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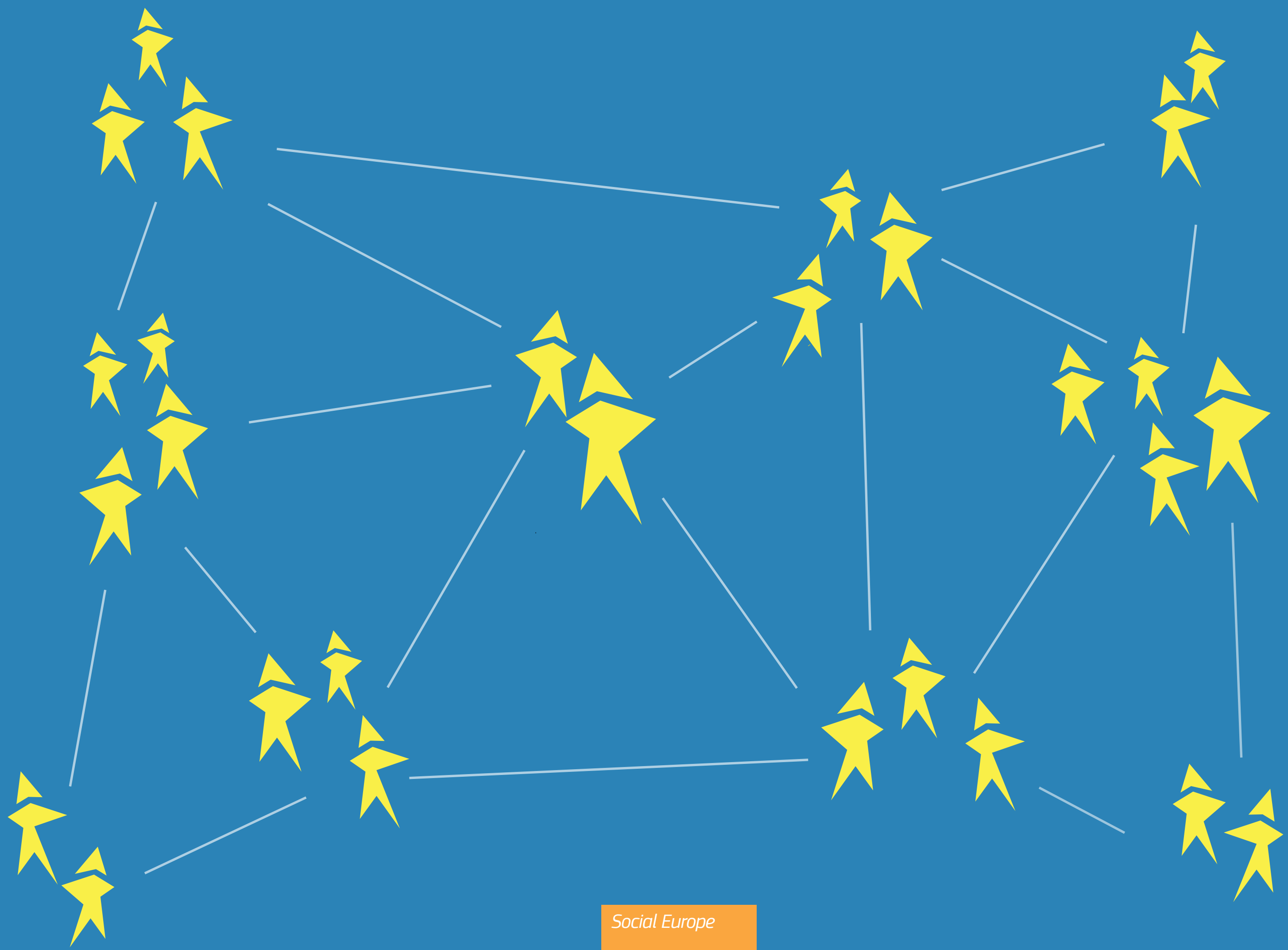
EUROPEAN SOCIAL POLICY NETWORK (ESPN)

In-work poverty in Portugal

Pedro Perista



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European Social Policy Network (ESPN)

ESPN Thematic Report on In-work poverty

Portugal

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Directorate-General for Employment, Social Affairs and Inclusion
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Contents

Summary

Over time Portugal has faced a high in-work at-risk-of-poverty[1] rate. Moreover, between 2012 and 2017, the period under scrutiny in this report, it climbed from 9.9% to 10.7%. In-work poverty (IWP) affects especially older and poorly educated workers and those living in low work intensity households. Part-timers, workers with temporary contracts and the self-employed are also groups with increased vulnerability. However, it should be mentioned that, during the reference period, people with tertiary education and those living in high work intensity households were among the groups where the incidence of IWP grew most.

IWP has its roots in a mesh of factors, of which the most significant are the generally low level of salaries and the high degree of labour market segmentation − combined with a lack of measures specifically addressing it).

In fact, despite the current government's (2015-2019) announced intentions, there are still no in-work benefits in Portugal. On the other hand, positive impacts on IWP may derive from the phased increase of the minimum wage currently under way and from the increase in child benefit for children aged 12 to 36 months.

Tackling labour market segmentation and reducing unemployment would have beneficial effects on the incidence of IWP. However, recent progress in both areas has been limited. The self-employed have been specifically addressed and a new regime for them, in force as from 2019, is expected to have positive effects on IWP, even if the possibility of adverse effects too cannot, at the moment, be completely ruled out.

As for the minimum income scheme, despite its intrinsic importance and role in fighting inequality and deprivation, its influence on IWP can be considered to be limited.

Regarding the policies (more) indirectly influencing the phenomenon of IWP, it should be mentioned that both healthcare and long-term care, as well as early childhood education, have registered positive developments in recent years. However, in all cases there are concrete indications that access to these services is in fact constrained by socio-economic barriers.

Recent developments in the housing sector hold out the prospect of helping to reduce IWP – something that is all the more welcome after housing costs for the poor increased by almost 40% between 2010 and 2016, social housing continued to be restricted to people in situations of extreme vulnerability, and housing policies struggled with effectiveness issues.

After registering low take-up during most of the period under scrutiny, energy costs assistance now reaches a larger number of beneficiaries. However, its impact (e.g. on single-person households in IWP) may be nullified by means-testing rules. As for access to life-long learning, different rules apply to the unemployed and to the employed population (to the disadvantage of the latter) and may hamper access by the in-work poor.

Two measures still being debated are deemed likely to have a positive impact on IWP: the creation of an annual income supplement through a tax credit, and a programme supporting tariff reductions on public transport. However, it should be recognised that despite the merits of any existing or proposed measures, and the fact that (for example) the National Reform Programmes have identified IWP as a challenge, the country still has not clearly identified the problem as a policy priority and still lacks a comprehensive approach towards it.

As a result, it would seem crucial to clearly acknowledge IWP as an important and persistent phenomenon in Portugal as well as to define and implement a strategy with

[1] For ease of reading, in the rest of this report we will refer to the notion 'at risk of in-work poverty', and to the indicator that measures it, using the generic term of 'in-work poverty' (IWP).

direct and indirect measures for tackling it. Preferably this should be included within the wider scope of an overall strategy for fighting poverty and should include the systematic monitoring and assessment of policy measures capable of addressing it.

1 Analysis of the country's population at risk of in-work poverty

The in-work poverty (IWP) rate[2] in Portugal increased over the 2012-2017 period (reference period). It increased substantially (from 9.9% to 10.4%) between 2012 and 2013, the year when many indicators reflected the impacts of the economic and financial crisis the most. However, the IWP rate continued to increase afterwards, peaking at 10.9% in 2015 and slightly falling in the following two years to reach 10.7% in 2017, coinciding with an overall improvement in labour and economic indicators.

An apparently contradictory trend was the fall in the share of low-wage earners (excluding apprentices) by about 25% between 2010 and 2014, from 16.1% to 12%. However, this was in fact consistent with the salary compression experienced in the country. This resulted from increases in wages at lower levels (including the minimum wage) and below-average (if any) increases in median salaries. As noted by a recent report, one of the explanatory factors for the decline in wage inequality is "the increase in the wages of low-paid workers helped by Portugal's minimum wage policy. (…) While the minimum wage is low in absolute terms compared to other European countries, it is relatively high compared to the median wage in Portugal, but relatively similar compared to the average wage" (ILO, 2018: 7); the report further emphasised that "nearly half of wage earners are paid no more than 125 per cent of the minimum wage" (ILO, 2018: 112).

These considerations also reveal the generally low level of salaries as a crucial factor for the persistence of IWP in Portugal. According to data issued by Statistics Portugal (INE),[3] by the end of the third quarter of 2018, about 23.2% of employees earned up to €600/month and 57.3% earned up to €900/month. It should be mentioned that an additional 11.5% of those surveyed did not answer the relevant question. Moreover, it seems worth mentioning that, during the first half of 2018, the national minimum wage, currently standing at €580/month, was the salary set for 40.2% of all new contracts established within the scope of the labour compensation fund, compared with 23.3% in the same period of 2014 (GEP-MTSSS, 2018). Research has also demonstrated that the mean gross salary of new contracts fell in recent years (Almeida, 2017).

According to data issued by the INE in November 2018, the poverty line (60% median threshold) in 2017 was €5,610 per year or €468 per month (INE, 2018c). This means that, for a significant proportion of Portuguese people, wages will not be able, on their own, to 'pull people out of poverty' e.g. in the case of single-earner multi-person households. Additionally, no in-work benefits for the most vulnerable are currently in place in Portugal.

An analysis of Eurostat data reveals that the overall increase in the IWP rate during the reference period was clearly gendered. Despite some fluctuation over the period, the IWP rate among males stood, in 2017, at the same level as it was in 2012 (11.1%). Conversely, the IWP rate among females climbed sharply, by almost 20%, from 8.6% in 2012 to 10.3% in 2017. Furthermore, the IWP rate among females continued to increase up to 2016 when it peaked at 10.5%, before a slight fall of 0.2 p.p. in 2017 to 10.3%.

Similarly, the overall increase in the IWP rate hides significant differences according to age cohorts. Comparing the beginning and end of the reference period, there was no

[2] In line with the EU agreed definition of IWP, a person is at risk of in-work poverty if they are in employment and live in a household that is at risk of poverty. A person is in employment when they worked for more than half of the income reference year. Employed individuals can be waged employees or self-employed. The income reference year is the calendar year prior to the survey. A household is at risk of poverty (or 'income poor') if its equivalised disposable income is below 60% of the national equivalised disposable household median income. The population covered is those aged 18-64.

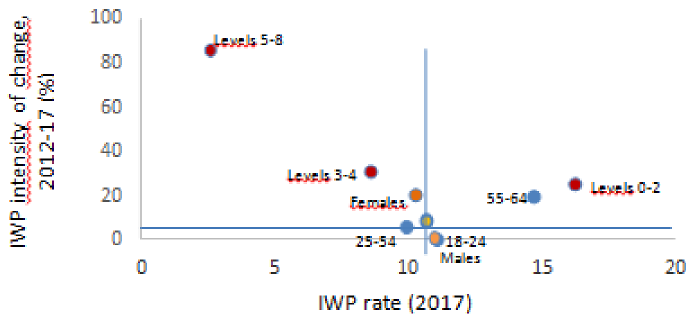
[3] Available at: https://www.ine.pt/xportal/xmain?xpid=INE&xpgid=ine_destaques&DESTAQUESdest_boui=315406072&DESTAQUESmodo=2 (Accessed 28/11/2018).

change in the IWP rate among younger workers aged 18 to 24 (a rate of 11%) while there was a slight increase regarding workers aged 25 to 54 from 9.4% to 9.9%. However, for the older cohort of workers aged 55 to 64, the IWP rate increased by nearly 20%, from 12.3% to 14.7%.

During the years under scrutiny the IWP rate increased at all education levels. The increase was 24.4% for people with lower secondary education or below (levels 0-2) and 30.3% for people with upper secondary and post-secondary non-tertiary education (levels 3 and 4). The IWP rate for these individuals reached 16.3% and 8.6%, respectively, in 2017, compared with 13.1% and 6.6%, also respectively, in 2012. However, the increase was particularly large among those with tertiary education (levels 5-8). Even if the IWP rate for these individuals was significantly lower than for those with lower education, it registered a significant increase of 85.7% during the reference period, from 1.4% to 2.6%. This led the authors of one report to consider that "despite the large distance between the average gain of these workers and the remaining workers, having an university degree is no longer a guarantee of immunity regarding the risk of poverty" (Rodrigues et al., 2016: 109).

Figure 1, below, shows the IWP rate in 2017, and the degree of change between 2012 and 2017, according to sex, age cohort and education level. As an illustration of what was mentioned above, individuals with tertiary education (levels 5-8) stand out as the group where, even if their IWP rate remained low in 2017, the increase was greatest (left upper quadrant). To a lesser extent, this situation also characterised females and those with intermediate education levels (3 and 4). From the analysis of the figure it also becomes evident that the IWP rate was higher than the average, and increased more than the average during the reference period, for less-educated individuals and for those aged 55 to 64 (right upper quadrant), whereas the opposite was true for those aged 25 to 54 (left lower quadrant).

Figure 1 – IWP rate (2017) and IWP intensity of change (2012-2017) in Portugal, by sex, age cohort and education level

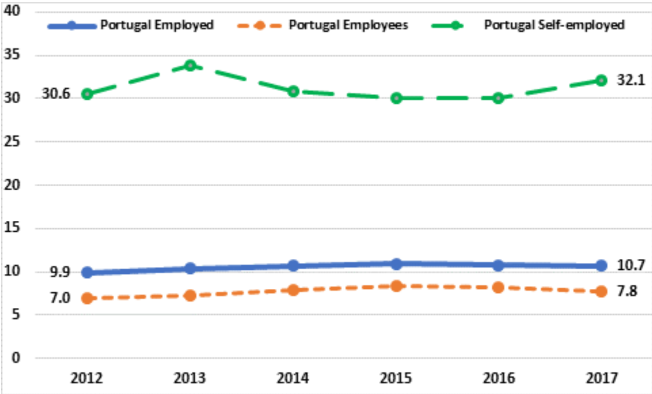


Note: In order to facilitate the analysis, vertical and horizontal lines were drawn intersecting the point corresponding to the mean value for the total population being analysed regarding both indicators (marked with a yellow circle).
Source: Own elaboration on the basis of Eurostat.

The gap in the IWP rate between Portuguese and foreign nationals widened over the reference period. The gap increased from 1.2 p.p. in 2012 (9.8% and 11%, respectively) to 2 p.p. (10.5% and 12.5%, respectively).

Data show that, over time, self-employed workers in Portugal have been much more vulnerable to IWP than employees (Figure 2A). Over the reference period the gap between these two types of workers widened. In absolute terms, the IWP rate among employees increased by 0.8 p.p. (from 7% to 7.8%) while among the self-employed it increased by 1.5 p.p. (from 30.6% to 32.1%). However, in percentage terms, the increase among employees was more than double that among the self-employed (11.4% and 4.9%, respectively).

Figure 2A – Evolution (2012-2017) of the in-work at-risk-of-poverty rate (whole population/ employees/self-employed) in Portugal (%)

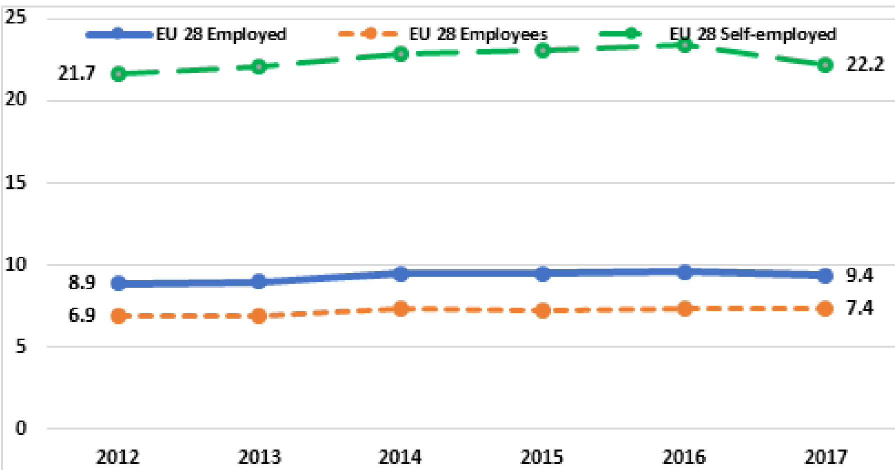


Source: Eurostat, ilc_iw01.

Over the reference period the share of self-employment in total employment fell consistently, from 17% to 13.4% – 20.4% to 16.6% among males, and 13.4% to 10.1% among females (INE). According to a recent report, a significant part of this reduction related to what can be labelled as a secular shift from agriculture to the service industry and to a more cyclical decline in the construction sector, along with the steps taken by Portuguese authorities to detect disguised self-employment more effectively. The reduction is described as coming primarily from own-account workers whose share declined by 25%, while the share of employers declined by 8% (ILO, 2018). Furthermore, the report highlights that "the recent reduction in the share of the self-employed – as employers or own-own account workers – is the result of constraints to entrepreneurship from lack of access to finance or incentives" (ILO, 2018: 46). This may also have contributed for the trend in the IWP rate among these workers.

Figure 2B below mirrors figure 2A above in the context of the EU28. The trends were similar to those in Portugal, and the IWP rates for the whole population and for employees were also close to those for Portugal: but the self-employed in the EU28 were strikingly less vulnerable to IWP than those in Portugal.

Figure 2B – Evolution (2012-2017) of the in-work at-risk-of-poverty rate (whole population/ employees/self-employed) in the EU28 (%)



Source: Eurostat, ilc_iw01.

Under the wider measure of poverty (at risk of poverty or social exclusion – AROPE), the self-employed in Portugal suffered an increased risk over the reference period, from

32.4% to 33.2%. The rate among employees fell from 11.2% to 10.5%. For employed persons as a whole, the rate fell from 13.8% to 13.2%, even though it remained between 14% and 15% in the central years 2013 to 2016.

The material and social deprivation (MSD) rate among employed people in Portugal fell substantially, by over 40%, over the reference period; and it fell consistently between 2014 (19%) and 2017 (11.3%). The fall affected both employees and the self-employed, but it was more pronounced among the former (41.5%) than among the latter (32.5%) − which meant that the rate for employees went from being higher than for the self-employed (19.3% compared with 16.9% in 2014) to being lower (11.3% compared with 11.4% in 2017).

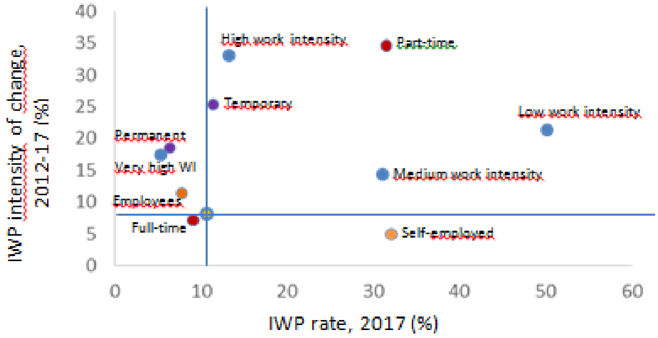
The greater vulnerability of part-timers and workers with temporary contracts to IWP became accentuated during the reference period. In 2017, nearly 1 out of 3 part-time workers (31.5%) were in IWP, an increase of 34.6% from the already high rate in 2012 (23.4%). As for temporary workers, the IWP rate increased from 9.1% to 11.4%, compared with the increase from 5.4% to 6.4% among workers with permanent contracts.

It should be mentioned that, according to the INE, the shares of part-timers and workers with temporary contracts evolved differently during the reference period. The share of the former in total employment fell consistently, from 11.2% to 8.9% (8.4% to 6.1% among males and 14.2% to 11.7% among females). As for the latter, their share increased consistently, from 16.9% to 19% (16.3% to 18.5% among males and 17.5% to 19.4% among females).

Over the reference period IWP increased in all work intensity cohorts. Unsurprisingly, the largest change in absolute terms was for low work intensity households (an increase of 8.8 p.p., from 41.4% in 2012 to 50.2% in 2017). However, the largest percentage increase (by 33%) was for high work intensity households. The IWP rate among the latter increased from 10% in 2012 to 13.3% in 2017. During the reference period not even households with very high work intensity were protected against the rise in IWP: although still at comparatively low levels, the IWP rate among these households increased from 4.6% to 5.4%.

Figure 3 below maps changes in the IWP rate in Portugal between 2012 and 2017 against the position in 2017, according to employment status, type of contract, working time and household work intensity. The crisis years had the biggest impact on those living in households with high work intensity and on part-timers (upper right quadrant). Even if the intensity of change for individuals living in households with low work intensity was not as strong as for those groups, it was nonetheless higher than the average and pushed the IWP rate for this vulnerable group over 50%. The increase was also higher than average for employees, permanent workers and households with very high work intensity even if their poverty rate remained, in 2017, lower than the overall IWP rate (upper left quadrant).

Figure 3 – IWP rate (2017) and IWP intensity of change (2012-2017) in Portugal, by employment status, type of contract, working time and household work intensity



Note: In order to facilitate the analysis, vertical and horizontal lines were drawn intersecting the point corresponding to the mean value for the total population being analysed regarding both indicators (marked with a yellow circle).

Source: Own elaboration on the basis of Eurostat.

A cross-comparison of household work intensity with the presence of dependent children reveals that the economic and financial crisis had an especially significant impact on the IWP rate for households without dependent children.

Summarising the above, it seems clear that the key factors behind IWP in Portugal are low salaries and the high degree of labour market segmentation – combined with a lack of measures specifically addressing the phenomenon. An analysis of the policies in place is exactly the focus of the following section.

2 Analysis of the policies in place

2.1 Policies directly influencing IWP

There are **no in-work benefits** in Portugal. The current government's programme (2015-2019) included the goal of creating an annual income supplement through a tax credit with the aim of increasing the income of low-wage households, but there has been no concrete action on this thus far (see Section 3).

In recent years there have been successive changes to the income tax and tax credit systems. After having been reduced to five in 2013, the number of household income brackets was increased to seven in 2018. There was no change regarding the first income bracket, which still taxes revenues up to €7,091/year at a rate of 14.5%. There was also no change regarding the former fifth income bracket – that became the seventh – which relates to taxable revenues of €80,640/year or more. The changes affected the former second and third income brackets, each of which was split into two. The most relevant change regarding IWP was the creation of a new second income bracket, for taxable revenues between €7,091/year and €10,700/year. These are now taxed at 23% rather than 28.5%.

There is a yearly minimum level of subsistence, set at 1.5 times the social support index (IAS) x 14 (€9,006.90 in 2018) under which no income tax is due. In 2018, a worker earning the minimum wage had a yearly income of €8,120 (€580/month x 14 months[4]). In 2018, specific deductions amounted to a maximum of €4,104 and did not vary according to revenue.

[4] 12 months plus vacation allowance and Christmas allowance.

The European Pillar of Social Rights establishes a connection between the **minimum wage** and IWP, emphasising that "adequate minimum wages shall be ensured, in a way that provide for the satisfaction of the needs of the worker and his/her family in the light of national economic and social conditions, while safeguarding access to employment and incentives to seek work. IWP shall be prevented" (European Commission, 2017: Chapter II article 6).

The statutory minimum wage (RMMG) was frozen between 2010 and 2014, within the context of Portugal's adjustment programme. Following the end of the programme in May 2014, the RMMG increased from €485/month to €505/month in October 2014. In late November 2015, a new government took office in Portugal and after discussion with social partners decided on a phased increase in the minimum wage, up to €600/month in 2019.

In absolute terms, the minimum wage remains low when compared with other EU countries. However, it is high when compared with the average and median wages in Portugal (of which it represented respectively 47.2% and 65.3% in 2016). Recent increases led to a substantial rise in the number of employees covered by the RMMG, from 12.6% in January 2010 to 17.2% in October 2014 and up to 22.9% in March 2018 (GEP-MTSSS, 2018: 65).

Research has emphasised the complex link between minimum wages and IWP, suggesting that the minimum wage on its own is not effective enough to reduce IWP (Marx and Nolan, 2012; Matsaganis et al., 2015; Marchal et al., 2017; Eurofound, 2017) and calling for a debate around the concept of a living wage that makes a minimum acceptable standard of living and participation in society possible (Eurofound, 2017).

In that context it is important to refer to the analysis led by Pereirinha (2017) of the level of income that would be necessary for someone to live with dignity in Portuguese society. The analysis simulated different scenarios in order to arrive at a consensus on what would be an 'adequate income'. According to the results, a person aged 18-64 living alone would need an income of €783/month in order to have an adequate living standard, while a couple with a dependent child would need around €1,800/month (Table 1 in Annex). These figures are clearly above the amount of the minimum wage and above the poverty threshold, which the report says: "suggests that the usage of this poverty threshold [used by the Eurostat] underestimates the incidence of poverty in Portugal [and that] the results may be used to consider changes to the minimum levels guaranteed by different public policy measures and to different family compositions" (Pereirinha, 2017: 15).

The European Commission's (EC) country report 2018 for Portugal emphasised that "while employment keeps recovering steadily, **labour market segmentation** remains a serious challenge" (EC, 2018: 1-2) further adding that "despite an increase in permanent hiring, the proportion of workers on temporary contracts is high. This raises doubts on the effectiveness of recent measures[5] to tackle labour market segmentation" (EC, 2018a: 3). Probably as a result, one of the country-specific recommendations for 2018 (as in 2017) called on Portugal to promote an environment conducive to hiring on open-ended contracts, including by reviewing the legal framework in consultation with social partners.

In mid-2018, the government and most social partners in the Standing Committee for Social Dialogue agreed on a set of measures aimed at fighting precariousness and reducing labour market segmentation as well as at promoting collective bargaining (CPCS, 2018). Following this agreement, an action programme for fighting precariousness and promoting collective bargaining was approved and is currently being discussed in parliament. The programme opens room for changes to: i) the labour code; ii) the code on contributory schemes; iii) the unemployment benefit scheme; iv) active

[5] Concretely refering to measures to increase incentives to hiring on open-ended contracts.

labour market policies; and v) the means and tools at the disposal of the Authority for Working Conditions.

Changes to the labour code aimed at limiting the legal possibilities for the excessive usage of temporary contracts include: a) reducing the maximum duration of fixed-term temporary contracts from three to two years, including renewals, and the rule that the total duration of renewals cannot exceed the initial contract duration; b) reducing the maximum duration of fixed-term contracts of undetermined duration from six to four years; c) changing the norm currently allowing the fixed-term hiring of first job seekers and long-term unemployed people for permanent job positions, making it applicable only for the very long-term unemployed; d) removing the possibility for collective agreements to alter the legal regime for temporary hiring; and e) establishing that worker are entitled to compensation for termination of their contract even when temporary contracts contain no provision for renewal.

Changes to the labour code aimed at discouraging undeclared and under-declared work include: a) increasing the maximum duration of very short-term contracts from 15 to 35 days; and b) reducing the minimum working period under an intermittent labour contract from six to five months per year and proportionally reducing the period of consecutive work from four to three months.

Changes to the labour code aimed at promoting the permanent hiring of first job seekers and the long-term unemployed include: a) establishing that the experimental period applicable to these contracts is 180 days; and b) clarifying that the experimental period includes, if applicable, any previous professional traineeship or other work relationship foreseen by law.

Additionally, there are measures aimed at: a) the greater protection of temporary workers; b) simplifying the hiring process; c) promoting collective bargaining and reducing the individualisation of labour relations; d) preventing gaps resulting from the expiry of collective agreements; and e) promoting the collective dimension of the instruments for labour regulation.

Changes to the code on contributory schemes include the establishment of an additional social security contribution for employers whose annual relative weight of hiring on temporary contracts is higher than the average for the economic sector concerned.

The main change on the unemployment benefit scheme regards a reduction in the qualifying period for unemployment social benefit for workers whose application results from the termination of a temporary contract, from 180 to 120 days.

As for labour market policies, the programme envisages transitional increased support to companies for the conversion of temporary into permanent contracts and the boosting of mechanisms promoting employability.

The reinforcement of the means and tools at the disposal of the Authority for Working Conditions includes: a) an increase in the number of labour inspectors and of other technical staff; b) the modernisation and reinforcement of the capacity of information systems; and c) explicitly integrating the fight against labour precariousness into the responsibilities of the Authority for Working Conditions, and establishing mechanisms for involving social partners in elaborating the organisation's plans of activity.

The new regime for **self-employed workers**, coming into force in January 2019, includes features that have the potential to affect IWP positively. This is the case for the cut in the social security contribution rate from 29.6% to 21.4% (25.2% for micro-business owners), the reduction in the number of months considered for calculating the contributions to be paid from twelve to three months, and calculating the annual amount of contributions by applying contribution rates to the annual relevant income rather than to a tax band. Conversely, the establishment of a minimum monthly contribution of €20 may aggravate IWP in some situations.

In recent years increased focus has been placed on the **activation of those not in employment**. The public employment services adopted a new model of intervention in late 2012, more focused on early and tailored intervention and on faster and more adequate responses. The model includes the appointment of a career manager for every unemployed person, who should undertake to follow a personal employment plan as well as accept referral to courses of active job search or short-term training within 15 days after the date of registration. Aside from job-seeking and job-acceptance conditionality, the beneficiaries of unemployment benefits must agree to undertake socially needed work, vocational training and other active labour market measures.

The model was further changed in 2016 through the implementation of a model of individual coaching for employment and a refocusing of the public employment services on capacity-building for the unemployed. The personal employment plan should now be ready within 15 days after the date of registration.

A recent report stresses that "reforms aimed to improve the delivery of public employment services have contributed to activating (and profiling) unemployed individuals more effectively, and training measures (especially those provided for a longer duration) have increased participants' employment probabilities" (ILO, 2018: 6).

However, the report also notes the "relatively loose targeting of the active labour market policies (ALMPs) on the most vulnerable labour market segments, as well as the design of employment incentive schemes, which aimed at supporting job creation regardless of its quality" (ILO, 2018: 6). Furthermore, it acknowledges that "latest policy efforts have significantly contributed to addressing some of the limitation in the design of previous ALMPs, while enhancing their inclusiveness [but nonetheless considers that] future ALMPs should enhance effectiveness and target more disadvantaged workers" (ILO, 2018: 6).

The **minimum income scheme** (RSI) in Portugal is a differential benefit, i.e., the monthly benefit corresponds to the difference between the maximum rate of the RSI and the household's total income. Those holding a job may apply for the benefit as long as they meet the eligibility rules. If the claimant lives alone, their personal monthly income cannot be higher than an established percentage of the IAS. In 2018 that percentage was established at 43.634% and the amount of the IAS was €428.90. If the claimant is living with other people, the total income of the household must be lower than the maximum amount of the RSI that would be calculated for that household. For the calculation of the total income of the household, only 80% of the net wages or salaries are considered. In 2018 the maximum rate of the monthly benefit was calculated in the following way: €187.15 for the claimant (100% of the RSI), €131 for each of the other adults in the household (70% of the RSI) and €93.58 for each child (50% of the RSI).

Additionally, the mean figures for the RSI, even if increasing since the beginning of 2016, remain very low. According to the latest statistics from the Institute of Social Security, in October 2018 the monthly mean values were €115.13 per person and €257.93 per household. Extrapolating on a yearly basis, the values would amount to €1,381.56 per person and €3,095.16 per household. These amounts have been fairly stable over the years.

The above was recognised by the EC in its country report for Portugal 2018, when it clearly stated that "despite efforts made, the adequacy of the minimum income scheme is limited. (…) The net incomes of minimum-income recipients are very low when compared with the poverty threshold and net incomes of low-wage earners" (EC, 2018a: 39).

At the end of 2010 there was a reduction in the number of income bands for **child benefit** from five to three when awarding family allowance. As a consequence, between 2010 and 2016 the number of children for which family allowance was received fell by a little over 34%.

Further changes to child benefit have been introduced since 2016. These include the partial restoring of access to the benefit for families in the 4th income band, and increases in the amounts of the benefit especially for children aged 12 to 36 months. The aim is that, in 2019, these children will receive the same amounts as children up to 12 months. These measures are intrinsically important and led to a slight increase in the number of beneficiaries.

However, it is nonetheless clear that even if potentially having an impact on inequality, the actual impacts of the benefit on family poverty are limited for children aged over 36 months. As an example, for 2018 the increase in the amount for households in the lowest income band for a child of that age was €0.48/month (to €37.08/month).

Conversely, the very significant increases in the amounts for children aged 12 to 36 months have the potential to affect IWP positively. After the increase, the amounts for the second semester of 2018 range from €31.38/month for households in the 4th income band to €110.77/month for households in the 1st (and lowest) income band.

2.2 Policies (more) indirectly influencing IWP

Participation in **early childhood education** increased considerably over the past decade, and enrolment rates among children aged 2 (37.6%), 3 (82.8%) and 4 (90.4%) were all above the OECD averages (34%, 70% and 85%, respectively) in 2017 (OECD, 2017a). In Portugal there are two early childhood education networks: a public and a private one. In the 2016-17 school year, 47.3% of children attending pre-school education were enrolled in the private network (DGEEC, 2018), which was almost double the EU average of 25% (EC, 2018b). Public pre-school provision represents around 53% of the total, compared with averages of 67% among OECD countries and 75% among EU22[6] (CNE, 2017). It should be noted that the private network integrates different types of entities. On the one hand it includes private for-profit entities which are free to define their prices. On the other hand, it also includes cooperative teaching entities, private institutions for private solidarity and not-for-profit organisations with which the state has protocols. In these cases, means-testing is applied and therefore lower fees apply to low-income households.

The current government announced a target to achieve universal pre-school education for children aged 3-5 by the end of its mandate in 2019. The most vulnerable group in terms of IWP regards children up to the age of 3. National studies have highlighted the existence of access constraints for families with lower incomes (e.g. Wall et al., 2014); and this has also been acknowledged by the EC, which emphasises that "participation in early childhood education and care is significantly influenced by household income" (EC, 2018b: 231).

The OECD notes that only 36% of children whose families are in the bottom third of the disposable income distribution are enrolled in formal early childhood care (OECD, 2017a) and furthermore highlights that "in Portugal children under the age of 3 are more likely to be enrolled in early childhood education and care (ECEC) programmes, or to be cared for by professional caretakers, if they come from relatively advantaged socio-economic backgrounds or if their mothers have completed tertiary education" (OECD, 2018: 2).

OECD's Education at a Glance 2018 country note regarding Portugal underlines that about 36% of expenditure on pre-primary education comes from households, which is 20 percentage points higher than the OECD average and makes it the third highest of all OECD countries.

As regards **healthcare**, there is a National Health Service structure with universal coverage, almost free access at the point of use, and financing by general taxation. Certain services are provided free of charge: e.g. dialysis and cancer treatment, family

[6] The report specifically refers to EU22 but it provides neither an explanation for the option nor the list of countries not covered.

planning consultations, and vaccination. For a wide range of services the system includes fixed user charges.

Exemption from user charges applies to certain groups, including people on low incomes (less than 1.5 times the IAS, i.e. €643.35/month in 2018). In practice, over 55% of the population is exempted from cost-sharing for publicly provided services (OECD/European Observatory on Health Systems and Policies, 2017).

According to the latest Eurostat data, in 2016 out-of-pocket (OOP) payments represented 27.75% of total current health expenditure, which was almost double the EU average. This made Portugal the EU country with the seventh highest level of payments.

Different entities have acknowledged the high share of OOP payments. OECD notes that Portugal remains one of the countries with relatively high OOP expenditure as a percentage of final household consumption (3.8% compared with the 3.0% OECD average), which may create barriers to accessing care (OECD, 2017b).

A recent report by the Portuguese Observatory on Health Systems highlights the fact that although Portugal does not experience bigger access barriers to health than the rest of Europe, these barriers are stronger from a socio-economic perspective, particularly as regards financial constraints. The report concludes that even if the use of primary and hospital healthcare is distributed almost evenly across income groups, the limitations on access to oral healthcare, to mental healthcare and to medicines "affect disproportionally the poorest (…) as the need is being supplied most of all through the private sector, i.e. only accessible for those with health insurance or with the means to pay" (OPSS, 2017: 86). Thus, "in situations of equal necessity, the poorest still have lower usage rates of speciality appointments, mainly regarding the access to oral and mental health and to medicines [leading to] catastrophic costs" to these users (OPSS, 2017: 166).

Since 2006, **long-term care** (LTC) has been one of the branches of the national network for integrated continuous care. However, as emphasised by a recent study: "state provision of community care services in Portugal has been characterised as scarce, including long-term care, day centres and social services for the chronically ill, older people and other groups with special needs, such as people with mental and physical disabilities. There is a traditional reliance on the family as the first line of care in Portugal, particularly in rural areas" (Simões et al., 2017: 129).[7]

The insufficient provision of formal care may lead to employment challenges, as it may reduce labour market participation, especially of women. According to Eurostat, in 2016 7.4% of inactive females aged 15 to 64 and not seeking employment justified it by the need to look after children or incapacitated adults, compared with 0.8% of males. The same justification was provided by 5.2% of females for working part time.[8]

Another challenge regards the affordability of services. Within the context of the OECD, Portugal is the country with the highest share of OOP funding for LTC (45%) (ERS, 2015) and the International Labour Organization identifies Portugal as an example of an upper-middle income country where the provision of very limited, non-universal LTC coverage based on means-tested approaches limits publicly funded LTC to the poorest parts of the population (Scheil-Adlung, 2015).

Focusing on care provision to people with dementia, a recent paper concluded that there are "differences arising from the different economic resources of every family (…); prices

[7] According to the latest edition of the National Health Survey, in 2014 about 1.1 million people aged 15 years or more (12.5%) provided assistance or informal care to people in need because of ill-health or old age (INE/INSA, 2016). According to the results of the latest study on the access to and quality of continuing care, issued by the Health Regulatory Authority in December 2015, Portugal had the highest rate of informal home care in Europe, as well as the lowest rate of non-home-based care and one of the lowest coverage rates of formal care (ERS, 2015).

[8] No reliable data for males.

are almost always inaccessible for most people and families who need them" (Reis & Alvarez, 2017: 98).

One of the objectives of the new employment policy established by decree-law 13/2015 is that of promoting the **social and professional integration of people with disabilities and incapacity** as well as other vulnerable groups, namely those in poverty and social exclusion, into the labour market. Following the publication of the new employment policy, decree-law 108/2015 changed the programme for employment and support in respect of the qualification of people with disabilities and incapacity. This consisted mainly of reinforcing support for qualifications, resource centres and supported employment, and the creation of the 'inclusive employer' mark. The mark is designed to publicly recognise and identify open and inclusive management practices developed by employers regarding people with disabilities and incapacity.

The state's investment in **housing** has been traditionally weak. Social housing units belong mainly to municipalities and represent only about 2% of the overall housing stock (INE, 2016). As mentioned in a recent paper, there is a "weak investment in social housing based on a model targeting the poorest, most spatially concentrated, and most socially homogeneous households. (…) The populations living in social housing neighbourhoods are mostly made up of families with indicators of poverty so high that no social or housing mobility is possible" (Pinto, 2017: 134-135).

Portugal was one of the countries where housing costs for poor households increased the most (by 39.6%) between 2010 and 2016. In 2017, the share of poor households overburdened by housing costs stood at 26%, compared with 2.4% of non-poor households. (Abbé Pierre Foundation/FEANTSA, 2018). As noted by a recent report, "since the beginning of the crisis housing costs as a share of disposable income have increased significantly, especially for the poor" (Pittini et al., 2017:90).

The housing policies in place have struggled with a number of difficulties. The 'social rental market', launched in 2012, was aimed at facilitating access to housing for low-to-average income families experiencing difficulties in accessing the regular housing market. The actual success of this initiative has been undermined by the extremely low number of dwellings that have been put into the 'pool' by the programme partners. In October 2018, there were a total of just 20 dwellings available for social rental in the metropolitan areas of Lisbon and Porto, and a total of 105 dwellings for the whole country.

In recent years, there has also been evidence of increasing difficulties in meeting the price criteria imposed by the national public programme for facilitating access to housing among young people – Porta 65 Jovem. The eligibility criteria regarding the maximum rent by typology are no longer adjusted to the actual rental prices in the market, thus preventing young people from actually accessing existing rented housing.

Another measure in place is the rent subsidy. This national programme is targeted at low-income tenants (but only those with rental contracts prior to November 1990) in order to help them face the rent increases deriving from the new regime of urban renting.

In May 2018 the Portuguese government launched a strategy called 'New Generation of Housing Policies'. The strategy acknowledges that the number of people with vulnerabilities in respect of housing has been increasing. It also highlights the increased difficulties for some groups, including those in poverty. Within this framework, the strategy is aimed at re-orienting public policies in the field of housing in order to move from a policy centred on public housing provision and on the most vulnerable, towards a policy focusing on promoting universal access to adequate housing. This would be done by responding to the housing sector's main challenges, such as increasing the share of publicly supported housing and lowering the housing cost overburden within the rented sector.

According to Eurostat data,[9] Portugal has the third highest gas and electricity costs in the EU. **Energy costs assistance** consists of gas and electricity social tariffs, and of the Extraordinary Social Support to the Energy Consumer (ASECE). The social tariff has registered low take-up since its creation in 2010. By the end of 2015, it had reached around 85,000 households, far below the 600,000 foreseen in 2010 by the Energy Services Regulatory Authority and still far below the revised number of 300,000 established when low take-up became evident.

The measure was revised in late 2014 and again in early 2016, with the aim of increasing take-up, notably by adjusting the access criteria. From 2018, only consumers with an annual income lower than €5,808 are entitled to benefit from the social tariff, thus excluding consumers earning the national minimum salary (€580/month, or €8,120/year). The ceiling is increased by 50% for every additional member of the household. People in IWP are also entitled to the benefit if receiving the child benefit. According to the Directorate General of Energy and Geology there are approximately 800,000 beneficiaries of social tariffs.[10]

The labour code stipulates the right of all employees to receive at least 35 hours per year of **life-long learning/employment-related training**. In each year, companies should provide at least 10% of their employees with (access to) life-long learning/employment-related training.

Employees can apply for a training-cheque up to maximum of €175 for a maximum duration of training of 50 hours over a two-year period. However, the support cannot exceed 90% of the cost of training and it is not applicable to training co-funded by the state. Additionally, it consists of a reimbursement, 50% to be paid within five working days after registering and paying for training; and 50% to be paid within 10 working days after proving attendance and successful completion of training. These criteria undoubtedly hinder access by people in IWP to the measure. It is worth mentioning that the unemployed are entitled to full reimbursement of training costs, up to a maximum of €500 and a maximum duration of 150 hours over a two-year period. They may also be entitled to meal and transport allowances and to a training grant.

3 Policy debates, proposals and reforms on in-work poverty and recommendations

Over the years, fighting poverty has never been treated as a clear policy priority in Portugal. Moreover, any specific policies for fighting or alleviating poverty have been concentrated on those out of work – rather than those in work.

The period under scrutiny in this report can be clearly divided in two: the first between 2012 and 2015, corresponding to the peak of the crisis; and the second from 2016, with an improvement in socio-economic terms and a change in government.

Within the framework of the state's commitment to the financial stability pact, budget cuts and stringent requirements for awarding state benefits were applied during the first period,[11] reducing the effectiveness of benefits and worsening the situation of many people and families (Rodrigues et al., 2016; Baptista et al., 2018).

[9] Available at: https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20180807-1?inheritRedirect=true&redirect=%2Feurostat%2F.

[10] Media reports note that, in August 2018, a company of the energy sector was fined by the Energy Services Regulatory Authority for not having complied with its obligations regarding the social tariffs and the ASECE, namely not having recognised access to vulnerable consumers or not having applied the full discount they were entitled to. "EDP Comercial condenada pela ERSE a pagar multa de 1,9 milhões", in Dinheiro Vivo 10 August 2018, available at: https://www.dinheirovivo.pt/empresas/edp-comercial-condenada-pela-erse-a-pagar-multa-de-19-milhoes/.

[11] Although they had already begun by the start of the decade.

From 2016 onwards several measures were taken in order to strengthen social protection within the commitment in the government's programme that "the fight against poverty, social exclusion and inequalities should impose as a national goal" (Republic of Portugal, 2015c: 224).

The **National Reform Programmes** (NRP) have identified IWP as a challenge. The NRP update for 2018 acknowledged that "being employed is not a sufficient condition for exiting poverty" (Republic of Portugal, 2018: 98) and that Portugal continued to stand out in the European context as a country characterised by a comparatively low level of salaries and high levels of inequality (Republic of Portugal, 2018: 79). However, it also considered that relevant progress had recently been achieved in terms of poverty and inequalities reduction by the means of policies for reinforcing family incomes "which benefited especially those most vulnerable and at risk of poverty and exclusion, namely low-income workers" (Republic of Portugal, 2018: 79).

The NRP update for 2018 also clearly set out the need to ensure access to good-quality employment, to support the access of all citizens to enabling public services, and to reduce inequalities through the provision of social benefits to vulnerable groups (including low-wage workers). On the other hand, the scattered nature of these references makes it hard to say they amount to a comprehensive social inclusion approach to the prevention and alleviation of IWP.

An analysis of the NRPs clearly indicates that the flagship policy measure on IWP is the phased increase of the minimum wage: this began in 2016, with the aim of reaching €600/month in 2019.[12] The NRP 2016 update emphasised that "the RMMG in Portugal is one of the lowest in Europe and it is strongly related to the high risk of poverty and deprivation" (Republic of Portugal, 2016: 26). The NRP 2018 update stressed that the RMMG "is a crucial instrument for the fight against poverty and for concretising an adequate income policy" (Republic of Portugal, 2018: 79).

Labour market segmentation is another matter of evident concern. The NRP 2016 update connected it directly to IWP, noting that "the recent evolution increased labour market instability and insecurity, widening generational segmentation and increasing the percentage of workers at risk of poverty" (Republic of Portugal, 2016: 19). The NRP 2018 update, however, did not establish a direct connection, instead underlining that "segmentation and labour market precariousness are still very relevant" (Republic of Portugal, 2018: 25). These processes have been part of policy discourse and have been engaging social partners (see Section 2.1).

Civil society organisations such as the European Anti-Poverty Network Portugal (EAPN Portugal) have attempted to draw attention to the issue of IWP. An advocacy document released in October 2018 emphasised that "a job should elevate and dignify people's standard of living. 10.8% of the workers live in poverty and that should concern us as it means that having a job does not ensure fully the access to basic rights. These are people that, despite having a job, cannot escape from vulnerability" (EAPN Portugal, 2018: 1). Similarly, the latest report of the Observatory for the fight against poverty in the city of Lisbon notes that "even if the poorly remunerated labour market integration of a large share of workers improves the family's economic situation, it is not enough to pull them out of poverty" (Costa et al., 2017: 230).

EU funds have not been used directly to fight IWP. The deterioration of the socio-economic situation of families and the high poverty and social exclusion rate were described as challenges to be tackled by the European Social Fund's investment priorities under objective 9 - promoting social inclusion, combating poverty and discrimination. However, the in-work poor are not included among the most vulnerable groups that the activities should address. The same is true regarding objective 8 - promoting sustainable and quality employment and supporting labour mobility. The activities under this

[12] For further insights on this process, please refer to Perista & Baptista. 2016.

objective are aimed, most of all, at tackling unemployment; and activities directed at employed people do not include the in-work poor as a target group.

The current government's programme (2015-2019) includes the **goal of creating an annual income supplement through a tax credit** with the aim of increasing the income of low-wage households. The supplement would be means-tested and take into account household composition, and would be "an additional mechanism for the fight against poverty as well as an incentive for labour market integration as it only regards those declaring labour income" (Republic of Portugal, 2015c: 238).

Such a measure could be relevant to efforts to reduce IWP. Government representatives originally indicated that the measure would be introduced in 2018; but so far no concrete steps have been taken, and it does not appear among the major planning options for 2019.

Another measure that may be relevant to reducing IWP is the recently approved **Programme Supporting Tariff Reduction in Public Transport**. This is expected to come into force in April 2019. Its exact form is still largely unknown. It is aimed at substantially reducing household's spending on public transport by subsidising companies. As an example, the monthly transport pass for the metropolitan area of Lisbon is expected to be fixed at €40. This will represent a cut of approximately €100 for the most expensive passes currently in place. Another measure being discussed regards setting a ceiling of two monthly passes to be paid per household. This would mean that, for example, a couple with two children living in Lisbon would have a total cost of €80/month for public transport.

Despite the plans announced, it seems clear that addressing and tackling IWP has not been a top priority in Portugal thus far. The country still **lacks a comprehensive approach to the phenomenon**. Piecemeal measures – such as the phased increase of the minimum wage, energy costs assistance, or the planned income supplement and tariff reductions on public transport – could easily be integrated into a strategy for fighting IWP.

However, it would be sensible to include the issue of IWP within a wider strategy for fighting poverty, which is itself still missing. Over the years, different entities and especially EAPN Portugal have been pleading for the launch of such a strategy. However, and even though the NRP 2018 update called for a "long-term multifaceted intervention, detached from circumstantial criteria" (Republic of Portugal, 2018: 74) for fighting the phenomenon, it did not clearly refer to a strategy. This may be seen as a backward step following the NRP 2017 update, in which there was at least an explicit plea for a strategy for fighting child poverty.

Another difficulty regards the exclusive targeting of many measures at the most vulnerable; this seems to be imprinted in the rationale behind social protection in Portugal, thereby hampering the fight against IWP. Nonetheless, some positive signs can be detected, such as the plans for a tax credit and cuts in public transport costs, as well as the switch in housing policy away from a concentration only on the most vulnerable towards promoting universal access to adequate housing.

To summarise, it seems clear that a better approach to tackling IWP would involve:

- a clearer acknowledgment of IWP as an important and persistent phenomenon in Portugal;
- a systematic monitoring of the phenomenon and the definition of ex-ante, on-going and ex-post evaluation processes of the policy measures able to address it;
- the clear definition and implementation of a strategy for tackling the phenomenon, preferably within the wider scope of an overall strategy for fighting poverty;

- the implementation of specific policies supporting the incomes of the most vulnerable households, e.g. through increased progressivity in the tax system and/or a tax credit for low-wage earners.

4 Assessing data and indicators

There are not many examples of regular monitoring of IWP developments in Portugal. Statistics Portugal issues information usually on an annual basis and based upon EU-SILC data. The barometer of the observatory for the fight against poverty in the city of Lisbon has been monitoring the situation of a pool of vulnerable people since 2011. IWP is one of the dimensions of analysis. However, the barometer covers the city of Lisbon only. Over the years several organisations, and most notably EAPN Portugal, have been pleading for the creation of a national observatory for the fight against poverty.

Specific research on the topic is also extremely scarce and limited to masters' theses (Alves, 2016; Branco, 2016).

It therefore seems clear that there is a need to address the lack of monitoring, analysis and assessment. One possibility would be to integrate the monitoring and assessment of IWP in Portugal with the quarterly reports now published by the government on the impact of the minimum wage. These reports are prepared by the Office for Strategy and Planning of the Ministry of Labour, Solidarity and Social Solidarity, and discussed with social partners. The same office is responsible for compiling and analysing labour and social security data and it currently publishes a monthly statistical bulletin.[13]

It would also be useful to have indicators showing the influence of policies that directly or indirectly address IWP (e.g. tax rebates). This would complement the information provided by the at-risk-of-poverty indicator before and after social transfers. It could take a form similar to the EU's indicator IC-S4 - impact of social transfers (other than pensions) in reducing child poverty.

[13] Available at: http://www.gep.msess.gov.pt/estatistica/gerais/be.html.

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Annex

Table 1: Amounts for an adequate income in Portugal in April 2017, by household type

Household type	€/month
Person aged 65+ living alone	634
Couple both aged 65+	1,007
Person aged 18-64 living alone	783
Couple both aged 18-64	1,299
Lone-parent household (child aged 12)	1,374
Couple both aged below 64 with child aged 12	1,796
Couple both aged below 64 with children aged 2 and 12	2,271
Couple both aged below 64 with child aged 26	1,816

Source: Pereirinha et. al., 2017: 15.