



MOVING THE GOALPOSTS NOT ONCE BUT TWICE: MINIMUM INCOME BENEFIT IN PORTUGAL

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SEMINÁRIO RSI - UMA GARANTIA DE CIDADANIA



■ **Objective**

- ❑ **Estimate the impact on the distribution of household income and poverty of the changes introduced in the Portuguese Social Integration Income (RSI) in 2010 and 2012.**
- ❑ **These changes were primarily a way of restricting the access to and reducing the usage of resources earmarked for social policy in a time of a serious and deepening economic and social crisis.**



■ **Objective**

- **The main effect of those changes is a dramatic reduction of the number of beneficiaries from more than 400000 in the beginning of 2010 for less than 275000 in July 2013.**



Main changes in the RSI introduced in 2010 and 2012



■ **Main Characteristics of the RSI**

- ❑ **Implemented since 1997, the aim of the RSI is to reduce extreme poverty through the reduction of the poverty intensity of the most vulnerable sectors of the population.**
- ❑ **It consists of a special allowance provided by the solidarity subsystem and a compulsory social integration programme.**
- ❑ **It is a means tested benefit. The value of the RSI threshold was 189.52 euros /month in 2010.**



- **Main changes in the RSI introduced in 2010**
 - **In 2010, there was a major revamp of social policy measures as part of the public expenditure cuts following the public debt crisis.**
 - **The main changes in the RSI are:**
 - ❖ **Changes in the definition of the family unit used when calculating the eligibility and/or the amount of benefit to be awarded;**
 - ❖ **Changes in the definition of the equivalence scale.**
 - ❖ **Abolition of some supplementary benefits, like the housing costs supplement.**



■ **Main changes in the RSI introduced in 2010**

□ **Changes in the definition of the family unit:**

- ❖ **Before this reform, the unit of analysis was the family. However, a large family that was entitled to the RSI could be split into smaller units. For instance, one or more grandparents could be “separated” from the larger family and become a “new” family;**
- ❖ **After, the family unit becomes a broader concept, close to the concept of household. It includes every relative that is living and sharing resources with the recipient of the benefit.**



- **Main changes in the RSI introduced in 2010**
- **Changes in the definition of equivalence scale:**
 - ❖ **Original equivalence scale:**
 - **First two adults** **1.0**
 - **Remaining adults** **0.7**
 - **First two children** **0.5**
 - **All other children** **0.6**
 - ❖ **After 2010, OECD equivalence scale.**
 - **First adult** **1.0**
 - **Remaining adults** **0.7**
 - **Each child** **0.5**
 - ❖ **The definition of the reference threshold remains unchanged.**



- **Main changes in RSI introduced in 2012**
- **The main change is, again, in the definition of equivalence scale.**
- **The OECD equivalence scale was replaced by the modified OECD equivalence scale.**
- **The definition of the reference threshold remains, again, unchanged.**
 - ❖ **Modified OECD equivalence scale:**

• First adult	1.0
• Remaining adults	0.5
• Each child	0.3



■ **Effects of changes in the equivalence scales (Couple with two children)**

- **An intuitive way of highlighting the impact of changing the RSI equivalence scale is to select a typical family and observe what happens to their eligibility and benefits under the three regimes:**

RSI 1 **Original RSI Programme**

RSI 2 **RSI after the 2010 reform**

RSI 3 **RSI after the 2012 reform**



■ Effects of changes in the equivalence scales (Couple with two children)

	Number of RSI Equivalent Adults	RSI Threshold (monthly)	<i>Var (%)</i>	RSI as % of poverty line
RSI 1	3.0	569 €	-	64 %
RSI 2	2.7	512 €	- 10 %	58 %
RSI 3	2.1	398 €	- 30 %	45 %



Simulated Impact of the RSI : Main Indicators



Microsimulation of the RSI: Main Indicators

	RSI 1	(%)	RSI 2	(%)	RSI 3	(%)
Individual Participation Rate	502364	4.7	411852	3.9	235332	2.2
Household Participation Rate	164980	4.2	122939	3.1	75984	1.9
RSI (1) Families Participation Rate	188327	3.4	159700	2.9	96868	1.7
Total Expenditure (million euros/year)	521.3		286.5		165.1	
Mean Transfer per Person (€/month)	86.5		58.0		58.5	
Mean Transfer per Household (€/month)	263.3		194.2		181.1	

Source: Microsimulation based on 2009 Portuguese EU-SILC



Simulated Impact of the RSI on the Income Distribution Equivalent Income by Decile

Euros/Year	Before RSI	After RSI 1	Var. (%)	After RSI 2	Var. (%)	After RSI 3	Var. (%)
1st decile	2777	3593	29.4	3232	16.4	3034	9.3
2nd decile	4759	4778	0.4	4769	0.2	4764	0.1
3rd decile	5922	5922	-	5922	-	5922	-
4th decile	6971	6971	-	6971	-	6971	-
5th decile	7959	7959	-	7959	-	7959	-
6th decile	9031	9031	-	9031	-	9031	-
7th decile	10442	10442	-	10442	-	10442	-
8th decile	12352	12352	-	12352	-	12352	-
9th decile	15950	15950	-	15950	-	15950	-
10th decile	29710	29710	-	29710	-	29710	-
Total	10590	10673	0.8	10636	0.4	10616	0.2

Source: Microsimulation based on 2009 Portuguese EU-SILC



Participation Rate by Household Type

Household Type	Participation Rate (%)		
	RSI 1	RSI 2	RSI 3
One person household	1.9	1.9	1.9
2 adults younger than 65 years	4.4	2.9	2.0
2 adults, at least one aged 65 years and over	1.3	0.5	0.1
Other households without dependent children	1.7	1.1	0.7
Single parent household	12.0	12.0	8.4
2 adults, one dependent child	5.0	3.2	2.0
2 adults, two dependent children	6.7	5.2	1.9
2 adults, three or more dependent children	28.7	24.9	18.1
Other households with dependent children	6.0	4.0	1.5
Total	4.2	3.1	1.9

Source: Microsimulation based on 2009 Portuguese EU-SILC



Distribution of Beneficiaries by Household Type

Household Type	% of Beneficiaries		
	RSI 1	RSI 2	RSI 3
One person household	2.6	3.2	5.7
2 adults younger than 65 years	9.0	7.4	9.0
2 adults, at least one aged 65 years and over	2.2	1.6	0.5
Other households without dependent children	5.1	5.5	6.5
Single parent household	9.9	12.1	13.9
2 adults, one dependent child	15.7	13.1	14.3
2 adults, two dependent children	21.6	20.3	13.0
2 adults, three or more dependent children	19.9	21.6	27.8
Other households with dependent children	14.0	15.3	9.2
Total	100.0	100.0	100.0

Source: Microsimulation based on 2009 Portuguese EU-SILC



Participation Rate by Age

Age	Participation Rate (%)		
	RSI 1	RSI 2	RSI 3
Less than 16 years	9.7	8.2	4.6
Between 16 and 24 years	6.3	5.4	3.1
Between 25 and 44 years	4.9	4.1	2.5
Between 45 and 64 years	3.9	2.8	1.5
65 years and over	0.4	0.5	0.2
Total	4.7	3.9	2.2

Source: Microsimulation based on 2009 Portuguese EU-SILC



Distribution of Beneficiaries by Age

Age	% of Beneficiaries		
	RSI 1	RSI 2	RSI 3
Less than 16 years	31.7	32.5	32.3
Between 16 and 24 years	13.8	14.4	14.4
Between 25 and 44 years	31.7	31.9	34.0
Between 45 and 64 years	21.3	18.8	17.7
65 years and over	1.5	2.3	1.6
Total	100.0	100.0	100.0

Source: Microsimulation based on 2009 Portuguese EU-SILC



Simulated Impact of the RSI : Effectiveness



Simulated Impact of the RSI on the Income Distribution: Inequality Measures

	Before RSI	After RSI 1	Var. (%)	After RSI 2	Var. (%)	After RSI 3	Var. (%)
Gini	0.353	0.343	- 2.8	0.347	- 1.7	0.350	- 0.8
Atkinson (e=0.5)	0.106	0.098	- 7.5	0.101	- 4.7	0.102	- 3.8
Atkinson (e=1.0)	0.195	0.176	- 9.7	0.182	- 6.7	0.186	- 4.6
Atkinson (e=2.0)	0.366	0.295	-19.4	0.310	- 15.3	0.323	- 11.7
S80/S20	6.1	5.5	- 9.8	5.7	- 6.6	5.9	- 3.3
S90/S10	10.7	8.5	- 20.6	9.2	- 14.0	9.8	- 8.4
S95/S05	19.4	12.3	- 36.6			15.5	- 20.1

Source: Microsimulation based on 2009 Portuguese EU-SILC



Simulated Impact of the RSI on the Income Distribution: Poverty Measures

	Before RSI	After RSI 1	Var. (%)	After RSI 2	Var. (%)	After RSI 3	Var. (%)
Incidence (F0)	17.8	17.5	- 1.7	17.7	- 0.6	17.7	- 0.6
Intensity (F1)	5.2	3.7	- 28.8	4.3	- 17.3	4.7	- 9.6
Severity (F2)	2.5	1.1	- 56.0	1.5	- 40.0	1.9	- 24.0

Source: Microsimulation based on 2009 Portuguese EU-SILC



Simulated Impact of the RSI on the Income Distribution Poverty Intensity Reduction (F1 x 100) by Household Type

Household Type	Before RSI	After RSI 1	After RSI 2	After RSI 3
One person household	7.7	7.2	7.3	7.3
2 adults younger than 65 years	5.5	4.3	4.9	5.1
2 adults, at least one aged 65 years and over	2.8	2.5	2.8	2.8
Other households without dependent children	2.2	1.6	1.9	2.0
Single parent household	14.6	9.1	10.0	11.5
2 adults, one dependent child	4.3	3.1	3.6	3.9
2 adults, two dependent children	6.1	4.3	5.1	5.6
2 adults, three or more dependent children	18.5	5.9	9.5	13.3
Other households with dependent children	5.4	3.5	4.8	5.2
Total	5.2	3.7	4.3	4.7

Source: Microsimulation based on 2009 Portuguese EU-SILC



Simulated Impact of the RSI on the Income Distribution Poverty Intensity Reduction (F1 x 100) by Age

Age	Before RSI	After RSI 1	After RSI 2	After RSI 3
Less than 16 years	7.7	4.5	5.6	6.5
Between 16 and 24 years	6.2	3.7	5.0	5.5
Between 25 and 44 years	4.6	2.9	3.6	4.0
Between 45 and 64 years	5.3	4.2	4.8	5.0
65 years and over	3.6	3.3	3.5	3.6
Total	5.2	3.7	4.3	4.7

Source: Microsimulation based on 2009 Portuguese EU-SILC



Simulated Impact of the RSI : Efficiency



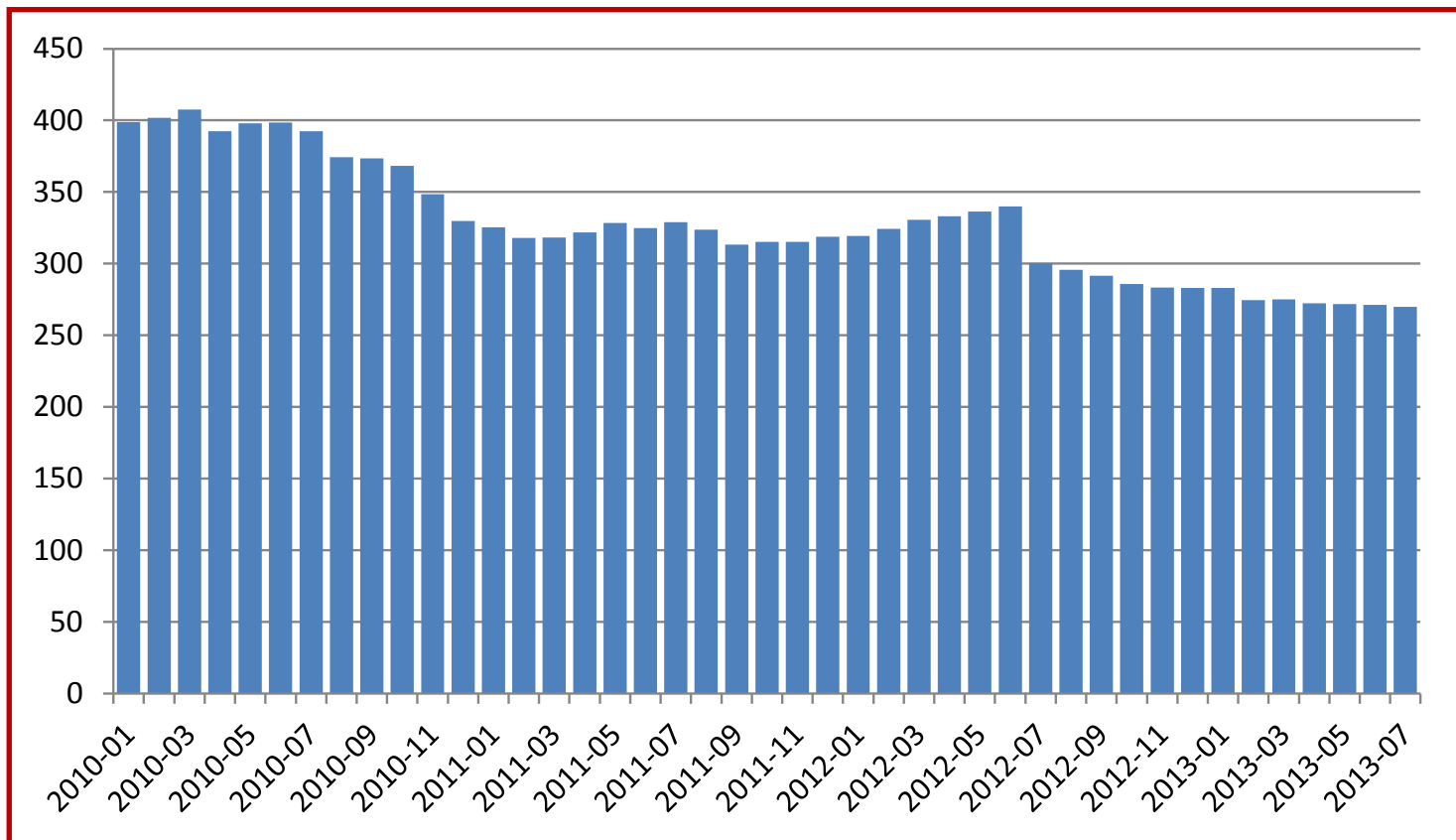
Simulated Impact of the RSI on the Income Distribution Efficiency

<i>10⁶ euros</i>	RSI 1	RSI 2	RSI 3
Total Amount of Transfers	521.3	286.5	165.1
Total Amount of Transfers to Poor Population	518.3	285.7	165.1
Poverty Gap before the Programme	1842.4		
Poverty Gap after the Programme	1339.1	1558.9	1677.4
Reduction of the Poverty Gap	503.3	283.5	165.0
<i>VEP – Vertical Efficiency of the Programme</i>	99.4	99.7	100.0
<i>PRE – Poverty Reduction Efficiency</i>	96.5	99.0	99.9
<i>PGE – Poverty Gap Efficiency</i>	27.3	15.4	9.0

Source: Microsimulation based on 2009 Portuguese EU-SILC



From the Simulation to the Reality... Number of Beneficiaries (10³)



Source: Statistics of Social Security (access on 08/07/2013)



Simulated Impact of the RSI : Conclusions



■ **Conclusions**

- ❑ **The simulation of the 2010 and 2012 changes in the entitlement rules of the RSI demonstrates that their single aim was to achieve a reduction in public expenditure.**
- ❑ **The implementation of these cuts in a time of deep social crisis when the more vulnerable families are in even more need of social support has profound implications in the distribution of income, inequality and different dimensions of monetary poverty.**



■ **Conclusions**

- ❑ **The decrease in the number of beneficiaries by more than 30% between January 2010 and July 2013 is a clear indicator of the reasons behind the changes in the RSI.**
- ❑ **This simulation shows that the alteration in the entitlement rules of the RSI led to an increase in poverty intensity of about 30%, an increase in inequality measured by the Gini of 2% and by the Atkinson index ($e=2$) of more than 9%.**



■ **Conclusions**

- ❑ **Children are particularly vulnerable to the implemented changes. The participation rate in the programme of single parent households dropped from 12.0% to 8.4%, and that of households with 3+ dependent children from 28.7% to 18.1%.**
- ❑ **The intensity of child poverty increase by around 44%.**



■ Conclusions

- ❑ The increase in the efficiency of the programme achieved by the implementation of the changes is clearly insufficient to offset the significant decrease in its efficacy in reducing monetary poverty.
- ❑ An increase of 3.4 percentage points in the '*poverty reduction efficiency*' cannot justify a decrease of 18.3 percentage points in the '*poverty gap efficiency*'.



■ **Conclusions**

- These results are produced by a simulation run in lab-like perfect conditions.**
- The model assumes the inexistence of non-take-up and fraud, but also that household incomes and living conditions remained unchanged over the recent years.**
- It is not an accurate representation of the real everyday effects of the implemented changes in the RSI, but it provides a reflection of their consequences.**



■ **Conclusions**

- **It is reasonable to expect that the actual redistributive impact of the changes in the RSI will run deeper than what is ascertained here.**



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Many thanks for your attention!