



UNDP Country Office  
in the Republic  
of Kazakhstan



International Labour  
Organization Subregional  
Office for Eastern Europe  
and Central Asia

# International Experience with Social Assistance Schemes

Five Country Case Studies



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# Preface

Following the breakdown of the former Soviet Union and the market-oriented changes, the CIS countries have experienced difficulties in coping with the various socio-economic challenges including an increase in unemployment and expansion of the informal economy. These socio-economic changes have directly affected the operation of social security schemes in many CIS countries. Great difficulties were experienced in social security financing in the early 1990s, due to hyperinflation, the rise in unemployment and evasion of payment of taxes and social security contributions. Low and relatively flat amounts of social security benefits, which do not fully reflect the contributions paid, have reduced individual motivation to obtain social security coverage. In the absence of a comprehensive social security framework, social assistance together with a pension scheme is considered to be one of the most reliable social safety nets to the poor in most of the CIS country.

Based on the strong needs to implement a fair and functioning social assistance scheme, the Government of the Republic of Kazakhstan requested the International Labour Organization (ILO) Moscow Office and the United Nations Development Programme (UNDP) Kazakhstan to assess and improve Targeted Social Assistance (TSA) scheme introduced in Kazakhstan since 2000. The assessment of TSA scheme was carried out under the framework of the project «Decent Work: Integrated Approach to Social Sphere in Kazakhstan» implemented by the ILO Moscow and UNDP Kazakhstan in 2003.

This publication was prepared as a second part of the final report delivered for the above-mentioned project. The final reports of the project consist of two volumes serving different purposes. The first part covers the main findings related to the TSA schemes in Kazakhstan with a set of methodological and policy recommendations. This report, the second volume, reviews international experience with social assistance schemes, which are expected to serve as a reference for future policy formulation in the field of social security in Kazakhstan.

In particular, this report was designed to provide a comprehensive overview of social assistance scheme within an overall social security framework. Since the beginning, it has been intended that this report would be shared widely in the CIS countries, as a high dependence on social assistance schemes is a commonly observed problem in the other CIS countries. Mariko Ouchi, Social Security Expert, is responsible for this report and helpful comments have been received from the staff of the ILO Headquarters in Geneva.

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# Introduction

The Government of the Republic of Kazakhstan requested the International Labour Office (ILO) Moscow Office and the United Nations Development Programme (UNDP) Kazakhstan to assess and improve its Targeted Social Assistance (TSA) scheme in Kazakhstan within the framework of the ILO/UNDP project “Integrated Approach to Social Sphere in Kazakhstan”.<sup>1</sup>

The main objectives of this project are as follows: (1) to examine the current TSA system; (2) to develop methodological frameworks for TSA which suit the present situation in Kazakhstan; and (3) to strengthen the capacity to implement the appropriate TSA methodologies. For the purpose of achieving the objectives set for this project, and to fulfill the requests made by the Ministry of Labour and Social Protection, the components of the Technical Assistance (TA) will be divided into two parts.

The first volume of the final report presents the main findings related to the TSA scheme in Kazakhstan, which will include a review of household-related concepts that would clarify the definitions of household and household income. The second volume reviews international experience with social assistance schemes by presenting five different country cases, which are expected to serve as a reference for future policy formulation in the field of social security in Kazakhstan.

To the second volume of the final report, these authors contributed the following country cases;<sup>2</sup>

Ms. Christina Behrendt, Associate Expert on Social Security of the Financial, Actuarial and Statistical Branch of the ILO Headquarters: the German case,  
Mr. Toshinobu Tsuboi, Official of International Social Security Association (ISSA) detached from the Social Insurance Agency of Japan: the Japanese case,  
Mr. Bjorn Gustafsson, External Collaborator of the ILO Moscow Office: the Swedish case, and  
Ms. Svetlana Misikhina, External Collaborator of the ILO Moscow Office: the Russian and Hungarian cases.

The country cases follow a uniform structure to enable comparison: (1) a comprehensive review of the existing social security system; (2) the financial aspects of social security; (3) the description and characteristics of the social assistance scheme (administration, finance, criteria setting, definition of eligibility, etc.); (4) the social assistance scheme in the context of poverty alleviation; and (5) the relationship between the social assistance scheme and labour market policies. In addition, a list of legislation and references is provided at the end of each chapter.

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<sup>1</sup> KAZ/03/003B09/11

<sup>2</sup> This report was edited by Mariko Ouchi, Social Security Expert at the ILO Subregional Office for Eastern Europe and Central Asia in Moscow with the administrative and editorial assistance of Ludmila Ouskova (ILO/Moscow), Hiroyuki Horie, Konstantin Priajnikov, Celia Verrier, Linda Stacey and Kathryn Wright.





# Chapter 1 Social Assistance in Germany<sup>1</sup>

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## 1. Introduction

Within the German welfare state – or “social state” as it is often described – social assistance serves as a benefit of last resort. While provisions for minimum income benefits are almost absent in the social insurance system, the social assistance system guarantees a minimum standard of living for those who cannot make ends meet with their earned income or social insurance benefits.

In international comparisons, the German social assistance system is often considered as a hybrid between the extreme poles of very centralized and standardized systems (such as in the United Kingdom) and decentralized systems with strong emphasis on administrative discretion (such as in Sweden, particularly before the 1997 reform) (Eardley et al., 1996(a), 1996(b); Gough et al., 1997; Behrendt, 2002(a)).

Written as a background report for the discussion about social assistance in Kazakhstan, this paper aims to describe the German social assistance system and to place it in an international context. The following paragraphs will briefly outline the role of social assistance within the social protection system and social expenditure as well as the economic and labour market context of the last three decades. The social assistance scheme is described with reference to its organization and administration, including the criteria and methods of defining eligibility, benefit levels and indexation, recipient structure, and the links between social assistance and poverty. The report also outlines labour market policy, individual rights, administrative discretion, and take-up (the extent to which the eligible population avails itself of the benefits). Strong emphasis is placed on the presentation of statistical data, and, where possible, on placing the German case in a comparative context.

## 2. Social Assistance within the Social Protection System

### 2.1. Outline of the Existing Overall Social Security System

Germany was a pioneer in the introduction of social insurance in the late 19<sup>th</sup> century under Chancellor Bismarck. As a response to the growing political demands of workers, the first social health insurance was introduced in 1883, accident insurance in 1884, and invalid and old age insurance (today’s pension insurance) in 1889. Unemployment insurance followed in 1927, sixteen years after the first unemployment insurance was created in the United

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<sup>1</sup> Comments from Mariko Ouchi, Thomas Renner and Wolfgang Scholz are gratefully acknowledged.

Kingdom. Finally, after fierce debates about financing principles, long-term care insurance was introduced in 1994 as a fifth pillar of social insurance.

Social insurance still plays a strong role in the social security system in Germany. Cash benefits are generally closely linked to contributions and provide earnings-related benefits. Contributions are generally equally shared among employers and employees. Based on the principle of “self-government” (*Selbstverwaltung*), social insurance benefits are not directly administrated by the state, but are provided by social insurance schemes. The governing bodies of these schemes are formed by representatives of employers and the insured and, in the case of unemployment insurance, the government. In most cases, each of the groups is equally represented in the governing bodies.<sup>2</sup> A large number of social security schemes exist for different occupational categories of workers and employers in each branch. However, variations in the benefits provided generally are rather small.

Old age, invalidity and survivorship are covered by the pension system which is fragmented into several schemes for different worker categories, but the benefits provided hardly differ.<sup>3</sup> Membership in pension insurance is mandatory for most employees, with the exceptions of a sub-group of civil servants and some other categories with special schemes. Contributions are proportional to monthly gross earnings up to a ceiling of € 5,100 (West) and € 4,250 (East), and benefits generally are proportional to contributions, with some exceptions (German Government, 2003).<sup>4</sup> To a limited extent, activities such as education, the care of children, military or civil service count towards the level of the pension.

Work injuries are covered by accident insurance provided by a number of employers' liability insurance associations. In contrast with all other branches of social insurance, employers carry the sole responsibility for financing the scheme.<sup>5</sup>

Health care is also provided by social insurance for the broad majority of the population. Contributions are proportional to earnings, but workers whose earnings are above € 3,825 may opt out of mandatory health insurance and choose private insurance (German Government, 2003). Nevertheless, partly because social health insurance provides free coverage for children and non-working spouses, private coverage is not an option for everyone. Social health insurance covers almost 90 percent of the resident population.

As a fifth branch of social insurance, long-term care insurance was introduced in 1994 and is closely linked to health insurance. Benefits can be provided as either cash transfers or benefits in kind, depending on the needs and preferences of the insured.

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<sup>2</sup> Some social security schemes deviate from the principle of equal representation, such as for example the pension and health insurance for minors where two thirds of the members of the governing body are representatives of the insured, and only one third of employers. For a more detailed description, BMA, 2002, Chapter 2.

<sup>3</sup> For a more detailed overview on the German social security scheme in English, French, German, Spanish or Turkish, see <http://www.bmgs.bund.de/eng/gra/publikationen/publ.cfm>.

<sup>4</sup> All money amounts stated in this paper are expressed in Euro (€). As in many other European countries, the Euro fully replaced the national currency, the Deutschmark (DM), in Germany from 1 January 2002. Money amounts referring to previous years were recalculated on the basis of the fixed exchange rate of € 1 = DM 1.95583. One Euro is roughly equivalent one US dollar; the exact exchange rates are listed in the Appendix.

<sup>5</sup> For a more detailed description, cf. BMA, 2002, Chapter 7.

Compared with other European countries, benefits in the case of unemployment are relatively strongly biased towards cash benefits rather than active labour market policies. Two cash benefits exist, unemployment insurance benefits and, once this benefit is exhausted, means-tested unemployment assistance. However, there are many active labour market policy measures, and these have been strengthened in recent reforms.

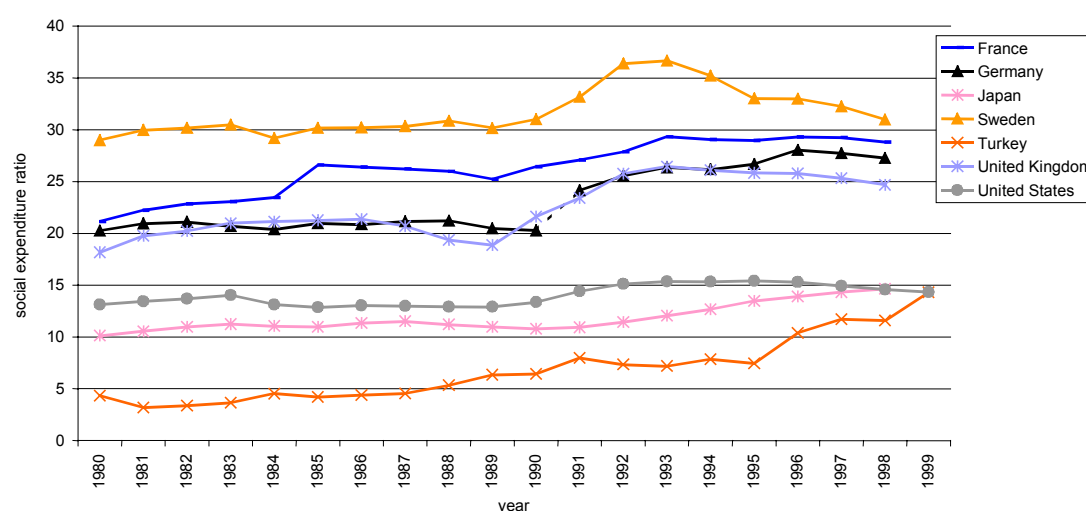
Benefits for families and children are financed out of general taxation, and the most important benefits are now also administered by the tax offices. The child benefit has recently been transformed into a tax benefit that is paid out as a negative income tax if parents are not paying enough taxes to fully benefit from this tax break. Reflecting the principle of protecting the marriage and family enshrined in the constitution, the joint taxation of married couples is particularly beneficial for couples in which one partner is not working at all, or earning much less than the other partner, independent of care responsibilities. A compensating tax break for single parents exists, but its effect on net incomes usually is much smaller.

The German social assistance system guarantees a minimum standard of living to all whose means are not sufficient to make ends meet. Its objective is to guarantee a “socio-cultural” minimum standard of living that goes beyond mere physical survival to embrace the social and cultural needs that enable beneficiaries to be an active part of society.

## 2.2. Macroeconomic Review of Social Protection Expenditure

Germany is one of the countries with the highest social protection expenditure. Nevertheless, contrary to widely-held beliefs, Germany does not occupy the top rank; countries like France and Sweden have even higher spending ratios. Nevertheless, public social expenditure in countries such as Japan, the United Kingdom and the United States is much lower. Meanwhile, many countries on a lower level of economic development, such as Turkey, are quickly catching up (see *Figure 1*).

**Figure 1 - Social Expenditure in Germany and Selected OECD Countries in Percent of GDP**

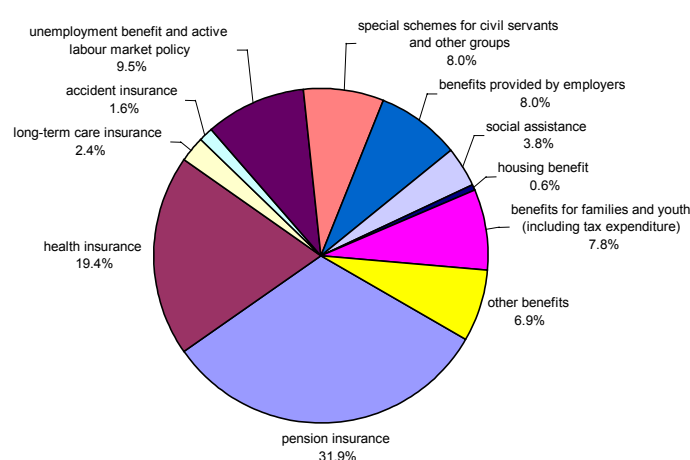


Source: OECD

Germany's social protection expenditure was relatively stable at slightly over 20 percent of GDP during the 1980s, but rose after unification to almost 28 percent of GDP in the year 1997, and slightly decreased thereafter. Based on a different methodological approach, data from the national social budget (*Sozialbudget*) show relatively steady social expenditure at about one third of GDP since the mid-1970s, and also after unification.

The structure of social expenditure in Germany's social budget is shown in **Figure 2**. Included are not only public expenditure, but also mandatory private expenditure, such as benefits paid by employers.

**Figure 2 - Structure of Social Expenditure in Germany, 2000**



Note: Provisional data.

Source: German Ministry for Labour and Affairs 2002: Materialband zum Sozialbudget 2001, Bonn: BMA; own calculations.

As can be seen from, expenditure on pensions makes up the highest share of the social budget with almost one third of total expenditure, followed by health insurance, at close to one fifth, and unemployment benefit and active labour market policy, at about one tenth of total expenditure. Together with accident and long-term care insurance, social insurance benefits represent more than two thirds of total social expenditure. In contrast, means-tested benefits other than unemployment assistance – social assistance and housing benefit – account for less than 5 percent of total social spending.

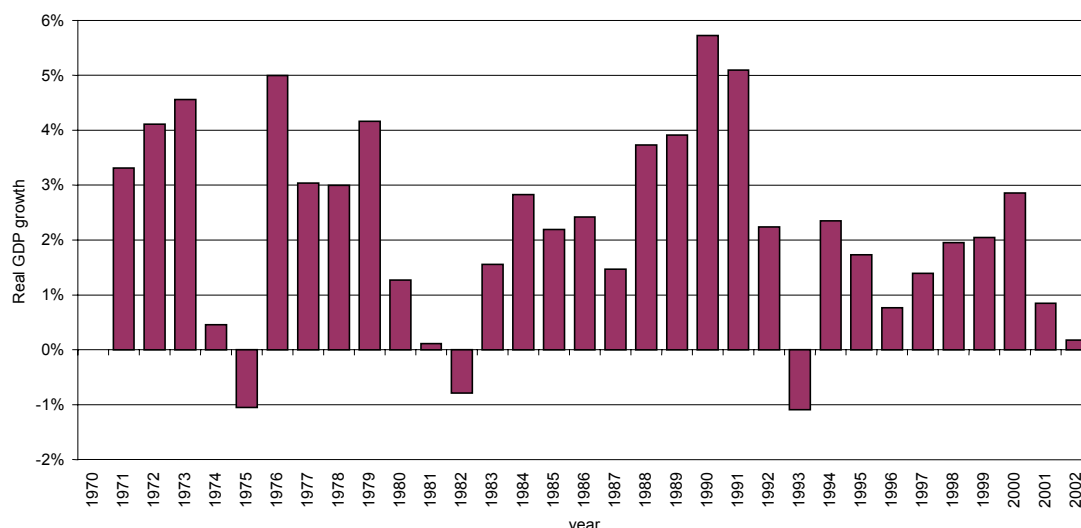
Other major components of social expenditure include special schemes for civil servants, and other groups and benefits provided by employers with 8 percent of social expenditure. Finally, other benefits include compensation, the promotion of wealth creation, and tax expenditure for social purposes other than the tax child benefit.

### 2.3. Economic and Labour Market Context

The economic situation during the last decade has been heavily influenced by German unification and its long-term consequences (**Figure 3**). While the German economy benefited from an extraordinary boost of demand immediately after unification, and this boost temporarily shielded Germany from the effects of the downturn of the world economy during

the early 1990s, the economy plunged into recession in 1993. After a few years of renewed growth during the boom of the late 1990s, the German economy has found itself in a serious crisis since 2000, with probably another recession in 2003.

**Figure 3 - Real GDP Growth in Germany**



Note: Until 1991 West Germany.

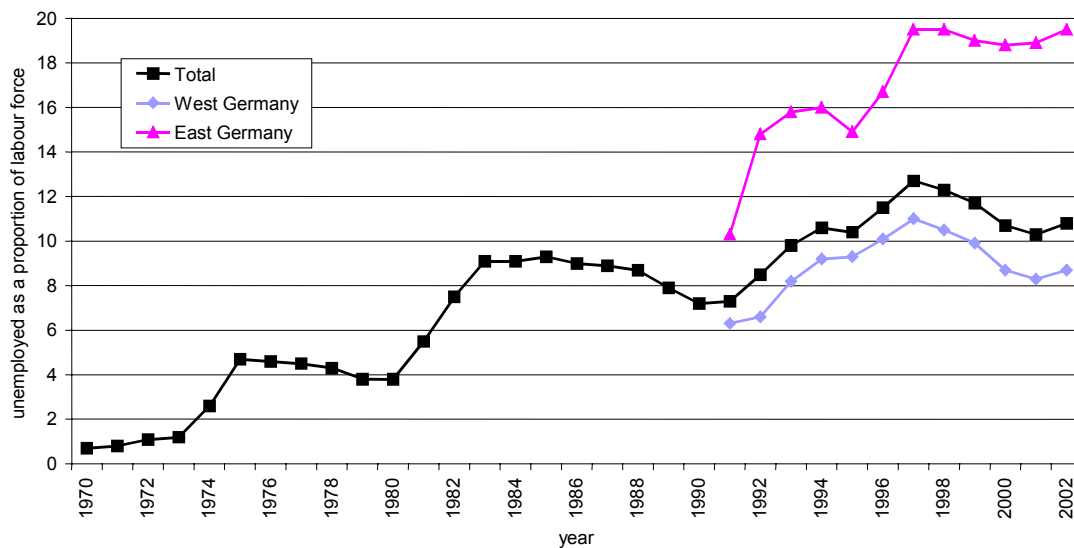
Source: German Statistical Office.

Particularly after the recent economic downturn, many observers call for structural reforms, specifically aimed at reducing rigidities in the labour market and promoting employment. In fact, as **Figure 4** shows, unemployment rates increased during the 1980s and even more during the 1990s to unprecedented levels. The high and persistent unemployment rates in Eastern Germany are a major source of concern.<sup>6</sup>

The high level of unemployment has important consequences for the financing of social security. Social insurance schemes depend to a large extent on contributions from insured workers, so high unemployment, together with a rise in atypical employment, has double the negative effect on social security financing, by causing both higher expenditure and lower revenue. And, as a smaller number of employed has to support a larger number of unemployed, contribution rates increase and further augment labour costs. Therefore, to improve social security finances, it is essential to improve the labour market situation.

<sup>6</sup> The terms “Western Germany” and “Eastern Germany” are used here as a shortcut to denote the territories of the former Federal Republic of Germany before unification and the German Democratic Republic. The federal state of Berlin is entirely counted towards Eastern Germany if not indicated otherwise.

**Figure 4 - Unemployment Rates in Germany**



Source: German Statistical Office.

### 3. Social Assistance Scheme in Germany

#### 3.1. Description of Social Assistance Schemes

Today's social assistance scheme was created by the Federal Social Assistance Law in 1962: this law reorganized and modernized the previous regulations. The poor law tradition up to the 19th century had granted modest help to the neediest members of a community on a discretionary basis, and several attempts to codify rights to social assistance benefits had already been undertaken during the 1920s. The experience of the First World War had shown that the causes of poverty can go beyond individual failure. It had thus been increasingly acknowledged that the state, rather than merely families and communities, carries a responsibility towards those in need, and that they should be granted a right to a minimum standard of living. Based on the fundamental principles of human dignity and public welfare embodied in the German constitution (enacted in 1949), the social assistance scheme guarantees a minimum standard of living. This “socio-cultural minimum” goes beyond the mere physical needs to include social and cultural needs. While this principle was already part of the 1962 law, more than 50 subsequent amendments extended the scope of the provision, strengthened claimants' rights, and tried to limit fraud.<sup>7</sup>

Social assistance is basically divided into two major types of benefits.<sup>8</sup> The first, which can be considered social assistance in a narrow sense, provides income support to households that cannot make ends meet (*Hilfe zum Lebensunterhalt*). The second benefit, aid in special circumstances (*Hilfe in besonderen Lebenslagen*), grants benefits to cover special needs, such

<sup>7</sup> For a more detailed overview, cf. BMA, 2002, Chapter 19; the historical development of social assistance in Germany is explained in Sachße and Tennstedt: 1988, 1998.

<sup>8</sup> For a concise description of social assistance in Germany, see also Adema et al., 2003.

as in cases of disability, long-term care or sickness. Benefits are also means-tested, but these categorical benefits are more strongly geared towards the specific needs of recipients. Both benefits can be claimed at the same time. Because the income support benefit can be considered social assistance in a narrow sense, the main emphasis of this paper is placed on this type of benefit.

Two major reforms reviewed the role of the social assistance scheme after 1962. In 1994, long-term care insurance, aimed at reorganizing the financing of long term care, was introduced. People in need of long-term care had to rely on social assistance if their own resources were not sufficient to cover the cost of care; a fifth pillar of social insurance was introduced to deal with this problem. This could not entirely relieve the burden on the social assistance scheme, but did reduce considerably its expenditure on people in need of long-term care. The second reform concerned the social assistance benefits paid to asylum seekers and certain categories of refugees. The influx of asylum seekers during the early 1990s had entailed a high cost for the social assistance system. The introduction of the Law on Benefits for Asylum Seekers (1993) created a separate social assistance scheme for asylum seekers and some other categories of refugees with reduced benefits that generally are paid as in-kind benefits.<sup>9</sup>

### **3.2. Organization and Administration of the Social Assistance Scheme**

The administration and financing of social assistance in Germany is the responsibility of the federal states, the *Länder* and the municipalities. Whereas income support benefits are financed out of the municipalities' budgets, the cost of aid in special circumstances is borne by the federal states.

Nevertheless, in spite of this strong decentralization in terms of financing, the regulatory and administrative leeway of the federal states and municipalities is relatively small. The legal framework is established by the Federal Social Assistance Law, which is complemented by directives at the federal and state levels. Within this framework, municipalities can pursue their own policies, but their scope of manoeuvre is rather narrow. Claimants enjoy relatively strong and standardized rights that can be invoked before the courts, notably the specialized "social courts" (*Sozialgerichte*). However, some municipalities have recently been granted more freedom in order to test reform options on an experimental basis.

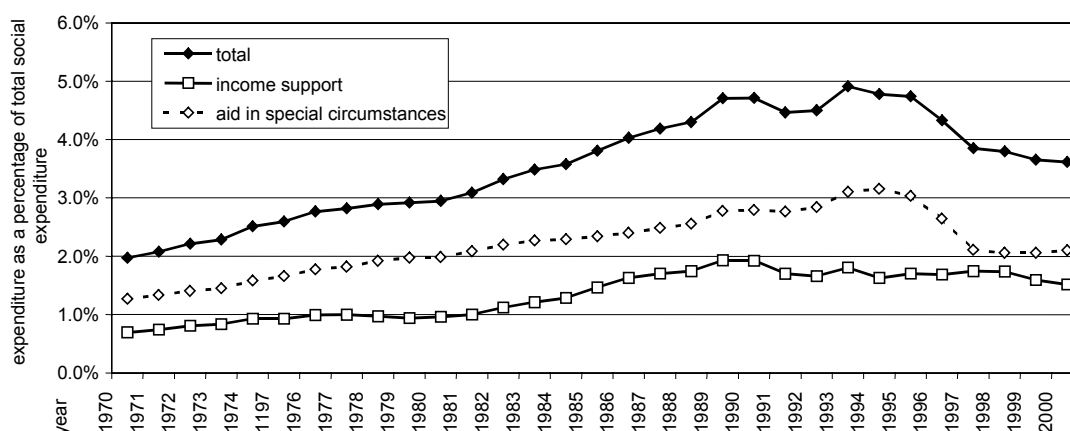
Social assistance benefits make up a small part of social expenditure, which nevertheless has grown from just under 2 percent of total expenditure in 1970 to just below 5 percent in 1993 (see **Figure 5**). In the meantime, the total social assistance expenditure decreased to 3.6% of social expenditure in 2000.

When total assistance expenditure is broken into expenditure on the two types of benefits, the reasons for this development become clearer. The dynamics of the growth of social assistance expenditure mainly stem from aid in special circumstances, especially during the early 1990s. Much of the subsequent drop in expenditure levels is explained by the introduction of long-term insurance in 1994, which had a strong effect on expenditure on aid in special circumstances. Between 1994 and 1997, expenditure dropped by about one third.

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<sup>9</sup> Cf. in more detail in BMA, 2002.

**Figure 5 - Social Assistance Expenditure as a Proportion of Total Social Expenditure**



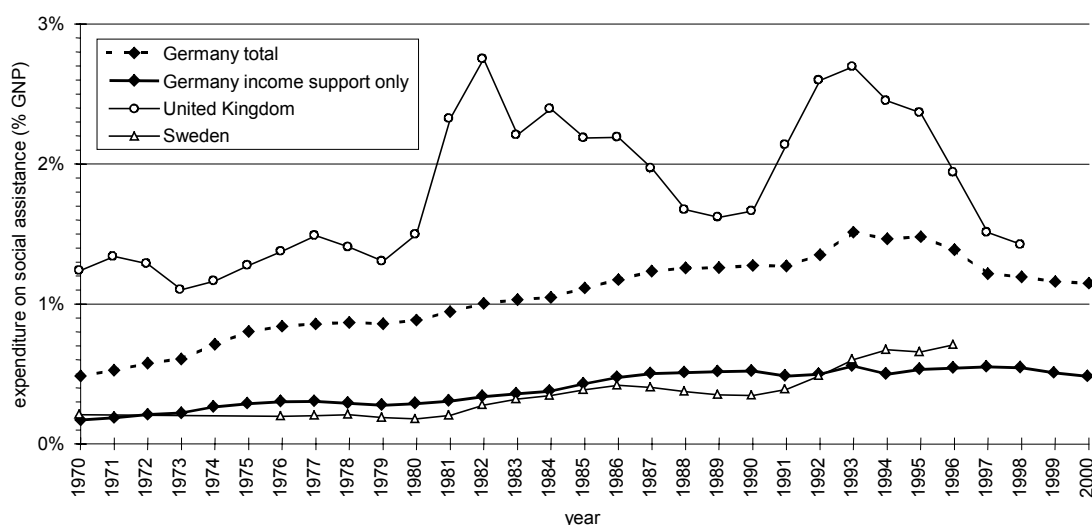
Note: Expenditure on income support excludes recipients living in institutions. Recipient numbers refer to the end of the year for income support and social assistance for asylum seekers, but to case numbers for aid in special circumstances.

Source: BMA; own calculations.

In contrast, expenditure on income support for people living outside institutions has grown more steadily from 0.7 percent of social expenditure in 1970 to a peak of 1.9 percent in 1989. Thereafter, expenditure slightly declined again to 1.5 percent in 2000.

To consider the relative level of social assistance expenditure independent of the size of the social budget, expenditure is described in relation to GDP in *Figure 6*. To put social assistance expenditure into a comparative perspective, the development of social assistance expenditure is also shown for Sweden and the United Kingdom.

**Figure 6 - Social Assistance Expenditure as a Percentage of GDP in Germany, Sweden and the United Kingdom**



Source: Britain: DSS: Social Security Statistics, various volumes. Germany: Statistisches Bundesamt, Fachserie 13, Reihe 2, various volumes, and unpublished material. Sweden: Statistisk Årsbok för various volumes.



Relative to GDP, total social assistance expenditure rose from 0.48 percent in 1970 to 1.51 percent at its peak in 1993, before quickly shrinking to 1.15 percent in the year 2000. Expenditure on income support alone increased from 0.17 percent of GDP in 1970 to a peak of 0.56 percent in 1993, and declined to 0.48 percent in the year 2000.

Compared to the British income support scheme, expenditure on social assistance in Germany is much lower, even if aid in special circumstances is taken into account, and is more stable. In contrast, expenditure on social assistance in Sweden is also much lower, and is remarkably similar to the share of expenditure allocated to German income support.

### **3.3. Criteria and Methods of Defining Eligibility**

Generally speaking, the social assistance scheme covers all residents whose income is below a certain minimum income level. This income threshold is determined by household size and composition, as well as special needs. Social assistance is a benefit of last resort, which means that all other possible income sources must be exhausted before claimants can turn to social assistance. However, minimal levels of savings and assets are disregarded when determining need. Higher savings and more valuable assets, in principle, have to be used before claimants become eligible for social assistance.

Eligibility is not directly linked to employment status and working hours. Even full-time employed people can receive social assistance benefits to supplement their earned income if it does not reach the minimum income threshold. The same applies to other social security benefits, such as old age pensions or unemployment benefits; if the total income level of the household remains below the minimum income threshold, it can be supplemented by social assistance.

Special rules exist for certain groups of the population. Some categories of young people are not eligible for social assistance because they are covered by other schemes. This applies in particular to people in vocational training or students. However, under certain circumstances, such as during pregnancy or if living with children, there are exceptions to this general rule.

Since 1993, asylum seekers and some categories of refugees have been excluded from receiving regular social assistance after a special social assistance benefit was introduced for this group. Benefits are generally provided as in-kind benefits, with only a small amount of money income provided in cash.

Responding to concerns about low take-up of social assistance benefits among the elderly with insufficient pensions, the government recently introduced a minimum income benefit for the elderly (*Grundsicherung im Alter*).<sup>10</sup> Benefit levels are the same as in the general social assistance system, but application procedures are simplified. This concerns in particular the social assistance office's assessment of the incomes of the applicants' larger family and its capacity to financially support the applicant. Even though this test is being operated with generous income disregards and sometimes is suspended altogether, these regulations for family liability apparently have deterred many justified claims of older people. Under the new minimum income benefit for the elderly, this test is only applied if there is evidence that

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<sup>10</sup> A similar benefit for the elderly (*Sozialzuschlag*) had been introduced in East Germany in 1990 after unification in order to supplement the lower old age pension level, but it was abolished in 1996.

the income of the applicant's children is higher than the income disregard (set at €°100,000 per year). The first experiences with this reform show that the objective of bringing elderly claimants out of social assistance has not been fully attained. Many claimants of this new benefit continue to claim supplementary social assistance in addition to their minimum income benefit, notably if they are eligible to receive additional premiums for special needs.

### **3.4. Benefit levels and Indexation**

Social assistance in Germany follows the principle of an individualized response to each person's needs, but benefits are relatively strongly standardized and regulated. The total income support benefit package is composed of four components: the standard benefit rate, special premiums, one-off benefits and housing benefit.<sup>11</sup>

Social assistance benefits are calculated on a household basis. The head of household receives 100 percent of the standard benefit rate, and each additional household member receives a smaller fraction of this standard benefit rate depending on his or her age: 50 percent for children 0-6 (55 percent if living in a single parent family), 65 percent for children 7-14, 90 percent for children 14-17, and 80 percent for adults.

The average value of the standard benefit was € 288 in 2002. This part of the benefit is supposed to cover the "socio-cultural minimum", that is the cost of food, personal hygiene, heating, and also items necessary to participate in the life of the society, such as phone calls, or a newspaper from time to time.

Benefit levels are fixed by the federal state, but are usually agreed upon among federal states in order to avoid too much divergence. Thus, benefit levels slightly differ among federal states, but the variation is rather small. In the year 2002, the lowest benefit was € 279; the highest € 294, reflecting variations in living costs while observing the principle of "equal living conditions" across regions enshrined in the constitution.

Under certain conditions, additional premiums are paid in case of special needs, such as mobility impairments (20 percent of the standard benefit), pregnancy (20 percent), single parenthood (40 percent for at least one child under 7 or two children under 16, 60 percent for four and more children), disability (40 percent) and health problems (depending on additional needs). These additions can be cumulative. In 1998, 17.5 percent of all recipients received one or more premium to cover special needs.

The provision of health care is ensured by health assistance benefits if participants are not insured otherwise. Health assistance benefits are part of aid in special circumstances and are supposed to provide a level of benefit that is similar to social insurance.

In addition to these periodic benefits, claimants can apply for one-off benefits. These exceptional benefits are paid in case of needs that are not covered by the standard benefit. This includes, for example, the cost of a winter coat or a fridge if necessary. Whereas the other parts of income support benefits are quite strictly regulated, social assistance administrators enjoy a large scope of administrative discretion for this type of benefit.

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<sup>11</sup> The housing benefit is not part of the social assistance scheme and it is financed from different sources (jointly by the federal state (*Land*) and the federal government). However, for claimants of social assistance, the housing benefit is administered by the social assistance offices.

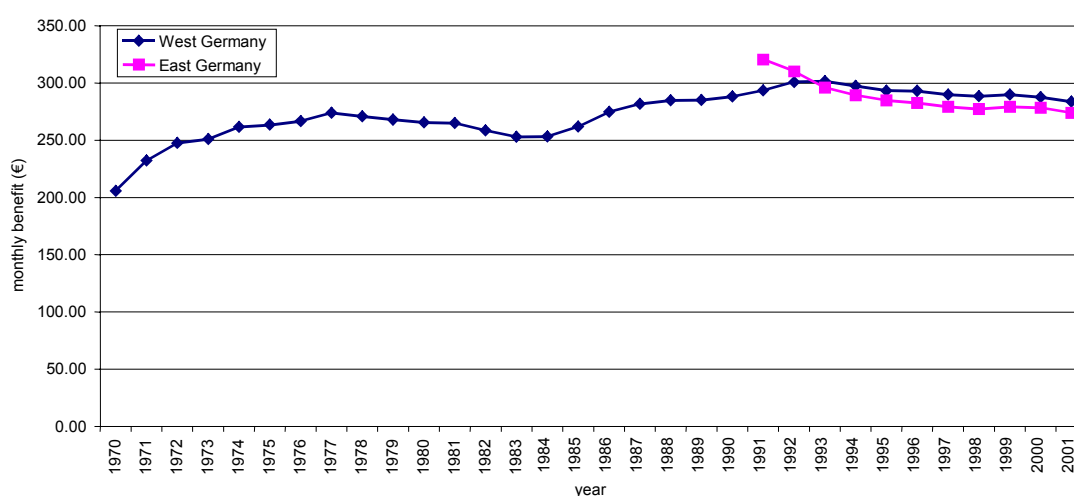
However, some federal states have recently started to experiment with paying a periodic supplement to the standard benefit rate to account for these special needs. While such a supplement cannot be used to actively direct benefits to those in the greatest need, it is much easier to administer and it is less prone to “creaming effects” because of imperfect targeting.<sup>12</sup>

The costs of housing are covered by a separate housing benefit, which is also paid directly by social assistance offices to claimants of social assistance. Housing benefits can also be claimed by people who do not receive social assistance, but for them, benefits are normally administered by another office. Housing benefits normally cover the full actual rent, but can be limited if the standard of the apartment or house is considered too high.

The indexation of social assistance benefits generally follows the development of prices, but other factors are also considered in determining benefit levels, including the actual spending patterns of low income (non-recipient) households and the development of net incomes. This institutional expression of the principle of less eligibility (*Lohnabstandsgebot*) is supposed to ensure that the level of social assistance benefits do not grow faster than the incomes of working families. Formally introduced in 1990, the implementation of this rule has faced some difficulties, but relative benefit levels have indeed slightly declined since then.

The development of the standard benefit rate is shown in **Figure 7**.

**Figure 7 - Development of the Average Standard Benefit Level (2001 prices)**

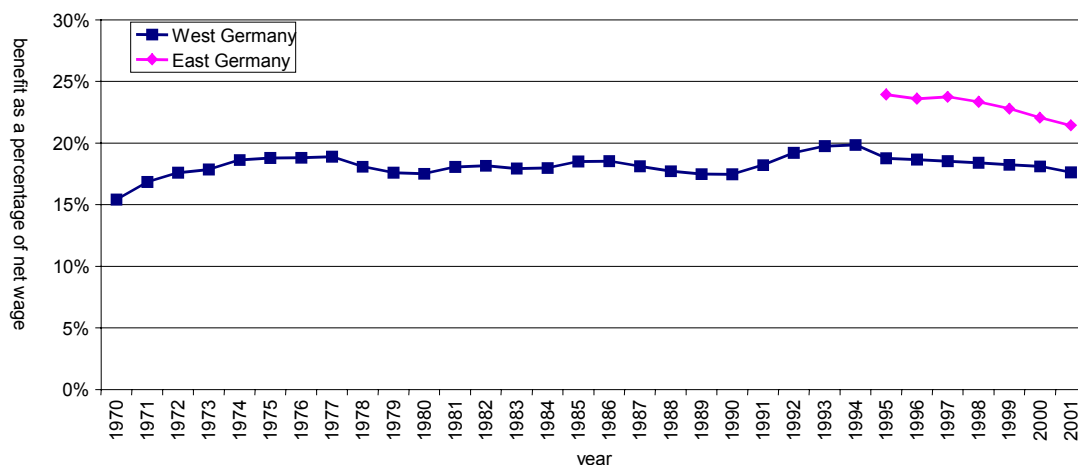


Source: German statistical office; own calculations.

While the real value of the standard benefit increased until 1977, the following years saw a slight decline. Benefit levels started to rise again in the second half of the 1980s but dwindled after 1993. The level of the standard benefit in Eastern Germany was relatively high initially, then was reduced in keeping with the level in Western Germany, although it still remains slightly below this level, reflecting the lower living costs in the East.

<sup>12</sup> “Creaming effects” describe the fact that such benefits often are received by those claimants who are more active and more articulate rather than by those in most dire need.

**Figure 8 - Average Standard Benefit as a Proportion of a Worker's Net Wage (single worker in manufacturing, no children)**



Note: Net wages are partly imputed.

Source: German Federal Ministry for Labour and Social Affairs; own calculations.

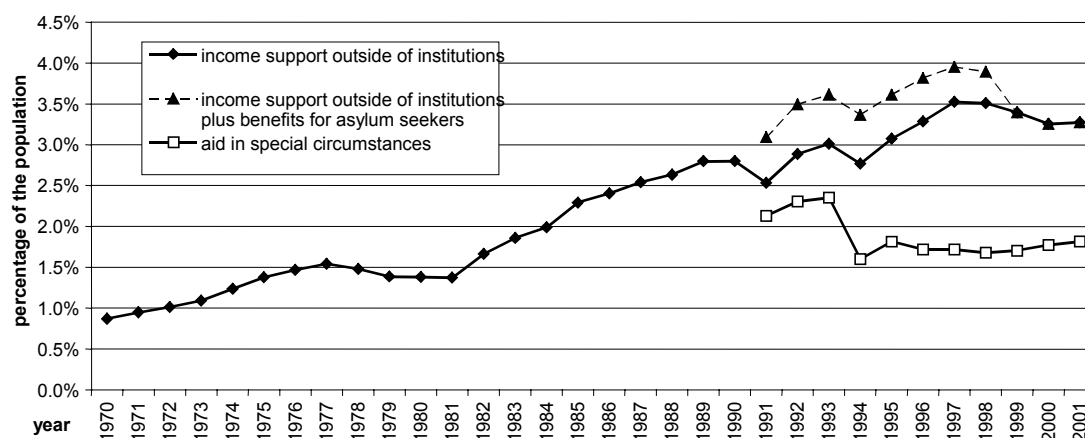
In **Figure 8**, the development of benefit levels relative to net wages is exemplified on the basis of the average net wage of a single childless worker in the manufacturing industry. Relative to net wages, the social assistance standard benefit increased until the mid 1970s when it reached a level of 19 percent of the net wage. It then oscillated around this level before a slight decline to 17 percent just before unification. During the early 1990s, the relative level of the standard benefit rate rose again to 20 percent in 1994, but again slightly declined to 18% in 2001. The relative level of the standard benefit rates in East Germany is somewhat higher because of lower earnings levels, but slowly converged with the West German level.

The ratios indicated in Figure 8 are, however, not to be understood as replacement rates, as they consider only the standard benefit. If the values of the housing benefit, one-off benefits and special premiums are added, the distance between net wages and social assistance benefit levels would be much smaller. In fact, there are concerns that benefit levels were too high to provide sufficient incentives to obtain employment, especially for people with low education. Empirical studies do not lend support to these concerns in general, but confirm that these problems exist in fact in the case of low-income workers with several children (Adamy, 1998; Engels, 1999).

### 3.5. Recipient Number and Structure

The number of recipients of social assistance has tripled during the last three decades. Driving forces were higher demand for social assistance benefits on the one hand, partly due to higher unemployment, and the extension of eligibility on the other.

**Figure 9 - Recipients of Social Assistance as a Proportion of the Population**



Note: The number of recipients refers to the end of the year for income support and social assistance for asylum seekers, but to case numbers for aid in special circumstances. For this reason, figures are not fully comparable.

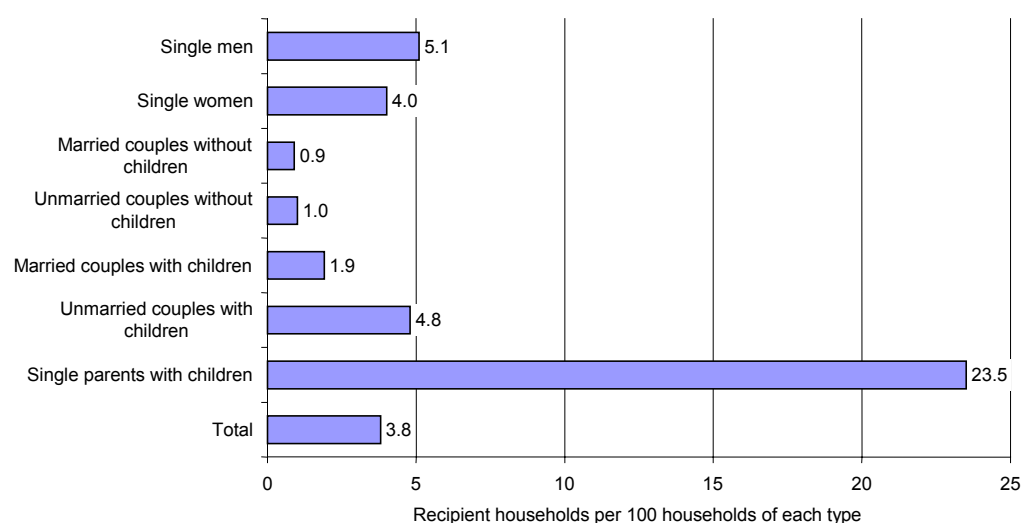
Source: German statistical office; own calculations.

**Figure 9** shows an almost steady growth of the number of recipients since 1970, interrupted only by a slight decrease during the late 1970s and again in the early 1990s. It appears that the introduction of the special social assistance scheme for asylum seekers reduced the pace of the increase for income support, but the total recipient numbers peaked at 3.5 percent of the population in 1997. Thereafter, the number of recipients of income support decreased slightly, mainly due to increases in child benefits. The special social assistance for asylum seekers has quickly lost its importance, mostly due to the sharp drop in the number of asylum seekers during the late 1990s.

Although recipient rates for aid in special circumstances are shown for comparative purposes, these are not strictly comparable to recipient rates for income support. Whereas the latter refer to the number of beneficiaries at one particular day in the year, the former reflect case numbers. The number of beneficiaries had almost reached 2.5 percent of the population in 1993, but the introduction of long-term care insurance subsequently reduced beneficiary ratios to less than 2 percent of the population. However, if insurance benefits are not sufficient to cover the costs, aid in special circumstances can be claimed in parallel.

The average social assistance recipient rate of 3.3 percent of the population is not evenly spread across the population. The distribution by household type and age group is shown in **Figure 10** and **Figure 11**.

**Figure 10 - Social Assistance Recipient Rates by Household Type, 2001**

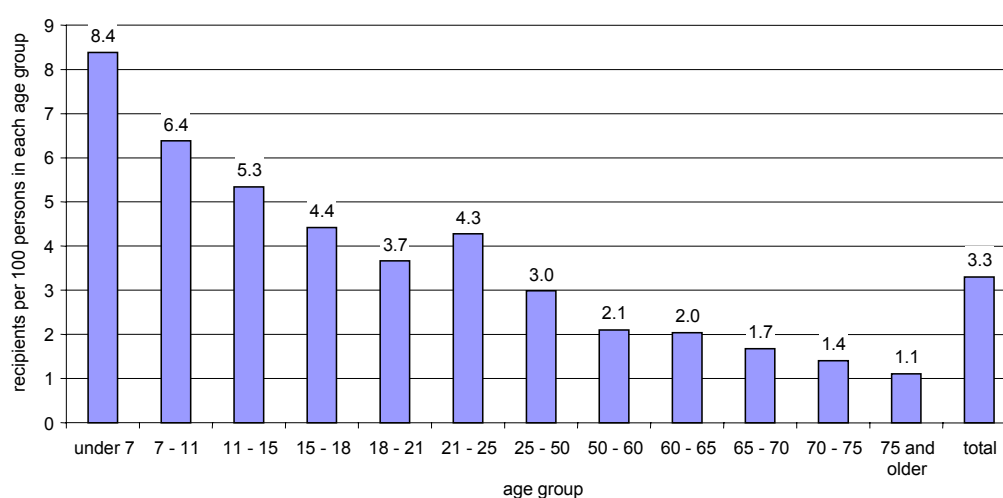


Note: Considers only recipients of income support living outside of institutions. "Children" refers to children under the age of 18 living in the household.

Source: Federal Statistical Office 2003: Fachserie 13, Reihe 2.1, Wiesbaden: Federal Statistical Office.

Single parent households are most prone to receive social assistance; almost one in four households claim social assistance. Compared to overall recipient rates, single parent households are six times more likely to claim social assistance. In contrast, married couples with children are less prone to claim social assistance; however over-proportional recipient rates are recorded for those households with three or more children. Unmarried couples are more likely to receive social assistance, especially again with three or more children. A slightly overproportional risk of receiving social assistance is also recorded for single men and women.

**Figure 11 - Social Assistance Recipient Rates by Age Group, 2001**



Note: Considers only recipients of income support living outside of institutions.

Source: Federal Statistical Office (2003): Fachserie 13, Reihe 2.1, Wiesbaden: Federal Statistical Office.

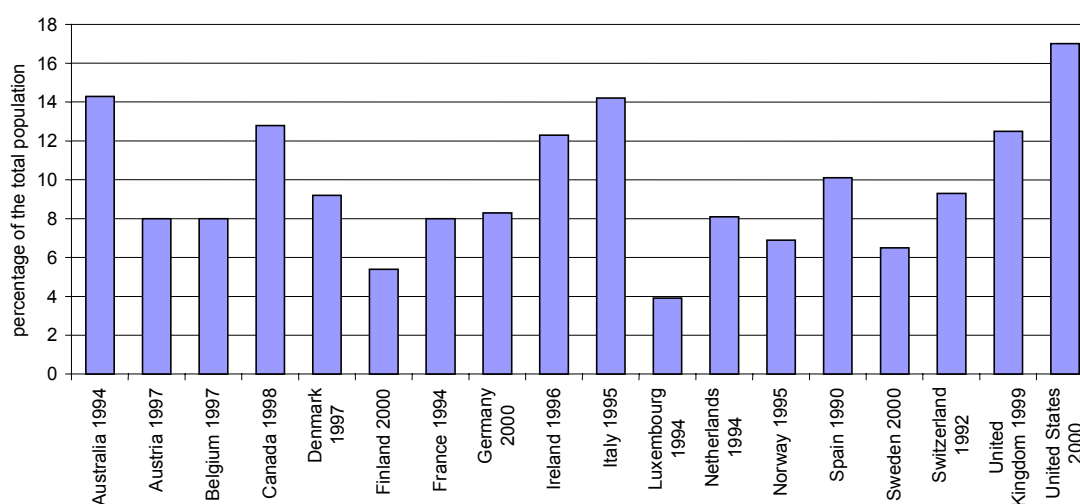
Particularly high recipient rates are recorded for children. Among children under the age of 7, almost one out of twelve children receives social assistance. Recipient rates decrease with age of the child, reflecting, *inter alia*, the fact that parents of older children can more easily combine employment with care responsibilities. This may also explain part of the relatively high recipient rates among adults in the main child-rearing years from 21-40 years. Recipient rates in this age group are particularly high among women, many of whom are single mothers. Older age groups are less prone to receive social assistance, especially for those aged 65 and older. The risk of being poor in old age has considerably decreased with the extension of old age pensions during the last decades. However, recipient rates in this age group are markedly higher among women than among men.

### 3.6. Social Assistance and Poverty

Few Western welfare states have managed to reduce relative income poverty levels to less than 5 percent of the population. Relative income poverty is defined here as command over less than 50 percent of median equivalent disposable income within a society; this definition is often applied for cross-national comparisons among industrialized countries. The concept of relative income poverty is based on the notion that poverty is not only a question of physical survival, but is also dependent on the general level of economic welfare in a society.

**Figure 12** shows relative poverty rates in selected OECD countries and demonstrates that relative poverty rates in Germany are close to the average of this selection of countries.

**Figure 12 - Relative Poverty Rates in Selected OECD Countries**  
(poverty line: 50% of median equivalent disposable income)



Note: Based on square root equivalence scale.

Source: Luxembourg Income Study (LIS) Key Figures.

National empirical data on income poverty in Germany based on another data source in *Table 1* also show that a substantial proportion of the population live in relative income poverty.<sup>13</sup> As for the comparative data, the poverty line is defined as 50 percent of equivalent disposable median income. In addition, the proportion of the population on a low income of less than 60 percent is also shown.

**Table 1 - Relative Income Poverty in Germany (as a Percentage of the Population)**

	1973	1978	1983	1988	1993			1998		
					West	East	Total	West	East	Total
50% of median	3.6	3.7	5.5	6.2	6.2	(1.8)	5.6	7.1	2.9	6.2
60% of median	8.7	9.0	11.0	11.8	12.0	6.1	11.7	13.1	8.4	12.5

Note: Calculated by R. Hauser and I. Becker on the basis of EVS data and the new OECD equivalence scale. Poverty rates for West Germany 1993 and 1998 are based on a poverty line for West Germany only; for East Germany respectively. Poverty rates in brackets are calculated from a small number of cases. Source: German Ministry of Labour and Social Affairs (2001): *Lebenslagen in Deutschland*, Bonn: BMA: p. 26.

Beginning in the early 1970s, the proportion of the population living in poverty or low income steadily rose for two decades. In Western Germany, this trend continued after unification with a poverty rate of 7.1 percent of the population in 1998. In contrast, relative poverty rates in Eastern Germany are much lower when calculated on the basis of an East German poverty line, but slightly higher when based on a common poverty line (9.3 and 8.5 percent in 1993 and 1998 respectively). The poverty rate for unified Germany rose from 5.6 percent of the population in 1993 to 6.2 percent in 1998. The proportion of the population on low income increased from 8.7 percent in 1970 to 12.5 percent in 1998. The structure of poverty has also changed during the last decades. While poverty rates among the elderly decreased, poverty risks for families with children increased (BMA, 2001).

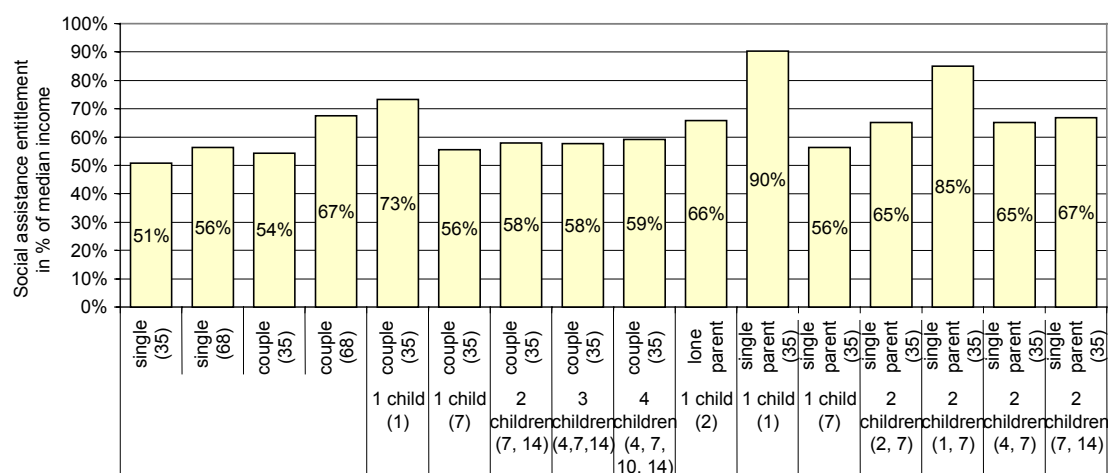
How do social assistance benefit rates relate to poverty lines? The model calculations are based on a number of model households, and on the assumption that those families do not have any income apart from social assistance and ancillary benefits. The benefit packages considered here include social assistance standard benefits, special premiums (where applicable), one-off benefits for special needs, and housing benefits.<sup>14</sup> *Figure 13* shows the level of the benefit package as a proportion of median equivalent income, so benefit levels can be directly compared to the poverty line of 50 percent of median equivalent disposable income used above.

<sup>13</sup> The dissimilarity in the level of poverty compared to *Figure 12* can be due to different methodologies employed in the calculation of poverty rates, and should necessarily be interpreted as a substantial discrepancy.

<sup>14</sup> For a more detailed description of the underlying methodology, cf. Behrendt, 2002(a), pp. 128-156.



**Figure 13 - Relative Level of Social Assistance Benefits in Germany, 1994**



Note: Median income calculated from the Luxembourg Income Study, based on the modified OECD equivalence scale.

Source: Own calculations.

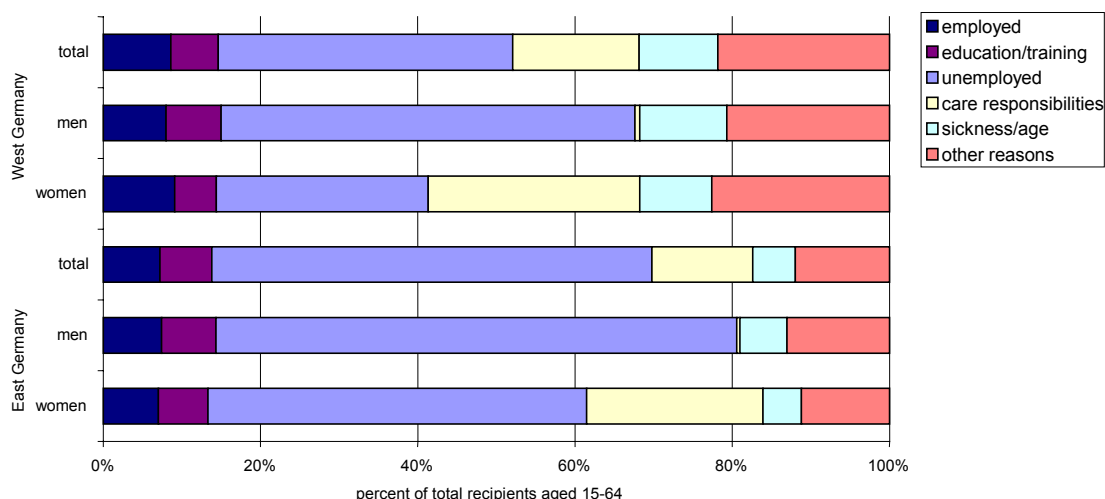
The model calculations in Figure 13 show that benefit levels are high enough to bring each of the family types above the poverty line of 50 percent of median equivalent income. While a single person receives a benefit package that is just above this poverty line, most family types receive between 55 and 59 percent of median income. Somewhat better off are elderly couples and single parent families with two children, while a relatively comfortable, though modest, income position is reached by families with young infants, especially single parents. These families benefit from the fact that the parental benefit (*Erziehungsgeld*) is not considered as income in the calculation of benefit entitlements. For all family types considered here, the level of social assistance benefits match this poverty line fairly well.

If social assistance benefit levels match the poverty line fairly well or grant even a more generous level of income, how can it be explained that 7 or 8 percent of the population live in poverty? This discrepancy can be explained by a combination of factors. First, the model calculations presented above could only consider a limited number of cases and could not fully illuminate the diversity of household situations. However, a more sophisticated simulation of benefit levels based on a larger sample shows that only a very small proportion of the population falls into poverty (Behrendt, 2002(a), 140-156). Second, it may be that those who would be eligible for social assistance benefits do not receive the full amount of benefits to which they are entitled (see below in more detail). Finally, part of the discrepancy in question may be explained by sampling and non-sampling errors in the income survey used for the calculation of poverty rates (Behrendt, 2002(b)).

### 3.7. Links between Social Assistance Schemes and Labour Market Policy

The structure of the claimant population with respect to employment is shown in *Figure 14*.

**Figure 14 - Employment Status of Recipients of Social Assistance Benefits aged 15-64, 1998**



Source: Bundesministerium für Arbeit und Sozialordnung 2001. Lebenslagen in Deutschland: Daten und Fakten, Bonn: BMA. p. 133.

Fewer than one in ten recipients of social assistance were employed. In West Germany, more than one third of recipients were unemployed, and most of them did not receive unemployment benefits. This may be due to the fact that they were not eligible at all or that their benefit had expired. A large proportion of claimants is not, or is only to a limited extent, available to take up work because of their health status or care responsibilities.

The links between the social assistance scheme and labour market policy have often been regarded as being insufficient. These concerns focused in particular on the level of social assistance benefits that – especially for families with several children – would not provide enough incentive to obtain employment.

The social assistance regulations offer a number of positive and negative incentives to encourage employment. In the calculation of benefit entitlements, earned income is disregarded up to a certain level. Claimants are required to accept work if they are not exempt from this requirement because of their age, health status or care responsibilities. Of those claimants able to work, benefit rates may be cut by at least 25 percent if they do not accept work offers or do not try hard enough to find work.

Social assistance offices and the employment service are supposed to cooperate in bringing claimants (back) into work, but in practice, this collaboration is often insufficient. One possible reason is found in administration and financing patterns. Labour market policy is largely financed from unemployment insurance contributions and is administered by the federal employment agency (*Bundesanstalt für Arbeit*) and its local offices. From an institutional point of view, the employment agency is primarily interested in bringing recipients of unemployment insurance benefits back into work, whereas their efforts for

claimants of social assistance do not have a direct effect on its budget. Besides, recipients of social assistance often require more focused training and support in order to facilitate their entry into the labour market. While a more active labour market policy aimed at recipients of social assistance would be beneficial from a societal point of view, the fragmentation of administrative and financial responsibilities discourages such policies (Schmid and Reissert, 1988).

Several reforms have sought to strengthen the administrative links between social assistance offices and the employment service in order to facilitate labour market (re-) entry for claimants. Although these reforms could improve the situation in the short run, they have not lead to a fundamental improvement of the situation. The current labour market situation certainly does not offer a favourable context for such reforms.

### **3.8. Individual rights, administrative discretion and take-up**

As the social assistance system in Germany is strongly codified, claimants' rights are quite strong. Nevertheless, there is a considerable scope of discretion on the part of the social assistance offices, especially with respect to one-off benefits. If claimants contest a decision taken by an office, they can submit an appeal against decisions of the social assistance office. Claimants can first demand a formal re-examination of the decision in question by the administration itself, and can then turn to the court for judicial review. This procedure includes a hearing in which social policy experts from charities or claimants' associations have to be consulted. The appellants can choose to participate in this hearing. If necessary, a preliminary ruling of the court can help to prevent hardship. While claims to invoke a decision on social assistance are normally exempted from court fees, low-income claimants can apply for legal aid in order to pay a lawyer (Brühl, 1998, 220-233).

It is also important to note that entitlement to social assistance does not require the person in need to submit an application; social assistance offices are required to intervene as soon as they learn about a person in need. In practice, however, most claim procedures start with an application by the person in need.

Compared with other countries, take-up of social assistance is not very high. Studies have shown that some 40-60 percent of eligible household do not receive social assistance, and 20-40 percent of potential social assistance expenditure is not claimed.<sup>15</sup> A multitude of factors are responsible for low take-up (van Oorschot, 1995; Riphahn, 2000). Some people may forgo their rights because they are not aware of them, because they expect to receive a small amount of money, but do not want to undergo the hassle of the claim process, or because they are afraid of stigmatization.

The family liability embodied in the German social assistance scheme is considered to have particularly negative effects upon take-up, especially among the elderly (Hartmann, 1985; Müller, 1998). Concerns about low-take-up among this group have lead to the recent introduction of the minimum income benefit for the elderly and the quasi-suspension of the family liability rule.

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<sup>15</sup> For a more detailed summary of take-up, cf. Behrendt, 2002(a), Chapter 7.

## 4. Conclusion

The architects of Germany's social assistance system have tried to accomplish the difficult task of striking a balance between the protection of human dignity and individual rights on one side, and social control and cost containment on the other. While the social assistance system might be considered as relatively successful in marrying these divergent goals, it has turned into a complex system whose effectiveness and efficiency must be improved.

A fundamental reform of the social assistance system has recently been discussed: its centrepiece is the combination of social assistance with means-tested unemployment assistance. This reform has recently been adopted, and is now being implemented.

One of the driving forces of this reform was the insight that mobility in and out of social assistance was much greater than often assumed. Based on the usual recipient statistics, social assistance could be understood as a relatively static system. However, it would be wrong to conclude that claimants of social assistance are a distinct group of the population, and that benefit receipt is stable over time. Empirical studies that analysed the receipt of social assistance from a longitudinal perspective have shown that there is a considerable mobility in and out of social assistance.<sup>16</sup> Many recipients claim social assistance for some months in order to bridge a temporary income shortfall, but manage to improve their income situation quickly by taking up employment or other means of support. There is of course a stock of long-term recipients, but this group is relatively small relative to short-term recipients moving in and out of social assistance.

Another implication of the high fluctuation within the recipient population is that a much larger group of the population is in contact with social assistance during a given period than the relatively low recipient rates of less than 4 percent of the population would suggest. It has been estimated that up to one third of the population received social assistance at least once during a period of five or six years. These insights have led to increasing concerns about how social assistance could be better geared towards further improving mobility out of social assistance, or in other words, how social assistance could become more of a “trampoline” than a “hammock”.

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<sup>16</sup> For a more detailed discussion of the dynamics of social assistance and poverty, cf. e.g. Buhr, 1995; Voges and Rohwer, 1991; Leisering and Leibfried, 1999.

## 5. List of legislation

### Social Assistance

- Federal Social Assistance Act (*Bundessozialhilfegesetz*) from 1 June 1962, with numerous subsequent changes most recent change 20 June 2002.
- Law Aiming at Improving the Collaboration between Employment Service and Social Assistance Offices (*Gesetz zur Verbesserung der Zusammenarbeit von Arbeitsämtern und Trägern der Sozialhilfe*), 20 November 2000.
- Law on Benefits for Asylum Seekers (*Asylbewerberleistungsgesetz*). legislated 3 June 1993, most recently amended 20 June 2002.
- Law on Means-tested Basic Income in Case of Old Age and Invalidity (*Gesetz über eine bedarfsorientierte Grundsicherung im Alter und bei Erwerbsminderung*). legislated 26 June 2001, most recently amended 27 April 2002.

### Housing Benefit

- New Version of the Law on Housing Benefit (*Wohngeldgesetz*), legislation 1965, most recent amendment 11 April 2000.

### Long term care insurance

- Social Long Term Care Insurance (Eleventh book of the Social Security Code; *Soziale Pflegeversicherung; Elftes Buch des Sozialgesetzbuchs*). 26 May 1994, most recently amended 14 December 2001.

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## 7. Statistical Annex

**Table A1 – Exchange Rates**

	<b>Deutschmark (DM) – US Dollar (US\$)</b>		<b>Euro (€) – US Dollar (US\$)</b>	
	<b>1US\$ = ... DM</b>	<b>1DM = ... US\$</b>	<b>1US\$ = ...€</b>	<b>1 EUR= ... US\$</b>
1970	3.646	0.274	<i>1.864</i>	<i>0.536</i>
1971	3.480	0.287	<i>1.779</i>	<i>0.562</i>
1972	3.189	0.314	<i>1.630</i>	<i>0.613</i>
1973	2.659	0.376	<i>1.360</i>	<i>0.736</i>
1974	2.590	0.386	<i>1.324</i>	<i>0.755</i>
1975	2.463	0.406	<i>1.259</i>	<i>0.794</i>
1976	2.517	0.397	<i>1.287</i>	<i>0.777</i>
1977	2.322	0.431	<i>1.187</i>	<i>0.842</i>
1978	2.008	0.498	<i>1.027</i>	<i>0.974</i>
1979	1.833	0.546	<i>0.937</i>	<i>1.067</i>
1980	1.816	0.551	<i>0.928</i>	<i>1.077</i>
1981	2.261	0.442	<i>1.156</i>	<i>0.865</i>
1982	2.429	0.412	<i>1.242</i>	<i>0.805</i>
1983	2.555	0.391	<i>1.306</i>	<i>0.765</i>
1984	2.846	0.351	<i>1.455</i>	<i>0.687</i>
1985	2.942	0.340	<i>1.504</i>	<i>0.665</i>
1986	2.171	0.461	<i>1.110</i>	<i>0.901</i>
1987	1.798	0.556	<i>0.919</i>	<i>1.088</i>
1988	1.758	0.569	<i>0.899</i>	<i>1.112</i>
1989	1.881	0.532	<i>0.962</i>	<i>1.040</i>
1990	1.616	0.619	<i>0.826</i>	<i>1.210</i>
1991	1.661	0.602	<i>0.849</i>	<i>1.177</i>
1992	1.560	0.641	<i>0.797</i>	<i>1.254</i>
1993	1.654	0.604	<i>0.846</i>	<i>1.182</i>
1994	1.622	0.617	<i>0.829</i>	<i>1.206</i>
1995	1.434	0.697	<i>0.733</i>	<i>1.364</i>
1996	1.504	0.665	<i>0.769</i>	<i>1.301</i>
1997	1.735	0.576	<i>0.887</i>	<i>1.127</i>
1998	1.759	0.568	<i>0.899</i>	<i>1.112</i>
1999	<i>1.835</i>	<i>0.545</i>	0.938	1.066
2000	<i>2.118</i>	<i>0.472</i>	1.083	0.924
2001	<i>2.184</i>	<i>0.458</i>	1.117	0.896
2002	<i>2.068</i>	<i>0.483</i>	1.058	0.946

Note: In order to facilitate comparison, values in italics have been approximated on the basis of the fixed exchange rate of the Euro to the Deutschmark.

Source: German Federal Bank, European Central Bank, own calculations.



# Chapter 2 Social Assistance in Sweden<sup>1</sup>

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## 1. Introduction

While the establishment of a system of social assistance is still on the political agenda in some countries, Sweden has had such a system for centuries via its precursor, “poor relief”. This system is much older than the welfare state. The year that a poor relief system, regulated by law, originated in Sweden (and Finland which at the time was part of the kingdom) depends to some extent on definition. Local authorities have been responsible for providing help for the deserving poor since 1763. The deserving poor was comprised of those who could not earn a living due to infirmity or disability who were also without relatives to care for them. This legislation did not invent poor relief, however; historians show that in some locations poor relief was in existence much earlier.<sup>2</sup>

Not long ago, Sweden was an agrarian country without the resources for an ambitious social policy. Low living standards provided the impetus for emigration and many left Sweden, predominantly for the USA, during the late 19<sup>th</sup> century and the first decades of the 20<sup>th</sup> century. At that time social policy was more or less limited to the provision of poor relief. The typical recipient was an elderly person, though the seriously sick and handicapped, as well as families with many children, also received relief. The provision of poor relief constituted a large proportion of public expenditures for the local authority, and thus could be a hot topic in political debates. For example, at the end of the 1860s, Sweden suffered from severe crop failures. This put heavy pressure on poor relief in the predominantly agrarian society. People on poor relief increased from 3.2 percent (1861) to 5.2 percent (1869). Against this background, no less than 12 motions were put forth at the Riksdag (Parliament), demanding alleviation of the pressure on poor relief. This led to new, more restrictive, legislation (Nilson, 1965).

Beginning in the latter part of the 1800s, and for the next hundred years, Sweden experienced rapid economic growth. Average living standards swiftly increased as the population became urbanised. The central government’s ambition - to provide social insurance benefits for the population - intensified, particularly after World War II, a period characterised by low unemployment. During the 60s, 70s and 80s, the labour market participation of women steadily increased and two-earner couples became the role models. Parallel to this, local governments assumed a greater role in providing social services to the population and, in consequence, taxes increased rapidly. During this period “poor relief” was renamed “social assistance” (“socialhjälp” in the mid 50s, “socialbidrag” in the early 80s) and figured only

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<sup>1</sup> I thank Lennart Flood and Mariko Ouchi for useful comments on an earlier version of the paper.

<sup>2</sup> See for example: Johansson, 1982; 1984.

occasionally in public debates, as the expansion of many other programmes attracted greater attention.

However, in Sweden during the 90s, social assistance grew in political importance. At the beginning of the 90s the Swedish economy was subject to a severe unemployment shock and, as a result, the public sector faced great financial problems, which included cuts in benefits and eligibility, as well as increased taxes. Over several years, the number of social assistance recipients increased rapidly, thereby putting pressure on local government finances.

**Table 1 - Social assistance in Sweden 1983 - 2002, some key numbers**

Year	Number of recipients (thousands)	Rate of recipients	Average number of months of receipt	Total sum Million SEK (Prices for year 2002)
1983	475	5.7	4.2	4,683
1984	524	6.3	4.2	5,252
1985	536	6.2	4.4	5,933
1986	564	6.5	4.5	6,754
1987	540	6.2	4.4	6,753
1988	524	6.0	4.3	6,434
1989	505	5.7	4.3	6,268
1990	492	5.7	4.3	6,203
1991	511	5.9	4.4	6,774
1992	560	6.5	4.6	8,224
1993	642	7.4	4.8	9,757
1994	696	7.9	5.1	11,277
1995	689	7.8	5.4	11,543
1996	722	8.2	5.7	12,649
1997	718	8.1	5.8	13,087
1998	660	7.4	5.8	12,113
1999	581	6.6	5.8	11,044
2000	522	5.9	5.8	9,959
2001	469	5.3	5.7	8,890
2002	434	4.9	5.8	8,528

Source: Socialstyrelsen (2003)

Note: There is a change in data collection starting in 1990. Previously people who received social assistance in more than one local government (for example due to migration) were counted more than once.

This development is illustrated in **Table 1**, which shows that the number of persons living in households which received social assistance at least once during the year increased from 491,000 persons in 1990, to 721,000 persons in 1996, or by 47 percent. Recipients increased from 5.7 percent to 8.2 percent of the population. The average period of receipt became longer; the paid benefits doubled. However, as the economy recovered during the second part of the 90s, people returned to work, and cuts in welfare state programs were restored. Consequently, the number of people on the welfare rolls has recently fallen rapidly; in 2002 they were down to 343,000, which correspond to 4.9 percent of the population. However, expenditures have not fallen as swiftly, as the average number of months of receipt has not decreased.<sup>3</sup>

<sup>3</sup> For more on the development of social assistance during the 90s, see Bergmark, 2000.

It is interesting to see that although the rate of social assistance receipt in 2002 is lower than in has been for many years, it is actually rather close to the rate of poor-relief receipt during the 1860s. Economic growth and the introduction of the welfare state have thus not led to a smaller proportion of the population in Sweden being supported by the final safety net. While this description illustrates a certain continuity, over time, for people found in the income safety net, there are also important differences. While the typical recipient of poor relief was an elderly person, most likely a native female, the typical recipient of social assistance today is a young adult, either male or female, native or immigrant.

This paper provides an overview of the system of social assistance in Sweden. The next section places social assistance within the system of social policy, broadly defined. The provision of social assistance is described in Section 3.1, while Section 3.3 discusses the process of receipt. The present Swedish government has adopted the goal of cutting the number of persons on the social assistance rolls in half, and this will be discussed together with measures of poverty in Sweden in Section 3.3. The paper ends with some concluding comments.

## 2. The Social Policy System and the Role of Social Assistance within it

Relatively speaking, Sweden has directed many resources towards social protection. *Table 2* shows that such expenditures in relation to GDP were somewhat larger, on average, than for the EU. However, the Swedish example is not unique, as in 2000 social protection expenditures in Denmark, Germany and France were of the same magnitude.

**Table 2 - Social protection expenditures in Sweden by function and in EU, 1996 – 2001, in relation to Gross Domestic Product (GDP) by percent**

	1996	1997	1998	1999	2000	2001
Sickness/Health care	7.4	7.5	7.8	8.1	8.4	9.0
Disability	3.9	3.7	3.8	3.7	3.7	3.8
Old age	12.2	12.1	11.9	11.7	11.2	11.3
Survivors	0.8	0.7	0.7	0.7	0.7	0.7
Family/children	3.6	3.4	3.0	3.0	2.8	2.9
Unemployment	3.4	3.3	2.9	2.5	2.0	1.7
Housing	1.0	0.8	0.8	0.7	0.6	0.6
Social exclusion	1.0	0.9	0.9	0.8	0.7	0.7
(Of which Social assistance)	(0.7)	(0.7)	(0.6)	(0.5)	(0.4)	(0.4)
Total Social Protection Expenditures in Sweden	33.8	33.0	32.2	31.7	30.7	31.3
Total Social Protection Expenditures in EU	28.4	28.0	27.6	27.5	27.3	Not available

Source: Statistics Sweden 2003.

An important part of the development of the welfare state in Sweden has been the provision of income for the elderly. Table 2 shows that social protection expenditures due to old age (mainly pensions) in 2001 corresponded to as much as 11 percent of GDP. A system

providing old-age pensions to all citizens was introduced as early as 1913. However, early pension payments were far from adequate in guaranteeing a pensioner's livelihood. Not until after World War II did the pension payments come close to an adequate level. Since then, income of the elderly has developed more favourably than for other population groups. In consequence, rates of social assistance receipt among the elderly have fallen during many decades, and now are lower than for the population as a whole. This development is due primarily to increased pension payments. Few persons over the general pension age of 65 (for women and men alike) earn wages today.

The Swedish pension system has undergone many changes, and in 2001 a new system was phased in. It is true that, for some time, pension payments have been related to an individual's earnings history. It is also true that the minimum pensions and other benefits available to individuals with low pension benefits increased at a comparatively high rate up to the beginning of the 90s. Due to the financial crisis of the public sector, minimum pensions gradually fell in real value from 1991 to 1998. This is most likely the reason why rates of social assistance receipt among the elderly did not continue to decrease during the 90s. However, as the economy recovered, thereby diminishing the financial problems of funding the public sector, minimum pensions have been restored.

Elderly persons who have resided in Sweden for at least 40 years qualify for a full guaranteed pension ("Garantipension"). For a single person it is typically 83,766 SEK/year (according to an example from the National Social Insurance Board 2002, which assumes the person was born in 1937 or earlier). At the exchange rate prevailing in October 2003, 1 SEK is equal to 0.11 EUR, alternatively 0.13 USD or 14.7 JPY. This income is subject to income tax (at a rate of approximately 30 percent). Persons receiving guaranteed pensions can also apply for income-tested housing benefits. Elderly individuals who have resided in Sweden less than 40 years are entitled to a reduced guaranteed pension, but can apply for a supplementary benefit for the elderly (Äldreförsörjningsstöd), an income-tested benefit that was introduced in January 2003.

People of working age have been the main recipients of social assistance in Sweden for some time. In the 1920s, local governments in some Swedish cities started to pay poor relief to families with unemployed members (Nationalekonomiska föreningsns förhandlingar, 1928; S O U, 1931:20 p 74). Ever since, there has been a positive relationship between the unemployment rate and the rate of social assistance receipt (Korpi 1974; Gustafsson, 1984(a); Stenberg, 1998). This illustrates that macroeconomic conditions and labour market policy strongly affect how many will receive social assistance. For quite some time, many of those receiving social assistance have been job-hunters unable to support themselves in any other way. A high rate of social assistance receipt thus indicates a failure of economic policy and, more specifically, of labour market policy. Alternatively, one can look upon the system of social assistance as one of several forms of unemployment compensation. This motivates us to move on to labour market policy.

The Swedish system of labour market policy has traditionally emphasised active measures. Provision of benefits to the unemployed via unemployment insurance is the major passive measure. The Swedish system of unemployment insurance has a long history, and is strongly related to the trade unions. Although formally different from the public sector, unemployment insurance is almost entirely funded by public resources. In addition, eligibility criteria and benefit levels are decided by the parliament after proposals from the government.

The system of unemployment insurance consists of two parts: one basic, one voluntary. Benefits can be received during a period of up to 300 working days, after which they are terminated. In actual fact, however, few of the unemployed lose their right to benefits due to this. People at risk of using up their rights to compensation are typically offered participation in an active labour market program instead. Benefits are subject to income tax.

Turning to benefit levels, the basic level is 270 SEK per day (five days a week), if one has worked a full day. Those entitled are individuals, who fulfil the work requirement or the study requirement, and are not members of recognised unemployment insurance societies or have not been members in such societies for a sufficiently long period.

The benefits from voluntary income-related insurance are received by those who have been members of an unemployment insurance society for at least one year, and also fulfil the work requirement. The latter means that the unemployed individual has a work history of at least 70 hours of work during the month preceding unemployment or, alternatively, 450 hours during the six months preceding unemployment. Benefits are related to earnings received before becoming unemployed, and are not less than 320 SEK per day (five days a week) for full-time work. For many, unemployed benefits replace about 80 percent of their income loss. As of July 2002, benefits could not exceed 680 SEK per day. However, during the first 100 days of unemployment, the benefit can amount to up to 730 SEK per day.

Turning to active labour market policy measures, we find many - for example, labour market training.<sup>4</sup> Some are focused on adults under age 25, and others on persons with work disabilities. While people are involved in such programmes they receive payment as wages or as a stipend. Typically, people involved in active measures were unemployed on entry.

It thus follows that many of the unemployed are not entitled to social assistance, as their income is adequate without it. Further, some of the unemployed live in households with working members who earn too much, thus rendering the unemployed person ineligible for social assistance. Still others own assets, like a private home or an expensive car, which also disqualify them from receiving social assistance. However, the situation is rather different for many persons entering the labour force (young adults, recent immigrants) as they are entitled to neither the voluntary unemployment insurance benefits nor the basic benefit.

While systems of providing income for the elderly, the labour market policy, and macroeconomic policy are of central importance to social assistance in Sweden, other areas of public activity influence it as well. The health care system is predominantly financed by tax revenues; out of pocket payments play only a small role. Many public resources are channelled into the systems of health insurance and early retirement (see Table 2) to cover, for example, income loss when persons of working age are not working. Therefore periods of sick leave and of treatment for illness do not usually trigger periods of social assistance receipt.

Further, there are measures within the sphere of family policy. The most costly ones are available to all families with children or families with children of a certain age. This is the case with the child benefit program, where all families are entitled to a benefit of 950 SEK/month (not subject to income tax), per dependent child. These benefits are higher in families with three or more dependent children. There are parental benefits to replace income

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<sup>4</sup> For a comprehensive survey see: Olli Segersdorf, 2003.

loss at childbirth, and for a subsequent period. Local governments provide high quality childcare for young children at greatly subsidised rates, enabling many parents to earn wages. It is typical for Swedish families to have few children; two is the social norm. From this it follows there are relatively few couples with children that qualify for social assistance.

The situation for single mothers, however, is different. During the 90s their situation in the labour market has shown to be worse than that of married and cohabiting mothers. (Lundborg 2000; Nordmark 2000) In addition, many have a burden of expenditure often not fully shared by the other parent. Some single mothers can take advantage of benefits from the system of guaranteed maintenance and income-tested housing allowances. However, such benefits (though not low from an international perspective) are far from sufficient to live on. Many single mothers apply for social assistance and qualify. Recent estimates from the National Board of Social Affairs show that in 2002, as many as 23 percent of all single mother households received social assistance at least once during the year. While the number signifies that most single mothers do not receive social assistance, the rate is almost four times as high as for all households.

One striking change in the population of Sweden since World War II has been the growth of the immigrant population. Very few immigrants lived in Sweden prior to World War II, but since then many waves of immigrants have reached the country. While the proportion of foreign-born in the population amounted to 1.8 percent in 1950, ten years later it had grown to 4.0 percent. The expansion continued during the following decades and in 1980 the rate stood at 7.5 percent. At the end of 2002 the proportion had increased to as much as 11.8 percent which means that slightly more than one million foreign-born persons are now residing in Sweden.

**Table 3 - Rates of social assistance receipt by age and country of birth 2002, percentages among adult recipients**

Age (years)	Native born	Foreign born	Native and foreign born	Percentage of all recipients aged 16 -
16 - 17	4	32	7	5
18 - 19	6	33	9	6
20 - 24	7	26	10	17
25 - 29	4	19	6	12
30 - 39	3	17	5	22
40 - 49	3	15	5	18
50 - 59	1	10	2	10
60 - 64	1	9	2	3
65 - 74	<1	10	2	4
75 -	<1	8	1	3
Total	2	15	4	100

Source: Socialstyrelsen, 2003.

Many of the early immigrants came as work migrants and could rapidly support themselves. However, many immigrants arriving during the 80s and 90s were refugees and they and their relatives had great difficulties finding jobs. As recent immigrants do not have a work history in Sweden, they do not qualify for unemployment benefits. This is one reason why the rate of social assistance recipiency is higher among the foreign born than among natives, for people in all age classes (see *Table 3*). For example, a foreign born person aged 40 – 49 is five times

as likely to receive social assistance as a native person of the same age. In the case of both natives and foreign born, the rate of receipt decreases with age. Note that while it is unusual for a native person over age 50 to receive social assistance in 2002, the same does not apply to a foreign born person of the same age.

Recent statistical information shows that foreign born households on average receive social assistance for longer periods during a calendar year. Although native born households make up a majority of all households receiving social assistance, the majority of the total sums paid out are received by foreign born households. Socialstyrelsen (Socialstyrelsen, 2003. p.40) shows that while 55 percent of all households receiving social assistance in 2002 were native born, such households received not more than 38 percent of the total benefits. Some recent studies of social assistance receipt among immigrants in Sweden cast further light on the problem (Franzén, 2003; Hansen and Löfström, 2003). There is a clear negative relationship between the number of years an immigrant has resided in Sweden and the probability of receiving social assistance. Social assistance receipt also differs by the immigrant's country of origin.

### **3. Social Assistance Scheme in Sweden**

#### **3.1. The Provision of Social Assistance**

To receive social assistance persons have to apply. This is typically done at a social welfare office where the applicant first makes an appointment. The social welfare office is a branch of the local government and it is the local government (with exceptions discussed below) which finances the expenditures of social assistance. In Sweden 2003 there are 290 local governments and the rate of social assistance reciprocity varies widely across these governments. In 2002 it varied from 1 to 13 percent of the population. The cities of Göteborg, Malmö (the second and third largest cities, respectively) and Landskrona are at the top with double-digit rates of receipt.

Many local governments serve relatively small populations thus only one social welfare office is necessary, but the larger cities have several social welfare offices. While activities at the social welfare office are overseen by a board of local politicians, an applicant typically meets a social worker; a professional trained at a university or college. The applicant provides information about the structure of his or her family, various sources of income, assets, housing expenditures, and, in some cases, other expenditures as well. A typical application refers to a period of one month. After such a meeting the social worker reviews the application, which involves checking information provided by the applicant and performing calculations typically supported by computer.

Based on the review, a decision is taken and communicated to the applicant a few days after application has been made. The following is a simplified description of the decision-making process: People with disposable incomes lower than income thresholds established by norms and in other guidelines, who cannot make a living in any other way, receive social assistance. The sum closes the gap between disposable income and the relevant threshold as specified in the norm. The applicant is allowed to appeal the decision. To receive social assistance for a second month, a member of the household is required to hand in a new application and the procedure is repeated. There is no time limit on the length of time a household can receive social assistance.

The legal framework for the activities of the Social Welfare Offices consists of several layers. Parliament passed the Social Welfare Act, originally in effect since 1982 though its present formulation came into effect in 2002. This Act regulates a number of local government activities regarding social welfare.

Chapter 4 of the Social Welfare Act regulates the individual's right to social assistance. The first paragraph states that persons who cannot meet their needs or have them met in other ways have a right to assistance from the Social Welfare Board for their maintenance (maintenance support, "försörjningsstöd"), or for their livelihood. This version of the Act does not use the term "Socialbidrag", which was introduced when the law first came into effect 1982, and is still in popular use. The local government is obliged to provide social assistance independent of its financial situation, thereby making it illegal to reject an application due to lack of local government resources.

Please note that the Social Welfare Act does not list categories of persons entitled to social assistance. Any person residing in Sweden (regardless of nationality) is eligible, with one exception. Some recent immigrants are instead entitled to specific benefits<sup>5</sup> pursuant to a particular Act (1992: 1068). These benefits are also provided by the local government, and are harmonised with those of the primary system of social assistance. If introduction assistance is provided, a contract on integration is made between the local government and the refugee. The local government can then recover costs for providing assistance to new refugees from the central government.

The requirement for receipt of social assistance is that the benefit unit (household) possess a low income together with the inability to earn a living any other way. A benefit unit consists of one or two adults (married or cohabiting), and their dependent children. A person is considered a child if under age 18, or if secondary school is not complete. Parents are not legally required to support their adult children, and children are not required to support their parents.

The rules in the first paragraph of the act imply that a household should try to support itself by paid work, by drawing on savings, or by selling assets. Only if such possibilities do not exist is a person eligible for social assistance. The rules also imply that unemployed persons usually have to show that they are registered at the employment office, and are actively searching for a job. In a country where paid work is the norm for females, this also applies to mothers of young children. However, to facilitate a mother working, children need to be admitted to a day care centre.

It is evident from the law and civil code that a 19 year old who has finished secondary school, still lives with his or her parents, and has no job and no personal assets, is entitled to social assistance. Thus an individual is eligible even while living with his or her parents. However, it seems as though many in the population do not think such a right exists or should exist.

The second paragraph in Chapter 4 of the Social Welfare Act allows the Social Welfare Board to provide assistance in addition to the reasons stated in the first paragraph. Local government thus has the right to add on benefits. One can see this as a throwback to the past when each local government decided on the level for the norm. This was actually the case up to January 1998, when the norm applicable to all the country first came into play. While in

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<sup>5</sup> Introduction fee for refugees and some other foreigners, "Introduktionsersättning för flyktingar och vissa andra utlänningar".



the United States the trend in the area of the last income safety net has been towards decentralisation, the opposite has been the case in Sweden.

The third paragraph of Chapter 4 of the Social Welfare Act states that maintenance support is given for the following costs:

1. Food, clothing and shoes, play and leisure, articles of consumption, health and hygiene, daily newspaper, telephone, and TV licence.
2. Housing, electricity, costs of travel to work, home insurance, and fees for membership in a trade union and unemployment insurance society.

The costs for the expenditures listed after point 1 should be computed according to a norm applicable for the entire country (country norm), which is decided by the government based on official price determinations for different types of families. It is up to the discretion of the social welfare board to compute the cost at higher levels or lower levels.

The fourth paragraph of the Social Welfare Act states that the Social Welfare Board can demand that persons receiving social assistance take part in certain measures (trainee jobs or other measures to increase competence) if the person has not been offered a suitable labour market policy measure and:

1. is under age 25,
2. is over age 25 but due to circumstances is in need of measures to increase competency, or
3. is studying in a program for which student financial aid is available, but needs maintenance between school terms.

The goal of these measures (trainee jobs or other measures to increase competence) is to increase the capacity of the person to maintain him or herself in the future. According to the legislation they should increase the person's opportunities in the labour market or in future education. They should be designed with respect to the wishes and qualifications of the individual. The Social Welfare Board is requested to work jointly with the labour market authority when making decisions under point one.

If a person refuses to take part in activities assigned without an acceptable excuse, income maintenance can be refused or reduced according to the fourth paragraph of the Social Welfare Act. The same also applies if the person fails to attend assigned activities without an acceptable excuse. Persons taking part in activities under paragraph 4 are not to be considered employees, with certain exceptions.

Some comments can be made on the content of paragraph 4 and those following it. These paragraphs did not have counterparts in the legislation in effect during the 80s and 90s. However, during the high unemployment of the 90s, ever-larger groups of young adults became social assistance recipients.<sup>6</sup> For example, Andrén and Gustafsson (Andrén & Gustafsson, 2003) report that at age 22, 15 percent of those born in 1970 had had the experience of receiving social assistance as an adult. However, of those born in 1975, as many as 30 percent had had such an experience. Thus, there was a strong trend of social assistance becoming a widespread benefit for young adults during the transition to adulthood. This process was triggered by the macroeconomy, as unemployment among young adults

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<sup>6</sup> For more on the issue, see: Salonen, 2000.

increased dramatically at the beginning of the 90s. For example, Ryan (Ryan, 2001) reports that while Sweden had the lowest unemployment rate of seven countries for people under age 25 at the end of the 80s, by 1993 the Swedish youth unemployment rate was higher than in Germany, Japan, the Netherlands, the UK and the USA. Only France reported a higher youth unemployment rate.

The new paragraphs of the Social Welfare Act can be regarded as the Swedish version of welfare reform – placing greater emphasis on activity measures. This policy trend is observable in several other countries as well. It should be understood that the introduction of activity measures under the direction of Social Welfare Offices was not an invention of government and parliament, but had already been developed by several local governments.

While the Social Welfare Act is rather general in its formulation, it is the job of the National Board of Health and Social Welfare ("Socialstyrelsen") as well as the regional level of the central state ("Länsstyrelserna") to oversee the activities of the Social Welfare Boards. The National Board of Health and Welfare provides information on the norm (decided by the government), as well as detailed advice on how to take decisions on social assistance. It has published recommendations and a "Handbook on Social Assistance" (Socialstyrelsen, 2000) giving more than 200 pages of detailed advice. For example, it discusses the case of an applicant having to sell his or her car before becoming eligible for social assistance, and lists certain exceptions. Another related example refers to the elderly. They should not be forced to use up all of their savings before becoming eligible for social assistance, as they should be able to pay for burial expenses.

We now turn to the norms; **Table 4** provides information on the levels in effect since January 2003. One should remember that although the sums should cover many daily expenditures, costs for housing and other needs are treated on a case by case basis. To compute the norm applicable to a specific benefit unit, one has to add up the individual specific amounts and the amount defined by the number of persons. This means that the norm for a single person without children amounts to 3,255 SEK (per month) and, for a couple without children, to 5,455 SEK (per month). If there are dependent children the amounts increase for each additional child, but at a somewhat decreasing rate. The older the child, the higher the increase. The amounts reported here are based on the assumption that children receive a free lunch five days a week when placed in day care centers or involved in primary or secondary education.

**Table 4 - Norms for social assistance in effect since January 2003**

*Individual part*

Age of person	SEK per month
< 1 year	1,405
1 - 2 years	1,625
3 years	1,305
4 - 6 years	1,635
7 - 10 years	1,815
11 - 14 years	2,090
15 - 18 years	2,360
Single adult	2,575
Married or cohabiting adults	4,685

*Part dependent of household size*

Number of household members (adults as well as children)	SEK per month
1	680
2	770
3	890
4	950
5	1,050
6	1,125
7	1,195
8 and more	1,195 + 70 SEK per person over number 7

Note: At the exchange rate prevailing in October 2003 1 SEK is equal to 0.11 EUR, alternatively 0.13 USD or 14.7 JPY.

Source: Svensk Författningssamling, 2002:1140.

The National Board of Health and Social Welfare provides breakdowns of the monthly costs covered by the norm. For example for a single adult (year 2002), 1,500 SEK is for food (and beverages), 450 SEK for clothing and shoes, 340 SEK for leisure activities, and 200 SEK for hygiene. The remaining is for articles of consumption (90 SEK) as well as for daily newspaper, telephone, and TV licence (530 SEK).

Are these amounts generous? The answer to this question very much depends on with what one compares the amounts. Starting with comparisons over time, it is evident that the present norms are several times higher than their counterparts in use before World War II (Rauhut, 2002). The tendency of these kinds of norms to keep up with the general standard of living is obviously a main reason why the rate of social assistance receipt has not shown a negative long-run trend. In comparisons to norms in other EU countries, the Swedish norms appear to be generous or relatively generous (Saraceno, 2002).

From other perspectives the norms do not appear particularly high. First, if we limit ourselves to the perspective of the 80s and 90s, results of a detailed study<sup>7</sup> indicate that during the 90s provision of social assistance became more restricted or at least more selective than before.

Further, the norms are clearly lower than the general income level for the population in Sweden in 2003. In order to make calculations one needs to make assumptions on housing costs and costs for electricity, travel to work, home insurance and finally fees for membership in trade union and unemployment insurance society. Results of a "back of the envelope calculation" indicate that the level of living made possible by a norm corresponds to 50 to 60 percent of the average household income. Further, the norms are clearly lower than what the public considers suitable. Results from a survey conducted as recently as the end of 2001 indicate that the median respondent thought 5,000 SEK was a reasonable norm for a single adult without children and 8,000 SEK for a couple without children (Gustafsson, 2002(b)).

A norm of 3,140 SEK for a single person without children is indeed low when compared to wages for a full-time earner. Statistiska Centralbyrån (2002) reports monthly gross earning for a full-time worker in 2001. The median was 19,000 SEK. Looking at the lower part of the distribution, one observes that Sweden has no official minimum wage. However, we can turn to the earnings level at the 10<sup>th</sup> percentile (by definition, 90 percent of the population of full-time workers earn more), which is 14,800 SEK. We can thus safely conclude that the norm for a single person without children is much lower than the earnings of a person with low wages. For example, assume that a single person pays 3,000 SEK in rent. This would require him or her to have a disposable income of less than 6,140 SEK to pass the income test for social assistance. This can be compared to the net income for the low-income earner, which is about 10,000 SEK.

However, the situation looks rather different when the benefit unit consists of several non-working members. With an increased number of dependent children, the gap between income from employment and the social assistance norm decreases and eventually disappears. The classic issue of conflict between providing incentives to work and support to the needy is, in the Swedish context, very much related to families with dependent children.

Two new studies have modelled labour supply among single mothers in a framework where the level of the norm for social assistance is considered (Andrén, 2003; Flood et al, 2003). The results indicate that the level of the norm has a substantial effect on labour supply as well as receipt of social assistance among single mothers. For example, a suggested reform reducing income taxes, the level of the social assistance norm, and out of pocket payments for public child care is evaluated by Flood et al (Flood et al, 2003). The reform would increase incentives for single mothers to work, and the simulations indicate a changed labour supply of some mothers as well as a rather large drop in social assistance receipt. Many, but not all, single mothers would gain from the reform as their disposable income would increase.

### **3.2. The Process of Receipt**

Recent research has thrown light on the process of social assistance receipt, and we will here discuss a selection of relevant studies. When discussing the process of a person and household applying for and eventually receiving social assistance, it is useful to distinguish between different phases.

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<sup>7</sup> Based on changes in the law, regulations from the National Board of Social Welfare, court cases and case studies of two local government: Johansson, 2001.

Let us start with the situation where expenditures are greater than income, and the household thus has to somehow readjust. Strategies include working more, spending less, using resources, and borrowing from the credit market or less formal sources. To this can be added the alternatives of applying for public transfers and social assistance.

There is clear evidence that for many Swedish households, applying for social assistance is considered an unattractive alternative. There might be several reasons for this. First, to apply takes time and effort and the results from an application can be difficult to predict, as will be discussed below. Even if persons are eligible it is not worth the effort to try to apply if the amount expected to be received is small or uncertain. Further there is the issue of stigma. To receive social assistance can be considered shameful by the potential applicant as the money is not earned; in addition other people may look down those who cannot support themselves.

Evidence that Swedish households consider receiving social assistance an unattractive source of income comes from the results of two public opinion surveys. Respondents were asked the question "What would you do if you found that you do not have enough money for food and housing and you could not increase your income or borrow from a bank?" The majority of respondents in 1985 as well as 1997 did not indicate that they would apply for social assistance, but would turn to other alternatives, among which loans from friends or relatives figured prominently (Gustafsson, 2002(a)).

Results from the same survey indicate that actual non-use is substantial. After being provided with information on the system of social assistance respondents were asked: "Do you believe your household is entitled to social assistance today?" One of the alternatives was "I think I am eligible but want to manage on my own as a first alternative". In both surveys as many as 9 percent indicated this answer, which means that non-use was actually considerably more frequent than use. Further, the pattern seems not to have changed over time. Results from an analysis of the non-users was interpreted to mean that people expecting to receive large sums of social assistance are more likely to turn to the social welfare office than those who expect small sums.

We now turn to studies aiming at opening the black box of the Social Welfare Office to investigate how activities taking place there lead to variation in whom and how many become recipients. We are now in the phase where the person has decided to contact the welfare office. Results from an empirical study indicate that many contacts made by potential applicants do not lead to being admitted to a meeting at the Social Welfare Office; thus no formal application is submitted (Minas & Stenberg, 2000). About one-third of the persons contacting the Social Welfare Office who were investigated in 1997 for the first time were screened away by the telephone reception. Of those admitted, three-fourths received assistance, a proportion which varied greatly across offices. Taken together, these numbers mean that half of the persons who contacted the social assistance office by phone eventually received social assistance. Results from statistical analysis can be interpreted to mean that the probability of a household receiving assistance greatly depended on to which Social Welfare Office the household applied.

Assume now that the household has filed a formal application. Results from several studies indicate that although the rules are detailed, in many cases there is room for interpretation when decisions are made. The first such study was Gustafsson et al (1993), which asked social workers in the cities of Stockholm, Göteborg and Malmö to indicate if social assistance

should be granted to a hypothetical new applicant, and if so, what amount should be granted. Several case examples were used. The results indicate that assessments of applications for social assistance payments vary between cities but also between individual social workers in the same Social Welfare Office. It was also found, as expected, that the greatest variation resulted in the most complicated case example.

The recent study of Byberg (2002) indicates that the organization of the Social Welfare Office has consequences as well. Based on fieldwork in four strategically selected local governments, the conclusion was drawn that a higher degree of bureaucracy leads to lower costs for social assistance, provided that compliance with established practices is continuously monitored by management. A high degree of bureaucracy refers to specialised processing of social assistance, together with carefully composed, standardised methods, and a coherent and elaborated verification and communication system. Further, the study indicates that when significant room for independent decisions is given to social workers, clients run the risk of being treated in a biased way.

There are thus signs that activities at the Social Welfare Offices influence which and how many applicants become recipients. Two comments may be made. First, when comparing across EU countries, the degree of discretion in the Swedish system appears low or even very low - if the comparison refers to Italy, for example (Saraceno (ed.), 2002). While some EU countries have organised their social assistance systems differently in different provinces, each local government in Sweden works under the same legal framework.

Second, one should not forget that the relationship between the events, which occur to persons and households, and the receipt of social assistance can be strong in a statistical sense. The fact of becoming unemployed is a central event. One study followed males unemployed for the first time in the city of Göteborg in 1993 and 1994 (Gustafsson, 1998). Many of the newly unemployed were not entitled to unemployment compensation, and slightly more than one of five became social assistance recipients.

A strong relationship was found between age of the unemployed and the risk of becoming a social assistance recipient. For example, while as many as 53 percent of unemployed males aged 15 - 24 became social assistance recipients, the corresponding proportion among those aged 55 and older was as low as 12 percent. Results from multivariate analysis showed that lengthy periods of unemployment, combined with no access to unemployment compensation, result in a high risk of becoming a social assistance recipient.

We now turn to the phase of receiving assistance and eventually terminating receipt, the last stage in the process of receipt. As in many other countries, researchers in Sweden have started to ask questions on the dynamics of social assistance receipt. Examples are Salonen (1993), Salonen (1997) and Bergmark and Bäckman (2001). The general pattern is somewhat complicated. On one hand, many new recipients receive social assistance for a very short period. On the other hand, many whose social assistance receipt ends return after a period of time and receive it again. Compared to its counterparts in other EU countries, periods of receipt are short, though not uniquely so (Saraceno (ed.), 2002).

Results from a follow-up study of native-born recipients entering social assistance receipt in 1987 over a period of eleven years can be illustrative. It distinguishes three groups characterised by how long they remained on social assistance (Andrén & Gustafsson, 2003). About one third received social assistance only during the first year, about one-sixth for most

of the year and the remaining majority for longer periods than the year of entering the system, but shorter than during most years of the follow-up period. This study also indicated that households for whom social assistance constituted a large proportion of disposable income the year they entered social assistance tended to receive social assistance longer than other households.

Although receiving social assistance for many years is not typical for those entering receipt, those who stay on receipt make up a large proportion of receivers at any point in time. Some numbers from Andrén and Gustafsson (2003) illustrate this. For example, among native-born households receiving social assistance in 1992, only one-fourth were new receivers, while half had made their entry more than five years earlier.

Above we have discussed results indicating that the activities at the Social Welfare Office can influence who and how many receive social assistance. The question of whether activities at the Social Welfare Office affect duration of receipt seems not to have been asked by researchers, with one exception. Milton and Bergström (Milton & Bergström, 1998) compared duration of receipt across two Social Welfare Offices that had applied different models of handling social assistance applicants. This study found no statistical evidence for the view that the "Uppsala model" which put more active demands on the recipients, resulted in social assistance receipt being more swiftly terminated.

### **3.3. Measuring Poverty and Political Goals for Social Assistance Receipt**

In this section we turn our attention towards how poverty is assessed in Sweden and the political goals for social assistance receipt. For many years, studies of those who received poor relief or social assistance dominated efforts to assess how many people of which type were experiencing economic difficulties in Sweden.

Early efforts to apply a poverty line to household income data for Sweden are found in Gustafsson (1984(b)) and Gustafsson (1987). In the latter, advice on norms for deciding on applications for social assistance issued by the National Board of Health and Social Welfare (predecessors of the norm now decided by the government) were used to specify a poverty line. As the norms did not cover expenditures for housing, additional assumptions had to be made. When applying this poverty line to other years it was updated to represent the same purchasing power. The approach is in this particular sense absolute (which also is the case for the official poverty line for the United States in use for decades).

This poverty line has been used in several studies of poverty in Sweden by researchers and by public analysts in order to describe the extent and profile of poverty. The method attained semi-official status when it was included in the first Social Report of the National Board of Health and Welfare to the government (Socialstyrelsen, 1994). It has also been in use in the following two editions of the Social Report as well as in a number of publications from Statistics Sweden. A description of the change in poverty in Sweden from 1975 - 1995 and its profile using this approach can be found in Gustafsson (2000). See also Gustafsson, Johansson and Palmer (2003) for estimates of child poverty rates 1980, 1991 – 1998, which use this approach.

Since the beginning of the 90s, Sweden has belonged to the European Union. The statistical authority of EU, Eurostat, has for some years produced estimates of poverty in its member states. In these publications the poverty line is set to a percentage of the observed mean or

(more recently) the median equivalent income of the population studied. New poverty lines are defined for each year studied, and the poverty line is thus relative. Such an approach also dominates comparative studies of poverty.

Atkinson et al (2002) provides precise guidelines on how to use this approach to monitor social exclusion in the EU. This approach to defining poverty has often been used when poverty in Sweden is compared to poverty in other countries. For example, according to Förster and Pellizzari (Förster & Pellizzari, 2000), when comparing OECD countries, Sweden clearly belongs to those with the lowest poverty rates. Another example is Blume et al (2003), who investigated poverty among immigrants to Denmark and Sweden. This study found that immigrants from less developed countries are more poverty prone than natives, and that this difference has increased during the 80s and 90 in both countries.

Often "the relative approach" provides results similar to the approach first mentioned. However, there is one important difference, which relates to the development of poverty in Sweden during the 90s, when real disposable income fell substantially. Child poverty rates may be taken as an example. According to the first approach, child poverty rates increased from 4.7 percent in 1991 to 9.9 percent in 1997, or doubled. However, the falling purchasing power of the relative poverty line caused the proportion of children falling under it to remain unchanged (the proportions under 50 percent of the median were 3.4 and 4.2 percent respectively).

Despite traditions both within Sweden and the EU, which guide the definition of a poverty line, the present Swedish government has not adopted an official poverty line. Instead it has adopted the goal of halving the number of social assistance recipients. In 2001 the government presented parliament with the following goal: "The government is now working to increase employment and justice in society. As a consequence, the number of social assistance recipients should be cut in half between 1999 and 2004." This goal was accepted by parliament. The government states that each year it will report on how the goal is being met.

Finansministeriet (Ministry of Finance) (Finansministeriet, 2001/02:1, Addendum 3) has provided an operational definition of the goal. The underlying idea is to transform social assistance receipt of various lengths and amounts into full equivalents (full year and full receipt). It refers to households having a head 20 - 64 years of age and does not include introductory assistance to newly arrived refugees. This means that the goal is specified to reduce social assistance receipt from 115,200 full year equivalent units in 1999 to 57,600 full year equivalent units in 2004.

We round off this section with some comments on the relationship between statistical information of income poverty and the number and proportion of social assistance recipients. During the 90s, there were similar fluctuations in time series statistics on the rate of poverty, as defined by the "absolute" approach, and rates of social assistance receipt. Looking at the profile of the income poor and the rate of social assistance receipt, often the same pattern emerges.

However, the picture is more complicated at the individual level. Some authors have used surveys to classify persons and the households in which they are living in accordance with whether or not they are considered income poor, and whether or not they have received social



assistance.<sup>8</sup> Although there is a considerable overlap between being classified as poor and receiving social assistance and vice versa, the overlap is far from perfect. Some persons are classified as poor but do not receive social assistance; others received social assistance but are not classified as poor. How can these phenomena be understood?

Starting with people classified in the analysis as poor but not receiving social assistance, at least two explanations can be provided. First, there is the issue of non-use. As discussed above, there are signs indicating that non-use is substantial in the Swedish population. Second, low disposable income is a necessary, but not sufficient, requirement for receiving social assistance. Some people prefer to work a few hours although they could work more and low income is thus not forced upon them. In addition some own assets are therefore not eligible for social assistance.

Why are some persons and the households that have received social assistance not counted as poor in the statistical analyses? Certainly one important reason has to do with timing. Social assistance is provided on the basis of income received during a period of one month while poverty assessments in Sweden refer to a time period of one calendar year. Consider a household receiving social assistance for the first three months of the year, comprised of adult members who then found full- time employment. Based on its yearly income this household will be considered non-poor although it was in financial difficulties for part of the year.

## 4. Conclusion

The social assistance system of Sweden, as in other countries, is deeply embedded in the social welfare system at large. It is thus related to systems of social insurance, family policy, labour market policy, and the values that have formed these systems. Its role has been strongly affected by the growth of the welfare state. The system is older than the welfare state and the goal of making people less dependent on social assistance has been an important reason for introducing and expanding new measures that are regarded as more acceptable to the public. This view casts social assistance in a residual role: to provide the last income safety net. Although receiving social assistance is a right if certain conditions are fulfilled, it appears as if many of those entitled do not apply. Social assistance is not an attractive income source, as it requires individual application at a bureaucratic institution where decisions are not always predictable.

Looking at the present situation, we can observe that some groups are found more frequently than others among those who receive social assistance; particularly a comparatively large number of young adults. Many young adults have difficulty finding permanent jobs and parents are not legally responsible for supporting them. Single parent households also have a relatively high probability of becoming social assistance recipients. Many receivers of social assistance are immigrants, particularly recent immigrants. Actually, foreign born households receive the majority of the total sums paid out as social assistance during the recent years.

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<sup>8</sup> See, for example, Halleröd, 2000.

## 5. List of legislation

### Social Assistance in Sweden (in effect 2003)

- Svensk Författningssamling (SFS) 2001: 453 Socialtjänstlagen. In effect since 2002-01-01, present formulation in effect since 2003-07-01.
- Svensk Författningssamling (SFS) 2001:937 Socialtjänstförordningen. In effect since 2002-01-01. Present formulation in effect since 2003-07-01 (A new formulation will be in effect from 2003-11-01).
- Socialstyrelsens författningssamling (SOSFS) 2003:5 Socialstyrelsens allmänna råd om ekonomiskt bistånd. Published May 2003.
- Svensk författningssamling (SFS) 1992:1068 Lag om introduktionsersättning för flyktingar och vissa andra utlänningar. In effect since 1993-01-01, present formulation in effect since 2003-07-01.

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# Chapter 3 Social Assistance in Japan

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## 1. Introduction

Japan's social security system consists of social schemes and social services (social welfare), which cover a broad range of risks in daily life. In particular, Social Assistance plays an important role in ensuring the people's right to maintain a minimum standard of "wholesome and cultured" living, as the people's "last resort".

Social Assistance is a long-standing and nationally regulated scheme with moderate local variations related to differences in living costs (Gough et al. 1997). However, since the scheme is facing rapid socio-economic changes in Japan, a full review of the scheme is being undertaken.

This paper provides an overview of the Social Assistance system in Japan. A global picture of Japan's social security scheme is presented in section 2, since the social insurance schemes also function to prevent people from falling into poverty. Section 3 discusses the Social Assistance scheme, particularly focusing on the concrete procedure used. The paper ends with some concluding remarks.

## 2. The Social Security System in Japan

### 2.1. Overview of the Social Security System in Japan

#### *2.1.1. Postwar Development of Social Security*

In Japan, the phrase "social security" first appeared in Article 25 of the Constitution promulgated in 1946<sup>1</sup>, although its meaning and framework were still vague at that time. In 1950, however, the Prime Minister's Advisory Council on Social Security clarified the framework of social security of Japan as follows:

- The state should implement countermeasures against the causes of poverty (sickness, injury, childbirth, disability, death, old-age, unemployment and large families) by providing support measures through social insurance schemes or allocation of tax resources;
- The state should ensure the minimum level of living to the needy by social assistance;

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<sup>1</sup> This does not mean the people were not covered by any types of social security schemes before the World War II. In fact, the Japanese occupational health insurance was enacted in 1922 and the community-based health insurance was enacted in 1938. In addition, the occupational pension scheme has been established since 1941.

- The social security schemes should promote public health and social welfare so that all citizens can live decent lives as members of a cultured society.

At the dawn of Japan's postwar social security system, social assistance was the most common scheme in the midst of the confusion after World War II. In fact, more than 16% of the social security expenditure in 1951 was on social assistance. The targets of social security, however, were expanded to people other than low-income earners with the establishment of the universal health insurance and pension schemes in 1961. Subsequent high economic growth gradually shifted most social security from measures to relieve poverty to social insurance schemes, which promote redistribution among people in different income brackets and ensure optimal levels of security in daily life. The percentage of the expenditure for Social assistance gradually declined after 1951 and has been less than 4% of the total social security expenditure since 1986. Having said this, Social assistance definitely constitutes a complement to other social security schemes as the people's "last resort".

One of the biggest changes in Japan's social security in recent days was the introduction of a public long-term care insurance scheme. Traditionally, the elderly in need of care have been provided with certain social services within the framework of the welfare system for the elderly, but, in practice, their own families shouldered heavy burdens of care, both physical and financial. The most important innovation of this scheme was to socialize care for the elderly and to entitle people to the right to receive adequate care, as with other social insurance schemes. In addition, not only the public sector, including the national and local governments, but also private companies and non-profit organizations are playing very important roles in the field of social services for the elderly. Needless to say, this scheme will help the elderly and their families avoid falling into poverty.

The current status of the social security schemes is shown in **Table 1**:

**Table 1 - Social Security Schemes in Japan**

Financial Resources	Schemes
Social Insurance Funds <sup>2</sup> (based on contributory mechanism)	Health insurance Long-term care insurance Pension insurance Unemployment insurance Workers' accident compensation insurance
Tax Resources (based on non-contributory mechanism)	Social assistance Social services for the elderly, the disabled and children Health services and public health services Health services for the elderly

<sup>2</sup> Please note that the financial resource of some social insurance schemes (e.g. National Health Insurance, National Pension, Employees' Health Insurance) is a hybrid of contributions and tax revenue. As hereinafter described, for example, the National Pension scheme is not fully funded by contributions; an amount equivalent to one third of the pension expenditure is subsidized by the state.



### 2.1.2. Social Security Finance – Expenditure and Income

The scope of Japan's social security expenditure is based on the ILO (International Labor Organization) standards<sup>3</sup> for international comparison.

The total amount of social security expenditure in 2000, as announced by the National Institute of Population and Social Security, was 78,127 billion yen (717 billion dollars<sup>4</sup>) or 15.23% of GDP, which was not necessarily high from an international comparative point of view (see **Table 2**). The per capita expenditure was estimated at 615,500 yen, whereas the average expenditure per household was 1,696,700 yen.

**Table 2 - Social Security Expenditure as Percentage of GDP**

Country	Social Security Expenditure / GDP
Japan (2000)	15.23 %
Japan (1996)	13.11 %
USA (1995)	14.49 %
Germany (1996)	28.21 %
Sweden (1996)	33.11 %

Source: The Cost of Social Security 2000, National Institute of Population and Social Security

**Table 3** shows social security expenditure by functional category. As is obvious here, “Old age” and “Sickness and health”, namely social insurance schemes such as pension and health insurance, comprised the major part of the expenditure. On the other hand, “Social assistance and others” accounted for just a fraction of the expenditure (2.3% as of 2000).

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<sup>3</sup> The ILO defines social security expenditures as all of the schemes or services that meet the following three criteria: **1)** The objectives of the schemes must be to grant benefits for at least one of the following risks and needs: (1) Old age; (2) Survivor; (3) Invalidity; (4) Employment injury; (5) Sickness and health; (6) Family; (7) Unemployment; (8) Housing; (9) Social assistance and others; **2)** The system must have been set up by legislation which attributes specific individual rights to, or which imposes specified obligations on, a public, semi-public or autonomous body; and **3)** The system should be administered by a public, semi-public or autonomous body founded by legislation; or by a private body which has been granted rights to perform legal obligations. Specifically, although the scheme for employment injury compensation can be conducted by private bodies, these privately-managed schemes should be included in the scope of social security expenditures.

<sup>4</sup> In this paper, a dollar is converted to 109 yen (as of 13 Oct 2003).

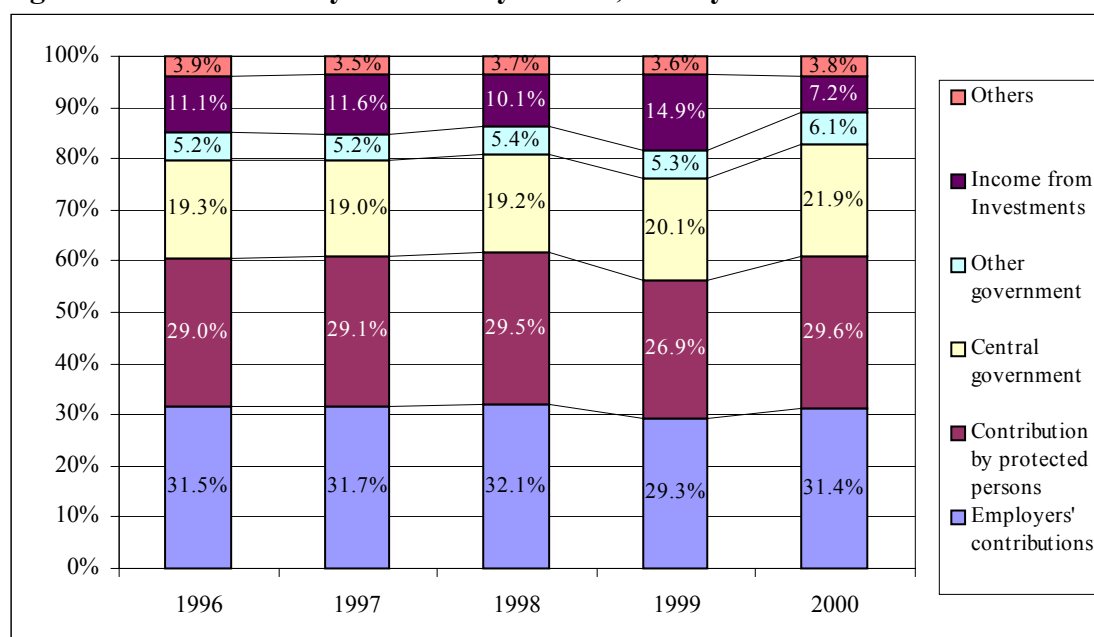
**Table 3 - Social Security Expenditure by Functional Categories 1996-2000**

(Millions of Yen)

	1996	1997	1998	1999	2000
Old age	28,750,556 (42.6%)	30,332,570 (43.7%)	32,229,683 (44.7%)	33,648,527 (44.8%)	36,827,004 (47.1%)
Sickness and health	24,994,530 (37.0%)	25,082,383 (36.1%)	25,162,109 (34.9%)	26,077,023 (34.8%)	25,640,763 (32.8%)
Survivors	5,392,661 (8.0%)	5,390,829 (7.8%)	5,561,187 (7.7%)	5,732,752 (7.6%)	5,874,743 (7.5%)
Unemployment	2,187,333 (3.2%)	2,288,079 (3.3%)	2,674,227 (3.7%)	2,803,719 (3.7%)	2,627,083 (3.4%)
Family benefits	1,903,039 (2.8%)	1,868,277 (2.7%)	1,932,071 (2.7%)	2,036,964 (2.7%)	2,282,577 (2.9%)
Invalidity benefits	1,719,414 (2.5%)	1,746,067 (2.5%)	1,802,210 (2.5%)	1,846,131 (2.5%)	1,874,664 (2.4%)
Social assistance and others	1,398,842 (2.1%)	1,483,910 (2.1%)	1,557,610 (2.2%)	1,674,102 (2.2%)	1,764,080 (2.3%)
Employment injury	1,066,317 (1.6%)	1,074,392 (1.5%)	1,063,877 (1.5%)	1,044,946 (1.4%)	1,037,704 (1.3%)
Housing	134,822 (0.2%)	149,825 (0.2%)	158,097 (0.2%)	177,562 (0.2%)	198,619 (0.3%)
Total	67,547,514	69,416,332	72,141,071	75,041,726	78,127,237

Source: The Cost of Social Security 2000, National Institute of Population and Social Security

On the other hand, the total revenue of the social security schemes was 90,156 billion yen (827 billion dollars) as of 2000, including social insurance contributions (61%), subsidies from tax revenues (28%), and other income such as income from investment (see **Figure 1**).

**Figure 1 - Social Security Revenue by Source, fiscal years 1996-2000**

Note: "Employers" includes the central and local governments' expenditures for the social insurance contribution of their employees.

Source: The Cost of Social Security 2000, National Institute of Population and Social Security

### *2.1.3. Social Security Administration*

Japan's social security schemes come under the authority of the Ministry of Health, Labor and Welfare. This Ministry is responsible for planning and adjustment of social security schemes in terms of policy and finance. The areas covered are labor standards, employment security, public health, social welfare, and social insurance.

The Social Insurance Agency is an extra-ministerial bureau affiliated with the Ministry that specializes in the operation of health insurance for workers at small and medium size firms, occupational pension insurance, the basic pension, and a part of the comprehensive insurance scheme for seamen. The Agency and its local offices (Social Insurance Offices) have close links with each other through a broad network spread over the country.

As for labor administration at the local level, the Labor Standard Inspection Office and the Public Employment Security Office were established under the supervision of the Labor Bureau in each prefecture. The Labor Standard Inspection Offices are in charge of investigating safety at workplaces and ensuring appropriate conditions of work. They also deal with the Worker's Accident Compensation Insurance. The Public Employment Security Office, so-called "HELLO WORK", is responsible for employment placement services, such as providing guidance based on the applicants' capabilities and job offers, and also provide consultation on vocational training. Another important function of the Public Employment Security Office is to operate the Employment Insurance.

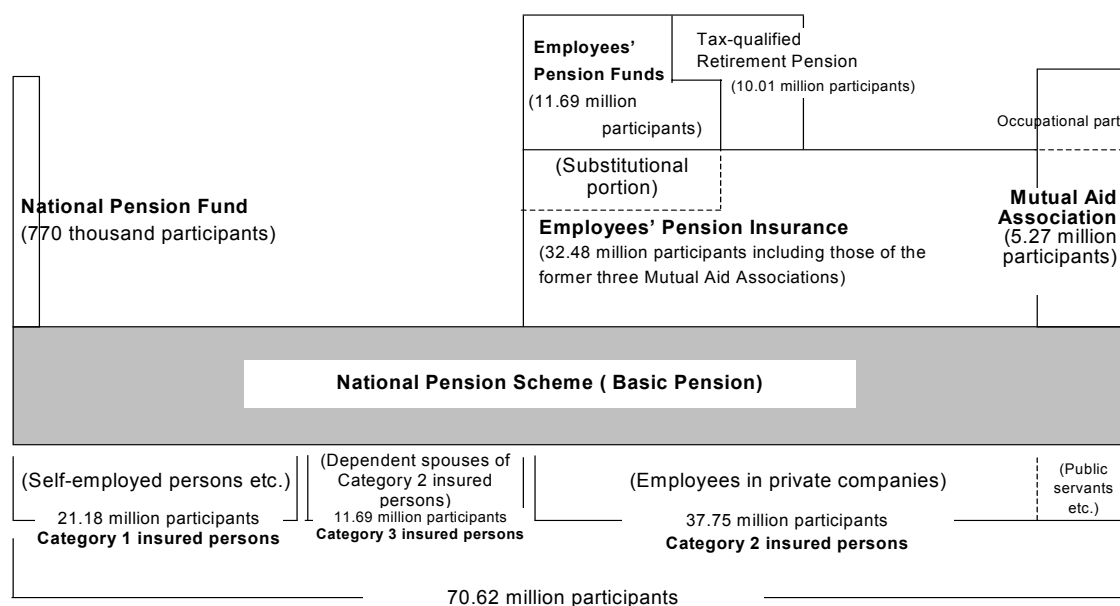
Apart from the central government's institutions mentioned above, municipalities play very important roles, especially in promoting people's welfare. They are responsible for Social assistance, as well as community-based social insurance scheme such as National Health Insurance and Long-term Care Insurance.

## **2.2. Social Security Schemes**

### *2.2.1. Pension Schemes*

Universal pension coverage in Japan has been realized, in theory, since the National Pension Law was enacted in 1961, which means that public pension schemes are available to all of the people living in Japan. Subsequently, the Japanese pension system was fundamentally reformed in 1985. Prior to this reform, the pension system was divided broadly into employees' pension schemes and others. The former category included the Employees' Pension Insurance (EPI), the Seamen's Insurance and the Mutual Aid Pension for public service employees, and the latter was the National Pension (NP) scheme mainly for those who were self-employed (see *Figure 2*).

**Figure 2 - Structure of the Japanese Public Pension System (as of March 31, 2000)**



The amount of the Old Age Basic Pension (NP) in 2003 is 66,417 yen per month, when all the conditions are satisfied, whereas the average amount of actually paid basic pension in 2000 was 51,000 yen per month. Including top-ups by EPI, the average amount of the Old Age Pension actually paid in 2000 was around 175,000 yen (1,605 dollars) per month. Disability and survivor benefits are also available within the framework of the public pension schemes.

As for pension finance, one-third of the expenditure of the NP is financed by tax, and the rest by a flat-rate national pension insurance premium (13,300 yen (122 dollars) per month, as of 2003). On the other hand, the EPI is financed by social insurance premiums and revenues of pension funds. Employees and employers share income-based social insurance premiums on a fifty-fifty basis (13.58% of the total amount of income, as of 2003).

### 2.2.2. Health Insurance Schemes

Japan's health insurance system is roughly divided into two categories: occupational and regional insurance. The former is comprised of employees grouped according to their type of occupation, and the latter is comprised of inhabitants grouped according to their municipalities.

The Employees' Health Insurance (EHI) is the most common scheme among the occupational health insurance schemes. According to the type of the insurers, this scheme is further classified into government-managed health insurance, which targets workers at small and medium size firms without health insurance societies, and society-managed ones, which are fundamentally managed by the health insurance societies founded either by a single company or jointly by two or more companies from the same industry. There were 1,780 health insurance societies in Japan at the end of March 2000. This category also includes Seamen's Insurance and the Mutual Aid Pension for public service employees.

Regional health insurance includes 3,245 municipal National Health Insurance (NHI) schemes founded in municipalities. The participants of NHI are all the inhabitants not covered by any other health insurance scheme such as those who are engaged in agriculture, forestry and fisheries, self-employed people, and retired people.

The level of health benefits (in-kind) differs depending on age, ranging from 70% to 90%<sup>5</sup>. Moreover, the insured can receive some cash benefits, such as sickness and injury allowance (income security during absences due to non-occupational sickness or injury), maternity allowance, lump sum childbirth allowance, and funeral allowance.

As of 1999, 52.5% of the national health expenditure was funded by insurance premium, and 32.9% by tax revenue. With respect to the government-managed health insurance scheme, employees and employers share income-based social insurance premiums on a fifty-fifty basis (8.2% of total amount of income, as of 2003).

### *2.2.3. Social Services for the Elderly and People with Disabilities*

With the rapid ageing of the population in Japan, the number of elderly in need of care or assistance is expected to increase dramatically, and, therefore, this issue is becoming more serious for the elderly and also for all families who are responsible for them.

The Long-Term Care Insurance scheme was enacted in 1997 and implemented in 2000. This new comprehensive social insurance scheme consists of assistance in daily life, medical treatments, and health care services. Municipalities are responsible for its operation, but the central government and the 47 prefectural governments also assist them in financing.

In order to receive the insured services, applicants have to obtain official certification concerning their care needs and extent of difficulty, after going through an examination by municipalities. Those who are recognized to be in need of care or assistance subsequently prepare a “Care Plan”. Based on the plan, they can receive various services such as assistance in daily life, assisted bathing, nursing care at home, and care at the facilities specialized in nursing care.

The total number of people with disabilities in Japan is estimated at 6 million as of 2001, out of which 3.5 million people are those who have physical disabilities, 0.5 million people have intellectual disabilities, and 2 million people have schizophrenia (integration dysfunction syndrome).

The Ministry of Health, Labor and Welfare formulated the “Government Action Plan for Persons with Disabilities for Promoting the Welfare of Disabled Persons” in December 1995, which was a seven-year strategy from fiscal years 1996 to 2002. This plan included not only health and welfare measures, but also measures for people with disabilities as a whole, such as housing, education, employment, communication and broadcasting. One of the most important concepts presented was “normalization”, which means that people with disabilities should be able to live in the same manner as people without disabilities. Based on this concept, “ensuring [the] livelihood of people with disabilities” is recognized as one of the priority measures.

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<sup>5</sup> The co-payment rates are as follows: People aged 70 or over (10%); People aged less than 3 and people aged 70 or over having incomes above a certain level (20%); People aged from 3 to 69 (30%).

#### *2.2.4. Child Care*

This is an area where there have been significant reforms within the past few years. The new interest in reforming the Welfare for Children is due mainly to the concern about the low fertility rate, estimated to be at 1.32 as of 2002.

The Child Allowance is granted to parents (or guardians) rearing children, and they are subject to an income test. From June 2000, the age limit was raised from 3 to 6 years old, and the income threshold was also raised. The amount of Child Allowance is 5,000 yen (46 dollars) per month for the first two, and 10,000 yen (92 dollars) per month for additional children.

The Child Rearing Allowance is given mainly to single mothers who are rearing a child less than 18 years old, if she does not share a common household income with the father and their earnings in the previous year were less than the specified threshold. The monthly allowance is 42,370 yen (388 dollars) in the case of one child, and 47,370 yen in the case of two; this amount increases by 3,000 for third and subsequent children. In 2002, the income threshold for receiving the full amount of the allowance was lowered and tapering of the allowance amount as income rises was introduced. For a single-mother household of two (mother and child), the income threshold stands at 3,650,000 yen (33,486 dollars) per year for a full allowance, and for those whose income is between 1,300,000 yen and 3,650,000 yen, the allowance is tapered to zero.

Under the Child Welfare Law, municipal governments establish day-care centers for children whose parents are not capable of taking care of them due to work, illness or care for other members of the family.<sup>6</sup> Fees for the services are usually based on the users' incomes and number of children.

#### *2.2.5. Labor Insurance*

The unemployment insurance<sup>7</sup> scheme provides several types of benefits to the unemployed, workers who have difficulty continuing working, and workers or the unemployed participating in occupational training on a voluntary basis.

In the event of a worker's sickness, injury, disability or death due to work,<sup>8</sup> the Worker's Accident Compensation Insurance scheme provides compensation for medical treatment, income support calculated from the loss during work absence, cash benefits for the disability or survivors, and funeral rites.

In addition to the payment of these benefits, both of the insurance schemes offer several services to stabilize workers' living conditions in terms of employment and safety at the workplace, to facilitate recovery from their post accident environment, etc.

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<sup>6</sup> From March 2000, private companies and nonprofit organizations (NPOs) can run day-care centers for children if they satisfy official requirements for the establishment.

<sup>7</sup> After a total revision of the "Unemployment Insurance Act" in 1975, the "Employment Insurance Act" has replaced it. Accordingly, the precise name of this scheme is "Employment Insurance".

<sup>8</sup> Accidents while commuting could also be covered by the insurance.

Apart from the services provided by the labor insurance schemes, the state implements a number of measures to help older people or those with disabilities reenter the labor market, such as provision of vocational training (rehabilitation) and guidance for employers.

### **3. Social Assistance in Japan**

#### **3.1. Characteristics of Social assistance**

##### *3.1.1. Legal and Financial Basis*

The Japanese Social assistance scheme was based on the British poor law. The earliest equivalent laws, namely the Indigent Person's Relief Regulation (1874) and the Poor Law (1932), were introduced to help people suffering from the rapid socio-economic changes after the Meiji Restoration in 1868, the great earthquake disaster in 1923, and the world financial crisis in 1929. The Poor Law, however, restricted the provision of benefits and services to, for example, the unemployed, and there was ambiguity over the state's responsibility for implementation.<sup>9</sup>

The framework of the current social assistance was formed shortly after the end of World War II. Article twenty-five of the Constitution, which came into effect in 1949, stipulates people have the right to maintain a minimum standard of wholesome and cultured living, and the state must make efforts to promote and expand social welfare, social security, and public health services to cover every aspect of the life of the people.

Correspondingly, the Social assistance Law, whose inception was in 1946, was totally revised in 1950 in order to reflect constitutional principles, notably "respect for fundamental human rights" guaranteed by the Constitution. Social assistance is considered the main programme for poverty alleviation in Japan, and the law regulates the provision of several types of benefits to the poor so that the people can exercise this "right of life" in case of need.

The Social assistance Law stipulates the following four basic principles:

- i. The state is responsible for assistance to people in need;
- ii. Every citizen has a right to claim social assistance regardless of sex, social background and reasons for their hardship: their current economic conditions are the primary criteria for the examination;
- iii. The state guarantees the people's right to maintain a minimum standard of "wholesome and cultured" living; and
- iv. Social Assistance is a "last resort": provision of the benefits is subject to utilization of all resources available and best efforts exerted by the applicants.

The first principle clarified the state's responsibility for the implementation of Social assistance. The intention behind this principle is to standardize the benefits and services all over the country and to sustain the financial base of the system. The second principle bans

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<sup>9</sup> The Poor Law at that time stipulated that assistance from a family member or neighborhood would be given priority over social assistance.

any discriminatory treatment of the applicants so that assistance can be provided fairly.<sup>10</sup> The third principle sets a standard for the level of benefits and services under Social assistance. Finally, the fourth principle indicates eligibility to receive the Social assistance and at the same time, a basic premise of self-responsibility.

The Social assistance scheme is totally financed by the tax revenue of both the state and the local governments. To be more precise, the state subsidizes an amount equivalent to 75 % of the in-cash benefits and related administrative costs, as well as 50% of the facilities expenses. The total expenditure for this scheme accounted for 1,900 billion yen in 2002, of which the state paid 1,400 billion yen.

### *3.1.2. Administration*

The constitution requires the state (the Ministry of Health, Labour and Welfare) to be responsible for implementation of the Social assistance scheme. In practice, however, prefectural governments manage this scheme on consignment from the state. Moreover, the actual operation of the scheme is by Welfare Offices. According to the Social assistance Law, each city has an obligation to establish Welfare Offices, but this is not the case for towns and villages, where local governments are smaller than in cities. To provide for the people living in towns and villages, prefectural governments are obliged to establish Welfare Offices.

The functions of Welfare Offices are as follows:

- Implementation of Social assistance;
- Implementation of other types of social welfare schemes (social services for children, single mothers, widows, elderly people and people with disabilities);
- Treatment of sick travellers and identification of dead ones; and
- Disaster relief.

In order to accomplish these difficult tasks, Welfare Offices are required by law to employ specialists skilled in social welfare. In particular, any officer who handles the Social assistance scheme must be officially certified as a “Social Welfare Manager”.<sup>11</sup> Incidentally, Case Workers are employed in each community on a voluntary basis, and assist people in need in each area in collaboration with the Social Welfare Managers.

### *3.1.3 Recent Trends in Social assistance*

Since its inception, the main reason for applying for Social assistance has been sickness of or injury to the breadwinner. However, due to the rapid ageing of the population, the number of the low-income elderly recipients, particularly elderly people who are living alone, is increasing year by year.

**Figure 3** shows the distribution of the types of households receiving Social assistance.

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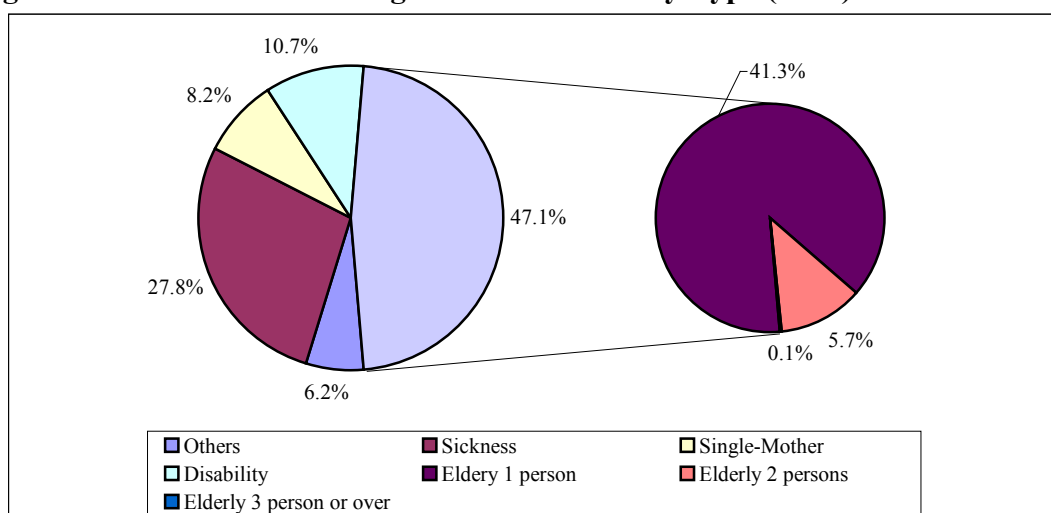
<sup>10</sup> Non-nationals living legally in Japan are also entitled to receive the benefits and services.

<sup>11</sup> The necessary qualifications for the Social Welfare Manager are as follows: 1) to pass a special training course offered by professional schools, or 2) to take the college courses designated by the Minister of Health, Labor and Welfare.



Social assistance was the most common scheme of all at the dawn of Japan's social security system. In fact, 2.4% of the Japanese population received Social assistance and more than 16% of the social security expenditure was on Social assistance in 1951. However, as the social insurance coverage expanded, the size of the Social assistance expenditure has, since 1986, been below 4% of the total social security expenditure.

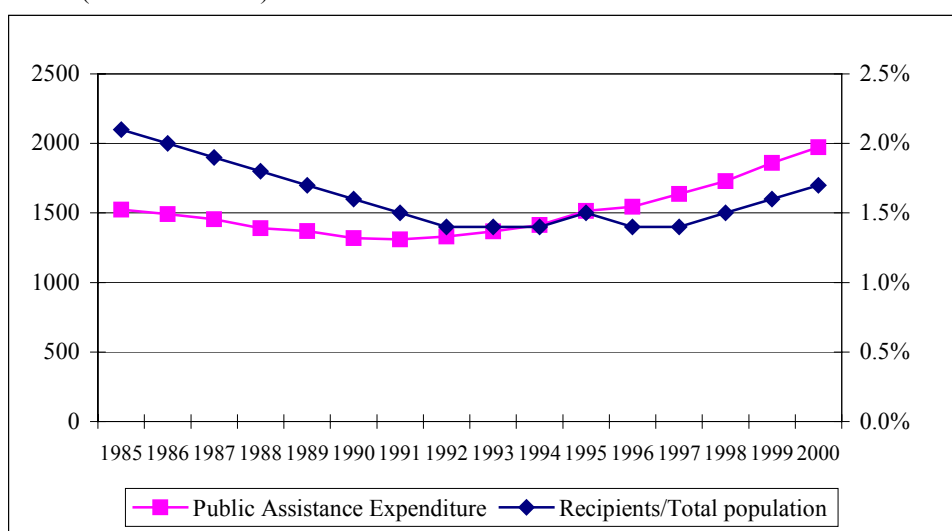
**Figure 3 - Households receiving Social assistance by Type (2001)**



Source: Ministry of Health, Labour and Welfare

However, due to the prolonged recession, the Social assistance expenditure has demonstrated an upward trend since the early 1990s (see *Figure 4*).

**Figure 4 - Social assistance Expenditure and Percentage of Social assistance Recipients 1985-2000** (Millions of Yen)



Source: Ministry of Health, Labour and Welfare

## 3.2. Procedures for Assistance

### 3.2.1. *Defining Eligibility to Receive Social assistance*

First of all, households are required to investigate whether they may receive support, either in cash or in kind, from social security schemes other than Social assistance. Examples of such support are:

- Social welfare schemes for people with physical and mental disabilities, children, elderly people, etc;
- Publicly financed medical services for tubercular patients, victims of work injury, etc;
- Public pensions; and
- Educational grants.

If there is still a shortage of living expenses, they can apply for Social assistance at the Welfare Offices. After careful examination of the status of their livelihood, household membership, their work abilities and eligibility for other benefits, the Office determines the advisability and level of assistance. The Social assistance Law stipulates that the decisions should be made within 14 days after receipt of the application, taking into account their urgent need.

The examination proceeds as follows:

#### 1. Definition of target household

People who are living together and supported by a common livelihood are generally recognized as members of the same household. (In some cases,<sup>12</sup> people who are away from home are recognized as members of the same household.) It is also important to note that, for example, people who have no reason for not working may be excluded from the family. Incidentally, the Civil Code of Japan stipulates the duty of support from relatives, and the assistance from relatives is prioritized over that from the state, that is, Social Assistance.

#### 2. Utilization of existing assets (means test)

To receive Social Assistance, which is financed by tax revenues, private property should be fully utilized or sold with due consideration of its value. Claimants are allowed to own property to some extent, but recipients of Social Assistance may not possess jewels and financial products. As for other things such as TV sets, the determination should be based on the penetration rate<sup>13</sup> in the area and the need in daily life.

#### 3. Certification of income

The applicants' incomes are officially certified, as Annex 1 shows. The calculation differs by types of income, taking into consideration the mode of payment.

The decision whether to provide Social assistance is made in a comprehensive manner, based on both the result of the survey and the Minimum Cost of Living (MCL). The calculation of the MCL is based on dwellings, number of family members and individual needs in daily life (such as care for the elderly, disabilities, children, housing needs, and educational grants).

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<sup>12</sup> Temporary employment away from home, hospitalization, etc.

<sup>13</sup> The rough standard is 70%.

The scheme classifies municipalities into 3 categories and further into 2 groups, taking into account the difference of living standard in each area (see Annex 2 for detailed information).<sup>14</sup>

With regard to the relationship between receipt of Social assistance and participation in the paid labour force, the requirement to seek work is not a formal rule, but there are very strong expectations that individuals will make full use of their capacities (Eardley et al. 1996). In fact, work capacity is one of the important factors bearing on qualification (as was described above, people who have no reason for not working may not receive assistance).

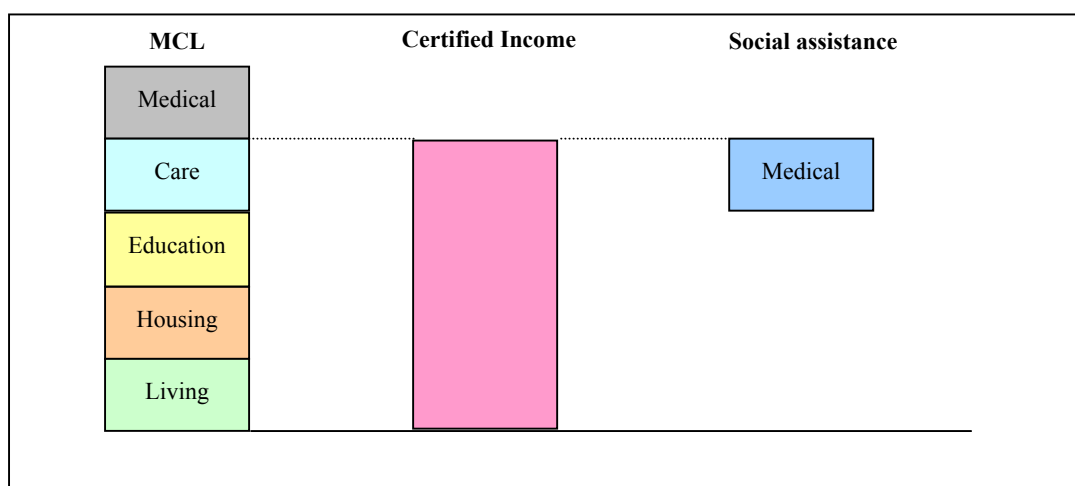
### 3.2.2. Provision of Benefits

The amount of in-cash assistance is calculated by subtracting certified income from the MCL. If the MCL exceeds their income, the difference is given as a benefit. In other words, people whose incomes go beyond MCL cannot receive assistance from the very beginning.

The Social assistance scheme provides support for: 1) Living expenses, 2) Housing expenses, 3) Education expenses, 4) Care expenses and 5) Medical expenses. The certified income is credited to the standard amount of each of the above-mentioned expenses in the order named above, and then an amount equivalent to the deficiency is provided as the benefit. For example, if a household can afford to pay for the living, housing, education and care expense, only the medical benefit will be paid (see **Figure 5**).<sup>15</sup>

Apart from the above-mentioned benefits, three more supports are provided according to needs: 1) maternity, 2) vocational training and 3) funeral.

**Figure 5 - Payment of Benefits (an example)**



<sup>14</sup> As for the changes in methods of the MCL calculation, the market basket method was adopted in 1948. From 1961, the MCL was figured out in order to satisfy the people's nutritional status. Subsequently, the new method was introduced again to reduce the gap of income between the average living standard and that of low-income household, depending on the annual growth of the consumption expenditure. The current method is based on the idea that MCL maintain a good balance with the average living standard. Therefore, the MCL is adjusted to the level of consumption.

<sup>15</sup> In practice, the medical benefit is paid in kind.

Furthermore, several types of shelters are available for those who have difficulties in their daily life: Aid Stations for people with serious physical and mental disabilities; Rehabilitation Centres for people with physical and mental disabilities; Medical Aid Centres; Vocational Training Centre for people with physical and mental disabilities and mothers with infants; and accommodation facilities. As of 2001, there were 295 facilities and 20,009 users in Japan.

Concerning the duration of the assistance, as long as the recipients are deemed unable to maintain a minimum standard of living and meet other necessary criteria, the benefits are available indefinitely.

### *3.2.3. Suspension of Assistance and Administrative Review*

If it is highly probable that the total amount of the household income exceeds the MCL, provision of the benefits should be suspended or abolished. Also, the recipients' intentional interference with the Welfare Offices' examination, or their non-compliance with regulations, could be reasons to suspend and abolish the assistance.

On the other hand, if the recipients are dissatisfied with the decision made by the Welfare Offices, they are able to request that the local authority reconsider it. It is notable that an independent board, not a court, examines the cases, and is expected to make a decision quickly.

### **3.3. Other types of benefits**

Special measures for the households receiving Social assistance are as follows:

- The households receiving Social assistance are exempt from inhabitants' tax as well as the TV license fee (1,395 yen per month, as of 2003). Furthermore, most of the social services for the elderly, people with disabilities and children are available free of charge for them.
- As for housing supply, people with disabilities, low-income people and elderly people are given priority access to public housing. If they have difficulties paying the rent due to their low income, they are exempt from paying the rent.

## **4. Conclusion**

Social security in Japan consists of the social insurance schemes, which have been expanding their responsibilities to the areas covered by social welfare. This is symbolized by the introduction of the long-term care insurance scheme, and recognises that social insurance schemes have to some extent substituted social welfare, including Social assistance. Thus, social insurance schemes function in a preventive manner, to decrease the risk of falling into poverty, and Social assistance complements the social insurance schemes.

Yet it is true that the Social assistance scheme needs to accommodate rapid socio-economic change in Japan.

As discussed, the expenditure for Social assistance has been increasing since the early 1990s due mainly to the prolonged recession in Japan, and the allocation of recipients indicates an over-concentration of assistance to elderly people, because of the rapidly ageing population. These facts underscore the need to advance comprehensive and unified social security

measures. There is currently discussion of the adequacy of the benefit level, notably abolition of those additional benefits for fatherless families and households that consist of the elderly which may provide them with disincentives to work and undermine public confidence in the scheme. Moreover, it has been pointed out that there are a number of long-term recipients, due to the lack of effective measures to provide them with an “escape hatch” from poverty.

To cope with these problems, the Ministry of Health, Labor and Welfare established an advisory committee in August 2003. A fundamental reform of the Social assistance scheme is now being discussed by this committee.

## 5. List of legislation

### Social assistance

- Constitution of Japan (1946)
- Social assistance Law (No.144, 1950)

### Social Insurance

- National Pension Law (No.141, 1959)
- Employees' Pension Insurance Law (No.115, 1954)
- National Health Insurance Law (No.192, 1958)
- Employees' Health Insurance Law (No.70, 1922)
- Long-term Care Insurance Law (No.123, 1997)
- Children's Allowance Law (No.73, 1971)
- Employment Insurance Law (No.116, 1974)
- Worker's Accident Compensation Insurance Law (No.50, 1947)

### Social Welfare

- Social Welfare Law (No.5, 1951)
- Child Welfare Law (No.164, 1947)
- Maternal and Child Health Law (No.141, 1965)
- Law of Welfare for the Aged (No.133, 1963)
- Law of Welfare for people with physical disabilities (No.283, 1949)
- Law of Welfare for people with mental disabilities (No.37, 1960)

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## 7. Statistical Annexes

**Table A1 - Certification of Income (2003)**

### Wage Earners

Average monthly salary (gross) in the last three month – Basic exemption\*<sup>1</sup> – Necessary costs\*<sup>2</sup>

\*<sup>1</sup> See the Chart below.

\*<sup>2</sup> Social insurance contribution, commutation costs, etc.

### Entrepreneurs / The self-employed

Average monthly income in the last three month – Basic exemption\*<sup>1</sup> – Necessary costs\*<sup>2</sup>

\*<sup>1</sup> See the Chart below.

\*<sup>2</sup> Cost of raw materials or stockage, repairing costs, etc.

### Farmers

Estimated annual income\*<sup>1</sup> – Basic exemption\*<sup>2</sup> – Necessary costs\*<sup>3</sup>

\*<sup>1</sup> The estimation should be based on adequate yield quantity and sales prices.

\*<sup>2</sup> See the Chart below.

\*<sup>3</sup> Cost of seeds, fertilizer and manure, etc.

### Others (pensioners, etc.)

Total Amount of monthly income\*<sup>1</sup> – Necessary costs\*<sup>2</sup>

\*<sup>1</sup> Supplies to the applicants' living cost might be excluded in calculation if they are acceptable to current social standards.

\*<sup>2</sup> Cost of repair on houses, rent, etc.

**Table A2 - Basic Exemption in calculation of Certified Income (Summary)**

Amount of Income	Class I	Class II	Class III
- 19,999	0 - 9,720	0 - 9,720	0 - 9,720
20,000 - 39,999	10,410 - 13,160	10,410 - 13,160	10,410 - 13,160
40,000 - 59,999	13,850 - 16,600	13,850 - 16,600	13,850 - 16,600
60,000 - 79,999	17,290 - 20,040	17,290 - 20,040	17,290 - 20,040
80,000 - 99,999	20,730 - 22,940	20,730 - 22,940	20,730 - 22,940
100,000 - 119,999	23,220 - 24,370	23,220 - 24,370	23,220 - 24,370
120,000 - 139,999	24,660 - 25,800	24,660 - 25,800	24,660 - 25,800
140,000 - 159,999	26,090 - 27,280	26,090 - 27,280	26,090 - 27,270
160,000 - 179,999	27,550 - 28,750	27,550 - 28,750	27,220
180,000 - 199,999	28,950 - 30,240	28,950 - 30,240	
200,000 - 219,999	30,380 - 31,530	30,270	
220,000 - 239,999	31,820 - 32,960		
240,000 - 243,999	33,250		
244,000 -	33,260		

Note: This chart is adapted only to a primary breadwinner at each household and there are different measures for other incomes by the other members.



**Table A3 - Calculation of the Minimum Cost of Living (2003)**

<i>Formula of Minimum cost of living = A+B+C+D+E+F</i>
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**A. Age composition**

(Yen)

Age	Class I		Class II		Class III	
	Group I	Group II	Group I	Group II	Group I	Group II
0	15,000	14,330	13,650	12,980	12,300	11,630
1-2	21,830	20,850	19,870	18,880	17,900	16,920
3-5	27,000	25,790	24,570	23,360	22,140	20,930
6-8	32,090	30,650	29,200	27,760	26,310	24,870
9-11	36,520	34,880	33,230	31,590	29,950	28,300
12-14	44,100	42,120	40,130	38,150	36,160	34,180
15-17	47,400	45,270	43,130	41,000	38,870	36,740
18-19	42,090	40,200	38,300	36,410	34,510	32,620
20-40	40,050	38,250	36,450	34,640	32,840	31,040
41-59	38,260	36,540	34,820	33,090	31,370	29,650
60-69	36,170	34,540	32,910	31,290	29,660	28,030
70-	32,400	31,180	29,480	28,360	26,570	25,560

**B. Number of household membership**

(Yen)

Number of people	Class I		Class II		Class III	
	Group I	Group II	Group I	Group II	Group I	Group II
1	43,520	41,560	39,600	37,640	35,690	33,730
2	48,170	46,000	43,830	41,670	39,500	37,330
3	53,400	51,000	48,590	46,190	43,790	41,390
4	58,100	55,490	52,870	50,260	47,640	45,030
+5 (per person)	440	440	400	400	360	360

**C. Additional Benefit**

(Yen)

Beneficiaries		Class I	Class II	Class III
The elderly	Aged + 70	17,930	16,680	15,430
	Aged 68 and 69 with sickness	13,450	12,510	11,570
The disable	applicable to 1st or 2nd grade of the Physical Disability Certificate	26,900	25,020	23,150
	applicable to 3rd grade of the Physical Disability Certificate	17,930	16,680	15,430
Single parent households	with one child*	23,310	21,680	20,060
	with two children*	25,150	23,400	21,670
	with more than three children* (per person)	940	870	800

\*Children: people aged less than 18

D. Housing Benefit		(Yen)	
	Class I	Class II	Class III
Actual amount of rent up to:	13,000	13,000	8,000

E. Tuition Benefit		(Yen)	
	Elementary school student	Junior high school student	
Per person	2,150	4,180	

F. Others	(Yen)
Care Benefit	Average amount of actual costs for care (per month)
Medical Benefit	Average amount of actual costs for medical treatments (per month)

**Table A4 - Examples of the Minimum Costs of Living**

		(Yen)		
People who make up the family	Class I - Group I	Class II - Group I	Class III- Group II	
Four-member family: Man aged 35 Women aged 30 Child aged 9 Child aged 4	224,130	205,770	173,240	
Elder couple: Man aged 68 Women aged 65	135,180	124,170	102,690	
Single-mother family: Women aged 30 Child aged 9 Child aged 4	204,260	188,200	160,020	
The handicapped: Women aged 65 Man aged 25 with high degree of handicap	192,580	179,350	155,470	

# Chapter 4 Social Assistance in Russia

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## 1. Introduction

The Russian Federation maintains a ramified system of social protection. It covers all major risks arising from diseases, maternity, work injuries, unemployment, invalidity, old age and death, disability, and loss of breadwinner. It also provides assistance to families with children. In addition, there is a category-based system of benefits and subsidies providing particular categories of the population with free transport services, utilities and so on. A system of social support for low-income families and singles, that the regions set up earlier, has been operating at the federal level since 1999. However, the Russian Federation has a relatively high level of poverty as households with monetary income below the subsistence minimum accounted for 23.3 percent of the country's population (33.2 million) in the second quarter of 2003 (State Committee for Statistics 2003).

This program is planning to examine:

- The system of social protection of the population of the Russian Federation, specifically: legislation, the actual state of affairs, financing, efficiency and problems arising within the following key components of the social protection system:
  - Public health services.
  - Unemployment benefits.
  - Maternity benefits.
  - Family and child benefits.
  - Unemployment benefits.
  - Retirement and social pensions.
  - Invalidity Pensions, Disability Benefits Related to Work Accidents and Occupational Diseases, Survivors' Pensions, Funeral Allowances.
  - Allowances, Subsidies, Payments, Compensations.
- The system of social assistance includes:
  - Legislation.
  - Federal and regional levels.
  - Financing.
  - Forms of assistance.
  - Rendering order assistance.

A List of the main legislative acts, summary statistics tables and also references are offered below.

## 2. Social Protection System

In 2001 the consolidated budget's expenditures for social and cultural measures were Rb 727.6 billion or 8.1 percent GDP (see Attachment)<sup>1</sup> whilst those of the state extra-budgetary social funds<sup>2</sup> were Rb 700 billion or 7.7 percent GDP. In 2001, social payments to the population: pensions, benefits, scholarships, and insurance etc. amounted to Rb 808.3 billion (8.9 percent GDP). Their share in the monetary income of the population was 15.3 percent.

Budgetary financing of social protection is provided primarily under the "Social Policies" section. In 2001, relevant expenditures of the consolidated budget amounted to Rb 221.5 billion or 2.4 percent GDP. The federal budget provided almost 50 percent of the said expenditures, the rest being provided by regional budgets. A part of the social protection measures is financed by federal and territorial social extra-budgetary funds.

The financing required for federal-level benefits and subsidies is estimated to exceed 15 percent GDP. That is 10 times more than the social policy expenditures of the federal budget. As a result, municipal authorities providing assistance to vulnerable populations in their respective territories receive compensation of no more than 30 percent of the costs associated with the social protection measures required by federal law (Ministry of Labour and Social Protection. 2000(a)).

### *Health care*

Under Article 41 of the country's Constitution, «medical assistance at government and municipal health agencies is provided free of charge». Over the last few years Russia has passed more than 30 health care regulations including «On Prevention of Tuberculosis in the Russian Federation», «On Quality and Safety of Food», «On Drugs and Psychotropic Agents» and «On Immune Prevention of Infections». Many health care regulations were adopted in the country's regions.

Federal special programmes such as «Diabetes Mellitus», «Anti-HIV/AIDS», «Urgent Measures against Tuberculosis», «Vaccine Prevention» etc. have made a positive impact on the health of the people. There is a ramified system of health services, with the number of doctors and hospital beds being one of the largest in Europe.

However, incidence of diseases is high, particularly as regards active tuberculosis whose incidence rate is growing. Practical indicators of mothers' and children's health have been deteriorating over the last ten years. In 2001, life expectancy at birth was 65.3 years: women – 72.3 years, men – 59.0 years. There is a high mortality rate compared with West European countries particularly from infectious diseases, blood circulation disorders, accidents, murder and suicide (State Committee for Statistics of Russia 2002).

In 2001, government health care and physical culture expenditures were approximately 2 percent GDP whilst those of the budgetary and mandatory health insurance system were approximately 3 percent GDP. Health care in Russia is crippled by the gap between the

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<sup>1</sup> Exchange rate of Russian ruble: see Attachment.

<sup>2</sup> Pension Fund of Russia, Social Insurance Fund of Russia, Republican Social Protection Funds, federal and territorial mandatory health insurance funds.

demand for free health care and the available financing. Public financing of health care (from all budgets and resources of mandatory health insurance) declined in real terms by one-third during 1990s (Shishkin 2000). Since 2000, the health care budget has been increasing but it still cannot recompense the decline. The lack of financing of government-guaranteed health care resulted in increased legal and informal costs within the health services, and restricted access to quality medical assistance for the public at large. Moreover, the poor have to spend a bigger part of their expenditure on medication: in 2002 the lowest-income decile spent 4.1 percent of their expenditure on medication whilst those in highest-income decile spent 3 percent (MONF, Independent Institute of Social Policies 2003).

### ***Disability Benefits***

Under the Labour Code (Article 239), workers are entitled to disability benefits<sup>3</sup> amounting to 60-100 percent of earnings dependent upon the number of years of continuous service and other factors. Disability benefits will cover 60 percent of earnings if the insured worker has 5 years of continuous employment, 80 percent for 5-8 years and 100 percent for more than 8 years (and/or two or more children). In the event of a work injury or occupational disease, benefits will cover 100 percent of earnings. Benefits are paid on a different basis to the specific categories of beneficiaries named in the laws «On Donors of Blood and Its Components» dated June 9, 1993, «On Government Guarantees and Compensations to Workers and Residents of the Extreme North and Equally Rated Territories» dated February 19, 1993, and the Presidential Decree dated October 2, 1992. Under the Council of Ministers Resolution No. 1417-p dated October 27, 1987 and Russian Legislation Guidelines «On Public Health» No. 5487-1 dated July 22, 1993 (Article 22) benefits covering 50-100 percent of earnings will also be provided where a sick child needs care. See the Attachment for the amount of benefit.

### ***Maternity Benefits***

Maternity benefits from the Social Insurance Fund are paid to women with public social insurance. The maternity benefit is paid for 20 weeks and covers 100 percent of earnings (Labour Code, Articles 165, 240; Federal Law «On Public Benefits to Individuals with Children» No. 81-FZ dated May 19, 1995).

There are laws entitling individuals to a lump sum child birth benefit of Rb 4500 (2003), a monthly childcare benefit of Rb 500 payable from the Social Insurance Fund and different levels budgets until the child is 1,5 years old (Federal Laws «On Public Benefits to Individuals with Children» No. 81-FZ dated May 19, 1995 and «On Amending the Federal Law «On Public Benefits to Individuals with Children» No. 184-FZ dated November 24, 1995.

### ***Family and Child Benefits***

Russia maintains a system of benefits to individuals with children. Under Federal Law «On Public Benefits to Individuals with Children» (as amended) No. 81-FZ dated May 19, 1995, a monthly child allowance<sup>4</sup> is payable to one of the parents (natural or adopted parents, guardians or tutors) for each natural or, adopted child, or child under wardship until the age

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<sup>3</sup> Financed from the Social Insurance Fund.

<sup>4</sup> As of December 1, 2002 the monthly child allowance payable until the age of 16 was provided to 18.1 million people.

of sixteen (or until graduation for a student at a general education school but not beyond the age of eighteen) in families with an average per capita income of not more than the subsistence minimum established in the respective region of the Russian Federation. Under Federal Laws «On Minimum Wage» No. 82-FZ dated June 19, 2000 and «On Establishing the Amount of Scholarships and Social Payments in the Russian Federation» No. 122-FZ dated August 7, 2000, this allowance has been set at Rb 70 a month which represents approximately 3.4 percent of the child subsistence minimum in 2003. As a matter of comparison, as of October 1, 2001, the amount of this allowance was 23.3 percent of the minimum wage, 14.4 percent of the minimum old age pension with compensation and 37.8 percent of the pension for disabled children (excluding an increase for care).

The amount of monthly child allowance was increased 100 percent for the children of single mothers<sup>5</sup>, 50 percent for the children of parents withholding alimony payments (or, as provided for by Russian law, when alimony cannot be collected), and also for the children of military conscripts (Ministry of Labour and Social Protection. 2003(b)). According to the Ministry of Labour data, this allowance was paid to approximately 18.8 million children covering 70.3 percent of children under 16 in 2001.

There are special measures to support families with disabled children and large families. Russia set up a system of tax exemptions for families with children and a programme for provision of housing to families in need of improved living conditions. However, in 2000, according to official Russian statistics, 36.0 percent of full families and 45.1 percent of single parent families were low-income families (those with disposable income below the subsistence minimum). On average, low income households represent 32.7 percent of the total households. Therefore, families, especially single parent families, stand more chance than singles of becoming poor. Fewer singles are poor – only 10.5 percent. Families also have a higher level of severe poverty (where disposable resources are less than half of the subsistence minimum) (State Committee for Statistics 2002).

Russia maintains a developed system of childcare services that includes kindergartens, extended classes and groups in schools, and summer camps for recreation and for the rehabilitation of children. In 2001, there were 686 vacancies per 1000 children of 1-6 years in kindergartens, with 4246 children attending 50 thousand such kindergartens. They provided services to 57 percent of children under 6, with the coverage being higher in urban than rural areas. 302.7 thousand children, or less than 4 percent of all children under 6, are registered for attendance at these kindergartens (State Committee for Statistics 2002). In 2001, nearly 10 million children spent time in 52.1 thousand camps, sanatoria and holiday homes for children. A number of these institutions also provided rehabilitation services to disabled children, orphans and other vulnerable groups.

The country has set up and is extending a network of social services for families and children. In 2001, this network rendered services and assistance to 8.6 million people including 3.6 million teenagers. Assistance was provided to 2 million 897 thousand families including low-income families, single parent families, large families, families of refugees and forced migrants, and large families with disabled children (Ministry of Labour and Social Protection 2002). According to data from the State Committee for Statistics, nearly 4 million families (9.1 percent of all families) received housing and utilities subsidies in 2001 (State Committee for Statistics 2002).

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<sup>5</sup> There are other measures for protecting single parent families.

## ***Unemployment Benefits***

Under the Law «On Employment in the Russian Federation», the unemployed are defined as adults, who are able to work but who are without employment and earnings; and who are registered as job seekers in employment service departments looking for a job and willing to start working.

The government guarantees payment of unemployment benefits and scholarships for occupational training, improvement of skills and retraining upon referrals from employment agencies. These payments cover the period of short-term disability. Unemployment benefits payable to people dismissed on any basis are calculated as a percentage of their average earnings over the last three months of employment, assuming that, within the previous 12 months a person had full-time remunerable employment of a minimum of 26 calendar weeks or part-time employment amounting to 26 weeks full time. Otherwise, unemployment benefits cover 20 percent of the subsistence minimum as established in the respective Russian region but not less than Rb 100.

Where unemployed people have dependants, benefits will increase per person by 10 percent of the subsistence minimum as established in the region, but not less than Rb 50 per person. The maximum increase cannot exceed 30 percent of the established subsistence minimum. Where both parents are unemployed, the increase for dependants is paid for the benefit of each parent. Unemployment benefits are payable to individuals who are registered as unemployed while they actively seek a job. Benefits cannot be paid for longer than 12 months on aggregate during 18 calendar months. Where unemployed people have not less than 26 weeks of remunerable employment, unemployment benefits are calculated as a percentage of their average monthly earnings at the last job: 75 percent in the first three months, 60 percent in the subsequent four months and 45 percent thereafter. The benefit must not exceed the subsistence minimum established in the respective region and must not be below 20 percent of the subsistence minimum. The amount of unemployment benefit cannot fall below Rb 100.

In 2001, unemployment benefits were paid to about 1 million people in Russia. In that year unemployment agencies registered 1.1 million unemployed i.e. benefits were paid to 90 percent of the officially unemployed (State Committee for Statistics 2002, p. 71). In 2001, the unemployment rate calculated on the basis of ILO methodology was 8.9 percent, with registered unemployment being only 1.6 percent. By early 2003, when the unemployment rate calculated on the basis of ILO methodology dropped to 6.1% according to the State Committee for Statistics, the registered unemployment rate remained unchanged.

## ***Retirement and Social Pensions***

Men retire at 60 and women at 55. Pensions are payable on the basis of a minimum of 5 years pensionable insurance employment. Those with a shorter period of insurance can claim a social pension. People working in hazardous or heavy conditions can retire earlier: men at 50 with at least 10 years of service, women at 45 with 7.5 years. Under the new pension law effective since January 1, 2002, old age retirement pensions comprise three parts: basic, insurance, and funded. The basic part is fixed at different levels for different categories of beneficiaries. The insurance pension depends on the amount and period of contributions. The law provides that the sum of the basic and insurance parts cannot be less than Rb 660 a month including a basic pension of less than Rb 450 a month (adjusted for inflation).

In 2001 the average old age retirement pension amounted to Rb 1255 a month whilst the subsistence minimum of pensioners in Russia was Rb 1114, i.e. the average old age pension covered 113 percent of the subsistence minimum. The same year the average monthly wage in Russia was Rb 3 240 (State Committee for Statistics 2002). Consequently, the ratio of average pension to average wage (replacement rate) was 38.7 percent.

According to the State Committee for Statistics, in January of 2003 the average pension was Rb 1464 whilst the average wage was Rb 4 877. The average old age retirement pension was 10 percent more than the average pension. However, this would cover only 33 percent of the countrywide average wage in that period. In 2001, the social pension in Russia was Rb 632 or 57 percent of the average subsistence minimum for pensioners. However, there are relatively few beneficiaries of social pensions: in 2001 social pensions accounted for approximately 1.5 million people or 3.8 percent of all pensioners.

### ***Invalidity Pensions, Disability Benefits Related to Work Accidents and Occupational Diseases, Survivors' Pensions, Funeral Allowances***

Disability benefits related to work accidents and occupational diseases are financed from the Social Insurance Fund whilst invalidity pensions are financed from the Pension Fund of Russia. Employer's contribution rate varies from 0.2 to 8.5 percent depending on the occupational risk. Disability benefits cover 100 percent of the previous wage and are payable from the first day of disability until the last day of rehabilitation. Continuous payments could be replaced by a lump sum amount that equals 60 minimum wages. For partial disability, benefits are calculated on the basis of a percentage of the lost ability to work.

Russia maintains an extensive network of health, occupational and social services for the rehabilitation of invalids (Law «On Social Protection of Invalids» No. 181-FZ dated November 24, 1995). Under Russian law, an individual rehabilitation programme should be developed for each invalid and should incorporate measures for sustaining his independent existence. Invalids are entitled to a broad range of necessary appliances. Those suffering from the consequences of work injuries or occupational diseases have access to all services at home, in hospitals or in rehabilitation centres. In the event of the insured individual's death from a work accident or occupational disease, his family receive a lump sum or monthly benefit. A monthly benefit consists of two components: a basic fixed part and an insurance part, the latter depending on the number of dependants and the accumulated rights to a pension.

Invalids are classified into three categories: the first group includes people with full disability who need constant care; the second group includes people with full disability who do not need constant care; and the third group includes people with 50 percent disability who do not need constant care. The amount of invalidity pensions is calculated as a sum of three components: a basic fixed amount for all three invalidity groups, an insurance part and a funded part. In 2001 invalidity pensions were provided to 4.8 million people and the average invalidity pension amounted to Rb 940 (84 percent of the subsistence minimum of pensioners, 29 percent of the average wage). Pensions for family members are less than invalidity pensions: their average amount is Rb 669 per each non-working family member in 2001 (State Committee for Statistics, 2002, p. 175).

In 2001, the minimum pension was Rb 370 for the first invalidity group, Rb 185 for the second group and Rb 124 for the third group. Social pensions for childhood invalids were Rb



370 for the first group and Rb 185 for the second group. Pensions for invalids with zero years of service were Rb 185 for the first group and Rb 123 for the second group (State Committee for Statistics 2002). Under the law «On Social Protection of Invalids in the Russian Federation», invalids are provided with transport, housing, utilities subsidies etc.

Russia also provides survivors' pensions, their amount being calculated in the same way as old age and invalidity pensions. In 2001 the average survivor's pension was Rb 669 per each family member (State Committee for Statistics 2002, p, 175). Under Federal Law «On Funerals and Funeral Business» (as amended) No. 91-FZ dated June 28, 1997, people receive a compensation for their funeral costs or a social funeral allowance not exceeding 10 minimum wages.

### ***Allowances, Subsidies, Payments, Compensations***

Under the federal laws alone, nearly 150 social payments, allowances, subsidies and benefits have to be provided to more than 200 different categories of the Russian population (for example, to veterans, children, invalids, students etc.). Practically all social subsidies and allowances are category-based; three types of social payments are stipulated at federal level: a monthly child allowance, housing subsidies and state social assistance are means-tested and provided to families with an average income below the subsistence minimum. There are subsidies for payment of housing, utilities, communications, transport, medication etc.<sup>6</sup> These resources are distributed as follows: households with an average income below the subsistence minimum account for only one-quarter of the total amount of subsidies and allowances made available to all households, whilst households with an average income above the subsistence minimum account for three-quarters (Ministry of Labour and Social Protection. 2000(a), Misikhina 1999, ILO 2002).

## **3. Social Assistance**

The system of public social assistance in Russia is primarily framed by the federal laws “On the Subsistence Minimum in the Russian Federation” (October 24, 1997), “On State Social Assistance” (July 17, 1999) and “On Registering Income and Calculating Average Per Capita Income of Families and Income of Singles Declared Poor and Claiming State Social Assistance” (April 5, 2003).

According to Article 5 of the Law «On State Social Assistance», this assistance is to be provided from the federal, regional and local budgets. It is understood that local and regional budgets should finance state social assistance measures, with a shortfall of regional and local resources compensated by a higher-level budget of the Russian budgetary system or from additional sources as established by the Russian government.

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<sup>6</sup> Housing and utilities subsidies, for example, to prosecutors (Law of the Russian Federation “On the Prosecutor’s Office of the Russian Federation”. Other categories are entitled to these subsidies on the basis of Law “On the Status of Judges in the Russian Federation” No. 3132-1 dated June 26, 1992 and Federal Law “On Additional Social Protection Guarantees to Judges and Judicial Officers” No. 6-FZ dated January 10, 1996, Law “On the Police” No. 1026-1 dated April 18, 1991, Law “On Federal Tax Police Authorities” No. 5238-1 dated June 24, 1998, Russian President Decree “On Soldiers on International Duty” No. 362 dated June 10, 1993 and other laws and regulations.

It is difficult for recipient regions to independently finance state social assistance without the support of higher budgets. Regional needs, when their own financial resources are insufficient, should be accounted for in the inter-budgetary equalisation formula when determining the amount of federal transfers. But this transfer accommodates regional needs in general, so the allocation of a single transfer does not and should not mean that the entire allocated amount (or part thereof) should target social assistance.

There is a significant regional differentiation of the structure of financial sources for social assistance to families in need. As of July 1, 2000 federal budget funds accounted for over 50 percent of social assistance financing in 2 regions, under 10 percent in 18 regions and 0 percent in 40 regions. Regional budget funds accounted for 100 percent of social assistance financing in 8 regions and over 50 percent in 18 regions. 11 regions provided no regional budget financing of social assistance programmes. Local budgets accounted for over 50 percent of social assistance financing in 21 regions. However, another 21 regions provided no local budget financing of social assistance. Extra budgetary sources<sup>7</sup> accounted for over 50 percent of social assistance financing in 10 regions. Moreover, in 3 of these regions extra budgetary sources accounted for 100 percent of funds spent on social assistance (Ministry of Labour and Social Development. 2000(b)).

Given below is the financing structure of social assistance programmes generally representative across the Russian Federation:

- nearly 41 percent of state social assistance is financed from regional budgets;
- 32 percent of state social assistance is financed from local budgets;
- 21 percent is financed from other sources, such as the committed resources of enterprises and private individuals;
- Only 6 percent are financed by the federal budget (World Bank 2002).

A small share of federal budget funds in the financing structure means that those regions which cannot implement social assistance programmes for various reasons are unlikely to start providing sizeable support to people in need for financial reasons, even though households with income below the subsistence minimum account for over 50 percent in at least 29 regions.

As a result, according to the Ministry of Labour and Social Development, as of July 1, 2000 social assistance was provided to the poor on a regular basis in 52 regions, and in 12 regions depending on the availability of funds for these purposes. 9 regions failed to provide assistance due to a shortage of financial resources (Ministry of Labour and Social Development. 2000(b)). It is extremely difficult to calculate how much is spent on various types of social assistance because at the municipal level it is provided both in kind and in cash.

Apart from a shortage of funds to finance public social assistance, there are also technical problems of provision. As was noted above, the regional needs for targeted social assistance financing, given the shortage of their own resources, should be compensated by federal budget transfers calculated on the basis of the inter-budgetary equalisation formula. In order to account for regional needs, this formula should accommodate regional data on the share of poor families and the poverty depth. To calculate these indicators, regions were supposed to

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<sup>7</sup> Extra budgetary sources include the Social Insurance Fund of Russia, Pension Fund of Russia, regional extra budgetary funds, resources of enterprises, private individuals and organizations, and humanitarian aid.

develop and approve a subsistence minimum. This was a fairly lengthy process in Russia.. Lack of these estimated indicators in some regions complicates the process of their distribution.

The Law “On State Social Assistance” provides that low-income families and singles that for objective reasons have an average per capita income below the subsistence minimum as established in the respective subject of Federation are entitled to state social assistance to sustain their living standards. State social assistance is made available on the basis of an application in writing, to be filed with social protection authorities by the citizen or his/her representative under the law of Russia at his/her permanent or temporary residence (Federal Law “On Registering Income and Calculating Average Per Capita Income of Families and Income of Singles Declared Poor and Claiming State Social Assistance”).

The application should specify details of family members, income and assets. State social assistance is provided on the basis of a decision by social protection authorities at the applicant's permanent or temporary residence. Details reported by the applicant may be verified by social protection authorities by running an additional inspection (inquiry). Not later than 10 days from the date of the application and presentation of required documents, social protection authorities should send to the applicant at his permanent or temporary residence a notice approving or refusing state social assistance. Social protection authorities calculate average per capita income and register income for the provision of social assistance as established by the above law.

State social assistance may be refused to the applicant where:

- the applicant is not poor;
- he/she provides incomplete and/or inauthentic information.

Provision of state social assistance may be terminated where:

- the applicant provides inauthentic information;
- the applicant fails to advise, in a timely manner, of a change in previously provided information<sup>8</sup>

Applicants may appeal against the decision of the social protection authorities to superior social protection authorities and to the court. State social assistance may be provided in a variety of forms: as social benefits, subsidies, compensations, vital goods. Therefore, one can distinguish monetary payments (social benefits, subsidies, compensations etc.) and in kind assistance (fuel, food, clothing, footwear, medication and other in kind benefits).

In 2000, Russian regions used the following types of social assistance to support those in need<sup>9</sup>:

- means tested social benefit –21 regions; however, the administrations of only 13 regions had all the necessary data on such benefit (number of entitlements, number of actual applicants, average amount of benefits, number of refusals and their basis) (Baigereyev 2001(a));
- cash social benefit – 17 regions (of which 14 maintained records of payments including the number of entitlements, number of applicants, average amount of benefits);
- lump sum monetary assistance – 28 regions;

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<sup>8</sup> Later than 2 weeks after such change.

<sup>9</sup> A region could use more than one type of assistance.

- in kind assistance (free meals, food baskets, clothing and footwear) – 61 regions;
- subsidies (housing, goods, services etc.) – 53 regions.

In 2000 such assistance was provided to different categories of individuals and families in 51 regions of Russia whilst in 19 regions it covered only individuals. In 5 regions social assistance was provided to households.<sup>10</sup> Categories of individuals and families included the most vulnerable groups of the population.

State social assistance may be provided as a lump sum or spread over a period of at least three months. The amount of state social assistance to low-income families and low-income singles is determined by the regional legislation as the difference between the sum of subsistence minima and the total income of the members of a low-income family or a low-income single individual.

Amounts of social assistance vary depending on the particular region (its financial position), types of assistance etc. One applicant may receive different types of social assistance but the actual amount of social assistance is very small anyway. For example, in 1999 the average social benefit in the Samara Oblast was Rb 124 per family, this benefit being paid to nearly 50 thousand people each month (Ministry of Labour and Social Development. 2000(a)). In 1999 the monetary income of 23.4 percent of Samara Oblast's population (nearly 771 thousand people) was below the subsistence minimum. Unfortunately, the available statistics do not show regional data on the actual monetary income deficit but on a near indicator: the deficit of disposable resources. This was Rb 1104 per family a month in the Samara Oblast in 1999 (State Committee for Statistics. 2000). Consequently, social benefits covered about 11 percent of the disposable resources deficit.

There is no data on the average amount of social assistance provided in the Russian Federation. But the table «Ratio of Minimum Monetary Income and Subsistence Minimum» (see Attachment) appears to be of interest. It shows that in the first quarter of 2003 the amount of monthly child allowance was 3.4 percent of the children's subsistence minimum. This ratio appears to be very low at first sight. But the same table shows that the ratio of minimum wage and subsistence minimum of a person able to work is 20.2 percent. This means that the low level of social assistance matches the low level of the minimum wage.

Registration of income and calculation of the average per capita income of families and singles are made on the basis of information on family members, income of family members or singles and the assets they own as specified in the application for provision of state social assistance.

Social protection authorities may verify the following details specified by claimants in applications for provision of state social assistance:

- permanent or temporary residence of a family or single;
- income of family members or singles;
- family and/or in-law relationship of family members, their cohabitation and household members
- assets.

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<sup>10</sup> See the Attachment for categories of families and singles entitled to social assistance in Russian regions.

The average per capita income of families and the income of singles are calculated as a sum of the income of the family members or the single over the three calendar months preceding the date of the application for provision of state social assistance. Both monetary and in kind incomes for each family member or for a single are taken into account. The procedure for recording in kind income, foreign exchange income etc. is based on the provisions of the law “On Registering Income and Calculating Average Per Capita Income of Families and Income of Singles Declared Poor and Claiming State Social Assistance” (April 5, 2003).

The «List of Income Types to Be Taken into Account in Calculating Average Per Capita Income of Families and Income of Singles Claiming State Social Assistance» approved by Government Resolution No. 512 (August 20, 2003) specifies the following types of income for calculating the average per capita income of applicants:

- payments to be taken into account in calculating average earnings;
- average earnings;
- compensation for discharge of public or social duties;
- severance payments;
- social payments from budgets of all levels, state extra-budgetary funds and other sources:
  - pensions and other payments to pensioners, subsistence of retired judges;
  - scholarships;
  - unemployment benefits and other payments to the unemployed<sup>11</sup>;
  - short-term disability benefits, maternity benefits, lump sum benefits to women registered with health institutions in the early period of pregnancy;
  - monthly child allowance;
  - monthly childcare benefits until the age of 1.5 years, monthly compensations to people on parental leave until the child is 3 years old;
  - monthly benefits and compensations to spouses of military conscripts;
  - monthly insurance payments under mandatory social insurance against job-related accidents and occupational diseases;
  - income from assets (sale or lease of real estate, transport and other mechanical appliances, food processing and storage facilities) proceeds from the sale of harvests and the products of subsistence farming;
  - other income (royalties, entrepreneurial income, dividends on shares, interest on bank deposits, estate, received alimonies, cash equivalents of allowances and social guarantees afforded to family members by authorities of the Russian Federation, subjects of the Russian Federation, local authorities, organisations).

The applicant's income does not include:

- state social assistance provided in cash and in kind under the Russian law of state social assistance;
- lump sum insurance payments made as compensation of damage, and amounts incurred as extra costs of health, social and occupational rehabilitation approved by an agency of the state health social disability examination.

Alimony paid is excluded from the income of a family or a single.

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<sup>11</sup> Consequently, where a family includes unemployed workers not registered as unemployed, they could be offered to register.

The subsistence minimum that is the basis for comparison with the applicant's average per capita income is a cost assessment of a consumer basket (a minimum set of food and non-food items and services required for maintaining the health and sustaining existence of individuals) and mandatory payments and contributions.

Since 2000 the amount of the nationwide and regional subsistence minimum per capita and for main social demographic groups is calculated quarterly on the basis of the consumer basket and data of the State Committee for Statistics (under Federal Law «On the Subsistence Minimum in the Russian Federation» No. 134-FZ dated October 24, 1997).

The government approves the amount of the subsistence minimum in its resolution as recommended by the Ministry of Labour and State Committee for Statistics. A consumer basket introduced by Federal law «On the Nationwide Consumer Basket in the Russian Federation» No. 201-FZ dated November 11, 1999 includes the minimum set of food and non-food items and services calculated annually per capita, expressed in physical measures and established for three main social demographic groups: the work-ready population, pensioners and children. A consumer basket includes 10 aggregated groups of food items, 14 groups of non-food items (including items of individual and shared use) and 6 specific types of paid services (Ministry of Labour and Social Development 2003 (a)).

The automated system «Targeted Social Assistance» was commissioned by the Ministry of Labour to set up a single database on beneficiaries of social benefits, subsidies and payments, and maintain personalised registration of recipients in order to avoid duplication of benefits and payments. It is used in 50 regions of the Russian Federation. However, regional databases are not yet interrelated, and efforts are being made to set up a countrywide database system.

## **4. Conclusion**

The Russian system of state social assistance, while contributing to poverty reduction, is currently unable to solve the problem of poverty for a number of reasons. Some regions cannot provide finance for programs of social assistance but often it is specifically these regions with the greatest poverty problem. There are also many obstacles to developing and putting into practice the methodology of means testing. And the small size of provided assistance is among mentioned above reasons.

The system of preferential terms, payments, compensation and grants is very complex. It suffers from lack of financing and it is mainly aimed at providing support to particular categories of individuals without means-testing. Consequently, the main funds are being shared amongst households which would not be considered poor.

The Russian government has identified a number of measures to improve the system of social protection and social assistance. These include the federal special programme «Equalising Social Economic Development of Russian Regions in 2002-2010 and until 2015». The first stage of its implementation (2002-2010) is expected to achieve a 25 percent reduction in the number of Russian regions lagging behind in terms of principal social economic parameters. This should result in a 15 percent decrease in the number of people with income below the subsistence minimum.

## 5. List of legislation

- Federal Law on State Social Assistance No. 178-FZ dated July 17, 1999
- Federal Law on Registering Income and Calculating Average per Capita Income of Families and Income of Singles Declared Poor and Claiming State Social Assistance No. 44-FZ dated April 5, 2003
- Federal Law on Subsistence Minimum in the Russian Federation No. 134-FZ (October 24, 1997) (as amended by Federal Law No. 75-FZ dated May 27, 2000)
- Russian Government Resolution on the List of Income to be taken into account in Calculating Average per Capita Income of Families and Income of Singles Claiming State Social Assistance No. 512 dated August 20, 2003

## 6. References

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## **7. Annex**

### **Categories of Families and Singles Entitled to Social Assistance In Russian Regions**

#### **List 1 - Categories of Singles Entitled to Social Assistance in Russian Regions**

1. Pensioners
2. Invalids
3. Children from single parent, large and custodial families
4. Disabled children
5. War and labour veterans
6. Individuals with chronic diseases
7. Victims of emergencies
8. Individuals caring for invalids of group I, elderly people after 80, disabled children
9. Singles unable to work
10. Beneficiaries of a survivors' pension
11. Persons of no fixed residence
12. Single mothers
13. Pregnant women and nursing mothers
14. Individuals released from prison
15. Elderly singles
16. Children from low-income families
17. Low-income pensioners
18. Seriously ill persons (diabetes mellitus, tuberculosis, oncologic diseases)
19. Individuals with an average per capita income below 30 percent of the subsistence minimum (Magadan Oblast)
20. Widows and parents of dead (deceased) Heroes of the Soviet Union and Russian Federation, Heroes of Socialist Labour, people awarded with a full set of Labour Order and Order of Honour of three degrees

#### **List 2 - Categories of Families Entitled to Social Assistance in Russian Regions**

1. Families with children
2. Large and single parent families
3. Families of juvenile parents
4. Families of forced migrants
5. Families of pensioners with juvenile children
6. Families with children with an average per capita income below 30 percent of the subsistence minimum (Magadan Oblast)
7. Families of dead military servicemen
8. Full families where both parents are unemployed
9. Families with adopted orphans.

Sources: Ministry of Labour and Social Development 2000 (b).

## 8. Statistical Annexes

**Table A1. Social and Cultural Expenditures of the Consolidated Budget of the Russian Federation, % of GDP**

Expenditures	2001
Total	8,1
Including:	
Education	3,1
Culture, arts and cinema	0,4
Mass media	0,2
Health and physical culture	2,0
Social policies	2,4

Source: State Committee for Statistics 2002.

**Table A2. The Official exchange rate, rubles for 1 USD at the end of the year**

	1998	1999	2000	2001
The official exchange rate, rubles for 1USD	20,65	27,0	28,16	30,14

Source: Data of the Central Bank of the Russian Federation (<http://www.cbr.ru/>)

**Table A3. Expenditures of social protection system in % of GDP**

	1997	1998	1999	2000	2001
Expenditures of Federal mandatory health insurance fund	0,05	0,05	0,04	00,4	00,4
Expenditures of Territorial mandatory health insurance funds	1,12	1,11	0,97	0,94	0,97
Short-term disability benefits including	0,68	0,55	0,41	0,46	0,54
Suffering from the consequences of work injuries or occupational diseases	0,01	0,01	0,01	0,01	0,01
Maternity benefits	0,08	0,07	0,05	0,05	0,06
Maternity benefits when child is born	0,06	0,07	0,03	0,02	0,02
Benefits for child care until the child is 1,5 years old	0,09	0,07	0,04	0,02	0,02
Monthly child allowance	0,72	0,32	0,31	0,26	0,27
Unemployment benefits	0,20	0,19	0,16	0,08	0,08
Paid pensions	6,70	5,75	5,23	4,36	5,25
Funeral Allowances	0,06	0,05	0,03	0,02	0,02
Housing subsidies	No data	0,04	0,04	0,04	0,07
Privileges (discounts) for payment of housing, utilities	No data	0,28	0,25	0,24	0,30

Source: State Committee for Statistics 2002.

**Table A4. Ratio of Minimum Monetary Income and Subsistence Minimum**

Ratio:	1 qrt	2 qrt	3 qrt	4 qrt	Year
Minimum wage and subsistence minimum of the able to work population					
2000	6.8	6.5	9.8	9.4	8.2
2001	13.2	12.2	18.1	19.7	15.8
2002	16.1	20.4	22.7	21.8	20.3
2003	20,2				
Minimum size of payment on the basis of first grade salary under unified tariff system and subsistence minimum of the able to work population					
2000	8.9	10.2	9.8	9.4	9.6
2001	13.2	12.2	18.1	23.0	14.1
2002	24.1	23.0	22.7	21.8	22.9
2003	20,2				
Including first grade salary rate					
2000	8.9	10.2	9.8	9.4	9.6
2001	8.7	8.1	12.6	15.6	11.3
2002	24.1	23.0	22.7	21.8	22.9
2003	20,2				
Minimum payments to pensioners and subsistence minimum of pensioners					
2000	46.2	48.1	47.2	46.6	47.0
2001	43.5	40.6	51.3	56.8	48.1
2002	50.3	47.7	47.6	46.1	47.9
2003	42,5				
Including minimum pension					
2000	14.4	15.2	15.0	15.4	15.0
2001	15.3	14.6	15.5	15.9	15.3
Monthly child allowance and subsistence minimum of children					
2000	5.0	4.9	4.8	4.6	4.8
2001	5.0	4.6	4.6	4.6	4.7
2002	4.1	3.9	3.9	3.7	3.9
2003	3,4				

Source: Data of the Ministry of Labour and Social Protection <http://www.chelt.ru/income/stat/stat.html>

**Table A5. All Population with Monetary Income below the Subsistence Minimum**

	Million people					Percent of total					Percent from population of respective sex and age group				
	1992	1997	1998	1999	2000	1992	1997	1998	1999	2000	1992	1997	1998	1999	2000
All population with monetary income below subsistence minimum, including children:	49,7	30,7	34,2	41,6	42,3	100,0	100,0	100,0	100,0	100,0	33,5	20,8	23,4	28,4	29,1
Up to 6	4,9	2,5	2,5	2,7	2,8	9,8	8,2	7,4	6,4	6,6	31,6	22,9	25,0	27,7	30,3
between 7 and 15	9,2	6,7	7,0	7,7	8	18,5	21,9	20,4	18,6	18,9	45,9	31,3	32,8	37,3	40,3
young people from 16 to 30	8,8	6,0	6,9	8,5	9,0	17,7	19,4	20,1	20,5	21,2	28,6	19,5	22,2	27,0	27,9
women from 31 to 54	8,6	6,7	7,2	9,0	9,3	17,4	21,9	20,9	21,6	21,9	34,4	26,6	28,0	34,4	35,0
men from 31 to 59	8,3	5,8	6,3	7,7	7,7	16,8	18,7	18,5	18,4	18,3	30,6	20,4	22,4	27,4	28,0
women after 55	7,6	2,4	3,3	4,5	4,1	15,2	7,9	9,6	10,8	9,7	36,8	10,9	15,1	21,1	19,6
Men after 60	2,3	0,6	1,0	1,5	1,4	4,6	2,0	3,1	3,7	3,4	29,0	7,1	11,9	17,1	15,3

**Table A6. Country -Wide Subsistence Minimum in the Russian Federation**

Main indicators	January	February	March	1st qtr. <sup>12</sup>	April	May	June	2nd qtr.	1st six months	July	August	Sept.	3rd qtr.	October	Novem.	Decem.	4th qtr.	Year
Average per capita																		
1998 <sup>13</sup>	418	424	427	423	432	435	436	434	429	438	450	552	480	573	619	717	636	493
1999	787	829	857	824	884	924	950	919	872	974	936	920	944	927	943	963	944	908
2000				1138				1185					1234				1285	1210
2001				1396				1507					1524				1574	1500,3
2002				1719				1804					1817				1893	1808,3
2003				2047														
Able to work population																		
1998	468	477	481	475	486	489	490	488	482	493	506	621	540	644	696	806	715	555
1999	860	906	936	901	966	1009	1040	1005	953	1079	1045	1029	1051	1037	1053	1073	1054	1003
2000				1232				1290					1350				1406	1320
2001				1513				1635					1658				1711	1629,3
2002				1865				1960					1980				2065	1967,5
2003				2228														
Pensioners																		
1998	296	299	301	299	305	307	307	306	302	309	317	389	338	404	436	505	448	348
1999	559	589	608	585	628	656	675	653	619	687	658	645	664	647	657	670	658	640
2000				851				894					930				962	909
2001				1064				1153					1163				1197	1144,3
2002				1313				1383					1387				1432	1378,8
2003				1554														
Children																		
1998	422	429	432	427	436	439	440	438	433	443	454	558	485	579	625	724	643	498
1999	787	830	857	825	884	924	953	920	873	966	922	905	931	912	930	951	931	902
2000				1161				1182					1218				1272	1208
2001				1405				1507					1514				1570	1499
2002				1722				1795					1799				1880	1799
2003				2039														

<sup>12</sup> Since 1 quarter of 2000 the country-wide subsistence minimum is calculated on the basis of a new methodology and approved by the government of the Russian Federation.

<sup>13</sup> The subsistence minimum for 1998 – 1999 is calculated on the basis of a methodology developed by the Ministry of Labour in 1992.

Minimum consumer budget

1998	1069	1078	1084	1077	1089	1095	1096	1093	1085	1098	1257	1742	1366	1820	1923	2147	1963	1375
1999	2328	2424	2492	2415	2567	2623	2673	2621	2518	2748	2781	2823	2784	2879	2914	2952	2915	2684
2000	3020	3050	3068	3046	3096	3152	3234	3161	3103	3292	3325	3368	3328	3439	3491	3547	3492	3257
2001	3646	3730	3801	3726	3869	3939	4002	3937	3832	4022	4022	4046	4030	4091	4148	4206	4148	3960
2002	4336	4388	4436	4386	4489	4566	4589	4548	4467	4621	4626	4645	4630	4696	4771	4843	4770	4584
2003	4959	5038	5124	5040	5175	5216												

**Table A7. Distribution of Total Monetary Income across Population Quintiles**

Indicators	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Ist qtr. 2003 <sup>14</sup>
Distribution of total monetary income across population quintiles, %												
1 group (lowest income)	6,0	5,8	5,3	5,5	6,2	5,9	6,0	6,1	6,0	5,6	5,6	5,5
5 group (highest income)	38,3	41,6	46,3	46,9	46,4	47,5	47,6	47,9	47,6	45,8	45,8	46,2
Ratio of 10% highest income and 10% lowest income groups, times	8,0	11,2	15,1	13,5	13,0	13,5	13,8	14,0	13,8	13,8	14,0	14,5
Monthly average per capita subsistence minimum, Rb thousand (since 1998 - Rb)	1,9	20,6	86,6	264,1	369,4	411,2	493,3	907,8	1210	1500	1808,3	2047
Ratio with subsistence minimum, %:												
average per capita monetary income	299	220	238	195	207	213	196	156	172	204	215	211,5
average accrued monthly wages	281	254	226	159	190	206	190	152	169	201	225	215,4
average accrued monthly pensions	117	138	129	101	116	113	115	70	76	89	100	95,8
Population with monetary income below subsistence minimum,												
million people	49,7	46,9	33,3	36,6	32,5	30,5	34,2	41,6	42,3	39,4	35,8	37,2
percent of total population	33,5	31,5	22,4	24,7	22,0	20,7	23,3	28,4	29,1	27,3	25,0	26,1
percent of previous year	...	94,4	71,0	109,9	88,8	93,8	112,1	121,6	84,6	93,1	90,9	104,0

<sup>14</sup> Estimates.

**Table A8. Population with Income below Subsistence Minimum (average per capita)**

Main indicators	Unit of measurement	Jan	Feb	March	1st qrt.	April	May	June	2nd qrt.	1st six months	July	Aug	Sept	3rd qrt	Oct	Nov	Dec	4th qrt.	Year
Population with income below subsistence minimum (average per capita)																			
1998	million	33,5	32,9	32,6	33,0	31,9	33,4	33,0	32,8	32,9	32,7	33,3	43,7	36,6	42,0	43,3	40,0	41,6	34,2 <sup>15</sup>
	%	22,8	22,4	22,2	22,5	21,7	22,8	22,5	22,4	22,4	22,3	22,7	29,8	24,9	28,6	29,5	27,3	28,4	23,3 <sup>16</sup>
1999	million				55,2				51,2	51,7				49,0				38,5	41,6 <sup>17</sup>
	%				37,7				35,0	35,3				33,5				26,3	28,4 <sup>18</sup>
2000	million				59,9 <sup>19</sup>				50,5	53,5				46,3				39,2	42,3 <sup>20</sup>
	%				41,2 <sup>21</sup>				34,7	36,7				31,8				26,9	29,1 <sup>22</sup>
2001	million				49,8				43,4	46,1				38,6				33,2	39,4
	%				34,5				30,1	32,0				26,8				23,0	27,3
2002	million				45,1				39,1	41,5				35,4				30,9	35,8
	%				31,5				27,3	29,0				24,7				21,6	25
2003	million				37,2														
	%				26,1														
Cost of minimum set of food items																			
2000	Rb	676,8	679,1	674,7	676,9	676,3	696,3	724,6	699,1	688,0	738,6	713,9	695,5	716,0	704,9	725,9	749,9	726,9	704,7
2001	Rb	784,3	810,3	826,5	807,0	846,1	876,2	901,6	874,6	840,8	883,7	851,5	832,2	855,8	837,5	859,7	891,1	862,8	850,1
2002	Rb	936,7	946,5	944,0	942,4	958,0	995,4	988,3	980,6	961,5	986,7	955,1	928,9	956,9	936,0	966	1004,9	969	962
2003	Rb	1044,7	1066,0	1073,6	1061,4	1091,1	1100,9												

<sup>15</sup> Bottom-line indicators as adjusted by the State Statistics Committee

<sup>16</sup> See footnote 16.

<sup>17</sup> See footnote 16.

<sup>18</sup> See footnote 16.

<sup>19</sup> Increase of the number and share of population with income below subsistence minimum in 1 quarter of 2000 is caused by a new methodology adopted for calculation of the subsistence minimum since 1 quarter of 2000. Data of 1998 – 1999 is calculated on the basis of a methodology developed by the Ministry of Labour in 1992.

<sup>20</sup> See footnote 16.

<sup>21</sup> See footnote 20.

<sup>22</sup> See footnote 16.



Population with income below the cost of minimum set of food items<sup>23</sup>

2000	million	23,7	18,2	19,5	14,7	11,5	13,2
	%	16,3	12,5	13,4	10,1	7,9	9,1
2001	million	17,3	12,9	15,1	12,7	7,8	12,7
	%	11,9	8,9	10,5	8,8	5,4	8,8
2002	million	11,5	13,1	12,3	10,7	10,8	11,5
	%	8,0	9,1	8,55	7,4	7,5	8,0
2003	million	7,8					
	%	5,5					

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<sup>23</sup> See footnote 16.

**Table A9. Consumer Basket in 2002-2003**

Main indicators		Total population				including across main social demographic groups								children			
		1 qrt.	2 qrt.	3 qrt.	4 qrt.	1 qrt.	2 qrt.	3 qrt.	4 qrt.	1 qrt.	2 qrt.	3 qrt.	4 qrt.	1 qrt.	2 qrt.	3 qrt.	4 qrt.
Cost of consumer basket																	
2002	Rb	1630	1709	1721	1791	1709	1794	1811	1886	1313	1383	1387	1432	1722	1795	1799	1880
	%	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
2003	Rb	1934				2031				1554				2039			
	%	100,0				100,0				100,0				100,0			
of which minimum set of																	
Food items:																	
2002	Rb	839	873	846	859	859	894	870	882,0	723	758	732	739	899	928	892	914
	%	51,5	51,1	49,2	48,0	50,2	49,8	48,0	46,8	51,1	54,8	52,8	51,6	52,2	51,7	49,6	48,6
2003	Rb	945				965				814				1016			
	%	48,9				47,5				52,4				49,7			
non-food items																	
2002	Rb	401	412	421	436	402	413	423	437	347	357	365	377	488	460	471	489
	%	24,6	24,1	24,5	24,3	23,5	23,0	23,4	23,2	26,4	25,8	26,3	26,3	26,0	25,6	26,2	26,0
2003	Rb	433				433				374				487			
	%	22,4				21,3				24,1				23,9			
services																	
2000	Rb	390	424	453	496	449	487	519	568	243	268	290	316	375	408	436	477
	%	23,9	24,8	26,3	27,7	26,3	27,1	28,6	30,1	18,5	19,4	20,9	22,1	21,8	22,7	24,2	25,4
2003	Rb	556				633				365				536			
	%	28,7				31,2				23,5				26,4			
Costs of mandatory payments and charges																	
2002	Rb	89	95	97	102	155	166	169	179	-	-	-		-	-	-	
2003	Rb	113				197				-				-			

**Table A10. Social Insurance**

Benefit type	1st quarter		1st six months		9 months		Year	
	Rb	% of average daily wage	Rb	% of average daily wage	Rb	% of average daily wage	Rb	% of average daily wage
Short-term disability benefit								
1997 <sup>24</sup>	34,9	94,7	35,7	91,5	36,2	90,4	35,9	86,5
1998	38,5	88,7	37,1	83,3	37,3	84,0	37,7	81,4
1999	43,6	80,3	45,6	75,5	47,4	75,2	49,6	73,1
2000	63,6	73,4	68,4	74,5	73,5	77,2	73,4	78,4
2001	103,4	82,4	107,7	81,4	112,8	83,1	117,6	82,4
2002	149,1	86,4	152,0	84,4	155,0	85,0	157,6	83,9
2003	174,2	84,9						
Maternity benefit								
1997 <sup>25</sup>	23,5	63,4	24,0	61,4	24,6	61,3	24,8	59,7
1998	27,4	63,1	27,7	62,1	27,8	62,6	28,1	60,7
1999	32,4	59,8	35,3	58,5	37,0	58,8	38,6	57,0
2000	49,0	56,5	52,5	57,1	54,9	57,7	56,1	59,9
2001	74,7	59,5	78,7	59,5	81,1	59,7	84,6	59,2
2002	110,6	64,1	112,0	62,2	114,0	63,0	115,2	61,3
2003	129,9	63,3						

<sup>24</sup> Monetary indicators as denominated.

<sup>25</sup> See footnote25.

**Table A11. Income of Population**

	2001 Million people	%	2000 Million people	%	Ist qrt. 2003 <sup>26</sup> Million people	%
Total population	144,6	100,0	143,7	100,0	142,5	100,0
including with average per capita monetary income, Rb per month						
Up to 500,0	2	1,8	1,1	0,8	0,8	0,6
500,1 - 750,0	5,9	4,3	3,3	2,3	2,6	1,8
750,1 - 1000,0	9,2	6,3	5,6	3,9	4,4	3,1
1000,1 - 1500,0	22,6	14,9	15,4	10,7	12,8	9
1500,1 - 2000,0	22	14,3	17,1	11,9	15,1	10,6
2000,1 - 3000,0	33	21,7	30,2	21,0	28,4	19,9
3000,1 - 4000,0	19,7	13,5	21,8	15,2	21,8	15,3
Over 4000,0	25,9	23,2	49,1	34,2	56,6	39,7

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<sup>26</sup> Estimates.

# Chapter 5 Social Assistance in Hungary

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## 1. Introduction

The system of social protection in Hungary includes old-age pensions, public health services, disability benefits, unemployment benefits, and support for families and children. The central government is largely responsible for the delivery of universal, while local authorities are responsible for targeted means-tested assistance and other local assistance programmes.

Relative to other transitional economies Hungary experienced very low poverty in the years 1992-1997. Share of population with equivalent income below the minimum pension has topped out at 4,5% in 1996. According to the World Bank (World Bank 2001) Hungary also has a very low level of inequality.

However, because a majority of social programmes are implemented locally, there are significant regional differences in assistance to the poor. Poor regions with a larger share of people in need cannot adequately finance social assistance.

This report attempts to review and analyze Hungary's system of social protection and social assistance. The framework is as follows:

- The system of social protection and its elements, including
  - Public health services
  - Disability benefits
  - Pensions
  - Unemployment benefits
  - Support of families and children;
- The system of social assistance, including
  - Regular child protection benefit
  - One time benefit payment for a child in emergency cases
  - Credit and loans for purchase or construction of housing.

A list of basic legislation and references is provided in this report. Statistical tables are also provided.

## 2. System of Social Protection

Hungary's system of social protection includes insurance-based programs (such as pensions and unemployment benefits), and social assistance programs. Some programs are a combination of both. In the year 2000 the consolidated cost of social security and social assistance amounted to 14.7 percent of GDP. As a comparison, the consolidated cost of public health services amounted to 4.9 percent of GDP. Coverage is high, with 86 percent of Hungarian households having access to at least one element of social protection.

Elements of the social protection system include, inter alia, old-age pensions, health services, disability payments, unemployment benefits, and support to families and children. The central government is largely responsible for universal programs, while local authorities are responsible for targeted means-tested assistance and their own local programmes.

Subsistence minimum is calculated by the Central Statistical Office on the basis of a food basket, differentiated by age. But the system of social transfers to the poor normally uses the minimum pension as the poverty line. The minimum pension was 18,310 forints per month in 2001. All benefits that are linked to the minimum pension are also adjusted for inflation.

The main macroeconomic indicators as well as indicators of household income, poverty and inequality are provided in the following tables.

**Table 1 - Unemployment, Inflation, Household Income, Gini Coefficient in 1992-1997**

	1992	1993	1994	1995	1996	1997
Real GDP growth	-3.1	-0.6	2.9	1.5	1.3	4.6
Official unemployment, %	9.6	11.9	10.7	10.1	9.9	9.2
Inflation, %	23.0	22.5	18.8	28.2	23.6	18.3
Equivalent monthly household income, % (1992 =100)	100	89	88	75	66	73
Annual per capita household income, % (1992 = 100)	100	91	91	82	74	74
Gini coefficient	27.75	29.47	31.62	30.85	30.85	32.00

Source: Data of the Ministry of Finance. Quoted after: World Bank 1996; World Bank 2001.

**Table 2 - The Official exchange rate, forints for 1 USD at the end of the year**

	1998	1999	2000	2001	2002
Forints for 1 USD at the end of the year	219.03	252.52	284.73	279.03	225.16

Source: Data of National Bank of Hungary (<http://english.mnb.hu/>)

**Table 3 - Poverty Indicators in 1992-1997.**

		1992	1993	1994	1995	1996	1997
1.	Average equivalent per capita income, forints a month	18,453	19,628	21,991	23,993	26,746	35,300
2.	Subsistence minimum, forints a month	8,873	11,183	13,300	11,915	14,083	18,574
3.	Poverty level, %	9.7	14.5	20.3	9.4	14.7	17.3
4.	Poverty gap index, %	2.1	3.2	4.4	2.1	3.4	4.2
5.	Poverty severity index, %	0.9	1.2	1.5	0.7	1.2	1.6
6.	Poverty deficit, %	21.5	21.8	21.8	22.0	23.1	23.7
7.	Minimum pension, forints a month	5,700	6,400	7,480	8,400	9,600	11,500
8.	Poverty level, %	1.9	2.4	2.5	2.6	4.5	3.4
9.	Poverty gap index, %	0.7	0.6	0.5	0.6	0.9	0.9
10.	Poverty severity index, %	0.4	0.2	0.2	0.2	0.3	0.3
11.	Poverty gap, %	38.0	24.4	20.0	22.8	19.2	26.5

Note: lines 3–6 refer to poverty indicators where poverty is income below the subsistence minimum while lines 8–11 refer to poverty indicators where poverty is income below the minimum pension.

Source: World Bank 2001.

### ***Health***

The constitutional right of anyone located in Hungary to the best physical and spiritual health is ensured through a system of occupational safety, health institutions, health services etc. However, the Hungarian government believes that the nation's health has deteriorated in the last 30 years. The main problems for public health are believed to be low life expectancy and a high mortality rate for victims of cardiovascular and oncologic disease (Government of Hungary 2002).

The main rules for access to health services are found in the Health Insurance Act.<sup>1</sup> The health system is financed through contributions, and health services are then free to anyone on whose behalf contributions are paid. Those not covered by insurance are expected to pay for services, although local authorities may allow these individuals if they are poor the use of services, free of charge or on a subsidized basis. The Ministry of Welfare allocates part of the social budget to health services for homeless people and for other groups in specific regions. Generic health services are provided through a system of family doctors to both adults and children. In 2000 public health expenditures amounted to 4.9 percent of GDP. Of this, 4.3 percent came from the health insurance system and 0.6 percent came from the budget. Investments in health amounted to 0.3 percent of GDP.

### ***Disability Benefits***

Long-term disability pensions are available to those whose health status has deteriorated by 100 percent. In 1999 there were approximately 360,000 people in this category. These pensions are paid on a regular basis in an amount almost equal to that of the minimum old-

<sup>1</sup> Health Insurance Act: Act LXXXIII of 1997 on the statutory health insurance provisions

age pension, depending on an individual's years of service. Disability pensions are financed from the PAYG pillar of the pension system.

Completely incapacitated individuals with work records entitling them to a full old age pension that are 5 years or less away from pensionable age may receive a temporary benefit until pensionable age. Nearly 260,000 people receive this benefit, which is financed by pension insurance compensated by the central budget. Those with at least 67 percent incapacity for work and/or who are under pensionable age are considered currently disabled. Benefits to this disability group are paid by the Health Fund, which is expected to certify the extent of disability on a regular basis.

Individuals aged 25 who have never had any ability to work (invalids) receive disability benefits financed from pension insurance compensated by the central budget. In 2000 nearly 25,000 people were recipients of these benefits. In addition, there are benefits paid by local authorities to those caring for invalids. In June 2001 nearly 29,000 people were recipients of these benefits. Benefits to invalids and their caregivers are designed to bring incomes up to the level of the minimum pension.

### ***Pensions***

Between 1990 and 1995 the ratio of pension beneficiaries to those employed grew, from 46 percent to 75 percent. Meanwhile, the ratio of pension benefits to average earnings declined, from 64 percent to 57 percent. This resulted in reform of the PAYG pension system in 1997 (Palacios, Rocha 1997). The current pension system incorporates three pillars:

- Public pay-as-you-go pensions
- Mandatory funded pillar
- Private pensions.

Pensionable age was increased from 60 to 62 years for men, and from 55 to 60 years for women. A full pension now requires a 40-year work record. With a lesser work record, the amount of pension is proportionally reduced.

In addition, in 1998 the country introduced a system of old-age allowance. These are paid to those of pensionable age whose monthly per capita income (including the income of the spouse) is less than 80 percent of the minimum pension. The goal is to ensure that elderly people have an income of at least 80 percent of the minimum pension. For pensioners who are single the maximum benefit may be as high as 95 percent of the minimum pension. This old-age allowance system is financed by local authorities, with 70 percent of the costs compensated by the central government. Nearly 7,700 people applied for the benefit in 2001.

### ***Unemployment Benefits***

Unemployment Insurance covers workers employed for a minimum of 200 days during the four years prior to unemployment. Unemployment benefits are provided for a maximum of 9 months. Recipients are entitled to one day of payment for every 5 days of work. The benefit amounts to 65% of average earnings but not less than 90 percent of the minimum pension.

Unemployed workers who are 5 years younger than pensionable age may apply for a pre-pension benefit amounting to 80 percent of the minimum pension. This benefit is financed by the central government from insurance contributions against unemployment, collected by the



Labour Fund. Employers contribute 4.2 percent of their payroll to this fund, while workers contribute 1.5 percent of their earnings.

Until May of 2000, a non-insurance employment benefit was available to those whose unemployment insurance benefits had expired. This program was financed by both the central and local governments, and delivered by local authorities. It provided benefits for up to two years, and was designed to ensure an income of 80 percent of the minimum pension. This program was abolished in May of 2000 and now, upon expiry of unemployment benefits, the only assistance available to the unemployed is the local means-tested social assistance program.

However, there is a system of public works that can benefit the unemployed. A year of participation in public works entitles an individual to three months of insurance-based unemployment benefits financed by the central government. Local authorities prefer to resort to the system of public works to assist the unemployed. As of December of 2000, the country registered 372,400 unemployed (Government of Hungary, 2002).

### ***Support of Families and Children***

**Table 4 - Support of Families and Children Financed by Central Budget and Social Insurance in 1999-2000**

	1999	2000	2001
Family allowance including benefit for education			
Expenditures, bln forints	133.8	133.8	135.0
Average monthly amount, forints	5,000	5,000	5,150
Recipients, thousand	2,230	2,230	2,200
Maternity benefit			
Expenditures, bln forints	2.3	2.7	2.6
Average monthly amount, forints	23,025	24,900	27,465
Recipients, thousand	100	108	98
GYES			
Expenditures, bln forints	47.7	28.0	38.0
Average monthly amount, forints	15,350	16,600	18,310
Recipients, thousand	259	140	180
GYED			
Expenditures, bln forints		36.3	32.2
Average monthly amount, forints		30,000	36,800
Recipients, thousand		100	74
GYET			
Expenditures, bln forints	11.2	12.9	13.1
Average monthly amount, forints	15,350	16,600	18,310
Recipients, thousand	60	65	62

Source: Government of Hungary 2002.

The maternity benefit is 150 percent of the minimum pension. This amounted to 27,465 forints in the year 2000. The insurance-based child care benefit (GYED) is available for the first two years of a child's life to mothers. The size of benefit was 65-755 of earnings. This benefit abolished in 1996 was re-established in 2000. As of January 2000 it is available to

one parent in the family, provided contributions to social insurance were made for at least 180 days in the two years preceding the insured event. It is available until the child is two years old. The benefit amounts to 70 percent of the parent's earnings, but cannot exceed the value of two minimum wages. This benefit, which is subject to income tax, was provided to nearly 100,000 people in 2000, average gross size of benefit was 33,000 forints per month. In 2001 the benefit was not more than 80,000 forints a month.

Parents who did not make social insurance contributions and, therefore, are not entitled to this benefit, may receive a non-insurance child care benefit until a child is three years old (GYES). This is equivalent to the minimum pension. The benefit is provided to a non-working parent until the child is 18 months old. After that the benefit may be provided to an employed parent if he/she works a maximum of 4 hours a day. In 1996–2000 families receiving GYED were also entitled to GYES (equal to the minimum pension) until a child was three years old, but that is no longer the case.

Large families (three or more children) with an income below a certain level receive a large family benefit (GYET) which is equivalent to the minimum pension (one per family). This benefit, which had been financed by local authorities, is now provided by the central government through regional offices of the Health Insurance Fund.

**Table 5 - Expenditures for Provision of Support to Families and Children in 1994-2000, bln forints**

	1994	1995	1996	1997	1998	1999	2000
Family allowance	100.6	100.7	95.6	106.1	120.2	133.8	133.8
Pregnancy benefit	8.3	8.9	8.3	6.0	7.2	7.8	7.5
One-time birth allowance			1.4	1.8	1.1	2.3	2.7
GYED	18.8	20.4	22.3	13.0	1.1		36.3
GYES	10.3	11.3	14.2	27.0	38.6	47.7	28.0
GYET	3.4	5.4	6.6	8.7	11.0	11.2	12.9
Regular child protection benefits					25.7	31.5	36.0
Tax deductions for children						36.2	48.8
Maternity benefit		2.1	1.1				
Total	151.3	148.8	149.3	162.6	204.9	270.5	306.1

Source: Data of the Ministry of Social Affairs. Quoted after: World Bank 2001.

In 1990 family allowances were generally provided on a universal basis, irrespective of the financial condition of the family. In 1996 the benefits become targeted and means-tested. However, in December 1998 the program reverted to a universal one. Now benefits are provided to families with children up to 16 years old, and 20 years old if the children continue their education. In the year 2000, the amount of this benefit varied from 3,800 forints a month per family with one child, to 6,300 forints a month per single-parent family with three children, to 7,500 forints a month per disabled child. In 2001 this benefit varied from 3,800 to 10,500 forints per child per month, depending on the number of children in the family, family type and the health of the children. Parliament approves the amount of this benefit on an annual basis in the Budget Act.

Before 2001, and depending on the family make-up, a family with children could receive about 84 percent of the minimum wage in the form of various family and child benefits. In

2001 this amount increased from 40,000 to 50,000 forints. Some experts believe the amount could reduce incentives for women to participate in economic life, especially those with low education and qualifications (ILO 2003). Nevertheless, as Table 1 indicates, in the latter half of the 1990s expenditures related to family allowance declined, from 3.8 percent of GDP in 1990, to just half of that (2.0% GDP), in 1990-2000.

**Table 6 - Per Capita GDP, Expenditures Related to Family Allowance– total and % GDP, 1990-2000 (1990 – forints)**

	Per capita GDP	Family allowance, bln forints	Family allowance, percent GDP
1990	201,573	78.5	3.8
1991	177,324	74.6	4.1
1992	171,221	69.7	3.9
1993	169,466	64.4	3.7
1994	176,020	58.8	3.3
1995	177,158	45.2	2.5
1996	176,630	36.6	2.0
1997	185,675	34.4	1.8
1998	192,641	38.8	2.0
1999	200,338	38.7	1.9
2000	201,915	39.6	2.0

Source: Data of the Central Statistical Office. Quoted after: ILO 2003.

As of 1999 families with children are entitled to tax deductions. In 2000 these ranged from 2,200 forints per month per child for families with one child, to 3,000 forints per month for families with three or more children, to 3,400 forints per month per disabled child. Nearly 1,070,000 taxpayers, or 83 percent of families with children, receive tax deductions in Hungary. These deductions totalled 45 billion forints in 2000. In 2001 tax deductions grew for families of all types.

A housing subsidy is provided free of charge to families with children and other dependants for construction, purchase or expansion of housing.<sup>2</sup> The housing subsidy consists of the following:

- 200,000 forints for a family with one child
- 1,000,000 forints for the second child
- 1,000,000 forints for the third child
- 200,000 forints for each additional child
- 30,000 forints for every other dependant

The total amount of the housing subsidy should not exceed 65 percent of the housing value. There are also other types of family support provided in the form of loans and credits for the purchase or construction of housing.

Social protection and assistance may be provided in a variety of ways – cash, in kind, or in the form of services. Benefits to large families (GYET), benefits to the elderly, long-term unemployment benefits, regular social assistance, housing subsidies, compensation for health services, temporary assistance and the funeral allowance are provided in cash. Assistance for

<sup>2</sup> Government Decree 1/2000 (I.14)

education, heating, food, and funeral proceedings are provided in kind. Subsistence and home care are provided in the form of services. There are special institutions caring after the disabled and the elderly, as well as homes for temporary residence.

### 3. Social Assistance

Local authorities are responsible for the delivery of targeted social assistance programmes. By law local authorities are obliged to provide this assistance on the assumption that it is best to determine need and ensure monitoring of such programmes locally. Central authorities provide financial support for these programmes. Local authorities may implement additional programmes, fully financed from local budgets.

**Table 7 - Social Payments Provided Locally in 1997**

	Beneficiaries, thousand	Expenditures, million forints
All types	2,287	38,391
Centrally established, locally financed		
Regular social assistance	27	2,691
Compensation of health services	24	2,634
Housing subsidies	296	3,698
Temporary assistance	1,064	6,131
Funeral benefit	81	702
Funerals	5	171
Centrally established, co-financed by local and central authorities		
Additional payments to unemployed	187	20,841
Regular child protection benefit	400	1,090
Locally established, locally financed	203	443

Source: Data of the Ministry of Social Affairs. Quoted after: World Bank 2001.

**Table 8 - Social Payments Provided Locally in 2000**

	Recipients, monthly average, thousand	Expenditures, billion forints
Additional payments to unemployed	52.2	9.2
Regular social assistance	95.0	10.2
Family benefits	796.0	29.8
Benefits to elderly	7.7	1.2

Source: Government of Hungary 2002.

Families experiencing temporary or persistent financial problems that are unable to improve their living standards themselves are entitled to temporary assistance. Local authorities are responsible for establishing the criteria for, and the amount of this assistance. In 2000, this type of assistance was provided semiannually to nearly 640,000 people.

There is a regular child protection benefit since January 1, 2001 called the “supplementary family benefit”. This means-tested benefit is provided to children and young adults up to 25 years of age for families with a per capita income below the minimum pension. A special instruction issued by local authorities requires that the household’s assets be taken into account when determining eligibility for this benefit. Assets per capita cannot exceed a certain level. For the purpose of this benefit, assets (property) include:

- real estate
- transport
- capital goods and tools
- rights to financial assets

in the per capita amount exceeding

- a). 25 minimum old-age pensions for each type of asset or
- b). 75 minimum old-age pensions for all assets

However calculation of the assets to be taken into account should not deteriorate the living standards of the asset owner. Assets not taken into account are:

- special transport for physical disabilities
- real estate providing a permanent home for a parent caring after a child.<sup>3</sup>

Local authorities provide this benefit from the central government's transfers. In 2001 the benefit amounted to 4,000 forints per child per month. In 1999 the average number of monthly recipients was 834,100 and the cost of financing this benefit was 28 billion forints. In December of 1999 the regular child protection benefit was provided to 37.9 percent of teenagers and 23,300 adult students.

Local authorities may provide an emergency lump sum child payment to families with children experiencing a life emergency or a temporary lack of funds.<sup>4</sup> In 2000 this benefit in cash was provided to 321,500 people, the average amount per recipient being 3,474 forints. The benefit in kind (as a rule, subsidized education, subsistence, free provision of textbooks and other school materials) was provided to 119,500 people, its average amount being 2,135 forints. (Government of Hungary 2002). Municipalities wholly finance these payments.

Provision of subsidized food (up to 100 percent) at school or in kindergarten is also a current practice. Large families (three and more children) are entitled to a 50 percent discount on subsistence. Where a parent (normally a father) is unable to provide his child with adequate means of subsistence after a divorce (to ensure per capita income of at least three minimum pensions in the family which is raising the child), guardianship agencies may decide to advance the amount of shortfall for the child's subsistence. As of late 2000, amounts were advanced to 5,600 children while related expenditures totalled 217,200 forints.

Under the law young people that receive public subsistence for at least 2 years and then reach the age of ineligibility (18-24 years) are entitled to a housing purchase benefit.<sup>5</sup> This is available if financial or other assets do not exceed the amount of fifty minimum pensions. Savings from earnings are not taken into account in the calculation. Young people without

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<sup>3</sup> Act on the protection of children: Act XXXI of 1997 on the protection of children and on the administration of guardianship § 19.

<sup>4</sup> Act on the protection of children: Act XXXI of 1997 on the protection of children and on the administration of guardianship § 21.

<sup>5</sup> Act on the protection of children: Act XXXI of 1997 on the protection of children and on the administration of guardianship § 25-27.

parents or guardians are entitled to a housing purchase benefit even when they are receiving public subsistence for less than 2 years.

The housing purchase benefit may be used to purchase development land, an apartment, a house, or for construction, repairs and alteration of a residence, or for repayment of a loan issued by a financial institution for housing construction or purchase. Its amount ranges between 20 and 50 minimum pensions depending on the applicant's financial situation and how long the applicant has been on public subsistence. In 2000 this benefit was provided to 353 young people while related expenditures totalled nearly 210,000 forints.

Social transfers from the central government to local authorities on the basis of standards account for approximately 70 percent of local current expenditures on social assistance. The so-called social standard is calculated by the number of elderly, unemployed and children in specific populated areas. A standard for elementary school takes into account the number of elementary school students. But not all expenditures by local authorities are financed on the basis of standards, and local authorities are encouraged to look for resources elsewhere (Fox 1998).

Hungary has 3,200 local governments. The economic situation between regions varies greatly. The number of those in need and the funds available for social assistance also varies significantly between regions. The poorest regions experience a shortage of funds to help the needy.

In 1992-1996 the amount of resources allocated for social assistance grew 82 percent in nominal terms. In real terms, though, the trend was different: in 1996 the resources allocated for social assistance was just 79 percent of the 1992 level. And, as household income declined in real terms over this period, social assistance accounted for practically the same share of household income - just less than 1 percent.

Social assistance has very little impact on poverty. If one subtracts social assistance from the income of households, the level of poverty increases only slightly (Sipos, TĚth 1998). Such result is connected mainly with small size of social assistance. This calls for a review of how well the system of means-testing is organised in order to improve the targeted character of social assistance.

Some researchers believe that social assistance in Hungary is fairly efficient as compared to assistance in other transition economies: the bulk of social assistance money goes to 10 percent of the poorest households, and their poverty deficit is shrinking significantly. However, it seems premature to assert the efficiency of social assistance in Hungary: households receiving social assistance account for 24 percent of all households. But 23 percent of relatively well-off households also receive some social assistance. According to the Central Statistical Office, in 1997 nearly 6 percent of households received some social assistance.

**Table 9 - Main Cash Social Payments in 1992-1996**

	1992	1993	1994	1995	1996
Bln forints	92	109	111	102	96
Family allowances	48	59	52	50	47
Unemployment benefit	315	393	477	553	634
Pensions	18	22	25	29	33
Social assistance	474	583	665	734	810
Total	2,051	2,351	2,889	3,560	4,366
Changes in nominal terms, 1992=100					
Family allowances	100	119	120	111	104
Unemployment benefit	100	122	108	104	98
Pensions	100	125	152	176	201
Social assistance	100	122	136	159	182
Total	100	123	141	155	171
Changes in real terms, 1992=100					
Family allowances	100	97	83	59	45
Unemployment benefit	100	100	74	56	42
Pensions	100	102	104	94	87
Social assistance	100	99	93	85	79
Total	100	101	97	83	74
Share of household income, %					
Family allowances	4.5	4.6	3.8	2.9	2.2
Unemployment benefit	2.4	2.5	1.8	1.4	1.1
Pensions	15.4	16.7	16.5	15.5	14.5
Social assistance	0.9	0.9	0.9	0.8	0.8
Total	23.1	24.8	23.0	20.6	18.6

Source: World Bank 2001.

Each 1 million forints spent on social assistance reaches 25.7 poor recipients and helps 6.2 recipients out of poverty (World Bank 2001). It is a good performance compared to other types of social transfers. But another indicator – the share of poor recipient households expected to be above the poverty line through social assistance – suggests that social assistance plays a minor role in the system of social protection. In the current system, only 4.5 percent of poor households can be helped out of poverty through social assistance. As a comparison, a family allowance can help lift 31.2 percent of poor recipient households out of poverty, and a non-insurance child care benefit for a child up to three years of age can help lift 14.4 percent of poor households above the poverty line. As it was mentioned above this situation is primarily due to the small amount of social assistance.

## **4. Conclusion**

Hungary's system of social protection covers main social risks and comprises health care services, disability benefits, pensions, unemployment benefits and support for families and children. Hungary's system of social assistance includes a number of types of support to the needy (regular child protection benefit, emergency lump sum child payment, housing purchase benefit, etc). Till recently family allowance was also means-tested.

Some programs of social assistance are financed by central government, another part – by local authorities. A lot of expenditures of local governments for social assistance are financed through special central government transfers.

For targeted programs, the minimum pension, rather than subsistence minimum, is used as the poverty line when measuring the living standards of applicants. For some targeted assistance programs some assets (real estate, transport, capital goods and tools, rights to financial assets) are also taken into account. For a period in the 1990s family benefits were targeted and means-tested, but since 1998 family benefits been provided on a universal basis.

There are various assessments of performance of social assistance in Hungary. Hungary's social assistance appears to be quite efficient as compared to other transition economies. However, there is room for improvement so as to increase the impact of social assistance on the well-being of those in need and decrease inclusion errors.



## 5. List of Legislation

- Act on the assistance to families: Act LXXXIV of 1998 on the assistance to families
- Act on the protection of children: Act XXXI of 1997 on the protection of children and on the administration of guardianship
- Constitution: Act XX of 1949 on the Constitution of the Republic of Hungary
- Government Decree 1/2000 (I.14.)
- Health Insurance Act: Act LXXXIII of 1997 on the statutory health insurance provisions
- Social Security Act: Act LXXX of 1997 on eligibility to social security provisions and private pension and on covering such services

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