Achieving a high level of social protection is a distinctive feature of the European social model and, as part of the open method of coordination, certain common objectives are set for social inclusion. However, responsibility for tax–benefit policy lies firmly with the EU Member States. As a result, the measures that are taken to achieve particular goals with regard to social benefits and taxation — and the priority that is attached to different objectives — vary significantly from country to country. The variation reflects differences in the scale and the nature of social problems, as well as differences in the underlying political and economic circumstances, in the design and nature of the tax and benefit system and in social attitudes towards income redistribution and poverty relief.

Given all that, it is by no means straightforward to detect common trends in the policy changes of recent years that affect income distribution and, in particular, the relative position of those on low incomes across the 27 EU Member States and the two candidate countries. Nevertheless, alongside the differences, there are certain similarities in the policy developments that have occurred in these countries over the past five years. This is evident from a review of the measures taken in four broad policy areas over this period: 

1. lowering direct tax rates and simplifying the tax structure;
2. making work pay;
3. supporting families on low incomes; and
4. increasing the adequacy and sustainability of pensions.

Each of these areas has been the focus of policy concern across much of the EU in the recent past, and the purpose here is to review the nature of the action taken in the different countries, as well as the effect on income distribution and the risk of poverty.

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1 Based on contributions from national experts.
2 This review is based on information provided by a network of country experts on the main changes in taxes, social benefits and other relevant aspects of policy that have occurred since about 2003, as well as on their assessment of the effects of these on different income groups.
Lowering taxes and simplifying the tax structure

With very few exceptions, income tax rates have been cut and/or tax allowances increased over recent years, while attempts have also been made to simplify the tax system. That has been the experience in most European countries (e.g. Belgium, Bulgaria, Denmark, Germany, Estonia, Ireland, Spain, France, Cyprus, Lithuania, Slovenia, Finland and the UK). Only a handful of countries have bucked the trend: Hungary (where the top rate of income tax has actually been increased), and Germany and Portugal (where an additional rate on very high incomes was introduced). At the same time, wealth taxes have also been lowered in a number of countries, such as France and Greece, as well as in the high-taxation Scandinavian countries (Denmark, Finland and Sweden).

On the other hand, most new Member States now operate a flat-rate tax regime. Following Slovakia and the Baltic countries (Estonia, Latvia and Lithuania), where such a regime was adopted back in the 1990s, more recently Bulgaria, the Czech Republic and Romania have also adopted this kind of system, with very low flat rates indeed. Furthermore, the flat rate of income tax has actually been lowered in Estonia and Lithuania. Only in Slovenia were earlier plans to introduce a flat-rate tax apparently abandoned.

Even though tax reductions may benefit those on low incomes, those on high incomes usually tend to gain most by such a move. Moreover, any positive effects at the bottom end of the scale are often tempered by the fact that many of those concerned pay no tax and therefore gain nothing at all. A policy shift towards refundable tax credits (discussed in the next section) might remedy this. On the whole, however, tax changes seem to have benefited higher earners disproportionately and to have made the distribution of income more unequal.

The main policy changes in respect of tax policy over the period 2004–08 are outlined below, on a country-by-country basis.

In Belgium, the income tax reform phased in over the period 2002–07 abolished the top two marginal tax rates (52.5% and 55%), broadened the middle tax brackets (where marginal rates of 30% and 40% apply), aligned the basic tax allowance for single or cohabiting people with that of married people, increased the tax credit for low earners and for dependent children, and extended the tax deductibility of work–related expenses.

In Bulgaria, income taxation was radically reformed in two steps: tax rates were cut in 2005 from 12–29% to 10–24%, and in 2008 a flat–rate tax regime (at 10%) replaced the formerly progressive tax schedule. Moreover, tax allowances for dependent children were introduced in 2006. The corporate tax rate was also reduced to 10% (from 19.5%) in 2005–07. It is estimated that the combined effect of income tax and social contribution reductions (discussed below) has been to increase tax compliance and formal employment significantly.

In the Czech Republic, a flat–rate tax regime (at 15%) replaced the formerly progressive income tax schedule in 2008, while the corporate tax rate was also reduced gradually from 28% in 2004 to 21% in 2008. Combined with the introduction of an upper earnings threshold to social contributions in 2008 (discussed below), the effect of these changes has been to raise the net incomes of high earners.
In **Denmark**, the most important policy change in recent years, the so-called ‘tax stop’, was introduced in 2002 and has affected developments throughout the subsequent period. Under this measure, no tax can rise in either relative or absolute terms except as a result of changes in incomes (e.g. when taxable income rises) or prices. It is estimated that high earners and owner occupiers have gained the most from this policy. A tax commission, due to deliver its report in 2009, is expected to recommend further reductions in earned income taxation from 2010.

In **Germany**, the top rate of income tax was gradually lowered from 51% in 2000 to 42% in 2005, but a new top rate of 45% was introduced in 2007 on very high incomes (of over EUR 500,000 for couples). At the same time, the tax base was broadened in 2006 by abolishing the home-owner cash grant and certain other tax reliefs (e.g. for commuting costs), and a childcare tax allowance and tax credits for domestic services were also introduced. In addition, in 2007 the standard rate of VAT went up from 16% to 19%.

In **Estonia**, the flat rate of income tax was steadily reduced from 26% in 2004 to 21% in 2008, while the standard tax allowance was raised over the same period from EEK 16,800 (EUR 1,075) to EEK 27,000 (EUR 1,725). Moreover, a supplementary tax allowance (worth EEK 24,000 or EUR 1,535 a year per child) was gradually extended to all families with children aged under 17.

In **Ireland**, the 2007 budget cut the top rate of income tax from 42% to 41%, which resulted in a small gain in income for those in the top quintile of income earners.

In **Greece**, while the top rate of income tax remained unchanged at 40%, its scope was reduced markedly by increasing the threshold from an annual income of around EUR 28,400 in 2004 to EUR 75,000 in 2008. At the same time, other rates were cut substantially over the period. As a result, average tax rates for high earners were reduced significantly. Inheritance tax was also reduced considerably and its scope greatly limited. A similar change was applied to lifetime gifts, so that a large number of property transfers were taken out of tax altogether.

In **Spain**, the 2007 income tax reform reduced the top rate of income tax to 43%, eliminated the 15% tax bracket, and raised personal and dependent-children tax allowances substantially. In addition, investment income from all sources was separated from earned income, and a single, flat rate of tax was applied.

In **France**, income taxation was reformed significantly under both the Chirac and the Sarkozy presidencies. The top rate was reduced to 40% (from 54% in 2000), while the basic rate was cut to 5.5% (from 10.5% in 2000). In 2007, the income tax schedule was made less progressive, with a reduction in tax brackets from six to four, while the cap on the total tax payable, in the form of income, wealth and local taxation, was lowered to 50% of income. A number of other tax changes were also introduced in May 2007, with the intention of reversing the ‘brain drain’ of highly skilled workers moving abroad by improving the position of high earners. The regressive effect of these reforms was mitigated only slightly by a substantial increase in refundable tax credit, *Prime Pour l’Emploi* (discussed below).

In **Italy**, the 2007 budget changed the definition of taxable income and the tax base and introduced a system of tax credits to replace the previous tax allowances. The new tax structure increased disposable income linearly — by up to 1.3% for
those in the fourth income decile. Thereafter, as income rose, the increase diminished, disappearing entirely from the eighth decile upwards.

In **Cyprus**, marginal tax rates remained unchanged over the period 2004–08, after the 2002 tax reform cut the top rate of income tax from 40% to 30%. However, income tax brackets were raised faster than earnings rose, which resulted in a significant reduction in average tax rates, especially among high earners.

In **Latvia**, following the introduction of a flat-rate income tax in 1995, subsequent changes in income taxation were directed at increasing the personal allowance, which rose steadily from LVL 252 (EUR 359) in 2004 to a planned LVL 1,200 (EUR 1,707) in 2009, while the flat rate remained unchanged at 25%. The allowance for dependants was also raised from LVL 126 (EUR 179) in 2004 to LVL 840 (EUR 1,195) in 2009.

In **Lithuania**, rapid economic growth, and the increased tax revenue resulting from this, enabled the government to reduce the flat income tax rate from 33% in 2006 to 24% in 2008.

In **Hungary**, earlier tax cuts were reversed with the introduction of the 2006 stabilisation package, which was aimed at reducing the budget deficit. The package raised the VAT basic rate to 20% and the top income tax rate to 40%, and similarly raised social contributions (discussed below).

In **Austria**, the 2004–05 reform exempted 2.5 million tax units (or 43% of the total) earning less than EUR 15,770 a year, and introduced tax credits for employees and for dependent children (discussed below). The initial gains for all income earners have, however, been almost totally offset by fiscal drag in subsequent years, as the Austrian income tax system has no regular adjustment mechanism for inflation or earnings growth.

In **Portugal**, the 2006 budget created an additional income tax bracket of 42%, which was applied to annual incomes above EUR 60,000 (EUR 62,456 in 2008).

In **Romania**, a flat rate of income tax of 16% was introduced in 2005.

In **Slovenia**, piecemeal changes to income tax were introduced in 2006. The number of tax brackets was reduced from five to three, while the top marginal tax rate was cut from 50% to 39%. The personal allowance was raised, but at the same time virtually all tax deductions were eliminated, the main exception being voluntary pension contributions to supplementary pension schemes. It has been estimated that the changes increased disposable income right across the income distribution — by 5% in the bottom decile and by 1.6% in the top decile.

In **Slovakia**, a major tax reform that introduced a 19% flat rate of income tax took place some years ago. Subsequently, a degree of ‘reform fatigue’ seems to have set in, with proposals for further reform met with political and social resistance.

In **Finland**, a shift from progressive income tax (set by central government) to proportional tax (operating at the municipal level) has occurred in recent years, thus reducing the progressive nature of the tax system overall. The top rate of tax was reduced from 35% in 2003 to 31.5% in 2008, while the basic rate was reduced from 12% to 8.5% over the same period. At the same time, the 14% tax bracket (for annual incomes of between EUR 17,000 and EUR 20,000) was abolished in 2007, so that incomes in this range are also taxed at 8.5%. The rate of capital
tax was also reduced, from 29% to 26% in 2005, though this was offset by the partial re-imposition of double taxation of dividends. However, a tax of 0.8% on net wealth in excess of EUR 250,000 was abolished in 2006.

In **Sweden**, as a result of changes introduced under both the centre-right coalition that came to power in 2006 and the social-democratic government that preceded it, taxes on wealth have been reduced substantially. Specifically, taxes on lifetime gifts and inheritance were abolished in 2004–05, property tax was reduced in 2007, and wealth tax was abolished and real estate tax was replaced by a new municipal charge in 2008.

In the **United Kingdom**, structural changes in income taxation were introduced in 2008. The initial 10% income tax band was abolished, while the basic rate of income tax was reduced from 22% to 20%. At the same time, the personal tax allowance and the corresponding allowance for the elderly were raised above the rate of inflation, and refundable tax credits were increased (as discussed below).

In **Croatia**, the personal income tax allowance was raised in 2005 and again in 2008, and currently stands at HRK 1,800 (EUR 253).

In **Turkey**, the main tax changes have included a reduction in the top rate of income tax in 2004, a significant tax cut on low wages in 2006, a reduction in the rate of corporate tax from 30% to 20% (also in 2006) and the introduction in 2004 of a lower rate of VAT (at 8%) on medicines, food and school items.

**Making work pay**

There has been a widespread tendency across the EU to seek to improve incentives to work. Various means have been employed in the pursuit of a policy of making work pay by trying to ensure that income from employment is always significantly higher than income from social benefits.

More specifically, refundable earned income tax credits and other in-work benefits have recently been introduced in a number of countries (Luxembourg, Malta, Finland, Sweden), or, if they already existed at the beginning of the period under examination, have been further increased (Belgium, Denmark, France, Austria, the UK).

On the other hand, significant reductions in social contributions have been made in several countries — sometimes targeted at specific groups (Belgium, Spain and Turkey) and sometimes across the board (Bulgaria and Poland). Only in Italy have social contributions actually increased.

Other ‘make work pay’ policies, such as the introduction of wage subsidies (Germany) or allowing social assistance recipients who take up a new job to continue, for a limited period, to claim benefit while earning a wage (France, the Netherlands, Slovakia, Finland), have also been implemented to this end. Only Germany (under the ‘Hartz IV’ reform package) and, to some extent, Italy have taken the more problematic route (given its implications for the poverty rate) of attempting to make low-paid jobs more attractive by reducing the generosity of social benefits.
Increasing the minimum wage is another means of making work pay at the lower end of the labour market. Such a strategy is demanding in terms of governing and regulating the labour market, since, unless they are closely monitored and controlled, employers may be tempted to pay wages below the statutory minimum. At the same time, it has rather obvious advantages in terms of both equity considerations and incentives for employers to invest in skills. In fact, the minimum wage was substantially increased in most new Member States (Bulgaria, Latvia, Lithuania, Romania, Slovakia), in southern countries (Greece, Spain, Portugal) and in the two candidate countries (Croatia and Turkey) over the period 2004–08.

The range of policy changes adopted with the aim of making work pay are summarised below.

In **Belgium**, *Bonus à l'emploi/Werkbonus*, the social contributions rebate for low earners introduced in 2000, was increased in 2008 to a maximum of EUR 175 a month for both manual and non–manual workers. The full rebate is paid to employees on the minimum wage (currently EUR 1,362 a month), and is then reduced proportionately until gross earnings reach EUR 2,204 a month. In addition, a new subsidy for employer social contributions was introduced in 2007 to encourage the employment of older workers. The subsidy is worth EUR 200 a year to the employers of workers who earn less than EUR 3,000 a month at age 50. Employers of higher–paid workers of 57 or above are now eligible for a subsidy of EUR 1,200 a year, over and above the general reduction in employer social contributions introduced in 2007, which was worth at least EUR 1,600 a year.

Moreover, the 2002–07 tax reform increased the tax credit for low earners and for dependent children, and extended the tax deductibility of work–related expenses. In 2007, the Flemish regional government also introduced an income tax reduction (*Jobkorting*) for employees on low and middle incomes, operating via the withholding tax system. From 2009, all employees living in the Flemish region became eligible for the tax reduction, which is worth EUR 300 a year to low and middle earners and EUR 250 to higher earners.

In **Bulgaria**, social contributions were reduced from 35.5% to 26.5% in 2006–07. In addition, while average earnings rose by 71% (in nominal terms) in 2004–08, the statutory minimum wage increased by 83%, thus improving the income of those employed on low earnings (but also reducing the incentive for employers to take on low–skilled workers).

In the **Czech Republic**, an upper earnings threshold on social contributions was imposed in 2008 at four times average earnings, thus reducing the amount payable on high income (though doing little to change the balance between working and not working for those further down the income scale).

In **Denmark**, the tax credit on earned (as opposed to unearned) income was raised in 2008 from 2.5% to 4.25%, up to a ceiling of DKK 13,100 (EUR 1,760).

In **Germany**, the ‘Hartz IV’ labour market reforms were introduced in 2005. These included the replacement of earnings–related unemployment insurance benefit (at 50% of previous earnings) by means–tested social assistance (payable at a lower rate) after 12 months of receiving benefit (after 18 months in the case of older workers). The reform also reduced benefits for certain categories of the unemployed, but improved the position of low–income families with children and (in
combination with wage subsidies on low-earning jobs) made part-time work more attractive. Overall, the distributional implications of ‘Hartz IV’ are unclear. On the one hand, social contributions for unemployment insurance were lowered to 4.2% (from 6.5%); on the other, pension and health insurance contributions (for certain sickness funds) were raised.

In Estonia, the rate of employee social contributions for unemployment insurance was reduced from 1% to 0.6% in 2006, while the minimum wage was raised from EEK 2,480 (EUR 158) a month in 2004 to EEK 4,350 (EUR 278) in 2008 (its relative value remaining at around a third of the average wage).

In Greece, the minimum wage was increased in real terms by 9.5% over the period 2004–08, though it still continued to lag behind average earnings. A large number of firms, however, are known to pay wages below the statutory minimum, especially when employing female migrant workers.

In Spain, the lower earnings threshold for payment of social contributions was raised by 10% in real terms for employees, while it was reduced (from a higher base) by 9% for the self-employed. The employee upper earnings threshold was also reduced, by 5% in real terms, so narrowing the earnings range on which social contributions are payable.

In France, the refundable tax credit, *Prime Pour l’Emploi*, was increased significantly, to a maximum of EUR 960 a month in 2008 (from EUR 470 in 2004). In addition, the failure of earlier schemes and the persistence of poverty traps led, in 2007, to the experimental introduction of ‘active solidarity income’ (*revenu de solidarité active*), under which 90,000 recipients of guaranteed minimum income (*revenu minimum d’intégration*) who take up a job are allowed to combine social assistance and earnings from work for up to three years. The objective is to ensure a total income above the poverty line (EUR 817 for a single person in 2008). The scheme is intended to replace the existing income support system and will be extended to the entire country in 2009, partly financed by a 1% tax on capital income.

In Italy, the temporary increase in the duration and rates of unemployment benefits for selected groups has been suspended: from 2008, the benefit rate has been reduced to 40% of previous earnings and the maximum duration of benefit to six months. In addition, the 2007 budget increased social contribution rates from an average of 17.5% to around 19.5% of earnings for the self-employed, and from 8.9% to 9.2% of the gross wage for employees.

In Latvia, the social contributions rate remained unaltered, but the minimum wage was raised from LVL 90 (EUR 128) in 2006 to a planned LVL 180 (EUR 256) in 2009. The aim is to increase it to 50% of the average wage in 2010.

In Lithuania, the minimum wage was also increased significantly, from LTL 550 (EUR 159) in 2006 to a planned LTL 846 (EUR 245) in 2009, though, since average earnings rose markedly over this period, the inequality-reducing effect on income has been limited.

In Luxembourg, the child tax credit (*Modération pour enfant*) was replaced in 2008 by a refundable child tax credit (*Boni pour enfant*) at the same rate (EUR 922.50 a year per child). It is estimated that this will reduce child poverty by 2 percentage points.
In **Malta**, both tax bands and rates were altered with a view to improving work incentives, while a tax credit for women returning to employment was also introduced in an attempt to raise the country’s low labour participation rate.

In **Austria**, following the 2007 agreement between social partners on working-time flexibility, overtime pay at 125% of the hourly wage was extended from 2008 to approximately 720,000 part-time employees. In addition, the option was introduced of extending the normal working time of full-time workers to 10 hours a day, so long as there is agreement between employers and the individuals concerned. On the other hand, the upper earnings threshold was increased in 2005-06 to EUR 52,500. Moreover, contribution rates for pension insurance were raised from 15% to 15.5% for the self-employed, and from 14.5% to 15% for farmers. In addition, unemployment insurance contributions were abolished in 2004 for women over 56 and for men over 58 and, for other employees, were linked to income (rather than charged at a flat rate) in 2008. Those earning less than EUR 1,100 a month now have to pay unemployment insurance contributions, while the contribution rate is raised gradually to 3% (as before) for those earning over EUR 1,350 a month. Moreover, the 2004–05 reform increased tax credits for dependent children and made them refundable for single parents, while a general refundable tax credit for employees (worth up to EUR 110 per year) was introduced, and the income threshold for entitlement to it was raised.

In the **Netherlands**, a number of measures aimed at increasing labour participation by making work pay for low-income groups were announced in 2008 and will be implemented in 2009. These include tax reductions, childcare subsidies, and the possibility of combining benefit receipt with some earnings from work. Policy changes to lengthen the working time of (mostly women) part-time workers and to increase the participation of ethnic minority women have also been discussed.

In **Poland**, the cost of disability insurance to employees was reduced by 3 percentage points in 2007, while a further reduction of 4 percentage points (evenly split between employees and employers) was implemented the following year. As a result, the overall rate of disability insurance contribution was cut from 13% of gross earnings in 2006 to 6% in 2008.

In **Portugal**, the minimum wage has been raised substantially in recent years as a result of the 2006 agreement between government and social partners, which stipulated that it should reach EUR 500 a month in 2011 (it is currently EUR 426).

In **Romania**, social contribution rates were lowered, and in 2007 the minimum qualifying period for access to social health insurance benefits was reduced from five years to six months for new entrants to the labour market. In addition, the minimum wage was raised by 12% in real terms over the period 2004–08, to EUR 600 a month or EUR 8,400 a year (the monthly minimum wage is payable 14 times a year).

In **Slovakia**, the minimum wage has also been increased. In 2008, unemployed workers participating in active labour market measures, such as training programmes or voluntary work, were made eligible for a temporary benefit equivalent to the minimum income level, currently set at SKK 1,680 (EUR 55) a month for a person living alone. Employer incentives to take on or retain low-wage workers at risk of losing their jobs were also introduced at the same time.
In Finland, the proportional municipal tax includes a non-refundable earned income allowance, intended to protect low incomes and to increase work incentives. This allowance went up from EUR 925 in 1999 to EUR 3,850 in 2005, but was subsequently reduced to EUR 3,250 in 2007. At a national level, an earned income tax credit targeted at low earners was introduced in 2006 and raised in later years, while the tax treatment of commuting expenses was made more favourable. On the other hand, the duration of unemployment benefit paid by central government was limited to 500 days, after which the cost is split between central and local government, and recipients are required to accept either a job or a place on a training programme. Other activation measures included a more generous mobility allowance paid to jobseekers travelling for an interview outside their commuting area, a travel allowance of EUR 700 a month paid to unemployment benefit recipients who accept full-time work for at least two months in a location outside their commuting area, and relocation support of up to EUR 700.

In Sweden, a number of measures (including the earned income tax credit introduced in 2007 and made more generous in 2008) have been taken to improve work incentives for low earners. On the other hand, the tax deductibility of unemployment insurance membership fees was abolished in 2007.

In the United Kingdom, the income disregard for child tax credit and working tax credit assessment was increased substantially in 2006, from £2,500 to £25,000 (from around EUR 3,000 to EUR 30,000). The upper earnings threshold for employees was also increased in 2008, while the minimum wage has been raised to keep it in line with the growth of average earnings over recent years.

In Croatia, a minimum wage was introduced in 2008, at 39% of the previous year’s average gross earnings.

In Turkey, employers’ social contributions were cut by 5% in 2008, while, under a new scheme to promote female and youth employment, employers who take on workers aged 18–29 or women of any age will have their contributions paid out of the unemployment insurance fund for up to five years. The minimum wage was also increased by 35% in real terms between 2003 and 2007.

Supporting families on low incomes
Reforms to make work pay and to restrain public expenditure have, in many cases, been accompanied by compensating measures, usually taking one of two forms (or both). The first form consists of real increases in guaranteed minimum incomes or rates of social assistance, intended to avoid exposing those on very low incomes to reduced levels of income support. Such an approach was adopted in Belgium, Estonia, Cyprus, Hungary and Portugal, though it should be noted that, in some countries (such as Bulgaria and Poland), minimum income benefit rates were frozen in nominal terms and/or eligibility rules were tightened. The changes made in Germany and Italy, where unemployment benefits were cut, contrast with this (as was noted in the previous section).

The second approach consists of policies (such as family allowances and, in particular, parental benefits) aimed at improving household incomes and at supporting
mothers, so that they can cope better with the competing demands of work and family responsibilities. Such policies were introduced, extended and/or improved in a large number of European countries, including Belgium, Bulgaria, the Czech Republic, Germany, Estonia, Ireland, Spain, Lithuania, Hungary, Malta, Austria, Romania, Slovenia, Slovakia and the UK. In Greece and Cyprus, benefits for large families were increased, while those for families with one or two children were reduced in real terms.

Changes in social assistance and other benefits for those of working age are outlined below on a country-by-country basis.

In **Belgium**, benefit rates under the guaranteed minimum income scheme for those of working age (Minimex) have been increased by some 15% since 2003, and now stand at EUR 474 a month for couples, EUR 712 for those living alone and EUR 949 for single parents. In addition, an allowance for school expenses (Allocation de rentrée scolaire) was introduced in 2006. The allowance, which varies according to the age of the child, is universal and is paid as a lump sum in addition to the standard child benefit. Supplementary child benefits for lone parents on low incomes were also increased, and the income ceiling was raised to improve labour incentives.

In **Bulgaria**, child benefits were raised in 2005 (albeit from a very low level), and in 2007 maternity leave (at 90% of previous salary) was extended from 135 to 315 days. Other changes, however, went in the opposite direction: the guaranteed minimum income was frozen at its 2006 level, while in 2007 receipt of means-tested social assistance was limited to a maximum of 18 months and further reduced in 2008 to 12 months.

In the **Czech Republic**, the rules concerning the calculation of living and subsistence minimum (Zákon o životním a existenčním minimu) were modified in 2006–07. The reform introduced a guaranteed ‘living’ minimum income and a higher ‘subsistence’ level, which varies according to the number and age of the people in the household. The amount received varies between the living minimum and the subsistence level (minus own income), depending, in particular, on whether recipients actively look for work. In addition, parental benefit was increased considerably over the period 2006–09, though in 2008 the maximum value of means-tested child benefits was reduced from four times the subsistence minimum to 2.4 times.

In **Germany**, the parental leave system was reformed in 2007 along Scandinavian lines. The core of the reform was the replacement of the means-tested parental leave benefit by an earnings-related benefit for a period of one year (at 67% of earnings up to EUR 1,800 a month, and 100% for lower earners).

In **Estonia**, a parental allowance, paid at 100% of former earnings for 11 months, was introduced in 2004; its duration was extended to 19 months in 2008. Parents with zero earnings over the previous year are still able to claim parental benefit at a fixed rate (EEK 3,600 or EUR 230 in 2008, up from EEK 2,200 or EUR 141 in 2004). In addition, the monthly rate of minimum guaranteed income, used to calculate entitlement to means-tested social assistance, was increased from EEK 500 (EUR 32) in 2005 to EEK 1,000 (EUR 64) in 2008. (Note that the cost of the minimum food basket was estimated at EUR 66 in 2007.) Since 2006, an additional benefit of EEK 200 (EUR 13) a month has been payable to single parents.
Moreover, while the real value of the universal child benefit was eroded by inflation, the basic rate remaining unchanged over the period 2004–08, a higher rate for families with three or more children was introduced in 2005. Unemployment assistance, payable on a means-tested basis to those no longer eligible for unemployment insurance, was raised from its 1999 level of EEK 400 (EUR 26) a month to EEK 1,000 (EUR 64) in 2007.

In Ireland, universal child benefit was increased substantially, along with the means-tested family income supplement. An early childcare supplement, paid to families with children aged under 6, was introduced in 2006 and was increased by 10% in 2008. In addition, unemployment, sickness and invalidity benefits were raised by more than the rate of wage inflation over the period.

In Greece, the favourable treatment of families with four or more children was extended in 2006 to those with three children, recipients being eligible for preferential access to higher education, public sector jobs and licences to set up a small business, as well as generous cash benefits. Public support for families with one or two children remains very limited. On the other hand, unemployment insurance benefit, left unchanged for three consecutive years, was raised significantly in 2007 and again in 2008 — to 13% above its 2004 value in real terms.

In Spain, non-contributory child benefit rates, which had remained unchanged in nominal terms since 2000, were raised in 2008 for children aged under 3 — from EUR 291 a year to EUR 500.

In Cyprus, the level of minimum income guarantee was increased by 19% over the period 2004–08. Child benefit rates for families with one or two children, however, fell in real terms, while other benefits rose in line with inflation.

In Lithuania, maternity leave benefit was raised in 2007–08 to 100% of previous earnings (up from 70%) for the first 12 months, and its duration was extended to a second year (at 85% of earnings), while a one-month paternity leave benefit (at 100% of previous earnings) was introduced in 2006. In addition, the maximum age at which child benefit is payable was raised from 3 to 12 years in 2007, and the income threshold for social assistance was increased from LTL 155 (EUR 45) in 2006 to LTL 315 (EUR 91) in 2008.

In Hungary, universal family allowances were increased in 2006, while means-tested child benefits were abolished at the same time, and child tax credits were restricted to families with three or more children, up to a certain level of income. In addition, the social assistance threshold was raised to 90% of the minimum old age pension in 2007 (from 80% in 2006), though the amount of benefit was capped at the net minimum wage (so that no one can be better off on social assistance than when in work). Moreover, a new system of means-tested subsidies for domestic heating, introduced in 2007, replaced the previous system of across-the-board subsidised prices. As a result, 2 million households (two-thirds of the total) receive price subsidies, which, for 1 million low-income households, fully compensate for price increases. Unsubsidised households saw their heating bills increase by 40–65% in 2007, and further still in 2008.

In Malta, the child allowance payable for the second and each subsequent child under 16 was made universal in 2008 and was raised to twice its former value (to EUR 249 a year per child).
In the Netherlands, incomes policy is aimed at spreading the gains from growth (or the costs of decline) as equally as possible among wage earners. As a result, income distribution remained broadly unchanged over the period 2004–08. Significant policy developments over this period include the introduction of the Work and Social Assistance Act (WWB) in 2004, which separated the resources available to local authorities for funding social benefits and activation policies. Because of stricter eligibility rules and firmer enforcement of the need for recipients actively to look for work, some vulnerable groups have experienced a decline in income.

In Austria, family allowances (Familienbeihilfe) were increased in real terms in 2008, when a 13th monthly payment a year was introduced, while supplements for the third child and subsequent children were also raised. In addition, since 2008, parental benefit (Kinderbetreuungsgeld) recipients have been able to choose from three different combinations of benefit level and duration (EUR 800 a month for 15+3 months — for the primary and the secondary carer; EUR 624 a month for 20+4 months; or EUR 436 a month for 30+6 months). The personal income threshold for eligibility for parental benefit was also raised to EUR 16,200 a year. Moreover, a care allowance of up to EUR 800 a month (targeted at persons in need of round-the-clock assistance, provided their net family income is below EUR 2,500 a month) was introduced in 2007.

In Poland, family benefits were streamlined and eligibility rules for social assistance were tightened in 2004, while a universal birth grant was introduced in 2006. In addition, a National Food Programme was set up in 2006, which aims to provide food to poor children in schools and local social assistance centres. Direct subsidies for farmers, who make up a significant proportion of those below the poverty line, paid under the Common Agricultural Policy, have also played an important role in raising incomes in rural areas and reducing the gap with living standards in cities.

In Portugal, means-tested family benefits, the social pension and the minimum income guarantee were all raised in real terms over the period 2004–08, especially in the first two years.

In Romania, universal child allowances were differentiated by age in 2007, with their value for children aged under 2 (or under 3 if disabled or chronically ill) being raised substantially. As a result, the benefit rate for young children is almost nine times the equivalent rate for older children. The change has provided assistance to non-working mothers, previously unable to take advantage of contributory maternity and parental leave benefits.

In Slovenia, legislation was introduced in 2006 to ensure price indexation of all social benefits, except contributory pensions (indexed to net wages). Large price increases in the first half of 2008 led to the legislation being amended, with indexation occurring twice a year rather than once. Large-family allowances were also raised in 2006 by between 17% (three children) and 43% (four or more children).

In Slovakia, a new supplement to the birth grant for the first child was introduced in 2007 at EUR 362 (raised to EUR 673 in 2008). Social assistance rates were also increased.

In Sweden, unemployment allowances were reduced in 2007, and in 2008 the rate of sickness benefit was cut to 75% of earnings. However, parental leave and
child benefits had earlier been increased (in 2005 and in 2006, respectively), while housing benefits for pensioners were raised in 2007 and the income test for access to these was relaxed a little in 2008.

In the United Kingdom, as discussed above, child tax credit was increased by substantially extending the income disregard in 2006.

In Croatia, the basic level of social assistance was increased to HRK 500 (EUR 70) a month in 2008, while maternity allowances and child benefits were raised in 2007, as were unemployment benefits (to HRK 1,200 or EUR 169 a month), though the contribution record required for workers to be eligible for unemployment assistance was lengthened at the same time.

In Turkey, health insurance was made universal, and a Green Card programme was set up to provide health insurance coverage to low-income groups and those without sufficient contributions. In addition, unemployment benefits were increased in 2008, and their level indexed to 40% of gross earnings.

**Increasing the adequacy and sustainability of pensions**

A major aim of policy over recent years has been to improve the long-term financial viability of pension systems in the context of demographic ageing, while at the same time continuing to provide basic income security for those already in retirement. By contrast, in a few countries where retirement benefits were particularly low to start with (for example, in Bulgaria, Estonia, Cyprus, Ireland, Lithuania, Hungary, Poland, Romania and Slovenia) there have been increases across the board, usually through the introduction of wage indexation or other changes in pension formulae.

The main changes in pension policy that occurred in the period 2004–08 across the EU are presented below.

In Belgium, pensions throughout the period were indexed to price inflation alone, though one–off payments were also made to recipients of minimum pensions. By contrast, the minimum income guarantee for the elderly (GRAPA — Garantie de revenu aux personnes âgées) was increased in 2007 and, from then on, has been linked to changes in average incomes, not just prices.

In Bulgaria, as a result of the 2003 adoption of the ‘Swiss’ indexation formula (average of price and earnings growth), pensions have increased significantly in real terms. In 2008, their average value was 55% of average earnings.

In Denmark, the introduction of a means–tested supplement to the state pension in 2004, and its subsequent increase, has raised low incomes among those in retirement.

In Estonia, the minimum pension guarantee was increased from EEK 931 (EUR 59) in 2004 to EEK 1,913 (EUR 122) in 2008, while over the same period the average old age pension was raised from EEK 2,072 (EUR 132) to EEK 4,534 (EUR 290). Changes in the indexation mechanism introduced in 2008 are set to link future pension rises more closely to receipts from contributions, and to raise the flat–rate element of pensions relative to the earnings–related element.
In **Ireland**, the state pension was increased substantially over the period, rising much faster than earnings and reducing the number of older people with income below the poverty line.

In **Greece**, a new pension reform bill was approved by parliament in April 2008. Its main provisions were to merge certain social insurance funds in order to reduce fragmentation; to increase the statutory retirement age for certain categories of people from 2013 onwards; and to create funds for financing future expenditure on pensions from various sources (such as 10% of the proceeds from privatising utilities and 4% of VAT revenue). Before this, the Social Insurance Funds’ Solidarity Account (ΑΚΑ), set up in 1992 to redistribute resources between social insurance funds, was abolished in 2005, with the effect of increasing income inequality among pensioners still further. On the other hand, large increases were made in the means-tested Pensioners’ Social Solidarity Supplement (ΕΚΑΣ) and the farmers’ basic pension, of 42–43% in real terms over the period 2004–08. By contrast, minimum pensions increased very little over the period (just over 1% in real terms). Since 2005, all contributory pensions have been increased at a uniform rate, whereas, in the past, low pensions were uprated more than higher ones.

In **Spain**, contributory pensions declined by almost 2% in real terms over the period, while non-contributory pensions rose by 3% and minimum pensions by 10–20% (42% in the case of widows with dependent children).

In **Cyprus**, where the risk of poverty among older people is the highest in the EU (52% of those aged 65 and over having income below the poverty line in 2005), retirement pension used to be non-contributory and paid at a flat rate. An earnings-related element was introduced in 1980, so that those who retired before then are still eligible only for a flat-rate amount. As more people receive an earnings-related pension, the average amount tends to increase (by almost 10% in real terms between 2004 and 2008). Basic pensions were increased by 5% in real terms over the period, as were non-contributory minimum and social pensions (fixed at 85% and 81% of the basic pension, respectively). A special allowance, inversely related to the original pension, was introduced in 2002 and was raised substantially in 2007. This has served to increase low pensions considerably, though many of the people benefiting live in relatively prosperous households.

In **Lithuania**, contributory pensions were raised in real terms over the period 2004–08, while a non-contributory social pension for those with an inadequate contribution record was introduced in 2005–06.

In **Luxembourg**, pensions were generally increased in line with earnings.

In **Hungary**, the progressive introduction of a 13th monthly pension, together with other changes, raised the real value of pensions by 15–20% in the period 2003–07. However, in 2008 the ability to combine earnings from employment work with pension income was limited to the annual equivalent of the minimum wage.

In **Malta**, pension reform in 2007 was aimed at raising the age of retirement and increasing low incomes in old age. Contribution credits of two years per child (four years in the case of a child with disabilities) were also introduced.

In **Austria**, a policy of the progressive uprating of pensions resulted in low pensions being raised by around the rate of inflation, while higher pensions declined slightly in real terms. Pensioners on lower incomes also benefited from more substantial
increases in the minimum pension top-up. As rates of income support in Vienna are tied to the minimum pension top-up, social assistance recipients in the capital aged over 60 (in the case of women) or 65 (in the case of men) also benefited.

In **Poland**, indexation was introduced for pensions, the current formula being the rate of price inflation plus 20% of the increase in real earnings.

In **Portugal**, the 2006 tripartite agreement on social security reform introduced a 'sustainability factor', under which pension rules were adjusted in line with changes in life expectancy. The pension formula was also modified to take account of the full contribution record of workers, and pensions for low earners were increased. A means-tested solidarity supplement to pensions (*Complemento solidário para idosos* or *CSI*) was also introduced in 2006 with the aim of providing a basic safety net for the elderly. The scheme initially covered those aged 80 and over, but was extended to the 70–79 age group in 2007, and to everyone aged 65 and over in 2008. At present, the annual income threshold is set at EUR 4,800 for those living alone (EUR 8,400 for couples), and the supplement is expected to reduce the risk of poverty among older people significantly.

In **Romania**, pensions were increased both in real terms (by 9% over the period 2005–07) and relative to average earnings (to 36% in 2007). Nevertheless, the failure to uprate minimum pensions and the fact that many people retire with incomplete contribution records have moderated the effect of increases in pensions on the risk of poverty among those aged 65 and over.

In **Slovenia**, pensions were indexed in line with net wages in 2006, while minimum pensions were also adjusted and a one-off increase was paid to those on low pensions in 2008, to compensate for price inflation.

In **Finland**, a major pension reform was introduced in 2005 to improve the long-term viability of earnings-related pensions by lengthening average working lives by 2–3 years. The reform increased the pension rate for workers aged 63–67, abolished the cap on maximum pensions for those with a long employment record, and calculated pensionable earnings over the full working career (rather than over the last 10 years, as previously). In addition, in an attempt to ease pressure on social contributions, the government and its social partners agreed to relax restrictions on the investment of pension fund reserves in 2006.

In **Sweden**, only minor changes have been made to the pension system since the reforms, based on the ‘notional defined contributions’ principle, were fully implemented in 2003. The earnings-related component increased because of wage indexation, while increases in housing benefits raised the income of those on low pensions.

In the **United Kingdom**, pensions and other benefits for older people tend to be linked to price or wage inflation. There was, however, a gradual increase over the period 2004–08 in means-tested pension credit and the associated means-tested benefits for pensioners, as well as a one-off increase in the universal winter fuel payment to the elderly in 2008.

In **Croatia**, the position of those retiring after January 1999, which had been adversely affected by earlier changes, improved substantially under the terms of the 2007 agreement between the government and the Pensioners’ Party (*HSU*). In addition, in 2005, the local authority in Zagreb introduced a substantial pension
supplement, inversely related to the level of the pension. This amounts, for example, to HRK 400 (EUR 56) a month for those on a pension of below HRK 900 (EUR 127) a month.

In Turkey, the Social Security and Universal Health Insurance Law, enacted in October 2008, was aimed at unifying existing pension schemes.