1. INTRODUCTION

Unemployment benefits are a key feature of all European welfare systems. By insuring workers against the risk of job loss, they provide an essential safety net for individuals and households, thereby contributing to protecting them against poverty. They also act as automatic stabilisers in the business cycle by supporting the incomes of those who have lost their job and look for another employment. In addition, unemployment benefits make the reallocation of labour across the economy a smoother process, as job seekers can devote time to finding jobs that match their skills and expectations, or to retrain. In these ways, unemployment benefits support growth.

At the same time, high unemployment benefits received over an extended period of time, with limited job search conditionality, may reduce the incentive to return to work. This has a negative impact on unemployment duration and total unemployment, and detrimental effects on growth and on the sustainability of social protection systems.

Unemployment benefit systems vary widely across Member States, and operate in context of the wider economic and institutional framework. There are differences in qualifying periods for eligibility, in the duration of time covered by unemployment benefits, in their monetary level and related evolution over time, and in the way in which they are calculated. For example, the duration of unemployment benefits can range from 90 days to indefinite duration, while their amount can be calculated as a given or varying percentage of the person's last wage, as a flat rate or as the result of a formula comprising both these elements, with the possible application of minimum and maximum thresholds. There is also a lot of variation in job-search and availability-to-work requirements, which are another key feature of unemployment benefit systems to ensure that recipients remain engaged and do not become inactive.

The incentive to work is influenced not only by these design characteristics of unemployment schemes, but also by the applicable tax and benefit systems, including (usually) means-tested benefits such as social assistance, housing benefits, family benefits and in-work benefits. Likewise, individual job-search efforts are influenced by the provision of active labour market policies\(^1\), as well as by overall economic and labour market conditions.

Unemployment benefits can take two different forms: unemployment insu-
rance and unemployment assistance. Unemployment insurance benefits exist in all Member States and are based on contributions. This means that a person can only claim them after having had a certain minimum period in employment with paid contributions (known as qualifying period). Their level is often calculated in proportion to the level of earnings received in the last job and their duration often depends on the length of time during which contributions were paid. Unemployment assistance primarily aims to prevent unemployment-related poverty: it is generally means-tested and made available to unemployed individuals who are ineligible or no longer entitled to unemployment insurance. The level of unemployment assistance benefits is generally lower than for unemployment insurance. Most Member States do not have a separate unemployment assistance scheme in place, but mostly rely on general means-tested social assistance made available to low-income households.

This note is structured as follows: Section 2 reviews existing challenges in EU countries with regard to policy outcomes; Section 3 discusses the available evidence on appropriate policies to effectively address the corresponding challenges; and section 4 provides a cross-country examination of policy performance in the EU. Section 5 lists additional sources of data and information.

2. POLICY CHALLENGES; AN OVERVIEW OF PERFORMANCE IN EU COUNTRIES

The design of unemployment benefit systems needs to strike a balance between the objective of sustaining job-seekers’ incomes during unemployment spells and the need to ensure adequate incentives to work. Benefits vary both in their level (in particular relative to previous earnings) and in their duration over time. Low benefit levels translate into a weakening of the living standards of unemployed people. The same is true for benefit duration, as those who are unemployed need enough time to find a suitable job that matches their skills and qualifications. On the other hand, if the gap between the level of income provided by unemployment benefits and the income potentially earned from employment is too small, it may jeopardise the incentive to return to work.

Other design characteristics of unemployment benefit systems also influence unemployed people’s labour market attachment and employability. This is the case for job-search and availability-to-work requirements and the compulsory participation in active labour market programmes that can be set as a condition for the continued receipt of benefits. The related imposition of sanctions, notably the suspension of benefit eligibility in cases of non-compliance with availability to work and job search requirements, is also an influence.

In particular, more stringent job-search and availability-to-work requirements are expected to encourage recipients of unemployment benefits to actively look for work, and to accept suitable job offers. This counterbalances the possible financial disincentives to work generated by generous unemployment benefit systems, and reduces benefit dependency. More intense job-search efforts and more rapid acceptance of job offers would decrease discouragement and possibly reduce unemployment duration. At the same time, overly stringent requirements may have unintended or counterproductive effects. For instance, very stringent demands on occupational mobility (such as the

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2 Eleven Member States (Austria, Germany, Estonia, Finland, France, Ireland, Malta, Portugal, Spain, Sweden and the United Kingdom) have a separate means-tested unemployment assistance benefit.

3 Such financial disincentives to work are well captured by the so called ‘unemployment trap’ indicator produced by the European Commission based on the OECD tax-benefit models. See Section 5 below.
requirement to accept any job offer regardless of the person’s qualifications) may lead to a higher number of job matches in the short term to the detriment of the quality of such matches, which may not be long-lasting (with more people falling back into unemployment more frequently). Also, excessively cumbersome requirements may discourage individuals from trying to meet them and lead people to continue to claim the benefits and fall into inactivity. The provision of early support to job seekers in the form of counselling and appropriate active labour market policies also plays a key role. This is not discussed further here as active labour market policies are the subject of a separate factsheet.

To assess the extent to which unemployment benefit systems reach the expected labour market matching and social outcomes, two indicators are particularly relevant: the at-risk-of-poverty rate of the unemployed and the long-term unemployment rate (as a percentage of the active population). The proportion of short-term unemployed covered by unemployment benefits is positively correlated with higher transitions from short-term unemployment to employment (chart 1a) and a lower rate of long-term unemployment (chart 1b). The coverage of short-term unemployed by unemployment benefits is based in particular on the duration of benefits and on specific entitlement conditions.

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4 See: European Semester Thematic Factsheet on Active Labour Market Policies.
Note: transition from short-term unemployment to employment; LTUR: long-term unemployment rate; for transition rates, $R^2 = 25\%$, for the rate of long-term unemployment $R^2 = 9\%$.

The coverage of the short-term unemployed by unemployment benefits deserves particular attention, as it concerns both labour market and social outcomes. At the same time, poverty is significantly higher among the long-term unemployed, which shows that it is only partially linked to the coverage of the short-term unemployed by unemployment benefits. There are a number of other drivers of poverty, such as the adequacy of social protection benefits, including social allowances.

The situation of Member States as regards the three key dimensions of measuring policy performance in this field is summarised in the following charts (charts 2, 3 and 4). Respectively, they show the levels and changes in coverage of the short-term unemployed, the rate of long-term unemployment and the poverty rate among the unemployed. The vertical bars indicate very low and low and/or very high and high performance; the horizontal bars indicate low and/or high change levels.

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As provided by the scoreboard methodology, based on the distance to the average both in terms of levels and trends. For more details on the methodology, see the Joint Employment Report (2016), Annex 4.

Source: Eurostat.

Note: data for Ireland, the Netherlands and Austria are not available. Change is expressed in points.

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Source: Eurostat.

Note: levels and change are expressed in points.
3. POLICY LEVERS TO ADDRESS THE POLICY CHALLENGES

Several parameters of unemployment benefit systems appear to impact the outcomes identified in the preceding section.

A first policy lever to consider is the duration of unemployment benefits, which appears to directly impact the poverty rate of the unemployed. In practice, duration depends on a number of factors, in particular on former work history, as in many Member States maximum benefit duration increases with tenure (longer benefit duration for longer contribution periods over a given period of time). However, the extent to which the tax-benefit system protects the incomes of the unemployed also depends on other policy levers, such as benefit replacement rates, or the entitlement to receive unemployment benefits (see below).

On the contrary, the impact of the duration of benefits on unemployment duration for the overall unemployed population is generally relatively weak, as maintaining living standards in the event of unemployment can also mean better chances of being re-employed and

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better job matching when coming back to work\textsuperscript{7}. There is also evidence that the new unemployed not entitled to unemployment benefits more often come from poorer backgrounds with a weaker attachment to the labour market\textsuperscript{8}. Furthermore, countries with more generous unemployment insurance and higher spending on activation policies and measures show a more sustainable record of reintegrating previously unemployed workers\textsuperscript{9}.

**A second policy lever, the net replacement rate of previous earnings, is also negatively correlated with the poverty rate of the unemployed.** When calculating net replacement rates, net income is defined as income after taxes and social security contributions, with the inclusion of possible social benefits (social assistance, family, housing and in-work benefits). It should be stressed that the net replacement rates, and their evolution over time, can differ substantially depending on the contribution history of the unemployed person, in particular for shorter contribution records, and on the time horizon considered, as benefits usually decrease with time spent in unemployment\textsuperscript{10}.

While it is clear that higher net replacement rates directly translate into higher household incomes, their net impact depends on a number of factors, notably on their interactions with other benefits and the tax system, and on aspects such as the previous level of earnings and work history\textsuperscript{11}. In addition, higher replacement rates can also translate into growing financial disincentives to work, which in turn can negatively impact activity or employment rates, in particular for some categories of worker (such as the unemployed with a partner in employment)\textsuperscript{12}. Unemployment traps\textsuperscript{13} are often very high for low-wage earners and workers offered jobs with lower re-employment wages.

**A third policy lever related to entitlement conditions, the length of the qualifying period, appears to be positively correlated with the poverty rate of the unemployed.** Entitlement to unemployment insurance benefits depends on previous work records and/or contributions paid. In particular, the unemployed are generally required to have a minimum work record, the exact definition and length of which varies substantially. Consequently, individuals with short employment spells and fewer continuous work histories are less often covered by...
unemployment benefits\textsuperscript{14}. Therefore, strict eligibility conditions lead to fewer unemployed people being entitled to benefits, which means low coverage and low stabilisation impact. The possibility to cumulate different contribution periods so that no rights are lost has a significant impact here. Entitlement conditions for self-employed and workers with atypical contracts are also frequently used as a lever to improve coverage, for instance by providing the possibility of joining a scheme on a voluntary basis.  

Reforms aimed at increasing replacement rates and duration of benefits, or at broadening entitlement conditions, mean additional spending. Insurance-type schemes see employees and firms contributing directly to fund the benefits. Since such contributions are generally seen as similar to taxation, wider benefit coverage requiring higher contributions may possibly discourage job creation. Nevertheless, such reforms are also expected to allow the labour market and the economy to function better in the medium term, generating higher tax revenue from labour income, though with decreasing returns on the amount spent on unemployment benefits and activation measures.  

Even in the short-term, reduced unemployment benefits do not necessarily save public money: in most Member States, the unemployed often get other forms of social support that tend to be more lasting, ranging from unemployment assistance to minimum income (passive measures).  

The costs for public finances over the short- and long term are not easy to assess and vary with time.  

A plausible assumption is that the first round of costs related to greater coverage or high benefit amounts may be relatively quickly offset by improved employment performance and higher tax returns from an increased number of people in employment, as well as from the economy growing faster thanks to the improved use of human capital.

4. CROSS-EXAMINATION OF POLICY STATE OF PLAY

Regarding the different parameters of unemployment insurance which have been described as policy levers in the preceding section, the state of play in the individual Member States is shown in charts 5, 6, 7 and 8, below.

Chart 5 shows the maximum duration of benefits after one year of contributions. While in most Member States duration is lower than the contribution period (with a half-period, i.e. 26 weeks, being the most frequent), in four cases it equals the contribution period (i.e. in Greece, France, Luxembourg and the Netherlands) and in three cases it is higher (71 weeks in Finland, 104 in Denmark, indefinite in Belgium). At the opposite side of the scale, benefits last three months or less in Croatia, Hungary, Malta and Slovenia.

Chart 5: Maximum duration of benefits for a one-year work record, January 2017

Source: The Mutual Information System on Social Protection database and national legislation (for Spain, Italy and France).

Note: In Belgium, there is no limit on the duration of benefits. In many countries (Czech Republic, Germany, Lithuania, Portugal), the benefit duration also depends on age, with the duration for the youngest age group being shortest, as shown in the chart. In Portugal, a contribution period of 15 months instead of one year is used. In Slovakia, the duration shown is for people with fixed-term contracts, otherwise it is six months. In Poland, duration also depends on e.g. the regional unemployment rate.

Net replacement rates provide an indication of the adequacy of the income replacement function of unemployment insurance benefits. Their level depends on a number of factors, including the previous level of earnings, seniority, duration of the unemployment spell, age and household composition (in particular when interaction with the tax system and with other benefits is taken into account). In the case of a low-wage worker with a short work history (one year), after one month of unemployment the values of the net replacement rate range from 25% of previous (net) earnings to 90% (chart 6). At the lower end, there are Member States where the individual with a work career of one year is not eligible for unemployment insurance (Slovakia, Lithuania) or where the benefit is already terminated in the second month of unemployment (Hungary). These are followed by Member States that provide a flat-rate benefit which is unrelated (or only weakly related) to the level of previous earnings (Bulgaria, Greece, Malta, Romania, United Kingdom). A comparison with net replacement rates in the 12th month of the unemployment spell shows either the expiration of benefits (with individuals falling into other schemes, such as unemployment or social assistance) or a reduction in the benefit amount.
Chart 6. Net replacement rate of unemployment benefits at 67% of Average Wage, January 2016

Source: European Commission based on OECD tax-benefit indicators.

Note: The calculation is for a worker at 80% of the average wage, with one year of contributions (2nd and 12th months of receiving benefits). The chart includes all the different income components, including unemployment benefits and other benefits (such as social assistance and housing benefits).

In all Member States, entitlement to unemployment insurance benefits depends on previous work records and/or contributions paid. Chart 7 shows that the number of weeks required to access unemployment benefits varies between 25 or less in Greece, France Italy and Malta, to more than 80 in Lithuania and Slovakia, with one year (52 weeks) being the most common. For the ratio between the contribution period and a longer ‘reference’ period — which makes it possible to take into account periods of non-employment — the most frequent value across Member States is 0.5 (that is, beneficiaries should have contributed for at least half of the reference period).

Chart 7. Length of the required qualifying period, situation in 2015

Source: The Mutual Information System on Social Protection database and national sources (for Italy)\textsuperscript{15}.

Note: Red diamonds indicate the ratio between the contribution and reference period. The chart relies on a simplification of data for some countries where the qualifying periods are calculated in a more complex way.

\textsuperscript{15} For Italy, the figures relate to the situation after the Job Act was adopted in May 2015.
Finally, the job-search and availability-to-work conditions and related sanctions appear to be the strictest in Estonia, Croatia, Luxembourg, Malta, Portugal, and Slovenia, while they are least strict in Cyprus and Hungary. The relative importance of the sub-components also varies considerably across countries.

5. USEFUL RESOURCES

More information and data on entitlement conditions, duration of benefits and eligibility criteria of unemployment benefits can be found in the MISSOC database\(^\text{16}\). The database is updated every six months and validated by Member States. The information can be further complemented by primary national sources (such as legislation), and country-specific information on tax and benefit systems compiled for instance by the OECD.

Results from the OECD tax-benefit models can also be used to monitor the development in the net replacement rate of benefits and the effects on work incentives (notably the so-called unemployment trap, which is defined as the effective tax rate that applies to the additional gross income that is earned when moving from unemployment to work, accounting both for direct taxation as well as the withdrawal of benefits\(^\text{17}\)). These data are generally published in November each year, with around 1.5 to 2 years delay. The modelling relies on a consistent set of assumptions which ensures cross-country comparability and uses official information provided through national delegates. Information on average wages, which feeds into the tax-benefit model calculations, is obtained using a well-defined and agreed methodology.

Job-search and availability-to-work requirements for unemployment benefits have been the object of analysis by the

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\(^{16}\) MISSOC, the 'Mutual Information System on Social Protection', is an information base for social protection legislation, benefits and conditions in place in all EU Member States, Iceland, Liechtenstein, Norway and Switzerland. For more information, see: [http://www.missoc.org/](http://www.missoc.org/).

OECD. Data have been collected for all EU Member States, and a composite indicator has been constructed to measure the strictness of such requirements. Eleven items have been identified to characterise different aspects of job-search and availability-to-work requirements. These are grouped under three areas: availability to work also during participation in active labour-market policies and suitable work criteria (i.e. under what circumstances a job offer may be refused without sanctions); monitoring of job-search activities (frequency of job searches, with documentation to be provided); sanctions (for voluntary unemployment, refusal of job offers, failure to participate in counselling sessions or active labour-market policies).

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See: Venn (2012), Langenbucher (2015). In its work, the OECD refers to job-search and availability requirements as ‘eligibility criteria’, making a distinction in terminology between entitlement conditions (which refer to the requirements for acquiring the right to benefits) and eligibility criteria (which encompass the set of conditions that apply for the continued receipt of benefits).