

Living on benefits

Most OECD countries operate transfer programmes that aim at preventing extreme hardship and use a low-income criterion as the central entitlement condition. These guaranteed minimum-income benefits (GMI) provide financial support for low-income families to ensure an acceptable standard of living. As such, they play a crucial role as last-resort safety nets, especially during prolonged economic downturns when long-term unemployment rises and increasing numbers of people exhaust their entitlements for unemployment benefits.

GMI benefits are particularly important for youth who live on their own. When out of work, many youth are not eligible for unemployment insurance schemes because they do not have enough contribution records. In most countries young individuals and couples are entitled to the same benefits than adults, but some countries restrict access to GMI programmes to youth (France, Luxembourg) while others provide lower amounts for single youth (Netherlands, Denmark, the United Kingdom, Switzerland, Australia, New Zealand and Israel).

In a large majority of OECD countries, incomes for the long-term unemployed are much lower than for the recently unemployed (Figure 5.7). Making GMI benefits more accessible is key to maintaining a degree of income security for the long-term unemployed. In addition, high numbers of people who have neither a job nor an unemployment benefit means that the generosity of GMI benefits is likely to receive more public attention.

Benefits of last resort are sometimes significantly lower than commonly used poverty thresholds (Figure 5.8). Poverty avoidance or alleviation are primary objectives of GMI programmes. When comparing benefit generosity across countries, a useful starting point is to look at benefit levels relative to commonly used poverty thresholds.

The gap between benefit levels and poverty thresholds is very large in some countries (Figure 5.8). In a few countries there is no generally applicable GMI benefit (Greece, Italy and Turkey). For GMI couples living in rented accommodation, housing-related benefits like rent allowances can provide significant further income assistance, bringing overall incomes close to or somewhat above the poverty line (Iceland, the Netherlands, Denmark and Ireland). Family incomes in these cases depend strongly on the type of housing and on family arrangements. In all countries, income from sources other than public transfers is needed to avoid substantial poverty risks.

Definition and measurement

One way of looking at how countries' social protection systems perform is to show how the level of net minimum cash income benefits (including housing assistance) compares to relative poverty thresholds of 50% or 60% of median household incomes. These income levels account for all cash benefit entitlements of a family with a working-age head, with no other

Definition and measurement (cont.)

income sources and no entitlements to primary benefits such as unemployment insurance. They are net of any income taxes and social contributions. Median disposable incomes (before housing costs) come from the OECD Income Distribution Database (www.oecd.org/social/income-distribution-database.htm). They are for a year around 2014 expressed in 2014 prices and are adjusted for family size using the "square root of household size" equivalence scale. Similarly, net minimum cash benefits are converted to 2014 prices.

The net replacement rate (NRR) measures the fraction of net income in work that is maintained when unemployed. It is defined as the ratio of net income while out of work divided by net income while in work. The NRR presented here corresponds to a 40 years-old single person without children who earns 100% of the average wage. Initial phase of unemployment refers to the first month of benefit following any waiting period, and long-term unemployment refers to the 60th month of benefit receipt.

Family incomes are simulated using the OECD Tax-Benefit Model (methodology available in *Benefits and Wages 2007* and on-line: www.oecd.org/els/social/workincentives). The amounts calculated for means-tested benefits should be considered upper-bound estimates. While housing benefits frequently provide the largest part of benefit income, they are computed for rental expenses equal to 20% of average worker earnings or the applicable ceiling of "allowable" rental expenses, whichever is lower. This may well exceed actual housing costs, particularly for low-income households. No data are available for Mexico.

Further reading

Immervoll, H., S.P. Jenkins and S. Königs (2015), "Are Recipients of Social Assistance 'Benefit Dependent'? Concepts, Measurement and Results for Selected Countries", OECD Social, Employment and Migration Working Papers, No. 162, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5jxrcmgpc6mn-en>.

OECD (2015), "Minimum Wages After the Crisis: Making Them Pay", Directorate for Employment, Labour and Social Affairs, OECD, Paris, May 2015, www.oecd.org/social/Focus-on-Minimum-Wages-after-the-crisis-2015.pdf

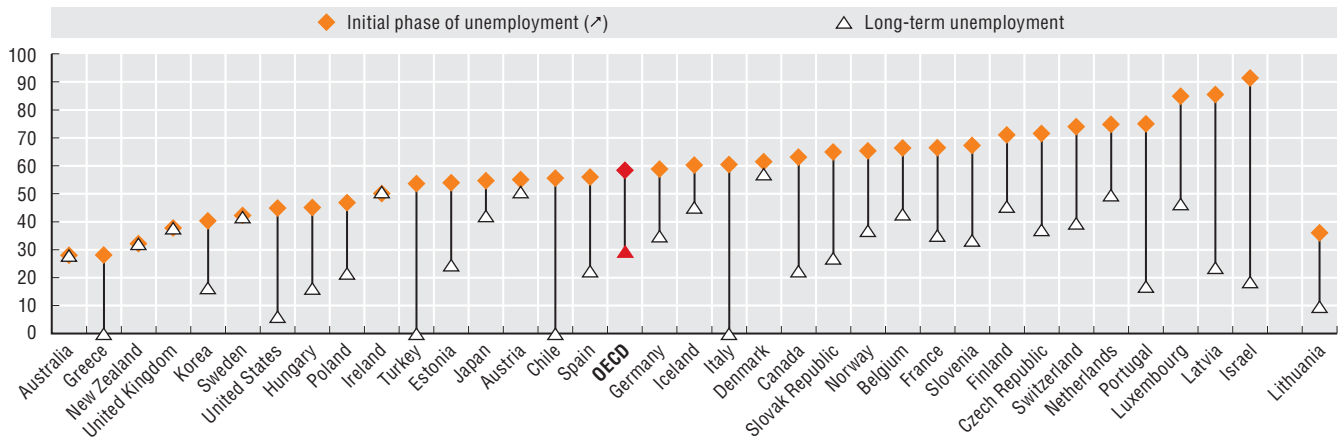
Figure notes

Figure 5.7: No data for Mexico.

Figure 5.8: No data for Mexico; the standard indicator corresponds to a 40 years-old individual, youth is a 20 years-old individual; countries are ranked from left to right by increasing level of cash minimum-income benefit including housing benefit.

5.7. In most countries, benefit incomes decline significantly for people with long unemployment spells

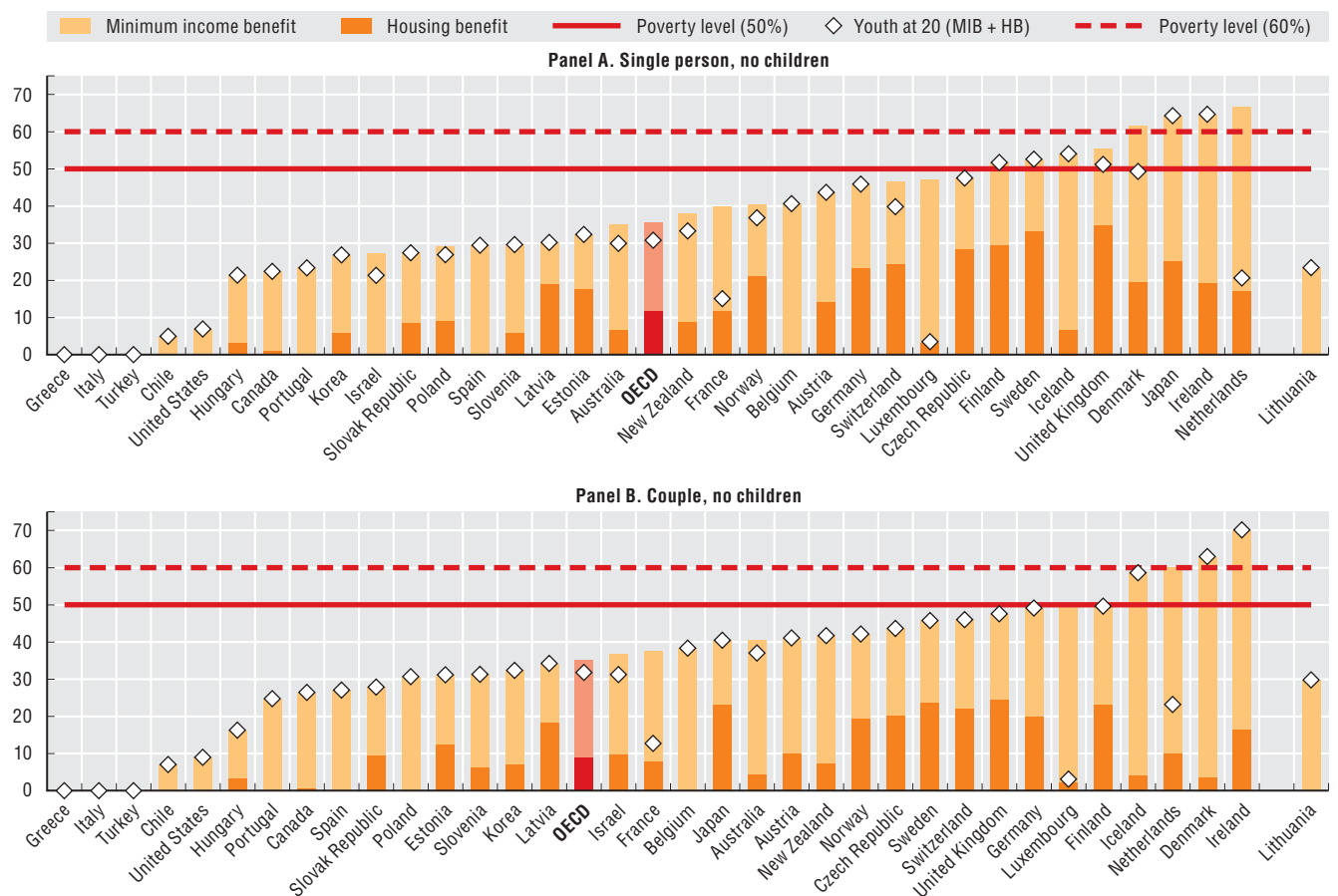
Net income while out of work in percentage of net income in work (NRR), 40 years-old single, 2014



StatLink <http://dx.doi.org/10.1787/888933405479>

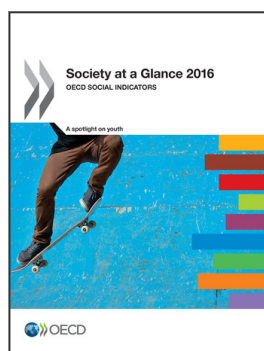
5.8. Minimum-income benefits alone cannot typically prevent income poverty, notably for youth

Net income level provided by cash minimum-income benefit (MIB), with and without housing benefit (HB), in percentage of median household income, 2014



Source: OECD Tax-Benefit Models, www.oecd.org/els/soc/benefits-and-wages.htm.

StatLink <http://dx.doi.org/10.1787/888933405488>



From:
Society at a Glance 2016
OECD Social Indicators

Access the complete publication at:
<https://doi.org/10.1787/9789264261488-en>

Please cite this chapter as:

OECD (2016), “Living on benefits”, in *Society at a Glance 2016: OECD Social Indicators*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/soc_glance-2016-18-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.