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Reforming the Benefit System to 'Make Work Pay': Options and Priorities in a Weak Labour Market

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Options and Priorities in a Weak Labour Market**

Herwig Immervoll

November 2012

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ABSTRACT

Reforming the Benefit System to ‘Make Work Pay’: Options and Priorities in a Weak Labour Market

Policies that support the unemployed, while reducing employment barriers and benefit dependency, are of particular interest in the current economic climate. This paper examines alternative policy approaches for combining adequate income support for the jobless with incentives to keep out-of-work spells short. After summarising the main parameters of existing income support measures for the unemployed in EU and OECD countries, I review evidence on the economic relevance of work incentives and discuss their significance when labour markets are weak during and after an economic downturn. Based on the available evidence, I propose a set of policy priorities to strengthen both the “protection” and the “promotion” functions of unemployment support.

JEL Classification: H31, H53, J08, J68

Keywords: unemployment benefits, income support, work incentives, activation

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1 Key messages / Summary

Policies that support the unemployed, while reducing employment barriers and benefit dependency are of particular interest in the current economic climate. Unemployment benefits and related out-of-work support measures aim to achieve several interrelated objectives. Each of these objectives (redistribution, consumption “smoothing”, risk sharing, automatic stabiliser) is important in its own right, but it is only by considering them in combination that the challenges for designing effective unemployment support can be properly understood.

There are a range of different policy approaches that seek to balance adequate income support for the jobless with strong incentives to keep out-of-work spells short. Income support for jobseekers and their families is provided under various headings, including unemployment insurance and assistance, minimum-income benefits, as well as other transfers that may or may not depend on the family’s income situation.

Among these, unemployment benefits are, in principle, best placed to provide an effective combination of income support and re-employment services. When labour market conditions deteriorate, there can therefore be good arguments for making unemployment benefits more accessible. For instance, with reduced job-finding rates, and lengthening unemployment spells, extending benefit durations can help to ensure that unemployment compensation systems *(i)* continue to facilitate a reasonable match between jobseeker and vacancies, and *(ii)* provide effective income support during the jobless spell.

But in some countries, the capacity to provide effective employment services is limited, particularly when the number of jobseekers grows in a recession. Unless resources for public employment services (PES) and other areas of active labour market policy are increased in a timely fashion to service a growing number of clients, extensions of unemployment benefits risk compromising PES service quality and can reduce job-matching performance during the downturn and subsequent recovery. Where service capacity is weak, or budgetary pressures create major constraints for spending on active and passive labour-market policy, minimum-income safety-net benefits have an important role to play as an income source of “last resort” for jobseekers and their families.

In a majority of countries, a long-term trend of declining unemployment benefit coverage presents a major structural challenge for unemployment compensation systems. Low and declining benefit coverage of the unemployed erodes the capacity of the benefit system to fulfil its income protection function and its role in facilitating a good match between jobseekers and vacancies. As part of an employment-oriented policy framework, benefits provide a principal instrument for linking unemployed people to employment services and active labour market programs; those outside the scope of benefits can find accessing these services significantly more difficult.

As a recovery takes hold, strengthening work incentives and providing support for low-income working families – in the form of in-work benefits, or “back-to-work” allowances – will become more important. To maximise the chances that families benefit quickly from a recovery, in-work support should be designed to encourage job-search by *all* family members who are able to work. For instance, rather than tailoring back-to-work measures exclusively to job losers on an individual basis, they could be targeted also to working-age family members of a benefit claimant (even if they are not registered as unemployed). Such measures are likely to be effective as second earners are known to be more responsive to financial work incentives.

2 Introduction

Unemployment benefits and related out-of-work support measures are characterised by a number of interrelated objectives; to redistribute income and share unemployment risks between different groups of workers, to maintain acceptable living standards during times of joblessness (“consumption smoothing”), to facilitate efficient job allocation and reallocation, and to promote a return to higher incomes and to self-sufficiency. From a macro-economic perspective, unemployment support also has a central role as an automatic stabiliser.

Each of these objectives is important in its own right, but it is only by considering them in combination that the challenges for designing effective unemployment support can be properly understood.

How to strike the right balance between public support and encouraging adaptability and self-sufficiency is one of the most crucial questions in social and labour-market policy. After a deep recession, the stakes are especially high. For a number of reasons, the persisting labour market weakness in many EU countries has brought new urgency to the search for effective out-of-work support.

First, income data from this and earlier downturns show that recessions trigger large losses for some of the poorest income groups. And, compared to higher-income groups, those at the bottom of the income ladder also see a much slower recovery even when economic conditions start to improve.¹ This is of particular concern as the recent recession follows a well-documented medium-term trend toward a more unequal income distribution and, often, increasing rates of income poverty. One of the consequences of these trends is increased demand for redistribution through government support.

Second, a strong decline in fiscal revenues has intensified pressures to reduce or refocus social spending, and to bolster government revenues through higher employment. Unemployment can be very costly – for the individuals concerned and for the economy as a whole. As shown in Figure 1, the immediate budgetary loss due to higher benefits and reduced revenues (from income taxes and social security contributions) can be in the order of 80% of GDP per head for a lost full-time job.

Third, severe downturns typically give rise to increased pressures for job reallocation from declining or growing economic sectors. If, how and when this reallocation takes place has implications not only for the severity of a jobs crisis, but also for the pace of an eventual recovery. Out-of-work income support can play an essential role in this process; by insuring against income risks that inevitably arise in a flexible labour market, and as an element in a package that ties financial support to job-search and employment services.

Fourth, concerns about insufficient work or job-search incentives may become more pressing as lengthening out-of-work spells weaken the earnings potential of jobseekers. For youth and new labour-market entrants, studies show much lower entry wages during a recession.² Regardless of age, long-term unemployed typically see their earnings potential decline through a combination of depreciating human capital and -- if they become discouraged by continually weak job prospects -- reduced job-search effort.

This rest of this short paper reviews alternative policy approaches for combining adequate income support for the jobless with incentives to keep out-of-work spells short. It is structured as follows. Section 3 provides a very brief overview of the main parameters of income support measures for the unemployed in EU and OECD countries. Section 4 reviews evidence on the economic relevance of benefit generosity, and of work incentives more generally. It then discusses how the significance of work incentives changes with macroeconomic conditions and, specifically, with levels of unemployment. Based on the available

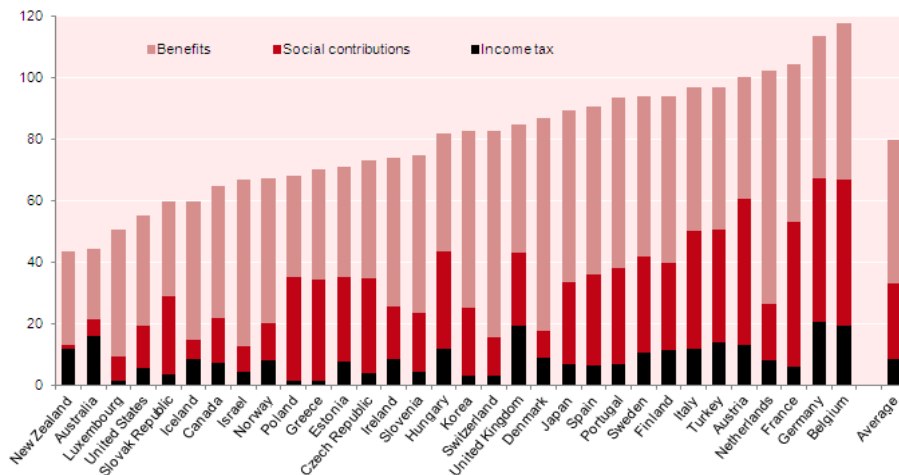
¹ Immervoll and Richardson (2011).

² Oreopoulos *et al.* (2006); Kahn (2010).

evidence, Section 5 considers a range of policy reform options and proposes a set of priorities to strengthen both the “protection” and the “promotion” functions of unemployment support.

Figure 1. Unemployment is expensive: direct fiscal cost of job loss

Job loser entitled to unemployment benefits, selected countries, % of GDP per head



Note: Model calculations averaging across different family types (singles and couples with and without children) and earnings levels (for each family type: 67 and 100 percent of the average wage before becoming unemployed). The amounts shown are calculated as the sum of benefit entitlements in the initial phase of unemployment (assuming entitlement to, and full take-up of, insurance and any means-tested benefits) and the direct taxes and social contributions (including by employers) payable in the lost job. Knock-on effects on other types of benefits or tax revenues (e.g., lower indirect taxes due to reduced consumption) are not taken into account.

Source: OECD tax-benefit models (www.oecd.org/els/social/workincentives).

3 Existing benefits for the unemployed

Annex Tables A1 and A2 summarise some the main institutional features of the primary benefits for job losers and other individuals without employment. **Unemployment insurance** programs exist in most EU and OECD countries and offer compensation for lost earnings subject to work-related conditions (Table A1). Reflecting insurance principles, claimants must have contributed to the insurance fund or have been employed over certain periods in order to be eligible. Claimants must also be actively looking for work and, in many cases, unemployment has to be involuntary. Benefit durations are limited in most, but not all, countries. Insurance is mandatory for most employees, but voluntary in some Nordic countries.

Jobseekers whose entitlement to unemployment insurance benefits has expired, or who are ineligible in the first place, may be entitled to **unemployment assistance** (Table A2). In some countries, unemployment assistance is the main unemployment benefit. Eligibility is often, but not always, conditional on previous employment. As unemployment benefits, they are accessible only to those who are available and actively looking for work. Benefit durations may or may not be limited. Although both insurance and assistance benefit schemes are typically (but, again, not universally) financed by contributions to unemployment insurance funds, the main purpose of assistance benefits is the provision of a minimum level of resources during unemployment rather than insurance against lost earnings. As a result, benefit levels tend to be lower and links to previous earnings tend to be weaker. They are reduced if other incomes are available, but means-testing tends to be less comprehensive than for social assistance benefits.

3.1. *Benefit generosity*

For those entitled to unemployment benefits, one simple way of summarising many of the relevant policy parameters is by means of benefit replacement rates, which express net income of a beneficiary as percentages of net income in a previous job. Table 1 shows benefits replacement rates at different stages of the unemployment spell for prime-age individuals. Results are averages over different earnings levels and family situations and account for taxes and for family-related benefits that are typically available.

During the first year of unemployment, prime-age workers entitled to unemployment benefits had net incomes above 60% in just under half of the countries. Income losses during the first year were smallest in Nordic countries and in continental Europe. On the other end of the spectrum, unemployed entitled to benefits but with no other support in Czech Republic, Korea, Slovak Republic faced income losses of more than 60% during the first year of unemployment.

In countries operating insurance benefits, net replacement rates typically decline during the unemployment spell. For instance, prime-age long-term unemployed in Japan, Italy, Korea and Turkey lose their entire unemployment benefit after 12 months or less (prior to recent crisis-related extensions of benefit duration, unemployment insurance benefits in the United States also expired after 26 weeks in most states). In several other countries, unemployment benefits are also no longer payable in the second year of unemployment, although families with children can be entitled to family support payments, which maintain a small amount of income for those without any other support. In a number of countries, means-tested unemployment assistance provides continued (and usually lower) benefit entitlements once insurance benefits expire (Austria, Finland, France, Germany, Greece, Portugal, Spain) and four English-speaking countries operate unlimited means-tested unemployment assistance benefits (Australia, Ireland, New Zealand, the United Kingdom), resulting in a flat replacement-rate profile.

Table 1. Generosity of unemployment benefits at different points during an unemployment spellNet replacement rates in %, 2010 policy parameters ^a

	Year 1	Year 2	Year 3	Year 4	Year 5	Five-year average
Belgium	71.4	64.5	64.5	64.5	64.5	65.8
Ireland	63.8	63.9	63.9	63.9	63.9	63.9
Austria	62.1	58.9	58.9	58.9	58.9	59.6
Malta	51.4	51.5	51.5	51.5	51.5	51.5
New Zealand	49.5	49.5	49.5	49.5	49.5	49.5
Australia	47.4	47.4	47.4	47.4	47.4	47.4
Portugal	76.1	76.1	54.4	24.1	4.6	47.1
Germany	64.4	47.5	41.3	35.0	35.0	44.7
France	66.9	66.9	28.8	28.8	28.8	44.0
Finland	61.7	58.5	31.8	31.8	31.8	43.1
Sweden	60.2	58.7	55.6	19.2	7.7	40.3
Norway	73.2	73.5	18.0	17.5	17.5	39.9
Spain	68.4	64.7	23.5	23.5	12.5	38.5
Iceland (b)	59.3	54.6	54.6	7.7	7.7	36.8
Denmark	74.1	74.1	9.6	9.6	9.6	35.4
Netherlands	73.0	61.2	5.3	5.3	5.3	30.0
United Kingdom	31.2	29.5	29.5	29.5	29.5	29.8
Canada	62.4	17.1	17.1	17.1	17.1	26.2
Switzerland	83.0	41.5	0.0	0.0	0.0	24.9
Luxembourg	85.5	9.1	9.1	9.1	9.1	24.4
Slovenia	56.8	11.8	11.8	11.8	11.8	20.8
Bulgaria	71.7	7.1	7.1	7.1	7.1	20.0
United States	51.0	46.1	0.0	0.0	0.0	19.4
Hungary	44.4	10.1	10.1	10.1	10.1	17.0
Poland	46.9	8.6	8.6	8.6	8.6	16.2
Slovak Republic	37.6	10.5	10.5	10.5	10.5	15.9
Romania	54.5	6.0	6.0	6.0	6.0	15.7
Japan	48.1	5.5	5.5	5.5	5.5	14.0
Estonia	50.1	4.6	4.6	4.6	4.6	13.7
Lithuania	32.2	9.0	9.0	9.0	9.0	13.6
Greece	46.8	8.9	4.0	4.0	4.0	13.6
Czech Republic	30.0	8.5	8.5	8.5	8.5	12.8
Latvia	46.0	2.4	2.4	2.4	2.4	11.1
Israel	44.3	2.6	2.6	2.6	2.6	11.0
Italy	45.1	0.0	0.0	0.0	0.0	9.0
Turkey	40.6	0.0	0.0	0.0	0.0	8.1
Korea	29.3	0.6	0.6	0.6	0.6	6.3
EU (average)	56.6	33.6	23.5	20.7	19.1	30.7
OECD (average)	56.4	35.5	22.8	19.0	17.7	30.3

a. Relevant policy rules are summarised in Annex Tables A1 and A2. Countries shown in descending order of the five-year average. Calculations consider cash incomes as well as income taxes and mandatory social security contributions payable by workers. To focus on the role of unemployment benefits, no social assistance or housing-related benefits are considered (see Figure 3 for “all-in” replacement rates including these safety-net benefits) and any entitlements to severance payments are also excluded. Net replacement rates are for a prime-age worker (aged 40) with a “long” and uninterrupted employment record and are averages over 12 months, four different stylized family types (single and one-earner couples, with and without children) and two earnings levels (67% and 100% of average full-time wage).

b. Excluding the retroactive extension in unemployment benefits from three to four years, passed in December 2010.

Source: OECD tax-benefit models (www.oecd.org/els/social/workincentives).

3.2. *Benefit coverage: How many unemployed receive unemployment compensation?*

Simple “textbook” economic models of labour-supply decisions and job-search consider out-of-work benefit levels as a *de-facto* wage floor. In these models, benefit replacement rates assume a central role since wage floors are the main factor determining people’s decision to work and exert job-search efforts. In reality, benefit receipt is not simply a choice but is associated with more or less well defined -- and more or less demanding -- eligibility conditions. Some of these conditions exclude certain individuals from the group of potential benefit recipients altogether. These provisions, which are sometimes referred to as *entitlement* conditions, serve as an initial “filter” that target support measures to certain groups (see column 1 in Table A1). For instance, in just under one third of EU countries, those resigning from their jobs (rather than being laid off) are not eligible for unemployment benefits (see Venn, 2012), individuals with short or interrupted employment records may not be eligible for unemployment insurance benefits, and those with assets may not qualify for means-tested benefits.

In addition, those entitled to receive a benefit in principle may have to comply with specific behavioural requirements which are an integral part of activation strategies, namely, job-search activities, participating in interviews and active labour market programmes (ALMPs), and accepting suitable job offers. These requirements tend to make continued benefit receipt costly for those who are not genuinely seeking to overcome benefit dependency. Because of these costs of claiming benefits, the provision or strengthening of out-of-work support does not necessarily have to translate into reduced job-search efforts.³ Well-defined eligibility conditions can therefore help to ease any trade-offs between adequate out-of-work benefits and maintaining strong labour-market performance.

The importance of entitlement conditions such as contribution requirements, and the costs associated with benefit receipt, becomes clearer when considering the share of jobseekers who actually receive benefits. Figure 2 shows that more than 70% of unemployed Germans and Belgians were in receipt of unemployment benefits in the mid-2000s. But in most countries, coverage rates were much lower. In Italy, Slovakia, Poland, Greece, Estonia and the United States, fewer than one in five job-seekers (those reporting to be available for work and actively looking for a job) received unemployment benefits.

It is striking that the shares of unemployed reporting benefit receipt have dropped in more than two thirds of countries over the time period shown, and only a few recorded significant increases.⁴ There can be different reasons for these trends, and not all have to do with the strictness of entitlement or eligibility criteria. A closer analysis of the coverage data suggests that shortening average employment spells and reduced employment stability are likely drivers of falling benefit coverage. In some but not all of the countries shown, a growing incidence of temporary employment and other types of non-standard work have caused growing shares of workers to remain unprotected (coverage rates decline if entitlement conditions fail to adjust to accommodate rising numbers of non-standard workers). In addition some countries pursuing an activation agenda have tightened conditions, reduced benefit durations, or introduced more demanding behavioural requirements.⁵

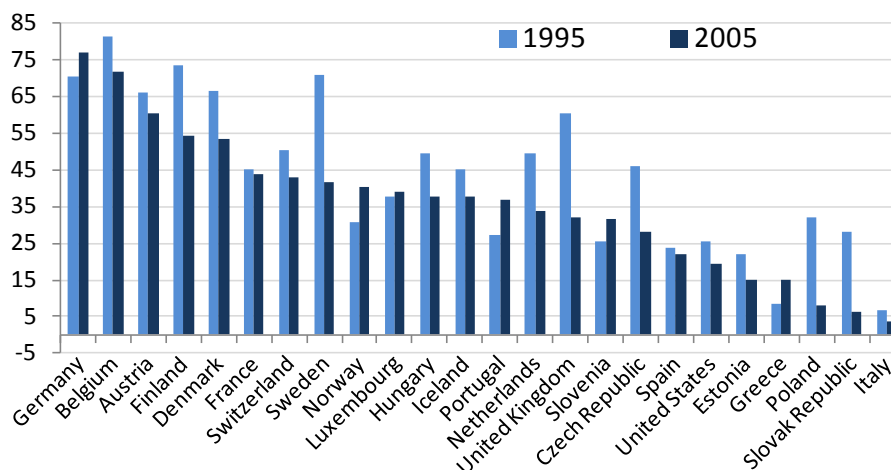
³ Frederiksson and Holmlund (2006) survey theoretical models of job search.

⁴ Including in Germany, where a merger in 2005 of social assistance and unemployment assistance into the new means-tested Unemployment Benefit II has considerably widened the scope of unemployment benefits. However, the increase shown in the figure is not a net effect as the reform has, at the same time, reduced the number of people receiving social assistance.

⁵ Other possible explanations are less plausible (see Immervoll and Richardson, 2011). For instance, the patterns cannot be explained by a simple change in the composition of the unemployed group (e.g., increasing shares of unemployed who are less likely to receive benefits because of their characteristics) as coverage rates have generally moved in the same direction for those with and without prior work experience. Across countries, a changing incidence of long-term unemployment is also not a plausible explanation as, between the mid-1990s and the mid-2000s, the proportion of long-term unemployment *fell* in most countries (e.g., from 36% unemployed over 12 months in 1994 to 32% in 2006 on average in the OECD area).

Figure 2. Unemployment benefit coverage

in % of ILO unemployed, selected OECD countries



Note: Calculations based on administrative data can give different magnitudes of coverage rates than the survey-based measures reported here. Reasons include both measurement issues and conceptual differences (e.g., because the number of people registered with the employment service as unemployed may, depending on administrative norms and practices, be much higher or much lower than the number unemployed as reported in the labour force survey). See Grubb *et al.* (2009).

Source: Immervoll and Richardson (2011) using European Labour Force Surveys and Current Population Survey (US).

3.3. Other benefits for unemployed people and their families

Those who do not qualify for any unemployment benefit may receive **social assistance**, with central or sub-central governments acting as providers of last resort (see Table A3 for a summary of policy parameters). The main eligibility criteria relating available incomes and assets to entitlements do not depend specifically on claimants' work history. Income and asset tests can be very restrictive and always take account of the resources of other persons living with the benefit claimant. Eligibility may be conditional on the claimant's effort to regain self-sufficiency. But whereas rules and practices vary substantially across countries, job-search and other activity requirements can be much less demanding than in the case of unemployment benefits.⁶ Unlike most unemployment benefits, social assistance is typically not subject to explicit time limits but is paid for as long as relevant conditions are met. Benefits often "top-up" income from other sources (including other benefits). Because bigger families require more resources to secure a given living standard, top-ups are more likely for benefit claimants with dependent family members.

Support for the unemployed is therefore provided under a range of different policy headings. When comparing across countries, it is useful to consider the generosity of the overall benefit package. Social assistance, means-tested housing benefits, and other benefits of last resort are important additional components of the overall support package, especially for those running out of unemployment benefit entitlements. Figure 3 reports the same net replacement rates as shown in Table 1 above, but after adding cash rent assistance and minimum-income or "welfare" benefits. In many countries, these

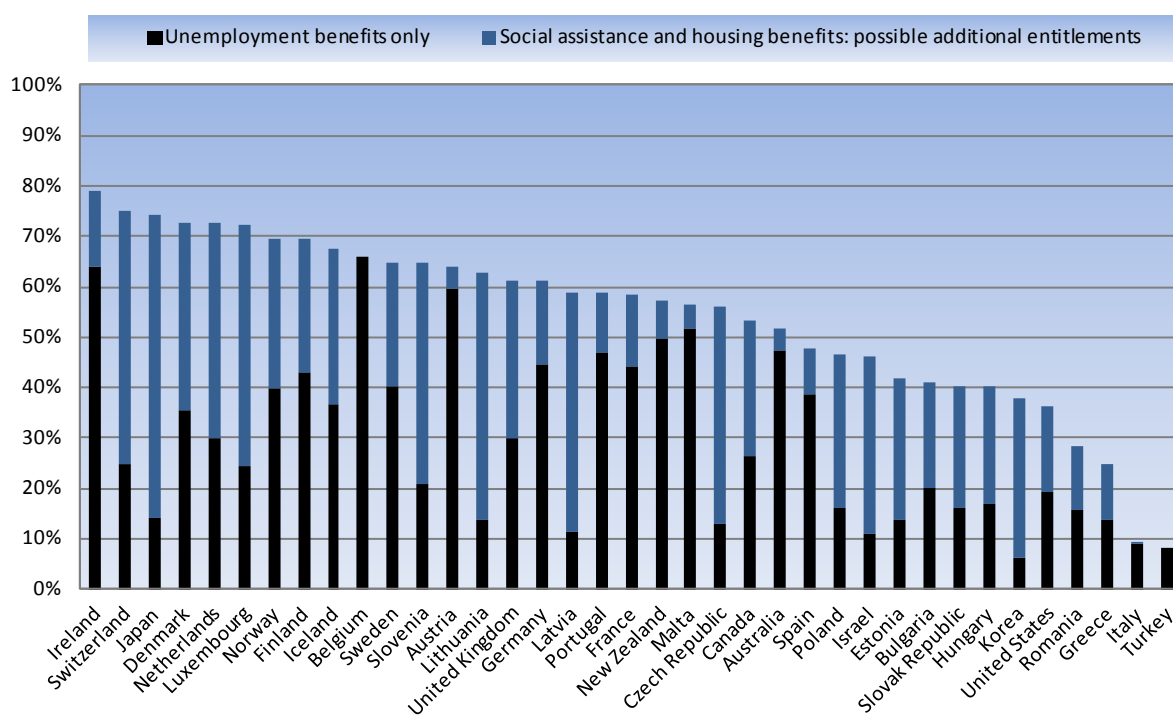
⁶ For instance, unlike unemployment benefit recipients in most countries, social assistance recipients often do not enjoy any legal job or status protection in the form of "suitable-job" criteria. Formally, they would therefore have to accept any available job although the extent to which this is enforced in practice is difficult to establish. Reasons for deviating from strict formal availability criteria may be related to employers' concerns that pushing referrals of overqualified benefit claimants could damage their motivation for the job (see, e.g., Box 3 in Tergeist and Grubb, 2006).

transfers provide a crucial fall-back option for people not, or no longer, receiving unemployment compensation.

Figure 3 shows replacement rates for someone actually receiving these safety-net benefits. But, as argued below, social safety nets are often relatively poorly targeted, reaching only a small proportion of the low-income population. Cross-nationally comparable coverage data are not available for these benefits of last-resort. But studies on benefit take-up regularly find very high non-take-up rates for means-tested benefits in the order of 40% or more, indicating that the deterrent effect of the various barriers combined is indeed significant (Bargain *et al.*, 2011; Hernanz *et al.*, 2004).

Figure 3. Social safety nets are important complements to unemployment benefits

Net replacement rates, averages over five-year unemployment spell, 2010 policy parameters



Notes: See Table 1 for calculation details. “Social assistance” refers to minimum-income transfers (relevant policy rules are summarised in Annex Table A3). In the United States it also includes the value of a near-cash benefit (“Food Stamps”). Housing-related benefits are those intended to cover rent, utilities and associated housing-related expenses. Benefits shown are the maximum amounts to which a family may typically be entitled if there is no other income.

Source: OECD tax-benefit models (www.oecd.org/els/social/workincentives).

4 How important are work incentives for labour-market outcomes?

Even though results are not available for all countries, there exists relatively broad agreement among labour economists about the responsiveness of people's employment decisions to financial work incentives, such as the net income gain of working one hour more or of working at all.⁷ Among the main findings are the following:

⁷ A survey of results from around 40 studies is provided by Evers *et al.* (2008) and Immervoll *et al.* (2007).

- Financial incentives affect the total amount of work and earnings mainly through the decision of whether or not to work at all. Changes in the number of hours worked for those already in employment (e.g., as a result of tax increases or benefit losses that result from earning a little bit more) are less sizeable;
- Low-income groups and lone parents react more strongly to financial incentives; and
- Labour supply is more responsive (or "elastic") for women than for men.

These results are important when considering the potential economic cost of reforming out-of-work support programs, and for deciding how best to target make-work-pay policies. For instance, for a given amount spent on in-work benefits, targeting these resources on women and low-income groups, especially when children are present, is likely to create the biggest payoff in terms of stronger employment and higher earnings.

But while some general patterns emerge from the international evidence, it is notable that there are often very large differences across different countries. For instance, one of the few available cross-country empirical studies reports that single women in Hungary and Poland are only about 1/4 as responsive to financial incentives as in Ireland and the United Kingdom (Bargain and Peichl, 2011). One important explanation for large country differences is that incentives may have limited relevance for observed employment outcomes if other barriers prevent people from adjusting their labour-market status or working hours. When involuntary unemployment is high during a downturn, many individuals who want to work cannot find a suitable job. Frictions in the labour market (e.g., due to poorly functioning public employment services) can have similar effects. On the other hand, policies that tie benefit receipt to job-search or participation in ALMPs can help to avoid negative employment effects that would otherwise result from unconditional out-of-work benefits.

4.1. *Financial incentives and the duration of jobless spells*

When looking at unemployment compensation, a preferred way for expressing incentive effects is in terms of the impact on the duration of out-of-work spells. Although measurement approaches⁸ and findings differ, there is a consensus that more generous benefits do lead to a measurable lengthening of jobless spells *for the individual concerned*.⁹ This is true whether changes are due to benefit levels (replacement rates) or benefit durations.

Many studies find modest to moderate effects, however.¹⁰ Importantly, greater changes in generosity create disproportionately stronger effects, both theoretically and empirically.¹¹ This may be one reason why studies in countries with more generous unemployment compensation, such as the Nordic countries, frequently find stronger incentive effects of changes in benefit generosity.¹² It also implies that increasing

⁸ For instance, most studies measure benefit levels in terms of gross replacement rates instead of the conceptually correct net replacement rates shown in Table 1 and Figure 3 above.

⁹ See Krueger and Meyer (2002) for a survey of early studies.

¹⁰ For instance, in a well-known study of a large policy change in Austria, Lalive *et al.* (2006) find that increasing benefit levels (as measured by the gross replacement rate) from 41% to 47% (an increase of 15%) lengthens expected out-of-work durations by 0.4 weeks (from 20.6 to 21.0 weeks, an increase of 2%). In percentage terms, the effect of extending maximum benefit durations is in the same order of magnitude (e.g., plus 0.8 weeks for an extension of the benefit duration of 9 weeks, or 30%).

¹¹ For instance, in the Austrian study, a 22 week extension of the maximum benefit added almost 6 weeks to the expected jobless spell.

¹² Røed, K. and Zhang (2003), Carling *et al.* (2001).

benefits from a low base, or introducing modest benefits for unemployed who are currently not covered at all, is likely to produce only fairly mild adverse effects on job finding rates.

4.2. (When) are longer jobless spells a bad thing?

There are a number of reasons why lower job-finding rates among benefit recipients should not be expected to translate directly into changes in *economy-wide unemployment* of a similar magnitude. The most obvious reason is that, as shown earlier, many unemployed do not receive benefits and their job search behaviour is, therefore, not immediately affected by more generous benefits. Making unemployment support more generous can in fact strengthen work incentives for jobseekers who do not qualify (because they have more to gain from seeking to qualify for benefits in possible future unemployment spells, Holmlund, 1998). The potential importance of such an “entitlement” effect is stronger when benefit coverage is low.

Second, and related, greater benefit generosity may to some extent affect the composition, rather than the level of unemployment: “Suppose for example that [...] we observe that persons with higher benefits exit unemployment more slowly. This does not necessarily mean that aggregate unemployment is higher since the refusal of jobs by one group may lead to the work being offered to others. In other words it is the composition of unemployment which is altered.” (Atkinson and Mickelwright, 1991, p.1710). Again, this “composition effect” is more likely in countries where benefit coverage is low.

Third, although long-term unemployment is very costly and clearly damages future career prospects, there is evidence that unemployment insurance does improve job quality by allowing jobseekers more time to actively search for a good match with available job offers. Some recent studies show that reducing job mismatch can substantially improve employment stability and other employment outcomes, such as future wages.¹³

It is therefore important to keep in mind that studies on incentives and jobless spells, such as the results from Austria given in footnotes 10 and 11 above, focus on the effects of unemployment benefits on the job search of *benefit recipients*; they do not capture effects on the employment behaviour of those not covered by benefits, or the effects of a reduced inflow into unemployment due to, say, greater employment stability. While the extents of “composition” and “entitlement” effect are rarely examined explicitly, there is indeed some evidence that effects of benefit generosity on *aggregate unemployment* are smaller than effects on the behaviour of individual benefit recipients (Landais *et al.*, 2010).

More fundamentally, any adverse effect of benefit generosity on unemployment duration has to be weighed against the objectives of providing unemployment benefits in the first place, namely, their function as an automatic stabiliser, and the insurance value of “smoothing” consumption and sharing unemployment risks across a large number of workers.

4.3. Are downturns a good time for ‘making work pay’?

Most of the costs and benefits of unemployment compensation can be expected to vary over the economic cycle. In the current economic context, the design of out-of-work support during periods of persistent labour-market weakness is a crucial issue from a policy perspective and many countries have, indeed, embarked on reforms in the past three to four years.¹⁴

¹³ Centeno (2004), Petrongolo (2009), Tatsiramos (2010), Caliendo *et al.* (2012).

¹⁴ For instance, several countries have increased benefit amounts or maximum benefit durations (e.g., Canada, Iceland, Latvia, Luxembourg, Portugal, Slovenia, Romania and the United States), either as a temporary crisis measure, or as part of structural reform packages. Other countries have instead cut benefit levels (e.g., Croatia, Lithuania), shortened benefit durations (e.g., Denmark), or both (Ireland). Latvia has capped benefit levels for high-

There are good social as well as economic arguments for modifying benefit provisions when labour-market conditions change substantially. It is clear that there is a greater need for unemployment support when job losses mount and labour markets remain slack for extended periods. With reduced job-finding rates, a given job-seeker remains unemployed for longer periods of time. Extending benefit durations can therefore help to ensure that unemployment compensation systems (i) continue to facilitate a reasonable match between jobseeker and vacancies, and (ii) provide effective income support during the jobless spell.

But since more generous benefits reduce job-finding rates, do such adjustments lead to a significant worsening of labour-market outcomes that would further exacerbate labour-market problems and delay a recovery? Recent research in the United States and in Europe provide useful pointers for thinking about this question (Landais *et al.*, 2010; Schmieder *et al.*, 2012). According to those studies, the adverse effect of benefit generosity on *individual* job-search is indeed about the same in recessions and in booms. But, importantly, the intensity of job-search makes less of a difference to employment outcomes when there are long queues of job-seekers and a much-reduced number of vacancies. This argument says that *aggregate* unemployment is less sensitive to changes in benefit generosity when labour markets are weak.¹⁵ In countries where this is the case, the efficiency costs of providing support would then be no greater (and perhaps smaller) in recessions. At the same time, the need for benefit support is greater, so the cost/benefit ratio of unemployment support would be more attractive when unemployment is high.

5 Options and priorities for reforming benefit systems

This section outlines some of the policy priorities that follow from the discussion above. Clearly, the country context is a major determining factor of policy choices and constraints. In the current economic climate, with widely differing labour-market conditions and fiscal pressures across EU countries, there are no 'one-size-fits-all' solutions. It is, however, possible to identify some of the main current challenges facing benefit systems, and to consider how country-specific factors can shape conclusions of how to address them.

5.1. *Should unemployment benefit provisions be adjusted when labour markets are weak?*

Starting with the onset of the crisis in late 2008, benefit generosity has remained firmly on the policy agenda in many of the countries that were worst-hit by the downturn. Some of the considerations above suggest that an "optimal" unemployment compensation system should provide more generous support when unemployment is high. How relevant is this argument in different country contexts?¹⁶

Recessions are much more damaging without adequate income support systems in place. When many unemployed exhaust their benefits without finding employment, benefit provisions should be reviewed, both for social and for economic reasons (and, where benefit entitlement durations are already generous, an argument that benefit provisions should be responsive to the economic cycle may imply shortening

income workers and extended durations for those with shorter employment histories. The Czech Republic has increased benefits but cut durations. See OECD (2009; 2011) and European Commission (2011).

¹⁵ Landais *et al.* (2010) cite evidence for this for the United States and the United Kingdom. A more recent US study provides a thorough review of factors contributing to persistent labour-market slack and finds that the very sizeable extension of unemployment insurance has had a very modest impact on unemployment rates (Rothstein, 2012). It is worth noting that a finding of more sizeable effects on measured unemployment does not necessarily point to an equally large reduction in job-search intensity. Instead, part of the increase in unemployment can be due to the continued job search by individuals who would have dropped out of the labour force had benefit durations not been extended.

¹⁶ See Grubb (2011) for an exhaustive set of counter-arguments that emphasize possible risks associated with boosting benefits in a downturn.

durations once the labour market recovers). Considering extensions is more urgent where there are no fall-back safety-nets for those running out of unemployment compensation. However, because existing safety-net benefits may provide less of a re-employment focus than unemployment compensation (for instance, job-search requirements may be less stringent), there can be a case for adapting unemployment benefits even in countries that do operate effective “last-resort” minimum-income benefits.

In all cases, benefit extensions arguably need to be accompanied by changes in related policy areas. For instance, extensions can be accompanied by measures such as “soft sanctions” (e.g., requiring claimants to re-apply before any extensions are granted, introducing waiting periods in-between consecutive claiming periods, or reducing benefit amounts over time). In general, it is important to retain a strong link between benefit receipt and active job search. Changing benefit provisions is, however, much easier and quicker than, say, changing staffing levels or intake procedures at the public employment service (PES). When benefit provisions change, this therefore typically also shifts the balance of “mutual obligations” which underlies the relationship between claimant, benefit administrations and employment services.

For instance, attempts to re-enforce job-search and other beneficiary obligations during recessions can be counter-productive, unless public employment services (PES) have the financial and staff resources to implement such changes. In fact, the large number of new benefit claimants during recessions may overwhelm PES and there is then a risk that longer benefit durations, or less stringent entitlement conditions, may further compromise PES effectiveness and worsen job-search outcomes. In most countries, spending on active labour market policies *per unemployed person* falls very substantially during recessions.¹⁷ While benefit expenditures everywhere rise automatically when unemployment goes up, only a few countries (Denmark, Switzerland) have linked expenditures for *active* labour market policies to labour market conditions.

Some degree of automatic adjustments can also be attractive on the benefit side (e.g., by linking durations to regional unemployment rates or unemployment/vacancy ratios). Discretionary changes run the risk that modifications come at the wrong time (e.g., before unemployment increases), are distorted by political considerations (e.g., there may be a temptation to raise benefit levels for newly unemployed, rather than extending durations for those with weak job prospects), or remain in place for too long.

In general, recessions leave policymakers with difficult choices about spending priorities. When finding a job takes longer in a downturn, the case for maintaining or extending benefit durations is stronger than for maintaining or increasing benefit levels. In fact, weak labour markets are sometimes associated with stagnant earnings levels or falling wages, and, typically, the earnings potential of jobseekers declines as unemployment spells grow longer. Even unchanged benefit levels may therefore become more generous relative to the earnings that jobseekers could make, and this may give rise to adverse work incentives. Nonetheless, it is important to carefully monitor benefit levels to ensure that they adequately protect families from poverty. For minimum-income benefits in particular, adequate benefit levels become much more crucial in the fight against poverty since more people rely on them when labour markets are weak.

5.2. *Benefit coverage was low before the recession – and will likely decline further*

Low and declining benefit coverage of the unemployed erodes the capacity of the benefit system to fulfil its income protection function, and its role in facilitating a good match between jobseekers and vacancies. As part of an employment-oriented policy framework, benefits provide a principal instrument for linking unemployed people to employment services and active labour market programs; those outside the scope of benefits can find accessing these services significantly more difficult. In most OECD and EU countries, there has been a longer-term trend towards declining coverage.

¹⁷ Immervoll and Scarpetta (2012).

In part, this can be intended. For instance, governments may wish to maintain the link between contributions and benefit payouts and therefore exclude those with short or interrupted work histories (and sometimes those with very low earnings). But depending on entitlement conditions for unemployment benefits, growing shares of workers may remain unprotected if temporary work and other non-standard work patterns become more common. They may be excluded by law (e.g. the self-employed in most countries, including the so-called “falsely” self-employed) or de facto because they are less likely to meet contribution requirements or satisfy other relevant eligibility criteria (e.g. temporary or part-time workers). A lack of protection for these workers has been a particular concern during the downturn, because non-standard workers typically are more easily shed from the workforce and therefore likely to experience a disproportionate share of overall job losses.

Benefit design can play a role in extending the scope of unemployment compensation. For instance, some countries have tightened entitlement conditions in recent years and this is one likely factor contributing to falling coverage rates. Where coverage is very low among groups facing high unemployment, notably youth, reforms of entitlement conditions can make benefits more accessible – at a rate that suitably accounts for their labour-market situation and earnings potential. For countries where benefit coverage is very low, where service capacity is weak, or where budgetary pressures create major constraints for spending on active and passive labour-market policy, minimum-income safety-net benefits have an important role to play as an income source of “last resort” for jobseekers and their families. In addition, unemployment insurance based on individual savings accounts could be one option for extending the reach of unemployment protection in the medium term. The role of savings-based unemployment protection is different from insurance or assistance-based benefits, as there is no redistribution element and no sharing of unemployment risks. They are therefore not a replacement for public benefits, and, since there is very little experience with such programmes, any reforms would have to proceed carefully. However, a pragmatic approach that mixes different elements of social insurance, and individual insurance, as well as assistance benefits, could facilitate building up coverage more rapidly in some countries.

But low coverage is not only, and sometimes not even mainly, a question of the benefit system but of employment contracts, labour-market regulation and increasing shares of non-standard employment. It is plausible that the number of people outside the scope of unemployment insurance/compensation will, again, increase during the recovery, as a large pool of jobless people with weak bargaining power are absorbed back into the labour market. In the context of on-going labour-market reforms, this is likely a good time for a considered policy debate about the role of non-standard employment and its relationship to the social protection system more generally.

5.3. Employment-friendly support – for individuals and for families

In a downturn and in the early phases of a recovery, job losers and labour market entrants will more often need to settle for new jobs offering lower wages or fewer hours than they could have obtained in a more robust labour market. Several different designs exist for providing income support to low-earnings individuals. They differ in terms of their distributional impacts and also create different incentives on the demand and supply sides of the labour market.

But, to date, most support measures adopted since the onset of the economic crisis have focussed on job losers and have largely ignored the role of other family members in stabilising household incomes. Support measures, such as for childcare, that facilitates a more equal sharing of market work between men and women would help families recover lost incomes, and would leave them better prepared for future jobs crises. The early phase of the downturn has shown the value of greater gender equality in the labour market. With job losses concentrated among men, attempts by other family members to offset some of the resulting earnings losses (“added worker” effect) reduce poverty risks as well as pressures on social expenditures.

In-work support can be actively designed to encourage and boost such income-stabilisation at the family level. For instance, rather than tailoring back-to-work measures exclusively to job losers on an individual basis, special time-limited earnings disregards or back-to-work allowances could be targeted to working-age family members of a benefit claimant (even if they are not registered unemployed). Such measures are likely to be effective as second earners are known to be more responsive to financial work incentives.

Likewise, job-search support and activation measures should extend to all family members who are able to work (in some countries, formal requirements for family members either do not exist, or may not be fully enforced). And, to improve job-search opportunities for the family as a whole, it can be useful to encourage partners of registered jobseekers to participate in labour-market programmes.

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Table A1. Unemployment insurance benefits, 2010

	Employment (E) and contribution (C) conditions	Insurance is voluntary (V) or compulsory (C) for employees	Waiting period (days)	Maximum duration (months)	Payment rate (% of earnings base)		Earnings base(2)	Minimum benefit (1)		Maximum benefit (1)		Permitted employment and disregards	Additions for dependent family members
					initial	at end of legal entitlement period		National currency	% of AW	National currency	% of AW		
	[1]	[2]	[3]	[4]	[5]		[6]	[7]	[8]	[9]	[10]	[11]	[12]
Australia	--	--	--	--	--	--	--	--	--	--	--	--	--
Austria	E+C: 1 year in 2.	C (if earnings above threshold)	0	9	55		Net	--	--	16,316	42	No reduction for earnings up to EUR 4396, total loss if earnings greater.	Each dependant: EUR 354.
Belgium	E+C: 468 days in 27 months.	C	0	unlimited	60	53.8 (after 1 year)	Gross	10,159	24	15,887	38	Maximum: limit of EUR 3872 for artistic employment.	If dependants, minimum benefit is increased to EUR 12090 (29% of AW).
Bulgaria	E+C: 9 months in last 15.	C	--	12	60		Gross	1,564	21	--	--	No benefits if employed	--
Canada(3)	E+C: 595 hours in 1 year.	C	14	11	55		Gross	--	--	23,764	53	Up to 40% of benefits or CAD 3900, whichever is higher.	Family supplements depend on income plus age and number of children.
Czech Republic	E+C: 12 months in 3 years.	C	--	5	65	50-45 (after 2 and 4 months)	Net	--	--	Approx. 167000	58 (4)	Half of the minimum wage in a month is allowed without losing entitlement to unemployment benefits.	--
Denmark	E: 52 weeks in 3 years. C: membership fee.	V	0	24	90		Gross less 8% SSC.	160,416	43	195,516	52	Benefits are reduced in proportion to hours worked.	--
Estonia	E+C: 12 months in 3 years.	C	7	12	50	40 (after 101 days)	Gross	26,100	17	Approx. 220000	149	None.	--
Finland	E: 34 weeks in 28 months, C: 10 months.	V	7	23	Basic benefit (17% of AW) plus 45% of earnings exceeding basic benefit to 81% of AW then 20%.		Gross (excluding additional holiday pay) less SSC.	--	--	None		Working hours <75% of full time. Benefit reduced by 50% of gross income. Benefit plus income cannot exceed 90% of reference earnings.	Supplements: EUR 1254, 1840, 2371 for 1, 2 and 3 or more children respectively.
France	C: 4 months in 28 months.	C	7	24	57-75		Gross	9,829	28	79,488	228	Income <70% of reference earnings, hours worked/month <110 and duration <15 months. Benefit reduced depending on income ratio to reference earnings.	--
Germany	E: 12 months, C: 12 months in 2 years.	C	0	12	60		Net	--	--	38,880	92	Total loss if working more than 15 hours/week.	Rate increases by 7 percentage points if dependant children present.
Greece	E+C: 125 days in 14 months or 200 days in 2 years.	C	6	12	Flat rate benefit (27% of AW).		--	--	--	--	--	None.	Benefit increased by 10% for each.
Hungary	E+C: 365 days in 4 years.	C	0	9	60	60% of mandatory minimum wage	Gross average earnings of last 4 calendar quarters	529,200	21	1,058,400	42	For short term (<90 days) and occasional/seasonal employment, the benefit is suspended.	--
Iceland	E+C: 3 months in the last 12.	C	0	36	Paid at a fixed rate (34% of AW) for 10 days, then 70% of previous earnings for 65 days, then back to the fixed rate.		Gross. Fixed rate is proportional to hours worked in previous 12 months.	448,500	9	2,911,632	55	For occasional employment <2 days, benefit is reduced proportionally.	ISK 71760 per child (4% of fixed rate benefit).
Ireland(5)	C: 39 weeks in 1 year (or 26 'reckonable' contributions in 2 years). 104 weeks contributions paid since starting work	C	3	12	Fixed amount (32% of AW).		--	--	--	--	--	Benefit is not paid for any day or partial day of employment. Earnings are not assessed.	Supplements of 5% of AW per qualifying child, and 21% of APW per qualifying adult.
Israel	E+C: 12 months in 18 months.	C	5	6	32-80		Average gross earnings of last 3 months.	--	--	96,180	85	Where employment income is lower than the earnings base for the payment, the benefit level is the difference between actual wage and 75% of previous wage. The claimant must have worked for at least 25 days.	--
Italy(6)	C: 52 weeks in 2 years.	C	7	8	60	50 after 6 months	Average gross earnings of last 3 months.	--	--	12,879	46	No benefits if receiving earnings from employment (except for CIG scheme).	--

	Employment (E) and contribution (C) conditions	Insurance is voluntary (V) or compulsory (C) for employees	Waiting period (days)	Maximum duration (months)	Payment rate (% of earnings base)		Earnings base (2)	Minimum benefit (1)		Maximum benefit (1)		Permitted employment and disregards	Additions for dependent family members
					initial	at end of legal entitlement period		National currency	% of AW	National currency	% of AW		
	[1]	[2]	[3]	[4]	[5]		[6]	[7]	[8]	[9]	[10]	[11]	[12]
Japan	E+C: 6 months in 1 year (at least 11 days each month).	C	7	9	50-80		Gross earnings of last 6 months (excl. bonuses).	--	--	2,516,400	53	No benefits if employed.	--
Korea	E+C: 6 months in 18.	C	7	7	50		Gross earnings paid of last 3 months.	10,801,080	29	14,400,000	39	If income divided by number of benefit days entitled is over 120% of minimum wage then excess deducted from UI benefit. Benefit stops if employed more than 60 hours per month.	--
Latvia	C: 9 months in 12 months	C	0	9	65		Gross	--	--	--	--	No benefits if employed	--
Lithuania	C: 18 months in 36 months	C	--	9	40% + fixed amount of LTL 350 per month	20 after 3 months	Gross	4,200	18	7,800	33	No benefits if employed	--
Luxembourg	E+C: 26 weeks in 1 year.	C	0	12	80		Average gross earnings of last 3 months.	--	--	39,584	80	Reduced if earnings exceed 10% of the earnings base used to calculate benefit.	Replacement rate increases by 5 percentage points if dependent children present.
Malta	C: 50 weeks, including 20 in last 52.	C	--	5	Fixed amount (21% of AW).		--	--	--	--	--	Earnings must be below payment level.	Additional 11% of AW if lone parent or maintaining a spouse.
Netherlands	E+C: 26 weeks in 36, plus 52 days in 4 of 5 years.	C	0	38	75	70 (after 2 months)	Gross	12,846	28	36,131	80	If <5 hours/week, benefit reduced by 70% of gross earnings. If >5 hours/week, proportional reduction.	Supplementary benefits for low-income households to bring income up to a minimum guaranteed level.
New Zealand	--	--	--	--	--	--	--	--	--	--	--	--	--
Norway	E+C: Earnings above a minimum level.(7)	C	--	24	62		Gross	70,800	15	283,200	60	--	NOK 4420 per child.
Poland	E+C: 365 days in 18 months and earnings > minimum wage.	C	7	12	Fixed amount 30% of AW.(8)	Fixed amount 23% of AW (after 3 months).(9)	--	--	--	--	--	Gross income disregard of up to PLN 7902 (half the minimum pay).	--
Portugal	E+C: 450 days in 24 months.	C	0	24	65		Gross	5,031	29	15,092	87	If earnings less than maximum UI benefit, and hours less than 75% of previous working hours, final UI benefit = (maximum UI benefit*1.35 - income)	--
Romania	C: 12 months in 24	C	--	12	Fixed amount of 24% of AW plus 10% of earnings.		Gross	--	--	--	--	Can keep 30% of benefit if re-employed	--
Slovak Republic	E+C: 3 years in 4 years.	C	0	6	50		Gross	--	--	13,208	142	No benefits if employed.	--
Slovenia	E+C: 12 months in 18 months.	C	--	9	70	60 (after 3 months)	Gross earnings of last 12 months (incl. bonuses)	4,014	24	12,041	71	A beneficiary who is seeking full-time work keeps receiving a proportional amount of UI if they get part-time work (up to 20 hours per week).	--
Spain	C: 360 days in 6 years.	C	0	24	70	60 (after 6 months)	Gross	5,964	24	13,046	53	Benefits are reduced in proportion to hours worked.	Increased minimum and maximum benefit if person has dependent children.
Sweden	E: 6 months in last year, C: been a member of an insurance fund for 12 months.	V	7	35	80	70 (after 9 months). 65 for Job and Development Guarantee (after 14 months).	Gross	83,200	23	176,800	48	Benefits are reduced in proportion to days worked.	--
Switzerland	E+C: 12 months in 2 years.	C	5	18	70		Gross	--	--	88,200	117	"Compensation payment for intermediate earnings": benefits are equal to 70% of the difference between insured earnings and current earnings.	Rate increases by 10 percentage points if children or low income.
Turkey	E: 600 days in 3 years E+C: 120 days continuously, immediately before	C	0	10	40		Gross	3,650	17	7,301	34	No benefits if employed.	--
United Kingdom	C: 12 months in 2 years.	C	3	6	Fixed amount (10% of AW).		--	--	--	--	--	Income over GBP 260 (520 for couples) reduces benefit by same amount.	--
United States (9)	E: 20 weeks (plus minimum earnings requirement).	C	0	23	53		Gross	6,084	13	18,824	41	Earnings less than gross benefit are deducted at 50% rate; Earnings exceeding gross benefit are subtracted from 1.5 times the gross benefit amount. Individuals earning more than 1.5 times their gross benefit amount are ineligible.	USD 312 for each dependant.

Source: OECD (www.oecd.org/els/benefitsandwagespolicies.htm)

Notes: Where benefits are conditional on work history, the table assumes a long and uninterrupted employment record for a 40 year-old. AW is the average full-time wage.

1. Single worker without children (benefits may depend on family situation). All benefit amounts are shown on an annualised basis. "--" indicates that no information is available or not applicable.
2. Gross = gross employment income; SSC = (employee) social security contributions; Net = Gross minus income taxes minus SSC.
3. Duration of Employment Insurance (EI) payments depends on unemployment rate in the relevant EI region. The 47 week duration shown here relates to an unemployment rate of 9% in Ontario.
4. Maximum proportion is set with reference to average wages in the preceding year. Measure of average wages used may not align with AW used here.
5. Reduced payment rate if weekly earnings below certain amounts, so of payment are made. If dependent adult is employed, supplement is reduced or suppressed depending on income level.
6. For employees with a temporary reduction of working hours there is also the CIG scheme which pays benefits of 80% of average gross earnings for non-worked hours.
7. At least 24% of AW during the preceding calendar year or 48% of AW over previous three years.
8. The basic benefit amount is adjusted with the length of the employment record: 80% for under 5 years, 100% for 5-20 years and 120% for over 20 years.
9. The information reflects the situation of the Michigan unemployment benefit scheme of which payment duration has been extended due to high unemployment rates. Emergency Unemployment Compensation and Extended Benefits are paid after exhaustion of regular UI (26 weeks) and at lower rates.

Table A2. Unemployment assistance benefits, 2010

	Employment record in months(2)	Waiting period (days)	Duration (months)	Payment rate	Maximum benefit		Tests on		Permitted employment and disregards	Additions for dependent family members
					National currency	% of AW	Assets	Income		
					[5]	[6]	[7]			
Australia	--	7	No limit	Fixed amount	12,033	18	Yes	Family	Disregard of AUD 1612, 50% withdrawal up to AUD 6500, 60% above. Couple: no UA for higher earner once income above AUD 20527, spouse's UA reduced by 60% of earnings above this amount.	Parenting payment for dependent children (generally replaces UA). Partner allowance.
Austria	UI	--	No limit	92% of basic UI benefit (3)	15,010	39	Yes	Family	No UA if earnings above EUR 4396. UA reduced if spouse's earnings above EUR 5940. Limit increased by EUR 2970 for each child.	Each dependant: EUR 354.
Estonia	180 days in 12 months	7	270 days (including time on UI benefits)	Fixed amount	12,239	8	--	Individual	No payments if annual income exceeds EUR 12239	--
Finland	--	5	No limit	Fixed amount	6,613	17	--	Family	Limits can be suppressed under certain conditions. Spouse's income only counted above EUR 6432. Disregards of EUR 3036 for singles, 10176 for couples and lone-parents, increased by EUR 1272 for each dependent child. UA reduced (by 75% for a single, 50% for a couple) for gross earnings exceeding disregard; special rules for earnings from part-time work.	EUR 1254, 1840 and 2371 for 1, 2 and 3+ children respectively.
France	UI and 60 in last 120	--	6 months (renewable)	Fixed amount	5,450	16	--	Family	Disregard for earnings less than EUR 7267 then 1/1 reduction up to EUR 12718; for couple limits are EUR 14532 and 19985.	Some for older workers depending on age and employment record.
Germany (4)	--	--	No limit	Fixed amount	4,308	10	Yes	Family	Disregards of EUR 1200, then the withdrawal rate of UB II is 80% up to gross income of EUR 9600 and 90% in a range between EUR 9600 and EUR 14400 (EUR 18000 if children).	Additions for each child depending on age.
Greece	UI or 60 days in the year	--	Every 3 months in 3 instalments	Fixed amount	3,101	15	--	Family	No payments if annual income exceeds EUR 9098.	--
Hungary	UI	--	3 or 6 months	Fixed amount	352,800	14	--	individual	For short term (<90 days) employment benefit is suspended. For "employment booklet" programme the benefit is reduced by amount earned.	--
Ireland	--	3	No limit	Fixed amount	10,192	32	Yes	Family	UA is reduced by 60% of average net weekly earnings if working less than 3 days/week.	21% of AW per adult, and 5% of AW per child.
New Zealand	--	0-14	No limit	Fixed amount	11,536	24	--	Family	Gross income above NZD 4160 reduces benefit at 70% rate.	Rates depend on family type.
Malta	--	--	No limit	Fixed amount	5,192	29	Yes	Family	None	EUR 424 (2% of AW) per dependant.
Portugal	UI or 6 in last 12 (5)	--	12 (after UI) or 24	Fixed amount	4,025	23	--	Family	Family income less than EUR 4025/person. UA is zero if there are any earnings.	EUR 1006 if dependants present.
Spain	--	--	--	--	--	--	--	--	--	UA only paid to people with dependents unless aged over 45. Maximum benefit of 21% of AW, paid for up to 30 months.
Sweden	6 or recent graduate	7	14 (after which can become eligible for Job and Development Guarantee).	Fixed amount	83,200	23	--	Individual	Benefit not paid for days worked. Proportionally reduced in part-time work case.	--
United Kingdom	--	3	No limit	Fixed amount	3,403	10	Yes	Family	Earnings disregards are GBP 260, 520 and 1040 for single persons, couples and special groups (e.g. lone parents) respectively. Other forms of income reduce benefits on a 1/1 basis.	GBP 1940 for spouse, plus various premiums.

Source: OECD (www.oecd.org/els/benefitsandwagespolicies.htm)

Notes: Where benefits depend on work history or family situation, data is for a long and uninterrupted employment record for a 40 year-old single without children. AW is the average full-time wage.

All benefit amounts are shown on an annualised basis. "--" indicates that no information is available or not applicable.

2. UI = after exhausting UI benefits.

3. Rate can be increased to 95% for low UI levels.

4. As of 1st January 2005, unemployment assistance and social assistance for persons who are able to work were combined into one benefit, the basic jobseekers allowance (unemployment benefit II). Available for persons who are able to work and whose income is not sufficient to secure their own and their family's livelihood.

5. There is no employment condition for a first-time job seeker with dependants.

6. There are unemployment assistance-like schemes in some cantons in Switzerland, but these have been declining in importance and there is no national framework.

Table A3. Social assistance (minimum-income) benefits, 2010

	Determination of rates		Behavioural requirements				Maximum amounts (in % of AW)						Means-test		Topping-up of UB possible?	
			Job search	Registration with PES	Participation in integration measures	Work	Head of household	Spouse/partner	Per child		Other	Disregard	Benefit withdrawal			
	[1]		[2]	[3]	[4]	[5]	[6]	[7]	[8]		[9]	[10]	[11]	[13]		
Australia(2)	--	--	--	--	--	--	--	--	--	--	--	--	--	--		
Austria	National minimum (average shown)	--	--	Yes	Yes	--	17	9	4	Rent	--	None	100%	Yes		
Belgium	National rates	Age>=18.	--	--	--	--	21	7	Depends on age & number	4-9	--	EUR 310 (250) net income per year with (without) children.	100%	--		
Bulgaria	National rates	Aged>=17	Yes	Yes	Yes	Yes	7	7	9	Social assistance for heating	4	None	100%	Yes		
Canada (Ontario)(3)	Sub-national	--	Yes	--	Yes	Yes	16	11	Depends on age & number	1-1	--	Rent and regularly occurring special needs	None	50%	--	
Czech Republic (4)	National rates	--	Yes	Yes	Yes	"Depends on circumstances"	13	10	Depends on age	7-9	--	--	70% for income from work	Yes		
Denmark	National rates	Age>=25 for full rates. Lower rates from age	Yes	Yes	Yes	--	31	31	1st child.	10	--	Rent	DKK 27513 of net income from work.	100%	Rare	
Estonia	National rates	--	Discretionary	Discretionary	Discretionary	Discretionary	8	6	6	Allowance for lone parents	2	Housing costs (up to a limit)	100%	--		
Finland	National rates	--	Benefit can be reduced if not satisfied	Benefit can be reduced if not satisfied	Benefit can be reduced if not satisfied	Benefit can be reduced if not satisfied	13	9	Depends on age & number	7-8	--	Rent, health care, work related expenses.	20% of net earnings (maximum EUR 1800).	100%	Yes	
France	National rates	Age>25	Yes	Yes	Yes	--	16	8	Depends on number	5 - 6	--	Upon taking up employment: 100% of earnings for 3 months.	100%	--		
Germany (6)	National rates	Age>15	Yes	Yes	Yes	Yes	10	9	Depends on age	6-8	--	Extra allowances for additional needs, rent, heating costs.	Disregards of EUR 1200, then 80%, 90% and 100% withdrawal rate in stages depending on income.	--	--	
Greece	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	
Hungary	National rates	Age>18	Yes	Yes	Yes	Yes	12	11	Depends on number	9-10	--	None	100%	Yes		
Iceland (Reykjavik)	Sub-national	Age>17	--	--	--	--	29	17	None payable.	--	--	Unemployed age 18-24 living at home. Funeral costs, dental bills, etc.	14	None	100%	--
Ireland	National	--	Yes	Yes	Yes	Yes	32	21	5	Rent/mortgage interest supplement.	--	--	100%	Rare		
Israel	National	Age>19	Yes	Yes	Yes	Yes	17	6	Depends on number	0 - 3	--	Higher rates for lone parents.	From 28 to 61% of AW depending on family type.	60-70% (depends on family type)	--	
Italy	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	
Japan (Tokyo)	Sub-national	Depends on age of family	Yes	No	No	No	21	11	Depends on age & number	7-11	--	various	Net earnings of at least JPY 100080 (up to JPY 398280 for higher earnings).	100%	Yes	
											3	Child additional aid				
											14-21	Housing aid				

	Determination of rates		Behavioural requirements				Maximum amounts (in % of AW)					Means-test		Topping-up of UB possible?	
			Job search	Registration with PES	Participation in integration measures	Work	Head of household	Spouse/partner	Per child	Other		Disregard	Benefit withdrawal		
	[1]		[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]		[10]	[11]	[13]	
Korea	National	--	Yes	No	Yes	--	14	10	Depends on number	7-7	Medical care, educational, childbirth, funeral, housing costs	--	30% of income earned under specific programmes.	100%	No
Latvia	National	--	Yes	Yes	--	--	8	8		9	Rent	--	None	100%	Yes
Lithuania	National	Aged >18	No	Yes	--	--	16	16		16	Provision of school supplies for pupils, Rent allowance.	8	None	90%	Yes
Luxembourg	National	Age>24	Yes	Yes	Yes	Yes	30	15		3		--	30% of payment rate.	100%	--
Malta	National	Aged >=17	--	--	--	--	29	2		2	--	--	None	100%	Yes
Netherlands	National	Age>20	Yes	Yes	Yes	Varies by municipalities	33	10		--	Supplement for lone parent / annual bonus to promote job acceptance	8 / up to 5	up to 25% of earnings (municipality discretion), up to EUR 187/month, for 6 months.	100%	Yes
New Zealand (2)	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Norway (8)	National	--	Yes	Yes	Yes	Yes	13	9	Depends on age	5-8	Housing benefit depending on family situation	11-25	None	100%	Yes
											Supplement for heating expenses.	--			
Poland	National		Yes	Yes	Yes	Yes	14	9		12	Permanent benefit depending for those permanently unable to work.	--	None	100%	Rare
Portugal	National	Age>17	Yes	Yes	Yes	--	13	13		7	Additional adults	9	New employment: 50% of earnings for 1 year. Otherwise 20%.	100%	--
Romania	National	Aged >=18	No	--	No	Yes	7	5	Depends on number	5	High maximum (+15%) if working	--	None	100%	--
Slovak Republic	National	--	No	No	No	No	8	6	1st child only, plus addition if more than 4	7-14	Health care, housing, protective and activation allowances	--	25 % of net income	100%	Yes
Slovenia	National		Yes	Yes	Yes	Yes	16	11		5	One-off extraordinary assistance for special material need		None	--	--
Spain (Madrid)	Sub-national	Age>24 unless children present	Yes	Yes	Yes	Yes	18	5		4	--	--	None	100%	Rare
Sweden	National guidelines, discretion for supplements.	--	Yes	Yes	Yes	Yes	12	8	Depends on age & number	6-10	Medical costs, transport, child care	--	None	100%	Rare
Switzerland (Zurich)	National guidelines, discretion for supplements.	--	Yes	Varies by canton or benefit office	Yes	Varies by canton or benefit office	15	8		5	Supplement from 3rd person aged >16.	4	--	100%	--
Turkey	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
United Kingdom	National	Age>24 or lone parent.	Yes	Yes	Yes	Yes	10	6	Family supplement	3	--	--	GBP 260 / 520 / 1040 for a single person / couple / lone parent.	100%	--
United States (9)	National	--	Yes	Yes	Yes	Yes	5	4		4	--	--	Occasional income up to USD 120, excess shelter expense (rent, utility) subject to conditions.	100%	--

Source: OECD (www.oecd.org/els/benefitsandwagespolicies.htm)

Notes: All amounts are shown on an annualised basis. "--" indicates that no information is available or not applicable. AW is the average full-time wage.

2. Low-income individuals actively looking for work typically receive the means-tested unemployment assistance (UA) benefit described in the UA table (unlimited duration and not subject to employment record conditions). All "Social Assistance" amounts shown for Australia and New Zealand in this publication therefore relate to means-tested unemployment benefits. In Australia, another type of benefit (Special Benefit) can be available to people in severe financial hardship, who have no other means of support and for whom no other benefit is available. Special Benefit is not considered in the results reported here.
3. Basic allowance plus shelter allowance.
4. The Living Minimum is paid for 6 months and then the Subsistence minimum that has lower rate is used for the calculation of allowance for living for adult person as a "sanction" for indolent person being out of work.
6. As of 1st January 2005, unemployment assistance and social assistance for persons who are able to work were combined into one benefit, the basic jobseekers allowance (unemployment benefit II). Persons who are unable to work receive Social Allowance benefits of which basic elements are the same as UBII.
7. The benefit is made up of two parts: an individual amount depending on the age of the child (and sometimes the adult) concerned; and a household amount that depends on the size of the household. Rates shown are those for Tokyo.
8. The data for subsistence allowance is based on the governmental guidelines, while the housing allowance data is based on the guidelines of the municipality of Trondheim.
9. Amounts shown for food stamps only. Temporary Assistance for Needy Families (TANF) is available for some families, mainly lone parents.