SPPM THEMATIC REVIEWS ON THE 2013 SOCIAL TRENDS TO WATCH

Depth of poverty

1. Introduction

The depth of poverty has been identified as a social trend to watch in 2013\(^2\) by the SPC, and as such, chosen as subject for a thematic review in the beginning of 2015. The 2013 SPC report on the social situation in Europe highlighted that there has been a substantial increase in the poverty gap and in the severe material deprivation rate in more than one third of Member States between 2011 and 2012, leading to a deterioration in living standards in these countries. Between 2008 and 2012, the relative median at-risk-of-poverty gap increased in more than two thirds of Member States. It should be noted however that even in the decade before the crisis, despite economic and employment growth, poverty and social exclusion remained major issues in most EU countries and income inequalities often grew. This paper provides a background for discussion on effective and efficient social policy responses to address the challenge of increasing depth of poverty in several Member States.

The risks of falling into and the chances of getting out of poverty vary across Member States, and have changed over time. The macro-economic environment, the labour market situation, and the policy mix in place (economic, fiscal, employment, and social) have a crucial impact on social outcomes. Further, countries with robust social protection systems characterised by stronger social investment have weathered much better the crisis, in terms of economic, as well as employment and social outcomes. These systems help through investing in human capital to prevent poverty from happening in the first place and to get people back on their own feet as quickly as possible. For this purpose, a comprehensive policy approach, adapted to the individual’s needs, is needed. This review will look at options for increasing the effectiveness of social protection systems in avoiding that people fall into severe poverty and ensuring adequate livelihoods, through the right social policy mix of benefits and services that both activate and enable. We will pay particular attention to some characteristics of the social protection system, such as the coverage and adequacy of income support, and the role of enabling services.

The Social Investment Package, adopted by the European Commission in 2013, addressed these issues, calling for specific policy actions such as one-stop-shops, the increase in take-up and coverage of social benefits, ensuring adequate income support (which can be supported by setting reference budgets), and promoting activation, including through the use of conditionality. The distribution in the access to quality services, such as healthcare, childcare, housing, life-long learning, or social services also needs to be considered when ensuring adequate livelihoods and social investment across society and an individual’s lifecycle.

Through the European Semester, the European Commission supports Member States in their efforts to improving the effectiveness of social protection and social investment in addressing poverty and social exclusion challenges. In particular, since 2011, the Council has adopted several issues, calling for specific policy actions such as one-stop-shops, the increase in take-up and coverage of social benefits, ensuring adequate income support (which can be supported by setting reference budgets), and promoting activation, including through the use of conditionality. The distribution in the access to quality services, such as healthcare, childcare, housing, life-long learning, or social services also needs to be considered when ensuring adequate livelihoods and social investment across society and an individual’s lifecycle.

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country specific recommendations (CSRs) on the improvement of social transfers, the adequacy and coverage of unemployment benefits and social assistance, the link to activation, and access to enabling services (see Table 1 below).

Table 1. Council CSRs on enabling and activating benefits and services per MS, 2011-2014

| Adequacy and coverage of unemployment benefits and social assistance | (BG, ES, HR, HU, IT, LT, LV, PT, UK); |
| Strengthen the links between benefits and activation policies | (BG, ES, FR, HR, HU, IT, LT, NL, PT, RO, SK); |
| Increase ALMPs for specific profiles such as migrants, long-term unemployed, Roma | (BE, BG, EE, ES, FI, FR, HR, IE, LU, LT, PT, SE, SI, SK); |
| Improve the coverage and adequacy of ALMPs as well as ensure cost efficiency of the ALMPs | (BE, BG, DK, EE, ES, FI, FR, HR, HU, IE, IT, LU, LT, LV, PT, RO, SE, SI, SK); |
| Improve the quality and out-reach of activation services and PES | (CZ, DE, ES, IE, IT); |
| Improve the quality, accessibility and coverage of services complementing activation services | (BG, EE, ES, FI, HR, IE, LV, UK); |
| Develop individualised services | (CZ, DK, ES, FR, SI, SK). |

2. Recent trends

Since 2008 poverty and social exclusion have increased, pulling the EU further away from the Europe 2020 target to reduce the number of people at risk of poverty and social exclusion by at least 20 million in 2020. There are 7.8 million more people living in poverty or social exclusion, totalling 122.6 million people in 2013. Poverty and social exclusion has increased in more than one third of the Member States in 2011 and 2012, and the poverty and social exclusion of children has increased in 18 Member States since 2008. The overall trends mask growing divergence between Member States.

The poverty gap is a way of looking at the depth of poverty. It indicates the extent to which the incomes of those at risk of poverty fall below the poverty threshold on average. In 2013, the relative median at-risk-of-poverty gap in the EU27 was 23.8% lower than the at-risk-of-poverty threshold.

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3 The relative median at-risk-of-poverty gap is calculated as the difference between the median equivalised disposable income of people 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 (cut-off point: 60% of national median equivalised disposable income).
threshold. This has increased by 2 pp since 2008, although broadly remaining stable since 2012. In 2013, the poverty gap in the EU27 countries varied between 15% (in FI) to over 30% (BG, EL, ES and RO). It is especially concerning that the poverty gap has increased in two-thirds of all Member States since 2008, and in some countries quite substantially (by around 4 pp or more in BG, PT, HU, IT, DK, SK and EL).

Trends in the severe material deprivation rate also show substantial increases in some Member States and clear signs of worsening living standards, not only in countries with historically high rates. In the period 2012-2013, 8 Member States saw statistically significant increases in the share of their population living in severe material deprivation (with the highest increases in PT (2.3pp), CY (1.1 pp) and DK (1.0 pp)). However, the overall picture was more balanced than in the preceding years since there were also 11 Member States that recorded a statistically significant reduction in severe material deprivation, with particularly notable improvements in the Baltic States (LT (-3.8 pp), EE (-1.8 pp), and LV (-1.6 pp)) as well as IT (-2.1 pp) and PL (-1.6 pp).

Nevertheless, the longer term trend remains mainly negative overall, with the rate of severe material deprivation having increased since 2008 in more than half of Member States. The countries seeing the worst increases – EL (9.1 pp), HU (8.9 pp) and CY (7.0 pp), but also IT, LV, LT and MT – are among those most affected by the economic crisis, although LV and LT have experienced a very sharp improvement in the situation over the last year or two. PL and RO are the countries with the most important improvements since 2008.

3. Policy responses

When assessing the policy responses to the depth of poverty challenge, the wider macroeconomic and institutional set-up needs to be taken into account. Fiscal, economic and employment policies influence social outcomes and interact with social policies, strengthening or limiting their effectiveness. For instance, fiscal policies interact with labour market policies and institutions, providing incentives/disincentives to work, and thus influencing the performance of social policies. The labour market situation in turn impacts on the returns from social investment, since the benefits in terms of economic growth from a higher labour supply and improved human capital depend on jobs being available in the labour market.

As stressed by the Social Investment Package, social protection systems that provide activating and enabling benefits and services contribute to higher labour force participation and human capital development, positively influencing labour market and economic outcomes. As a consequence, an integrated policy-making approach, which considers the complementary functions of economic, employment and social policies, is needed.

The Social Investment Package sets out the European Commission’s long-term vision on the future of social policies. The social investment approach calls for social protection systems that prevent against risks across the lifecycle and support activation, as well as for improved effectiveness and
efficiency of social expenditure. Such an approach reconciles social, employment and economic objectives. The Social Investment Package emphasises the need for well-targeted, comprehensive and enabling benefits and services. It highlights the importance of preventative approaches. Policies should facilitate the integration into sustainable, quality employment of those who can work and provide resources which are sufficient to live in dignity, together with support for social participation, for those who cannot. The complementary role of different social policies needs to be taken into account. This requires a comprehensive assessment of the policy mix in each Member State.

In this background paper we will particularly focus on a few characteristics of the social protection systems, which play an essential role in tackling the depth of poverty challenge. Other thematic reviews have dealt with other aspects of social policies.

Adequate and activating income support is key in reducing the poverty gap and severe poverty. Social protection systems should provide adequate and activating income support to empower people across all stages of their lives and enhance their opportunities to participate in the labour market and society. The role of social transfers such as unemployment benefits and minimum income schemes, as well as family and children benefits is therefore highly relevant. The schemes should help people to be able, motivated and activated to work. Some of the main challenges identified by the European Commission regarding minimum income schemes relate to their adequacy, coverage, simplification and their effective linking to activation and enabling services. In this background paper we will mainly focus on the adequacy and coverage challenges, as other SPC thematic reviews have already dealt with other aspects of income support.

In addition to income support access to enabling services such as early childhood education and care, education and training, transport, housing, job assistance, debt-counselling, health care, or long-term care, also plays an essential role in reducing depth of poverty and supporting people to improve their living conditions and employment prospects.

Efforts to address severe poverty and reduce the poverty gap should also comprise simplifying services and benefits and their administration, reducing administrative burdens and increasing take-up. This could be achieved through for instance setting up one-stop-shops and improving targeting through progressive universalism.

These issues are reflected in the 2015 AGS call for simplified and better targeted social policies complemented by affordable quality childcare and education, prevention of early school leaving, training and job assistance, housing support and accessible health care.
3.1 Adequate income support

When assessing the adequacy of income support through unemployment benefits and social assistance, two indicators can be used: the net replacement rates of unemployment benefits, and the net income of people on social assistance relative to the poverty threshold.

The average net replacement of unemployment benefits ranges from 45 % in Greece and Slovakia, to over 75 % in Denmark, the Netherlands and Portugal. This shows that the overall generosity of unemployment benefit systems exhibits a high degree of variation across EU countries. In most Member States the theoretical adequacy of unemployment benefits is improved by the presence of the children in the household and decreases with unemployment spells. The provision of cash housing assistance or social assistance improves the net replacements rates significantly in some Member States, especially in Czech Republic, Latvia, and the UK.

Figure 1: Average net replacements of unemployment benefits, 2010

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

The adequacy of social assistance can be 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.

Figure 2: Net income of people living on social assistance relative to median equivalised income, 2010
3.2 Coverage of social transfers

The effectiveness of a benefit system also depends on its coverage, i.e. the extent to which the population at risk is covered by the system and actually receives benefits when the risk occurs. The characteristics of benefit systems vary considerably across Member States, 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. There is also a variance in terms of the composition of policy instruments (unemployment insurance v. unemployment assistance) and their design (adjustment of benefits over the unemployment spell, link to past earnings). 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. The rate increases to nearly 30% when child benefits are excluded. The non-coverage rate varies greatly between Member States. It ranges from less than 10% in the North and Centre of Europe, while it exceeds 20% in the Southern countries and Poland (Figure 3).
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.

Almost all EU countries have some form of minimum income scheme at national level. Member States that do not have one, such as Italy, have other schemes at regional or local level. These are generally conceived as a short-term form of assistance, though in most Member States, they are not formally time-limited. They are means-tested and funded through the tax system. They are intended mainly for people out of work, but some Member States (Cyprus, Germany, Lithuania, France, Portugal, Romania, Slovenia, Sweden and Ireland) have extended their scope to provide in-work income support.

An examination of various national definitions shows that most Member States use a statutory minimum level of income, fixed by the (national, regional, local) legislator or government. Further classifications are possible along territorial arrangements, type of benefits (cash vs. in-kind), and existence of top-ups (or income tapers). In most Member States the minimum income level is not linked to national minimum wage.

The coverage of unemployment benefit systems can be 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

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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 Figure 4 below). A low coverage of unemployment benefits undermines the effectiveness of high income replacement rates.

Figure 4: Share of the unemployed aged 18–59 receiving unemployment benefits during the reference period by unemployment duration, 2010

3.3 Access to quality and affordable services

Providing affordable access to services (e.g. early childhood education and care (ECEC), housing, health care, transport etc.) complements other social protection instruments in ensuring adequate livelihoods and empowering people to participate in the labour market and society. In the rest of this paper we particularly focus on access to housing and to early childhood education and care.

Early childhood education and care

Children who grow up in poverty often stay in poverty for their entire lives. For example, significant disadvantages faced in childhood in education – such as limited access to high quality education, limited access to additional learning support, lack of parental support or access to additional (non-formal) learning opportunities, are often compounded over life.

Many Member States have not yet achieved the 2002 EU targets for childcare, better known as the Barcelona targets\(^5\), and there are signs that provision is actually worsening due to the crisis\(^6\).

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\(^5\) The Barcelona targets for 2010 were: 90% of all children between ages 3 and mandatory school age attending ECEC, and 33% of children under 3 years of age.

\(^6\) Commission (DG JUST) Progress report Barcelona objectives: The development of childcare facilities for young children in Europe with a view to sustainable and inclusive growth.
expected the use of ECEC facilities increases with age. Ensuring provision of facilities for children below 3 years of age is of particular importance for child wellbeing and for female employment. Again there are many Member States who are significantly below the target of 33%.

In addition, as shown in Figure 5, in many MSs, there is a steep social gradient when it comes to ECEC attendance, meaning that a greater proportion of children from higher socioeconomic classes are enrolled in formal childcare in comparison to children from poorer background. Children from disadvantaged backgrounds, who would benefit most from quality ECEC, are in fact far less likely to make use of these services. This holds for several social background indicators such as the parent’s level of education, labour market position, income level and the risk of poverty.

Figure 5: Percentage of children aged 0 to 2 in formal ECEC per income quintile
High quality, integrated ECEC services, complemented by individualised support and interventions, are more likely to be successful in their redistributive role to break the cycle of disadvantage. Existing barriers could be reduced by increased targeting of government assistance aimed at reducing the cost of childcare for low income families. The appropriate degree of targeting, however, depends on the relative priorities over a range of policy objectives. Broad or universal provision of ECEC removes the need to engage in the complex and often unsuccessful task of identifying and targeting disadvantaged categories of children. It can also support better the overall development and inclusion of children while limiting stigmatisation and segregation. Evidence shows that supply and demand for places match only in those countries that provide legal entitlement with a place guarantee straight after the end of parental leave. In these systems the cost is also differentiated according to income and a ceiling for the percentage of parental contribution is also decided.\textsuperscript{7}

### Housing

Housing costs represent an important share of a household's income, especially for lower income groups. Households not defined as relatively poor by standard indicators fall into relative poverty once housing expenses are taken into account. Transitions into poverty due to housing expenses, for instance, vary from a minimum of 4 \% in Malta to a maximum of 13 \% in the United Kingdom\textsuperscript{8}.

An increasing burden of housing costs on a household's income as well as the over-indebtedness of many households might result in the inability of households to pay mortgages, rent or utility

\textsuperscript{7} Key data on ECEC (EACEA, 2014)

\textsuperscript{8} Maestri, V. (2014), A Measure of Income Poverty Including Housing: Benefits and Limitations for Policy Making, Social Indicator Research, May 2014
bills, increasing vulnerability for repossessions, foreclosures and evictions and in some cases, homelessness. There is a growing need for locally available affordable housing, including social housing and affordable private rentals, as well as a sufficient level of housing and heating allowances\(^9\).

Available data shows that the number of homeless families or living in temporary accommodation for prolonged periods has been growing in certain Member States. This needs to be prevented and addressed through early intervention. Households with children, especially single-parent families, face a higher incidence of being overburdened by housing costs than other households. This can be counterbalanced by adequate levels of social, family and housing support.

4. **The need for a comprehensive social investment approach**

Adequate income support, including unemployment benefits and social assistance, linked to inclusive labour market measures, activation measures and access to quality services in an integrated approach, are part of a comprehensive policy response to ensuring adequate livelihoods and preventing and reducing the level and depth of poverty.

Income support schemes should help people to be able, motivated and activated to work. In this regard, establishing and strengthening minimum income schemes -their adequacy, coverage, link to activation and enabling services- should be a priority. Minimum income should be high enough for a decent life. Better designed administrative systems for instance through one-stop shops would improve access to services and benefits whilst reducing administrative burden and costs. Service integration, including through individualised approaches, deserves attention as it may not only contribute to improving access and take-up, but also provide an answer to coping with new types of social risks, the increased role of prevention, and the need for coordination between increasingly complex services.

Analysing the characteristics of the very poor populations and the (mis-)match of benefits and services available to these populations would be a good basis for a focused discussion on where Member States should concentrate their efforts in order to reduce depth of poverty. A better understanding of the profiles of the very poor would also be the basis for an individualized approach that tackles the specific barriers the respective person faces in order to ensure sustainable reintegration into the labour market and the society.

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\(^9\) Commission Staff Working Document (2013)42 final on Confronting homelessness in the European Union
5. Results of the in-depth thematic review

Drivers behind poverty and social exclusion are multiple; they can vary across an individual’s life-cycle and are closely related to the wider economic and labour market context. Comprehensive, needs-driven, preventive and individualised approaches can contribute to avoiding and alleviating poverty and social exclusion in an effective and sustainable manner. Social investments are part and parcel of such approaches by targeting specific needs arising across the life-cycle, ensuring adequate income support and providing access to quality enabling services supporting individuals in critical transitions.

Adequate income support, through unemployment benefits, minimum income schemes and other cash benefits, plays a key role in preventing and avoiding severe poverty. The level of income support should be high enough to allow for a decent life, while at the same time people need to be motivated and activated to work. This requires an effective link between income support schemes and activation. Ensuring coverage and adequacy of minimum income schemes is a challenge, particularly in those Member States with less fiscal space. Different methodologies, including reference budgets, are being used by MSs to assess the adequacy of their minimum income schemes.

Access to quality enabling services is essential to address poverty and social exclusion, considering the multiple barriers to employment and social participation experienced by the population concerned, such as low educational attainment, lack of training and skills, health problems and disability, the need to care for children or adult dependents, language problems, transport costs, housing costs, etc. Provision of activating and enabling benefits and services should be adequately linked and combined with income support schemes. Efforts should also comprise simplifying services and benefits and their administration. This could be achieved through for instance setting up one-stop-shops and improved targeting.

Several MSs are moving towards more integrated delivery of benefits and services, which address the multiple drivers of labour market and social exclusion, and are targeted to an individual’s needs. In some cases, MSs use one-stop shops (e.g. activation centres in DE, located in the job centres, which channel individual’s needs towards other relevant service providers), while others (e.g. CY) aim at improved cooperation between social and employment services. A more integrated provision of benefits and services can contribute, on the one hand, to better take-up and coverage by potential beneficiaries, and on the other, to more efficient and optimised administrative procedures. The individualised provision of a comprehensive package of benefits and services, often under the responsibility of different administrations, presents non-negligible governance challenges (in particular in MS where different functions and responsibilities are divided between national, regional and local level like ES and DE) Instruments such as common databases could facilitate inter-institutional /departmental coordination.

Policy design should take a systemic approach to the panoply of cash and in-kind benefits and services provided by the social protection system, and consider how these interact, both at
individual and household level, with other policies and institutions, such as fiscal incentives/disincentives to work and labour market institutions (public employment services, minimum wage...). Trade-offs between different policy measures and the need to take a comprehensive approach to the design of social protection is illustrated by recent reforms in LU, where maternity/family allowances (which contributed to inactivity traps for women) have been eliminated and investment shifted towards childcare facilities.

In addition more attention is needed for evidence-based approaches and creating knowledge on real outcomes coming from policy initiatives and innovative experiences, both in terms of social and economic returns. Sound methodological frameworks would help in the design of sound policies and reforms by public authorities.

Finally, involving social partners, and articulating the right synergies between the public and the private sector, including civil society and social economy actors, is key in addressing our current social challenges and to mitigate the pressures on our social protection systems.