

4. Leaving low income from benefits

Definition and measurement

The indicators show gross earnings levels expressed as a percentage of average full time earnings, required for a family to reach a 60% median income threshold from benefits of last resort. Benefits of last resort are paid when all other sources of income are exhausted. 60% was shown because many countries have benefits of last resort above 50%. Benefit income includes family-related benefits and housing benefits (with and without), on top of core benefits. It is expressed as a percentage of average full-time wages. Income tax and social security as well as tax-related benefits are also counted. The indicators are shown for 2009 and for lone-parents and couples with two children aged 4 and 6. In the married-couple case, a one earner couple is assumed. Family incomes in these situations are simulated using the OECD Tax-Benefit Model (methodology available in *Benefits and Wages 2007* and on-line: www.oecd.org/els/social/workincentives). Median incomes come from *Growing Unequal?* (2008). They relate to the mid-2000s and are converted to 2009 prices. No bars are shown for countries where the sum of all benefits, excluding earnings, exceeds 60% of median income. For Australia, Canada, Israel, New Zealand, Switzerland, Turkey and Korea, the indicators are for 2008.

The ease with which different sort of families with dependent children can leave low income through getting a paid job from benefits of last resort is an indicator of upward mobility. This ease depends on two policy features of the tax-benefit system: the extent to which benefits of last resort push people upward towards the low income threshold and the extent to which taxes increase and benefits reduce people start getting paid work.

In 2009, when housing benefits have been taken into consideration, the ease of families leaving low income through work was high in Ireland, Japan and the

United Kingdom (EQ4.1). In fact, in these countries, full take-up of the minimum benefit placed such families above the low income threshold to start with. However, only some countries pay a housing benefit. Since housing benefits often vary according to local housing costs and hence the region, actual housing benefits may be lower than shown here. Hence results are also presented excluding housing costs, which make a big difference in some countries.

Countries where it was hard for parents of both types to get out of low income include Estonia, Switzerland, the United States (EQ4.1). In the United States a job paying 80-90% of average gross earnings were required, and Swiss figures and Estonian were similarly high. Other countries make it difficult for couples with children to get out of low income via earnings. Jobs paying around 90% of average gross earnings were required in the Netherlands and Canada.

Higher benefits of last resort mean that only relatively low earnings are needed to leave low income (EQ4.2). However, for a given generosity of benefits of last resort, the ease of getting out of low income varied greatly between countries due to differences in tax and benefit abatement treatment (EQ4.2). For example, in New Zealand, Sweden and Belgium benefits of last resort for lone parents were all about 80% of the low income threshold but a job paying below 20% of the average wage was needed in New Zealand, a job paying below 40% of the average wage was needed for Sweden and a paying upward of 50% of the average wage was needed in Belgium. This variation was due to differences in abatement through the tax/benefit system as people start earning.

Further reading

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

Figure notes

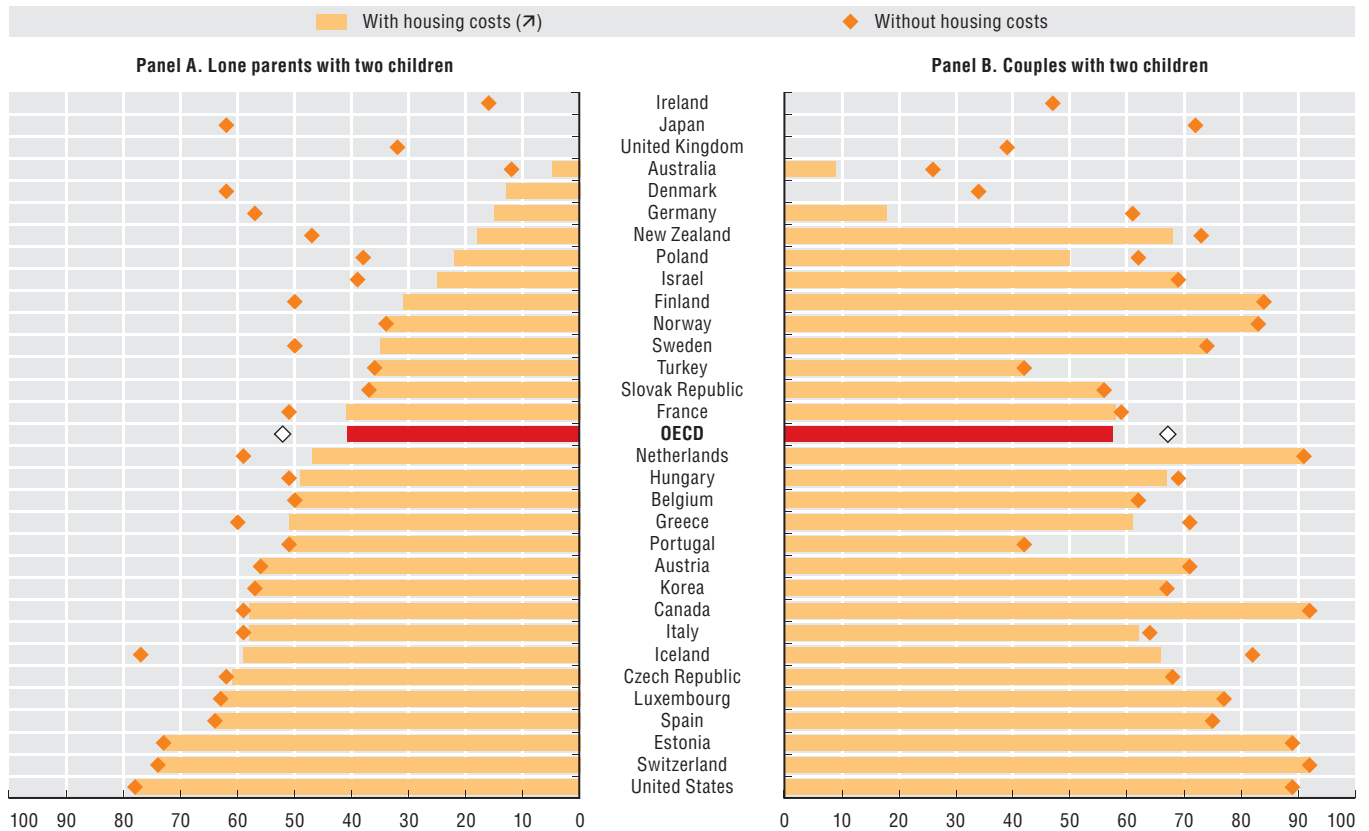
Figures EQ4.1 and EQ4.2: Australia, Canada, Israel, Korea, New Zealand, Switzerland and Turkey data are based on 2008.

Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

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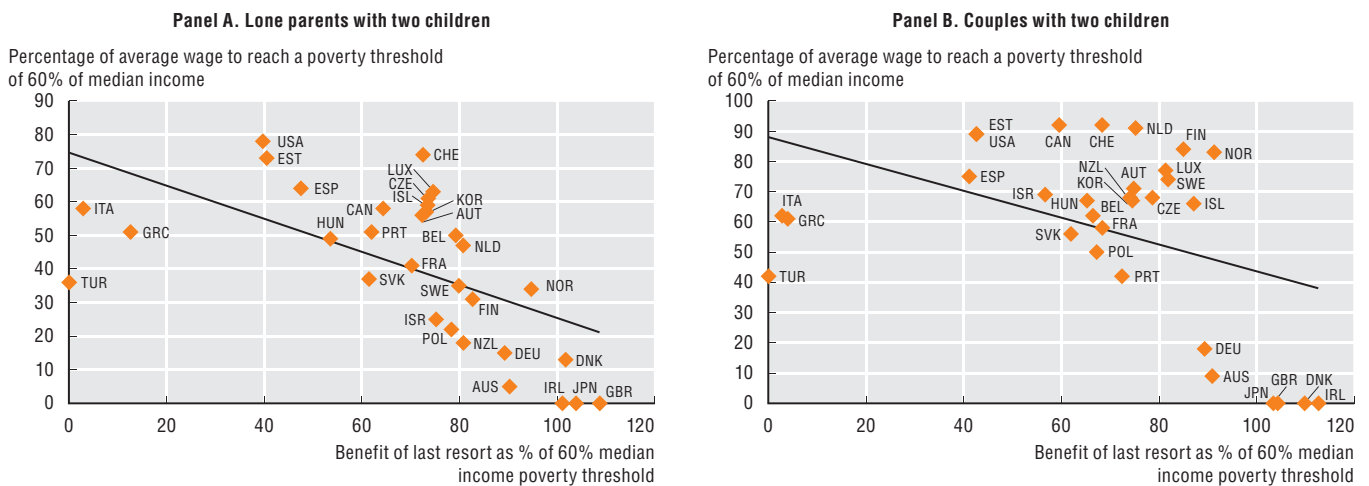
EQ4.1. The ease of leaving low income from benefit

Percentage of average gross wage to reach a poverty threshold of 60% of median income, 2009



EQ4.2. Benefit levels and net wages from getting work both matter for leaving low income

Household net income under benefit of last resort as percentage of a poverty threshold of 60% of median income, 2009



Source: OECD Tax-Benefit Models (www.oecd.org/els/social/workincentives). The median incomes are taken from OECD (2008), *Growing Unequal? Income Distribution and Poverty in OECD Countries* (www.oecd.org/els/social/inequality) and adjusted to the year 2009 using the Consumer Price Index.

StatLink <http://dx.doi.org/10.1787/888932381931>



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