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BENCHMARKING FRAMEWORK ON UNEMPLOYMENT BENEFITS AND ALMPS

This note provides an overview of the benchmarking framework on unemployment benefits and active labour market policies (ALMPs), developed by the Indicators' Group of the Employment Committee (EMCO IG). The part of the framework related to the design of unemployment benefits and to the availability-to-work conditions attached to benefit receipt was approved by EMCO between 2017 and 2018. Since then, it has been regularly used in the European Semester in line with the EMCO-SPC agreed approach on benchmarking. The part of the framework on early support to jobseekers is still under development. The framework provides a tool for assessing the features and performance of unemployment benefit systems and of activation and early support policies.

1. Introduction

Unemployment benefits are a key feature of all European welfare systems.[1] By insuring workers against the risks linked to a job loss, they provide an essential safety net for individuals and households. At the same time, activation and support policies increase the employability of unemployment benefits recipients and counteract possible disincentive effects linked to the length and level of benefits.[2]

Principle 13 of the European Pillar of Social Rights ([3]) states that: "*The unemployed have the right to adequate activation support from public employment services to (re)integrate in the labour market and adequate unemployment benefits of reasonable duration, in line with their contributions and national eligibility rules. Such benefits shall not constitute a disincentive for a quick return to employment*". Principle 4 further provides for everyone

[1] This benchmarking framework concerns unemployment insurance benefits, which are characterised by a contributory logic. They can be claimed after having had a certain minimum period in employment with paid contributions (or qualifying period). Their level is often established in proportion to the level of earnings received in the previous job and their duration depends on the length of the contribution record.

[2] A comprehensive evaluation of the effectiveness of ALMPs can be found in European Commission (2006), Kluve et al. (2010) and Card et al. (2010).

[3] The European Pillar of Social Rights in 20 principles | European Commission (europa.eu)

to have the right to timely and tailor-made assistance to improve employment or self-employment prospects, and to receive support for job search.

Unemployment benefits can take the form of either unemployment insurance or unemployment assistance. Unemployment insurance benefits are characterised by a clear contributory logic. Therefore, they can only be claimed after having had a certain minimum period in employment with paid contributions (or qualifying period). Their level is often established in proportion to the level of earnings received in the previous job and their duration often depends on the length of the contribution record.

The main purpose of unemployment benefits is to provide income replacement in case of unemployment, and thus to avoid a significant deterioration in the living standards of unemployed people. By insuring workers against the risks linked to a job loss, they provide an essential safety net for individuals and households, thereby contributing to positive social outcomes.[4] In addition, they can contribute to a smooth relocation of labour across the economy, as jobseekers can devote more time to finding a job that matches their skills and expectations. Unemployment benefits also play a stabilising role over the business cycle by supporting incomes and consumption. By providing income replacement and reducing the gap between labour and non-labour income, unconditional unemployment benefits might nevertheless reduce the incentives to search and take up a job, with possible negative effects on unemployment duration and total unemployment.[5]

To provide adequate income support during unemployment spells while getting the unemployed quickly back to work, well-designed unemployment benefits need to be combined with effective activation and support policies.[6] Early support to job-seekers, in particular, is very relevant in times of crisis, as well as in the context of the green and digital transitions, as emphasised by the Commission Recommendation on Effective Active Support to Employment (EASE) of March 2021.[7] Accordingly, Member States should adopt coherent policy packages to address labour market challenges triggered by the pandemic and to succeed in the green and digital transitions, including early and effective support by PES to job seekers.

The benchmarking framework on unemployment benefits and active labour market policies (ALMPs) includes two strands: a) unemployment benefits' design; and, b) activation and support to jobseekers. The part of the framework related to unemployment benefits' design was completed and agreed by EMCO in 2017. It includes information on the maximum duration of unemployment benefits, net replacement rates and the length of qualifying periods. As concerns the strand on activation and support, the use of indicators on availability-to-work and job-search conditions attached to the receipt of unemployment benefits was agreed in 2018. In 2019, the EMCO IG identified a number of relevant features of early support provided by public employment services (PES) to unemployed jobseekers, for which indicators are being developed with a view to their possible integration in the framework.

The benchmarking framework includes the following indicators:

[4] See for instance European Commission (2014), chapter 2 or ILO (2014), chapter 6 or OECD, (2011, 2012).
[5] See for instance OECD (2005).
[6] See for instance European Commission (2015) or OECD, (2006, 2015).
[7] https://commission.europa.eu/publications/commission-recommendation-effective-active-support-employment-ease_en

Outcome indicators: • Unemployment rate (as % of the labour force) • Rate of long-term unemployment (as % of the labour force) • At risk of poverty rate of the unemployed
Performance indicators: • Share of people wanting to work participating in regular activation measures • Coverage of unemployment benefits for people with unemployment duration shorter than 12 months
Policy lever indicators: *Unemployment benefit strand:* • Duration of unemployment insurance benefits • Net replacement rates of unemployment benefits at the 2nd and 12th month of unemployment • Length of the required qualifying period *Activation strand:* • Availability requirements and suitable work criteria • Job-search and availability-to-work requirements • Strictness of benefit sanctions • *[Early support to jobseekers – currently under development]*

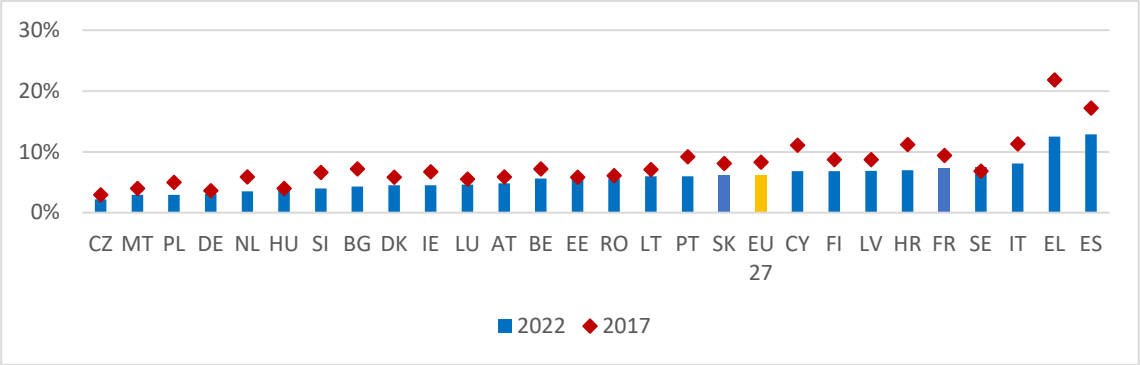
2. Outcome indicators

The benchmarking framework on unemployment benefits and ALMPs includes three outcome indicators, capturing the main macroeconomic challenges that can be influenced by the performance of relevant national policies. Besides the unemployment rate (as a percentage of the labour force), the at-risk-of-poverty rate of the unemployed and the long-term unemployment rate are particularly relevant to understand to which extent unemployment benefit systems and activation and support policies contribute to reaching the desired labour market and social outcomes.

- **Unemployment (in % of the labour force)**

The unemployment rate is a key variable to assess the overall labour market situation. It is the result of both flows into and out of unemployment. A well-functioning unemployment benefit system coupled with effective early activation and support policies can contribute to a low level of unemployment by favouring transitions from unemployment to employment.

Figure 1: *Unemployment as a percentage of the labour force*

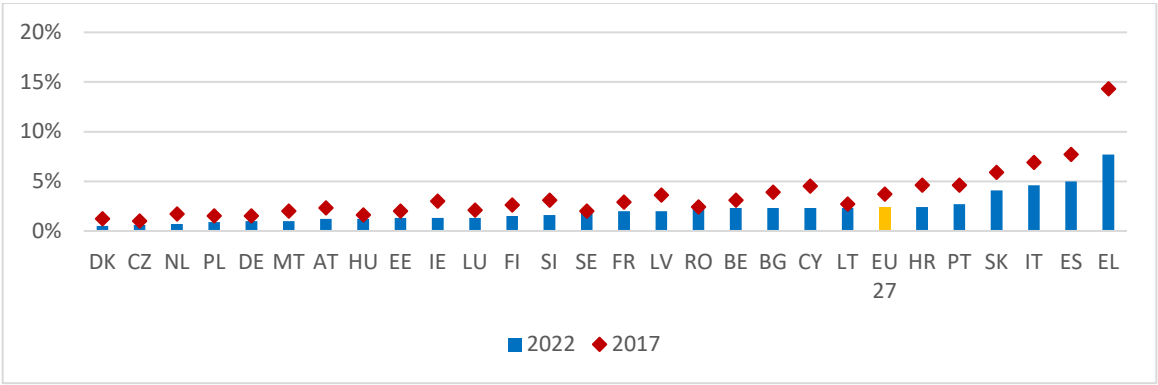


Source: Eurostat [TESEM120]

- **Long-term unemployment (in % of the labour force)**

The design of the unemployment benefit system and the provision of activation and support policies can have a direct impact on the persistence of unemployment, which can be measured by the long-term unemployment rate (i.e. of duration longer than one year). Long unemployment spells may increase the risk of skills depreciation, discouragement and overall detachment from the labour market.

Figure 2: *Long-term unemployment as a percentage of the labour force*



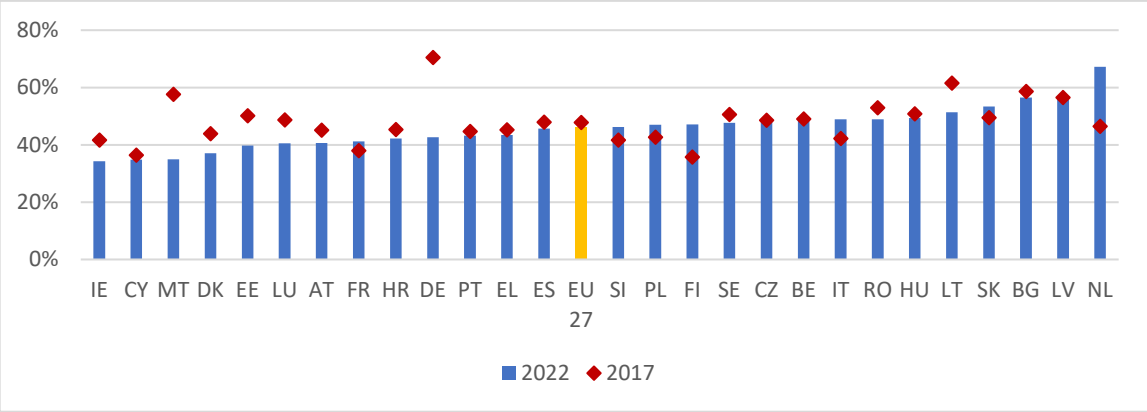
Source: Eurostat [UNE_LTU_A]

- **At-risk-of-poverty rate of the unemployed**

Adequate unemployment benefits contribute to reducing the at-risk-of-poverty rate of those unemployed (although other factors, such as the duration of unemployment and the family circumstances of the unemployed, are also at play)[8] and to stabilising domestic demand in case of shocks.[9] The at-risk-of-poverty rate of the unemployed can thus provide an indication of unemployment benefit adequacy.[10] At the same time, this indicator is also linked to the level of the at-risk-of-poverty rate among the working age population in general, as well as to other factors such as household structures.[11]

[8] See for instance European Commission (2014) or ILO (2014), chapter 6 or OECD (2011, 2012).
[9] See for instance European Commission (2015) and IMF (2015), chapter 2. Dolls et al. (2012).
[10] At the same time, this indicator is also dependent on the at-risk-of-poverty rate among the population in working age in general, as well as other factors such as the household's structure.
[11] See for instance European Commission (2013), chapter 2.

Figure 3: *At-risk-of-poverty rate of unemployed persons*



Source: Eurostat [ILC_LI04]
Note: 2021 data for Romania.

3. Performance indicators

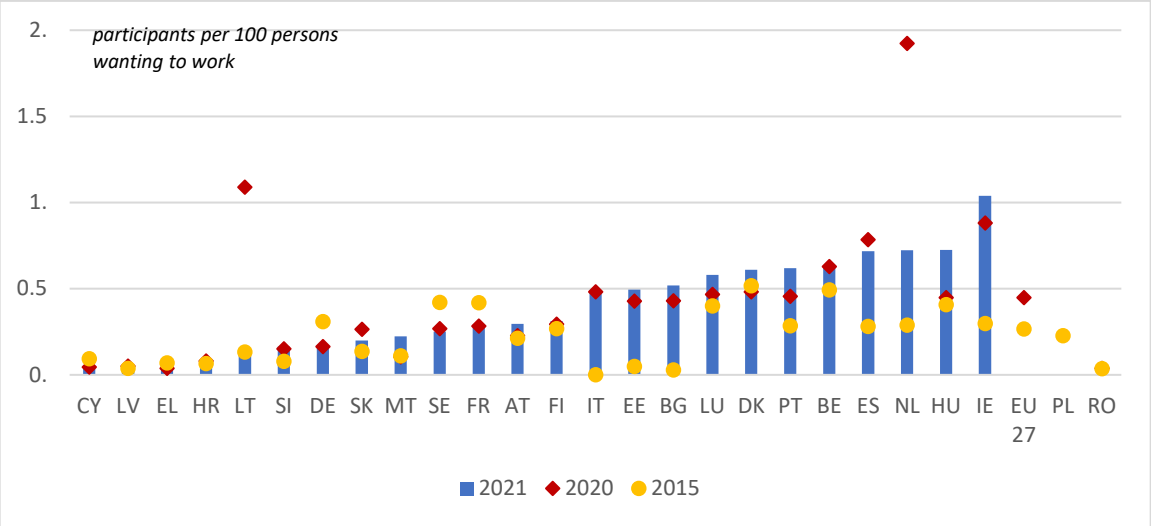
Well-designed unemployment benefit system and ALMPs improve labour market outcomes. They support more dynamic labour markets and can lead to higher employment and productivity outcomes on both the demand and supply side, and to a better use of human capital. Accordingly, the benchmarking framework on unemployment benefits and active labour market policies highlights two main performance indicators having an impact on the two outcome indicators described above.

- **Share of people wanting to work participating in regular activation measures**

The share of people wanting to work participating in activation measures captures the overall coverage of active labour market policies (ALMPs)[12]. This indicator covers different categories of activation measures: training, employment incentives, job rotation and job sharing, supported employment and rehabilitation, direct job creation and start-up incentives. It provides an estimate of the total share of beneficiaries of these programmes. A higher share of people wanting to work covered by ALMPs is also linked to higher transitions from short (and long) term unemployment to employment and lower share of long-term unemployment.

[12] Another related indicator is the share of registered unemployed in activation measures, but this indicator is available for fewer Member States and has a more restricted scope.

Figure 4: *The share of people wanting to work participating in activation measures*



Source: Eurostat - [LMP_IND_ACTSUP]
Note: 2021 data not avaialble for EU 27, Poland and Romania.

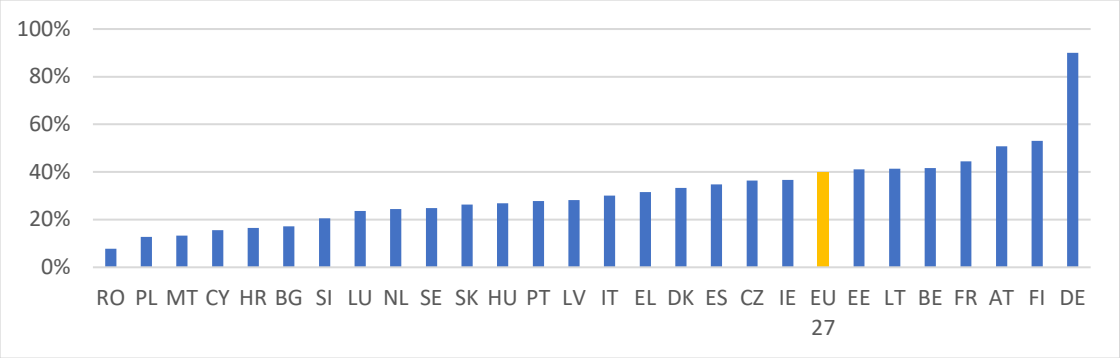
- **Unemployment benefit coverage for unemployed with unemployment duration shorter than 12 months**

The share of short-term unemployed (with unemployment duration shorter than 12 months) covered by unemployment benefits is positively correlated with higher transitions from short-term unemployment to employment and with a lower rate of long-term unemployment.[13]

The coverage depends on several elements, such as the length of the period during which the unemployment benefit recipient has contributed to unemployment benefit system and the length of the unemployment spell for instance.[14] Since Member States require a minimum period of employment to obtain unemployment benefits, not all unemployed are entitled to them. A person who has been in and out of employment a few times may have more difficulties to fulfil this requirement. Widening the unemployment benefit coverage could incentivise the unemployed to register at the PES and receive active support. This would also have a number of social, labour market and economic impacts, including positive budgetary implications.

[13] The comparability of the information between countries is higher than when looking at the coverage of all unemployed, which can also capture the impact of other types of benefits.
[14] A detailed overview over the national benefit systems can be found in the comparative tables of the missoc database.

Figure 5: *Coverage of unemployment benefits for short-term unemployed (i.e. less than 12 months), percentages, 2022*



Source: Eurostat - [lfsa_ugadra]
Note: Unemployment by sex, age, duration of unemployment and distinction registration/benefits (%), 2021 data for Malta.

4. Policy-lever indicators

Policy lever indicators complete the framework. They focus on the design features most likely to affect the performance of the selected policy dimensions and cover both unemployment benefit generosity and activation and support policies. They are presented separately below.

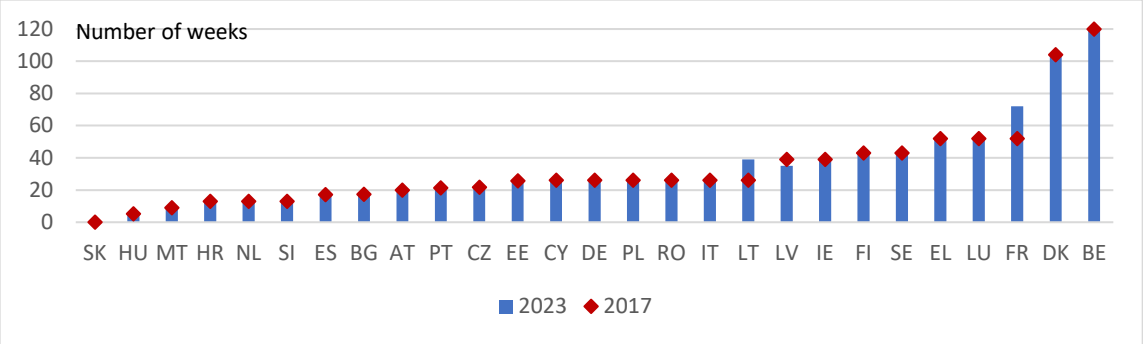
4.1. Unemployment benefit generosity

Three policy lever indicators have been selected for the unemployment benefit generosity strand of the benchmarking framework. They concern the duration of benefits, their level, as well as the eligibility conditions for accessing unemployment benefits.

- **Duration of unemployment benefits**

The duration of unemployment (insurance) benefits has a direct impact on the poverty rate of the unemployed. At the same time, unemployment duration can be a source of benefit dependency if overly long. In most Member States, the maximum duration during which an unemployed can receive benefits for a one-year work history is six months. However, in Member States such as Denmark or Belgium, benefits can be claimed up to two years or more. In Luxembourg and Greece, benefits can be claimed for exactly one year and in Lithuania, Latvia and Ireland, the duration is about eight months. As a general principle, the duration of benefits should be sufficient to cover the initial period of unemployment. The actual unemployment benefit duration depends on a number of factors including former work history. In many Member States, the maximum benefit duration increases with job tenure and related contribution periods.

Figure 6: *Maximum duration of benefits with a one-year contribution record, number of weeks, 2023 and 2017*



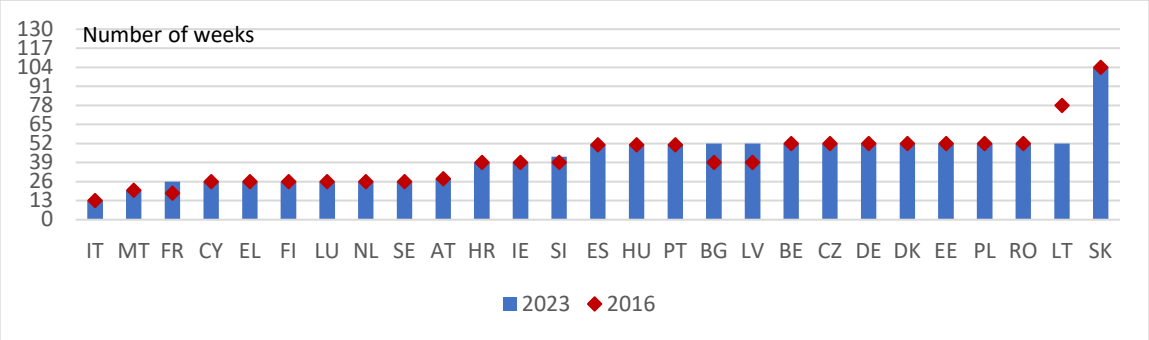
Source: MISSOC database (January 2017 and January 2023) and national legislation.

Note: In Belgium, there is no limit on the duration of benefits. In Cyprus, weeks are calculated on the basis of 6 working days per week. In Ireland, benefit is paid for 39 weeks (234 days) only for people with 260 or more weekly PRSI contributions paid. In Slovakia, a person with a one-year record cannot qualify for unemployment benefits (at least 2 years of unemployment insurance contributions during the last 4 years are required). In Poland, duration varies depending on the level of the unemployment rate of the region relative to the national average. In Portugal, the duration of benefits with one-year contribution record may be longer depending on age.

Entitlement to unemployment benefits: length of qualifying period

Together with duration, entitlement conditions affect the coverage of unemployment benefits: the stricter the entitlement conditions, the smaller the share of unemployed covered by unemployment benefits. Entitlement to unemployment (insurance) benefits generally depends on the previous contribution record. The duration of contributions required in order to be entitled to unemployment benefits varies greatly across Member States, as well as the exact rules under which it is defined. In practice, eligibility conditions are specified either as the requirement of having a certain contribution record measured over the entire work career (e.g., having worked and paid contributions for at least two years), or as the requirement of having paid a certain number of contributions over a given reference period (e.g., having at least 12 months of contributions paid in the 24 months preceding unemployment).

Figure 7: *Length of the required qualifying period, number of weeks, 2023*



Source: Missoc database (January 2016 and January 2023).

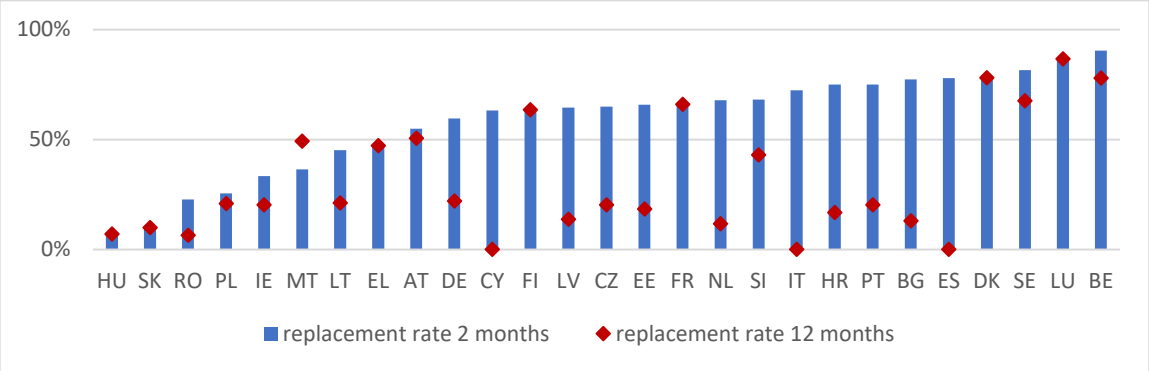
Note: In Malta (2016 and 2023), at least 50 weekly contributions must have been paid since the person first started work; in Ireland (2016 and 2023), at least 104 weekly contributions must have been paid since the person first started work; in Austria (2023), at least 52 weekly contributions must have been paid for first time applications, and at least 28 weekly contributions must have been paid for subsequent applications.

- **Net replacement rates of unemployment benefits in the 2nd and 12th month of unemployment**

Net replacement rates express the net income received by unemployment benefit recipients as a proportion of the net income that was earned before becoming unemployed.[15] The profile of net replacement rates can differ substantially depending on the contribution history of the unemployed, in particular for shorter contribution records, and on the time horizon considered, as benefits usually decrease with time spent in unemployment. Their level and profile over time provides a clear indication of the adequacy of the system, accounting explicitly for the tax system and the provision of other welfare benefits.

Figure 8 compares the replacement rates for low wage earners (67% of national average income) with a short work history (12 months of social security contributions) across the EU. While it is clear that higher net replacement rates translate into higher household incomes, higher replacement rates can also translate into growing financial disincentives to work, which in turn can negatively impact the activity or employment rates, in particular for some categories of workers (in particular for unemployed with a working partner).[16] Therefore, replacement rates should strike a balance between adequate income replacement and sufficient financial incentives to take up a job and the conditionality attached to receiving unemployment benefits.

Figure 8: *Net replacement rate of unemployment benefits for low-income people (at 67% of the national average income), at the 2nd and 12th month of unemployment, percentages, 2023*



Source: European Commission based on OECD Tax-Benefit Model.

Note: The indicator is calculated for the case of a single person without children with a short work history (1 year) and aged 20. Different income components, unemployment benefits and other benefits (such as social assistance and housing benefits) are included. All data are for 2023, except for Belgium, Cyprus, Denmark, Finland and Portugal, for which data is for 2022.

4.2. Activation strand of the benchmarking framework

Activation and support policies encourage jobseekers to be active in their efforts to find work and/or to improve their employability. This includes support in overcoming the obstacles that may prevent them from regaining employment, while monitoring the compliance of unemployment benefit recipients with job-search and availability to work conditions. These policies are part of the so-called 'activation strategies' whereby the commitment on the side of the unemployed to engage in job-search activities is combined with the obligation by public authorities to support them in their job search efforts.[17]

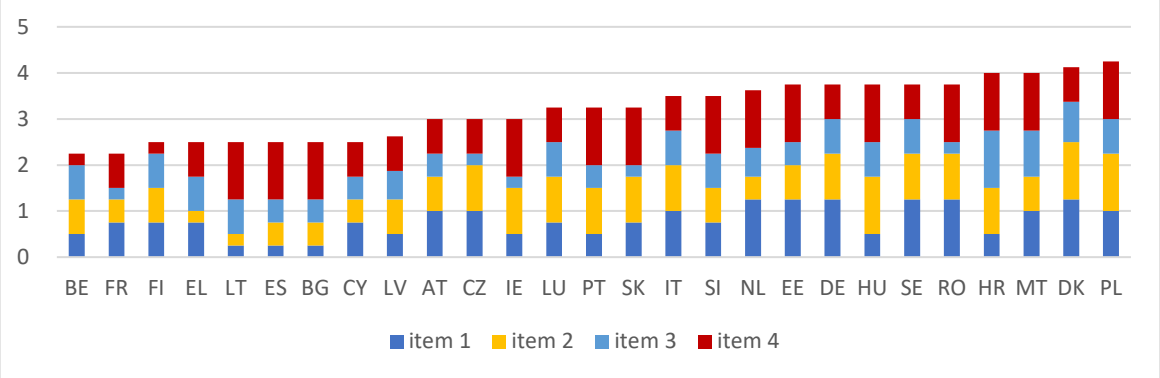
[15] Net income is defined as income after taxes and social security contributions, with the inclusion of possible social benefits (social assistance, family, housing and in-work benefits).
[16] See for instance OECD (2005).
[17] See OECD (2007, 2015b).

Based on theoretical and empirical literature, detailed country-specific information has been collected by the OECD for all EU Member States,[18] and indicators compiled to measure the strictness of availability-to-work and job-search requirements. Analysis shows that transition rates from unemployment to employment are positively correlated with the availability and job-search requirements.[19] Furthermore, stricter job search and availability requirements are associated with higher transitions from unemployment to employment. These indicators have been included as context information in the benchmarking framework. Indicators on early support do not exist ye, and are being currently developed.

- **Availability to work and suitable work criteria**

This indicator measures the stringency of requirements for benefit recipients to be available for work, also during participation in ALMPs, and the type of job offers that jobseekers are expected to accept (i.e. under what circumstances a job offer may be refused without incurring sanctions). This may include cases involving a change in occupational area or a lower salary in comparison to the former occupation, or geographical mobility.

Figure 9: *Requirements to be available for job offers to be (or remain) eligible for unemployment benefits. On a scale from 1 to 5, higher values express stricter requirements.*



Source: OECD database on strictiness of activation requirements.
https://stats.oecd.org/Index.aspx?DataSetCode=SBE

Note: The indicator reflects whether there are demands for jobseekers to be available for jobs while participating in ALMPs (item 1); whether the jobseeker can refuse job offers due to wage considerations (item 2) or because (s)he would have to move to another place (item 3). In addition, it takes into account the number of reasons to refuse a job offer, which are acceptable to the PES (item 4). The indicator is a weighted average of 4 items. A score of 5 on item 2, for example, indicates that (s)he must accept any job (s)he is capable to do. All data for 2022, except for France, for which data is for 2020.

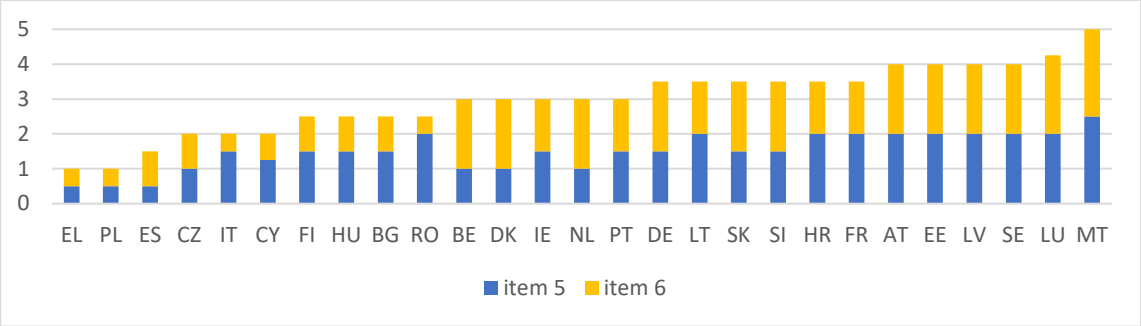
- **Monitoring of job search activities**

Several evaluations have shown that job-search monitoring and assistance, notably through explicit job-search procedures, can have a sizeable impact on re-employment probability.[20] The indicator presented in figure 10 relates to the monitoring of job-search activities undertaken by unemployment benefit recipients (frequency of job-search and related checks, existence of formal requirements for the jobseeker to document the job-search

[18] See Langenbucher, K. (2015).
[19] See for instance Abbring et al. (2005) and Van den Berg and. Vikström (2014).
[20] See notably Abbring et al. (2005), OECD (2007), Kluve (2010), Martins et al. (2014).

activities, and how detailed this documentation has to be, and other formal requirements that benefit recipients have to fulfil concerning their job search activities).[21]

Figure 10: *Monitoring of job-search activities of the unemployed by public authorities. On a scale from 1 to 5, higher values express closer monitoring and follow-up.*



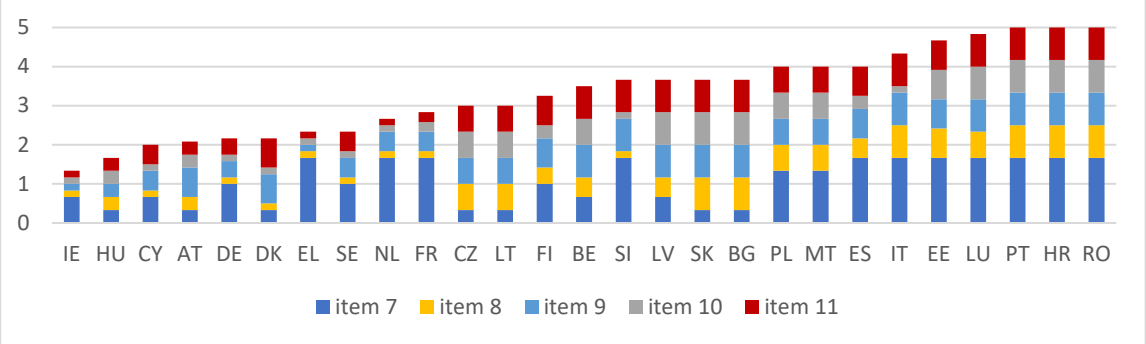
Source: OECD database on strictness of activation requirements.
https://stats.oecd.org/Index.aspx?DataSetCode=SBE

Note: The indicator is a composite index ranging from 1 (least strict – no monitoring) to 5 (strictest – most frequent monitoring). It takes into account the frequency of job-search monitoring (item 5); and the documentation of job-search activities reqeusted (item 6). The score is a weighted average of two items. All data for 2022, except forFrance, for which data is for 2020.

- **Sanctions**

This indicator describes the strictness of sanctions that may be imposed on jobseekers in cases such as voluntary unemployment, refusal of a 'suitable' job offer, or failure to participate in counselling sessions or ALMPs. Sanctions themselves are generally defined in terms of reduction, suspension or termination of the (remaining) unemployment benefits. The imposition of sanctions is found to substantially increase individual re-employment rates[22] and individual employment uptake for non-compliant welfare recipients.[23] It should be noted that sanctions may also lower the quality of post-unemployment jobs in terms of both job duration and earnings, as individuals move more often to a part-time job or to a lower occupational level.[24]

Figure 11: *Sanctions for failure to comply with unemployment benefits criteria and requirements. On a scale from 1 to 5, higher values expressing more severe sanctions.*



Source: OECD database on strictness of activation requirements.
https://stats.oecd.org/Index.aspx?DataSetCode=SBE

[21] Member States often specify how many job-search actions a jobseeker has to undertake in a given timeframe.
[22] Van den Berg et al., 2004, Abbring et al., 2005
[23] Boockmann et al. (2014)
[24] Arni et al. (2013)

Note: The indicator is a composite index ranging from 1 (least strict – no sanctions) to 5 (strictest – highest sanctions). It takes into account sanctions for: voluntary unemployment (item 7); refusal of suitable job offers (item 8); repeated refusal of suitable job offers (item 9); refusal to participate in ALMPs (item 10) and repeated refusal to participate in ALMPs (item 11). The score is a weighted average of five items. All data for 2022, except for France, for which data is for 2020.

- **Early support to unemployed jobseekers**

Early support refers to early and intensive counselling and job-search assistance (preferably face-to-face) offered by the PES to job-seekers within the first six months of the unemployment spell. Literature shows that targeted assistance early in the unemployment spell is effective in shortening unemployment duration, fostering quality matches and preventing long-term unemployment and discouragement.[25]

In February 2019, EMCO IG identified a number of dimensions of the early support services provided by PES to jobseekers as being particularly relevant for labour market transitions and proposed their integration in the activation and support strand of the benchmarking framework. These dimensions include: the degree of development of profiling tools; the frequency of meetings between jobseekers and PES counsellors; and, the employment-oriented approach by the PES. On this basis, EMCO IG is currently working, in cooperation with the PES Network, on identifying and testing a set of indicators that would potentially allow measuring these dimensions.

[25] See for instance Csillag et al. (2018), Meyer (1995) or Blasco and Rosholm (2011) for evidence about the effectiveness of job search counselling; Huber et al. (2009) or Blazquez (2014) on profiling tools; and Van den Berg et al. (2014) or Fouguère et al. (2009) or referrals.

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