



Exploratory study: filling in the knowledge gaps and identifying strengths and challenges in the effectiveness of Member States' minimum income schemes

Final Report

Written by ICF SA and Applica Sprl

Authors: Terry Ward (Applica), Duncan Coughtrie (Alphametrics), Andy Fuller (Alphametrics) Manos Matsaganis (Politecnico Milan), Francesco Figari (University of Insubria) Carlo Fiori (University of Milan)



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Directorate EMPL.D Jobs, Skills and Social Policies – EMPL.D – Social Rights and Inclusion

Unit EMPL.D.1 – Social Policies, Child Guarantee, SPC

Contact: Katalin SZATMARI

E-mail: katalin.szatmari@ec.europa.eu

European Commission

B-1049 Brussels

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Directorate-General for Employment, Social Affairs and Inclusion
Directorate General for Employment, Social Affairs and Inclusion – D- Jobs, Skills and
Social Policies – Unit D.1. Social Rights and Inclusion

EXPLORATORY STUDY: FILLING IN THE KNOWLEDGE GAPS AND IDENTIFYING STRENGTHS AND CHALLENGES IN THE EFFECTIVENESS OF MEMBER STATES' MINIMUM INCOME SCHEMES

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Table of Contents

| | |
|---|------------|
| Abstract | 1 |
| Résumé | 1 |
| Executive summary | 3 |
| Benefit adequacy and work incentives | 3 |
| Gradual phasing out of benefits..... | 5 |
| Active labour market policies for minimum income recipients | 7 |
| Sommaire | 10 |
| Adéquation des revenus et incitation au travail | 10 |
| Suppression progressive des revenus..... | 13 |
| Politiques actives du marché du travail pour les bénéficiaires du revenu minimum..... | 15 |
| 1 Introduction | 18 |
| 1.1 Background | 18 |
| 1.2 Scope of the analysis | 18 |
| 1.3 Minimum income schemes..... | 19 |
| 2 Benefit adequacy and work incentives | 21 |
| 2.1 Introduction | 21 |
| 2.2 Distribution of hours worked by minimum income recipients in relation to PRTs | 24 |
| 2.3 The effect of financial (dis)incentives on the take-up of employment | 31 |
| 2.4 Concluding remarks | 38 |
| 3 Gradual phasing out of benefits | 40 |
| 3.3 Tapering mechanisms: Incentivising (more) work | 53 |
| 3.4 Reforms to tapering arrangements..... | 56 |
| 3.5 Concluding remarks | 67 |
| 4 Active labour market policies for minimum income recipients | 70 |
| 4.1 Introduction | 70 |
| 4.2 Quantitative analysis using the LMP database..... | 71 |
| 4.3 Factors contributing to the effectiveness of ALMPs | 84 |
| 4.4 Concluding remarks | 86 |
| 5 Conclusions | 88 |
| Annex 1: Minimum income schemes covered | 91 |
| Annex 2: Minimum wages in 2019 | 93 |
| Annex 3: Gradual phasing out of benefits | 94 |
| Annex 3.1: Profiles of examples of effective for LTU..... | 94 |
| Annex 3.2: Evaluation case studies..... | 101 |
| Annex 4: References | 108 |

Abstract

This study explores the importance of financial incentives for the labour market integration of minimum income recipients compared to other factors, via three distinct strands of analysis:

Benefit adequacy and work incentives: The study examines the potential trade-off in the design of minimum income schemes between ensuring adequate income support and providing sufficient incentive for recipients to look for employment. To do so, it calculates for each EU Member State the “participation tax rate” (PTR), which measures the net income lost by someone moving from receiving minimum income benefits into work relative to the income gained. It then assesses the actual importance of high PTRs on work incentives by analysing the empirical evidence available.

Gradual phasing out of benefits: The study examines how minimum income schemes make use of tapering to ensure a financial incentive for recipients to take up (more) work. To do so, it takes inventory of the tapering arrangements currently applicable in Member States and examines how these are implemented. It also identifies recent reforms to tapering mechanisms, case studies on six recent reforms, and uses these to reflect on their impact.

Active labour market policies for minimum income recipients: The study examines the use of active labour market policies and what types of policy may be most effective in enabling transition for minimum income benefit recipients. To do so, it performs a quantitative analysis of the data from the EU Labour Market Policy database and a qualitative analysis of evaluations of programmes co-funded by the European Social Fund. In both cases long-term unemployed were used as a proxy for minimum income benefit recipients.

Résumé

Cette étude explore l'importance des incitations financières aux fins de l'intégration des bénéficiaires du revenu minimum sur le marché du travail, par rapport à d'autres facteurs, via trois volets d'analyse distincts :

L'adéquation des prestations et l'incitation au travail: L'étude examine le compromis potentiel, dans la conception des régimes de revenu minimum, entre la garantie d'une aide au revenu adéquate d'une part et l'incitation suffisante des bénéficiaires à chercher un emploi d'autre part. Pour ce faire, on calcule pour chaque État membre de l'UE, le "taux d'imposition de la participation" (TIP), qui mesure le revenu net perdu par une personne passant de l'allocation de revenu minimum à un emploi, par rapport au revenu gagné. Il évalue ensuite l'importance réelle des taux d'imposition sur les incitations au travail en analysant les preuves empiriques disponibles.

La suppression progressive des revenus: L'étude examine comment les régimes de revenu minimum utilisent la dégressivité pour inciter financièrement les bénéficiaires à accepter (davantage) du travail. Pour ce faire, elle dresse l'inventaire des mécanismes de dégressivité actuellement applicables dans les États membres et examine leurs mises en œuvre. Elle recense également les réformes récentes des mécanismes de tarification progressive des revenus, à travers des études de cas portant sur six réformes récentes, et les utilise pour réfléchir à leur impact.

Les politiques actives du marché du travail pour les bénéficiaires du revenu minimum: L'étude examine l'utilisation des politiques actives du marché du travail et les types de politiques les plus efficaces pour permettre la transition des bénéficiaires du revenu minimum. Pour ce faire, elle analyse, de manière quantitative, des données de la base de données de l'UE sur les politiques du marché du travail et de manière qualitative, les évaluations des programmes cofinancés par le Fonds social européen. Dans les deux cas, les chômeurs de longue durée ont été utilisés comme substitut des bénéficiaires de l'allocation de revenu minimum.

Executive summary

Principle 14 of the European Pillar of Social Rights¹ affirms that minimum income schemes should on the one hand alleviate poverty and, on the other (for those capable of work) support transitions into employment. These two objectives may, however, come into conflict. For example, keeping minimum income benefits low creates the greatest incentive to find work but may not ensure a reasonable standard of living. Accordingly, this study explores the importance of financial incentives compared with other factors for the labour market integration of minimum income recipients through three distinct strands of analysis:

- **Benefit adequacy and work incentives:** This assesses the evidence for a link between the relative adequacy of minimum income benefits and the likelihood of recipients moving into work.
- **Gradual phasing out of benefits:** This assesses the ways in which minimum income schemes are designed to ensure that there is always some financial incentive for recipients to move into work or take up more work.
- **Active labour market policies for minimum income recipients:** This looks at how minimum income recipients are supported in making the transition to work via the use of active labour market policies (ALMPs) and what types of policy may be most effective in enabling transition.

Benefit adequacy and work incentives

In the design of minimum income schemes, there is a potential conflict between providing effective income support and ensuring that recipients have sufficient incentive to work. A common feature of all schemes is that minimum income benefits are reduced, or withdrawn completely, as someone in receipt moves into paid employment. The study examines two aspects of the minimum income schemes in place in EU Member States. The first is the extent to which the net income of a household is increased by such a move, assuming that the job taken up pays the minimum wage (which, in practice, is likely to be the type of job open to many minimum income recipients). This is measured by what is termed the *Participation Tax Rate* (PTR), which relates the net income lost by the withdrawal of minimum income support to the net income gained by taking up a minimum-wage job, taking account of any tax and social contributions payable on the earnings concerned – the lower the PTR, the greater the financial incentive to work.

The second aspect is the extent to which *tapering* is built into minimum income schemes in a conscious attempt to ensure that minimum income recipients do not lose all of their benefit immediately as soon as they take up paid employment but that there is a gradual withdrawal over a period of time, or as their income increases. Such tapering represents a means of increasing the incentive to look for work in that it reduces the net income lost by a move into employment and so the effective PTR.

Estimates of the scale of financial disincentive effects

The study estimates the scale of PTRs in the different Member States by using EUROMOD, the European model of household income, which incorporates the various features of country tax-benefit systems and which enables the entitlement to cash benefits and personal tax and social insurance contribution liabilities for different households to be simulated. Estimates of PTRs are generated for 2019, the last year before the Covid-19 pandemic struck – and so exclude temporary measures introduced in response to the crisis – and for those moving from minimum income support into a job at the minimum wage (or

¹ The European Pillar of Social Rights in 20 principles | European Commission (europa.eu)

in the case of five countries, where there is no official minimum wage, at 50% of the average wage).

Because of the non-take up of minimum income benefits by those eligible to claim them and problems in identifying those eligible because of lack of information in the EU-SILC (the basic source of data) on the assets which form part of the means-test determining eligibility in all countries (as well as incomplete coverage in the EU-SILC of those on very low incomes, the homeless especially), it is uncertain how far the model captures the characteristics of the actual population of minimum income benefit recipients. Accordingly, the estimates of PTRs should be read with some caution, particularly the estimates across the distribution of households, though the estimates of average PTRs should be at least indicative of the actual financial incentives which minimum income recipients typically face.

In most EU countries, the median minimum income recipient not in work and contemplating a move into employment faces estimated PTRs of around 60% or higher in eight Member States (DK, LU, AT, DE, SE, FI, NL, BE), all with GDP above the EU average and well-developed social security systems. In all of these, the PTR was higher than the top marginal rate of income tax, in most much higher. In other countries (e.g. PL, HU), even when lower, the PTR was nevertheless higher than the top rate of income tax. On the other hand of the spectrum, in Greece, the median PTR was only 14% and in in four other countries (HR, IE, FR, PT), 30% or lower. In these countries, the financial incentive to take up work seems relatively strong, but equally, there is a question-mark over the adequacy of benefit levels.

The withdrawal of minimum income benefit as recipients move into employment is the main element of PTRs in 20 of the 27 Member States. In 7 countries (PL, RO, FR, HU, LT, BG, SI), however, the main element is the payment of income taxes and social contributions on earnings as people take up work.

In all Member States (except MY and SK), people living alone face higher PTRs, on average, than couples, and in most countries, single parents have higher PTRs than people living alone without children. By contrast, couples with children tend to have lower PTRs than those without.

The effect of financial (dis)incentives on the take-up of employment

How far in practice PTRs affect the decision of minimum income recipients to take up employment, however, is open to question. There are a number of other factors affecting this in addition to the benefits they receive relative to what they could earn in work. These include, for families with young children, a lack of affordable childcare facilities, and, more generally, a lack of skills matching the jobs on offer. It is also important to bear in mind that minimum income benefits typically provide a minimum standard of living, and in many countries, one which barely covers the essentials, so any increase in income from finding a job, even if small, is likely to affect living standards significantly.

It is equally important to take account of the non-financial benefits of working, in the form of social belonging and a sense of personal satisfaction and fulfilment, so that even with the same income, the evidence suggests that many people prefer working to being dependent on social benefits. In most Member States, moreover, it is not open to minimum income recipients to opt out of active job search or to refuse a job which is offered, without having their benefits reduced or withdrawn from them, so that effectively there may be no real choice between remaining on minimum income benefits and taking up work.

Indeed, recent research into the effect of minimum income schemes on the transition of minimum income recipients into employment has raised questions about the relative

importance of financial disincentive effects from relatively high PTRs on job search². The analysis carried out as part of the present study has found no evidence that such effects are significant. Analysis of longitudinal (or panel) data from the EU-SILC indicates that the proportion of those aged 25-64 on low income and living in households where no-one was employed (the proxy for potential minimum income recipients used in the study since it is difficult to identify actual recipients in the EU-SILC) who moved into employment between 2018 and 2019 was not systematically larger for those not in receipt of minimum income benefits than those in receipt. In addition, there was no significant relationship between the proportion finding work and the level of PTRs - in countries with high PTRs, the proportion was as likely to be larger than in those with lower rates as to be smaller.

Taking explicit account of factors other than PTRs likely to affect the ease or difficulty of finding a job, specifically, labour market conditions and the age, gender and education attainment level of minimum income recipients, makes little difference. The proportion of recipients finding a job is still as likely to be larger in Member States with high PTRs than in those with lower levels as to be smaller.

The same finding emerges from analysis of EU-SILC cross-sectional data, specifically relating the proportion of minimum income recipients (again taking the proxy indicator) in 2018 who were in employment by the time of the survey in 2019 to the PTR in each country. Indeed, in this case, the proportion finding a job by the time of the survey was, on average, larger in countries with relatively high PTRs than in those with relatively low ones, suggesting that other factors are more important than the financial disincentive effects implied by a high PTR. This is confirmed by, so far as possible, explicitly allowing for these other factors, the relationship between PTRs and the proportion finding employment becoming not statistically significant.

The implication of the above findings is that, as the level of minimum income benefits is not a prime determinant of the decision of recipients as to whether to take up employment or not, policy decisions on the level of benefit to set can be made with the aim of providing an adequate level of income, without being overly concerned about the financial disincentive to work that it might seem to imply.

Gradual phasing out of benefits

Transition into employment is key to reducing or ending dependency on minimum income benefits. However, for those claiming minimum income benefits, this transition may not be realised through taking up a well-paid full-time job. Consequently, it is important that the benefits are designed to encourage recipients to take up, or do more, work of any form or value. An important policy question is thus how to increase financial work incentives while maintaining an adequate level of benefit. The study examines minimum income benefit tapering arrangements deployed in Member States and how these are used to ensure incentives to work, but also takes inventory of in-work benefits for minimum income benefit recipients. The analysis was split into two parts reflecting, firstly, on the different tapering arrangements currently applicable in the Member States and, secondly, on recent reforms to tapering arrangements and their impact.

Tapering arrangements current applied in the Member States

Minimum income benefits in all but two Member States (HU and BG) have rules that define some form of tapering mechanism associated with take-up of (more) work. Their widespread use highlights their relevance in promoting labour market integration. Using information collected from national experts in the Member States, supplemented with

² See, for example, European Commission, Employment and social developments in Europe, DG for Employment, Social Affairs and Inclusion Publications Office, 2020, pp76-77,

information from the OECD's tax-benefit model³ and the MISSOC database⁴, four broad categories of such mechanisms were identified:

- **Increased basic amounts of minimum income benefit for persons in work:** The basic amount (i.e. before deduction of household income) used as the basis for deriving the amount of benefit is increased for recipients who take up work. This approach is used in two countries (RO, SI).
- **Income disregards in the means-test and calculation of the benefit amount:** Income disregards exclude part of work-related income from the amount of household income deducted from the basic benefit amount when calculating the amount of benefit to be paid out. These may be applied universally without time limit or temporarily for a set period after the take up of work. This approach is used in eighteen (BE, CZ, DK, DE, EE, IE, EL, IT, CY, LT, LU, NL, AT, PT, SI, SK, FI and SE).
- **Temporary continuation of benefits for a fixed period:** Temporary continuation of benefits refers to cases where benefits continue to be paid, in full or in part, for a fixed period after starting work. This approach is used in eight countries (EL, ES, HR, LV, LT⁵, MT⁵, PL and RO)⁶. Note that, in practice, a temporary continuation of benefits in full is the same as a 100% temporary income disregard.
- **In-work benefits:** In-work benefits are benefits that are distinct from minimum income benefits and granted specifically to persons in employment with low wages. Those that appear to serve persons transitioning into employment from minimum income benefits have been identified in four countries (FR, SK, FI and SE).

The study examined each of these different approaches, how they have been implemented in the Member States and their implications for ensuring work incentives. This showed there is considerable variety in the way in which each has been deployed across countries and that different types can be deployed to the same effect. At the same time, this found that some tapering arrangements have important limitations. This includes a lack of incentives to increase working time or wages in certain situations (e.g. low-paid/part-time work), or a lack of long-term incentives to encourage those in low paid part-time work to remain in work, or incentives that have limited impact for certain household types. These underline the complexity of designing tapering mechanisms that can deliver adequate work incentives in all situations without entailing significantly higher costs.

The design of tapering arrangements needs to consider the context within which the tapering is to be delivered, the variety of different types of households in receipt of minimum income, and the variety of jobs people may seek to move into or between.

Recent reforms to tapering arrangements and their impact

In the last decade, eight countries have introduced reforms to tapering mechanisms associated with minimum income benefits (EL, EE, MT, LV, LT, RO, FI and SE). The study examined the characteristics of these reforms. The specific context and underlying reasons for reforms to tapering arrangements varied and in most cases the reforms have been introduced alongside other reforms to minimum income benefits and the wider tax and social benefit system. However, there is clear trend for the generosity of arrangements to

³ Available here: <https://www.oecd.org/social/benefits-and-wages/>

⁴ Available here: <https://www.missoc.org/>

⁵ The temporary continuation of benefits in LT and MT also meets the definition of an in-work benefit but the amounts granted are tied to the amount of minimum income benefit received.

⁶ Minimum income benefits in two countries – EL and LT – both use a temporary continuation of benefits and an income disregard. In EL the temporary continuation of benefits in full applies for 6 months after gaining work, after this period the income disregard is applied. In LT different mechanisms apply to different components of the minimum income benefit.

be increased, thereby helping to incentivise the take-up of work. Indeed, reforms in five countries introduced or enhanced income disregards (EE, LV, LT, FI, SE) while reforms in four introduced or enhanced arrangements for the continuation of benefits (EL, MT, LT, RO).

Using desk research, supported by input from national experts, a series of case studies were developed to look at the impact of the reforms in six of cases concerned (EE, MT, LV, LT, FI and SE). These showed that reforms in Malta and Lithuania had positive results and, more generally, the introduction or enhancement of tapering arrangements seem to be most beneficial to women and households with children. However, other reforms have shown more mixed results, with issues of low take-up and even creating a risk that benefits are provided to households that do not need them. Information available on the factors that contributed to successful implementation of reforms highlighted the need to design policy taking into account the full context of the wider social protection and tax systems, to engender the full support all relevant actors, and ensure wider awareness of the possibilities to access benefits whilst in work. Better monitoring and data are also needed to facilitate the evaluation of tapering arrangements.

Active labour market policies for minimum income recipients

Active labour market policies (ALMPs) are a key tool for supporting the re-integration of jobseekers into employment. Gaining insight into the extent to which minimum income benefit recipients have access to ALMPs and which types are most effective for them is complicated by the fact that delivery is generally not linked to the type of benefit received. Minimum income recipients subject to activation requirements tend to be assimilated with all those registered as unemployed and treated based on their individual needs and proximity to the labour market. At the same time, they are more likely than recipients of contributory unemployment benefits to be long-term unemployed (LTU). Accordingly, the study sought to inform on the use and effectiveness of ALMPs for minimum income benefit recipients using LTU as a proxy. The analysis was split into two parts. A first part used data from the EU Labour Market Policy (LMP) database⁷ to provide a quantitative analysis of the use and effectiveness of different types of ALMP measures among LTU. A second part reviewed evaluations of programmes co-funded by the European Social Fund⁸ to identify factors contributing to the effectiveness of ALMP measures for LTU.

Quantitative analysis using the LMP database

The EU LMP database provides detailed data on ALMP measures implemented in the Member States. This includes, for each measure, detailed quantitative data on expenditure and participants as well qualitative information describing the features of the intervention. The data include the means to separately identify measures specifically targeting LTU.

Expenditure data show that 15.5% of the EUR 54 billion spent by Member States on LMP measures in 2019 was dedicated to measures that specifically target LTU. The contribution of LTU-targeted interventions to expenditure is particularly prominent for employment incentives (41%), which are subsidies for open market jobs, and direct-job creation (32%), which are subsidies for temporary non-market jobs (public works and similar). This reflects the tendency for employment incentives to be tailored to specific groups, including LTU, and for the widespread use of public works or similar programmes as a last resort for those who struggle to re-integrate into the labour market in a timely manner on their own initiative.

Data show that just under one in five (19%) participants in LMP measures in 2019 was LTU prior to participation and that LTU tend to be under-represented compared to their share of

⁷ <https://ec.europa.eu/social/main.jsp?catId=1143&langId=en#LMP>

⁸ https://ec.europa.eu/regional_policy/en/policy/evaluations/member-states/

all registered unemployed. The data also confirm extensive use of direct job creation for LTU, with LTU representing more than four in ten participants in such measures (41.4%). Given the shortcomings of public works programmes, which account for a large part of direct job creation, this treatment diverges from the intentions of the Council Recommendation on the integration of the long-term unemployed, which aim to ensure that LTU are engaged in a supportive activation process.

Data on the process of referral to measures indicate that access to at least some form of measure is typically being granted before becoming LTU. Indeed, activation rates for short-term registered unemployed were well above those for long-term registered unemployed in 2019 (22.2% vs. 17.4%) while data on timely activation rates show that over four fifths (84.4%) of entrants to LMP measures in 2019 were short-term unemployed. Timely activation rates also confirm the tendency for direct job creation to be used as a last resort, with only 60% of entrants to such measures were short-term unemployed compared to 80-90% for other types of measure.

Data on the extent to which participants in LTU-focused ALMP measures subsequently enter employment show that LTU-focused measures are less effective than non-LTU-focused measures (46% exits to employment vs. 58%). This is likely explained by the characteristics of the participants in LTU-focused interventions, who tend to be less equipped to participate in the regular labour market. Employment incentives and training tend to be more effective in facilitating transitions to work than direct job creation (respectively 56% and 38% exits to employment vs. 31%), reiterating concerns about the extensive use of direct job creation among LTU. Analysis of measures that have been particularly effective for LTU suggest that a strong focus on the acquisition of skills and experience relevant to the regular labour market is instrumental.

Factors contributing to the effectiveness of ALMPs

Assessing the effectiveness of ALMPs using data on transitions to employment provides a valuable overview of the situation but has limitations because of the differences not only between, but also within, the different types of ALMP. This stems from the individual features and objectives of ALMPs, their practical implementation, the groups targeted, and the context in which they are executed. A more granular assessment of effectiveness can only be achieved through dedicated evaluations.

Using evaluations of programmes co-funded by the European Social Fund (ESF) available from the database maintained by the Evaluation helpdesk⁹, six good quality evaluations showing positive results for ALMPs to support LTU during the 2014-2020 programming period were identified. These were used to develop case studies describing the ALMPs covered and the most relevant results in terms of their effectiveness for LTU. These revealed the following insights:

- Training and employment incentives have considerable potential for facilitating the employment of LTU.
- Start-up incentives can be effective but their tendency to attract individuals with pre-existing motivations and drive to become self-employed rather than to simply find a job is likely an important contributor.
- Direct job creation may, in the right circumstances, have a positive impact on confidence and activity of participants even if it has a limited impact in terms of facilitating transition to regular employment.
- Effectiveness of measures can vary between LTU who have been unemployed for different durations, underlining heterogeneity among LTU.

⁹ https://ec.europa.eu/regional_policy/en/policy/evaluations/member-states/

- Individualisation of support provides an important contribution to effectiveness.

Overall, the quality of ALMPs is important. Key to effectiveness seems to be the acquisition of skills and experience relevant to the regular labour market, whether through employer-directed training or work experience. Interventions need to be tailored to the specific needs of clients and the provision of coaching and other support during measures can make a difference.

Sommaire

Le principe 14 du pilier européen des droits sociaux¹⁰ affirme que les régimes de revenu minimum doivent, d'une part, réduire la pauvreté et d'autre part (pour les personnes capables de travailler), favoriser les transitions vers l'emploi. Ces deux objectifs peuvent toutefois entrer en conflit. Par exemple, le fait de maintenir les allocations de revenu minimum à un niveau bas incite à trouver un emploi, mais peut également ne pas garantir un niveau de vie raisonnable. En conséquence, cette étude explore l'importance des incitations financières par rapport à d'autres facteurs pour l'intégration des bénéficiaires du revenu minimum sur le marché du travail, à travers trois volets d'analyse distincts :

- **L'adéquation des revenus et les mesures incitantes au travail:** Il s'agit d'évaluer les preuves d'un lien entre l'adéquation relative des allocations de revenu minimum et la probabilité pour les bénéficiaires de trouver un emploi.
- **Suppression progressive des revenus:** Cette section évalue la manière dont les régimes de revenu minimum sont conçus pour garantir qu'il existe toujours une incitation financière pour les bénéficiaires à entrer dans la vie active ou à travailler davantage.
- **Politiques actives du marché du travail pour les bénéficiaires du revenu minimum:** Cette section examine comment les bénéficiaires du revenu minimum sont soutenus dans leur transition vers le travail par le biais de politiques actives du marché du travail (PAMT) et quels types de politiques peuvent être les plus efficaces pour permettre cette transition.

Adéquation des revenus et incitation au travail

Lors de la conception des régimes de revenu minimum, le conflit potentiel entre la provision d'aide au revenu et la garantie que les bénéficiaires soient suffisamment incités à travailler existe. L'une des caractéristiques communes à tous les régimes est que les allocations de revenu minimum sont réduites, voire supprimées complètement, à mesure que le bénéficiaire accède à un emploi rémunéré. L'étude examine deux aspects des régimes de revenu minimum en place dans les États membres de l'UE. Le premier concerne la mesure dans laquelle le revenu net d'un ménage augmente à la suite d'un tel changement, en supposant que l'emploi accepté est rémunéré au salaire minimum (ce qui, dans la pratique, est susceptible d'être le type d'emploi accessible à de nombreux bénéficiaires du revenu minimum). Cette augmentation est mesurée par ce que l'on appelle le taux d'imposition de la participation (PTR), qui établit un lien entre le revenu net perdu par la suppression des allocations du régime de revenu minimum et le revenu net gagné par l'acceptation d'un emploi rémunéré au salaire minimum, en tenant compte de tout impôt et de toute cotisation sociale payables sur les gains concernées - plus le PTR est faible, plus l'incitation financière à travailler est importante.

Le second aspect est la mesure dans laquelle la suppression progressive est intégrée dans les régimes de revenu minimum dans une tentative délibérée de garantir aux bénéficiaires du revenu minimum le maintien de la totalité de leurs prestations dès lors qu'ils acceptent un emploi rémunéré. La diminution ou suppression des prestations se fera progressivement, sur une période de temps, ou à mesure que leurs revenus augmentent. Ce mécanisme représente un moyen d'accroître l'incitation à la recherche d'un emploi dans la mesure où elle réduit le revenu net perdu par un passage à l'emploi et donc le PTR effectif.

¹⁰ The European Pillar of Social Rights in 20 principles | European Commission (europa.eu)

Estimations de l'ampleur des effets de dissuasion financière

L'étude estime l'ampleur des PTR dans les différents États membres en utilisant EUROMOD, le modèle européen de revenu des ménages, qui intègre les différentes caractéristiques des systèmes d'imposition et de prestations des pays et qui permet de simuler le droit aux allocations en espèces et les obligations en matière d'impôt sur le revenu et de cotisations sociales pour différents ménages. Les estimations des PTR sont générées pour 2019, dernière année avant la pandémie de Covid-19 - et excluent donc les mesures temporaires introduites en réponse à la crise - et pour les personnes passant d'une aide au revenu minimum à un emploi au salaire minimum (ou dans le cas de cinq pays, où il n'existe pas de salaire minimum officiel, à 50 % du salaire moyen).

En raison du non-recours aux prestations de revenu minimum par les personnes pouvant y prétendre et des problèmes d'identification de ces personnes liés au manque d'informations dans l'EU-SILC (la source de données de base) sur les actifs qui font partie de la condition de ressources déterminant l'éligibilité dans tous les pays (ainsi que de la couverture incomplète dans l'EU-SILC des personnes à très faible revenu, en particulier les sans-abri), il n'est pas certain que le modèle reflète les caractéristiques de la population réelle des bénéficiaires des régimes de revenu minimum. Par conséquent, les estimations des PTR doivent être lues avec une certaine prudence, en particulier les estimations à travers la distribution des ménages, bien que les estimations des PTR moyens devraient être au moins indicatives des incitations financières réelles auxquelles les bénéficiaires du revenu minimum sont généralement confrontés.

Dans la plupart des pays de l'UE, le bénéficiaire médian du revenu minimum qui ne travaille pas et qui envisage de trouver un emploi est confronté à des PTR estimés à environ 60 % ou plus, dans huit États membres (DK, LU, AT, DE, SE, FI, NL, BE) qui ont tous un PIB supérieur à la moyenne de l'UE et des systèmes de sécurité sociale bien développés. Dans tous ces pays, le PTR était supérieur au taux marginal supérieur de l'impôt sur le revenu, et dans la plupart d'entre eux, beaucoup plus élevé. Dans d'autres pays (par exemple PL, HU), même lorsqu'il était inférieur, le TFP était néanmoins plus élevé que le taux marginal supérieur de l'impôt sur le revenu. À l'autre bout du spectre, en Grèce, le PTR médian n'était que de 14 % et dans quatre autres pays (HR, IE, FR, PT), il était de 30 % ou moins. Dans ces pays, l'incitation financière à prendre un emploi semble relativement forte, mais on peut également s'interroger sur l'adéquation des niveaux de prestations.

La suppression de l'allocation de revenu minimum lorsque les bénéficiaires accèdent au marché du travail est l'élément principal des PTR dans 20 des 27 États membres. Dans 7 pays (PL, RO, FR, HU, LT, BG, SI), cependant, l'élément principal est le paiement des impôts sur le revenu et des cotisations sociales sur les gains lorsque les personnes prennent un emploi.

Dans tous les États membres (à l'exception de MT et SK), les personnes vivant seules sont confrontées à des PTR plus élevés, en moyenne, que les couples, et dans la plupart des pays, les parents isolés ont des PTR plus élevés que les personnes vivant seules sans enfant. En revanche, les couples avec enfants ont tendance à avoir des PTR plus faibles que ceux qui n'en ont pas.

L'effet des (dés)incitations financières sur l'acceptation d'un emploi

On peut toutefois se demander dans quelle mesure, dans la pratique, les PTR influencent la décision des bénéficiaires du revenu minimum d'accepter un emploi. Il existe un certain nombre d'autres facteurs qui influencent cette décision, en plus des prestations qu'ils reçoivent par rapport à ce qu'ils pourraient gagner en travaillant. Il s'agit notamment, pour les familles avec de jeunes enfants, du manque de structures d'accueil abordables et, plus généralement, du manque de compétences correspondant aux emplois proposés. Il est également important de garder à l'esprit que les allocations de revenu minimum assurent

généralement un niveau de vie minimum et, dans de nombreux pays, un niveau de vie qui couvre à peine l'essentiel, de sorte que toute augmentation de revenu résultant de la recherche d'un emploi, même minime, est susceptible d'affecter considérablement le niveau de vie.

Il est tout aussi important de tenir compte des avantages non financiers du travail, sous la forme d'une appartenance sociale et d'un sentiment de satisfaction et d'épanouissement personnel, de sorte que, même à revenu égal, les données suggèrent que de nombreuses personnes préfèrent travailler plutôt que de dépendre des prestations sociales. En outre, dans la plupart des États membres, les bénéficiaires du revenu minimum n'ont pas la possibilité de renoncer à la recherche active d'un emploi ou de refuser un emploi qui leur est proposé, sans que leurs prestations ne soient réduites ou supprimées, de sorte qu'il n'y a pas vraiment de choix possible entre le maintien des prestations de revenu minimum et la prise d'un emploi.

En effet, des recherches récentes sur l'effet des régimes de revenu minimum sur la transition des bénéficiaires du revenu minimum vers l'emploi ont soulevé des questions quant à l'importance relative des effets de dissuasion financière des PTR relativement élevés sur la recherche d'emploi¹¹. L'analyse effectuée dans le cadre de la présente étude n'a trouvé aucune preuve de l'importance de tels effets. L'analyse des données longitudinales (ou données de panel) de l'EU-SILC indique que la proportion de personnes âgées de 25 à 64 ans à faible revenu et vivant dans des ménages où personne n'avait d'emploi (le proxy pour les bénéficiaires potentiels du revenu minimum utilisé dans l'étude car il est difficile d'identifier les bénéficiaires réels dans l'EU-SILC) qui ont accédé à l'emploi entre 2018 et 2019 n'était pas systématiquement plus importante pour ceux qui ne percevaient pas de prestations de revenu minimum que pour ceux qui en bénéficiaient. En outre, il n'y avait pas de relation significative entre la proportion de personnes trouvant un emploi et le niveau des PTR - dans les pays où les PTR sont élevés, la proportion avait autant de chances d'être plus grande que dans ceux où les taux sont plus faibles que d'être plus petite.

La prise en compte explicite de facteurs autres que les PTR susceptibles d'influer sur la facilité ou la difficulté à trouver un emploi - notamment les conditions du marché du travail et l'âge, le sexe et le niveau d'éducation des bénéficiaires du revenu minimum - ne fait guère de différence. La proportion d'allocataires qui trouvent un emploi est toujours aussi susceptible d'être plus importante dans les États membres où les PTR sont élevés que dans ceux où ils sont plus faibles.

Le même constat ressort de l'analyse des données transversales de l'EU-SILC, qui met spécifiquement en relation la proportion de bénéficiaires du revenu minimum (en prenant à nouveau l'indicateur de substitution) en 2018 qui travaillaient au moment de l'enquête en 2019 et le PTR dans chaque pays. En effet, dans ce cas, la proportion de personnes ayant trouvé un emploi au moment de l'enquête était, en moyenne, plus importante dans les pays ayant un RPT relativement élevé que dans ceux ayant un PTR relativement faible, ce qui suggère que d'autres facteurs sont plus importants que les effets de désincitation financière impliqués par un RPT élevé. Ceci est confirmé par le fait que, dans la mesure du possible, en tenant explicitement compte de ces autres facteurs, la relation entre les PTR et la proportion de personnes trouvant un emploi ne devient pas statistiquement significative.

L'implication des résultats ci-dessus est que, étant donné que le niveau des prestations de revenu minimum n'est pas un facteur déterminant dans la décision des bénéficiaires de prendre ou non un emploi, les décisions politiques sur le niveau des prestations à fixer

¹¹ Par exemple, European Commission, Employment and social developments in Europe, DG for Employment, Social Affairs and Inclusion Publications Office, 2020, pp76-77,

peuvent être prises dans le but de fournir un niveau de revenu adéquat, sans être trop préoccupé par la désincitation financière au travail qu'il pourrait sembler impliquer.

Suppression progressive des revenus

La transition vers l'emploi est essentielle pour réduire ou mettre fin à la dépendance vis-à-vis des allocations de revenu minimum. Cependant, pour les personnes qui demandent des allocations de revenu minimum, cette transition peut ne pas se faire par le biais d'un emploi à temps plein bien rémunéré. Par conséquent, il est important que les prestations soient conçues de manière à encourager les bénéficiaires à accepter, ou à faire davantage, un travail de quelque forme ou valeur que ce soit. Une question politique importante est donc de savoir comment augmenter les incitations financières au travail tout en maintenant un niveau adéquat de prestations. L'étude examine les dispositifs de dégressivité des prestations de revenu minimum déployés dans les États membres et la manière dont ils sont utilisés pour garantir des incitations au travail, mais fait également l'inventaire des prestations liées au travail pour les bénéficiaires de prestations de revenu minimum. L'analyse a été divisée en deux parties reflétant, d'une part, les différents dispositifs de dégressivité actuellement applicables dans les États membres et, d'autre part, les réformes récentes des dispositifs de dégressivité et leur impact.

Modalités de réduction progressive des tarifs actuellement appliquées dans les États membres

Dans tous les États membres sauf deux (HU et BG), les prestations de revenu minimum sont régies par des règles qui définissent une forme de mécanisme d'atténuation associé à la prise d'un (plus grand) travail. Leur utilisation généralisée souligne leur pertinence dans la promotion de l'intégration sur le marché du travail. Les informations recueillies auprès d'experts nationaux dans les États membres, complétées par des informations provenant du modèle impôt-avantages de l'OCDE¹² et de la base de données MISSOC¹³, ont permis d'identifier quatre grandes catégories de mécanismes de ce type :

- **Augmentation des montants de base de l'allocation de revenu minimum pour les personnes qui travaillent** : Le montant de base (c'est-à-dire avant déduction des revenus du ménage) utilisé comme base de calcul du montant de l'allocation est augmenté pour les bénéficiaires qui travaillent. Cette approche est utilisée dans deux pays (RO, SI).
- **L'exclusion des revenus dans l'examen des ressources et le calcul du montant de la prestation** : Les déductions de revenus excluent une partie des revenus liés au travail du montant des revenus du ménage déduit du montant de la prestation de base lors du calcul du montant de la prestation à verser. Ils peuvent être appliqués universellement, sans limite de temps ou temporairement, pour une période déterminée après la prise d'un emploi. Cette approche est utilisée dans dix-huit pays (AT, BE, CY, CZ, DE, DK, EE, EL, FI, IE, IT, LT, LU, NL, PT, SE, SI et SK).
- **Maintien temporaire des prestations pendant une période déterminée** : Le maintien temporaire des prestations fait référence aux cas où les prestations continuent d'être versées, en totalité ou en partie, pendant une période fixe après le début du travail. Cette approche est utilisée dans huit pays (EL, ES, HR, LT¹⁴, LV, MT⁵, PL et RO)¹⁵. Il convient de noter que, dans la pratique, le maintien temporaire

¹² Available here: <https://www.oecd.org/social/benefits-and-wages/>

¹³ Available here: <https://www.missoc.org/>

¹⁴ The temporary continuation of benefits in LT and MT also meets the definition of an in-work benefit but the amounts granted are tied to the amount of minimum income benefit received.

¹⁵ Minimum income benefits in two countries – EL and LT – both use a temporary continuation of benefits and an income disregard. In EL the temporary continuation of benefits in full applies for 6 months after gaining

de l'intégralité des prestations équivaut à une exclusion temporaire de 100 % du revenu.

- **Prestations liées au travail** : Les prestations liées au travail sont des prestations distinctes des prestations de revenu minimum et accordées spécifiquement aux personnes occupant un emploi à bas salaire. Celles qui semblent servir aux personnes qui passent des allocations de revenu minimum à l'emploi ont été identifiées dans quatre pays (FR, FI, SE et SK.).

L'étude a examiné, pour chacune de ces différentes approches, la manière dont elles ont été mises en œuvre dans les États membres et leurs implications en terme d'incitations au travail. Elle a montré qu'il existe une grande variété dans la manière dont chacune a été déployée d'un pays à l'autre et que différents types peuvent être déployés avec le même effet. Dans le même temps, l'étude a révélé que certains dispositifs de dégressivité présentent des limites importantes. Il s'agit notamment d'un manque d'incitations à augmenter le temps de travail ou les salaires dans certaines situations (par exemple, le travail à temps partiel ou faiblement rémunéré), ou d'un manque d'incitations à long terme pour encourager les personnes ayant un travail à temps partiel faiblement rémunéré à rester en activité, ou encore d'incitations ayant un impact limité pour certains types de ménages. Ces éléments soulignent la complexité de la conception de mécanismes de dégressivité susceptibles d'offrir des incitations au travail adéquates dans toutes les situations sans entraîner de coûts sensiblement plus élevés.

La conception des mécanismes de dégressivité doit tenir compte du contexte dans lequel la dégressivité doit être mise en œuvre, de la variété des différents types de ménages percevant un revenu minimum et de la variété des emplois que les personnes peuvent chercher à occuper ou à quitter.

Les réformes récentes des mécanismes de dégressivité et leur impact

Au cours de la dernière décennie, huit pays ont réformé les mécanismes de dégressivité associés aux prestations de revenu minimum (EL, EE, MT, LV, LT, RO, FI et SE). L'étude a examiné les caractéristiques de ces réformes. Le contexte spécifique et les raisons sous-jacentes des réformes des mécanismes de dégressivité varient et, dans la plupart des cas, les réformes ont été introduites parallèlement à d'autres réformes des prestations de revenu minimum et du système plus large d'imposition et de prestations sociales. Toutefois, la tendance est clairement à l'augmentation de la générosité des dispositifs, contribuant ainsi à encourager l'acceptation d'un travail. En effet, dans cinq pays, les réformes ont introduit ou renforcé les abattements de revenus (EE, FI, LV, LT, SE), tandis que dans quatre pays, les réformes ont introduit ou renforcé les dispositions relatives au maintien des prestations (EL, LT, MT, RO).

Une série d'études de cas a été élaborée, sur la base de recherches documentées et de contributions d'experts nationaux, afin d'examiner l'impact des réformes dans six des cas concernés (EE, FI, LV, LT, MT et SE). Celles-ci ont montré que les réformes à Malte et en Lituanie ont eu des résultats positifs et que, plus généralement, l'introduction ou le renforcement des dispositifs de dégressivité semblent être plus bénéfiques aux femmes et aux ménages avec enfants. Cependant, d'autres réformes ont donné des résultats plus mitigés, avec des problèmes de faible participation et même un risque que les prestations soient fournies à des ménages qui n'en ont pas besoin. Les informations disponibles sur les facteurs ayant contribué au succès de la mise en œuvre des réformes ont mis en évidence la nécessité de concevoir la politique en tenant compte de l'ensemble du contexte de la protection sociale et des systèmes fiscaux plus larges, de susciter le soutien total de tous les acteurs concernés et d'assurer une plus grande sensibilisation aux possibilités

work, after this period the income disregard is applied. In LT different mechanisms apply to different components of the minimum income benefit.

d'accès aux prestations tout en travaillant. Un meilleur suivi et de meilleures données sont également nécessaires pour faciliter l'évaluation des dispositifs de réduction progressive.

Politiques actives du marché du travail pour les bénéficiaires du revenu minimum

Les politiques actives du marché du travail (ALMP) sont un outil essentiel pour aider les demandeurs d'emploi à se réinsérer dans le monde du travail. Il est difficile de savoir dans quelle mesure les bénéficiaires du revenu minimum y ont accès et quels types de politiques sont les plus efficaces pour eux, car les ALMP s'adressent généralement aux personnes inscrites au chômage auprès du SPE. Les bénéficiaires du revenu minimum soumis à des conditions d'activation sont généralement assimilés à toutes les personnes inscrites au chômage et sont donc traités en fonction de leurs besoins individuels et de leur proximité du marché du travail. En même temps, ils sont plus susceptibles d'être des chômeurs de longue durée (LTU) que les bénéficiaires d'allocations de chômage contributives. Par conséquent, l'étude a cherché à informer sur l'utilisation et l'efficacité des ALMP pour les bénéficiaires de l'allocation de revenu minimum en considérant leur utilisation et leur efficacité pour les chômeurs de longue durée en tant qu'indicateur. L'analyse a été divisée en deux parties. Une première partie a utilisé les données de la base de données de la politique du marché du travail (LMP)¹⁶ de l'UE pour fournir une analyse quantitative de l'utilisation et de l'efficacité de différents types de mesures de ALMP parmi les chômeurs chroniques. Une deuxième partie a examiné les évaluations des programmes cofinancés par le Fonds social européen¹⁷ afin d'identifier les facteurs contribuant à l'efficacité des mesures de ALMP pour les chômeurs chroniques.

Analyse quantitative utilisant la base de données LMP

La base de données LMP fournit des données détaillées sur les mesures ALMP d'application dans les États membres. Cela comprend, pour chaque mesure, des données quantitatives détaillées sur les dépenses et les participants ainsi que des informations qualitatives décrivant les caractéristiques de l'intervention. Les données permettent d'identifier séparément les mesures ciblant spécifiquement le chômage partiel.

Les données sur les dépenses montrent que 15,5 % des 54 milliards d'euros dépensés par les États membres pour les mesures LMP en 2019 ont été consacrés à des mesures ciblant spécifiquement le LTU. La contribution des interventions ciblant le chômage endémique aux dépenses est particulièrement importante pour les incitations à l'emploi (41 %), qui sont des subventions pour des emplois marchands ouverts, et la création directe d'emplois (32 %), qui sont des subventions pour des emplois non marchands temporaires (travaux publics et similaires). Cela s'explique par la tendance des premières à être adaptées à des groupes spécifiques, y compris le chômage de longue durée, et des secondes à inclure principalement des programmes de travaux publics. Cela reflète l'utilisation répandue de ces mesures en dernier recours pour ceux qui ont du mal à réintégrer le marché du travail en temps voulu de leur propre initiative.

Les données montrent qu'un peu moins d'un participant sur cinq (19 %) aux mesures LMP en 2019 était au chômage technique avant sa participation, et que les chômeurs de longue durée ont tendance à être sous-représentés (par rapport à la part du nombre total de chômeurs inscrits qu'ils représentent). Ces mesures confirment également un recours important à la création directe d'emplois parmi les LTU, ces derniers représentant plus de quatre participants sur dix à ces mesures (41,4 %). Compte tenu des lacunes des programmes de travaux publics, qui représentent une grande partie de la création directe d'emplois, cette situation contraste avec les intentions énoncées dans la recommandation

¹⁶ <https://ec.europa.eu/social/main.jsp?catId=1143&langId=en#LMP>

¹⁷ https://ec.europa.eu/regional_policy/en/policy/evaluations/member-states/

du Conseil sur l'intégration des chômeurs de longue durée, qui visent à garantir que les chômeurs de longue durée soient engagés dans un processus d'activation favorable.

Les données sur le processus d'orientation vers les mesures indiquent que l'accès à au moins une forme de mesure est généralement accordé avant de devenir chômeur de longue durée. En effet, les taux d'activation des chômeurs inscrits à court terme étaient bien supérieurs à ceux des chômeurs inscrits à long terme en 2019 (22,2 contre 17,4), tandis que les données sur les taux d'activation en temps opportun montrent que plus des quatre cinquièmes (84,4 %) des participants aux mesures LMP en 2019 étaient des chômeurs à court terme. Les taux d'activation en temps opportun confirment également la tendance à utiliser la création directe d'emplois en dernier recours. Ils montrent que seulement 60 % des entrants dans ces mesures étaient des chômeurs de courte durée, ce qui est bien inférieur au taux observé pour d'autres types de mesures (80-90 %).

Les données relatives à la mesure dans laquelle les participants aux mesures ALMP axées sur le chômage de longue durée intègrent ensuite l'emploi montrent que les mesures axées sur le chômage de longue durée sont moins efficaces que celles non axées sur celui-ci (46 % de sorties vers l'emploi contre 58 %). Cela s'explique probablement par les caractéristiques des participants aux interventions axées sur le chômage de longue durée, qui ont tendance à être moins équipés pour participer au marché du travail régulier. Les incitatifs à l'emploi et la formation ont tendance à être plus efficaces pour faciliter les transitions vers le travail que la création directe d'emplois (56 % et 38 % de sorties vers l'emploi contre seulement 31 %), ce qui réitère les préoccupations concernant l'utilisation intensive de la création directe d'emplois chez les chômeurs chroniques. L'analyse des mesures qui ont été particulièrement efficaces pour les chômeurs chroniques suggère qu'une forte concentration sur l'acquisition de compétences et d'expériences pertinentes pour le marché du travail régulier est déterminante.

Facteurs contribuant à l'efficacité des ALMP

L'évaluation de l'efficacité des ALMP en se concentrant spécifiquement sur les données relatives aux transitions vers l'emploi fournit une vue d'ensemble précieuse de la situation mais présente des limites car il existe des différences considérables en matière d'efficacité non seulement entre les différents types de ALMP mais aussi au sein des différents types de ALMP. Cela découle des caractéristiques individuelles des ALMP, de leur mise en œuvre pratique et du contexte dans lequel elles sont exécutées. Une évaluation plus granulaire de l'efficacité ne peut être réalisée que par des évaluations dédiées à des interventions spécifiques.

Les évaluations de programmes cofinancés par le Fonds social européen (FSE) disponibles dans la base de données des évaluations gérée par le service d'assistance à l'évaluation¹⁸, indiquent que six évaluations de bonne qualité mettent en avant des résultats positifs pour les ALMP visant à soutenir le chômage de longue durée au cours de la période 2014-2020. Celles-ci ont été utilisées comme études de cas et décrivent, pour chaque évaluation, les ALMP couvertes et les résultats les plus pertinents en termes d'efficacité des ALMP pour le chômage de longue durée. Ces études ont révélé les points suivants :

- Les incitations à la formation et à l'emploi ont un potentiel considérable pour faciliter l'emploi des LTU.
- Les incitations à la création d'entreprise peuvent être efficaces, mais leur tendance à attirer des personnes ayant des motivations préexistantes et la volonté de devenir indépendant plutôt que de simplement trouver un emploi est probablement un facteur important.

¹⁸ https://ec.europa.eu/regional_policy/en/policy/evaluations/member-states/

- La création directe d'emplois peut, dans les bonnes circonstances, avoir un impact positif sur la confiance et l'activité des participants, même si elle a un impact limité en termes de facilitation de la transition vers un emploi régulier.
- L'efficacité des mesures peut varier entre les chômeurs de longue durée, ce qui souligne l'hétérogénéité des chômeurs de longue durée.
- L'individualisation de l'aide apporte une contribution importante à l'efficacité.

Dans l'ensemble, la qualité des ALMP est importante. La clé de l'efficacité semble être l'acquisition de compétences et d'expériences pertinentes pour le marché du travail régulier, que ce soit par le biais d'une formation dirigée par l'employeur ou d'une expérience professionnelle. Les interventions doivent être adaptées aux besoins spécifiques des clients, et l'offre de coaching et/ou d'autres formes de soutien pendant les mesures, peut faire la différence.

1 Introduction

1.1 Background

The European Commission recently released a Council Recommendation “on adequate minimum income ensuring active inclusion” with the aim to improve the effectiveness of minimum income schemes in Member States. In order to fill the significant gaps in existing knowledge of minimum income schemes and how they function in each country, the Commission had launched the *Exploratory study: filling in the knowledge gaps and identifying strengths and challenges in the effectiveness of the EU Member States' minimum income schemes* to provide an improved evidence base to support policy development.

The study includes three main areas of work:

- **Task 1:** Collection of a comprehensive dataset describing the minimum income schemes implemented in each of the Member States, with the resulting information summarised in country reports.
- **Task 2:** Synthesis of the situation, aiming to identify commonalities and differences across countries, and drawing not only on the data collected under Task 1 but also the academic literature and additional analysis using EU level data sources such as the EU Survey on Income and Living Conditions (EU SILC).
- **Task 3:** Further detailed analysis of specific issues arising from the previous tasks and with specific relevance to the analytical needs of the Commission and the potential direction of policy recommendations.

This document represents the final report for Task 3 and has been prepared for DG Employment, Social Affairs and Inclusion by the partnership of ICF and Applica.

1.2 Scope of the analysis

Principle 14 of the European Pillar of Social Rights¹⁹ affirms the idea that minimum income schemes should have dual objectives – on the one hand to alleviate poverty and, on the other (for those capable of work) to support transitions into employment:

14. Minimum income

Everyone lacking sufficient resources has the right to adequate minimum income benefits ensuring a life in dignity at all stages of life, and effective access to enabling goods and services. For those who can work, minimum income benefits should be combined with incentives to (re)integrate into the labour market.

In this respect, the view that keeping minimum income benefits low creates the greatest incentive to find work may conflict with the first objective of ensuring a reasonable standard of living for the people concerned. The overarching issue selected by the European Commission for exploration within Task 3 is therefore how far financial incentives are important as compared with other factors for the labour market integration of minimum income recipients. In other words, how far is there a conflict in practice between providing adequate levels of benefit and ensuring that benefit recipients reintegrate in the labour market.

To further develop the knowledge base in this respect, Task 3 of this study comprises three distinct strands of analysis, which are presented in the subsequent chapters.

¹⁹ [The European Pillar of Social Rights in 20 principles | European Commission \(europa.eu\)](https://european-council.europa.eu/media/en/press-communications/infographic/infographic-pillar-social-rights-2021-01-20-1.pdf)

- First, chapter 2 on **benefit adequacy and work incentives** assesses the evidence for a link between the relative adequacy of minimum income benefits (measured in relation to earnings in a minimum wage job) and the likelihood of minimum income recipients moving into work.
- Secondly, chapter 3 on the **gradual phasing out of benefits** assesses the ways in which minimum income schemes are designed to ensure that there is always some financial incentive for minimum income recipients to move into work or take up more work – i.e. ways of overcoming the potential disincentive that might be created by loss of benefits when taking up work, or extending the hours worked, particularly when the job is not well paid.
- Finally, on the non-monetary side, chapter 4 looks at how minimum income recipients are supported in making the transition to work through the use of **active labour market policies (ALMPs)** and what types of policy may be most effective in increasing transition rates.

The methodological approach and sources of data used are specific to each analysis and are accordingly detailed in the relevant chapter. For reference purposes, the following section defines the concept of a minimum income scheme applied throughout the study.

1.3 Minimum income schemes

There is no common definition of what constitutes a minimum income (MI) scheme. Whilst minimum income schemes are generally understood to be social safety nets of last resort, they may not be termed as such in the Member States or what is described as an minimum income scheme in Member States may not accord with this definition. Moreover, an minimum income 'scheme' can be a standalone benefit or a combination of measures to support those on low or zero income. Minimum income schemes also need to be considered in the context of the wider social security system, which may provide other complementary benefits (e.g. child, family, or housing benefits) that contribute to support those on low incomes but are not taken into account here.

The study covers minimum income schemes adhering to the following criteria:

- provide a last resort social safety net and are addressed to relieving poverty;
- are non-contributory and tax-financed (might take the form of unemployment allowance schemes or social assistance benefits that do not require any employment record), though they can be national, regional or locally defined or administered;
- might involve the need for benefits to be claimed (as well as automatic enrolment) and eligibility depends on a means-test (of income and assets);
- tend to have benefit levels which depend on household composition and in many cases can be combined with other social benefits (housing, heating, child allowances);
- function in a number of cases as a top-up income in cases of low earnings from work (though design and features of schemes are generally based on having no income from employment); The top up function is somewhat indirect as it can also top up income from other social security benefits or other state funded assistance. There are nine Member States (BG, HR, CZ, DK, EE, FR, DE (in the case of subsistence benefit), HU, RO) where beneficiaries can earn in addition only very marginal amounts from employment (occasional employment)

- are not usually time-limited, but available for as long as a person fulfils the eligibility conditions, with periodic re-assessment;
- might have activation conditions, requiring beneficiaries who are able to work to participate in active labour market measures and to actively seek employment.

A total of 34 schemes were addressed by the data collection under Task 1 and the synthesis report – a single scheme in 23 Member States but multiple schemes in 4 others: Germany (2), Ireland (2), Malta (2) and Spain (5). Annex 1 provides a full list of the schemes covered.

2 Benefit adequacy and work incentives

2.1 Introduction

When designing a minimum income (MI) scheme, policy makers face a 'trilemma' between three potentially conflicting objectives: providing effective poverty relief, protecting the work incentives of recipients, and keeping public spending on the scheme – and associated financing needs – within bounds.

It may be difficult to achieve all three of these objectives at any given time. A scheme providing relatively higher benefits, which gradually decline as the income of recipients rises, would be more costly in terms of public spending and limiting the fiscal cost involved would require either setting the maximum minimum income benefit at a lower level, or withdrawing it more quickly as income rises, or doing both. At the same time, there are other costs to be taken into consideration, such as the potential costs to the healthcare system of more people living in poverty if benefits are set at too low a level or, in the longer-term, the costs of increased transmission of poverty to the future generation.

The provision that the amount of benefit is reduced as the pre-benefit income of recipients increases until it is fully withdrawn when income reaches a certain threshold, is a common feature of all minimum income schemes. This inevitably implies disincentives to work of varying sizes depending on the rate at which benefit withdrawal takes place and taxes and charges on income increase.

In first-generation minimum income schemes (such as *Supplementary Benefit* in the UK), work disincentives were often forbidding. The combination of income taxes, national insurance contributions and loss of social contributions for low-income jobs (the one usually available) meant that the recipients' net income was only marginally higher when in work than when receiving minimum income benefits. The problem was compounded by the fact that *Supplementary Benefit* was a 'passport benefit, in the sense that claiming it made recipients eligible for other benefits too (such as housing allowances and free prescriptions for pharmaceuticals), while losing it had a cascade effect as access to all of these other benefits was withdrawn. The combined result was that recipients were often better off on benefit than in work. In the early 1980s, at the point at which entitlement to free school meals was lost, an extra GBP 1 of earnings could cost nearly GBP 3 in taxes and lost benefit (Barr 1998, p. 244). This situation became widely known as *the poverty trap*.

Concern with the poverty trap induced those designing second-generation minimum income schemes, such as *Revenu minimum d'insertion* (RMI) in France, to introduce income disregards and other provisions aimed at easing work disincentives. For instance, under a rule known as '*intéressement*', for the first 750 hours of work, taking their earnings above the eligibility threshold, RMI recipients were allowed to keep 50% of their minimum income benefit. Income disregards (though usually less generous than this) are now common across minimum income schemes (as indicated elsewhere in this report).

Exactly how minimum income schemes affect the decisions of recipients as regards employment depends crucially on their interaction with other social benefits, taxes, and social contributions. Taking all relevant factors into account, minimum income recipients face two decisions: whether to take up a job or not and how many hours to work once in employment. Formally, their employment responses manifest themselves along two margins, the *extensive* and the *intensive*. The implicit work disincentives can be measured

by participation tax rates (PTRs)²⁰ and marginal effective tax rates (METRs)²¹ respectively.

METRs reflect the financial incentive for someone in employment to work longer hours, or in a more demanding job with a higher wage. They are therefore quite similar to conventional marginal tax rates, though they differ from these in that they also include reductions in entitlements to means-tested social benefits the income of recipients rises. A METR of, for example, 50% implies that out of each additional €1 earned, 50 cents are lost because of additional taxes and social contributions paid and social benefits lost. In the example of *Supplementary Benefit* mentioned above, METRs could reach almost 300%.

PTRs are complementary to METRs, indicating the effective tax rate on the *extensive* margin (i.e. relating to the financial incentive to take up employment). PTRs are the appropriate indicator to examine when the concern is with the decision facing minimum income recipients as to whether to take up a job or not, METRs when the concern is with the incentives for those already in employment to work for a higher wage or longer hours.

As shown below, most working-age minimum income recipients in most countries are not in work. Accordingly, the focus here is on PTRs as a measure of the employment incentives, or disincentives, facing non-employed minimum income recipients.

After a description of the main methods and sources used (and their limitations), this chapter presents estimates the PTRs of minimum income recipient households considering different features of possible transition into work (number of hours worked, frequency distribution across percentiles of population, decomposition of PTRs by taxes and benefit loss, and per household composition). It then uses the estimated PTRs to assess the effects of more or less generous minimum income schemes (relative to earnings in a minimum wage job) on the likelihood of minimum income recipients taking up employment.

The present analysis builds on previous research attempting to estimate PTRs, starting with the pioneering work of Immervoll et al.²² on all 15 pre-enlargement EU Member States. In some cases, the focus has been on a single country, for instance, the UK²³ or Finland²⁴. Comparative studies include those covering nine EU Member States (Belgium, Bulgaria, Germany, Italy, Lithuania, Hungary, Austria, Finland, and the UK)²⁵, and 11 EU Member States plus the UK²⁶. More comprehensive efforts include analysis from the OECD on 31 countries around the world (21 EU Member States plus Switzerland, Norway, Iceland, the UK, the US, Israel, Japan, Korea, Australia, and New Zealand)²⁷,

²⁰ The Participation Tax Rate (PTR) is defined as the share of additional household income derived from moving into work that is lost because of taxation of earnings and reductions in benefits (see also section 3.1).

²¹ The Marginal Effective Tax Rate (METR) measures the share of additional household income derived from an increase in earnings that is lost because of taxation of earnings and potential losses in social benefits (see also section 3.1).

²² Immervoll H., Kleven H.J., Kreiner C.T. & Saez E. (2007), Welfare reform in European countries: a microsimulation analysis. *The Economic Journal* 117 1-44.

²³ Adam S., Brewer M. & Shephard A. (2006) Financial work incentives in Britain: comparisons over time and between family types. IFS Working Paper W06/20. (<https://doi.org/10.1920/wp.ifs.2006.0620>)

²⁴ Kotamäki M. & J. Ollonqvist (2018) Financial incentives to work decomposed: the Finnish case. Discussion Paper no. 119. Aboa Centre for Economics, Turku (<http://ace-economics.fi/kuvat/dp119.pdf>)

²⁵ Jara H., Gasior K. & Makovec M. (2016) *Low incentives to work at the extensive and intensive margin in selected EU countries*. Research Note 4/2016. Social Situation Observatory. Directorate-General for Employment, Social Affairs and Inclusion, The European Commission

²⁶ Bartels C. & Shupe C. (2022) Drivers of participation elasticities across Europe: gender or earner role within the household? *International Tax and Public Finance*. (<https://doi.org/10.1007/s10797-021-09711-z>)

²⁷ OECD (2011) Taxation and employment. OECD Tax Policy Studies no. 21. (<http://dx.doi.org/10.1787/9789264120808-en>)

studies on all 27 EU Member States²⁸, and on 31 European countries (all 27 EU Member States plus Iceland, Norway, Switzerland, and the UK)²⁹. [Methodology](#)

The PTR for individual i in household h is calculated as:

$$PTR_i = 1 - \frac{Y_h^W - Y_h^B}{E_i^W}$$

where E_i^W = gross earnings of individual i when in work,

Y_h^W = household disposable income when individual i is in work, and

Y_h^B = household disposable income when individual i is receiving benefits.

PTRs are estimated for potential earners not currently in work (zero earnings from employment). Given that their hypothetical earnings from employment are not observed, it is assumed that minimum income recipients move to full-time work for twelve months a year and are paid the minimum wage.

Potential earners are defined as individuals who are:

- aged 25-64,
- not in receipt of disability benefit,
- members of a household claiming, and receiving, minimum income benefits.

In households with more than one potential earner with zero earnings from employment, the oldest one is assumed to move into full-time work, while the others remain non-employed.

In the six Member States where a national minimum wage does not exist (Italy, Cyprus, Austria, Denmark, Finland, and Sweden), a notional figure of 50% of average gross earnings is used. (All the wage rates assumed are shown in Table 16 in Annex 2)

PTRs are estimated using the European tax-benefit model EUROMOD³⁰. In EUROMOD, the various country-specific tax-benefit systems are modelled in a common conceptual and technical framework, with the aim of ensuring cross-country comparability. EUROMOD simulates (non-contributory) cash benefit entitlements and personal tax and social insurance contribution liabilities on the basis of the tax and benefit rules in place and information on original and replacement incomes as well as socio-demographic characteristics from the underlying survey data.

The model aims at capturing the full range of institutional features of tax and benefit systems. These include detailed income definitions (relevant for assessing eligibility for income- or means-tested benefits), precise characterisations of family units, thresholds, floors, ceilings, tax components and relevant tax rates as well as specific eligibility rules, claw-back rates or income disregards used in computing benefit entitlements. Because of this level of detail, it is possible to obtain an assessment of the tax burden and cash benefit entitlements, and of how these vary with income and family characteristics. By the same token, due to lack of detailed information in the underlying data, EUROMOD simulations might not be able to capture all details embedded in national tax and benefit

²⁸ Kalyva A., Princen S., Leodolter A. & Astarita C. (2018) *Labour taxation and inclusive growth*. European Economy Discussion Paper 084. Directorate-General for Economic and Financial Affairs, The European Commission.

²⁹ Coady D., Jahan S., Shang B. & Matsumoto R. (2021) *Guaranteed Minimum Income schemes in Europe: landscape and design*. IMF Working Paper No. 2021/179. (<https://www.imf.org/en/Publications/WP/Issues/2021/07/02/Guaranteed-Minimum-Income-Schemes-in-Europe-Landscape-and-Design-461341>)

³⁰ Sutherland H. & Figari F. (2013) EUROMOD: the European Union tax-benefit microsimulation model. *International Journal of Microsimulation* 1 (6) 4-26.

legislation, nor do they include expenditure on benefits in kind (such as social housing or subsidised energy).

EUROMOD has been validated against national administrative statistics on tax revenues collected, as well as social benefits paid to households. The version of the model used here (based on the public version I3.86+) relies on information on personal and household characteristics, including market incomes, from the EU-SILC 2019 microdata for all countries except Sweden and Slovenia which use EU-SILC 2018 (the latest available at the time of writing), or its more detailed national version where available.

In order to exclude temporary measures, implemented in response to the COVID crisis, 2019 is chosen as the reference year. More precisely, the simulations described here refer to tax-benefit policies in place on 30 June 2019, as summarised in EUROMOD Country Reports³¹.

There are limitations of the coverage, due to non-take-up (i.e. that not all those eligible for minimum income actually claim it) and measurement problems, due to lack of information on the assets considered in the means test for the assessment of eligibility for minimum income as well as the incomplete coverage of those on very low incomes, particularly the homeless, but also newly-arrived migrants and others at the edges of society, many of whom are missed by the EU-SILC survey. The model is therefore 'calibrated' to take into account these limitation and to be in line with administrative data on minimum income recipients. In other words, potential claimants are selected among those eligible, partly on the basis of the amount of their entitlement and partly randomly (the procedure is explained in Almeida et al. (2022)). Because of this calibration, and in particular, the random element which it includes, it is uncertain how far the model captures the characteristics of the actual population of minimum income benefit recipients. Accordingly, the estimates presented below on the PTRs facing minimum income recipients should be read with some caution. This applies especially to the distribution of PTRs, though less so to the average estimates which should be at least indicative of the actual financial incentives which minimum income recipients face.

2.2 Distribution of hours worked by minimum income recipients in relation to PRTs

This section presents the distribution of hours worked by minimum income recipients, the mean and median estimates of PTRs, their frequency distribution, the decomposition (by tax and benefit), and the estimates by gender, and household type. The estimates are all generated by EUROMOD simulations of minimum income recipients moving into jobs at the low wages assumed and comparing the net income received with that currently received. They cover all 27 EU Member States, though it should be noted that in some cases the number of observations is so low that the results of the simulations involve some uncertainty and should be interpreted with caution. (In the tables, estimates which are based on less than 30 observations are shown *in italics* and *in red*.)

2.2.1 Hours worked

In most countries, the distribution of hours worked in minimum income households is such that most potential earners (i.e. those aged 25-64 and not in receipt of disability benefit) either worked more than half-time or not at all (Figure 1)Figure 1.

³¹ All EUROMOD Country Reports are available at <https://euromod-web.jrc.ec.europa.eu/resources/country-reports>.

Figure 1. Distribution of potential earners in minimum income households by weekly hours of work, 2019 (% of total)

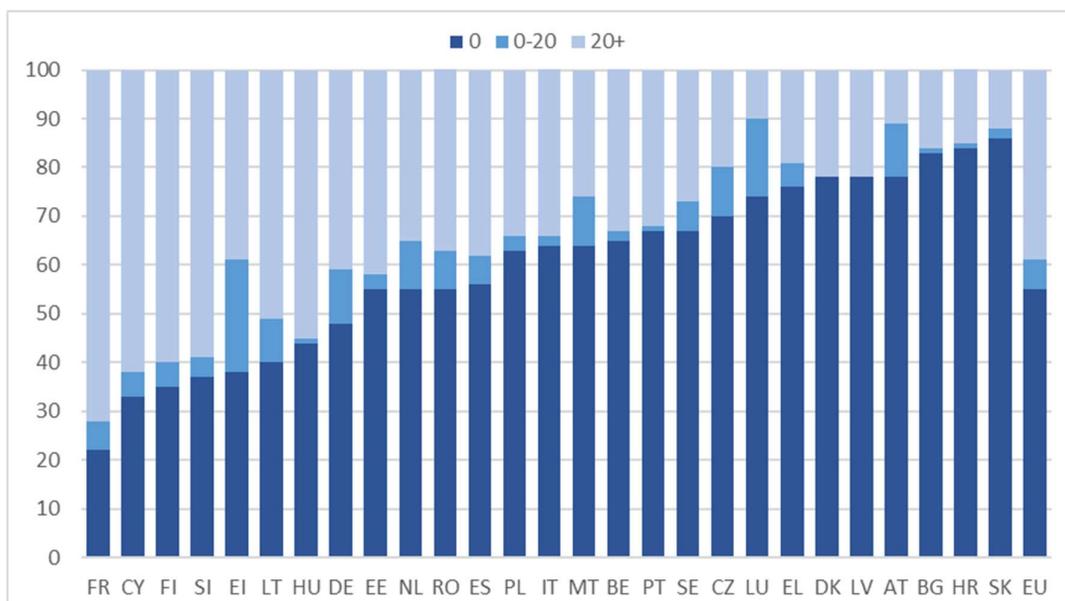


Table 1. Note: The distribution is of uncertain reliability for Latvia. The figures are also of uncertain reliability for those working both 0-20 hours a week and 20+ hours a week in BG, CZ, DK, EE, LT, LU, AT and SK and only for those working 0-20 hours a week in BE, HR, IT, CY, LT, HU, MT, PL, FI and SE.

Source: Eurostat, EU-SILC, EUROMOD

In France 72% of all potential earners among minimum income recipients worked over 20 hours per week; in another five Member States (CY, FI, SI, HU, LT), the proportion exceeded 50%.

In most other countries, the share of potential earners working zero hours was over 50%; in seven Member States (SK, HR, BG, DK, AT, LV, EL), it exceeded 75%.

In contrast, the share of potential earners in minimum income households working short hours (between 1 and 20 per week) was in single digits in most countries, the only exceptions being Ireland (23%), Luxembourg (16%), Austria, Germany, the Netherlands, and Malta (in all four, 10-11%).

2.2.2 Mean and median PTRs

In most countries, the median minimum income recipient not in work and contemplating a move into employment faced estimated PTRs of around 50% or higher, i.e. the share of additional household income derived from moving into work that is lost because of taxation of earnings and reductions in benefits is around 50% or above (Table 2).

In Denmark, and Luxembourg, median PTRs are estimated at around 80%; in six other Member States (AT, DE, SE, FI, NL, BE) they were 60% or higher. These are all countries, it should be noted, which are relatively prosperous, where GDP per head is above the EU average and with relatively well-developed social security systems. **In all these countries, the PTR was higher than the top marginal rate of income tax, in most of them much higher. In other countries too, even when lower, the PTR was higher than the top rate of income tax. For example, in Poland, the median PTR is estimated at 41% as against a top tax rate of 32%, while in Hungary, an estimated PTR of 48% compares with a top income tax rate of only 15%.**

On the other hand, in Greece, the median PTR was only 14% and in Croatia, Ireland, France and Portugal, 30% or lower. In these countries, the financial incentive to take up employment, therefore, seems relatively strong, but at the same time, there is a question-mark over the adequacy of benefit levels.

Table 2. Estimates of Participation Tax Rates (PTRs), 2019

| | Median PTRs | Mean PTRs |
|----------------|-------------|-----------|
| Austria | 72 | 63 |
| Belgium | 61 | 53 |
| Bulgaria | 36 | 37 |
| Croatia | 26 | 17 |
| Cyprus | 35 | 37 |
| Czech Republic | 49 | 41 |
| Denmark | 79 | 80 |
| Estonia | 43 | 48 |
| Finland | 63 | 57 |
| France | 30 | 32 |
| Germany | 68 | 60 |
| Greece | 14 | 14 |
| Hungary | 48 | 38 |
| Ireland | 29 | 28 |
| Italy | 42 | 31 |
| Latvia | 50 | 47 |
| Lithuania | 50 | 48 |
| Luxembourg | 82 | 71 |
| Malta | 55 | 47 |
| Netherlands | 62 | 57 |
| Poland | 41 | 27 |
| Portugal | 30 | 33 |
| Romania | 46 | 44 |
| Slovakia | 52 | 47 |
| Slovenia | 41 | 44 |
| Spain | 50 | 46 |
| Sweden | 60 | 58 |
| EU | 47 | 42 |

Source: EUROMOD simulations

Median PTRs were higher than mean ones in most countries, suggesting that there are some households with PTRs much lower than the median and/or many households with rates only just above the median. The implication is that the mean PTR understates the

rate which the majority of households face. This is particularly the case in Poland, Italy, Luxembourg and Hungary. In only 5 countries (FR, CY, PT, SI, EE) was the mean higher than the median (in Bulgaria, Denmark and Greece, they were much the same), implying the reverse, that in these countries, the mean PTR overstates the rate which the majority of households face, but at the same time, some households face rates much above the median.. In Cyprus and Slovenia, therefore, a significant proportion of potential wage earners in minimum income recipient households are estimated to have had PTRs of 60% or above, much higher than the median rate of 35% and 41%, respectively (see Table 3 below).

Looking at the frequency distribution of PTRs can give more insights on the relationship between adequacy of minimum income benefits and incentives to work.

2.2.3 Frequency distribution of PTRs

In Denmark, nearly all potential earners in minimum income households faced estimated PTRs of over 60%, while in another 7 Member States (LU, AT, DE, FI, NL, SE, BE), for over half of potential earners, the estimated rate exceeded 60% (Table 3). As noted above, these figures need to be treated with caution because of the random element involved in identifying the households in receipt of minimum income benefits, but they are indicative of the relatively high PTRs faced by many households in the countries concerned. Not all the households concerned were ones with large numbers of children. In Germany, for example, almost all the minimum income recipients with very high PTRs were childless, divided roughly equally between people living alone and couples³².

On the other hand, in eight Member States (EL, HR, BG, PT, IE, FR, CY, SI), a majority of potential earners currently receiving minimum income faced estimated PTRs of below 40%. In Cyprus and Slovenia, as noted above, this was combined with a significant proportion of households (35% and 48%, respectively) having rates of 60% or higher.

Table 3. Percentage distribution of estimated PTRs, 2019

| | <20% | 20-39% | 40-59% | 60-79% | 80%+ |
|----------------|------|--------|--------|--------|------|
| Austria | 14 | 1 | 12 | 43 | 31 |
| Belgium | 4 | 21 | 24 | 48 | 3 |
| Bulgaria | 7 | 64 | 25 | 3 | 1 |
| Croatia | 34 | 55 | 6 | 2 | 3 |
| Cyprus | 42 | 10 | 13 | 30 | 5 |
| Czech Republic | 27 | 13 | 28 | 17 | 16 |
| Denmark | 0 | 0 | 1 | 71 | 28 |
| Estonia | 0 | 43 | 44 | 2 | 10 |
| Finland | 12 | 12 | 19 | 49 | 8 |
| France | 15 | 42 | 35 | 6 | 2 |
| Germany | 4 | 12 | 21 | 55 | 7 |
| Greece | 52 | 38 | 9 | 2 | 0 |
| Hungary | 7 | 13 | 77 | 3 | 0 |
| Ireland | 43 | 20 | 34 | 2 | 1 |

³² More details on PRTs faced by household composition are in section 2.2.4

| | <20% | 20-39% | 40-59% | 60-79% | 80%+ |
|-------------|-----------|-----------|-----------|-----------|-----------|
| Italy | 35 | 14 | 42 | 9 | <i>0</i> |
| Latvia | <i>0</i> | <i>28</i> | <i>72</i> | <i>0</i> | <i>0</i> |
| Lithuania | <i>7</i> | <i>25</i> | <i>33</i> | <i>35</i> | <i>0</i> |
| Luxembourg | <i>14</i> | <i>0</i> | <i>0</i> | <i>24</i> | <i>62</i> |
| Malta | <i>14</i> | <i>14</i> | <i>38</i> | <i>33</i> | <i>1</i> |
| Netherlands | 10 | <i>8</i> | 28 | 53 | <i>1</i> |
| Poland | <i>21</i> | <i>12</i> | 61 | <i>5</i> | <i>1</i> |
| Portugal | 41 | 28 | 13 | <i>5</i> | 14 |
| Romania | <i>0</i> | 33 | 67 | <i>0</i> | <i>0</i> |
| Slovakia | <i>11</i> | <i>4</i> | 58 | <i>25</i> | <i>2</i> |
| Slovenia | 14 | 35 | <i>2</i> | 46 | <i>2</i> |
| Spain | 26 | <i>5</i> | 34 | 19 | 16 |
| Sweden | <i>0</i> | <i>16</i> | <i>32</i> | 47 | <i>4</i> |
| EU | 15 | 26 | 31 | 24 | 5 |

Note: Figures in red and italics denote cases where the number of observations is less than 30 and where accordingly the estimates are of uncertain reliability.

Source EUROMOD simulations

In all countries, however, hardly any households faced PTRs of more than 100%, and in most none at all, which implies that there was almost invariably a financial incentive to find employment. It also implies that even in the countries with the most generous minimum income schemes, a conscious effort has been made to ensure that this is the case.

2.2.4 Decomposition of mean PTRs by taxes and benefit loss

The withdrawal of minimum income benefit as people move from receipt of this into employment was the main element of PTRs in most Member States (in 20 of the 27). In Denmark, Luxembourg, and the Netherlands, this alone reduced the take home pay of minimum income recipients moving into a job by over 50% on average (Table 4). In another five Member States (BE, MT, EE, ES, AT), it reduced it by over 40%, and in Finland, by only just under 40%. By contrast, in Poland, Romania, France, Hungary, Lithuania, Bulgaria, and Slovenia, the main element of the mean PTR was the payment of income taxes and social contributions on earnings from work.

In most countries (17 out of 27), the take-home pay of minimum income recipients taking up a job was affected more by social contributions, which began to be levied as they started to have earnings from employment, than by income tax. In Romania, those earning the minimum wage in a full-time job were required to pay social contributions of 35% of earnings, while in Germany, Lithuania and Slovenia, the contribution rate for those working in a job with at this level of pay was 20% or more.

By contrast, the income tax rate for those moving into a minimum-wage job (or one at 50% of average wages in the six countries where there is no minimum wage legislation) was 15% or less in all countries and more than 10% only in Poland, France, Lithuania, Hungary, Sweden and Denmark – in the last two at wages of 50% of the average). In Croatia, Cyprus and Malta, there was no income tax to pay on minimum wages and in

Greece, Luxembourg, the Netherlands and Portugal, the rate was only 1% of gross earnings.

The contribution of non-means-tested benefits to the PTR is zero, or close to zero, in most countries, but in nine countries, it was negative, implying that such benefits were larger, if only slightly so in most cases, if a person was employed as opposed to being out of work.

Table 4. Decomposition of estimated PTRs, 2019 (% of overall PTR)

| | Income taxes | Social contributions | Means-tested benefits | Non means tested benefits | Total |
|----------------|--------------|----------------------|-----------------------|---------------------------|-------|
| Austria | 7% | 18% | 41% | -3% | 63% |
| Belgium | 4% | 2% | 48% | 0% | 53% |
| Bulgaria | 8% | 14% | 15% | 0% | 37% |
| Croatia | 0% | 0% | 16% | 0% | 17% |
| Cyprus | 0% | 10% | 27% | 0% | 37% |
| Czech Republic | 3% | 11% | 27% | 0% | 41% |
| Denmark | 15% | 2% | 63% | 0% | 80% |
| Estonia | 2% | 3% | 43% | 0% | 48% |
| Finland | 9% | 10% | 39% | -1% | 57% |
| France | 12% | 11% | 7% | 1% | 32% |
| Germany | 6% | 20% | 34% | -1% | 60% |
| Greece | 1% | 0% | 13% | 0% | 14% |
| Hungary | 15% | 17% | 11% | -5% | 38% |
| Ireland | 6% | 3% | 23% | -3% | 28% |
| Italy | 3% | 5% | 23% | 0% | 31% |
| Latvia | 8% | 11% | 28% | 0% | 47% |
| Lithuania | 13% | 22% | 16% | -2% | 48% |
| Luxembourg | 1% | 8% | 63% | -1% | 71% |
| Malta | 0% | -2% | 48% | 0% | 47% |
| Netherlands | 1% | -1% | 58% | 0% | 57% |
| Poland | 11% | 13% | 3% | 0% | 27% |
| Portugal | 1% | 11% | 22% | 0% | 33% |
| Romania | 4% | 35% | 5% | 0% | 44% |
| Slovakia | 3% | 13% | 32% | -1% | 47% |
| Slovenia | 3% | 22% | 18% | 0% | 44% |
| Spain | 0% | 6% | 42% | -2% | 46% |
| Sweden | 14% | 7% | 37% | 0% | 58% |
| EU | 8% | 12% | 22% | 0% | 42% |

Note: Negative figures mean that the receipt of non-means-tested benefits increase, and so add to income, as people move into employment

Source: EUROMOD simulations

2.2.5 PTRs by household type

In all Member States, except Malta, where the rates are the same, and Slovakia, people living alone face higher estimated PTRs, on average, than couples (Table 4). (In Malta and Slovakia, it should be noted, the estimates are based on less than 30 observations and so are of uncertain reliability.) In most countries (19 out of 27), lone parents have higher average PTRs than people living alone without children, implying a greater financial disincentive to take up employment. Only in Ireland and the Netherlands of the countries where the estimates are reasonably reliable (i.e. based on 30 or more observations) is the average PTR significantly lower for people living alone with children than those without.

By contrast, couples with children tend to have lower PTRs than those without. This is the case in all but 7 of the 25 countries for which a comparison is possible – Bulgaria, Czech Republic, Denmark, Spain and Portugal as well as the Netherlands and Austria, where the rates are the same. (In Bulgaria, Czech Republic, Denmark and Austria, estimates are of uncertain reliability.)

Table 5. Estimated PTRs by household type, 2019

| | Single | | Couple | |
|----------------|------------|---------------|------------|---------------|
| | 0 children | 1+ child(ren) | 0 children | 1+ child(ren) |
| Austria | 66 | 80 | 57 | 57 |
| Belgium | 56 | 60 | 35 | 25 |
| Bulgaria | 35 | 46 | 26 | 45 |
| Croatia | 25 | 36 | 11 | 3 |
| Cyprus | 45 | 43 | 37 | 30 |
| Czech Republic | 56 | 53 | 10 | 15 |
| Denmark | 79 | 82 | 77 | 81 |
| Estonia | 41 | 89 | n.a. | 90 |
| Finland | 67 | 57 | 42 | 33 |
| France | 47 | 51 | 31 | 16 |
| Germany | 67 | 67 | 45 | 29 |
| Greece | 26 | 36 | 13 | 0 |
| Hungary | 47 | 46 | 50 | 3 |
| Ireland | 50 | 26 | 33 | 16 |
| Italy | 50 | 37 | 24 | 6 |
| Latvia | 49 | 35 | 35 | n.a. |
| Lithuania | 48 | 65 | 41 | 31 |
| Luxembourg | 84 | 86 | 40 | 22 |
| Malta | 60 | 44 | 60 | 11 |

| | Single | | Couple | |
|-------------|------------|---------------|------------|---------------|
| | 0 children | 1+ child(ren) | 0 children | 1+ child(ren) |
| Netherlands | 72 | 51 | 33 | 33 |
| Poland | 40 | <i>49</i> | <i>39</i> | n.a. |
| Portugal | 31 | 36 | 29 | 36 |
| Romania | 46 | <i>47</i> | 43 | 42 |
| Slovakia | <i>51</i> | <i>61</i> | <i>64</i> | <i>39</i> |
| Slovenia | 60 | 57 | 30 | 23 |
| Spain | 52 | 54 | 33 | 40 |
| Sweden | <i>62</i> | <i>68</i> | <i>50</i> | <i>41</i> |
| EU | <i>57</i> | <i>55</i> | <i>34</i> | <i>20</i> |

Note: Figures in red and in italics denote cases where the number of observations is less than 30 and which are accordingly of uncertain reliability.

Source: EUROMOD simulations

2.3 The effect of financial (dis)incentives on the take-up of employment

The PTRs estimated above provide a means of examining the effect of more or less generous minimum income schemes (relative to earnings in a minimum wage job) on the likelihood of minimum income recipients taking up employment. High PTRs can potentially represent a significant financial disincentive for minimum income recipients to actively look for work and take up a job. and, similarly, low PTRs might give more of a stimulus to seeking employment than higher ones because of the gain to net income that having a job would imply, even at the minimum wage. The real extent to which they affect the decisions of people on minimum income benefits in this respect remains open to question.

There are a number of other factors affecting the rate of transition into work of minimum income recipients in addition to the level of benefits they receive relative to what they could earn in employment. For families with young children, for example, a lack of quality childcare facilities at an affordable cost may represent a primary hurdle to overcome, irrespective of the size of the PTR, especially for lone parents³³. A lack of skills matching the jobs on offer is a further potential obstacle, particularly for those with low levels of education or for those whose skills have become redundant because of the decline of traditional industries or technological change.³⁴

It is also important to take account of the fact that the income that minimum income recipients receive typically affords them a minimum standard of living, and in many countries, one which barely covers the essentials. Any increase which can be achieved by finding a job, even if it represents only a small percentage addition to income, is likely to have a significant effect on living standards. Moreover, it is equally important to consider that, contrary to the traditional economic theory view of work, that it merely represents a disutility that needs to be compensated by paying wages, having a job yields benefits quite apart from financial ones in the form of social integration and a sense of personal

³³ See, for example, Boeri et al. (2005), Meghir & Philips (2010), Regan, Keane and Walsh (2018), Doorley et al. (2021).

³⁴ See, for example, Brunello, Wruuck and Maurin (2019), Gbohoui (2019).

satisfaction and fulfilment. Even at the same level of income, many people may prefer working to being dependent on social benefits and the social exclusion that it can entail³⁵.

Account needs to be taken as well of the activation element which minimum income schemes in all EU Member States include to varying extents and with differing levels of intensity. In most cases, it is not open to minimum income recipients to opt out of active job search or to refuse a job which is offered, so long as it is in line with their competences, especially after a lengthy spell of unemployment, without being sanctioned by having their benefits reduced or withdrawn from them.

Recent research into the effect of minimum income schemes on the transition of minimum income recipients into employment has raised questions about the relative importance of financial disincentive effects. For example, a study based on EU-SILC data using econometrics methods and summarised in the 2020 *Employment and Social Developments in Europe Report*, found that “Overall at the EU level, the probability of getting a job the following year is around 1pp less for those receiving minimum income support compared to those who do not. Although the marginal effect is negative and statistically significant, the magnitude is very low, suggesting that the minimum income does not have a major impact on the participation in the labour market. ‘The neutrality of minimum income schemes with respect to access to the labour market is also confirmed by a counterfactual analysis’. It concluded that ‘Such results confirm that the disincentive to work determined by minimum income is low and not large enough to outweigh the benefits deriving from its income support to the most vulnerable’³⁶.

This study was based on comparing minimum income recipients with non-recipients at the EU level. As such, it did not take account of the significant differences in the nature of minimum income schemes in terms of both the level of benefit and the extent of labour market support that they include. The estimates of PTRs described above provide a means of taking explicit account of the effect of minimum income benefit levels relative to potential earnings from work on transitions into employment. Later sections examine labour market support issues.

2.3.1 Estimating rates of transition of minimum income recipients into employment

As in the study referred to above, the data in the EU-SILC provide a basis for investigating the effect of PTRs on the transition of minimum income recipients into employment. There are two possible ways in which this can be done. One is to use the EU-SILC longitudinal, or panel, data to monitor the labour market situation, or activity status, of minimum income recipients over time. The other is to use the standard EU-SILC cross-sectional data and, specifically, to compare the employment situation, or activity status, of minimum income recipients at the time of the survey with that over the preceding year.

In both cases, however, the problem arises of identifying minimum income recipients in the EU-SILC data. This is far from straight-forward. This is in large part because the EU-SILC does not include a category labelled minimum income benefits but includes them within a category called ‘*Social exclusion benefits n.e.c.*’, i.e. a residual category which covers various other benefits as well. It is also because minimum income benefits might well be classified by respondents under another category, especially unemployment benefits in cases where minimum income schemes involve labour market activation.

Given this difficulty, the approach adopted here is to take as a proxy for minimum income recipients those with income below the at-risk-of-poverty threshold and not in work over

³⁵ See, for example, Bowling, Eschleman and Wang (2010), Platis, Reklitis, and Zimeras (2015), Cannas, et al. (2019), and Hussam R., Kelley E.M., Lane G., and Zahra F. (2022). For a sociologist perspective on this, see Kalleberg, Arne L., and Aage B. Sorensen (1979).

³⁶ European Commission (2020), pp76-77.

the year preceding the survey (or more specifically living in a workless or very low work-intensity household) and receiving any social benefit at all, other than family or child insurance-based benefits. Since the aim is to assess the effect of relative benefit levels on employment transitions, minimum income recipients so defined are restricted to those who are of working age - defined as 25-64 for the longitudinal analysis in order to exclude younger people who might move into education or training – and capable of working. People not in employment with a disability which prevents them from working are, therefore, excluded, along with those in education or training, those in retirement and those in compulsory military or community service.

The analysis is based, first, on the EU-SILC longitudinal data, specifically the data for the same group of households - and the individuals living in them – surveyed over the two-year period 2018-2019. This is a period when the PTRs estimated are most relevant (they were estimated from 2019 data) and it is also one which is not affected by the Covid-19 pandemic, and government responses to it, which struck in 2020.

Although the longitudinal data enable households, and the activity status of household members, to be tracked over a four-year period, in practice, the sample size of the survey severely limits the analysis that can be undertaken. . Since minimum income recipients constitute a relatively small proportion of the population and non-benefit recipients an even smaller share, the limited sample size of the longitudinal data for four years – 25% of the number of households surveyed annually by the EU-SILC³⁷ - means that in most countries, the number of household observations that need to be compared is too small to be representative. Even over the 2018-2019 period, when 75% of the EU-SILC survey respondents are covered by the longitudinal data, the data for non-benefit recipients for around half the EU Member States are unreliable³⁸. For benefit recipients, data available enable employment transition rates to be examined for a larger number of countries – 22 of the 27 EU Member States – and for these rates to be compared with the estimates of PTRs to gauge the effect of these.

The analysis, therefore, consists, in the first case, of examining the activity status of minimum income recipients as defined above, as well as of non-recipients³⁹, as it changes from one year to the next. More specifically, it is to identify the proportion of those in the two groups distinguished who were initially out of work throughout the 12 months of the first year (specifically in 2018) who subsequently moved into employment in the subsequent period (in 2019). The employment transition rates of benefit recipients in the different countries are then related to the PTRs to see whether or not there is any association between the two, taking account, so far as possible, of other factors which might affect the rate of movement into work.

In the second case the analysis is based on the change in activity status of minimum income recipients, and non-recipients, between the year preceding the survey and the survey itself – i.e. on average 6 months later – and focuses on the proportion in the two groups who moved into employment in the intervening period. The employment rates of benefit recipients are again compared with PTRs across countries to examine the relationship between the two.

In both cases, the 'activity status' in the EU-SILC is on a self-defined basis and relates to the main activity in a given month, with employment being given precedence of other statuses. Since there is no precise criterion stipulated for determining how much work is needed for employment to count as the main activity, it can only be hoped that any

³⁷ 25% of the households surveyed are dropped from the survey each year.

³⁸ Analysis of the longitudinal data for non-recipients of minimum income benefits covers 13 countries out of 27.

³⁹ Those living in workless households with income below the at-risk-of-poverty threshold but not receiving any benefits, other than family or child insurance-based ones.

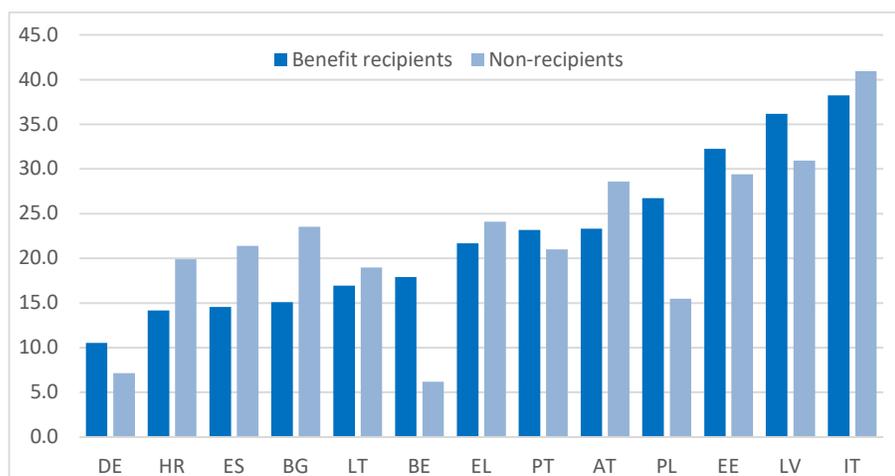
difference between both individuals and counties in the way 'mainly being employed' is interpreted does not affect the results of the analysis.

2.3.2 The relationship between the receipt of minimum income benefits and transition rates

2.3.2.1 Analysis of longitudinal data

The transition into employment between 2018 and 2019 of minimum income benefit recipients – or more accurately the proxy indicator of these as defined above – can be compared with that of non-recipients for around half the EU Member States, specifically 13 of the 27 (Figure 2 indicates the countries concerned). The comparison shows that there is no systematic difference between the two groups. In seven of the 13 countries - i.e. just over half - a larger proportion of non-benefit recipients moved into employment between the two years than of recipients. (Moving into employment here means being employed at some stage during the year, though not necessarily remaining in employment.) but only in four countries (HR, ES, BG, AT) was the difference substantial. Moreover, in three countries (DE, BE, PL) the difference was substantial in the other direction, benefit recipients having a much higher rate of transition than non-recipients. No common tendency is evident, therefore, for non-benefit recipients to have a higher rate of transition into employment than recipients, which would be expected if the financial incentive to find work was the predominant factor.

Figure 2. Rates of transition into employment of minimum income recipients aged 25-64 and non-recipients, 2018 to 2019



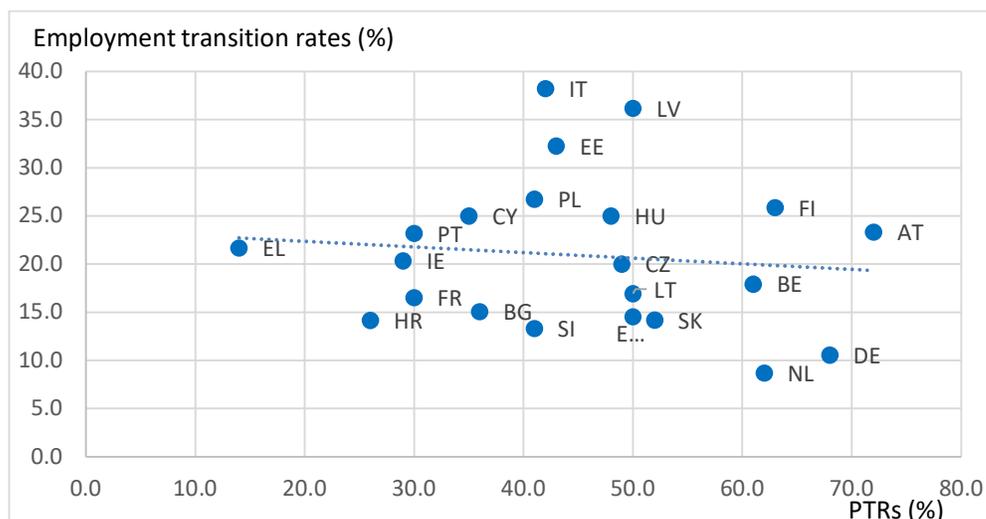
Note: Data for SK are of uncertain reliability because of the relatively small number of observations

Source: Eurostat, EU-SILC microdata and own calculations.

The extent of the gain in net income for minimum income recipients moving into employment – i.e. the financial incentive to find a job – varies markedly between countries. How far this variation affects transition rates can be examined using the estimates of PTRs described earlier. The EU-SILC longitudinal data enable this to be done for 22 of the 27 EU Member States (all but DK, LU, MT, RO, SE) though for seven of the 22 countries concerned (CZ, EE, LV, HU, AT, SL, SK, the data are based on a relatively small number of observations (25-49 in each of them), so it is uncertain how representative they are of the household being examined. The results for these seven countries should, therefore, be treated with caution.

There is little evidence of a relationship across the 22 countries between PTRs and the rate of transition into employment (Figure 3). Although there is some tendency for transition rates to decline as the PTR increases, it is only a very slight one and it is not statistically significant. A high PTR, therefore, is as much associated with an above average transition rate (as in AT or FI) as a below average one (as in NL and DE).

Figure 3. Relationship between employment transition rates, 2018 to 2019, and PTRs in 2019



Source: Eurostat, EU-SILC microdata and own calculations

Equally, a low PTR is in itself not a guarantee of a high rate of transition into employment. Indeed, in most of the countries where the PTR is low, implying a relatively strong financial incentive to find a job, the rate of transition into work was either around the average (as in Greece, Ireland and Portugal) or below it (as in Croatia, France and Bulgaria).

Of course, PTRs are not the only factor affecting the rate of movement into employment. Many others are at work as well, such as the state of labour market conditions (the strength of the demand for labour) and the characteristics of the benefit recipients concerned, in particular their age, the skills they possess and, in some cases, their gender. The effect of variations in these factors across countries could potentially mask any effect of financial incentives.

Taking account of these factors, so far as possible, however, does not change the conclusion from the simple relationship described above. There remains no evident tendency for high PTRs to reduce the rate of transition into employment or for low PTRs to increase it. (See Table 6, which shows the results of regressing employment transition rates against PTRs and indicators of labour market conditions and the characteristics of benefit recipients. It shows that none of the variables have a statistically significant relationship with transition rates and that although the PTR has the expected sign, this too is not statistically significant.)

Table 6. Results of a regression equation with employment transition rates 2018 to 2019 of those aged 25-64 as the dependent variable

| | Coefficient | Standard error | p-value |
|-------------------------|-------------|----------------|---------|
| Low educated as % total | -0.075 | 0.117 | 0.531 |

| | Coefficient | Standard error | p-value |
|-----------------------------|-------------|----------------|---------|
| Women as % total | -0.080 | 0.295 | 0.790 |
| Those aged 25-45 as % total | 0.176 | 0.248 | 0.490 |
| PTR (median) | -0.050 | 0.150 | 0.742 |
| Unemployment rate (%) | 0.001 | 0.007 | 0.918 |
| Constant | 0.231 | 0.198 | 0.261 |

Note: The dependent variable is calculated as the proportion of those aged 25-64 in 2018, living in a household with no-one in work, with income below the at-risk-of-poverty threshold, who were not employed in 2018 and did not have a disability or were incapable of working, and who were not in education or training, retirement or in compulsory military service and who received a social benefit, other than non-means-tested child or family benefit, who moved into employment in 2019. DK, LU, MT, RO and SE are excluded from the analysis because of the data being unreliable for estimates of minimum income benefit recipients.

'Low educated' are those with only basic schooling (ISCED 0-2), which is taken as an indicator of low skills. The unemployment rate is the average rate in each country in 2019, expressed as a % of the labour force aged 25-64, which is used as an indicator of labour market conditions, or of the strength of demand for labour.

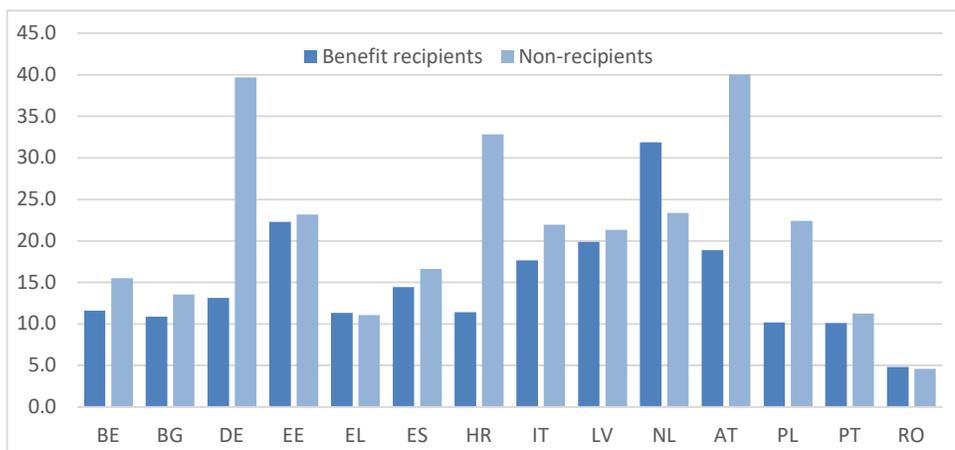
Source: Eurostat, EU-SILC microdata and own calculations

2.3.2.2 Analysis of cross-sectional data

Transitions of minimum income recipients into employment can also be examined on the basis of the change in activity status between the year preceding the EU-SILC survey and the survey itself. Since the latter is conducted at various times over the year, such a comparison shows the proportion of people who were out of work and living in very low work-intensity household throughout 2018 with income below the at-risk-of-poverty threshold who had moved in employment 6 months later on average. As above, those who had a disability or were incapable of working, those in education or training at the time of the survey, and those in retirement or compulsory military or community service are excluded from the analysis. Unlike above, the age range included in the analysis is 18-64.

In nine of the 14 Member States for which it is possible to compare those receiving social benefits (other than non-means tested child or family benefits) with those not receiving them, the proportion moving into employment in the period between the year preceding the survey and the survey itself was larger for non-benefit recipients than recipients (Figure 4). For only four of these countries, however (DE, HR, AT, PL) was the difference substantial. Moreover, in both Germany and Austria, a large proportion of those not receiving benefits were aged 18-29 and many of these are likely to have been in education or training in 2018 and not eligible for social benefits. Since many of them received an education allowance, it cannot be concluded that the lack of social support was an element in encouraging them to find a job. (Note that in the longitudinal analysis above it was possible to exclude those in education and training from the analysis since the data enable those who were in this situation in 2018 to be identified. The cross-sectional data enables those concerned to be identified in 2019 but not in 2018. The employment transition rates for Germany and Austria are, therefore, much higher in the cross-sectional analysis as a result, since they include those moving from education and training into a job who are excluded from the longitudinal analysis.)

Figure 4. Transition rates into employment of benefit recipients aged 18-64 and non-recipients, 2019

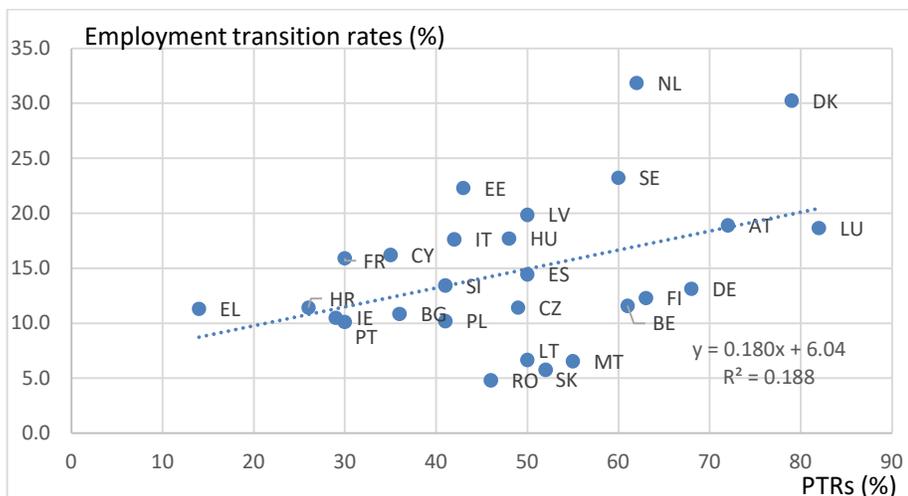


Note: Data for Austria relate to the transition between 2017 and the 2018 survey because of the unreliability of the 2019 data for non-benefit recipients.

Source: EU-SILC microdata and own calculations

The analysis focused then on minimum income recipients and related the transition rates into employment to the PTRs in the different Member States. The results indicate a positive relationship between the two rather than the negative one that would be expected if financial incentives had a marked effect on the behaviour of benefit recipients as regards employment (Figure 5 – it should be noted that for this analysis, all 27 Member States are included). While the relationship is not particularly close, it is significant, though the increase in the transition rate as the PTR rises is relatively small (an increase of just under 2 percentage points for each 10 percentage point rise in the PTR).

Figure 5. Relationship between employment transition rates, 2018 to 2019 survey, and PTRs



Notes: Employment transition rates relate to the proportion of those aged 18-64 with income below the at-risk-of-poverty threshold and living in a very low work intensity household in 2018 and who were not in education or training, disabled or incapable of working, in retirement or compulsory military or community service according to the 2019 survey, who at the time of the survey were in employment.

Source: Eurostat, EU-SILC microdata and own calculations.

The apparent positive relationship between PTRS and transition rates into employment across countries can be interpreted as meaning that other factors predominate and serve to conceal any negative effect that PTRs have on the employment decisions of benefit recipients – i.e. that other factors are more important than financial incentives.

As in the case of the analysis of longitudinal data above, the effect of these other factors can be explicitly allowed for in a regression model, which has the employment transition rate as the dependent variable and these factors, together with PTRs, as independent ones. Although PTRs continue to be positively related to transition rates, the relationship is no longer a statistically significant once other factors are allowed for, though these factors too are not significantly related to transition rates (Table 7)). This is a similar result as in the case of longitudinal data.

Table 7. Results of a regression equation with employment transition rates 2018 to 2019 survey of those aged 18-64 as the dependent variable

| | Coefficient | Standard error | p-value |
|-----------------------------|-------------|----------------|---------|
| Low educated as % total | 0.001 | 0.083 | 0.986 |
| Women as % total | 0.007 | 0.209 | 0.975 |
| Those aged 25-45 as % total | -0.095 | 0.176 | 0.598 |
| PTR (median) | 0.112 | 0.106 | 0.306 |
| Unemployment rate (%) | 0.001 | 0.005 | 0.822 |
| Constant | 0.119 | 0.140 | 0.410 |

Note: The dependent variable is calculated as the proportion of those aged 18-64, living in a low work-intensity household, with income below the at-risk-of-poverty threshold, who were not employed in 2018 and who, according to the 2019 survey, were not disabled or incapable of working, not in education or training, retirement or compulsory military service and who received a social benefit, other than non-means-tested child or family benefit, who were employed at the time of the 2019 survey. DK, LU, MT, RO and SE are excluded from the analysis because of the data being unreliable for estimates of minimum income benefit recipients.

See Notes to Table 6 for the independent variables.

Source: Eurostat, EU-SILC microdata and own calculations.

2.4 Concluding remarks

This section has presented estimates of Participation Tax Rates (PTRs) based on EUROMOD simulations. It shows that these differ substantially across EU Member States, reflecting the variation in the level of minimum income support, with rates being, on average, above 70% in three countries (DK, LU, AT) and 60% or above in another five (BE, DE, NL, FI, SE). These are all countries with relatively high levels of GDP per head and relatively generous and well-developed social protection systems.

These estimates enable an examination to be made of the effect of the potential financial disincentive to work which high PTRs represent – and the financial incentive which low PTRs potential represent – on the transition of minimum income benefit recipients into work. **The analysis above indicates that there is no evidence in the data available of PTRs having a significant effect on employment transitions in practice in EU**

Member States and that other factors seem to outweigh any disincentive, or incentive, effect that they might have. As such, the analysis confirms the findings of previous studies that the level of minimum income benefits in relation to the minimum wage is not a prime determinant of the decisions of minimum income recipients as to whether to take up employment or not. Accordingly, in line with the conclusions of the 2020 Employment and Social Developments in Europe report, this implies that policy decisions on the level at which to set minimum income support can be made with the aim of providing an adequate level of income to the most vulnerable without being overly concerned about the financial disincentives to work that this might seem to imply.

3 Gradual phasing out of benefits

3.1 Introduction

The transition into employment is key to reducing or ending dependency on minimum income (MI) benefits as a solution to poverty and social integration. However, for those claiming minimum income benefits, many of whom are liable to be among those furthest from the labour market, this transition may not be realised through taking up a well-paid full-time job. The opportunities available to them may be mostly low-paid or temporary and, for those with care responsibilities or other limitations in their capacity to work, part-time employment may be the only viable option. Nevertheless, the take-up of any work can be seen as a positive development for anyone who is out of work, both in terms of reducing benefit dependency and providing experience, which could serve as a stepping-stone towards better quality jobs. For this reason, minimum income benefit design should not only incentivise the take-up of well-paid full-time employment but also the take-up of any jobs that can facilitate a reduction in benefit dependency and genuinely act as a stepping-stone to better employment opportunities. It should be recognised, however, that in many instances, available employment may not offer such opportunities. This can be the case, for example, for low-skilled temporary employment which offers no path for self-development or career advancement.

In theory, as noted in the previous chapter, work (dis)incentives associated with minimum income benefits arise through two channels, through an income effect associated with the difference between income from minimum income benefit and income from work and through a substitution effect associated with the withdrawal of income from minimum income benefit as income from work rises (with better pay or more working hours). As also noted in the previous chapter, these two effects can be measured by two indicators:

- the **Participation Tax Rate (PTR)**, defined as the share of additional household income derived from moving into work that is lost because of taxation of earnings and reductions in benefits.
- the **Marginal Effective Tax Rate (METR)**, which measures the share of additional household income derived from an increase in earnings that is lost because of taxation of earnings and potential losses in social benefit.

Recent research, including the analysis in the previous chapter, has shown a considerable variation in PTRs and METRs across countries and a strong positive correlation between these rates and the level of benefits⁴⁰.

Although there is little evidence of a strong relationship between PTRs and the actual transition into work, there is some evidence that work disincentives can be important for low-skilled workers and women with children, particularly single parents⁴¹, and that jobs that are low paid, of poor quality, part-time or informal, can in themselves deter people from taking up of work⁴². Accordingly, such factors are important to take into account.

⁴⁰ In addition to the previous section, see Coady et al. (2021). *Guaranteed Minimum Income Schemes in Europe: Landscape and Design*. IMF. <https://www.imf.org/en/Publications/WP/Issues/2021/07/02/Guaranteed-Minimum-Income-Schemes-in-Europe-Landscape-and-Design-461341>

⁴¹ Meghir, Costas and David Phillips (2010). "Chapter 3: Labour Supply and Taxes," in *Dimensions of Tax Design: The Mirrlees Review*, ed. by Stuart Adam, Timothy Besley, Richard Blundell, Stephen Bond, Robert Chote, Malcolm Gammie, Paul Johnson, Gareth Myles, and James Poter (Oxford University Press). https://ifs.org.uk/sites/default/files/output_url_files/mirrlees_dimensions.pdf

⁴² Frazer and Marlier (2016). *Minimum Income Schemes in Europe: A study of national policies 2015*. <https://op.europa.eu/en/publication-detail/-/publication/7238a596-44d0-11e6-9c64-01aa75ed71a1/language-en>

Moreover, irrespective of the evidence, there is a natural policy concern in countries to avoid both PTRs and METRs becoming too high, such that there is only a marginal gain from taking up a job or working more. Indeed, research indicates that METRs may be too high in many European countries⁴³ (i.e. do not provide enough incentive to work more).

Accordingly, an important policy question is how to increase financial work incentives while maintaining an adequate level of benefit. The most direct methods of doing this are:

- **MI benefit tapering:** mechanisms which enable a gradual withdrawal of minimum income benefits upon the take-up of (more) work, either over a specified period or in relation to the number of hours worked or amounts earned.
- **In-work benefits:** separate from minimum income benefits, these distinct benefits serve to supplement income earned from work.
- **Fiscal incentives:** fiscal rules providing relief on taxes and social contributions deducted from income (e.g. tax exemptions, tax deductions, and tax credits).

These have broad and direct impact on disposable income. It is important to acknowledge, however, that there are other direct methods which raise disposable for specific purposes as well as indirect methods that can also assist in ensuring a financial work incentive. This includes, for example, the provision of cash benefits such as child benefits and benefits in kind such as childcare, transportation services, housing etc. These impact on disposable income by contributing towards or reducing specific types of expenditures.

It is important to note that, as is the case when determining the adequacy of benefits, more generous tapering implies higher short-term costs of provision. However, in the case of income replacement benefits such as minimum income benefits, the intention is that more generous tapering further facilitates integration into the labour market, reducing costs of provision in the long-term by reducing the number of recipients dependent on minimum income benefits over longer periods. This notion is supported by case studies presented in section 3.4.

This chapter provides an in-depth analysis of the minimum income benefit tapering arrangements deployed in EU Member States and how these are used to ensure incentives to work, but also takes inventory of relevant in-work benefits for minimum income benefit recipients. The analysis is split into two parts. The first reflects on the different tapering arrangements currently applicable in the Member States. The second considers recent reforms to tapering arrangements and their impact.

3.2 Minimum income benefit tapering arrangements

In most countries, social protection systems are designed to ensure that the take-up of (more) work by minimum income benefit recipients does not lead to a loss of net income and so a disincentive to work (more), with the risk that an inactivity trap results. Indeed, in all Member States except Hungary, the system either allows for some continuation of minimum income benefits on take-up of work or offers some form of in-work benefit that can compensate for the loss of minimum income benefit.

In almost all countries, minimum income benefits are designed as top-ups whereby the difference between a basic amount (usually linked to household characteristics) and household income from other sources determines the level of the benefit granted. The general implication of this approach is that when income rises there is an equivalent reduction in the benefit paid out so that total income remains constant until income from employment exceeds that of the basic amount (i.e. PTR and METR equal to 100%). There

⁴³ Coady et al. (2021).Ibid.

are just two cases where this is not the case because the benefits are set as fixed amounts (HU and ES⁴⁴).

In the majority of cases where minimum income benefits serve as a top-up, net household income is deducted from the basic amount ensuring that total net income does not fall when income from work rises above the tax-free threshold in progressive tax systems. There are, however, cases where gross household income is deducted (BG, CY, DK, LU, MT, PT and ES⁴⁵). This raises the possibility of total net income declining due to taxation if it is possible to claim minimum income benefits when income from work exceeds the tax-free threshold. Based on data generated by the OECD's tax-benefit model⁴⁶, this situation seems to be a possibility in the case of Cyprus, as demonstrated in Figure 10 in section 3.2.2.2.

The top-up approach avoids creating a disincentive but offers no incentive to work (more) when the wage that would result from doing so remains below the basic amount – i.e. when the wage is low and/or working time is limited. In this scenario, taking on (more) work requires additional effort by the individual that yields no additional compensation – i.e. no rise in total income. This may be perceived as unfair and dissuade some from making efforts to work (more) even when strict activation requirements and sanctions are imposed.

In practice, however, the designs of minimum income benefits are seldom so simplistic and generally include some form of tapering mechanism which helps counteract this disincentive and ensure that there is some financial return from taking up work or working more, even when working time is limited and wages low (i.e. PTR and METR < 100%). Using information on minimum income benefits collected from national experts in the Member States, supplemented where necessary with additional information from the OECD's tax-benefit model⁴⁷ and MISSOC database⁴⁸, a variety of such mechanisms has been identified. These vary considerably in their characteristics but can be grouped into four broad categories:

- Increased basic amounts for people in work
- Income disregards in means-test and calculation of the benefit amount
- Temporary continuation of benefits for a fixed period
- In-work benefits

The use of these tapering mechanisms is summarised in Table 8. All countries except the two where minimum income benefit amounts are fixed (BG and HU) make use of at least one mechanism to ensure work incentives and seven countries deploy more than one (EL, LT, RO, SI, SK, FI, SE). The widespread use of such mechanisms highlights their relevance in ensuring that minimum income schemes promote labour market integration and their absence in Bulgaria and Hungary suggests an important limitation in the minimum income benefits in those countries.

Table 8. Mechanisms used to enable a financial incentive for minimum income benefit recipients to take up (more) work

| Country | Increased basic amount | Disregard | Temporary continuation | In-work benefit |
|---------|------------------------|-----------|------------------------|-----------------|
| Austria | | ✓ | | |

⁴⁴ Active integration income

⁴⁵ Minimum living income only

⁴⁶ Available here: <https://www.oecd.org/social/benefits-and-wages/>

⁴⁷ Available here: <https://www.oecd.org/social/benefits-and-wages/>

⁴⁸ Available here: <https://www.missoc.org/>

Exploratory study: filling in the knowledge gaps and identifying strengths and challenges in the effectiveness of Member States' minimum income schemes

| Country | Increased basic amount | Disregard | Temporary continuation | In-work benefit |
|----------------|------------------------|-----------|------------------------|-----------------|
| Belgium | | ✓ | | |
| Bulgaria | | | | |
| Croatia | | | ✓ | |
| Cyprus | | ✓ | | |
| Czech Republic | | ✓ | | |
| Denmark | | ✓ | | |
| Estonia | | ✓ | | |
| Finland | | ✓ | | ✓ |
| France | | | | ✓ |
| Germany | | ✓ | | |
| Greece | | ✓ | ✓ | |
| Hungary | | | | |
| Ireland | | ✓ | | |
| Italy | | ✓ | | |
| Latvia | | | ✓ | |
| Lithuania | | ✓ | ✓ ¹ | 1 |
| Luxembourg | | ✓ | | |
| Malta | | | ✓ ¹ | 1 |
| Netherlands | | ✓ | | |
| Poland | | | ✓ | |
| Portugal | | ✓ | | |
| Romania | ✓ | | ✓ | |
| Slovakia | | ✓ | | ✓ |
| Slovenia | ✓ | ✓ | | |
| Spain | | | ✓ | |
| Sweden | | ✓ | | ✓ |
| Total | 2 | 18 | 8 | 4 |

Source: Information collected from national experts in the Member States, OECD Tax-benefit model, DG EMPL MISSOC database.

Note: ¹ The temporary continuation of benefits in LT and MT also meet the definition of an in-work benefit but the amounts granted are tied to the amount of minimum income benefit received.

Information collected from national experts in the Member States provide partial data on the use of tapering mechanisms. Information covering just six countries suggests use

among minimum income benefit recipients is relatively low in Austria (~1% in 2020), Lithuania (1.5% in 2020), Poland (<0.1% in 2020) and Sweden (1.8% in 2016) but relatively high in Estonia (11.3% in 2020) and Denmark (22.3% in 2019). These differences can stem from differences in the nature of the tapering mechanisms adopted but other factors can also play a role (discussed in section 3.4). The limited availability of data underlines a need for monitoring, first, of the number of minimum income recipients in employment and, secondly, of the number of those to whom tapering arrangements apply. Such data is an important prerequisite to any assessment of the effectiveness of such mechanisms.

The following subsections further examine the nature of these different approaches, how they have been implemented in the Member States and their possible implications for ensuring work incentives. This is supported, where possible, using examples based on data generated by the OECD's tax-benefit model⁴⁹ showing the change in (net/gross) income with and without minimum income benefits as monthly working hours rise from zero up to 174 hours per month (i.e. 40 hours per week or full-time) for a household member earning the minimum wage (or, in absence of this, 40% of the average wage).

3.2.1 Increased basic amounts

Increasing the basic amount (i.e. before deduction of household income) used to derive the amount of minimum income benefit for recipients who take up (more) work is the most explicit way to ensure that overall income rises with (more) work. It also provides a clear signal in the benefit rules that minimum income benefit recipients can be better off in work, even if it is low paid or with limited working hours.

This approach is adopted for minimum income benefits only in Romania and Slovenia, both of which follow a top-up model. In Romania, the basic benefit amount is increased by 15% if at least one adult household member is in work. In Slovenia, the part of the basic benefit amount related to the first adult in the household is increased by 26% if they work 60-128 hours per month and 51% if they work more than 128 hours per month, but there is no change if they work less than 60 hours per month. In both cases this ensure that there is a gain in income from working more.), but in Slovenia only once working time exceeds 60 hours per month. At the same time, only the Slovenian case also provides an incentive to take on more work once in work. Note, however, that in both cases, other mechanisms are deployed alongside the increased basic amounts.

To demonstrate the impact of such an approach, the case of Slovenia is illustrated in Figure 6. This shows how gross and net household income changes as the working time of one household member on minimum wage rises, with notable jumps (depending on the household type) due to increased benefits when monthly working hours reach 60 hours and 128 hours per month. Note that while gross household income rises continuously as working hours rise, this is not the case for net income. This is because the calculation of the amount of minimum income benefit deducts net income from the basic amount, counteracting the impact of tax system (in this case social contributions) on net income. The data also show how the impact on both gross and net income varies depending on the household type because of differences in the basic amounts granted, underlining the need to consider different household compositions when developing such mechanisms. It demonstrates that a single person is cut-off from minimum income benefits once they are working just over 110 hours per month (around two thirds of full-time) on minimum wage while a household with two adults and two children is still entitled to minimum income

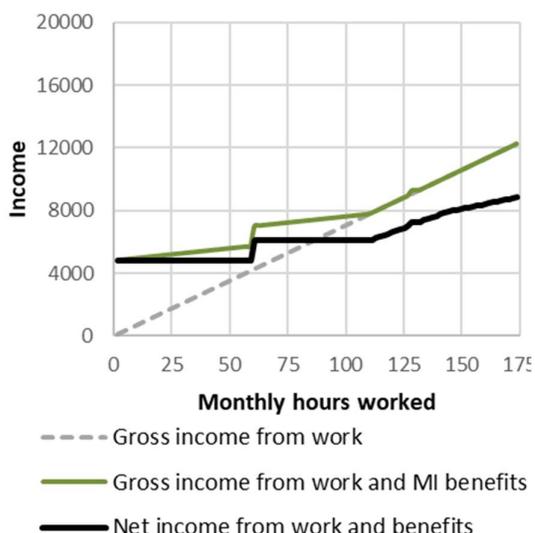
⁴⁹ Note that the correspondence between minimum income schemes analysed in this report and those classified as social assistance in the OECD's model is imperfect. In some cases, there is a direct correspondence, and the model can be used to generate relevant data but in others the minimum income schemes fall under other classifications in the model or are classified as social assistance along with other social benefits not considered here which prevent relevant data from being obtained.

benefits even when one adult is working full time on minimum wage. The implication is that a single full-time income at the level of the minimum wage is deemed sufficient to support a single person but not enough for a family of four.

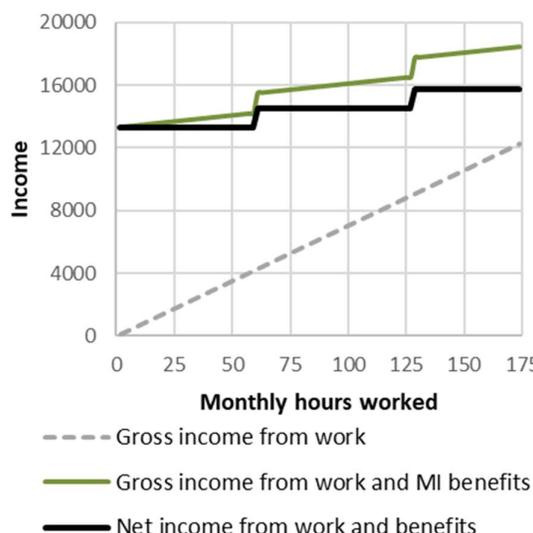
A potential limitation to the approaches in Romania and Slovenia is that the rise in the basic benefit amount is not continuous as working time / income rises. In Romania there is no incentive to work more unless the recipient can find a job that pays enough to end the need for minimum income benefit. In Slovenia there is an incentive to move from working less than 60 hours per month to more than 60 per month or from less than 128 hours per month to more than 128 per month but no incentive to increase working time between these bounds (i.e. METR<100% when crossing the bound but METR=100% between the bounds). This is not specific to the mechanism used per se but due to the basic amount being raised in relation to specific thresholds rather than increasing progressively with working hours. This highlights a need to consider not only incentives to taking up work but also incentives that reward any increase in working hours, even small increments.

Figure 6. Income of household in receipt of minimum income benefit in Slovenia by working time (national currency), 2021

Single person household:



Two adult two children household:



Source: OECD Tax-benefit model and own calculations.

Notes: The figures show how total income including social assistance changes if one adult in the household starts working and increases their working hours. This assumes no receipt of any other social benefits. Wage is set to the statutory minimum.

3.2.2 Income disregards

Income disregards exclude part of income from work from the household income deducted from the basic benefit amount when calculating the amount of minimum income benefit to be paid out. This effectively prevents an equivalent reduction in minimum income benefit as income from work rises, instead ensuring that the reduction is less than the rise in income (i.e. PTR&METR <100%). Note that the focus here is on the disregard applied to income from work and does not consider income disregards applied to other sources of income (i.e. non-work related income including that from other social benefits).

This approach is a less explicit way of ensuring that overall income rises with (more) work but is by far the most common, being deployed by minimum income benefits in 18 countries. There are, however, considerable differences in how disregards are applied in practice. A first key distinction can be made between disregards that are applied universally without time limit and those that are applied temporarily for a set period after the take up of work. The former can be granted to any recipient, even those that had some income from work prior to starting to claim minimum income benefits, thus potentially expanding the coverage of the benefit, while the latter can only be granted to those who gain employment while in receipt of minimum income benefits and for a fixed period. A second key distinction can be made between disregards that are specified as an amount (per week/month/year), those specified as a percentage of earnings and those specified as a combination of these based on level of income. The approach in each of the countries using income disregards is summarised in Table 9. Both approaches are analysed in the following sections.

Table 9. Income disregards by type

| Country | Universal | Temporary |
|----------------|--|--|
| Austria | | ✓ Fixed 35% up to 12 months |
| Belgium | ✓ Fixed 155-310 Euro per year | |
| Cyprus | ✓ Variable amount per month | |
| Czech Republic | ✓ Fixed 30% | |
| Denmark | ✓ Fixed 3.8 Euro per hour | |
| Estonia | | ✓ Declining 100-50% up to 6 months (for those who received benefit for 2+ months without receiving income from employment) |
| Finland | ✓ Fixed 150 Euro per month | |
| Germany | ✓ Fixed 30% (Subsistence benefit) or variable amount per month (Basic income support for jobseekers) | |
| Greece | ✓ Fixed 50% | |
| Ireland | ✓ Variable amount per day (Jobseekers Allowance only) | |
| Italy | | ✓ Fixed 20% up to 12 months |
| Lithuania | | ✓ Fixed 20-40% up to 12 months |
| Luxembourg | ✓ Fixed 25% | |
| Netherlands | ✓ Fixed 12.5-25% | |
| Portugal | ✓ Fixed 20% | ✓ Fixed 50% up to 12 months |
| Slovakia | ✓ Fixed 25% | ✓ Fixed 50%, up to 18 months |
| Slovenia | ✓ Fixed ~200 Euro per month | |

| Country | Universal | Temporary |
|-----------|-----------|------------------------------|
| Sweden | | ✓ Fixed 25%, up to 24 months |
| 18 | 13 | 7 |

Source: Information collected from national experts in the Member States, OECD Tax-benefit model, MISSOC database.

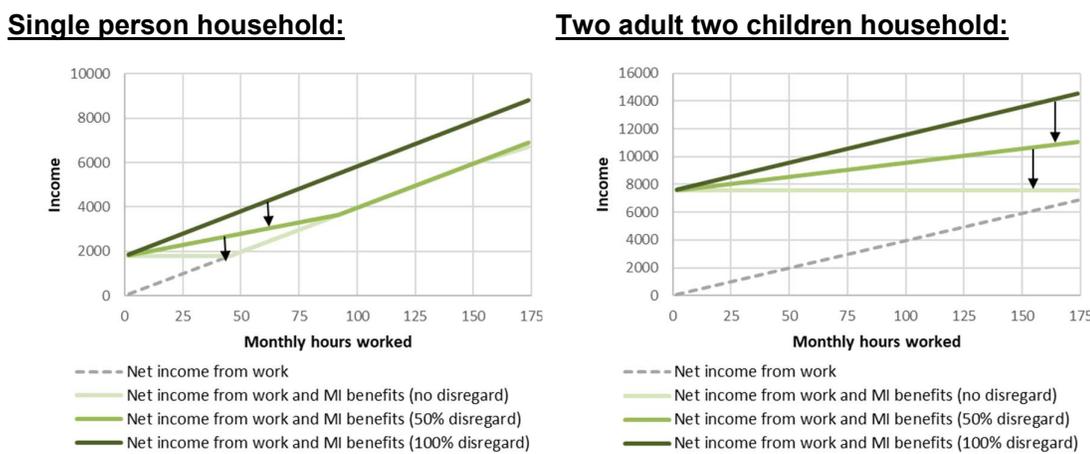
3.2.2.1 Temporary income disregards

Minimum income benefits in seven countries (EE, IT, LT, AT, PT, SK, SE) make use of temporary income disregards, which range in duration from 6 months in Estonia to 24 months in Sweden. In all but one case, a fixed percentage of earned income is disregarded throughout the period, with the proportion ranging from 20% up to 50%. Exceptionally, in Estonia, the proportion disregarded is reduced through time: 100% for the first two months of employment and 50% for the following four months. The higher the proportion disregarded, the lower the PTR and METR, and the greater the incentive to work more.

To demonstrate the impact of such an approach, the case of Estonia is illustrated in Figure 7. This shows how net household income changes as the working time of one household member on minimum wage rises when temporary disregards of 100% and 50% are applied. These effectively ensure that total income rises with any increase in working time with the former providing a stronger incentive than the latter (METR=0% vs METR=50%) by ensuring total income rises more quickly with working time until income from work excluding the disregard exceeds the basic amount. It also shows how the influence of the disregard differs between household types. This derives from differences in the basics amount granted, once again underlining differences in when minimum income benefit cut-off occurs and the need to consider different household compositions when developing such mechanisms.

It is important to note, however, that the additional income resulting from such disregards and the work incentive it provides cease after the time limit of the disregard is reached if a person's income continues to remain below the basic amount of benefit. The implication of this is that temporary disregards only provide short-term incentives to work. This is potentially problematic for those who have accepted part-time work on low wages, as the end of the temporary disregard removes the incentive to remain in that employment in the longer-term.

Figure 7. Income of household in receipt of minimum income benefit in Estonia by working time (national currency), 2021



Source: OECD Tax-benefit model and own calculations.

Notes: The figures show how total income including social assistance changes if one adult in the household starts working and increases their working hours. This assumes no receipt of any other social benefits. Wage is set to the statutory minimum.

3.2.2.2 Universal income disregards

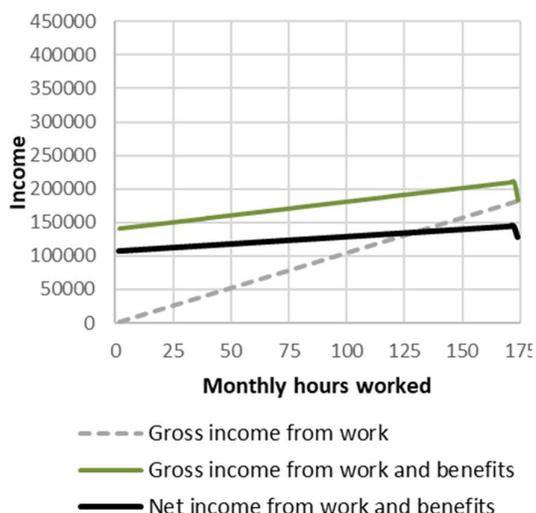
Minimum income benefits in 13 countries (BE, CZ, DK, DE, IE, EL, CY, LU, NL, PT, SI, SK, FI) make use of universal income disregards. There is more diversity in how these are deployed than among temporary income disregards.

In seven cases (CZ, DE, EL, LU, NL, PT and SK) the disregards are set as a fixed percentage of earned income, ranging from 12.5% up to 50%, though in two cases the amount disregarded may be limited if the wages are relatively high. In Germany (*subsistence benefit*), the disregard is limited to 50% of the standard benefit and in the Netherlands to a maximum of 221 Euro per month. Universal disregards operate in the same way as temporary disregards with the key difference being that there is no limit to the duration of the disregard and therefore no risk of a sudden drop-in income from minimum income benefits after a specified point in time.

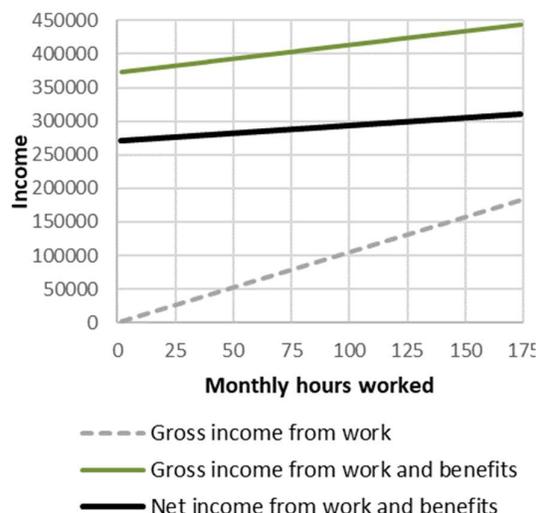
In four other cases (BE, DK, SI and FI), the disregards are set as a fixed amount per hour (DK), month (SI and FI), or year (BE). The period according to which the fixed amount is defined has important implications. This can be demonstrated by comparing the cases of Denmark, illustrated in Figure 8, where it is set per hour and Finland, illustrated in Figure 9, where it is set per month. Setting the amount per hour (as in Denmark) ensures there is always an incentive to increase working hours, similar to disregards set as a fixed percentage of earned income (albeit the lower the wages the stronger the incentive in this case), while setting the amount per month (as in Finland) only ensures an incentive up to the point that the wage exceeds the amount of the disregard. These examples also show that the influence of disregards differs between household types, again deriving from differences in the basic amount granted, underlining differences in when minimum income benefit cut-off occurs and the need to consider different household compositions when designing such mechanisms.

Figure 8. Income of household in receipt of minimum income benefit in Denmark by working time (national currency), 2021

Single person household:



Two adult two children household:

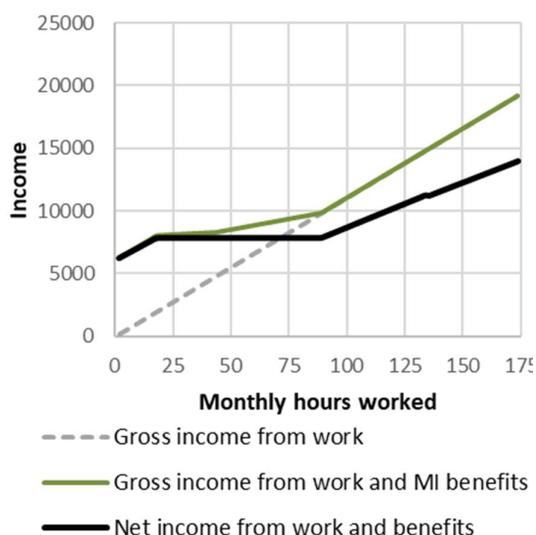


Source: OECD Tax-benefit model and own calculations.

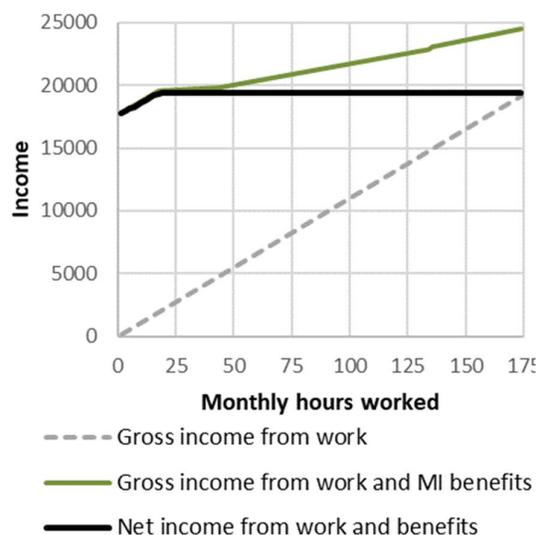
Notes: The figures show how total income including social assistance changes if one adult in the household starts working and increases their working hours. This assumes no receipt of any other social benefits. Wage is set to 40% of average wage (there is no statutory minimum).

Figure 9. Income of household in receipt of minimum income benefit in Finland by working time (national currency), 2021

Single person household:



Two adult two children household:

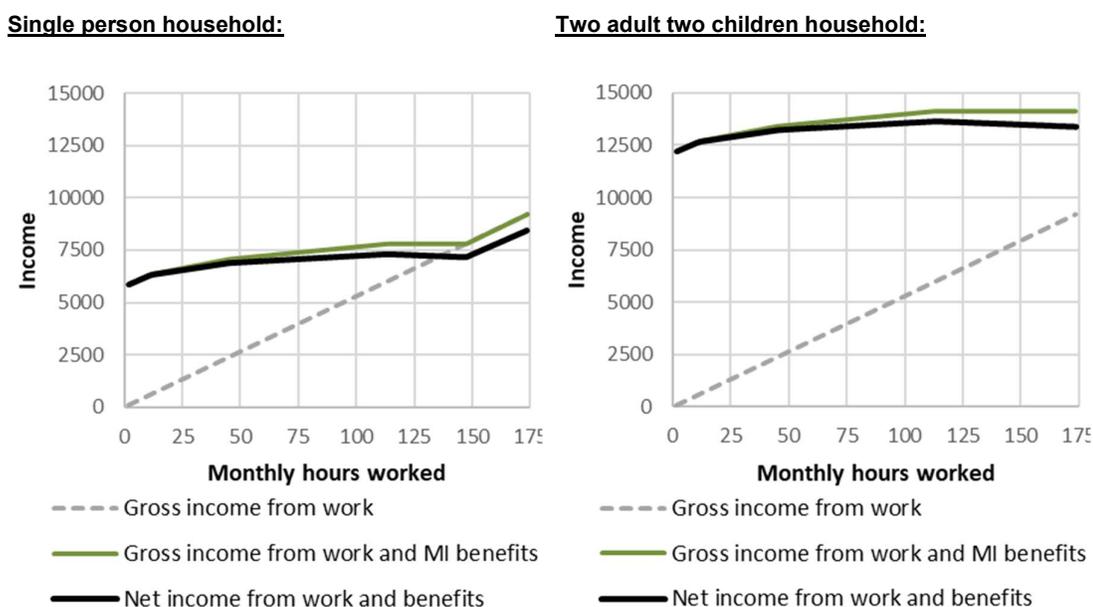


Source: OECD Tax-benefit model and own calculations.

Notes: The figures show how total income including social assistance changes if one adult in the household starts working and increases their working hours. This assumes no receipt of any other social benefits. Wage is set to 40% of average wage (there is no statutory minimum).

In three cases (DE, IE and CY)⁵⁰ the disregards exclude an initial fixed amount followed by percentages of income between particular thresholds. For example, in Cyprus, if monthly income is less than EUR 500, the first EUR 50 is disregarded plus 40% of income between EUR 50 and EUR 200 and 20% of income between EUR 200 and EUR 500, leading to a maximum disregard of EUR 170, which applies as a fixed disregard in case of incomes over EUR 500 a month. Note that there are additional disregards related to persons with handicaps and adults with children. The Cypriot case is illustrated in Figure 10. It implies, as is also the case in Germany and Ireland, that there is a financial gain from working more (METR<100%), but that it declines as working time rises, rather than remaining constant. This implies stronger incentives to work (more) when working time or wages are most limited.

Figure 10. Income of household in receipt of minimum income benefit in Cyprus by working time (national currency), 2021



Source: OECD Tax-benefit model and own calculations.

Notes: The figures show how total income including social assistance changes if one adult in the household starts working and increases their working hours. This assumes no receipt of any other social benefits. Wage is set to 40% of average wage (there is no statutory minimum).

3.2.3 Temporary continuation of benefits

Temporary continuation of benefits refers to cases where minimum income recipients continue to be paid, in full or in part, for a fixed period after starting work, effectively acting

⁵⁰ Just one of the two schemes in DE (Subsistence benefit) and both schemes in the case of IE.

as a supplement whilst the individual integrates into working life. In these cases, once the temporary continuation ends, the normal rules of the minimum income benefit apply so those with incomes below the means-testing threshold may continue claim reduced amounts. In practice, a temporary continuation of benefits in full is the same as a 100% temporary income disregard.

MI schemes in eight countries (EL, ES⁵¹, HR, LV, LT, MT, PL, RO) offer a temporary continuation of benefits (Table 10). These vary in three ways. First, the overall duration of the continuation, which ranges from 2 months in the case of Poland to 3 years in the case of Malta. Second, the proportion of the previous minimum income benefit that is granted during the continuation period. Four countries (EL, LV, PL, RO) grant the full amount throughout, one (ES) grants a reduced amount throughout, and three (HR, LT, MT) grant a proportion that declines over time. For example, in Lithuania, 100% is granted for the first three months, 80% for the following 3 months and 50% for a final six months. Third, whether there are any additional conditions on claiming the continuation. In Romania, continued benefits are limited to those obtaining a contract with a duration of at least 24 months, whilst in Spain⁵² the job has to be full-time. In Malta the possibility to continue receiving benefits on starting work is open only to those in receipt of minimum income benefits for at least a year (reduced from two years in 2018). With the exception of *Active integration income* in Spain (additional tapering arrangements are planned but not yet introduced), which is restricted to those obtaining full-time work, all variations provide a clear incentive to take up work and to take up more work as they fully or partially remove the impact of income on the amount of benefit disbursed. However, as is the case for temporary income disregards, continued benefits only provide temporary incentives to work for those who have no option but to accept part-time work and thus provide little incentive to remain in that employment in the longer-term.

Table 10. Continuation of benefits

| Country | Details |
|-----------|--|
| Croatia | 100% for 1 month, 75% for 1 month and then 50% for 1 month. |
| Greece | 100% for up to 6 months |
| Latvia | 100% for up to 3 months |
| Lithuania | 100% for 3 months, 80% for 3 months and then 50% for 6 months. |
| Malta | 65% for 12 months, 45% for 12 months and then 25% for 12 months (only for persons in receipt of benefits for at least a year). |
| Poland | 100% for up to 2 months |
| Romania | 100% for up to 6 months (only for persons obtaining a contract with a duration of at least 24 months) |
| Spain | 25% for 6 months (only for recipients of active integration income obtaining full-time employment) |

Source: Information collected from national experts in the Member States, OECD Tax-benefit model, DG EMPL MISSOC database.

⁵¹ Active Integration Income scheme

⁵² Active Integration Income

3.2.4 In-work benefits

In-work benefits are benefits that are distinct from minimum income benefits and granted specifically to persons in employment with low wages. In-work benefits that appear to serve those transitioning into employment from minimum income benefits exist in four countries (FR, SK, FI, SE, see Table 11).

Table 11. In-work benefits

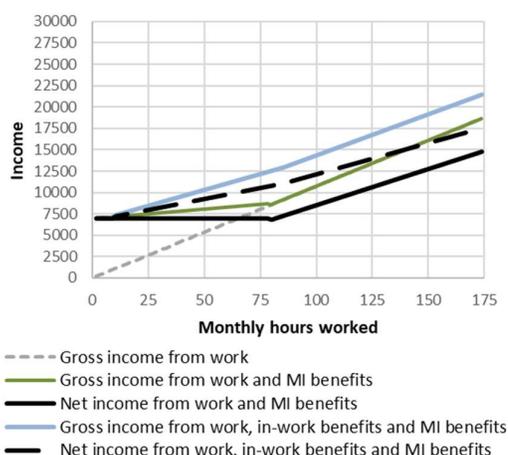
| Country | Details |
|----------|---|
| France | Activity bonus (<i>Prime d'activité</i>): In-work benefit paid to persons earning at least 78% of the net minimum wage (SMIC) during the last 3 months but not exceeding pre-set thresholds. The amount granted is based on the resources and composition of the household as follows: flat-rate amount based on household composition + 61% of household income + individual subsidies) – household resources taken into account. |
| Slovakia | Special allowance (<i>Osobitný príspevok</i>): In-work benefit granted to persons fulfilling the following conditions: a) starts employment or a similar working relationship involving at least half the set weekly working hours (with a remuneration no less than the minimum wage or above twice the minimum wage) b) long-term unemployed prior to entering employment c) member of a family who received minimum income benefits Special allowance is 126.14 Euro per month for the first 12 months and 63.07 Euro per month for the next 6 calendar months. |
| Finland | Earned income allowance (<i>Kunnallisverotuksen ansiotulovähenny</i>): Allowance granted to low-income earners amounting to 51% of income between 2 500 and 7 230 Euro and 28% of the income exceeding 7 230 Euro, with a limit of 3 570 Euro. The allowance is reduced by 4.5% on earned income minus work related expenses exceeding EUR 14 000. |
| Sweden | Earned income tax credit (<i>EITC</i>): Tax credit for up to around SEK 31 000 (3000 Euro in 2021) granted on the basis of income from work. The actual amount of EITC is derived from a basic allowance (BAL), the basic amount (BA) and the local tax rate (LTR). |

Source: OECD Tax-benefit model.

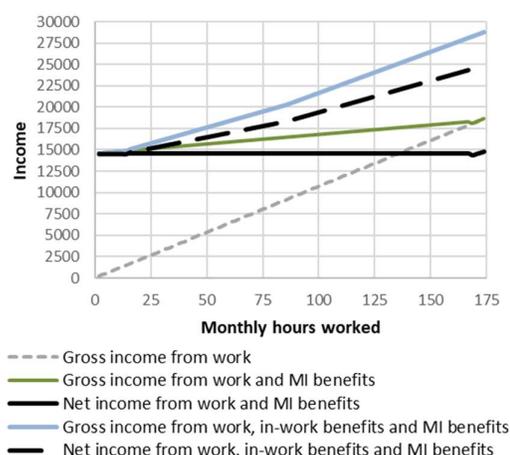
In the case of France, the *Activity bonus*, is the only mechanism to incentivise (more) work among minimum income benefit recipients. The other three cases (SK, FI, SE) also utilise income disregards. Indeed, the in-work benefit in France is similar in nature to many minimum income benefits in that the amount provided is based on the composition, income, and resources of the household. Figure 11 shows how the combination of minimum income benefits and in-work benefits in France produces incentives similar to those generated by minimum income benefits with universal income disregards.

Figure 11. Income of household in receipt of minimum income benefit and in-work benefit in France by working time (national currency), 2021

Single person household:



Two adult two children household:



Source: OECD Tax-benefit model and own calculations.

Notes: The figures show how total income including social assistance changes if one adult in the household starts working and increases their working hours. This assumes no receipt of any other social benefits. Wage is set to the statutory minimum.

The temporary continuation of benefits in Lithuania and Malta could also be interpreted as in-work benefits distinct from minimum income benefits in the sense that there is a separate application process. However, both are fully linked to receipt of minimum income benefits and the amounts granted are based directly on the level of minimum income benefits previously granted. For this reason, they were categorised as temporary continuation of benefits rather than in-work benefits.

There are also other in-work benefits for low-income earners that have not been included here as their coverage is more constrained or are more a feature of the progressive tax system. For example, Belgium, Ireland and Malta have in-work benefits specifically for parents, while Austria and Slovenia have in-work benefits for specific groups of unemployed, which do not appear to generally apply to minimum income recipients transitioning into employment.

3.3 Tapering mechanisms: Incentivising (more) work

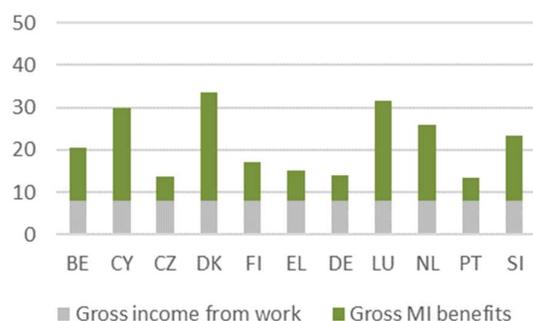
The tapering mechanisms associated with minimum income benefits in the Member States are diverse in terms of their type, their generosity, and the duration for which they are available. While these can be grouped into the four broad categories - (1) Increased basic amounts, (2) income disregards, (3) temporary continuation of benefits and (4) in-work benefits - it is clear that, firstly, there is considerable variety in the way in which each type has been deployed across countries, and secondly, different types can sometimes be deployed to the same effect in terms of introducing work incentives.

The key to ensuring a financial incentive to work, to work more, and to remain in work in the long-term is to ensure that total income (including wages and minimum income benefits) is always higher when choosing to work (more), and the bigger the difference, the bigger the incentive. However, from the examples considered in this analysis, certain tapering arrangements could have some limitations:

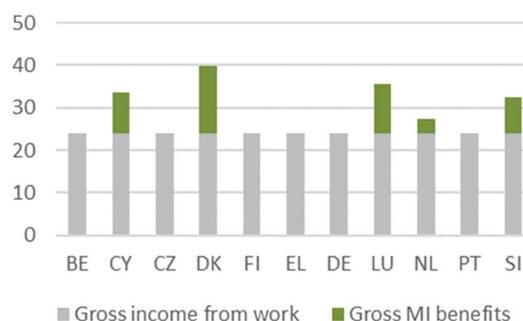
- **Lack of incentives to increase working time or wages:** There are several cases where there is a potential for minimum income benefit recipients in part-time work to see no rise in their net income should they decide to increase their working time. This includes cases where basic amounts are increased by fixed amount for those in work or working above specific thresholds (RO, SI) and cases where income disregards are set as a fixed amount per month or year (BE, SI, FI).
- **Lack of sufficiently long-term incentives to work:** In the case of temporary income disregards and temporary continuation of benefits, the incentive to remain in work for those in part-time and/or low-paid jobs potentially disappears once the tapering arrangement ends. Longer duration disregards/continuation may provide time for those entering low-paid part-time employment to use it as a stepping-stone to move into a job with more hours and better pay. Shorter durations may not provide sufficient time for this progression.
- **Limited incentives for certain types of household** Tapering mechanisms can deliver different work incentives depending on the nature of the household concerned. This was demonstrated in the examples explored above (see Figure 6 to Figure 11). The impact of tapering on work incentives tends to be more limited for single person households than for household with children in the sense that the number of working hours that can be performed before minimum income benefits (granted with the aid of tapering) are cut-off is usually much lower. This is primarily because the basic amounts granted are lower (as should be expected). This is further demonstrated on a cross-country basis in Figure 12 and Figure 13 among countries deploying universal income disregards. These figures show gross income as a proportion of the average wage broken down between income from work and income from minimum income benefits for three different levels of working time (20%, 60% and 100%) for a single person household and for a two adult two children household where one adult works and earns 40% of the average wage (proxy for the minimum wage). In most of the countries concerned, minimum income benefits provide no contribution to income for a single person household working 60% or 100% of full-time on 40% of the average wage (used as a proxy for minimum wage jobs), implying that the incentive to work in this case is driven primarily by the difference between the wage and the amount of benefit (if any exists) rather than through the tapering mechanism. In contrast, in the same countries, minimum income benefits continue to provide a contribution to income for a two adult two children household with one member working 60% or 100% of full-time on 40% of the average wage, implying that tapering is contributing to the incentive to work in these cases. The implication of this is that ensuring tapering arrangement enable sufficient work incentives requires consideration of the different types of households which may potentially claim minimum income benefits.

Figure 12. Income of single person household in receipt of minimum income benefit by working time (% of average wage), 2021

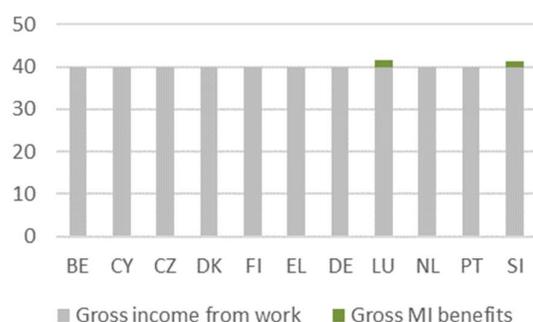
Working 20% of full-time:



Working 60% of full-time:



Working full-time:



Source: OECD Tax-benefit model and own calculations.

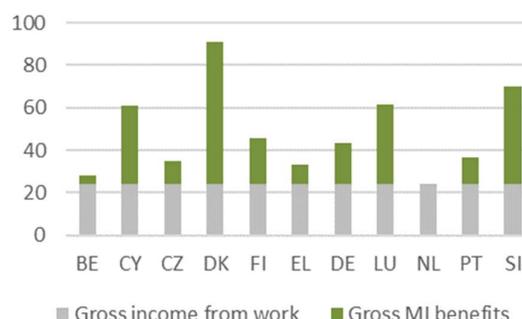
Notes: This assumes no receipt of any other social benefits. Wage is set to 40% of average wage. Data for IE and SK not available due to lack of correspondance between minimum income schemes covered by this analysis and those classified as social assistance in the OECD model. Note this does not account for temporary tapering mechanisms.

Figure 13. Income of two adult two children household in receipt of minimum income benefit by working time (% of average wage), 2021

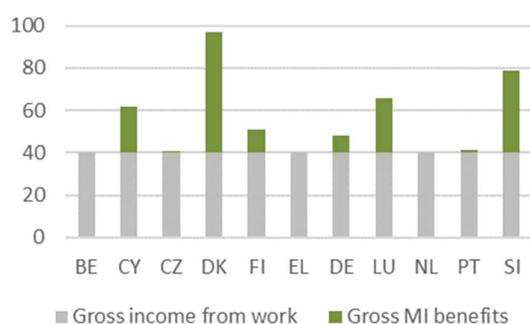
Working 20% of full-time:



Working 60% of full-time:



Working full-time:



Source: OECD Tax-benefit model and own calculations.

Notes: This assumes no receipt of any other social benefits. Wage is set to 40% of average wage. Data for IE and SK not available due to lack of correspondance between minimum income schemes covered by this analysis and those classified as social assistance in the OECD model. Note this does not account for temporary tapering mechanisms.

3.4 Reforms to tapering arrangements

Social protection systems and the social benefits they provide are constantly evolving with national efforts to improve the offer of social protection and to address challenges arising as societal and economic conditions change. During the last decade many countries have adjusted their offer of minimum income benefits.

Some of these reforms have adjusted the mechanisms for the tapering of benefits when recipients take up (more) work. Reforms identified in eight countries are described in Table 12, all of which led to more generous tapering arrangements. Five of these involved the introduction or enhancement of income disregards (EE, LV, LT, FI, SE) while four involved the introduction or enhancement of arrangements related to the continuation of benefits (EL, MT, LT, RO).

Information collected by national experts suggests that similar reforms can be expected in future in the Netherlands, where the government has announced its intention to increase the ceiling on what minimum income benefit recipients can earn without having their benefits reduced, and in Spain, where the legal basis for the *Minimum living income*

benefit introduced in 2020 foresees a tapering framework, yet to be established. The analysis here focuses on changes to existing arrangements, but it is also important to acknowledge that Greece and Italy (relatively) recently introduced new minimum income benefits, which entailed the application of completely new sets of rules and regulations. Greece introduced the *Guaranteed minimum income* benefit in 2017 but adjusted the tapering rules only a year later by replacing the income disregard with a continuation of benefits (see Table 12). Italy introduced the *Citizenship Income* in 2018, which makes use of a temporary income disregard (see Table 9).

A general observation in relation to reforms of tapering arrangements, is that there is clear trend for the generosity of these arrangements to be increased, thereby helping to incentivise the take-up of work. The extent of this generosity is, however, quite varied. The reform in Malta, which allows minimum income benefits to be continued for up to three years after taking up of employment, albeit as a reducing proportion over time, can be seen as the most generous. Other countries have made less substantial changes to their existing tapering arrangements (see Table 12).

Table 12. Reforms to tapering arrangements associated with minimum income benefits

| Ctry | MI benefit | Year | Details |
|---------|---|------|--|
| Estonia | Subsistence benefit (Toimetulekutoetus) | 2018 | Temporary income disregard was introduced whereby 100% of earnings are disregarded during the first 2 months of employment and 50% are disregarded during the following 4 months. This applies to individuals who have received benefit for at least 2 months without receiving income from employment and can only be used once in two years. |
| Finland | Social assistance (Toimeentulotuki) | 2018 | The net earnings disregarded from the means-test was increased from 20% of net earnings (up to a maximum of 150 EUR per month) to 100% of net earnings (up to a maximum of 150 EUR per month). |
| Greece | Guaranteed Minimum Income (ΕΛΑΧΙΣΤΟ ΕΓΓΥΗΜΕΝΟ ΕΙΣΟΔΗΜΑ) | 2018 | While guaranteed minimum income was only introduced in 2017, the approach to income disregards changed in 2018. Previously employment income (after social security contributions) was subject to a 100% disregard during 1 st month of employment and a 40% disregard during the 2 nd and 3 rd months after taking up employment. The reformed changed this so employment income (after social security contributions) is subject to a 100% disregard during six months after taking up employment – i.e. there is a 100% contribution of benefits for up to 6 months. |
| Latvia | Guaranteed minimum income benefit (Pabalsts) | 2016 | Temporary income disregard was introduced enabling earnings up to the net minimum wage to be exempt from the benefit means-test for three months after starting a job. |

| Ctry | MI benefit | Year | Details |
|-----------|---|------|---|
| | garantētā minimālā ienākuma) | 2021 | Changes to income disregard were introduced. Various sources of income from non-work related activities plus work-related income of children under 18 (up to the minimum wage) were included in the income disregard. |
| Lithuania | Social assistance benefit (Socialinė pašalpa) | 2018 | An income disregard was introduced whereby 15-35% of earnings (depending on the family type) are not taken into account: <ul style="list-style-type: none"> - 15% for cohabiting persons without children or for one cohabiting person, - 20% for cohabiting parents with one or two children, - 25% for cohabitants raising three or more children, - 30% for persons raising one or two children alone, - 35% for persons raising three or more children alone. |
| | | 2020 | The income disregard was adjusted, rising the percentage of earnings disregarded by 5 percentage points in all cases. <p>Conditions related to the continuation of benefit upon the take up of work were relaxed and amounts paid during the 12 months after take up work were revised from 50% of the average amount of social benefit paid during the last 6 months to 100% during months 1 to 3, 80% during months 4-6 and 50% during months 7 to 12.</p> |
| Malta | Social assistance (Għajnuna Soċjali) & Unemployment assistance (Għajnuna għal-Diżimpjieg) | 2014 | Tapering of benefits scheme was introduced (as part of a broader package of measures designed for Making Work Pay), allowing those relying on social assistance for at 2+ years to enter employment without losing benefits immediately, but in a gradual manner over a period of three years. Beneficiaries remain entitled to 65% of assistance for the first year, 45% in the second year and 25% in the third year. Meanwhile employers are also incentivised with a 25% benefit over the same three year period. |
| | | 2018 | Tapering of benefits scheme was improved by reducing the time an individual had to be in receipt of minimum income benefits to access tapering from 2 years to 1 year. |
| Romania | Social Aid for ensuring the Guaranteed minimum income (Ajutor social) | 2021 | Rules were changed so that taking up employment entitles the family to the same benefit as before for an additional six months. In addition, income obtained from occasional work (according to the day labourer law) is now |

| Ctry | MI benefit | Year | Details |
|--------|---|------|--|
| | | | disregarded when assessing financial eligibility or calculating the amount of benefit. |
| Sweden | Social assistance - livelihood support (Ekonomiskt bistånd) | 2013 | Temporary income disregard (Jobbstimulansen) was introduced whereby those in receipt of benefit for more than 6 months have 25% of their net income disregarded for two years after entering work. |

Source: Information collected from national experts in the Member States, OECD Tax-benefit model, DG EMPL MISSOC database, national sources.

It is important to emphasise that the specific context and underlying reasons for reforms to tapering arrangements vary and that in most cases the reforms are likely to have been introduced alongside other reforms to minimum income benefits and the wider tax and social benefit system. This somewhat complicates any attempt to assess the impact of this specific type of reform.

Nevertheless, based on desk research, and supported by input from national experts, six case studies are presented below on the impact of the reforms (EE, MT, LV, LT, FI, SE). These case studies include, where available, any content assessing the ex-ante and/or ex-post impact of the reform.

3.4.1.1 Case study 1 – Malta 2014 and 2018

Reform: The tapering of benefits scheme was introduced in 2014 as part of a broader package of measures designed for *Making Work Pay*, allowing those relying on social assistance for 2+ years to enter employment without losing benefits immediately, but gradually over three years. Beneficiaries remain entitled to 65% of social assistance for the first year, 45% in the second year and 25% in the third year. Meanwhile employers are also incentivised with a contribution amounting to 25% of the benefit received over the same three years period. In 2018, the scheme was improved by reducing the time an individual had to be in receipt of minimum income benefits to access tapering from 2 years to 1 year.

Impact: The *Making Work Pay* initiative included not only the tapering of benefits scheme but also an in-work benefit scheme specifically for parents and a free-childcare scheme.

An official press release by the Ministry for Social Justice and Solidarity, the Family and Children's Rights in 2021⁵³, a peer review published by the Commission in 2019⁵⁴ and various news articles⁵⁵, all indicate that the impact of the reforms has been very positive. Indeed, the continuation of minimum income benefits for several years after

⁵³ "Statement by the Ministry for Social Justice and Solidarity, the Family and Children's Rights: Strengthening the Workers- More employments and benefits, less social dependence" 2021. <https://family.gov.mt/en/pr210802en/>

⁵⁴ Cremona and Azzopardi (2019). Minimum income benefits – securing a life in dignity, enabling access to services and integration into the labour market. <https://ec.europa.eu/social/BlobServlet?docId=20755&langId=en>

⁵⁵ For example: <https://timesofmalta.com/articles/view/benefits-tapering-cuts-spending-by-24-million.701727> and <https://timesofmalta.com/articles/view/more-people-benefiting-from-in-work-and-benefit-tapering-schemes.643177>

the take up of work with a tapering over time provides a strong incentive to gain work and increase earnings once employed through lower PTRs and MTRs⁵⁶.

Available data show that between 2014 and 2020, the numbers of persons depending on social assistance fell by 54% (from 10,007 to 4,598 between 2014 and 2020) and the number of those depending on unemployment assistance fell by just over 80% (from 3,464 in 2014 to 680 in 2020) while the number of persons benefitting from tapered benefits grew eightfold (from 163 in 2014 to 1,330 in 2020)⁵⁷. These changes have resulted in a considerable decrease in spending on social benefits, with savings reported to be in the region of EUR 24 million between 2014 and 2018 alone⁵⁸. At the same time, poverty figures have improved dramatically with the severe material deprivation rate falling 6.9 percentage points from 10.2% in 2013 to 3.3% in 2020 and the material deprivation rate falling 11.2 percentage points from 19.9% to 8.7%⁵⁹.

Data from the DG EMPL's LMP database show that most minimum income recipients making use of the tapering scheme are women (84.2% in 2020) and aged 25-54 (82% in 2020). This aligns with the findings presented in the 2019 peer review, which indicate that the main beneficiaries were unemployed and single parents on social assistance and that the *Making Work Pay* package has facilitated the take up of work by women and enhanced the self-esteem of participants and their families. The introduction of the free-childcare scheme can be expected to have made an important contribution in this outcome.

Data from the DG EMPL's LMP database also show that 65.5% of those exiting the tapering scheme in 2020 related to people completing the full 3 years of the scheme and remaining in employment instead of dropping out back into unemployment or inactivity. Meanwhile, the 2019 peer review noted that the Department of Social Security has found that 90% of those benefitting from tapered benefits remain in employment after the 3-year period had elapsed. While these two statistics do not fully reconcile, both results appear very positive.

The 2019 peer review also highlighted the following factors contributing to the success of the scheme:

- The benefit provided to employers (i.e. 25% of the benefit amount) over the three year period is fundamental to ensuring employers are willing to offer job placements,
- Full political support,
- Favourable economic climate during the rollout of the scheme, and
- Involvement of social partners in the development and implementation.

⁵⁶ Coady et al. (2021). Guaranteed Minimum Income Schemes in Europe: Landscape and Design. IMF. <https://www.imf.org/en/Publications/WP/Issues/2021/07/02/Guaranteed-Minimum-Income-Schemes-in-Europe-Landscape-and-Design-461341>

⁵⁷ Source: DG EMPL's LMP database with the exception of figures on social assistance which come from the following a ministry press release (<https://family.gov.mt/en/pr210802en/>) and reports by the Maltese NSI (https://nso.gov.mt/en/publicatons/Publications_by_Unit/Documents/A2_Public_Finance/2020/Social%20Protection%202020.pdf).

⁵⁸ Source: "Benefits tapering cuts spending by €24 million". <https://timesofmalta.com/articles/view/benefits-tapering-cuts-spending-by-24-million.701727>

⁵⁹ Source: Ministry press release: <https://family.gov.mt/en/pr210802en/>

3.4.1.2 Case study 2 – Latvia 2016

Reform: In 2016, a temporary income disregard was introduced enabling earnings up to the net minimum wage to be exempted from the benefit means-test for three months after starting a job.

Impact: Research produced in 2014⁶⁰ and 2015⁶¹ indicated that, prior to the reform, PTRs were particularly high in Latvia for low wage earners and that the average effective tax rate for taking up a low-paying job was 100% for all household types except single person households. This suggested that the minimum income benefits could be improved by increasing incentives to take up low paid jobs either through an income disregard or an in-work benefit.

The new temporary earnings disregard created a boost in net income upon entering work as it prevented minimum income benefits from being sharply reduced, thus providing a short-term work incentive (3 months) with low administrative and budgetary costs⁶². However, it has been suggested that this may not be sufficient to strengthen work incentives in the long-term and that a possible improvement could be to withdraw the benefit more gradually as income rises by offering a permanent income disregard⁶³. Doing so would however, result in considerable extra cost⁶⁴.

Between 2017, the year after the disregard was introduced, and 2019 the number of recipients of minimum income benefits fell 29% from 15,962 thousand households to 11,358 thousand households⁶⁵. However, it is not clear if this can be specifically linked to the new income disregard as there are a range of other factors that could also have an impact.

An assessment of minimum income benefits produced in 2021⁶⁶ found that 4.4% of individuals in receipt minimum income benefit were working at least one day a month. This includes not only those that benefit from the temporary income disregard upon take up of work but also those whose income is simply too low. In the case of the first group, the assessment found a relatively higher turnover in employed minimum income benefit recipients with them tending to receive minimum income benefits for shorter durations (around 4 months per year). The second group, however, tends to include persons working part-time or in low-skilled jobs belonging to households with no other working members. Indeed, survey data showed that receipt of minimum income benefits and income from formal work was more common among women while receipt of minimum income benefits and income from casual work was more likely among men. Unfortunately, the available data does not seem to be available to separately identify those benefiting from the temporary disregard and those that are not.

⁶⁰ Baltic International Centre for Economic Policy Studies (2014). Tax Reform in Latvia: Pētījums nodokļu sistēmas pilnveidošanas jomā. https://www.em.gov.lv/lv/petijums-nodoklu-sistemas-pilnveidosanas-joma/final_report_eng1_0.pdf

⁶¹ European Commission (2015). ESPN Thematic Report on minimum income schemes: Latvia. <https://ec.europa.eu/social/BlobServlet?docId=15162&langId=en>.

⁶² European Commission (2018). The Effect of Taxes & Benefits Reforms on Poverty & Inequality in Latvia. https://ec.europa.eu/info/sites/default/files/economy-finance/eb039_en_0.pdf

⁶³ OECD Economic Surveys: Latvia (2019). <https://www.oecd.org/economy/surveys/Latvia-2019-OECD-economic-survey-overview.pdf>

⁶⁴ See EUROMOD simulation presented here: https://ec.europa.eu/info/sites/default/files/economy-finance/eb039_en_0.pdf

⁶⁵ Source: <https://www.lm.gov.lv/lv/par-2020gadu> and <https://www.lm.gov.lv/lv/par-2017gadu>

⁶⁶ Baltic Institute of Social Sciences (2021). The annual assessment of policies to reduce poverty and social exclusion (including an in-depth assessment of the livelihood strategies of GMI beneficiaries (Ikgadējs nabadzības un sociālās atstumtības mazināšanas rīcībpolitikas izvērtējums (t.sk. padziļināts izvērtējums par GMI saņēmēju iztikšanas stratēģijām)). <http://petijumi.mk.gov.lv/node/3246>

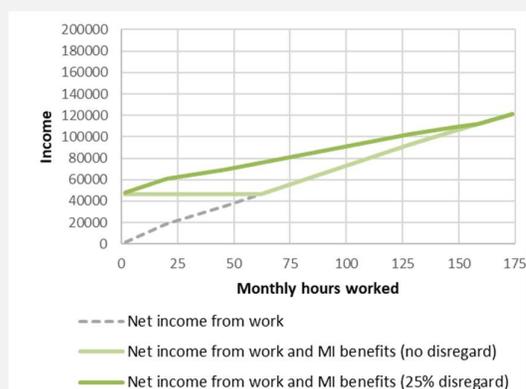
3.4.1.3 Case study 3 – Sweden 2013

Reform: A temporary income disregard was introduced in 2013, whereby those in receipt of benefit for more than 6 months have 25% of their net income disregarded for two years after entering work.

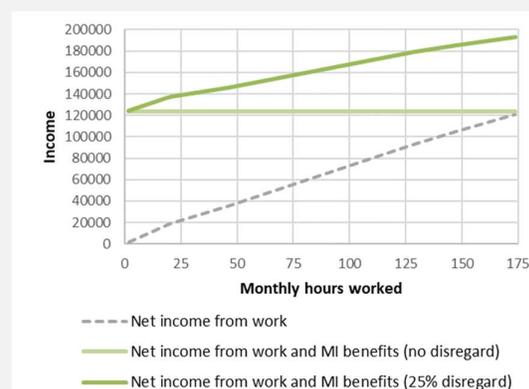
Impact: The impact of introducing such a disregard on the net income of households in receipt of minimum income benefit in Sweden is illustrated in Figure 14.

Figure 14. Income of households in receipt of minimum income benefit in Sweden by working time (national currency), 2014

Single person household:



Two adult two children household:



Source: OECD Tax-benefit model and own calculations.

Notes: The figures show how total income including social assistance changes if one adult in the household starts working and increases their working hours. This assumes no receipt of any other social benefits. Wage is set to 40% of average wage (there is no statutory minimum).

An extensive follow-up to the reform, referred to nationally as the job stimulus (Jobbstimulansen), was published by the Swedish National Board of Health and Welfare (Socialstyrelsen)⁶⁷, providing some insight into the importance of the mechanism for minimum income benefit recipients⁶⁸. The key finding was a low take-up of the job stimulus among minimum income benefit recipients (just 1.8%). The study also found that:

- 60% of the households that received the job stimulus contained children.
- There was little difference in take-up between men and women, but women benefit from it to a greater extent.
- 18.2% of household receiving the job stimulus could be self-sufficient without it, therefore enabling receipt of minimum income benefits by those with income above the basic amount of support to produce a lock-in effect which conflicts with the goal of self-sufficiency.
- Many municipalities: (1) did not believe the job stimulus contributed to helping recipients start work or work more hours, and (2) deemed the rules associated with the job stimulus to be complicated, increasing the need for administration and control and diverting resources from providing support.

⁶⁷ <https://www.socialstyrelsen.se/en/>

⁶⁸ Socialstyrelsen (2016). Jobbstimulans inom ekonomiskt bistånd: En uppföljning. Socialstyrelsen. <https://www.socialstyrelsen.se/globalassets/sharepoint-dokument/artikelkatalog/ovrigt/2016-1-4.pdf>

A report produced by the Labour Market and Education Policy Evaluation (IFAU) in 2018 highlighted the limited discussion on the low take-up of the job stimulus, suggesting possible explanations could include the job stimulus not being large enough, there being few recipients taking up jobs or unequal application of the stimulus⁶⁹.

No official impact assessment has been published on whether the job stimulus has encouraged more minimum income benefit recipients to enter work, despite the Institute for Labour Market and Education Policy Evaluation (IFAU) having been commissioned to evaluate the effects. Research in 2021 suggests that a lack of data on the receipt of the job stimulus represents an issue for their evaluation⁷⁰.

This same research also suggests, based on a model, that even expanding the income disregard to 50%, a change that has been proposed for implementation in 2022⁷¹, would only raise the take-up by a percentage point and that activities to enhance efforts to work and improve skills might yield improved results.

3.4.1.4 Case study 4 – Lithuania 2018 and 2020

Reform: In 2018 an income disregard was introduced whereby 15-35% of earnings (depending on the family type) are not taken into account:

- 15% for cohabiting persons who do not raise children or for one cohabiting person,
- 20% for cohabiting parents with one or two children,
- 25% for cohabitants raising three or more children,
- 30% for persons raising one or two children alone,
- 35% for persons raising three or more children alone.

In 2020, the income disregard was adjusted, raising the percentage of earnings disregarded by 5 percentage points in all cases. At the same time, conditions related to the continuation of benefit upon the take up of work were relaxed and amounts paid during the 12 months after take-up work were revised from 50% of the average amount of social benefit paid during the last 6 months to 100% during months 1 to 3, 80% during months 4-6 and 50% during months 7 to 12.

Impact: The introduction of the income disregard has substantially increased social assistance entitlements for low-income households with children⁷² and is seen as a means to motivate people who receive minimum income benefits by ensuring that increases in their wages do not result in a sudden decrease of the amount of social assistance⁷³. Results provided in an assessment by the national Audit office in 2021⁷⁴ appear to confirm this. The proportion of minimum income benefit recipients with

⁶⁹ Lundion, M. (2018). Arbetsmarknadspolitik för arbetslösa mottagare av försörjningsstöd. IFAU. <https://www.ifau.se/globalassets/pdf/se/2018/r-2018-12-arbetsmarknadspolitik-for-arbetslosa-forsorjningsstodsmottagare.pdf>

⁷⁰ Rosengren, O. (2021). Work or Shirk: Finding the optimal enforced effort in activation and evaluating the job stimulus for social benefit recipients, by introducing effective leisure in a labor supply model (Dissertation). <https://lnu.diva-portal.org/smash/get/diva2:1565523/FULLTEXT01.pdf>

⁷¹ See Prop. 2020/21:1 <https://www.regeringen.se/rattsliga-dokument/proposition/2020/09/prop.-2020211/>

⁷² OECD (2019). Analysis of policy reforms in the EU 2016-2018. <https://www.oecd.org/els/soc/benefits-and-wages/Analysis-of-policy-reforms-in-the-EU-2016-2018.pdf>

⁷³ ESPN (2018). Poverty and social exclusion in Lithuania in 2018. <https://www.eapn.eu/wp-content/uploads/2018/10/EAPN-PW2018-Lithuania-EN-FINAL.pdf>

⁷⁴ National Audit Office of Lithuania (2021). Skurdo mažinimo pažangos vertinimas. Vertinimo ataskaita. Valstybės kontrolė [Evaluation of the progress in sphere of poverty reduction. Evaluation report. National Audit]. 15 December 2021, No. VRE-4. URL: <https://www.valstybeskontrolė.lt/LT/Product/24059>

employment has increased from 21% in 2018 to 26% in 2020, while the proportion of minimum income benefit recipients with employment belonging to families with children has risen from 22% in 2018 to 32%.

A national audit report published in 2019⁷⁵, focusing on 2017-2018 (prior to the reforms) found that the take up of the continuation of benefit was limited. In 2018, only 18% of the eligible newly employed claimed it, and with differences across municipalities. Low take-up was attributed to a lack of information on the availability of the additional benefits (there is a separate application process) and to the fact that municipalities did not actively remind individuals of their rights to claim it. The changes introduced in 2020 were intended to address this issue by making it easier to receive continued benefits on starting work and thus increase the motivation of minimum income benefit recipients to integrate into the labour market⁷⁶. However, a report reviewing the situation in 2021⁷⁷ notes that there has been little improvement in the situation and that the low level of take-up persists, again highlighting a possible lack of information on the availability of this support, and that the share of long-term recipients of minimum income benefit has not reduced (30% considered long-term recipients in both 2018 and 2020).

3.4.1.5 Case study 5 – Finland 2018

Reform: In 2018 the net earnings disregarded from the means-test was increased from 20% of net earnings (up to a maximum of EUR 150 per month) to 100% of net earnings (up to a maximum of EUR 150 per month).

Impact: The impact of introducing such a disregard on the net income of households in receipt of minimum income benefit in Finland is illustrated in Figure 15 which shows the relationship between working hours and income from minimum income benefit and work for a single person household in 2017 and 2019. This effectively switched the disregard from one based on a percentage of earnings up to 150 Euro per month to one based on a fixed amount of EUR 150 per month whose limitations were already discussed previously in this document.

Figure 15. Income of households in receipt of minimum income benefit in Finland by working time (% of average wage), 2017 and 2019

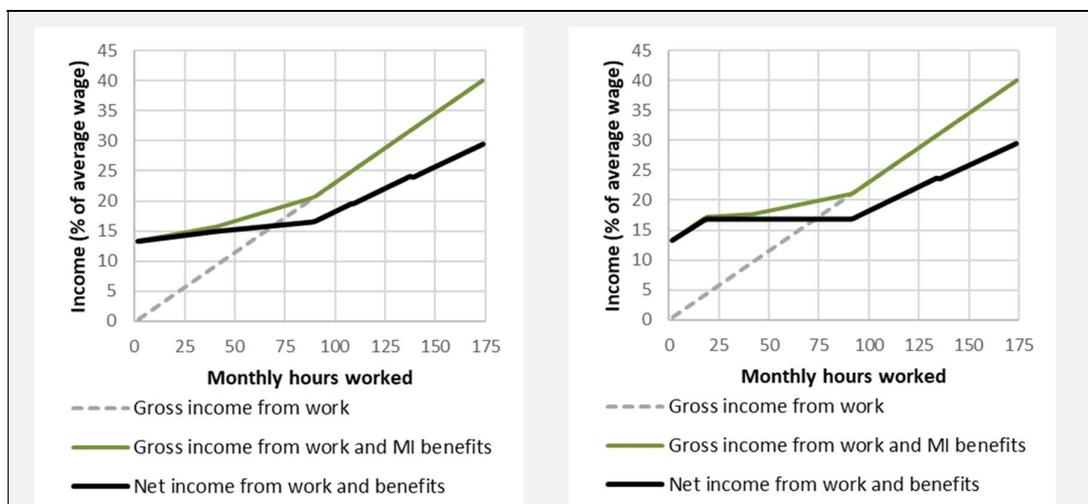
Single person household in 2017:

Single person household in 2019:

⁷⁵ National Audit Office of Lithuania (2019). Does Social Assistance Ensure the Minimum Consumption Needs of People Living in Poverty and Promote the Labour Market Integration. <https://www.valstybeskontrole.lt/LT/Post/15381/absoliutaus-skurdo-rodikliai-gereja-bet-ne-del-teikiamos-socialines-paramos>

⁷⁶ See <https://www.valstybeskontrole.lt/LT/Product/Recomendation/21526/rekomendaciju-igyvendinimas>

⁷⁷ National Audit Office of Lithuania (2021). Skurdo mažinimo pažangos vertinimas. Vertinimo ataskaita. Valstybės kontrolė [Evaluation of the progress in sphere of poverty reduction. Evaluation report. National Audit]. 15 December 2021, No. VRE-4. URL: <https://www.valstybeskontrole.lt/LT/Product/24059>



Source: OECD Tax-benefit model and own calculations.

Notes: The figures show how total income including social assistance changes if one adult in the household starts working and increases their working hours. This assumes no receipt of any other social benefits. Wage is set to 40% of average wage (there is no statutory minimum).

Research focusing specifically on the Finnish earnings disregard prior to the reform in 2018⁷⁸ found that, on average, the disregard had no overall employment effects but that it had a positive employment effect for women. It also noted that the disregard improved the situation of minimum income benefit recipients with limited fiscal implications. It highlighted that the rules for applying the earnings disregard varied across municipalities and that simple rules would make it easier to perceive how taking up work affects disposable income, particularly when other benefits also interact in this process. An older piece of research from 2008⁷⁹ found that the Finnish income disregard did improve the incentive to accept work and the economic situation of households but that only a fraction of the target population received more income from work after the reform because the disregard was not applied to the fullest extent permitted by the law by the municipalities. It is unclear if the recent reforms have improved the incentive and employment effect.

It has also been noted that while there is a disregard, the reality in Finland is that there are a number of income-tested benefits that can be claimed simultaneously (e.g. labour market subsidy, housing allowance and social assistance) and this can imply high effective marginal tax rates on earned income increasing from EUR 0 to EUR 700 per month (ca 80%), forming a severe work disincentive for minimum income recipients.

3.4.1.6 Case study 6 – Estonia 2018

Reform: In 2018, a temporary income disregard was introduced whereby 100% of earnings are disregarded during the first 2 months of employment and 50% are disregarded during the following 4 months. This applies to individuals who have

⁷⁸ Palviainen, H. (2022). Incentivizing last-resort social assistance clients: Evidence from a Finnish policy experiment. *Int Tax Public Finance*. <https://link.springer.com/article/10.1007/s10797-022-09739-9>

⁷⁹ Hiilamo, H and Kautto, M. (2008). Does income disregard work? <https://www.tandfonline.com/doi/abs/10.1080/17486830802513926>

received benefit for at least 2 months without receiving income from employment and can only be used once in two years.

Impact: The reform strengthened short-term work incentives⁸⁰. Currently there is no official evaluation of this reform, though one is expected by the end of 2022. An ex-ante impact assessment⁸¹ anticipated that lower METRs would have a positive impact in motivating minimum income recipients to work across households of varying compositions⁸². For example, for a single parent household with two children, the METR was anticipated to reduce from 100% to 68%. Further, it was estimated that the reform could result in a decrease in absolute poverty⁸³ of 2.2 percentage points if all inactive people would work for minimum wage and receive minimum income benefit. The risk of undesirable side-effects of the reform were anticipated to be small.

In 2019, 443 unique households used the 50% exception and 1,127 used the 100% exception, together accounting for 14.4% of total households in receipt of minimum income benefits. In 2020 the figures were slightly lower, 362 household households used the 50% exception and 822 used the 100% exception, together accounting for 11.3% of total households in receipt of minimum income benefit. This suggests that there has been a reasonably high take-up of the temporary income disregard. Since 2018, the number of households in receipt of minimum income benefit has fallen 10.8% from 12,226 to 10,904.

Despite limited availability of information in some cases, differences in context and differences in other reforms that have taken place at the same time, several general points emerge:

- **Mixed results in terms of impact of reforms:** The impact of the tapering of benefits scheme in Malta, by far the most ambitious of the reforms, has been assessed as being very positive in terms of enabling transition to employment and reducing poverty. The introduction of permanent income disregards in Lithuania has also seen positive results in raising employment among minimum income recipients. However, in other cases, the impact of reforms appears more mixed. The temporary income disregards introduced in Latvia and Sweden provide short-term incentives to work but lack any long-term incentives. Such disregards may be of little benefit to those who have no choice to work limited hours or accept low wages on a longer-term basis. Some reforms have seen low take-up that have been attributed to either a lack of awareness of their availability (Lithuania) or low generosity (Sweden). The complexity of tapering rules and how they are applied by the responsible authorities can also be a limiting factor (Sweden).
- **Benefits primarily for women and households with children:** Overall, there are indications that reforms to tapering mechanisms have tended to be more beneficial for women and households with children (MT, SE, LT, FI). In the case of Malta, women constitute a large proportion of minimum income recipients benefiting from the tapering of benefits. This, however, may also be driven by the fact that it is part

⁸⁰ OECD (2019). Analysis of policy reforms in the EU 2016-2018. <https://www.oecd.org/els/soc/benefits-and-wages/Analysis-of-policy-reforms-in-the-EU-2016-2018.pdf>

⁸¹ See <https://www.riigikogu.ee/download/8e7744e4-a55b-441b-859b-1327a7f0fc3e>

⁸² Similar expectations are echoed in Sinisaar, H. (2018). Toimetulekutoetus kui töötamist toetav meede. Sotsiaaltöö 1/2018. https://www.tai.ee/sites/default/files/2021-03/155619647682_ST1_2018.pdf

⁸³ Absolute poverty refers to the situation where income is below the absolute poverty threshold. This threshold is based on household composition and represents the estimated subsistence minimum – i.e. the financial cost of meeting minimum needs. Further details are available here: <https://www.stat.ee/en/find-statistics/statistics-theme/well-being/social-exclusion-and-poverty/absolute-poverty>

of a package of policies that includes in-work benefits for parents and free childcare.

- **Unexpected outcomes of reforms:** The introduction of tapering mechanisms can have unexpected and undesirable side effect. In Sweden an unexpected outcome of the reform was that some households with income levels sufficiently high to not need minimum income benefits were able to claim benefits (temporarily). This implied an inefficient use of funds and underlines the need to try to avoid such cases in tapering design and monitor for unforeseen cases during implementation.
- **Lack of data hampers evaluation of impact:** Good monitoring data on (1) minimum income recipients who are in employment, (2) minimum income recipients in employment and benefiting from the available tapering mechanisms is a fundamental prerequisite for any assessment of reforms and appears to be lacking in some cases (e.g. LV, SE). Further data following the situation of minimum income benefit recipients over time and after they end their benefit spell would provide the grounds for improved assessment of longer-term impacts.
- **Factors attributed to successful implementation:** Various factors enabling successful implementation of reforms are identified. These include political support for reforms (MT), favourable economic climate supporting the possibility of integration into the labour market (MT), support from institutions involved in delivery (MT, SE, LT), ensuring awareness of benefit tapering, especially when there is a separate application process (SE, LT), involvement of social partners in design of reforms (MT), and accounting for other elements of the social protection system in developing incentives (FI).

3.5 Concluding remarks

For those claiming minimum income benefits, employment opportunities may not always be well-paid full-time jobs. Many may be low-paid, temporary and/or of limited working hours. Nevertheless, any work can be seen as positive and for this reason, minimum income benefit designs need to include mechanisms that incentivise the take-up of (more) work even when working time is limited and wages low.

Minimum income benefits in all but two Member States have rules that define some form of tapering mechanism associated with take-up of (more) work. The exceptions are Hungary, where minimum income benefits cannot be claimed while working, and Bulgaria where they can but there is simply no tapering mechanism (any additional income from work is directly offset by reduced benefits). Their widespread use highlights their relevance in ensuring that minimum income schemes promote labour market integration and their lack of use in Hungary and Bulgaria indicates an important limitation in the scheme design.

The tapering mechanisms utilised in the Member States are diverse but can be grouped into four broad categories:

- Increased basic amounts of minimum income benefit for persons in work
- Income disregards in the means-test and calculation of the benefit amount
- Temporary continuation of benefits for a fixed period
- In-work benefits

Analysis of the different mechanisms currently deployed suggests, however, that some tapering arrangements have important limitations. These include a lack of incentives to increase working time or wages in certain situations (e.g. low-paid / part-time work), or a lack of long-term incentives to encourage those in low paid part-time work to remain in work, or incentives that have limited impact for certain household types. These underline

the complexity of designing tapering mechanisms that can deliver adequate work incentives in all situations without entailing significantly higher costs.

Social protection systems and the social benefits they provide are constantly evolving with national efforts to improve the offer of social protection and to address challenges arising as societal and economic conditions change. This includes minimum income benefits. In the last decade, eight countries have introduced reforms to tapering arrangements associated with minimum income benefits (EL, EE, MT, LV, LT, RO, FI, SE). In all cases, these introduced or enhanced tapering arrangements to improve work incentives, further highlighting their relevance in ensuring that minimum income schemes are effective in facilitating labour market transition. Similar reforms are anticipated in future in the Netherlands and Spain.

Major reforms in Malta and a reform in Lithuania have had positive results and, more generally, the introduction or enhancement of tapering arrangements seem to be most beneficial to women and households with children. Other reforms have shown more mixed results, with issues of low take-up and even creating a risk that benefits are provided to households that do not need them. An improved understanding of the impact of tapering mechanisms requires more/better monitoring data on those making use of such arrangements and their subsequent situation.

Assessments of the reforms identified several factors that can contribute to successful implementation of reforms of tapering arrangements. These include contextual factors such as political support (MT) and favourable economic climate supporting the possibility of integration into the labour market (MT). These also include organisational factors such as support from institutions involved in delivery (MT, SE, LT), ensuring awareness of benefit tapering, especially when there is a separate application process (SE, LT), involvement of social partners in design of reforms (MT), and accounting for other elements of the social protection system in developing incentives (FI).

The analysis in this chapter leads to the following policy messages:

- Tapering is a key tool for improving work incentives. Tapering can be implemented in different ways, but the key is to ensure that there is always a gain in income from working and to work more irrespective of the starting point (e.g. not being in work, working limited hours, working for low pay, among others.).
- The design of tapering arrangements needs to consider:
 - The context within which the tapering is to be delivered, particularly how the amount of minimum income benefit is calculated, and the impact of the wider tax and benefit system as income and working hours change (i.e. the impact on both total gross and total net income).
 - The variety of different types of households in receipt of minimum income benefits whose members may seek to work (more).
 - The variety of jobs people may seek to move into or between, particularly those involving less than full-time work and temporary work at the lower end of the income scale.
- The provision of meaningful incentives - i.e. the additional income provided by working (more) needs to be such that minimum income recipients perceive the effort of working as worthwhile. At the same time, choosing the right level of incentive needs to account for the adequacy of the benefit relative to the minimum wage (where relevant).
- Tapering rules should be simple, consistently applied and clearly communicated to recipients to send a clear message that seeking and obtaining work is encouraged and worthwhile.

- Open-ended tapering arrangements provide enduring incentives to keep working for those that take up part-time or low paid work, but temporary incentives can still be useful provided that the duration is sufficient to allow beneficiaries time to progress onto jobs with better pay so that minimum income benefits are no longer needed.
- Extensive monitoring of minimum income benefit recipients, including those making use of tapering practices.

4 Active labour market policies for minimum income recipients

4.1 Introduction

Active labour market policies (ALMPs) are a key tool used by public services to help jobseekers re-integrate into the labour market. They embrace a wide range of support throughout the process of searching for, preparing for, and obtaining employment. In general, ALMPs are targeted to persons registered as jobseekers with the Public Employment Services (PES), which will include those in receipt of minimum income benefits and subject to labour market activation requirements. ALMPs constitute a key form of non-monetary assistance potentially available to minimum income recipients seeking to reintegrate. The provision of guidance, knowledge, skills, and work experience can improve motivation and open up access to work offering better opportunities— i.e. more stable and better paid employment.

Previous work synthesising the characteristics of minimum income schemes in the Member States⁸⁴ found that:

- Minimum income recipients subject to labour market activation requirements tend to be mainstreamed into the activation regime applicable to all registered unemployed rather than being supported by a dedicated regime;
- Minimum income recipients are more likely than those receiving some form of unemployment benefit to be long-term unemployed (LTU) and thus tend to benefit from services/measures targeted at those furthest from the labour market;
- There is evidence that LTU are less likely to be placed on an ALMP than short-term unemployed. This suggests that more investment in appropriate ALMPs for this group could help improve the rate of transition to employment for minimum income recipients.

In light of these findings, further insight into the extent to which minimum income benefit recipients are getting access to ALMPs and which types of ALMP are most effective in facilitating the transition to employment is needed to provide a basis for establishing how appropriate investments can be made.

The fact that delivery of ALMPs is generally orientated to those registered as unemployed with PES poses an obstacle in this regard. While minimum income benefit recipients subject to labour market activation requirements are typically required to register as unemployed, the administrative data available on the pool of prospective participants in ALMPs and those actively participating in ALMPs typically include information on registration status and duration of registration but not on the type of social benefit received. There is potential, however, for such data to be generated. Efforts to link administrative registers have made important advances in recent years, demonstrating scope for this to become a possibility, but producing such data remains resource-intensive for national administrations. Currently there are no harmonised EU-level sources which collect such data.

Given this reality, this chapter seeks to provide additional insight into the use and effectiveness of ALMPs for minimum income benefit recipients using efforts targeted at the long-term unemployed as a proxy. The chapter includes two main analytical sections. The first exploits the EU-wide data available from the EU Labour Market Policy (LMP)

⁸⁴ Developed under Task 2 of "Exploratory study: filling in the knowledge gaps and identifying strengths and challenges in the effectiveness of EU Member States' minimum income schemes", prepared by ICF/Applica 2022

database⁸⁵ to provide a quantitative analysis of the use and effectiveness of different types of ALMP measures among LTU, focusing on national examples of ALMP measures that have shown to be effective. The second focuses on providing insights into the factors contributing to the effectiveness of ALMP measures for LTU by reviewing a number of evaluations of programmes co-funded by the European Social Fund⁸⁶.

4.2 Quantitative analysis using the LMP database

4.2.1 Use of LMP data to reflect on provision to minimum income benefit recipients

The LMP database contains detailed data on ALMP measures implemented in EU Member States. These are defined as public interventions in the labour market which:

- aim to provide people with new skills or experience of work to improve their employability or that encourage employers to create new jobs and take on unemployed people and other target groups.
- explicitly target groups with difficulties in the labour market: the unemployed, inactive and employed at risk of unemployment (i.e. those at risk of involuntary job loss due to the economic circumstances of the employer, restructuring, or similar).

For each measure, detailed quantitative data on expenditure and participants (stocks and flows) as well qualitative information describing the features of the intervention is collected.

The data cannot be used to directly identify the sub-set of interventions that are targeted to minimum income benefit recipients. The qualitative information contains no systematic data on types of benefit received, nor can the detailed data on participants (stock, entrants and exits) be used to directly identify participants of interventions who are minimum income benefit recipients as the breakdowns collected do not include this characteristic. However, assuming long-term unemployed (LTU) can serve as a reasonable proxy for minimum income recipients subject to labour market activation requirements, the LMP database can be used to directly identify interventions targeted at LTU and participants of interventions who were LTU prior to participation, providing a basis for identifying differences in the use of different types of ALMP for LTU and non-LTU.

The detailed data on participants include data on exits by destination. The destinations include employment, other ALMP measures, unemployment, inactivity and unknown and can be used to compare outcomes from participation in different types of ALMP and provide a basis for identifying which interventions have been more effective in helping LTU back into work. There are, however, significant gaps in this data (at the level of the intervention) for some countries. Such gaps cannot be corrected thus the analysis of such data is limited to the cases where the data are available.

The analysis focuses specifically on LMP measures implemented in 2019. LMP data are available for 2020 but major shifts in the use of different types of intervention as a result of the COVID-19 pandemic would give an unrepresentative picture of the approach usually taken in the Member States. Indeed, there were extremely large increases in the use of employment maintenance incentives targeted to employed-at-risk (hardly used before the pandemic) while use of most other types of measure declined due to the temporary restrictions imposed on face-to-face contacts. The extent of these changes varied considerably between Member States based on their chosen response to the pandemic.

⁸⁵ <https://ec.europa.eu/social/main.jsp?catId=1143&langId=en#LMP>

⁸⁶ https://ec.europa.eu/regional_policy/en/policy/evaluations/member-states/

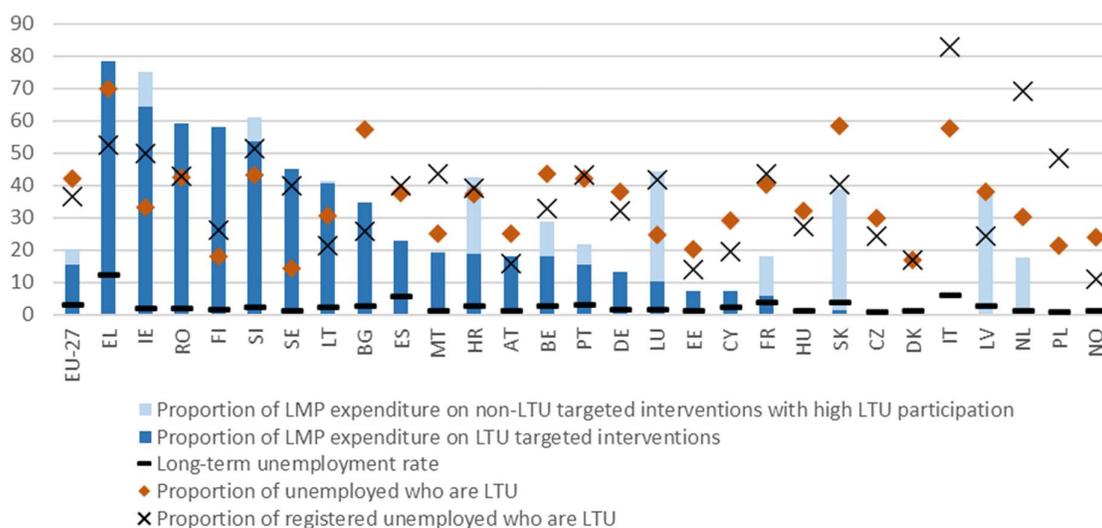
4.2.2 Expenditure on ALMP measures targeted to LTU

In 2019, the EU Member States spent 0.4% of GDP or EUR 54 billion on LMP measures. 15.5% of this, around EUR 8.5 billion, was dedicated to measures which specifically target long-term unemployed (LTU) – i.e. interventions where the basic legislative eligibility conditions are refined to focus on LTU or indicate specific conditions for LTU. However, this conceals considerable variation between countries and different categories of LMP measures.

Greece spends more than three quarters of expenditure on LMP measures on interventions targeting LTU, while Ireland, Romania, Finland, and Slovenia all spend over 50% (see Figure 16). On the other hand, the Czech Republic, Denmark, Italy, Latvia, the Netherlands, and Poland have no interventions that specifically target LTU, and Hungary and Slovakia spend less than 5%. This reflects policy choices in the organisation of the national systems of ALMPs and not the actual support provided. While some countries may opt to assist LTU using specifically targeted measures, others may instead apply a mainstreaming approach and support LTU using measures that are more generally targeted. Indeed, an additional 4.9% of expenditure on LMP measures was dedicated to measures which do not specifically target LTU but where more than 50% of participants⁸⁷ were LTU prior to participation – i.e. cases which are predominantly used to cater for LTU in practice. Note that this additional figure may be understated due to gaps in the data on participants by duration of unemployment in some countries.

There is no obvious link between the proportion of expenditure on measures specifically targeted to LTU and the incidence of long-term unemployment among unemployed (based on the EU Labour Force Survey). Nor is there any obvious link with the level of long-term unemployment among those registered as unemployed with the PES (based on national administrative data), which reflects the client base seen by national PES. For example, the countries where more than 50% of registered unemployed were LTU include those with high (>50%), medium (10-50%) and low (<10%) proportions of expenditure on measures specifically targeted at LTU. Broadening the scope of expenditure on measures to also include measures not specifically targeted to LTU but predominantly used to cater for LTU in practice (>50% of participants are LTU) does not result in an obvious link.

Figure 16. Proportion of expenditure on LTU-focused LMP measures (cat 2-7), 2019 (%)



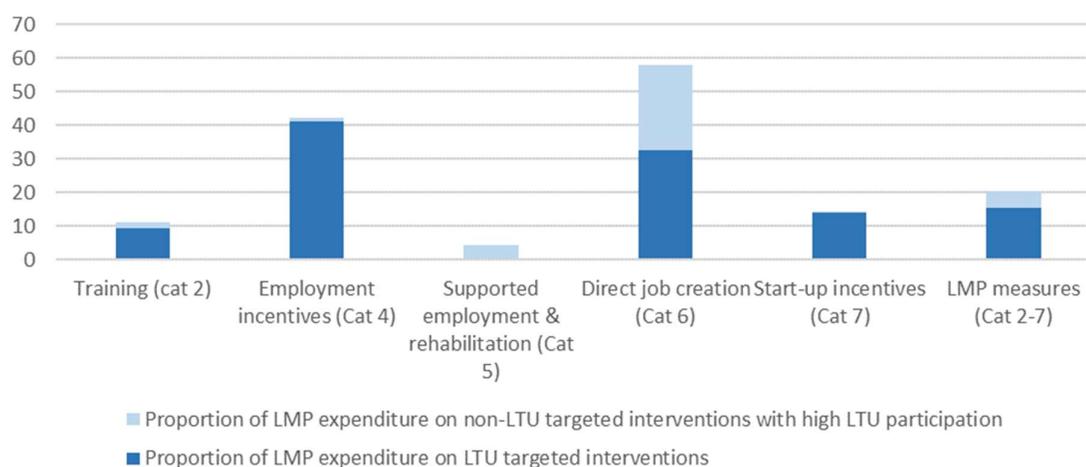
⁸⁷ Based on stock or, where this was not available, entrants.

Source: DG EMPL, LMP database. Eurostat, Labour Force Survey (lfsa_upgan, lfsa_ugad, lfsa_pgacws). National administrative sources.

Notes: LMP data for EU-27, DK, DE, NL and SE include estimates. LMP data on the proportion of expenditure on non-LTU=targeted interventions with high LTU participation are limited to interventions for which data on participants by duration of unemployment is available and are therefore unreliable for BE, FR, IT, CY and LU. Data on the proportion of registered unemployed who are LTU for EU-27 is an average across Member States and for DK, EL, IT (refers to 2020) and CY derive from national sources.

The contribution of LTU-targeted interventions to expenditure varies considerably between the different categories of LMP measures. In 2019, these accounted for 41% for employment incentives, which are subsidies for open market jobs, and 32% for direct-job creation, which are subsidies for temporary non-market jobs (public works and similar), but just 14% for start-up incentives, which promote starting a business or self-employment, and 9% for training (see Figure 17). Almost no expenditure on supported employment and rehabilitation was associated with measures specifically targeting LTU as these are primarily associated with persons with disabilities, some of whom may not even be required to register as unemployed.

Figure 17. Proportion of expenditure on LTU-focused LMP measures (cat 2-7) by type of measure, 2019 (%)



Source: DG EMPL, LMP database.

Notes: Data for include estimates. Data on the proportion of expenditure on non-LTU-targeted interventions with high participation are limited to interventions for which data participants by duration of unemployment is available.

The differences in contributions are likely to reflect two aspects: (1) the extent to which different types of measures tend to be used to cater for LTU rather than other groups, and (2) the extent to which different types of intervention require tailoring to different groups. These two aspects can be illustrated by considering the two types of measure with the highest contributions – employment incentives (category 4) and direct job creation (category 6).

The types of intervention classified in the LMP database as *Employment incentives* (category 4) are primarily recruitment incentives, which provide temporary incentives for the creation and take-up of new jobs or promote opportunities for improving employability through work-experience. The high contribution of LTU-targeted measures in this case reflects the fact that incentives need to be tailored to the specific needs of different groups. Bulgaria, for example, has a series of recruitment incentives each targeting

different groups or sectors. These include recruitment incentives specifically for LTU, youth, persons with disabilities, elderly and parents with children, each offering slightly different incentives. Indeed, data on expenditure per person year show that the unit cost is higher for incentives targeting LTU (EUR 3,721) than for incentives targeting youth (EUR 1,896), reflecting the fact that employers may need greater encouragement to take on people who have been out of work for long periods. More generally, the fact that over two thirds of countries had more than five distinct employment incentive interventions in 2019 and more than two thirds had at least one that was LTU-targeted suggests that such tailoring is (a) relatively common and (b) considered necessary.

Direct job creation (category 6) covers measures that create additional jobs, usually of community benefit or socially useful (e.g. public works), to find employment for the long-term unemployed or persons otherwise difficult to place. Public works type programmes are often intended primarily for the LTU and other hard to place jobseekers, including minimum income recipients who may be obliged to participate⁸⁸, and may be seen as a last resort measure, with little connection to the regular labour market. In this case the contribution of LTU-targeted measures of 32% to expenditure on direct job creation only reveals part of the picture, as another 25% can be attributed to interventions not specifically targeted at LTU but predominantly used to cater for LTU in practice (i.e. 50+% participants were LTU). Overall, therefore, two thirds of expenditure on direct job creation measures can be viewed as LTU-focused at EU level. At national level, all expenditure on such measures can be seen as LTU-focused in six countries (EE, IE, EL, HR, SI and FI) and over half in seven others (BE, DE, FR, LV, LU, AT and PT).

The relatively low contribution of LTU-targeted interventions to expenditure on training (just 9%) is not necessarily indicative of their low use among LTU, but instead that training also tends to be used among other groups and does not tend to be tailored to LTU. The focus of training will often be on the nature of the skills being taught, serving to level up the skills of all participants in a certain field or area irrespective of their situation.

In contrast, the low contribution of LTU-targeted interventions to expenditure on supported employment and rehabilitation reflects the fact that such measures are mostly reserved for individuals with reduced working capacity. Such limitations are likely to be apparent on registration and are not linked to duration of unemployment so that the low contribution of LTU targeting to expenditure on this form of measure is to be expected.

4.2.3 Participation of LTU in ALMP

On average, across the Member States where the data is available, just under one in five (19%) participants in LMP measures in 2019 was LTU prior to participation. In general, LTU tend to be under-represented among participants compared to their share of all registered unemployed.

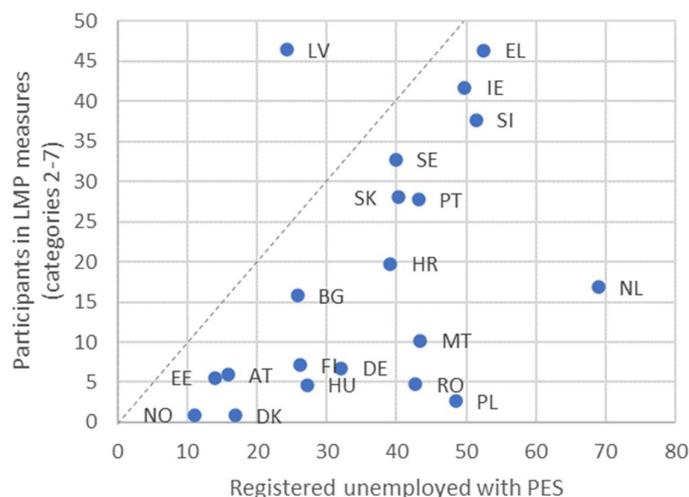
The proportion of LTU among participants in LMP measures ranged from 46.4% in Greece and Latvia to just 2.6% in Poland and 0.8% in Denmark. There is limited evidence of a link between these considerable differences between countries and differences in the proportion of LTU among those registered as unemployed with the PES (see Figure 18). For example, considering only the five countries with the highest incidence of long-term unemployment among those registered as unemployed, Greece, Ireland, and Slovenia also have three of the four highest proportions of LTU amongst participants in measures, while the level of LTU participation is close to the average in the Netherlands and one of the lowest seen in Poland (<5%).

In general, the data strongly indicate that LTU tend to be under-represented, albeit to varying degrees, among participants in LMP measures relative to their representation

⁸⁸ See Task 2 of "Exploratory study: filling in the knowledge gaps and identifying strengths and challenges in the effectiveness of EU Member States' minimum income schemes", prepared by ICF/Applica 2022.

among those registered as unemployed. This is evidenced by the fact that, with the exception of Latvia, all other countries for which data are available have a lower proportion of LTU amongst ALMP participants than in the population of registered unemployed as a whole (i.e. are right of the 1:1 line in Figure 18). In saying this, it is important to note that participants in LMP measures are not necessarily limited to registered unemployed but may in some cases also include other registered jobseekers and unregistered individuals such as employed-at-risk⁸⁹ or inactive persons unable to comply with national criteria associated with registration as unemployed. However, the population of registered unemployed constitutes most of the PES client base in most countries.

Figure 18. Proportion of participants in LMP measures and registered unemployed who are LTU, 2019 (%)



Source: DG EMPL, LMP database. National administrative data.

Notes: Data on participants for DK, HR and NO include estimates. Data on participants for NL, AT, PT, RO, SE may be understated (by a maximum of 20% but generally much less). Data on participants not available for BE, CZ, ES, FR, IT, CY, LT and LU.

There is some variation in the level of LTU participation in different types of LMP measures (see Figure 19). On average across the Member States where the data is available, LTU accounted for around 20% of participants for all types except supported employment and rehabilitation (category 5) and direct job creation (category 6) where LTU represented under one in ten participants (8.4%) and over four in ten participants (41.4%) respectively. This aligns with the assertion in the previous section that the use of direct job creation is relatively more prominent among LTU while the use of supported employment and rehabilitation is not, and that the high contribution of LTU-targeted interventions to expenditure on employment incentives is associated with the tailoring to this group rather than the level of use.

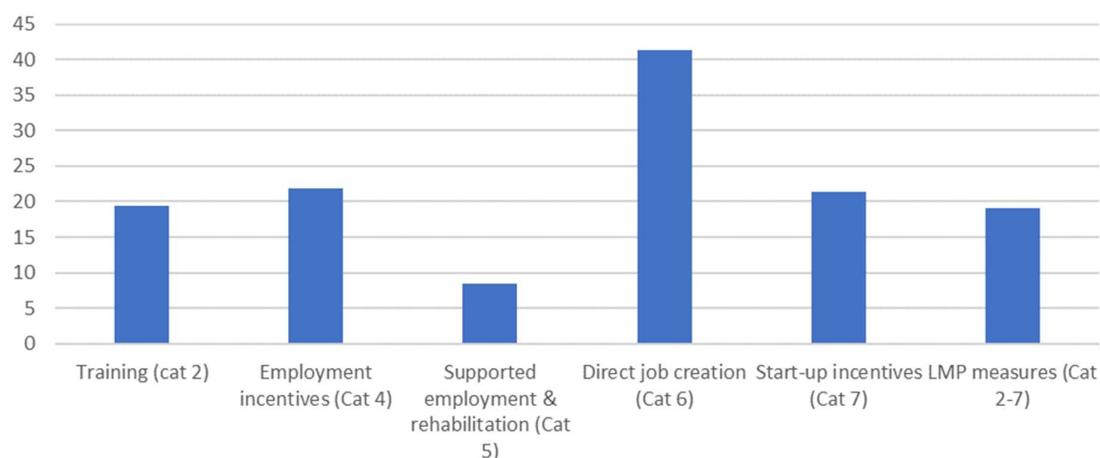
The extensive use of direct job creation among LTU could be a concern. The category of *direct job creation* mostly includes public works type of programmes and research has suggested that these are an ineffective means of activation because of their poor connection to the regular labour market and lack of capacity to deliver relevant skills. The focus of public works is often more about delivering income support in return for work⁹⁰

⁸⁹ Those at risk of involuntary job loss due to the economic circumstances of the employer, restructuring, or similar (see section 4.1)

⁹⁰ See <https://ec.europa.eu/social/BlobServlet?docId=13384&langId=en>

and the positive aspects of such schemes may be limited to developing/maintaining a working habit and a degree of social integration. Indeed, the extensive use of public works schemes for minimum income recipients risks trapping people in a regime with no clear way out⁹¹. Such schemes need to be phased out or revamped to integrate structured training that would equip people with some of the basic skills needed to find regular employment.

Figure 19. Proportion of LTU amongst participants in LMP measures (cat 2-7) by type of measure, 2019 (%)



Source: DG EMPL, LMP database.

Notes: Data cover all interventions for which there is data on participant stocks broken down by duration of unemployment.

4.2.4 Referral of LTU to ALMP

Indicators illustrating the process of referral to measures show that access to at least some form of measure is typically being granted before becoming LTU, but that there is a tendency for direct job creation to be used as a last resort for those who struggle to re-integrate into the labour market.

The processes by which registered unemployed are referred to and granted access to activation measures by the PES play a key role in determining the degree to which LTU participate in measures and the types of measures they participate in.

The extent to which PES use LMP measures to activate registered unemployed can be illustrated using activation rates. Such rates are calculated as the stock of participants in measures (categories 2-7) that were previously registered unemployed divided by the stock of registered unemployed plus the stock of participants in measures that were previously registered unemployed and whose unemployment spell is broken by participation in a measure. These take account of the fact that participation in measures typically breaks the unemployment spell – i.e. registered unemployed who take part are not considered as such during their participation.

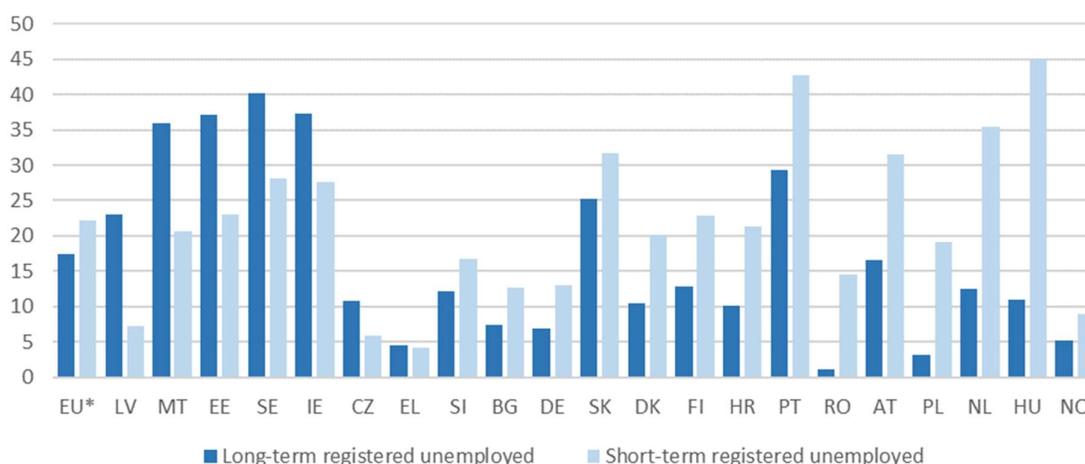
The extent to which measures tend to be used before and after becoming LTU can be indirectly observed by comparing activation rates for short-term registered unemployed with those of long-term registered unemployed (see Figure 20). Data for 2019 shows that

⁹¹ See Task 2 of “Exploratory study: filling in the knowledge gaps and identifying strengths and challenges in the effectiveness of EU Member States’ minimum income schemes”, prepared by ICF/Applica 2022.

the former was some way above the latter (22.2 vs. 17.4), suggesting that the rate of participation in LMP measures tends to be higher among short-term registered unemployed (i.e. <12 months of unemployment) than the long-term registered unemployed.

This pattern holds in just under two thirds of the Member States for which the data is available. There were just seven countries (CZ, EE, IE, EL, MT, LV, SE) where activation rates of long-term registered unemployed were higher than those of short-term registered unemployed. This could be attributed to either limited use of measures among short-term unemployed (i.e. waiting until people are LTU before offering access) or long-term unemployed being pro-actively prioritised by PES when referring persons to measures.

Figure 20. Activation of short-term registered unemployed and registered long-term unemployed (LMP participants per 100 persons in respective group), 2019



Source: DG EMPL, LMP database. Own calculations.

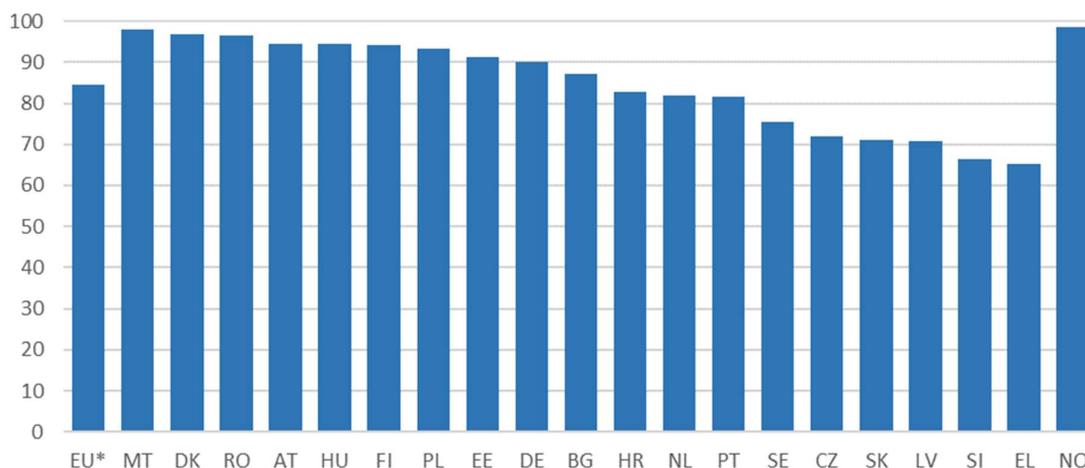
Notes: * EU data is an average of the rates across the twenty countries for which activation rates for both short- and long-term registered unemployed are available. Data for CZ, DK, HR, and NO include estimates. Data for EL, NL, AT, PT, RO and SE are based on numbers of ALMP participants that may be understated (by a maximum of 20% but generally much less). Data not available for BE, ES, FR, IT, CY, LT and LU.

An alternative way of observing the timeliness of referral to measures is to use flow data. The timely activation rate measures the proportion of entrants to LMP measures (categories 2-7) that is not yet long-term unemployed (see Figure 21). On average across the Member States for which the data are available, over four fifths (84.4%) of entrants on LMP measures in 2019 were by short-term unemployed.

At national level, short-term unemployed represented more than 90% of entrants of LMP measures in nine countries (DK, DE, EE, HU, MT, AT, PL, RO and FI) but less than 75% in 5 others (CZ, EL, LV, SI and SK). These differences reflect multiple factors, including (1) capacity to provide measures, (2) the degree to which PES refer registrants to these before they become long-term unemployed, and (3) the importance of measures specifically targeted to either short-term or long-term unemployed. For example, Greece and Slovenia, had the second lowest timely activation rates (65.3% and 66.3% respectively). In Greece, this can be attributed to the largest measure (accounting for more than half of expenditure and participants), involving work in public sector jobs primarily targeted to LTU (*Public sector jobs funded by public welfare programmes*). In Slovenia, two of the three most important measures (in terms of expenditure and participants) are *public works* and an ESF co-funded employment incentive measure

(Employ.me), both of which are targeted primarily to LTU who accounted for 56.9% of entrants in 2019 (i.e. timely activation rate of 43.1%).

Figure 21. Timely activation (%), 2019

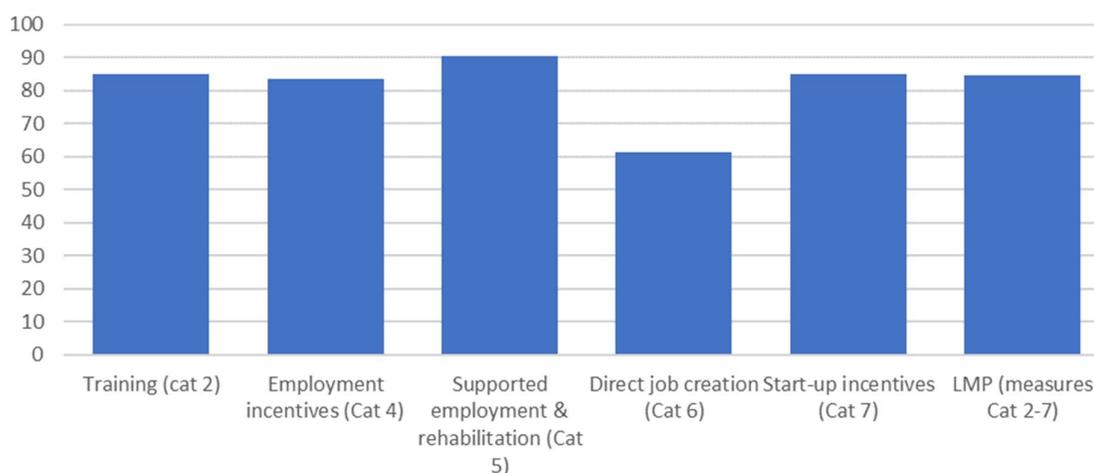


Source: DG EMPL, LMP database

Notes: * EU data are an average of the rates across the nineteen countries for which timely activation are available. Data for DK and HR include estimates. Data for EL, NL, AT, PT, RO, SE are based on numbers of ALMP participants that may be understated (by a maximum of 20% but generally much less). Data not available for BE, IE, ES, FR, IT, CY, LT and LU. Timely activation rate refers to the proportion of entrants to LMP measures (categories 2-7) that is not yet long-term unemployed.

Timely activation rates broken down by type of measure also confirm the tendency for direct job creation measures to be used for LTU (see Figure 22). These show that 83-85% of new entrants are short-term unemployed for all but two types of measure – supported employment and rehabilitation (category 5) and direct job creation (direct job creation). In these cases, the rates are 90% and just under 60% respectively. The higher rate in the case of supported employment and rehabilitation (category 5) reflects the fact that the measures are reserved for people with limitations in their ability to work and these limitations will be known when they first engage with the employment services, allowing for early referral.

Figure 22. Timely activation (%) by type of measure, EU, 2019



Source: DG EMPL, LMP database.

Notes: Data are averages of the rates across the nineteen countries for which timely activation are available. Timely activation rate refers to the proportion of entrants to LMP measures (categories 2-7) that is not yet long-term unemployed.

In general, the results provided by activation rates and timely activation rates corroborate earlier results showing that access to some form of LMP measure is typically being granted before becoming LTU, but that there is a greater tendency for direct job creation to be used as a last resort for those who struggle to re-integrate into the labour market in a timely manner. Given the limitations of public works programmes which constitute a large part of direct job creation, this picture does not align with the spirit of the Council Recommendation on the integration of the long-term unemployed⁹², which aims to ensure that LTU are engaged in a supportive activation process.

4.2.5 Costs of LTU-focused ALMPs

Provision of LTU-focused ALMPs tend to entail higher unit costs than non-LTU-focused ALMPs, with just one exception - start-up incentives.

A form of unit cost for LMP interventions can be derived by dividing expenditure by the stock of participants to give expenditure per person year (ppy) - i.e. the cost of one person participating in an intervention for a full 12 months. This provides a way to compare the costs of interventions without having to worry about the issues created by differences in their duration⁹³. In 2019, the average expenditure per person year for LTU-focused measures – i.e. those specifically targeted to LTU plus those predominantly used to cater for LTU (i.e. >50% participants were LTU) – was slightly higher than for non-LTU-focused measures (8.5 vs 8.0 thousand EUR/ppy). This situation held for each type of LMP measure except start-up incentives (Figure 23).

Unit costs were slightly higher for LTU-focused measures than for non-LTU-focused measures for all of the most important categories of measures – i.e. training (9.4 vs. 7.7 thousand EUR/ppy), employment incentives (7.6 vs. 6.8 thousand EUR/ppy) and direct job creation (9.7 vs. 7.6 thousand Euro/ppy) – suggesting a slightly higher cost in

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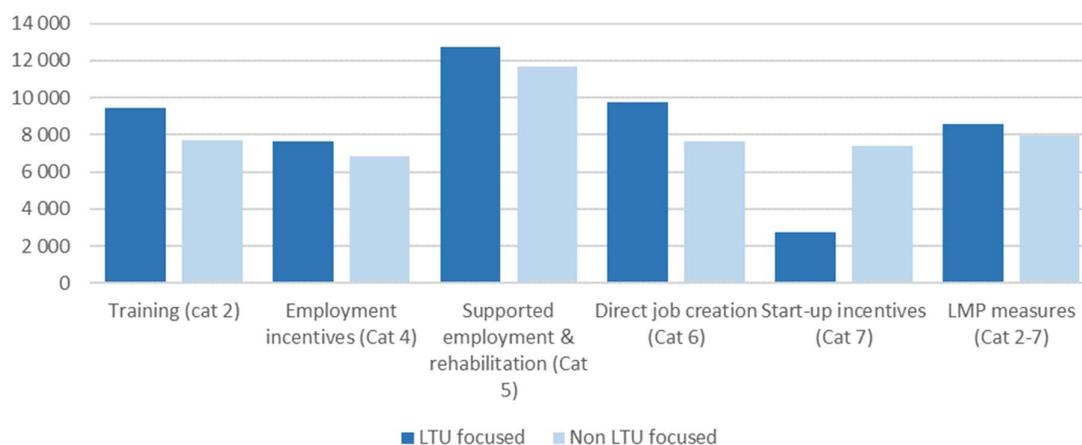
See: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32016H0220%2801%29&qid=1456753373365>

⁹³ Note that the cost per person year does not reflect the cost per participant (unless the intervention has a fixed one-year duration), which will always be partly determined by the actual time spent participating in an intervention.

delivering such measures in a manner suited to the needs of LTU. This aligns with the idea that those reaching long-term unemployment are those with the biggest limitations in term of skills and experience and therefore require the most assistance to put them into a position to re-integrate into employment. For example, employment incentives often provide subsidies to regular employers to hire certain target groups (e.g. wage subsidies) to put them on more equal footing with other groups. In this case, the higher unit cost is partly indicative of the relative disadvantage of LTU relative to other groups of potential candidates.

The data do show that unit costs were lower for LTU-focused measures than for non-LTU-focused measures in the case of start-up incentives (2.7 vs 7.4 thousand Euro/ppy). However, in this case the result for LTU-focused measures is based on a small sample of interventions (8) spanning a limited number of Member States so the result may not be fully representative.

Figure 23. Average expenditure per person year for LTU-focused and non-LTU-focused measures by type of measure (Euro), 2019



Source: DG EMPL, LMP database.

Notes: Data are based on interventions where both data on total expenditure and total stock is available. Data on supported employment and rehabilitation (cat 5) and start-up incentives (cat 7) for LTU-focused measures may not be fully representative due to low sample size (<20 interventions).

4.2.6 Effectiveness of LTU-focused ALMPs

Data on the extent to which participants in LTU-focused ALMP measures subsequently enter employment demonstrates that employment incentives and training have been more effective in facilitating transitions to work than direct job creation.

The ultimate goal of ALMPs is to facilitate re-integration into regular employment – i.e. employment unsupported by an ALMP. The extent to which interventions or groups of interventions are effective in achieving this can be illustrated by data on the proportion of participants who exit the interventions and whose subsequent situation is employment. It must be noted that there are some limitations to such data, the most important being that gaps in the data for many countries mean that analysis is limited to the measures for which the data is available⁹⁴.

⁹⁴ Other limitations include: (1) The point in time after exit at which the subsequent situation is recorded varies (immediately, 3 months or 6 months) and has different implications for different types of measure. For example, recording subsequent situation immediately on exit presents a risk of being non-representative of

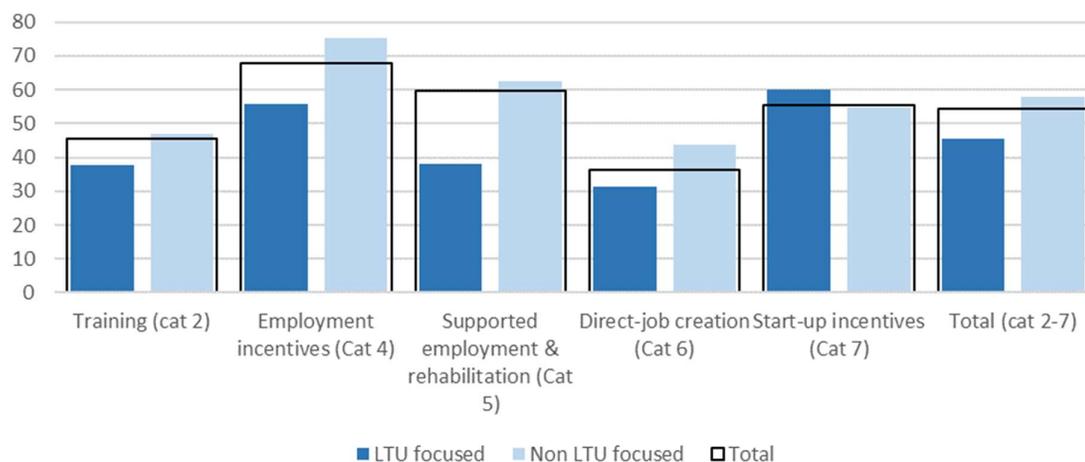
Based on the data available, in 2019, the average proportion of exits to employment was lower among LTU-focused measures than non-LTU-focused measures (46% vs. 58%). This situation holds for each type of measure except start-up incentives for which the data may not be reliable due to sample size limitations (Figure 24). It is difficult to interpret the implications of these differences which derive, at least in part, from participant selection. LTU-focused interventions will include participants that tend to be relatively more disadvantaged in the labour market than non-LTU-focused interventions so the task of re-integrating them is automatically more challenging and this may well be reflected in the lower rate of success in facilitating transitions to work. Furthermore, PES clients are likely to be referred to different types of measures based on their specific situation (e.g. skills, experience...etc.) and the extent to which they are job-ready.

Nevertheless, focusing on the differences in outcomes between different types of measures for LTU-focused measures suggests that, excluding start-up incentives, employment incentives and training have been the most effective in facilitating transitions to work with 56% and 38% of exits to employment respectively. Both appear to be more effective than direct job creation for which just 31% of exits were to employment. This aligns with the notion that public works programmes, which constitute a large part of direct job creation in many countries, are a less effective means of activation. It must, however, be acknowledged that the use of interventions such as employment incentives rely on employers' demand for labour, which is liable to fluctuate with labour market conditions, impacting on the number of available placements, especially for those furthest from the labour market. Such market driven restrictions do not exist for direct job creation which mean that it may provide a steadier supply of placements (albeit with lower chances of finding regular work afterwards).

The data show that the average proportion of exits to employment among LTU-focused measures was highest for start-up incentives (60%). While the data may not be fully reliable due to the small sample size, this result may also reflect specific characteristics usually associated with such measures. Start-up incentives typically provide support during the start-up phase of entrepreneurial activities (i.e. starting-up business or establishing oneself as self-employed), which have to be approved (e.g. through assessment of a viable business plan) before the support is granted, which means that those completing the programme are always employed on exit and the extent to which they remain as such is depends on their continued success once support is withdrawn. Participants are also, by default, motivated to make the business work, which cannot be assured for those placed in other forms of measure.

the longer term, particularly in the case of measures which include requirements to retain participants in regular employment for a certain period after the end of the intervention. (2) Measures may form part of a chain intended to provide a path into employment and that some may therefore be designed to prepare for taking part in other interventions rather than immediate integration into the labour market. An example of this is training to prepare for a subsidised work placement.

Figure 24. Average proportion of exits to employment for LTU-and non-LTU-focused LMP measures (cat 2-7) by type of measure, 2019 (%)



Source: DG EMPL, LMP database.

Notes: Data cover all interventions for which there are data on exits broken down by destination. Data on supported employment and rehabilitation (cat 5) and employment incentives (cat 7) for LTU-focused measures may not be fully representative due to low sample size (<20 interventions).

4.2.7 Examples of effective interventions for LTU

Examination of examples of measures shown to be effective for LTU reveals the common theme of a strong focus on the acquisition of skills and experience relevant to the regular labour market.

The available data on exits to employment can be used to identify two or three examples for each of the three most important types of intervention – i.e. training, employment incentives and direct job creation - that cater for meaningful numbers of participants and appear to be particularly effective for LTU.

Table 13 identifies such examples, chosen by focusing on interventions with a participant stock of at least 500 LTU in 2019 with the best outcomes according to either the proportion of exits to employment for LTU-focused interventions (in the case of employment incentives and direct job creation) or, where relevant, the proportion of LTU exits to employment for non-LTU-focused interventions (in the case of training). For each case, a short profile has been developed to describe the key characteristics and is provided in the first annex to this chapter (Annex 3.1). Note, the selection of the examples is restricted by the completion of the data on exits by destination and therefore limited to countries for which the data are available.

Table 13. Examples of effective measures for LTU

| Country | Name | LTU-focused | Exits to employment (2019) |
|-------------------------------|---|-------------|----------------------------|
| Training (category 2): | | | |
| Lithuania | Vocational training for unemployed and employed (<i>Profesinio mokymo programa</i>) | No | Total: 81% LTU: 77% |

| Country | Name | LTU-focused | Exits to employment (2019) |
|--|---|-------------|----------------------------|
| Slovenia | On-the-job training (<i>Usposabljanje na delovnem mestu</i>) | No | Total: 65% LTU: 56% |
| Employment incentives (category 4): | | | |
| Germany | Recruitment incentives for LTU (<i>Programm zum Abbau der Langzeitarbeitslosigkeit</i>) | Yes | Total: 70% LTU: ? |
| Slovenia | Employ.me (<i>Zaposli.me</i>) | Yes | Total: 78% LTU: 78% |
| Slovakia | Support for hiring disadvantaged job seekers (<i>Prispevok na podporu zamestnavania znevihodnenedo uchadzaca o zamestnanie</i>) | Yes | Total: 81% LTU: 83% |
| Direct job creation (category 6): | | | |
| France | Employment/skills pathways (PEC) (<i>Parcours Emploi Compétences, PEC</i>) | Yes | Total: 41.8% LTU: 41.2% |
| Slovenia | Public works (<i>Javna dela</i>) | Yes | Total: 58% LTU: 62% |

For each type of intervention, the examples selected provide some insight into features that may contribute to their effectiveness:

- **Training (category 2):** Both examples involve employers in either determining and/or conducting the training, and both involve some training on employer's premises. This provides a clear connection between the training and needs of regular employers ensuring that the skills gained are in line with those in demand in the open market.
- **Employment incentives (category 4):** There are two aspects which may explain the effectiveness of these cases. In Slovenia and Slovakia, the measures oblige employers to maintain the employment for a reasonably long period (1 year and 2 years respectively) enabling the participant to gain significant amount of work experience. In Germany, subsidised employment can also last a relatively long time (up to 2 years) but there is a strong element of ongoing support to participants while they work, through the provision of coaching. An evaluation of this measure in the next section confirms this to be a key element in the success of this measure.
- **Direct job creation (category 6):** Public works programmes, which are the most common form of direct job creation, typically relate to maintenance and cleaning of public spaces, infrastructure, and amenities, with a focus on improving working habits rather than on improving skills. This results in low levels of effectiveness in terms of supporting transition to regular work. The two cases of effective direct job creation measures selected are quite different. The case in France has a strong focus on enabling the acquisition of specific skills. The case in Slovenia also focuses on improving skills and the nature of the employment is wide ranging (includes welfare, education, culture, environment, agriculture and other related fields). This is in complete contrast, for example, to a typical public works

programme such as *Work in minor services for municipalities or self-governing regions* in Slovakia where only 10.4% of LTU exits are to employment⁹⁵.

While much of the success of these different measures is likely rooted in the specific details of how they are implemented in practice by the responsible authorities, the examples seem to point to a strong focus on the acquisition of skills and experience relevant to the regular labour market. Indeed, the training measures are tailored to need of regular employers, the employment subsidies to acquiring a reasonable amount of experience in the regular labour market and the direct job creation measures focused on acquisition of skills required within the public sector rather than simply maintaining working habits.

4.3 Factors contributing to the effectiveness of ALMPs

Assessing the effectiveness of ALMPs at a general level by focusing specifically on data on transitions to employment provides a valuable overview of the situation but also has some limitations. Part of the issue lies in there being considerable differences in the effectiveness of ALMPs not only between different types of ALMP but also within different types ALMP. This is down to the individual features of the ALMP in question, how they have been implemented in practice (including the selection of participants) and the context in which they are executed. A more granular assessment of effectiveness can only be achieved through dedicated evaluations of specific interventions using robust methods to produce reliable results.

The extent to which ALMPs are routinely evaluated varies considerably between countries but programmes that are funded (wholly or in part) by the European Social Fund (ESF) have to be evaluated by regulation. The Evaluation helpdesk established by the Directorates General for Regional and Urban Policy (DG REGIO) and for Employment, Social Affairs and Inclusion (DG EMPL) in 2015 assimilates, assesses the quality of, and synthesises the findings of evaluations of operational programmes (or parts thereof) co-financed by the European Regional Development Fund (ERDF), Cohesion Fund and ESF (including the YEI – Youth Employment Initiative) completed by Member States. Making use of the evaluation database of evaluations maintained by the Helpdesk, six good quality evaluations showing positive results for ALMPs to support LTU during the 2014-2020 period have been identified. These are listed in Table 14. For each, a short case study has been compiled to describe the ALMPs covered by the evaluation and the most relevant results in terms of the effectiveness of the ALMPs for LTU. These are provided in the second annex to this chapter (Annex 3.2).

Table 14. Evaluations of ALMP that have been effective in re-integrating LTU into the labour market

| No | Name | Country | ALMP covered |
|----|--|------------------|--|
| 1 | Evaluation of the programme for integrating long-term unemployed under the Federal ESF OP, 2014-2020 | Germany | Specific form of employment incentives |
| 2 | Review of the Back-to-Work Enterprise Allowance | Ireland | Specific form of start-up incentives |
| 3 | Evaluation of VET and employment measures for long-term unemployed | Italy - Piemonte | Training |

⁹⁵ This implies that only 10% of participants exit to employment. Only 1% of destinations are unknown. The majority either participate in another ALMP or remain unemployed.

| No | Name | Country | ALMP covered |
|----|--|-----------------------|--|
| | supported by the Piemonte ESF OP, 2014-2020 | | |
| 4 | Thematic evaluation of measures for long-term unemployed, financed by the Marche ESF OP, 2014-2020 | Italy - Marche | Training, direct job creation and start-up incentives. |
| 5 | Evaluation of JobsPlus financed by the ESF OP, 2014-2020 | Ireland | Specific form of employment incentives |
| 6 | Evaluation of support for long-term unemployed and family needs communities in the Brandenburg OP, 2014-2020 | Germany - Brandenburg | Specific form of individualised client services |

The selected evaluations cover ALMPs in Italy, Ireland and Germany, with three focusing on ALMPs delivered in a specific region. Four consider specific interventions (cases 1, 2, 5 and 6), one considers interventions of a particular type (case 3) and one considers several types of intervention (case 4). Together the cases selected cover the main types of ALMP used to cater for LTU – i.e. individual case management services, training, employment incentives, direct job creation and start-up incentives. Notably, case 1 in Germany relates to an intervention flagged as example of an effective employment incentive by the analysis of the LMP data in the previous section.

While the nature of the evaluations presented in the cases studies varies, owing to differences in the underlying nature of the ALMP concerned and the approach adopted to their evaluation, they reveal a range of interesting results:

- **Potential of training and employment incentives for facilitating the employment of LTU:** The case studies demonstrate positive effects on employment outcomes of specific employment incentives in Germany and Ireland (cases 1 and 5) and training in Italy (cases 3 and 4), underlining the potential value of such types of intervention for aiding the transition of LTU into employment. This aligns with findings in the previous section.
- **Start-up incentives can be effective but involve an element of self-selection:** The two case studies focusing on start-up incentives (cases 2 and 4) both highlight the potential effectiveness of such incentives. However, one underlined that this form of measure tended to attract people with motivations to become self-employed rather than to simply finding a job. This, alongside the fact that a viable business plan is usually a requirement before pursuing such an activation process, is likely an important contributor to the success of this type of measure and represents a potential limitation on candidates for whom this kind of measure is suitable.
- **Direct job creation may have other benefits:** One case study found that direct job creation, specifically in the form of work experience in the regional municipalities had no positive effects on employment outcomes, but that it did have positive effects in terms of improving confidence and activity of participants. This suggests that direct job creation may have some value in bringing people closer to the labour market but that other forms of intervention may be better suited to facilitating the final step into regular employment.
- **Effectiveness of measures can vary between different groups of LTU:** Two of the case studies found different levels of effectiveness for LTU with different durations of unemployment. For example, the case study focusing on training in

Italy (case 3) found that employment outcomes were more positive for those recently long-term unemployed (duration 1 year or more) compared to those unemployed for longer (2 years or more), while case 5 focusing on employment incentives in Ireland found the inverse. This underlines that LTU are not a homogenous group and that needs may differ among groups with different durations of unemployment.

- **Individualisation contributes to effectiveness:** Several of the case studies highlight the importance of individualised support in ensuring effectiveness – i.e. provision of coaching during employment supported by employment incentives (case 1), availability of support, advice and mentoring when engaging in self-employment with the assistance of a start-up incentive (case 2) and individualised and holistic support provided to help LTU address individual problems (case 6). Indeed, evaluations show, in the context of the measures studied, that more intensive individualised support was more effective than regular support (case 1) and that personalised delivery of training based on the specific needs of LTU is more effective (case 3). Interestingly, the latter evaluation found several forms of training to be effective in improving employment outcomes, but that this did not extend to training vouchers due to there being a high level of self-orientation in this case.

4.4 Concluding remarks

Active labour market policies (ALMPs) are a key tool for helping jobseekers re-integrate into the labour market. Minimum income recipients subject to activation requirements tend to be mainstreamed into the activation regime applicable to all registered unemployed and are more likely than recipients of contributory unemployment benefits to be long-term unemployed (LTU). Since most administrative data related to ALMPs do not distinguish participants by type of benefit received, this chapter sought to provide insight into the use and effectiveness of ALMPs for minimum income benefit recipients by considering their use and effectiveness for the long-term unemployed (LTU) as a proxy.

Data from DG EMPL's labour market policy (LMP) database show that 15.5% of the EUR 54 billion spent by EU Member States on LMP measures in 2019 was dedicated to measures that specifically target long-term unemployed (LTU), while an additional 4.9% was spent on other measures where more than 50% of participants were LTU. There is no obvious link between the proportion of expenditure on such 'LTU-focused' measures and the relative incidence of long-term unemployment.

The contribution of LTU-targeted interventions to expenditure on ALMPs is particularly prominent for employment incentives (41%) and direct-job creation (32%). In the case of employment incentives this derives from the tendency for such measures to be tailored to specific groups, including the LTU, while in the case of direct job creation, which primarily relates to public works type programmes, it reflects the widespread use of such measures as a last resort for those who struggle to re-integrate into the labour market in a timely manner on their own initiative. Data on participants and referrals to ALMPs confirm this point. LTU accounted for around one in five participants in LMP measures generally, but two in five participants in direct job creation measures. Timely activation rates, which measure the proportion of new starts on ALMPs that are short-term unemployed, were also much lower for direct job creation than other types of measure (60% compared to 84.4% across all types of LMP measure).

In general, LTU tend to be under-represented among participants in LMP measures compared to their share of all registered unemployed. Activation rates and timely activation rates indicate that referral to some form of LMP measure is more likely prior to

becoming LTU. The main exception to this being direct job creation measures. Given the shortcomings of public works programmes, which account for a large part of direct job creation, this situation is in contrast with the intentions set out in Council Recommendation on the integration of the long-term unemployed which to ensure that LTU are engaged in a supportive activation process.

LTU-focused measures are less effective than non-LTU-focused measures in terms of facilitating integration into the labour market (46% exits to employment vs. 58%), a situation which holds for each type of measure except start-up incentives. This, however, is likely explained by the characteristics of the participants in LTU-focused interventions, who tend to be less equipped to start participating in the regular labour market. Furthermore, employment incentives and training tend to be more effective in facilitating transitions to work than direct job creation (56% and 38% exits to employment vs. just 31%), reiterating concerns about the extensive use of direct job creation among LTU.

Examination of interventions that cater for meaningful numbers of participants and appear (on the basis of employment outcome data) to be particularly effective for LTU suggest that a strong focus on the acquisition of skills and experience relevant to the regular labour market is instrumental. Separate analysis of the findings of evaluations of specific ALMPs showing positive results for LTU revealed the following insights:

- Training and employment incentives have considerable potential for facilitating the employment of LTU.
- Start-up incentives can be effective but their tendency to attract individuals with pre-existing motivations and drive to become self-employed rather than to simply finding a job is likely an important contributor.
- Direct job creation may, in the right circumstances, have a positive impact on confidence and activity of participants even if it has a limited impact in terms of facilitating transition to regular employment.
- Effectiveness of measures can vary between LTU who have been unemployed for different durations, underlining heterogeneity among LTU and that needs may differ.
- Individualisation of support provides an important contribution to effectiveness.

In short, the key messages from the analysis are that:

- There needs to be more investment in appropriate ALMPs for LTU, including minimum income recipients. Despite a greater need for support, LTU are less likely than short-term unemployed to be placed on an activation measure. The European PES network has recognised this point and recommended shifting resources from short- to long-term unemployed⁹⁶.
- The quality of ALMPs is important. Key to effectiveness seems to be the acquisition of skills and experience relevant to the regular labour market, whether through employer-directed training or real-world work experience. Interventions need to be tailored to the specific needs of clients and the provision of coaching and other support during measures can make a difference.
- Better data, which allow minimum income recipients to be distinguished from other groups of PES clients, are needed to monitor the situation.

⁹⁶ See 2021 Annual report of the European network of public employment services, p. 9 Available at: <https://ec.europa.eu/social/BlobServlet?docId=25228&langId=en>

5 Conclusions

Principle 14 of the European Pillar for Social Rights dealing with minimum income implies that minimum income (MI) schemes should have dual objectives of ensuring an adequate income whilst encouraging and supporting participation in the labour market. In this context, this study considered three topics associated with the relative importance of financial incentives and non-financial factors in promoting the labour market integration of minimum income recipients.

Benefit adequacy and work incentives

A first key question is whether the relative generosity of minimum income benefits has a direct impact on the likelihood of minimum income recipients moving into work – i.e. whether there is a conflict in practice between providing adequate levels of benefit and ensuring that benefit recipients have sufficient incentives to find work.

Participation Tax Rates (PTRs) measure the effective tax rate on any additional income earned when taking up work – the higher the PTR the lower the incentive to take up work. Analysis of PTRs arising when a non-employed minimum income recipient moves into full-time work at the minimum wage shows substantial variation across EU Member States, with higher rates of PTRs in countries with (relatively) higher levels of GDP per head and more developed social protection systems.

Crucially, however, there is no evidence that PTRs have any significant effect on the likelihood of making a transition to employment, indicating that other factors outweigh any disincentive, or incentive, effect that PTRs might have. This implies that policy makers can focus on delivering an adequate level of income to the most vulnerable without being overly concerned about the financial disincentives to work that this might seem to imply.

Gradual phasing out of benefits

For many minimum income recipients, there may be limited opportunities to find a well-paid, full-time job that provides more income than benefits. Consequently, it is important that minimum income benefits are designed in a way to encourage recipients to take up, or do more, work of any form or value, notably by tapering the withdrawal of benefits.

Review of the tapering arrangements applicable to minimum income schemes across the EU found that some form of tapering mechanism, including substitution with an in-work benefit, exists in all Member States except Hungary and Bulgaria, where the lack of such arrangements can be seen as a weakness of the minimum income scheme.

The tapering mechanisms are diverse but can be grouped into four broad categories: an increase in the basic amount of minimum income benefit against which employment income is offset, the disregard of some or all of employment income in means-testing and calculation of the benefit amount, temporary continuation of benefits, or provision of a substitute in-work benefit.

Analysis of the progressive impact of the different tapering mechanisms on the overall net income of households as one adult member moves from zero to full-time hours on minimum wage shows that all mechanisms result in some net benefit. However, some have more limited effects in terms of continuously incentivising the take-up of more work (e.g. the incentive exists only up to a certain number of hours), and whether this incentive is maintained through time. The level of incentive also varies by household type, largely because of differences in the basic amount of minimum income benefit granted and, therefore, the amount that has to be earned to surpass this amount. Whilst there are some common issues (e.g. temporary income disregards may not provide any long-term incentive to remain in work), the impacts of tapering arrangements are specific to the benefit rules and tax systems in each country. The key message, therefore, is that policy makers need to consider more carefully the range of circumstances that might apply in

order to ensure that tapering arrangements provide a real incentive to work in the widest possible range of cases.

Assessments of a number of recent reforms of minimum income benefit tapering arrangements show mixed results, though a general finding is that they have tended to be more beneficial for women and households with children. Reforms in Malta (degressive continuation of benefits over three years) and Lithuania (income disregard introduced) have shown positive results in supporting take up of work by minimum income recipients. Elsewhere, there have been issues of insufficient financial incentive, low take-up, non-uniform application of the rules, and r access to minimum income benefits being granted to households that do not really need them. These highlight the need to design policy taking into account the full context of the wider social protection and tax systems, to engender the full support all relevant actors, and ensure wider awareness of the possibilities to access benefits whilst in work. Better monitoring data are also needed to facilitate evaluation of tapering arrangements.

ALMPs for minimum income recipients

As well as ensuring that there is a financial incentive to taking up (more) work, it is also necessary to ensure appropriate support in making the transition. Previous analysis⁹⁷ has shown that minimum income recipients required to seek work in order to receive benefits are generally assimilated with all those registered as unemployed with the public employment services and treated on the basis of their individual needs and proximity to the labour market. As many minimum income recipients have been out of work for long periods this means that they tend to be placed on active labour market measures targeted at the long-term unemployed (LTU).

Analysis of data from the EU Labour Market Policies (LMP) database shows that LTU are generally under-represented amongst participants in LMP measures compared to their share amongst all registered unemployed, implying that LTU are less likely to be placed on measures than short-term unemployed despite their clear need for support. ALMPs that either actively target LTU or are frequently used in practice to support LTU account for just a fifth (20.4%) of all expenditure on LMP measures in the EU and there is no obvious link between the proportion of expenditure on such 'LTU-focused' measures and the relative incidence of long-term unemployment.

The contribution of measures targeted at LTU to expenditure on LMP measures is highest for employment incentives (41%). It is common for such incentives (for employers) to be greater (higher value or longer duration) for groups that are more difficult to place. Still, however, only just over 20% of participants in employment incentive measures are LTU, in line with the share of LTU amongst participants in all types of LMP measure. On the other hand, LTU account for 41% of participants in direct job creation measures, many of which are public works or similar types of measures of last resort. In some countries, participation in public works is obligatory for minimum income recipients.

In general, employment outcomes are worse for LTU-focused measures (46% exit to employment) than for non-LTU-focused measures

. Start-up incentives appear to be an exception. Direct job creation measures are least effective in supporting transitions to regular employment (31% exits to employment compared to 56% for employment incentives and 38% for training).

⁹⁷ See Task 2 of "Exploratory study: filling in the knowledge gaps and identifying strengths and challenges in the effectiveness of EU Member States' minimum income schemes", prepared by ICF/Applica 2022.

The LMP data and a separate review of evaluations of selected ALMPs co-funded by the ESF was used to identify interventions that have been effective for LTU at a reasonable scale. Examination of these suggest that both training and employment incentive measures have considerable potential for supporting LTU but that individualisation of the programme and a strong focus on the acquisition of skills and experience relevant to the regular labour market are instrumental. Start-up incentives can be effective but their tendency to attract individuals with pre-existing motivations and drive to become self-employed rather than to simply finding a job is likely an important contributor. Direct job creation may have a positive impact on confidence and activity of participants even if it has a limited impact in terms of facilitating transition to regular employment.

The key messages are the following. The ALMPs currently deployed in Member States to cater for LTU are wide ranging in terms of the nature of the support they provide, the extent they are tailored to the needs of LTU, and their ability to facilitate a return to work. There is a need for greater investment in ALMPs for LTU, including minimum income recipients, that are effective - i.e. high quality ALMPs with strong links to the needs of the market. Interventions need to be tailored to the specific needs of clients as the provision of accompanying coaching and other support can make a difference. Better data, which allow minimum income recipients to be distinguished from other groups of PES clients, are needed to monitor the situation.

Annex 1: Minimum income schemes covered

Table 15. List of minimum income schemes covered

| Country | Name (English) | Name (national language) |
|--|--|---|
| <i>Member States with one main minimum income benefit</i> | | |
| Austria | Guaranteed minimum resources | Mindestsicherung |
| Belgium | Integration income | Revenu d'intégration/leefloon |
| Bulgaria | Monthly social assistance allowances | Месечни социални помощи |
| Croatia | Guaranteed minimum benefit | Zajamčena minimalna naknada |
| Cyprus | Guaranteed Minimum Income | Ελάχιστο Εγγυημένο Εισόδημα |
| Czech Republic | Allowance for Living | Příspěvek na živobytí |
| Denmark | Social assistance | Kontanthjælp |
| Estonia | Subsistence benefit | Toimetulekutoetus |
| Finland | Social assistance | Toimeentulotuki |
| France | Active solidarity income | Revenu de solidarité active, RSA |
| Greece | Guaranteed Minimum Income | ΕΛΑΧΙΣΤΟ ΕΓΓΥΗΜΕΝΟ ΕΙΣΟΔΗΜΑ |
| Hungary | Benefit for persons in active age: employment substituting benefit | Aktív korúak ellátása: foglalkoztatást helyettesítő támogatás |
| Italy | Guaranteed Minimum Income (Citizenship income) | Reddito di Cittadinanza |
| Latvia | Guaranteed minimum income benefit | Pabalsts garantētā minimālā ienākuma līmeņa nodrošināšanai |
| Lithuania | Social assistance benefit | Socialinė pašalpa |
| Luxembourg | Social inclusion income | Revenu d'inclusion sociale, Revis g |
| Netherlands | Participation Act | Participatiewet |
| Poland | Periodic Allowance | Zasiłek okresowy |
| Portugal | Social minimum income | Rendimento social de inserção |
| Romania | Social Aid for ensuring the Guaranteed minimum income | Ajutor social |
| Slovakia | Material Need Assistance: Material Need Benefit | Pomoc v hmotnej núdzi: Dávka v hmotnej núdzi |
| Slovenia | Cash Social Assistance | Denarna socialna pomoč |
| Sweden | Social assistance - livelihood support | Ekonomiskt bistånd |
| <i>Member States with two or more main minimum income benefits</i> | | |

| Country | Name (English) | Name (national language) |
|----------------|---|--|
| Germany | Basic income support for jobseekers | Grundsicherung für Arbeitsuchende |
| Germany | Subsistence benefit | Hilfe zum Lebensunterhalt |
| Ireland | Jobseekers Allowance | Jobseekers Allowance |
| Ireland | Supplementary Welfare Allowance | Supplementary Welfare Allowance |
| Malta | Social assistance | Għajnuna Soċjali |
| Malta | Unemployment assistance | Għajnuna għal-Diżimpjeg |
| Spain | Active Integration Income | RAI, Renta Activa de Inserción |
| Spain | Guaranteed Citizenship Income of Catalonia | Renta Garantizada de Ciudadanía de Cataluña |
| Spain | Guaranteed Minimum Income of Basque Country | Renta de Garantía de Ingresos del País Vasco |
| Spain | Minimum living income | Ingreso mínimo vital |
| Spain | Social Basic Income of Cantabria | Renta Social Básica de Cantabria |

Annex 2: Minimum wages in 2019

Table 16. Minimum wages (2019)

| | EUR p.a. | % of average gross earnings |
|----------------|---------------|-----------------------------|
| Belgium | 19 126 | 42.5 |
| Bulgaria | 3 436 | 43.2 |
| Czechia | 6 262 | 39.0 |
| <i>Denmark</i> | <i>28 951</i> | <i>50.0</i> |
| Germany | 18 732 | 41.3 |
| Estonia | 6 480 | 38.5 |
| Ireland | 19 874 | 45.9 |
| Greece | 8 653 | 42.7 |
| Spain | 12 600 | 47.8 |
| France | 18 255 | 46.8 |
| Croatia | 6 077 | 48.1 |
| <i>Italy</i> | <i>15 685</i> | <i>50.0</i> |
| <i>Cyprus</i> | <i>11 166</i> | <i>50.0</i> |
| Latvia | 5 160 | 41.6 |
| Lithuania | 6 660 | 46.5 |
| Luxembourg | 25 077 | 50.0 |
| Hungary | 5 550 | 42.4 |
| Malta | 9 144 | 45.7 |
| Netherlands | 19 508 | 43.7 |
| <i>Austria</i> | <i>24 199</i> | <i>50.0</i> |
| Poland | 6 315 | 46.1 |
| Portugal | 8 400 | 49.8 |
| Romania | 5 312 | 47.4 |
| Slovenia | 10 640 | 52.5 |
| Slovakia | 6 240 | 40.7 |
| <i>Finland</i> | <i>23 059</i> | <i>50.0</i> |
| <i>Sweden</i> | <i>21 488</i> | <i>50.0</i> |

Source: Eurostat.

Note: In Denmark, Italy, Cyprus, Austria, Finland and Sweden: 50% of average gross earnings

Annex 3: Gradual phasing out of benefits

Annex 3.1: Profiles of examples of effective for LTU

Training (category 2)

| Country: | Lithuania |
|---|--|
| Intervention name: | Vocational training for unemployed and employed <i>Profesinio mokymo programa</i> (LMP database intervention LT-1) |
| LMP classification | Alternate training (cat. 2.3): measures where the training time is evenly split between a training institution and the workplace. |
| LTU-targeted | False |
| Expenditure in EUR o (2019) | 18.2 million |
| Participant stock (2019) | <u>Total</u> : 2 214 LTU: 823 (37.2% of total) |
| Proportion of exits to employment (2019) | <u>Total</u> : 81% LTU: 77% |
| Eligibility | Persons registered with the PES both registered unemployed and registered jobseekers (i.e. employed). |
| Description | <p>Delivers vocational training in accordance with terms and conditions set in either a trilateral or bilateral agreement. A trilateral agreement is concluded between the PES, a future employer and the unemployed who will receive the vacant job after the training. A bilateral agreement is concluded between the PES and the unemployed who will start a job/activity found by themselves or offered by the PES. In both cases there is a requirement that the subsequent employment lasts at least 6 months.</p> <p>Vocational training is provided by a vocational training provider selected by the unemployed person in the case of a bilateral agreement or by the unemployed persons and the future employer in the case of trilateral agreement.</p> <p>The intervention grants funding which covers the costs of vocational training services, a training allowance, costs of travel and accommodation and costs of mandatory health checks and vaccinations.</p> |
| Link | Employment Service (Užimtumo tarnyba) |

| Country: | Slovenia |
|---|--|
| Intervention name: | On-the-job training <i>Usposabljanje na delovnem mestu</i> (LMP database intervention SI-12) |
| LMP classification | Workplace training (cat. 2.2): measures where most of the training time (75% or more) is spent in the workplace. |
| LTU-targeted | False |
| Expenditure in EUR (2019) | 4.0 million |
| Participant stock (2019) | <u>Total</u> : 501 <u>LTU</u> : 216 (43.1% of total) |
| Proportion of exits to employment (2019) | <u>Total</u> : 65% <u>LTU</u> : 56% |
| Eligibility | Unemployed persons belonging to one of the following groups: <ul style="list-style-type: none"> • Aged 50+ and registered for 3+ months • Aged <30 and registered for 3+ months • Aged 30+ and registered for 12+ months (LTU) • Aged 30+ registered for 3+ months and with education <ISCED 3. |
| Description | <p>Training typically lasting 3 months (but sometimes 2 months) which takes place at an employer's premises under the guidance of a mentor (at least 90 hours of mentoring). This is conducted up to full time – i.e. 5 days a week / 8 hours per day – and is conducted without an employment contract but employers (selected by open invitation) are required to sign an employment contract with the PES.</p> <p>The programme covers the costs of training programme, medical examination and transportation as well as providing and daily activity allowance to participants (varies depending on whether they receive unemployment benefits).</p> <p>The employment office indicates that almost 80% of participants have found employment within a year of completing the training.</p> |
| Link | Employment Service of Slovenia (Zavodu Republic Slovenije za zaposlovanje) |

Employment incentives (category 4)

| Country: | Germany |
|---|--|
| Intervention name: | Recruitment incentives for LTU (LSF-LZA) <i>ESF-Programm zum Abbau der Langzeitarbeitslosigkeit</i> (LMP database intervention DE-131) |
| LMP classification | Recruitment incentives (cat. 4.1): measures providing incentives for the creation and take-up of new jobs, or which promote opportunities for improving employability through work-experience, and which are payable for a limited period only. |
| LTU-targeted | True |
| Expenditure in EUR (2019) | 14.4 million |
| Participant stock (2019) | <u>Total</u> : 1996 LTU: 951 (47.6% of total) |
| Proportion of exits to employment (2019) | <u>Total</u> : 70% LTU: not available |
| Eligibility | Persons aged over 34, unemployed for at least two years unemployed, without a (usable) training qualification and whose integration would not be possible in another way. |
| Description | The programme enabled PES to incentivise employers to recruit LTU by providing: <ul style="list-style-type: none"> • Wage subsidies to compensate for inferior quality of work. • Intensive coaching to participants to stabilise their employment • (Optional) Work-related trainings to improve essential basic skills such as reading, writing or maths. |
| Link | Bundesminister für Arbeit und Soziales |

| Country: | Slovenia |
|---------------------------|---|
| Intervention name: | Employ.me <i>Zaposli.me</i> (LMP database intervention SI-128) |
| LMP classification | Recruitment incentives (cat. 4.1): measures providing incentives for the creation and take-up of new jobs, or which promote opportunities for improving employability through work-experience, and which are payable for a limited period only. |
| LTU-targeted | True |

| Country: | Slovenia |
|---|--|
| Expenditure in EUR (2019) | 16.1 million |
| Participant stock (2019) | <u>Total</u> : 3271 LTU: 2210 (67.6% of total) |
| Proportion of exits to employment (2019) | <u>Total</u> : 78% LTU: 78% |
| Eligibility | Unemployed persons belonging to one of the following groups: <ul style="list-style-type: none"> • Aged 50+ • Aged 30+ and registered for 12+ months (LTU) • Aged 30+ with a level of education below ISCED 3. • Aged 30+ and in receipt of cash social assistance • Aged 30+ having engaged in public works in the previous 12 months |
| Description | Employers (selected by open invitation) can employ unemployed persons on a full-time basis (or part-time basis if disabled or LTU) for at least one year. During this period, the employer must maintain the employment and receives a monthly subsidy, the amount of which varies depending on the number of eligibility criteria the person concerned fulfils. |
| Link | Employment Service of Slovenia (Zavodu Republic Slovenije za zaposlovanje) |

| Country: | Slovakia |
|---|---|
| Intervention name: | Support for hiring disadvantaged job seekers <i>Prispevok na podporu zamestnavania znevýhodneného uchádzača o zamestnanie - § 50</i> (LMP database intervention SK-6) |
| LMP classification | Recruitment incentives (cat. 4.1): measures providing incentives for the creation and take-up of new jobs, or which promote opportunities for improving employability through work-experience, and which are payable for a limited period only. |
| LTU-targeted | False |
| Expenditure in EUR (2019) | 3.6 million |
| Participant stock (2019) | <u>Total</u> : 1614 LTU: 998 (61.8% of total) |
| Proportion of exits to employment (2019) | <u>Total</u> : 81% |

| | |
|--------------------|---|
| Country: | Slovakia |
| | LTU: 83% |
| Eligibility | <p>Disadvantaged job seekers registered for least 3+ months:</p> <ul style="list-style-type: none"> • Aged <26 without work experience • Aged 50+ • Registered for 12+ months (LTU) • Persons with a low level of education • Persons without regular paid employment for 12+ consecutive months before registration. • Third country national granted subsidiary protection • Single adults with dependants • Disabled |
| Description | <p>A monthly allowance is granted to employers recruiting a disadvantaged jobseeker in a new job for 24 months during which the employer is obliged to maintain the job.</p> <p>The allowance is derived as a percentage of the gross wage but not exceeding the same percentage of the average gross wage of an employee in the Slovak Republic's economy for the previous calendar year. The percentage granted depends on the type of region, the average rate of unemployment in the region and the nature of the employer.</p> |
| Link | Central Office of Labour, Social Affairs and Family (Úrady PSVR) |

Direct job creation (category 6)

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|---|---|
| Country: | France |
| Intervention name: | <p>Employment/skills pathways (PEC)</p> <p><i>Parcours Emploi Compétences (PEC)</i></p> <p>(LMP database intervention FR-113)</p> |
| LMP classification | 6 |
| LTU-targeted | False |
| Expenditure in EUR (2019) | 681.4 million |
| Participant stock (2019) | <p><u>Total</u>: 98 551</p> <p>LTU: 67 152 (68.1% of total)</p> |
| Proportion of exits to employment (2019) | <p><u>Total</u>: 41.8%</p> <p>LTU: 41.2%</p> |
| Eligibility | Jobseekers in receipt of minimum income benefits (Revenu de solidarité active, RSA). |

| Country: | France |
|--------------------|--|
| Description | <p>An agreement is established between the State, the non-market sector (associations, public bodies, local authorities) and the jobseeker to formalise commitments of all three parties and how the job placement will allow for the jobseekers to acquire defined skills.</p> <p>According to this the State provides a financial support to employers hiring jobseekers (either on an open-ended or fixed-term contract). The supported lasts between 6 months and 2 years and is based on working hours and the gross hourly minimum wage (but no more than 90%).</p> <p>There is follow-up during the placement and exit interview 1 to 3 months before the end to enable the participants to actively search for work, take stock of skills obtained and evaluate the possibility of further assistance.</p> |
| Link | Ministère du Travail, du Plein emploi et de l'Insertion |

| Country: | Slovenia |
|---|--|
| Intervention name: | Public works <i>Javna dela</i> (LMP database intervention SI-3) |
| LMP classification | 6 |
| LTU-targeted | True |
| Expenditure in EUR (2019) | 16.4 million |
| Participant stock (2019) | <u>Total</u> : 1734 <u>LTU</u> : 950 (54.8% of total) |
| Proportion of exits to employment (2019) | <u>Total</u> : 58% <u>LTU</u> : 62% |
| Eligibility | Long-term unemployed (1+ year of registration as unemployed) |
| Description | <p>Public works programmes are primarily intended to promote the social inclusion and employment inclusion of vulnerable unemployed and to improve their skills and employment opportunities. Programmes are selected by public tender and implemented by non-profit employers in the fields of welfare, education, culture, environment, agriculture and other related fields.</p> <p>Unemployed are included in public works programmes based on their employment plan. A special employment contract is signed between the public works contractor and the participant.</p> |

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| Country: | Slovenia |
| | The employer receives funds covering part of the salary, travel expenses, expenses for meals during work, expenses for the medical examination and retirement related severance pay. |
| Link | Employment Service of Slovenia (Zavodu Republic Slovenije za zaposlovanje) |

Annex 3.2: Evaluation case studies

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|-----------------------------------|---|
| Case study number | 1 |
| Evaluation | Evaluation of the programme for integrating long-term unemployed under the Federal ESF OP, 2014-2020 |
| Country | Germany |
| ALMP(s) covered | The evaluation focuses on a specific programme called the “Program for the integration of long-term unemployed persons entitled to benefits under SGB II into the general labour market (Programm zur Eingliederung langzeitarbeitsloser SGB II-Leistungsberechtigter auf dem allgemeinen Arbeitsmarkt)” |
| Description of ALMP(s) | <p>The ESF programme served to integrate LTU who are entitled to benefits. No new entrants to the programme were accepted after 2017 but existing participants continued until 2020⁹⁸.</p> <p>The programme enabled the PES (JobCentres) to incentivise employers to recruit LTU by providing wage subsidies (usually lasting up to 2 years) to compensate for inferior quality of work. After taking up employment, participants are accompanied and supported via intensive coaching provided by “coaches” to stabilise their employment and assist the transition into unsupported work. Work-related training to improve essential basic skills such as reading, writing or maths, may also be provided on an optional basis. Placement of LTU in supported jobs was facilitated by “company recruiters” (Den Betriebsakquisiteuren). These played a crucial role in the programme by proactively coordinating the matching LTU with relevant employers.</p> |
| Main results of evaluation | <ul style="list-style-type: none"> • 20,342 persons took part in the programme from 2015 to 2017 (85% of the number originally envisaged). • Two thirds of participants were men, 20% over 54 and 16% with a migrant background. Relative to those potentially eligible to the programme, participants were more likely to be younger, have completed training and have fewer health problems. • In terms of the jobs supported 46% were part-time while 55% involved fixed-term contracts, 40% involved permanent contracts and 5% could not be assigned to either group. • Half of participants remained employed after 2 years, 40% after 3 years. • The “company recruiters” and “coaches” played a key role in the success of the programme. The active role of the former in the placement process is key in promoting candidates and persuading employers against their being obstacles to recruiting LTU, while the latter is key to dealing with any problems jeopardising the stability of the employment. Some participants obtained jobs they would not have obtained without the support of “company recruiters”. • Employment supported by the programme was more stable/sustainable when it was: |

⁹⁸ https://www.bva.bund.de/DE/Das-BVA/Aufgaben/Z/Zuwendungen_international/LZA/LZA_node.html

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| Case study number | 1 |
| | <ul style="list-style-type: none"> - accompanied by intensive support rather than normal support. - part-time rather than full-time employment. - Employers and participants previously knew each (other prior to taking part). <ul style="list-style-type: none"> • The subsidized employment was additional and increased the chances of a transition into regular employment. • Cost-benefit analysis indicated net costs of EUR 224.2 million and net benefits of EUR 86.5 million. Between April 2021 and October 2023, revenue and savings are estimated to fully offset the costs that will be incurred. |

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| Case study number | 2 |
| Evaluation | Review of the Back-to-Work Enterprise Allowance. February 2017 |
| Country | Ireland |
| ALMP(s) covered | The evaluation focuses on a specific programme called the “Back-to-Work Enterprise Allowance (BWEA)” |
| Description of ALMP(s) | <p>The programme serves to encourage LTU, lone parents, people with disabilities in receipt of benefits to take up self-employment. It was first introduced in 1993 and has existed in its current form since 2009. Participants in the scheme receive the following package of support:</p> <ul style="list-style-type: none"> • 100% of their weekly social welfare payment during the first year, tapering to 75% during the second year, • Retention of any secondary benefits (e.g. fuel allowances, medical card) for the 2 years provided that the combined household income from the self-employment and BWEA is less than a certain threshold. • Access to support, advice and mentoring from a DSP Case Officer and/or an Enterprise Officer in a Local Development Company (LDC). • Access to the Enterprise Support Grant. <p>The scheme effectively provides guaranteed income for the first two years of a starting a business. Participants need to be under the age of 66 and be setting up a business which has been approved, in writing, in advance by the relevant authorities – i.e. a Local Development Company (LDC), Partnership Company or a DSP Case Officer.</p> |
| Main results of evaluation | <ul style="list-style-type: none"> • There were approximately 12,000 participants each year in 2015 and 2016, most of which were men (75%). • BTWEA supported businesses that tend to be sole traders or small employers (averaging 1-2 employees). • Almost three-quarters of former participants of BTWEA were in self-employment or employment 18 months after BTWEA ended. |

| | |
|--------------------------|--|
| Case study number | 2 |
| | <ul style="list-style-type: none"> • Mentoring and support, particularly following the business start-up phase, is needed to increase the chances of success in the enterprise. • The scheme is a valuable support for assisting LTU in becoming self-employed and results demonstrate that the number of participants returning to welfare is low (twice as likely to not return after six months than those who did not choose BTWEA). |

| | |
|-----------------------------------|--|
| Case study number | 3 |
| Evaluation | Evaluation of VET and employment measures for long-term unemployed supported by the Piemonte ESF OP, 2014-2020 |
| Country | Italy - Piemonte |
| ALMP(s) covered | The evaluation focuses on training activities available to LTU in the Piedmont Region |
| Description of ALMP(s) | Training courses leading to professional certification of qualifications and/or specialisation. This includes 329 different professional training courses provided by training agencies financed by the Piedmont Region through the Labor Market Directive and related calls in 2016. Note that training courses provided by social assistance operators are not considered. |
| Main results of evaluation | <p>The employment rate 18 months after participating in vocational training relative to the control groups:</p> <ul style="list-style-type: none"> • 10 percentage points higher for those unemployed for <1 year • 20 percentage points higher for those unemployed for 1-2 years • 3-5 percentage points higher for those unemployed for >2 years <p>The best outcomes are for those who have been unemployed for an intermediate amount of time (i.e. 1-2 years).</p> <p>The cost associated with enabling placement in 1 job 18 months after the use of vocational training averages EUR 72,000 for people training in 2016 but is</p> <ul style="list-style-type: none"> • EUR 20 000 for those unemployed for 1-2 years, • EUR 125 000-150 000 for those unemployed for >2 years. <p>Training needs may be better achieved through strong networks between parties involved (i.e. centres organising vocational training, enterprises, families) and personalised delivery of training based on the specific needs of the LTU.</p> |

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| Case study number | 4 |
| Evaluation | Thematic evaluation of measures for long-term unemployed, financed by the Marche ESF OP, 2014-2020 |
| Country | Italy - Marche Region |

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|-----------------------------------|--|
| Case study number | 4 |
| ALMP(s) covered | The evaluation focuses on selection of ALMP measures available to LTU in the Marche Region |
| Description of ALMP(s) | The evaluation covers all the most relevant interventions used to support LTU financed by the ESF in the Marche region. This includes five measures: job fellowships (<i>borse lavoro</i>), traineeships, training vouchers, work experience in the regional municipalities (<i>bando Comuni 2018</i>) and a business creation measure. All the measures were launched by July 2019 at the latest. None are exclusively targeted to LTU but LTU are among the possible target groups. |
| Main results of evaluation | <p>Employment rates of participants 12 months after participation were higher for traineeships and job fellowships (42% and 33% respectively) and lower for work experience in municipalities and training vouchers (17% and 20% respectively). Similar differences between measures were identified when focusing specifically on open-ended contracts albeit with lower rates in all cases (5-6% for traineeships and jobs fellowships, 4% for work experience in municipalities and <1% for training vouchers).</p> <p>Participation in job fellowships and traineeships increased the probability of being in employment 12 months after participation relative to the control group by 12 percentage points and 13-15 percentage points respectively.</p> <p>No positive effects on employment were found for participants in work experience in municipalities, though there are intangible effects in the form of increased confidence and activity. This may be attributed to the skills being acquired being of low relevance for regular employers and participants being among the most vulnerable.</p> <p>No positive effects on employment were found for participants in training vouchers. This may be attributed to the measure involving a high degree of self-orientation which may not be appropriate for LTU.</p> <p>The business creation measure tended to attract people with motivations to become self-employed rather than simply finding a job. The measure had a low deadweight. While one-fifth of LTU participants abandoned their business idea, two years after the implementation of the measure 100% of the companies created were still in business, with 40% seeing an increase in turnover compared to the previous year.</p> <p>Based on the results the following was suggested:</p> <ul style="list-style-type: none"> • Increase the use of training measures, especially job fellowships, for LTU. • Training measures, especially job fellowships, for long-term unemployed have had positive effects on them finding employment. Though work experience in municipalities does not seem to have helped participants find employment, it increased their self-confidence of participants. • Strengthen the functioning of PES and involve them more in ESF measures |

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|-----------------------------------|--|
| Case study number | 4 |
| | <ul style="list-style-type: none"> • Ensure collection of baseline data at early stages of implementation to allow comparisons with ex-post data |
| Case study number | 5 |
| Evaluation | Evaluation of JobsPlus financed by the ESF OP, 2014-2020, in Ireland |
| Country | Ireland |
| ALMP(s) covered | The evaluation focuses on a specific programme called “JobsPlus” |
| Description of ALMP(s) | <p>The programme serves to provide employers with a recruitment subsidy to hire LTU. The programme grants a subsidy payable over a period of two years, the level of which depends on the duration of unemployment of the participant:</p> <ul style="list-style-type: none"> • EUR 7,500 for a person unemployed for at least 1 years • EUR 10,000 for a person unemployed for at least 2 years <p>Eligible employers include those in the private, community, not-for profit sectors. It is not open to public service employers. Employers must meet the following conditions:</p> <ul style="list-style-type: none"> • Registered with the tax authority • Compliant with tax and employment laws • Offer full-time work >30 hours per week spanning 4+ days per week. • Provide details of their workforce prior to application. <p>Employers register for JobPlus by submitting an application form. The relevant positions are advertised as normal the PES then assists in connecting relevant candidates with employers.</p> |
| Main results of evaluation | <p>Results point to a positive impact of the subsidy for participants who, after the programme, are less likely to be in receipt of unemployment-related benefits and show a higher probability to earn more and to work for more weeks in a year, with even bigger effects for those individuals who experienced longer periods in unemployment before starting the programme.</p> <p>The probability of receiving unemployment benefits, four years after a JobsPlus start relative to the control group was:</p> <ul style="list-style-type: none"> • 11.1 percentage points lower (-56.6%) for unemployed for >1 year. • 16.4 percentage points lower (-55.9%) for unemployed for >2 years. <p>The mean number of weeks of insurable employment in subsequent years, four years after a JobsPlus start relative to the control group was:</p> <ul style="list-style-type: none"> • 14.3 weeks higher (+51.5%) for unemployed >1 year. • 16.6 weeks higher (+72.4%) for unemployed >2 years. |

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| Case study number | 5 |
| | Annual earnings, four years after a JobsPlus start relative to the control group were: <ul style="list-style-type: none"> • EUR 6,000 higher (+27%) for unemployed >1 year. • EUR 6,000 higher (+29%) for unemployed >2 years. <p>The impact is positive for all age groups</p> |

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|-----------------------------------|--|
| Case study number | 6 |
| Evaluation: | Evaluation of support for long-term unemployed and family needs communities in the Brandenburg OP, 2014-2020 |
| Country | Germany - Brandenburg |
| ALMP(s) covered | The evaluation focuses on a specific programme called “Integration support for long-term unemployed and families in need of communities (Integrationsbegleitung für Langzeitarbeitslose und Familienbedarfsgemeinschaften)” |
| Description of ALMP(s) | <p>The aim of the programme is to strengthen the employability of long-term unemployed people and increase the social participation of disadvantaged families. The target groups are LTU and members of families in need of communities who receive benefits under SGB II.</p> <p>The program involves the provision of intensive individual guidance by integration advisors combined with needs-oriented support modules. There is considerable flexibility in how providers deliver the scheme resulting in variation between projects. Generally, the individual support component takes part prior to and during participation in support modules, as well as after the transition into employment or education. Typically, each integration advisor caters only for a small number of participants (20 at most). This support can include a wide range of assistance - e.g. handling personal/family problems, preparing for the search for training education or work, application training, assisting to obtain care for dependants.... etc. The support models vary considerably in nature (i.e. topics and duration) as the providers implementing the project had considerable leeway in their design. The most common topics of the modules aiming to improve employability relate to improving health, physical fitness, health eating, labour market orientation and applications.</p> |
| Main results of evaluation | <p>By 30 September 2017, 3 600 people had participated in the programme (64% of them women) and 2 414 had already left from the programme.</p> <p>Of those that had left the programme, 32% were in employment, 30% in subsidised employment and 12% in education</p> <p>Of those in employment: 72% were in jobs with basic requirements and 28% in jobs requiring a professional qualification. 52% of those in employment worked part-time (79% of them women).</p> <p>Data on the employment situation 6 months after the end of the programme covering 52% of those exiting the programme by end-</p> |

| Case study number | 6 |
|--------------------------|---|
| | <p>September 2017 indicated that 34% were in employment, 11% in further education or vocational training, 5% inactive, around 50% unemployed again.</p> <p>Integration advisors considered support related to personal problems, application training and the acquisition of apprenticeships and jobs as the most useful.</p> <p>The programme exceeded its goals in terms of numbers being integrated into employment or education (targets of 25% and 10% respectively).</p> <p>The main strength of the program was the individual and holistic support approach it applied. The flexibility in terms of content and duration made it possible to address individual problems.</p> <p>Overall results suggest that the integration support has contributed to reaching goals of improving the employability and labour market integration of disadvantaged groups of people.</p> |

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Chapter 2

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