The impact of asset tests in Europe: an application to minimum income schemes in Belgium and Germany

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The puzzle

- Assets have an important impact on living standards (Azpitarte, 2012; Brandolini et al., 2010; OECD, 2013; Stiglitz et al., 2009)
- Income poor are not necessarily asset poor (Kuypers and Marx, 2018)

- How does social policy take this into account?
- What is the impact of different approaches on social outcomes?
Accounting for assets in minimum income protection

Minimum income protection:

- Last safety net to people who cannot provide for themselves

→ Targeted towards the **most vulnerable**
  - Means-tested
  - How are assets included?
  - Risks of including assets?
Outline

- Asset tests in European minimum income schemes
- Country selection: Belgium and Germany
- Data and method
- Results
- Discussion and conclusion
Asset tests in European minimum income schemes

• Omnipresent

• But with important differences
  • Disqualification vs. fictional rate of return
  • Different thresholds
  • Differential treatment of specific goods, movable and immovable property vs. joint assessment
How are assets taken into account?

<table>
<thead>
<tr>
<th>countries</th>
<th>Disqualification</th>
<th>Fictional rate of return below disqualification threshold</th>
<th>Fictional rate of return</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT BG CY CZ DE DK EL FI HR HY LT LV NL SE SI SK</td>
<td></td>
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<tr>
<td>MT PT RO UK</td>
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<td>BE IE LU</td>
</tr>
</tbody>
</table>

Discretionary: EE (and PL and FR)
How are assets taken into account? (2)

Not available from MISSOC for CZ, FI, HR, LT, NL, SE, SI and SK, either because in principle, all assets (except for the own home and exempted goods) give rise to disqualification, because assessment may be discretionary, or because information was not provided by country experts.
How are assets taken into account? (3)

Disqualification threshold and exempt amount in fictional rate of return countries, in PPP

Disqualification threshold
Exempt amount in calculation of fictional rate of return
Exceptions for specific types of assets

Immovable property
- Family home is usually exempt (conditions may apply)
- Other real estate property is usually included
  - may disqualify, count for the value of total wealth included in the disqualification threshold, or specific rules

Movable property
- Savings usually count to disqualification threshold
  - Exceptions: pension savings, home maintenance, discretionary assessment
- Goods
  - Vehicle: usually exempt if necessary
  - Disqualifying: helicopters, jewellery, yachts
  - Exempt: household appliances, goods of children
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Country selection

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Discretionary: EE (and PL and FR)
Country selection

- Two advanced economies
- Bismarckian social insurance
- Similar income distribution
- Different wealth distribution
Asset tests in Belgium

- Assets are included at a fictional rate of return
- Differentiation between real estate and financial capital
- More favourable for the elderly

⇒ Illustration with typical case: single person with increasing level of assets
Asset tests in Belgium

![Graphs showing asset tests in Belgium for active age and elderly]
Asset tests in Germany

- Assets above a certain level cause *in principle* ineligibility to the benefit
- All assets are combined (some exceptions: value of a modest family home is exempt)
- Elderly treated relatively similar

→ Illustration with typical case: single person with increasing level of assets
Asset tests in Germany

active age

elderly
Outline

• Asset tests in European minimum income schemes
• Country selection: Belgium and Germany
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Data and method

• Household Finance and Consumption Survey
  • 2009 wave, incomes uprated to 2017
  • BE: N = 5488; DE: N = 8117

• Microsimulation of the impact of asset tests with EUROMOD
  • Policy year 2017
  • Simulate net income components from gross HFCS income information
  • Expanded with more detailed MIP asset tests
  • First-order, mechanical effects of asset test!
<table>
<thead>
<tr>
<th></th>
<th>Belgium observations</th>
<th>weighted observations</th>
<th>Germany observations</th>
<th>weighted observations</th>
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</thead>
<tbody>
<tr>
<td>Households</td>
<td>2327</td>
<td>4,692,601</td>
<td>3565</td>
<td>39,673,000</td>
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<td></td>
<td></td>
<td>[4,467,684;4,917,517]</td>
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<td>[37,959,675;41,386,326]</td>
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<tr>
<td>individuals</td>
<td>5488</td>
<td>10,762,597</td>
<td>8117</td>
<td>80,900,655</td>
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<td></td>
<td></td>
<td>[10729905;10795289]</td>
<td></td>
<td>[80546782;81254529]</td>
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<tr>
<td><strong>Final revised means-test</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SA (active age, FTU)</td>
<td>191</td>
<td>554,443 [444568;664319]</td>
<td>239</td>
<td>3,613,249 [3094359;4132139]</td>
</tr>
<tr>
<td>IGO (old age, FTU)</td>
<td>115</td>
<td>249,106 [192737;305474]</td>
<td>35</td>
<td>912,179 [592377;1231981]</td>
</tr>
<tr>
<td><strong>Final revised means-test, with non-take-up correction</strong></td>
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<tr>
<td>SA (active age)</td>
<td>66</td>
<td>162,622 [103701;221542]</td>
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Note: Administrative records set the Belgian population at 11,376,000, the population with a right to social integration at 156,156 persons and the number of persons receiving an income guarantee for elderly at 104,256. The German Bundesagentur fur Arbeit differentiates in its reporting on ALGII receipt between households (3,197,000) and beneficiaries (5,971,000). For the Grundsicherung im Alter und bei Erwerbsminderung, Destatis reports 1,048,587 recipients in June 2017. Number of observations do not include imputed values, weighted observations do.

Source: own calculations on the HFCS, (Destatis, 2019; Bundesagentur für Arbeit, 2017; POD MI, 2018)
Outline

- Asset tests in European minimum income schemes
- Country selection: Belgium and Germany
- Data and method
- Results: exploration of the relevance of asset tests
  - Eligibility
  - Poverty
  - Benefit levels
- Discussion and conclusion
Pronounced increase of the eligible population
Decrease in severe poverty

![Graph showing decrease in severe poverty rates for different asset tests and income measures. The graph compares poverty rates at 40% of median equivalent disposable household income between two locations: BE and DE. The bars represent the poverty rates for Full Asset Test, No Cadastral Income, No Capital***, No Asset Test***, Full Asset Test, and No Asset Test**. The graph illustrates a decrease in poverty rates across different scenarios.]
Decrease in mean poverty gap among the poor
Newly eligible persons would qualify for lower benefits

- Median social assistance benefit (active age and elderly)
  - Median value under full asset test
  - Median value without asset test**
  - Median value without asset test***

<table>
<thead>
<tr>
<th>Country</th>
<th>Median Value (EUR)</th>
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Profile of newly eligible persons

• Older
  • and related: lower number of children, less often unemployed and more often pensioners

• In Germany: more highly educated
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Conclusion

• Assets are commonly included in MIP means-tests in EU MSs

• Disqualification vs. fictional rate of return (vs. discretionary)

• Exemptions and milder treatment generally possible, most often for own home and vehicle
Conclusion

• Impact of asset tests in these first order effects relatively similar in Belgium and Germany – despite different types
  • Lower eligibility
  • Slightly higher severe poverty and mean poverty gap among the poor
  • Some indication that asset tests do succeed in excluding the better off of the poor
Next steps

• Assess impact taking account of non-take-up (reweighing)
• More fine-grained analysis of newly eligible persons

Open questions

• Relation asset tests to asset regimes?
• Scope for automatic or less opaque asset tests?
Thank you for your attention