

SUPPLEMENTARY FINANCIAL SUPPORT BY LOCAL WELFARE AGENCIES AND INACTIVITY TRAPS

NATASCHA VAN MECHELEN

KRISTEL BOGAERTS

DIETER VANDELANNOOTE

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**FLEMOSI DP 19: SUPPLEMENTARY FINANCIAL SUPPORT BY LOCAL WELFARE
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For more information on the project, see www.flemosi.be.

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NATASCHA VAN MECHELEN (*)
KRISTEL BOGAERTS (*)
DIETER VANDELANNOOTE (*)

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Abstract:

Cross-national comparative studies have shown that the gap between social assistance benefits and full time minimum wages is relatively large in Belgium. In the neighbouring countries social assistance appears to be much closer to the minimum wage. However, most comparative studies are in a sense flawed because they only take account of the statutory amounts of social assistance benefits, not of the additional cash benefits that social assistance claimants often receive. In this paper we investigate the impact of supplementary cash benefits on both the size of inactivity traps and the adequacy of social assistance benefit packages in Belgium. We draw on model family simulations and take into account cash supplementary benefits using two tools that have been deliberately designed to support social workers and local welfare offices when deciding on supplementary welfare allowances: one model developed and promoted by the association of Flemish cities and municipalities (VVSG) and a second model (called REMI) produced by the “Thomas More Kempen” (TMK) and based on the reference budgets developed at the TMK.

* Centrum voor Sociaal Beleid Herman Deleeck, Universiteit Antwerpen

1. INTRODUCTION

The European focus on active labour market policies has been increasingly incorporated into the policy narrative of minimum income guarantees. Since the Lisbon European Council of March 2000 EU Member States are increasingly encouraged to pursue policies aimed at the labour market integration of both unemployed and inactive persons, even of the most vulnerable groups (see, for example, Commissie 2008). The 2002 welfare reform that introduced the Right to Social Integration (RMI) in Belgium was entirely in line with the European activation agenda. The RMI increased employment requirements and expanded the toolbox that local welfare offices have at their disposal for guiding benefit claimants towards economic self-reliance (Bogaerts et al, 2010; Van Mechelen & De Wilde, 2012). Especially the labour market integration of youngsters became an important focus of attention.

The activation logic is sometimes at odds with the income protection objective of social protection (Vandenbroucke & Vleminckx, 2011; Cantillon, 2011). Benefit amounts must on the one hand be sufficiently high in order to provide effective protection against financial poverty. On the other hand, according to classic textbook arguments the gap between benefit levels and (low) wages has to be substantial enough to stimulate transitions from non-work to work. Otherwise, social benefits risk to create inactivity traps. Belgium seems to have followed a twofold strategy regarding inactivity traps during the past decade. On the benefit side, the amount of social assistance has been frequently increased over and above the price evolution. Between 2000 and 2011, social assistance benefit levels have risen by no less than 12 per cent in real terms (Goedemé et al, 2011). On the earning side, net incomes of low wage earners have been substantially improved thanks to reductions in taxes and social contributions. This dual strategy has served to keep the hierarchy between incomes from social transfers and low wages intact.

Cross-national comparative studies have shown that the gap between social assistance benefits and full time minimum wages is relatively large in Belgium. In the neighbouring countries social assistance appears to be much closer to the minimum wage (Cantillon et al, 2004; Van Mechelen et al, 2007). According to model family simulations, the marginal return of employment in Belgium is limited for specific family types such as lone parent families and for social assistance recipients who take up a part time job (Bogaerts et al, 2010; Defeyt, 2012). Nevertheless, taking up a full-time minimum wage job causes the net income of many Belgian model families to increase by more than 500 euro's per month (Bogaerts et al, 2010).

The comparative studies mentioned above are in a sense flawed because they only take account of the statutory amounts of social assistance benefits, not of the additional cash benefits that social assistance claimants often receive. Indeed, social assistance recipients are in principle entitled to reduced fares on health care, public transport, etc. Further, local welfare offices often provide supplementary benefits, in the form of housing or heating allowances or additional social assistance (Van Mechelen & Bogaerts, 2008). In Belgium the provision of supplementary benefits is not regulated by law, but subject to the discretion of local welfare offices and social workers. As a consequence there is considerable variation in

the level of social assistance benefit packages – and thus the size of the inactivity trap – across municipalities, and even – within municipalities – between social workers.

This paper aims to improve the measurement of social assistance benefit levels and inactivity traps in Belgium. The size of the activity trap is a key variable in much of recent activation literature, both in descriptive studies that aim to classify countries according to activation regimes (e.g. Weishaupt, 2011; Eichhorst and Konle-Seidl, 2008) and in more analytical studies that investigate the impact of the financial incentive to work on caseloads or dependency duration (e.g. Pellizzari, 2006; Bäckman & Bergmark, 2011). We will document the impact of supplementary cash benefits that are provided by local welfare offices on the size of inactivity traps and the adequacy of social assistance benefit packages in Belgium. We will draw on two separate models that have been designed to support (mainly Flemish) social workers and local welfare offices when deciding on supplementary welfare allowances. The first model has been developed and promoted by the association of Flemish cities and municipalities (VVSG) (for detailed info about this model, see Cortebeek & Jacobs, 2010). The second model (called REMI) is produced by the “Thomas More Kempen” (TMK) and based on the reference budgets developed at the TMK. Reference budgets are intended to indicate the minimum level of income that is needed to participate fully in the Belgian society. Both models are included in MOTYFF, i.e. the standard simulation model that has been constructed within the FLEMOsi project¹. MOTYFF allows estimating the net income of hypothetical or model families, including the amount of supplementary welfare allowances. Assumptions with regard to rental costs, utilities and house maintenance costs will be drawn on empirical data from the Belgian Survey on Income and Living Conditions (SILC), if possible. The inactivity trap is measured by comparing net incomes of families on social assistance (including supplementary benefits) and those of similar one earner families on minimum wage.

This paper is structured as follows. In a first section we will discuss the legal framework within which local welfare offices provide supplementary cash benefits. We will then explain the instruments that are used to simulate the size of supplementary transfers. The third section presents the main assumptions and the methodological issues associated with the quantification of benefit levels. The main results are presented in section 4. We expect supplementary support to impact positively on the adequacy of social assistance and negatively on the marginal return of employment. A final section briefly discusses the results and draws conclusions.

2. SUPPLEMENTARY CASH BENEFITS PAID BY OCMWS: LEGAL FRAMEWORK AND IMPLEMENTATION

Belgian local welfare offices (OCMW's²) are involved in a broad range of duties, varying from the provision of social assistance benefits to job counselling, subsidized employment,

¹ In 2013, a downsized version of the Motyff model will become publicly available at www.flemosi.be.

² OCMW is the Flemish abbreviation for local welfare office. CPAS is the French equivalent.

debt counselling and setting up and organizing refugee centres, shelters for the homeless, homes for the elderly, as well as hospitals (Luyten, 2011). All these responsibilities rise from the core duty to enable every citizen to lead a live that meets the standards of human dignity (law on the OCMW's of 8 July 1976). The provision of social assistance is regulated by the law on the right on social integration (RMI) of 26 May 2002. The RMI guarantees social integration either through work or through a cash transfer (the so-called 'living wage') to all persons who are below a certain income threshold and comply with a number of conditions regarding age, nationality etc. The OCMW's task is to investigate who is entitled to RMI and to decide how it will be implemented (who is ready for work, what kind of job, which labour market integration measure, etc.).

Social assistance payments provided within the RMI are inadequate to provide sufficient protection against income poverty. In 2009 the gap between the net social assistance of a model family consisting of two adults and two children on the one hand and the poverty line on the other (as measured by 60% of median equivalent income) amounted to no less than € 800 each month (Goedemé et al, 2012). Low social assistance levels are marginally compensated by reduced charges and fares for, for example, medical care or public transport. Social assistance claimants are furthermore entitled to additional benefits, for example, allowances from the social heating fund (stookoliefonds). There is no housing benefit scheme to speak of, neither at the federal government level, nor at the Flemish level.

In addition, OCMW's often provide supplementary support to social assistance claimants (as well as to recipients of other social benefits), either through additional cash benefits or through benefits in kind. Supplementary support is intended to adjust the amount of support to both the individual needs of the client and the local (budgetary) conditions and possibilities. Supplementary support is not regulated by law. OCMW's enjoy considerable discretion in the award of supplementary benefits. OCMW are free to set their own policies so that there remains room for adapting the amount and the nature of the support to individual circumstances (Funck, 1996). This is often even true for social workers. However, most OCMW's have developed own standards on who is eligible, for what kind of support, how to determine the level of support, etc. During the past decades, OCMW's in Flanders have increasingly established their own guidelines concerning the provision of supplementary support. The share of OCMW's with written standards has increased from 36 per cent in 1989 to 63 per cent in 2006 (Van Mechelen & Bogaerts, 2008). Written standards often concern the reimbursement of costs related to rent, heating and/or energy consumption, or allowances for health care costs or school costs.

There is substantial variation between OCMW's in the level of supplementary support as well as in the conditions under which these benefits are paid. In some OCMW's supplementary support is aimed at needy families which prospects on the labour market are very limited, for example the elderly. In others, supplementary benefits are used as a financial reward for benefit claimants that are actively looking for a job (Van Mechelen & Bogaerts, 2008). Further, there is in Flanders a sizeable group of OCMW's where supplementary support is only very rarely offered, meaning that a substantial number of social assistance claimants have to get by on an amount that is not or only scarcely higher than the statutory social assistance scales (Van Mechelen & Bogaerts, 2008). However, in general, OCMW's in

Flanders appear to spend more on supplementary benefits than their counterparts in Brussels or Wallonia (Carpentier, 2011). Variation is substantial not only across municipalities and regions, but the supplementary support offered also varies within municipalities according to the social worker that a client has to deal with (Storms et al, 2013).

The desirability of the great diversity in assistance practices in Belgium has come to the fore of many discussions in the literature (see, for example, Steenssens et al 2007; Cortebeek, 2007; Luyten, 1999; Vranken, 2005). The next section discusses two tools that have been developed in order to respond to the lack of uniformity in the provision of supplementary support. Both tools define rules establishing standards for the provision of supplementary support. Although they leave substantial scope for the autonomy of OCMW's and social workers to adjust to individual requests or needs, their aim is to remove any sense of arbitrariness. They are an aid to ensure that claimants in similar situations receive similar support, regardless of town of residence, social worker or individual characteristics other than individual needs.

3. TWO TOOLS FOR HARMONISATION

Social welfare agencies have often indicated that they would welcome standards to justify decisions concerning the provision of additional support. To meet these needs, two independent instruments have been developed, one by the “Association of Flemish Cities and Municipalities” (the so called VVSG model) and one by the “Thomas More Kempen” (the so called REMI model³). Both models aim to provide user-friendly tools to support social workers in determining the level of additional support granted. They are not intended to be simple calculators, determining a fixed amount of additional support. They rather aim to provide a handhold that leaves room for tailoring assistance to individual social needs.

3.1 VVSG model

The first model is developed by the “Association of Flemish Cities and Municipalities” (for detailed information about this model, see Cortebeek & Jacobs, 2010). Within this model, additional support is explicitly seen as part of a trajectory towards work. This model leaves social welfare agencies free to set additional eligibility criteria for supplementary support (e.g. registration at a social housing company or additional job search requirements). It is also important to point out that this model does not intend to calculate any type of additional support. The instrument is particularly suitable for the calculation of additional support for monthly recurring costs. The model distinguishes between four spending categories: a) housing costs, b) health care and other care costs, c) schooling and training costs, d) costs for participation in social, cultural or sporting activities. Costs that do not fit in one of the above categories, but also investments, help in kind, or cash support for specific events (e.g. a funeral) cannot be calculated with this instrument.

The calculation of supplementary cash benefits using the VVSG model involves three steps:

³ REMI = Referentiebudgetten voor een Menswaardig Inkomen.

1. *Determining the disposable income*

The disposable income that is taken into account to determine the level of supplementary support comprises all monthly net income components of the household, minus deductible costs and a number of exemptions. Deductible costs include repayments for debts (max. 50% of the total amount) and paid alimony. Exempted are the amount of socio-professional integration (SPI) received and certain training and employment premiums⁴. The disposable income is standardized for household composition using rather uncommon equivalence scales: 0,3 for a child between 0-5 years old; 0,37 for a child between 6-11 years old; 0,43 for a child between 12-13 years old; 1 for the first adult; 0,5 for every other adult (14 years or older)⁵.

2. *Establishing eligibility for supplementary support*

Households whose standardized disposable income is below a given threshold are entitled to supplementary support. Eligibility to supplementary support therefore depends largely on household income and household composition, not on eligibility to social assistance. OCMW's are free to set their own thresholds, although the VVSG recommends two alternatives: a) the height of the living wage (+ a percentage, if that is what the OCMW prefers) or b) the European poverty line based on the EU-SILC. In this paper, we use the latter, with the poverty line based on the EU-SILC 2010⁶.

3. *Calculating the level of supplementary support*

The amount of supplementary support is calculated as follows:

$$\text{actual monthly expenditure} * \left[1 - \frac{\text{standardized disposable income}}{\text{poverty threshold}} \right]$$

In other words, the level of supplementary support equals a certain percentage of the total effective monthly costs made in one of the four cost categories listed above. The percentage depends on the gap between household income and the poverty threshold selected. The model only takes account of net costs, i.e. after all other social rights have been exhausted (e.g. maximum bill). Moreover, there is an upper limit to the amount of supplementary support. The sum of the disposable income and the amount of additional support received cannot exceed the standardized poverty line.

⁴ For more detailed information see Cortebeek et al, 2010, pg 56-77.

⁵ Households are defined very narrowly: only the client, the cohabitant partner and dependent children are included. The equivalent scale for the first adult in a single adult household equals 1,13 rather than 1. Handicapped get 2 times their factor. Children in joint custody count for the time the child is effectively present in the household.

⁶ The poverty line based on the EU-SILC 2010 of a single adult amounts to 973 euro. For the purpose of this paper this poverty line has been indexed to January 2011, based on the consumption price index (1035 euro).

3.2 *REMI model*

The second model - called REMI - is developed by the “Thomas More Kempen (TMK)”. This model takes the Flemish reference budgets that have been developed by Storms et al (2009) as its starting point. The Flemish reference budgets refer to the minimum amount needed to be able to live a life worthy of a human being and are to a large extent based on “A Theory of Human Need” by Doyal and Gough (1991). The REMI-model encourages social welfare agencies to look at individual income situations and spending patterns and compares them with the reference budgets, in close contact with the client. Based on this information, the efforts that need to be made by the client as well as the social welfare agency can be determined. Examples of efforts that clients can make are energy savings or participating to a course on financial management. Offering clients a house in the social sector or granting reductions in municipal activities are, besides the provision of additional income support, examples of efforts that social welfare agencies can make. These reference budgets provide the social welfare agencies with a scientifically based tool to determine the level of additional support, while taking into account specific living conditions of clients. The REMI-model is recently tested out in a number of local welfare agencies (Cornelis et al. 2012).

REMI distinguishes between three cost categories: a) fixed costs, b) living allowances, and c) future provisions. Each category contains a number of subcategories⁷. For each subcategory REMI determines the reference budget. The amount of the reference budgets varies according to household composition, the ages of the children and the employment status. The REMI-model requires the social worker to determine a target amount on each cost subcategory taking into account the clients current spending pattern as well as the reference budgets. This has to be done in consultation with the client. The amount of additional support paid finally equals the sum of the target amounts minus the monthly disposable household income.

To summarize the REMI model:

1. Per cost category: target is set based on the corresponding minimum budgets and the actual expenditures of the client.
2. Amount of additional support = sum of target amounts – monthly disposable household income.

4. **METHODOLOGICAL APPROACH: MODEL FAMILY SIMULATIONS**

This paper looks at a) the impact of supplementary support granted on the adequacy of social assistance benefit packages and b) the financial incentives for social assistance claimants to enter the labour market. It draws on the model family approach. This means that we calculate the disposable household income and the level of additional support granted for a number of

⁷ Fixed costs include among other things rental costs, insurance premiums and alimonies. Living allowances comprise the cost of food, clothes, necessary reparations, etc. Future provisions relate to the cost of a bike, a washing machine, a computer, etc.

hypothetical families (using both the VVSG and the REMI model). We make use of MOTYFF, a model family model developed in the framework of the Flemosi project.

This paper focuses on four model families:

- A single-person household (female)
- A single-parent household (female) with two children (2 and 8 years old)
- A couple
- A couple with two children (2 and 8 years old)

We assume all persons being healthy and able-bodied. Further we assume no co-parenting.

Both tools for providing supplementary support mentioned above, require data on household spending. Our simulations based on the VVSG model only include housing and heating costs. Health care costs, schooling and training costs and costs for participation in social, cultural or sporting activities are assumed to be zero. There are three good reasons for focusing on housing and heating costs. First of all, housing and heating allowances are among the most common types of supplementary support provided by OCMW's (Van Mechelen & Bogaerts, 2008). Secondly, housing and heating costs tend to be important spending items carrying a large weight in the total household budget. Housing and heating allowances can therefore significantly increase the household budget. Thirdly, there are empirical data available in order to estimate average or median housing and heating cost of Belgian households. We use data from the Belgian Survey of Income and Living Conditions (SILC) of 2009. Housing costs are broadly defined, including the monthly costs for water, fuel, maintenance of common places, fire insurance, garbage, daily maintenance and rent⁸. Given that this paper focuses on social assistance recipients, we only include the costs of households with adults between 18 and 65 years old, having no income from employment, capital or rent. We distinguish between model family types with an expensive spending pattern (3rd tertile of the cost distribution), a medium spending pattern (2nd tertile) and a low-cost spending pattern (1st tertile). Model families with large expenditures may reflect the situation of households that have entered social assistance only recently and have not yet adjusted their consumption pattern. An overview of the cost estimates included in the model family simulations can be found in table 3 in the appendix.

As the REMI model is based on reference budgets, this model allows taking account of a much broader range of household expenditures. Our estimates based on the REMI model assume items of household expenditure that are not available in SILC to be equal to the reference budget (e.g. transportation). By doing so, we are able to gauge the impact not only of rent and heating allowances, but also of reduced fares and charges for public transport, electricity, etc. After all, the reference budgets aim to reflect effective costs (based on expert

⁸ The simulations in this paper relate to the situation of January 2011. The costs used in the Belgian SILC refer to 2008. Using the specific indexes of the different categories, the costs have been indexed to January 2011. More information on the different cost categories can be found in table 3 in the appendix.

knowledge and experientially grounded knowledge from focus groups) and thus take the reduced tariffs for social assistance claimants into account. The model family results based on the VVSG-model and the REMI-model are thus not comparable as the latter cover much more cost categories.

In order to be able to assess the net financial gain of a transition from social assistance dependency to a low-paid job (and the impact hereby of the additional support granted), we look at the level of total disposable household income for a number of income situations (each income situation is simulated for each of the four family types listed above)⁹:

- a family receiving social assistance, with and without supplementary support
- a one earner family, one adult working part time (50%) at minimum wage, with and without supplementary support
- a one earner family, one adult working part time (50%) at twice the minimum wage, with and without supplementary support
- a one earner family, one adult working full time at minimum wage, with and without supplementary support
- a one earner family, one adult working full time at twice the minimum wage, with and without supplementary support.

Total disposable household income includes social assistance (including the exemption SPI), gross earnings, taxes, social security contributions, special social security contributions, child cash benefits and child care costs. Simulations reflect the situation on January 1st 2011.

In Belgium the minimum wage (the so-called guaranteed average monthly income (GAMMI)) is not a statutory minimum wage, but a de facto minimum wage for employees older than 21 years who work full-time, as agreed between the social partners by collective labour agreement (CAO 43). It is the minimum wage both for social assistance recipients that find a job in the regular labour market and those employed in activation programmes such as article 60§7 of the law on local welfare offices, ACTIVA, SINE or a transition program. In 2011 the gross GAMMI was equal to 1415,24 euro per month for a 21 year old one without seniority.

The non-working adult in one earner couples is assumed to be inactive and to have no income of his/her own. Moreover, one earner families are assumed to have no child care costs (the non-working partner is supposed to take care of the children). Paid child care is only included in the net disposable income of the single parent who is working. We assume that the youngest child (two years old) goes to formal subsidized childcare in Flanders, either part time (if the parent is working part time) or full time (if the parent is working full time). The eldest child (eight years old) goes to primary school. For this child, we don't include child care cost. Furthermore, we assume that the family has no savings or debts and that no alimony has to be paid or is received.

⁹ More information about the methodology of model family simulations can be found at Bogaerts, 2008.

Clearly, these cases are to be taken as stylized examples. Model families intend to be illustrative, not representative (Eardley et al, 1996). For example, the share of workers that actually work at the minimum wage is relatively small in Belgium. Even social assistance recipients that enter the labour market often earn more than the minimum wage (Bogaerts et al, 2012). One could therefore argue that the simulations based on minimum wages underestimate the gap between social assistance benefit levels and low wages to some extent (and hence exaggerate the inactivity trap). On the other hand, the simulations shown here do not take into account the cost related to work (e.g. transportation).

5. IMPACT ON ADEQUACY AND WORK INCENTIVES OF SOCIAL ASSISTANCE BENEFITS

Two central issues arise when evaluating the impact of supplementary cash benefit models. The first issue concerns the adequacy of social assistance. To what extent do supplementary benefits help to close the gap between social assistance benefit packages and the at-risk-of-poverty threshold? The second issue concerns the work incentives of persons and families on social assistance. This paper aims to assess the extent to which the financial reward of exchanging social assistance benefits for income from work is affected by the level of supplementary cash benefits. The results draw on model family simulations and are based on the models for providing additional support mentioned above. The following section takes the VVSG model as its starting point, the subsequent section draws on the REMI model.

5.1 *Supplementary cash benefits based on the VVSG model*

Figures 1 to 4 compare social assistance benefit packages including supplementary benefits with the poverty line¹⁰ and potential earnings from work. Table 1 further summarises the effect on the financial reward from work. The data presented in figures 1 to 4 take into account the cost of housing, daily maintenance and energy based on survey data as explained in section 3. All other costs are excluded.

- Adequacy

Basic social assistance scales (the so-called living wage) are not sufficient to protect minimum income recipients against income poverty. As shown in Figure 2, the sum of the living wage and child cash benefits of the lone parent lies 20 per cent below the at-risk-of-poverty threshold (60 per cent of median equivalent income). For couples the gap between social transfers and the poverty line may amount to even 40 percent. But also workers are not always sufficiently protected. The net income of one earner couples working part time is below the poverty line, even if earnings amount to two times the minimum wage. Even worse, the net income of a couple with children having one full time job at minimum wage level is not enough to lift them out of poverty, as shown in Figure 4.

¹⁰ The at-risk-of-poverty threshold is defined as 60% of the median equivalent net disposable household income. The threshold is based on the EU-SILC (demographic situation 2010, income 2009 and indexed to 2011 using the consumption price index).

The question then arises whether supplementary benefits succeed in bringing social assistance benefit packages near the poverty line. In this section the level of supplementary benefit is calculated using the VVSG-model and three different estimates of heating and housing costs (1st tertile, median and 3rd tertile: see section 3). We find that supplementary support is usually not sufficient to protect families that are entirely dependent on **social assistance** adequately against poverty. Looking at families with median housing and median heating costs, supplementary benefits appear to increase the benefit package to less than 10 per cent below the poverty line for single-person households and single parents. However, for the two-adult families simulated here the gap remains 20 per cent or more. Supplementary benefits seem to be effective in overcoming this gap only for single-person households or lone parents with a relatively expensive spending pattern. However, this does not necessarily mean that families with a higher cost level are better off than families with modest costs as we assess income packages before deducting housing costs and other household expenditures and supplementary cash benefits do not cover the total amount of these costs. Therefore, reducing costs remains an important target for social assistance claimants to make ends meet and to improve their financial situation.

In general, we can conclude that supplementary cash benefits are certainly an important tool to top up the net incomes of social assistance claimants though they are mostly not sufficient to lift them above the poverty line. The same conclusion holds true for families with **low earnings**. There is however one important exception. Supplementary benefits can help to achieve adequate minimum income packages for single persons with part-time jobs. The main reason why supplementary benefits are more effective for this model family is that basic social assistance scales (i.e. before supplementary cash benefits) are less inadequate than for other family types. Moreover, this model family benefits from a number of measures targeted at social assistance recipients that find part-time employment. Firstly, part-time work after social assistance is made financially more attractive in Belgium by means of an exemption in the means-test, the so-called exemption for Socio-Professional Integration (exemption SPI). The exemption SPI implies that part of the earnings are exempted for the means-test when social assistance claimants enter the labour market (see Carpentier et al. (2011) and Bogaerts et al. (2012) for more details). The exemption-SPI is included in figure 1. Secondly, according to the VVSG model social assistance claimants that find a part-time job continue to receive supplementary benefits. The amount of supplementary financial support is hardly affected by the transition to work in the case of a low paid part time job. Higher net disposable incomes at part time employment are not compensated by lower supplementary cash benefits as remaining social assistance amounts (due to the exemption-SPI) are not taken into account for the supplementary cash benefit calculations.

The childless couple on social assistance is an extraordinary case: the amount of supplementary support rises as one partner finds a part-time job at minimum wage. The reason is that the net income taken into account to calculate the supplementary cash benefit is lower than in the social assistance case due to, amongst other reasons, the exemption of the SPI amount received in the calculation of the disposable income (cf. supra). As a result, the accompanying supplementary cash benefit is in the part time work case higher than in the social assistance case. Therefore, couples without children have a larger financial incentive to

get partially activated when the OCMW provides supplementary cash benefits according to the VVSG model.

When earnings reach the level where families lose their entitlement on social assistance (e.g. a one earner family **working part time at two times the minimum wage** or **working full time at minimum wage**), supplementary benefits do reduce the financial incentive to work. For example, the financial reward for the simulated single parent to find a part-time job at twice the minimum wage is 237 euro per month when no supplementary support is provided and 146 euro when supplementary support is available, as shown in Table 1. The difference between 237 and 146 euro equals the reduction in supplementary support caused by entering the labour market. The reduction of the marginal return to work due to supplementary benefits is even more serious for the other model families and income situations simulated in Table 1. For example, the financial reward for a couple without children to find a full time job earning a minimum wage is 490 euro per month when no compensatory benefits for housing and heating costs are taken into account and 171 euro when we use the VVSG-model to estimate compensatory benefits. Remark however that for most family types the financial rewards of work remains large, ranging from 119 euro to 284 euro per month.

Supplementary benefits affect not only the financial incentive to enter the labour market but also – when entered – to move from part-time to full-time jobs or from low paid to better paid jobs. Social assistance recipients that take up part time employment can benefit from the exemption SPI and continue to receive supplementary benefits. However, once they move on to a full time job these benefits will be lost. The net income of the simulated lone parent earning a minimum wage is even higher when working part time as compared to working full time. The exemption SPI and supplementary support therefore discourage social assistance recipients to become entirely economic self-reliant.

Figure 1 : Net disposable income of single person household in 4 income situations, including supplementary cash benefits according to the VVSG model, Flanders, 2011.

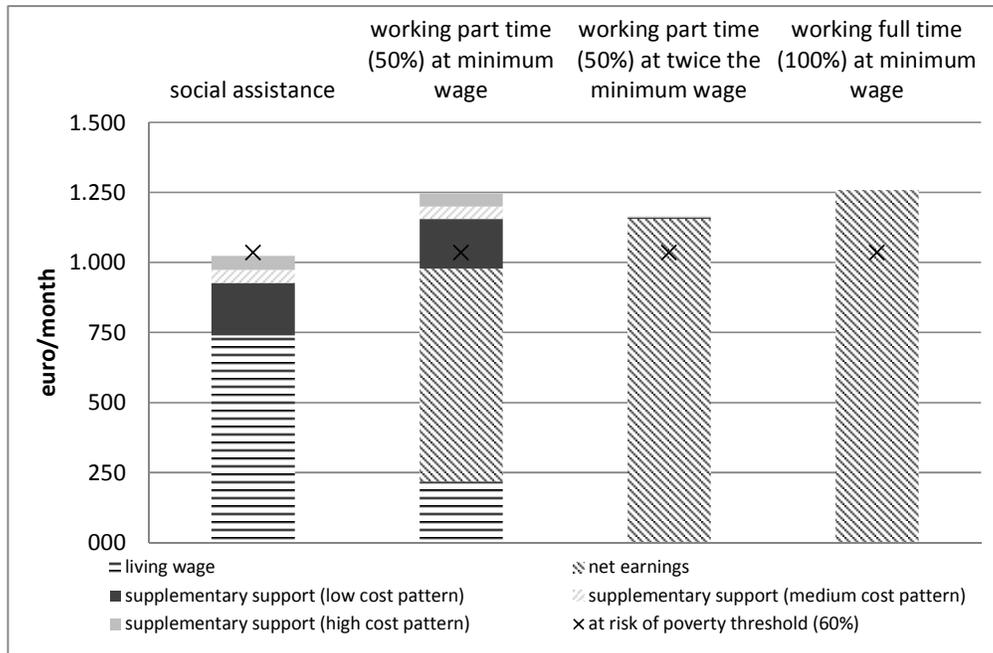
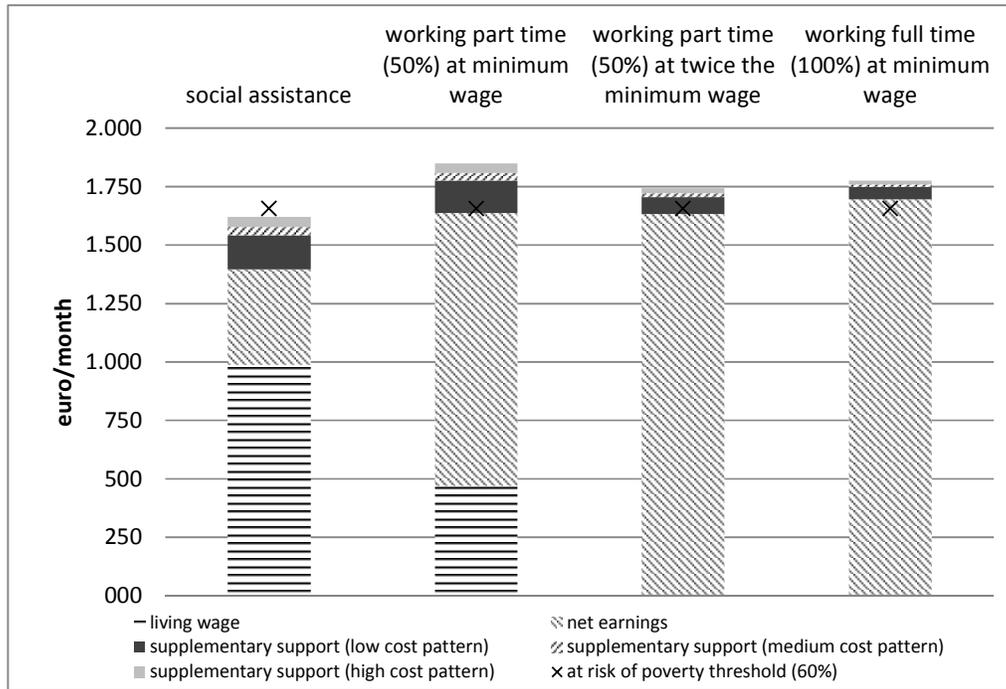


Figure 2 : Net disposable income of a single person with 2 children (2.5 and 8 years old) in 4 income situations, including supplementary cash benefits according to the VVSG model, Flanders, 2011.



Source: MOTYFF, own calculations

Figure 3 : Net disposable income of a couple without children in 4 income situations, including supplementary cash benefits according to the VVSG model, Flanders, 2011.

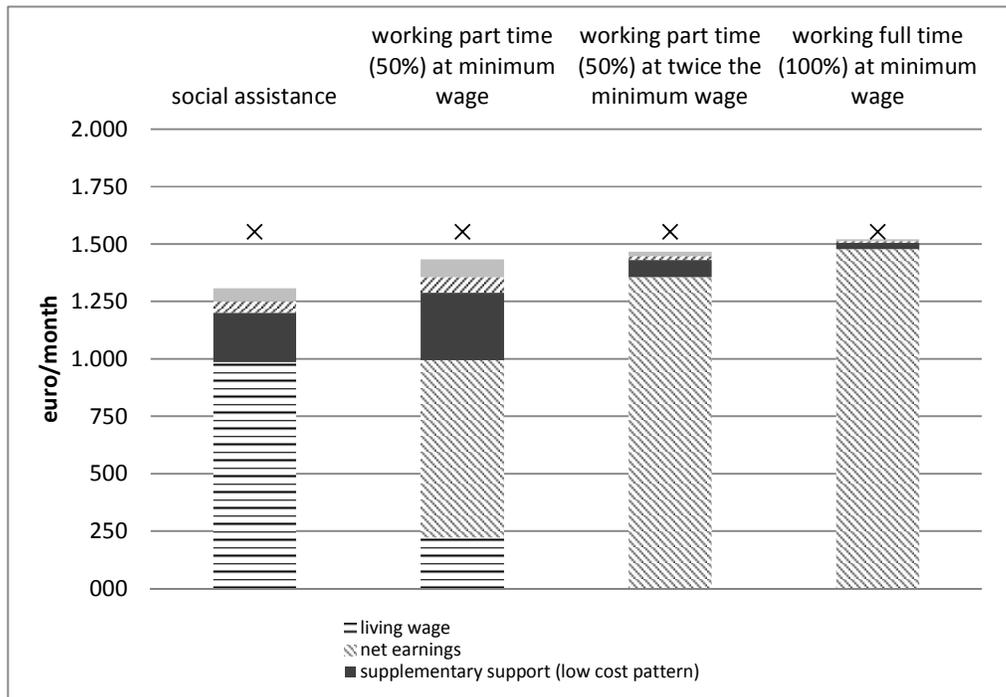
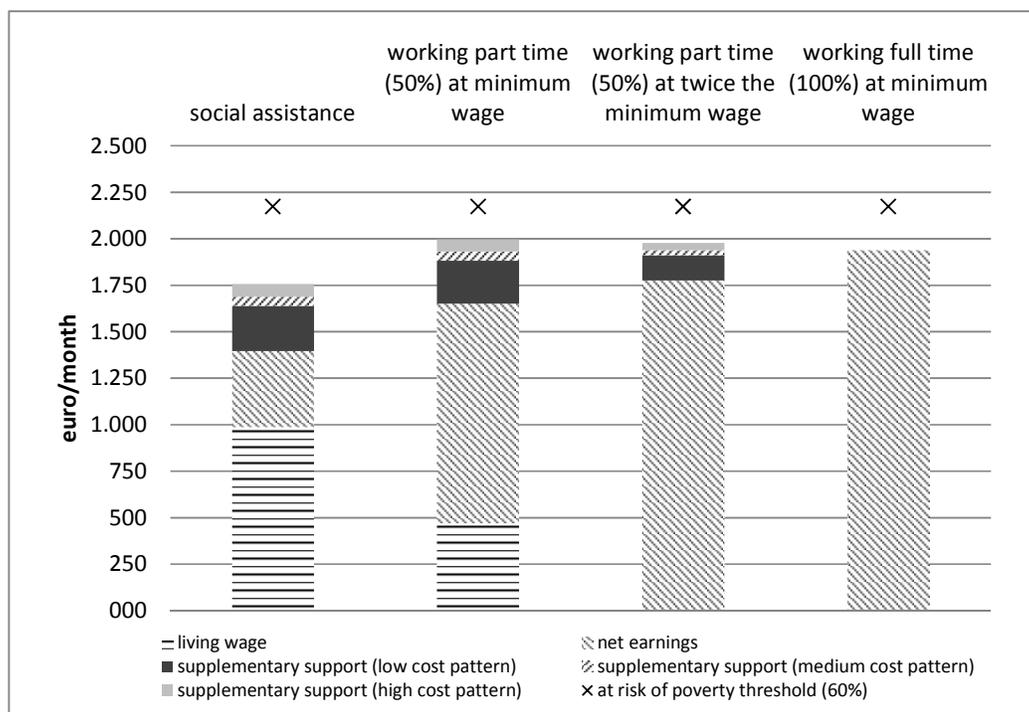


Figure 4 : Net disposable income of a couple with 2 children (2.5 and 8 years old) in 4 income situations, including supplementary cash benefits according to the VVSG model, Flanders, 2011.



Source: MOTYFF, own calculations

Table 1 : Financial rewards from work after social assistance, taking into account supplementary cash benefits (VVSG model) based on a median cost pattern, in € per month, Flanders, 2011.

	Initial financial reward	New financial reward after suppl. benefits	Reward reduction after suppl. benefits
Social ass. --> working part time at minimum wage			
Single	237,51	226,00	-11,51
Single with children	240,90	231,56	-9,34
Couple	7,93	125,91	117,98
Couple with children	254,75	250,04	-4,71
Social ass. --> working part time at twice the minimum wage			
Single	415,19	188,95	-226,24
Single with children	237,40	145,67	-91,73
Couple	369,16	160,41	-208,75
Couple with children	381,44	250,04	-131,40

Social ass. --> working full time at minimum wage			
Single	518,33	284,45	-233,88
Single with children	299,90	119,42	-180,48
Couple	490,26	170,56	-319,70
Couple with children	542,70	249,90	-292,80
Working half time at minimum wage --> working full time at minimum wage			
Single	280,82	58,45	-222,37
Single with children	59,00	-112,14	-171,14
Couple	482,33	44,65	-437,68
Couple with children	287,95	8,26	-279,69

Source : Motyff, own calculations

5.2 Supplementary cash benefits based on REMI

This section repeats more or less the same exercise as in the previous section, however it draws on a different model for providing supplementary benefits (the so-called REMI-model). Moreover it includes a broader range of expenditures. Whereas the results above are based mainly on supplementary benefits for housing and heating costs only, in this section we include all cost categories for which REMI defines reference budgets (e.g. transportation). As already pointed out, reference budgets intend to reflect the minimum amount needed to be able to live a life worthy of a human being. Estimates of housing and heating costs are again based on Belgian SILC data of 2010. Items of household expenditure that are not available in SILC are assumed to be equal to the reference budget. The fact that the results presented here are based on a broader range of cost categories means that they are by no means comparable to the results shown above. The aim of this paper is not to compare both tools for providing supplementary support but rather to assess the potential impact of supplementary support on both the adequacy of social assistance and work incentives using a variety of models and assumptions.

Figures 5 to 8 present tax benefit calculations including supplementary cash benefits according to the REMI model. Table 2 summarises the effect of supplementary support on the financial reward from work.

- Adequacy

The level of supplementary support in this section is much higher as compared to the previous section, which is not surprising since more cost categories are taken into account. What is more important is that figures 5 to 8 show that in some instances supplementary cash benefits can turn social assistance benefit packages into adequate tools against income poverty. For example, a single person with median housing and heating costs and minimal spending on other cost categories included in REMI receives a supplementary cash benefit that brings total net income just above the poverty line. However, social assistance benefit packages of most model families remain below the poverty threshold, even after supplementary cash benefits according to the REMI guidelines are taken into account. The benefit package of a couple, for

example, only reaches the poverty threshold in the case of a very expensive spending pattern. But, as already pointed out, it is highly doubtful that families facing high costs are really better off when assessing disposable income after costs. Moreover, situations of very high supplementary cash benefits are per definition short term situations under the REMI-model, as the objective of this model is to provide social workers with a tool to assess actual spending against reference budgets with a view to combatting expensive spending patterns. Finally, and most importantly, it is easy to argue that in the case of the REMI model it is less relevant that benefit levels remain below the poverty line. The REMI model aims to increase social assistance benefit levels up to a level that allows a dignified existence, i.e. the reference budgets. The reference budgets may be below the European poverty line – 60% of median equivalent income – in some cases, for example when housing costs are relatively cheap (Storms et al, 2013). However, one cannot say that this means that benefit levels provide inadequate protection against poverty.

- *Work incentives*

It is obvious that the more generous estimates of supplementary benefits presented here have a larger effect on the size of inactivity traps. According to the estimates presented above, the financial reward of finding a part time job varies from 35 to 65 euro per month, depending on household composition and earnings level. The differences between family types are even larger when considering the transition from social assistance to a full time job earning a minimum wage. The marginal return to work amounts to almost 170 euro per month in the case of a single person household, whereas the net income of a couple with children even decreases when one of the parents takes up a job.

Figure 5 : Net disposable income of a single person household in 4 income situations, including supplementary cash benefits according to the REMI model, Flanders, 2011.

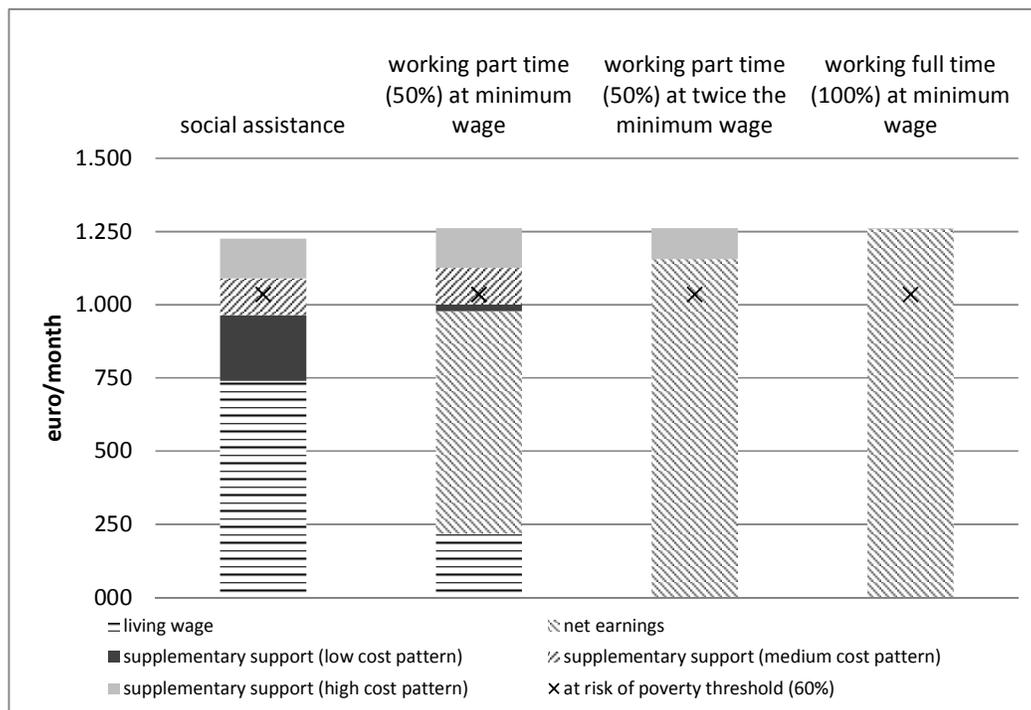
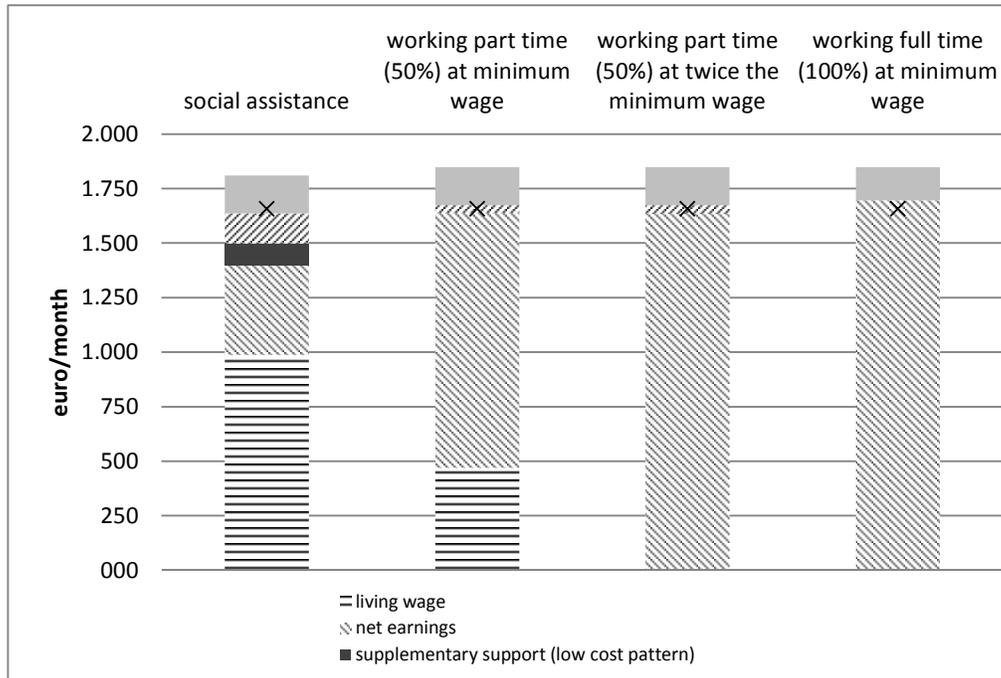


Figure 6 : Net disposable income of a single person with 2 children (2.5 and 8 years old) in 4 income situations, including supplementary cash benefits according to the REMI model, Flanders, 2011.



Source : Motyff, own calculations

Figure 7 : Net disposable income of a couple without children in 4 income situations, including supplementary cash benefits according to the REMI model, Flanders, 2011.

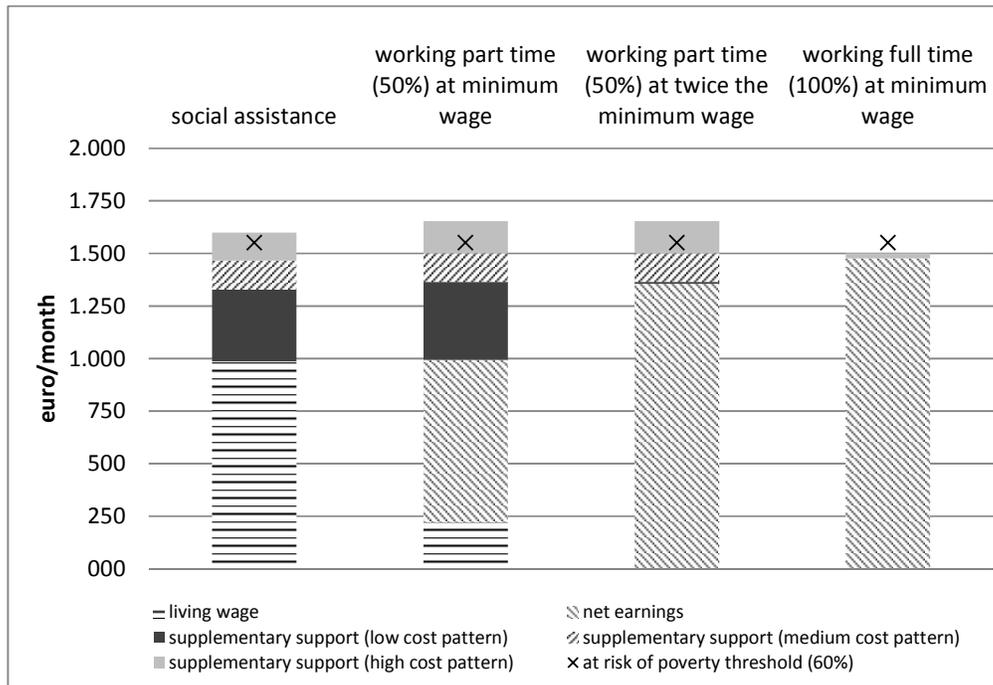
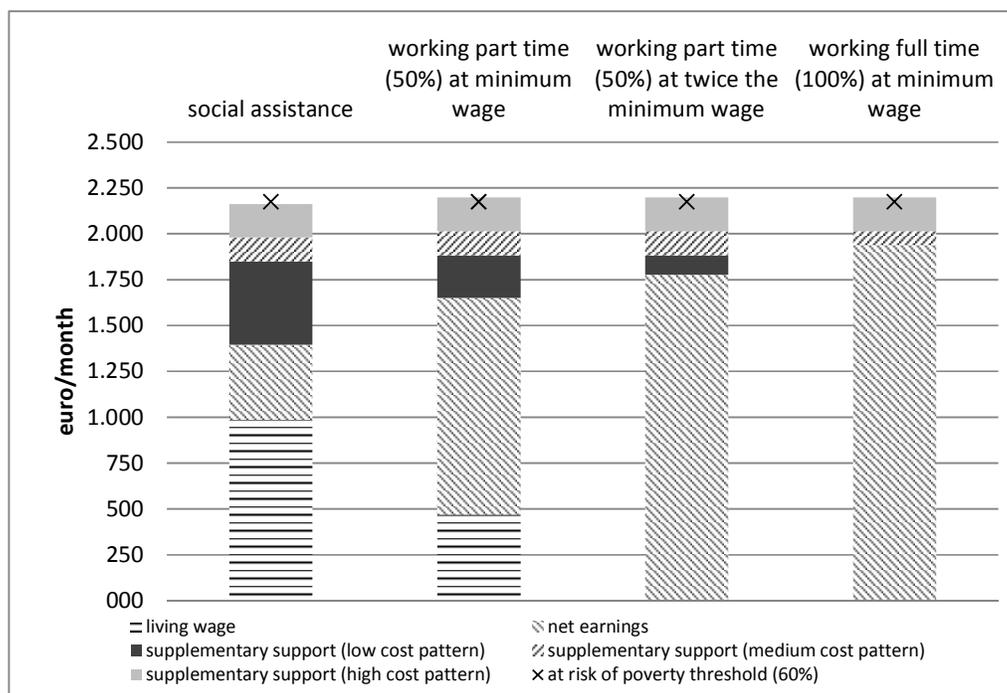


Figure 8 : Net disposable income of a couple with 2 children (2.5 and 8 years old) in 4 income situations, including supplementary cash benefits according to the REMI model, Flanders, 2011.



Source : Motyff, own calculations

Table 2 : Financial rewards from work after social assistance, taking into account supplementary cash benefits (REMI model) based on a median cost pattern, in € per month, Flanders, 2011.

	Initial financial reward	New financial reward after suppl. benefits	Reward reduction after suppl. benefits
Social ass. --> working part time at minimum wage			
Single	237,51	36,67	-200,84
Single with children	240,90	37,34	-203,56
Couple	7,93	35,13	27,20
Couple with children	254,75	35,43	-219,32
Social ass. --> working part time at twice the minimum wage			
Single	415,19	65,58	-349,61
Single with children	237,40	37,35	-200,05
Couple	369,16	35,13	-334,03
Couple with children	381,44	35,14	-346,30

Social ass. --> working full time at minimum wage

Single	518,33	168,72	-349,61
Single with children	299,90	59,29	-240,61
Couple	490,26	11,53	-478,73
Couple with children	542,70	-40,72	-583,42

Working half time at minimum wage --> working full time at minimum wage

Single	280,82	132,05	-148,77
Single with children	59,00	21,95	-37,05
Couple	482,33	-23,60	-505,93
Couple with children	287,95	-76,15	-364,10

Source : Motyff, own calculations

6. DISCUSSION AND CONCLUSIONS

1. Local welfare agencies in Belgium often provide supplementary welfare support to social assistance claimants in order to compensate at least partly for the inadequateness of statutory benefit levels. In this paper we have simulated the size of supplementary transfers drawing on two tools that have been developed to support social workers when deciding on the provision of supplementary allowances: the VVSG-tool and the REMI-tool. Model family simulations show that for some family types supplementary cash transfers are a crucial part of the benefit package in the sense that it helps to lift household income near or even above the European poverty threshold. This is especially true for single adult households, with or without children, when entirely dependent on social assistance or when in low paid part time work.

2. The downside of more adequate social benefit levels is that they increase the inactivity trap, at least under the assumption of constant income from work. Supplementary allowances reduce the financial incentive of social assistance recipients to take up work, or to switch from part-time to full-time employment. For example, the marginal return of employment for couples on social assistance often amounts to less than 125 euro per month if we take into account supplementary benefits according to the VVSG-tool or the REMI-tool. This holds true for both full time and part time employment. For the other family types observed, it is particularly doubtful whether financial incentives are sufficient to encourage transitions from part-time to full-time employment.

3. Hence, our conclusion is as expected that supplementary support positively impact on the adequacy of social assistance and negatively on the marginal return of employment. However, the model family results also call for some circumspection.

3.1. Firstly, as far as the adequacy of social assistance is concerned, supplementary cash benefits are not sufficient to lift all households near the poverty line. As a matter of fact, benefit packages of couples often remain highly inadequate to offer protection against income poverty, even if supplementary support is provided because statutory assistance scales are too

far below the poverty line. For example, the amount of social assistance of a couple with two children, including the guaranteed child cash benefit, lies about 780 euro per month below the poverty line. Supplementary allowances can reduce this gap substantially. However, according to our simulations the gap between the benefit package and the poverty line remains large, i.e. about 300 euro per month or more.

3.2. Secondly, considering the inactivity trap important issues arise:

3.2.1. The danger of creating an inactivity trap is often cited as being one of the main reasons why policy makers find it difficult to increase the level of statutory welfare payments, or to provide supplementary benefits on a more universal basis. The inactivity trap refers to the tricky balance between minimum income protection and the encouragement of economic independence. A key issue concerning the nexus between the adequacy of social transfers and the size of the inactivity trap is the level of net earnings for those in low paid employment. A job does not always provide sufficient protection against poverty. The net income of one earner couples, for example, often falls below the poverty line, especially when in low paid employment. Likewise, lone parents in full time employment at minimum wage may have to come by with an income below the poverty line. Inadequate protection of benefit claimants may thus signal inadequate minimum income protection for workers, especially of one earner families. Selective measures to increase net income of families with low earnings ought to be made a policy priority in this respect. However, specialized literature suggests that improving the living standards of low paid workers and their families is a complex and challenging task. For example, it is not easy to avoid mobility traps, unless if taper-off rates are sufficiently flat (Marx et al, 2013).

3.2.2. The willingness to work does not solely depend on financial incentives. Studies have shown that contextual factors such as the demand of low-skilled labour, availability of individual guidance, training opportunities, affordable child care and other measures that facilitate labour market entrance also play an important role (Gallie, 2004; Immervoll & Pearson, 2009; Delathouwer and Bogaerts, 2002). The need to apply strong negative economic incentives therefore depends largely on adequateness of public employment services and accompanying measures, including close and continuously monitoring of benefit recipient's willingness to accept training and counseling and jobs on offer (Vandenbroucke & Vleminckx, 2011).

3.2.3. Given the impact of contextual factors and the fact that the individual guidance and monitoring of social assistance recipient's labour market behaviour in Belgium is strongly decentralised, there is some logic in the fact that local welfares can develop local models of supplementary support, and thus decide rather autonomously on the extent of financial incentives. Differences between municipalities regarding activation policies (see e.g. Hermans, 2005; Raeymaeckers et al, 2009) therefore justify to some extent the variation in social assistance benefit levels. Nevertheless, the obvious inadequacy of national social assistance scale rates raises questions regarding the responsibilities of local welfare offices. Arguably, the gap between social assistance benefit levels and the poverty line is too large to be justified under the guise of the necessity to provide support tailored to particular individual needs or the autonomy of local welfare offices.

3.3. Finally, the impact of supplementary support varies substantially between municipalities. While it is obvious that supplementary support can affect both the adequacy of social benefits and the incentive to enter the labour market substantively, the simulation results show that the precise impact largely depends on how additional support is calculated, which types of expenditures are taken into account as well as the household composition (i.e. benefit levels before supplementary support). Moreover, in Flanders there is a sizeable group of OCMW's where supplementary support is only very rarely offered or where supplementary support is aimed at needy families which prospects on the labour market are very limited, meaning that supplementary support scarcely affect the adequacy of social assistance (Van Mechelen & Bogaerts, 2008).

4. In the context of large variations between local welfare offices, it is hard to translate the adequacy of social transfers (as well as the marginal return of employment) into a single indicator. Rather than to rely on a single indicator, social assistance benefit levels are most appropriately defined by means of an interval that reflects the variety between local welfare offices in their policies on supplementary support. Producing ranges of social assistance benefit levels would substantially improve cross country comparisons. It would yield interesting insights in the degree to social rights depend on local or individualized discretion or are uniform across the country. Legal details of minimum income protection suggest large variations in social welfare rights in countries like France and Sweden, and minor differences across local welfare offices in the United Kingdom. However, there is little empirical evidence on the range of variation. Model family simulations as presented in this paper provide an indication of within country differences.

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Appendix

Table 3 : Different costs splitted up by family type, for low-cost spending families (1st tertile), medium spenders (2nd tertile) and high-cost spending families (3th tertile), Flanders, 2011.

Category	1st tertile	Confidence interval	2th tertile	Confidence interval	3th tertile	Confidence interval	N
<i>single female, no children</i>							
water	11,0	11,0 12,1	14,0	13,2 16,5	18,7	16,5 22,0	267
energy cost	76,0	64,8 86,7	104,6	97,3 120,6	136,5	124,6 150,5	218
maintenance of common places	30,8	15,4 56,5	51,3	30,8 102,7	69,9	56,5 128,3	78
fire insurance	12,0	10,4 13,5	16,6	15,5 20,7	25,9	21,7 28,3	301
garbage	5,1	4,1 5,1	7,2	6,2 7,2	8,2	7,6 8,2	308
daily maintenance	10,3	8,2 10,3	20,5	12,3 20,5	25,7	20,5 32,8	169
rent (private market)	366,0	346,2 402,6	422,6	420,0 467,1	487,5	472,2 524,5	206
<i>single female, 2 children (2 and 8 years old)</i>							
water	18,7	16,5 21,9	23,9	21,9 27,4	30,8	27,4 36,2	106
energy cost	89,4	69,8 119,6	133,0	103,6 154,5	168,1	142,5 203,3	98
maintenance of common places	30,8	8,2 62,6	51,3	20,5 154,0	69,9	25,7 233,0	78
fire insurance	14,5	6,3 16,6	18,6	15,5 21,7	23,7	20,7 25,9	109
garbage	7,6	6,2 8,2	9,2	8,2 10,3	12,2	10,3 13,8	120
daily maintenance	10,5	10,3 20,5	20,5	13,3 30,8	40,5	20,5 61,6	64
rent (private market)	409,8	393,4 450,7	463,5	450,7 524,5	548,2	524,5 603,4	120

Category	1st tertile	Confidence interval	2th tertile	Confidence interval	3th tertile	Confidence interval	N
<i>couple, no children</i>							
water	17,6	15,4 18,7	21,9	20,1 24,1	28,5	27,4 30,7	273
energy cost	131,6	116,6 148,5	166,4	154,5 190,4	204,2	195,3 224,2	211
maintenance of common places	30,8	10,3 51,3	51,3	30,8 59,5	69,9	42,1 126,3	78
fire insurance	21,7	19,2 24,8	29,0	25,9 31,1	36,2	32,7 39,3	284
garbage	6,2	6,2 7,2	8,2	8,2 9,2	10,3	9,5 10,3	287
daily maintenance	15,4	10,3 20,5	25,7	20,5 25,7	41,1	25,7 51,3	188
rent (private market)	366,0	346,2 402,6	422,6	420,0 467,1	487,5	472,2 530,6	206
<i>couple, 2 children (2 and 8 years old)</i>							
water	24,1	21,9 27,4	30,7	27,4 35,1	38,4	35,1 45,8	147
energy cost	134,9	119,6 161,4	173,3	155,5 204,3	226,2	191,3 259,1	97
maintenance of common places	30,8	30,8 133,4	51,3	30,8 133,4	69,9	30,8 133,4	78
fire insurance	18,6	16,5 20,7	25,9	20,7 31,1	32,2	31,1 41,4	142
garbage	7,2	6,2 7,7	8,5	7,7 10,3	11,3	10,3 12,3	149
daily maintenance	15,4	15,4 20,5	20,5	16,4 25,7	30,8	20,5 41,1	95
rent (private market)	409,8	393,4 450,7	463,5	450,7 524,5	548,2	524,5 603,4	120

Source: Belgian SILC 2009

Remark 1: We only take costs into account of full time benefit receivers (no income from employment, property or rental income), aged between 18 and 65 years old and living in Flanders.

Remark 2: The costs used in the Belgian SILC refer to 2008. Using the specific indexes of the different categories, the costs have been indexed to January 2011. Specific information about these specific indexes can be asked to the authors upon request.

Remark 3: Maintenance of common places: not enough cases for splitting up in four different family types. Results for all 4 family types taken together.

Remark 4: Rent: not enough cases for splitting up in four different family types. Results split up for families with children / families without children.

Remark 5: Rent: lower than the Flemish Rent Subsidy in every case (at 1/1/2011: 530 euro/month + 7% per dependent person).