

INCOME MAINTENANCE DURING UNEMPLOYMENT

One of the key objectives of benefit policy is to prevent people's living standards from dropping to unacceptably low levels. For short-term unemployed persons with access to unemployment benefits, existing tax-benefit systems provide very different degrees of income replacement across countries. For single people who previously earned the national average wage, the net replacement rate (the ratio of income out of work to income in work, after taking account of taxes and benefits) in 2005 was 56 percent on average across the 29 OECD countries. The net replacement rates were below 40 percent in Ireland, Australia, Greece, New Zealand and Turkey, but were 70 percent and above in Switzerland, Portugal and Luxembourg. On average of OECD countries, the out-of-work benefit generosity was the same in 2005 as in 2001 (Table 1).

In general, net replacement rates tend to be higher for families with children, since family-related additions to unemployment benefits and other benefit entitlements reduce the relative drop in household resources. In 2005 the net replacement rate for a one-earner married couple with two children was 64 percent compared to 56 percent for single persons on average of OECD countries. Net out-of-work income was most generous in Luxembourg, Switzerland and Canada, whereas it was least generous in Greece, New Zealand and Turkey. On average, the out-of-work benefit generosity did not change since 2001 (Table 1).

Table 1 considers net replacement income during the initial period of unemployment following any waiting period and thus does not capture country differences in benefit duration and/or changes of benefit levels overtime. Long-term unemployed people may

Table 1
Net replacement rates: initial phase of unemployment^{a)}, 2001 and 2005

	Single person no children		One-earner married couple two children	
	2001	2005	2001	2005
Luxembourg	86	86	89	89
Portugal	82	82	77	77
Switzerland	70	70	84	85
France	69	67	71	67
Netherlands	67	65	71	70
Norway	64	64	69	70
Slovak Republic	54	64	64	58
Canada	64	63	77	78
Denmark	64	63	76	75
Italy	52	63	62	70
Spain	63	62	75	75
Sweden	65	62	73	69
United States	62	62	56	56
Germany	60	60	75	73
Belgium	58	58	55	56
OECD	56	56	64	64
Austria	55	55	69	68
Finland	59	54	80	76
Japan	59	54	57	53
Iceland	48	51	56	60
Poland	49	51	54	56
Czech Republic	52	50	65	61
Korea	55	48	55	48
United Kingdom	41	41	63	60
Hungary	43	40	49	55
New Zealand	40	38	44	46
Turkey	39	38	22	38
Greece	34	36	45	47
Australia	36	33	66	65
Ireland	28	31	54	59

^{a)} 100% of average wage (AW) level.

Source: OECD, Benefits and Wages: OECD Indicators, 2007 Edition.

continue to receive unemployment insurance or else receive unemployment assistance, social assistance or no out-of-work benefit at all. Net replacement rates after five years of unemployment are shown in Table 2. In general, they are significantly lower than during the initial phase of unemployment. Whereas in 2005 the net replacement rate at the initial phase of unemployment was 56 percent for a single person, for a long-term unemployed it was only 32 percent on average of OECD countries. Its level was 3 percentage points lower than in 2001. The reduction of the benefit level was extremely high in the Slovak Republic (34 percentage points) and in Germany (18 percentage points).

For a one-earner married couple with two children the generosity of out-of-work benefits in 2005 dropped by 11 percentage points during an unemployment spell of five years. On average of OECD countries the net replacement rate reached a level of 53 percent for long-term unemployed. Its level was 4 percentage points lower than in 2001. The reductions

Table 2

Net replacement rates: long-term unemployment^{a)}, 2001 and 2005

	Single person no children		One-earner married couple two children	
	2001	2005	2001	2005
Denmark	61	59	78	77
Ireland	50	52	72	76
Austria	51	51	67	64
Iceland	48	51	73	74
Netherlands	49	50	62	61
Belgium	44	48	55	56
Sweden	49	48	72	70
Switzerland	53	48	79	70
Finland	51	47	84	77
Luxembourg	43	43	63	65
United Kingdom	41	41	71	67
Norway	41	39	75	73
New Zealand	40	38	44	46
Germany	54	36	63	62
Australia	36	33	66	65
OECD	35	32	57	53
Czech Republic	36	31	74	65
France	33	31	54	54
Japan	28	29	59	60
Poland	30	28	50	50
Canada	24	24	54	54
Spain	23	23	39	35
Hungary	21	20	44	50
Portugal	17	19	52	55
Slovak Republic	52	18	98	37
Korea	20	17	56	46
United States	7	7	40	40
Greece	0	0	2	2
Italy	0	0	0	0
Turkey	1	0	-2	0

^{a)} 100% of average wage (AW) level.

Source: OECD, Benefits and Wages: OECD Indicators, 2007 Edition.

of unemployment benefits were highest in the Slovak Republic (61 percentage points), Korea Republic (61 percentage points), Korea Republic (10 percentage points), Switzerland (9 percentage points) and Czech Republic (9 percentage points) (Table 2). Germany, which reduced benefit levels for long-term unemployed singles considerably hesitated to reduce unemployment benefits for families in the same way.

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Reference

OECD, Benefit and Wages: OECD Indicators, 2007 Edition.