

Denmark: Proposal for a new minimum income benefit system

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The Danish Minimum Income Benefit Commission has proposed a new system that is currently being discussed in Parliament. If adopted, the new simplified scheme will provide benefits set in relation to reference budgets, clear economic incentives to work or study and, for the first time ever, an allowance aimed at encouraging children's active participation in recreational activities and cultural life.



Description

The Minimum Income Benefit Commission (MIBC, Ydelseskommisionen) was established by the Danish government in December 2019, with the task of preparing a blueprint for a new minimum income benefit system particularly geared to households with children and to incentives to work or study. The MIBC was made up of two politicians and four academics (including the author of this Flash Report). In May 2021, it came out with its proposal for a fundamentally different system of guaranteed minimum income benefits. Disrupted by COVID-19 and the Summer Break, parliamentary discussions began in the autumn.

The current minimum income benefit system covers a diverse group of people with different challenges and living standards depending on household situation and type of minimum income benefit. As a result of numerous changes implemented over many years, the system is very complex, and difficult to understand and navigate for both social workers and benefit claimants. It includes various incentives to work or study, which have not had the intended effects, probably due to this complexity.

The revisions of the system proposed by the MIBC follow a set of principles which include: simplicity and transparency (to ensure legal certainty and informed decision-making); accurate assessment of the recipient's economic situation; fair benefit level related to household needs; equal rights for people in equal situations; clear and positive economic incentives to work or study; promotion of the right of children to have an active life of their own.

To simplify the system, the MIBC suggests having one minimum income benefit scheme with two benefit levels: a "basic" benefit and an increased benefit. It is possible to qualify for the higher benefit in two ways. The fastest way is to complete vocational education or 2.5 years of employment in the last 10 years and to have residence in 7 out of 8 years after turning 18. The other way is to pass a primary education exam and to have residence in 12 out of the last 13 years after turning 18. In comparison, the current system consists of three benefit schemes, and for each of them people are categorised according to many aspects including age, education, employment record, residence, health, pregnancy, housing and household situation.

The MIBC emphasises that the system should be transparent and give recipients a feeling of security. For example, in the current system, young people with an activity allowance or a (medical) diagnosis allowance receive in total (i.e. social assistance basic benefit plus social assistance additional allowance) a monthly benefit of €1,572. If they make progress vocationally or if their health improves, they lose the allowance (€710 per month), thereby almost halving their benefit to €862. Therefore, the MIBC proposes to separate benefit and measures. The benefit remains the same regardless of improvements or deteriorations in recipients' skills and health. Young people with a diagnosis or with very low skills would not receive higher benefits. Instead, under the proposal, their temporary and/or special needs would be covered by a special benefit (særligt løbende hjælp), and they would still be eligible for coverage of their medical expenses (enkeltudgifter): this would reduce the need for special benefit levels for special groups.

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The MIBC proposes to use the reference budget method to set an indicative floor for benefit levels that should allow a modest, but healthy life together, with the possibility to participate in family life and other communities. The purpose is to ensure that people in equal situations receive the same level of benefits, related to household needs. This is not the case now. Young people, for example, are placed in two schemes, with 30 categories and eight benefit levels ranging from €489 to €1,572 per month. A household with one adult and two children receives higher benefits than a household with two adults and two children.

To secure incentives to study and work, the MIBC suggests an indicative benefit ceiling which would be the study grant for the basic benefit and the minimum wage for the increased benefit. As a result, the MIBC suggests that the basic benefit should be €887/month per beneficiary, with an extra €134/month for singles (because singles do not benefit from economies of scale inside their households), and the increased benefit should be €1,405 per beneficiary, with an extra €302 for singles. An additional amount of €477 would be given to each parent of children. This lump sum would not depend on the number of children, and it would be provided to both parents even if one of them leaves the household. The MIBC proposal also seeks to simplify and make more transparent the way in which benefits can be supplemented with income from work. People on the basic benefit can earn up to €517 monthly without any benefit reduction; this amount is equal to the difference between the basic and the higher benefits and corresponds to about eight hours of work per week. People on the higher benefit or with income from work above that level have their benefit reduced. The current system makes use of negative economic incentives through (29)

upper benefit ceilings and an ongoing work requirement of 225 hours in the last 12 months. The ceilings and work requirement only apply to about 15% of the recipients and are so complex that only a minority of caseworkers and recipients understand them.

In its proposal, the MIBC has also paid special attention to children's rights and the possibility for them to have an active recreational life and to become part of communities outside school and other institutions. It proposes a Free Time Allowance (Fritidstillæg) of €60/month per child, to reimburse the costs of sports, extracurricular events, music, and other recreational and cultural activities. The money can be saved and used for larger expenses, such as purchasing a tablet. 37 municipalities already run similar schemes, showing that this is feasible without excessive administrative costs or stigma.

In 2021, 467,600 persons have an income below 50% of the median income, including 157,700 persons in minimum income households of which 40,300 are children (Ydelseskommisionen, 2021). According to the MIBC calculations, if these revisions are implemented, 5,900 children will exit the group and 28,100 (70%) will experience an improvement in their household's disposable income. MIBC projections suggest that the MIBC proposals would increase the labour supply by 950 full-time persons yearly, in the short term. The proposals were subject to a budget constraint: the total costs should not exceed those of the current system. The expected benefits would be higher if extra money were allocated.



Outlook and commentary

In the 2019 election campaign, eradicating child poverty was included in the programme of the current governing party and of its

three supporting parties. Since 2019, a temporary compensatory allowance (totalling €33 million annually) has been given to households with reduced benefits (due to the work requirement, benefit ceilings or low integration benefit) until a new system is implemented.

The MIBC proposal has met with both praise and criticism. It has been praised by both left and right political parties, the social partners and much of civil society for creating a much simpler system, setting benefit levels according to living costs and incentives, and for addressing children's rights. The critique has generally focussed on who gets more or less than under the current system. The political parties on the left, including those supporting the government, say they cannot accept benefit cuts for any groups and regret that not enough children are lifted out of poverty. They have also criticised the reduction of benefits to young people who have an activity or diagnosis allowance. The government and parties on the right say they cannot accept benefit increases if these go to groups of primarily ethnic minorities.

Although all parties agree that the current system is inegalitarian and too complex, the debate concerning the "losers and winners" makes it hard to envisage a strong and solid majority backing reform. When the government launches its proposal in February 2022, we will see whether the whole reform proposed by the MIBC is adopted, or merely parts of it.

Further reading

Ydelseskommisionen [MIBC] (2021), [Samlede anbefalinger til et nyt ydelsessystem](#) [Recommendations for a new minimum income benefit system], accessed on 15 October, Copenhagen: Minimum Income Benefit Commission.

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