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OVERVIEW OF MEANS TESTING IN MISSOC COUNTRIES

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MISSOC Analysis 2013/1

Overview of means testing in MISSOC countries

1. INTRODUCTION

1.1 Importance of the subject and context of the report

Where European countries apply means testing, the rationale behind it and therefore its method of implementation varies from one country to another. Considered together, the cultural and political environment, the economic situation and the national background of social protection structures (the influence of Beveridge and Bismarck or of communism in Central and Eastern European countries) help to explain why not all European countries have the same perception of the part to be played by means-testing policies within a social protection system.

The means test emerged slowly¹. According to statistics available, the means test still plays a minor part in European social protection. All kinds of social benefits paid out after means testing accounted for 3.2% of the EU-27's GDP and 11.2% of total expenditure on social protection benefits in 2009². Among European countries, the part of means-tested benefit varies widely. Ireland (25%) and the UK (16%) have the highest ratio of means-tested benefits / social benefits granted. At the other end, Nordic countries and Central and Eastern European countries (hereafter, CEE countries) have a very low percentage (below 5%). In between, there is a group composed of most of the other western European countries, although within these there are notable differences – ratios vary from 5 to 15%. For instance, the ratio of Belgium is slightly above the Nordic and CEE countries whereas the ratio of France almost reaches the UK level³. The change over time does not provide much information. The proportion of means-tested benefits slightly increased in 10 years (between 1990 and 2000), a period during which the unemployment rate was generally stable. However the change differed widely between European

¹ See below 1.3 for a brief historic presentation.

² Eurostat, Statistics in focus, 14/2012. See also figures in the Annual Report of the Social Protection Committee (2012), point 3.3.2. According to the Eurostat methodological note, means-tested benefits are “social benefits that are explicitly or implicitly conditional on the beneficiary’s income and/or wealth falling below a specified level”.

³ Eurostat Statistics:
http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Means_tested_social_benefits_2008_as_%25TSB.PNG&filetimestamp=20110403104237

countries. For instance, the proportion of means-tested benefits went up strongly in the Netherlands, Finland and Greece and it went down in Austria, Italy, Luxembourg, Spain and Italy⁴. Between 1999 and 2008, almost all countries substantially reduced their ratio. An explanation can be found in the fact that old-age pensions, usually not means-tested, play a greater part in the overall social benefits granted. Although these figures must be interpreted carefully⁵, they indicate rough trends and also show that there is no obvious reason as to why the means test is applied or not applied.

1.2 What is means testing?

The concept of means testing remains ambiguous. There is no legal definition, at least by international instruments, of means testing (1.2.1), resulting in a wide range of interpretations. In this respect, it is necessary to clarify the links between means testing, social security, social assistance and universal benefits (1.2.2) before introducing the definition selected for the purpose of this report (1.2.3).

1.2.1 Means testing and international law: the legal approach

Means testing is a subject of great interest for social policy experts. It is discussed by numerous policy papers⁶ and the subject of statistics⁷. It is also taken into account by various European Union soft law instruments⁸. However, from a purely legal point of view, which is the field of this report, neither ILO conventions, nor the Council of Europe, nor the European Union refer to the expression “means test”, “means testing” or “means-tested benefits”.

ILO Convention 102 on social security minimum standards does, however, make a link between social benefits and means. When dealing with periodic payments, it provides that “*such rate may be reduced only to the extent by which the other means of the family of the beneficiary exceed prescribed substantial amounts or substantial amounts fixed by the competent public authority*” (Art. 67). The European Code of Social Security (revised) also provides that in the case of periodical payments, “*their amount may be*

⁴ A. Math, Cibler les prestations sociales et familiales en fonction des ressources: Eléments de comparaison européenne, IRES : <http://www.politiquessociales.net/IMG/pdf/r411-2.pdf>.

⁵ They do not necessarily mean that countries with a high ratio provide a higher proportion of means-tested benefits. Indeed, with the same rules applicable, the total amount of means-tested benefits will rise in periods of economic crisis.

⁶ See references throughout the report.

⁷ See above, the Eurostat definition.

⁸ See, for instance, the Commission Recommendation of 20 February 2013, C(2013) 778 final: “Investing in children: breaking the cycle of disadvantage”; see also Commission Recommendation of 3 October 2008 on the active inclusion of people excluded from the labour market [C(2008) 5737].

calculated taking account of the other means of beneficiaries and their families” (Art. 73). These choices of wording are interesting. They associate means testing and benefit amount, whereas the usual understanding of means testing is to link means to benefit entitlement⁹. The explanatory notes on Article 73 insist on the fact that “the amount of benefit must be determined using a scale set by national legislation. Services responsible for awarding this type of benefit should not have discretionary power when determining the amount. Beneficiaries must have an objectively established right to these benefits from the moment they meet the requirements, as set by national legislation”. By conferring the right to set the benefit amount according to means, the international social security instruments contribute to the recognition of means testing.

There is a tighter link between means testing and social assistance¹⁰. According to the European Convention on Social and Medical Assistance, the concept of “assistance” means “all assistance granted under the laws and regulations in force in any part of its territory under which persons without sufficient resources are granted means of subsistence and the care necessitated by their condition” (Art.2(a)). The explanatory notes add that assistance “covers the means of subsistence and the care necessitated by their condition by persons without sufficient resources. According to the European Committee of Social Rights of the European Social Charter, whatever the nature of this assistance, with benefits provided in cash and/or in kind, the assistance must be provided as long as the need persists in order to help the person concerned to continue to lead a decent life”. More implicitly, the revised European Social Charter requires countries to take measures “with a view to ensuring the effective exercise of the right to protection against poverty and social exclusion” (Art.30). If Article 30 does not expressly mention the guarantee of minimum resources, it is because such protection is already provided for by Article 13: “the Parties undertake to ensure that any person who is without adequate resources and who is unable to secure such resources either by his own efforts or from other sources, in particular by benefits under a social security scheme, be granted adequate assistance, and, in case of sickness, the care necessitated by his condition”. The Charter of Fundamental Rights of the EU states that “In order to combat social exclusion and poverty, the Union recognises and respects the right to social and housing assistance so as to ensure a decent existence for all those who lack sufficient resources” (Art. 34).

MISSOC data confirm that, with regard to means testing, European countries usually make a clear-cut distinction between social security and social assistance. In other words, means testing mainly appears in the “Guaranteed Minimum Resources” MISSOC table

⁹ On the concepts of entitlement/amount calculation in connection with means testing, see 1.2.3 below.

¹⁰ See D. Pieters, Social security: an introduction to the basic principles, Kluwer Law ed., p. 42.

(table XI), which corresponds to social assistance (understood as “covering all assistance introduced by the public authorities, whether at national, regional or local level, that can be claimed by an individual who does not have resources sufficient to meet his own basic needs and the needs of his family”¹¹). Two benefits may even be granted for the same risk: one (non means-tested) by an insurance/universal social security scheme; another (means-tested) by social assistance. The concept of “special non-contributory cash benefit”, defined as a benefit which aims to provide “*supplementary, substitute or ancillary cover against the risks covered by the branches of social security referred to in Article 3(1), and which guarantees the persons concerned a minimum subsistence income having regard to the economic and social situation in the Member State concerned*” (Regulation 883/2004, Art.70), echoes this pattern. Overall, means testing is more common for social assistance than for social security.

1.2.2 Means testing, social insurance, universal and non-contributory benefits

Does the above presentation imply that means-testing is foreign to social security? Such a conclusion would ignore the past evolution of social security schemes. It is not unusual to find benefits subject to means-testing incorporated into social security schemes. The concept of social security has indeed expanded gradually and may include a social assistance dimension. This evolution has been noticed by the Court of Justice of the European Union (hereafter, ECJ) which created the category of “mixed” or “hybrid” benefits. For the ECJ, “*although it may seem desirable (...) to establish a clear distinction between legislative schemes which come within social security and those which come within assistance, it is possible that certain laws, because of the classes of persons to which they apply, their objectives, and the detailed rules for their application, may simultaneously contain elements belonging to both the categories mentioned, and thus defy any general classification*”¹². One of the objectives of social security consists in the improvement of the living standards of individuals and families and, as a result, in the reduction of social inequality by means of a redistribution of incomes¹³.

A priori, means testing does not fit into an insurance model. Means testing completely reverses the rationale of this model: those with high income receive less or even no benefit at all. Still, its inclusion into insurance schemes is not impossible. It can help schemes to reach various targets: combating poverty, homelessness; cost control measures; return to work or stay at work policies; pro-family policies, etc. If we look at the objective of the reduction of social inequality, the consequence of a strict application of the insurance model would be to provide high amounts of cash benefits to beneficiaries

¹¹ Court of Justice of the European Union, Case C-140/12, Brey, [2013].

¹² Case 1/72, Frilli v. Belgium [1972].

¹³ See Opinion of Advocate General Mayras, case 1/72.

who paid high contributions and, conversely, to pay low benefits to those who contribute at a low rate. Various methods can be used to reduce such consequences, such as setting minimum/maximum benefits amounts or lowering the percentage of income taken into account as the beneficiary moves into higher income thresholds¹⁴. Means testing goes one step further by implementing systems of entitlement/benefit calculation which take account of means in order to improve protection of people with low resources. However, in countries with insurance-based schemes, means testing is more likely to develop outside these schemes, whether no insurance is provided for a given risk (for instance, long-term care) or alternative coverage is offered, usually through social assistance.

Universal benefits, briefly defined as benefits provided to all nationals/residents without any other condition than the occurrence of a risk¹⁵, are in principle incompatible with a means test. Nevertheless, the means test has also developed within universal-oriented benefit schemes. In this respect, the mechanism of “progressive universalism” is worth being introduced. Without jeopardising the universal scope of the benefits, this approach works by progressively increasing the share of the cost paid for by the public system as the income of the recipient decreases¹⁶. In other words, progressive universalism sets lower rights for higher income groups, but does not necessarily exclude these groups from the benefit. By adding a means test, the universality of the benefit is altered, but not denied¹⁷.

MISSOC data also stress the fact that the link between non-contributory benefits and means testing is complex. While some non-contributory benefits are means-tested, this is not the case for all of them. For instance, in the UK, there are two distinctive categories of non-contributory benefits: categorical benefits (awarded to people whose circumstances mean that they have extra demands on their income: disability, care and mobility, and industrial injuries) and income related benefits. Only the latter, designed to provide a minimum level of income for those out of work, are means-tested. The same conclusion applies to family benefits: they are usually non-contributory and in most countries not means-tested¹⁸.

¹⁴ See the “primary insurance amount” system used in the USA: <http://www.ssa.gov/oact/cola/piaformula.html>.

¹⁵ See “Is there a future for universal benefits”, seminar paper of the London School of Economics: <http://sticerd.lse.ac.uk/seminarpapers/ses29022012.pdf>

¹⁶ See OECD (2011) *Help Wanted? Providing and Paying for Long Term Care*, p.224.

¹⁷ See below the example of a universal benefit whose amount varies according to resources.

¹⁸ See MISSOC data, table IX “Family benefits”, “Child benefit, 1. Basic principles” and 5. Benefits, Variation with income” (January 2013).

1.2.3 Means testing: dual definition for the purpose of the report

For the purpose of the report and in order to provide a thorough picture of means testing in MISSOC countries, the concept of means testing will refer to two different approaches. The report will look into situations where:

(a) *entitlement* is made explicitly or implicitly conditional upon the beneficiary's income and/or their wealth falling below a specified level;

(b) the *benefit amount* is inversely dependent upon the beneficiary's resources. Social benefits decrease as resources increase. For people with high income, the benefit amount may be very low or even nil. In other words, at a certain income stage, entitlement may vanish.

In each of the two approaches, many specific features emerge. The key concept of resources can be flexible (according to the nature of resources taken into account, whether individual or family incomes are counted, etc.). Concerning the calculation of means-tested benefits, several ways to proceed are being explored by countries to link the benefit amount to the beneficiary's resources. These matters will be discussed in detail further on.

1.3 Brief historical overview and contemporary context

Means testing has a long history in Europe, as a brief comparative presentation focusing on changes since the 19th century reveals. In Ireland, the initial poor law (1838), influenced by the English poor law of 1834, was by definition means-tested. Later, the expansion of insurance after World War II did not prevent the means test from developing. In Ireland, around 25% of total expenditure on social protection is means-tested¹⁹. Very recently, the fiscal crisis led to cut-backs in social insurance and a greater reliance on means-tested benefits²⁰.

In the UK, there is also a long history of seeking to address in-work poverty through in-work benefits. The first 'modern' benefit was introduced by the 1908 Old-age Pensions Act, often described as the law founding modern welfare in the UK. This law provided for a non-contributory means-tested subsistence level pension for people over 70 years of

¹⁹ See interview of Anne Mc Manus, MISSOC E-newsletter, March 2013.

²⁰ M. Cousins, *Poor relief in Ireland, 1851-1914*, P. Land (ed.), Bern, 2011; M. Cousins, *Explaining the Irish Welfare State: An Historical, Comparative, and Political Analysis*, Edwin Mellen Press, 2005.

age. Later, the National Assistance Act of 1948 introduced means-tested social assistance²¹. In the recent history, along with the fact that benefit amounts were not adjusted in line with earnings, the result is seen in the more than triple increase in payments of means-tested benefits between 1980 and 2009²².

In the rest of Europe, means testing has grown essentially as part of social assistance. Means-testing policies significantly took off in the 1980s when “*balance ... radically tilted in favour of targeting*”²³. According to Gilbert, “*over the last decade [1990s] many social welfare policies have been redesigned to narrow the scope of recipients by targeting benefits through means tests, income tests, claw-back taxes, diagnostic criteria, behavioural requirements, and status characteristics*”²⁴.

However, diverging trends among European countries are noticeable. For countries with an insurance background, a trend toward universal benefits goes with a better targeting of benefits through the introduction of means testing²⁵. In France, although social assistance was already associated with the means test, the development of general minimum income in the early 1960s²⁶ together with the fact that more people needed public support significantly increased the recourse to means testing. In Germany²⁷, social assistance was introduced earlier. While insurance is still dominant (long-term care insurance was introduced in 1994 in order to avoid means testing) and no real “take-off” of means testing can be observed, means-tested benefits emerged over the last decade, mainly after the implementation in 2005 of the “Hartz IV” long-term unemployment protection.

In Nordic countries, where universalism has deep roots²⁸, means-testing policies are not common. As explained by Nordic countries themselves²⁹, everybody has the individual right to support from the public sector if they are unable to look after themselves. The

²¹ See P. Thane, *The Foundations of the Welfare State*, 1982, Harlow: Longman; S. Roberts, ‘Additional report on Minimum Income Schemes’. Report to Turkish Ministry under Technical Assistance for Capacity Building of Social Security in Turkey, 2011, Ankara: Ministry of Social Security; S. Roberts, ‘A History of Policies to Reduce Poverty in the United Kingdom’ in F. Pennings and B. Darimont, (eds.) *International Standard Setting and Innovation in Social Security*, Kluwer Law International, 2013.

²² See UK Report by the Comptroller and Auditor General, September 2011: <http://www.official-documents.gov.uk/document/hc1012/hc14/1464/1464.pdf>, p.11.

²³ T. Mkandawire, *Targeting and Universalism in Poverty Reduction*, Social Policy and Development Programme Paper No 23, UNRISD, 2005.

²⁴ Gilbert, N. “Targeting Social Benefits: International Perspectives and Trends”, Transaction Publishers, 2001.

²⁵ See the example of France.

²⁶ The old-age minimum income dates from 1956.

²⁷ Many thanks to Prof. Eberhard Eichenhofer for his informal assistance.

²⁸ Even if universalism is no longer applied so strictly. See Sunesson, S., S. Blomberg, P.G. Edelebalk, L. Harryson, J. Magnusson, A. Meeuwissen, J. Peterson and T. Salone, “The flight from universalism”, *European Journal for Social Work*, 1998.

²⁹ <http://www.norden.org/en/the-nordic-region/social-policy-and-welfare>

rights are the same for all, regardless of factors such as income and assets. One crucial way in which the Nordic system differs from other welfare models is that rights are not acquired on the basis of previous payments (e.g. national insurance payments) or status (e.g. employment). Welfare is funded collectively via taxation, and the individuals' rights are not linked to their tax history³⁰.

Means testing emerged more recently in CEE countries³¹. No uniform conclusion applies to this group of countries. For various reasons, including notably the level of economic development and political orientation, the paths chosen are different³². Some CEE countries, such as Slovakia, have tightened the rules of entitlement to a general minimum income³³ or have replaced universal benefits by means-tested ones. Alternatively, other CEE countries have developed social insurance and, therefore, have left less room for means testing. This is the case of Slovenia³⁴.

Despite this great variety among European countries, one common denominator emerges: means testing is not widespread. Besides the potential for perverse effects which will be discussed further on in the report³⁵, some European countries may be worried that means testing undermines the structure of their social security system. This is true in particular for countries built on a universal or insurance model. For countries with universal social security, the attachment to individual rights explains the rejection of the means test. However, recent evolutions show that the attitude towards means testing is very diverse. For instance, there are current debates in Denmark on maintaining certain universal benefits. In the UK, the child benefit, which used to be a universal benefit, has recently been transformed into a means-tested one. On the contrary, in France or in Sweden, the attempt to introduce means testing for universal family benefits in the 1990s failed because of a lack of popular support. In some countries where the means test is commonly used, there are on-going discussions about a return to universal benefits³⁶.

³⁰ *Ibid.*

³¹ For an overview, J. de Frel, "Welfare State Classification: The Development of Central Eastern European Welfare States", Master thesis, Rotterdam, 2009: <http://oaithesis.eur.nl/ir/repub/asset/6281/De%20Frel.pdf>

³² H. Fenger, Welfare regimes in Central and Eastern Europe: Incorporating post-communist countries in a welfare regime typology, Contemporary Issues and Ideas in Social Sciences, 2007: <http://journal.ciiss.net/index.php/ciiss/article/viewFile/45/37>

³³ For the example of Slovakia, see Z. Kusa, D. Gerbery, "Minimum Income Schemes - A Study of National Policies", DG EMPL, April 2009.

³⁴ In Slovenia, unemployment assistance has been abolished. Jobless people may receive either unemployment benefits or general assistance help.

³⁵ See 2.2.

³⁶ See on-going debates in the UK.

Another common tendency has to do with the delivery of means-tested benefits. Many countries use means testing for benefits granted at local level. This is especially true for countries where social assistance plays a key role against poverty. This type of local organisation makes analysis at European level more difficult to carry out since access to accurate and complete data is not easy.

1.4 Methodology and structure of the report

This report aims to make an overview of means testing from a legal point of view and on the basis of MISSOC information. Since this is a legal report focusing on comparative social security data, other questions relating to means testing will not be directly addressed. In particular, links between taxation and means-testing policies will not be explored. Also, social policy analysis will be used in this report only to serve the purpose of the legal discussion.

Since MISSOC information is the primary source for this report, its scope is confined by the risks covered by the MISSOC. Among these, the risks which are most susceptible to means testing – invalidity and old age, sickness (benefits in kind), unemployment, long-term care and family (cash benefits) – will be included in the scope of this report. Social assistance will obviously be covered as well. All relevant MISSOC tables will be used, in particular table XI on “Guaranteed Minimum Resources” (GMR), which – unlike the other tables - contains several categories dedicated to means testing. Table XI covers both general and categorical (old-age, unemployment, invalidity, etc.) benefits and focuses on benefits in cash. Housing is not addressed in this table (or in any other MISSOC table) and hence, is excluded from the scope of the report. Since the report will be based on a “per risk approach”, risk-related social assistance referred to in table XI will be classified under the relevant risk and not under “GMR”. For instance, a means-tested old-age pension provided by social assistance will be treated within the category of old-age benefits. Likewise, unemployment assistance will be covered under unemployment, not “GMR”. Therefore, when referred to in this report, “GMR” will exclusively cover general social assistance benefits. Concerning long-term care, the report will respect the scope of table XII: even if benefits concerned can be connected to another risk (sickness, invalidity, old age, etc.) and may even be simultaneously cited in another table, they will be described as long-term care benefits as long as they are mentioned in table XII.

Since national policies involving means-tested benefits are subject to changes, it will be useful to make a comparison between the MISSOC data (2012-2013) and older data

(2004). This comparison will be carried out only when it is possible to reach reliable conclusions.

For the purpose of the report and when it is relevant, European countries will be divided into groups inspired by the Esping-Andersen welfare state classification³⁷. Even if the variety of social protection schemes and structures makes it very difficult, and sometimes inadequate, to use such a classification, it can be useful to highlight some tendencies. Countries will be classified according to the following division: Nordic countries (“social democratic”); Southern European countries (“latin”); Central and Eastern European Countries; Western European countries (“conservative”); Anglophone countries (“liberal”).

2. THE RATIONALE OF MEANS TESTING

MISSOC data show that means-tested benefits cover benefits aiming to provide a substitute income but also to compensate for extra costs. The first category – non-contributory benefits aiming to provide a substitute income – can be classified into several sub-categories³⁸. The means test may be implemented whether the inability to make a decent income is temporary (unemployment, sickness) or permanent (disability, invalidity, dependency, old age), and whether the beneficiary draws income from a job or not. The means test can also concern cash benefits that compensate for additional costs. In this situation, the person’s resources are presumed to become insufficient due to a specific need. Family benefits, long-term care allowances (for instance, reimbursement of services and housing adaptations), unemployment schemes (when, for instance, they provide reimbursement of travel/training costs) follow this pattern.

The means test has therefore a wide range of application. If its purpose differs from one country to another and also within countries themselves, a key objective is shared: in a context of budgetary constraints, the means test applied to benefits aims to fight poverty by targeting help at those who are considered to be in a state of great need. This raises the following fundamental question: should public social protection benefits target those who are in great need? And how should poverty be defined? (2.1) These questions lead to the presentation of potential perverse effects of means testing (2.2).

³⁷ G. Esping-Andersen, *The Three Worlds of Welfare Capitalism*, Cambridge, 1990, Polity Press.

³⁸ Benefits rewarded to persons who have not yet entered the labour market or whose periods of contributions/insurance are not sufficient for contributory benefits entitlement; benefits that top up contributory benefits; benefits provided to those whose contributory benefit payment period has expired.

2.1 Targeting people in great need?

Even if the concept of “targeting” is not part of a legal study and cannot be discussed in detail³⁹, it is necessary to introduce it at this stage of the report.

Support to people in need is often assured by a general benefit scheme aiming to guarantee minimum income. Almost all MISSOC countries (with the exception of Greece and Italy) offer such a benefit at national level. Specific minimum income guarantees may also exist for certain social security branches/risks. As already mentioned, MISSOC data provide examples of means-tested benefits incorporated not only into minimum guaranteed resources, but also old-age schemes, unemployment schemes, invalidity/disability schemes, family schemes or even sickness schemes. In these cases, the state of need is profiled: through the means test, the benefit targets those considered to be in great need⁴⁰.

In this context, one question can be raised: should public social protection benefits target those who are in need? The on-going deep economic crisis reinforces the sensitivity of this question. The overriding necessity for EU countries to control public spending (of which social protection represents a major share), and the inability of the market economy to eradicate unemployment and poverty may contribute to reconsideration of the allocation of public/collective resources. The concept of fairness would also need to be rethought. The World Bank, the OECD and the European Commission have encouraged reforms of certain social policies with the aim of better targeting support to those who need it most⁴¹.

Targeting a particular benefit toward low income is usually done by phasing out (more or less gradually) the scheme at higher levels of income⁴². Recourse to targeting is however

³⁹ For discussions on targeting, see for instance K. Nelson, *Universalism versus targeting: The vulnerability of social insurance and means-tested minimum income protection in 18 countries, 1990-2002*; M. Hill, *Social Policy in the Modern World*, 2006, Blackwell Publishing (especially Chapter 4); E. Jansova and G.L. Venturini, “Pathways of income protection. Ideal-typical configurations of minimum income scheme in the European Union”; “Is there a future for universal benefits”, seminar paper of the London School of Economics.

⁴⁰ See R. Mackay, “The New-Zealand model: targeting in an income-tested system”, ISSA. See also Y. Jorens, *Guaranteed minimum income*, MISSOC Analysis 2011.

⁴¹ See H. Immerwoll, *Minimum-Income Benefits in OECD Countries: Policy Design, Effectiveness and Challenges*, OECD, 2009, p.29; Atkinson, “On Targeting Social Security: Theory and Western Experience with Family Benefits”, *Welfare State Programme Working Paper*, n°99, ESRC and STICERD, 1993; more recently, see European Commission Communication of 20 February 2013, COM(2013) 83 final, “Towards Social Investment for Growth and Cohesion – including implementing the ESF 2014-2020”.

⁴² Indicators of Unemployment and Low-Wage Traps, OECD.

a tricky issue⁴³. The concentration of social benefits on sections of the population with low(er) resources is the subject of debate and may give rise to problems. The UK perspective is a good example of difficulties encountered. An independent UK institution underlines the fact that “the central trade-off is between tighter targeting of benefits (often linked to greater design complexity) and other impacts such as take-up levels, administrative costs and incentives to work”⁴⁴.

Links between means testing and targeting can be complex. Targeting may apply to entitlement⁴⁵ as well as to the benefit amount. In this last respect, targeting is compatible with “progressive universalism”⁴⁶, where benefits are subject to a means test without losing their universal scope. Let us imagine a system where claimants are divided into three groups according to their resources level, for the purpose of a benefit provided to all residents. Claimants from the lowest resources group members will receive the highest amount; claimants from the second lowest resources group members will receive the second highest amount; claimants from the third group will receive the lowest amount. In this example, the highest resources group members will receive a benefit amount, even though they are not in a state of need⁴⁷; for claimants from the lowest group, the benefit will be aimed at addressing a state of need. In practice, however, degressive benefits tend to be accompanied by entitlement withdrawal beyond a certain income ceiling; in other words, persons belonging to the highest income group will lose entitlement⁴⁸; in this case, the benefit is no longer universal.

Even if the concept of state of need varies according to the wealth of the country, in respect of ideological or cultural dimensions, means testing is associated with targeting the population in a state of need. The concept of need was traditionally associated with poverty. And how does one define the state of poverty? The question is controversial⁴⁹, and its concrete evaluation also raises problems. Like many countries, the EU sets a poverty line by considering that a household living on an income below a threshold set at 60% of the “national median equivalised household income” is considered to be ‘at-risk-of-poverty’.

⁴³ For an overall presentation of various targeting policies, see R. Mackay, op. cit.

⁴⁴ See UK Report by the Comptroller and Auditor General, op. cit.

⁴⁵ See for instance in the Czech Republic, where entitlement to Child Allowance (*Přídavek na dítě*) is limited to families with an income below 2.4 times the family living minimum (MISSOC data, January 2013).

⁴⁶ On this concept, see above, 1.2.2.

⁴⁷ For a thorough presentation of the model of decrease of benefits, see below 5.2.

⁴⁸ See the example of Italian family benefits, whose amount is inversely proportional to family income and varies according to income brackets of approximately €100. For families whose income exceeds €74,218.01 (for a family with four members), there is no benefit (MISSOC data, January 2013).

⁴⁹ See, for instance, P. Spicker, ‘Charles Booth - the examination of poverty’, in *Social Policy and Administration* 24 (1) (1990): 21-38; S. Roberts (2013), op. cit.

MISSOC data show that European countries are favourable to the so-called “relative poverty” reference by setting an official administrative poverty line⁵⁰. A person in need can be a person who does not have the means to lead a decent life and who is unable to cover his/her daily costs of living with his/her own resources (AT, BE). Needs refers to a socially acceptable standard of living (CY), which includes basic needs for daily life and housing (CZ, UK), whether the need is permanent or temporary (FI). The need may also aim to secure participation in socio-cultural life (DE). Minimum standards can be fixed for food, clothes, personal hygiene, household items, heating and electricity as well as personal needs for an appropriate participation in social life (AT, EE). Needs may comprise “play and leisure or disposable goods” like newspapers, television and phone subscriptions (SE).

2.2 Potential perverse effects of means testing

The relevance of means testing is discussed in Europe. In countries with a universal or insurance tradition, means testing is sometimes seen as a process which undermines the foundations of social security. Especially in times of economic crisis and budget cuts, the efficiency of means testing compared to insurance or universal models is challenged⁵¹. Does means testing achieve the objective of a better redistribution of resources? The answer is not clear. Studies show that results depend as much on countries as on the way means testing interacts with other policies (labour market, taxation...)⁵². The receipt of means-tested benefits is also no guarantee of escaping from poverty, given that their amount and method of calculation have a strong impact on whether this objective can be reached or not⁵³.

⁵⁰ On the concepts of relative and absolute poverty, see below 3.1.

⁵¹ For instance, in the universalism/means test debate, See K. Nelson, op. cit.

⁵² W. Van Ginneken, “Poverty, human rights and income security in Europe”, BIEN Conference, Munich 14-16 September 2012: http://www.bien2012.org/sites/default/files/paper_282_en.pdf

⁵³ For instance, W. Korpi and J. Palme, *The Paradox of Redistribution and Strategies of Equality: Welfare State Institutions, Inequality and Poverty in the Western Countries*, <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.111.2584&rep=rep1&type=pdf>; C. Behrendt, *Effectiveness of Means-tested Transfers in Western Europe: Evidence from the Luxembourg Income Study*, University of Konstanz, 1999. For the example of Bulgaria, see I. Tasseva, “Evaluating the Performance of Means-Tested Benefits in Bulgaria”, ISER Working Paper Series 2012-18: <https://www.iser.essex.ac.uk/publications/working-papers/iser/2012-18.pdf>. The author notices that “*the programmes reach a very small proportion of the households with incomes below a relative poverty line. Furthermore, the transfers are characterized with very high non-take up and inclusion of non-entitled or non-poor recipients. Poverty rates decrease by a small degree among benefit clients and yet, the impact is insufficient to affect overall poverty, or for the benefits to achieve their ultimate goals*”.

From the point of view of beneficiaries, it appears indeed that the test of means shows some weaknesses. At this stage, the low take-up ratio must be emphasised⁵⁴. The implementation of means testing may indeed have the counterproductive result of deterring those who are really in need from claiming their rights. Moreover, by making access to benefits very complex especially for non-residents, by requiring additional (and sophisticated) information from the claimants who have to go through difficult administrative procedures, means testing imposes additional burdens on claimants, with the risk of discretionary or arbitrary decisions. Some argue that benefits to the poor may be poor benefits, in the sense that their quality of delivery would be low. Also, focusing benefits on those who are really in need may discourage “working poor” beneficiaries from moving up to better paid jobs or to be working more hours. The so-called “poverty trap” is a constant topic of analysis among researchers. What is more, concentrating benefits on those who are really in need may deter beneficiaries from going back to work and therefore may encourage “inactivity traps”⁵⁵. The risk of “saving traps” is also highlighted: if people know they are potentially eligible to means-tested benefits, they are deterred from saving money on a voluntary basis⁵⁶ (but this is also true for universal schemes). By concentrating benefits on the low-income population, the risk can be to entrench or even worsen the state of poverty of beneficiaries⁵⁷.

From the point of view of social security institutions, the means test is often associated with increased risks of fraud and errors. In the UK, it is reported that £9 billion have been overpaid on tax credits between 2003 and 2009⁵⁸. Wrong or incomplete information provided by claimants can indeed lead to overpayments. The complexity of implementation of means tests creates additional administrative costs for institutions in charge of determining up to date entitlement and benefit amount. Additional costs are also due to *ex post facto* administrative controls which may include on-site inspections⁵⁹.

Finally, some criticisms refer to more ideological points of view. Focusing benefits on those who are really in need could jeopardise the “social contract” and, in the long-run,

⁵⁴ Data comparing take-up for means tested with take-up of universal benefits strengthen this assertion.

⁵⁵ For a comprehensive definition of poverty traps and inactivity traps, see Indicators of Unemployment and Low-Wage Traps, OECD, page 9: <http://www.oecd.org/els/socialpoliciesanddata/30975741.pdf>

⁵⁶ What should be the role of means-testing in state pensions?, University of Essex, November 2005, See p10: https://www.pensionspolicyinstitute.org.uk/uploadeddocuments/PPI_Nuffield_seminar_5_main_paper_Nov_05.pdf.

⁵⁷ H. Bolderson, D. Mabbett “Cost containment in complex social security systems: The limitations of targeting”, International Social Security Review, 1996-1.

⁵⁸ See UK Report by the Comptroller and Auditor General, op.cit., p.4.

⁵⁹ See UK Report by the Comptroller and Auditor General, op. cit.

may affect the stability of schemes if the middle-class and upper class fail to give their support. If the higher-income groups receive fewer benefits, they may in the end disagree with paying the majority of taxes. Criticisms of means testing can also express a global rejection of welfare: that it would increase dependence of individuals on the state and would therefore run against a principle of “self-support”. However, the same would in fact hold true for universal benefits. Means testing is also blamed because of its “stigmatising effect”: targeting poor people would affect their dignity⁶⁰.

3. THE SCOPE OF MEANS: WHICH AND WHOSE MEANS ARE TAKEN INTO CONSIDERATION?

The explanatory notes of the European code of Social security (revised) provide that “*National legislation shall determine what is to be understood by “means of beneficiaries and their families”*”. The concept of means is indeed potentially wide. When a benefit is subject to a means test, which categories of means are taken into consideration (3.2) and which are disregarded (3.3)? The material scope analysis needs to be complemented by a study of the personal scope: whose means are considered, the claimant’s means exclusively or the means of persons related to him/her (3.4)? And even if the means test is passed, the payment of the benefit is in principle subject to exhaustion of other rights (3.5). Before dealing with these topics, it is useful to make a general presentation of the links between the scope of means considered for the means test and welfare policies (3.1).

3.1 Background: links between the scope of means considered for the means test and welfare policies⁶¹

The policy concerning means taken into account (and means disregarded) depends on the objectives pursued by means-tested benefits, but not only. MISSOC data indicate that some means are only partly taken into account or entirely ignored for the purpose of the

⁶⁰ T. Mkandawire (op. cit.) writes that “*Ideologies play an important role in the choice of instruments used to address problems of poverty, inequality and insecurity*”, adding that “*The technical nature of the argument cannot conceal the fact that, ultimately, value judgments matter not only with respect to determining the needy and how they are perceived, but also in attaching weights to the types of costs and benefits of approaches chosen. Such a weighting is often reflective of one’s ideological predisposition*”.

⁶¹ For a presentation of objectives pursued by Guaranteed minimum income, see Y. Jorens, MISSOC Analysis 2011.

means test. The choice of the scope of means can be justified by the responsible authorities for various reasons:

- Regardless of whether the benefit aims to tackle “absolute poverty”⁶² or “relative poverty”⁶³, the scope of means has to do, at least partly, with the conception of the standard of living. What is a certain standard of living? The notion is obviously flexible. For instance, some countries consider the dwelling as a resource to be included in the means test whereas some others exclude it⁶⁴. And for assets such as a car or working equipment, countries take these into account fully, partially or not at all⁶⁵;
- means-tested benefits **should not clash with objectives pursued by other benefits or social policies**. For instance, countries can exclude family-related, old-age related, disability-related or education-related benefits/advantages from the scope of resources ;
- one means-tested benefit **may have to be coordinated with other means-tested benefits**. In order to avoid incoherent accumulation of benefits, countries may set up an “anti-aggregation” system applying to means-tested benefits. Conversely, some resources may be excluded from the scope of resources because they are already taken into account for the purpose of another means-tested benefit. Interaction between means-tested benefits is one of the most problematic questions some countries have to face⁶⁶;
- means-tested benefits may **pursue objectives other than providing a minimum income**. For instance, when one of the objectives of a benefit is to encourage return to work, some resources will not be subject to the means test. This may concern job earnings or assets necessary for carrying out a professional activity;
- negative side effects, such as administrative costs, need to be avoided. Excluding some resources, in particular when their amount is very low or hard to assess, or taking them into account on the basis of a “flat-rate assessment”, reduces the **administrative burden**. By avoiding extra complexity in the application file, the benefit take-up ratio is increased.

⁶² According to a UNESCO definition, absolute poverty measures poverty in relation to the amount of money necessary to meet basic needs such as food, clothing, and shelter; the concept of absolute poverty is not concerned with broader quality of life issues or with the overall level of inequality in society. See <http://www.unesco.org/new/en/social-and-human-sciences/themes/international-migration/glossary/poverty/>.

⁶³ For the UNESCO, relative poverty defines poverty in relation to the economic status of other members of the society: people are poor if they fall below prevailing standards of living in a given societal context.

⁶⁴ See below 3.2.

⁶⁵ See below 3.2.

⁶⁶ For the UK, see UK Report by the Comptroller and Auditor General, op. cit.

3.2 Means taken into account⁶⁷

The means test can be more than just an income test⁶⁸. According to MISSOC data, means can indeed be categorised according to the following structure: work income and other income (3.2.1); movable and immovable assets (3.2.2). This report will also investigate the links between the scope of means taken into account and the accompanying risks (3.2.3).

3.2.1 Work income and other income

For the purpose of general minimum income, all MISSOC countries take account of work income received. In most cases, the entire income is considered, whether gross or net (e.g. CZ, LU, LV, NO, PL, SK). Sometimes, only a proportion of earnings counts (e.g. BE, CY, LI, LU, NL, SK, PT), a deductible applies (e.g. UK) or income under a certain amount (e.g. DK) is not counted. Children's income may be ignored whether or not they are dependent (e.g. CY, FI).

Other sources of income can be considered. For instance, the habitual place of residence is taken into consideration if this place could be used as a way to draw income (e.g. BG, CY). Income derived from property (rents, in particular) is added to the means (e.g. BE, FR, LV, MT, PT). No specific rule has been found in relation to outstanding mortgages. Even assets which can be a source of income can be considered, except for those serving the usual needs of the family (e.g. BG). Some countries take into consideration all types of income (e.g. LV, NL, NO).

Social security benefits can also be regarded as a source of income. All benefits may be counted as means (e.g. CZ, IT, LV, NO, RO), but most countries remove some benefits from the overall resources subject to means testing (e.g. DE, FR, LI, LT, PT). The nature of benefits excluded is variable:

- family/maternity benefits (e.g. BE, FI, FR, IE, HU, MT, PL);
- advance on maintenance payment (e.g. BE);
- disability allowances and benefits granted to vulnerable groups (e.g. CY, DK, EE, IE, FI, HU);
- unemployment benefits (e.g. LU, PT).

⁶⁷ On this topic, D. Pieters, op. cit. p.44

⁶⁸ D. Pieters, op. cit. p.44. For an overview of means taken into account in the field of social assistance, see Annex I.

It is hard to find a rationale behind these data. If the overall objective seems to be the consideration of the actual situation of the claimant in terms of income, there is a difference in treatment between work income and resources drawn from social security benefits. Whereas all income is usually counted, this is not the case for social security. This difference can be justified by various factors. For instance, social security benefits may be following specific goals that explain why their amount should be fully preserved.

3.2.2 Immovable and movable assets

Assets comprise immovable or real estate properties (dwellings, secondary residences, houses, flats, pieces of land...) and movable assets. This second category includes all types of properties which are not defined as immovable or real estate properties.

Where a general minimum income is claimed, the question arises as to what extent **dwellings and other real estate properties** are included in the means test. Many countries consider that the habitual dwelling place is disregarded (e.g. CY, CZ, IE, LV, MT, PL, PT, RO, SK, SI, UK), unless some conditions are met. Some countries take all properties into consideration (e.g. AT, BE, FI, DK, EE, LT, LU, SE), applying various methods. It is also possible to include a partial value of the property (e.g. BE, IE). Another consideration of entitlement can be the size of the property. For example, the benefit is denied if the living place has more than one room per person of the household (e.g. BG) or if it exceeds an appropriate size (e.g. DE, HR, SI). The value of the property may also be used as a criterion: if it exceeds a certain amount, it is taken into account in the means test (e.g. HU, PT).

Concerning **assets other than the usual place of residence**, owning a secondary house or additional properties is a reason for being refused the benefit, whether it has been acquired or donated and wherever the property is located (e.g. BG, CY, HR, IE, LU, MT, UK). A secondary home may however not always be incorporated into the overall resources (e.g. MT). Sometimes, countries expressly indicate that all movable and immovable income is counted (e.g. EE, DE).

Movable assets (such as defined above) are usually considered, but limits and exceptions may apply. For instance, movable assets are part of the means considered if they exceed a threshold (e.g. DK, LV, PL, SI). It can also be that only a percentage of these assets is taken into account (e.g. BE, FR, MT, PT). They can be excluded from the overall resources if they satisfy basic needs (e.g. RO). In some cases, the benefit is refused if the total value of movable assets excludes a certain ceiling (e.g. CY). Some movable assets may be excluded from the scope of means, like standard housing equipment, machinery and devices (including cars) for gainful activity, cars used for transport of children and

disabled persons, or contract savings of private pension insurance and other savings under a given limit (e.g. CZ, DE). Savings may be specified as part of movable assets taken into account (e.g. UK, LU, IE). A percentage of cash (e.g. BE) or cash above a certain amount (e.g. CZ) can be counted as well as investments, interests or dividends (e.g. IE, LT, LU, UK). Vehicles owned by the person may be included (e.g. EE, HR, HU) or not (e.g. SI). One country (LU) indicates that movable assets are not taken into account.

The search for actual resources leads some countries (e.g. FR, PL) to take account of the real life style if there is a discrepancy with the income declared.

Again, it is difficult to draw general conclusions on how MISSOC countries consider assets for the purpose of the means test. If the main idea is to take account of all resources, countries also take into account other considerations such as the protection of fundamental rights (right to a decent place of living) or the fact that some assets are not available or are necessary for the beneficiary to bounce back and leave a state of poverty.

3.2.3 Scope of means in relation to risks

The question is to know whether the scope of means for the purpose of the means test varies according to social security branches or to social assistance. Let us make some general remarks.

For **long-term care**, it is likely that resources taken into account depend on the internal organisation of this risk: whether it is seen as a risk as such or included in the healthcare or old-age system, the scope of means may differ. MISSOC data give few examples of how the scope of means is applied in the context of long-term care means-tested benefits. A certain amount of assets is disregarded in some countries (e.g. IE) whereas in other countries, all resources are taken into account (e.g. HR, IT) or assets must not exceed a certain ceiling (e.g. BE, ES, SK, UK). The term “income” can refer to all taxable income (e.g. BE). The means test can be based on the value of the property (e.g. LT). The purpose of the means test may not be to determine the entitlement but the benefit amount (e.g. FR).

For **family benefits**, it is difficult to draw significant conclusions. One country (PT) specifies that one condition to fulfil is to own movable assets whose value does not exceed a certain ceiling.

For **unemployment allowances**, a means test may apply in the framework of social assistance. Job earnings and some benefits may be counted, but other benefits (e.g. FI) as

well as assets and real property are not taken into account (e.g. EE). The value of movable assets must not exceed a certain ceiling in some cases (e.g. PT).

For **means-tested old-age pensions**, some countries (e.g. FR) refer to the list of resources considered: other old-age benefits, job earnings, income derived from moveable and immovable assets (including assets donated over the last 10 years before the claim), disability allowance. Any savings under a certain ceiling are ignored or partially counted (e.g. UK). Income and savings may also be taken into account on a sliding scale (e.g. UK). The pension amount may be not entirely taken into account (e.g. BE). A percentage of cash and real estate assets can be counted (e.g. BE). Further to the list above, the following resources can be counted: income from work, social security benefits, value of capital (for example, savings, investments, cash on hand and property but not the person's own home), income from property personally used. All capital from different sources is added together and a special formula is then used to find the weekly means from capital (e.g. IE). For **invalidity pensions**, generally the same rules apply as for old-age pensions (e.g. FR).

3.3 Excluded means

Most countries exclude part of the claimant's resources for the purpose of the means test. For **guaranteed minimum income**, besides work income and social security benefits⁶⁹, the exclusion can apply to several types of means:

- Cash deposits and savings, possibly up to a certain amount (e.g. BG, DE)
- Benefits received from charity (e.g. AT, CY, LT) or social assistance (e.g. BE, HR)
- Benefits granted as a capital (e.g. DK, FR)
- Indemnities for personal damages (e.g. DK, HR, SI)
- Student aid (e.g. EE, HR, LT, RO, SI, SK)
- Aid related to activation measures (e.g. SK)
- Adequate daily life items (e.g. AT, DE, EE, FI, RO, SE)
- Means necessary for "intellectual/cultural" needs (e.g. AT)
- Work-related expenses (e.g. FI, SI)
- Company shares (e.g. BG)

For **other means-tested benefits**, it is likely that the list of resources excluded is different from one benefit to another:

⁶⁹

See above 3.2.1.

- For **long-term care**, one country (FR) provides that a limited number of benefits are excluded: housing benefits, death grant, capital granted after an accident at work. The list is not the same as for the guaranteed minimum resources;
- For **unemployment allowances**, the means test may exclude some social security benefits (e.g. EE), including child allowance, housing allowance, survivor's pension (e.g. FI, FR). The former contributory unemployment benefits may be disregarded as well as the alimony (e.g. FR). Certain pensions, minor income, funds awarded by NGOs are disregarded (e.g. DE);
- For **old-age pensions**, the following can be excluded: family and housing benefits, armed forces old-age pensions, value of living place, support by family members provided on the basis of maintenance obligation (e.g. FR). Some benefits (like housing benefits, disability allowance) do not count as income (e.g. UK). Earnings of up to a certain amount per week from employment (but not self-employment) are disregarded (e.g. IE). The value of the habitual residence is not taken into account in the means test (e.g. IE);
- For **invalidity pensions**, the same rules apply as for old-age pensions (e.g. FR).

3.4 Individual or family/household approach for the purpose of applying the means test

Means testing can rely on individual means or on the combination of individual and family/ household means. Solutions implemented by countries depend on the extent to which public support comes as a first support or is subsidiary to the support by family or other relatives. Solutions may also be influenced by gender considerations which will not be discussed in this report⁷⁰. The “subsidiary approach” implies that social support is provided only if nobody else belonging to the family or the relatives can address the need.

When we look at the objective of fighting poverty and addressing needs, the individual and the collective approaches have their pros and cons⁷¹. The advantage of a household/family assessment is that it targets poor families instead of providing benefits to families where only one member or some members are individually poor (but not collectively). As a result of civil and social security law subsidiarity mechanisms, the objective of a fair distribution of income is more likely to be reached with a household/family approach. However, the process of assessing collective means is

⁷⁰ The fact that the claimant's partners' income is taken into account can have a disincentivising effect on the second earner to work.

⁷¹ See UK Report by the Comptroller and Auditor General, op. cit.

complex and more subject to fraud and errors. It is also less relevant when the objective of the means-tested benefit is to encourage return to work: the fact that the household resources are above a ceiling may exclude the family from activating measures. In other words, with a collective approach, individuals are treated according to their family situation and not according to their personal needs.

According to MISSOC data, most of the responding countries favour this collective approach for the purpose of determining which means are taken into consideration. This has to do with the fact that public support is usually subsidiary. For **guaranteed minimum income**, several countries specify that family or household income is considered (e.g. AT, BE, BG, DK, EE, FI, FR, HR, LV, NL, PT, SE, SK). “Family members” include the spouse, the partner under a partnership or any partner (e.g. FR) or, more strictly, only the spouse (e.g. MT). There is no indication in the tables of how unmarried couples are considered. The question of income generated by children is addressed: some countries disregard them (e.g. SE), while some take them into consideration under certain age criteria (e.g. NL). No country expressly says that only the claimant’s means are taken into account. Concerning movable assets, while some countries indicate that the whole family’s assets are considered (e.g. CY, EE, FI, FR, PL) or the spouse’s income is counted (e.g. DK), this is not clear for most countries. When the collective approach is applied, the scope of family remains largely undefined. For real estate property, some countries indicate that the property of the spouse (e.g. DK), the family (e.g. ES, FI, HU, PL), or the household (e.g. FR, MT) is considered.

Regarding the **other risks**, the collective approach prevails as well. This is true for long term care benefits where the means test may apply (e.g. BE, CY, FR, HR, IE, SI). Means tests may even be far-reaching and can apply to relatives not living in the same household. For obvious reasons, the collective approach is also dominant for family benefits (e.g. CY, CZ, DK, ES, HR, LT). For unemployment allowances, the tendency is less obvious: whereas some countries apply a family/household assessment (e.g. AT, ES, FR, PT, UK), other countries limit the means test to the individual applicant (e.g. EE) or follow a hybrid pattern (e.g. FI: the spouse’s income is considered only when it exceeds a certain amount). Concerning means-tested old-age/invalidity pensions, the household/family method is predominant (e.g. AT, BE, FR, IT, MT). In universal schemes, the right is more likely to be established on the basis of individual resources, but there is no means test.

MISSOC data also allow us to address the additional question about the beneficiary: is it the individual person or his/her household? Whereas the “household approach” is more efficient in targeting poor families/families and is in line with the subsidiary approach of public support, the “individual approach” is more suited to the individual’s situation, in

particular when the means test is associated with work activation measures⁷². For **guaranteed minimum income**, MISSOC data stress the difference of approaches between countries. They are divided into three groups: 1) Some countries consider that this is an individual right (e.g. FI, NL, SE, UK); 2) Another group of countries sees it as a family/household right (e.g. DK, FR, MT); 3) A limited number of countries follow a mixed system, where in some cases the right is individual and in some other cases the right is collective (e.g. BE). It is not surprising that Nordic countries belong to the “individual right” group. Universal schemes indeed target individuals. As some authors point out, “*the Scandinavian welfare model is predominantly individualistic in its character*”⁷³.

3.5 Means testing and exhaustion of other rights

The fact that a person has passed the means test does not necessarily ensure that he or she will be awarded the benefit. Along with other conditions which need to be met, in particular when the benefit is related to a specific risk, it is interesting to observe to what extent the exhaustion of rights interferes with entitlement or the calculation of means-tested benefits.

With regard to **guaranteed minimum resources**, MISSOC countries responses are clear: means-tested benefits are provided only if other claims have been fully exhausted. They should be the last resort; they correspond to a safety net and have a subsidiary nature. The claimant can be required to recover “outstanding debts” (PT). The obligation to exhaust other rights is in line with Article 13 of the European social charter (revised) which provides that “*the Parties undertake to ensure that any person who is without adequate resources and who is unable to secure such resources either by his own efforts or from other sources, in particular by benefits under a social security scheme, be granted adequate assistance, and, in case of sickness, the care necessitated by his condition*”.

However, the scope of claims which must be exhausted is flexible.

In some countries, entitlements to other social benefits must be exhausted (e.g. AT, CZ, HR, LT, LU). Special attention may be given to the exhaustion of pension rights in all schemes (e.g. BE) or social security rights in all schemes (e.g. DK, EE, HR, IE, IS, LI, LV, PL, SK). Exhaustion may concern rights unrelated to social security. It may be

⁷² G. Allègre, Le RSA: redistribution vers les travailleurs pauvres et offre de travail, OFCE, Sciences Po Paris : http://www.cairn.info/resume.php?ID_ARTICLE=REOF_118_0033

⁷³ See H. Ervasti *et al.*, Nordic social attitudes in a European perspective, Edward Elgar Publishing, 2008, p.6.

required that, before being entitled to guaranteed minimum resources, the claimant first exhausts maintenance obligations, including civil law rights, due from other persons or institutions (e.g. BE, BG, CZ, DE, FI, FR, LI, LV, NL, NO).

In a minority of cases, there is no need for a full exhaustion of rights. There might be no requirement that the person should exhaust his/her civil liability or maintenance claims before claiming the benefit (e.g. CH, HU). There might also be no requirement when the exhaustion is made impossible or unrealistic in practice (e.g. AT, FR). It may not be necessary to exhaust social security benefits⁷⁴. Some countries report that no condition of exhaustion applies (e.g. RO). Also, an interim payment may be made, pending the outcome of claims to other benefits (UK).

4. ANALYSIS OF MEANS TESTING PER RISK AND PER COUNTRY

By exploring recourse to the means test per risk (4.1) and per country (4.2), what conclusions can be drawn?

4.1 Analysis per risk⁷⁵

The analysis per risk shows some tendencies (4.1.1). The apparent overall stability between 2004 and 2012 may hide other changes (4.1.2).

4.1.1 Tendencies per risk

MISSOC data show that, except for **guaranteed minimum resources**, the means test is not frequently used by European countries. Nevertheless, how often the means test is applied does vary according to the nature of the benefit.

Few **unemployment allowances** are means-tested. Indeed, most unemployment benefits are granted by insurance schemes which are based on contributions. Means testing applied to unemployment is predominantly found only in countries where there is an unemployment assistance scheme which in some cases provides benefits only after exhaustion of unemployment insurance-based rights. Furthermore, assistance to unemployed people is more likely to be provided through guaranteed minimum resources that do not target jobseekers as such (e.g. DK, IS, IT, LI, LT, LV, NO, PL, RO, SE, SI,

⁷⁴ See above 3.2.1.

⁷⁵ For an overview, see Annex II.

SK)⁷⁶. In many countries indeed, unemployed persons who are not entitled (or no longer entitled) to contributory benefits are not regarded as jobseekers, but as persons in need.

It is difficult to make an accurate analysis for **long-term care benefits**. The lack of a common definition and the frequent absence of specific legislation complicates analysis further. For countries where long-term care is part of another insurance scheme (e.g. BG, EL), the means test is not applied, but there are exceptions (e.g. IT, LV). The means test is normally excluded by countries offering a universal scheme based on insurance or tax (e.g. DK, FI, IS, LU, NL, NO, SE), even if exceptions are reported (e.g. HR, MT). In some other countries where there is no separate long-term care insurance scheme (e.g. CY, FR, HU, LV) or where insurance is complemented by social assistance (e.g. BE, PL, PT, RO, SI), a means test can apply. Personal participation in long-term care can depend on the beneficiary's means (e.g. CY, DK, FI, FR, HU, LT, LU, MT, NL, NO, PL, SI, SK, UK). Some countries are based on a dual system of insurance and assistance, with some means-tested benefits and some non means-tested benefits (e.g. DE, IE, SK). It is also striking that in many countries, only part of the benefits is means-tested whereas other long-term care related benefits are not subject to a means test⁷⁷.

The fact that **family benefits** are part of family policy measures explains why means testing is used by a minority of countries⁷⁸. With regard exclusively to cash benefits, the means test is more common for countries offering a wide range of family benefits: the means test can indeed apply in some of them (e.g. AT, CY, DK, FR, NL, UK). But the means test can sometimes apply in countries with a limited range of family benefits (e.g. HR). When it comes to child-raising and child care benefits, recourse to the means test is rarer: only a few countries reported doing so for child raising allowances (e.g. AT, DE, LU, PL, UK) and for child care (e.g. DE, FI, FR, UK). Instead of providing means-tested family benefits, countries may choose to subject all family benefits to income taxes (e.g. EL, IS), or some of them (e.g. AT, EE, FI, HU).

For **old-age and invalidity pensions**, the difficulty of analysis relates to the fact that not all European countries have separate means-tested old-age/invalidity pensions or schemes⁷⁹ and to the fact that provision is often made for ancillary benefits which are potentially means-tested (e.g. free or reduced transportation cards, fuel allowances).

⁷⁶ Also see the SPC report 2012 (op. cit.) which states that “there is movement from unemployment benefits to social assistance schemes perhaps because long term unemployment or shortened lengths of unemployment benefit receipt”.

⁷⁷ See Annex II.

⁷⁸ For a European overview, “Child benefits in the EU”, CPAG Poverty magazine, 139: http://www.cpag.org.uk/sites/default/files/CPAG_Poverty139_ChildBenefitsEU.pdf

⁷⁹ For a European overview, “Un panorama des minima sociaux en Europe”, DREES, issue 464, 2006, Paris : <http://www.drees.sante.gouv.fr/IMG/pdf/er464.pdf>

Nevertheless, countries provide many ways to guarantee a decent or a minimum old-age or invalidity pension. It can be achieved with the payment of a minimum pension by the insurance scheme. It can also be achieved through means-tested benefits which do not target older people but can be claimed by all residents including retirees (e.g. AT, LU). However in some cases specific rules contained in a general system of guaranteed minimum income apply to elderly people, for instance through an additional benefit amount related to their age or invalidity (e.g. FR, SK). Some countries provide a separate means-tested benefit for older people who do not qualify for a contributory benefit or do not receive a sufficient contributory benefit (e.g. BE, BG, DE, ES, HU, IE, PT). This is also true for invalidity benefits, where only a few countries propose a specific means-tested benefit (e.g. BE, DK, ES, IE, LU, NL, PT) or a supplementary means-tested benefit (e.g. NO). The means test also applies in countries with a residence-based system: the objective is to provide a State pension (e.g. IE, UK)⁸⁰.

For **sickness benefits**, the means test is more common in the context of benefits in kind, where it is sometimes associated with a system of copayment/remainder: the final payment by the beneficiary (or his/her family members) can be made according to his/her financial abilities. Various methods are implemented in this respect⁸¹. The copayment/remainder can be based on the person's income (e.g. BE). Better cover may be granted to beneficiaries of means-tested benefits (e.g. CH). Personal participation may not exceed a percentage of the yearly income subject to contributions (e.g. LU). Full cover is even granted to persons with limited resources (e.g. FR, IE, IT, PT). The means test sometimes defines the right to be insured: access to supplementary cover can be reserved for persons whose means are below a certain ceiling (FR); access to basic cover can be limited to persons whose income is below a ceiling (DE).

4.1.2 Evolution between 2004 and 2012

MISSOC data show a slight increase in the use of means testing for some of the branches falling within the scope of the report. In particular, for **sickness benefits in kind**, 12 countries out of 29 applied a means test in 2004, whereas 14 countries out of 32 applied it in 2012. A means test has been introduced in one country (CZ) where it was not applied in 2004.

Family benefits show the same trend: in 2004, 8 countries applied a means test (21 countries out of 29 reported no variation of benefit with income); in 2012, 12 did so (20

⁸⁰ For an overview of the test of means in residence-based systems: <http://www.dwp.gov.uk/docs/rev-res-based-pen-schemes.pdf>

⁸¹ See also rules applicable in Croatia, where persons with low income will have additional health insurance contributions paid on behalf of the state budget.

countries out of 32 reported no variation of benefit with income). During this period, a means test has been introduced in two countries (LT; NL for child-related allowance), while another country (UK⁸²) implemented a tax credit based on income and a means test through taxation. In 2012, one country considered the introduction of a means test but, under the pressure of pro-family institutions, it was finally decided to maintain the current system of universal non means-tested family benefits (FR). For other risks, the situation is more stable.

Even if there might be multiple explanations for the changes observed, the impact of the **economic crisis** may be credited as having spurred the changes in how means testing has been implemented. At this point in time, it is very hard to assess whether such changes are temporary or will become permanent. Some countries have made access to means-tested benefits tighter, while others have actually made it easier. For instance, the reference income may have been lowered (for family benefits, e.g. CZ, MT, SI). The same result has been attained by lowering the thresholds (e.g. PT). Conversely, the maximum income amount for receiving benefits may have increased (for family benefits, e.g. ES, IT). The scope of resources taken into account for the purpose of the means test (for GMR, e.g. EE, FI, PT, SK, UK) may have also been modified, as well as the way means are counted/evaluated (e.g. PT, ES).

4.2 Analysis per country⁸³

A rough country classification (4.2.1) can be done, followed by a brief analysis of the changes between 2004 and 2012 (4.2.2).

4.2.1 Country classification

Even if it is difficult to draw reliable conclusions per country⁸⁴, it seems possible to make a rough classification of European countries according to their frequency of recourse to means testing:

- **UK and Ireland** apply the means test to many benefits, even if those countries do not systematically follow the same pattern. In particular, for family benefits, only the UK (very recently) uses the means test;

⁸² For child benefit, a tax charge applies in the case of income over GBP 50,000 per year.

⁸³ For statistics per country concerning the expense related to means-tested benefits: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Means_tested_social_benefits_2008_as_%25TSB.PNG&filetimestamp=20110403104237

⁸⁴ For this conclusion, see also A. Math, op. cit.

- **Southern countries** use it fairly frequently, mainly for family and long-term care benefits;
- For **CEE countries**, the application of means testing depends on the risk: it is rejected for unemployment, but more frequent for family benefits, for long term care and of course for guaranteed minimum income;
- **Western European countries** use means tests as much as CEE countries, but the distribution per risk is different: means testing is rejected for family benefits and more often applied for other risks;
- **Nordic countries** seldom apply means testing. This is true for family and long-term care benefits, whereas one country (FI) subjects unemployment benefits to a means test. The means test more widely applies for the determination of a “basic pension” (DK, SE, NO)⁸⁵.

This per country approach may not be the right way to find out a rationale behind means-testing policies. Several other parameters can explain the choice of having or not having recourse to them: the social security background (universal / insurance based system); the importance of social assistance; the weight of contributory benefits; the existence of alternative policies fighting poverty and promoting redistribution; conflicting goals (e.g. family/elderly policies). Other contextual elements (political or economic) explain choices made by each country. For instance, it could be more difficult for a country with a well-established universal family benefit scheme excluding a means test to introduce such a test than for a country which has to design a family benefit scheme from scratch.

4.2.2 Evolution between 2004 and 2012

If we look back at 2004 data, there seem to have been no significant changes. This does not exclude some variations per country:

- **UK and Ireland** seem to have increased recourse to means testing, at least with regard to family benefits (UK);
- **Southern countries** are in the same situation as 2004. They use means testing quite often, mainly for family, long-term care benefits and for benefits related to social assistance;
- For **CEE countries**, means testing has expanded for family benefits. In contrast, means testing is less developed for unemployment benefits and for long-term care benefits;
- **Nordic countries** remain generally reluctant to use means testing;

⁸⁵ For an overview of the test of means in residence-based systems:
<http://www.dwp.gov.uk/docs/rev-res-based-pen-schemes.pdf>

- In **Western European countries**, trends remain the same. Means testing is usually disregarded for family benefits and is more often applied for other risks.

As already stated, the apparent stability with regard to means-testing policies from a legal point of view probably hides some extra-legal changes, in particular relating to the impact of the evolution of socio-economic factors (such as unemployment rate, number of people under the poverty rate, budgets dedicated to social assistance) on claims. Some legal changes may also be important, especially immigration rules. Changes may also be the consequence of reforms undertaken by insurance or universal schemes.

5. MEANS TESTING IMPACT ON ENTITLEMENT AND BENEFIT AMOUNTS

The impact of means testing on entitlement and/or benefit amount is variable between countries and even within a country in some cases. Two main models of means test can be explored, the “cliff edge” effect (5.1) and the decrease of benefits (5.2). The report will also look at the development of these models between 2004 and 2012 (5.3).

5.1 “Cliff edge” effect

What is the “cliff edge” effect? After a brief definition and some general remarks (5.1.1), the report will explore how MISSOC countries use it (5.1.2)

5.1.1 Cliff edge effect: definition and general remarks

Means testing is sometimes associated with a potential sharp effect, called “cliff edge”. In this model, claimants with income or assets above a cut-off level are not eligible for support, whereas those whose income or assets are below the cut-off level receive the full package. Consequently, persons whose income is slightly above a threshold are denied the benefit whereas those whose income is just below the same ceiling take full advantage of the benefit. Only two categories of claimants exist: those who are eligible to the benefit and those who are not, and these categories fall on either side of an income ceiling. This method is based on the assumption that a person is in need when his/her resources are below this ceiling and, if they are above, the state of need does not exist. From an administrative point of view, the cliff edge is easier to manage than a system where the person’s resources do not determine the entitlement but the benefit amount. In

this latter system indeed, the benefit amount is inversely dependent upon the beneficiary's resources⁸⁶.

Some disadvantages are associated with the cliff edge technique. One problem raised is related to its fairness. Two claimants in a comparable situation, except that their income slightly differs, will be treated very differently since one will receive the benefit and the other will not. And this contrast will be exacerbated if entitlement to another benefit is made conditional upon entitlement to the said means-tested benefit. Besides fairness, the cliff edge technique is likely to encourage fraud. Due to its sharp consequences, the cliff edge system may encourage breaches of regulations and, where work income is taken into account as resources, lead to undeclared work. From an administrative point of view, the cliff edge system is ill-adapted to changes in claimant circumstances. Finally, the cliff edge system may not adequately reflect the actual situation of the claimants: where the means test is done on a yearly basis and the benefit is granted according to the past year's resources, the cliff edge emphasises the discrepancy between the means-tested benefit granted and the actual situation of the recipient who may not be in a state of need at the time s/he receives the benefit (or, conversely, who may be in need at the time when the benefit is denied).

5.1.2 Cliff edge application by MISSOC countries

The above presentation may explain why the cliff edge, as it is defined for the purpose of this report, is not widespread among European countries.

It appears to be in the case of means-tested **family benefits** that the cliff edge effect is most often used. Entitlement to some family benefits may be denied when the income reaches a fixed amount which can be calculated according to the family size (e.g. CZ, LT). Having said that, it must be emphasised that some countries offer several types of family benefits, among which only some are subject to a cliff edge (e.g. BE, FR). This is also true for family benefits whose purpose is to top up other family benefits (e.g. NL). In these situations, the impact of the cliff edge is less brutal since other family benefits remain payable to families whose resources are above the threshold.

For **unemployment**, it is interesting to notice that while few countries provide for a specific unemployment assistance allowance, a majority of these same countries do refer to a means-tested flat-rate benefit, implying a cliff edge (e.g. EE, ES, FI, IE, UK).

For **long-term care benefits**, it is difficult to draw conclusions because of the great variety of benefits classified under this risk. The cliff edge system may be used when

⁸⁶ See 1.2.3.

long term care is provided under social assistance (e.g. CY) or in order to determine cases where a beneficiary can have access to benefits in kind or services free of charge (e.g. HU).

For means-tested benefits targeting **old-age/invalidity**, the cliff edge is used slightly more frequently – rarely for the basic pension (e.g. BG), but more often for old-age pension supplements (e.g. DK, NO, SE, UK).

Concerning **guaranteed minimum resources**, the cliff edge system is marginal. A minority of countries indicates that the benefit amount can be set at a fixed rate and reserved for persons whose income is below a certain ceiling (e.g. PL).

5.2 Decrease of benefits

The system of decrease of benefits is, by far, the most widespread technique in European countries. Before looking at the application by MISSOC countries of this “decrease of benefits” technique (5.2.2), a brief presentation of the various specific techniques at stake is necessary (5.2.1).

5.2.1 Background

It is possible to implement means testing gently. One option is to delay the consequences of the fact that the claimant’s income is above the threshold. The resulting withdrawal or reduction of benefit is deferred in time (e.g. SI⁸⁷).

Some countries have alternatively (or additionally) developed a system in which the means test tries to avoid the cliff edge effect by setting up mechanisms of decrease of benefits according to the available income. Linking benefit amount to resources available allows a fair redistribution of public resources among groups of claimants without inhibiting other objectives. One of the interesting aspects of the decrease technique is its flexibility: several methods are used. Let us introduce the main ones⁸⁸:

- The implementation of **differential benefits**. The purpose of the means-tested benefit is to complement the beneficiary’s resources so that a minimum level is reached by all. Where they are based on a “euro per euro” mechanism (one extra euro of income implies the reduction for the same amount of the means-tested

⁸⁷ For the “activity supplement”, the threshold is higher when a person is active, meaning that not every income immediately reduces social assistance. The goal is to provide a “trampoline” out of poverty.

⁸⁸ See also P. Spicker, “An introduction to social policy”: <http://www2.rgu.ac.uk/publicpolicy/introduction/socialsecurity.htm>

- benefit), the decrease is not gradual. It becomes gradual, for instance, when the reduction of the benefit amount is implemented progressively, allowing for a temporary and decreasing accumulation of work income and means-tested benefit.
- The “**taper**” **method**⁸⁹. The taper is the rate at which the benefit is reduced to take account of earnings⁹⁰. The benefit is proportionately withdrawn as the beneficiary's income rises. For instance, if the taper is 60%, it means that the benefit will be reduced by 60% for each extra income. For example, if the income increases by 100 €, 60 € will be withdrawn from the benefit.
 - The creation of several **resources brackets**. A benefit amount, inversely proportionate to available resources, will correspond to each bracket. In the end, it is likely that the persons with the highest income will receive no benefit at all. In this situation and as already mentioned, entitlement vanishes.

These methods, which have subdivisions, have various consequences on the form of redistribution between groups of people, on the fight against poverty, on activation policies and on administrative burden:

- The differential method focuses on the fight against poverty, with an aim to guarantee the same safety net for everybody. The calculation is based on a reference minimum income. It requires reliable and up-to-date information on the person's (or household's) actual situation. In order to encourage beneficiaries to take up a job, it is possible to provide a temporary period during which both sources of income (work income and means-tested benefit) can be combined.
- The means test implemented in the taper method can cover a wide range of beneficiaries. One of the criticisms made of the taper method is that it can discourage people from returning to work since by doing so they will lose part of their benefits. In this respect, the differential method, unless combined with a mechanism of accumulation of work income and benefit, is even more radical.
- The “bracket technique” is also quite sophisticated and has a wide target group. The goals are multiple: to address the basic needs of some of the claimants while providing benefits to other groups of the population (and, in some cases, the whole population). Another objective is redistribution, ensured by means testing. For instance, when this system applies to family benefits which have been

⁸⁹ For a presentation of this system, and how to set the taper: J. Sefton, J. van de Ven, M. Weale, "Means Testing Retirement Benefits: fostering equity or discouraging savings?," 2006, NIESR Discussion Papers 283, National Institute of Economic and Social Research, London: http://www.niesr.ac.uk/pdf/241106_113149.pdf. See also R. Walker, Social Security and Welfare: Concepts and Comparisons, Open University Press, 2010.

⁹⁰ “Universal Credit: welfare that works”, DWP, 2010: <http://www.dwp.gov.uk/docs/universal-credit-full-document.pdf>

awarded to the whole resident population, the objective of redistribution is combined with family policy goals. From an administrative point of view, this technique is hard to implement. It is also more complex for claimants to understand.

It seems that basic information required from claimants to apply the means test is similar for the implementation of any of these methods.

5.2.2 Application of the decrease mechanism by MISSOC countries

For allowances which aim to provide **guaranteed minimum resources**, a decrease of benefits according to the resources available almost always results in differential benefits (e.g. AT, BE, BG, CH, CY, CZ, ES, IE, IS, LU, LT, LV, MT, PL, PT, SI, UK). The decrease is implemented gradually in countries which allow for an accumulation of job earnings and means-tested benefit (e.g. FR, UK)⁹¹. In order to calculate the differential amount, the available resources may also be compared to a “reference income” (e.g. BG, LT), to a percentage of the relative poverty line (HR), to the “minimum pension amount” (LU), to the minimum income (SI), to the “theoretical amount of benefit in material need” (SK), or to the maximum amount granted if resources were nil (FR). The amount can be set as a difference between the cost of living of a person or family and the income of that person or family, minus reasonable housing costs (CZ). It is also often based on the family size (e.g. HR, LI, LT, LU, MT). Some countries provide that the allowance is reduced when the beneficiary’s income exceeds a certain ceiling (e.g. ES). In some cases, the taper method will be applicable (e.g. UK). This is, for instance, the case when one of the purposes of the benefit is to encourage return to work (FR).

What about **family benefits**? Several European countries apply a system where the benefit amount is set according to income brackets (e.g. BE, CY, HR, MT, PT, RO, SI). Some alternative sub-systems exist: it is possible for the benefit amount to be reduced by a percentage of the income exceeding the income criterion (IS, NL); a progressive reduction of the allowance may start where the family income exceeds a certain amount determined according to the family size or number of children (CY); or the benefit amount may correspond to the excess of “actual expenses” over the determining income (CH). In most countries, entitlement is (eventually) lost when income exceeds a certain threshold (e.g. CY, IT, PT, NL, UK).

⁹¹ The accumulation can be made possible indirectly, when job earnings are partly excluded from the scope of resources. See 3.2.1.

For **long-term care benefits**, the means test is linked in some countries to the benefit amount (e.g. FI, FR, SK): there is an income/benefit amount reverse relationship, but not up to a point where entitlement could be lost. For instance, the part of the person's income which exceeds a threshold is deducted from the allowance (e.g. BE). Another possibility is that the payment amount is set on the basis of the user's income to ensure that he/she retains a minimum amount of their income after paying board and lodging in residential care (e.g. CZ). In another example, the means test can be used when determining the level of copayment by the beneficiary (e.g. HU).

For other benefits, in particular for means-tested **old-age and invalidity benefits**, the differential benefit mechanism is predominant (e.g. BE, ES, FR, EL, LV, PL, UK).

Different methods are used for **unemployment allowances**. For instance, the full amount of any excess above a certain sum can be deducted from the unemployment benefit (UK). Or the benefit may be reduced according to the means of the beneficiary (e.g. DE, FR).

These data highlight the prevalence of the decrease mechanism, as it has been defined for the purpose of this report. It implies that "standard minimum resources" set as a reference for the purpose of a means-tested benefit act together as a "resource ceiling" (for entitlement) and as the maximum benefit amount (provided when overall resources are nil). However, in some cases, the means test may not be connected to entitlement: in the context of a universal benefit, it may serve to define the benefit amount which will be granted to all residents.

5.2.3 Changes between 2004 and 2012

If we look at the changes between 2004 and 2012, there seems to be a trend towards the application of the decrease of benefits mechanism (versus the "cliff edge" effect).

Concerning the allowances aiming to provide **guaranteed minimum resources**, whereas in 2004, some countries used the means test as a condition for entitlement, it has now become a criterion for determining the benefit amount (e.g. BG, CZ, IE). Countries where no guaranteed minimum resources existed in 2004 have opted for a decrease of benefits according to the available income (e.g. HU).

For **long-term care benefits**, it is difficult to draw conclusions due to the limited number of countries which applied the means test in 2012. Among countries which apply a means test, one had already applied the system of decrease of benefits in 2004 (FR). However, the means test for the calculation of cash benefits may have been more recently introduced (SK).

For **family benefits**, the mechanism of decrease reported in 2012 was already applicable in 2004 (e.g. CY, DK, MT).

A similar conclusion arises for **unemployment benefit**: in the case in which earnings are taken into account for the benefit calculation (UK), this method was already applicable in 2004.

6. GENERAL CONCLUSION

Means testing exists everywhere but may affect only a small proportion of the population thanks to adequate non-means-tested benefits. Although the report highlights some potential complications resultant from this technique and the fact that many countries rely on insurance-based or universal schemes to support poor people and to address basic needs, all European countries apply, to some degree or another, means-tests. Every country follows its own path; the variety of models may be explained by economic and political history, social security and social assistance foundations, the weight of alternative policies against poverty, the weight of other social policies, the political context or the economic development, and so on.

Common features are noticeable. The core question of defining the scope of means for the purpose of the means test is one such tendency. All European countries consider that work income and other sources of income – including social security benefits – should be counted, even if exceptions may apply here and there. In this sense, means-tested benefits can be primarily defined as income-tested benefits. There is also a convergence of approach concerning the way other assets (movable and immovable) should be considered. The same convergence applies to the scope of means *ratione personae*: the collective approach prevails. For the purpose of the means test, a vast majority of European countries require that both the claimant's means and that of his/her family must be combined. Besides gender dimension considerations, the advantage of this additional household/family assessment is to ensure better targeting of individuals and families in need. It also stresses the fact that means-tested benefits are subsidiary.

Unsurprisingly, the means test is a tool for social assistance everywhere in Europe, whereas insurance/universal schemes are less inclined to use it. It is interesting to observe that two of the risks covered by this report are more associated with the means test: family and sickness (benefits in kind). When we look at developments since 2004, these

two risks are those where the recourse to means testing has been subject to the most change and adaptation⁹². This trend would require further exploration.

Concerning the overall changes between 2004 and 2012, many reforms of means testing have been implemented by European countries. These developments are not always visible but are nevertheless important. For instance, rules defining the scope of resources which are taken into account or disregarded may have changed; thresholds have been modified either to facilitate the granting of means-tested benefits or to make access tougher. In other words, countries have considered means testing as one way to address new challenges.

Another shared tendency relates to the impact of threshold on benefits. On the basis of a distinction made in this report between the “cliff edge” and “decrease” methods, the latter is largely preferred. This decrease is intended to lead to a fair redistribution of resources. It can also be an instrument of employment policies. In practice though, many drawbacks in implementation have been underlined in this report: high administrative costs, difficulty of use for beneficiaries, etc. These drawbacks do not prevent countries from using the decrease method.

The analysis of means-testing policies is highly complex. In order to get accurate views on these policies and to arrive at a sound understanding of current developments, it is necessary to have a general view. Tax policies, economic reforms, labour law mechanisms and labour market structure, family and social organisation are all national elements which need to be taken into account. Alternative routes to means testing would need to be explored. For instance, is taxation of universal benefits a better option than the introduction of a means test? This question exceeds by far the scope of this report, but it deserves to be mentioned. A debate has been recently held in France, where it was proposed to maintain the universality of family benefits and, at the same time, to either include these benefits in the taxable income or to set the benefit amount according to means. Eventually, a third way was preferred. Instead of introducing a means test, which was seen as costly from an administrative point of view, the decision was made by the government to reduce other family-related tax advantages. In some countries where family benefits are non means-tested, they are taken into consideration for income tax.

To carry out a complete analysis, knowledge of the structures and of the changes in national social protection organisation is crucial. Moreover, input from disciplines other than the legal field, in particular social policy, would be required. It would also be

⁹² In the case of healthcare benefits in kind, means testing became necessary as a result of increased co-payments.

important to use statistics from which one could assess the effectiveness of means-testing policies.

Concerning MISSOC data, which were the basis of this report, some developments could be considered in relation to means testing. The information in the MISSOC tables – even those which contain dedicated categories – does not always consistently address the various dimensions of means testing, i.e. which types of means are taken into account?; whose means are considered?; and what happens if the means ceilings are exceeded? Extending the MISSOC information along those lines could involve changes to the MISSOC tables themselves (such as the creation of additional categories), but also amendments to the Correspondents' guidelines for completing them (for example describing a typology of means). In both cases, this would entail a multi-step process which would require consultation within, and approval by, the MISSOC Network.

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Annex I - Social assistance: means taken into account for the means test

Country	Real property	Movable assets	Work income and other income	Exhaustion of other claims	Exemption of resources
AT	Personal dwellings and other properties fully considered	Included with exceptions	Salary, benefits and maintenance payments	Exhaustion of entitlements to other social benefits and relating to maintenance payments	Certain income, such as grants from charitable organisations, care-related cash benefits or child benefit
BE	Full ownership or usufruct	Percentage of movable assets	All resources, including all allowances paid under Belgian or foreign social legislation	Exhaustion of social benefits	Many exemptions: family benefits, alimony pension, social assistance...
BG	Subject to conditions relating to size or status (e.g. secondary house)	Included if they are not a source of income	Income from all sources	Exhaustion of all possibilities of self-support	Company ownership and shares, civil law claims, bank accounts
HR	Real property taken into account; cash assistance not granted in case of real property exceeding a certain volume of usable space	Movable assets taken into account; cash assistance not granted in case the person owns a registered personal vehicle	Income from all sources (with exemptions)	Entitlement contingent upon not being able to secure own subsistence through work, social security, other income and maintenance obligations	Various social (assistance) benefits, student scholarships, occasional donations, etc.
CY	Claimant's house is disregarded	Not applicable	Many sources of income: from work, property, pension, maintenance obligation	Social welfare subsidiary to other claims	Proportion of work income, some social benefits
CZ	Based on a negative list of properties and assets	Based on a negative list of properties and assets	All income, except a certain percentage of work income and social security (sickness / unemployment) benefits	Exhaustion of all social benefits and civil law rights	Assets used for housing and gainful activity; car used for transport of children or disabled persons; savings under a given limit; percentage of certain income
DK	Proportion of real property taken into account	Proportion of movable assets taken into account	All income fully taken into account, except for work (partial deduction)	Exhaustion of maintenance claims and other benefits	Means necessary for access to education, pursuit of activity, housing
EE	Fully considered	Fully considered	All sources of income, including social benefits	Exhaustion of all sources of income	List of resources disregarded: student loan, some welfare benefits

Country	Real property	Movable assets	Work income and other income	Exhaustion of other claims	Exemption of resources
FI	Fully considered	All easily realisable movable assets (including savings)	All income and benefits, except if not significant	Exhaustion of civil maintenance claims	List of assets not taken into account: dwelling, ordinary house items
FR	Resources subject to taxation, including income arising from real property	All income, some of them evaluated under a flat-rate system	Work income and a list of benefits	Exhaustion of social benefits	List of resources exempted: study grants, family benefits
DE	All assets, except dwellings of a certain size	All assets except adequate household supply or insignificant	All income except federal basic pension and pensions covering life damage	Exhaustion of family support	List of assets exempted set by law
EL	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
HU	Fully considered above a certain value	Vehicles	All types of income	Exhaustion of a list of social benefits	List of exempted resources, including social benefits and vehicle used to transport a disabled person
IS	Varies according to municipalities	Varies according to municipalities	Income and social security benefits	Other means must be exhausted	Financial support for children exempted
IE	The value of real property, other than the domestic residence and property personally used such as a farm or business	Movable assets such as cash and investments	All income is assessed other than income derived from property assessed on a notional basis	Exhaustion of social payment	Part of property value disregarded, same for employment earnings
IT	Varies according to municipalities	Varies according to municipalities	Varies according to municipalities	Varies according to municipalities	Varies according to municipalities
LV	Evaluation of all the material resources	Movable assets exceeding a certain value	All types of income	Exhaustion of social benefits, civil and maintenance claims	List of social benefit exempted
LI	Self-occupied property not taken into account or subject to specific evaluation	Status depends on the benefit	All income (in full or proportionately), including social benefits	Exhaustion of social benefits, civil and maintenance claims	List of protected assets and income relating to everyday life
LT	Value of the real property	List of movable assets taken into account	List of income, resources and social benefits	Exhaustion of all possibilities of self-support, including maintenance	List of exempted resources (cash donation, some social benefits)
LU	Assets in Luxembourg and abroad	All movable assets	Gross income (with a 30% deduction)	Requirement to assert one's rights to social benefits and to maintenance claims	Certain types of income are exempted (child benefit, birth grant)

Country	Real property	Movable assets	Work income and other income	Exhaustion of other claims	Exemption of resources
MT	All assets except home residence	The value of any movable assets such as vehicles (excluding the first), yachts or boats, jewellery etc. is taken into account	All income, with a system of deduction	Exhaustion of social security benefits	Capital up to a certain ceiling and not including house of residence, private (1 st) car and garage, summer residence; income from social assistance payments
NO	Fully considered, except own residence	All assets (bank deposits, savings, life insurance etc.) are taken into account	All types of income and income support	Exhaustion of social benefits, civil and maintenance claims	Dwelling is exempted
PL	Real property is in principle not taken into account	Movable assets are in principle not taken into account	Aggregated professional earnings, net of income tax and social security contributions	Claims for benefits and maintenance claims must be exhausted	Excluded: alimony payments, unemployment benefits.
PT	Real property as such and income derived from it are taken into account with a specific method	Movable assets as such and income from capital are taken into account. 5% of the value of movable assets is considered as income.	All household income, regardless of its nature and origin, is taken into account	Exhaustion of social benefits, civil and maintenance claims	Only 80% of income from work is taken into account
RO	Real property are included in the list of goods "satisfying basic needs"	Movable assets are included in the list of goods "satisfying basic needs"	Monthly net income such as wages; social benefits; alimony allowance	No condition	Real property and movable assets included in the list of goods satisfying basic needs are not taken into account
SK	Real property is taken into account	Movable assets are taken into account	All income and benefits are taken into account	All claims to benefits in cash and in kind have to be exhausted	List of resources fully or partly disregarded: 25% of earnings, 25% of some benefits, some benefits in full
SI	Really property is taken into account, except residence	Movable assets taken into account, with a list of exceptions (vehicles, assets used for work...)	All income and benefits, with a list of exceptions (study grants, benefits)	Persons must have exercised their right to cash benefits and the right to dispensation and abatement according to social assistance	Cf. left columns
ES	Total assets derived from property, or with a specific system of evaluation	Total movable assets with a specific system of evaluation	All income and benefits are taken into account	Exhaustion not required for all benefits	Dwelling is exempted

Country	Real property	Movable assets	Work income and other income	Exhaustion of other claims	Exemption of resources
SE	All real property, regardless of the nature and the origin, is taken into account.	All movable assets, regardless of the nature and the origin, are taken into account.	All income and benefits, whatever the nature and the origin, are taken into account.	Social assistance is complementary to all other subsistence allowances and is provided as a last resort (safety net)	Certain items satisfying basic needs are exempted (clothing, television, mobile phone...)
CH	Self-occupied property not taken into account or subject to specific evaluation	Subject to a specific evaluation	Part of work income and social benefits	Benefits are complementary to the first pillar basic pension benefits	List of resources excluded: alimony, social assistance, study grant...
NL	Above a certain amount	Above a certain amount	All work income, but exceptions apply	Exhaustion of all subsistence allowances	Capital / income exemptions up to certain ceilings
UK	Property which the claimant owns and lives in is disregarded	Cash, savings, investments, stocks and shares are taken into account	Most income resources, most social security benefits and pension are taken fully into account.	Claims to other benefits must be exhausted	In most cases, a deductible applies

Annex II - Overview tables

A- Sickness (benefits in kind)

Country	Means test applied (yes= X/no=O)	Means test impact	Change in means testing since 2004
AT	X	Charges exemption	
BE	X	Preferential treatment	Change in method
BG	X	Charges exemption	
HR	O		
CY	X	Charges exemption	
CZ	X	Charges reduction	No means test in 2004 (no copayment)
DK	O		
EE	O		
FI	O		
FR	X	Charges exemption	
DE	X	Affiliation	
GR	O		
HU	O		
IS	O		
IE	X	Affiliation	Income ceiling raised
IT	X	Charges exemption	
LV	X	Charges exemption	
LI	O		
LT	O		
LU	X	Max. copayment	Lower copayment
MT	N/A	No copayment	
NO	O		
PL	N/A	No copayment	
PT	X	Charges exemption	Change in means testing method
RO	N/A	No copayment	
SK	O		
SI	X		
ES	O		
SE	O		
CH	X	Charges reduction	
NL	O		
UK	N/A	No copayment	

B- Family

Country	Means test applied (yes= X/no=O)	Means test impact	Change in means testing since 2004
AT	O		
BE	O		
BG	O		Means test removed
HR	X	Entitlement / calculation	
CY	X	Calculation	
CZ	X	Entitlement	Change of reference income
DK	X	Calculation	
EE	O		
FI	O		
FR	O		
DE	O		
GR	O		
HU	O		
IS	O		
IE	O		
IT	X	Calculation	
LV	O		
LI	O		
LT	X	Entitlement	No means test in 2004
LU	O		
MT	X	Calculation	Change of reference income
NO	O		
PL	O		
PT	X	Calculation	Change in earning levels
RO	O		
SK	O		
SI	X	Entitlement / calculation	Change of reference income
ES	X	Entitlement	
SE	O		
CH	O		
NL	X	Entitlement / calculation	Means-tested child-related allowance introduced in 2009
UK	X		No means test in 2004

C- Old age/invalidity

Country	Means test applied (yes= X/no=O)	Means test impact	Change in means testing since 2004
AT	O		
BE	X	Separate allowance	
BG	X	Fixed allowance	
HR	O		
CY	X	Separate allowance /supplement	
CZ	O		
DK	O		
EE	O		
FI	O		
FR	X	Separate allowance/ supplement	
DE	X	Pension supplement	
GR	O		
HU	X	Separate allowance	
IS	X	Separate allowance	
IE	X	Separate allowance	
IT	N/A		
LV	O		
LI	X	Separate allowance/ supplement	
LT	X	Separate allowance/ supplement	
LU	O		
MT	O		
NO	O		
PL	X	Separate allowance	
PT	X	Separate allowance/ supplement	Change in calculation base
RO	O		
SK	X	Pension supplement	
SI	X	Separate allowance/ supplement	
ES	X	Separate allowance	
SE	O		
CH	X	Pension supplement	
NL	O		
UK	X	Separate allowance	Introduction of income threshold

D- Long-term care

Country	Means test applied (yes= X / no=O / Partially)	Means test impact
AT	Partially	
BE	Partially	Benefit amount
BG	O	
HR	X	Entitlement
CY	X	Entitlement
CZ	Partially	Benefit amount
DK	O	
EE	O	
FI	O	
FR	Partially	Benefit amount
DE	X	Entitlement
EL	O	
HU	Partially	Amount of copayment
IS	O	
IE	Partially	Amount of copayment
IT	X	Benefit amount
LV	X	Benefit amount
LI	X	Benefit amount
LT	Partially	Entitlement/amount
LU	O	
MT	Partially	Benefit amount
NO	O	
PL	X	Benefit amount
PT	X	Benefit amount
RO	Partially	Entitlement
SK	Partially	Entitlement/amount
SI	Partially	Copayment
ES	X	Benefit amount
SE	O	
CH	Partially	Entitlement
NL	O	
UK	Partially	Entitlement/amount

E- Unemployment

Country	Means test applied (yes= X/no=0)	Means test impact	Change in means testing since 2004
AT	X	Differential benefit	
BE	0		
BG	0		
HR	0		
CY	0		
CZ	0		
DK	0		
EE	X	Flat-rate benefit	
FI	X	Flat-rate benefit	
FR	X	Differential benefit	Change in structure
DE	X	Differential benefit	Extension of means test
GR	0		
HU	0		
IS	0		
IE	X	Flat-rate benefit	
IT	0		
LV	0		
LI	0		Means-test removal
LT	0		Means-test removal
LU	0		
MT	X		
NO	0		
PL	0		
PT	X	Differential benefit	Change in method
RO	0		
SK	0		
SI	0		
ES	X	Flat-rate benefit	New means-tested benefit
SE	0		
CH	0		
NL	0		
UK	X	Flat- rate benefit	