

# NERI Research inBrief

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## The Distribution of Household Income in the Republic of Ireland

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### SUMMARY

Growing attention to economic inequality has, in recent decades, led to a general consensus that effective government policies should be progressive if the aim is to foster inclusive growth and generalised improvements in wellbeing and living conditions. Individuals usually live in households and base their standard of living on their collective household income. In this context it is important to describe the nature, shape and composition of the distribution of household income in order to gain a better understanding of the economy and society and the potential impact of various policy options.

In this *Research inBrief* the latest available data for income available from the CSO is used to examine the Republic of Ireland's household income distribution, looking at both gross and disposable income.

### KEY POINTS

#### On Gross Income:

- 20% of households have a gross income of less than €19,484
- 50% of households have a gross income of less than €40,330
- The richest 20% of households have a gross income greater than €84,046
- 10% of all households have a gross income greater than €118,598 per annum

#### On Disposable Income:

- 50% of households have a disposable income of less than €34,704 per annum (€665 a week)
- 30% of households have a disposable income of less than €24,159
- The poorest 10% of households have a disposable income of less than €251 a week (€13,115 a year)
- The richest 10% of households have a disposable income above €1,513 a week (€78,964 a year)

## Introduction

Growing attention to economic inequality has, in recent decades, led to a general consensus that effective government policies should be progressive if the aim is to foster inclusive growth and generalised improvements in wellbeing and living conditions. It is important to understand the distribution of income across society. Considering individuals in their household context is vital for effective policy analysis as it allows the impact of policy changes (to welfare payments, taxation or public services) or changes to earnings levels (both high incomes and low incomes) to be examined across different socio-economic groups.

In this *Research inBrief* we examine the Republic of Ireland's household income distribution using the Central Statistics Office's (CSO) Survey on Income and Living Conditions (SILC).

## Households and the Data

Income is examined at the household level in this analysis, as individuals tend to be members of households and base their living standards on their collective incomes. The composition of household units varies. They may be single person households, but are likely to incorporate multiple individuals across the lifecycle. Households may comprise of individuals who are at work, unemployed, retired, students, ill, disabled or children.

The data used in this analysis is the Irish component of the EU-SILC. It provides the most comprehensive and detailed information for household income in Ireland. The most recently published edition of this data, which is for 2014, contains information for a sample of 14,078 individuals who reside in 5,486 households.

Like all survey data sources the SILC dataset is subject to some caveats. In particular, income surveys tend to experience lower response rates for those households and individuals who have both high and low incomes, while individuals who reside in institutions are exempt from the survey. However the data includes a probability

weight variable to correct for under-representation and non-response and these weights are used in the following analysis.

## Household Income

This *Research inBrief* examines the distribution of Gross and Disposable household Income. **Gross Income:** includes all cash and non-cash income flowing into a household from employee earnings, self-employment earnings, pensions, property income, investment income and all forms of social welfare entitlements (including child benefit). **Disposable Income:** comprises of Gross Income minus income taxes, levies and social insurance (PRSI) contributions. Disposable income is the total amount of post-tax and social transfers income households have to live off. Both of these income concepts are useful for examining the social and living conditions of households. The former gives us an insight into the total income flowing into the household prior to the interference of the taxation system. The latter gives us a greater insight into the living standards of households as it tells us the total amount of post taxation and transfers income households have to spend each year.

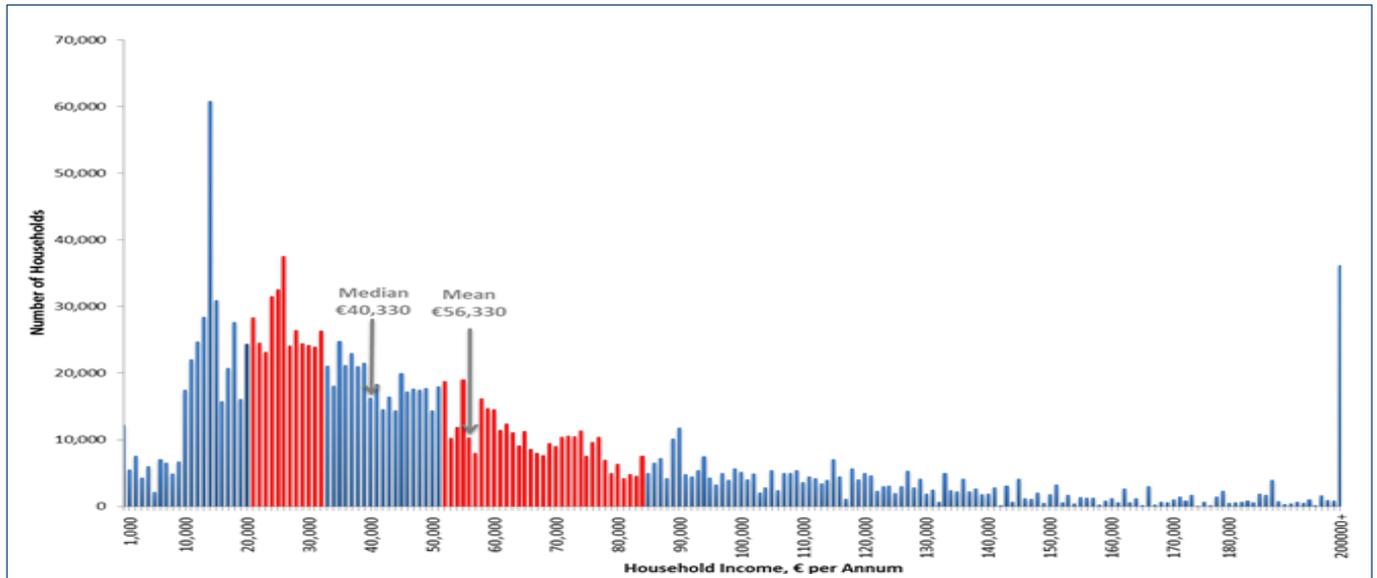
## The Gross Income Distribution

**Chart 1** displays the 2014 annual gross income distribution for households in the Republic of Ireland. This graph shows the number of Irish households with different income levels grouped in €1,000 income bands, with the height of the bars representing the number of households at each income level.

The gross household income distribution is heavily skewed with over 60% of Irish households receiving an income below the average (mean) income of €56,330, while half of Irish households receive a gross income of €40,330 a year or less.

**Chart 1** divides the distribution into equal colour-coded groups called quintiles. The first quintile contains the poorest 20% of Irish households. These households have a gross income of less than €19,484 a year, while 10% of households have a gross income below €13,294.

**Chart 1: Ireland's Gross Household Income Distribution, 2014**



Approximately 80,000 households are living on gross incomes of €10,000 a year or less. These are predominantly one adult households who have no member at work, and tend to be comprised of members who are retired, unemployed, students and those on home duties.

At the other end of the distribution, the richest 10% of Irish households receive an income of €118,598 or higher a year. The final bar on the right-hand side shows that there are approximately 2% of households receiving an annual gross income greater than €200,000.

### The Disposable Income Distribution

The household disposable income distribution is outlined in *Chart 2*. The Irish disposable income distribution is also heavily skewed with an average (mean) annual income of €42,227 (€809 a week), while half of Irish households have an income of €34,704 (€665 a week) or less to spend each year. The main points relating to the household disposable income distribution are:

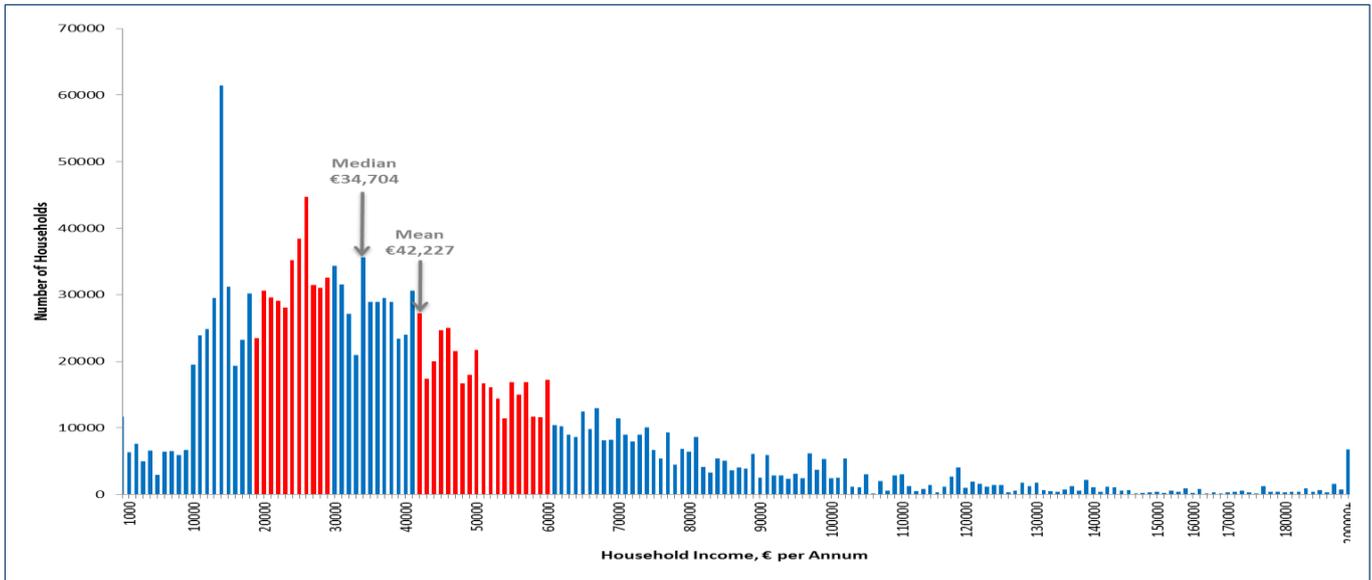
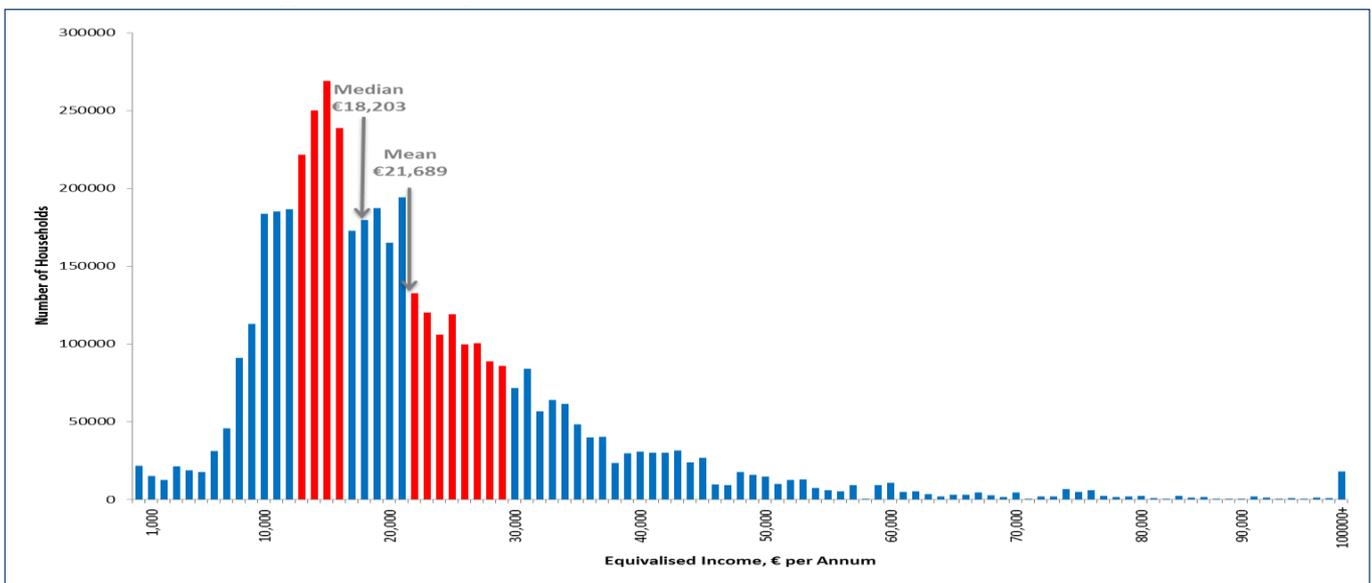
- 60% of Irish households have a disposable income of less than €40,923 per annum (€784 a week)
- 30% of households have disposable incomes of less than €463 a week (€24,159 per annum)

- The poorest 10% of households have a disposable income of less than €13,115 a year which would be equivalent to an income of €251 a week
- The richest 20% of households have a disposable income greater than €59,924 a year
- The richest 10% of households have a disposable income above €1,513 a week (€78,964 per annum)

### The Equivalised Disposable Income Distribution

The size and composition of households have a major influence on the quality of life and standard of living its members experience from their disposable income. For example, with a disposable income of €40,000 per year a one member household would have a much greater lifestyle than that of a household comprising of a couple and two children. In order to account for this, *Chart 3* adjusts the households disposable income figures and calculates a per person household disposable income using the national equivalence scale (see CSO 2015).

*Chart 3* is more condensed in comparison to the previously examined distributions, with the majority of households receiving an equivalised disposable income between €9,000 and €25,000 per year.

**Chart 2: Ireland's Disposable Household Income Distribution, 2014****Chart 3: Ireland's Equivalised Disposable Income Distribution, 2014**

The mean disposable income is €21,689 with 50% of households having a disposable income of €18,203 or less. The lowest 10% of households have a disposable income of less than €9,442, while the richest 10% of households have an equivalised disposable income of €38,000 or more per annum.

### Conclusion

Understanding the shape, nature and composition of the household income distribution is vital for the analysis of the impact of policies on households and societal welfare.

The purpose of this *Research inBrief* is to contribute to a broader understanding of the distribution of household income in the Republic of Ireland.

### References

Central Statistics Office (2015), *Survey on Income and Living Conditions 2014*, Dublin, Stationary Office.

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