POVERTY AND RISK GROUPS

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1. Introduction

This analysis focuses on the extent of poverty in the country, and its purpose is to highlight the vulnerable groups (those at the highest risk of poverty). We introduce the term "deep poverty", which we use as a starting point in highlighting the groups in the worst socio-economic position.

Investigating the risk groups helps to not only better understand poverty, but also point out the key factors leading to poverty, as well as raising awareness for certain policies for dealing with poverty. In the following analysis, we highlight the relations between the groups at highest risk and the respective spheres of public policy, which have the highest relevance for their condition. Understanding the relation between different risk groups and the leading factors and policies that affect them, is key for achieving results and especially for decreasing deep poverty.

2. Poverty scope

In the methodological commentary on poverty and inequality indicators we showed the characteristics of the different methods for measuring poverty, which are most commonly used by national and European statistics and which in practice shape respective policies. In order to distinguish the vulnerable groups, we must do a more in-depth breakdown of the available information on poverty, beginning with the initial methodological comment and data overview. In this case we will focus on the commonly used poverty indicator, namely people at risk of poverty, as it is the most widely used, it forms the strategic goals for poverty and is represented with the most relevant data breakdowns for the purpose of our analysis.

The "number of people at risk" indicator measures relative poverty by showing what part of the population falls beneath a certain poverty line. This line is defined as a percentage of the so called "median income", i.e. the income that divides households in two – half of them have a higher income, half of them have a lower income. Correlating the line of poverty to the median income makes this indicator relative, not absolute. In practice, it should be considered also as a measure of income inequality. Median income could also serve as a benchmark of the middle class in a society, as it is not distorted by outliers – if the richest people in a society (the top 1%) increase their income a hundredfold, that would change the average income, but not the median income, which depends on the fluctuations of the income of the middle class.

According to recent data the relative share of poor people is around 21% (2013), which means that a little more than 1.5 million people fall beneath the poverty line (which is 60% of median income). In the past years, we observe a slight decrease in relative poverty. However, we must also consider that the line of poverty does not rise significantly and even remains lower than the 2010 levels. In other words, even though relative poverty is shrinking, the freezing of median income indicates serious problems for the middle class.

In order to get more insight into the risk groups, we must look at the different stratifications of poverty – by economic activity, by gender and age, by types of households and so on, and distinguish the factors affecting poverty. The effects of pensions and social transfers, as well as regional differences should also be considered. By adding additional observations that are

not explicitly represented in the poverty data, such as the condition of disabled people and minorities, we can create a more realistic picture of the factors influencing poverty and risk groups, and the respective policies affecting each risk group.

2.1 Depth of Poverty

Measuring poverty against a certain poverty line gives us an idea of its scope, but not its depth, i.e. how far below the line are the at-risk people. This we can check by applying several different poverty lines and observing the change in the proportion of people falling beneath each line. The classic poverty line, which we are going to be using for a big part of the stratifications, is the 60% of median income. This is an indicator that is regularly published by national and European statistics and is used in strategic documents. In order to gain perspective on the depth of poverty, we are also applying three more poverty lines, respectively equal to 40%, 50% and 70% of median income. The movement of relative poverty in regards to each of these lines will show to what degree there is consistency in the increase of poverty when applying higher poverty lines, as well as the share of people below the lowest poverty line (40% of median income) that are in the worst socio-economic condition.

Relative share of poor people with different poverty lines (2013)
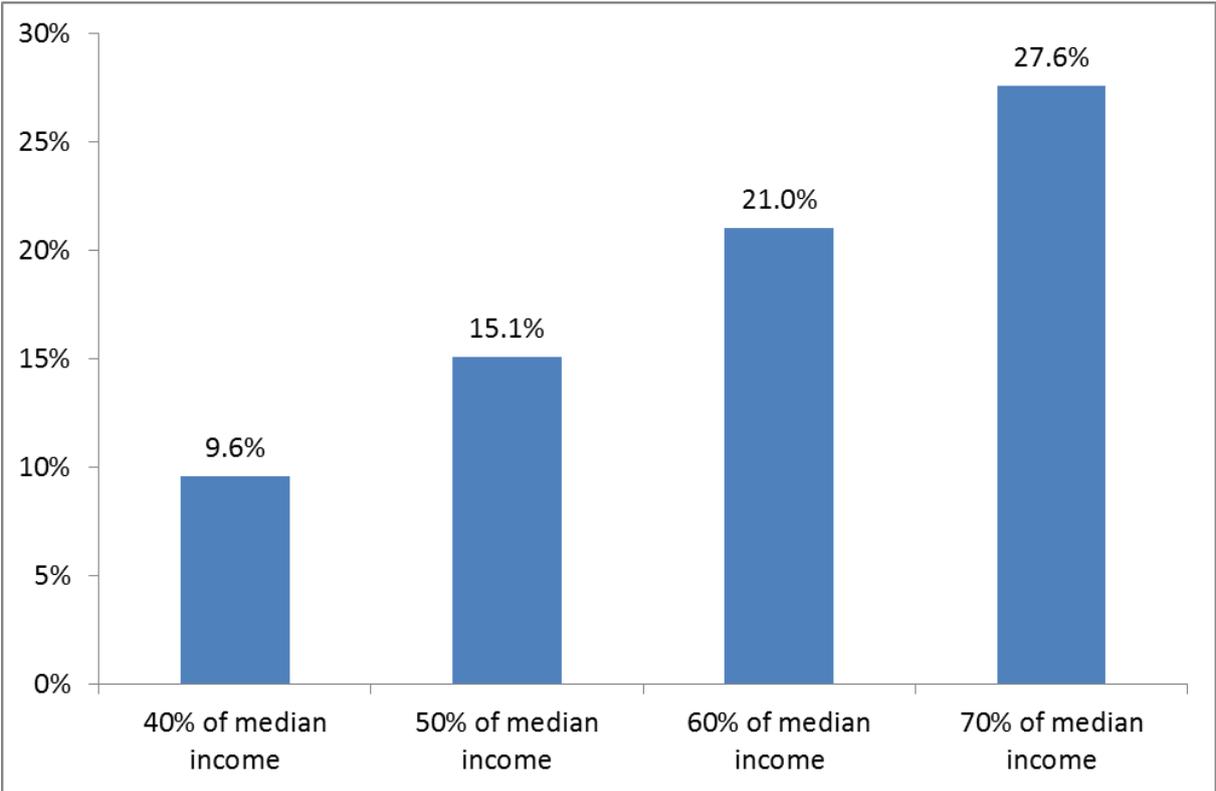
Source: Eurostat

The data shows that nearly 10% of the population falls under the lowest poverty line (40% of median income), which means that almost half the before mentioned 21% poor (based on the classic 60% of median income poverty line) are lagging significantly behind the middle class. The movement of the share of poor people above this line is relatively consistent - by applying each following poverty line (50%, 60% and 70% of median income) the share of

people living in poverty increases with 5-7 percentage points. This is to some degree expected and means that beyond the 10% in deep poverty, the income spread is relatively homogenous. The fluctuations of the data over the years show that the group of poor people that are above the 10% of the population in deep poverty is more sensitive to economic environment changes and most likely consists of varying members, especially in its upper part.

Much more serious is the outlook of those nearly 10% in deep poverty, which lag significantly behind the middle class. The trend there in the past few years is perpetually negative. The share of people below the poverty line, equal to 40% of the median income, is gradually increasing from 8.5% in 2008-2009 to around 10% in 2012-2013. The trend does not seem to be influenced by the economic boom in 2007-2008 and the subsequent crisis in 2009-2011. In other words, the poorest members of Bulgarian society are not influenced by the economic cycle and tend to increase in number. This is why we must study the at-risk groups and highlight the reasons for that sustainable social phenomenon.

3. Poverty breakdowns

3.1 By economic activity

The breakdown of poverty by economic activity is particularly important, because it directly shows the link between economic processes and poverty. The scope of the main breakdown is for groups above the age of 18: the employed, the unemployed (who are searching for work), the inactive (shown in the graphic as "inactive" and "others inactive") and the retired. Apart from the old and retired, the other groups are directly influenced by labor market developments. Of course, part of the inactive are not in practice capable of entering the workforce (e.g. the heavily disabled), therefore analyzing the labor market alone does not exhaust the topic.

Relative share of poor by economic activity (2013)
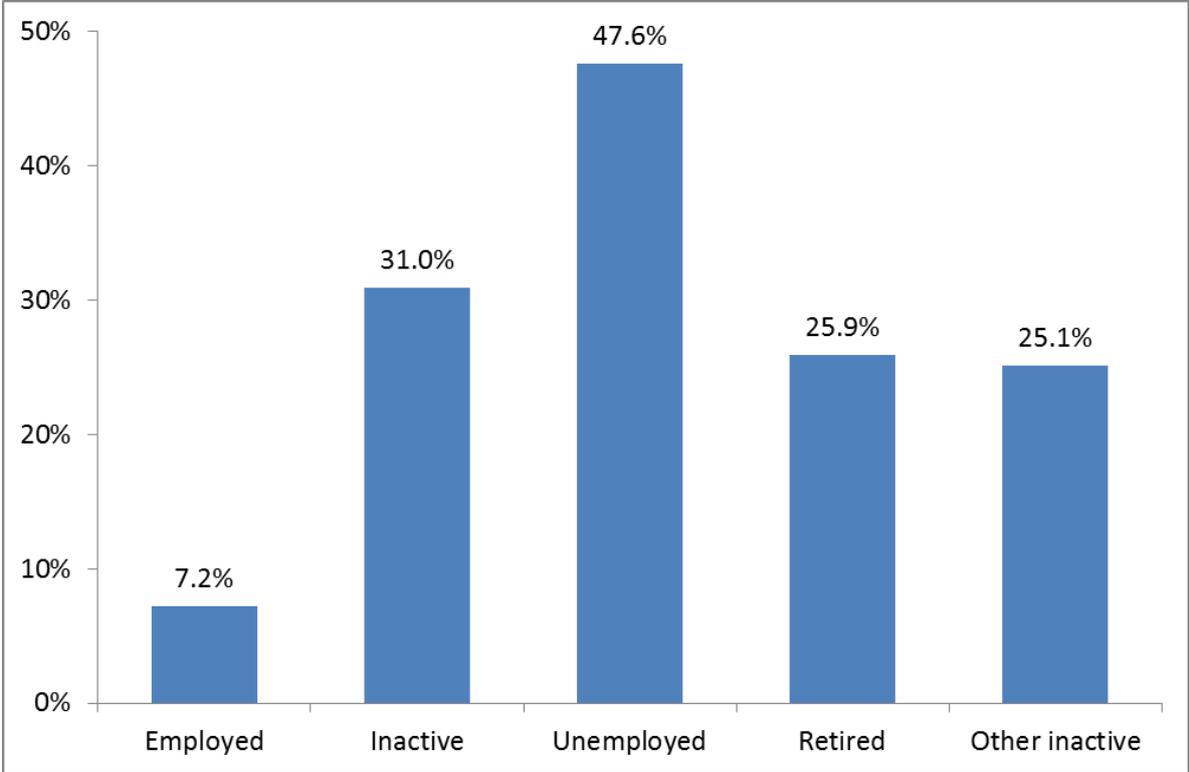
Source: Eurostat

The differences in relative poverty by economic activity are significant. As expected, poverty among the employed is significantly lower than the overall poverty for the country – just 7-8% of the employed are at risk of poverty. This group is quite large and includes almost 3 million people, which means that approximately 210 thousand employed people are below the poverty line. Those are primarily people with minimum wage and part-time jobs. They are classified as "working poor", but they can hardly be labeled as the leading risk group. Employment guarantees at least some income, which makes it unlikely for the "working poor" to be in the before mentioned "deep poverty", meaning to be a part of those 10% of the population whose income is below the lowest poverty line. Indeed, when considering

the lowest poverty line (40% of median income) only 2.2% of the employed or 65 thousand people are at risk of poverty.

The data clearly shows that employment is the strongest factor in avoiding or escaping the poverty trap, with the presence of a job in practice decreasing several times the probability of getting at risk of poverty. The group of the employed is dynamic and strongly dependent on economic growth, which means we can expect some movement within it with regards to the "working poor" – falling in long term poverty is certainly possible, albeit much less likely than in the other risk groups. The most important factor for the social status of the employed is the condition of the labor market and the respective policies on employment and wages.

The unemployed are traditionally among those at the highest risk, with almost half of them being at risk of poverty. Despite the slight decrease over the past three years in 2013 some 48% of the unemployed are at risk of poverty. This is approximately 190 thousand people. In the big picture, the risk of poverty among the unemployed is almost seven times higher than the risk of poverty among the employed.

It is important to note that historically the risk of poverty among unemployed men is significantly higher that the risk of poverty among unemployed women (about 10 percentage points), while in 2013 this difference is erased, mainly due to decreasing risk of poverty of unemployed men. One possible explanation is the generally more dynamic male unemployment, which in the past stood at significantly higher levels. In 2010-2012 the number of unemployed men increased with around 45 thousand, while the number of unemployed women rose with around 18 thousand. This means that the bigger part of newly unemployed men didn't automatically fall below the poverty line – either because they had access to unemployment benefits, they found a temporary job, didn't stay out of the labor market for long or even because they worked without a contract.

In any case, the general trend of decreasing risk of poverty for the unemployed in years of growing unemployment indicates that there is a difference between the long term unemployed, which are not influenced by the economic cycles and are in deep poverty, and the unemployed, who being dependent of the economic cycle, can find a job in years of prosperity and are threatened by poverty to a lesser degree.

When applying the lowest poverty line (40% of median income) 32% of the unemployed (125 thousand) remain at poverty risk. That data confirms the difficult situation of the unemployed, which are threatened not only by poverty, but are at risk of deep poverty and whose desire to find a job is not enough to ensure success on the labor market.

Next are the inactive or those who are not even searching for a job (excluding the retired). The poverty risk among them is around 25-30%. The official data from the NSI show that this group amounts to around 360 thousand people at risk of poverty. Analyzing the make-up of this group in depth is challenging, as it is quite diverse and includes both people who are not capable (including physically) to work, and people who simply do not have the desire to do so. The hazy make-up of this group and lack of suitable breakdowns mean that we will have to find a different point of view to the poor, which are not employed, unemployed or retired.

When applying the lowest poverty line (40% of median income) 13-14% of the inactive remain at risk of poverty, or approximately 180 thousand people. Even though less

threatened than the unemployed, the inactive group remains at high risk, including risk of deep poverty and must be carefully analyzed.

The last group is the retired people, among whom the share of those at risk of poverty is 26%. Accounting only for the pensioners older than 64, these are around 440 thousand people, so this is the largest group, although not the most threatened by poverty, relatively speaking. When applying the lowest poverty line (40% of median income) 6-7% of retired are at risk of poverty, which is close to a 100 thousand people (over 64). It is evident that among the retired the concentration of poverty is between the 40% and 60% of median income. This is also to be expected, since the pension system to some degree equalizes their income and so the prevailing poverty among this group is not what we've labeled "deep poverty", but is concentrated close to the classic poverty line.

Poverty and deep poverty evaluations (thousands)		
	At risk from poverty (60% of median income)	At risk from deep poverty (40% of median income)
Children (under 18)	335	205
Employed	210	65
Unemployed	190	125
Inactive	360	180
Retired (over 64)	440	100

Source: Eurostat, NSI, IME

3.1.1 The education factor among people of working age

The education factor is especially important for everyone of working age. Here we include several of the key groups, discussed above – the employed, the unemployed and the inactive. Education is definitive for their labor market status, which in turn determines their risk of falling in poverty.

The poverty risk among those with tertiary education is approximately 3-4%, while for those with secondary education it reaches 45%. If we consider only the working population, poverty is practically non-existent among those with tertiary education (just 1.5%), while the poverty among people with secondary education remains high – over 30%. In other words, the debate on the working poor is essentially a debate on education and lack of qualifications.

The data is adamant - education is key for a person's labor market status, with a huge chasm between those with university degrees and those without one. In the general case we can assert that working people with completed secondary education have about 20 times higher chance of being at risk of poverty compared to the employed with completed tertiary education.

3.2 By age

The breakdown of poverty by age usually shows higher levels of poverty among groups that are dependent on either family or the government. That is the children and the elderly. It is highly worrying that the highest levels of poverty are observed among children (28-29%), followed by the retired (27-28%), while the position of the people of working age is considerably better (17-18%).

**Relative share of the poor by age (2013)**
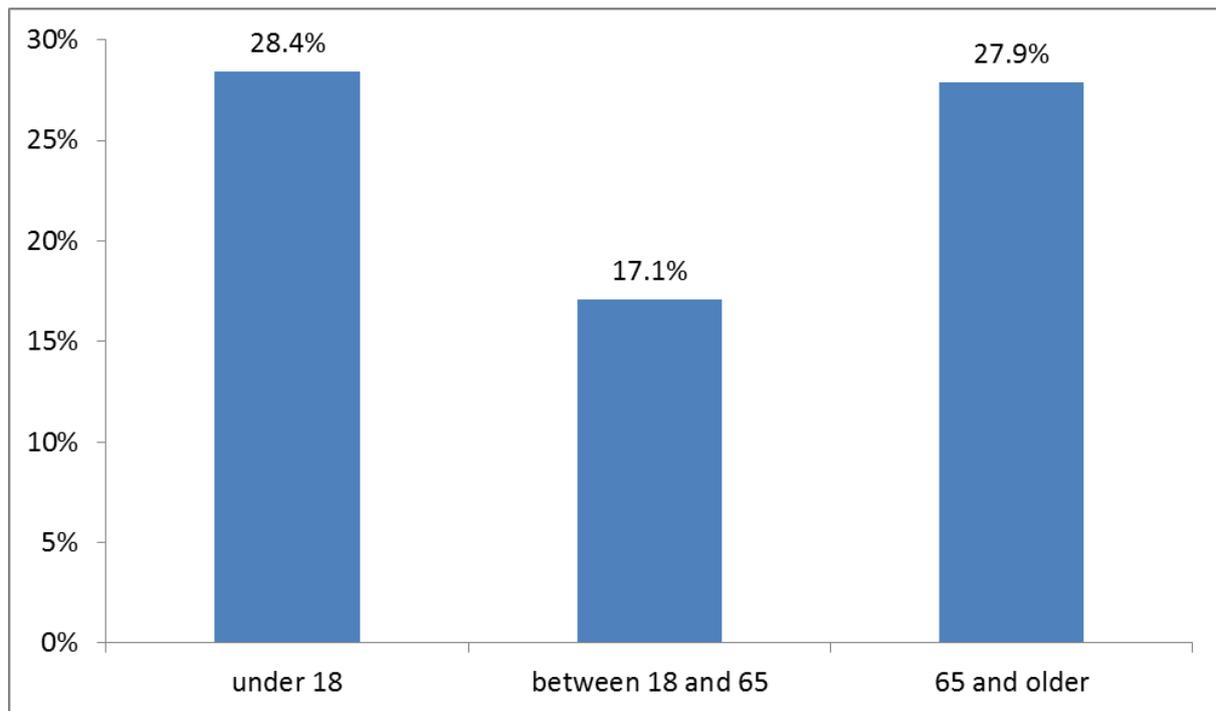
Source: Eurostat

If we apply the lowest poverty line, children remain the group at most risk –17% of them are in deep poverty. Among the working age population, deep poverty is halved (8-9%) when applying the lowest poverty line and the highest drop is observed in the retired (up to 8% in deep poverty). This again shows that more than half of the retired that are officially at risk of poverty are relatively close to the classic poverty line.

Additional gender breakdowns show an interesting detail. While for children and people of working age there is no significant difference, there is a prominent difference between the male and female people in retirement. Below are presented two breakdowns by gender for the elderly (above 60 and above 75) which illustrate this point. If for males above 60 the share of those at risk of poverty is close to 20%, the risk for women above 60 reaches 30% - and we can observe similar discrepancy as we go back in years. Even more significant is the difference between males and females older than 75. Keeping in mind that the incomes of the retirees constitutes mainly of pensions, we can keep searching for reasons for this discrepancy both in demographic factors, such as life expectancy, as well as in the pension system. At present it is important to highlight the greater risk of poverty in older women.

**Relative share of poverty among the retired (2013, breakdown by gender)**
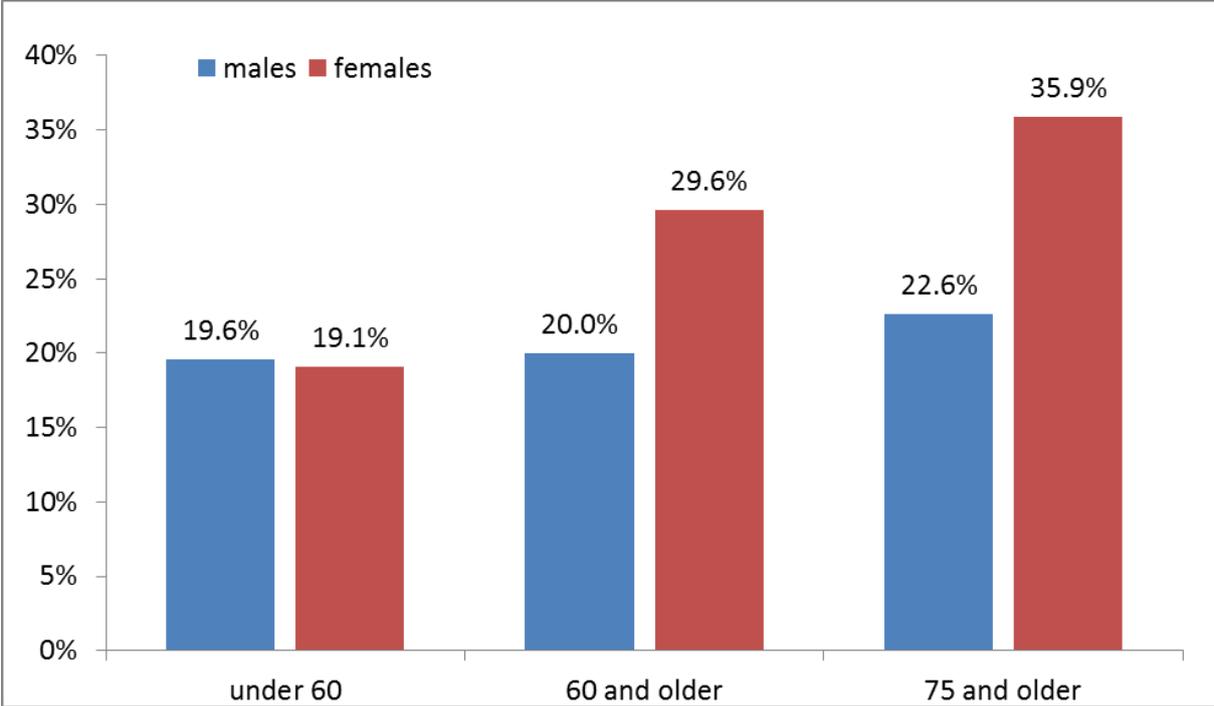
Source: NSI

3.3 By household type

One of the most informative breakdowns for the purpose of this analysis – highlighting the risk groups in regards to poverty – is the breakdown by household type. This breakdown is important both for understanding the scope of poverty, as well as the social policy, that should account for exactly the types of households that are the most threatened and aim to improve their condition.

The groups, that stand out compared to the rest are no surprise – these are the households without children, two adults under 65, three or more adults and two adults with one or two children. These groups have a relative share of poverty under 20%, which is under the country wide average. The presence of two adults in working age is apparently an important factor for avoiding poverty. It is interesting to note that the difference between households with one and two children is small, but the presence of a third child changes things significantly – the explanation here is rooted not only in the presence of one more dependable child, but in other factors, that are determinative for these households, like ethnic make-up, ghetto isolation, etc.

Relative share of poverty by type of household (2013)
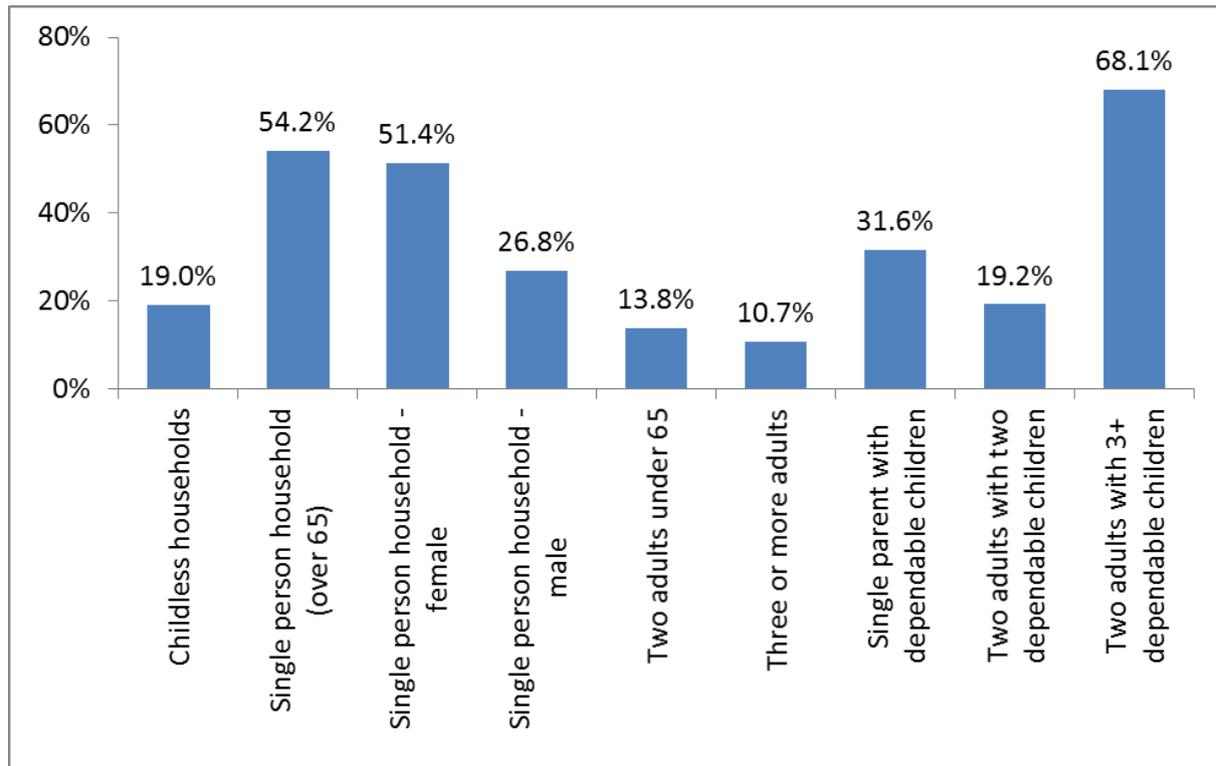
Source: NSI

Another risk group consists of single-person households aged over 65 – over half of these households are at risk of poverty. The most common characteristic of these households is the dependency from pensions and the lack of cash flows within the household – for example a salary of a working person that enters the household and supports the low pension income. This group is less dependent on the labor market and more on the pension and social government policy.

Because of the impossibility of redistributing income and cash flows inside the household, the group of individual households is also at risk, with significant gender differences also present – the share of individual males at risk of poverty is 27%, while the same share of females is 52%. A big part of the explanation is the already mentioned differences between retired men and retired women.

Another risk group includes households consisting of a lone parent with dependable persons - 30% of them are at risk of poverty. A relatively high risk of deep poverty – around 15% - is also observed. A key factor here is the labor market and the dependency of these households on consistent working income of the parent. Remaining outside the labor market puts single parents in risk of deep poverty.

The share of households consisting of two adults and three or more dependents that are at risk of poverty is nearly 70%, and the share of those at risk of deep poverty is a staggering 50%. The breakdown by household type points to this group as the group with the highest risk of deep poverty. This group is most likely characterized by a lot of the before mentioned risk factors – low education and lack of qualifications, as well as low economic activity and hindered participation on the labor market. This type of households also create poverty,

because long term deep poverty leads to low education and weak qualification of the children too, which is key for their chances of escaping the poverty trap.

3.4 The effect of social transfers and pensions

When excluding social transfers and pensions, the share of the population at risk of poverty in the country is over 40%. This is understandable, when accounting for the fact that without pensions the share of retirees at risk of poverty is nearly 80%. When counting pensions alone, this share drops significantly to 27%.

Relative share of poverty before and after pensions, not counting social transfers (2013)
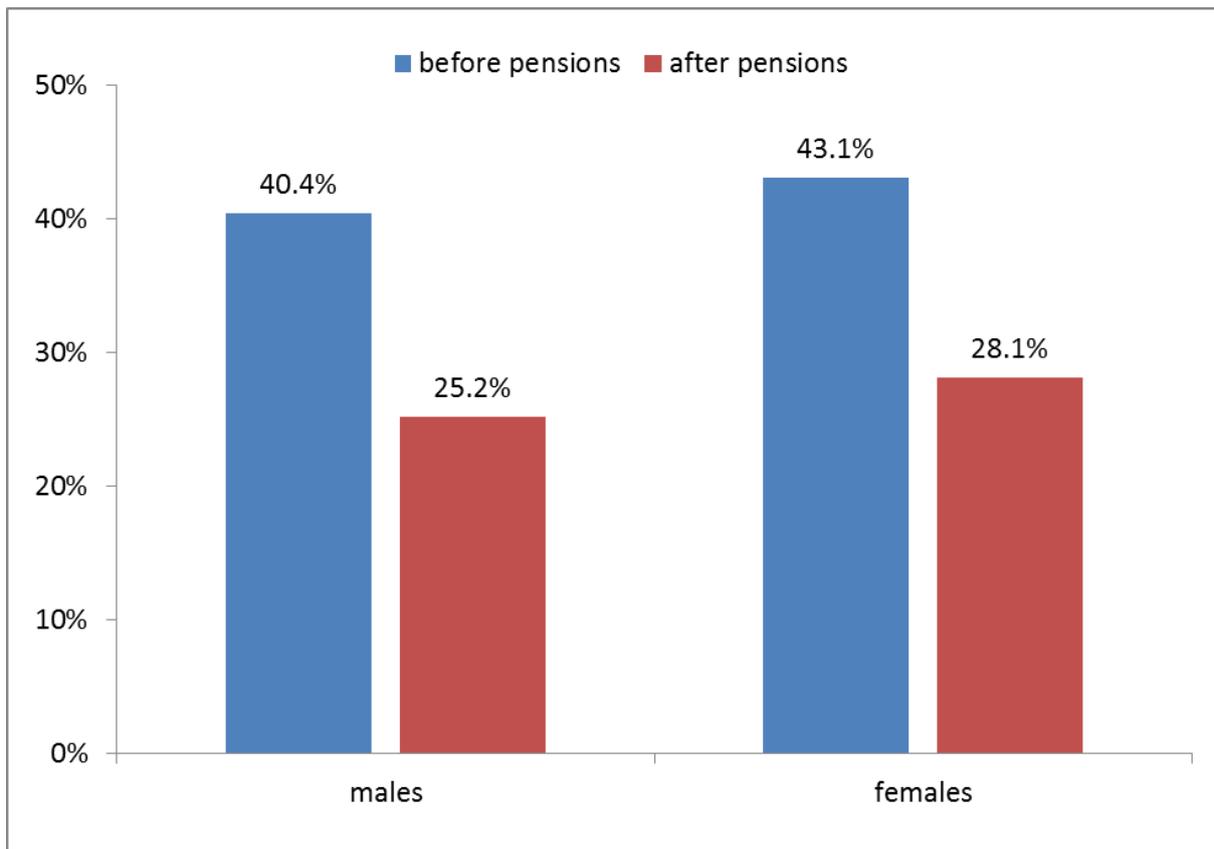
Source: NSI

The influence of social transfers is more limited, but they still additionally decrease the share of people at risk of poverty to 21%. Social transfers on the other hand have the strongest effect on children, by decreasing the share of children at risk by 10 percentage points. The effect on the elderly is smaller, which shows that social transfers are mainly aimed at the population capable of work and at households with dependent children.

Relative share of poverty before and after social transfers (2013)
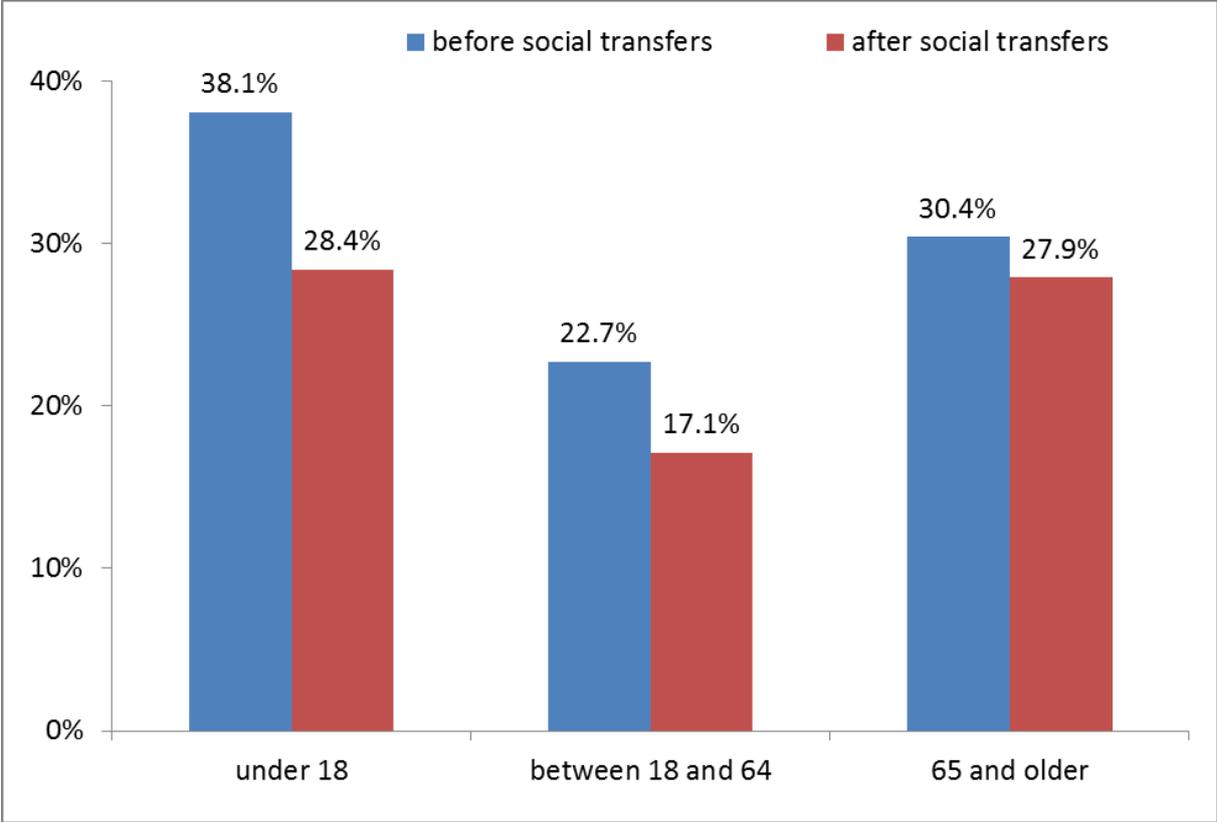
Source: NSI

A more detailed breakdown of data shows that social transfers are not concentrated solely on the people in deep poverty. They also affect people between the two poverty lines (40 and 60% of median income). This is evident from the effect on the children. It is clear that there are groups in society that are in deep poverty and that the social policy does not manage to play a decisive role – i.e. groups of adults in deep poverty, as well as the children in large families that inhabit ghettos.

4. Regional Breakdown

The overview of regional data also highlights the important factors that influence poverty. For the purposes of this analysis we will use data for regional poverty against the national level of poverty. Here the differences are huge – from 7.3% share of the population of the capital Sofia at risk of poverty, to 42% in Vidin.

Relative share of poverty by regions compared to the national poverty line (2012)
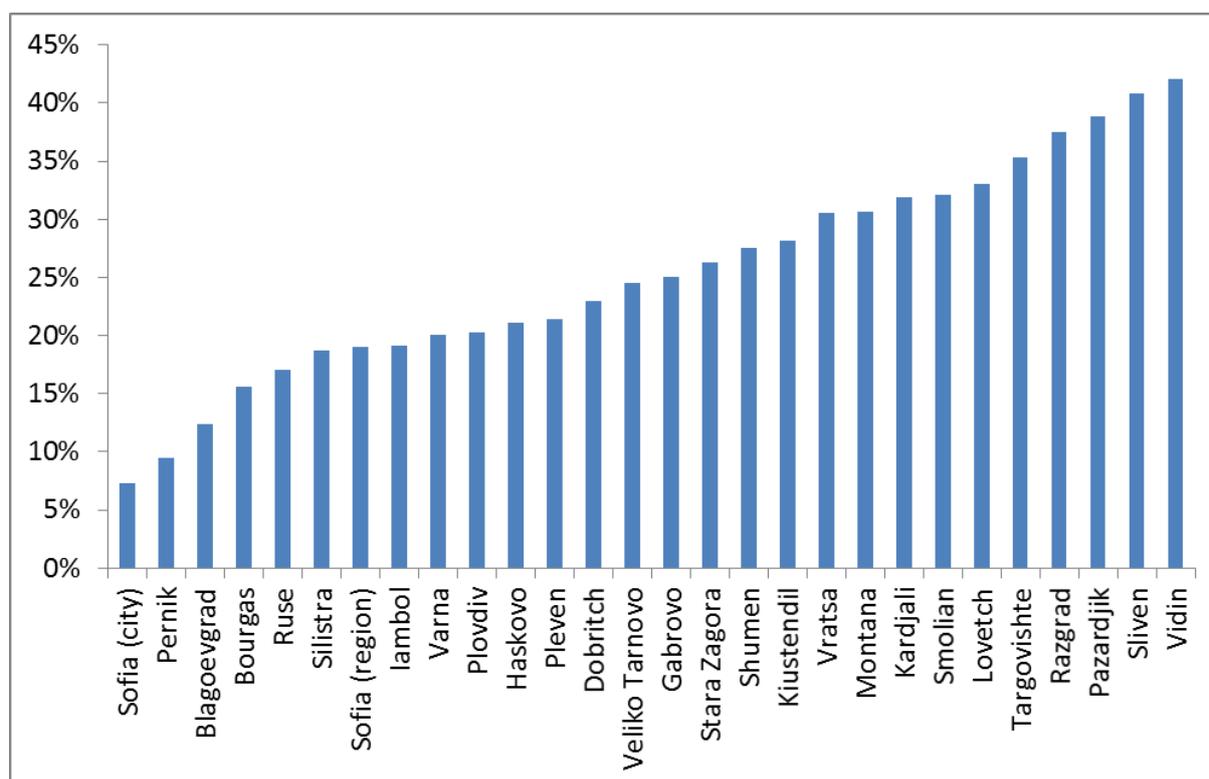

Source: NSI

The data explicitly shows that at least four factors affect poverty in different regions – employment, education, demographics and ethnic groups. These relationships are demonstrated in the following fashion:

- poverty and employment – we compare people at risk of poverty by districts (using the national poverty line) to the employment coefficient of the population aged 15 and older by districts;

- poverty and education – we compare people at risk of poverty by districts (using the national poverty line) to the relative share of the population aged between 24 and 64 with tertiary education by districts;

- poverty and demographics – we compare people at risk of poverty by districts (using the national poverty line) to the coefficient of age dependency, i.e. the proportion of population over 65 to the population aged 15-64 by districts;

- Poverty and ethnic groups - we compare people at risk of poverty by districts (using the national poverty line) to the share of people, self-identifying as Roma at the last census by districts.

Those correlations are shown below. The strongest correlation is between poverty and employment, while age dependency has a smaller influence. This supports the previous conclusions and the highlighted risk groups by economic activity: mainly unemployed and then the retired. At the same time the ethnic structure of the population and education also have a strong influence. This again corresponds with previously made conclusions and risk groups – households with many dependable children, among who such with lack of education and qualifications.

Graph: Relative poverty and employment coefficient by districts, 2013
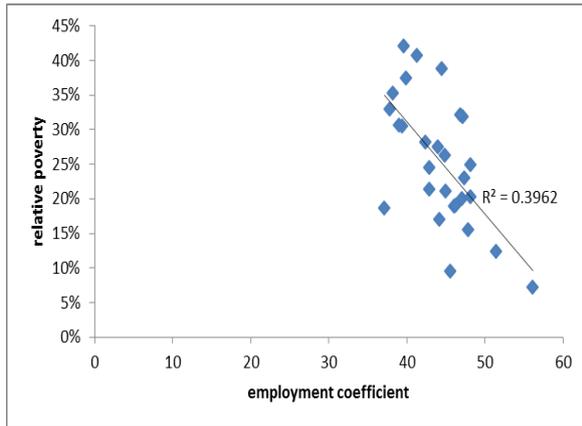
Graph: Relative poverty and share of people with tertiary education (aged 24-64) by districts, 2013
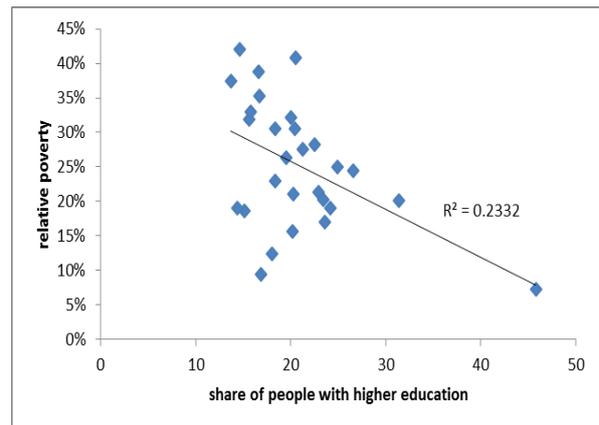
Source: NSI, IME

Graph: Relative poverty and age dependency by districts, 2013
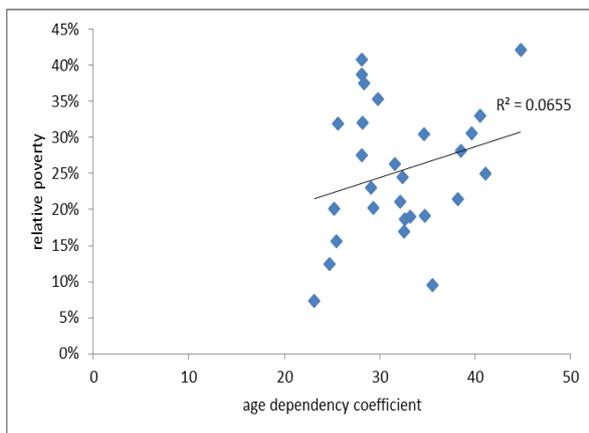
Graph: Relative poverty and share of Roma population by districts, 2013
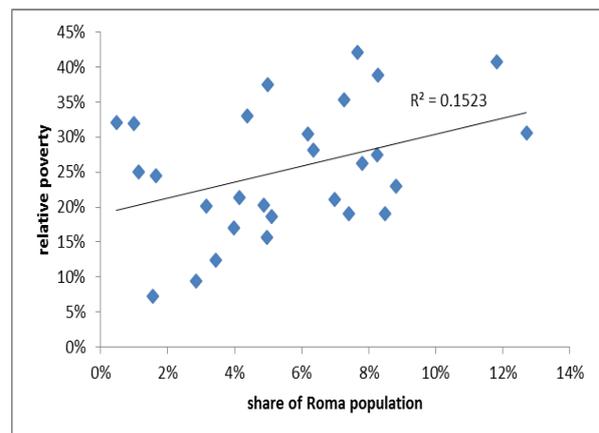
Source: NSI, IME

The effect of pensions and social transfers on lowering poverty by districts also differs. The pensions decrease poverty to a larger degree where there are more elderly and therefore heavier demographic problems. The most serious effects of pensions are in Gabrovo, Kiustendil, Vidin, Smolyan, Shumen and Yambol, while the smallest effects are observed in Dobritch and Sliven. Social transfers on the other hand have the biggest impact in the

districts with the highest levels of unemployment – for example in Smolyan, Razgrad, Shumen and Veliko Tarnovo.

There are two types of regional transfers from districts in which employment and incomes are higher and therefore generate more revenues for the budget, to those districts in which there is unemployment and a higher share of pensioners. The first channel goes through the classic redistribution of social payments. The other channel is through the pension system, which is financed primarily by the budget, and in practice generates hidden transfers between regions.

2012, NSI	Relative share of poverty against the regional line of poverty		
	Before social transfers and pensions	Before social transfers (including pensions)	After social transfers (including pensions)
For the country	41.8	26.7	21.0
Blagoevgrad	31.8	19.3	15.3
Burgas	35.6	23.0	19.3
Varna	42.9	27.1	23.7
Veliko Tarnovo	42.9	25.3	15.2
Vidin	55.4	32.1	31.2
Vratsa	46.1	27.3	26.2
Gabrovo	59.8	18.2	15.2
Dobrich	36.6	26.3	20.2
Kardzhali	47.8	31.2	25.8
Kyustendil	52.5	23.1	14.6
Lovech	39.3	22.7	20.9
Montana	50.2	29.7	23.0
Pazardzhik	50.8	37.5	30.8
Pernik	43.2	27.0	22.3
Pleven	40.9	23.7	17.0
Plovdiv	39.4	26.1	19.0
Razgrad	42.8	27.3	14.7
Ruse	36.9	22.5	16.9
Silistra	39.4	26.0	17.9
Sliven	45.7	36.0	31.6
Smolyan	52.2	29.5	14.1

Sofia (city)	40.2	26.0	22.0
Sofia	46.6	26.8	20.6
Stara Zagora	45.7	30.7	26.5
Targovishte	48.1	34.5	25.0
Haskovo	40.8	23.0	15.5
Shumen	43.3	32.2	18.0
Yambol	43.7	19.2	15.3

5. Risk groups

Highlighting the riskiest groups in regards to poverty in the present analysis aims at drawing attention also to the relevant spheres/policies that have the strongest influence on these groups and could sustainably decrease poverty in the long term. In this section we will present exactly these areas of public policy in regards to the risk groups.

5.1 Unemployed and economically inactive people – labor market and education

The unemployed and economically inactive are amongst the most vulnerable to poverty groups. This is in practice capable of work population which falls in poverty mainly because of lack of work related income. Here are also around 300 thousand people in deep poverty, which generally have only primary education and very low qualifications. The aim of public policy in regards to that group must be in these two directions respectively:

- Education – focus on primary and secondary education in the direction of lowering the share of people with only primary education completed and acquiring skills, adequate for the needs of the labor market;

- Employment – focus on creating new jobs and raising employment, which is for now shadowed under the so called income policy.

Though the poverty debate is often restricted within the frame of social policy, for the vulnerable groups of the capable of work population, the policies, pertaining to education and labor market are key.

5.2 Individual households with dependents – social system and labor market

Households of individual with dependents are another vulnerable group that requires special attention. Here again the labor market is crucial, but the social system plays a role too. The big problem of this group is the lack of transfers within the household and the complete dependency on the income of the lone parent. With low employment or labor market disruptions this type of households is seriously threatened of falling in poverty.

In order for social policy for this group to be adequate, it must be targeted, i.e. not to spread as wide as possible, but to target only the vulnerable groups. A big part of the social

assistance, although tied to the children, who are a risk group, are too widely designed (sometimes without income requirements) which seriously diminishes the potential effect. Social policy must be aimed at risk groups – it must cover the main risk (in this case lack of alternative income where job income of the parent is not present) and it must to set the respective incentives, stimulating a return to the labor market.

5.3 Elderly – social and pension system

The pensioners group, although not the most vulnerable (compared to the unemployed, for example) is numerous and contains about a third of the people in poverty and about a quarter of the people in deep poverty. In this group, especially in regards to the people in advanced age, labor markets and education don't play as significant a role as the pension and social system.

Of key importance here is the pension system, which as we saw, decreases poverty among the elderly, and implies fiscal transfers between regions. However, the problems of the pension system are carried over to the retirees' poverty. The decreasing number of working people entering the system, coupled with a high numbers of retirees (including a common early retirement) and a high share of disability pensions put the retirees in the trap of the huge deficit of the National Social Security Institute – the pensions are in practice mainly paid from the national budget. Changes in the pension system, among which increasing retirement age and longer stay on the labor market, restricting disabilities and early retirement, as well incentivizing personal retirement savings, are key for strengthening the system and ensuring dignified income in the long term.

The differences in the risk of poverty between elderly men and women is obviously a result of the pension system and thus should be taken into consideration – both in the scope of the pension system (standardization of the rules), as well as beyond it with the tools of the social system. This most likely includes changes in regards to the so called social pension – i.e. taking it out of the social security model and making it a social transfer, which is not in the social security budget.

5.4 Households with many dependents – education and employment

Households with three or more dependents are especially vulnerable, with two thirds of them at risk of poverty. This phenomenon is caused not so much by the number of children, as much as the type of households, that tend to have many children – a problem with ethnic and cultural dimensions. Such households often live in ghettos and in practice recreate poverty, meaning that the children also can't escape the poverty trap. Key factors here are education and the labor market.

In this case we don't discuss the general term 'integration', we focus on education and jobs as the natural roads to solving this problem. Without them the social system achieves no results in these households and this is clear from the high percentage of such households in deep poverty, meaning that even with the present social system they are lagging significantly behind the middle class. Flexible forms of education and training, applicable on the labor market, could result a much more sustainable outcome.

6. Conclusions

Subjecting poverty on different analyses and breakdowns allowed us to highlight the vulnerable groups, most threatened by poverty, including deep poverty. Among the riskiest groups, dependent on the quality of the education and the processes on the labor market, are the unemployed and the inactive. They are capable of work, but fail to establish themselves on the labor market and are at risk of falling in deep poverty. The working poor, although a severe challenge, are at much less risk of deep poverty and aren't among the poor in general.

The elderly and the retired also contribute significantly for the poverty in the country. The problems of the pension system are a leading cause for poverty among the elderly. Mixing the social and security system in practice doesn't allow for adequate policy targeting the most vulnerable groups of the retired. The differences between the males and females are very big, without any reflection on the respective policies.

Children poverty is also important, with a big part of it formed in families with a single parent or in families with multiple children, which often have an ethnic minority profile. Here most important are the problems of the education system and more specifically public school education, which fails to offer adequate knowledge and skills to the most vulnerable groups.

We also highlighted some of the regional specifics, which make poverty profiles between regions different. Further investigation of the hidden social transfers between regions through pensions and the social system could uncover some interesting correlations. The significant differences in poverty on the regional level against the national poverty line, as well as the different factors, that increase poverty, suggest policies that take into account those differences. This conclusion is especially important when it comes to labor market and education policies.

In conclusion, if a fifth of the population is at risk of poverty, then half of them or one in every ten people is at risk of deep poverty. Precisely this group, significantly lagging behind the middle class, is the least influenced by changes in macroeconomic environment and in practice has fallen in long term, self-reproducing poverty. Among the most vulnerable groups in regards to deep poverty are the unemployed and the inactive, and often their dependent children. It is important to note that deep poverty also affects many people of working age, which once again underlines the importance of labor market and education issues.