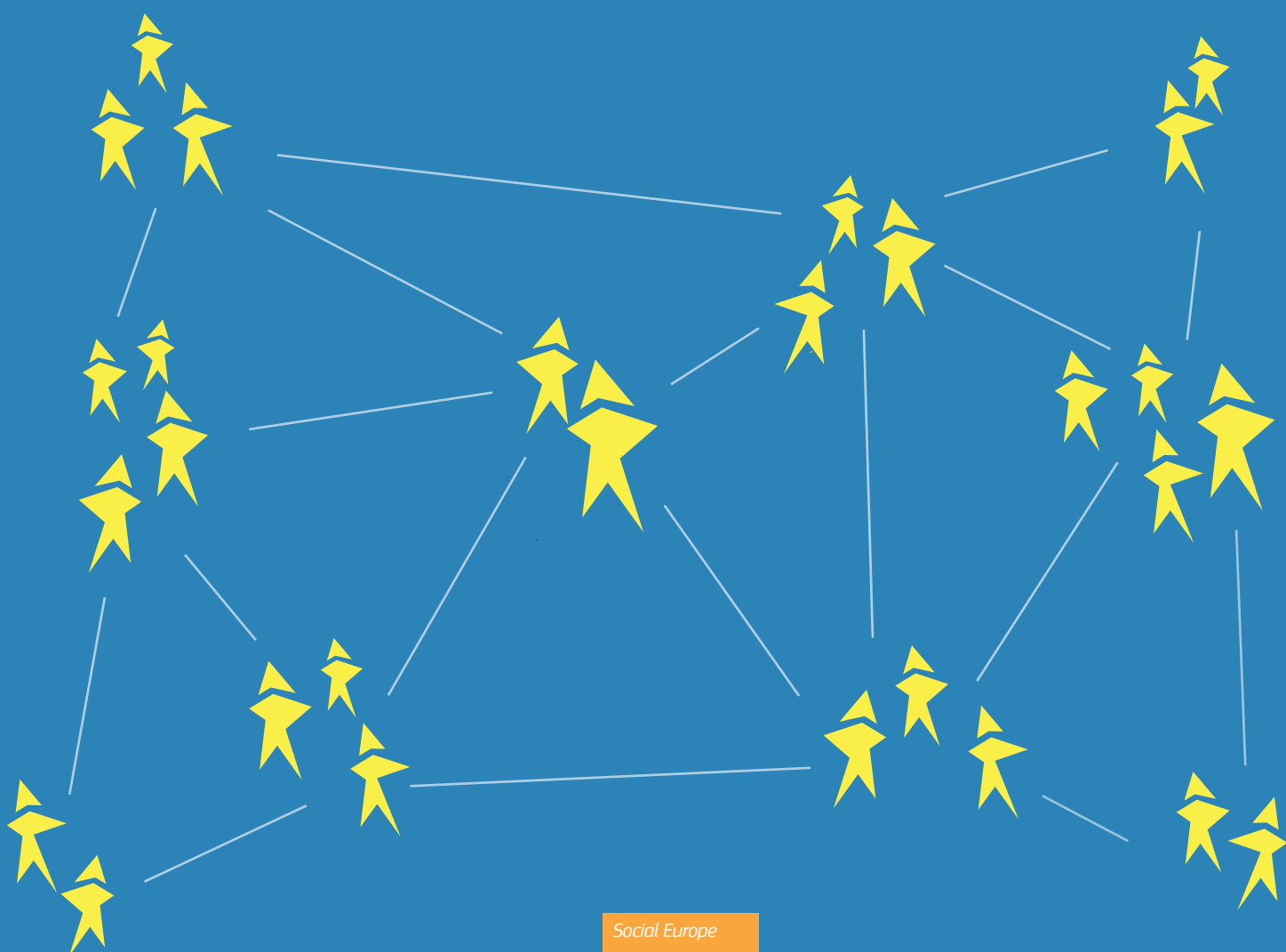




EUROPEAN SOCIAL POLICY NETWORK (ESPN)

# In-work poverty in Luxembourg

Robert Urbé



Social Europe

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**European Social Policy Network (ESPN)**

**ESPN Thematic Report on  
In-work poverty**

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**2019**

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# Contents

- SUMMARY ..... 4
- 1 ANALYSIS OF THE COUNTRY’S POPULATION AT RISK OF IN-WORK POVERTY ..... 5
- 2 ANALYSIS OF THE POLICIES IN PLACE..... 11
  - 2.1 The most important policies (or the absence thereof) which have directly influenced IWP ..... 11
  - 2.2 The most important policies (or the absence thereof) which have (more) indirectly influenced IWP ..... 13
- 3 POLICY DEBATES, PROPOSALS AND REFORMS ON IN-WORK POVERTY AND RECOMMENDATIONS..... 15
- 4 ASSESSING DATA AND INDICATORS..... 19
- REFERENCES ..... 20

## Summary

With a rate of 13.7% in 2017, in-work poverty<sup>1</sup> (IWP) is a major challenge for Luxembourg. This rate was the second highest in the whole EU behind Romania. The rise in the IWP rate for Luxembourg between 2012 and 2017 (the period considered for this report) was also one of the highest in the EU, after Bulgaria and Hungary (34.3%, or 3.5 p.p.).

In general, the IWP rate in Luxembourg is positively correlated with being a foreigner, having a low educational attainment level, doing a manual job with a non-standard contract (part-time or temporary), having dependent children, and living in a household with low work intensity.

Key challenges for the future are the right design of social transfers including the minimum income scheme, the level of the net minimum wage, investment in education and skills, and a pro-poor reform of the tax system.

IWP has never been seen as a major challenge by decision-makers in Luxembourg. This probably has one root in the fact that, just as for poverty in general, IWP is above all a problem for foreign workers, who have no voting rights.

Only a few policies are therefore especially designed to address IWP. For the most part IWP is affected by policies aimed at general poverty reduction or combating unemployment.

There are almost no policy measures in Luxembourg that grant in-work benefits (IWB). There is, however, a minimum income (MI) scheme (formerly RMG and now Revis) which gives payments to those whose revenues are below the household-specific threshold.

During the last election campaign (national elections took place on 14 October 2018) some parties proposed an increase in the minimum wage. Some trade unions had already done so previously. But as an isolated measure, this cannot be sufficient to tackle IWP: the setting of the minimum income scheme, as well as other social transfers and support, have to be taken into account in order to achieve the objective of an increase in disposable income.

In addition, attention has to be paid to the tax system, as well as to other social policies.

All in all, the development of active labour market policies offers a good approach provided they go beyond addressing only unemployment and encompass measures to prevent people from becoming unemployed, as well as giving them possibilities for updating their abilities and skills according to the changing needs of the labour market. The best approach would involve personal coaching support, leading to the design of individual pathways not only into employment but also through a whole career. Mandatory active age management by all employers might also help to keep older employees in work.

Action on the primary distribution of income should not be excluded, even if it would not be the easiest to develop and implement.

Recommendations to decision-makers in this report build on these findings. Rather than 'any kind of job is better than no job at all', the correct approach should be to enable people in work to achieve a decent standard of living from their wage or salary.

Just as there are few policies for tackling IWP in Luxembourg, there is also a shortage of studies of the phenomenon, and of evaluations of implemented measures. Not only is action therefore needed, as pointed out regularly by some stakeholders such as trade unions, the workers chamber and the press, but also more and deeper studies of the topic – for which the available data sources should be improved.

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<sup>1</sup> For ease of reading, in the rest of this report we will refer to the notion 'at risk of in-work poverty', and to the indicator that measures it, using the generic term of 'in-work poverty' (IWP).

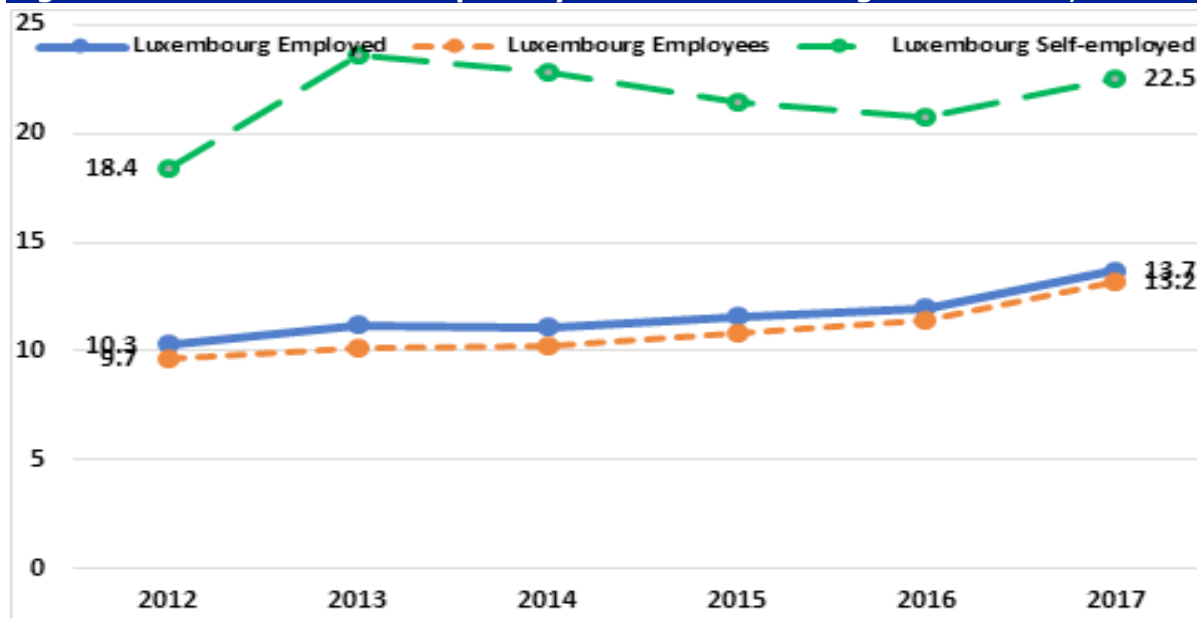
In-work poverty has to be high on the agenda for Luxembourg decision-makers.

## 1 Analysis of the country's population at risk of in-work poverty

In-work poverty (IWP)<sup>2</sup> is a major challenge for Luxembourg, with an IWP rate of 13.7% in 2017<sup>3</sup>, compared with 9.4% for the EU.

Figures 1 and 2 illustrate this fact.

**Figure 1 – In-work at-risk-of-poverty rate in Luxembourg - 2012-2017, %**

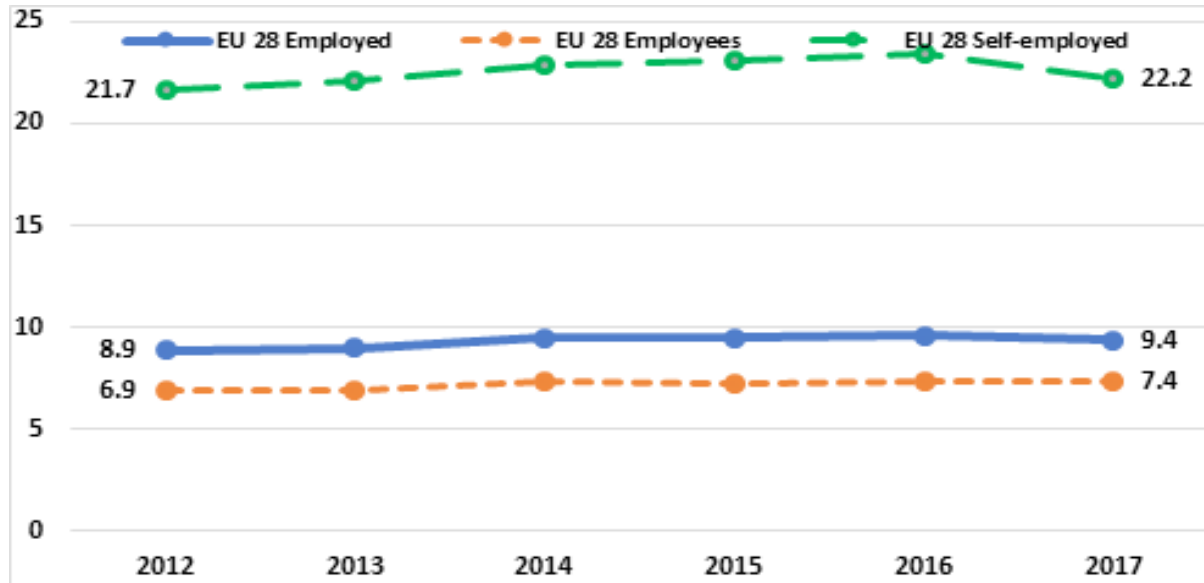


Source: Eurostat database (ilc\_iw01), extracted on 17 November 2018.

<sup>2</sup> In line with the EU-agreed definition of IWP, a person is **at risk of in-work poverty** if they are in employment and live in a household that is at risk of poverty. A person is **in employment** when they worked for more than half of the income reference year. Employed individuals can be waged employees or self-employed. In all but two EU countries (exceptions: Ireland [last 12 months] and the UK [current year]), the income reference year is the calendar year prior to the survey. A household is **at risk of poverty (or 'income poor')** if its equivalised disposable income is below 60% of the national equivalised disposable household median income. The population covered is aged 18-64. (Eurostat, 2014, p. 208.)

<sup>3</sup> All figures from 2012 to 2017 reported in this section are from the Eurostat database (ilc\_iw01), extracted on 12 or 17 November 2018, except for EU28 data in Figure 2, which were extracted on 25 January 2019.

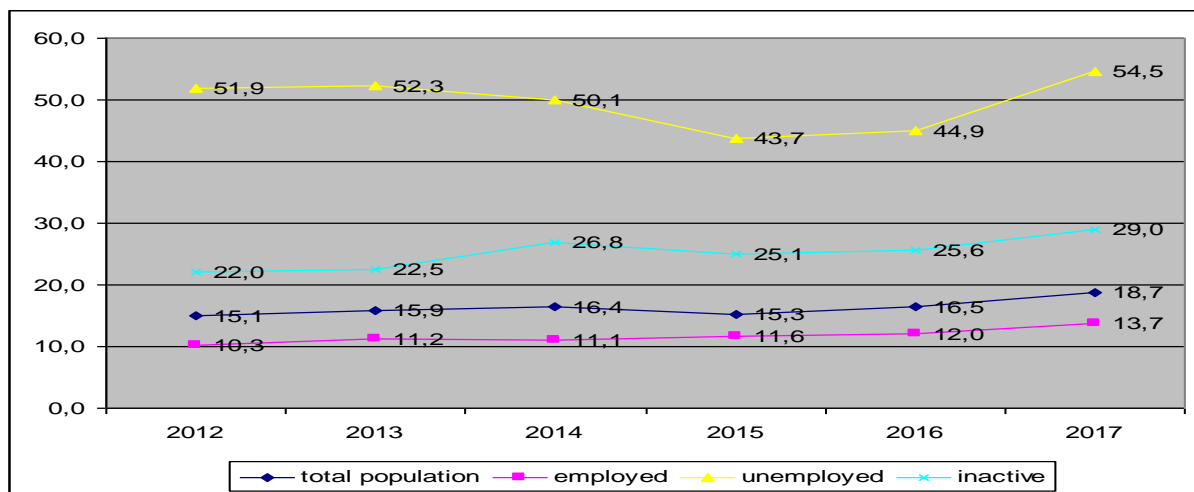
**Figure 2 – In-work at-risk-of-poverty rate in EU28 - 2012-2017, %**



Source: Eurostat database (ilc\_iw01), extracted on 25 January 2019.

As shown in Figure 3, the at-risk-of-poverty (AROP) rate in Luxembourg in 2017 was lower for the employed population (13.7%) than for the total population<sup>4</sup> (18.7%), and even lower than that for unemployed and inactive people (54.5% and 29% respectively).

**Figure 3 - Population at risk of poverty (AROP) in Luxembourg: total population, employed, unemployed and inactive persons - 2012-2017 (%)**



Source: Eurostat database (ilc\_iw01), extracted on 17 November 2018.

However, the IWP rate among employed increased fairly steadily<sup>5</sup> between 2003 and 2017, and in 2017 was 4.3 p.p. (45.7%) higher than the EU average<sup>6</sup>. It was the highest in the Eurozone, and even in the whole EU apart from Romania Whereas in 2009 16

<sup>4</sup> This difference between the overall at-risk-of-poverty (AROP) rate and the IWP rate was 5.0 p.p. in 2017 – the second smallest in the EU behind Hungary (3.2 p.p.). This suggests that the overall AROP rate is more affected by poverty among employed people than among the unemployed, and indeed the unemployment rate for Luxembourg was in 2017 the eighth lowest in the EU (5.6% compared with 7.6% for the EU average).

<sup>5</sup> With the exceptions of the years 2007, 2011 and 2014, which showed small falls of 1, 0.8 and 0.1 p.p. respectively. Starting at 7.1% in 2003, the IWP rate almost doubled by 2017. We have chosen 2003 because it is the first year reported in the Eurostat database. The data for the years 2003-2011 were extracted on 16 November 2018.

<sup>6</sup> See European Commission, 2018a.



other EU member states had higher IWP rates<sup>7</sup> than Luxembourg, this was the case for only five member states in 2012 and only one in 2017. In previous years Greece and Spain had a somewhat higher rate than Luxembourg, but this is no longer the case. The rise in the IWP rate for Luxembourg between 2012 and 2017 (the period considered for this report) was also, after those for Bulgaria and Hungary, one of the largest in the EU (33.3%, or 3.4 p.p.<sup>8</sup>).

An IWP rate of 13.7% in 2017 together with a workforce of 432,000 resulted in roughly 59,000 people at risk of in-work poverty.

Who are those people, employed and nevertheless at risk of poverty?

First of all we can see that the IWP rate in 2017 was 13.2% for waged employees and 22.5% for self-employed persons<sup>9</sup>. For these two categories the increase between 2012 and 2017 amounted to 36.1% (3.5 p.p.) and 22.3% (4.1 p.p.) respectively. In addition, the breakdown between full-time and part-time workers showed that the latter were more affected than the former, with an IWP rate of 17.4% against 12.2% in 2017, although the increase between 2012 and 2017 was more or less equal (4.5 p.p. and 34.9% for part-timers, against 3.2 p.p. and 35.6% for full-timers). Not surprisingly the IWP rate in 2017 was more pronounced for those employed under a temporary contract than those with a permanent contract – 31.4% against 11.5%: again, the increase between 2012 and 2017 was very similar, at 42.7% (9.4 p.p.) for temporary contracts and 36.9% (3.1 p.p.) for permanent contracts.

Let us now have a look at the work intensity (WI) of households.

**Table 1: In-work at-risk-of-poverty rate by work intensity of the household (population aged 18-59) and by parenthood in Luxembourg 2012-2017 (%)**

	2012	2013	2014	2015	2016	2017	Change 2012-2017	
							Abso- lute (p.p.)	In %
<b>All households:</b>								
Very high WI (0.85-1.0)	4.8	6.8	6.0	7.7	7.8	8.7	+3.9	+81.3
High WI (0.55-0.85)	12.2	14.6	14.6	13.2	13.5	16.4	+4.2	34.4
Medium WI (0.45-0.55)	26.1	21.9	25.2	25.0	25.1	28.8	+2.7	+10.3
Low WI (0.20-0.45)	43.1	27.2	33.7	34.0	30.9	31.3	-11.8	-27.4
<b>Households with dependent children:</b>								
Very high WI (0.85-1.0)	4.9	5.4	5.3	7.7	8.5	8.9	+4.0	+81.6
High WI (0.55-0.85)	9.9	13.0	8.6	8.1	13.0	13.0	+3.1	+31.3
Medium WI (0.45-0.55)	17.3	8.5	15.4	9.1	16.8	26.8	+9.5	+54.9
Low WI (0.20-0.45)	13.5	14.1	17.3	28.9	22.4	17.2	+3.7	+27.4
<b>Households without dependent children:</b>								
Very high WI (0.85-1.0)	4.7	8.4	7.0	7.8	7.2	8.5	+3.8	+80.9
High WI (0.55-0.85)	13.2	15.3	17.4	16.0	13.7	18.3	+5.1	+38.6
Medium WI (0.45-0.55)	30.8	26.5	29.7	34.5	29.7	29.8	-1.0	-3.2
Low WI (0.20-0.45)	55.5	36.1	44.6	37.8	36.4	39.4	-16.1	-29.0

<sup>7</sup> See STATEC, 2011.

<sup>8</sup> 13.7% vs 10.2%; the 10.3% value in Figure 1 comes from an earlier extraction.

<sup>9</sup> For self-employed persons, STATEC (the Luxembourg statistical office) draws attention to the fact that their revenues often fluctuate, and that they may in case of reduced revenues rely on their savings – thus they may have at their disposal a higher income than the one indicated in the survey (STATEC 2018).

Source: Eurostat database (*ilc\_iw01*), extracted on 12 November 2018.

Regarding the work intensity of households<sup>10</sup>, Table 1 shows that an individual's IWP rate was inversely correlated with the level of WI in their household. Surprisingly, however, the IWP rate associated with very high WI increased by 81.3% between 2012 and 2017, whereas for low WI it fell by 27.4%. The same general pattern can be observed for households with and without dependent children: in both cases the rate of IWP was inversely correlated with work intensity, but the gap between households with low and very high work intensity narrowed over the period.

In terms of gender, the IWP rate in 2017 was slightly higher for males (14.3%) than for females (13.0%); for males it also rose slightly more (3.8 p.p., or 36.2%) between 2012 and 2017 than for females (3.1 p.p., or 31.3%).

An analysis by age groups reveals that the IWP rate for those aged 25-54 was not far away from the overall IWP rate, and followed a similar evolution: it was 13.1% in 2017, with a rise between 2012 and 2017 of 23.6% (2.5 p.p.). For those aged 18-24 the IWP rate was higher in 2017, at 20.0%, and rose more between 2012 and 2017 (nearly doubling, by 96.1%, or 9.8 p.p.). For those aged 55-64 the 2017 rate was also higher, at 15.7%, and rose more (more than doubling, by 124.3%, or 8.7 p.p.) over the period.

In terms of an analysis of the IWP rate by country of birth, Luxembourg nationals had the lowest IWP rate in 2017, at 8.0%: the rate for foreign workers was more than twice as high, at 18.5%. The rate was 15.0% for EU nationals and 32.2% for non-EU nationals (again, more than twice as high). All categories showed an increase between 2012 and 2017, but it was greatest for Luxembourg nationals (86.0%, or 3.7 p.p.); for EU nationals it was 10.7% (2.5 p.p.) and for non-EU nationals 20.0% (3.1 p.p.).

If we compare the IWP rate for Luxembourg nationals with that for Portuguese citizens<sup>11</sup>, who represent the largest number of resident foreign workers in Luxembourg, we can see that in 2017 the rate for the latter was more than three times higher: 25.5% compared with 8.0%. In contrast the increase between 2012 and 2017 for Portuguese citizens was 21.4% (4.5 p.p.) – smaller than for Luxembourg nationals at 86.0% (3.7 p.p.). This is related to the fact that people in manual jobs undergo the highest risk of being poor: they represent more than half of the poor<sup>12</sup>, and Portuguese people are more likely to have a manual job<sup>13</sup>.

Finally, with regard to education we see that those with a low education attainment level<sup>14</sup> had the highest IWP rate: 27.4% in 2017 against 12.1% for those with a medium educational attainment level<sup>15</sup> and 5.4% for those with a high educational attainment level<sup>16</sup>. The increase between 2012 and 2017 was also highest (48.1%, or 8.9 p.p.) for the less-educated. However, it increased by more for those with tertiary education (45.9%, or 1.7 p.p.) than for those with medium educational attainment (28.7%, or 2.7 p.p.).

In terms of the IWP rate by different household types, in 2017 households with two or more adults without dependent children faced the lowest IWP rate at 7.3% (an increase of 52.1%, or 2.5 p.p., between 2012 and 2017). The second-lowest IWP rate was in households with two or more adults and with dependent children, at 14.1% in 2017: this was nearly double that for similar households without dependent children, although

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<sup>10</sup> If a household uses between 85% and 100% of its potential workforce, it is said to have very high work intensity (WI); 55-85% is high WI; 45-55% is medium WI; and 20-45% is low WI. Very low WI (0-20%) rates are not calculated for Luxembourg because they would be unreliable.

<sup>11</sup> These data stem from STATEC, 2013b and 2018.

<sup>12</sup> See Statec, 2018.

<sup>13</sup> Portuguese citizens also tend to have a lower educational attainment level than Luxembourg nationals: see next paragraph.

<sup>14</sup> Lower secondary education or below (levels 0-2).

<sup>15</sup> Upper secondary and post-secondary non-tertiary education (levels 3 and 4).

<sup>16</sup> Tertiary education (levels 5-8).

between 2012 and 2017 it rose by less (13.7%, or 1.7 p.p.). Single-person households had an IWP rate in 2017 of 24.2%, up by 116.1%, or 13.0 p.p., since 2012 – meaning that for these households the risk of poverty more than doubled in five years! Single parents with dependent children had the highest IWP rate in 2017 of 34%: although this was down 2.3% (0.8 p.p.) since 2012, it should be noted that more than one third of the households out of this category were affected by IWP!

In general, therefore, IWP in Luxembourg seems to be correlated with: being in a younger or older age group; being a foreigner; having a low educational attainment level; doing a manual job with a non-standard contract (part-time or temporary) and low pay; having dependent children; and living in a household with low work intensity.

However, this picture requires further differentiation. STATEC (2018) established that 92% of the working poor had worked all 12 months in the reference year, three quarters of them were working full time, and 86% of them had a permanent contract. Whereas nearly two thirds of those having a low hourly wage were not poor, half of the working poor had a low hourly salary. STATEC also showed that 64.1% of the working poor lived in a household where only one person had a job, 33.4% were poor despite the fact that two persons in the household were employed, and even 2.6% were poor despite there being three workers in the household. Equally, 38.7% were in IWP despite living in a household without dependent children. These figures underline the fact that the IWP phenomenon is rather complex with different roots and hence does not have a simple explanation<sup>17</sup>.

The figures in the above paragraphs show that the increase in the overall IWP rate between 2012 and 2017 (33.3%, or 3.4 p.p.) was broadly reflected in all the different sub-categories scrutinised, except for people living in households with low work intensity. The greatest increases were for people living in households with very high work intensity; younger and older workers (who in the aftermath of the crisis also struggled more with unemployment); Luxembourg nationals; and people with low educational attainment.

The increases in the IWP rate between 2012 and 2017 for people on temporary contracts (42.7%) and for part-time workers (34.9%) were both broadly in line with the overall trend. In addition, the proportion of employees on temporary contracts rose by only 18.8%, from 6.4% in 2012 to 7.6% in 2017<sup>18</sup>, and similarly the proportion doing part-time increased only by 6.0% (1.1 p.p.), from 18.3% to 19.4%<sup>19</sup> – hence these changes would have had little effect on the overall trend.

One contributory factor in the rise in the IWP rate was trends in the minimum wage in Luxembourg<sup>20</sup>. In 2012 there were about 52,000 employees on a salary in the neighbourhood of the minimum wage<sup>21</sup>, and by 2018 they were nearly 60,000 – equalling 15.3% of total employment (excluding civil servants)<sup>22</sup>. However, the level of the minimum wage was not high enough to stop people falling into poverty, especially in the cases of families dependent on a single earner. Such families are entitled to additional revenue within the framework of the minimum income scheme (*revenu minimum*

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<sup>17</sup> See also EU Network of Independent Experts on Social Inclusion, 2010 or Eurofound, 2017.

<sup>18</sup> Despite what is suggested on page 134 of European Commission, 2008.

<sup>19</sup> Figures in this paragraph come from Eurostat database, extracted on 21 November 2018

<sup>20</sup> The monthly minimum wage for a full-time unqualified worker aged 18+ was €2,048.54 in 2018 and was raised to €2,071.10 as from 1 January 2019.

<sup>21</sup> The General Social Security Inspectorate (IGSS – *Inspection générale de la sécurité sociale*) puts workers with the lowest salaries in the category 'in the neighbourhood of the minimum wage' if their salary is lower or equal to 102% of the minimum wage; see Chambre des Députés, 2018d, p.15. Calculations are always done as at 31 March of each year.

<sup>22</sup> And we have seen that, according to STATEC, 2018c half of them were at risk of poverty.

*garanti*; RMG, now Revis), but the minimum income is also lower than the poverty threshold<sup>23</sup>.

Roughly 50% of minimum-wage earners are employed in three sectors: retail trade, accommodation and food service activities, and construction<sup>24</sup>. Most workers in these sectors are of foreign nationality (around 80% for retail trade, and around 90% for the two other sectors). Portuguese workers alone account for roughly 35% of workers in the construction sector<sup>25</sup>. This helps to explain the higher levels of IWP among foreign workers, and especially Portuguese ones.

Another driver of the increase in IWP could reside in the fact that, at least between 2014 and 2017, the reduction in AROP through social transfers (excluding pensions) fell from 40.57% in 2014 to 35.5% in 2017, as reported by the European Commission (2018b)<sup>26</sup>. Thus social transfers, including RMG but also other transfers, were less effective in alleviating poverty. This may in turn be related to the fact that after 2006 all family benefits were frozen – including child benefits, birth and adoption grants, new school year allowances, special allowances for children with disabilities, parental leave allowances, maternity allowances, education allowances, and the negative tax credit for children called *boni pour enfants*<sup>27</sup>. (As Luxembourg has set up an indexation mechanism according to which revenues such as salaries, pensions and other social transfers outside of family benefits are regularly adjusted for inflation, the relative contribution of family allowances to overall household budgets has been decreasing.)

Key **challenges** for Luxembourg reside, on the one hand, in achieving the right design of the relevant schemes for social transfers – such as the new minimum income scheme entered into force on 1 January 2019 (*Revenu d'inclusion sociale – Revis*)<sup>28</sup>, family allowances, the high-cost-of-living allowance (AVC<sup>29</sup>), rent subsidies etc. On the other hand it is also important to decide the right design of the income tax scheme: this was reformed in 2016<sup>30</sup>, and some political parties<sup>31</sup> proposed further reforms during the next legislative period that have now been included in the new coalition agreement<sup>32</sup>.

However, none of these interventions through social transfers attacks the real roots of the problem: the unequal primary distribution of incomes. European (European Commission, 2018a) and national (STATEC, 2018c) publications are unanimous: the economic recovery after the crisis has not yet broadly translated into inclusive growth, with the rise in the at-risk-of-poverty rate before social transfers being higher than that after social transfers. Changes in the primary distribution of income have led to both more inequality and more poverty (especially IWP). Therefore the most important challenge will be how to ensure that people can get out of poverty through earnings from work. This requires that the minimum wage reaches a level which prevents poverty – a level such that net income<sup>33</sup> is higher than the poverty threshold for a single person. For those workers who have dependent children, and who are entitled to income support, the

<sup>23</sup> Regarding these calculations, compare STATEC, 2018c and Chambre des Salariés Luxembourg, 2016, 2017a, 2017b and 2018.

<sup>24</sup> These figures and facts can be found in the statement of reasons (*Exposé des Motifs*) of the draft law N° 7381: Chambre des Députés, 2018d.

<sup>25</sup> Figures from IGSS database, extracted from <https://datapublic.lu> on 30 November 2018.

<sup>26</sup> Statistics quoted calculated using Eurostat data, extracted on 30 November 2018.

<sup>27</sup> The last three were abolished on 1 June 2015 (1 August 2016 for the last one) but continue to apply to children born before the abolition date.

<sup>28</sup> See Swinnen, 2018.

<sup>29</sup> For an explanation, see section 2.1.

<sup>30</sup> See Grand-Duché de Luxembourg, 2016c.

<sup>31</sup> See Déi Gréng, LSAP, DP and CSV, all 2018.

<sup>32</sup> See <https://gouvernement.lu/dam-assets/documents/actualites/2018/12-decembre/accord-de-coalition-2018-2023.pdf>, downloaded on 3 December 2018.

<sup>33</sup> That is to say, the expected result could be reached either by a higher minimum wage or by reduced taxation, or by a combination of both mechanisms.

minimum income scheme also needs to be redesigned so that it lifts them out of poverty. The new minimum income scheme<sup>34</sup> entered into force on 1 January 2019 fulfils this requirement only for those households with a work intensity of 1<sup>35</sup>.

Last but not least, all measures to increase the educational attainment and skill levels of the workforce should result in higher incomes and therefore help reduce the number of working poor. And all measures enabling a better reconciliation of work and family life, especially in the field of childcare and of care for the elderly, should result in higher employment and/or higher work intensity and thus also contribute to reducing IWP.

## 2 Analysis of the policies in place

### 2.1 The most important policies (or the absence thereof) which have directly influenced IWP

There are almost no policy measures in Luxembourg that grant in-work benefits (IWB)<sup>36</sup>. To some extent one could say that the MI scheme (formerly RMG and now Revis; for details see below) is an IWB. The scheme provides an income supplement to those whose revenues are below the household-specific threshold: whereas non-working beneficiaries only achieve their specific threshold amount, those at work are granted the difference between 75% of their work revenue (increased by other revenue, except child allowances, birth allowances and financial aid paid by the state such as the AVC) and the threshold. It is paid as long as the beneficiary's revenue is below the threshold.

Because IWP until now has not been on the agenda of decision-makers<sup>37</sup>, there are no **policy measures designed especially to address IWP**. Only very few policies have influenced IWP at all, and they are mostly programmes, projects and measures under general labour policies, often aimed at combating unemployment but with a limited impact on IWP.

This is most obviously the case with the existing **minimum wage**. Regular adjustments are made to it either to keep pace with inflation (as is the case for all salaries, pensions and certain social transfers) or to keep pace with rises in earnings, as required by law<sup>38</sup>. However, these adjustments are not argued with the fact that the minimum wage is not high enough to lift people out of poverty. The same is valid for the **minimum income**<sup>39</sup>, which has mostly been adjusted in the same way as the minimum wage<sup>40</sup> (except in 2013 and 2015, when the RMG was not adjusted at all: Chambre des Salariés Luxembourg, 2017a). For some people in IWP these adjustments, together with other income from social transfers, may have helped to lift them out of poverty: but this effect has never been monitored and therefore cannot be measured.

A range of policies **supporting household income** has been introduced or improved in recent years, building on those that existed before 2012. The oldest of these was the

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<sup>34</sup> See Swinnen, 2018.

<sup>35</sup> See STATEC, 2018c and Chambre des Salariés Luxembourg, 2017a and 2017b.

<sup>36</sup> There exists a small tax credit of €25 per month, with adjustments depending on family status and salary; see Grand-Duché de Luxembourg, 2016c.

<sup>37</sup> This was already stated by Swinnen (2010) and seems not to be confined to Luxembourg, according to Eurofound, 2017.

<sup>38</sup> For the adjustment applicable from 1 January 2019 see Chambre des Députés, 2018d.

<sup>39</sup> To be eligible for the minimum income scheme people have to: reside regularly in the country; be aged 25+; have a disposable income below the threshold (fixed according to household composition); and be ready to undertake all actions to better their situation, including looking for a job and registering as a jobseeker; see Grand-Duché de Luxembourg, 2018c and Swinnen, 2018.

<sup>40</sup> A similar adjustment therefore took place from 1 January 2019; see Chambre des Députés, 2018e.

special grant<sup>41</sup> called *Einkellerungsprämie* (later *Heizungsprämie*), which in 2009 became the high-cost-of-living allowance (*allocation de vie chère, AVC*) (Grand-Duché de Luxembourg, 2009). This allowance, paid out of the general governmental budget, benefits low-income households<sup>42</sup>: it is set at a yearly amount of €1,320 for a single person, increased by €330 for every additional person (adult or child) in the household, with a ceiling corresponding to five persons, i.e. €2,640 per year (these amounts have not changed between 2009 and 2019, but should be increased in the future according to the new coalition agreement<sup>43</sup>). In some but not all municipalities these amounts are topped up by a municipal allowance, which may be equal to, higher or lower than the governmental one.

The second policy element to be mentioned here is very much newer, but with a much broader scope: the 2016 **tax reform** (Grand-Duché de Luxembourg, 2016c)<sup>44</sup>, which entered into force on 1 January 2017. It lowered taxes for almost all taxpayers, even those with an income as high as €35,000 per month! But it also introduced a greater degree of social justice by doubling the existing tax credits for workers, pensioners and single parents, making them also dependent on the income level. These measures raised the purchasing power of low-income earners by increasing their disposable income.

Another small measure was the introduction of a special grant for low-income households in order to help them cope with the school costs of their children, of between €600 and €900 per year (Grand-Duché de Luxembourg, 2017b and 2018b). The grant varies according to household composition and household income, the maximum income to be eligible being for single parents with one child roughly €2,500 per month, and for two adults and one child €3,300. The scheme also supports adult students to stay in school with a grant of up to €790 per month for rent, coupled with €570 per month for general living costs and €180 per month for each child living in the household, subject to a deduction for other income received.

Last but not least, we list here the reform of the parental leave scheme, granting parents a higher replacement income (for more details see Section 2.2 and Grand-Duché de Luxembourg, 2016b). However, this reform was also coupled with the abolition of the education allowance and the reduction of child benefits for the second and subsequent children in the household: this resulted in a lowering of disposable income, especially for vulnerable families.

All these different measures together may have lifted a certain number of households out of poverty, according to calculations by STATEC (2018c) for four household compositions and different work intensities.

**Active labour market policies** increased between 2012 and 2017 by one third, whereas passive labour market policies decreased by nearly one third. The main element was the reform of the public employment agency<sup>45</sup> (*Agence pour le développement de l'emploi - Adem*) in 2012 (Grand-Duché de Luxembourg, 2012). Structural, personnel, financial, organisational and technical changes have turned the Adem into a proactive

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<sup>41</sup> A grant to buy goods in the autumn that could be kept for use during the winter, such as potatoes; from 1983 on its aim was to provide households with the means needed in the autumn to buy fuel for the winter season.

<sup>42</sup> Low-income households are defined as having an income below €24,026.89 per year for a single person (which is €555.59 less than the minimum wage, but higher than the minimum income), increased by €12,013.44 for a second person and by €7,208.07 for each additional person in the household (adult or child): these amounts are all higher than the minimum wage. Regarding these boundaries one has to bear in mind that the mean income per household in 2017 according to STATEC (2018c) was €88,039 per year and the median disposable income per household was €59,484 per year. For all the amounts regarding this allowance, see: [http://www.mss.public.lu/publications/parametres\\_sociaux/ps\\_20180801.pdf](http://www.mss.public.lu/publications/parametres_sociaux/ps_20180801.pdf).

<sup>43</sup> See <https://gouvernement.lu/dam-assets/documents/actualites/2018/12-decembre/accord-de-coalition-2018-2023.pdf>, downloaded on 3 December 2018.

<sup>44</sup> For details and examples see also <http://www.reforme-fiscale.public.lu>.

<sup>45</sup> See <https://gouvernement.lu/dam-assets/fr/actualites/articles/2010/07-juillet/06-schmit/note.pdf>, downloaded on 25 November 2018.

agency supporting those in unemployment or at risk of it, whereas previously it was a reactive body for those in unemployment. In particular, the introduction of personal case management for clients (started as a pilot project in the Wasserbillig office in 2013, and then mainstreamed throughout the whole administration) made it possible to build on each individual's strengths, address their weaknesses and elaborate individual pathways to employment (*parcours personnalisé*) (ADEM, 2016 and Ministère du Travail, de l'emploi et de l'économie sociale et solidaire, 2018). In general, this reform has mainly served to combat unemployment. After the onset of the crisis the unemployment rate rose constantly, but then fell from 6.5% to 5.6% between 2014 and 2017<sup>46</sup>. In addition, some measures, especially training for persons at risk of unemployment, helped to improve skills and therefore may also have contributed to reducing IWP, even if there are no means to measure this influence.

Since 2017 Adem has also organised, for those aged 45 and over, information sessions together with individualised accompaniment and training adapted to their needs, with a focus on training in the field of digitisation. According to the Ministry of Labour (Ministère du Travail, de l'emploi et de l'économie sociale et solidaire, 2018) 2,757 persons participated in information sessions during the year 2017.

Employed people who become incapacitated can undergo a **reclassification procedure** to find another job, either internally or externally with another employer, in order to avoid being forced on to a disability pension. In order to improve this procedure and hence protect or increase earnings for those concerned, several reforms have taken place since 2012 and are still ongoing (Grand-Duché de Luxembourg, 2015a, Chambre des Députés, 2018a and 2018b). Under this reclassification procedure, on average nearly 2,000 decisions were made annually between 2012 and 2017 (Ministère du Travail, de l'Emploi et de l'Economie sociale et solidaire, 2017).

The new law adopted in 2018 introducing the new minimum income scheme from 1 January 2019 (*revenu d'inclusion sociale – Revis*)<sup>47</sup> includes an objective addressing the **inactivity trap**, and therefore may increase work intensity among beneficiary households. Moreover, the former MI scheme (RMG) included a limit of 40 hours per week on activation activity per household (that is, no more than one person per household could be granted activation measures), whereas this limit has now been abolished, so that two adults in a household can benefit from integration measures. This is particularly important for women, who in the former scheme were often the ones who were denied access to activation measures.

Other means of supporting older employees, in particular, could include making **age management** mandatory for businesses. Regrettably the draft law No 6678 on age management (Chambre des Députés, 2014) is still not finalised and there has been no legislative progress since October 2015.

## 2.2 The most important policies (or the absence thereof) which have (more) indirectly influenced IWP

In this sub-section the indirect measures mentioned in Eurofound (2017) are considered. Firstly we examine the provision of **childcare** places (early child education and care, ECEC) in the different socio-educational childcare facilities (*structures d'accueil socio-éducatif pour enfants*, SAE). Here Luxembourg has exceeded the Barcelona targets<sup>48</sup>, increasing the number of places between 2013 and 2017 from 46,377 to 56,363 (Gouvernement luxembourgeois, 2018). Several legal initiatives have accompanied this numerical development, mainly involving improvements in access to SAEs and in the quality of education therein (Grand-Duché de Luxembourg, 2016a), but also the

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<sup>46</sup> According to Eurostat database, downloaded 25 November 2018.

<sup>47</sup> See Swinnen, 2018.

<sup>48</sup> See for example European Council, 2002.

introduction of plurilingual education and an extension of free-of-charge hours (Grand-Duché de Luxembourg, 2017a); others are to follow. This policy pursues two objectives: better and more equal chances for children to succeed in education; and a better reconciliation between family and professional life, in order to increase (especially female) participation in the labour market. Unfortunately there are no studies that evaluate this impact. What we can learn from STATEC (2018c) is that the use of ECEC facilities is not evenly distributed throughout the income distribution: whereas 87% of parents from the tenth decile (the richest ones) use them, only 52% of the first decile (the poorest ones) do so, the lowest usage rate applying to the seventh decile with 48%. This seems to show that simply increasing the number of childcare places is not enough, even when they are free of cost: there are probably also attitudinal and behavioural issues. Since single-parent households generally have the highest at-risk-of-poverty rate (46% in 2017 according to STATEC, 2018c), they are more likely to belong to the first decile: this may suggest that they are among those who do not make enough use of ECEC, which could help to explain their IWP rate of 34.4%, the highest of all household types (*ibidem*).

As a side-effect, free or low-cost childcare has a direct impact on poverty. STATEC calculated that by monetising this in-kind benefit the at-risk-of-poverty rate falls by 1.6 p.p. (STATEC, 2018b).

More generally the government has identified **better work-life balance** as an objective of its policy. Hence three further laws have been proposed to the parliament. The first one (Grand-Duché de Luxembourg, 2016b) reformed the parental leave scheme by offering more flexibility to employed people to organise the leave in a way that best suits their needs, choosing from a wider range of possibilities. Additionally, the compensation payment was changed from a lump sum below the minimum wage to a genuine replacement income varying according to the employee's salary, with a ceiling set at five thirds of the minimum wage<sup>49</sup>. This reform has subsequently encouraged many more fathers to take parental leave (their number almost tripled), but the number of mothers doing so also increased and as a result the expenses of the child benefit fund (*caisse pour l'avenir des enfants*, CAE) doubled in 2017 (Ministère de la Famille, de l'Intégration et à la Grande Région, 2018). Another law reformed the additional and special leave days for family reasons (Grand-Duché de Luxembourg, 2017c). What is interesting here is the better arrangement of the extra days of leave due to the sickness of a child.

The third draft law was tabled to parliament on 26 June 2018 and foresees the introduction of a more flexible organisation of work through time savings accounts (*comptes épargne-temps*) (Chambre des Députés, 2018c). It follows a similar scheme for civil servants and will, once in force, mean a paradigm shift away from regular workdays, weeks, months and years. This enhanced flexibility may also encourage people to take up more work.

These laws, improving the reconciliation between family and professional life, may in the future encourage people – especially mothers, but not only them – to take up a job or to increase their work intensity. This may then result in lowering the IWP rate, but it is too early to see any effects, and in any case the absence of evaluations makes it impossible to draw conclusions.

The introduction of a **rent subsidy scheme** from 1 January 2016 (Grand-Duché de Luxembourg, 2015b) and its reform (Grand-Duché de Luxembourg, 2017d) from 1 January 2018 could alleviate somewhat the rent burden of tenants with an income below the arithmetic mean of the minimum wages for unqualified and qualified employees, thus increasing the disposable income of low-wage earners. But the overall amounts are not adequate<sup>50</sup> and take-up is too low, even if the potential coverage of 35,000 households is

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<sup>49</sup> More details can be found at [www.reforme-famille.lu](http://www.reforme-famille.lu), downloaded on 30 November 2018.

<sup>50</sup> According to the calculator on the Ministry's website (m) the amounts are too low, especially because the calculation does not take into account the real rent paid, but instead a so-called national reference rent, which



now very broad<sup>51</sup>. In the area of housing we may also mention the so-called climate loans introduced in 2016 (Grand-Duché de Luxembourg, 2016d and Swinnen, 2017), offering low-cost loans for investments that lead to lower energy consumption per dwelling.

Regarding **life-long learning and skills improvement**, most training measures have addressed the unemployed, especially young people and those furthest from the labour market (see ESF in Section 3). A certain number of training measures (some of them financed by ESF, see Section 3) have, however, addressed people aged 45 or over with a view to helping them to save their job: in 2017 there were almost 2,000 employees enrolled on such training (Ministère du Travail, de l'Emploi et de l'Economie sociale et solidaire, 2018). The overall number of people in training tripled between 2012 and 2017, but the total was still not very high<sup>52</sup>, despite some tax reliefs offered. Following the governmental programme 2009-2014, a national strategy for life-long learning was developed and a white book was published in 2012 (Ministère de l'Éducation nationale et de la Formation professionnelle, 2012). It is astonishing that this strategy enumerates six principles and builds thereon eight concrete measures, but has no room for objectives, targets or indicators allowing later evaluation. It is not surprising, therefore, that until now no evaluation of this strategy, or of training measures in general, has been carried out. The impact of these measures on IWP is therefore not measurable.

A final governmental initiative to be mentioned here was developed in 2017 and started in May 2018 with a pilot project<sup>53</sup>: the 'Digital Skills Bridge' is intended to support those employees and companies whose activities will be radically affected by technological change with respect to work organisation and jobs. The project involves teaching employees the digital and technology skills they will need in their future job roles<sup>54</sup>.

### 3 Policy debates, proposals and reforms on in-work poverty and recommendations

IWP has never been seen as a major challenge by political decision-makers in Luxembourg<sup>55</sup>. This probably has one root in the fact that both IWP and poverty in general are above all a problem for foreigners, who have no voting rights. At the last parliamentary elections on 14 October 2018, only 47% of the resident population aged 18 or over had the right to vote. The vast majority of voters are pensioners and civil servants<sup>56</sup>.

Only at the end of the last legislature did the (former and actual) Vice-Prime Minister and Economy Minister start to think about the need to combat growing poverty and inequalities, as well as about redistributing profits gained after the crisis better between shareholders and employees<sup>57</sup>. Taking up a demand of the biggest trade union OGBL<sup>58</sup>,

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is usually lower. As an example, a household of two adults and two children can be granted a maximum of €174 and the reference rent is set at €1,249 even if the rent they pay is higher.

<sup>51</sup> See the statement of reasons (*Exposé des Motifs*) of the draft law N° 7186, Chambre des Députés, 2017b, as well as Swinnen, 2016.

<sup>52</sup> According to Eurostat database, downloaded 25 November 2018.

<sup>53</sup> See [https://gouvernement.lu/de/actualites/toutes\\_actualites/communiqués/2018/05-mai/02-digital-skills-bridge.html](https://gouvernement.lu/de/actualites/toutes_actualites/communiqués/2018/05-mai/02-digital-skills-bridge.html), downloaded on 23 November 2018.

<sup>54</sup> Consult [www.skillsbridge.lu](http://www.skillsbridge.lu).

<sup>55</sup> Swinnen (2010) already made the same assessment, but it seems that the general attitude of decision-makers has not changed since then.

<sup>56</sup> In 2013 according to STATEC, 21.1% of voters were pensioners and 44.3% were civil servants or in similar roles: STATEC, 2013a.

<sup>57</sup> And among employees themselves, as higher salaries have steadily increased more quickly than the minimum wage since 2013; see Chambre des Salariés Luxembourg, 2018.

<sup>58</sup> See for example <http://www.ogbl.lu/notre-travail-vaut-plus-que-ca-pour-une-augmentation-structurelle-du-salaire-social-minimum/>.

he advocated a net increase of the **minimum wage** by €100 per month from January 2019 onwards, a reduction in working hours to 38 hours per week, and the incremental implementation of a sixth holiday week (over five years at the pace of one extra day per year). These claims are to be found in the electoral programme of his party<sup>59</sup>, the social democratic party (*Lëtzebuenger sozialistesche Aarbechterpartei*, LSAP). The liberal party (*Demokratesch Partei*, DP), LSAP and the greens (*Déi Gréng*) agreed to increase the minimum wage by €100 net per month, as well as introducing two more paid holidays, during coalition talks<sup>60</sup> – despite the DP having been against these changes, as well as the business association (*Union des entreprises luxembourgeoises*, UEL)<sup>61</sup> because of alleged potential harm to economic prosperity.

The only body that has for years highlighted the very high IWP rate is the workers' chamber (*Chambre des Salariés Luxembourg*, CSL) in their annual publication *Panorama social*<sup>62</sup>. In their last edition they also pointed out that half of those in IWP earned between 50% and 60% of the median income, and their situation could therefore be easily improved by increasing the minimum wage; they have called for a 12.5% increase, or €256.07 per month, which represents 2.5 times the amount proposed initially by LSAP and now by the new government.

Together with the issue of the minimum wage<sup>63</sup>, attention should be paid to the issue of **minimum income**. The latter concerns those people who, in addition to their wage earnings, are entitled to additional payments to reach a defined minimum income (see Section 1). As a matter of fact, for all these beneficiaries a mere increase in the gross minimum wage would be offset by lower minimum income payments. It must be highlighted at this point that the minimum income scheme does not have as an objective the prevention of poverty among workers whose salary is lower than the minimum income threshold<sup>64</sup>. The declared main aim of the law, according to the statement of reasons (*exposé des motifs*), is to get people back to work, so its initiators put the focus on a small minority of minimum-income recipients, those who have no income stemming from work and who rely totally on the minimum income, whereas the vast majority of minimum-income recipients do work<sup>65</sup>.

Besides the increase in the minimum wage, the AVC (see Section 2.1) is the only measure combating IWP taken up in the new coalition agreement, where it is said that its amount, scale and award criteria will be adapted<sup>66</sup>.

Another element that was treated, though in very general terms, in some electoral programmes<sup>67</sup> and that ended up in the new governmental programme, concerns another **tax reform**. Besides a tax reduction on the minimum wage, several other changes are foreseen, such as a tax reduction for low-income earners in general as well as a change of the tax class for single parents<sup>68</sup>.

The three parties forming the new government have also agreed to extend the provision of free childcare in the coming years, followed by adjusting the amounts of child benefits and other family allowances.

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<sup>59</sup> See LSAP, 2018. LSAP is the only party that in its election programme accepts the relationship between work and poverty.

<sup>60</sup> See <https://gouvernement.lu/dam-assets/documents/actualites/2018/12-decembre/Accord-de-coalition-2018-2023.pdf>, downloaded on 3 December 2018.

<sup>61</sup> See UEL, 2018.

<sup>62</sup> For the latest edition see Chambre des Salariés Luxembourg, 2018.

<sup>63</sup> Minimum wage alone is not an issue, according to Eurofound, 2017.

<sup>64</sup> See Swinnen, 2018.

<sup>65</sup> See Chambre des Députés, 2017a.

<sup>66</sup> See <https://gouvernement.lu/dam-assets/documents/actualites/2018/12-decembre/Accord-de-coalition-2018-2023.pdf>, downloaded on 3 December 2018.

<sup>67</sup> See Déi Gréng, LSAP, DP and CSV, all 2018.

<sup>68</sup> See <https://gouvernement.lu/dam-assets/documents/actualites/2018/12-decembre/Accord-de-coalition-2018-2023.pdf>, downloaded on 3 December 2018.

A draft law which envisages the adjustment of child benefits in line with general salary increases from 2018 has still not been voted on by the parliament<sup>69</sup> and according to the agreement establishing the new governing coalition<sup>70</sup> it will be postponed until the end of this legislature, i.e. 2023.

During the programming period 2007-2013 of the **European Social Fund** (ESF) the operational programme for Luxembourg foresaw three axes, of which No 2 (improve the adaptability of workers) and No 3 (reinforce human capital) could have led to projects with some impact on IWP<sup>71</sup>.

The operational programme of the ESF for the period 2014-2020 targets measures and actions at promoting durable occupational integration, social inclusion and the acquisition of new skills. It focuses more on young people under 30, including those among the immigrant population, the youth guarantee, people furthest from the labour market, and both unemployed and employed people aged 45 and over (Ministère du Travail, de l'emploi et de l'économie sociale et solidaire, 2018).

Thus only a limited part of ESF funds are aimed at those in IWP, and no ESF-funded projects are likely to have a direct effect on IWP. Projects with an indirect or long-term impact on IWP are those: aimed at improving vocational training; intended to provide qualifications adapted to new techniques and/or technologies; related to life-long learning schemes and centres; leading to validation of acquired experience; and designed to improve the qualifications of disabled workers or help employers integrate them better.

ESF funds are also used to finance the governmental network RETEL (*réseau d'études sur le marché du travail et de l'emploi*), the legal basis of which was set by a law approved on 13 March 2018 (Grand-Duché de Luxembourg, 2018a). The RETEL brings together a number of actors (in particular STATEC, Adem and IGSS) to collect labour market data, facilitate the evaluation of employment policies and study developments in the labour market<sup>72</sup>. RETEL is a labour market observatory. It collects data, carries out studies and evaluations, organises seminars and conferences, and publishes a bi-annual scoreboard (Ministère du Travail, de l'emploi et de l'économie sociale et solidaire, 2018). Until now it has not dealt with IWP.

As can be seen, so far policies in Luxembourg that tackle IWP are very rare. Some **recommendations** for action are therefore needed.

The **European Pillar of Social Rights** (EPSR)<sup>73</sup> calls on the one hand for "fair wages that provide for a decent standard of living", and on the other hand for "adequate minimum wages ... that provide for the satisfaction of the needs of the worker and his/her family".

Contrary to the arguments put by some proponents, the concept of a **living wage** is not helpful in this context<sup>74</sup>. Even if it is not certain how deeply it is correlated with the precise experience of an Anglo-Saxon (or Beveridge based) welfare model, with its low levels of social transfers<sup>75</sup>, it is nevertheless obvious that this concept has found its proponents until now in countries such as the US, the UK, Ireland, Canada and New

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<sup>69</sup> The draft law N° 7003 was introduced on 20 June 2016 to parliament, amended in August 2018 by the government, and awaits the continuation of its treatment by the on 14<sup>th</sup> October 2018 newly elected parliament. It is unlikely that there will be any adaptation in the near future. See Chambre des Députés, 2016.

<sup>70</sup> See <https://gouvernement.lu/dam-assets/documents/actualites/2018/12-decembre/accord-de-coalition-2018-2023.pdf>, downloaded on 3 December 2018.

<sup>71</sup> The information in this paragraph and the next two stems from <http://www.fse.lu> as well as from Ministère du Travail, de l'emploi et de l'économie sociale et solidaire, 2018.

<sup>72</sup> See <http://adem.public.lu/en/acteurs/retel/index.html>.

<sup>73</sup> See European Commission, 2018c.

<sup>74</sup> See Eurofound, 2018.

<sup>75</sup> See Esping-Andersen, 1990.

Zealand<sup>76</sup>. Moreover, its biggest failure is that it seeks to address the needs of different household types through an employer-paid wage. A more appropriate approach to tackling poverty and inequality would be to combine the concept of reference budgets<sup>77</sup> with the setting of an adequate minimum wage and the necessary social transfers, as follows.

- The reference budget method should be used to determine the level of the minimum wage needed to lift a single adult out of poverty, which means that the minimum wage should not only be higher than the poverty threshold (60% of the national equivalised disposable household median income) but higher than the calculated and regularly updated reference budget.
- A supplementary measure, in the light of the concept of fair wages set out in the EPSR, could be to fix the minimum wage at not less than 60% of the average wage<sup>78</sup> (in case this would lead to a higher amount).
- Additional state-funded social transfers should then be set in such a way that for all other household types the combination of minimum wage and social transfers granted every household a total net income higher than the respective reference budget and hence also the poverty threshold.

The existing minimum wage in Luxembourg does currently fulfil the first requirement<sup>79</sup>, whereas the second one is not fulfilled<sup>80</sup>. In addition, social transfers, and in particular the minimum income scheme, do not always fulfil the third one<sup>81</sup>. There is therefore scope for further progress. The announced tax reform<sup>82</sup>, details of which are not yet known, may create additional room for manoeuvre.

According to the challenges and policy gaps identified above, we make the following **recommendations**:

- policies should be implemented that have as a consequence a more even primary distribution of income;
- the tax system should be shaped in a way that systematically exempts the poor from paying income tax (and other taxes as far as possible);
- the minimum wage and the minimum income scheme (together with other social transfers) should be used to help fulfil the above-mentioned three requirements; family allowances should be adjusted accordingly and rent subsidies set at a level that reduces the effective rent burden for every family to under 25% of its income;
- educational attainment levels should be increased by a reform of vocational training, giving it more practical relevance, as well by encouraging life-long learning;
- continued efforts should be made to improve the reconciliation between professional and family life, in order to remove barriers to employment and offer

<sup>76</sup> See Eurofound, 2018.

<sup>77</sup> See for example Goedemé et al., 2015.

<sup>78</sup> Relating to gross earnings, this is the level Eurostat uses to define 'low pay': see [https://ec.europa.eu/eurostat/cache/metadata/en/earn\\_net\\_esms.htm](https://ec.europa.eu/eurostat/cache/metadata/en/earn_net_esms.htm) (downloaded on 1 December 2018) and the Annex 'Low wage trap – briefing note' at the bottom of the page.

<sup>79</sup> See STATEC, 2016 and STATEC, 2018a, compared to the amounts cited in Chambre des Députés, 2018d.

<sup>80</sup> See [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Minimum\\_wages\\_as\\_a\\_proportion\\_of\\_median\\_gross\\_monthly\\_earnings,\\_2014\\_\(%25\)\\_YB17\\_I.png&oldid=326618](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Minimum_wages_as_a_proportion_of_median_gross_monthly_earnings,_2014_(%25)_YB17_I.png&oldid=326618), downloaded on 1 December, 2018.

<sup>81</sup> See Swinnen, 2018 as well as compare STATEC, 2018c with Chambre des Salariés Luxembourg, 2016, 2017a, 2017b and 2018.

<sup>82</sup> See <https://gouvernement.lu/dam-assets/documents/actualites/2018/12-decembre/Accord-de-coalition-2018-2023.pdf>, downloaded on 3 December 2018.

everybody the possibility of earning a living through work, while at the same time ensuring family responsibilities; and

- full advantage should be taken of the opportunities provided by ESF.

The commonly heard idea that 'any kind of job is better than no job at all' (see for example Anton Hemerijck, 2010) must be countered by the proposal that 'people who work should be able to make a living from it'.

## 4 Assessing data and indicators

In relation to existing national and European data on IWP, the following points can be made.

- Instead of only statistics in the form of 'x% of the category A are working poor', it would be good to have statistics in the form of 'y% of the working poor belong to category B'<sup>83</sup>, thus combining indicators about the incidence of IWP with indicators on the composition of those in IWP.

The following three remarks apply especially to Luxembourg because of the high proportion of foreign employees in the labour market (residents and commuters).

- Available statistics provide a breakdown of those in IWP according to 'broad group of country of birth' and also 'broad group of citizenship'. In the Luxembourg case it would also be important to have figures regarding different single countries such as the neighbouring countries Belgium, France and Germany, as well as Portugal and Italy, because a significant number of employees originate from these countries among others. Aggregate figures covering all nationalities hide diversities within them<sup>84</sup>.
- It would shed more light on the diversity of the IWP population if it were possible to cross-reference breakdowns according to age and sex, household type, work intensity, educational attainment, employment status, type of contract and part-/full-time work with the ones according to broad group of citizenship or country of birth, and even according to some specific countries as mentioned above.
- At the national level we do not have data on the nationality of workers in different sectors who are paid at around the minimum wage<sup>85</sup>.

One last remark has to be made on the timeliness and the rapidity with which European social statistics are available. Whereas other statistics such as those about economic performance or employment are not only available shortly after the end of the relevant period (at least in a draft version), but are also delivered not only yearly but quarterly or even monthly, the same does not apply to social statistics<sup>86</sup>, where for example those for Luxembourg for 2017 (with the revenues of 2016!) were only made available in October 2018 – and this is not the worst example.

<sup>83</sup> For example, we know from the Eurostat database that 31.4% of those with a temporary contract are in IWP, but how many of those in IWP do have a temporary contract?

<sup>84</sup> Migrant employees in the Luxembourg labour market are highly stratified as in a sandwich, with those from some countries such as Italy and Portugal towards the bottom, Luxembourg residents towards the middle, and those from Norway, the US and UK at the top: see for example SESOPI, 2007.

<sup>85</sup> For details see Section 1.

<sup>86</sup> During a seminar organised by DG ECFIN in autumn 2016, the scoreboard of the macroeconomic imbalances procedure in the statistical annex of the alert mechanism report 2016 (European Commission, 2016) included for the first time three social indicators as headline indicators that were previously auxiliary indicators: namely the change in activity rate, long-term unemployment and youth unemployment. At the seminar, the author asked the Commission representative why they had not included other social indicators, and the answer was that "the unemployment rate is the only social indicator on which we don't have to wait almost one year before having at disposal actual data"!

IWP is regularly reported on in Luxembourg by STATEC in its *rapport travail et cohésion sociale* (RTCS), which is published annually before 17 October, the International Day for the Eradication of Poverty. Since 2005 it has reported on the IWP rate, but mostly without different breakdowns and also without any recommendations. In the 2018 edition (STATEC, 2018) just as in the first one (STATEC, 2005) it presented a whole chapter analysing the phenomenon in overall terms and according to different breakdowns, as used in Section 1 of this report. It also analysed the effect of different policy measures on IWP: an increase of the minimum wage, income tax reductions, increased social benefits, the provision of childcare facilities, and greater working time flexibility. In addition to the RTCS, a four-page report on IWP was published by STATEC in 2011 (STATEC, 2011).

Other publications have been issued in the past by the CSL (e.g. Chambre des Salariés Luxembourg, 2011 and 2018), Caritas Luxembourg (e.g. Caritas Luxembourg, 2007 and 2018) and the socio-economic research institute CEPS/INSTEAD (*Centre d'Etudes de Populations, Pauvreté et de Politiques Socio-économiques*/International Network for Studies in Technology, Environment, Alternatives, Development; nowadays trading under LISER, Luxembourg Institute of Socio-Economic Research; see CEPS / INSTEAD, 2007).

However, analyses of IWP are not very common in Luxembourg, and therefore action needs to be taken to redress the situation.

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