



Peer Review in Social Protection and Social Inclusion and Assessment in Social Inclusion

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Portugal 2011

Improving the efficiency of social protection

Short Report



On behalf of the
European Commission
DG Employment, Social Affairs and Inclusion



The Peer Review took place in Lisbon, on 29-30 November 2011. It was hosted by Portugal's Institute for Social Security. In addition to representatives from the host country (Portugal), officials and experts came from Belgium, Bulgaria, Croatia, Italy, Latvia, Lithuania, Romania and Slovenia. Contributions were also provided by two stakeholders: Caritas Europa and Eurocities. The thematic expert from the Swedish Institute for Social Research, a network expert from the Centro de Estudos para a Intervenção Social and two European Commission officials from the Directorate-General Employment, Social Affairs and Inclusion participated furthermore in the exercise.

1 The policy under review

On 16 June 2010, the Decree-Law No 70/2010 was published in Portugal's Official Gazette. Its overall aim is to redefine the conditions for non-contributory benefits by introducing greater harmonisation and promoting more rigorous implementation as part of the government's wider strategy to contain public expenditure and stimulate the economy.

In particular, the legislation harmonises the means-testing scheme for non-contributory social benefits and other state support subject to maximum income levels; promotes more coherence in the granting of social benefits; strengthens the efficiency and accuracy of the benefits granted; combats fraud; and restrains the growth of public expenditure. The benefits covered by the harmonisation are: social integration income, unemployment social benefit, parental social benefits, family benefits and other elements of public social support subject to means testing.

The main changes cover three areas:

1. The concept of family household. Previously, each social benefit used a different definition. This led to confusion and prevented accurate comparisons between data. Now a family household is defined as a group of people who live in a common economy, bound by family ties where the benefit claimant is included.
2. The income to be considered. Previously, there were no income limits to access services. The new law made clear the income that would be taken into account when means testing entitlements to non-contributory benefits. Included in the calculation are income from employment, self-employment, capital, property, pensions, social benefits, housing support and education and training scholarships.
3. Definition of a new income per capita, depending on the composition of the household. The weighting of each household member is calculated according to the equivalence scale previously used by the OECD where the weighting factor for the applicant is 1, for each adult over 18, it is 0.7 and for minors 0.5. It was decided not to adopt the latest OECD equivalence scale since this would have been more restrictive on families.

The government is also applying a strong activation policy. All beneficiaries between 18 and 55 years of age, who are not in the labour market but are able to work, must be covered by a training, education or integration into the labour market scheme within a maximum of six months after subscribing to a social integration programme. This is considered part of an active inclusion strategy for vulnerable families. While the benefits are intended to ensure they have enough resources to cover their basic needs, the programmes try to encourage their social and professional integration.

The law tightened up implementation procedures by cross-checking tax administration data with the social security information system and by requiring claimants to make annual financial statements. It introduced tough penalties for anyone caught cheating the system. If found guilty they are prevented from accessing the benefits for two years.

The new measures have had a significant impact on the evolution of benefits. The definitions and rigour have led to a large decrease in the number of households receiving benefits. They have fallen from around 165,000 in July 2010 to just over 120,000 in October 2011. Similarly, the cost to the government of providing social income benefits has been reduced from some €40 million to €28.8 million.

2 Key issues, discussed during the meeting

The meeting began with a presentation by a European Commission representative of social experimentation and the contribution this could make to improve the efficiency of social protection. The methodology involves testing the impact of a new policy measure on a small pilot scale and evaluating the results by comparing the core group with a control group which has not benefited from the initiative. If these are considered positive, the policy could be rolled out on a larger scale. The Commission can offer financial and practical support for such projects and has put out calls for tender for those interested.

In the discussions of the meeting participants were asked to address the overall theme of improving the efficiency of social protection in five separate sessions under different headings.

- **Trade-off between efficiency and effectiveness**
Details were given of recent reforms of social protection systems in the peer countries to improve the efficiency of social benefits. Attention was also focused on how to combine efficiency in social expenditure with effectiveness of targeting all those in need of support and avoiding negative consequences for poverty alleviation.
- **Non take-up of benefits**
Participants were asked whether the phenomenon was carefully monitored and whether measures had been put in place to ensure potential recipients were aware of their rights. Most indicated that there was little hard evidence in their countries of the scale of non take-up of benefits.
- **Implied equivalence scales embedded in the benefit formulas**
This session considered how different countries define the needs of a family and the extent to whether there should be some convergence between the various systems used. In general, it was felt that greater convergence could make it easier to assess policies in a common framework, but that it would make it harder to target specifics of social policy.
- **Ways of means-testing**
Some peer countries have introduced tapers on work income, which define how much of earnings are exempt from the means-test for social assistance. But critics consider them to be an indirect way for employers to be subsidised by the social security system. It was suggested that this might be a good subject for a social experimentation project.

- **Activation approaches**

Countries implement active labour market policies in different ways and participants provided many examples. The discussion also broadened out to consider how different levels of governments – local, regional and national – and agencies could be organised to develop effective and well-targeted tools.

3 Lessons learned

- **Trade-off between efficiency and effectiveness**

Some countries seem to have increased the efficiency of minimum income benefits by restricting access and reducing coverage, meanwhile increasing benefit levels for the most vulnerable. The consequences for poverty alleviation, however, remain unclear. Reforms in the area of minimum income benefits seem still to be in great need of evaluations concerning the potential consequences for both the efficiency and effectiveness of social protection to alleviate poverty. It is therefore important to identify potential trade-offs between efficiency and effectiveness and increase our understanding thereof. Although the discussion showed that there is a certain awareness of potential trade-offs in some countries, empirical evidence is still largely lacking. This could also be a field for social experimentation.

- **Non take-up of benefits**

This is an important issue for poverty alleviation, but the discussion seemed to suggest that this did not attract much attention in many Member States. Hardly any academic or other studies seem to exist on the subject. The topic requires more extensive interest and discussion if the EU is to fulfil the obligations of the Europe 2020 strategy and tackle poverty effectively.

- **Implied equivalence scales**

There does not appear to be any common standard among the peer countries to assess the needs of the poor and define how minimum income benefits should treat the needs of different types of family. The aim is not total harmonisation, but political arbitrariness, rather than a carefully calculated assessment, could influence the level of benefits. The tools for arriving at such an assessment could be the same for all Member States, even if the equivalence scales themselves vary from country to country.

- **Ways of means-testing**

The discussion during the Peer Review concentrated largely on work income tapers. While several countries have introduced such work income disregards, little research exists to determine what effect this has on labour supply and employment. A more holistic approach is needed.

- **Activation approaches**

It is clear that this is highly complex since it involves the three pillars of active inclusion: adequate income support, inclusive labour markets and access to quality services. Difficulties can arise when trying to provide integrated active inclusion strategies and thus there is a need to develop analytical tools to determine which programmes or actors are responsible for particular outcomes. In this way, it would be possible to demonstrate to policy makers which combination of measures would have the desired effect.

Finally, the need to put resources into information management and social science research was pointed out as there is **a need for strong evidence based research**. Only few countries have so far investigated the consequences of enacted reforms, such as the effects of income-tapers, implied scales of equivalence or active approaches to social protection. The Commission could play a useful role by bringing together and making available the research that already exists, so that Member States can base policy reforms on solid evidence.

4 Contribution of the Peer Review to the objectives of Europe 2020

One of the five headline targets of the Europe 2020 strategy is to lift at least 20 million people out of poverty and social exclusion, defined in terms of relative income standards, material deprivation and joblessness. The Peer Review showed that both efficiency and effectiveness of social protection is central to achieving this target. This will require services to be streamlined and modernised.

During the Peer Review several examples were given of how Member States have tried to increase the efficiency of minimum income benefits, such as reforms to increase the accuracy of benefits in order to reduce extreme poverty. Some countries also seemed to be aware of the potential trade-offs between efficiency and effectiveness. Such examples included for instance the complexity of programme regulations and the spreading of pamphlets informing citizens or target groups about their rights.

In its discussion on activation of beneficiaries, the Peer Review also addressed the employment headline target of Europe 2020 (75% of the 20-64 year-olds to be employed). Active approaches to social protection can improve efficiency by encouraging transitions from welfare dependency to work, something that may increase the possibilities of raising benefit levels without the danger of eroding work incentives and employment. However, an increased emphasis on activation may also have the opposite effect on benefit generosity, since a reduction of benefit levels may be viewed as an easy, inexpensive and effective strategy to increase work incentives even further, in some cases also for low wage employment. The direction of the relationship between active approaches to social protection and benefit levels needs to be researched further before any firm conclusions can be drawn.

Finally, emphasis was also placed in this Peer Review on the need for mutual learning and use of best practice.