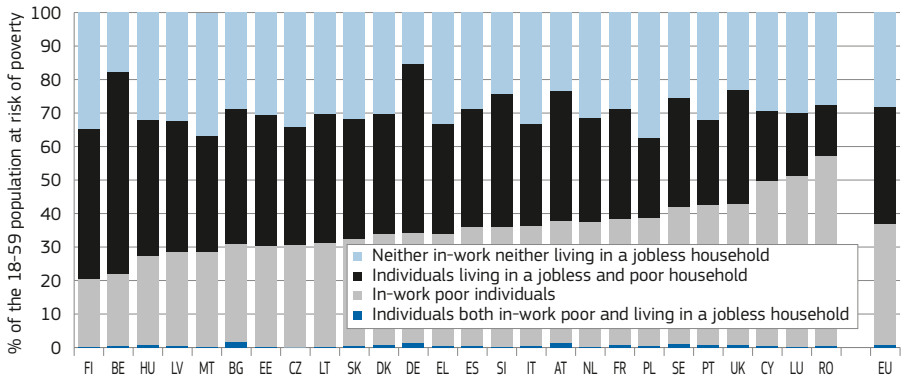
These two profiles do not cover *all individuals* at risk of poverty. Adults who are non-working but who do not belong to a jobless household either are not covered by the taxonomy (see Chart 12). The rationale for this is that incomes are defined at household level: those individuals have an income composition that is similar to the one of in-work poor individuals.

4.1. Main characteristics of in-work poor and adults living in jobless households

Women, young and older workers, the low skilled, migrants, people with disabilities and single adults, including single parents are over-represented among the people living in jobless and poor households. Men, prime age people, the low and middle skilled, migrants, couples with children, and to some extent single people and single parents, are overrepresented among the in-work poor (see Chart 13).

The main drivers of in-work poverty are well identified by the literature (see ESDE 2011). They include insufficient quantity of work (temporary contract ([44]) or limited hours, i.e. part-time); low wages; and household composition effects. Chart 14 illustrates that the in-work poor are more often employed on a temporary contract, or holding part-time job and that there are great variations in the number of hours worked.

Chart 12: Profile of the population of adults living in poverty



Source: DG EMPL calculations based on Eurostat, EU-SILC 2011.

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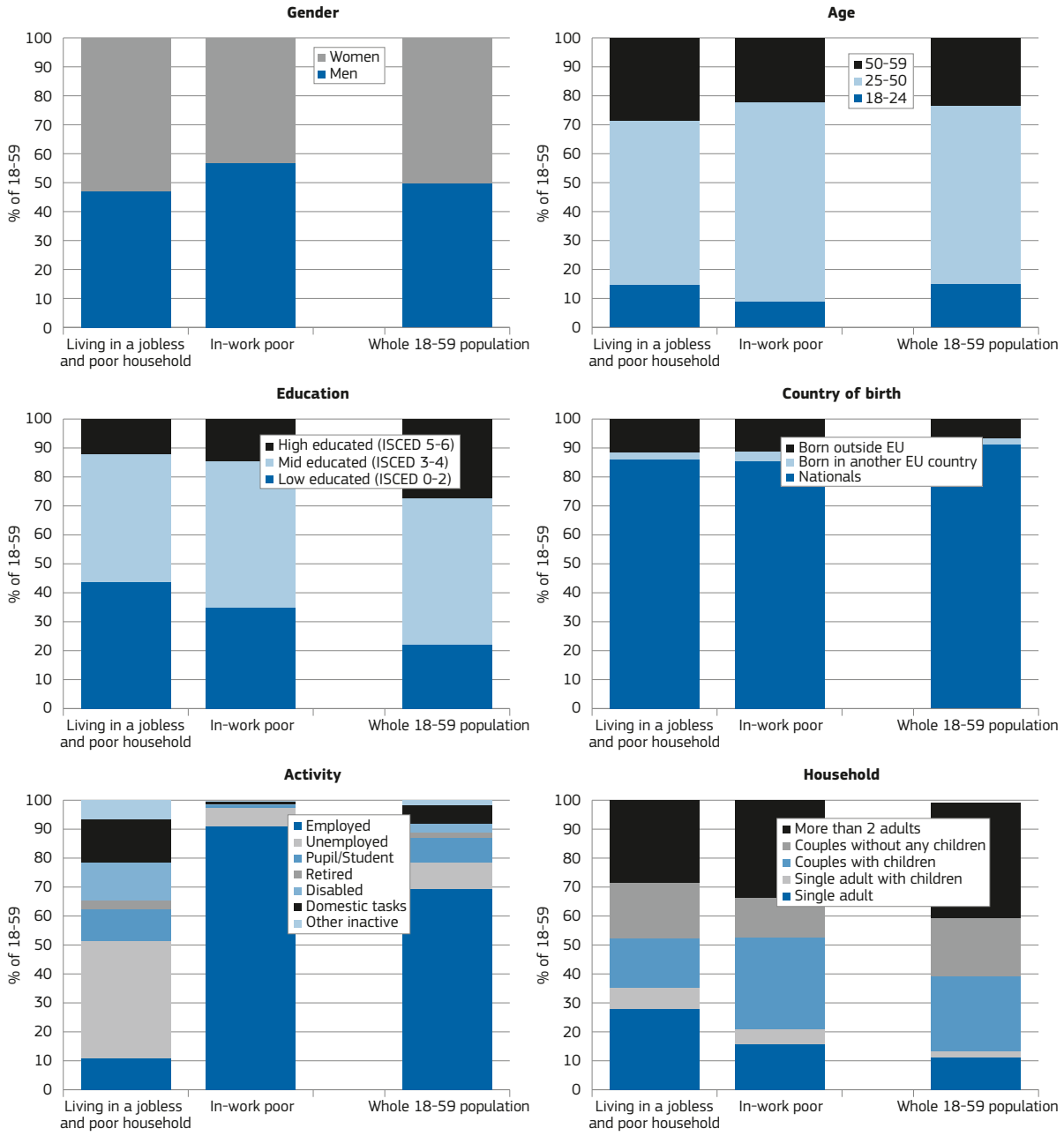
([44]) This mainly applies to the situation where temporary contracts are of (very) short duration, implying breaks during the year, thus fewer months of work.

Chart 13: Profile of those living in jobless and poor households and in-work poor by socio-economic characteristics



Source: DG EMPL calculations based on Eurostat, EU-SILC 2011.

Note: A small proportion of individuals living in jobless households at risk of poverty appear in the chart as employed as the activity status is measured at the time of interview, while joblessness or in-work status is measured over the whole EU-SILC reference period (a whole year all countries but UK and IE). For the same reason, some of the in-work poor are unemployed at the time of the interview because of changes in their labour market status between the reference period and the time of interview.

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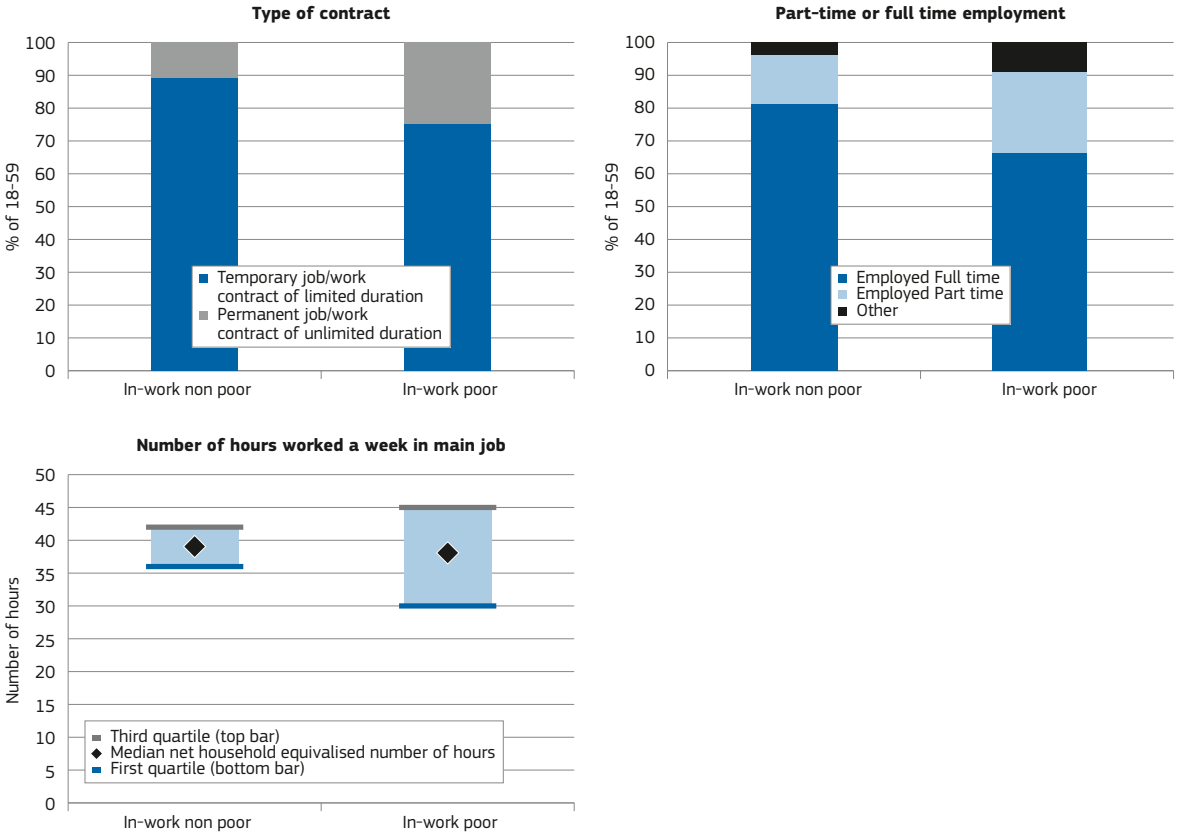
Chart 14: Type of contract, part-time/full-time status and number of hours worked a week by poverty status for those working age in work



Source: DG EMPL calculations based on Eurostat, EU-SILC 2011.

Note: The diamond represents the average number of hours of the group. The highest bar represents the number of hours worked by the quarter of the population with highest number of hours, and the lowest bar, the number of hours worked by the lowest quarter of the population.

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Chart 15, 16 and 17 illustrate that the characteristics of the in-work poor vary across countries. The share of temporary contracts among the in-work poor is especially large in Spain and in Poland, where 45 % of the in-work poor are employed through a temporary contract, against 25 % of those who are employed but not poor. In Austria, the proportion of those employed through a temporary contract remains small for both the in-work poor and those who are employed and not poor (10 % and 6 %).

At EU level, 25 % of the working poor work part time, against 15 % of those who are not at risk of poverty. People working part time are over represented among the working poor in the UK, Austria, France, and Poland (see Chart 16).

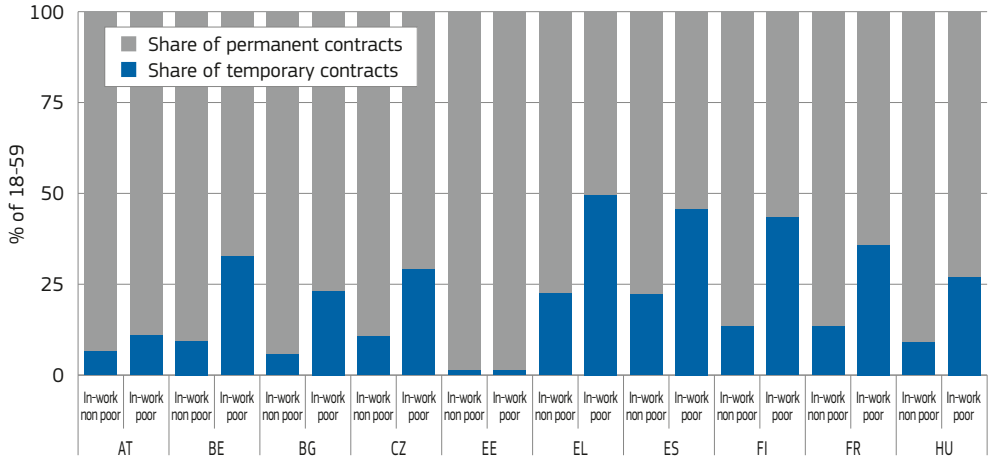
In-work poverty is also linked to low pay. Chart 17 presents the share of individuals with low wages ([45]) who are classified as in-work poor, and the share of those who are not poor. It shows that low wage earners are over-represented among full-time workers at risk of poverty. Germany is the Member State with the highest share of low wage earners among the full-time working poor ([46]), while Greece and Portugal have the lowest shares of low wage earners in this position.

Some low-wage earners are not living in poverty while some non-low wage earners are at risk of poverty. This is largely explained by the size and composition of the household. Chart 18 shows that single parents and households with children are more likely to face poverty, especially when there is only one breadwinner.

([45]) See Box 3 on low wages definition used in the current analysis.

([46]) Which could imply that even full-time workers may need income support.

Chart 15: Type of contract by poverty status for the 18–59 population at work



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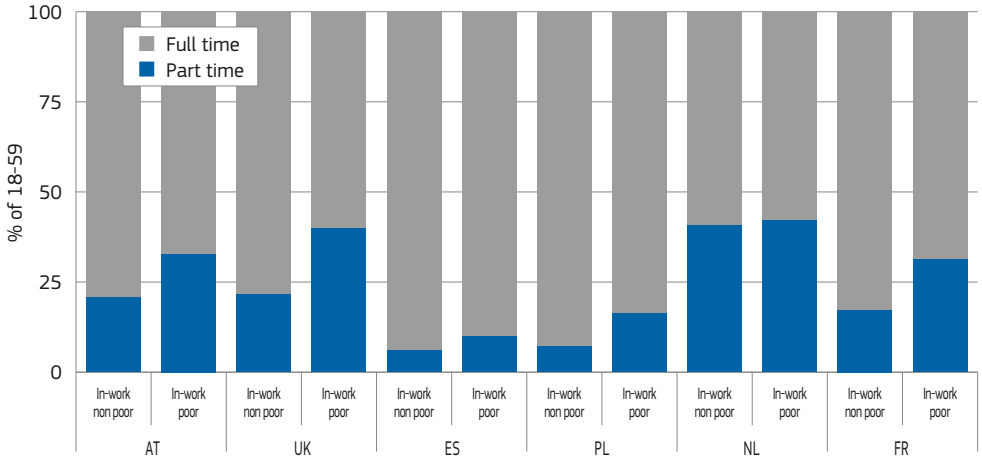
Source: DG EMPL calculations based on Eurostat, EU-SILC 2011.

Chart 16: Working time by poverty status for the 18–59 population at work



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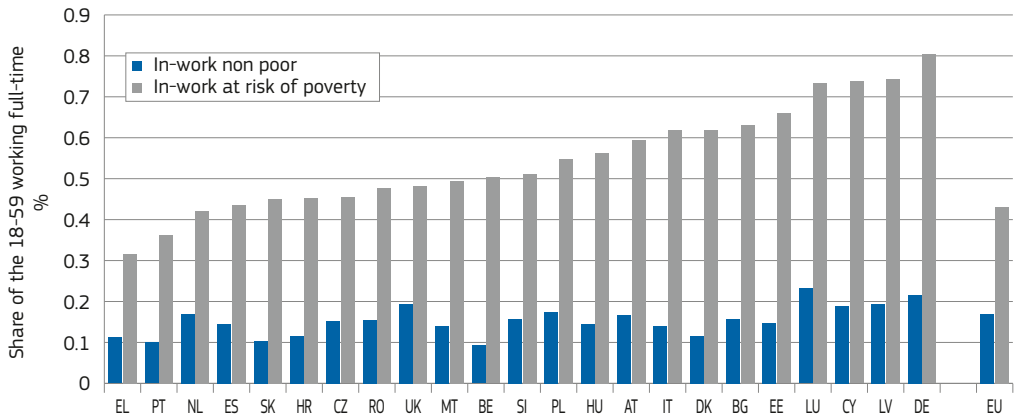
Source: DG EMPL calculations based on Eurostat, EU-SILC 2011.

Chart 17: Share of low wage earners among full-time workers at risk of poverty or not by Member States



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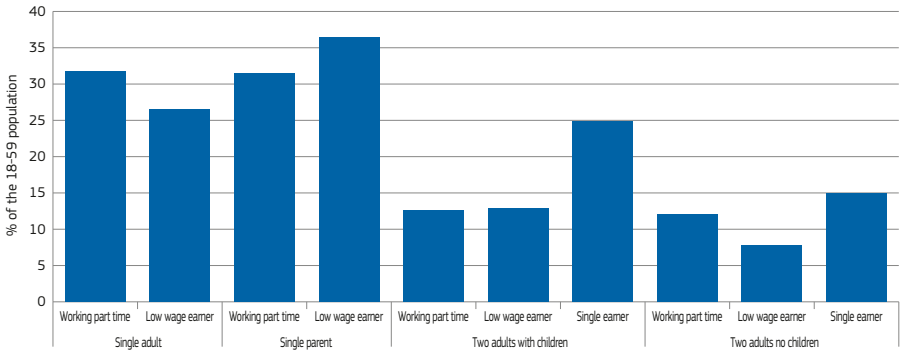
Source: DG EMPL calculations based on Eurostat, EU-SILC 2011.

Chart 18: The at-risk-of-poverty rate for given household types and labour market attachment (EU)



Source: DG EMPL calculations based on Eurostat, EU-SILC 2011.

Note: Categories are not exclusive and might add up to more than 100%.

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Box 3: Measuring hourly wages with EU-SILC – A proposal

As a source of data, EU-SILC has the advantage of gathering information on labour market situations and wages at the level of individuals. However, it is not straightforward to compute hourly wages from this source. With the exception of Engel and Schaffner (2012) and RWI (2013), few estimates have been made.

A proxy of the hourly wage has been estimated by restricting the population to those who worked full time over more than 9 months during the previous year, and by applying to them the number of hours worked a week declared at the time of the interview. Low-wage earners are defined as those employees who earn less than two thirds of the national median gross hourly earnings.

The wage variable refers to a whole year while labour market status is a snapshot of the situation at the time of the interview. This issue is solved by calculating the number of months worked over the income reference period thanks to the calendar of activity (employed full-time or part-time at each month of the past year). The most problematic cases occur when the person experienced two distinct spells of employment over the period. For this reason, our estimate is only based on those who were employed for *at least nine months* over the reference period. A remaining problem is that the number of hours worked a week is known only at one point in a year (at the time of the interview) and is not in the calendar data. For this reason, our estimate is done *only for those employed full-time.*

Second, the wage information refers to the previous year, while the activity status refers to the date of interview. The second issue can be treated with the assumption that there has been no change in the number of hours worked between the time of the survey and the year before. This hypothesis is strong, but the comparison with the Eurostat statistics on wages and labour cost of low wage earners based on Eurostat data shows that the results are not excessively biased.

The results are encouraging in that the estimated median hourly earnings estimated with EU-SILC are closely correlated with the wage and labour costs statistics (R^2=0.94, see Chart a). However, the share of low wage earners differs slightly from the official figures, despite the overall good matching of rankings (R^2 at 0.47, see Chart b). This can be partly explained by the population considered (full-time employed in the estimation having worked at least 9 months over the year in EU-SILC estimate, all employee in firms of more than 10 employees in the other).

Chart a: Comparison of the low wage threshold estimated with EU-SILC and Structure of Earnings Survey

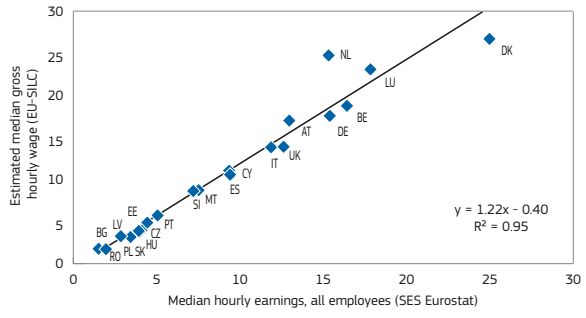
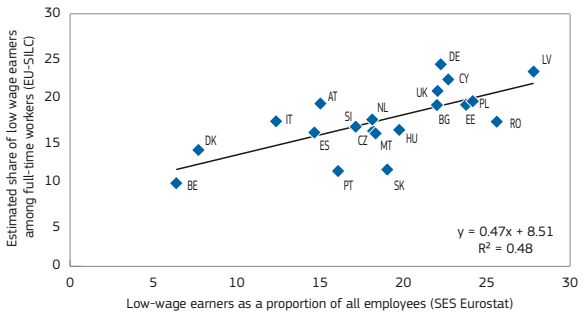


Chart b: Comparison of the share of low wage earners estimated with EU-SILC (full time workers) and Structure of Earnings Survey



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Source: DG EMPL calculations based on EU-SILC 2011 and Eurostat. Structure of Earnings Survey [earn_ses_pub2s] and [earn_ses_pub1s].

See http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Wages_and_labour_costs for more details on low wage statistics.

4.2. Working age adults at risk of poverty are living on incomes from work, social benefits and pensions from elderly household members

Most of the in-work poor are mainly living on earnings from work. They represent around 80% of the annual gross disposable income ([47]) (before taxes and contributions) of in-work poor individuals (slightly less than for those not at risk of poverty, see Chart 19). Social transfers ([48]) represent on average 17% of the incomes of those in-work poor, as opposed to 8% of the income of those not at risk of poverty.

Most jobless households are living mainly on social transfers. They represent about 70% of the annual gross disposable income of those living in a jobless and poor household, as opposed to 8% of the income of those not at risk of poverty.

The composition of income varies across the Member States, with the in-work poor receiving very little support from social transfers in Greece, Spain, Portugal and Bulgaria (accounting for 10% of gross income in each case). Income support to in-work poor is much stronger in Finland, Sweden, Slovenia, France, the United Kingdom and Hungary, where they typically receive more than 25% of their gross income from social benefits.

The share of annual gross disposable income coming from social transfers received by individuals of working age living in jobless and poor households varies greatly across the Member States. This share is lowest in Bulgaria, Greece and Italy where jobless and poor households are living with no more than 40–50% of their annual income coming from social transfers. The level of support to jobless and poor households is much higher in Austria, Belgium, Germany, Finland, Sweden and the United Kingdom, where those living in jobless and poor households typically receive more than 85–90% of their income from social benefits (see Chart 20).

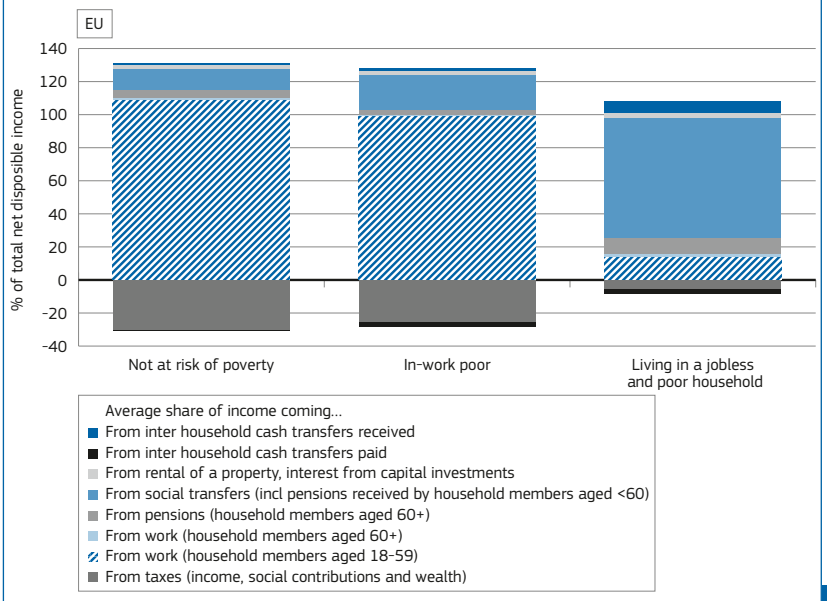
Chart 21 provides a measure of 'benefit-dependency' focused on individuals for whom more than 50% of their gross annual disposable income is derived from benefits ([49]). It shows that, in some Member States, a large proportion of the working age population is living mainly on benefits – 28% in Ireland ([50]), 12–14% in Denmark, the United Kingdom, Finland, Hungary and Belgium – while in others, such as Bulgaria, Cyprus, Italy and the Czech Republic, only 4–6% have this level of dependency.

Some vulnerable households receive little support from the state. Individuals living in jobless and poor households receiving less than 10% of their income from social transfers can be considered as a measure of 'non-coverage of social transfers', since the lack of replacement income for such people would suggest a lack of effectiveness of the benefit system in reaching the most vulnerable.

At EU level, 15% of those living in jobless and poor households receive no more than 10% of their income from social benefits (see Chart 7 and Box 1). The share of individuals not receiving income support is especially large in Greece, Cyprus, Italy, Bulgaria and Portugal, where more than 40% of those living in jobless and poor households receive 10% or less of their income from social transfers. By contrast, this share is less than 10% in Finland, Sweden, the Netherlands, Denmark and France.

However, in some countries, significant shares of working age adults tend to rely more heavily on pensions, including elderly pensions received by other household members. Such situations are not supportive of returns to employment because they are not associated with any incentive structures (activation, conditionality, etc). As an illustration, a significant proportion of households contain household members over 60 years of age who receive pensions which represent more than 25% of the household income ([51]).

Chart 19: Income composition of working age adults at risk of poverty compared to the rest of the population



Source: DG EMPL calculations based on Eurostat, EU-SILC 2011.

Reading note: Incomes are expressed in gross values (as the detail of income sources is measured in gross values), and presented as shares of net disposable incomes (see Box 4). These graphs do not include the value of benefits in-kind, which are more evenly distributed across income groups.

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([47]) In Chart 19, data is presented in shares of gross disposable.

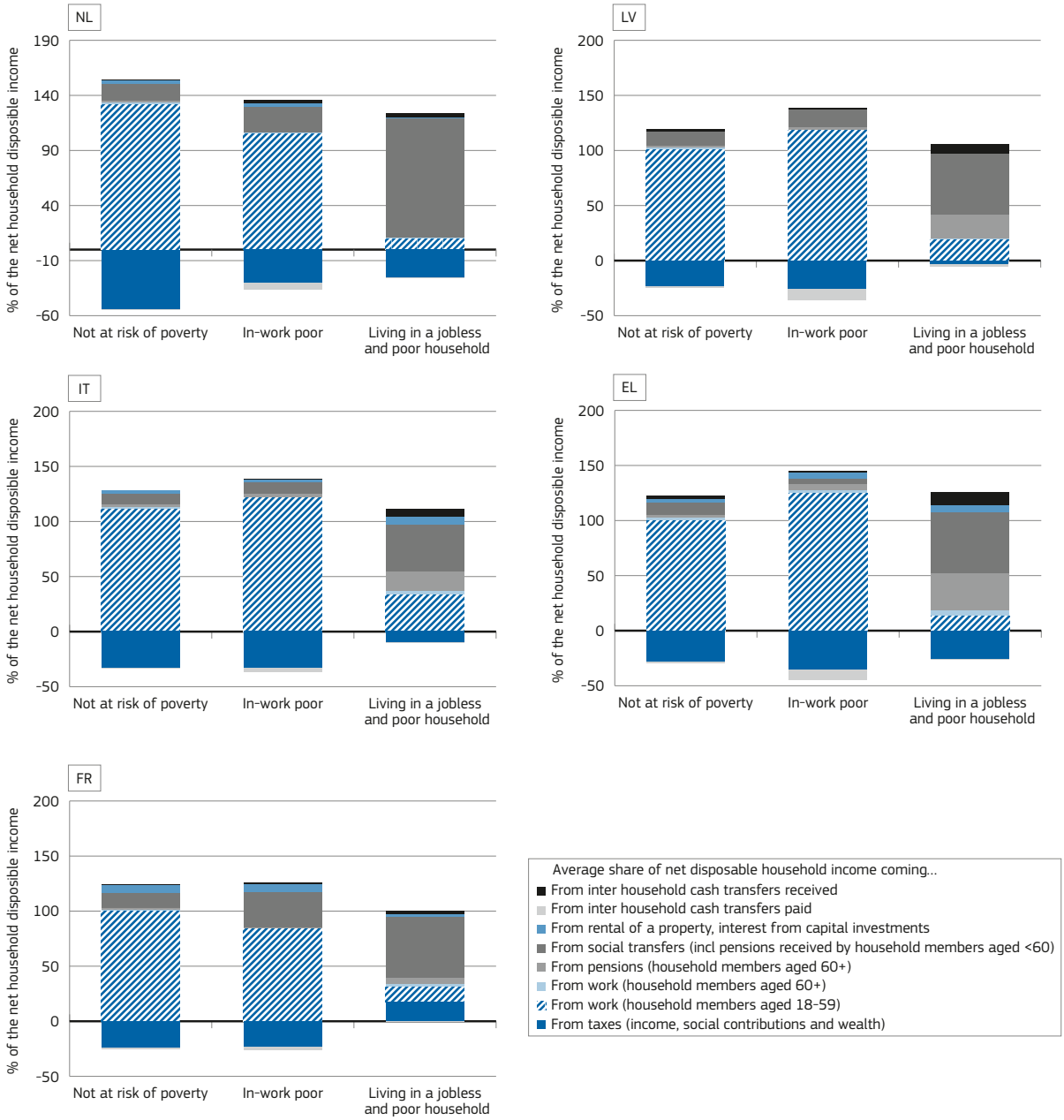
([48]) Old-age benefits and survivor's benefits are treated as 'social benefits' (or "social transfers") when they are received by individuals younger than 60 years old, and they are not included in the benefits. They are treated as a separate income source when received by household members above 60.

([49]) Pensions received by individuals from the target age group (18-59) are treated as benefits. Pensions received by other household members aged 60+ are treated separately (see Box 4).

([50]) Watson *et al.* (2012) explain Ireland's position regarding the large share of jobless households by specific living arrangements and the distribution of joblessness across households, with a relatively low rate of jobless adults living with employed adults and a high rate of jobless adults living with children.

([51]) These countries are generally those where a large proportion of working age adults are living in multigenerational households, which is especially the case for those living in jobless and poor households, see Chart 22.

Chart 20: Income composition of working age adults in-work poor or living in jobless and poor households compared to the rest of the population



Source: DG EMPL calculations based on Eurostat, EU-SILC 2011.

Note: Incomes are expressed in gross values (as the detail of income sources is measured in gross values), and presented as shares of net disposable incomes (see Box 4). These graphs do not include the value of benefits in-kind, which are more evenly distributed across income groups.

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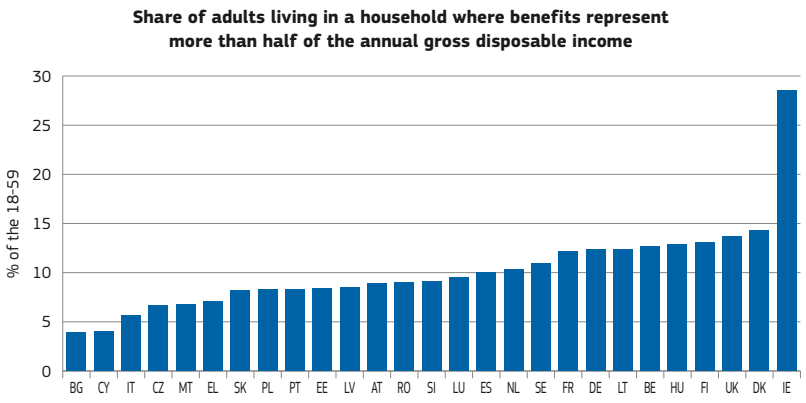
Chart 21: Benefit dependency



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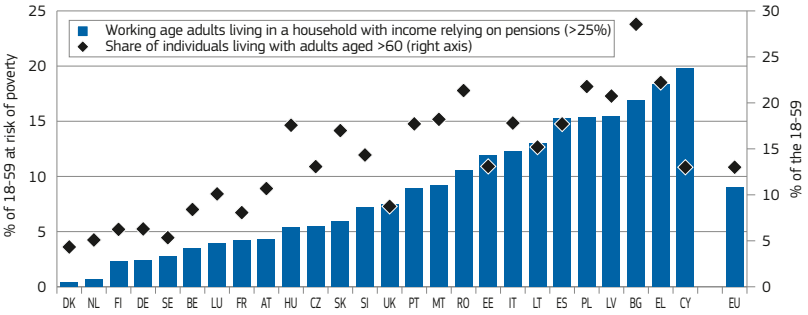
Source: DG EMPL calculations based on Eurostat, EU-SILC 2011.

Note: Old-age benefits and survivor's benefits are treated as 'social benefits' (or "social transfers") when they are received by individuals younger than 60 years old. They are not included in the benefits, but treated as a separate income source when received by household members above 60.

Chart 22: Pension dependancy



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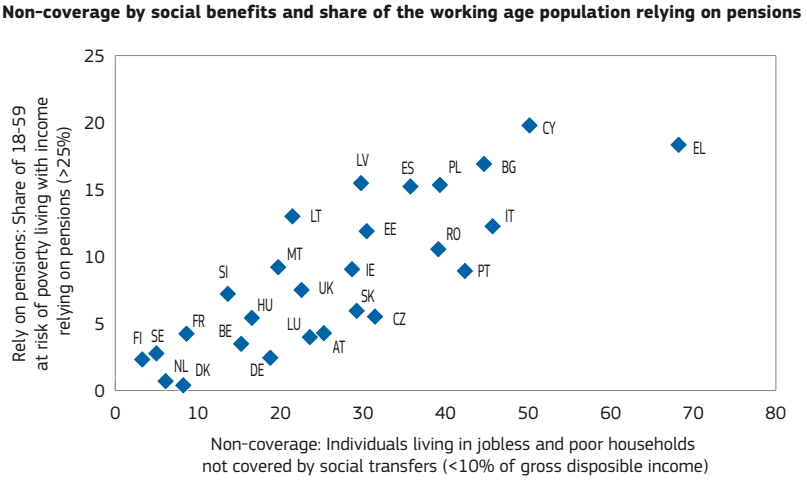
Source: DG EMPL calculations based on Eurostat, EU-SILC 2011.

Chart 23: Support from social transfers or intergenerational solidarity



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Source: DG EMPL calculations based on Eurostat, EU-SILC 2011.

In the EU as a whole, 9% of the people aged 18–59 and at risk of poverty are living in a household where more than 25% of the total household income comes from the pensions received by a 60+ year-old household member (see Chart 22). In Denmark, the Netherlands, Finland and Germany, the share is very low – less than 1% – but it is much higher in Bulgaria, Greece, Cyprus, Spain and Poland (15–20%).

Chart 23 shows that, in Member States with low coverage rates of social benefits, the share of individuals at risk of poverty who are relying on pensions from 60+ year-old household members is much larger. This is the case in Greece, Cyprus, Bulgaria, Poland and the Baltic States, as well as in Spain and Italy, while the incidence is very low in Continental and Northern Europe.

As illustrated in Chart 23, a large proportion of individuals not covered by social transfers are found in countries with large numbers of multi-generational households. This may be explained in so far as individuals rely on family solidarity in the absence of adequate income support. This may not facilitate the return of working age people to employment, as those without individual income support may not have access to the rights and obligations associated with receiving working age benefits (job search requirement, training, etc.). Another coping 'strategy' that those without access to income support may adopt is to seek work in the informal economy. This cannot be observed directly in standard statistics, but available evidence ([52]) tends to show that undeclared work is widespread in the countries indicated above.

([52]) See Chapter 4 on undeclared work in the current review.

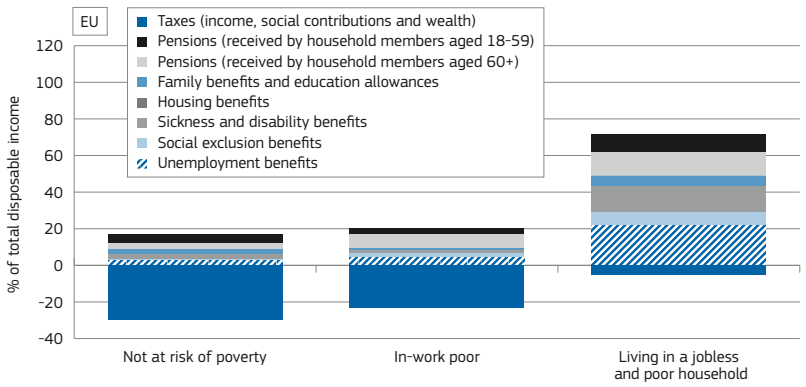
4.3. The nature of benefits received by the working age population varies across Member States

In the EU-SILC survey, social transfers are classified into broad categories of social protection, namely unemployment, social exclusion, sickness/disability, family/children, education related allowances, pensions([53]) and housing (see Box 4).

Individuals living in jobless and poor households receive, on average, the largest share of social cash transfers, with the bulk of benefits received consisting of unemployment benefits (23% of income on average, Chart 24). Sickness and disability benefits, family and education related allowances, housing and pensions also represent significant shares of the net disposable income on average.

In Belgium, Spain, France and Germany, for example, a large part of the benefits received by individuals living in jobless and poor households comes from unemployment benefits (Chart 25). In Portugal, and to a lesser extent in France, Belgium and the United Kingdom, social exclusion benefits account for a large part of support to those in this situation, while in Poland, Romania and the Czech Republic, sickness and disability benefits form the major component. Pensions represent a large share of income support of those living in jobless and poor households in Greece, Romania, and Poland, while housing benefits are significant in the United Kingdom and Germany, with family and education related allowances also large in the United Kingdom, France, Belgium and the Czech Republic.

Chart 24: Benefits composition



Source: DG EMPL calculations based on Eurostat, EU-SILC 2011.

Note: Each block represents the average amount of benefits (relative to the net total disposable income) received in each category. The sum of the average amount of all benefits represents the share of benefits received in the category relatively to the total net disposable income. (see box 4). It is important to note here that this chart does not includes in-kind benefits, such as child care, health care and education. These in-kind benefits are more equally distributed across income groups.

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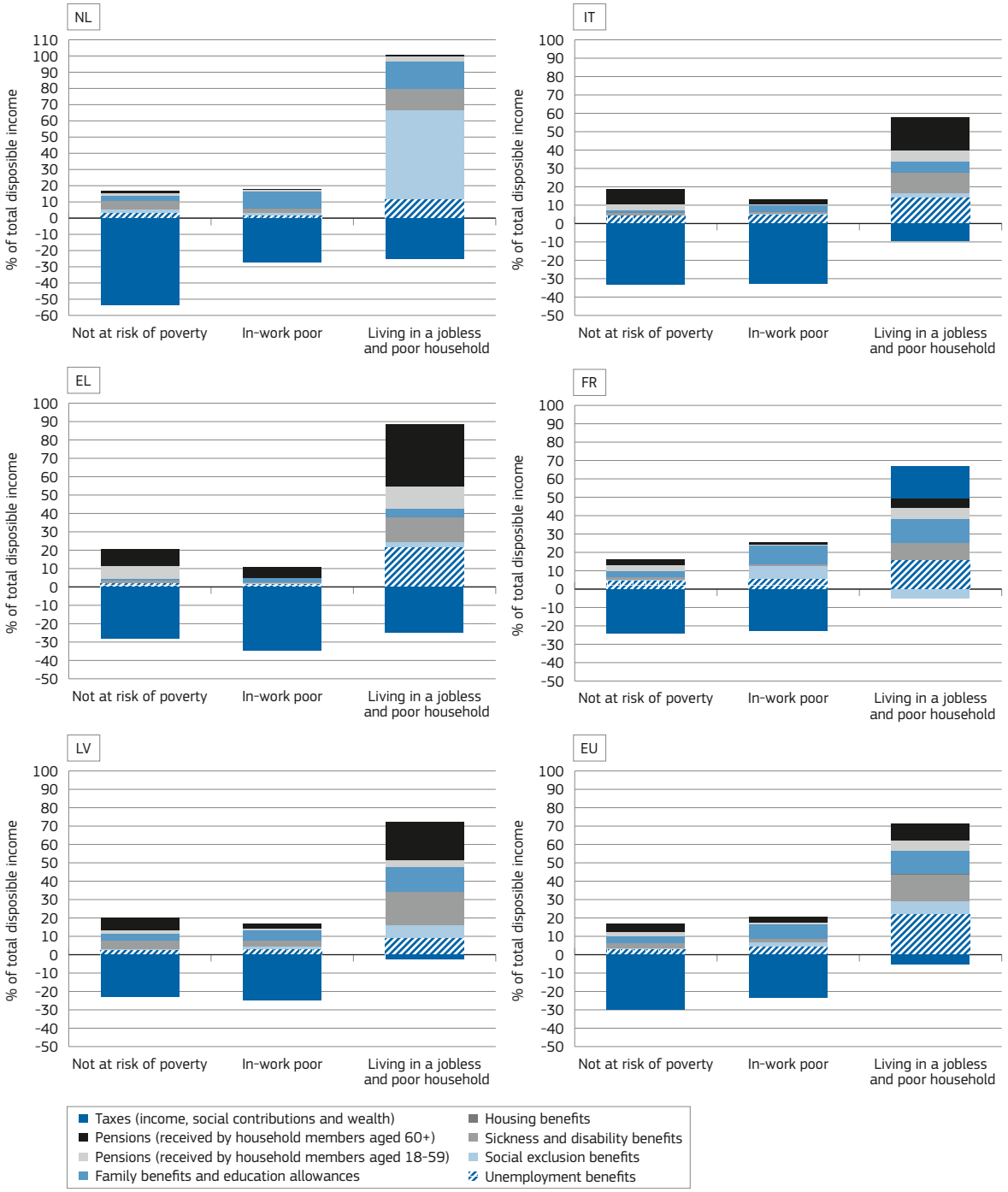
([53]) Old-age benefits and survivor's benefits are treated as 'social benefits' (or "social transfers") when they are received by individuals younger than 60 years old, and they are not included in the benefits. They are treated as a separate income source when received by household members above 60.

Chart 25: Benefits composition of those aged 18-59 living in jobless and poor households and those in-work poor



Source: DG EMPL calculations based on Eurostat, EU-SILC 2011.

Note: Each block represents the average amount of benefits (relative to the net total disposible income) received in each category. The sum of the average amount of all benefits represents the share of benefits received in the category relatively to the total net disposible income. Pensions received by household members aged 60+ are not included in the total amount of benefits (see Box 4). It is important to note here that this chart does not include in-kind benefits, such as child care, health care and education. These in-kind benefits are more equally distributed across income groups.

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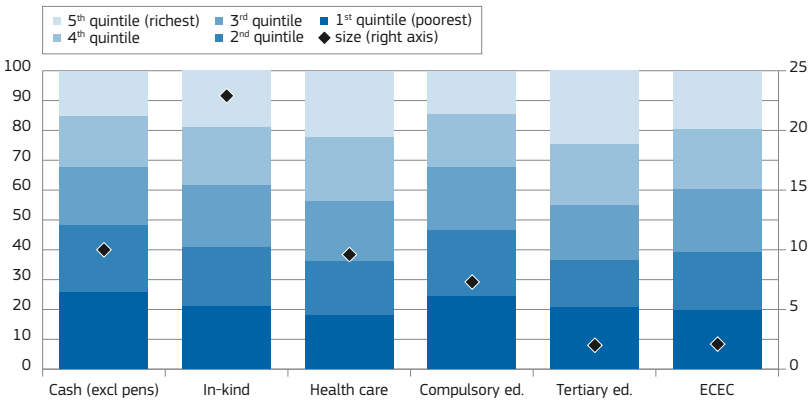
Chart 26: Health care and tertiary education tend to benefit higher incomes more - Size and distribution of cash and in-kind benefits (non-elderly) over income quintiles



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Source: Verbist, G. & Matsaganis, M. (2013) using EU SILC 2007.

One should bear in mind that this analysis is based on cash transfers only, and does not take into account in-kind benefits. This is especially relevant when comparing the share of taxes and transfers received within groups, since in-kind benefits overall tend to be more equally distributed than cash transfers, as illustrated in Chart 26 (see Verbist and Matsaganis, 2013).

Box 4: Treatment of income components and benefits in EU-SILC

EU-SILC covers information on several types of benefits: unemployment benefits, social exclusion benefits, sickness/disability benefits, family/child benefit, education related allowances and housing benefits. All these benefits should be taken into account when assessing the extent of income support provided to working age adults.

Since the focus in this chapter is on the 18–59 'working age' group, whether the income support comes from benefits directly received by an individual in the reference population or through a person from an older age group matters. For this reason, old-age benefits and survivor's benefits are treated as 'social benefits' when they are received by individuals younger than 60 years old.

Information on social benefits is not available in net value terms for some Member States through EU-SILC (DK, DE, LT, HU, MT, NL, SI, SK, UK). Therefore, benefits and income components are considered in gross terms, and compared to gross income.

Table 6: Types of social benefit in EU-SILC

Measurement Unit (individual/ household)	Type of benefit	Referred in the chapter as...
Household	Family/ children related allowances	*Social benefits*
	Social exclusion not elsewhere classified	
	Housing allowance	
Individual	Unemployment benefits	
	Old age benefits	*Pensions* if perceived by household member aged 60+
	Survivor's benefits	*Social benefit* if perceived by household member aged 18-59
	Sickness benefits	*Social benefits*
	Disability benefits	
	Education-related allowances	

Source: Eurostat.

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5. THE ROLE OF LABOUR MARKET TRANSITIONS IN EXITING POVERTY

The European Commission (2009) highlighted that "employment increases have not sufficiently reached those furthest away from the labour market, and jobs have not always succeeded in lifting people out of poverty" ([54]). This section aims at exploring how labour market and poverty transitions are linked. The results show that about half of those who took up a job escaped from poverty the year after.

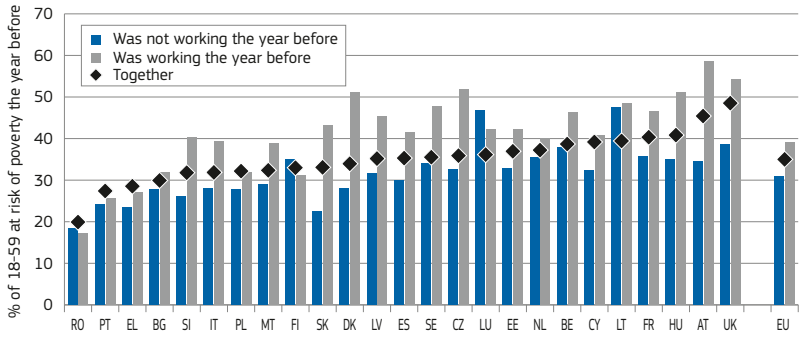
The simplest way to identify the routes out of poverty is to consider year-to-year transitions. On average, in the EU, individuals at risk of poverty have a 35% chance to exit poverty in the following year ([55]), which means, of course, that they are twice as likely to remain poor rather than exit from poverty. Across the EU, however, the average chance ranges from 19% in Romania to 45% or more in the United Kingdom and Austria (see ESDE 2012).

The chances to exit poverty are lower for those who are out of work than for those who are already in work. Chart 27 shows that an in-work poor individual has a 43% chance of getting out of poverty, on average in the EU, while an individual out of work has only a 33% chance of leaving poverty.

5.1. Non-working adults taking up a job have one chance out of two to leave poverty

Academic literature on determinants of exits from poverty has widely shown that there are multiple pathways out of poverty: changes in the labour market attachment of individuals, or of those with whom they are living; changes in the household composition; or changes in their sources of income, including from benefits ([56]). The general conclusion is, nevertheless, that labour market transitions are the most often associated with exits from poverty (see for example Bane and Elwood 1986, Mac Kernan and Ratcliff 2005, Fouarge and Layte 2005).

Chart 27: Exit-out-of-poverty rate by initial labour market attachment



Source: DG EMPL calculations based on Eurostat, EU-SILC 2010 longitudinal data – Data for DE and IE missing.

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Chart 28: Transitions back to work for those out of work

Broken down by starting status

Year 0 \ Year 1	Out of work	At work
Out of work: Short-term unemployed	→	
Out of work: Long-term unemployed	→	
Out of work: Fulfilling domestic taks	→	
Out of work: Students	→	
Out of work: Disabled	→	

Broken down by arrival status

Year 0 \ Year 1	out of work	At work					
		Temporary contract	Permanent contract	Part-time job	Full-time job	Low-paid job	Non-low paid job
Out of work	→	→	→	→	→	→	→

Source: DG EMPL.

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Labour market transitions in the current analysis refer to year-to-year changes in people's activity status. The first type of labour market transition consists simply of moving from a non-working status to employment, from one year to the next. For that purpose, year-to-year transitions are extracted from the EU-SILC longitudinal database. As the reference period for the labour market status and poverty do not refer to the same year, special attention is paid to lag the most recent one (activity status) and make it time-coherent with income ([57]) (see Box 5).

5.1.1. Taking up a job: describing transitions into work

The working age population out of work is considered as being the group comprising those who are (1) unemployed or (2) at risk of poverty *and* inactive, based on the premise that both subgroups need to take up a job in order to avoid or escape poverty.

([54]) See also Marx *et al.* (2013).

([55]) Transitions refer to EU-SILC 2010 longitudinal data. As income data refer to the previous year, these figures refer to exits from poverty between 2008 and 2009.

([56]) They can also result from more disputable year-to-year changes in changes poverty threshold that are not taken into consideration in the current analysis but could be in further work.

([57]) While income data refer to the income reference period – the previous year in all MS but IE and the UK – activity data refer to the current activity status and need to be lagged in time for synchronisation. Another approach could be to refer to the calendar of activity status on the reference period. Exploratory work has shown that this leads to close estimates.

Box 5: Labour market and poverty transitions measured through EU-SILC

The EU-SILC (Statistics on Income and Living Conditions) is the reference source at EU level for statistics on income and living conditions, and for common indicators for social inclusion. The sample size exceeds 400 000 individuals a year. Each individual is interviewed over four consecutive years.

The EU-SILC panel data

EU-SILC data can be considered in two dimensions: cross-sectional and longitudinal. The cross-sectional dimension refers to all individuals interviewed during a single year. This is the most frequent use made of the survey, for example when estimating at-risk-of-poverty rates. The longitudinal dimension refers to the information gathered for an individual over the four years of observation. This is the one that is used, for example, to compute the persistent at-risk-of-poverty rate.

The four-year panel of EU-SILC has two main limitations: timeliness and sample size. The longitudinal component data is only available four years after the initial date of its collection, and requires heavy data processing. Currently, the longitudinal component 2007–10 is the most recently available longitudinal set of data with the largest coverage of the Member States. The 2008–11 data is available for 21 Member States.

Second, the longitudinal information for a given four-year framework is available only for a quarter of the sample interviewed during a given year. Indeed, the sample is organised following a rotational framework: every year, a quarter of the sample is interviewed for the first time; a quarter is interviewed for the second time, a quarter for the third time, and a quarter for the fourth time.

An option for coping with the small sample size is to replace an approach based on four-year trajectories by an approach based on year-to-year transitions. This makes it possible to cover a larger number of individuals, as information for a two-year framework is available for three quarters of the sample. However, long-term trajectories such as persistence and recurrence of poverty cannot be considered.

Measuring year-to-year transitions

In the paper, two main types of transitions are considered: labour market transitions and poverty transitions.

Transitions on the labour market aim to measure the extent to which people out of work go back to work, with some refinements on the quality of jobs and initial labour market status (unemployed or inactive). They also help measure how those participating on the labour market are moving toward more stable positions (from temporary to permanent contracts, from part-time job to full-time jobs, from a pay level to a higher pay level).

Poverty transitions are measured as the share of those who were not in poverty one year earlier but fell into poverty in the following year (entry rate into poverty). Symmetrically, the chance of getting out of poverty is defined as the share of individuals not at risk of poverty among those who were at risk of poverty the year before.

A special attention dedicated to reference periods

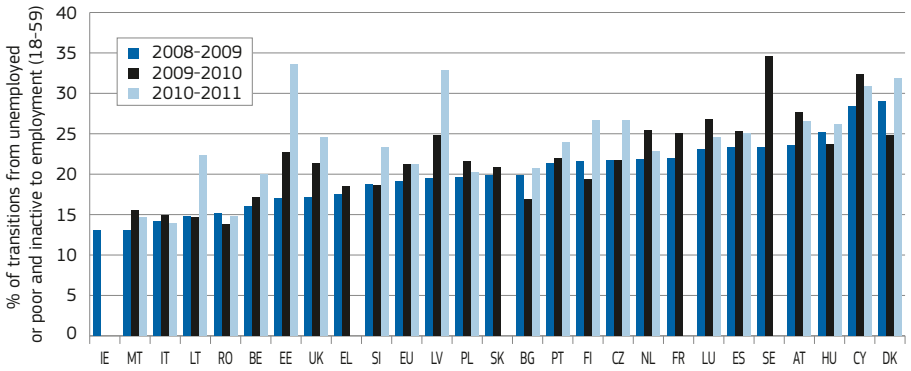
The EU-SILC interview refers to a different time period for some of the questions. The main variables on labour market participation, such as activity status, type of contract, number of hours worked a week, are related to the time of the interview. Additionally, some complementary information on activity during the previous year can be gained through the calendar of activity (number of months at work, unemployment or inactivity, and part-time/full-time information). On the other hand, income composition data (including wages) refer to the income reference period, i.e. the previous year in all the Member States except the United Kingdom and Ireland.

To properly compare the transitions into the labour market, and the poverty transitions of a single individual between two years, the variables need to be synchronised from one year to another. For example, observing the link between labour market and poverty transitions for an individual in 2008 and 2009, it is necessary to refer to the EU-SILC data collected in 2008 and 2009 for the labour market information (current status), and to the data collected in 2009 and 2010 for income composition information (which will refer to reference years 2008 and 2009).

Missing countries

The database for longitudinal data contents no data for Germany or Ireland. Therefore, these countries are missing from the analysis. Denmark has been excluded from some of the computations because of problems in the sample size of the group of individuals who are out of work and returning to work.

Chart 29: Chances of taking up a job the year after for adults out of work



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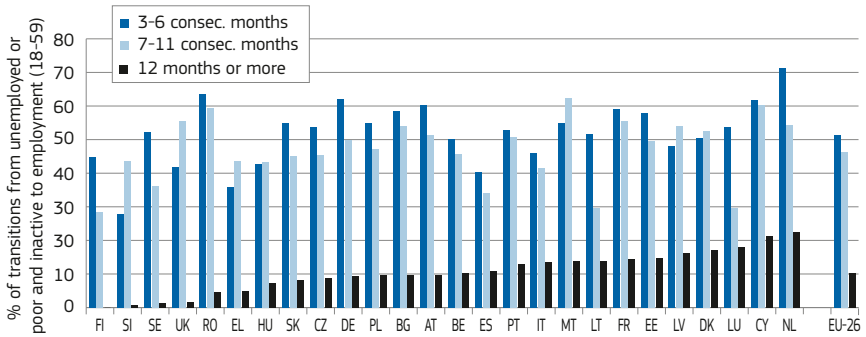
Source: DG EMPL calculations based on Eurostat, EU-SILC 2009 longitudinal, EU-SILC 2010 longitudinal and EU-SILC 2011 longitudinal – Data for DE and IE 2010 and 2011 missing.

Chart 30: Chances of taking up a job the year after by unemployment duration



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Source: DG EMPL calculations based on Eurostat, EU-SILC 2011 cross sectional data –Data for IE missing.

In the EU, around 20% of those who are unemployed or inactive and at risk of poverty are in employment the following year (see Chart 29). This proportion ranges from 15% or less in Malta, Belgium, Romania, to more than 25% in Sweden, Austria, Hungary, Cyprus and Denmark.

The chance of getting a job depends on the initial activity status. While the short-term unemployed are more likely to go back to work, the long-term unemployed, those who are disabled or adults fulfilling domestic tasks might experience greater barriers to entering or re-entering the labour market.

Among those unemployed, the chances of taking up a job the year after are much greater for those unemployed for shorter durations (3-11 consecutive months than 12 months or more during the last past year). While the transition rates from long term unemployment to employment are larger in the Netherlands, Cyprus, Luxembourg, Denmark, they are much smaller in Finland, Slovenia, Sweden and the United Kingdom (see Chart 30).

Taking up a job can have different implications and lead to different outcomes in terms of exits from poverty, depending on the characteristics of the job found (standard versus non-standard job). EU-SILC provides possible indicators to capture the nature of the contract, the time worked over a week, and the wage level. While certain of these aspects (temporary or permanent contract, part-time or full-time contract, and low wage versus non-low wage jobs ([58])), can be associated to positive outcomes these characteristics associated to non-standard forms of jobs are nevertheless associated with greater risks of poverty (see Table 8 and OECD 2013).

Table 8: At-risk-of-poverty rate of employed persons by job characteristics, 2011

	Type of contract		Part-time / Full-time		Wage level	
	Permanent	Temporary	Full-time workers	Part-time workers	Non-low wage earners	Low wage earners
EU-27	5.4	13.2	7.5	13.5	2.6	15.2

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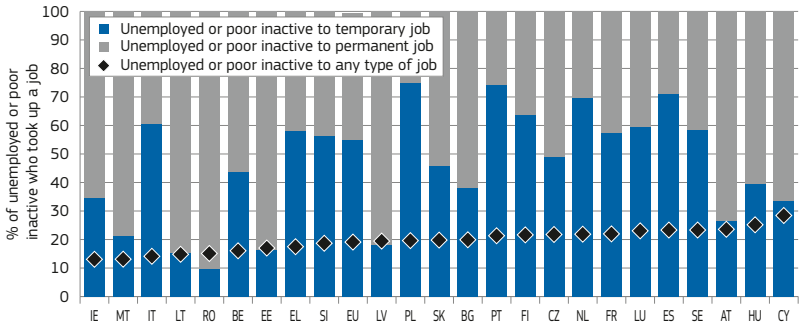
Source: Eurostat, EU-SILC [ilc_iw05] [ilc_iw06], at-risk-of-poverty rates by wages: DG EMPL calculations based on Eurostat, EU-SILC 2011.

([58]) See box 3 for technical details.

Chart 31: Share of temporary/permanent contract workers among the unemployed or poor inactive who found a job 2009–2010



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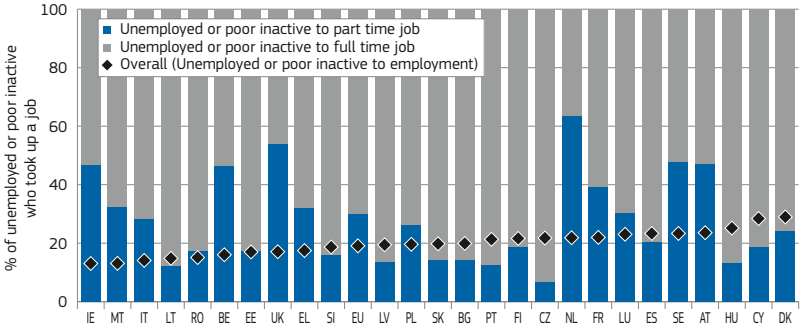
Source: DG EMPL calculations based on Eurostat, EU-SILC 2010 longitudinal data – No Data for DE.

Chart 32: Share of those part-time/full-time workers among the unemployed or poor inactive who found a job 2009–2010



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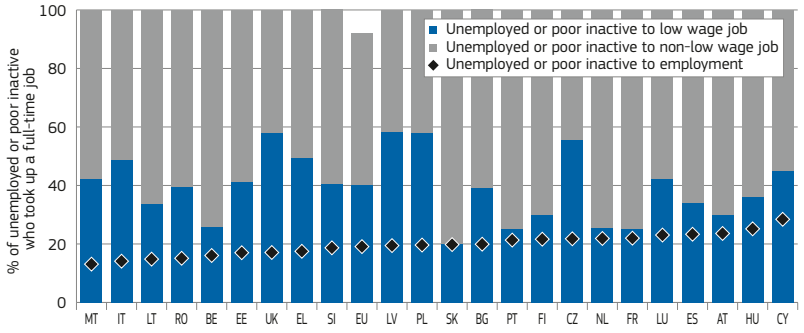
Source: DG EMPL calculations based on Eurostat, EU-SILC 2010 longitudinal data – No Data for DE.

Chart 33: Share of those who found a low wage (resp. non-low wage) job among the unemployed or poor inactive who found a job 2009–2010



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Source: DG EMPL calculations based on Eurostat, EU-SILC 2010 longitudinal data – No Data for DE.

Chart 31, Chart 32 and Chart 33 show the likelihood of taking up a permanent or fixed-term job, part-time or full-time job, and low paid and better paid jobs for those who are out of work (both unemployed and poor inactive).

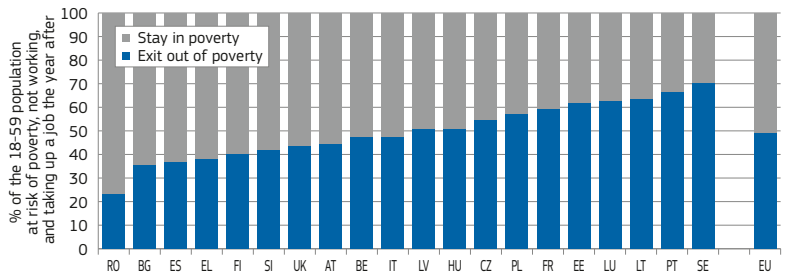
Most of the job take up relates to full-time jobs, except in some Member States, including Belgium, Ireland, the Netherlands, Austria, Sweden, and the UK. Job take up corresponding to temporary jobs are high in Italy, Slovenia, Portugal, Spain, France and Sweden – all Member States where labour market segmentation based on the type of contract is relatively high (except Sweden, see Section 2).

Last, some 40% of job take up for the unemployed or poor inactive relates to low paid jobs, with the share especially high in Latvia, Italy, Bulgaria, Poland, the Czech Republic and Slovenia. In all these Member States, with the exception of Poland and Italy ([59]), the minimum wage is also just below the poverty threshold (see European Commission 2011, Chapter 4).

([59]) In PL, the minimum wage is slightly above the poverty threshold, and in Italy there is no minimum wage.

Chart 34: Is taking up a job enough to escape poverty?

Share of 18-59 non-working, at risk of poverty and taking up a job exiting out of poverty during the period



Source: DG EMPL calculations based on Eurostat, EU-SILC 2010 longitudinal data – Data for DE and IE missing.

Notes: these estimates are based on limited sample sizes and should be considered as fragile.

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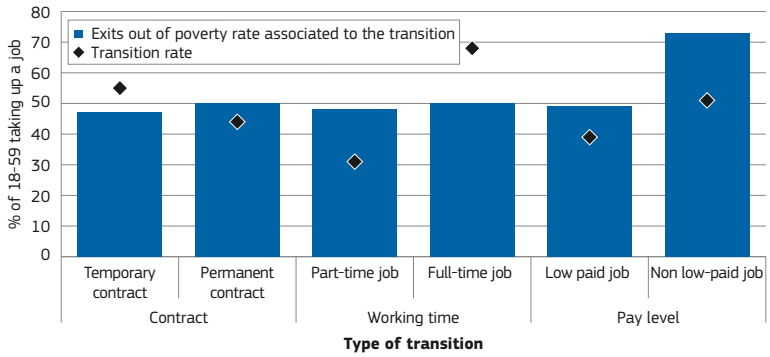
5.1.2. Getting a job helps to get people out of poverty ... but only in half the cases

To what extent does getting a job help a person escape from poverty? Between 2008 and 2009, 50 % of those who were poor in 2008 and took up a job were no longer poor in 2009. The chance of getting out of poverty while taking up a job varied from 20 % in Romania and Bulgaria, up to more than 65 % in Portugal and Sweden (see Chart 34).

Various reasons explain why taking up a job does not guarantee an exit from poverty, notably the quality of the job found (as indicated by the type of contract, working hours and wages) and the composition of the household. At EU level, exit rates from poverty are similar if the job happens to be a permanent contract or a temporary contract, or if the job is part-time or full-time, although taking up a better paid job clearly makes a more substantial impact (see Chart 35). However, this overall picture needs to be nuanced as patterns of working arrangement differ a great deal across Member States in terms, for example, of whether temporary contracts or part-time jobs serve as stepping stones, or imply entry into the wrong part of a highly segmented labour market ([60]).

([60]) Unfortunately, due to limited sample sizes, such estimates cannot be produced with sufficient robustness at a national level. Likewise, it is not possible to determine from available sources whether individuals who escape poverty in one year avoid falling back into poverty in subsequent years.

Chart 35: Exit-out-of-poverty rate by type of labour market transition (from 'poor and not employed' to employed) and transition rate



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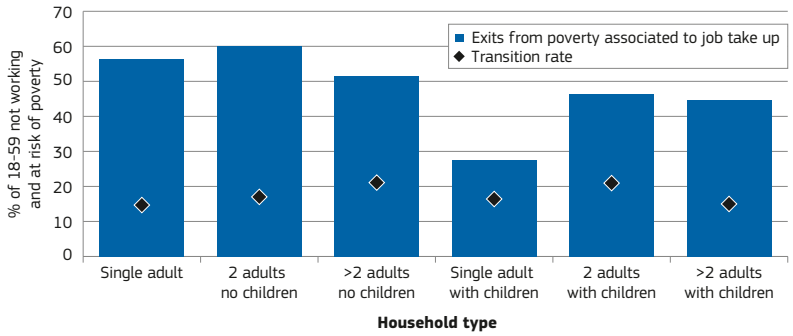
Source: DG EMPL calculations based on Eurostat, EU-SILC 2010 longitudinal data – Data for DE and IE missing.

Note: Among those individuals at risk of poverty who had a transition from non-employed (unemployed or inactive) to employed in a temporary contract 40% got out of poverty.

Chart 36: Exit-out-of-poverty rate while getting a job, and share of those who took up a job by household type



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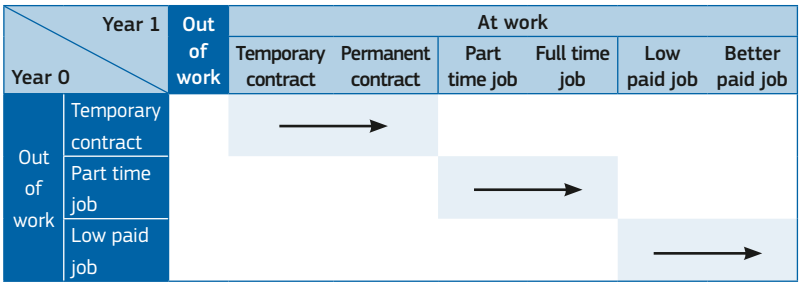
Source: DG EMPL calculations based on Eurostat, EU-SILC 2010 longitudinal data – Data for DE and IE missing.

Chart 37: Transitions that could drive exits from poverty for those at work



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Source: DG EMPL.

Whether getting a job is enough to get out of poverty may also depend on household composition. Chart 36 shows that adults without children are more likely to get out of poverty when they take up a job than adults living with children, and especially single parents.

5.2. Getting out of in-work poverty: the role of wage transitions

When people are in work but do not earn a living wage, several transitions can help them out of poverty, including working more hours or increases in the pay level. In addition, given that many temporary jobs are associated with a wage penalty, or are of short duration, moving from a temporary to a permanent job may also help with getting out of poverty. The following section explores to what extent different labour market transitions are associated with exits from poverty.

5.2.1. Most upward labour market transitions are wage transitions

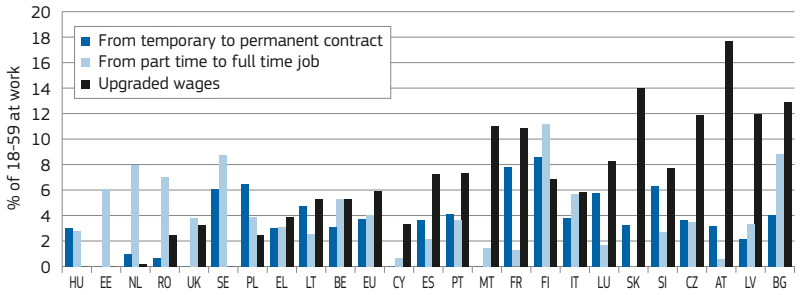
Labour market transitions of those already at work are captured through the following changes (see Chart 37): moving from a temporary contract to a permanent contract, moving from a part-time job to a full-time job, or moving either to a higher hourly wage decile or from a low wage job to a non-low wage job ([61]). As several of these transitions might occur at the same time, the previous order of transitions (contract, working time, low wage, wage decile) is used to isolate one 'main' transition per adult ([62]).

The frequency of labour market transitions varies by type. At the EU level, some 20% of the in-work poor experienced at least one of the labour market transitions listed above in a given year. The most frequent transition involves changes in the wage decile (14% of those in-work poor). The least frequent concerns a transition from a part-time to a full-time job (achieved by only 5% of part-time workers at risk of poverty).

([61]) See box 3 for the technical definition of low wage in this analysis.

([62]) For example an individual moving from a temporary full-time job to a permanent one and earning higher wages will be considered as having experienced a transition from a temporary to permanent contract, as this transition appears first in the priority order.

Chart 38: Share of individuals at risk of poverty experiencing one labour market transition



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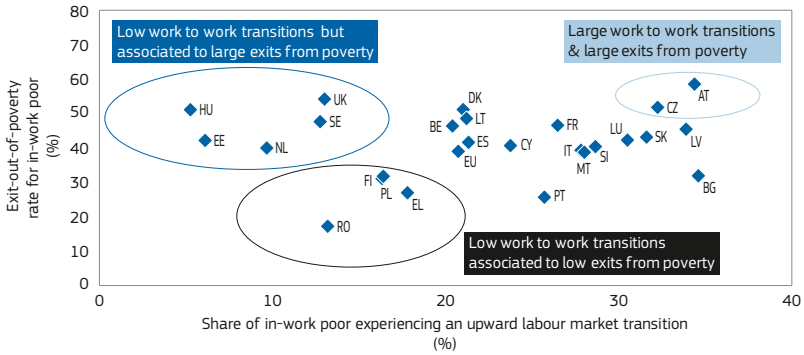
Source: DG EMPL calculations based on Eurostat, EU-SILC 2010 longitudinal data.

Note: Member States are ordered by increasing share of in-work poor experiencing any transitions.

Chart 39: Share of in-work poor experiencing a labour market transition and exit rate out of poverty



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Source: DG EMPL calculations based on Eurostat, EU-SILC 2010 longitudinal data.

Note: Between 2008 and 2009, in Bulgaria, 34% of in-work poor experienced a labour market transition (i.e. from temporary to permanent, from part-time to full-time, from low paid to non-low paid, or toward a higher wage decile). Among them, 30% got out of poverty.

The likelihood of each type of transition occurring also varies across countries (see Chart 38) with the highest rates of transitions among the in-work poor found in Austria, Bulgaria and Slovenia. Among the in-work poor employed on a temporary contract, the largest transitions to permanent jobs occurred in Slovenia and in Finland, where more than 20% of temporary workers moved to permanent jobs.

Transitions from part-time to full time were also more frequent in Finland (16% of part-time workers), in Sweden and the Netherlands (10%). This share was also high in Bulgaria, Romania and Estonia, where 8% of part-time workers moved to full-time work.

The transitions from low paid jobs to better paid jobs were high in Austria, Bulgaria, Slovakia, Latvia and the Czech Republic. They were much rarer in the Netherlands, Romania, and the UK. Lastly, transitions to a higher wage decile – the most frequent transition – occurred more often among the in-work poor in Austria, Bulgaria, Slovenia, Latvia, the Czech Republic and Bulgaria.

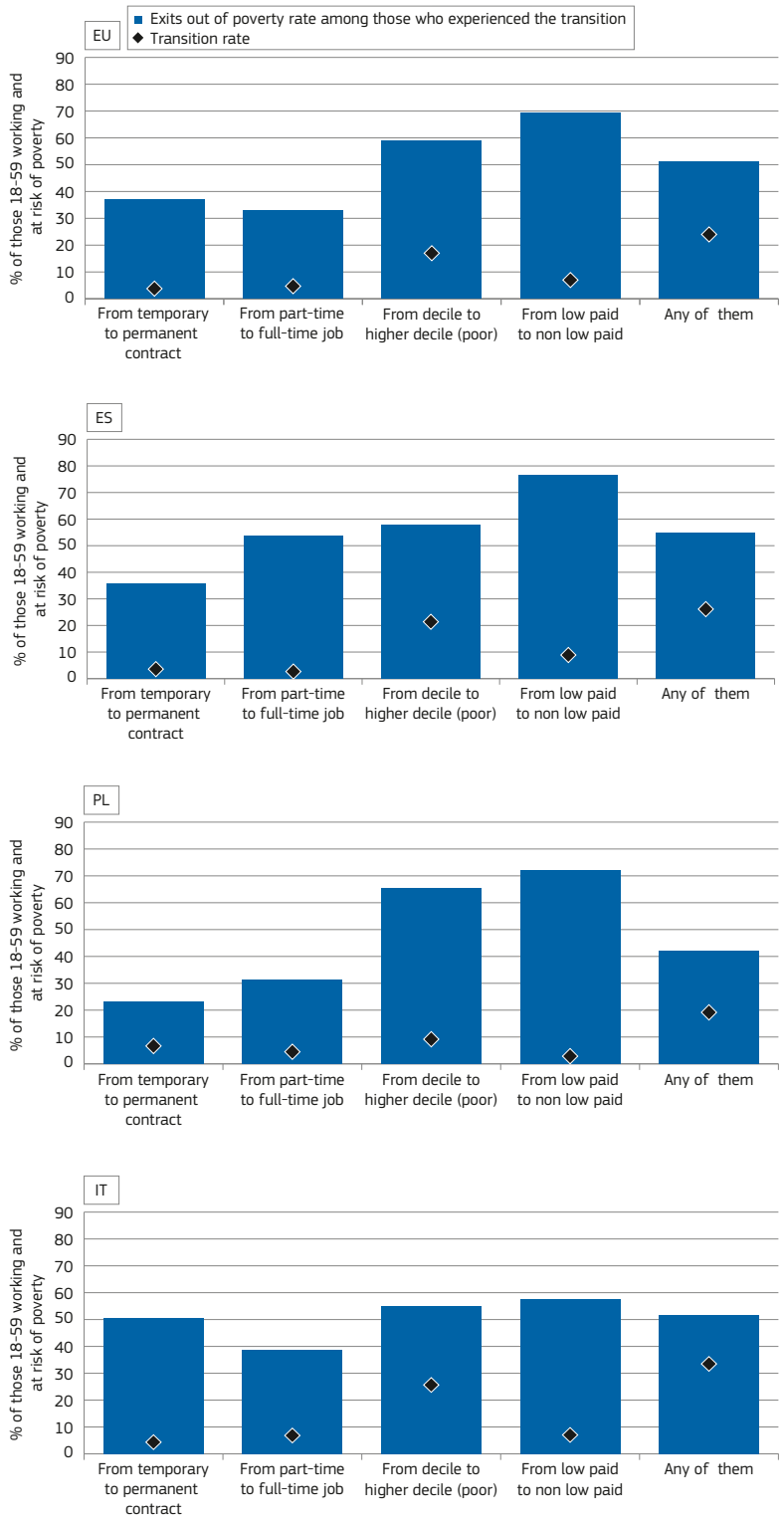
5.2.2. Even significant wage increases are sometimes not enough to escape poverty

Upward labour market transitions for the in-work poor do not necessarily translate into exits from poverty. At EU level, 24% of those who were in-work poor experienced one of the upward transitions described above between 2008 and 2009. However, only half of these escaped poverty during this period. Chart 39 shows the incidence of labour market transitions among the in-work poor and related exits from poverty for Member States. It shows no single or simple relationship between upward labour market transitions and exits from poverty. In Member States such as Austria, the high level of transitions is associated to exits from poverty. In Bulgaria, on the other hand, the number of transitions among the in-work poor is high, but they do not translate into exits from poverty. In Member States such as Denmark or the UK, a lower rate of transitions is observed, but these are associated with large exits from poverty. Lastly, in Member States such as Greece or Romania, transitions are relatively rare, and do not result in exits from poverty.

Small sample sizes limit the possibility of analysing the link between labour market transitions and exits from poverty in detail across all the Member States. However, it is possible to do this in the case of several large Member States. As Chart 40 shows, in Spain, Poland and Italy exits from poverty occur most often in connection with upward transitions in pay level (occurring in 20% of cases in Spain and Italy and 10% in Poland). These transitions were associated with exits from poverty in more than half of the cases, which is a positive result, but one that also shows that even significant increases in wages are not always enough to help people escape in-work poverty.

Moving from a temporary to a permanent job is also associated to lower exits from poverty, and to varying extents across the Member States, with much larger exit rates in Italy compared to Spain and Poland.

Chart 40: Exits out of poverty rate related to labour market transition and transition rate



Source: DG EMPL calculations based on Eurostat, EU-SILC 2010 longitudinal data.

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6. Which policies facilitate returns to work and limit poverty?

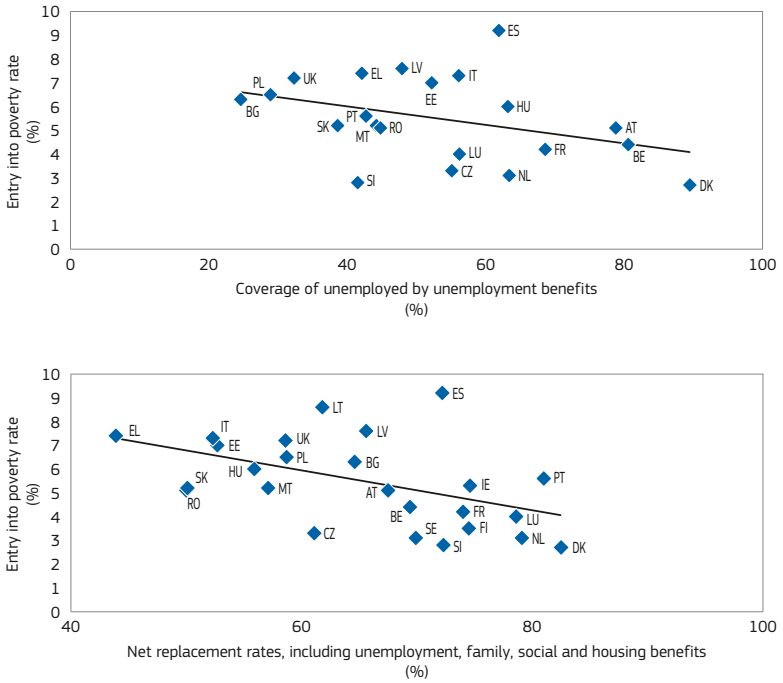
This section seeks to identify the type of policy mixes that best support the return to employment and to a living wage of those at risk of poverty. It considers to which extent combining adequate income support, measures to promote inclusive labour markets, and access to enabling services can sustain returns to employment and exits from poverty. It particularly considers issues of coverage and design of income support.

6.1. The generosity of income support does not prevent returns to employment

6.1.1. Unemployment benefits

Unemployment benefit systems are intended to provide income replacement and resources for the unemployed to enable them to both maintain acceptable living standards and search for adequate job matches. However, 'generous' systems can also bring with them financial disincentives to work, as illustrated in the form of high marginal effective tax rates, the so-called unemployment traps (see part 2 of this chapter). The following analysis shows that broad coverage and the relatively high net replacement rate of unemployment benefits are in fact associated with lower rates of entries into poverty; and that they do not prevent, and even in certain circumstances, facilitate, returns to employment, and thereby are associated with better exits from poverty.

Chart 41: Coverage and adequacy of unemployment benefits limit entries into poverty



Source: DG EMPL calculations based on Eurostat, EU-SILC 2009–10–11 longitudinal data and OECD-EC tax-benefit model.

Note: EU-SILC – transitions in/out of poverty refer to yearly 2008–10 averages.

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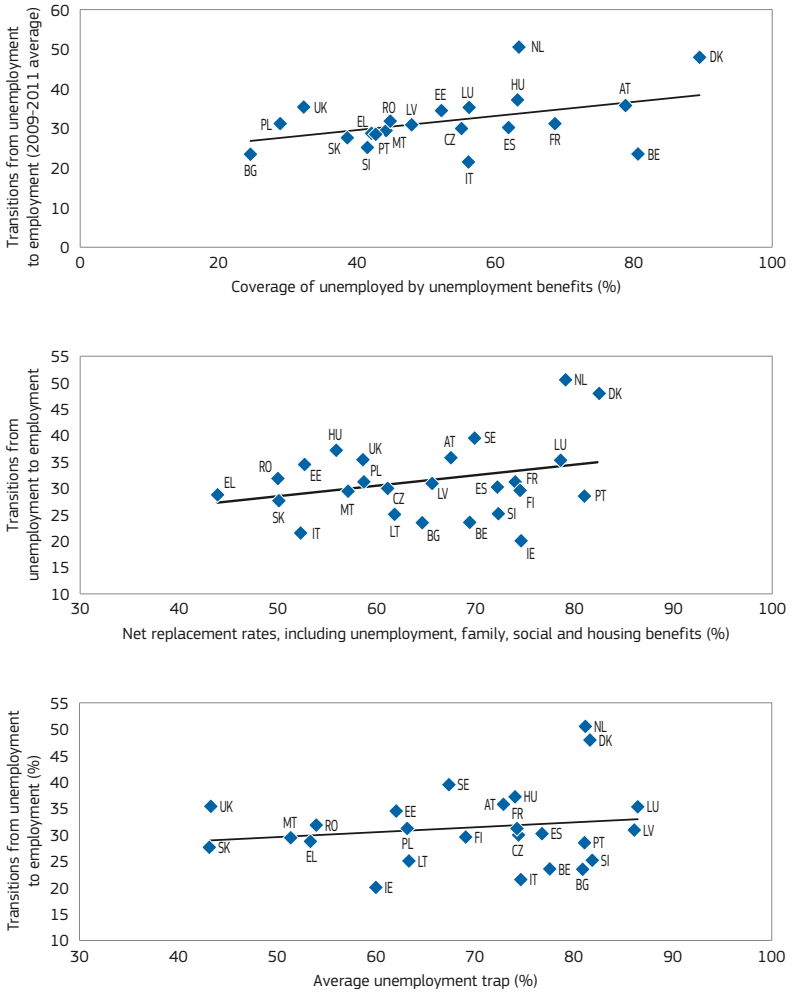
Chart 41 shows the extent of diversity that exists across the Member States. Countries that, by combining relatively broad coverage with high income replacement rates, such as Denmark, Austria and the Netherlands, tend to achieve low rates of entry into poverty, high returns to employment, and high exit rates out of poverty.

In Bulgaria, Poland and the UK, the low coverage and low net replacement rates of their unemployment benefit schemes are associated with larger entries into poverty. However, returns to employment and exit rates from poverty are much higher in the case of the UK ([63]) than they are in Poland or Bulgaria. The case of Spain stands out in that there is a high rate of entries into poverty despite rather high replacement rates and a medium level of coverage (see Chart 42).

There seems to be no relationship between the level of financial disincentives (as measured by the average unemployment trap) and the chances to get back to work for the unemployed.

([63]) See also ESDE 2012, Chapter 2, on the large turn-over of poverty in the UK.

Chart 42: Higher coverage and adequacy of UB do not prevent returns to employment



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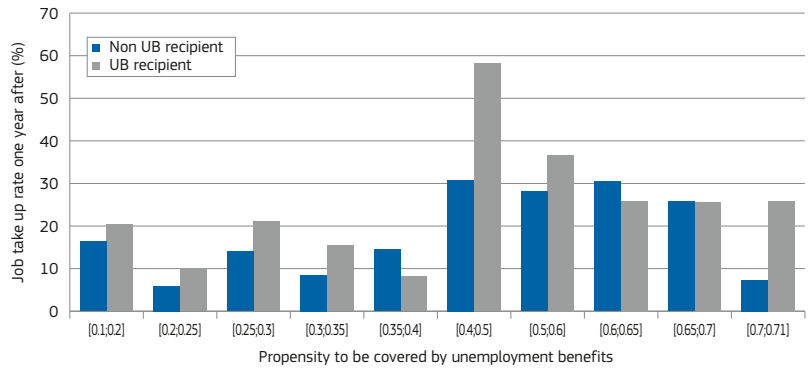
Source: DG EMPL calculations based on Eurostat, EU-SILC 2009–10–11 longitudinal data and OECD-EC tax-benefit model.

Note: EU-SILC – transitions in/out of poverty refer to yearly 2008–10 averages.

Chart 43: Job take up rate among unemployed Europeans by unemployment benefit recipiency



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Source: DG EMPL calculation based on Eurostat, EU-SILC 2010 longitudinal data.

Note: Propensity score matching is based on the chances to be employed during the past three years to the income reference year (more than 30 months, between 12 and 30 months, less than 12 months), the age (and age^2), the education level (low level of education or not).
There is no country effect included in the model.

6.1.2. Unemployed covered by unemployment benefits have greater chances to go back to work, all things being equal

At the individual level, the unemployed receiving unemployment benefits have greater chances to be working the year after compared to those who are not receiving any. This result highlights a positive relationship between unemployment benefits recipiency and transitions back to employment. This does not necessarily mean that benefit recipiency per se favours transitions to employment, as unobserved but related variables, such as training, conditionality of benefits or activation measures cannot be included in the model.

This result is found by comparing the chances to take up a job depending on whether the unemployed are covered or not by unemployment benefits. As the coverage depends on individual characteristics, we use propensity score matching ([64]), to compare individuals with similar chances to be covered in terms of time spent in employment over the past four years, age, gender and education.

Chart 43 illustrates that, among individuals with similar chances to be covered, the job take up rate is higher among individuals receiving benefits in most cases. The estimated impact ([65]) of benefit recipiency on the job take up is positive (see Table 9), even when controlling for additional characteristics not closely linked to benefit entitlement (e.g. number of children).

([64]) This three-step method first requires an estimation of individual chances to be covered by unemployment benefits depending on age, gender, education and time spent in unemployment during the last three years. Second, it identifies pairs of covered and non-covered individuals with similar chances of being covered. Then it compares the job take up among non-covered individuals and their matching pairs (difference in differences).

([65]) As mentioned earlier, the results illustrate a positive relationship rather than an impact as unobserved factors associated to coverage can also play a role (training programs, activation).

Table 9: Average treatment effect of the impact of receiving unemployment benefits on job take up among unemployed Europeans

Matching technique	Average treatment effect*	Standard error	Sample sizes
Nearest neighbour matching *identifies for each non-recipient the benefit recipient with the closest propensity to be covered.*	0.031	0.009	recipient: 2882 non recipient: 4595
Radius matching *The radius method considers all benefit recipients with a likelihood to be covered differing no more than x% from the likelihood of the selected non-recipient (x being the so-called 'radius')*	0.095	0.013	recipient: 2882 non recipient: 4643
Kernel based matching *The Kernel method considers a wide range of recipients around the non-recipient, and attributes to each of them a weight that decreases with the distance to the selected non-recipient.*	0.031	0.002	recipient: 2882 non recipient: 4643
Stratification matching *The stratification matching is based on blocks of individuals with a similar chances of being covered. It matches each non-recipient with all recipients in the block.*	0.026	0.005	recipient: 2882 non recipient: 4643

* the average treatment effect compares the job take up of identified pairs as the difference between non take up of covered individuals and non-covered individuals.

Source: DG EMPL calculation based on Eurostat, EU-SILC 2010 longitudinal data.

Note: Propensity score matching is based on the chances to be employed during the past three years to the income reference year (more than 30 months, between 12 and 30 months, less than 12 months), the age (and age^2), the education level (low level of education or not). There is no country effect included in the model. This helps to identify wider groups of individuals with similar characteristics whether or not they are covered (as an individual with a given profile might be covered in one Member State and not covered in another one based on eligibility rules). This, however, also has disadvantages, as variables such as current economic situation cannot be controlled.

The average treatment effect is estimated taking into account the following factors: number of consecutive months in unemployment during the income reference period (4-6 or 7-12 versus less than 3), the number of months spent in work during the past 3 years before the reference period, the education level (low level of education or not), the age (being aged 18-24 or not), the gender and the number of children.

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6.1.3. Social assistance: high coverage and adequate support limit persistence of poverty

The effectiveness of social assistance is assessed here through indicators of non-coverage (see Section 2 – Box 1) of the jobless and poor households ([66]), the net income of people living on social assistance relatively to the median income, and the effective marginal tax rate for inactive people taking up a job, the so-called inactivity trap (see Section 2).The results show that countries with the lowest levels of persistent poverty are those where the non-coverage of jobless and poor households is low, and where the adequacy of social assistance benefits is high (see Chart 44).

It has to be noted, that, in most countries, it is not social assistance in itself that lifts people out of poverty. It is only in Sweden, Denmark, and the Netherlands that safety nets cover almost all those living in jobless and poor households, and provide net incomes for those living on social assistance that are above the poverty threshold. By contrast, Romania, Greece and Bulgaria are characterised by a very low coverage of the population living in jobless and poor households and very low adequacy of social assistance, resulting in very high rates of persistent poverty. Higher inactivity traps are associated with lower persistence of poverty, suggesting that such theoretical financial disincentives do not materialise into actual barriers to work.

6.2. Benefit systems integrated with inclusive labour markets and enabling services facilitate the returns to employment

Integrated policy interventions are seen as central to facilitating returns to employment and to ensuring decreased rates of poverty. In this section, we refer back to the description of national policy frameworks as summarised in Table 5 (Section 2.3) and relate them to rates of successful transitions into work and out of poverty. In this way we aim to explore whether Member States with better outcomes (in terms of transitions) are those that have best been able to combine well-designed benefit systems with both inclusive labour market policies and appropriate enabling services.

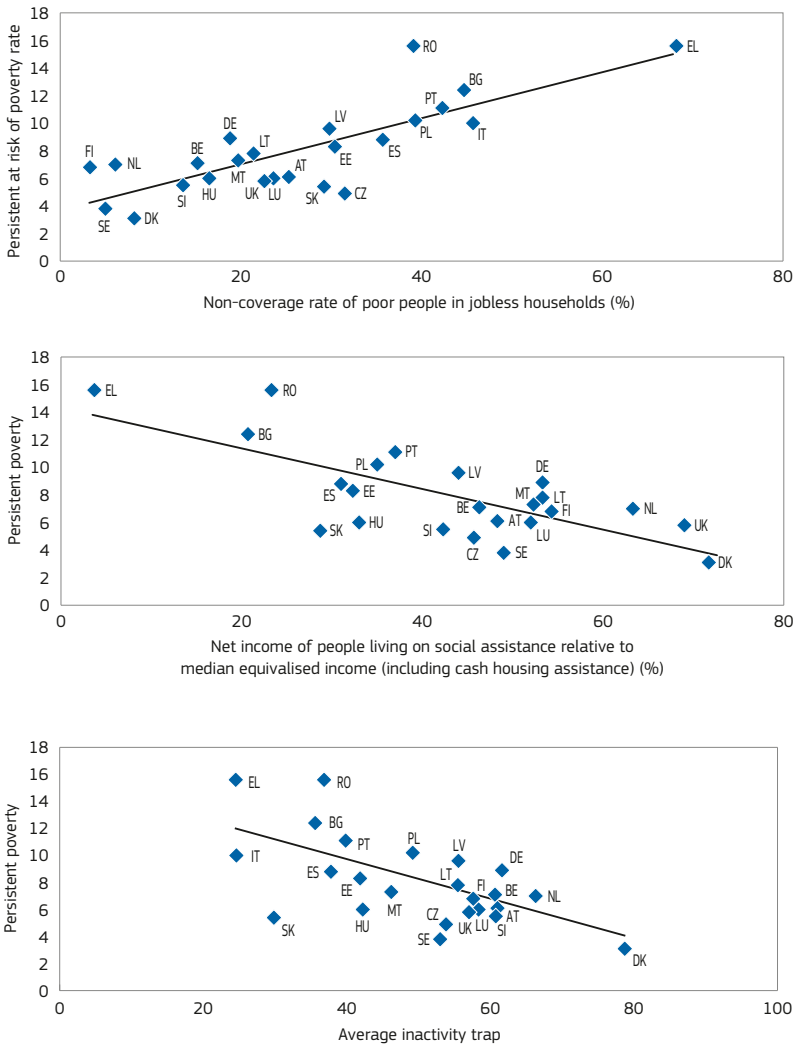
In this respect Chart 45 relates the transition rates from unemployment to employment with exit rates from poverty for the period 2009–11. In this chart, Member States are identified with symbols representing the main characteristics of their policy design as elaborated in Section 2 with clear areas representing the main trends to be focussed upon.

The first message that emerges from this chart is that Member States such as Denmark, the Netherlands and Sweden achieve both large returns to employment and medium to large exits from poverty, and that they are characterised by the strength of their income support and activation system, low levels of labour market segmentation and gender segregation, and wide access to enabling services (See section 2).

However, the fact that neighbouring Finland, which shares the same policy characteristics, achieves lower rates of transition to employment and lower exits

([66]) See Box 1 for a definition of non-coverage of social benefits.

Chart 44: Non-coverage and adequacy of social transfers and the dynamics of poverty



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Source: DG EMPL calculations based on Eurostat, EU-SILC 2009–10–11 longitudinal data.

from poverty offers an indication that success in policy terms may depend on more than just the structure and nature of the systems. In practice – and this applies across all countries – other less tangible and less easily documented factors, such as whether or not the systems and staff are effectively managed, or whether or not they attract public respect and support, may also play their part.

Austria and France share several characteristics of the above Member States, but tend to have lower rates of returns to employment associated with large exits from poverty. This may be due to the French labour market being more segmented and Austria being characterised by higher gender segregation and lower access to childcare services. Belgium, which is seen as being close to France in terms of policy design, nevertheless achieves lower returns to employment and lower exits out of poverty.

The United Kingdom achieves very large exits from poverty, and medium transitions to employment. Exits from poverty can be explained by a high degree of targeting, while medium returns to the labour market could be related to low activation and labour market segmentation. In the United Kingdom, however, large exits from poverty have also been found to be related to a high risk of recurrent poverty spells (ESDE 2012).

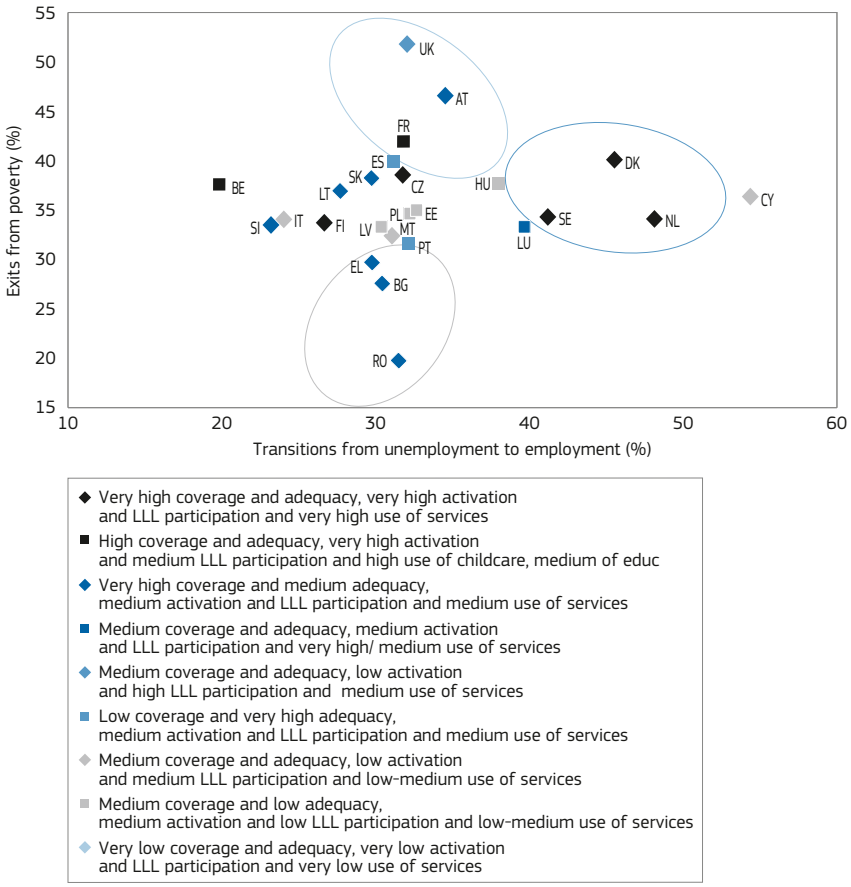
Greece, Bulgaria and Romania, by contrast, achieve medium to low transitions to the labour market and low exits from poverty. These Member States are also those with the weakest level of income support, both in terms of coverage and adequacy, which is associated with low activation and very low use of services. Slovakia and Lithuania, who share similar policy characteristics (see the triangles in the chart), perform slightly better in terms of exits from poverty, but their transition rates to employment remain below average.

Latvia, Estonia, Hungary and Poland achieve medium returns to both employment transitions and exits from poverty. They are characterised by medium coverage and adequacy and medium activation, but a low participation in lifelong learning and a low to medium use of services.

Italy and Malta have low transitions to the labour market, but medium levels of exits from poverty. This is seen to be related to policy design, with medium coverage and adequacy, low activation and low to medium use of services. Cyprus and the Czech Republic share the same policy characteristics and achieve similar exit from poverty rates, but with much better transitions to employment in the case of Cyprus and also, in the Czech Republic, better transitions out of poverty.

Spain and Portugal both achieve average returns to employment, while Spain has medium exit from poverty rates compared with low rates in Portugal. Both Member States are characterised by their low coverage but high adequacy of income support, associated to medium activation, a high level of segmentation and a low to medium use of services.

Chart 45: Transitions from unemployment to employment, exits out of poverty, and policy design characteristics (See table 5 in section 2.3)



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Source: DG EMPL calculations based on Eurostat, EU-SILC 2009–10–11 longitudinal data.

Note: Transitions on the LM refer to the average of 2008–09; 2009–10 data.

7. CONCLUSIONS

The fall-out from the economic crisis has resulted in serious employment difficulties leading to significant increases in poverty among those of working age. Moreover, past experience shows that while raising employment rates and tackling unemployment is important to reduce poverty, it is not sufficient in itself ([67]).

In this context, this chapter has sought to better understand the nature of working age poverty in general, and to assess how employment and social policies can best respond, based on Member States' comparative experiences, and drawing on the rich body of data available through the EU-SILC surveys. It also proposes a selection of key policy indicators that best describe the key dimensions of policy intervention needed to prevent and tackle working age poverty, along the principles of active inclusion.

Taking up a job helps with getting out of poverty, but only in half of the cases. The chances to get out of poverty when moving into employment depend on the type of job found (full time/part time, type of contract and pay level), but also on the household composition and labour market situation of the partner. Similarly,

([67]) See European Commission (2009).

moving to a better paid job is the most frequent way for the in-work poor to get out of poverty. But not all upward labour market transitions (part time to full time or temporary to permanent contract, higher pay) are associated with exits from poverty.

This chapter also highlights potential sources of inefficiencies of the systems, such as inadequate coverage of benefits. For instance, in some countries, significant shares of working age adults are not covered by standard safety nets (unemployment benefits, social assistance) and tend to rely more heavily on pensions, including elderly pensions received by other household members. Such situations are not supportive of returns to employment because they are not associated with any incentive structures (activation, conditionality, etc).

The chapter shows that adequate and widely available systems of income support do not prevent or discourage returns to employment if they are well-designed (for example, with reducing generosity over time) and accompanied by appropriate conditions (job search requirements). The analysis shows that, all other things being equal, people receiving unemployment benefits have greater chances to take-up a job than non recipients.

This analysis is wide-ranging, but leaves open several avenues for future research:

First, the enabling role of complementary policy tools, especially the provision of services (benefits in-kind), could be further explored. They represent a significant share of Member States' social spending, but their impact on poverty is not well captured by standard poverty measures ([68]).

Second, the relative role of in-work benefits and labour market transitions could be further investigated to better understand the dynamics of in-work poverty.

Third, exits from poverty that are unexplained by labour market transitions as identified in the chapter could be explored. The size of the 'black box' could be reduced by considering alternative labour market transitions (for example monthly labour market transitions), and the role of changes in the household composition.

([68]) Current work by the OECD proposes methods to quantify direct and indirect impact of in-kind benefits on poverty reduction, and shows that they are indeed significant in some countries.

Annex

Table A.1: Selected indicators and factors representing three pillars of active inclusion*

Final indicator/ factor	Underlying variables
First pillar: Adequate income support	
First level of safety nets (income replacement) – Mainly contributory	
Coverage of unemployment benefits – average	The average of sub-indicators: Pseudo-coverage rate of unemployment benefits after a) 3 months, b) 4 to 6 months, c) 6 to 12 months of unemployment (based on EU-SILC).
Coverage of some sort of benefits, including unemployment benefits – average	The average of the sub-indicators: Pseudo-coverage rates of some sort of benefits including unemployment benefits after a) 3 months, b) 4 to 6 months, c) 6 to 12 months of unemployment (based on EU-SILC).
Adequacy of unemployment benefits – average	The average of sub-indicators: Net replacement rates calculated in the case of persons in families that do not qualify for family, cash housing assistance or social assistance across – various types of household (single earner, one-earner couple, two-earner couple, each without and with two dependent children), – wage levels, (67 %, 100 % of the average wage), – unemployment spells (after two months, half a year and a year of unemployment) (theoretical indicators based on the OECD tax-benefit model).
Adequacy of unemployment, social, housing and family benefits – average	The average of the sub-indicators: Net replacement rates for families that qualify for family, cash housing assistance or social assistance across – various types of household (single earner, one-earner couple, two-earner couple, each without children and with two dependent children), – wage levels, (67 %, 100 % of the average wage), – unemployment spells (after two months, half a year and a year of unemployment) (theoretical indicators based on the OECD tax-benefit model).
Unemployment trap – average	The average of the sub-indicators: Unemployment trap across – various types of household (single earner, one-earner couple, two-earner couple, each without and with two dependent children), – wage levels, (67 %, 100 % of the average wage) (theoretical indicators based on the OECD tax-benefit model).
Second level of safety nets	
Non-coverage of benefits for those jobless and poor	Share of adults living in poor and jobless households in which benefits represent less than 10 % of equivalised household income (based on EU-SILC)
Net income of people on social assistance – average	The average of the sub-indicators: Net income of people on social assistance relative to the median income describes the financial situation of those on minimum income for a) single person b) single parent with 2 children c) second earner 3 months (theoretical indicators based on the OECD tax-benefit model).
Inactivity trap – average	The average of the sub-indicators: Inactivity trap across – various types of household (single earner, one-earner couple, two-earner couple, each without children and with two dependent children), – wage levels, (67 %, 100 % of the average wage) (theoretical indicators based on the OECD tax-benefit model).

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Selected indicators and factors representing three pillars of active inclusion (cont.)

Final indicator/ factor	Underlying variables
Second pillar: Inclusive labour markets	
Activation	
Expenditure on activation policies – factor	The analysis resulted in one factor (Chronbach= 0.91) on: - Expenditure on ALMP categories 2–7 as % of GDP (Eurostat, LMP database) - Expenditure on ALMP categories 2–7 as % in PPS per person wanting to work (Eurostat, LMP database)
Participation in activation – factor	The analysis resulted in one factor (Chronbach=0.78) on: - Activation-Support (LMP participants per 100 persons wanting to work) (Eurostat, LMP database) - Participation in education and training of the unemployed (Eurostat, EU-LFS) - Participation in education and training of the inactive (Eurostat, EU-LFS)
Segmentation	
Segmentation by type of contract – factor	The analysis resulted in one factor (Chronbach= 0.63) on: - Share of employees working on involuntary part-time or temporary contracts (based on Eurostat, EU-LFS) - Transitions to permanent contracts (Eurostat, EU-SILC) - Wage penalty in relation to temporary work contracts as compared to permanent contracts (based on Eurostat, SES) - Employment protection legislation –regulation on dismissals of regular workers and on the use of temporary forms of employment (OECD, EPL database)
Gender segregation – factor	The analysis resulted in one factor (Chronbach= 0.69) on: - Gender pay gap (Eurostat, SES) - ISCO segregation (Eurostat, EU-LFS)
Wage rigidity	
Transition by pay level up	The share of workers in 4 lower income quintiles with higher pay level as in the previous year (based on EU-SILC)
Low wage trap – average	The average of the sub-indicators: Low wage trap across – increasing earnings (from 33 % to 67 %, 67 % to 100 %, – various types of household (single earner, one-earner couple, two-earner couple, each without children and with two dependent children) (theoretical indicators based on the OECD tax-benefit model).
Third pillar: Enabling services	
Labour market oriented services	
Childcare up until 3 years old – factor	The analysis resulted in one factor (Chronbach= 0.88) on: - Use of childcare for younger than 3 years old (Eurostat, EU-LFS) - Average hours spent in formal childcare (Eurostat, EU-LFS)
Life-long learning and education – average	The average of the sub-indicators: - Participation in education and training of low, medium and high educated aged 25–64 (Eurostat, EU-LFS)
Other services	
Lack of health care	Unmet demand for medical and dental care (18–44) (Eurostat, EU-SILC)
Lack of housing services – average	The average of the sub-indicators: - Housing cost overburden rate among the at-risk-of-poverty population (18–64) - Overcrowding rate among at-risk-of-poverty population (18–64) (Eurostat, EU-SILC)

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* The table lists final indicators or factors that represent main aspects of active inclusion.
They are selected as:
- raw variables, i.e unmet demand for health care;
- average of sub-indicators - when they are of the same type and highly correlated;
- factors - constructed through the factor analysis.

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