



Benefits and Wages

OECD INDICATORS



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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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FOREWORD

This is the third issue of a series of publications previously entitled *Benefit Systems and Work Incentives*, which allows comparisons of the benefits made available to those without work with potential in-work incomes. This series addresses in a systematic way the complicated interactions of tax and benefit systems. It includes analysis of net (*i.e.* after-tax) incomes in and out of work for different family types and labour market situations. The incentives that unemployed and non-employed in different family circumstances would find when moving back to work or when entering the labour market are also examined.

The main indicator computed from the comparisons of net income in and out of work is the Net Replacement Rate (NRR), now available for 1995, 1997 and 1999. NRRs are calculated for a range of family types and level of income. Average Effective Tax Rates (AETRs), faced by individuals who start working part-time or full-time, are also estimated. This volume includes a description of all the different benefits made available to those without work and of the taxes they pay, as well as tables facilitating cross-country comparisons of tax-benefit systems.

The analyses draw on detailed country-by-country information on benefit systems which is available on the Internet site, www.oecd.org/els/social/workincentives. This information has been supplied by the delegates to the Working Party on Social Policy of the Directorate for Education, Employment, Labour and Social Affairs. The data on income taxes were supplied by the Centre for Tax Policy and Administration.

This report has been prepared by Ms. Maria Pazos, with the advice of Mr. Mark Pearson and with the contribution of Ms. Dominique Paturot. It is published on the responsibility of the Secretary-General of the OECD.

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INTRODUCTION

The net incomes of those not working are of interest for social, public finance and labour market reasons. Policy-makers attempt to accomplish three broad goals in the design of benefit systems: support the living standards of low-income families, especially when children are present; encourage work and economic self-sufficiency; and keep government costs low.

The OECD used an estimate of replacement rates (*i.e.* the proportion of income from work replaced by unemployment and related welfare benefits) as a proxy for benefit generosity in the OECD *Jobs Study* (OECD, 1994). This series of Gross Replacement Rates (GRR) goes back to 1961 and is continued in this publication (see Chapter 3). These estimates, however, are based on gross (*i.e.* before taxes) earnings and gross benefits. Moreover, they do not take into account the fact that unemployment benefits are often supplemented with family and housing benefits. Comparing gross wage earnings with gross unemployment benefits is not enough as taxes and benefits often depend not only on gross income but also on other relevant variables such as family circumstances or age. This dependency evolves over time and varies across countries so that the comparison changes significantly when the effect of taxes and other benefits are included.

In order to calculate net income of each individual after the effect of taxes and benefits, the OECD has built up a tax-benefit model for each country. This publication presents the results of applying such models to many different hypothetical cases, which are combinations of typical situations regarding labour market status, family situations and previous or actual levels of income in work. For each case, Net Replacement Rates (NRR) are calculated, which give net income of the jobless as a share of previous net income in work. NRRs are calculated for short-term unemployed and also for long-term jobless, who in most countries would have exhausted their unemployment benefits and would live on social assistance benefits.

The levels of gross earnings for which NRRs are calculated are based on the OECD indicator of the Average Production Worker (APW) salary included in the publication *Taxing Wages*, 1999-2000 (OECD, 2000). The present publication contains also the tax and social security parameters and regulations needed to simulate the effects of taxes according to family types and earning levels. In addition, the calculations include five groups of benefits that may be available to families if their circumstances match the corresponding country regulations:

- Unemployment benefits.
- Family benefits.
- Housing benefits.
- Employment-conditional benefits.
- Social assistance benefits.

Net incomes of different family types are also compared in order to study the interactions of earned income of one member of a couple with earnings of his/her partner and with benefits of the family. Average Effective Tax Rates (AETR), defined and calculated in Chapter 4, provide an indicator of the proportion of earnings which are not received by the individual because of tax payments or loss of benefits.

This publication:

- Describes and compare the tax and benefit systems.
- Presents comparative tables of benefit entitlements across OECD countries.
- Gives example calculations, showing how the different elements of tax and benefit systems interact in each country.
- Provides 1999 figures of Net Replacement Rates (NRR) for a range of family types and levels of income, both for short-term and long-term benefit recipient.
- Illustrates the operation of means-tests on the incentives to work part-time and full-time in two-earner couples by means of the average effective tax rates (AETR).
- Examines the effects of childcare costs and benefits on the incentives to work.
- Outlines specific programmes for young unemployed people and calculates the corresponding NRR.

Chapter 2 introduces the different benefits that are included in this study and presents their key features. Chapter 3 provides comparative information on the benefit income received by different family types in different employment circumstances, calculating Net Replacement Rates (NRR) for each case. In Chapter 4 the special cases of part-time work and two-earner couples are considered and average effective tax rates (AETR) are presented. Chapter 5 outlines the trends in recent reforms of benefit systems across OECD countries. The Annex includes a detailed explanation of the assumptions applied for calculating net incomes after taxes and benefits. Detailed country-specific information about tax and benefit systems, and examples on how net incomes are calculated in each country are available at www.oecd.org/els/social/workincentives.

DESCRIPTION OF KEY FEATURES OF THE TAX AND BENEFIT SYSTEMS

Introduction

This chapter provides a description of the different elements of the benefit systems, their tax treatment and the way in which part-time or casual earnings influence the benefit amounts. After an overview of the key benefits in Section 1, Section 2 summarises the most important parameters for the calculation of the gross benefit amounts. Section 3 examines the tax treatment of the benefits included in this publication. Section 4 indicates how part-time or casual earnings influence benefit incomes. Section 5 is dedicated to inspect the benefits available to young unemployed people.

1. An overview of the key benefits in the system

Table 2.1 provides an overview of the benefits that are available in the countries which are covered in this report. Most countries have a benefit scheme that offers temporary compensation for lost earnings if certain conditions are met by the claimant (unemployment insurance or UI). As this benefit type is based on insurance principles, the claimant must have contributed to the insurance fund for a given amount of time to be eligible for receiving the benefit. Claimants must be involuntarily unemployed and must be actively looking for work. UI benefits are taxable in most countries but are tax-exempt in others as shown in column 2.

UI is limited in duration in most countries. Financial assistance for unemployed workers who have exhausted their UI entitlements, or for those who are not entitled to UI (because they have not the required contributions to the insurance fund) exists in two forms:

- Unemployment assistance (UA), may be paid to those unemployed people who do not qualify for UI. Such payments may also be conditional on employment record and usually have a limited duration (though as Table 2.3 shows, in some countries duration is unrestricted).
- Those who qualify for neither UI nor UA may receive social assistance (SA). In the case of SA, central or local government acts as a provider of last resort to secure a minimum standard of living. Eligibility for social assistance is subject to income and asset tests which in some cases are very restrictive. SA is often used to top-up income from other sources so as to ensure that the household achieves a minimum standard of living. Such top-ups are most likely when the benefit claimant has dependent family members.

Australia and New Zealand provide an unemployment benefit with characteristics of both UA and SA for an unlimited duration. Claimants do not need to have an employment record to qualify for benefits but are required to look for work.

Households with high housing costs and low income may qualify for housing benefits. The presence of dependent children entitles households to family benefits in most countries. These are often “universal” (*i.e.* the amount paid per child does not vary according to the income of the household), but household income does influence the amount of family benefits available to households in Australia, Canada, the Czech Republic, Greece, Iceland, Italy, Japan, New Zealand, Poland, the Slovak Republic, Spain, and the United States. Some countries alter their benefit system to reflect the special situation of lone parents in one way or another (column 8).

Table 2.1. **Main elements of the tax and benefit systems**

	Unemployment insurance	Income tax treatment of unemployment insurance	Unemployment assistance ¹	Social assistance ¹	Housing benefits	Universal family benefits	Means-tested family benefits	Lone-parent benefits	Employment-conditional benefits ²	Childcare benefits	Payments to care for children at home
	(column 1)	(column 2)	(column 3)	(column 4)	(column 5)	(column 6)	(column 7)	(column 8)	(column 9)	(column 10)	(column 11)
Australia	–	*	Y	–	Y	–	Y	Y	Y	Y	Y
Austria	Y	*	Y	Y	Y	Y	–	–	–	–	–
Belgium	Y	Taxable	–	Y	Y	Y	–	–	–	Y	–
Canada ³	Y	Taxable	–	Y	Y	–	Y	Y	Y	Y	–
Czech Republic	Y	*	–	Y	Y	–	Y	Y	–	–	Y
Denmark	Y	Taxable	–	Y	Y	Y	–	Y	–	Y	–
Finland	Y	Taxable	Y	Y	Y	Y	–	Y	–	Y	–
France	Y	Taxable	Y	Y	Y	Y	–	Y	–	Y	Y
Germany	Y	*	Y	Y	Y	Y	–	Y	–	Y	Y
Greece	Y	Taxable	Y	–	Y	–	Y	–	–	–	–
Hungary	Y	Taxable	Y	Y	Y	Y	–	Y	–	–	Y
Iceland	Y	Taxable	–	Y	Y	–	Y	Y	–	–	–
Ireland	Y	Taxable	Y	Y	Y	Y	–	Y	Y	–	–
Italy ⁴	Y	Taxable	–	Y	Y	–	Y	–	–	–	Y
Japan	Y	*	–	Y	Y	–	Y	Y	–	Y	–
Korea	Y	*	–	Y	–	–	–	–	–	–	–
Luxembourg	Y	Taxable	–	Y	Y	Y	–	Y	–	–	Y
Netherlands	Y	Taxable	Y	Y	Y	Y	–	Y	–	Y	–
New Zealand	–	*	Y	–	Y	–	Y	Y	Y	Y	–
Norway	Y	Taxable	–	Y	Y	Y	–	Y	–	Y	–
Poland	Y	Taxable	–	Y	Y	–	Y	–	–	–	Y
Portugal	Y	*	Y	–	Y	Y	–	–	–	–	–
Slovak Republic	Y	*	–	Y	Y	–	Y	–	–	–	Y
Spain	Y	Taxable	Y	Y	–	–	Y	Y	–	–	–
Sweden	Y	Taxable	Y	Y	Y	Y	–	Y	–	Y	–
Switzerland	Y	Taxable	–	Y	Y	Y	–	–	–	–	–
United Kingdom	Y	Taxable	Y	Y	Y	Y	–	–	Y	Y	–
United States	Y	Taxable	–	Y	Y	–	Y	–	Y	Y	–

Y: Indicates that the specific benefit is present in this country; “–” otherwise.

“Taxable”: Indicates that beneficiaries have to pay income and/or payroll taxes on benefit income, “*” indicates that they do not pay tax, either because their benefits are not taxable or because the tax system is structured such that full-year recipients do not pay tax.

1. Note that UA and SA can also be taxable but that this is not indicated in the table.

2. Employment-conditional benefits may take the form of tax credits.

3. At a federal level, a refundable child tax credit, Canada Child Tax Benefit (CCTB), serves as family benefits.

4. Social assistance (*Reddito Minimo di Inserimento*) is at an experimental level and concerns only 39 municipalities. A tax credit for house rent is available.

Source: OECD.

Employment-conditional benefits are available to people entering paid employment, and sometimes to people already working but having low household incomes. Australia, Canada, Finland, Ireland, New Zealand, the United Kingdom and the United States provide such benefits either to increase financial incentives to work or to prevent working families from becoming impoverished (column 9). Childcare benefits (column 10) may help parents who are working or looking for work to cover their childcare centre fees. Countries that do not have centrally administered childcare benefit schemes may have locally based schemes. Alternatively care for children at home may be encouraged by means of “non-activity”-tested benefits to compensate the lost of earnings of the person who stays at home (column 11).

2. Calculation of gross benefits

Unemployment insurance

Table 2.2 shows information concerning the calculation of unemployment insurance (UI) benefits. The information included in the table applies to a 40-year-old single worker without children, with 18 years of employment records and previously earning an average income (APW).*

To qualify for UI benefits, the unemployed worker must have been employed in insured employment (*i.e.* must have contributed into the insurance fund) for a specific period (column 1). In Denmark, Finland and Sweden, the contribution in insurance fund is voluntary, even if this scheme involves most of the employed. In some countries benefit payments do not start immediately upon becoming unemployed but start after a short period, the “waiting period” (column 2).

The benefit level (column 3) is generally related to previous earnings but may also be influenced by other factors such as employment record, age and family situation, and is subject to minimum and maximum limits (columns 4 and 6). Dollar equivalents for the minimum and maximum benefit are indicated in columns 5 and 7. In Belgium, the payment rate decreases over time from 60% to 43% for a single person. For couples with children, when need is proven, the payment rate can continue at 60% for a prolonged duration. In the Czech Republic, France, the Slovak Republic and Spain payment rates fall off over time for all family situations. In France the decrease of UI benefits is graduated and depends on the duration of contribution and the age of the claimants. In Iceland, payment rate varies according to the number of hours worked in insured employment. To qualify for full benefits, the claimants must have worked at least 1 700 hours (12 months) in the year. The unemployed receives 25% of full benefits for 425 hours of work. In Japan, the payment rate depends on age and previous earnings level. Payment rates increase if the beneficiary has dependent children in Luxembourg (85%) and in Switzerland (80%).

The maximum duration of benefit payments (column 8) may depend on the employment record (Belgium, France, Greece, Hungary, Japan, the Netherlands, Poland, Spain and Switzerland) and age (Austria, Finland, France, Germany, the Netherlands, Portugal, Sweden and Switzerland) or is fixed. In the Slovak Republic the benefit duration can be extended to 9 months if the person has contributed for more than 15 years.

Unemployment assistance

Unemployment assistance (UA) generally succeeds unemployment insurance when the latter is exhausted. In Australia and New Zealand, as UI is not provided, unemployed people are entitled to UA benefits without any employment conditions. In other countries, people who do not qualify for UI have the opportunity to receive UA benefits without any employment record conditions (Ireland, the United Kingdom) or under the condition of a minimum period of previous employment (Greece, Portugal, Spain, Sweden). In Portugal, first-time job seekers with dependants are exempt to meet employment conditions. In some countries new entrants in the labour market who have finished their studies,

* An average income is defined to equal the earnings level of Average Production Worker (APW). For more information refer to OECD (2000).

Table 2.2. **UI payment rates and benefit duration**

	Employment/contributions conditions	Waiting period	Payment rate (%) ¹	Minimum benefit (yearly) ²		Maximum benefit (yearly) ²		Duration (months)
	(column 1)	(column 2)	(column 3)	National currency (column 4)	USD (column 5)	National currency (column 6)	USD (column 7)	(column 8)
Australia	–	–	–	–	–	–	–	–
Austria	One year of the last two years	–	56	21 348	1 571	171 768	12 643	10
Belgium	312 days in 18 months rising to 624 days in last 3 years depending on age	–	60 (43% after 1 year)	274 872	7 415	374 712	10 108	No limit
Canada	420 hours of work in past year	2 weeks	55	–	–	21 476	18 343	11
Czech Republic	12 months in 3 years	7 days	50 (40% after 3 months)	–	–	102 900	7 570	6
Denmark	52 weeks in 3 years	–	90	–	–	143 520	16 830	60
Finland	43 weeks in 2 years	7 days	90	31 460	5 119	–	–	25
France	4 months in 8 months	8 days	75	54 414	8 214	398 677	60 184	60
Germany	12 months in 3 years	–	60	–	–	61 200	30 890	12
Greece	125 days in 14 months	6 days	40	–	–	2 382 600	9 970	12
Hungary	12 months in 4 years	–	65	165 780	1 645	331 560	3 291	12
Iceland	10 weeks in last year	–	Flat rate	186 030	2 177	744 120	8 709	60
Ireland	39 weeks in 1 year	3 days	Flat rate	3 822	5 271	–	–	15
Italy	52 weeks in 2 years	7 days	80	–	–	20 533 992	12 837	6
Japan	6 months in 1 year	7 days	80	–	–	3 195 000	20 209	10
Korea	12 months in last 18 months	14 days	Flat rate	3 117 100	4 848	10 800 000	16 798	7
Luxembourg	26 weeks in 1 year	–	80	–	–	1 406 340	34 658	12
Netherlands	26 weeks in 39 weeks	–	70	19 700	9 922	56 593	28 503	60
New Zealand	–	–	–	–	–	–	–	–
Norway	–	3 days	62.4	–	–	175 781	18 515	36
Poland	365 days in 18 months	1 day	Flat rate	4 728	2 570	–	–	18
Portugal	540 days in 2 years	–	65	735 600	5 714	1 434 420	11 141	30
Slovak Republic	24 months in 3 years	–	60 (50% after 3 months)	–	–	116 640	8 369	9
Spain	12 months in 6 years	–	70 (60% after 6 months)	726 908	5 576	1 647 657	12 638	24
Sweden	6 months in last year	5 days	80	62 400	6 383	150 800	15 426	15
Switzerland	6 months in 2 years	5 days	70	–	–	68 040	35 861	7
United Kingdom	2 years	3 days	Flat rate	–	–	2 673	4 084	6
United States	6 months, regionally: minimum earnings requirement	–	50	4 524	4 524	15 600	15 600	6

1. The payment rate is expressed as a percentage of previous gross earnings, except in the Czech Republic and Germany where payment rates are expressed as a percentage of net income.

2. 1999 purchasing power parities are used to calculate USD values (1998 for the Czech Republic).

Source: OECD.

are eligible for UA. Table 2.3 shows information on UA payment rates and benefit duration. This information applies to a 40-year-old single worker without children, with 18 years of employment records and previously earning an average income (AWP) (see note p. 11).

UA is, like UI, income-tested. Column 2 indicates if the income test is individual or considers income of the rest of the family members, and also if assets are taken into account in determining eligibility for UA (see Section 4 of this chapter for further details on the means-tests). The level of benefits may differ regionally in some countries because of the social administration office's discretionary power in benefit decisions.

Some of the UA benefit schemes include a waiting period (column 3), for first-time users. In New Zealand the initial stand-down period varies between one and ten weeks according to the previous gross income and the family circumstances. The total duration (column 4) is unlimited in most cases but limited in Hungary, the Netherlands, Portugal, Spain and Sweden.

The determination of gross benefit levels varies greatly across countries. The payment (column 5) is in some cases a flat rate, in other cases defined as a percentage of previous UI benefits (Austria and Greece), previous net income (Germany) or old age pension (Hungary). In some countries special rates apply for particular groups such as in Germany where payment rate rises to 57% when dependants are present and in Austria where the payment rate represents 95% of UI for low-income groups. The minimum and maximum benefit amounts are presented in columns 6 and 8.

Family benefits

The presence of dependent children may qualify a household for supplementary benefits. The most important such benefit payments are family benefits. Unemployed people can also sometimes receive unemployment benefit supplements when they have dependent children. Table 2.4 shows the yearly amount of family benefits for one child, supplements for additional children and indicates if and when unemployment supplements are provided for children or spouse. The tabulated amounts are based on the assumption of one child under the age of 13 in a one-earner couple.

Except in Italy and in the United States (where family benefits are paid also for the spouse), the first 4 columns of Table 2.4 refer to children. Column 5 describes supplementary unemployment benefits for dependants (children or spouse). These supplements to UI and/or UA benefits exist for children in 13 of the 28 countries, and in 5 of these (Austria, Greece, New Zealand, Portugal and Switzerland) there are also supplements or special rates for non-working spouses, reflecting the fact that benefits are calculated for the entire family

In most countries family benefits are paid as fixed amounts per child (universal child benefits) and are not means-tested; in other words, employed and unemployed people receive the same amounts independent of their level of income. Family benefits are income-tested in Australia, Canada, the Czech Republic, Greece, Iceland, Italy, Japan, New Zealand, Poland, the Slovak Republic, Spain and the United States.

Housing benefits

Housing-related assistance can add significantly to out-of-work (and even to in-work) income. Table 2.5 provides an overview of the housing-related cash transfers operated in OECD countries. Direct provision of subsidised social housing is not generally included, although it is an important substitute for cash transfers in many countries. Table 2.5 shows that most countries offer either a general means-tested housing benefit or include housing-related supplements in the social assistance system or both. Greece and Italy offer housing-related tax deductions.

For the purpose of calculating the value of housing benefits, an assumption must be made about housing costs, which are assumed to be 20% of the Average Production Worker level of earnings in each country, regardless of the actual income level of the household. In other words, replacement rates are calculated assuming that a household does *not* adjust its housing consumption according to income level, an assumption which is valid for the short-term unemployed, but less so for those households which have been without work for an extended period. The 20% of APW used approximates the average

level of housing consumption across the OECD. In some countries, however, housing costs can differ from this level, sometimes by substantial amounts. Furthermore, *actual* households without work will presumably on average spend less than this amount (reflecting their recognition of lower long-term consumption possibilities than more employable households, and also the effects of regional concentrations of unemployment on housing costs), and households with work will (again, on average) spend more. However, any assumption other than fixed housing costs for those in-work and out-of-work would make interpretation of replacement rates difficult.

Childcare benefits

The fees of (approved) day-care or nursery centres may be partly or totally subsidised through benefit payments to cover the cost of childcare, as is the case of Australia, Denmark, New Zealand and the United Kingdom. In other countries (Finland, Japan, the Netherlands and Sweden), childcare centres are subsidised so that the fee is a function of parents' income. Finally, childcare costs may be partly compensated by tax allowances (Canada, Germany) or tax credits (Belgium, France). An overview of childcare benefits is presented in first column of Table 2.6. Childcare support refers to children below the age of compulsory education. Other countries without a general scheme, as Italy, may provide in-kind means-tested benefits (nurseries), and in many cases regional governments may offer other forms of help for childcare that is beyond the scope of this study. In the United States, federal funding for childcare services is available under the Child Care and Development Fund, which provides subsidised childcare services to eligible parents through certificates or contracted programmes

In some of the countries that do not provide benefits to cover childcare costs, parents who care for their children at home qualify for a cash transfer. These benefits are "non-activity"-tested, that is, they are conditioned on one parent being out of the labour market or working only part-time (in which case the benefit is reduced). In some cases (*i.e.* France) it is required to have just left a previous employment. The last column of Table 2.6 gives a summary of these benefits. The benefit is typically a flat monthly payment to replace the lost of earnings of the parent who stays at home. In some countries rates are reduced with any increase of family income. Although in countries such as Australia childcare benefits and incentives for the non-activity of one parent may coexist, a general inspection of Table 2.6 shows that countries seem to opt for one of the two alternative patterns. A third group of countries is constituted by the countries where no provisions for childcare are made.

Employment-conditional benefits

Some benefits are paid to the employee taking up full-time or part-time employment. These employment-conditional benefits effectively increase the net income from work, accentuate the difference between in-work and out-of-work incomes and thereby increase the returns to leaving a situation of benefit dependency. Several OECD countries have introduced employment benefits with varying payment rates and qualifying requirements. The benefits presented in Table 2.7 can take one of two forms: tax credits applied to earned income or cash supplements to offset the loss of benefit income as a worker re-enters paid employment. Other countries (as Finland, Japan, Spain, etc.) provide tax allowances to exempt a part of earned income from taxation, and these allowances are often higher for low earnings levels. However, they are not covered here (for details on these work-related allowances, see OECD, 2000).

In Canada, the former Working Income Supplement of the Child Tax Benefit was replaced by the National Child Benefit Supplement and extended to all low-income families, losing its character of employment-conditional benefit. However, all Canadian provinces pay special work-related benefits to social assistance recipients who are joining or rejoining the labour force. That of Ontario is recorded.

In Ireland, the Part-Time Job Incentive scheme is open to the long-term unemployed (15 months or more). A flat-rate payment (IEP 46.50 per week for singles, IEP 76.50 for one-earner couples) is paid where this is more beneficial than means-tested unemployment assistance. The Back To Work Allowance is paid to the long-term unemployed (1 year or more) who are aged 23 years or more.

Table 2.3. **UA payment rates and benefit duration**

	Employment conditions	Income/assets test ¹	Waiting period	Duration (months)	Payment rate	Minimum benefit (yearly) ²		Maximum benefit (yearly) ²	
	(column 1)	(column 2)	(column 3)	(column 4)	(column 5)	National currency (column 6)	USD (column 7)	National currency (column 8)	USD (column 9)
Australia	–	Fam/Inc/As	7 days	No limit	Flat rate	–	–	8 494	6 559
Austria	Exhausting UI benefits	Fam/Inc	–	No limit	92% of UI	19 640	1 446	158 027	11 632
Belgium	–	–	–	–	–	–	–	–	–
Canada	–	–	–	–	–	–	–	–	–
Czech Republic	–	–	–	–	–	–	–	–	–
Denmark	–	–	–	–	–	–	–	–	–
Finland	–	Fam/Inc	5 days	No limit	Flat rate	31 460	5 119	–	–
France	Exhausting UI benefits and 5 years in the last 10 years	Fam/Inc	–	No limit	Flat rate	–	–	29 671	4 479
Germany	Exhausting UI benefits	Fam/Inc	–	No limit	53% of previous net income	–	–	54 060	27 286
Greece	Exhausting UI benefits or 2.4 months of employment record	Fam/inc	–	–	17% of UI	–	–	405 042	1 695
Hungary	Exhausting UI benefits	Ind/Inc	–	24	80% of old age pension	12 000	119	117 888	1 170
Iceland	–	–	–	–	–	–	–	–	–
Ireland	–	Fam/Inc/As	3 days	No limit	Flat rate	3 744	5 163	–	–
Italy	–	–	–	–	–	–	–	–	–
Japan	–	–	–	–	–	–	–	–	–
Korea	–	–	–	–	–	–	–	–	–
Luxembourg	–	–	–	–	–	–	–	–	–
Netherlands	Exhausting UI benefits	Ind/Work	–	24	Flat rate	19 700	9 922	–	–
New Zealand	–	Fam/Inc	7 to 70 days	No limit	Flat rate	8 352	5 698	–	–
Norway	–	–	–	–	–	–	–	–	–
Poland	–	–	–	–	–	–	–	–	–
Portugal	Exhausting UI benefits or 180 days in last year	Ind/Inc	–	24	Flat rate	588 480	4 571	–	–
Slovak Republic	–	–	–	–	–	–	–	–	–
Spain	Exhausting UI benefits, or to have worked 6 or 3 months	Fam/Inc	–	18	Flat rate	726 908	5 576	–	–
Sweden	To have worked 6 months or no conditions according to circumstances	Ind/Work	5 days	15	Flat rate	62 400	6 383	–	–
Switzerland	–	–	–	–	–	–	–	–	–
United Kingdom	–	Fam/Inc/As	–	No limit	Flat rate	2 673	4 084	–	–
United States	–	–	–	–	–	–	–	–	–

1. Fam: Income test includes all family income; Ind: Income test affects only the beneficiary income; Inc: Test for income only; As: A certain level of assets also disqualifies for UA benefits; Work: Limited number of hours or days worked are disregarded.

2. 1999 purchasing power parities are used to calculate USD values (1998 for the Czech Republic).

Source: OECD.

Table 2.4. **Benefits for dependent family members**

	1st child (yearly) ¹		Additional children/observations	Means-test	Additional unemployment benefit
	National currency	USD			
Australia	2 376	1 835	Amounts are based on child age. Same amount per additional child and a lump sum of AUD 7.80 per fortnight after the third child	Y	–
Austria	20 100	1 479	Amount per child above 10 and ATS 17 100 per child under 10	–	UI and UA: supplement for each dependant (ATS 660/month in UI)
Belgium	50 700	1 368	Amount increases for the second and third child (all subsequent children entitle a household to benefits at the third child rate)	–	Children benefit amounts increase from the 7th month of unemployment
Canada	1 104	943	Refundable tax credit: 1 004 per child. CAD 219 supplement per child under 7. CAD 77 supplement for the 3rd and each additional child	Y	–
Czech Republic	7 872	579	Same amount per additional child, increases with age	Y	–
Denmark	10 200	1 196	Amount per child, related to the child's age	–	–
Finland	6 420	1 015	Amount increases with each additional child	–	UA and UI: supplements for children (FIM 6 240 for the first child in UI)
France	–	–	No benefit for the first child. FRF 8 208 per two children. FRF 10 500 for 3rd and subsequent children	–	–
Germany	3 000	1 514	Tax refund or Social Security benefit if no tax liability (DEM 3 000 for the 1st and 2nd children, DEM 3 600 for the 3rd child and DEM 4 200 for the 4th and subsequent children)	–	UI rate is raised with 7 percentage points, UA with 4 percentage points, if children
Greece	24 000	100	Benefit increases with each additional child. GRD 12 000 per child born after 1982	Y	UI is raised by 10% if spouse (working or not)
Hungary	45 600	453	Amount increases with each additional child	–	–
Iceland	104 997	1 229	ISK 124 980 for successive children. Addition of ISK 30 930 for each child under 7	Y	UI: ISK 114.48/day per child
Ireland	414	570	Same amount per child for first two children. IEP 552 from the third child	–	UI and UA: supplements for each dependant (IEP 686.4/year per child, IEP 2 246.4 for the spouse, in UI)
Italy	3 036 000	1 898	Amount increases with each additional dependent (amounts depend on family type)	Y	–
Japan	60 000	380	Same amount per child for first two children. The amount is doubled for third and subsequent children. Only children under 3 are entitled to benefit	Y	–
Korea	–	–	–	–	–
Luxembourg	64 452	1 588	Amount increases with each additional child. A supplement of LUF 136 212 from the fourth child onwards. A supplement of LUF 6 576 per child between 6 and 11. A supplement of LUF 19 752 per child above 12	–	UI rate is increased with 5 percentage points if children
Netherlands	1 284	647	Amount increases with the number of children and their age	–	–

Table 2.4. **Benefits for dependent family members** (*cont.*)

	1st child (yearly) ¹		Additional children/observations	Means-test	Additional unemployment benefit
	National currency	USD			
New Zealand	2 256	1 539	Amount for the first child aged 0-15 or NZD 2 880 for the first child aged 16-18. Benefit varies from NZD 1 536 to 2 880 for the other children according to their age	Y	UA rates are based on the family
Norway	11 110	1 170	Same amount for the second child, NOK 13 090 for the 3rd child, NOK 13 090 for the 4th and subsequent children	–	UI: NOK 17/day for each child
Poland	424	231	Amount for the 1st and 2nd children, which increases for each additional child	Y	–
Portugal	53 040	412	Same amount per additional child. Benefits vary according to family income	–	UA is increased if dependants
Slovak Republic	7 680	551	Amount for a child under 6, SKK 9 480 for a child between 6 and 15, SKK 10 080 for a child above 15	Y	–
Spain	36 000	276	Same amount per additional child. There is also a general tax allowance	Y	UI rate increases by 25 percentage points if children
Sweden	9 000	921	Supplement of SEK 2 400 for the 3rd child, SEK 7 200 for the 4th child, SEK 9 000 for the 5th and subsequent children	–	–
Switzerland	2 476	1 305	Same amount per additional child	–	UI rate increases by 10 percentage points if dependants
United Kingdom	764	1 305	GBP 499 is paid for subsequent children	–	–
United States	–	–	–	–	–

Y: indicates that the benefits are means-tested.

1. 1999 purchasing power parities are used to calculate USD values (1998 for the Czech Republic).

Source: OECD.

Table 2.5. **Housing benefits**

	Regular housing benefits	Treatment of housing costs in social assistance
Australia	75% of rent above a threshold until maximum amount is reached (both determined by family type)	–
Austria	Regionally differing treatment	–
Belgium	No general scheme. Public low-rent housing for low-income families. Also support for home purchase	–
Canada	–	SA offers aid to cover housing expenses (regionally determined)
Czech Republic	Difference between the estimated rent needed (by family type) and a quotient (determined by family income and type)	–
Denmark	75% of above “own payment” (determined as 16-27% of income with limits) subject to a maximum	Rent above a threshold (determined by family type) is added to SA payment rates after deducting regular HB
Finland	80% of (limited) rent above a “deductible amount” (determined by family type, income and region)	93% of rent in excess of housing are added to SA payment rates
France	Rates depend on type of family, income and rent	–
Germany	Rates depend on type of family, income and rent	Rent in excess of housing benefits is added to SA payment rates
Greece	No general scheme. Tax allowance: 30% of rent [maximum GRD 300 000 (USD 1 255) and 15% of total allowances]	–
Hungary	Eligibility depends on income, family size and rent. Amount settled by local authorities – minimum HUF 1 000 (USD 10)/month	–
Iceland	Amount depends on income, family type and rent [max. 50% of rent and ISK 21 000 (USD 246)/month]	–
Ireland	–	Rent in excess of IEP 6 (USD 8)/week (less all other income) could be added to SA payment rates. In practice, the number of recipients is very small
Italy	Tax credit (non refundable) for rent (means-tested). Other subsidies in special cases	–
Japan	–	Rent is covered up to certain amounts as part of SA [JPY 13 000 (USD 82)/month]
Korea	–	–
Luxembourg	–	Rent in excess of 10% SA rates [up to LUF 5 000 (USD 123)/month] conditional on receipt of at least a part of SA
Netherlands	Amount depends on income, family type and rent	–
New Zealand	70% of rent exceeding 25% of the UB standard rates. Regionally adjusted	–
Norway	Amount depends on income, family type and rent. NOK 1 300 (USD 137)/month on average	–
Poland	Rent exceeding tabulated standard costs. PLN 119.55 (USD 65)/month on average	–
Portugal	–	For people in sudden need [30% loss of gross income or income lower than PTE 23 600 (USD 183)/month]: possible complement to SA benefit
Slovak Republic	–	Housing costs are considered to be included in the SA standard rates
Spain	–	–
Sweden	Amount depends on income, age, family type and rent	Rent in excess of housing benefits is added to SA payment rates
Switzerland	No general scheme. Some regions provide benefit	Housing costs are added to SA payment rates up to a maximum
United Kingdom	Rent minus 65% of difference between net resources and SA rates (determined by family type)	100% of rent is covered for SA claimants, when family assets are less than GBP 3 000 (USD 4 584). If assets are between GBP 3 000 and GBP 16 000 (USD 24 449), housing benefit is reduced
United States	No federal scheme. Housing assistance exists in some states	Rent (if it exceeds 50% of net income and with a maximum of USD 275/month) is included in the food stamps means-test

Source: OECD.

Table 2.6. **Childcare benefit schemes**

	Benefits to cover childcare costs	Benefits to care for children at home (tested for "non-activity")
Australia	Means-tested benefits CA: AUD 117 (USD 90)/week maximum per child; tax rebate CR: AUD 64.05 (USD 49)/week maximum for 2 children	For at least one child: unemployment benefit rate [disregards: AUD 60 (USD 46)/fortnight]
Austria	–	–
Belgium	Tax allowance: 80% if childcare costs in approved centres [max. BEF 450 (USD 12)/day] for less than 3-year-old children (after that age, school is free)	–
Canada	Federal tax allowance: childcare expenses up to CAD 7 000 (USD 5 979) per child (maximum: ⅔ of the lowest earned income of the spouses). In Ontario: CAD 390 (USD 333)/month per child for families in SA. Maximum CAD 1 020 (USD 871)/year per child for working families, 42% of income in excess of CAD 5 000 (USD 4 270) for 2 children	–
Czech Republic	–	For at least one child up to 4 years old: SA rate multiplied by 1.10 (full-time)
Denmark	Actual cost if earnings are below a ceiling (80% of APW)	–
Finland	Contributions in childcare costs depend on present income	–
France	The subsidy partly pays off the social security contribution costs caused by the employment of another person to take care of children under 6 years old at home. Tax reductions and tax credits also exist	For at least two children, at least one younger than 3 [condition: partly or totally leave a previous job of at least two years; rate: FRF 3 061 (USD 462)/month if full-time]
Germany	No general payments. A tax allowance exists	For at least one child up to 2 years old: DEM 600 (USD 303)/month – Family income-related (disregards: 19 hours of work/week)
Greece	–	–
Hungary	–	There is a benefit allowing the mother to care at home (no more information)
Iceland	–	–
Ireland	–	–
Italy	In-kind means-tested benefits (nurseries) – Regionally determined	Up to one year of age: ITL 200 000 (USD 125)/month per child (since half 1999)
Japan	System of income-related family contributions to childcare costs	–
Korea	Not installed yet	–
Luxembourg	–	Maximum of LUF 16 460 (USD 406) (income-related). 50% if part-time
Netherlands	Local government subsidies childcare centres. The fee per child is function of the parents' pooled net income	–
New Zealand	Income-tested benefit with a maximum rate of NZD 69.90 (USD 48), for 30 hours, per week and per child. Up to 4 years old	–
Norway	Childcare expenses are deductible from taxable income. A deduction up to NOK 25 000 (USD 2 633) for one child, NOK 30 000 (USD 3 160) for 2 or more children	–
Poland	–	For at least one child under 6: max. PLN 264.90 (USD 144)/month [PLN 421.30 (USD 229)/month for lone parents]. Family income-tested. Maximum duration: 3 years
Portugal	–	–
Slovak Republic	–	For at least one child up to 3 years old: SKK 2 740 (USD 197)/month. Family income-tested
Spain	–	–
Sweden	Heavily subsidised by state and local governments. Parents pay a portion (approximately 17%)	–
Switzerland	–	–
United Kingdom	GBP 70 (USD 107)/week for one child, GBP 150 (USD 229)/week for 2 or more children in care can be added to net income disregards in the family credit formula (max. 70% of childcare costs)	–
United States	Federal Childcare and Development Fund provides subsidised day-care centres	–

Source: OECD.

Table 2.7. **Employment-conditional tax credits and benefits¹**

	Australia	Canada	Ireland	New Zealand	United Kingdom ²	United States ³
Name	Employment entry payment	Ontario start-up benefit	Back-to-work allowance, family income supplement, continued child dependent payment, and part-time job incentive	Family tax credit	Working families tax credit	Earned income tax credit (refundable)
Responsible department	Social security	Ontario SA administration	Social security	Tax administration	Tax administration	Tax administration
Beneficiaries	Unemployed lone parents or long-term Income Support recipients (12 months or more). Eligible only every 12 months	Social assistance recipients (eligible only every 12 months)	Long-term unemployed/ individuals and families with low salaries/wages	Families (employees) with low salaries	Working parents with low income	Working families with children and individuals with low salaries
Maximum benefit	AUD 100 (USD 77)	CAD 253 (USD 216)	All four benefits have different criteria and benefit amounts	Ensures a minimum net income of NZD 15 080 (USD 10 288) per annum before family and housing benefits	GBP 90.00 (USD 138) per week	USD 2 312 USD 3 816 USD 347 per annum
Minimum earnings	None	None	None	Depend on family type	None	None
Phase in rate	None	None	None	None	None	34% 40% 7.65% of gross income
Earnings when phasing out begins	Lump sum paid when entering full-time employment	Lump sum paid to people who begin/ change employment or join training programme	FIS: ceasing when net family income equals earnings limit (depending on family size). The other three benefits are not affected by income	NZD 15 080 (USD 10 288) net per annum before family and housing benefits	GBP 90.00 per week (USD 138) of net income	USD 12 460 USD 12 460 USD 5 670 per annum
Withdrawal rate	–	–	–	100%	55%	15.98% 21.06% 7.65% of gross income
Minimum hours worked	Full-time	No limit	Varying conditions apply	30 hours per week for 2-parent family, 20 hours per week for lone parent	16 hours, supplement for 30 hours or more	No limit
Family type	Individual based. People below 18 receive AUD 50 (USD 39)	Adults of SA beneficiary families	FIS and CCDP: families with children. BTWA: individual based. PTJI: family based	Families with children	Families with children	Families with children/ individuals

1. 1999 purchasing power parities are used to calculate USD values.

2. Rates depend on age and number of children.

3. First figure is for 1-child families, 2nd for two or more children, 3rd for no children.

Source: OECD.

They receive 75% of the social welfare payment for the first year, 50% for the second year and 25% for the third year. To be eligible for Family Income Support (FIS), the claimant or claimants (as couples can add their hours together), must be working at least 19 hours per week. The FIS benefit is equal to the difference between the net family income and the settled earnings limit which varies with family size. Continued Child Dependant Payment implies that childcare benefits are prolonged to 13 weeks on the condition that the recipient gets an employment for a least 4 weeks.

Lone-parent benefits

Table 2.8 presents an overview of the treatment of lone-parents in tax and benefit schemes in OECD countries.

The benefit schemes differ across countries. Some countries provide special rates in SA (the Czech Republic, Germany), or in UI and SA (the Netherlands), in some cases with less strict income and/or activity tests than for the rest of recipients. Australia, France and Ireland have a particular scheme to guarantee or supplement income of lone parents who are partly or totally out of the labour market, with more or less strict income tests. In practice these two forms of treatment of lone parents are not different. As they are means-tested, they interact with other benefits and in fact result in lone parents without other means receiving benefits which are higher than benefits for singles and lower than benefits for couples with the same number of children.

Other countries have tax allowances, that in fact are equivalent to benefits increasing with the level of income and do not affect people below the level of income where their tax liability would be zero.

The only countries where non income-related and non conditioned to non-activity lone-parent benefits exist are Denmark, Finland, Hungary, Iceland, Japan and Sweden. Except in Japan and Sweden, where there is a separate benefit, these non means-tested benefits are supplements to family benefits, under the same conditions as the basic family benefits for the rest of parents. Finally, Canada has a tax credit and Luxembourg, the Netherlands and Spain offer tax allowances.

Column 2 of Table 2.8 shows an estimation of the benefit amount for a lone parent with two children under 4 years old. Figures correspond to the separate non means-tested benefits when they exist, or to the supplements paid to lone-parents in family benefits when those benefits are higher for lone-parents than for couples with the same number of children. In the rest of the countries the amounts of the means-tested benefits where lone parents have special rates, or of the separate means-tested lone-parent benefits, are indicated in column 1. Note that these amounts are not comparable with the amounts of universal lone-parent benefits of columns 2.

Social assistance

People without resources can, in most OECD countries, fall back on government-provided financial assistance. Table 2.9 shows the maximum social assistance payment rates for three different family types used in this study. Eligibility for social assistance is limited by income and assets tests that are very restrictive in some cases (*e.g.* Norway, Sweden). In some countries, payments might be low, but access can be less restricted, with families allowed to retain some assets (*e.g.* the Netherlands, the United Kingdom) or to keep the benefit payments for a period when re-entering paid employment (*e.g.* France, Italy). For further details on income tests see Section 4 of this chapter.

SA payment rates are not comparable to each other insofar as they differ in their contents. For instance, in Germany and the Slovak Republic, payment rates include family benefits. In this area of the benefit system more than any other, simply looking at the level of benefit entitlements can lead to a misleading assessment of the “generosity” of the benefit system. However, Table 2.10, which shows the net income under social assistance for the same three family types as in Table 2.9, gives a better estimate of the effect on the recipients’ net income of SA payment rates, supplementary benefits (family benefits, housing benefits or lone-parent benefits) and taxation, if taxes are deducted (Denmark, Iceland, Luxembourg). In some countries, the maximum amounts of SA payment rates are equal to the maximum amounts of net income under SA. These results are due to the fact that either

Table 2.8. Lone-parent tax and benefit schemes

	Type of benefit	Rate (yearly) ¹		Income test
		National currency	USD	
Australia	Higher rates for lone-parents in payments to non-active parents (AUD 8 926/year)	–	–	Reduction: 50% of earnings above AUD 102/fortnight plus AUD 24/fortnight per child
Austria	–	–	–	–
Belgium	–	–	–	–
Canada	Tax credits: treatment for lone parents as if there was dependent spouse and special treatment in other credits	–	–	–
Czech Republic	Increase of 5% in social assistance supplements for children	–	–	Same as in SA
Denmark	Family benefit supplement for children under 17	13 168	1 544	Non means-tested
Finland	Family benefit supplement and an additional lump sum for maintenance support	20 088	3 268	Non means-tested
France	Guarantee of a level of income for lone parents. The payment ceases when the youngest child reaches 3 years old or after 12 months of support if the children are older (FRF 64 392/year)	–	–	Reduction: 100% of net income
Germany	Special SA rates (DEM 30 053/year)	–	–	Same as in SA
Greece	–	–	–	–
Hungary	Family benefit supplement for children under 16	16 800	167	Non means-tested
Iceland	Family benefit supplement (income-tested) plus special supplement (non income-tested)	124 291 +44 364	1 455 +519	FB reduction: 9% of income above ISK 584 784
Ireland	Personal rate and extra amounts for each child (IEP 5 403/year)	–	–	Reduction: 50% of earned income above IEP 15.38/week. 50% of UI basic rate and 100% of children UI supplement
Italy	None. Family benefits per child are in fact lower for a lone parent than for a married couple with the same number of children	–	–	–
Japan	Personal rate plus supplement per child	568 440	3 595	Non means-tested
Korea	–	–	–	–
Luxembourg	Tax allowance: LUF 77 400	–	–	Non means-tested
Netherlands	Tax allowance: NLG 8 799. Special rates in UI (NLG 41 637/year) and SA (NLG 21 592/year). No job-search requirements for SA until the oldest child is 5	–	–	Same as in UI and SA
New Zealand	Special UA rates (NZD 14 489/year). Less strict income tests and less strict activity tests	–	–	–
Norway	For lone parents with children under 8: personal rate (NOK 174 659), plus supplement (NOK 26 377/year) FB: lone parents receive benefits for one child more than the actual number	– FB: 13 090	– 1 379	Lone parent: 40% reduction of wage and UI exceeding NOK 23 500 FB: non means-tested
Poland	–	–	–	–
Portugal	–	–	–	–
Slovak Republic	–	–	–	–
Spain	Personal tax allowance: PTE 350 000 higher than for singles	–	–	–
Sweden	Separate benefit for children under 16	28 152	2 926	Non means-tested
Switzerland	–	–	–	–
United Kingdom	Special SA rate for lone parents (GBP 6 081/year)	–	–	Weekly earnings disregards of GBP 15
United States	–	–	–	–

1. 1999 purchasing power parities are used to calculate USD values (1998 for the Czech Republic).

Source: OECD.

Table 2.9. **Maximum social assistance monthly amounts**

	Single ¹		Couple with two children ¹		Lone parents with two children ¹		Determination of rates
	National currency	USD	National currency	USD	National currency	USD	
Australia	—	—	—	—	—	—	—
Austria	5 456	402	6 203	457	3 928	289	Regionally determined
Belgium	21 333	575	28 445	767	28 445	767	Social worker discretion
Canada	520	444	1 150	982	1 039	887	National rates
Czech Republic	3 430	252	8 437	621	7 360	541	Regionally determined
Denmark	7 034	825	11 766	1 380	9 389	1 101	National rates
Finland	2 754	448	5 082	827	1 975	321	National average
France	2 202	332	1 533	231	890	134	National rates
Germany	546	276	1 529	772	1 583	799	National rates
Greece	—	—	—	—	—	—	—
Hungary	10 745	107	10 745	107	10 745	107	National guidelines
Iceland	53 596	627	96 473	1 129	49 899	584	National guidelines
Ireland	312	430	613	845	220	303	National guidelines
Italy ²	552 500	345	874 150	546	879 600	550	Regionally determined
Japan	97 190	614	211 900	1 340	166 760	1 055	Regionally determined
Korea	79 000	123	250 000	389	210 000	327	National rates
Luxembourg	33 392	823	56 168	1 384	39 472	973	National rates
Netherlands	1 400	705	1 999	1 007	1 799	906	National rates
New Zealand	—	—	—	—	—	—	—
Norway	4 823	508	9 334	983	0	0	Social worker discretion
Poland	264	144	753	409	508	276	National rates
Portugal	—	—	—	—	—	—	—
Slovak Republic	3 230	232	8 410	603	6 150	441	National rates
Spain	38 400	310	65 280	526	57 600	465	Regionally determined
Sweden	6 577	673	7 954	813	3 668	375	National guidelines
Switzerland	1 110	585	2 460	1 297	2 155	1 136	National guidelines
United Kingdom	223	341	626	956	507	775	National rates
United States ³	125	125	982	982	788	788	Regionally determined

1. 1999 purchasing power parities are used to calculate USD values (1998 for the Czech Republic).

2. Social assistance (*Reddito Minimo di Inserimento*) is at an experimental level and concerns only 39 municipalities.

3. Amounts include TANF (Temporary Assistance for Needy Families) and Food Stamps.

Source: OECD.

supplementary benefits are included in SA payment rates (the Slovak Republic), or they are not provided at all (Korea).

SA is usually paid to the entire household and the resources of the entire household are considered for the assessment (for further details on income tests see Section 4 of this chapter). How this study deals with the regional variation of the payment rates is indicated in the final right column. The words “national rates” refer to uniform rates that are paid throughout the country. Where national rates are recommended without being strictly enforced the table says: “national guidelines”. Where there is regional variation in payment rates, two approaches may be followed: the national average is known and used, otherwise the study uses a representative region (“regionally determined”). The country chapters, available on the OECD internet site (www.oecd.org/els/social/workincentives) give details about the determination of SA payment rates.

3. Tax treatment of benefits

Benefit income is treated as taxable income in many OECD countries, but often entitles the recipient to special allowances. Moreover, different benefits have different tax treatments. Table 2.11 offers an overview. The table employs abbreviations T and S where tax and social security contributions are payable respectively. The word “reduced” between brackets indicates that tax or social security

Table 2.10. **Maximum monthly amounts of net income under social assistance**

	Single ¹		Couple with two children ¹		Lone parents with two children ¹	
	National currency	USD	National currency	USD	National currency	USD
Australia	–	–	–	–	–	–
Austria	5 456	402	10 845	798	8 570	631
Belgium	21 333	575	39 537	1 067	39 537	1 067
Canada	520	444	1 533	1 309	1 423	1 215
Czech Republic	3 918	288	10 281	756	9 015	663
Denmark	7 672	900	12 812	1 502	13 424	1 574
Finland	4 316	702	8 226	1 338	6 793	1 105
France	2 202	332	4 370	660	3 761	568
Germany	1 119	565	2 544	1 284	2 504	1 264
Greece	–	–	–	–	–	–
Hungary	11 745	117	21 145	210	22 545	224
Iceland	62 560	732	149 262	1 747	92 277	1 080
Ireland	556	767	926	1 277	739	1 019
Italy ²	552 500	345	1 359 150	850	1 237 600	774
Japan	97 190	614	211 900	1 340	214 130	1 354
Korea	79 000	123	250 000	389	210 000	327
Luxembourg	35 746	881	72 195	1 779	56 279	1 387
Netherlands	1 911	962	2 838	1 429	2 638	1 329
New Zealand	–	–	–	–	–	–
Norway	6 792	715	11 858	1 249	11 573	1 219
Poland	384	209	943	513	698	379
Portugal	–	–	–	–	–	–
Slovak Republic	3 230	232	8 410	603	6 150	441
Spain	38 400	310	71 280	547	63 600	488
Sweden	6 577	673	11 517	1 178	9 577	980
Switzerland	2 114	1 114	3 464	1 826	3 159	1 665
United Kingdom	519	793	1 027	1 569	908	1 387
United States ³	125	125	982	982	788	788

1. 1999 purchasing power parities are used to calculate USD values (1998 for the Czech Republic).

2. Social assistance (*Reddito Minimo di Inserimento*) is at an experimental level and concerns only 39 municipalities.

3. Amounts include TANF and Food Stamps.

Source: OECD.

contributions are payable by beneficiaries but at a reduced rate. In some cases, benefits are taxable but the tax system is structured such that a year-long recipient will pay no tax; these are indicated by T(n). N indicates that the specific benefit is not taxable. Where a specific benefit does not exist, for example UA in Canada or UI in Australia, this is indicated by (–).

Benefit income in some countries (UI and UA in Austria and Germany and SA in the Netherlands) is calculated on the basis of net income and is therefore not taxable (indicated by an asterisk in Table 2.11).

4. Part-time and occasional work

UI, UA and SA benefits are intended to replace the absence of other sources of income and so are conditional upon the recipient not working. Other benefits discussed in Section 2 are means-tested and so may be also reduced when the beneficiary starts to work. Recipients of these benefits may find that the immediate financial consequences of starting to work are complex, with entitlement to some benefits lost and the amount of other benefits reduced. The financial incentive to take up occasional or part-time work is strongly influenced by the ways in which the benefit system interacts with small amounts of income from work. Many countries allow a limited amount of earnings without reducing benefit receipt, in an attempt to ensure that there is at least some incentive to work. In most OECD countries the right of a jobless person who re-enters part-time paid employment with a low income to receive benefits is an explicit part of a strategy to facilitate the transition from unemployment back to work.

Table 2.11. Tax treatment of benefits¹

	Unemployment insurance	Unemployment assistance	Family benefits	Lone-parents benefits ²	Housing benefits	Social assistance
Australia	–	T(n)S(n)	N	–	N	–
Austria	*	*	N	–	–	N
Belgium	T(n)	–	N	–	–	N
Canada	T	–	–	–	–	N
Czech Republic	N	–	N	–	–	N
Denmark	TS(reduced)	–	N	N	N	TS(reduced)
Finland	TS(reduced)	TS(reduced)	N	N	N	N
France	TS(reduced)	T(n)S(n)	N	–	N	N
Germany	*	*	N	–	N	N
Greece	T(reduced)S	N	N	–	–	–
Hungary	TS	N	N	N	N	N
Iceland	TS	–	N	TS	TS	TS
Ireland	T(n)	N	N	–	N	N
Italy	T	–	N	–	–	N
Japan	N	–	N	N	N	N
Korea	N	–	–	–	–	N
Luxembourg	TS	–	N	–	T(n)S(reduced)	TS(reduced)
Netherlands	TS	TS	N	–	N	*
New Zealand	–	TS	N	–	N	–
Norway	TS	–	N	–	N	N
Poland	T	–	N	–	N	N
Portugal	N	N	N	–	–	–
Slovak Republic	N	–	N	–	–	N
Spain	TS(reduced)	T(n)	T(n)	–	–	T(n)
Sweden	TS	TS	N	N	N	N
Switzerland	TS(reduced)	–	T	–	–	N
United Kingdom	T(n)S(n)	TS	N	–	N	N
United States	T	–	N	–	–	N

1. T indicates that taxes are payable, S that social security contributions are payable, and N that neither taxes nor social security contributions are levied. T(n) shows that the system is structured such that long-term recipients will not pay because credits, allowances or zero rate bands exceed the benefit level. T(reduced) indicates that a reduced tax rate is payable for beneficiaries. S(reduced) indicates that social security contributions are payable at a reduced rate for beneficiaries. (–) indicates that there is no specific scheme and * that unemployment insurance and assistance are set as a proportion of after tax income (and are thus not taxable).

2. Lone-parent benefits: only countries that provide FB supplement or specific non means-tested benefits.

Source: OECD.

Table 2.12 indicates, for those of UI, UA or SA benefits where disregards are considered, the resource unit of the means-test (*i.e.* are benefit criteria based upon the individual's earnings or the household's earnings), the amount of income that is disregarded in the means-test and the rate at which the benefit is reduced after the disregard; together with other details of the test.

When the resource unit of the means-test is the household, the benefit amount available to other household members (*e.g.* non-working spouses) is affected by the beneficiary's decision to work (see also Chapter 4). This plays a role in determining incentives for households consisting of several possible working members. There is a trade-off between verifying that a family has sufficient means and ensuring that both partners pursue available opportunities to re-enter paid employment.

5. Young unemployed

Young unemployed people just leaving school have no record of previous employment and will consequently often not qualify for unemployment benefits as these are conditional on having a work record in most countries (as noted in Tables 2.2 and 2.3).

Several OECD countries, however, have specific programmes, or specific rates and conditions in programmes as UI, UA or SA, to provide support to young people who find themselves unemployed. Table 2.13 outlines benefits that would be available for the case of a 20-year-old unemployed single person living alone without any family responsibilities and without an employment record. In the first

Table 2.12. **Casual employment and benefit receipt**

	Scheme	Income test	Maximum disregard ¹	Withdrawal rate/observations
Australia	UA	Individual Household	AUD 60/fortnight AUD 503.86/fortnight (spouse's income)	50% up to AUD 140, then 70% 70%. Assets test is applied
Austria	UI	Individual Household	ATS 3 899/month ATS 14 000/month (spouse's income)	Benefit ceases when income exceeds disregard 100%
Belgium	UA	Household	ATS 5 781/month (spouse's income)	100%
	UI	Individual	At the discretion of the local unemployment agency	Benefit ceases when income exceeds disregard
	SA	Household	BEF 12 500/year with children BEF 10 000/year for others	100%
Canada	UI	Individual	25% of weekly benefits or CAD 50/week (whichever is higher)	100%
	SA	Household	Depends on family size	75%
Finland	UI	Individual	Combined benefits and income from part-time work must not exceed 90% of reference earnings	50%
	UA	Household	FIM 5 040/month for a couple FIM 3 700/month for a single + FIM 630/year per child	50%
France	UI	Individual	70% of the reference earnings Working up to 136 hours/month during 18 months	Benefit payment is reduced according to the ratio of the current earnings on the reference earnings
	UA	Household	FRF 3 296.80/month for singles, FRF 6 593.60/month for couples, during 12 months	100%
	SA	Household	Accumulation of wages and SA benefits during 12 months	The first 3-month SA is full-payment, then reduced to 50% during the 9 remaining months
Germany	UI	Individual	Working up to 15 hours per week	Benefit ceases when income exceeds disregard
	UA	Household	DEM 13 067/year (spouse's net income)	Benefits reduced by 47%
	SA	Household	DEM 275/month	100%
Hungary	UI	Individual	50% of the minimum wage (HUF 11 250/month)	Benefit ceases when income exceeds disregard.
	UA	Individual	50% of the maximum benefit (HUF 6 140/month)	Benefit ceases when income exceeds disregard
Iceland	UI	Individual	Working up to 2 days in a row	Working > 2 days removes benefit entitlement
Ireland	UI	Individual	Working a day or part of a day	No benefit payment for the working day
	UI, UA	Household	IEP 60/week	100% between IEP 60/week and IEP 105/week. Earnings exceeding IEP 105/week, benefits are suspended
	UA	Individual	Working up to 3 days per week	UA benefits minus 60% of average net weekly earnings. Assets test is applied
Italy ²	SA	Household	25% of income from work	100%
Japan	SA	Household	JPY 8 340/month	100%. Disregard threshold varies with monthly gross earnings
Korea	UI	Individual	60% of UI benefits Working up to 80 hours/month	Benefit ceases when income exceeds disregard
Luxembourg	UI	Household	250% of the social minimum wage (spouse's income)	50%
	SA	Household	20% of standard payment rate in gross earnings	100%
Netherlands	UI, UA	Individual	Less than 5 hours worked More than 5 hours worked	30% Benefits are reduced in proportion to the number of hours worked
	SA	Household	NLG 9 850 for singles (assets) NLG 19 700 for couples (assets)	100%
New Zealand	UA	Individual	NZD 80/week	70%
Poland	UI	Individual	PLN 32 667/month (half the minimum pay)	100%
Portugal	UI	Individual	Working part-time with some requirements	100%
United Kingdom	UI, UA, SA	Household	GBP 5/week for singles, GBP 10/week for couples, GBP 15/week for special cases	100%. People with savings above GBP 8 000 are not eligible (UA, SA)
United States	FS ³	Household	Working up to 20 hours/week Gross income up to USD 1 782/month Net income up to USD 1 371/month	Benefit ceases when income exceeds disregard

1. Disregards can be calculated based upon gross earnings, gross earnings plus gross benefits, or net income.

2. Social assistance (*Reddito Minimo di Inserimento*) is at an experimental level and concerns only 39 municipalities.

3. FS = Food Stamps.

Source: OECD.

Table 2.13. **Benefit schemes for the young unemployed**

	Scheme	Benefit amount (monthly)		Duration (months)	Observations	Long-term: SA available?
		National currency	USD			
Australia	UA (Youth Allowance) + HB	579 +165	447 127	Unlimited	AUD 381.33 are paid to those between 18 and 20 living at home	–
Austria	–	–	–	–	For those under 25, only 26-week employment record qualifies for UI (<i>versus</i> one year in general case). Duration is reduced from 10 to 8 months	Y
Belgium	UI (allocation d'attente)	12 948	349	8	Benefits vary according to age groups	Y
Canada	–	–	–	–	–	Y
Czech Republic	UI + HB	3 430 +488	252 36	6	–	Y
Denmark	UI (Newcomer benefit) + HB	8 297 +560	973 66	60	–	Y
Finland	UA (Labour market support) + HB	1 561 +1 562	253 254	Unlimited	Young people 17 and over living with their parents get 60% of UI basic rate	Y
France	–	–	–	–	–	N
Germany	Only HB	533	269	–	–	Y
Greece	UI	25 000	104	5	–	–
Hungary	Only HB	1 000	10	–	–	Y
Iceland	Only HB	9 311	109	–	–	Y
Ireland	UA	319	440	Unlimited	–	Y
Italy	–	–	–	–	–	N
Japan	–	–	–	–	–	Y
Korea	–	–	–	–	–	Y
Luxembourg	UI	32 327	796	12	It is 70% of minimum wage. Under 18 years old, 40% of minimum wage. After 6 months waiting period	N
Netherlands	Only HB	511	257	–	–	Y
New Zealand	UA + HB	628 +282	428 192	Unlimited	Independent Youth Benefit: NZD 580/month payable for those 16 and 17 years old	–
Norway	–	–	–	–	–	Y
Poland	UI + HB	394 +120	214 65	12	It is 60% of UI basic rate. School leavers referred to training or young unemployed in regions with high unemployment rates	Y
Portugal	–	–	–	–	–	–
Slovak Republic	UI	3 790	272	6	–	Y
Spain	–	–	–	–	–	Y
Sweden	UA	5 200	532	10	Available from 20 years old	Y
Switzerland	–	–	–	–	–	Y
United Kingdom	UA + HB	176 +296	269 452	Unlimited	Participation in training is compulsory	Y
United States	–	–	–	–	–	Y

"Y": SA exists and is available for the young unemployed. "N": SA exists but is not available for the young unemployed.

Source: OECD.

column of this table the different patterns of benefits are presented. Belgium, the Czech Republic, Greece, Luxembourg, Poland and the Slovak Republic provide the young unemployed with unemployment benefits at special rates and limited duration. In Denmark there are also special rates of unemployment benefits for this group, but the duration is the same as for the rest of the unemployed.

In other countries (Australia, Finland, New Zealand and the United Kingdom) unemployment assistance is available for young persons at reduced rates. In Ireland unemployment assistance is available for any unemployed person who does not qualify for unemployment benefits, though no special rules apply for young persons. When no UI or UA benefits are provided, they still can have access to housing benefits (HB), as is the case in Germany, Hungary, Iceland and the Netherlands. HB are also available for young unemployed who receive specific benefits in Australia, the Czech Republic, Denmark, Finland, New Zealand, Poland and the United Kingdom.

Column 2 shows the maximum benefit amounts. When housing benefits are available for the case considered here, their amount is calculated separately as the duration and conditions for receiving housing benefits are different from the other benefits. Column 4 refers to the duration of the special benefits for the case considered here. Column 5 provides further details on these or other benefits for young unemployed.

The availability of SA for young people is reflected in the last column. In most countries no special rules are specified for young persons in SA regulations, though SA rates generally depend on family situation. In Australia, Denmark, the Netherlands and the United Kingdom rates depend also on age and reduced rates apply for young persons. In some countries young persons are explicitly disqualified for SA as a minimum age is required (25 years in France; 30 in Luxembourg).

COMPARATIVE TABLES AND CHARTS

Introduction

This chapter contains comparative information on net incomes, calculated using the assumptions given in the Annex and Chapter 2 and the country specific information (available on www.oecd.org/els/social/workincentives). Section 1 provides several examples of how in-work and out-of-work net incomes can be calculated. Comparisons of in-work and out-of-work incomes enable Net Replacement Rates (NRRs) to be calculated, and also permit analysis of how net income changes as earnings increase. Section 2 considers the benefit incomes and NRRs facing different family types in the initial phase of unemployment. Section 3 presents the same information, but this time for long-term benefit dependants. Section 4 considers the NRRs facing young persons. Section 5 presents NRRs facing lone parents taking into account childcare costs and benefits as a component of in-work income. In Section 6, NRRs over 60 months of unemployment are calculated for each family type and summarised in a global indicator. Finally, Section 7 uses information on in-work and out-of-work gross incomes to update a historical series of benefit entitlements.

The scenarios presented in this publication correspond in most instances to four family types: a single person, a married couple with the spouse not in the labour market, a married couple with two children aged 6 and 4 (again assuming that the spouse does not work and does not have one employment record to qualify for unemployment benefit), and a lone parent with two children aged 6 and 4. Unless otherwise stated (for example in Section 4 describing the situation of unemployed youth) it is assumed that the principal earner is 40 years old and has 22 years of work experience at the moment when he/she becomes unemployed. In general childcare costs and childcare benefits are not considered for the calculation of NRR (except in Section 5).

The out-of-work incomes are calculated for two earnings levels: a worker earning 100% of the APW¹ earnings level and 66.7% of the APW earnings level. The family is supposed to have housing costs (rents) equal to 20% of APW (see Chapter 2).

1. Concepts in analysing net incomes

Example 1: the composition of net income

Net income consists of various components. The main elements are gross earnings for working people and unemployment or assistance benefits for unemployed people. Income taxes and social security contributions have to be deducted from that amount to arrive at the net income. In some cases, depending on family size and income, supplementary benefits are payable and are added to the net income. In this publication other possible income components (*i.e.* self-employment income, investment income, etc.) are not included.

Table 3.1 includes examples of the calculation of net income for a couple with two children and for a lone parent with two children, living on unemployment benefits and on social assistance benefits. Tables structured like this are included in each of the country chapters available on the OECD internet site (www.oecd.org/els/social/workincentives). The example here is based on the benefit and tax information for Sweden. The lone parent or one of the partners was previously working at an average wage (APW). The two children are 6 and 4 years old. The table is divided into two columns. The first column lists the

Table 3.1. **Tax/benefit position of unemployed households with two children in Sweden, 1999**

	Unemployment insurance: 60 weeks (kronor)	Social assistance (kronor)
Taxable benefits		
Means-tested benefits		
Non means-tested benefits		
Unemployment insurance	150 800	
Cash labour market assistance		
Total taxable benefits	150 800	0
Income tax and social security contributions		
Income tax allowances	14 000	
Taxable income	126 300	
Income tax	-1 130	
Local tax	38 835	
Social security contributions	10 500	
Total income tax and social security contributions	48 205	0
<i>A. One-earner couples with 2 children</i>		
Non-taxable benefits		
Means-tested benefits		
Social assistance		95 444
Housing benefits	6 304	24 764
Non means-tested benefits		
Family benefits	18 000	18 000
Total non-taxable benefits	24 304	138 208
Net income out of work	126 900	138 208
Net income in work	163 283	163 283
Net Replacement Rate (%)	78	85
<i>B. Lone parents with 2 children</i>		
Non-taxable benefits		
Means-tested benefits		
Social assistance	0	44 012
Housing benefits	18 004	24 764
Non means-tested benefits		
Family benefits	18 000	18 000
Lone-parent benefits	28 152	28 152
Total non-taxable benefits	64 156	114 929
Net income out of work	166 752	114 929
Net income in work	195 470	195 470
Net Replacement Rate (%)	85	59
<i>Source:</i> OECD tax-benefit models.		

components of net income in the initial situation for unemployed people who receive unemployment insurance benefits. The second column applies to people who receive social assistance.

In Sweden UI benefits are calculated as 80% of the previous earnings and is subject to a maximum amount of 150 800 per year. As 80% of the APW (SEK 220 644) amount to SEK 176 515, the maximum amounts are paid to the beneficiaries. UI benefits are taxable. After income tax allowances, the taxable income amounts to SEK 126 300, which is below the threshold for national taxation, but from which is deducted a local tax of SEK 38 835. Everyone with taxable income is entitled to a refundable tax credit, which stands at SEK 1 130 in the two cases considered in the tables. UI beneficiaries pay social security contributions (SEK 10 500).

A couple and a lone parent with two children are entitled to non-means-tested family benefits (SEK 18 000). In addition to family benefits, lone parents receive a special non-means-tested benefit of SEK 28 152 (for two children). In Sweden housing benefits are not taxable but they are means-tested.

The thresholds of earnings disregards differ depending on the family composition. Lone parents with two children have a higher threshold of earnings disregards, although the subsidy rate for the means-test is identical to the one for a couple with two children. Thus the amount of housing benefits for a lone parent is more important (SEK 18 004) than the amount for a couple with two children (SEK 6 304).

To calculate the household's out-of-work net income, the housing benefits, family benefits and lone-parent benefits are added to the UI benefits from which the total income tax is deducted. A couple with two children will finally receive SEK 126 900 out-of-work net income, and a lone parent with two children, SEK 166 752. Were one of the partners or a lone parent to be working full-time and earning the average wage (APW), net family income would be SEK 163 283 for a couple with two children and SEK 195 470 for a lone parent with two children. Net income in work is higher for lone parents as they receive supplementary non means-tested benefits as a result of their family status. The ratio of net income out of work and net income in work is the Net Replacement Rate, equal to 78% for a couple with two children and 85% for a lone parent with two children.

The same calculations can be performed for a long-term benefit recipient, replacing unemployment insurance by social assistance. The amount of social assistance varies according to the family composition, so that a couple with two children receives SEK 95 444 and a lone parent with two children receives SEK 44 012. Family benefits and lone-parent benefits are not linked to family income, so their respective amounts are SEK 18 000 and SEK 28 152. Both of the households receive the same amount of housing benefits (SEK 24 764), as their incomes are below the threshold of earnings disregards. After the calculation of their net income out of work and net income in work, the Net Replacement Rate for a couple with two children living on social assistance is 85%; and it is 59% for a lone parent with two children.

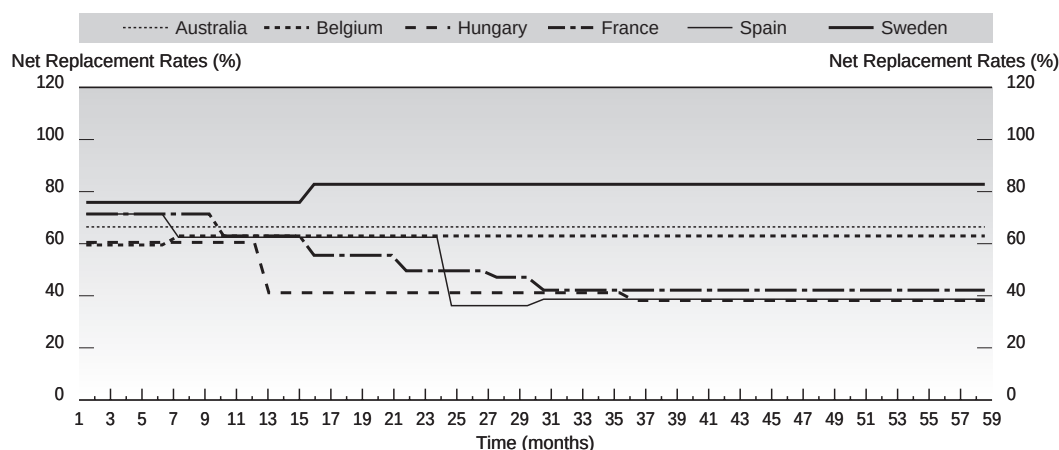
Example 2: Net Replacement Rates over time

Together with the Net Replacement Rate, the duration of benefit payments is an important aspect of benefit sufficiency. A lower level of benefits with indefinite duration might have a more substantial effect on labour market behaviour and family living standards than a high benefit that is paid for only a few months.²

Figure 3.1 shows Net Replacement Rates plotted for six OECD countries over a five-year period. Net Replacement Rates are calculated for a one-earner couple with two children aged 4 and 6.

The figure clearly illustrates how the initial ranking of replacement rates can change substantially over time. In Australia, a flat level of unemployment assistance benefit is paid indefinitely. In Sweden, after exhaustion of unemployment insurance benefits of which duration is 15 months, claimants who

Figure 3.1. **Net Replacement Rates over a five-year period**
For a one-earner couple with two children



Source: OECD tax-benefit models.

have no means of support are entitled to social assistance benefits. SA benefit in Sweden is higher than unemployment benefit, reflecting the fact that unemployment benefit is conceived for the individuals while SA is for the family. Note that the family type considered here, with the spouse out of the labour market, has a very low incidence in Sweden.

In Belgium, benefits are related to previous earnings and are paid, for an indefinite duration in some circumstances. A slight increase after 6 months is caused by an increase in child benefits for long-term unemployed people. In Hungary, unemployment insurance benefits are related to previous earnings. After twelve months of unemployment insurance and twenty-four months of unemployment assistance, social assistance follows. In Spain, unemployment insurance benefits are related to previous earnings, in two stages with a decreasing rate. After six months of unemployment assistance, social assistance is paid if the family has no other source of income. In France, unemployment insurance rates, which depend on beneficiary's previous earnings, decrease according to a graduated scale. Unemployment assistance follows after 30 months of unemployment insurance.

Example 3: Marginal Effective Tax Rates

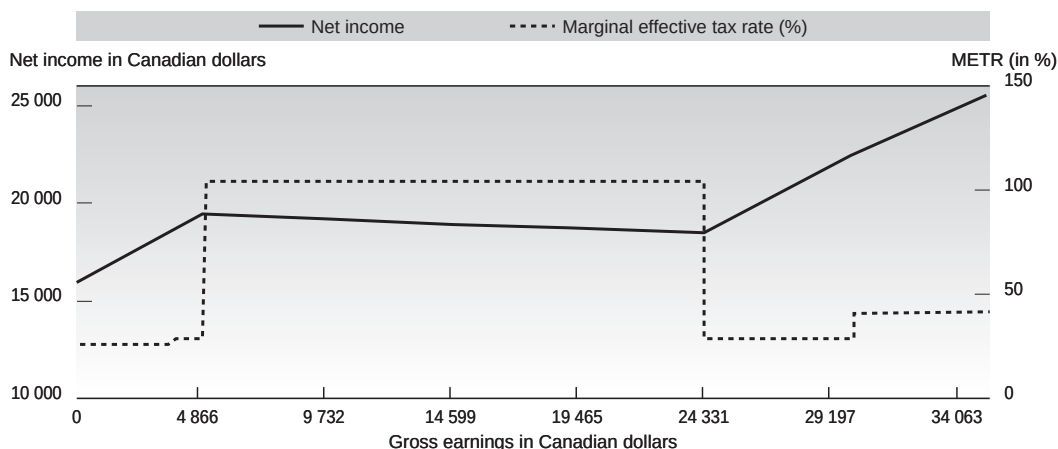
When unemployed move back to work, or when employees increase the number of hours worked, the increase in gross salary interacts with the corresponding tax and benefit system so that the effect on net income may greatly differ across countries. The amount of additional earnings that is either paid through income taxes or social security contributions, or is deducted from benefit payments, at each level of gross income, is of particular interest to those concerned with work incentives.

In addition to unemployment benefits, those on low incomes may also be in receipt of income-tested benefits. As earnings increase, not only do taxes increase, but benefit income falls. The combined effects of increased taxation and reduced benefits, defined as the percentage of additional gross income that results in taxes paid or benefits lost, are called Marginal Effective Tax Rates (METRs).³ An example is given in Figure 3.2 for a single person living in Canada.

METRs are calculated as a function of earnings as the number of days worked increases. In the horizontal axis gross earnings range from zero (*i.e.* 0 days worked per week) to the Canada APW salary (CAD 34 689), which corresponds to a full-time employed person with an APW salary.

Figure 3.2 illustrates how net income and METR are affected by increased earnings. The thicker line represents net income, plotted against the left axis; the dotted line shows the METR, plotted against the right axis.

Figure 3.2. **Marginal Effective Tax Rates for a single person living in Canada, 1999**



Source: OECD tax-benefit models.

In Canada there are three stages in the evolution of the METR. In the first stage, as gross earnings increase, net income increases too. The net income is composed by the sum of gross earnings, from which taxes and social security contributions are deducted, and the unemployment benefits, taxable but not subject to social security contributions. A recipient of unemployment benefits can accumulate income from work up to 25% of the unemployment benefits (CAD 4 770 in our example), which is the threshold of earnings disregards. The METR progresses according to the applied tax on the gross earnings and the social security contributions. A slight increase of METR occurs at CAD 3 500 gross income, which is the basic exemption in contributions for the Canada Pension Plan.

In the second stage, net income decreases as gross earnings increase. Gross earnings exceeding the unemployment insurance threshold of disregards, for one dollar earned, one dollar is subtracted from unemployment benefits. As unemployment benefits do not pay social security contributions, while the salaries by which they are replaced do pay these contributions, in this stage METR rises up to 105% and net income is a decreasing function of gross earnings.

The last stage starts when gross earnings reach CAD 23 850 and thus UI is completely withdrawn from net income. After this point, net income increases once again as gross earnings increase. As the deduction rate of unemployment benefit is not applied any longer and only social security contributions and income taxes are deducted from gross earnings, METR falls to 28%. The level of taxation increases by brackets. When gross earnings surpass CAD 29 590, the next federal tax bracket is entered (26%) causing the METR to increase to 41% where it remains as gross earnings continue to increase to full-time APW earnings.

2. Benefit income in the first month of receipt

Table 3.2 shows Net Replacement Rates calculated for those who find themselves in the initial period of unemployment after any waiting period has been completed (see Chapter 2 for details on

Table 3.2. **Net Replacement Rates for four family types at two earnings levels**

After tax and including unemployment benefits, family, and housing benefits in the first month of benefit receipt

	APW-level				66.7% of APW-level			
	Single	Married couple	Couple 2 children	Lone parent 2 children	Single	Married couple	Couple 2 children	Lone parent 2 children
Australia	33	29	62	47	45	39	77	59
Austria	60	62	76	73	61	64	82	78
Belgium	64	61	64	65	85	80	79	81
Canada	62	64	91	91	62	64	97	97
Czech Republic	49	67	70	71	66	69	70	72
Denmark	63	63	73	78	89	89	95	96
Finland	65	71	83	87	79	83	88	92
France	71	68	72	72	78	76	82	83
Germany	60	56	70	71	67	65	75	76
Greece	47	47	44	47	48	48	46	50
Hungary	48	48	60	61	65	65	75	76
Iceland	55	50	66	68	74	66	79	85
Ireland	31	44	57	52	42	59	67	59
Italy	42	44	53	50	39	40	49	47
Japan	67	65	64	70	82	79	77	82
Korea	55	55	54	55	54	54	54	54
Luxembourg	82	82	87	87	82	80	88	88
Netherlands	82	89	89	81	88	84	85	80
New Zealand	39	53	68	64	57	79	87	79
Norway	66	67	74	83	65	67	82	90
Poland	36	43	46	47	53	62	58	67
Portugal	79	78	79	80	88	86	87	87
Slovak Republic	79	77	78	80	77	75	77	79
Spain	74	74	73	76	76	72	76	77
Sweden	71	71	78	85	82	82	90	93
Switzerland	81	80	91	92	91	90	92	92
United Kingdom	46	46	49	49	66	64	54	55
United States	58	60	57	58	59	59	49	49

Source: OECD tax-benefit models.

unemployment benefits). Taxation is calculated by multiplying benefits received in the first month by 12 and determining annual tax liability as if the benefit level were to remain unchanged over the year. In each case it is assumed that the unemployed worker is 40 years old and has a 22 years uninterrupted employment record. Children are assumed to be aged 6 and 4. Childcare benefits are not included. Benefits are calculated for the main unemployment benefit. No social assistance is assumed to be paid, reflecting an assumption that the household has sufficient assets to be disqualified.

Net Replacement Rates (NRRs) are calculated for four family types (single, married couple, married couple with two children and lone parent with two children) and at two earnings levels (APW earnings and 66.7% APW earnings). The interaction of the tax and benefit systems (including unemployment benefits, family benefits, increased housing benefits or reduced tax payments on unemployed families, etc.) usually ensures that replacement rates are higher for couples where one spouse is not working than they are for single persons. Moreover, the NRRs for families with children are in most cases even higher, since the benefit systems focus particular attention on protecting children.

Tables 3.3 and 3.4 indicate the importance of different income sources in the initial phase of benefit receipt for a single person and a one-earner couple with two children respectively. The total benefit income in the initial phase of unemployment is split into its different components. In each case, calculations are made assuming that the unemployed person previously earned the APW earnings. Sources of income other than unemployment benefits are often very important to families with children.

3. Benefit income for long-term benefit recipients

Tables in this section mirror those in the previous section, but are based on benefits received by long-term benefit recipients. It is assumed that the household first claimed benefits 60 months

Table 3.3. **Composition of the net benefit income of a single person**

Initial phase of benefit receipt

	Income components					Net income
	Unemployment insurance	Unemployment assistance	Family benefits	Housing benefits	Income taxes	Out of work
Australia	–	81	0	19	0	100
Austria	100	0	0	–	0	100
Belgium	100	–	0	–	0	100
Canada	120	–	0	0	–20	100
Czech Republic	98	–	0	2	0	100
Denmark	150	–	0	1	–51	100
Finland	117	0	0	9	–26	100
France	113	0	0	0	–13	100
Germany	99	0	0	1	0	100
Greece	104	0	0	–	–4	100
Hungary	134	0	0	5	–39	100
Iceland	90	–	0	13	–3	100
Ireland	100	0	0	0	0	100
Italy	101	–	6	0	–7	100
Japan	100	–	0	0	0	100
Korea	100	–	–	–	0	100
Luxembourg	129	–	0	0	–29	100
Netherlands	132	0	0	6	–38	100
New Zealand	–	81	0	31	–12	100
Norway	134	–	0	0	–34	100
Poland	94	–	0	8	–2	100
Portugal	100	0	0	–	0	100
Slovak Republic	100	–	0	–	0	100
Spain	112	0	0	–	–12	100
Sweden	147	0	0	0	–47	100
Switzerland	111	–	0	0	–11	100
United Kingdom	43	0	0	57	0	100
United States	116	–	0	–	–16	100

(–): These benefits do not exist in this country.

Source: OECD tax-benefit models.

Table 3.4. **Composition of the net benefit income of a one-earner couple with two children**

Initial phase of benefit receipt

	Income components					Net income
	Unemployment insurance	Unemployment assistance	Family benefits	Housing benefits	Income taxes	Out of work
Australia	–	60	32	8	0	100
Austria	74	0	26	–	0	100
Belgium	81	–	19	–	0	100
Canada	103	–	10	0	–13	100
Czech Republic	77	–	12	11	0	100
Denmark	102	–	15	9	–26	100
Finland	89	0	15	17	–21	100
France	81	0	9	17	–7	100
Germany	72	0	17	11	0	100
Greece	99	0	6	–	–5	100
Hungary	83	–	28	3	–14	100
Iceland	59	–	28	13	0	100
Ireland	90	0	10	0	0	100
Italy	67	–	33	–	0	100
Japan	100	–	0	0	0	100
Korea	100	–	–	–	0	100
Luxembourg	96	–	16	0	–12	100
Netherlands	97	0	8	16	–21	100
New Zealand	–	82	19	11	–12	100
Norway	103	–	15	–	–18	100
Poland	67	–	12	21	0	100
Portugal	90	0	10	–	0	100
Slovak Republic	83	–	17	–	0	100
Spain	105	0	0	–	–5	100
Sweden	119	0	14	5	–38	100
Switzerland	95	–	10	0	–5	100
United Kingdom	36	0	17	47	0	100
United States	103	–	0	–	–3	100

(–): These benefits do not exist in this country.

Source: OECD tax-benefit models.

previously, with the result that insurance benefits have, in most countries, been exhausted by this time. In contrast to the tables in the previous section, it is assumed that families are not disqualified from social assistance because of any means-tests. Table 3.5 presents Net Replacement Rates for four family types at two earnings levels (APW earnings and 66.7% of APW earnings).

Tables 3.6 and 3.7 indicate the importance of different income sources after an extended period of benefit receipt for a single unemployed person and a married couple with two children respectively. The Net Replacement Rates are based on the assumption that social assistance tops up low income, where appropriate.

4. Benefit income for young unemployed

Young unemployed people just leaving school have no record of previous employment and will consequently often not qualify for UI benefits which are conditional on having a work record in most countries (as noted in Tables 2.2 and 2.3). Some countries have special provisions for young unemployed, while in other countries the benefit amounts are related to age and employment record. For further details on the benefits available for young unemployed and their duration, see Chapter 2.

Table 3.8 assumes a 20-year-old unemployed single person living alone without any family responsibilities and without an employment record. Net Replacement Rates are calculated at two earnings levels (APW earnings and 66.7% of APW earnings), both at the initial phase of unemployment and long-term. “Initial” refers to unemployment insurance (UI) or unemployment assistance (UA) benefits, while “long-term” concerns social assistance benefits (SA). In both cases housing benefits are included in the calculations when applicable.

Table 3.5. **Net Replacement Rates for four family types at two earnings levels**

After tax and including family and housing benefits for long-term benefit recipients

	APW level				66.7% of APW level			
	Single	Married couple	Couple 2 children	Lone parent 2 children	Single	Married couple	Couple 2 children	Lone parent 2 children
Australia ¹	33	29	62	47	45	39	77	59
Austria ¹	55	57	72	69	58	59	78	74
Belgium ¹	45	57	68	69	60	80	84	86
Canada	24	41	62	60	35	57	81	80
Czech Republic	37	60	80	74	54	84	100	96
Denmark	60	69	80	79	85	96	102	97
Finland	53	71	89	62	73	92	100	69
France ¹	30	28	42	43	43	41	59	60
Germany ¹	54	52	65	63	63	61	71	71
Greece ¹	8	8	10	11	8	8	11	12
Hungary	28	28	38	40	28	28	39	41
Iceland	50	74	87	65	68	97	104	80
Ireland ²	31	43	56	56	41	59	66	64
Italy ³	0	4	18	14	0	5	21	17
Japan	33	47	68	61	49	69	87	84
Korea	6	11	18	16	9	16	27	23
Luxembourg	50	67	75	59	70	92	93	82
Netherlands	60	69	71	61	74	83	85	76
New Zealand ¹	39	53	68	64	57	79	87	79
Norway	43	52	62	58	53	73	83	69
Poland	33	50	74	56	48	72	93	81
Portugal ¹	49	60	63	64	70	86	87	87
Slovak Republic	38	62	80	60	54	90	100	100
Spain	23	28	39	37	32	40	57	51
Sweden ⁴	54	71	85	59	79	102	110	70
Switzerland	54	68	75	69	78	99	100	96
United Kingdom	46	57	80	71	66	80	88	81
United States	7	12	46	38	10	17	59	48

1. NRRs are based in SA except in Australia, Austria, France, Germany, Greece, New Zealand and Portugal, where NRRs are based on unemployment assistance, and in Belgium where UI benefits at reduced rates are available for long-term unemployed. In Portugal, UA lasts only for 24 months after 24 months of UI benefits.

2. Housing benefits are not included due to very small number of recipients.

3. Social assistance (*Reddito Minimo di Inserimento*) is not included in Net Replacement Rates due to its experimental character (on trial in 39 municipalities). Net Replacement Rates are based on family benefits.

4. People in work are not entitled to social assistance.

Source: OECD tax-benefit models.

5. Childcare benefits

Childcare costs and benefits are not included in the previous calculations of NRR in this chapter. Table 3.9 is an evaluation of the effect of childcare on lone-parents NRR. For these calculations, it is assumed that no childcare costs are incurred when lone parents do not work, but incomes in work are calculated respectively with and without taking in account childcare costs and childcare benefits. Childcare costs are assumed to be 15% of APW per child (details of childcare benefits can be found in the country chapters available on www.oecd.org/els/social/workincentives). The countries included here are those with direct and generalised benefits to cover childcare fees, either national or, in the case of Canada, widely provided by regional governments. Other countries may have tax deductions, more or less restricted access to subsidised nurseries or other kind of discretionary benefits in some regions (see Chapter 2).

Column 1 of Table 3.9 shows net income for an unemployed lone parent with two children at the initial phase of unemployment and who was previously earning an APW salary. Net incomes do not include social assistance, and the two children are aged 2 and 3. In the second column previous net income in work is calculated without taking into account childcare costs and benefits. Column 3 shows what total childcare costs could be if the lone parent was at work. Column 4 shows benefits received to cover these childcare fees paid. In those countries where parental fees relate to parental income (see Chapter 2), the implicit subsidy is recorded here as a benefit. Column 5 gives net income in work

Table 3.6. **Composition of the net benefit income of a single person**

Long-term period of benefit receipt

	Income components						Net income
	Unemployment insurance	Unemployment assistance	Social assistance	Family benefits	Housing benefits	Income taxes	Out of work
Australia	–	81	–	0	19	0	100
Austria	0	100	0	0	–	0	100
Belgium	100	–	0	0	–	0	100
Canada	0	–	100	0	0	0	100
Czech Republic	0	–	88	0	12	0	100
Denmark	0	–	92	0	31	–23	100
Finland	0	0	64	0	36	0	100
France	0	100	0	0	0	0	100
Germany	0	97	0	0	3	0	100
Greece	0	100	0	0	0	0	100
Hungary	0	0	92	0	8	0	100
Iceland	0	–	86	0	15	–1	100
Ireland ¹	0	0	100	0	0	0	100
Italy ²	0	–	–	0	–	0	0
Japan	0	–	100	0	0	0	100
Korea	0	–	100	–	–	0	100
Luxembourg	0	–	93	0	14	–7	100
Netherlands	0	0	73	0	27	0	100
New Zealand	–	81	–	0	31	–12	100
Norway	0	–	71	0	29	0	100
Poland	0	–	69	0	31	0	100
Portugal ³	0	100	0	0	–	0	100
Slovak Republic	0	–	100	0	–	0	100
Spain	0	0	100	0	–	0	100
Sweden	0	0	100	0	0	0	100
Switzerland	0	–	53	0	47	0	100
United Kingdom	0	0	43	0	57	0	100
United States	0	–	100	0	–	0	100

(–): These benefits do not exist in this country.

1. Housing benefits are not included due to very small number of recipients.

2. Social assistance (*Reddito Minimo di Inserimento*) is not included in Net Replacement Rates due to its experimental character (on trial in 39 municipalities).

3. UA lasts only for 24 months after 24 months of UI benefits.

Source: OECD tax-benefit models.

allowing for childcare (thus column 5 = column 2 – column 3 + column 4). The replacement rates in both cases are found in columns 6 and 7 (for further details on formulas to calculate NRR see Section 5 of the Annex).

6. Global indicator on unemployment Net Replacement Rates in 1999

In the preceding sections of this chapter NRRs have been calculated by running the OECD tax-benefit models for cases of unemployed persons in different circumstances and family types. In this section an overall measure of the generosity of the benefit systems is given by a simple average of NRR with each month of benefit receipt weighted equally for the household types and for the levels of previous earnings separately considered so far. This global indicator does not intend to cover all existing levels of salary and family types, neither it is meant to take into account the incidence of each of the cases considered. As the composition of the population varies across countries, this limitation may advise caution when making use of this measure for international comparison. However, this unweighted average provides a unique indicator on NRR (see Table 3.10 and Figure 3.3). The same indicator was presented for 1997 by Martin and Grubb (2001).

The information applies to a 40-year-old worker with 22 years of employment record. Children are considered to have 4 and 6 years of age and not to be in childcare. We assume that spouses are not working and do not have unemployment benefits. Housing costs are assumed to be 20% of gross APW earnings.

Table 3.7. **Composition of the net benefit income of a one-earner couple with two children**

Long-term period of benefit receipt

	Income components						Net income
	Unemployment insurance	Unemployment assistance	Social assistance	Family benefits	Housing benefits	Income taxes	Out of work
Australia	–	60	–	32	8	0	100
Austria	0	72	0	28	–	0	100
Belgium	76	–	0	24	–	0	100
Canada	0	–	75	25	0	0	100
Czech Republic	0	–	82	10	8	0	100
Denmark	0	–	92	13	15	–20	100
Finland	0	0	62	14	24	0	100
France	0	52	0	15	33	0	100
Germany	0	66	0	19	15	0	100
Greece	–	73	0	27	0	0	100
Hungary	0	0	51	44	5	0	100
Iceland	0	–	65	25	10	0	100
Ireland ¹	0	0	90	10	0	0	100
Italy ²	0	–	–	100	–	0	100
Japan	0	–	100	0	0	0	100
Korea	0	–	100	–	–	0	100
Luxembourg	0	–	70	24	9	–3	100
Netherlands	0	0	71	9	20	0	100
New Zealand	–	82	–	19	11	–12	100
Norway	0	–	79	18	3	0	100
Poland	0	–	80	8	12	0	100
Portugal ³	0	87	0	13	–	0	100
Slovak Republic	0	–	100	0	–	0	100
Spain	0	0	92	8	–	0	100
Sweden	0	0	69	13	18	0	100
Switzerland	0	–	71	0	29	0	100
United Kingdom	0	0	61	10	29	0	100
United States	0	–	43	57	–	0	100

(–): These benefits do not exist in this country.

1. Housing benefits are not included due to very small number of recipients.

2. Social assistance (*Reddito Minimo di Inserimento*) is not included in Net Replacement Rates due to its experimental character (on trial in 39 municipalities).

3. UA lasts only for 24 months after 24 months of UI benefits.

Source: OECD tax-benefit models.

7. Changes in benefit systems over time: OECD's unemployment benefit index

As part of the OECD *Jobs Study* (OECD, 1994), an index was constructed for OECD Member countries summarising gross (*i.e.* before tax) unemployment benefit entitlements relative to gross earnings. The index is the unweighted average of 18 Gross Replacement Rates: three household types (single, dependent spouse and spouse in work); three time periods (the first year, the second and third year, and the fourth and fifth years of unemployment); and two earnings levels (average earnings and two-thirds of this level). The summary measure of generosity index as included in Table 3.11 and Figure 3.4 is calculated for all odd numbered years from 1961 to 1999.

Assumptions

APW earnings are available only from the late 1970s. In order to construct a consistent series going back to 1961, a composite earnings index has been used. This consists of the average of APW earnings and average earnings, defined as the total wage and salary bill on an OECD National Accounts basis, divided by full-time equivalent wage and salary employment on the basis of OECD Labour Force Statistics and an OECD database on the incidence of part-time employment in total employment.

Table 3.8. **Net Replacement Rates for young unemployed single people**

	APW level		66.7% of APW level	
	Initial (UI or UA)	Long-term (SA)	Initial (UI or UA)	Long-term (SA)
Australia ¹	30	–	39	–
Austria	0	30	0	41
Belgium	25	39	33	51
Canada	0	24	0	35
Czech Republic	37	37	54	54
Denmark	49	60	69	85
Finland	36	53	50	73
France	0	0	0	0
Germany ²	20	38	26	52
Greece	11	0	16	0
Hungary ²	2	28	3	28
Iceland ²	8	50	10	68
Ireland ³	31	31	42	41
Italy	0	0	0	0
Japan	0	33	0	49
Korea	0	6	0	9
Luxembourg	40	0	55	0
Netherlands ²	16	27	20	33
New Zealand ¹	34	–	50	–
Norway	0	43	0	53
Poland	31	33	45	48
Portugal	0	0	0	0
Slovak Republic	44	38	64	55
Spain	0	23	0	32
Sweden	30	54	44	79
Switzerland	0	54	0	78
United Kingdom	42	42	60	60
United States	0	7	0	10

(–): These benefits do not exist in this country.

1. UA is available for long-term unemployed.

2. Young unemployed have neither UI nor UA, but are eligible for HB.

3. Housing benefits are not included due to very small number of recipients.

Source: OECD tax-benefit models.

Table 3.9. **Childcare costs and benefits¹**

Reference earnings at APW level (annualised)

	Net income out of work	Net income in work	Total childcare costs	Childcare benefits	Net income in work with childcare	Replacement rates without childcare	Replacement rates with childcare
Australia	19 795	41 361	11 945	3 584	33 000	48	60
Canada ²	25 957	28 616	10 407	2 200	20 409	91	127
Denmark	159 444	205 920	82 260	30 191	153 851	77	104
Finland	114 843	131 489	43 920	37 321	124 890	87	92
Japan	3 124 838	4 213 867	1 265 214	98 607	3 047 260	74	103
Netherlands	41 658	51 378	17 844	9 133	42 667	81	98
New Zealand	18 240	28 601	10 645	5 054	23 010	64	79
Sweden	166 752	195 470	66 193	54 940	184 217	85	91
United Kingdom	7 493	15 336	5 334	3 734	13 736	49	55

1. Calculations assume a lone parent working full-time with two children aged 2 and 3, both in recognised day care. All amounts are shown in national currencies.

2. Ontario Child Care Supplement for Working Families (OCCS).

Source: OECD tax-benefit models.

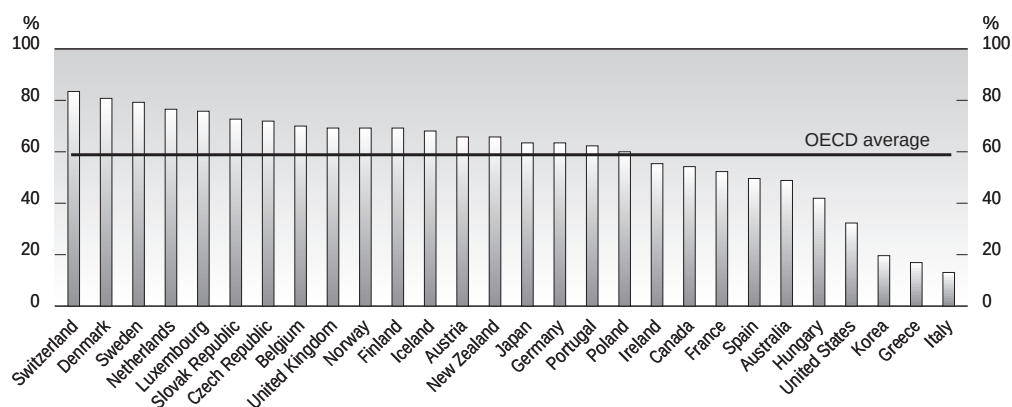
Table 3.10. **Average of NRRs over 60 months of unemployment**For four family types at two earnings levels¹

	Single	Married couple	Couple 2 children	Lone parent 2 children	Overall average
Australia	39	34	69	53	49
Austria	57	59	75	72	66
Belgium	57	71	75	77	70
Canada	35	51	56	74	54
Czech Republic	46	71	88	83	72
Denmark	76	76	84	87	81
Finland	61	66	72	77	69
France	47	45	58	59	52
Germany	60	57	69	68	63
Greece	16	16	17	19	17
Hungary	36	37	47	48	42
Iceland	65	58	73	76	68
Ireland	36	52	62	72	55
Italy ²	4	8	22	18	13
Japan	45	60	77	73	64
Korea	12	18	26	23	20
Luxembourg	64	80	85	74	76
Netherlands	73	80	82	70	76
New Zealand	48	66	78	72	66
Norway	58	65	76	77	69
Poland	41	59	74	65	60
Portugal	57	62	65	65	62
Slovak Republic	49	75	87	79	73
Spain	44	46	55	53	50
Sweden	69	84	95	70	79
Switzerland	74	84	89	86	83
United Kingdom	56	67	81	74	69
United States	13	19	53	44	32
Average	48	56	67	65	59

1. 100% APW and ⅔ APW earnings levels.

2. Social assistance (*Reddito Minimo di Inserimento*) is not included in Net Replacement Rates due to its experimental character (on trial in 39 municipalities). Long-term NRRs are based on family benefits.

Source: OECD tax-benefit models.

Figure 3.3. **Average of NRRs over 60 months of unemployment**Four family types¹ at two earnings levels²

1. Single, married couple, married couple with two children and lone parent with two children.

2. 100% APW and ⅔ APW earnings levels.

Source: OECD tax-benefit models.

Table 3.11. **Gross Replacement Rates for three family types over a five-year period, 1999**

Average of ⅓ APW and 100% APW earning levels

	First year			Second and third years			Fourth and fifth years			Overall average
	Single	With dependent spouse	With spouse in work	Single	With dependent spouse	With spouse in work	Single	With dependent spouse	With spouse in work	
Australia	27	24	24	27	24	24	27	24	24	25
Austria	44	47	34	42	44	0	42	44	0	33
Belgium	47	47	43	33	47	28	33	47	28	39
Canada ¹	50	52	46	23	39	0	23	39	0	30
Czech Republic	20	23	23	0	0	0	0	0	0	7
Denmark	66	66	66	66	66	66	66	66	66	66
Finland	54	54	54	39	39	39	27	27	27	40
France	59	59	59	36	36	29	28	28	0	37
Germany	37	37	37	33	33	17	33	33	17	30
Greece	40	44	40	7	8	7	7	8	7	19
Hungary	50	50	50	23	23	23	0	0	0	24
Iceland	52	52	52	52	52	52	52	52	52	52
Ireland	29	47	29	30	47	4	30	47	0	29
Italy ²	60	60	60	0	0	0	0	0	0	20
Japan	37	37	37	0	0	0	0	0	0	12
Korea	25	25	25	0	0	0	0	0	0	8
Luxembourg	80	80	80	0	0	0	0	0	0	27
Netherlands	70	71	70	56	65	56	21	30	21	51
New Zealand	33	54	3	33	54	3	33	54	3	30
Norway	62	62	62	62	62	62	0	0	0	41
Poland	29	29	29	0	0	0	0	0	0	10
Portugal	65	65	65	58	61	33	25	29	0	45
Slovak Republic	40	40	40	0	0	0	0	0	0	13
Spain	63	63	63	33	33	25	0	0	0	31
Sweden	74	74	74	3	3	3	0	0	0	26
Switzerland	74	74	74	38	38	38	0	0	0	37
United Kingdom ¹	19	24	9	19	30	0	19	30	0	17
United States ¹	29	33	25	7	12	0	7	12	0	14

1. In order to preserve consistency with previous publication (OECD, 1999a), social assistance in Canada and the United Kingdom, and Food Stamps in the United States are included.

2. In Italy, figures correspond to Mobility Benefits.

Source: OECD database on unemployment benefit entitlements and gross replacement rates.

Social assistance benefits are not generally included, unless there is a general entitlement. The level of assistance benefits may not always be clearly defined, as supplements to cover particular expenditure may be included. Typical rates have been used.

In some countries, contributions to unemployment insurance funds are voluntary. Where this is the case, the replacement rates have been weighted by the proportion of the workforce covered by the scheme.

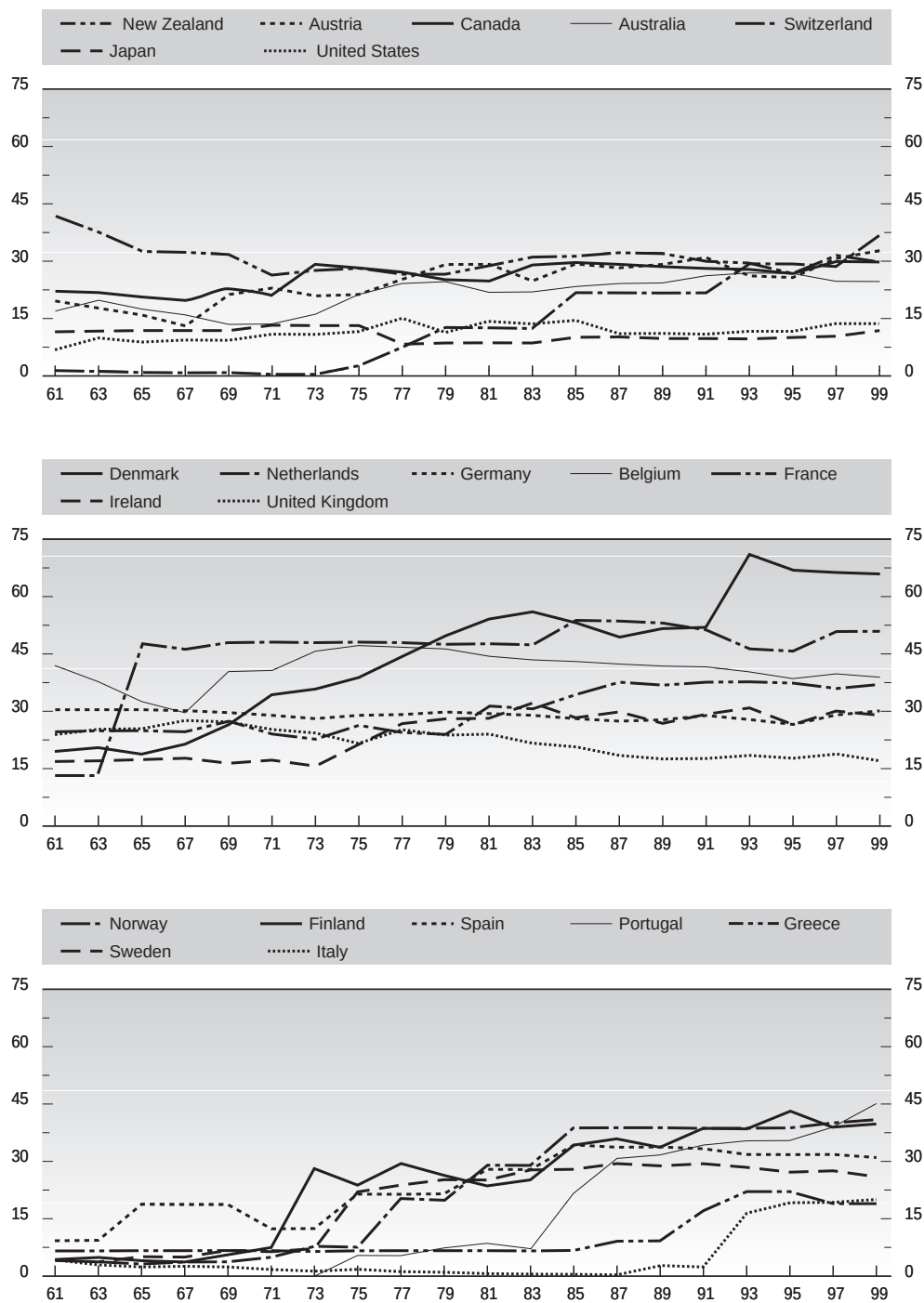
In France, for the years 1975-83, replacement rates are an average with a weight of one-quarter on a case that qualified as an “economic” lay-off (receiving the “allocation supplémentaire d’attente” and later allocation special benefits) with the replacement rates for regular benefits receiving a three-quarters weight. In Italy, the *Cassa Integrazione Generale* (CIG) has not been included, as recipients are not necessarily classified as unemployed. However, for 1993 and 1995, the mobility benefit, paid to those who become unemployed as a result of a collective lay-off, is weighted by stocks of beneficiaries. For 1997 and 1999, Italy figures correspond to Mobility Benefits.

The above assumptions and other limitations of the index are discussed in greater detail in Annex 8.A of the OECD *Jobs Study* (1994).

Relationship of the index to NRRs

The Gross Replacement Rates (GRRs) calculated differ from NRRs in the following ways:

- Tax and social security contributions on earnings and on benefits are not taken into account. If tax systems are progressive, then the former will be a greater percentage of income than the latter.

Figure 3.4. The OECD summary measure of benefit entitlements,¹ 1961-99

1. The OECD summary measure is defined as the average of the gross unemployment benefit replacement rates for two earnings levels, three family situations and three durations of unemployment. For further details, see OECD (1994, Chapter 8) and Martin (1996). The earnings data used to compute replacement rates for 1999 are OECD Secretariat estimates. 1997 data have been revised.

Source: OECD database on unemployment benefit entitlements and gross replacement rates.

Hence GRRs will generally be lower than NRRs. Furthermore, changes in the tax treatment of benefits will mean that the time series of GRRs may appear different from that of NRRs.

- No children are included in the household types considered in the index. It does not capture the effects of changes in family-related benefits. The absence of such benefits will generally lead GRRs to be lower than NRRs.
- No housing benefits are included. As Tables 3.3, 3.4, 3.6 and 3.7 show, these form a significant part of income of households without earnings. GRRs will again be lower than NRRs.
- Social assistance is not included in most countries, unless it consists of a general income guarantee at nationally determined level. In the part of the index reflecting incomes in years 4 and 5 (and even years 2 and 3), benefit income is therefore assumed to be zero in many countries. Were it to be assumed that social assistance was paid, NRRs would be higher than GRRs

NOTES

1. APW refers to the Average Production Worker (see OECD, 2000).
2. Easy access to unemployment benefits is another aspect of benefit generosity. Although it is possible to evaluate this aspect with the tax-ben models, this has not been done for this publication.
3. Similarly, the Average Effective Tax Rate (AETR) indicates the share of total earnings that has to be spent on social security, income taxes and deductions in income-tested benefit payments. AETR is calculated for some cases in Chapter 4.

PART-TIME WORK AND TWO-EARNER COUPLES

Introduction

Net Replacement Rates presented in the previous chapter assume that only one member of a household works or has any entitlement to unemployment insurance benefits, and that the individual either works full-time or is fully unemployed. As part-time work and two-earner couples are increasingly important features of the labour market, how they interact with tax and benefit systems has become a key area of policy development. Specifically, the fact that the incentive for one member of a couple to work can be affected by the labour market position of the other needs to be taken into account in designing tax and benefit systems. This chapter illustrates to what extent the income in work of a person may be additionally reduced by the fact that his/her partner has earnings or receives unemployment benefits. Special attention is given to the case when this person enters part-time work.

The cases considered in this chapter are: *i)* Principal earners' transitions from unemployment to part-time or full-time work when the spouse remains out of the labour market; *ii)* Spouse's transitions from non-activity to part-time or full-time work when the principal earner remains full-time employed; and *iii)* Spouse's transitions from non-activity to part-time or full-time work when the principal earner remains unemployed.

Section 1 compares net family income of each of the examples considered with the reference case of one-earner couple where one member has an average salary (APW)* and the spouse is out of the labour market. Section 2 presents the calculations of Average Effective Tax Rates (AETR) for each of the transitions.

1. Relative incomes for part-time and full-time work in two-earner couples

Table 4.1 presents relative incomes of a family with two children. Net family incomes are presented as a share of the income of the case taken as the reference for the comparisons (column 3): a one-earner couple, with one member working full-time, earning the APW salary, and the spouse being non-employed and not receiving any unemployment benefits. The rest of the cases considered are other simulated positions of this hypothetical couple in the labour market. In all cases, the family is assumed to have no entitlements to social assistance, but may receive housing benefits and family benefits. When unemployed, the principal earner is assumed to be 40 years old and have 18 years of unemployment records. Each column is headed by two descriptors, for example full-time employed/non-employed (100/N), specifying the situation of the principal earner followed by the situation of the spouse (U for unemployed, N for "not in the labour market" and, when employed, the earnings as a percentage of the full-time employed APW salary).

There are three pairs of columns in Table 4.1. In each of these sections it is assumed that the couple had a particular labour market situation which then has changed to be the case considered in each column. These starting points are important for the calculation of net incomes. For example, when an unemployed person works part-time, he or she could still receive a part of the unemployment

* APW refers to the Average Production Worker (see OECD, 2000).

Table 4.1. **Relative incomes in two-earner couples**

	Unemployed/ non-employed	Part-time employed/ non-employed ¹	Full-time employed/ non-employed ¹	Full-time employed/ part-time employed ²	Full-time employed/ full-time employed ²	Unemployed/ part-time employed ²	Unemployed/ full-time employed ²
	U/N (column 1)	40/N (column 2)	100/N (column 3)	100/40 (column 4)	100/100 (column 5)	U/40 (column 6)	U/100 (column 7)
Australia	62	72	100	129	151	76	99
Austria	76	57	100	136	178	103	146
Belgium	64	60	100	130	167	105	141
Canada	91	104	100	133	177	124	169
Czech Republic	70	87	100	133	179	102	147
Denmark	73	81	100	128	170	103	148
Finland	83	90	100	142	187	111	156
France	72	80	100	127	164	96	132
Germany	70	93	100	124	157	102	152
Greece	44	43	100	133	181	77	125
Hungary	60	57	100	135	177	94	135
Iceland	66	84	100	122	150	95	124
Ireland	57	56	100	135	174	82	127
Italy	53	62	100	132	169	92	123
Japan	64	41	100	139	197	104	164
Korea	54	73	100	140	200	95	155
Luxembourg	87	120	100	134	173	120	158
Netherlands	89	98	100	125	167	121	155
New Zealand	68	84	100	141	200	84	100
Norway	74	85	100	130	176	107	158
Poland	46	59	100	136	189	84	128
Portugal	79	47	100	137	187	115	171
Slovak Republic	78	52	100	143	177	113	155
Spain	73	44	100	136	189	110	167
Sweden	78	85	100	138	189	112	163
Switzerland	91	86	100	134	179	130	182
United Kingdom	49	87	100	140	186	89	115
United States	57	57	100	138	188	111	162

"U" for unemployed; "N" for not in the labour market; when employed, the earnings are as a percentage of the full-time employed APW salary.

1. The principal earner was previously unemployed and has just started working. Thus he/she could still receive a part of the unemployment benefit.

2. The spouse was previously non-employed and was not receiving unemployment benefits.

Source: OECD tax-benefit models.

benefit in some countries, as described in Section 4 of Chapter 2. Yet a person who was not in the labour market before, would not have any unemployment benefit added to earned income.

Net family income of the reference case, in column 3, is set to 100. Column 1 presents relative total net income of the couple when the principal earner is unemployed, and the spouse stays out of the labour market (U/N), as a percentage of the reference case net earnings. This column then corresponds to the NRR at the APW earnings level in Table 3.2. Columns 2 and 3 give relative net incomes when the principal earner is working part-time and full-time (after unemployment), the spouse being non-employed. Columns 4 and 5 assume the principal earner working full-time and the spouse working part-time or full-time (after having been non-employed). Columns 6 and 7 also suppose the spouse working part-time and full-time respectively (also after non-employment), but in these columns his/her salary would interact with the unemployment benefits of the principal earner that is simulated to be unemployed.

Column 1: unemployed/non-employed (U/N)

This case corresponds to the NRR calculated in Chapter 3. The person unemployed was previously earning an APW level of salary. In the first month of unemployment, this person receives the basic unemployment plus any supplementary benefits for dependants and rent. The spouse is assumed not to receive any unemployment benefits.

Column 2: part-time employed/non-employed (40/N)

This case is the same as in column 1 except that, instead of being fully unemployed, it is assumed that the principal earner of the household has started to work part-time. The assumption is that 16 hours, or two days, are worked each week, and that total earnings are 40% of the APW level of earnings. The household's net income is calculated as a ratio of net income when the principal earner is employed full-time.

In some countries an unemployed person will lose the right to benefit if he/she works for more than a specified number of hours or days; in others part-time work can be combined with unemployment insurance at a reduced rate, or even at the full rate of payment. In this column we consider someone who was previously full-time unemployed and now works part-time and is registered as looking for full-time work. The number of hours worked might be low enough so that he or she would keep partly or totally the unemployment benefits according to the corresponding country regulation.

In some countries, relative earnings of this case are lower than those of column 1, when the principal earner was unemployed. The reason is that, in the UI benefit regulations of these countries, the disregards of earnings or hours worked are below the level considered here (40%), or even that unemployment benefit ceases as soon as the beneficiary starts to work. In Canada and Luxembourg figures are above 100, meaning that net earnings when the principal earner starts working part-time are higher than net earnings when he/she works full-time (column 3). This is due to the interactions between benefits and taxes. In Canada, for instance, an unemployed person who starts working 40% (at this level of salary) would keep a part of the unemployment benefit so that total gross income would be the same as if he/she would work full-time. However, as UI benefits are not taxable, the final net income is higher when these benefits are a part of gross income (as explained in more detail in Section 1 of Chapter 3). In Luxembourg, UI benefit is not reduced if the beneficiary has earnings, and it only ceases when the beneficiary works more than 16 hours. Working 16 hours he/she would be able to combine the UI benefit and the salary, producing this apparently contradictory result. It should be noted, however, that the person is changing from unemployment to work. The systems are conceived to help unemployed in this transitory situation, but unemployment benefits have often a limited duration. Furthermore, someone working part-time but continuing to claim benefit is usually required to continue to search for full-time work, making combinations of benefit income and salary such as described in this column relatively unusual.

Column 3: full-time employed/non-employed (100/N)

This is a one-earner couple where the second member of the household neither works nor has any individual benefit entitlement based on previous earnings. Taken here as the reference case, it has been set to 100.

Column 4: full-time employed/part-time employed (100/40)

This is a two-earner case. One spouse (A) is assumed to earn 100% of APW earnings, the other spouse (B) earns 40% of APW. Spouse B is assumed not to receive any unemployment benefits related to previous employment. Compared with column 3, some benefits and tax deductions for dependent spouse would be lost. On the other hand, in some countries the spouse's low income could still generate tax deductions and then relative net income could be slightly higher than 140.

Column 5: full-time employed/full-time employed (100/100)

Here both spouses work full-time and earn the APW level of earnings. If the tax-benefit systems were based entirely on the individual, the values in this columns would be 200. The lower these values are, the lower are the returns to the second earner working. For example, tax systems based on the family as the tax unit, special tax deductions for dependent spouses, or loss of some income-related benefits as housing or family benefits could all reduce the net incomes of second earner relative to one-earner case.

Column 6: unemployed/part-time employed (U/40)

From a situation of a previously one-earner couple in full-time unemployment, as in column 1, the non-employed spouse starts working at 40% of the APW level. The other receives a full-time unemployment benefit. This case differs from column 2 in two ways: first, the person who is working part-time here was previously out of the labour market and so was not receiving any UI benefits, while in column 2 the person working part-time might sometimes keep a part of the previous UI benefits as discussed above. Second, the person who does not work is considered unemployed in this column, while in column 2 he/she was non-employed (and thus without any benefit entitlements).

Part-time earnings are added to family income, but the unemployed partner could lose some complements to unemployment benefits that exist in some countries for dependent spouse. As in all other cases of two-earner couples, in many countries tax deductions would also be lower than they would be if the spouse were non-employed.

Column 7: unemployed/full-time employed (U/100)

This column assumes the same starting point as column 6 (a couple where one member is on UI benefits and the other is non-employed), except that the previously non-employed spouse works now full-time rather than part-time. It differs from column 3 since the non-working spouse is unemployed with some benefit entitlement which may be unaffected by the income of the working spouse. However, in most countries tax deductions and income-tested benefits would be lower.

Figures are generally higher in this column than in column 3. Some countries show results that are close to 100, reflecting the fact that the absence of unemployment benefits is partly compensated by other income-related benefits or benefits for dependent spouse.

2. Average Effective Tax Rates for part-time and full-time work in two-earner couples

Average Effective Tax Rates (AETR) are, as a concept, an extension of the Average Tax Rates (ATR) in taxation. In the same way that ATR is the proportion of gross income that are paid in taxes, AETR indicates the share of gross extra income earned by a person who enters paid work, that is not received by the family. In other words, it expresses the amount of earnings which are “taxed away”, either *via* means-test ing procedures, cancellation of benefits or income taxes. The difference with ATR is that

Table 4.2. **Average Effective Tax Rates in two-earner couples**

	Unemployed/ non-employed	Principal: Transition from U/N		Spouse: Transition from 100/N		Spouse: Transition from U/N	
		Part-time employed/ non-employed	Full-time employed/ non-employed	Full-time employed/ part-time employed	Full-time employed/ full-time employed	Unemployed/ part-time employed	Unemployed/ full-time employed
		U/N (column 1)	40/N (column 2)	100/N (column 3)	100/40 (column 4)	100/100 (column 5)	U/40 (column 6)
Australia	–	73	60	23	46	62	61
Austria	–	142	79	21	30	40	38
Belgium	–	107	74	46	51	25	43
Canada	–	73	92	30	34	29	34
Czech Republic	–	60	72	24	26	27	28
Denmark	–	86	81	51	51	47	47
Finland	–	86	87	21	34	47	44
France	–	80	72	32	37	39	40
Germany	–	52	75	51	53	35	32
Greece	–	103	43	16	18	16	18
Hungary	–	106	72	37	45	41	46
Iceland	–	50	61	38	42	17	34
Ireland	–	101	61	21	34	44	37
Italy	–	80	60	33	41	19	41
Japan	–	151	68	14	14	10	11
Korea	–	57	58	7	7	6	7
Luxembourg	–	17	87	13	26	16	28
Netherlands	–	84	92	50	46	37	47
New Zealand	–	68	75	17	19	68	75
Norway	–	78	78	37	35	30	29
Poland	–	77	60	32	33	29	39
Portugal	–	174	81	15	20	17	16
Slovak Republic	–	162	80	0	29	19	29
Spain	–	166	76	18	19	17	15
Sweden	–	87	84	29	34	36	37
Switzerland	–	114	92	23	27	12	17
United Kingdom	–	18	56	15	26	12	43
United States	–	99	63	19	25	–15	11

“U” for unemployed, “N” for not in the labour market; when employed, the earnings are as a percentage of the full-time employed APW salary.

Source: OECD tax-benefit models.

AETR takes into account not only the tax system but also the effect of the loss of benefits due to the increase in family income.

Suppose that a member of a couple increases the time of work so that the couple changes from situation A to situation B.

The extra gross earnings would be: $(\text{Gross income})_B - (\text{Gross income})_A$

The extra net income: $(\text{Net income})_B - (\text{Net income})_A$

The amount of earned income “taxed away” would be the difference:

$(\text{Gross income})_B - (\text{Gross income})_A - [(\text{Net income})_B - (\text{Net income})_A]$

Finally, dividing this difference in net incomes by the extra gross earnings above gives the formula to calculate the AETR:

$$\text{AETR} = 1 - \frac{(\text{Net income})_B - (\text{Net income})_A}{(\text{Gross income})_B - (\text{Gross income})_A}$$

Table 4.2 shows AETRs for the same cases considered in Table 4.1. As in Table 4.1, the table is divided in 3 sections according to the previous situation of the couple in the labour market. In each column it is assumed that one partner continues to work the same number of hours (or remains unemployed) while the other partner increases working hours, affecting the overall family net income.

Hence, for example, in column 2 the AETR should be interpreted as being the difference in net family income when i) the principal earner is working part-time (40%) and the spouse is non-employed and ii) when the principal earner is unemployed, still with the non-employed spouse, divided by the gross earnings of the person who works at 40%. This percentage is then subtracted from one.

Columns 2 and 3 consider the transitions of an unemployed person, with a non-employed spouse, who starts working part-time or full-time. A value of 100 in column 2 would mean that net income of the couple at the starting point (U/N) is the same as net income when a member works at 40% (40/N). In fact, figures in column 3 are lower than 100% – there is some reward to work. Nevertheless, the AETRs are very high, as the full-time worker would have lost all unemployment benefits and often also some means-tested benefits for the family.

Columns 4 and 5 present AETRs for a second earner previously out of the labour market who starts working part-time or full-time, while the principal earner works full-time.

In columns 6 and 7, as in columns 4 and 5, figures correspond to the AETRs faced by a spouse who was out of the labour market before and now starts working part-time (column 6) or full-time (column 7). The only difference with columns 4 and 5 is that the member of the couple who does not change his/her situation at the labour market is now receiving unemployment benefits, while in the cases of columns 4 and 5 he/she was working full-time.

POLICY DEVELOPMENTS

Introduction

This publication describes the tax-benefit systems of the OECD countries as in 1999. Some countries have introduced or are introducing changes that may affect the functioning of the tax and benefit systems and so affect the work incentives for unemployed and non-employed in different types of households. This chapter discusses trends in those reforms and actual changes since the previous publication of *Benefit Systems and Work Incentives* which covered the period up to 1997.

The chapter focuses on benefits. It should be noted, however, that together with the trends in benefits outlined here, there have been tax reforms in many countries. One of the main features of these reforms is the abatement of the tax rates for all income levels, which has resulted in a slight reduction of the difference between gross and net income in some countries, particularly for people in work. These changes are described in more detail in the publication *Taxing Wages 1999-2000* (OECD, 2000).

1. Unemployment benefits

The general trend during the last years has been toward a tightening up of unemployment-related benefits in most OECD countries. Policy changes affecting benefit amounts, benefit duration, eligibility criteria and related taxation rules have come into effect which in many cases resulted in reduced overall benefits to unemployment insurance recipients.

Some recent changes have continued this trend between 1997 and 1999: Austria and the Czech Republic pay lower benefit amounts to the unemployed than in 1997. Sweden, on the other hand, has reversed the change and reverted to 1995 rates: the unemployment benefit rate was 75% of previous gross earnings in 1997 and went up to 80% in 1999. In Switzerland the special unemployment benefit rate of 80% for low-income households applies also to families without children in 1999. Some new complements have been introduced for low-income families, as in the case of the Netherlands, or in Canada where the highest rates for low-income families with children have slightly increased. Portugal has increased UA benefit rates.

The contribution records and conditions needed to access and maintain the benefits had already been increased in many countries. In 1999, Canada further tightened access to limit repeat use of the benefit system. In Denmark, the duration of benefit of up to five years will be gradually reduced to four years during 2000, the conditions to re-qualify will be harder and educational programmes will no longer qualify. The exception to this trend is Korea, where the reform of 2000 has increased benefit amounts, reduced contribution records required and increased duration. It should be noted, however, that in this country the maximum duration of unemployment benefits was only 7 months in 1997, increased to 8 months in 1999. In summary, the general trend towards tightening eligibility conditions has not substantially changed, but there is little sign of a general trend to reduce payment amounts.

2. Social assistance

As with the case of unemployment benefits, broad trends in social assistance programmes have been to tighten up the system: stricter eligibility criteria, more stringent administrative controls and benefit reductions have been used in order to reduce social assistance expenditure, and to reduce long-term

benefit dependency. Policy-makers have sought to reinforce the use of social assistance primarily as a last resort, when a household could show that all other sources of support have been exhausted.

In several countries, the social assistance benefit amounts have been reduced. This is the case in Denmark, where maximum social assistance benefits, calculated on the basis of UI benefits, are lower now than in the past. Income disregards associated with social assistance, which used to be fixed, are now based upon hours worked. After 1997, Luxembourg has increased the minimum age for entitlement to SA benefits from 25 to 30 years when no children are present. On the other hand, in some countries where SA schemes were non-existent or almost non-existent, they have recently been developed, as in Italy and Portugal, even if they continue to be experimental and have a small number of recipients. Poland increased SA rates of payment in 1999, making the amounts depending on family circumstances. However SA rates continue to be among the lowest across OECD countries (see Table 2.10).

From 1 July 2000, the payment rate for benefits in Australia was increased more rapidly than inflation, and the rate at which benefits are withdrawn as earnings rise was reduced for most families with children. In the Netherlands social assistance has been split into two parts: a national guaranteed basic standard and a local additional allowance. Local governments determine whether this additional allowance should be paid.

3. Family, childcare and housing benefits

Over the past few years a variety of new family benefits have been introduced in OECD countries. Whereas in the past these benefits often were distributed via a universal scheme, there are now a number of countries that impose means-testing to restrict entitlement to low- and middle-income households.

The Canada Child Tax Benefit, launched in the summer of 1998, is an income-tested refundable tax credit intended to provide basic income support for low-income families with children. It has a special supplement for low-income families (the National Child Benefit Supplement). New measures have been created to help low-income working families at provincial and territorial level. In Australia, the family tax initiative (FTI) was introduced on 1 January 1997. The family tax payment is an element of the government's family tax initiative aimed at providing additional assistance to low- and middle-income families with children aged under 18. Families with moderately high assets and incomes will no longer qualify for family payment and maternity allowance as from 1 January 1998. This system was further reformed and simplified in 2000 with the introduction of a two-part family tax benefit. Part A is an income-tested payment. Part B is also income-tested, but on the earnings of the lowest earner in the household.

In countries such as Iceland or Portugal, means-testing is now systematic when determining family benefits. Icelandic flat-rate family benefits were abolished and changed for means-tested benefits in January 1998, tightening eligibility requirements. As a consequence, high-income families will lose their benefits altogether. Portuguese family benefits are also means-tested. Families earning income from employment receive lower family benefits. Furthermore, benefits will be differentiated by age group; children under one year and children older than one year qualify for different benefit rates. More stringent rules were attached to child allowance recipients, which were reduced as well. In Italy there are two new means-tested family benefits. The Maternity Allowance has been granted since 1999 to mothers with children below 1 year of age. Mothers must not be insured and must have an income below a given threshold. The other is a benefit to households with at least three children aged under 18. The grant is based on the social and economic situation of the household. In Poland childcare benefits are means-tested in 1999 (they were not in 1997). The special benefit to care for children at home is extended for children up to 4 years old (as opposed to 3 years old before) and some earnings are disregarded since 1999. In Norway lone-parent benefits have been made means-tested, and a new supplementary childcare benefit for lone parents was introduced in 1998. In contrast, in Hungary family benefits are universalised from 1999, when the income criterion was eliminated. Lone-parent benefits have been eliminated in the United Kingdom.

Another trend in family benefit reforms consists in taking them from the benefit system to the tax administrative system. In addition to some of the examples given above, this is also the case of the United Kingdom, where a number of new tax credits have been introduced: an Integrated Child Credit

will combine child-related allowances of various existing in- and out-of-work benefits and tax credits; an Employment Tax Credit will replace the adult-related components of in-work benefits and tax credits and a Pensioners' Credit will reward saving among moderate earners when they retire. In 1996 Germany replaced the former income-related child benefits by tax credits. In New Zealand a new parental tax credit provides support to parents for the initial 8 weeks following the birth of a child. At the same time, stricter controls and requirements are introduced, as the obligation to look for work for lone parents who receive benefits.

4. Employment-conditional benefits

Tax credits aimed at people working at low wage levels were reinforced in several countries. The United Kingdom Working Families' Tax credit was launched in October 1999 to replace Family Credit. Both of them are in-work means-tested benefits for working parents with low income. In Hungary a new kind of tax credit defined as a function of wage income was introduced. In New Zealand, the Minimum Family Income was renamed the Family Tax Credit. This is a scheme that ensures a guaranteed minimum family net income for all full-time earners with dependent children. The content remains unchanged. In 1997 Finland introduced a tax allowance exempting part of earned income from taxes, and the rate was further increased in 1999.

On the other hand, in Canada, the former Working Income Supplement of the Child Tax Benefit was replaced by the National Child Benefit Supplement and extended to all low-income families, losing its character of employment-conditional benefit. However, all Canadian provinces pay special work-related benefits to social assistance recipients who are joining or rejoining the labour force.

5. Part-time work and benefit receipt

In several instances, conditions to access to unemployment benefits have been restricted for part-time workers, and the maximum number of hours worked while still qualifying to complement earnings with UI benefits has been reduced. In Japan, for people working part-time, a minimum of 6 months of insured work in the last 12 months (with minimum of 20 hours work per week) was required in 1997 to be eligible for unemployment benefits (the same period than for full-time workers). In 1999 it is 12 consecutive months of insured work in the past 24 months. In Finland, part-time workers may work up to 75% of full-time hours and still qualify for benefits, compared to 80% in 1995. The adjusted benefit is reduced by 50% of total gross earnings, as compared to 80% of gross earnings exceeding FIM 750 in 1995.

In certain instances, benefit levels were reduced for part-time workers. In Denmark, part-time workers still qualify for UI, with reduced benefits now equal to two-thirds of maximum benefits for full-time workers. A recipient must have contributed to an insurance scheme for the equivalent of 17 weeks full-time work instead of 26 weeks for full-time benefits, in order to qualify for part-time benefits. In Ireland and Portugal, the reduction of unemployment benefit when starting working part-time is greater in 1999 than in 1997. Yet France (UA and SA), Korea (UI) and New Zealand (UI) increased the earnings disregards in benefits regulations between 1997 and 1999.

6. Older and younger workers

In several countries the minimum age for retirement and pre-retirement has been increased. Older workers in Finland can qualify for UI benefits, equivalent to early retirement starting at 55 years old. Prior to 1997, the age cut off was 53 years old. In Spain, on the other hand, unemployment benefits are now payable until the age of 65; prior to 1997 the age limit was 57.5. In France a new pre-retirement benefit (*allocation spécifique d'attente*) is available since 1998 as a part of unemployment assistance scheme for people aged less than 60, but they are required to have 40 years of employment record. In Hungary the institution of *pre-pension*, introduced to provide support for unemployed persons close to old age pension, was discontinued on 1 January 1998, and the institution of *pre-pension unemployment support* was introduced with stricter eligibility criteria.

Denmark introduced wide ranging changes in its labour market policies which target unemployed youth. For example, UI benefits received in Denmark by young people of working age, living at home, have been reduced. A young person under the age of 25 can now receive benefits for only six months, and at only one-half of the normal compensation level. Furthermore following six months of unemployment, low-skilled young workers must take training classes.

In 1998, the Netherlands introduced the Jobseekers Employment Act. This programme, which operates at the municipal level, aims to assist young people in making the transition from school to work. Similar programmes exist in France, Italy and the United Kingdom, where policy measures have made benefit entitlement for young people conditional on participation in programmes aimed at getting young people quickly integrated into the labour market.

In 1998, Australia introduced a form of income support for youth, called the Youth Allowance, which covers unemployed youth less than 21 years old and full-time students under the age of 25. In Canada, since 1997, the Youth Internship and the Student Summer Job Action has provided wage subsidies to employers who give work experience to unemployed youth. Spain has lowered the age for receiving unemployment benefits to 16, compared to 18 before.

ASSUMPTIONS AND LIMITATIONS

Introduction

Various assumptions have been made in calculating the net in-work and out-of-work incomes on a comparable basis across countries. The first section of this annex outlines the assumptions made in calculating benefit amounts. Section 2 looks at the tax treatment of benefit income and earnings, and Section 3 the income concept of the Average Production Worker earnings on which calculations are based. Both these sections are relatively brief; greater details can be found in *Taxing Wages 1999-2000* (OECD, 2000). Section 4 outlines the treatment of regional differences in tax and benefit systems. Section 5 defines the replacement rate concept used in presenting results in the rest of the report. The final section gives information about the assumptions used regarding the cases that are included in this report.

All net incomes, replacement rates and other outcomes in Chapters 3 and 4 are based on the tax and benefit system as it was on 1 July 1999. The typical payment rates and general systems descriptions in Chapter 2 also reflect the situation of 1 July 1999. For the country chapters (available on the Internet), the same holds true unless noted otherwise.

1. Benefit assumptions

Benefits included

Benefits included in the calculations of net incomes out-of-work exclude benefits “in-kind”. Hence free school meals, subsidised transport, free health care, etc., are not included. Occasional, irregular or seasonal payments (*e.g.* for Christmas or cold weather) are not included. Nor are benefits strictly related to the purchase of particular goods and services (other than housing or childcare as described below), such as rebates for the purchase of butter in some countries in the European Union, reduced price transport or purchase of domestic fuel or the purchase of medical insurance and prescriptions. An exception is made for food stamps in the United States, as these are considered to correspond closely to social assistance cash benefits paid in other countries.

Cash benefits considered consist of unemployment insurance, unemployment assistance, social assistance, family benefits, housing benefits, childcare benefits, employment-conditional benefits and lone-parent benefits. Benefits which are therefore excluded are, amongst others, old-age cash benefits, early retirement benefits, sickness, invalidity and occupational injury benefits and benefits relating to active labour market policies. Also excluded are payments made to those unemployed as a result of collective dismissal, such as the *Cassa Integrazione Generale* (CIG) and mobility benefits in Italy. Severance pay, even where legally required of employers, is not included.

All differences in the timing of benefits (*e.g.* whether they are paid in arrears or in advance) have been ignored. Where tables refer to benefits in the first month of unemployment, this is after any waiting period between becoming unemployed or registering for benefit and becoming entitled to receive the benefits. The results in the tables in the country chapters available on the Internet are annualised. This is necessary as tax systems are based on annual, not on monthly, incomes. Where initial benefits are shown the amounts correspond to those received (after the waiting period) and paid (in the case of income taxes) during the first month, multiplied by 12. Those cases where the actual benefit duration is less than 12 months are indicated by a footnote.

Unemployment insurance

Unemployment insurance entitlement can be considered in three parts: the conditions for being entitled to benefit; the amount of benefit to which a person is entitled; and the length of benefit duration.

The standard assumption is that the benefit recipient is 40 years old and has been continuously full-time employed and contributing to the unemployment insurance fund since the age of 18. This implicitly means that the individual has a full contributions record in the period before unemployment; that where insurance is voluntary (as in some Nordic countries), the individual considered has contributed to the fund; and that the individual falls into the “standard” unemployment insurance system (older workers are often eligible for a longer duration of benefit receipt). The assumption means that in virtually every case the individual is entitled to unemployment insurance,

where such insurance exists. However, in some of the tables included in Chapter 3, the individual is assumed to be 20 years old, to be living alone and to never have worked. In this case, full eligibility for unemployment insurance is normally not satisfied and insurance benefit will be received, if at all, at a reduced rate or for a short period of time.

The amount of insurance benefit is normally based on previous earnings. The level of previous earnings is defined with reference to the Average Production Worker level of earnings (see Section 3 below). It is assumed that the stated proportion of this level of earnings has been earned over whatever period upon which assessment for benefit is calculated. Where minimum or maximum levels of benefit are included in benefit regulations, these are applied. The individual is assumed to be fully unemployed (see Chapter 4 for a relaxation of this assumption). If supplements are paid reflecting the family situation of the unemployed person (*e.g.* for dependent spouses or children), these are included. Benefits are sometimes reduced after a period of receipt. The reductions may be related to age and/or contributions record. Such reductions are applied as appropriate, using the assumptions about age and contributions record given in the previous paragraph.

The individual is assumed to receive the benefit for the length to which he or she is legally entitled. This implies that the individual satisfies whatever requirements for actively seeking work are imposed throughout the period of legal entitlement. In some countries there is a right to enter an active labour market programme (training, subsidised employment, etc.) after a certain period of unemployment. The individual is assumed not to participate in such schemes. Hence, even where participation in such schemes can requalify an individual for an insurance benefit and benefit receipt is in effect indefinite, the individual is assumed to exhaust benefit according to the *de jure* rather than the *de facto* duration of benefit receipt. Special rules for temporary layoffs are not included. Special rules for part-time work during unemployment are not included in Chapter 3, but are applied if relevant in the calculations in Chapter 4.

Unemployment-related means-tested benefits

This section considers the assumptions made where cash benefits are means-tested, particularly for unemployment assistance and social assistance. The special assumptions made for housing, childcare, employment-conditional and lone-parent benefits are considered in succeeding sections.

Means-tested benefits are usually paid only when the assets of a family are less than a certain level, and are reduced in amount as income of the individual or family increases. The exact details of how these two features apply in each country vary greatly. Furthermore, social assistance benefits are often discretionary and the level is decided locally. Hence the assumptions applied can have a very large effect on the benefit income which those out of work are indicated as receiving. The general assumptions applied are the following:

- Entitlement for means-tested unemployment assistance and labour market support programmes may depend on age and employment and/or contributions record. Where this is the case, the assumptions outlined in the section on unemployment insurance are applied. Similarly, job-search activity and duration of benefit are as described in that section.
- Social assistance may only be paid where all other sources of support have been exhausted. This is sometimes interpreted as meaning the extended family has a duty to support those without resources. It is assumed that no such support is forthcoming (see Table 2.9 in Chapter 2).
- The assets of a family must often be below some level for there to be entitlement to benefit. The assets ceiling may be relatively high (several hundred thousand dollars, excluding the value of housing in Australia) or very low (often requiring sale of housing and even of cars). It is everywhere assumed that the family possesses negligible assets, and qualifies for the benefit.
- Benefits are reduced as family or individual income increases. Hence families with other sources of income (capital, alimony) may get reduced means-tested benefits. It is everywhere assumed that the family has no sources of income other than from benefits. Chapter 4 considers the effects of relaxing this assumption to allow part-time work and considers the case of multiple earners in a family.
- Social assistance in some countries may impose conditions on the behaviour of spouses. For example, in Sweden it is necessary for both spouses to be searching for work for entitlement conditions for social assistance to be satisfied. In Australia, each spouse has an individual entitlement to benefit, with individual activity requirements required. In these cases, it is assumed that both spouses are fulfilling all requirements for full social assistance benefits to be received.
- Social assistance often varies according to local guidelines, the individual needs of families, and discretion given to benefit officers. Where benefit amounts have been set in national regulations, these have been used. Even where there is local discretion, there are often national guidelines. These guidelines have been used where available. In other cases, “typical” rates for each family type have been used. The full listing of social assistance amounts, and whether they are based on national rates, national guidelines or typical rates, are given in Table 2.9 of Chapter 2.
- Social assistance may be used to “top up” other income sources, including earnings and insurance benefits, where these are below the level of social assistance. Such topping-up is not possible in Sweden.

- In some countries the means-test is reduced in amount or removed altogether for payments made to beneficiaries participating in active labour market policies. Such schemes are not considered.

Family benefits

Family benefits may be unrelated to the incomes of the family or means-tested. Where they are means-tested, the assumptions given in the previous section are applied. Benefit amounts are often related to the age of the child; the tables in Chapters 3 and 4 and the country tables available on the Internet are based on the assumption of two children aged 6 and 4. Where different assumptions have been made, the number of children and the amounts relevant for the ages are given in the footnotes to the tables.

Housing benefits

Housing benefits are included where they consist of a cash benefit paid to individuals with low incomes or who are unemployed and who are living in private rented accommodation. Housing benefit may consist of a general means-tested benefit which supplements other benefits, or it may consist of special rules concerning the treatment of housing costs in the calculation of social assistance levels, or there may be the two types of system running in parallel.

Subsidies for the construction of housing, purchases of owner-occupied housing, subsidies for the interest payments on owner-occupied housing, and other similar payments are not included. Similarly, the assumption of living in private rental accommodation means the benefits in kind provided by social housing, usually involving rents below the market rate, are not taken into account in the comparative tables.

Housing benefits are often very complex. A very simple assumption has been applied in this study, which has to be taken into account when interpreting the results. It is that housing costs consist entirely of rent, and the level of rent for all family types regardless of income level and income source is 20% of the gross earnings of an average production worker. (Country specific assumptions, where required, are indicated in the country chapters available on the Internet.)

This implies:

- Single people are assumed to pay the same rent as a couple with two children.
- Special rules (*e.g.* social assistance for non-rent-related housing costs, such as water and electricity) are not explicitly covered.
- A household living on social assistance is assumed to be paying the same rent as a similar household with average earnings. Furthermore, a household which moves from being unemployed to earning the average wage will not change their housing costs.

The housing cost assumption may not therefore reflect the typical housing costs of those living on benefit income in each country. It is justified on the grounds that, first, no practical alternatives are obviously preferable, and second, that it is transparent and easily understood.

Where housing benefits vary by area, a typical rate has been chosen. Assumptions concerning means-testing are as indicated above.

Childcare benefits

Childcare benefits are not included in the tables in Chapter 3 except where explicitly indicated (Table 3.9). In this table, a typical payment for the childcare costs of two children has been assumed for each country. Hence net incomes are shown as a percentage of in-work net incomes after childcare costs and benefits – a different presentation from those applying in the rest of the comparative tables. Where childcare benefits are means-tested, assumptions are as indicated above.

As to the level of childcare costs a simple assumption has been made. It is assumed that the total, unsubsidised childcare costs for having one child in care equal 15% of the gross earnings level of an Average Production Worker in each country. For those countries where contributions of the family to childcare costs are made dependable on the claimant's income level, the implicit childcare benefit is calculated as the difference between the assumed childcare cost and the contributions paid by the family. Hence, for example, if childcare was provided free of charge, the assumption is that childcare costs to the claimant are equal to childcare benefit.

Employment-conditional benefits

Employment-conditional benefits may be paid via either the tax administrative system (as in New Zealand, the United Kingdom and the United States) or that of the benefit system (as in Ireland). Both types of payment are considered benefits for the purpose of this report. Such benefits are paid only to those with earnings or those who have worked more than a certain number of hours per week. They do not therefore affect incomes of those families out of work. They do affect the incomes of those working part-time, however (see Chapter 4), and the assumptions about hours worked and incomes earned in that chapter determine the level of employment-conditional benefits. Delays in payment of benefit (which are often long in the case of such benefits – most recipients in the

United States receive the payment in arrears at year-end) are ignored, with benefit income being calculated as it accrues. Means-testing provisions have been applied following the principles given above.

Lone-parent benefits

It is assumed that lone parents do not receive any alimony. Where receipt of benefit is assumed to depend in part on co-operation with official attempts to identify the absent parent, it is assumed that such co-operation has been forthcoming. No other benefits (*e.g.* widow's pensions) are assumed to be received, except for other means-tested benefits as outlined in previous sections. Means-tests are applied to lone-parent benefits following the guidelines above.

2. Assumptions about taxation

This section gives a brief discussion of the assumptions used in calculating the tax due on earnings and benefits. Greater detail can be found in the methodology section of *Taxing Wages 1999-2000* (OECD, 2000).

Only personal income tax and employees' social security contributions payable in respect of earnings and benefits are included. Social security contributions made to the private sector are excluded. Central, state and local government income taxes are included.

Only standard tax reliefs are included when calculating tax payments. These are reliefs unrelated to the actual expenditure incurred by the taxpayer and are automatically available to taxpayers who satisfy the eligibility rules specified in legislation. Typical standard reliefs include the basic reliefs available to all taxpayers, or wage earners, or benefit recipients, irrespective of family status; standard reliefs available to taxpayers depending on their marital status; standard reliefs granted to families with children (where relevant); and the standard relief relating to work-related expenses.

Non-standard reliefs are not included. Non-standard reliefs include those relating to costs of owner-occupied housing, reliefs for interest on qualifying loans, insurance premiums, contributions to savings' or pension plans, purchase of medical insurance, and charitable donations. An exception is made in Table 3.9 for tax relief for purchase (but not provision) of childcare.

3. Assumptions about earnings

Gross earnings in-work are expressed as a percentage of the Average Production Worker earnings. Details of how the APW earnings are calculated in each country can be found in *Taxing Wages 1999-2000* (OECD, 2000). The broad guidelines are as follows:

- Earnings are calculated for Division 3 of the International Standard Classification of all Economic Activities (ISIC, United Nations, New York, 1968). However, in Finland, France and Luxembourg it is not possible to separate mining from manufacturing earnings.
- Data relate to the average earnings for the country as a whole.
- The worker is an adult (male or female) directly engaged in a production activity. This definition includes manual workers and minor shop floor supervisory workers. White-collar workers are excluded, except in New Zealand, where the inclusion of this group of workers probably increases average earnings by 5-10%.
- The worker is assumed to be fully employed during the year, although the averages for Finland and Ireland include part-time workers. The individuals are assumed not be subject to sickness or unemployment during the year.
- Earnings are assumed to include average amounts of overtime and regular cash supplements (Christmas Bonuses, thirteenth month payments, vacation month payments). Regular annual bonuses are included where they do not take the form of dividend payments.
- Fringe benefits are excluded.

4. Treatment of regional differences

Several of the assumptions given above refer to how regional differences in tax and benefit systems have been taken into account. The broad principles are as follows:

- Where regional variations consist of deviations from general national guidelines which would otherwise apply, these are not taken into account. Hence, for example, extensions of unemployment benefit duration in high unemployment provinces and states in Canada and the United States are not considered.
- Where regional variations arise as a result of regional or local autonomy in setting regulations, two alternatives could be applied: the average of the different local regimes, or the regime applying in a particular region which can be considered typical.

Eight countries have regionally varying tax systems (two others – Japan and Norway – have local income taxes which do not, however, vary). In five [Canada (excluding Quebec), Denmark, Finland, Iceland and Sweden] it is

possible to calculate a weighted average of the single rate which applies in each area to a tax base which does not differ significantly from that of the central government tax system. This is used in the calculations of in-work and out-of-work net incomes. In Belgium, Switzerland and the United States calculation of such an average rate is not possible. Typical rates are used instead; the maximum permitted rate for Belgium, and the rates applying in Zurich (Canton and Commune) for Switzerland and the rates applying in Detroit, Michigan for the United States. *Taxing Wages 1999-2000* (OECD, 2000) provides more details.

Information making it possible to calculate country-wide average benefit payments is not available to the same degree, and typical cases are more commonly used. Variations in rates are typically found in social assistance, although housing benefits may also exhibit regional variation. Where typical rates are used for the tax calculations, the benefit system in that region has been followed for consistency. Chapter 2 indicates the payment rates applied in this report.

Note that the assumptions about housing costs and benefits mean that variations in housing costs across different regions are ignored.

5. Definition of replacement rates

Comparative tables in Chapter 3 are presented in the form of replacement rates. In all cases replacement rates are defined as being net of taxation. Except where otherwise noted, the definition of Net Replacement Rates (NRR) is:

$$\text{NRR} = \frac{\text{Benefit income of the family when unemployed} - \text{Tax on benefit income}}{\text{Earned income} + \text{Benefit income of the family when employed} - \text{Tax on earnings and benefits}} \quad (\text{A1})$$

Given the assumptions about which benefits are included in this study, the assumption that individuals are fully unemployed, and the assumption of there being one-earner in the family, this can be rewritten as:

$$\text{NRR} = \frac{\text{A}}{\text{B}} = \frac{\text{Gross unemployment benefits} + \text{Family benefits} + \text{Housing benefits} - \text{Income tax} + \text{Social assistance}}{\text{Gross earned income} + \text{Family benefits} + \text{Housing benefits} - \text{Income taxes} + \text{Social assistance}} \quad (\text{A2})$$

The denominator consists of earned income plus benefits which are due to that family type with that income level. The numerator, benefit income, is calculated on the basis of the individual having previously had that level of earnings included in the denominator. Hence the NRR can be interpreted in two ways:

- The amount of income which someone with a given level of earnings would receive were he or she to stop working, expressed as a percentage of current earnings.
- The ratio of current benefit income of those without work to the income they would receive were they to find a job with the same level of earnings which they had before they lost their jobs.

The earnings which those currently without jobs might expect to receive might be higher or (more likely) lower than that level of earnings they had before they lost their jobs. This possibility is not considered in this report.

There are two main options for income concepts: before housing costs and after housing costs. In contrast to other studies (*e.g.* the Seven Country Study 1995) this report uses a before housing cost concept. The two income concepts (before and after housing costs) give similar patterns of incentives, but the absolute level of replacement rate differs. This is particularly relevant given the relatively simplistic assumption about housing costs followed in this report. If actual housing costs are lower or higher than the standard 20% of APW earnings assumption, then actual Net Replacement Rates facing benefit recipients will differ from those presented in Chapter 3 of this report.

In Table 3.9, an exception is made to the general definition of NRR given above because of the wide variety of methods used to support childcare in OECD countries. The NRR is defined as:

$$\text{NRR} = \frac{\text{A}}{\text{B} - \text{Childcare costs} + \text{Childcare benefits}} \quad (\text{A3})$$

6. Representation

Typical cases can never be fully representative of the actual situation in a particular country. A study of the representativeness of the APW has been carried out in the OECD report *The Tax/Benefit Position of Employees 1997* (OECD, 1999b).

The total number of households in a country includes couples and single adults with and without children and households not classifiable in these groups. Demographic information can give an indication of how potentially important the share of each family type is in discussions of the representativeness of the typical cases chosen.

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CURRENCIES, ISO CODES

Australia, dollar:	AUD
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Czech Republic, koruna:	CZK
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