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### **SPC thematic review on 'Make work pay – moving away from benefit dependency'**

*- summary of discussion -*

As a contribution to the Maltese Presidency policy work on the topic of 'Make work pay', the SPC held a thematic discussion at its meeting on 22 February 2017. Making work pay is considered to be “a key issue for enhancing employment opportunities, reducing benefit dependency and increasing participation” (Group of Experts on Making Work Pay, 2013). It specifically aims at making work pay through the development of incentives to enhance work attractiveness and encourage people to seek, engage in and remain in employment.

At the EU level, several policy guidance documents addressed the issue of 'make work pay' from different angles – the 2008 Commission Recommendation on Active Inclusion and the 2013 Social Investment Package, the Employment Guidelines and the 2016 Council Recommendation on the integration of the long-term unemployed into the labour market.

The presenting countries (MT, CY, SI, NO, SE and FR) outlined their different experiences and challenges in the implementation of policy measures which contribute to making work pay and addressing benefit dependency. The MT experience focused on choosing work over welfare and the need for social policy which is flexible, proactive and responding to the emerging needs and realities, while guarding against welfare dependency, with specific examples related to 3 measures (free childcare scheme for children up to 3 years old; tapering of benefits for people entering/re-entering the LM; in-work benefit scheme targeting low to medium income families with dependent children). The CY focus was on unemployment benefits, the guaranteed minimum income benefit, and active labour market measures for different groups (LTU, unemployed young people, people above 50, etc.). SI reflected on their experience of reforming means-tested benefits in 2012 which focused on simplification of procedures, one-stop shops, and shift to activation. This included increase in the basic level of minimum income, activity supplement for beneficiaries actively solving their situation, income supplement for long-term beneficiaries, activation measures of joint responsibility between social work centres and employment offices through 'inter-institutional committees'. However, an evaluation of the measures found that the number of recipients of means-tested benefits continued to increase and there were too few exits for those in activation programs. On this basis a new project has been under preparation for the period 2017-22 which emphasizes the right balance between income support and the provision of services, ways to design and provide the widest possible range of tailor-made programs which will have an effective exit, balancing empowerment and conditionality in relation also to creating a positive image of activation, more comprehensive linking of social and employment services and programmes. NO shared their experience in implementing a

new mandatory activity programme at municipality level for social assistance recipients under 30 which is focused on the needs and abilities of the person and increasing his or her chances of getting into ordinary work. SE focused on the sickness-related work absence/incapacity as there has been a drastic increase in absences in all sectors, with women more represented among absentees. An example of successful measure has been the use of rehabilitation coordinators, whose responsibilities go beyond pure patient support and coordination of medical care and rehabilitation but are also focal points in contacts with other actors. FR discussed the experience with the RMI, RSA and its reform. *Le Revenu minimum d'insertion* (1988-2008) included an individual contract for social or professional insertion and saw an uninterrupted rise in the number of beneficiaries but challenges in the implementation of the integration element with only half of the beneficiaries signing a contract and in the creation of a welfare trap. The subsequent *Revenu de Solidarité Active (RSA)* aimed at addressing the welfare trap by introducing simplification of the minimum income scheme, specific focus on fighting in-work poverty, stronger emphasis on social and professional integration also through vocational training, and a renewed sense of solidarity. However, the impact on poverty reduction was not high enough, and the element related to activation proved not to be effective. The multi-dimension action plan (2013-2017) emphasizes the fundamental social rights (health, housing assistance, childcare), while focusing on personalised support. The new *Prime d'activité* (2016) aims at a better integration and simplification of existing activation benefits, and enhanced access for young people (over 18 rather than over 25). It is not defined as a benefit but as a bonus. The current results show that *La Prime* is progressing faster than forecasted and has managed to include new beneficiaries, previously under the RSA radar such as young employees.

A number of MS shared their experience in the plenary discussion with the importance of building on the existing EU *acquis* being highlighted. Delegates underlined the importance of wage levels and wage-setting mechanism in making work pay and avoiding benefit dependency. More attention should be paid to the functioning of the labour market, especially for low-skilled workers, and to the changes in the competitive structures of the wage-setting environment. Tapering benefits can be an efficient way of smoothing the transition to the labour market but requires subsequent adjustment of wage levels which can guarantee the possibility of moving away from benefit dependency. The redistributive effects of in-work benefits in terms of reducing in-work poverty are clear but their employment effects are more ambiguous. While they strengthen the incentive of workers in jobless households to enter employment, potential second earners may face significant disincentives to enter employment. In-work benefits are appealing because they seem to hold the promise of being effective in boosting low incomes, while simultaneously enhancing the incentive to take up a job. However, they cannot by themselves 'solve' the financial and employment problems of low-skilled workers. At worst, they may function as a subsidy to employers paying low wages. At best, they can be a useful complement to public policies investing in skills and easing the transition from education/welfare to employment. In addition, an important risk is related to displacement effects, i.e. how in-work benefits affect the income trade-off between targeted and not-targeted groups.

The strong link between the effectiveness of activation measures and the overall economic and labour market situation was highlighted. Reforms to tax and benefit systems may

encourage employment by removing financial disincentives and ensuring smooth transitions into the labour market.

The diversity in the population out of work or in work but below the poverty threshold as well as the specificities of the systems in Member States call for a good combination of targeted and universal measures in order to make work pay, while at the same time taking due account of people's material needs and the potential of training, re-skilling, and overall service provision.

There is potential value added in providing customised packages of services and ensuring a proper implementation of a "rights and obligation" approach in receiving benefits. Experience in some Member State shows it is much more effective in terms of effectiveness of the re-integration into the labour market if unemployment benefit recipients are accompanied with activation measures from the start. It is key that those who remain unemployed are enrolled in active labour market schemes.

A number of SPC delegates agreed to the need of maintaining a positive communication around 'activation.'

Main conclusions from the discussion:

- *The importance of a multidimensional approach and a flexible set of measures, which take into account the socio-economic situation*
- *Need for a right balance between adequate income support and activation and between targeted and universal measures*
- *The important role of services (e.g. childcare, long-term care services) and attention to the psychological/health/skills/training/empowerment needs of individuals*
- *The importance of individualised approaches for sustainable labour market integration*
- *The important inter-connected role of taxes and benefits in contributing to 'make work pay'*
- *Need for closer cooperation between employment and social services and overall coordination among stakeholders*
- *The importance of decent wages*
- *Importance of changing the communication narrative around activation vis-à-vis the individual beneficiary and the public at large*