The implications of an EMU unemployment insurance scheme for supporting incomes

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Motivation

- Need for greater risk sharing across member states in order to provide better shock absorption against asymmetric economic fluctuations (European Commission, 2012)

- An EMU unemployment insurance scheme could
  - serve as an insurance mechanism to smooth fluctuations in income across member states (see e.g. Dullien (2013))
  - strengthen national automatic stabilizers
  - improve individual income protection of the unemployed and their families
  - potentially enhance social cohesion.
Summary of what we do

- Assess the additional effects of a “top-up” EMU UI
  - Coverage of UI
  - Net Replacement Rates
  - Stabilisation of household income
  - Protection from risk of poverty
- For everyone currently in paid work, if they were to enter unemployment
  - Coverage etc higher than for the currently unemployed or those most at risk
- Based on a microsimulation approach (EUROMOD) and micro-data from EU-SILC
  - Constraints on modelling some UI features due to limitations of SILC
Plan of the talk

- Introduction
- An EMU unemployment scheme
- Methods and data
- Results
- Concluding remarks
- Future research
Introduction

- National UI systems vary in many dimensions (Esser et al., 2013)
  - Comparisons and assessments quite complex.
  - Challenges to suggest pathways to harmonisation.

- Dimensions of UIs to take into account:
  - Eligibility: contributions conditions
  - Eligibility: other conditions (e.g. employment status (employed or self-employed), type of employment contract, age).
  - Level of payment.
  - Duration of entitlement.
  - Unemployment assistance, social assistance and other safety net benefits
  - Integration in rest of tax-benefit system (taxable or not etc.)
An EMU unemployment insurance scheme

- Based on paper “On Automatic Stabilisers” by a DG-EMPL working group.
- All currently employed and self-employed up to age 64.
- Payable from the 4th to 12th month of unemployment.
- Earnings during at least 3 months in the previous 12
- 2 versions
  - Flat: 33% of average earnings in the country
  - Proportional: 50% of most recent own gross monthly earnings, with no floors or ceilings.
- Same treatment as national UI in the rest of the tax benefit system (taxable or not, etc.)
- Top up existing UI if EMU>national on a month-by-month basis (no losers)
An example: Latvian from top earnings quintile with full contributions (€UI month-by-month)
Methods and data

- Use EUROMOD version G1.4
  - EU-SILC 2008
  - 2012 policies (UI and other)
  - 10 EMU countries (DE, EE, EL, ES, FR, IT, LV, AT, PT, FI)
- Simulate transitions from work to unemployment
  - For all those currently in work
  - For each member in the household in turn
  - Compare disposable hh income before and after transition, with and without EMU-UI
- Focus on additional effects of a common EMU-UI scheme at national level
- The first year of unemployment
Results

- Coverage of UI: how much is it extended?
- Beneficiaries of EMU-UI
- Net Replacement Rates
- Income stabilisation: household disposable income after all direct taxes and cash benefits (including UI)
- Risk of poverty on becoming unemployed: how much is it reduced?
Coverage: % currently in work covered by any UI
**Beneficiaries**: % currently in work who would receive additional EMU-UI

![Bar chart showing the percentage of beneficiaries in different countries.](chart.png)
Mean rate of replacement of household disposable income (%)
Income stabilisation coefficient: with and without EMU-UI

Without EMU-UI  |  With EMU-UI

DE  |  EE  |  EL  |  ES  |  FR  |  IT  |  LV  |  AT  |  PT  |  FI

EUROMOD G1.4
At risk of poverty in unemployment with and without EMU-UI

EUROMOD G1.4
Concluding remarks

- Variations in design of national UIs, in many dimensions
  - FR, FI: national > EMU in most/all dimensions (except self-employed, younger workers)
  - EL, IT, LV, AT: EMU-UI(%)>national in one or more important ways
    - LV national UI 9 months only
    - EL flat rate provides low income replacement; even EMU-UI(flat) offers more
    - IT, AT: low ceilings and net earnings base in AT

- Variations in characteristics
  - Self-employment in EL and IT (and contracts without insurance in IT)
Concluding remarks

- A measure of the extent to which a common EMU-UI could replace national UIs providing a cross-country insurance mechanism minimising additional cost (and losers)
  - Challenging … but could go further

- Improving the protective and stabilising effects in addition to a cross-country insurance mechanism; necessary to
  - Improve generosity in Greece
  - Improve inclusiveness in Italy
  - Lengthen duration in Latvia

- Some gaps/inadequacies in most national benefits that a EMU-UI could fill
Future research

- Improve EMU-UI design:
  - Proportional scheme with a ceiling and floor
- Simulation of particular unemployment scenarios
  - Selecting those most at risk at national level
  - Asymmetric shocks
- Cross-country macroeconomic stabilization
- Financing options
Acknowledgements and further information

- The process of extending and updating EUROMOD is financially supported by the Directorate General for Employment, Social Affairs and Inclusion (DG-EMPL) of the European Commission.

- EUROMOD is made generally available for academic and not-for-profit use. Contact euromod@essex.ac.uk

- For more information see www.iser.essex.ac.uk/euromod

- Funding for this analysis from the Social Situation Monitor http://ec.europa.eu/social/main.jsp?catId=1049&langId=en
  - Paper has been published as an SSM Research Note and EM Working Paper.
Additional charts
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<tr>
<th>Country</th>
<th>DE</th>
<th>EE</th>
<th>EL</th>
<th>ES</th>
<th>FR</th>
<th>IT</th>
<th>LV</th>
<th>AT</th>
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<th>FI</th>
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<td>Sample observations</td>
<td>12,439</td>
<td>6,298</td>
<td>6,245</td>
<td>14,766</td>
<td>10,852</td>
<td>20,335</td>
<td>6,008</td>
<td>6,136</td>
<td>4,960</td>
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<td>Population in work (000)</td>
<td>36,300</td>
<td>680</td>
<td>4,298</td>
<td>20,100</td>
<td>25,000</td>
<td>23,500</td>
<td>1,106</td>
<td>3,788</td>
<td>4,841</td>
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<td>% male</td>
<td>52.0</td>
<td>49.3</td>
<td>59.4</td>
<td>57.5</td>
<td>51.4</td>
<td>60.0</td>
<td>49.9</td>
<td>54.5</td>
<td>54.8</td>
<td>53.3</td>
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<tr>
<td>% age 15-24</td>
<td>11.7</td>
<td>11.8</td>
<td>5.7</td>
<td>9.7</td>
<td>10.9</td>
<td>6.6</td>
<td>15.1</td>
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<td>8.7</td>
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<td>% age 25-49</td>
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<td>57.8</td>
<td>67.0</td>
<td>70.0</td>
<td>61.5</td>
<td>66.5</td>
<td>56.2</td>
<td>61.5</td>
<td>66.4</td>
<td>51.1</td>
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<td>% age 50+</td>
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<td>27.3</td>
<td>20.3</td>
<td>27.6</td>
<td>26.9</td>
<td>28.7</td>
<td>23.4</td>
<td>24.8</td>
<td>33.9</td>
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<td>% education lower 2ndary</td>
<td>7.9</td>
<td>11.0</td>
<td>11.7</td>
<td>23.6</td>
<td>13.7</td>
<td>29.9</td>
<td>16.3</td>
<td>50.6</td>
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<td>20.7</td>
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<td>% education higher 2ndary</td>
<td>42.2</td>
<td>50.3</td>
<td>33.9</td>
<td>24.1</td>
<td>45.0</td>
<td>40.3</td>
<td>51.7</td>
<td>18.5</td>
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<td>% education tertiary</td>
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<td>34.4</td>
<td>27.7</td>
<td>35.5</td>
<td>33.9</td>
<td>17.3</td>
<td>25.8</td>
<td>14.1</td>
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<td>% employee</td>
<td>92.8</td>
<td>96.0</td>
<td>65.5</td>
<td>87.7</td>
<td>95.0</td>
<td>74.9</td>
<td>97.0</td>
<td>87.4</td>
<td>85.8</td>
<td>91.0</td>
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<td>% self-employed</td>
<td>9.4</td>
<td>7.4</td>
<td>39.3</td>
<td>13.5</td>
<td>9.0</td>
<td>27.6</td>
<td>6.4</td>
<td>17.9</td>
<td>17.4</td>
<td>17.6</td>
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<tr>
<td>% sole earner household</td>
<td>33.2</td>
<td>29.6</td>
<td>29.1</td>
<td>23.3</td>
<td>28.6</td>
<td>34.2</td>
<td>20.1</td>
<td>28.5</td>
<td>21.0</td>
<td>28.2</td>
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<tr>
<td>33% average earnings €/month</td>
<td>837</td>
<td>264</td>
<td>478</td>
<td>556</td>
<td>670</td>
<td>695</td>
<td>209</td>
<td>819</td>
<td>383</td>
<td>800</td>
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<td>Poverty threshold €/month</td>
<td>960</td>
<td>336</td>
<td>504</td>
<td>715</td>
<td>1,063</td>
<td>820</td>
<td>259</td>
<td>1,048</td>
<td>458</td>
<td>1,139</td>
</tr>
</tbody>
</table>

Notes: In this table “self-employed” are defined as those with self-employment income. They may also have employment income. Those defined as “employed” do not have self-employment income. Source: own calculations using EUROMOD version G1.4
Net Replacement Rates of household disposable income (%)
Income stabilisation by household income quintile

- Germany
- Estonia
- Greece
- Spain
- France
- Italy
- Latvia
- Austria
- Portugal
- Finland

Graphs showing income stabilisation for various countries, with lines indicating EMU-UI flat and EMU-UI proportional.
Additional budgetary cost of EMU-UI per unemployed (% of median hh disposable income)