



# In-work poverty, work incentives and secondary earners in the EU

H. Xavier Jara and Daria Popova

ISER, University of Essex

**MiSoC** | ESRC  
Research Centre on  
Micro-Social Change





# Motivation

- Employment might not be sufficient to protect individuals from poverty.
- Important role of the welfare state in combating in-work poverty.
- Link between in-work poverty and work incentives:
  - Viability of employment as a way out of poverty
  - Extent of income protection in case of unemployment
- Multiple earnership is an important factor lifting families out of poverty.

# Summary of what we do

- Examine the prevalence of in-work poverty across EU countries.
- Assess the trade-off between in-work poverty and work incentives.
- Quantify the effect of secondary earner's entry into unemployment on in-work poverty.
- Final results to be published in 2018.



# Basic Concepts

- **Incentives to work (at all): Net Replacement Rates (NRR)**

Fraction of disposable income kept when moving into unemployment.

$$NRR = \frac{y_0}{y_h}$$

- **Incentives to work more: Marginal Effective Tax Rates (METR)**

Fraction of rise in earnings lost due to increase of taxes/SICs or benefit withdrawal.

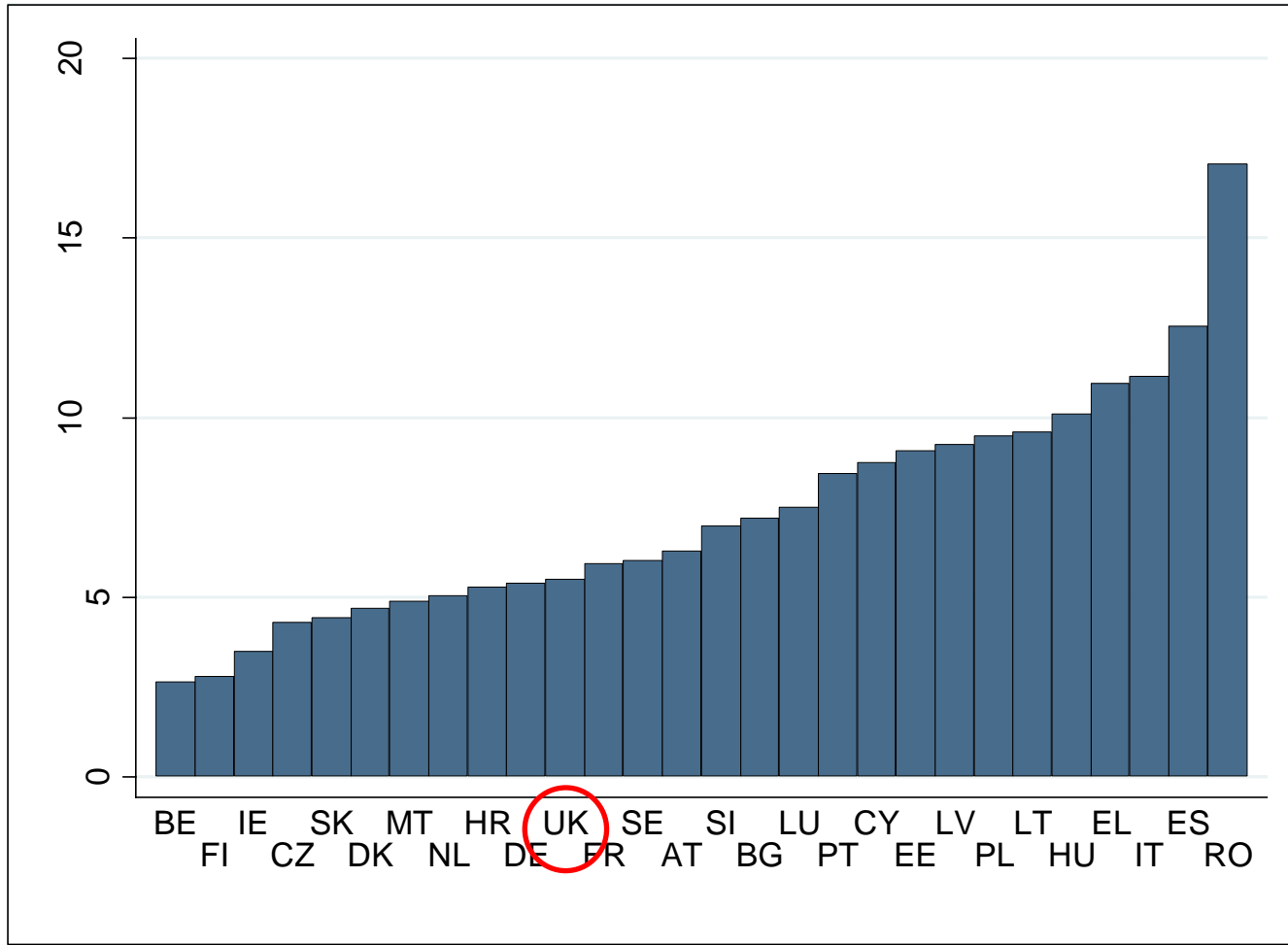
$$METR = 1 - \frac{y_{h+1} - y_h}{e_{i+1} - e_i}$$



# Methodology

- Microsimulation techniques using EUROMOD for EU28.
- 2014 policies (as on June 30<sup>th</sup>) with 2015 EU-SILC microdata and FRS 2012/2013 for the UK.
- For METR: simulate the effect of a 3% increase in earnings.
- For NRR: simulate the effect of transitions from work into unemployment.

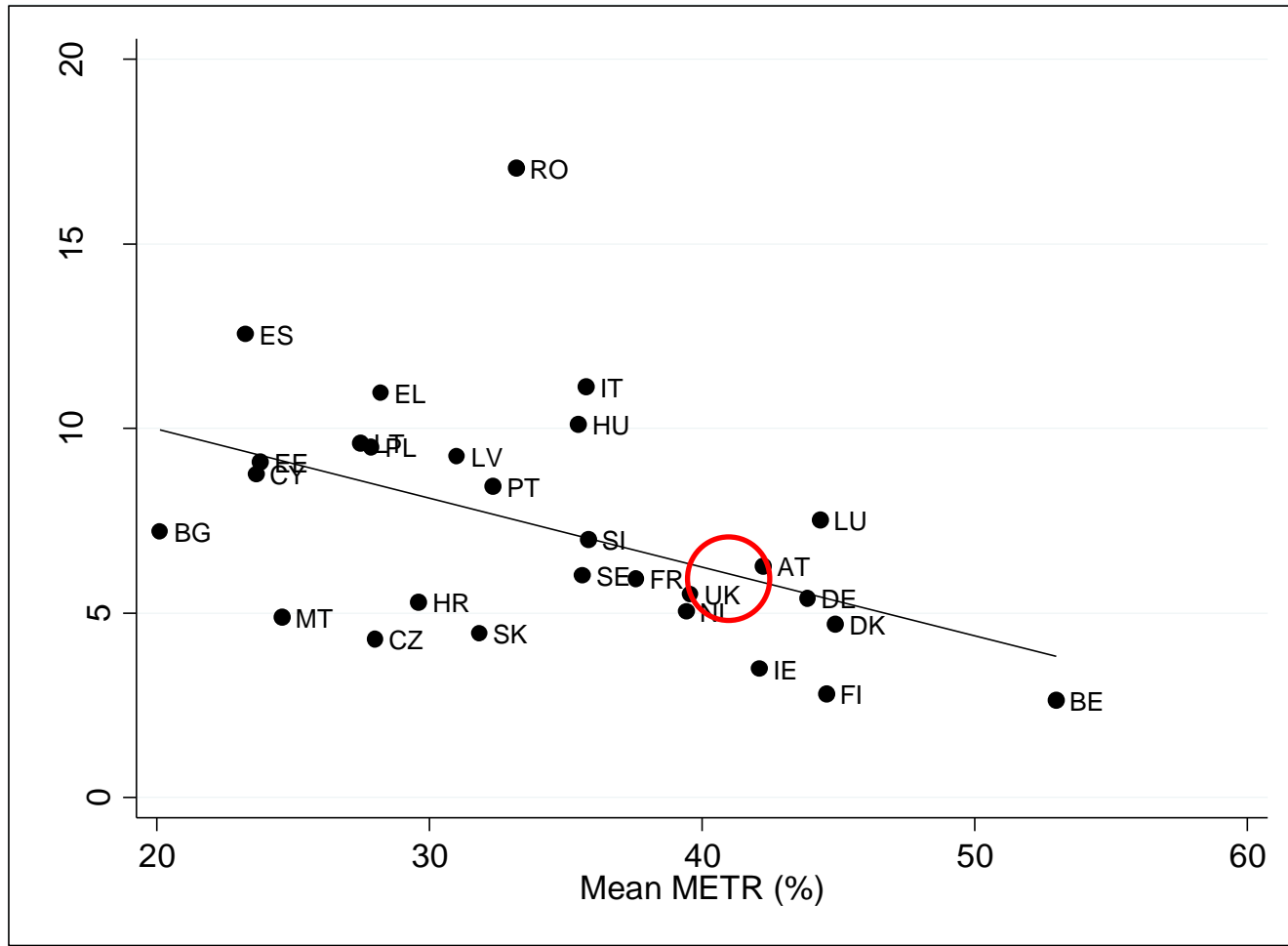
# In-work poverty (2014)





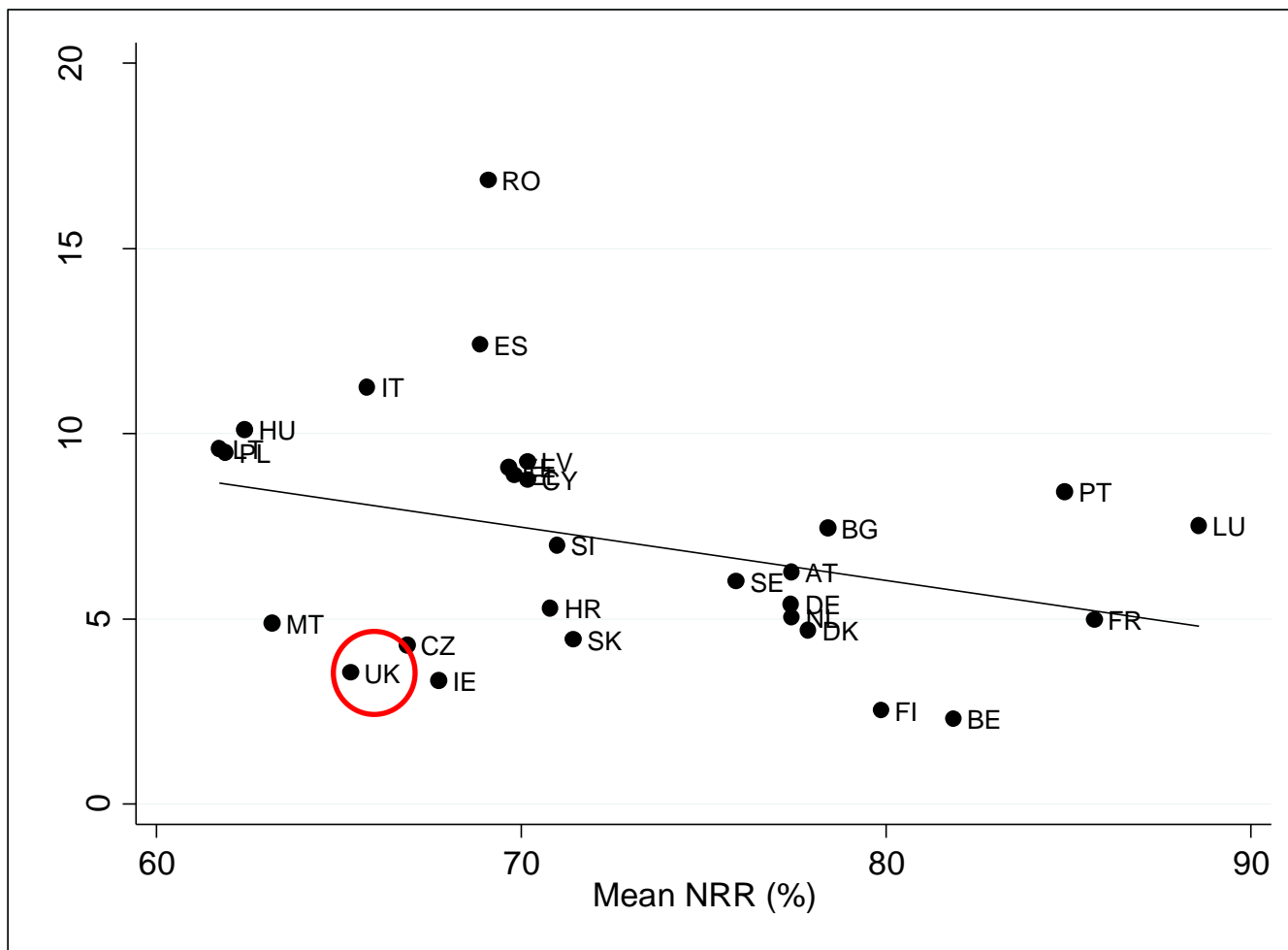
Is there a trade-off between in-work poverty and work incentives?

# In-work poverty and METR (2014)





# In-work poverty and NRR (2014)





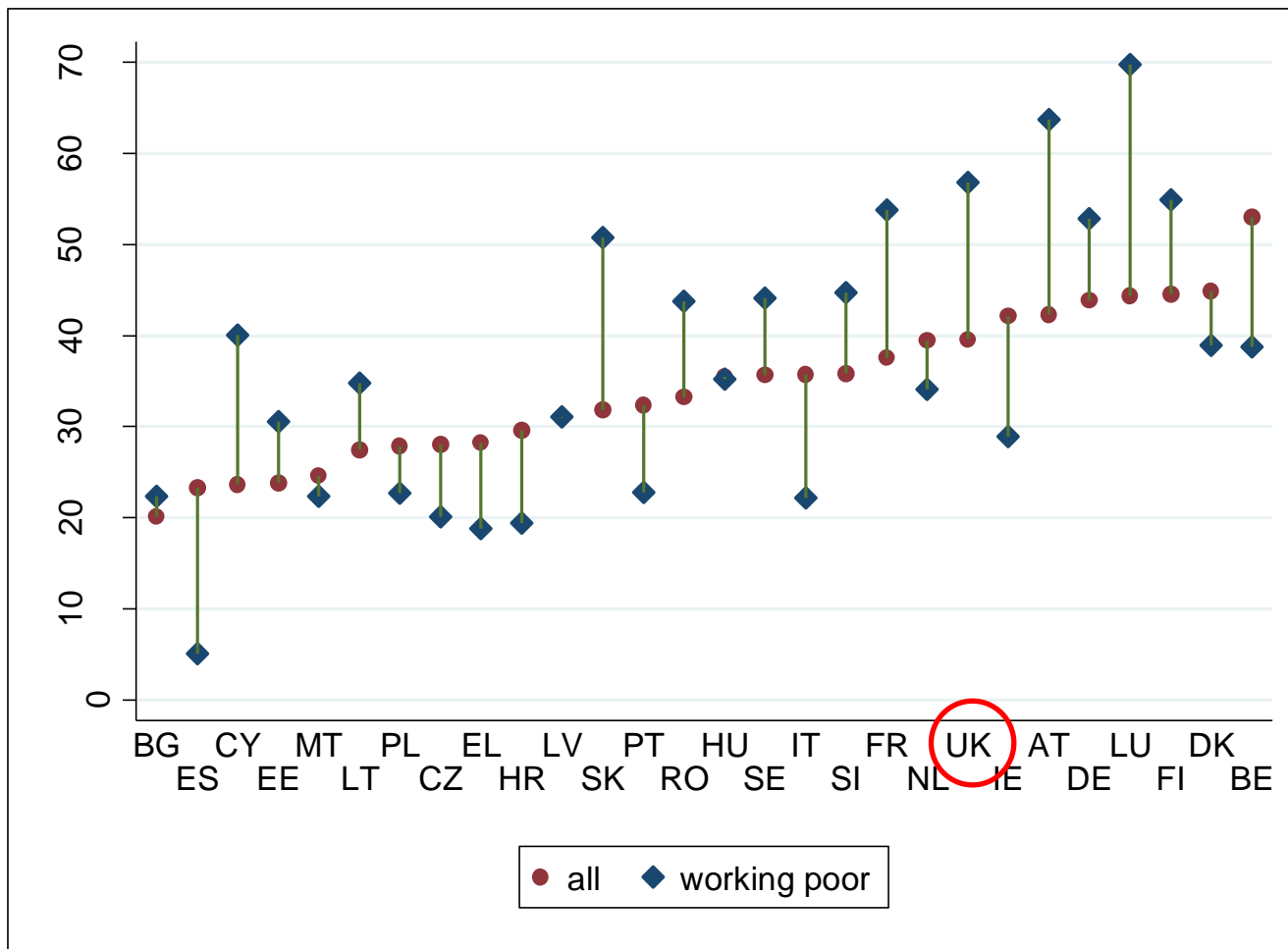
# Is there a trade-off between in-work poverty and work incentives?

- There is a trade-off between in-work poverty and work incentives
  - Countries with high METR / NRR have lower rates of in-work poverty
- Correlation holds in multivariate regression
  - METR and NRR coefficients are negative and significant

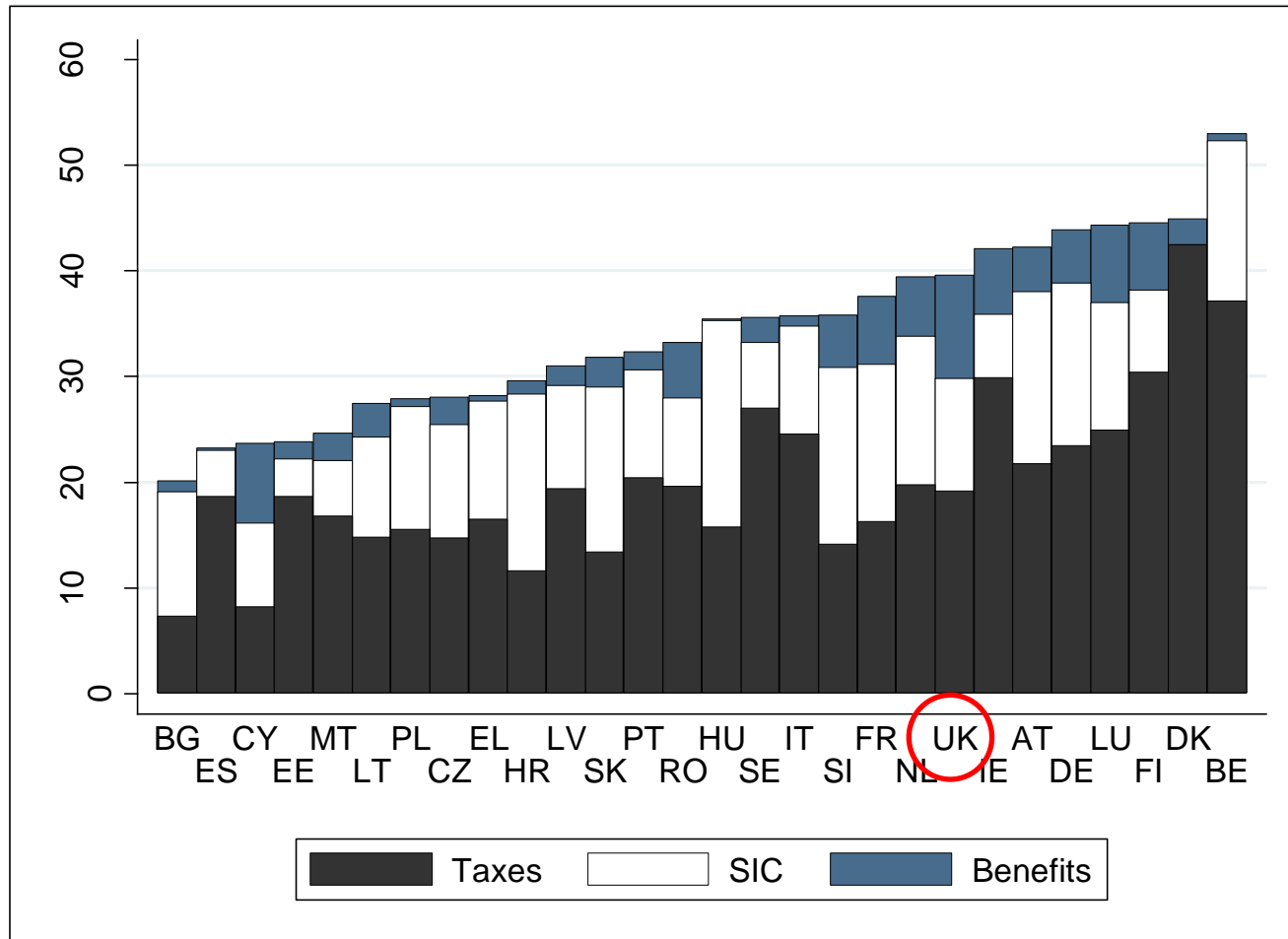


Do the working poor face lower incentives to work?

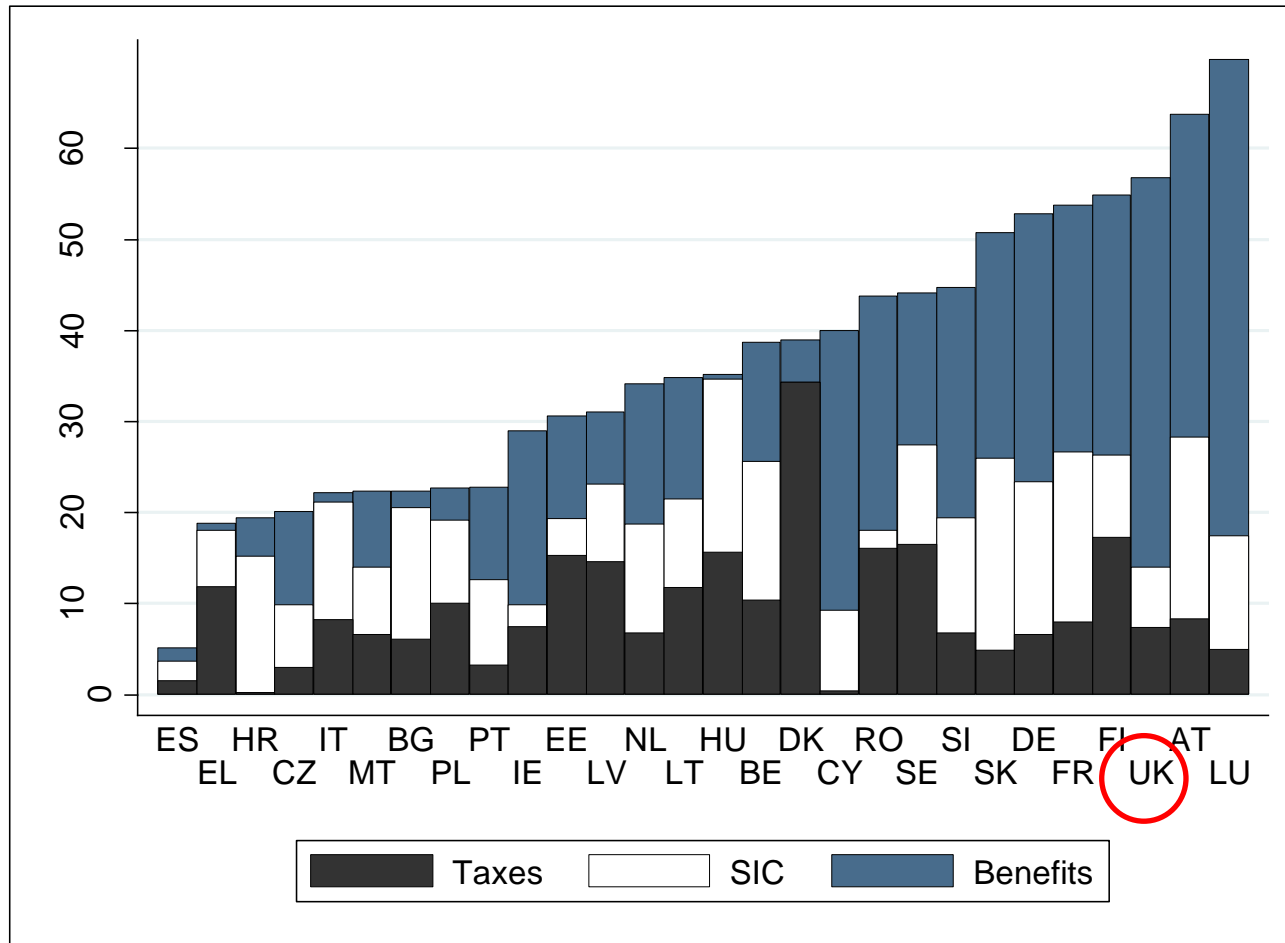
# Mean METR: working poor



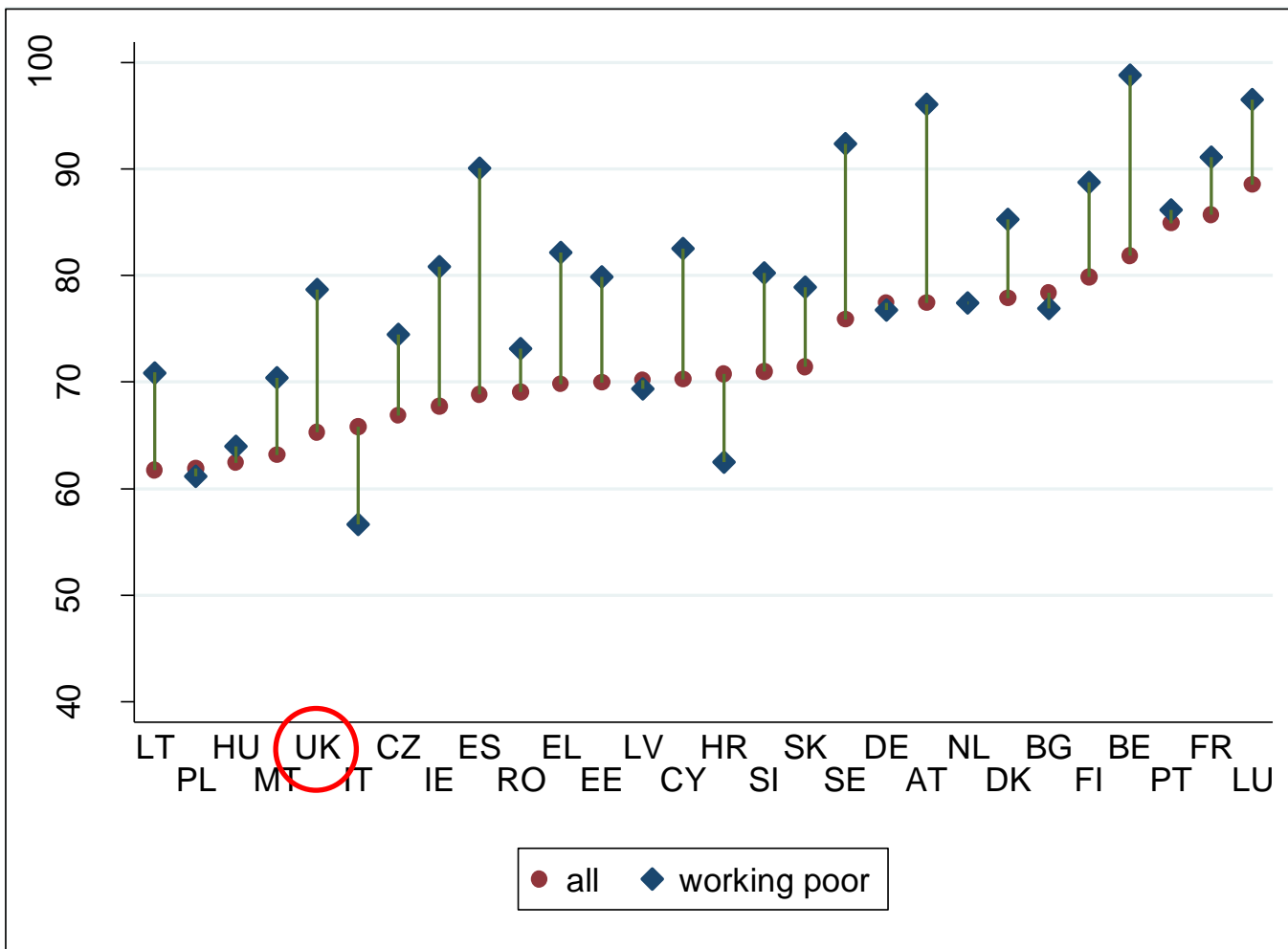
# Decomposition of Mean METR: all



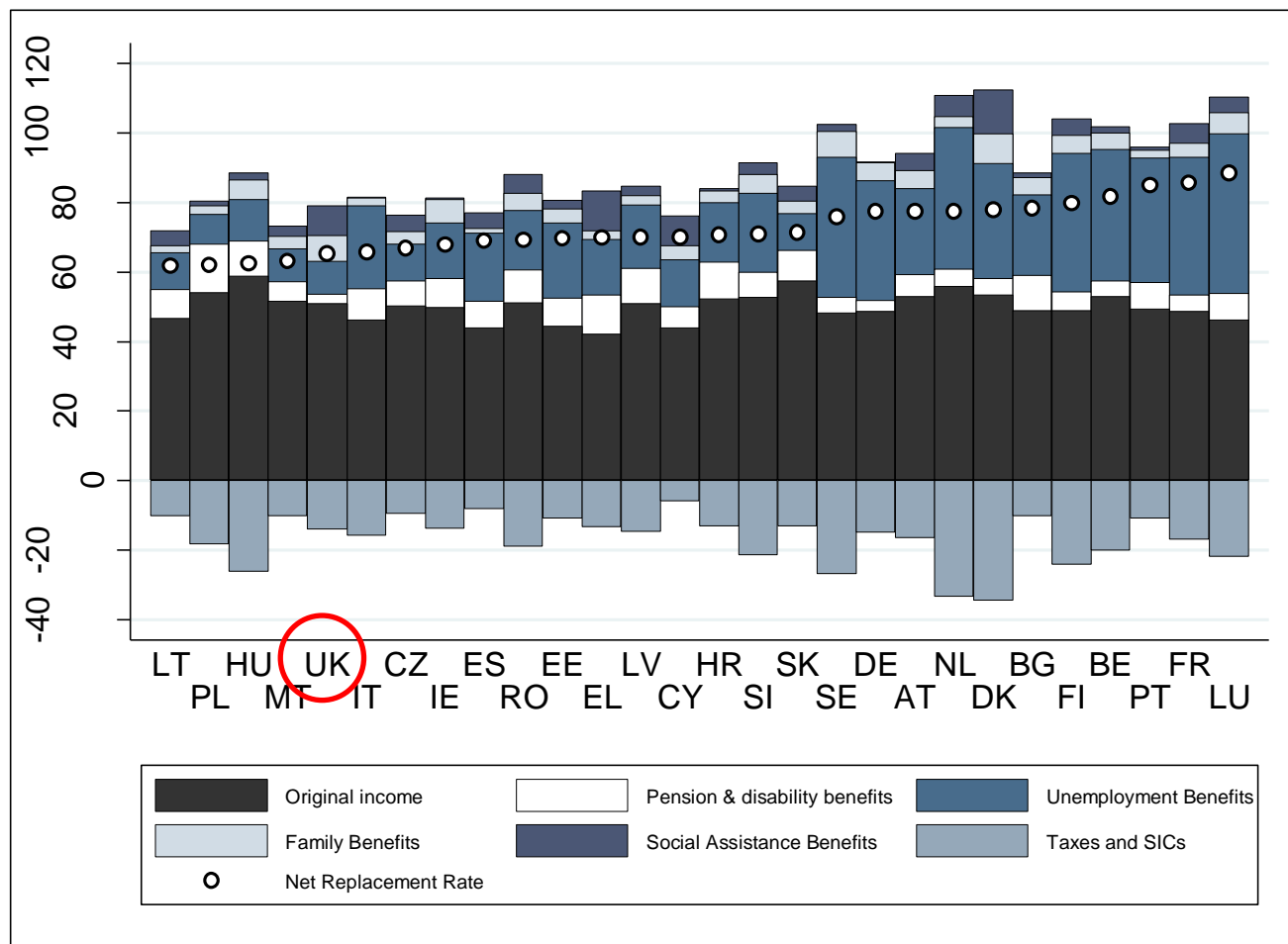
# Decomposition of Mean METR: working poor



# Mean NRR: working poor

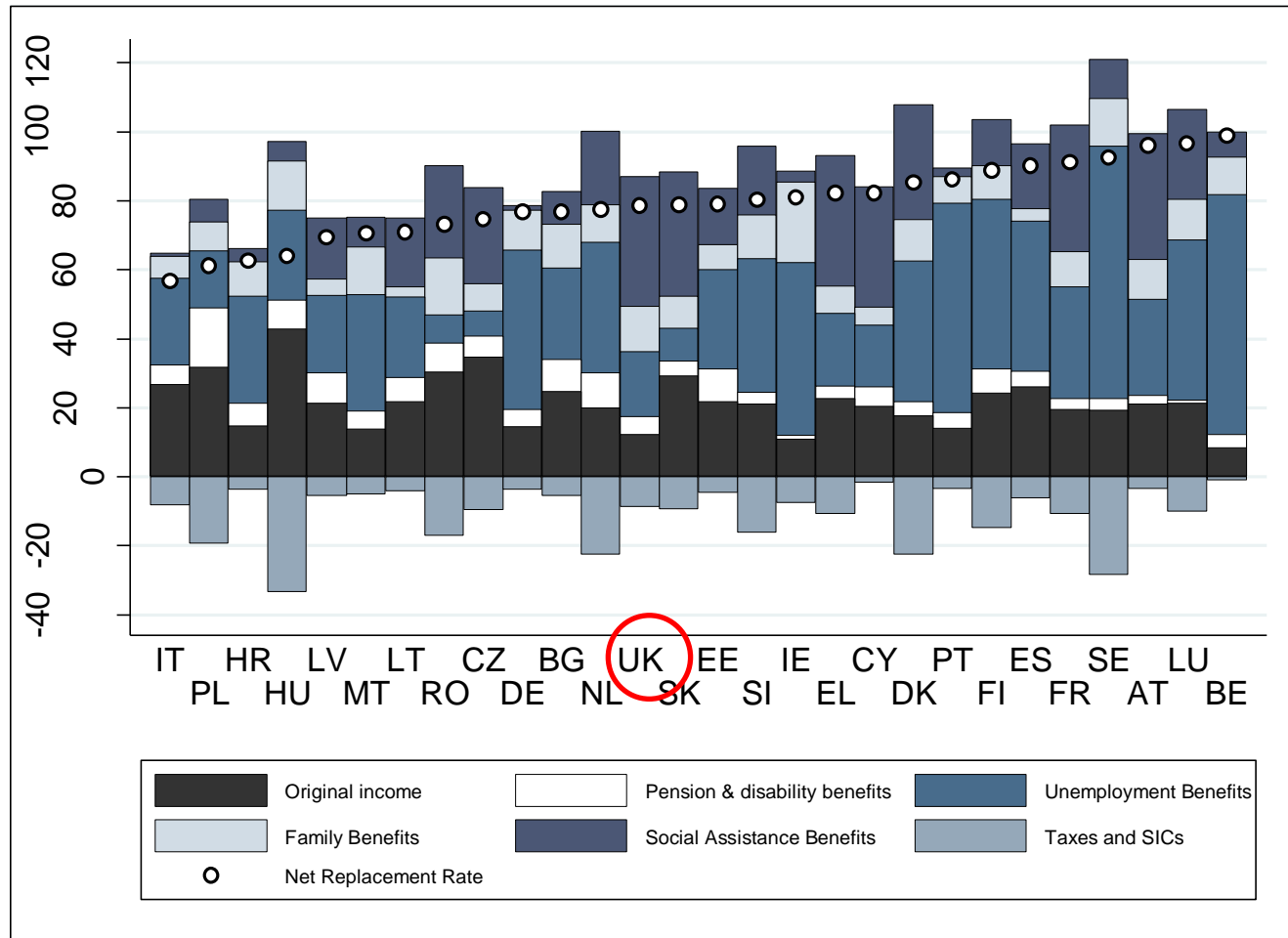


# Decomposition of Mean NRR: all



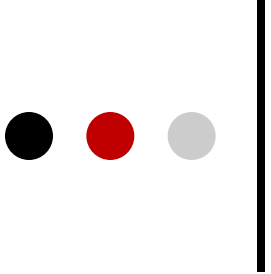


# Decomposition of Mean NRR: working poor



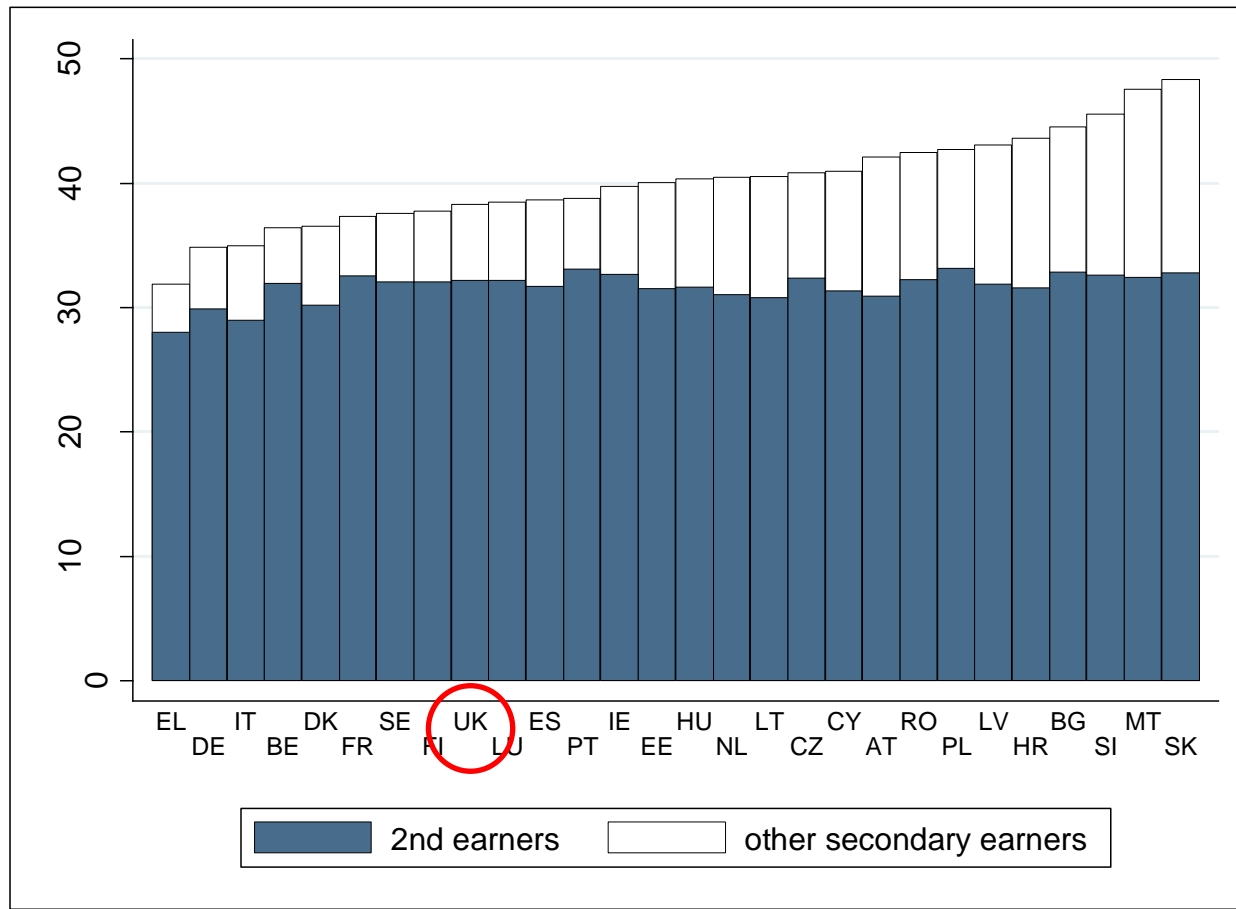
# Do the working poor face lower incentives to work?

- No particular pattern for **METR** of the working poor:
  - higher than average in 13 countries
  - lower than average in 11 countries
- Benefit withdrawal contributes more to METR of the working poor.
- In most countries, the working poor face higher **NRR**.
- Earnings of other household members play a little role in NRR of the working poor.

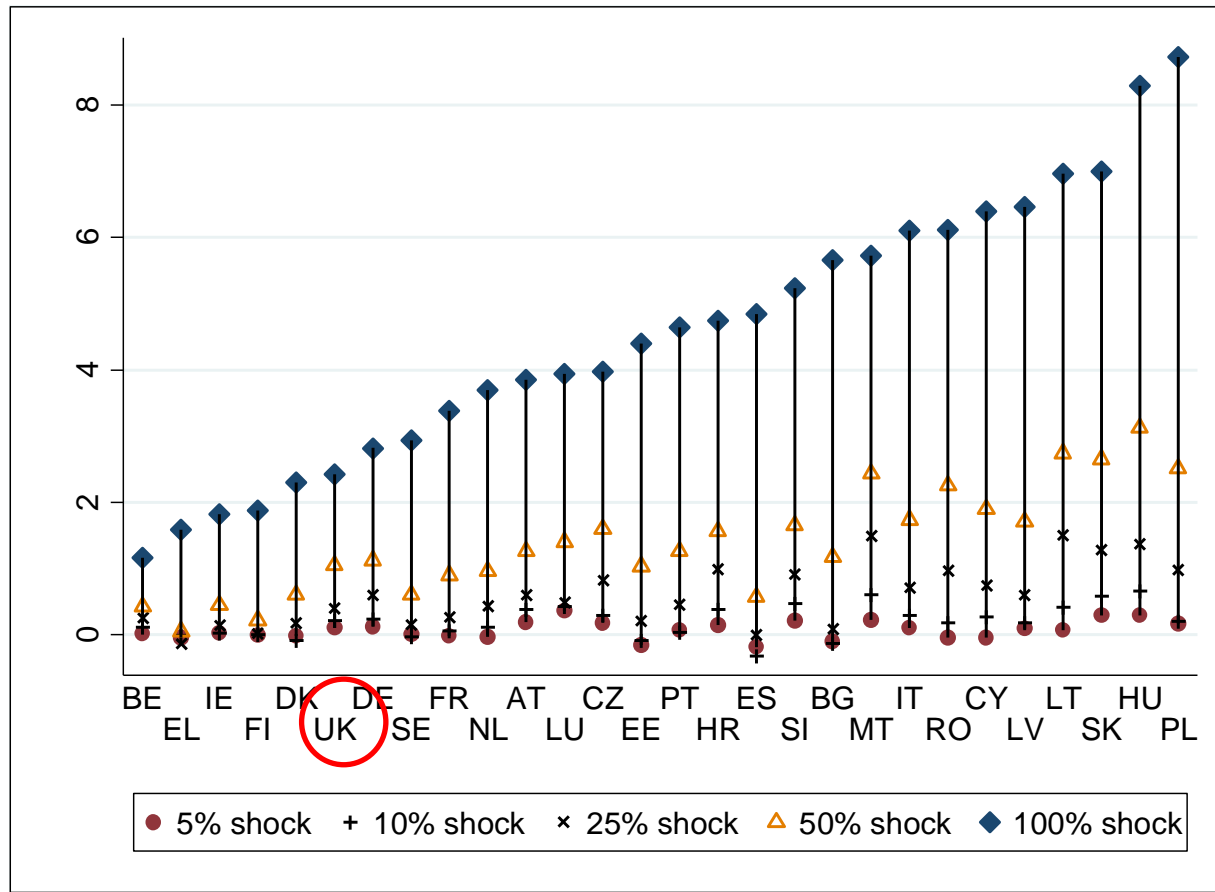


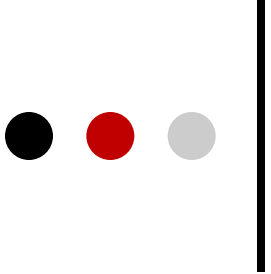
Does secondary earnership  
attenuate in-work poverty?

# Secondary earners in the EU



# In-work poverty after negative shocks to employment of second earners



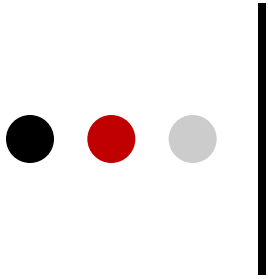


# Does secondary earnership attenuate in-work poverty?

- Second earners' entry into unemployment would increase in-work poverty
  - To different extents across countries.
  - Depending on the size of the shock.
- Small shocks to second earners' employment would have little effect on in-work poverty:
  - Low earners more likely to become unemployed
- 25% shock: in-work poverty increase by 0.6 pp.
- 50% shock: in-work poverty increase by 1.4 pp.
- 100% shock: in-work poverty increase by 4.5 pp.

# Summary of main results

- High variation of in-work poverty across EU countries.
- Evidence of a trade-off between in-work poverty and work incentives in the EU.
- Working poor face higher NRR on average.
- Second earners represent about 30% of all earners.
- Second earners' entry into unemployment would increase in-work poverty:
  - but substantially only under large shocks to employment.



# Thank you!

[hxjara@essex.ac.uk](mailto:hxjara@essex.ac.uk)

[dpopova@essex.ac.uk](mailto:dpopova@essex.ac.uk)

**MiSoC** | ESRC  
Research Centre on  
Micro-Social Change



University of Essex







# Basic Concepts

- **In-work poverty**

Percentage of people in work for at least 7 months who live in households with equivalised disposable income below 60% of median disposable income (Eurostat definition).

- **Secondary earners**

Individuals who are employed and earn less than their partners.

**Here:** second earners are those with the second highest earnings in the household (not only partners of main earner).

# In-work poverty after entry of all second earners to unemployment

