



Peer Review on “Ensuring adequate assistance for those most in need (Minimum Income)”

Lithuania, 7 – 8 February 2019

Peer Country Comments Paper – Malta

Making Work Pay

DG Employment, Social Affairs and Inclusion

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1 Introduction

This paper has been prepared for the Peer Review on "Minimum income benefits – securing a life in dignity, enabling access to services and integration into the labour market". It provides a comparative assessment of the policy example of the Host Country Lithuania and the situation in Malta. For information on the host country policy example, please refer to the Host Country Discussion Paper.

2 Situation in the peer country

Malta's entry into the EU has resulted in rapid social, cultural and economic change. While the worst effects of the economic crisis were felt in 2009 (with a negative growth rate of -2.5%), economic growth rates quickly recovered, resulting in record high employment and low unemployment rates (see Annex 1-3). Malta is currently undergoing rapid economic growth, reaching a peak of 10.6% in 2015, with a growth rate of 6.6% reported in 2017.

Malta has a very comprehensive social security system that meets all classical risks. However, the recent growth rate has resulted in Malta experiencing rapid socio-economic changes and challenges such as a rapidly growing population leading to an increased burden on education, health, housing and transport systems, amongst others¹. In order to maximise the benefits of the changes being experienced and counter the effects of the challenges – thus ensuring and securing a life in dignity, access to services and integration into the labour market of vulnerable groups – Malta has implemented various policy initiatives based on the principle of 'Making Work Pay'². This package of active labour market initiatives was rolled out in 2014 to incentivise social beneficiaries to enter the labour market and reduce the gender employment gap.

Non-contributory benefits are also in place. These benefits are mainly aiming at providing social and medical assistance to heads of household who are unemployed and either in search of employment or unable to perform any work because of some specific disease, provided their family's financial resources fall below a certain level (the following three paragraphs explain the means test to be satisfied). The Social Security Act specifically provides assistances for persons with a disability. However, these assistances are not capital means-tested.

The means test is the basic component on which depends entitlement to non-contributory benefits, pensions and assistances. It is regulated by the Second Schedule of the Social Security Act and has two basic components. The first component is what is known as the Capital Resources Test, whilst the second is known as the Income Test.

The Capital Resources Test for an Age Pension, Social Assistance and Medical Assistance provides that in the case of a single person, capital does not exceed EUR 14.000 while in the case of a household of two or more persons capital does not exceed EUR 23.000.

When the income test is applied, all income of the head of household and his/her spouse is taken into consideration. In the case of other members of the household, working members are excluded.

The in-work benefit scheme is targeted to improve the situation of low-to-medium income households where married couples (both or one of them) or single parents are in employment and have dependent children up to 23 years of age. Benefits are

¹ National Statistic Office, 2018.

² Malta: National Reform Programme 2016, <https://mfin.gov.mt/en/Library/Documents/NRP/NRP2016.pdf>.

calculated on net income from employment and eligibility does not impinge on the entitlement of families to Children's Allowance.

The tapering of benefits scheme is designed to wean off persons from unemployment and social benefits and provide them with greater security when they take up a job. Besides eliminating the risk of persons falling into the dependency trap, the initiative paves the way for a beneficiary to invest in a future contributory pension through the payment of social security contributions.

Both schemes have had a notable success in encouraging persons on social and unemployment assistance, mostly single parents, to find employment. These schemes, coupled with the free child care programme, have contributed to increase the participation of women in the labour market.

2.1 Tapering of benefits scheme

This 3-year scheme was developed to wean off persons from inactivity and social benefits and to provide them with greater security when landing a job. Besides warding them off the dependency trap, the scheme enables beneficiaries to invest in their future contributory pension.

Social assistance beneficiaries who have been in receipt of the assistance for one year during the last three years, are enrolled in the scheme if from their new job they earn at least the minimum wage.

Under the scheme, beneficiaries are allowed to retain part of their social benefits when they get employed. In their first year in a job, they retain 65% of the social benefits they received. In the second and third year, they retain 45% and 25% respectively. However, if still in employment they can apply for the in-work benefit, provided they satisfy the income threshold.

The scheme is also open to single parents with children under 23 years with different criteria addressing the particular realities of single parenthood in Malta but always with the aim of weaning them off welfare dependency. Single parents with children under 23 can apply without having to satisfy the criteria of being for at least one year in the last three years receiving the assistance.

2.2 In-work benefit scheme

The scheme was launched in 2015 to enhance the situation of low-to-medium income households, where married couples and single parents are in employment and have dependent children up to 23 years of age. In 2016, as an anti-poverty measure the scheme was extended to one-earner families but with lower rates than dual-earner families so as to retain the incentive for the second parent to work and earn a higher rate of benefit.

Benefits are payable per child and are calculated solely on net income from employment. The benefit rates are pegged to a range of income thresholds and are intended to incentivize beneficiaries in employment. The rates were increased in 2017 and 2019, and concurrently the range of income thresholds broadened.

2.3 The free-childcare scheme

This scheme was introduced in 2014 to facilitate the entry or retention of women in the labour market. It is open for children under 3 years of age where both parents (or a single parent) are in employment, in education or actively seeking a job.

The service is provided by the State and registered private childcare centres. On average, children spend around 5 hours daily in these centres which also provide free quality early child education.

2.4 Evaluating results

Good economic and labour conditions (economic growth and the creation of thousands of new jobs) have favoured the success of the 'Making Work Pay' framework.

This is clearly illustrated in the table below which highlights the decline in the numbers of social assistance beneficiaries (-36.6%) and unemployment assistance beneficiaries (-82.3%) and consequently the total number of beneficiaries (-48.4% of which 2 out of 3 are women) against the yearly number of beneficiaries of tapering and in-work benefits.

	Social assistance beneficiaries	Unemployment assistance beneficiaries	Tapering beneficiaries	In-work beneficiaries	Childcare (number of children)
2013	10,784	4,330			
2014	9,639	3,791	497		3856
2015	8,445	2,570	1,659	1,359	5852
2016	8,110	1,391	2,482	2,294	5335
2017	7,494	939	2,539	2,873	5939
2018	6,840	766	1,958	4,514	6737

Source: Department of Social Security and JobsPlus.

A study of the scheme performed by the Department of Social Security shows that today 90% of the tapering of benefits scheme participants remained in employment after exhausting the 3-year period. An innovative element is the gradual weaning off benefits that has never been tried in Malta in the past and is an important element for the scheme's success.

Through these policy measures, Malta has achieved its Europe 2020 employment targets, well before time.

3 Assessment of the policy measure

The five principles of the Lithuanian Cash Social assistance (CSA), namely co-operation and participation, accessibility, social justice and efficiency, comprehensiveness and equal opportunities are broadly similar to those principles provided under the Maltese Social Assistance.

Apart from the above principles, the main elements of both minimum income schemes are the emphasis placed on labour market activation and on re-integration policies.

However, it is interesting to note the different approaches taken in the two systems. While the Lithuanian CSA provides for the proportionate reduction of social benefits, increasing from 20% for the first 2 years to 50% for the fifth year, in the Maltese scheme, beneficiaries in their first year of work retain 65% of benefits, and 45% and 25% in the following two years. Furthermore, their employers are assigned 25% of the benefit throughout the 3 years of the scheme. The benefit given to employers is

provided as the support of the private sector and the willingness of employers to offer job placements are fundamental to the success of the scheme. Through this measure job providers are seen in a new light by employers who are a crucial partner to the Government's efforts in the social sphere.

A difference between the two schemes also results from the 2012 Lithuanian reforms, whereby municipalities were delegated with providing the CSA. However, due to Malta's limited geographical size and population, but also due to local councils having a limited legal remit, Maltese Social benefits are administered centrally. Other differences between the two systems are the time difference where a person is eligible to receive the CSA, 5 years in Lithuania against three years in Malta.

Another difference noted between the two systems is the focus given to gender equality. The Maltese system tackles this issue robustly since Malta is one of the worst performing Member States in this area. Through the measures implemented, the gender employment gap has been narrowed and female labour participation has grown steadily, registering the largest and most rapid increase in Europe in recent years.

A similar approach between the two systems is the use of unspent funds that can be used for other social issues. Similar to the Lithuanian reforms allowing municipalities to use unspent funds at their own discretion, usually for providing social services and additional social assistance, the savings made in the Maltese system have been redistributed to finance the reform in the Disability Assistance, the introduction of an improved package for carers of elderly persons living in the community, and the enhancement of contributory pensions over the same period.

It is worth noting that while the one of the key issues when implementing the CSA reform in Lithuania was the lack of political will, Malta's policy initiative had full political support and is considered as one of the government's major achievements.

4 Assessment of success factors and transferability

A fundamental factor that must not be discounted in the success of these schemes is the economic context during which these measures were rolled out. The favourable economic climate is instrumental to the employment of thousands of active-age social beneficiaries. In such conditions, the main risk was a possible yo-yo effect of beneficiaries returning to benefit dependency after the expiry of the tapering period.

For many years, Malta's labour market policy had been mainly biased in favour of a passive approach. Over time, the social safety net had been extended to cover a range of social problems. Inadvertently, the unintended consequences of such an extension led to a dependency problem.

It was widely believed that social benefits in Malta lead to a comfortable living. However, this was not the case: Eurostat figures³ confirm that Malta had one of the highest at-risk-of-poverty rates among social benefit dependants. At the same time, the welfare system was designed in such a way that it encouraged dependency and penalised the take-up of work resulting in a benefit trap cycle.

The new policy, 'Making Work Pay', has gradually driven beneficiaries out of the benefit trap and helped them enter and remain into the labour market.

The key thrust of national policy since 2014 has been the creation of favourable economic and employment conditions to reduce the proportion of people at risk of poverty or social exclusion. At the same time, it is important to address the EU's country specific recommendations and attain the Europe 2020 employments and poverty targets.

³ https://ec.europa.eu/eurostat/statistics-explained/index.php/People_at_risk_of_poverty_or_social_exclusion

At the inception of the tapering scheme, a profiling exercise was carried out to target those persons who were eligible to benefit. The take-up of the scheme did not depend only on the macro-economic factors and favourability of the labour market, but also on the individual behavioural factors that could not be predicted without high uncertainty. The main beneficiaries were found to be those people already on social assistance, unemployed and single parents, including women with children under 16 years of age.

The 'Making Work Pay' policy has facilitated the entry/re-entry of women in the labour market.⁴ It has also enhanced the self-esteem of all its direct beneficiaries, as well as of their families. The decrease in severe material deprivation rates is also an important achievement of this policy.

An interesting success factor is the direct involvement of social partners in the development and implementation of these initiatives, which assured that everyone's needs were considered.

Unquestionably, the 'Making Work Pay' policy has proven to be crucial in order to achieve better social, economic and labour conditions; implementing this policy created jobs, improved social inclusion as well as reduced benefit-dependency and poverty.

5 Questions

- Can the host country provide more information on what is included in the minimum consumption need basket?
- The Lithuanian model of paying Cash Social Assistance (CSA) is vested to municipalities. Apart from making sure that beneficiaries are satisfying the conditions as described in Section 1.3 of the host country paper, is a means-test also employed in order to make sure that payments are directed to the most vulnerable?

⁴ Peer Review on Making Work Pay for Mothers, <https://ec.europa.eu/social/main.jsp?langId=en&catId=1070&newsId=2204&furtherNews=yes>

6 List of references

Nso.gov.mt. (2018). *Population Statistics (Revisions): 2012-2016*. [online] Available at: https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_C5/Population_and_Migration_Statistics/Pages/Population%20Revisions.aspx [Accessed 25 Jan. 2019].

The data and statistics referred to are from internal administrative data provided by the Department of Social Security and from the public employment service, JobPlus.

Annexes

Annex 1 Summary table

The main points covered by the paper are summarised below.

Situation in the peer country

- Entry into the EU has resulted in rapid social, cultural and economic change.
- Economic growth rates quickly recovered after the 2018 economic crisis.
- Recent growth rate has resulted in Malta experiencing rapid socio-economic changes and challenges.
- Malta has implemented various policy initiatives based on the principle of 'Making Work Pay'.
- In-work benefits and tapering of benefits initiatives flanked by free childcare policies.

Assessment of the policy measure

- Based on broadly similar principles.
- The main elements of both minimum income schemes are the emphasis placed on labour market activation and on re-integration policies.
- A difference noted between the two systems is the focus given to gender equality.
- A similar approach between the two systems is the use of unspent funds that can be used for other social issues.
- One of the key issues when implementing the CSA reform in Lithuania was the lack of political will.

Assessment of success factors and transferability

- The economic context during which these measures were rolled out.
- The take-up of the scheme does not depend only on the macro-economic factors and favourability of the labour market, but also on the individual behavioural factors that cannot be predicted without high uncertainty.
- The direct involvement of social partners in the development and implementation of these initiatives, which assured that everyone's requirements were considered.

Questions

- Can the host country provide more information on what is included in the minimum consumption need basket?
- The Lithuanian model of paying Cash Social Assistance (CSA) is vested to municipalities. Apart from making sure that beneficiaries are satisfying the conditions as described in Section 1.3 of the host country paper, is a means test also employed in order to make sure that payments are directed to the most vulnerable?

Annex 2 Example of relevant practice

Name of the practice:	Making Work Pay
Year of implementation:	2014
Coordinating authority:	Ministry for the Family, Children's Rights and Social Solidarity
Objectives:	Addressing benefit dependency and risk of poverty.
Main activities:	
Results so far:	As indicated in this paper, the results are very positive. The numbers of persons depending on the payment of social assistance is decreasing and the number of people in the labour market is increasing.

Annex 3 Real GDP growth rate in Malta 2007-2017

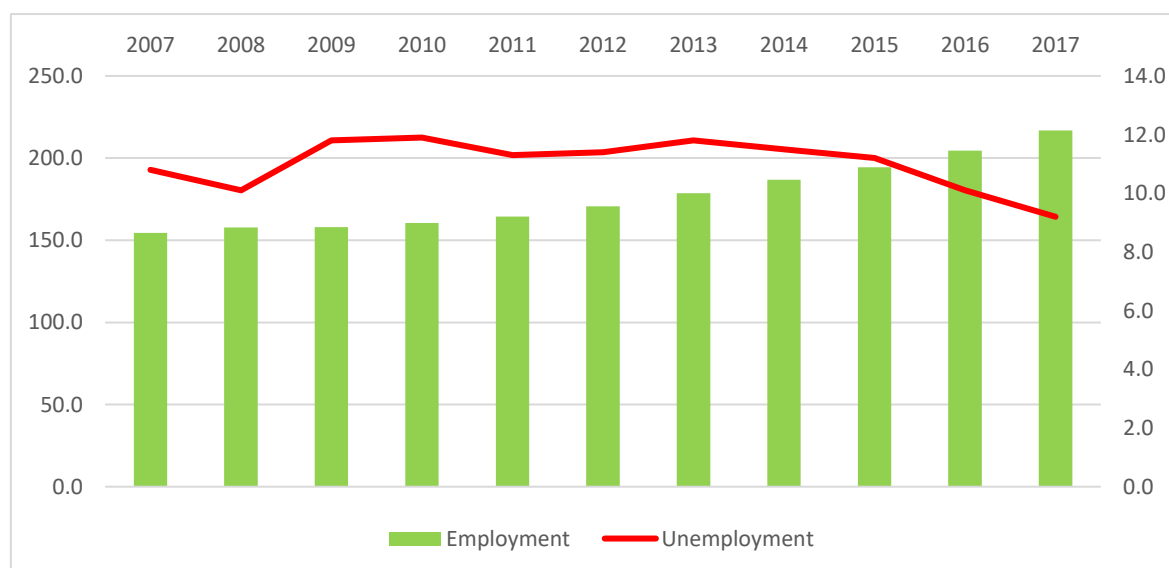
(percentage change on previous year)

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
4.0	3.3	-2.5	3.5	1.4	2.7	4.6	8.6	10.6	5.7	6.6

Source: Eurostat, [tec00115]

Annex 4 Employment and Unemployment rate in Malta 2007-2017

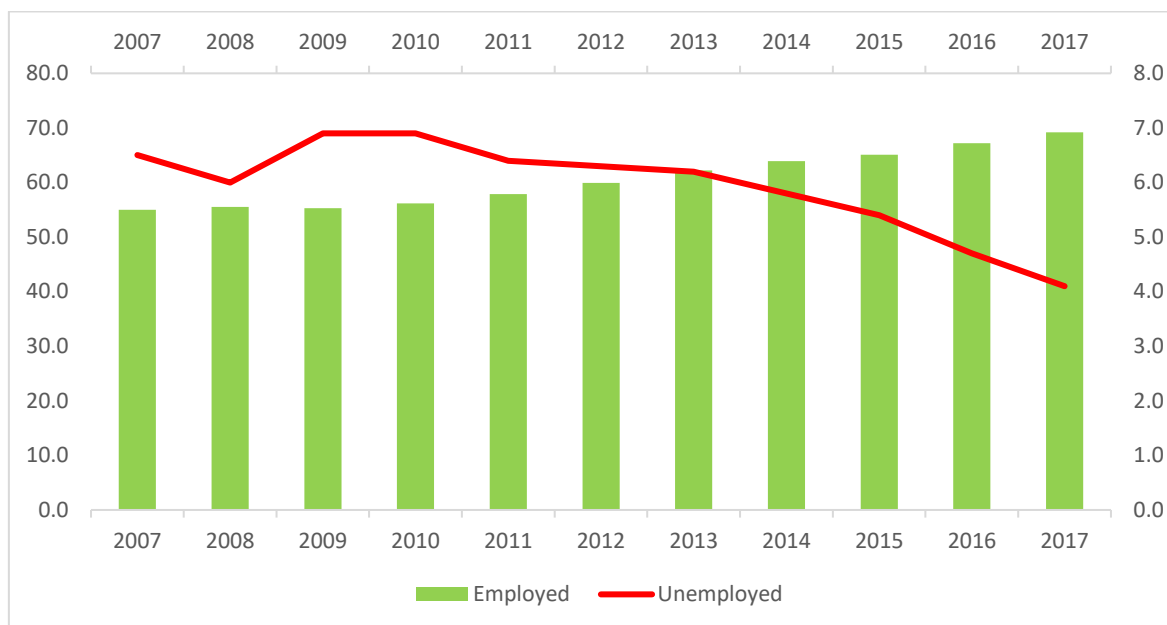
(Aged 15-64 years) (Thousand)



Source: Eurostat, [ifsa_egan], [ifsa_uGAN]

Annex 5 Employment and Unemployment rate in Malta 2007-2017

(Aged 15-64 years) (%)



Source: Eurostat, [fisa_ergan], [fisa_urgan]

