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# COMPARISON OF THE 2012 POVERTY LINE AND THE MESL DATA

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APRIL 2013

## ABSTRACT

There are a number of approaches that can be used to measure and examine poverty. Measuring poverty helps to identify the extent of and number of people in poverty and also helps to monitor changes in poverty levels. Using data from 2012 the paper examines how the at risk poverty line compares to the data on the cost of a minimum essential standard of living for two specific household types as established by the Vincentian Partnership for Social Justice (VPSJ). The paper highlights that while the two approaches are distinctly different, both measures are useful benchmarks that complement other poverty measures and can be used to assist in the formation of income support policies to tackle poverty and enhance social inclusion.

# COMPARISON OF THE 2012 POVERTY LINE AND THE MESL DATA

There are a number of approaches that can be used to measure and examine poverty. Measuring poverty helps to identify the extent of and number of people in poverty and also helps to monitor changes in poverty levels. This brief paper will examine how the poverty line in Ireland compares to the data on the cost of a minimum essential standard of living for specific household types as established by the Vincentian Partnership for Social Justice (VPSJ).

## The Poverty Line

The poverty line in Ireland is located at 60 per cent of median income. The median income is the income of the middle person in society's income distribution. The poverty line varies by country because it is relative to what is the norm in a particular country.

The most up-to-date data available on poverty in Ireland comes from the 2010 SILC survey, conducted by the CSO. In that year the CSO obtained data from a statistically representative sample of more than 5,000 households containing 11,587 individuals. The data incorporates income from work, welfare, pensions, rental income, dividends, capital gains and other regular transfers.

The CSO data states that the median disposable income per adult in Ireland during 2010 was €18,502 per annum or €346.22 per week. Consequently, the income poverty lines for a single adult derived from this are<sup>1</sup>:

50 per cent line	€173.11 a week
60 per cent line	€207.73 a week
70 per cent line	€242.35 a week

According to Healy et al (2012), updating the 60 per cent median income poverty line to 2012 levels, using the ESRI's predicted changes in wage levels for 2011 (+0.1 per cent) and 2012 (0 per cent), produces a relative income poverty line of €207.94 for a single person. In 2012, any adult below this weekly income is considered as being at risk of poverty<sup>2</sup>. The figure of €207.94 is an income per adult equivalent figure. It is the minimum weekly disposable income (after taxes and including all benefits) that one adult needs to be above the poverty line. For each additional adult in the household this minimum income figure is increased by €137.24 (66 per cent of the poverty line figure) and for each child in the household the minimum income figure is increased by €68.62 (33 per cent of the poverty

<sup>1</sup> Central Statistics Office (2012) Survey on Income and Living Conditions 2010 Dublin: Stationery Office.

<sup>2</sup> Healy, Mallon, Murphy & Reynolds, 2012. *Socio Economic Review 2012*. Dublin: Social Justice Ireland.

line). Put simply, the scale used assigns the first adult in a household the value 1, each additional adult a value of 0.66 and each child a value of 0.33. Using the poverty line, a person is considered an adult if they are age 15 or older and the additional adult value is applied.

Table 1 Poverty Line 2012

Poverty Line 2012	
1 adult	€207.94
Additional Adult	€137.24
Child	€68.62

## What is a Minimum Essential Standard of Living?

Since 1999 the Vincentian Partnership for Social Justice has been conducting research on the cost of a minimum essential standard of living for a number of household types. A minimum essential standard of living (MESL) is derived from a negotiated consensus on what people believe is a minimum. It is a standard of living which meets an individual's / household's physical, psychological, social and spiritual needs. This is calculated by identifying the goods and services required by different household types in order to meet their minimum needs. A Minimum Income Standard (MIS) is the income required in order to achieve a minimum essential standard of living in Ireland.

## How is MESL determined?

In order to determine the MESL, focus groups are held for each household type. In a series of sessions the groups arrive at a negotiated consensus about the goods and services a household requires to have a minimum essential standard of living. Experts are consulted in order to ensure that the negotiated consensus meets basic criteria e.g. nutritional standards. Each group consists of 8 – 10 people from a mixture of social and economic backgrounds, and represents the household under consideration e.g. focus groups of parents with children determine the minimum requirements of such households. In order to ensure reliability and validity three different focus groups are established for each household type. The process is detailed, time-consuming and thorough.

## What does it include?

The MESL is concerned with more than survival. It focuses on needs not wants. It identifies the minimum goods and services that everyone should be able to afford. It is based on the assumption that individuals, and all the members of the household, enjoy good health and do not have a disability. While a minimum income standard in itself cannot guarantee a minimum essential standard of living, an individual or a household with

an income which falls below the minimum income standard is unlikely to achieve this standard of living.

A Minimum Essential Standard of Living allows for physical, psychological and social needs to be met and represents a level below which nobody should be expected to live. It is not a poverty standard, or a standard for particular groups in society.

The goods and services that go into making up the expenditure are compiled into 16 categories of expenditure. There are approximately 2,000 items in the budget that individuals and households need for a minimum standard of living. Included among the items is food, clothes and shelter, but also the cost of household furniture and items such as a cooker, lightbulbs, towels, wardrobes, beds and curtains; the cost of education such as schools books, school bags, stationery and uniforms; the cost of visiting the doctor and the dentist and also putting petrol in the car or taking the bus and paying trade union membership if you are employed. The 16 areas of expenditure are listed below:

Food	Personal Care	Household Goods	Communications
Education	Housing (rent)	Personal Costs	Insurance Costs
Health Related Costs	Savings & Contingencies	Household Services	Social Inclusion & Participation
Transport	Clothing	Household Fuel	Childcare Costs

### How is the MESL expenditure standard arrived at?

In devising budget standards for different household types, the goods and services (shopping baskets) which are the outcome of the final negotiated consensus are priced in stores identified by the focus groups. The totals of each of the 16 categories of household budgets show the expenditure required to enjoy a minimum essential standard of living. The final weekly expenditure figure is the cost of all the goods and services broken down over the lifespan of each item and contains everything from shampoo to household furniture. While some items are bought on a weekly basis such as food, others are bought every couple of weeks, months or even years. To calculate the weekly cost of each good and service, the cost of the item is divided by the number of weeks the item is expected to last e.g. a 3 piece suite that costs €900 and with a lifespan of 780 weeks (15 years) costs €1.15 per week.

### To whom does it apply?

The MESL data covers a broad range of household types;

- One parent families with up to four children of different ages

- Two parent families with up to four children of different ages
- Single adults of working age
- Pensioners living alone
- Pensioner couple

The data also captures the varying expenditure needs of households in urban and rural locations and also how expenditure can fluctuate by employment status. The employment status of parents for example can impact on whether childcare is required, while location can impact on transport needs. Furthermore, housing costs, be it rent or mortgage repayments, can vary significantly and impact on what households need to spend in order to have a MESL. Therefore, no single figure represents the cost of a minimum essential standard of living that is inclusive of all household types.

## Comparing the Poverty Line and the MESL Data

The next section of this paper examines how the poverty line compares to the MESL data. It examines how the sum of money needed to avoid poverty as defined by the poverty line compares to what a household needs to spend in order to have a minimum essential standard of living. The paper will draw on two sample household types; a two adult and two child household and a single adult living alone household.

### Two Adult & Two Child Household

Figure 1 below illustrates the poverty line in 2012 for 2 adults and 2 children and the cost of a minimum essential standard of living for households with two children of different ages in urban and rural locations. The MESL data in Figure 1 is in this instance based on a 2 parent household, with one adult engaged in full-time employment while the other adult is engaged in stay-at-home duties. The figures given include a housing cost of €59.00 per week. €59.00 per week was the average weekly rent paid to local authorities throughout the state in 2011.<sup>3</sup> The figures given are also based on using private transport i.e. a car as opposed to bus tickets, and excludes any entitlement to secondary benefits such as a medical card. The MESL data illustrates what this household type needs to spend to have a minimum standard of living. Obviously, the costs given would fluctuate if housing costs increased or decreased and if medical card entitlement was included. Furthermore, costs would also change if this household was in a different employment scenario, i.e. if both parents were working the need to pay for private childcare would increase the cost of a minimum essential standard of living considerably.

In all of the instances examined, the official poverty line for this household type is significantly below the cost of a minimum essential standard of living, with the difference

<sup>3</sup>CSO, 2012. *Census 2011, Profile 4 The roof over our heads*. Dublin: Government Publications Further information can be found on:

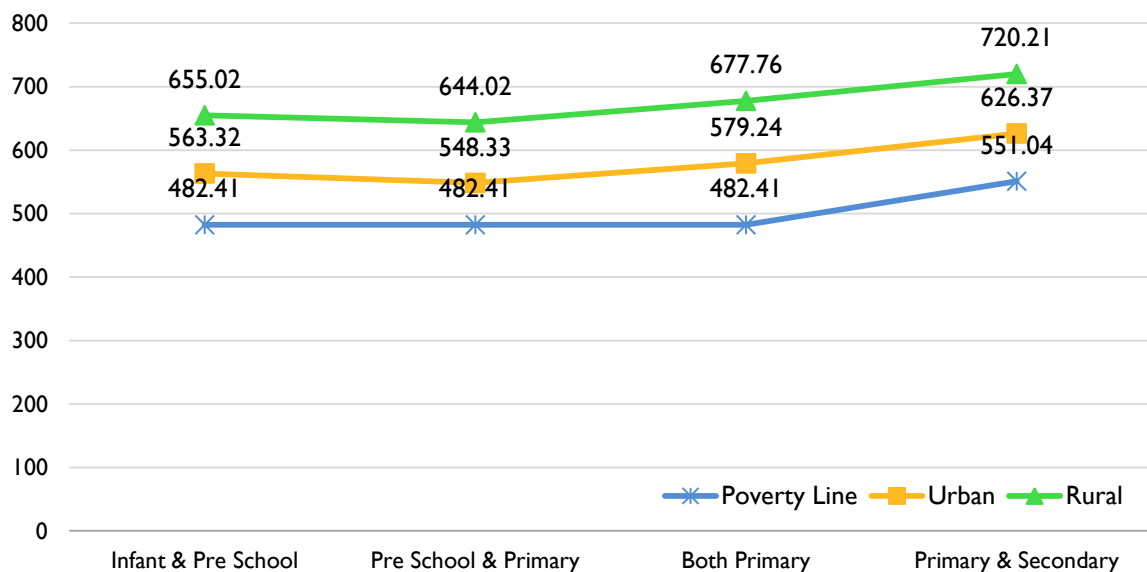
<http://www.cso.ie/en/media/csoie/census/documents/census2011profile4/Profile%204%20The%20Roof%20over%20our%20Heads%20Full%20doc%20sig%20amended.pdf>

being the least for the urban pre-school and primary school household and the greatest for the rural household with two children at primary school.

The poverty line for 2 adults and two children remains consistent at €482.41 for households with children in the lower age bracket. However, the poverty line rises to €551.04 when there is an adolescent in the household (age 15+) and the additional adult value of 0.66 is applied as opposed to the child value of 0.33. The fact that the additional adult rate is applied for persons age 15 and over captures some of the increased costs that are associated with this period of a child's life.

The most notable difference between the poverty line and the MESL data is that while the poverty line remains consistent for children in the lower age brackets, the MESL data varies by the age of the children and also by location. While the poverty line makes a distinction between children and adults, it does not differentiate between children of different ages and as a consequence a value of 0.33 is applied regardless of whether a child is an infant or 14 years of age. The MESL data on the other hand distinguishes between the age of children and captures the cost of children in four distinct age groups: infancy; pre-school; primary school and second level.

Figure 1 Comparison of the weekly poverty line for 2 adults and 2 children and the VPSJ weekly cost of a MESL Data<sup>4</sup>



The MESL data demonstrates that the cost of a child varies considerably by age. An infant for example will require items such as bottles, nappies, a steriliser and so forth that older

<sup>4</sup> MESL data for both urban and rural households is based on a 2 parent household with one adult employed full-time. The cost include a weekly housing costs of €59.00 per week and excludes entitlement to secondary benefits such as the Medical Card

children do not need and the MESL data portrays the differences in children's needs and the subsequent difference in the cost of their minimum essential needs.<sup>5</sup>

Furthermore, the MESL data distinguishes between households in urban and rural locations and illustrates how the cost for the same household type can vary by location. The MESL data demonstrates that for this household type in this particular employment situation costs are higher for rural households. The principal reason for this is that in rural areas when either one or both parents are working, two cars are included in the cost of a MESL. Rural focus groups stressed the need for two cars in this situation as public transport is in many rural areas inadequate or indeed not available at all.<sup>6</sup> The cost of owning and running a second car considerably increases the cost of a minimum standard of living in rural areas and as the at risk of poverty line does not make a distinction between urban and rural locations, the disparity between the poverty line and the MESL data becomes more pronounced.

While the paper has thus far examined how expenditure (excluding entitlement to secondary benefits) for a two parent and two child household compares to the poverty line, it is useful to take one example of a two parent and two child household and compare how their Minimum Income Standard (MIS), that is the gross income they require to afford their expenditure, compares to the poverty line.

### Comparing the Poverty Line and the Minimum Income Standard

The Minimum Income Standard (MIS) is the second side of the consensual budget standards research. It is derived from the MESL expenditure budget. The MIS defines the gross income a household needs in order to reach their minimum essential standard of living. It takes full account of the potential tax liability and social welfare entitlements of the household in question.

The Minimum Income Calculator ([www.MISc.ie](http://www.MISc.ie)) developed by the VPSJ allows a user to specify a household type of their choosing, and in return be provided with a breakdown of the minimum expenditure such a household would require to enable a minimum essential standard of living. In addition the Calculator also provides information on the MIS for that household in an employment scenario specified by the user, indicating any possible eligibility for social welfare transfer payments, e.g. Family Income Supplement.

Using the Minimum Income Calculator and taking the example of an urban two parent household with two children age 10 and 15 it is possible to examine how the income this household requires for a minimum essential standard of living compares to the poverty line.

<sup>5</sup> For further analysis of child costs see Mac Mahon, Weld, Thornton & Collins (2012) 'The Cost of a Child'.

<sup>6</sup> For further information of rural costs see Mac Mahon, Weld & Thornton (2010) *Minimum Essential Budgets for Rural Households*.

The calculator demonstrates that an urban two parent household, with one parent working full-time and the other engaged in home duties, using private transport and living in social housing and paying €59 a week in rent is entitled to a full medical card. As a consequence the expenditure for this household is €569.56 per week (as opposed to €626.37 in Figure 1 when secondary benefits were not taken into account). The full medical card negates the need for private health insurance and also reduces health costs as the cost of primary health care is removed from the expenditure basket as this cost is covered by medical card entitlement.

While this household qualifies for the Back to School Clothing and Footwear Allowance, Family Income Supplement and also Child Benefit which amounts to €229.31 per week, this household would need a gross income of €350.63 (net income of €340.46) to give a total income of €569.77 per week after tax and including all benefits, to ensure that income from earned work and social welfare entitlements meets the household expenditure of €569.56.

Table 2 Comparison of Expenditure and Income & the Poverty Line

<b>Weekly Expenditure</b>	<b>Weekly Income after tax &amp; Including all benefits</b>	<b>Poverty Line</b>
€569.56	€569.77	€551.04

Table 2 demonstrates that the weekly income after tax and including all benefits that this household needs to afford a minimum essential standard of living is above the at risk of poverty line. Such a finding indicates that the poverty line in this instance underestimates the amount of money this household needs to avoid poverty.

However, it must be borne in mind that there are a number of difficulties in comparing the poverty line and the MESL/MIS data. The poverty line in comparison to the MESL data is in many respects an abstract measure and an arbitrary figure while the MESL data is more layered and differentiates on age, employment status, location and also entitlement to secondary benefits. Therefore, perhaps the best comparison that can be made between the poverty line and the MESL data is to examine the single adult household.

### Single Adult Household

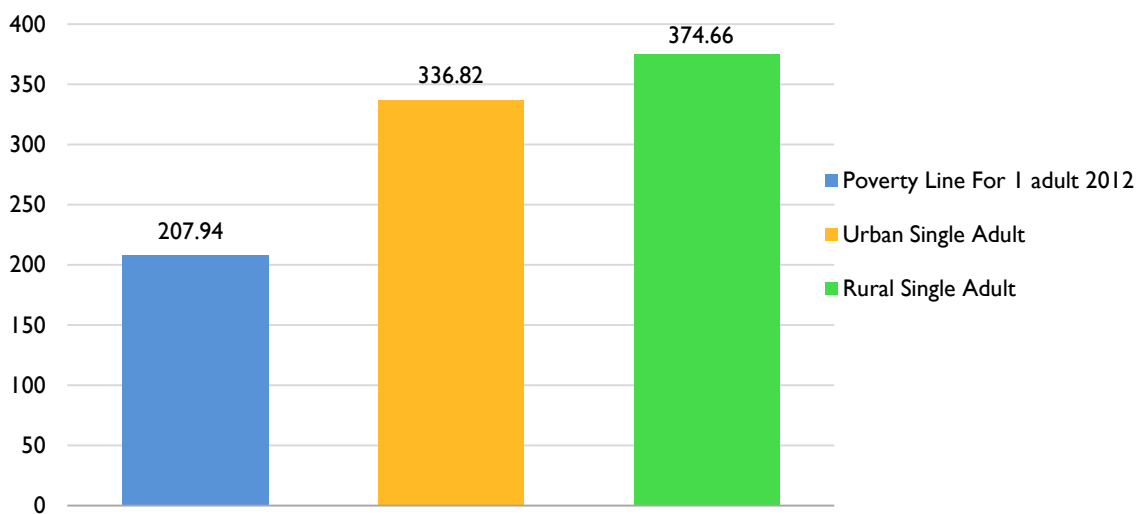
The 2012 poverty line for a single adult is €207.94 per week. The MESL data in Figure 2 is based on a single adult employed full-time and living alone. The costs given in Figure 2 do not at this stage take into account any entitlement to secondary benefits. Once again, the MESL data would fluctuate depending on entitlement to secondary benefits such as a medical card and therefore it is important to bear in mind that the difference between the MESL data and the poverty line is of course influenced by these factors.



It is important at this juncture to point out that the urban and rural single adults' minimum essential standard of living are not directly comparable as their housing and transport costs differ. For the rural household, costs are based on using private transport, whereas expenditure for the urban household in this instance is based on using public transport. Using private transport necessitates including costs such as car insurance and maintenance and repair of the car, as well as petrol, car tax and the cost of the NCT.

With regard to housing costs, the urban single adult is situated in a private rented furnished bedsit and €109 a week for rent is included in the weekly costs. This figure was taken as an indicative rental price based on the maximum Rent Supplement ceiling for an unemployed single person living alone in Dublin of €475 per month or approximately €109 per week. The rural single adult on the other hand is situated in a 2 bedroom local authority house and €59.00 a week is included for rent, which was the average weekly rent paid to local authorities throughout the state in 2011. Therefore, a comparison cannot be made between the two MESL datasets in this instance but both can be compared independently to the poverty line.

Figure 2 Poverty Line 2012 Compared to MESL data<sup>7</sup>



The Poverty line for a single adult in 2012 is €207.94 per week. This is the income deemed necessary for a single adult to avoid poverty. It does not change according to employment status or location. The poverty line in this instance is considerably below the cost of a minimum essential standard of living for this household type. For the urban single

<sup>7</sup> MESL data is based on a single adult living alone. The costs do not take into account entitlement to secondary benefits such as a Medical Card.

The rural MESL data includes social housing of €59.00 per week and using private transport.

The urban MESL data includes the cost of private rent of €109.00 per week. This figure was taken as an indicative price based on the Rent Supplement Allowance of €475 per month for a single person in Dublin. Costs are inclusive of using public transport.

adult in employment the cost of a minimum standard of living excluding entitlement to secondary benefits is €362.82 per week, €128.88 above the poverty line threshold. Even if the weekly housing costs were removed the cost of a MESL would still be above the at risk of poverty line.

The MESL for a rural single adult is also above the poverty line with a difference of €166.72 between the weekly poverty line and the cost of a MESL excluding entitlement to secondary benefits, and once again if the housing costs of €59.00 per week were removed from the cost of a MESL, the poverty line would still be approximately €100 below the cost of a MESL.

Such a difference begs the question of what is the standard of living that the poverty line allows for. Furthermore, it opens up a space to again examine the difference between the poverty line and the Minimum Income Standard, which is the gross income that households require to afford a MESL. The next section compares the gross income a single adult of working age requires to afford a MESL and the poverty line.

### Comparing the Poverty Line and the Minimum Income Standard

Using the example of the urban single adult in full-time employment, the Minimum Income Standard Calculator enables a comparison between the poverty line and the MIS this household needs to afford a minimum essential standard of living.

The Calculator demonstrates that based on expenditure and earnings, this household qualifies for a full medical card and therefore expenditure falls as the cost of primary health care and private health insurance are removed from basket. The Calculator shows that because of entitlement to a medical card expenditure falls from €336.82 per week (as demonstrated in Figure 2) to €316.70 per week but in order to be able to afford this expenditure this household requires gross earnings of €328.13 per week or €17,062.76 per annum

Table 3 Comparing the Poverty Line and the MIS for an Urban Single Adult

Poverty Line p/w	Expenditure p/w	MIS p/w
€207.94	€316.70	€328.13

Table 3 shows how the poverty line compares to the MIS for an urban single adult. The poverty line in this instance underestimates the amount of money this household needs to avoid poverty and meets 63% of the MIS for this household type. Furthermore, this exercise demonstrates the impact that secondary benefits such as a medical card can have on the cost of a MESL and how the relationship between the at risk of poverty line and the MIS is dependent on factors such as entitlement to secondary benefits, employment status and location. This exercise is also constructive as it highlights the significant

difference in monetary terms between these two approaches and is useful in highlighting that while the poverty line is set at 60% of median income it tells us little about what standard of living it allows for.

## Conclusion

No single indicator or group of indicators can fully capture the complexity of poverty and measuring adequacy is problematic. Depending on the measure used the results obtained can vary significantly. The at risk of poverty line and minimum essential standard of living data both offer insights into poverty but alone cannot capture the true picture of poverty. The poverty line measure for example is a relatively abstract measure of disadvantage: individuals are either above the line or below the line and as outlined above it does not differentiate by location, age or employment status.

While it is useful to examine or compare the poverty line and the MESL data, it is important to bear in mind that it is not comparing like with like. Both measures are useful benchmarks that complement other poverty measures and can be used to assist in the formation of income support policies to tackle poverty and enhance social inclusion.