Improving the efficiency of social protection

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Summary

Under the current global context of international economic and financial crisis and like what is happening with the world economy, the Portuguese economy is also being affected by the adverse impacts of the crisis. In this context, the Portuguese Government defined in the Stability and Growth Programme 2010-2013 a significant set of essential policies to promote economic and employment growth as well as a set of budgetary consolidation measures, some of them structural. At the heart of this set of measures aimed to restrain the growth of public expenditure in a sustained manner, there is the redefinition of social support entitlement conditions, not only by harmonizing the non-contributory benefits entitlement conditions, but also by allowing their implementation to be more selective and extended to all public social benefits, provided that they are subject to means-testing.

At the social security system level, the creation of an harmonized framework for the non-contributory benefits entitlement conditions will, on the one hand, give more coherence in non-contributory social benefits granting and, on the other hand, significantly strengthen efficiency and accuracy, particularly at the level of contributory fraud and evasion control.

1. Social protection efficiency

According to Article 4 of the Basic Law of Social Security\(^1\), the three main objectives of the social security system are: i) to guarantee the fulfilment of the right to social security, ii) to promote the sustained improvement of social protection conditions and levels and the strengthening of their equity, and iii) to promote the system’s effectiveness and its management efficiency.

It is precisely in order to improve social protection efficiency that there is an attempt to bring the existing system closer to citizens, businesses and institutions, namely, through three major steps:

- The means-testing proof;
- The National Plan to Fraud and the Contributory Evasion;
- The Contributory Code (more efficiency in revenue collection).

These measures are aimed to, firstly, strengthen social expenditure efficiency, by providing more social protection to those who most need it, and secondly, to improve the contributory efficiency of the public social security system, by making it more fair and universal and at the same time fighting against contributory fraud and evasion.

\(^1\) Law no. 4/2007 of 16 January.
For its operationalisation, we highlight some very useful tools which are technological innovations from the new social security website, mainly the Social Security On-line. These tools, among other things, reduce bureaucracy and simplify the submission of benefit claims and other mandatory documents required when dealing with Social Security matters, simplify and strengthen the submission of earning statements and the payment of Social Security contributions on-line by employers and self-employed persons, make the citizens’ insurance careers available on-line and thereby strengthen their understanding of rights and their ability to act against contributory evasion.

However, the fight against the public supports and resources improper use has also a set of legal mechanisms to prevent fraudulent behaviours in the social security system, together with the strengthening of electronic cross-checking of information, especially with the tax administration databases, when dealing with benefits subject to means-testing.

2. The Non-Contributory Scheme and Means-Testing

The Basic Law of Social Security, 2007, Law no. 4/2007 of 16 January - is the current law that approves the general basis of the Portuguese social security system, which has three pillars: the citizenship social protection system, the welfare system and the supplementary protection system.

The Citizenship Social Protection System aims to "ensure citizens' basic rights and equal opportunities, and to promote welfare and social cohesion", assuming for this purpose some competences, like:

a) Implementation of a subsistence minimum income support for citizens in situation of economic disadvantage;

b) Prevention and eradication of poverty and exclusion situations;

c) Granting of compensation for family expenses.

This system is divided into three subsystems - the Social Action Subsystem, the Solidarity Subsystem and the Family Protection Subsystem. From these, we highlight the Solidarity subsystem which aims to guarantee the essential rights that contribute to the prevention and eradication of poverty and social exclusion situations by granting benefits in cases of proven situations of individual or family need.

This subsystem is composed by the non-contributory scheme, the special social security scheme for agricultural workers, the transitional schemes or other similar to non-contributory schemes, whose entitlement depends on the beneficiary and his family household (lack of) resources and does not depend on previous registration or the payment of contributions.

The contingencies covered by this subsystem are the following:

a) lack of individual or family household economic resources or insufficiency of resources that are necessary to satisfy their basic needs and to promote their progressive social and professional integration;

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2 "The Social Security On-line is a direct channel, swift, effective and safe that allows people and companies to have access to social security services on-line without having to go to social security costumer services" (Practical Guide: http://www2.seg-social.pt/preview_documentos.asp?r=2223&m=PDF)
b) invalidity;

c) old age;

d) death;

e) insufficiency of earning replacement benefits, based on minimum values set by law.

This subsystem may also cover the costs resulting from the exemption, reduction or bonus of contributory rates and the anticipation of the retirement age.

For example, benefits paid under this scheme are the Social Integration Income (SII), social pensions, the unemployment social benefit, the solidarity supplement for the elderly, other social supplements and benefits or transfers allocated for specific purposes.

Also according to the Basic Law of Social Security, the cash benefits amounts are aimed to ensure the basic needs of the beneficiaries and, therefore, to guarantee the basic citizenship rights. They are determined according to the beneficiaries' income and the size of their family households. This law also provides that a contractual commitment of integration based on this subsystem benefits granting conditions may be established, when possible.

Therefore, and in accordance with the law, the selective granting of these benefits is based on a condition of economic nature, the means-testing. According to Ilídio das Neves\(^3\), the means-testing represents "the implementation of a criterion that is opposite to the social protection universality, since it is based on the existential perspective of protecting, primarily or exclusively, the poorest or people with fewer resources".

In summary, means-testing has an established income limit that once exceeded, there is no entitlement to certain social benefits. Means-testing is mainly implemented in non-contributory schemes due to financial and also 'moral' reasons. The means-testing for several non-contributory social benefits granting, introduced in 2010, is recognized as innovative in this social area.

### 3. The Means-testing

#### 3.1 Context and procedure

According to the Stability and Growth Programme, presented by the former Government in March 2010, several measures were announced within the scope of Social Protection that included the redefinition of "non-contributory social benefits entitlement conditions, through the extended use of the so-called "means-testing" and its more thorough application, considering the total actual income of the beneficiary, including financial income, as well as wealth, so that the effort of the state and taxpayers with non-contributory social benefits supports those who truly need such assistance." (pp. 8-9)

The Government's aim was then to define limits and to decrease public expenditure and the expected contribution from the non-contributory social benefits scheme was based on:

1. Maintaining the nominal value and implementing means-testing as an entitlement condition for all the non-contributory benefits (note: these benefits would have update rates based on the Social Support Index (SSI), however this would maintain its nominal value until 2013).

2. Setting limit amounts for the State Budget transfers of €7100 million in 2011, €7000 million in 2012 and €6900 million in 2013. To this end, it was expected that this limit amounts would be accompanied by a set of monitoring and control mechanisms of social benefits granting and management, namely:
   - Continue to strengthen home monitoring of Social Integration Income beneficiaries;
   - Semi-annual verification of the beneficiaries income and mandatory annual validation of benefit granting conditions;
   - Penalty for false statements and behaviours that result in undue payment of such benefits;
   - Improve cross-checking of information with the tax administration databases to check assets and capital income information;
   - Integrate unemployment benefit beneficiaries into the labour market, i.e., strengthen the integration of working age beneficiaries in academic and vocational qualification programmes and their integration into the labour market, in order to promote their independence from benefits;
   - Monitor and sanction improper employment refusals from the beneficiaries.

At this time, several working groups were created, including the group that would be engaged in the following Means-testing Law, whose coordination was the responsibility of the Institute for Social Security, with the participation of the Cabinet for Strategy and Planning, the General Directorate of Social Security, the Social Security Financial Management Institute, the Information Technology Institute and the Cabinet of the Secretary of State for Social Security.

3.2 The Law and its results

On 16 June 2010, the Decree-Law no. 70/2010 was published in the Official Gazette of Portugal, in order to redefine the non-contributory benefits entitlement conditions, by ensuring their harmonization and promoting a more careful implementation:

“At the social security system level, the creation of a harmonized framework for non-contributory benefits entitlement will, on the one hand, give more coherence in non-contributory social benefits granting and, on the other hand, significantly strengthen the efficiency and accuracy, particularly at the level of contributory fraud and evasion control.”

(Official Gazette of Portugal, I series, No. 115, p. 2081)
In summary, the goals assumed according to this law are the following:

- to harmonize the means-testing scheme for non-contributory social benefits and other State supports subject to maximum income levels;
- to promote more coherence in social benefits granting;
- to strengthen the efficiency and accuracy when granting these benefits and other social supports;
- to fight against fraud in what concerns the access to social benefits;
- to restrain the growth of public expenditure in a sustained manner.

The social security system benefits covered by this harmonization and simplification effort are the following:

- Social Integration Income;
- Unemployment Social benefit (the initial USB and the one following the payment of Unemployment Benefit);
- Parental Social Benefits;
- Family benefits;
- Other public social supports, provided that they are subject to means-testing.

The main changes were made primarily in three areas:

1) The concept of family household – the tendency to approach the private concept of domestic family household.

2) Income to be considered - the introduction of greater effectiveness in the determination of total income and benefits in kind (like, for example, housing supports), are now being considered as well as financial and property income.

3) Definition of a new income per capita ⁴ - depending on the composition of the household members, including single-parent families, considering the existence of scale economies.

The new concept of family household is defined as a group of people who live in common economy, bound by family ties, where the benefit claimant is included. With the adoption of this concept, the differentiated definition of family household composition for each type of benefit is abandoned.

⁴ among those proposed by the OECD.
In what concerns relevant income, the income categories now considered are the following:

- employment income;
- self-employment income (business and professional income);
- capital income;
- property income;
- pensions;
- social benefits (except for family, disability or dependent person’s benefits);
- housing supports on a regular basis;
- education and training scholarships.

After the family household is identified and their income is determined, the weighting of each household member is calculated according to the following equivalence scale:

- Applicant: 1;
- Person over 18: 0.7;
- Minor: 0.5.

Note that the maximum income level per capita considered for the entitlement of social benefits subject to means-testing is set in those benefits particular schemes.

In order to introduce more accuracy in granting these benefits, the penalty for false statements that result in undue benefits payment was further aggravated.

In the case of SII, there are also some changes concerning the integration component, aiming to improve the beneficiaries’ personal, social and academic competencies. Therefore, beneficiaries between 18 and 55 years of age, who are not in the labour market but are capable to work, must be covered by measures of training, education or integration into the labour market within a maximum of six months after registering in the social integration programme.

In the annex, we present some results achieved over the last 20 months regarding the evolution of families and/or individuals benefiting from three significant measures considered: social integration income, family benefits for children and young people, social unemployment benefit.

4. Issues for Debate

A) The means-testing implementation varies according to the nature of the income considered in its calculation, the family household member(s) concerned and the actual family household composition. Thus, the assumptions on which means-testing is based on and the purposes and goals in granting social benefits subject to it lead to a wide range of means-testing, income and family household categories, making the management of social benefits subject to means-testing somehow complex.

Thus, one of the first questions that arise from this, concerns to the conflicting responsibility resulting from the bureaucratic logic of resource management (saving, redistribution), where the effort to achieve greater efficiency and accuracy in resources granting is stressed, and the logic of solidarity aimed to prevent poverty and exclusion situations, based on

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5 Note that the law that redefines the non contributory benefits came into force on August 2010.
social equity and positive discrimination criteria. This means that if, on the one hand, the complex reality leads to the simplification of procedures, consistency in benefits granting and accuracy in the access to this kind of social protection, on the other hand, this attempt at standardisation should seek to consider the purposes of each benefit, the universe of people entitled to it and the underlying economic reality of the family households where the beneficiaries are included.

What are the proposals already made in order to combine the growing need of the harmonization of benefits and supports from the same social protection subsystem and, at the same time, ensure that those who receive benefits are those who actually need it?

There are other equally relevant questions that arise from the first question.

A1) For example, it is necessary to discuss and determine which non-contributory benefits should be subject to means-testing. In the Portuguese case, we highlight some of the benefits that were not covered by Decrease-Law no. 70/2010, namely the social security supplements, social pensions and the Solidarity Supplement for the elderly. In what concerns this last benefit, the means-testing procedure is demanding and rigorous, because its limit amount established annually is also used as a reference for the amount of protection to be granted. However, this rule is not the means-testing rule.

A2) The types of contingencies covered also deserve some reflection. There are non-contributory benefits which are intended to strengthen protection of contributory nature. For example, the unemployment social benefit and the parental social benefits, whose granting depends on the means-testing verification, are actually aimed to protect social insurance contingencies. This is a matter for discussion, namely whether it makes sense to impose means-testing to these situations that result from the welfare system “insufficient payment of contributions or benefits” and, if so, what are the most adequate qualifying periods.

B) Then, there is a set of considerations, mainly from the political sphere, which is stimulating the debate on the minimum guaranteed income granting from the Welfare State, through means-testing. In this case, we highlight the proposal supported by Van Parijs on Basic Income or Citizenship Income, in which entitlement to a minimum or "modest" benefit should be unconditional, describing it as income "paid by a political community to all its members, individually, regardless of their income and their obligation to work."

By opposing to several income support schemes, the author notes that these schemes vary according to the family households, the declared income and the persons’ willingness to work, which in his opinion, notwithstanding the “well-intentioned integration conditions”, they may also promote the emergence of traps [unemployment and poverty] that will tend to increase with the schemes generosity and the pressure arising from economic globalization,

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which indirectly result in the strengthening of the social dependence stigma related to these schemes and, thus, encourages the political power to restrict the access to these schemes.

Considering the above, arguments used in defence of basic income are that it is unconditional and therefore does not require means-testing or the willingness to enter the labour market, which would eliminate the unemployment trap and create a "potential offer and acceptance of low-paid work \(^*\)", giving workers the responsibility to assess and accept, or not, these work offers, because the "non-condition of work and the creation of an essential tool to prevent the income condition may lead to an increase of unworthy works" (2000: 244); incentives to work in an income model without established conditions are more attractive, since it is expected from the tax and social benefits administrations to allow beneficiaries to significantly increase their income through work, even in a slow pace or through part-time works, and without "being trapped in these employments when they improve their skills or become able to increase their working time" and, in this way, making the integration into the labour market more flexible; both non-conditions (income and employment) held here are the ones which best respond to the solidarity philosophy contained in conventional minimum income schemes, in which the right to a minimum income includes access to a worthy work/activity, and the most disadvantaged people have more negotiation power and more choices in what concerns their integration into the labour market.

Without concealing the richness and relevance of this debate, the discussion here is about means-testing and the right to benefits provided by the Welfare State to individuals or family households that are unable to ensure by themselves a minimum income, which is socially recognized as necessary in order to have a decent life or satisfy their basic needs. The question that deserves to be discussed in this context is precisely the strengthening of the criteria concerning people’s integration into the labour market, in connection with some of the measures in question and the recognition of these criteria as necessary conditions for the public benefits granting. In this case, we can highlight the SII and the Unemployment Social Benefit.

In case of the SII, the means-testing was extended to the integration component and the Decree-Law no. 70/2011 imposes that all beneficiaries between 18 and 55 years of age who are not in the labour market but are capable to work must be covered by measures of integration into the labour market within a maximum of six months after registering in the social integration programme. These measures are the following: measures of recognition or validation of academic or professional competencies, training in family and individual competencies and/or vocational training, educational activities or measures of integration into the labour market.

This is the last question for debate: how to respond to this need of establishing social policies guided by principles of efficiency, effectiveness and citizenship, making them more selective, targeted and person oriented, combining the challenge of a more demanding, swift and rigorous implementation and at the same time, less vulnerable to discretionary acts and distortions?
Annex

**Evolution of individuals and families who benefit from Social Integration Income, 2010-2011**

Source: Institute for Informatics and Statistics of Social Security, Portugal

**Evolution of family benefits for children and young people, 2010-2011**

Source: Institute for Informatics and Statistics of Social Security, Portugal
Evolution of the number of social unemployment benefits paid, 2010-2011

Source: Institute for Informatics and Statistics of Social Security, Portugal