

# 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

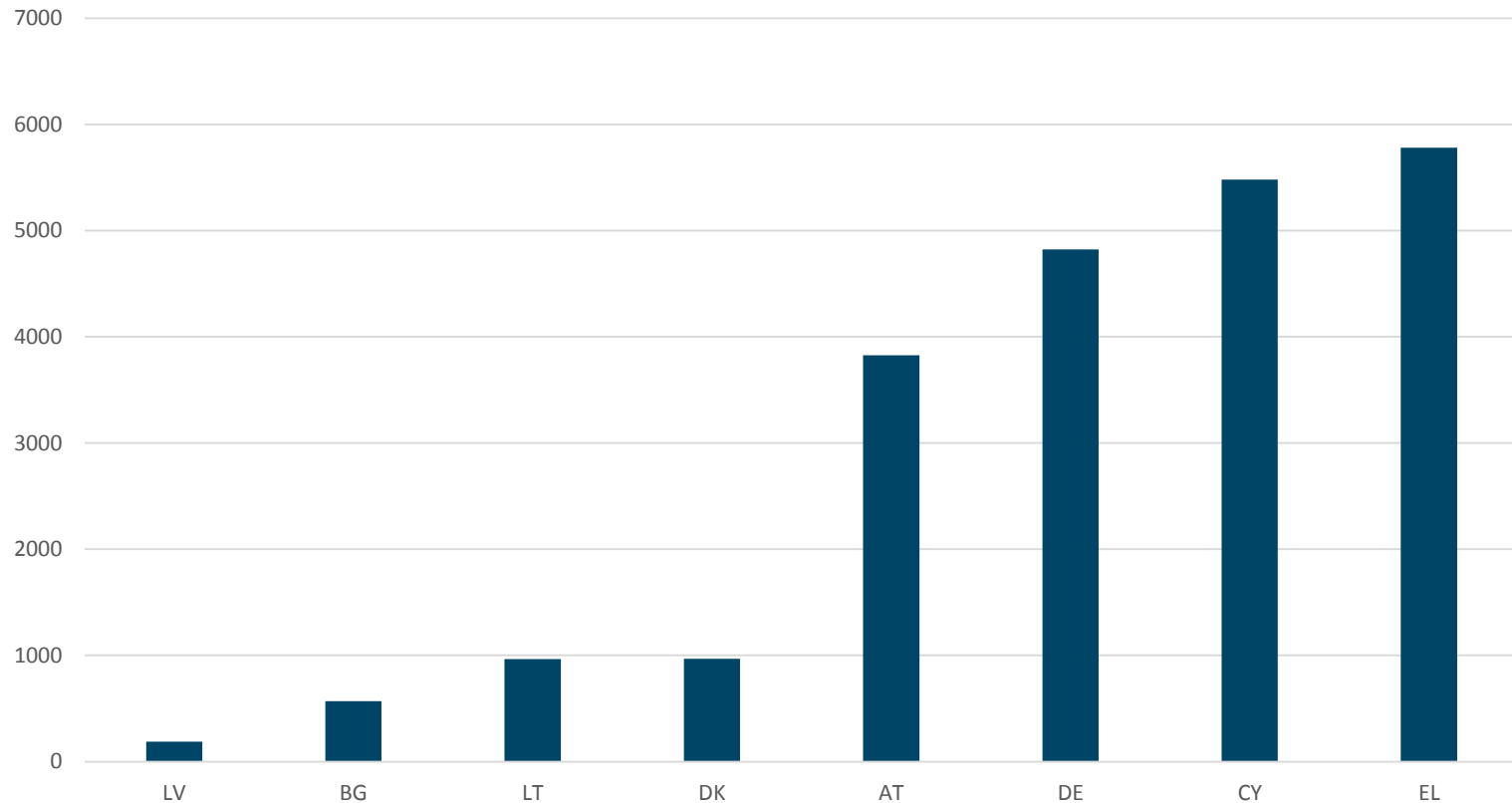
# How are assets taken into account?

	Disqualification	Fictional rate of return below disqualification threshold	Fictional rate of return
countries	AT BG CY CZ DE DK EL FI HR HY LT LV NL SE SI SK	MT PT RO UK	BE IE LU

Discretionary: EE (and PL and FR)

# How are assets taken into account? (2)

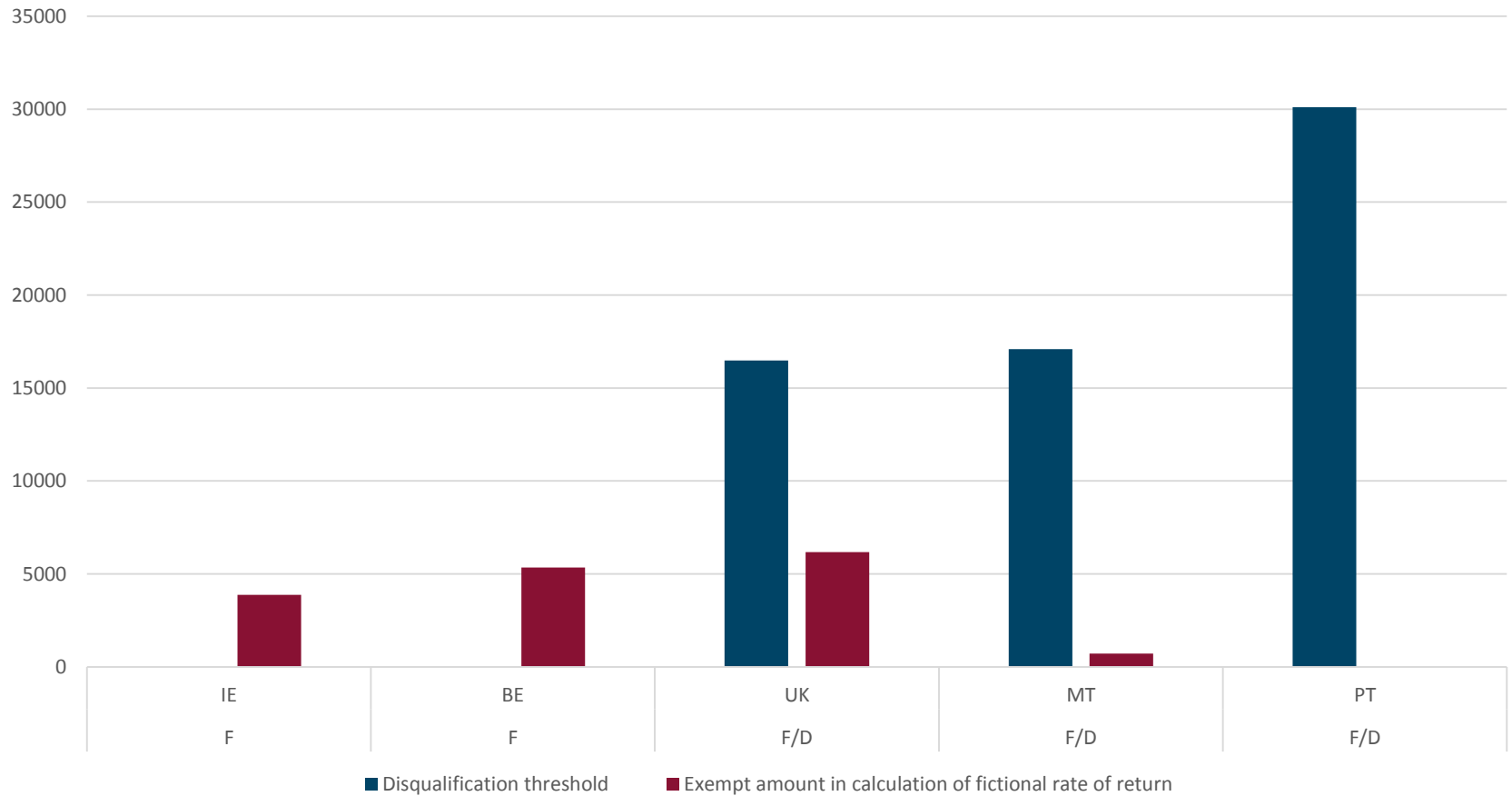
Disqualification threshold (except for own home and exempted goods), in PPP,  
2017



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





# 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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# Country selection

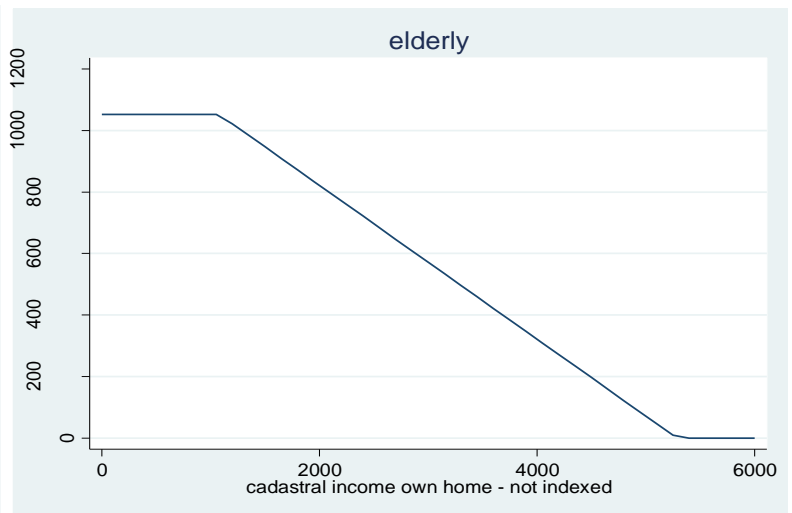
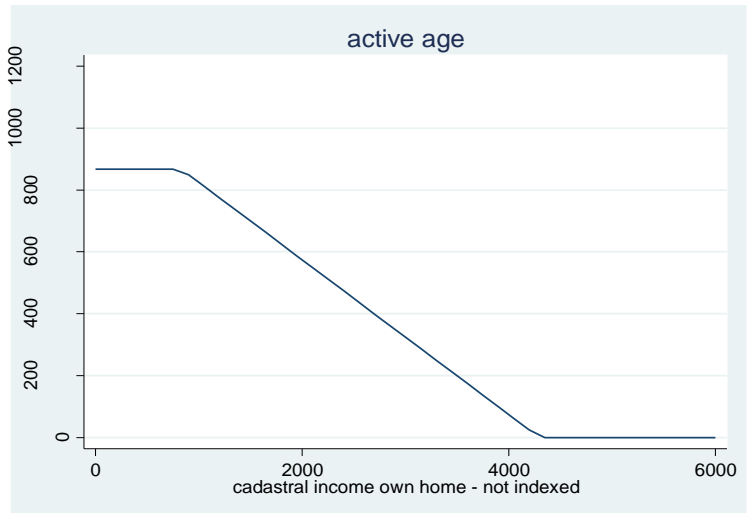
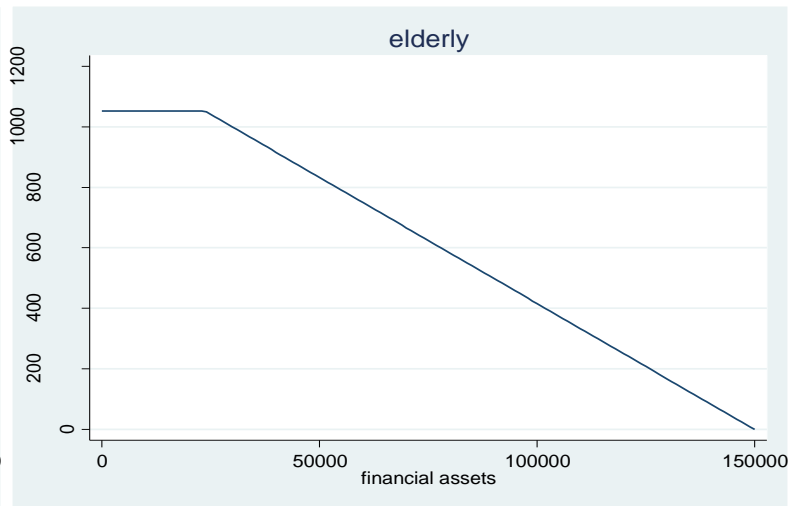
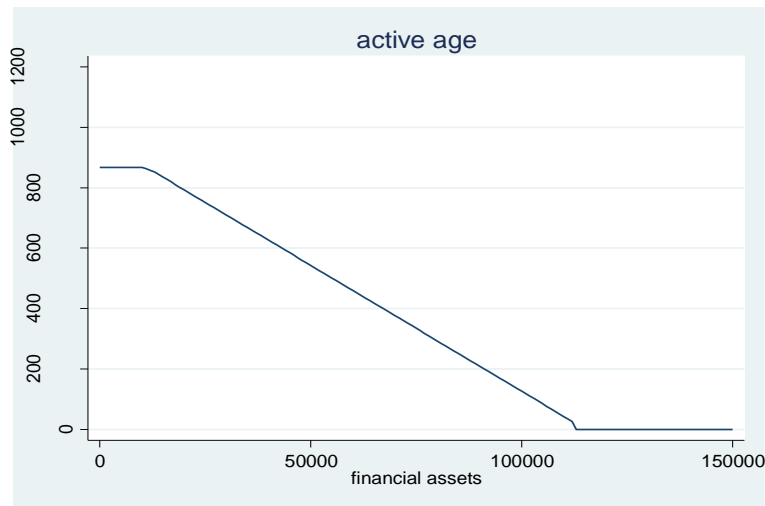


- Two advanced economies
- Bismarckian social insurance
- Similar income distribution
- Different wealth distribution

# 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

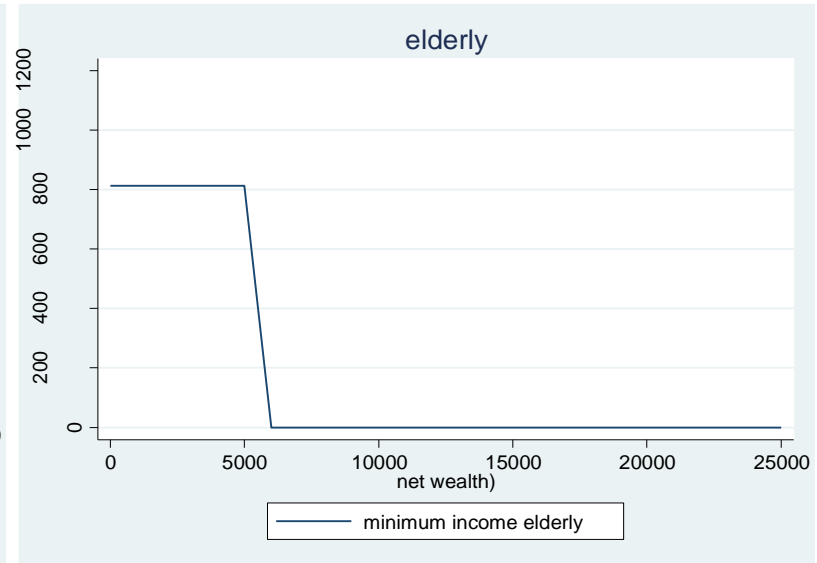
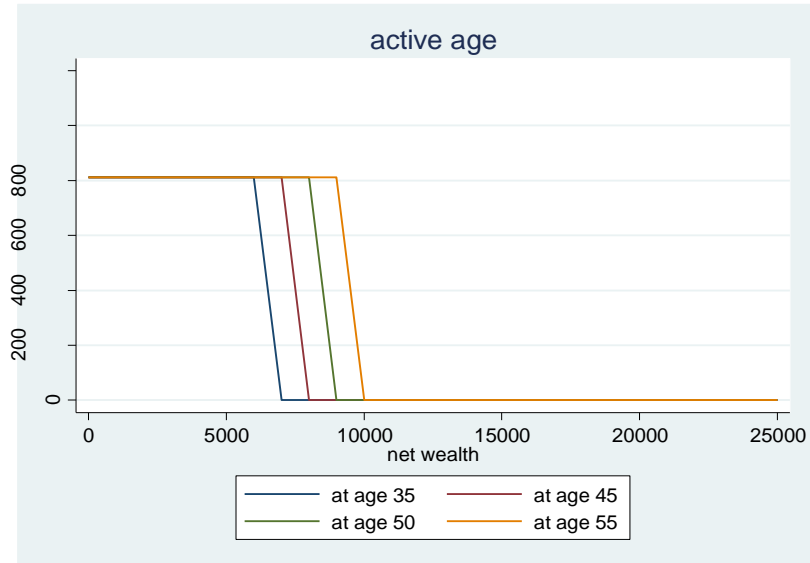
# Asset tests in Belgium



# 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





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# Data and method



- Household Finance and Consumption Survey
  - 2009 wave, incomes updated 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!

	Belgium		Germany	
	observations	weighted observations	observations	weighted observations
Households	2327	4,692,601 [4,467,684;4,917,517]	3565	39,673,000 [37,959,675;41,386,326 ]
individuals	5488	10,762,597 [10729905;10795289]	8117	80,900,655 [80546782;81254529]
<b>Final revised means-test</b>				
SA (active age, FTU)	191	554,443 [444568;664319]	239	3,613,249 [3094359;4132139]
IGO (old age, FTU)	115	249,106 [192737;305474]	35	912,179 [592377;1231981]
<b>Final revised means-test, with non-take-up correction</b>				
SA (active age)	66	162,622 [103701;221542]		
IGO (old age, FTU)	115	249,106 [192737;305474]		

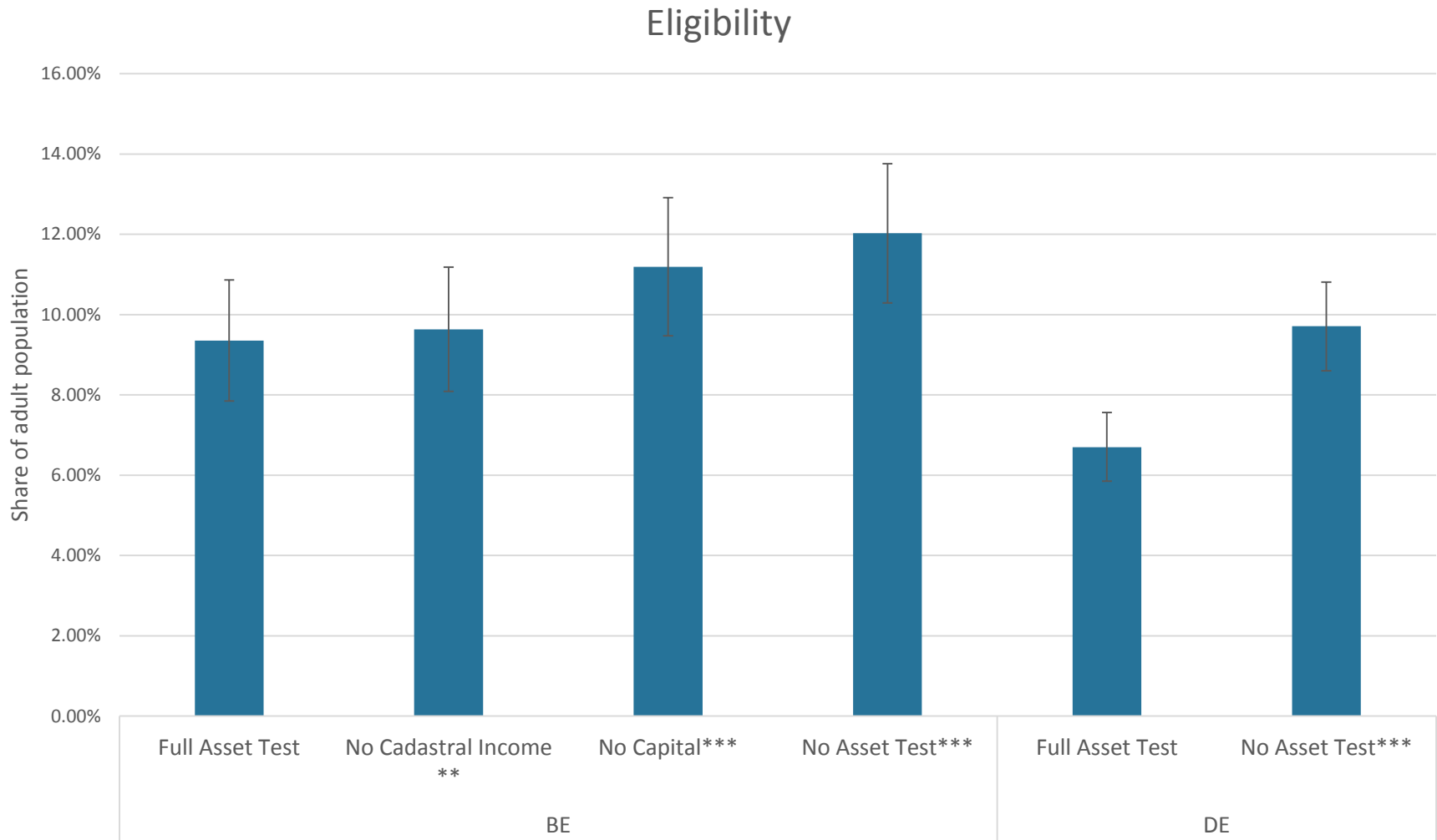
Note: administrative records set the Belgian population at 11,376,000, the population with a right to social integration at 156,156 persons and the number of persons receiving an income guarantee for elderly at 104,256. The German Bundesagentur für Arbeit differentiates in its reporting on ALGII receipt 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)

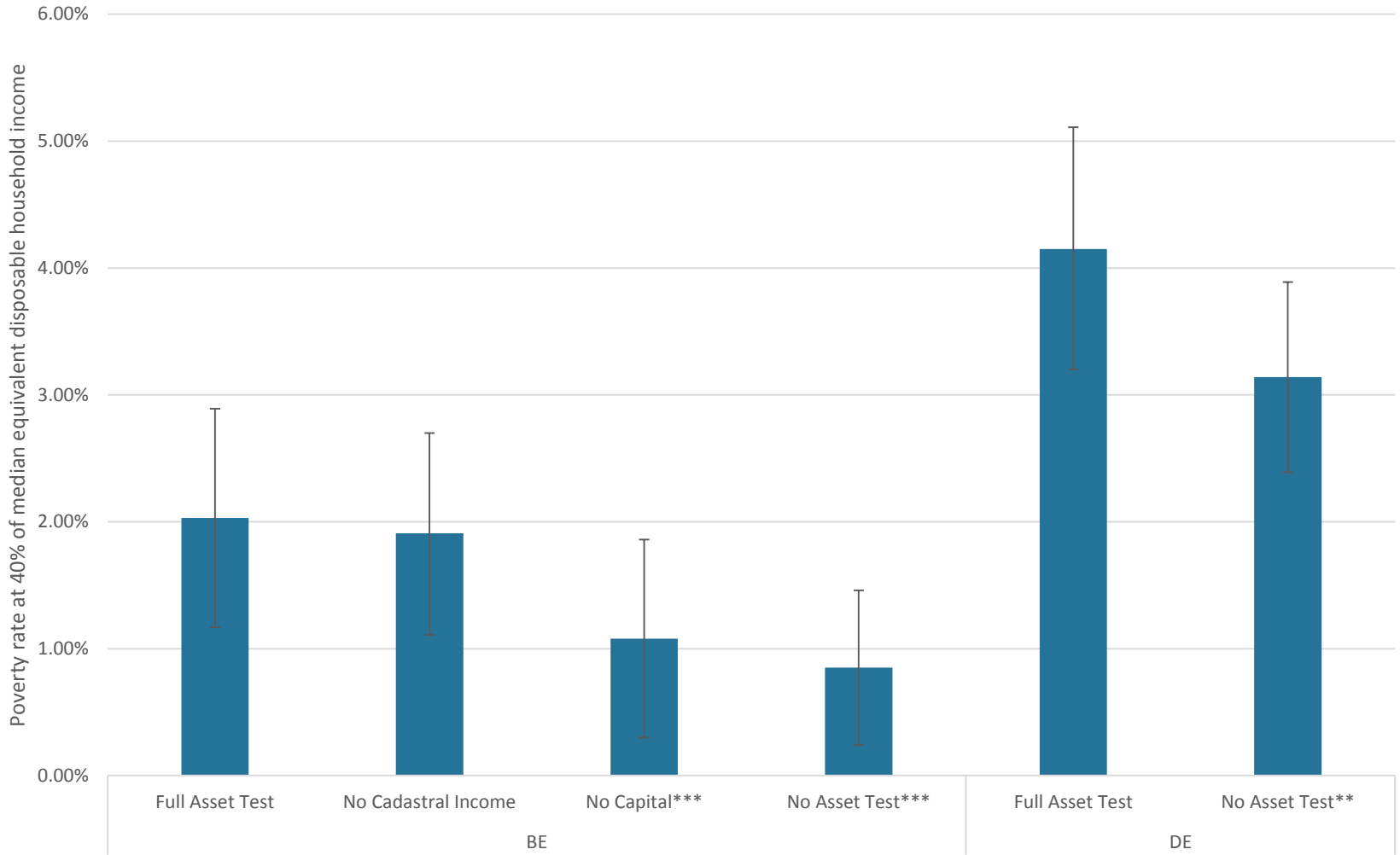
# Outline

- 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

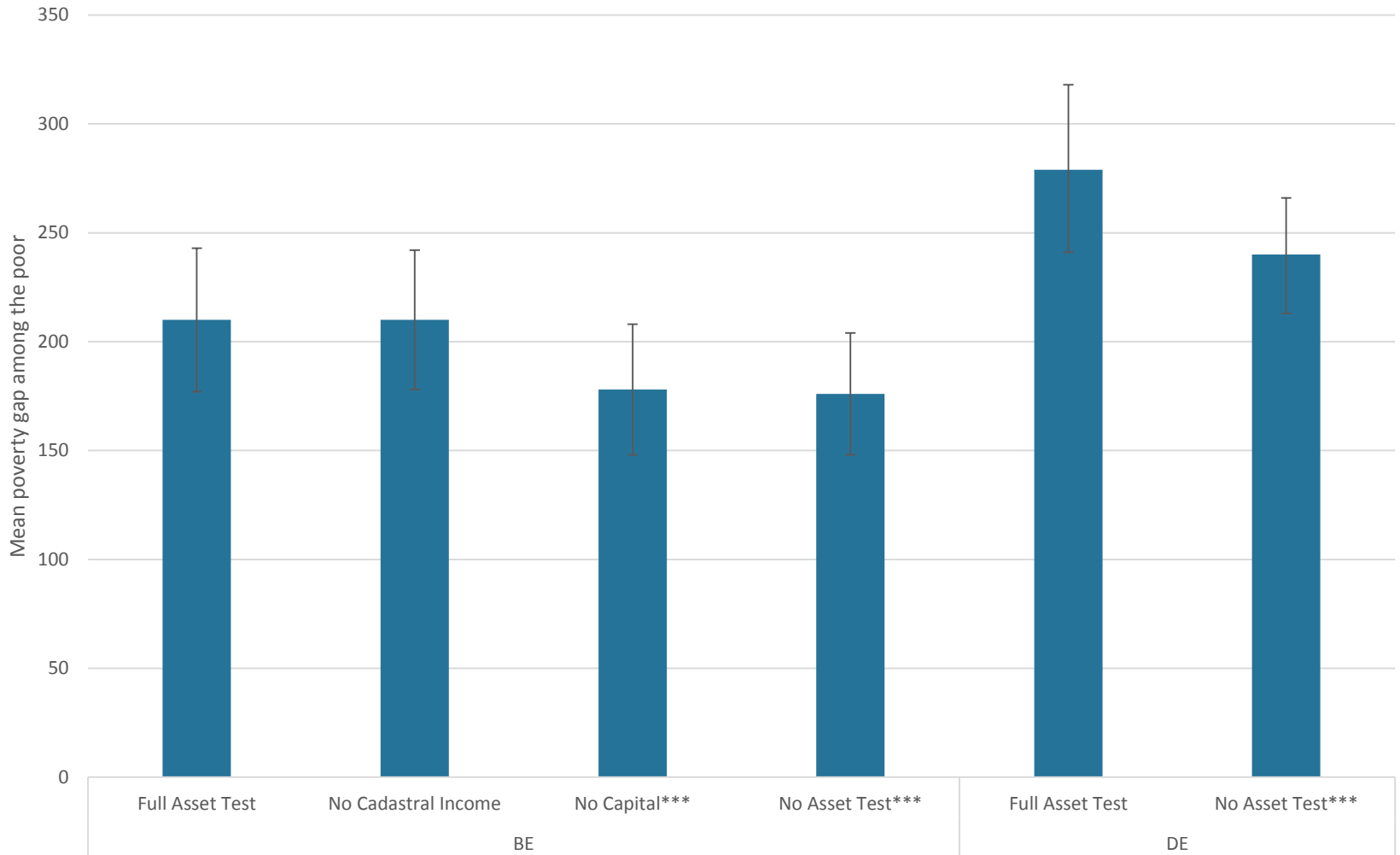
# Pronounced increase of the eligible population



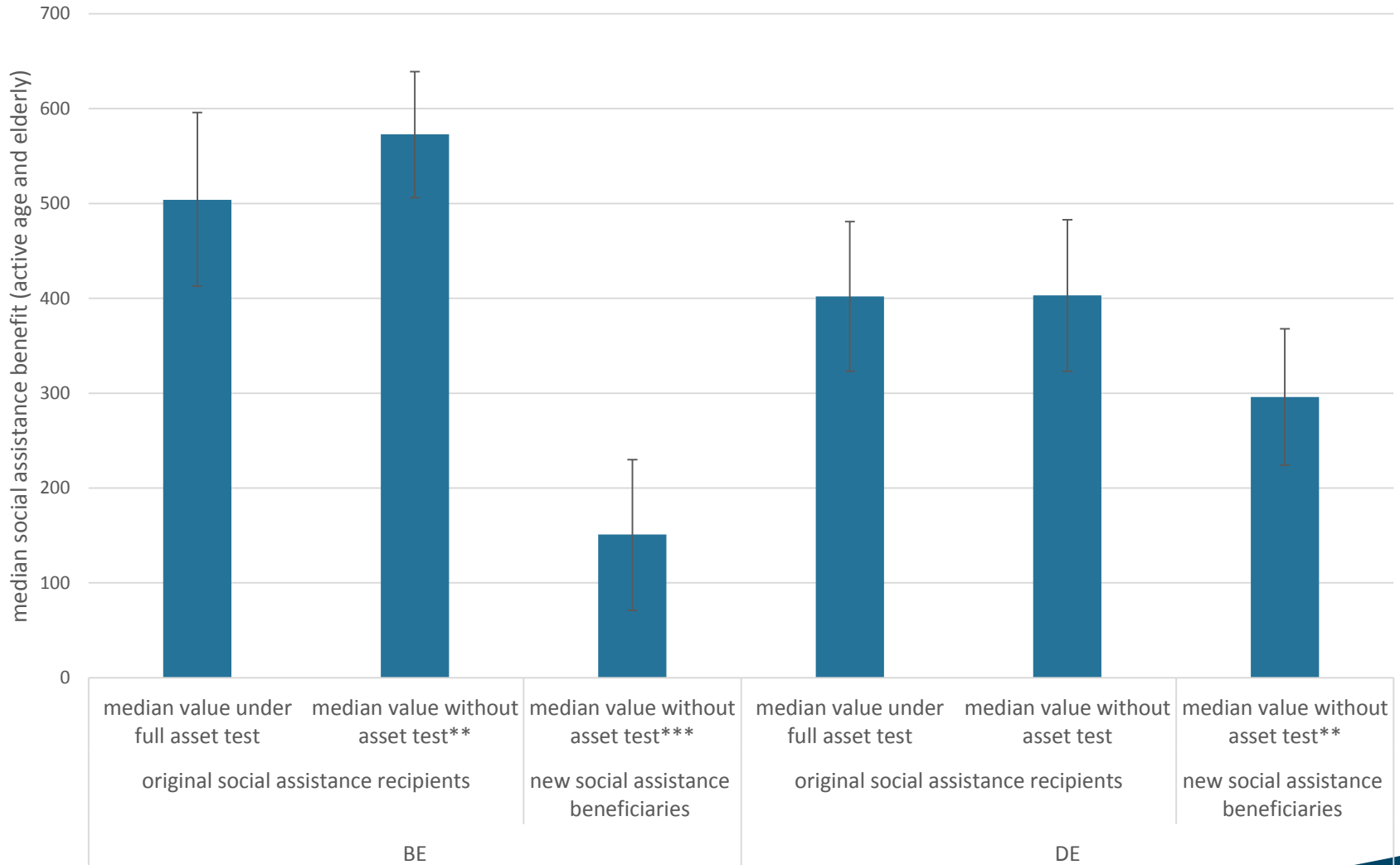
# Decrease in severe poverty



# Decrease in mean poverty gap among the poor



# Newly eligible persons would qualify for lower benefits





# 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