



Minimum income scheme reform in Luxembourg

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A reform of the Luxembourg minimum income scheme has been approved by parliament on 10 July 2018. The new benefit will put greater emphasis on labour market inclusion. It will be more generous for children and one parent households. Specific compensation for the cost of housing will be part of the scheme and the role of several institutional actors will change. But income improvements will remain limited.

Description

The guaranteed minimum income (*Revenu Minimum Garanti* -RMG) will be replaced by the social inclusion income (*Revenu d'Inclusion Sociale* - REVIS). The main proposed changes can be summarised as follows.

The REVIS will be calculated at household level, as is currently also the case with the RMG. It will include two components: a social inclusion benefit and an activation benefit. The social inclusion benefit will consist of a benefit per person in the household and a benefit for the costs of housing (equal to the basic benefit of an adult). The activation benefit will be the remuneration of hours worked/spent in activities organised by the national social inclusion office (ONIS – see further on). This remuneration will be equivalent to the minimum wage.

In order to improve the situation of children and one parent households, the proposed amount per child will increase, and there will be an extra increase for children of one parent households. This will mean, for example, that a household of two adults and two children will receive an amount of €2,644 per month (compared with €2,356 under the current legislation), while a one parent household with two children will receive €2,071 per month (compared with €1,655 under the current legislation). For reasons of comparison we calculated the current benefit based on the same index as the

REVIS. Calculations for one and two person households without children show that their income situation remains unchanged.

The national solidarity fund (FNS – *Fond National de Solidarité*) will manage all financial aspects of the minimum income, starting with the application.

Each applicant of working age has then to register with the employment agency (ADEM), unless he or she is not able to work. Individual screening by the ADEM will decide which body will take on the follow-up of the beneficiary: ADEM or ONIS. ADEM will be responsible for dealing with persons considered to be ready for the labour market.

The current national social service (SNAS – *Service National d'Action Sociale*) will become the national social inclusion office (ONIS – *Office National d'Inclusion Sociale*) and will organise support for beneficiaries unlikely to join the labour market in the near future, as is currently also the case.

The screening of beneficiaries will be repeated over time and can change the institution responsible for an individual.

The current limit of 40 hours/week activation activity per household will be abolished, which is particularly important for women.

The current so-called “immunisation” applied to income from work, designed to stimulate take-up of employment, will be changed. Under the current system, income from work is only

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deducted from the benefit if it exceeds 30% of the guaranteed minimum income. This may lead to inactivity trap (see also Outlook & Commentary below). Under the new legislation a direct “immunisation” of 25% will be applied to earnings as well as all other income sources.

Outlook & commentary

Weaknesses of the current minimum income scheme have been under discussion and studied for several years. The cost of housing and the shortage of social housing is a major problem for low income households. Also, children and one parent households are at the greatest risk of poverty. And the current scheme creates an inactivity trap as it discourages (for financial reasons) some beneficiaries from taking up a job, and certainly for more than 20 hours/week, as shown by the NGO Caritas Luxembourg (a member of EAPN Luxembourg) in its opinion. For this reason, the government has decided to change the “immunisation” rules.

The principles of the reform are largely agreed on by the social partners, civil society and grassroots organisations. But major concerns remain about the level of the benefits in relation to the poverty threshold and about the activation incentives.

The “Workers’ Chamber” (*Chambre des Salariés Luxembourg* – CSL) welcomes a number of improvements, but calculates that even with the increased amounts, the REVIS remains below the poverty threshold and even further below the level of the reference budget calculated by the Luxembourg statistical office (Statec) for different types of households.

Caritas Luxembourg also sees the principles of the new scheme as a positive evolution in response to longstanding demands at grassroots level. But on the basis of its own calculations for a set of household types, the NGO concludes that for several categories of beneficiaries, their income (including REVIS and other benefits) will not improve compared to the current minimum income scheme. Income will improve for all households with no income from work and for most households with a full-time work occupation. For several other groups (e.g. those with a half-time job), their income will decrease. Worst off are households made up of two adults without children. One parent households will see their income increase even if they have a part-time job.

Overall, we can conclude that the new REVIS in Luxembourg responds to some of the major challenges in combating poverty, i.e. the specific housing issue in the country, poverty among children and one parent households and the inactivity trap of the current minimum income scheme.

Much will now depend on proper implementation, particularly of the activation component and the cooperation between the employment agency and the social inclusion office. All in all, improvements will be limited: households made up of one or two adults without children will not be better off; the “immunisation” level is set at 25%, which limits the financial incentive to activation; the income of many beneficiaries will still be under the at-risk-of-poverty threshold, although the income situation of most will improve.

Further reading

REVIS – amendments as approved by the parliamentary commission and final coordinated text of law proposal (document 7113/11): <https://chd.lu/wps/portal/public/Accueil/TravailALaChambre/Recherche/RoleDesAffaires?action=doDocpaDetails&backto=/wps/portal/public/Accueil/Actualite/DossiersEnCours&id=7113>

Luxembourg’s Workers’ Chamber, Submission to the Parliament on the REVIS law proposal (document 7113/09):

<https://chd.lu/wps/portal/public/Accueil/TravailALaChambre/Recherche/RoleDesAffaires?action=doDocpaDetails&backto=/wps/portal/public/Accueil/Actualite/DossiersEnCours&id=7113>

Caritas Luxembourg, Opinion on the REVIS law proposal:

<http://www.caritas.lu/Ce-que-nous-disons/Questions-politiques-et-sociales/Avis-concernant-le-projet-de-loi-n%C2%B0-7113-relatif-au-revenu-d%E2%80%99inclusion-sociale>

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