

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

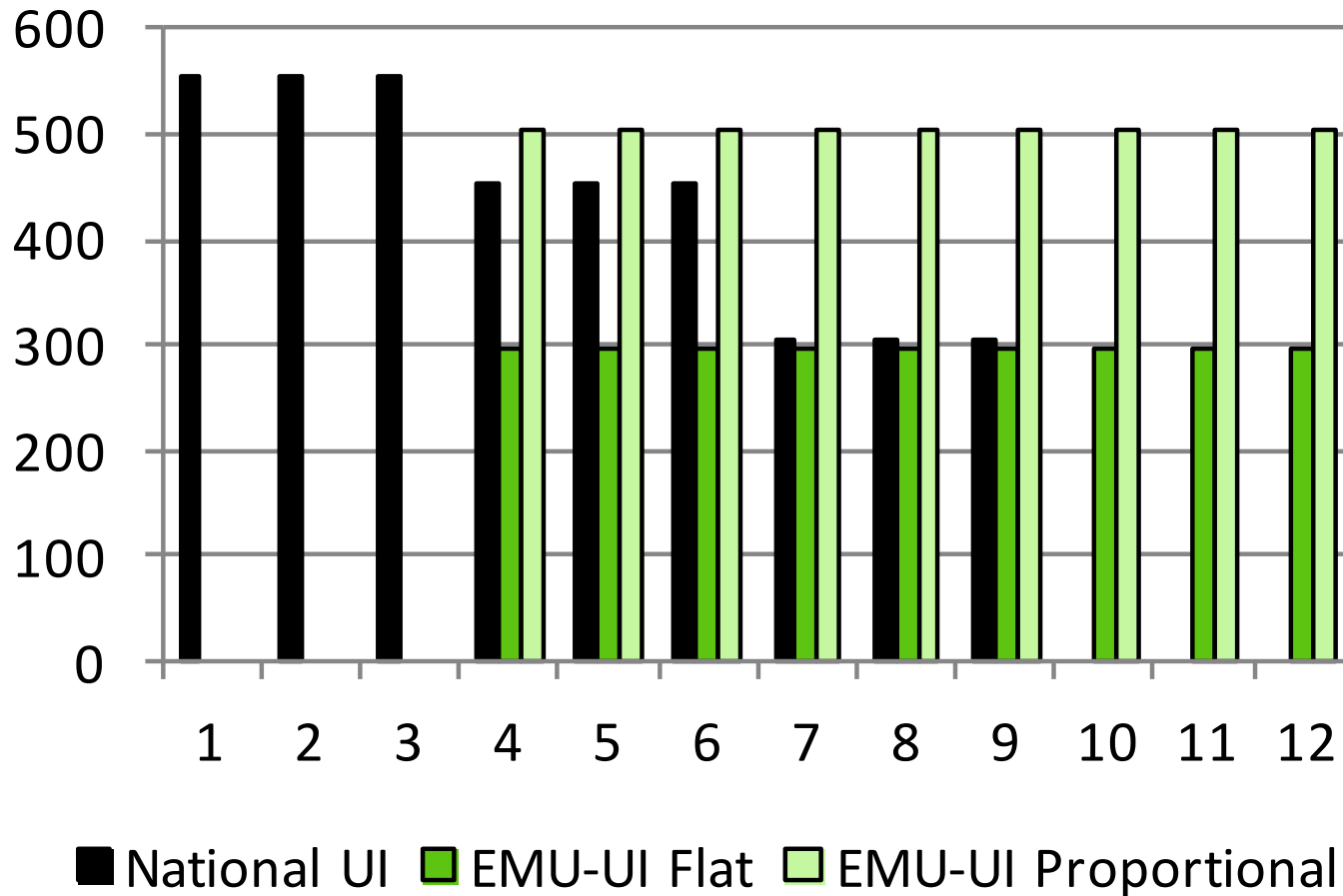
- National UI systems vary in many dimensions (Esser et al., 2013)
 - Comparisons and assessments quite complex.
 - Challenges to suggest pathways to harmonisation.
- Dimensions of UIs to take into account:
 - Eligibility: contributions conditions
 - Eligibility: other conditions (e.g. employment status (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

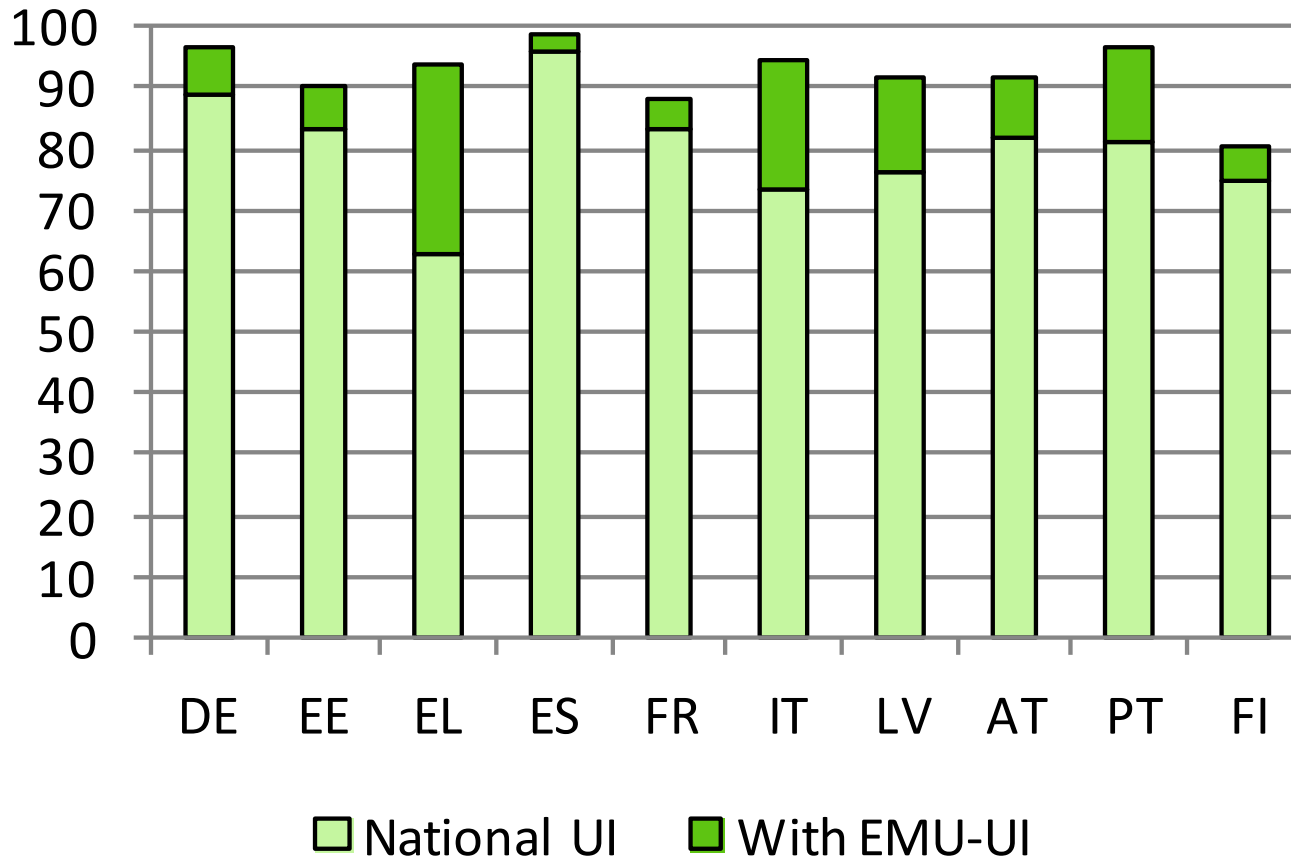
- Use EUROMOD version G1.4
 - EU-SILC 2008
 - 2012 policies (UI and other)
 - 10 EMU countries (DE, EE, EL, ES, FR, IT, LV, AT, PT, FI)
- Simulate transitions from work to unemployment
 - For all those currently in work
 - For each member in the household in turn
 - Compare disposable hh income before 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



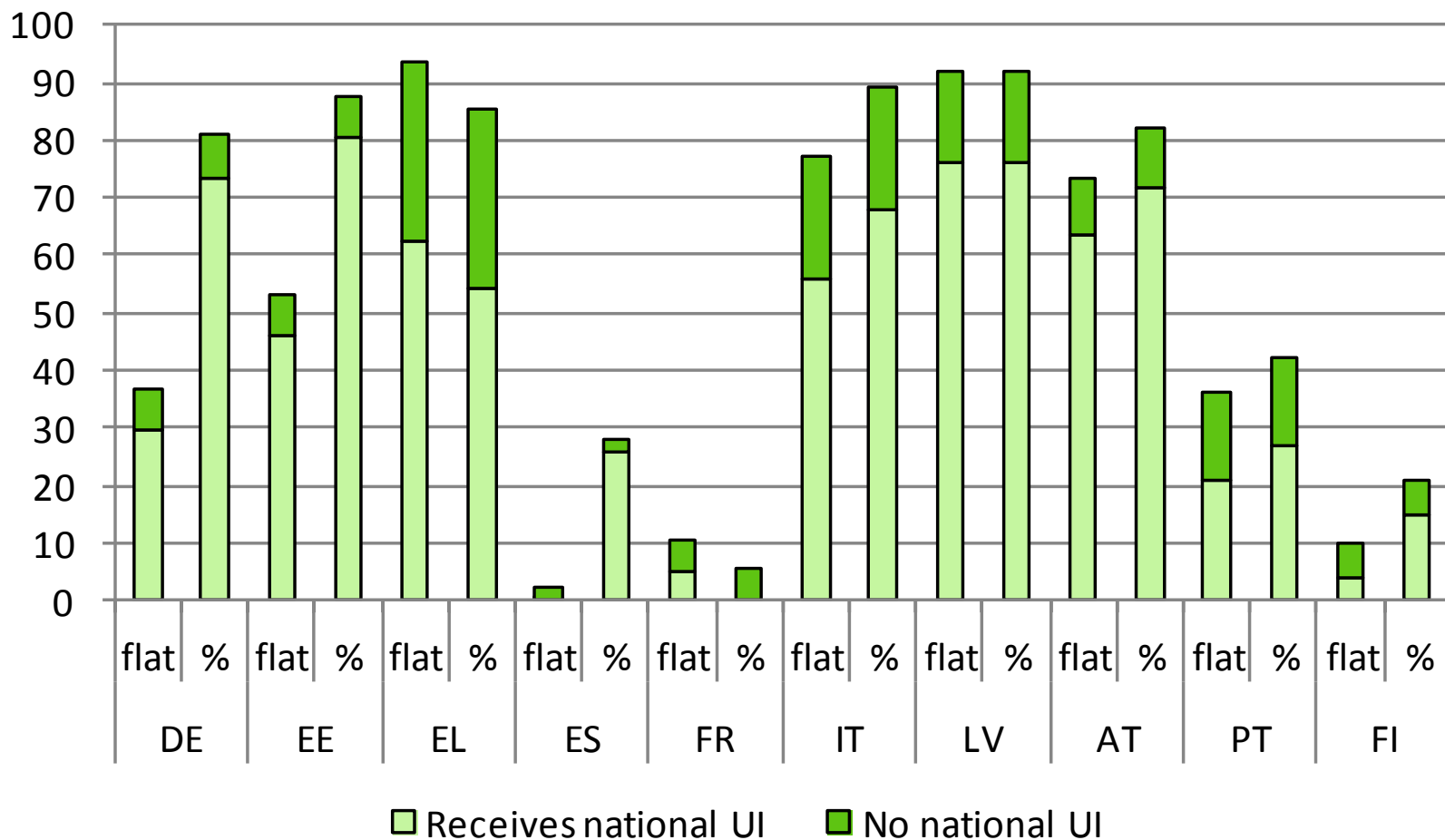
Results

- 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?

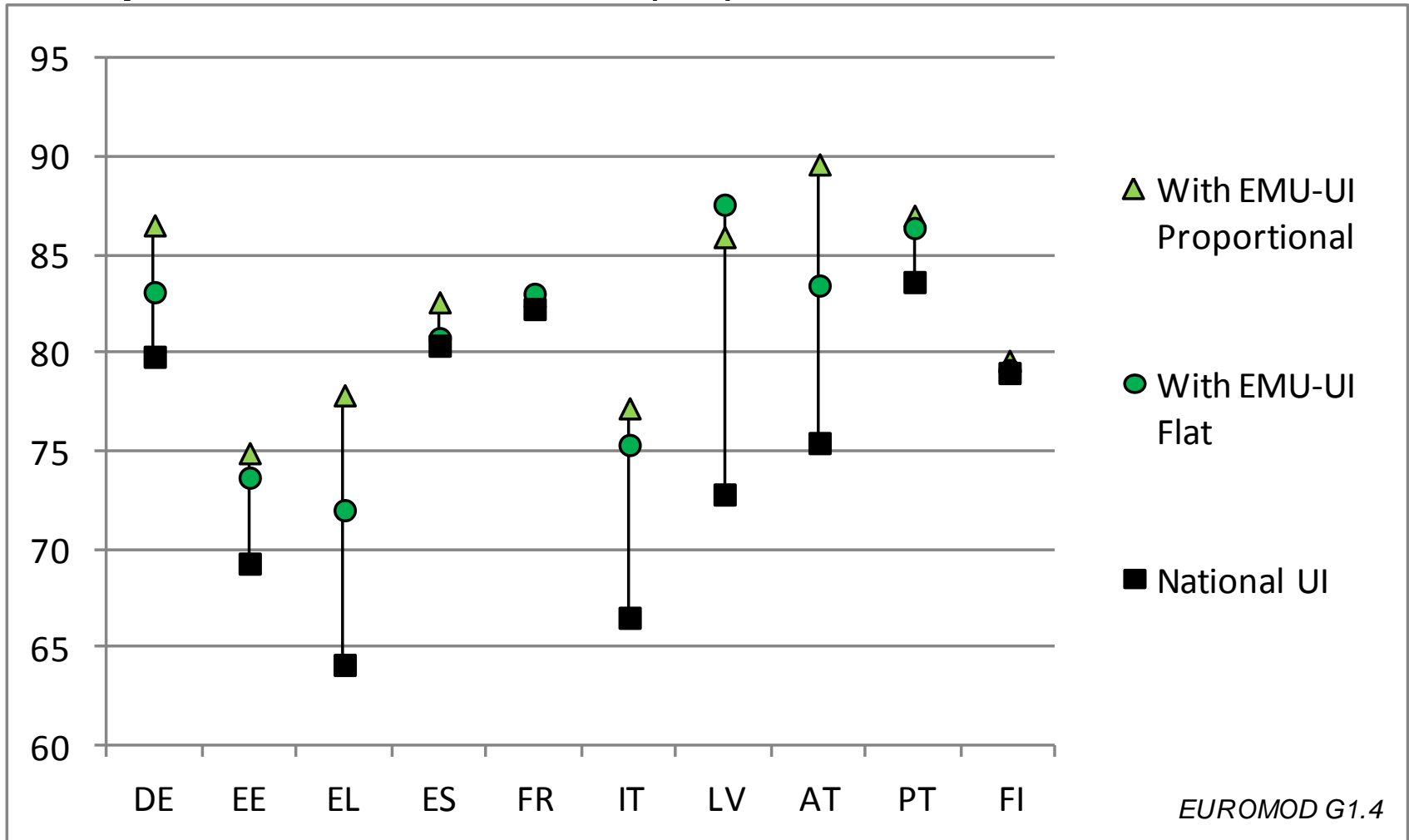
Coverage: % currently in work covered by any UI



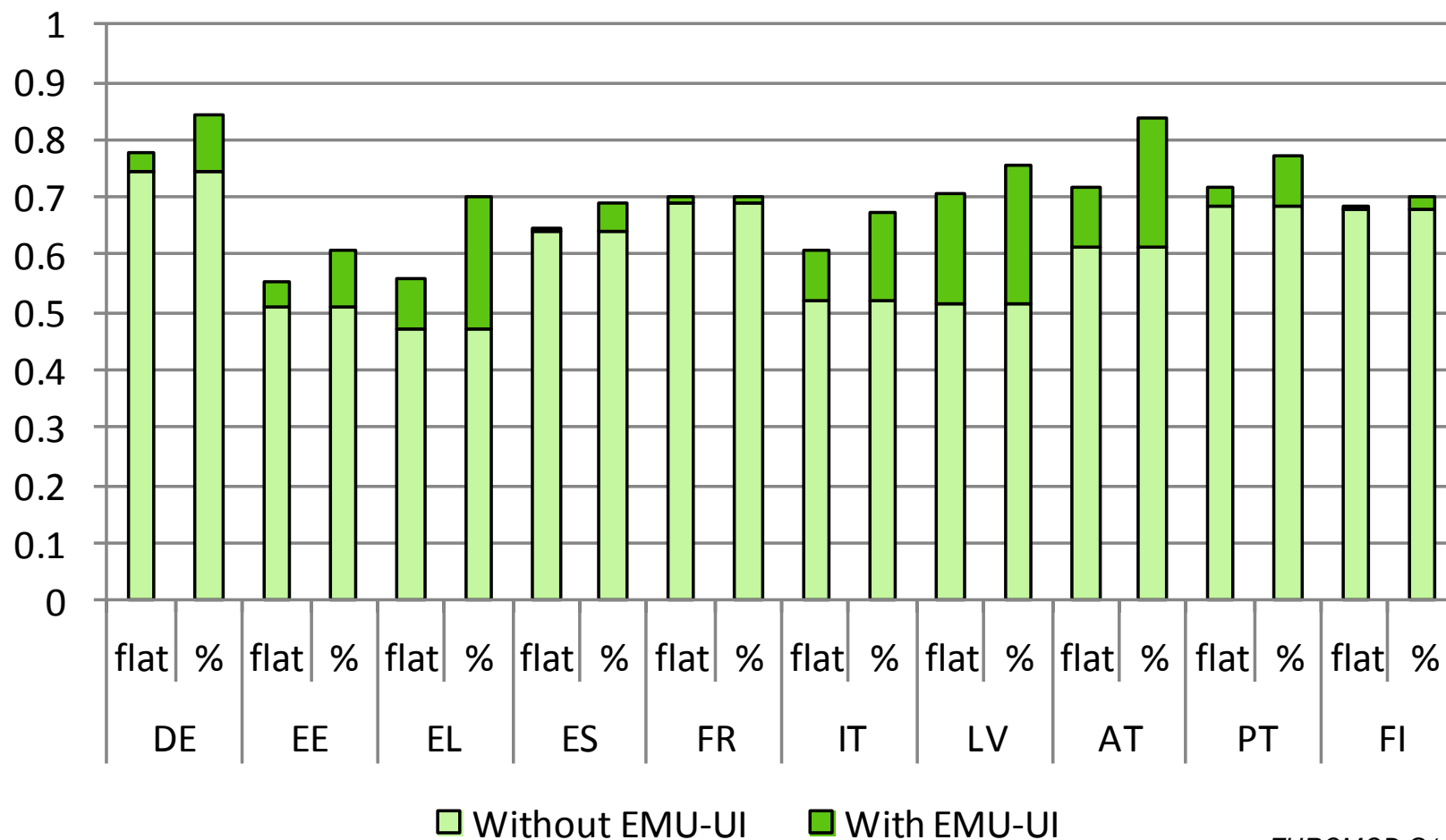
Beneficiaries: % currently in work who would receive additional EMU-UI



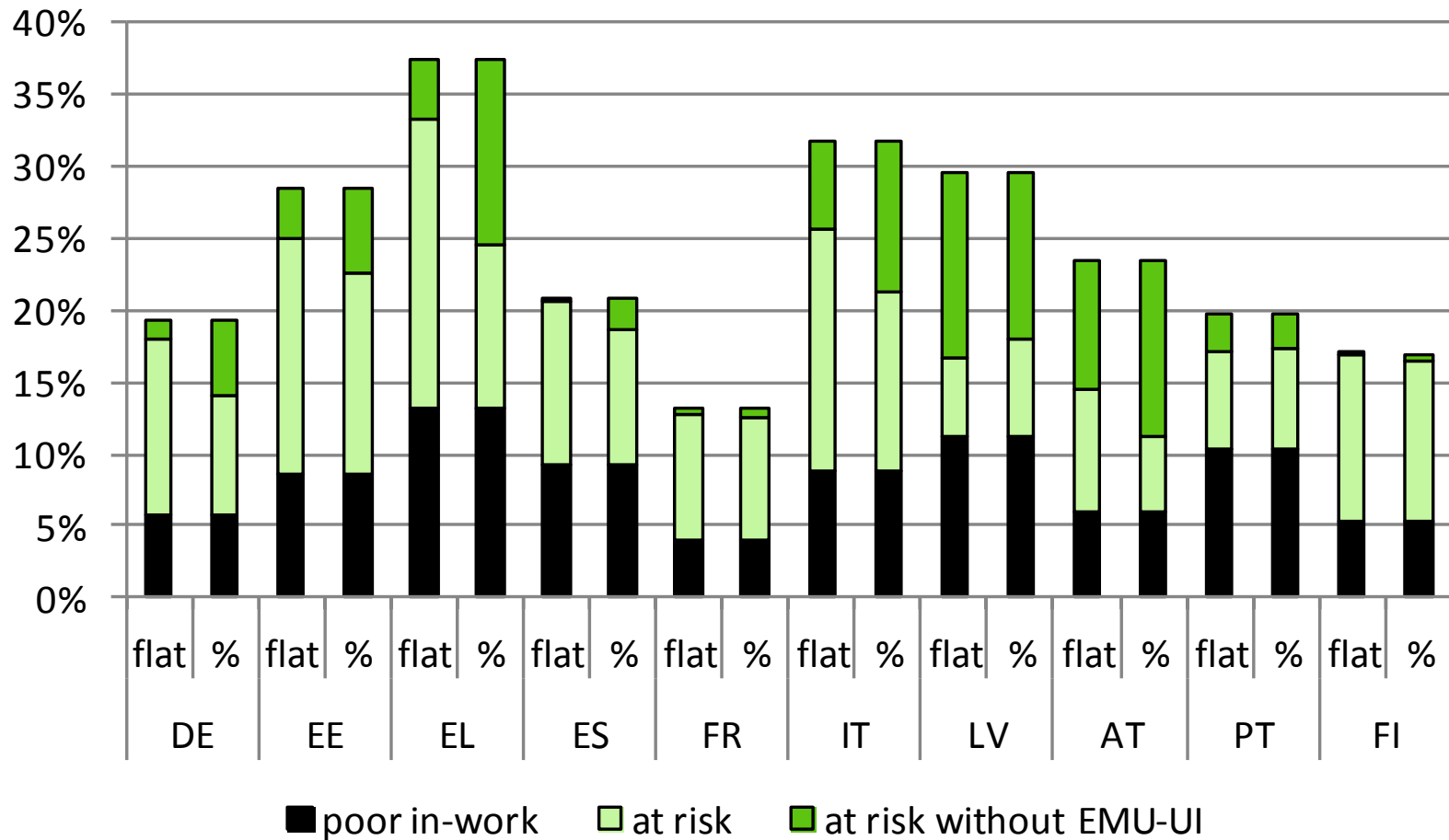
Mean rate of replacement of household disposable income (%)



Income stabilisation coefficient: with and without EMU-UI



At risk of poverty in unemployment with and without EMU-UI





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 stabilisation
- Financing options

Thank you!

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- 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
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 - Paper has been published as an SSM Research Note and EM Working Paper.

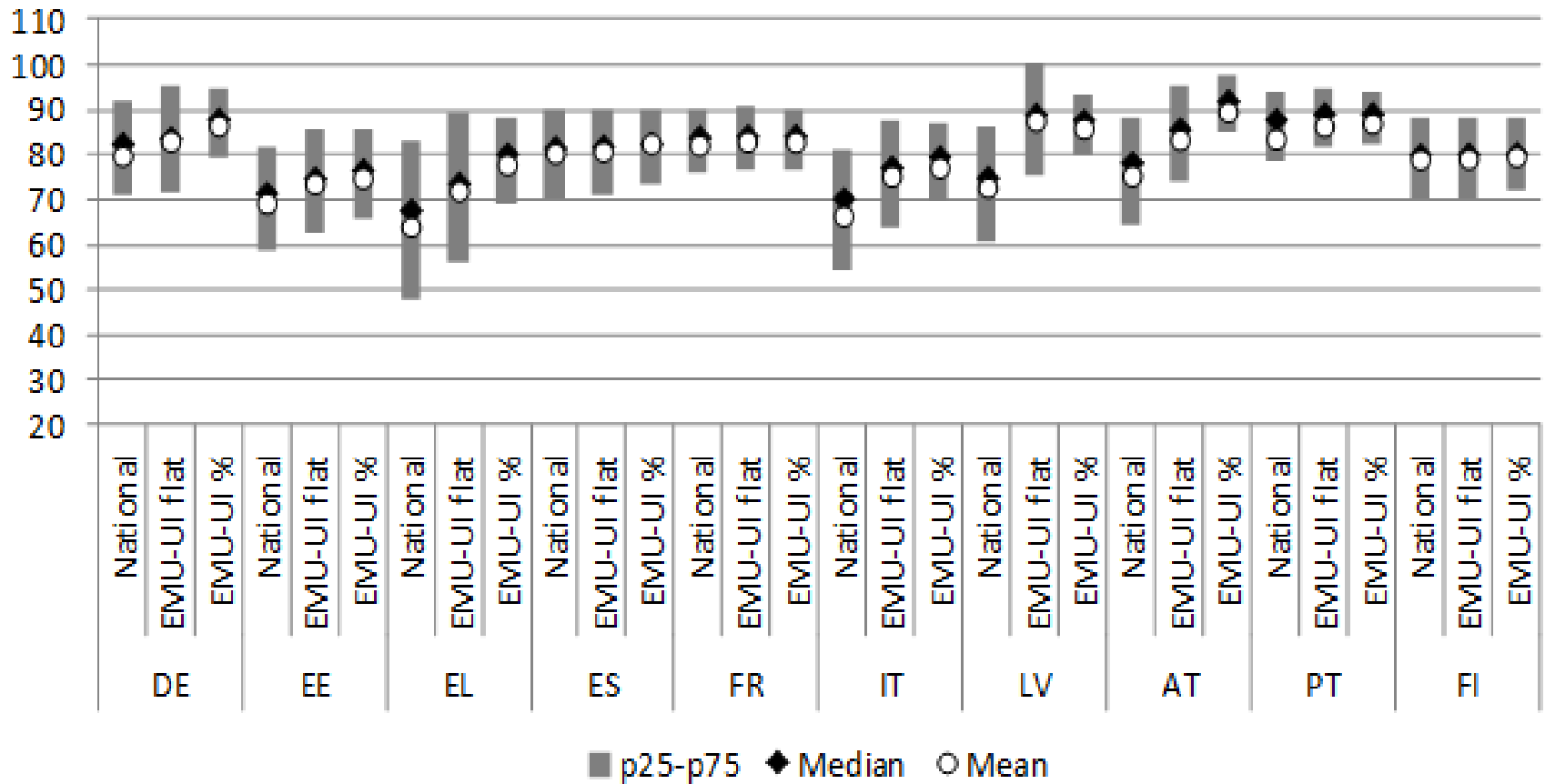


Additional charts

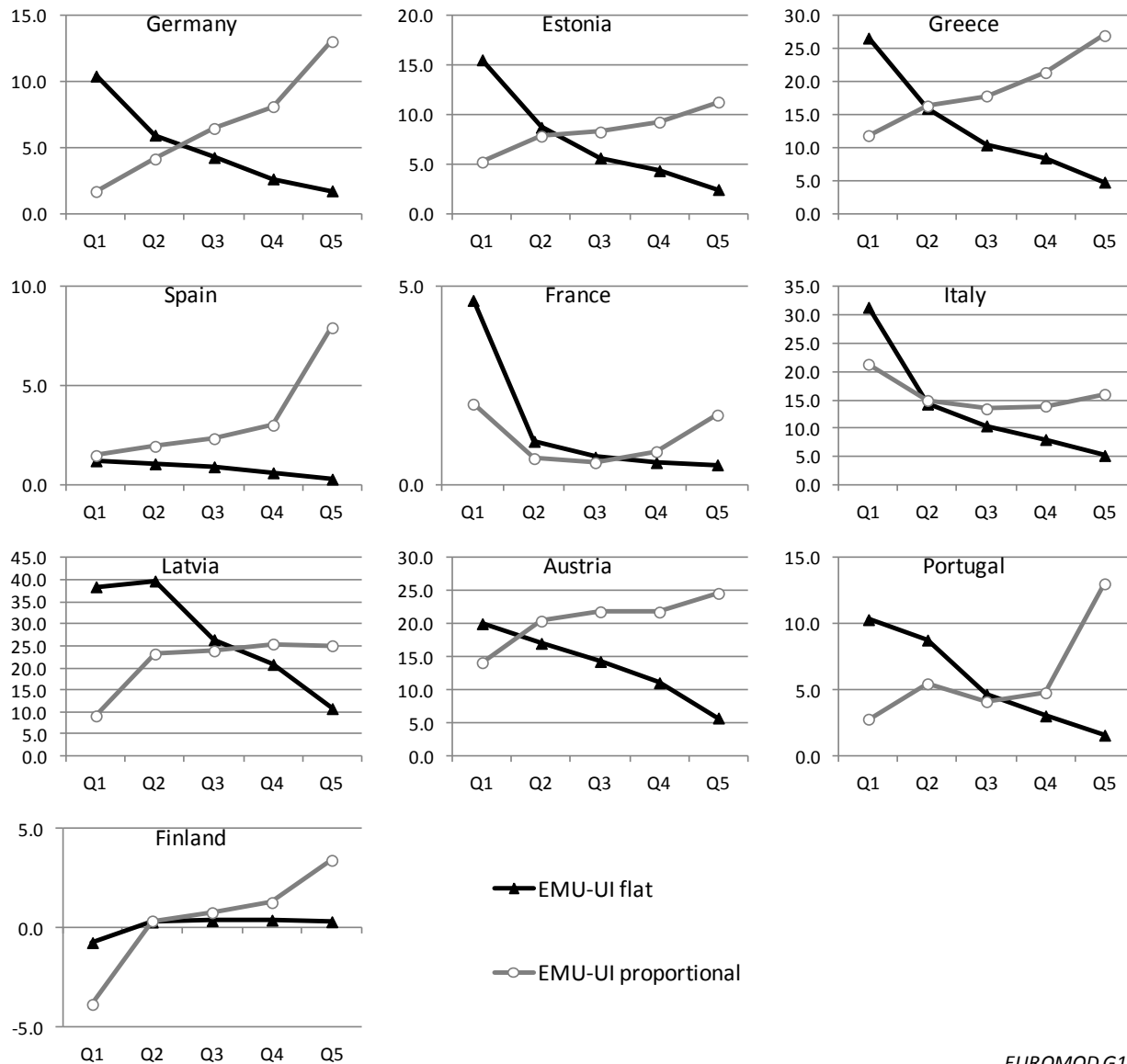
Country	DE	EE	EL	ES	FR	IT	LV	AT	PT	FI
Sample observations	12,439	6,298	6,245	14,766	10,852	20,335	6,008	6,136	4,960	14,094
Population in work (000)	36,300	680	4,298	20,100	25,000	23,500	1,106	3,788	4,841	2,462
% male	52.0	49.3	59.4	57.5	51.4	60.0	49.9	54.5	54.8	53.3
% age 15-24	11.7	11.8	5.7	9.7	10.9	6.6	15.1	15.1	8.7	14.9
% age 25-49	61.8	57.8	67.0	70.0	61.5	66.5	56.2	61.5	66.4	51.1
% age 50+	26.5	30.4	27.3	20.3	27.6	26.9	28.7	23.4	24.8	33.9
% education lower 2ndary	7.9	11.0	11.7	23.6	13.7	29.9	16.3	50.6	20.9	20.7
% education higher 2ndary	42.2	50.3	33.9	24.1	45.0	40.3	51.7	18.5	15.5	42.8
% education tertiary	41.4	34.4	27.7	35.5	33.9	17.3	25.8	14.1	14.5	35.1
% employee	92.8	96.0	65.5	87.7	95.0	74.9	97.0	87.4	85.8	91.0
% self-employed	9.4	7.4	39.3	13.5	9.0	27.6	6.4	17.9	17.4	17.6
% sole earner household	33.2	29.6	29.1	23.3	28.6	34.2	20.1	28.5	21.0	28.2
33% average earnings €/month	837	264	478	556	670	695	209	819	383	800
Poverty threshold €/month	960	336	504	715	1,063	820	259	1,048	458	1,139

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



Additional budgetary cost of EMU-UI per unemployed (% of median hh disposable income)

