

Living on benefits

Most OECD countries operate transfer programmes that aim at preventing extreme hardship and employ a low-income criterion as the central entitlement condition. These guaranteed minimum-income benefits (GMI) provide financial support for low-income families and aim 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.

In a large majority of OECD countries, incomes for the long-term unemployed are much lower than for the recently unemployed (Figure 5.6). Making GMI benefits more accessible is key to maintaining a degree of income security for the long-term unemployed. In addition, rising 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 5.5). Poverty avoidance or alleviation is 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. In a few countries there is no generally applicable GMI benefit (Greece, Italy and Turkey). For GMI recipients living in rented accommodation, housing-related cash benefits can provide significant further income assistance, bringing overall family incomes close to or somewhat above the poverty line (Denmark, Ireland, Japan and the United Kingdom). However, family incomes in these cases depend strongly on the type of housing, the rent paid and also on the family situation. In all countries, income from sources other than public transfers is needed to avoid substantial poverty risks.

On average across OECD countries, GMI benefit levels have changed little since the onset of the economic and financial crisis. The real value of these benefits was largely the same in 2011 as in 2007. Most countries, including those with significant fiscal consolidation programmes, have so far not reduced benefit levels for the poorest. However, at the same time, countries that were especially hard-hit by the crisis and where GMI were non-existent or very low, have not taken major measures to strengthen benefit adequacy (Greece, Italy, Portugal, Spain and the United States).

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 poverty thresholds of 50% or 60% of median household incomes. These income levels account for all cash benefit entitlements of a family

Definition and measurement (cont.)

account for all cash benefit entitlements of a family with a working-age head, with no other 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 2011 expressed in 2011 prices and are adjusted for family size using the "square root of household size" equivalence scale. Similarly, net minimum cash benefits are converted to 2011 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 is the unweighted average over four family types (single person, one-earner married couple without children, lone parent and one-earner married couple with two children) and over two full-time earnings levels of 67% and 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/work-incentives). Calculations for families with children assume two children aged 4 and 6 and neither childcare benefits nor childcare costs are considered. 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

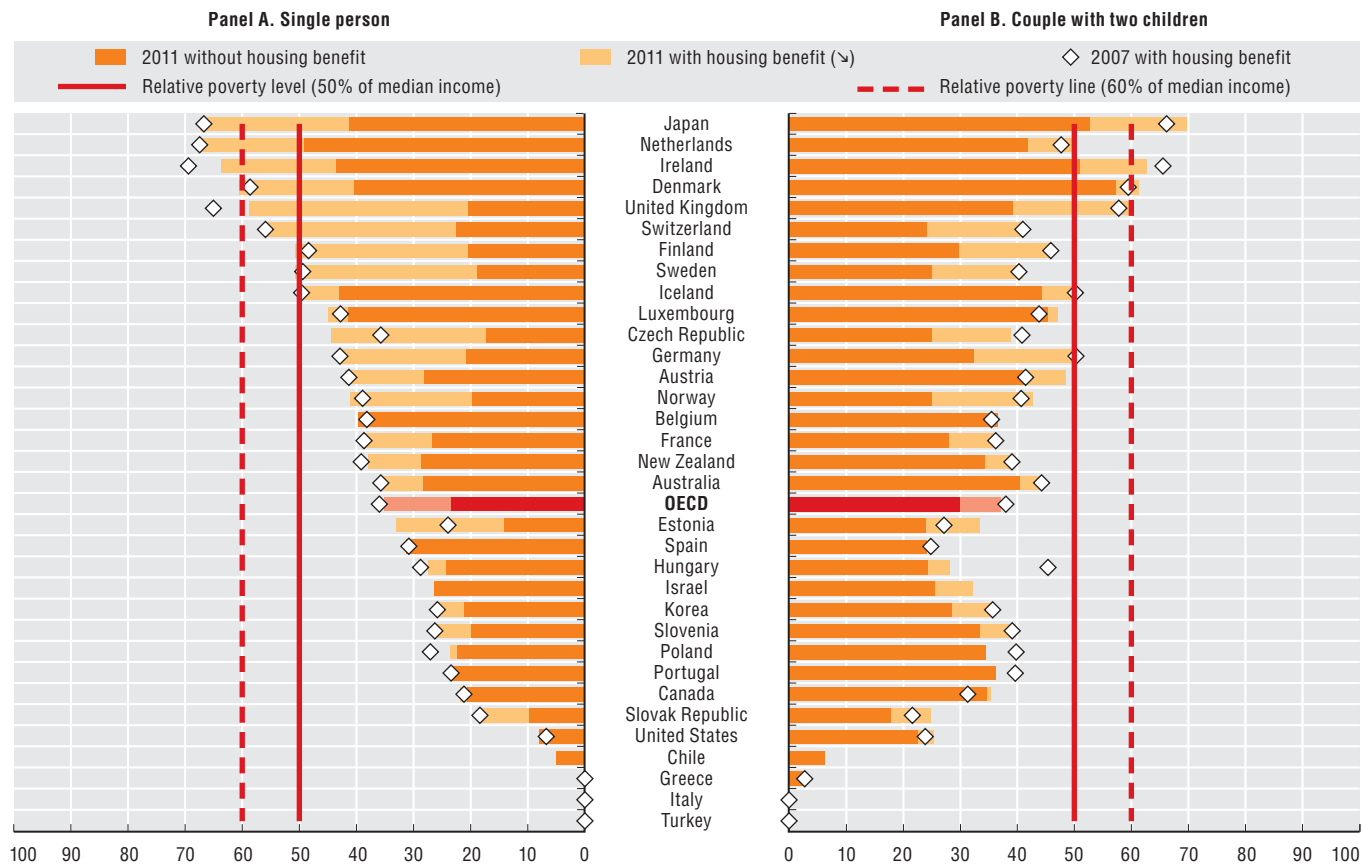
Immervoll, H. (2012), "Reforming the Benefit System to 'Make Work Pay': Options and Priorities in a Weak Labour Market", *IZA Discussion Paper*, No. 50, Institute for the Study of Labour, Bonn.

Immervoll, H., S. Jenkins and S. Königs (2014), "Experiences of Minimum-income Benefit Recipients: Duration and Dynamics of Benefit Receipt", *OECD Social, Employment and Migration Working Paper*, OECD Publishing, Paris, forthcoming, www.oecd.org/els/workingpapers.

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

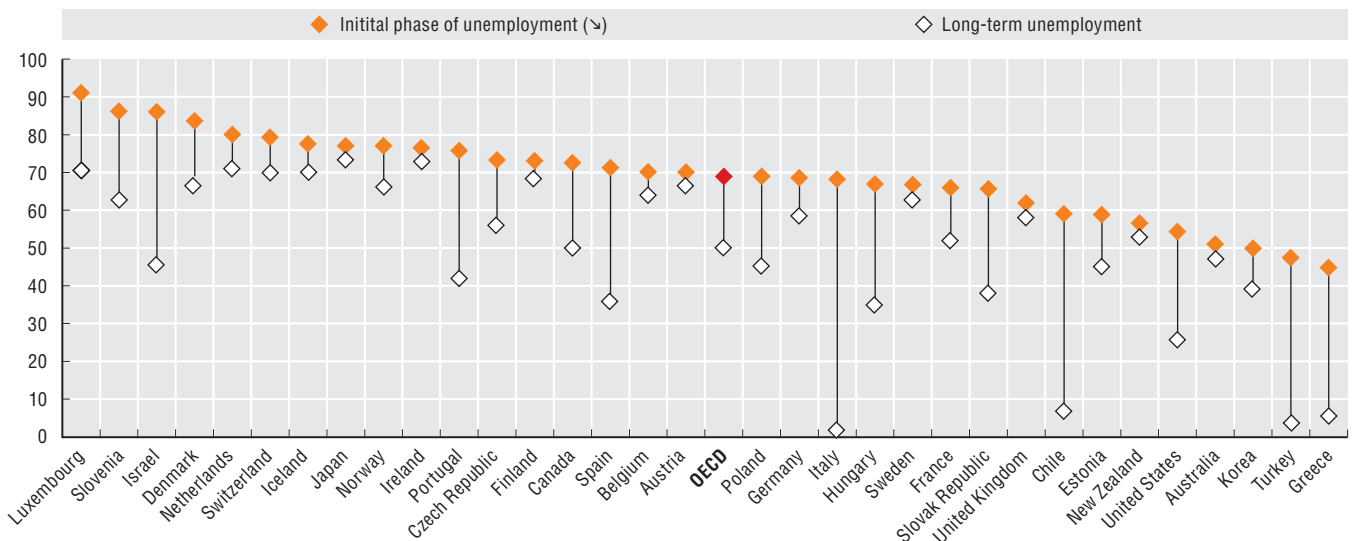
5.5. Minimum-income benefits alone cannot typically prevent income poverty

Net income level provided by cash minimum-income benefit, including housing assistance or not, in percentage of median household income



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

Overall net replacement rates: Net income while out of work in percentage of net income in work, 2011



Source: OECD Tax-Benefit Models (www.oecd.org/els/social/workincentives).

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