

**Definition and measurement**

Compared to after-tax incomes from employment, net incomes of benefit recipients measure the financial incentives to take up work for those without a job. When compared to the income cut-off points that are used to identify poor families, they inform about the capacity of benefit systems to ensure an adequate standard of living.

The indicators shown below for two different periods (2001 and 2005, the latter period chosen to draw on data from *Growing Unequal*) use the OECD tax-benefit models to compare net incomes of two different sole-parent family types against cut-off levels used to measure income poverty (40, 50 and 60% of median household income). Both sole parent families have two children aged 6 and 4. In the first case no unemployment benefit is received and no labour market income is earned. The only sources of family income are therefore family-related cash benefits as well as “last resort” social assistance payments. The family relies on benefits for the entire tax year. The second set of results shows incomes for the same family but with the parent in a full-time minimum-wage job. All income measures are net of taxes but do not account for work-related costs such as for childcare. Median household incomes for both years are taken from *Growing Unequal*. The OECD publication *Benefits and Wages* (2007) provides further details on methodology.

**Benefits of last resort are often set below the thresholds conventionally used in making poverty comparisons across the OECD** (EQ4.1). Benefit recipients unable to earn income face considerable poverty risks in all OECD countries. In all but 11 of the 26 OECD countries considered the 2005 incomes of jobless sole parents were below a 50% poverty threshold. Nine countries were at or above a 50% threshold in 2001.

**Amounts of social assistance and associated benefits have generally slightly increased in effectiveness in reducing sole parent poverty over the period 2001-05.** The fall in effectiveness with respect to sole parent poverty reduction is normally not on

account of nominal benefits being reduced, but because median household incomes rise faster than benefits. If benefits are adjusted with low temporal frequency with different cycles across countries, this could account for some of the country differences in changes in effectiveness.

**For those sole parents taking up employment from benefits of last resort, full-time low-wage work can bring solid income gains.** Figure EQ4.2 shows that a full-time minimum wage job takes sole parent families out of poverty defined as 50% of median income in Australia, Belgium, Ireland, Japan, the Netherlands, New Zealand, Poland, and the United Kingdom. Effectiveness of the minimum wage in sole parent poverty alleviation conditional on full-time work is rising most in Poland, Ireland, and Hungary and falling most in Australia, the United Kingdom and New Zealand. As with benefit patterns through time, the variability could reflect timing of minimum wage adjustments.

**Combining adequate safety-nets with strong work incentives requires a carefully balanced system.** Figure EQ4.3 indicates that Australia, Ireland and the United Kingdom pay relatively high benefits to sole parents while at the same time maintaining relatively strong work incentives for moving from benefits of last resort into full-time minimum wage work.

**Further reading**

OECD (2007), *Benefits and Wages: OECD Indicators*, OECD, Paris.

OECD (2008), *Growing Unequal – Income Distribution and Poverty in OECD Countries*, OECD, Paris.

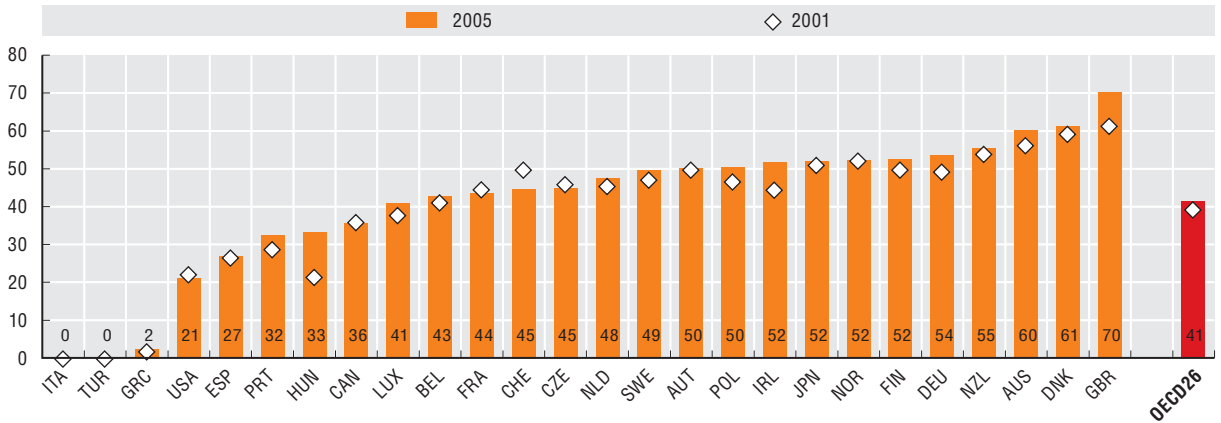
**Figure notes**

Figure EQ4.1: Italy and Turkey have no generally applicable benefits of last resort for sole parents. The shaded area represents the area between the different poverty thresholds defined as 40, 50 and 60% of median household income. Net incomes include housing-related benefits. Figures at the bottom of each bar refer to the 2005 rate.

Figure EQ4.2: The countries which are in EQ4.1 but are missing from missing from EQ4.2 have no statutory minimum wage. Net incomes include housing-related benefits. Figures at the bottom of each bar refer to the 2005 rate.

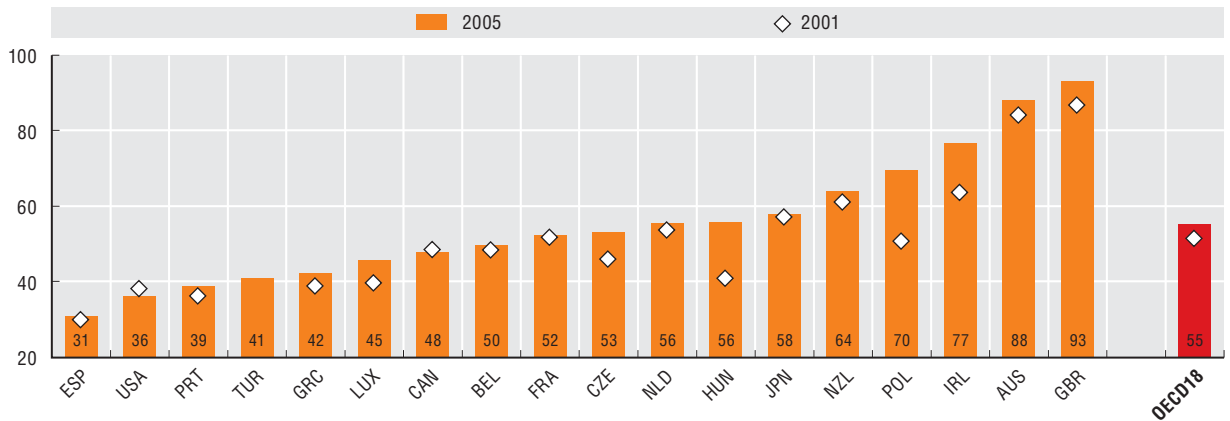
**EQ4.1. Sole parent families with no market income face high poverty risks in some countries**

Net income solely on social assistance for sole parents with two children/median equivalent household income



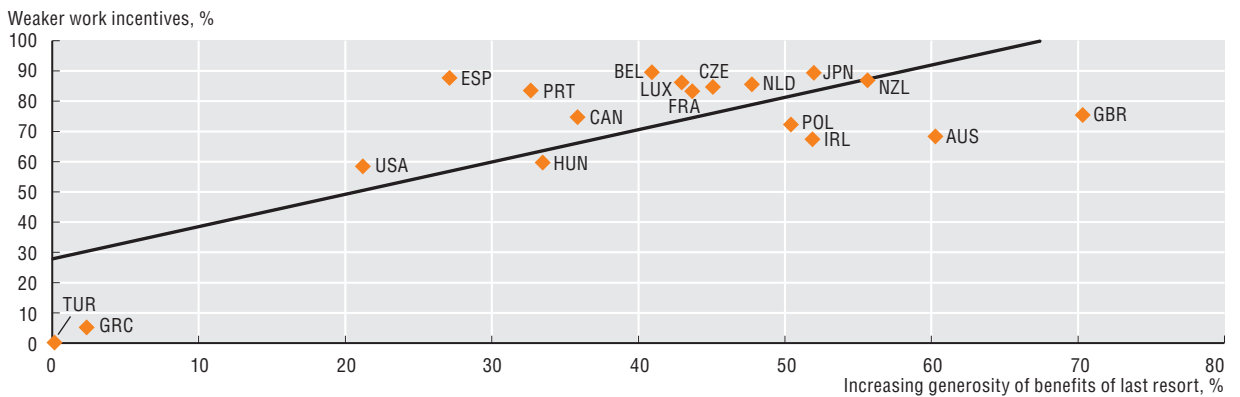
**EQ4.2. Supporting full-time work can reduce poverty, even when the job is only paid the minimum wage**

Net income for sole parents with two children working full-time on the minimum wage/median equivalent household income



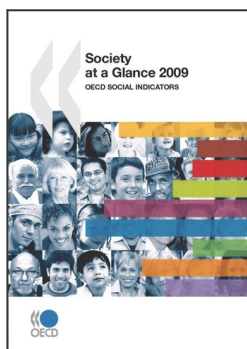
**EQ4.3. Some countries succeed in combining stronger work incentives with adequate safety nets for sole parents**

Percentage point difference between income in full-time minimum wage work and benefits of last resort relative to median income, compared to benefits of last resort relative to median income, sole parents with two children



Source: OECD tax-benefit model ([www.oecd.org/els/social/workincentives](http://www.oecd.org/els/social/workincentives)).

StatLink <http://dx.doi.org/10.1787/550413205665>



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