

## Common minimum standards for unemployment insurance schemes in EU Member States

### Key points

- Unemployment benefits (UB) are a key feature of all European welfare systems. They provide a safety net by insuring workers against the risk of job loss.
- UB protect the unemployed from poverty and allow them to maintain a certain standard of living until returning to work. They also enable job seekers to devote time to finding jobs that match their skills and expectations, or to retrain.
- UB act as automatic stabilisers in the business cycle by supporting the incomes of those who have lost their job, thus cushioning the impact of negative shocks.
- Unemployment insurance schemes exist in all EU Member states. UB amounts (net replacement rates), entitlement periods and coverage vary considerably, however.
- Principle 13 of the European Pillar of Social Rights (EPSR) states that the unemployed have the right to adequate UB of reasonable duration.
- Introducing binding minimum standards for unemployment insurance schemes in EU Member States is the best way to effectively implement Principle 13 of the EPSR.
- A directive pursuant to Article 153 TFEU should be adopted setting out minimum standards for the net replacement rate, entitlement period and coverage of UB and establishing an entitlement to further education/training in combination with a training allowance at minimum income level.
- European minimum standards do not aim at harmonising the various systems of the Member states, but at building a common ground that must not be undermined.
- The Commission proposes the creation of a European Unemployment Reinsurance Scheme. Introducing minimum standards for unemployment insurance schemes in EU Member is a different concept. While the former is a fiscal policy instrument, the latter represents a rights-based approach to social protection.

### Background

In the aftermath of the Great Recession unemployment figures in the EU reached a peak of more than 26 million in 2013. The economy is now slowly growing and unemployment rates are decreasing, on average.

The provision of unemployment benefits (UB) accessible to all workers and accompanied by effective active labour market policies is key to supporting

jobseekers during transitions in the labour market. Unemployment insurance schemes exist in all EU Member states. UB amounts (net replacement rates), entitlement periods and coverage vary considerably, however.

The Great Recession has had adverse effects on the lives of working people in many parts of Europe. Adopted against this background, the Europe 2020 Strategy sets out the target of 20 million fewer people in the EU at risk of poverty by 2020. The EU will fail

to reach this goal, however. While strict enforcement mechanisms (including financial sanctions) are in place for EU fiscal rules, no sanctions apply if Member States fail to reach social targets.

In November 2017, the European Pillar of Social Rights (EPSR) was solemnly proclaimed at the EU Social Summit in Gothenburg. Principle 13 of the EPSR states that the unemployed have the right to adequate UB of reasonable duration.

The European Semester provides the framework for the economic governance of the EU, coordinating the fiscal, economic and social policies of the EU Member States in an annual cycle. Principle 13 of the EPSR is reflected in the Employment Guidelines (Guideline 7 requesting Member States to provide the unemployed with adequate UB of reasonable duration) as well as in country-specific recommendations to some Member States. The 2018 edition of the annual Joint Employment Report has presented a comparative analysis of the main design features of unemployment benefit systems across the EU, based on the results of a benchmarking exercise conducted within the Employment Committee (EMCO).

In order to deliver on the right to adequate UB of reasonable duration, mainstreaming the EPSR within the framework of the European Semester will not do. A directive pursuant to Article 153 TFEU setting out minimum standards for unemployment insurance schemes of EU Member states is the best way to effectively implement Principle 13 of the EPSR.

## Poverty

In 2018, 109,2 million people, or 21,7 % of the population, in the EU were at risk of poverty or social exclusion. This number remains at a distance from the

Europe 2020 target: lifting at least 20 million people out of the risk of poverty and social exclusion compared to the baseline. 65% of the unemployed in the EU were at risk of poverty or social exclusion (2018).

## Main findings

### Unemployment benefits (UB)

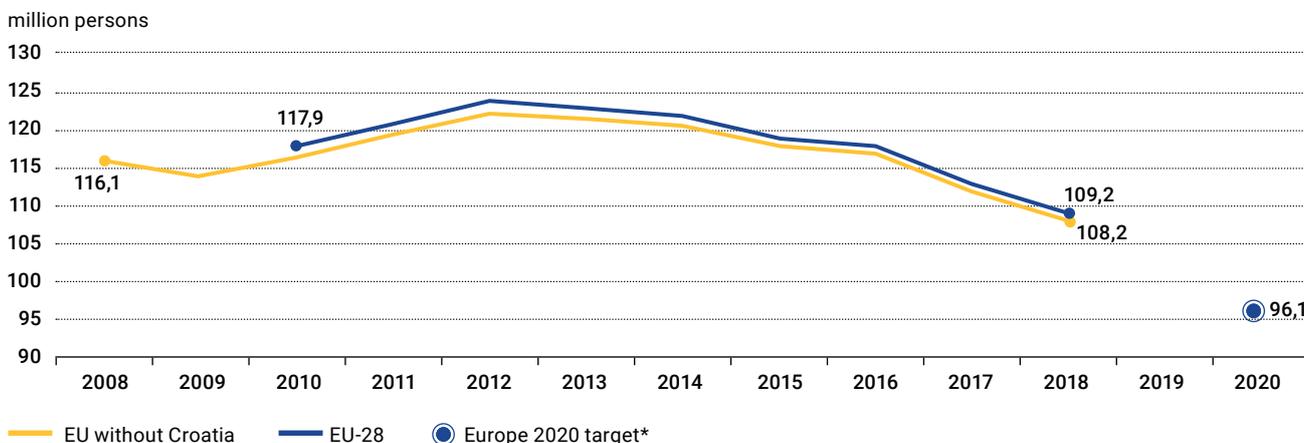
UB exist in all Member States and are based on contributions. They can be claimed after a minimum period in employment with paid contributions known as qualifying period. The level is usually calculated in proportion to the level of earnings received in the last job and their duration often depends on the length of time during which contributions were paid. Some Member States make available unemployment assistance to unemployed persons who are not eligible or no longer entitled to UB.

### A directive pursuant to Article 153 TFEU

Unemployment insurance falls within the competence of the Member states. Article 153 TFEU stipulates that the EU shall support and complement the activities of the Member States by adopting minimum requirements for gradual implementation. A directive pursuant to Article 153(1c) TFEU setting out minimum standards for the net replacement rate, entitlement period and coverage of UB and establishing an entitlement to further education/training in combination with a training allowance at minimum income level would contribute to improving the working and living conditions in Europe. Existing higher standards must be protected by a non-regression clause.

Studies have shown that countries with more generous unemployment insurance and higher spending

### People at risk of poverty or social exclusion, EU, 2008-2018



\* The overall target (referring to the EU-27 before the accession of Croatia) of the Europe 2020 strategy is to lift at least 20 million out of the risk of poverty or social exclusion by 2020. In the baseline year (2008) 116 million people were at risk of poverty or social exclusion. The target is to reduce this figure to 96 million people by 2020. The EU will fail to reach this target.

on activation policies and measures show a more sustainable record of reintegrating previously unemployed workers. As far as costs for public finances are concerned, a plausible assumption is that the first round of costs related to greater coverage or high benefit amounts may be relatively quickly offset by improved employment performance and higher tax returns from an increased number of people in employment (see European Semester - thematic factsheet - unemployment benefits 2017).

### Net replacement rate

The level of UB is usually calculated in proportion to the level of earnings received in the last job (net replacement rate). A directive pursuant to Article 153 TFEU should set out a minimum UB net replacement rate of 75% of previous earnings. This would allow the unemployed to maintain a certain standard of living until returning to work. UB act as automatic stabilisers. Private final consumption is usually the largest component of GDP and aggregate demand. This is why cushioning consumption spending from negative shocks is one of the targets of stabilisation policies. Reducing UB, on the other hand, does not necessarily save public money, because in most Member States the unemployed can claim other forms of social support.

### Entitlement period

After a one-year work record, maximum UB entitlement periods in the EU range from zero to unlimited. In Slovakia, a person with a one-year work record cannot qualify for UB (requirement of at least two years of unemployment insurance contributions during the last four years) whereas Belgium is at the higher end with unlimited UB duration. A directive pursuant to Article 153 TFEU should set out a minimum UB entitlement period of one year after a one-year work spell. This minimum standard would help avoid dequalification and lead to improved matching results for job seekers.

### Entitlement to further education/training

Principle 1 of the EPSR stipulates that everyone has the right to life-long learning in order to maintain and acquire skills that enable them to participate fully in society and manage successfully transitions in the labour market. Digitalisation is set to change the skills and training that are required on the labour market considerably.

A legal entitlement to various forms of further education/training, in combination with a training allowance at minimum income level is needed to ensure quality

life-long learning. Independent advice centers could assess whether a specific further education or training measure is fit for purpose according to the labour market situation.

### Coverage

The number of unemployed people receiving UB as a proportion of the overall number of unemployed people is represented by the coverage rate. It is expressed in relation to a particular length of unemployment. In the EU, the share of short-term unemployed people (those who have been unemployed for less than one year) covered by UB amounts to around one third, on average, only, according to the Joint Employment Report 2019.

Coverage mainly depends on the policy design of the unemployment insurance systems. Article 153(4) TFEU provides that the right of Member States to define the fundamental principles of their social security systems shall not be affected by a directive. This means that the directive would set a target and Member States would have to find the means to achieve it by adjusting parameters in their policy designs.

### Concerns on data quality

While there is serious concern on coverage (e.g. atypical workers, see "Council Recommendation on access to social protection for workers and the self-employed", adopted on 8 November 2019) another concern is worth elaborating as well: data quality. The coverage rate is usually defined as the share of unemployed who receive UB (or unemployment assistance) of all unemployed.

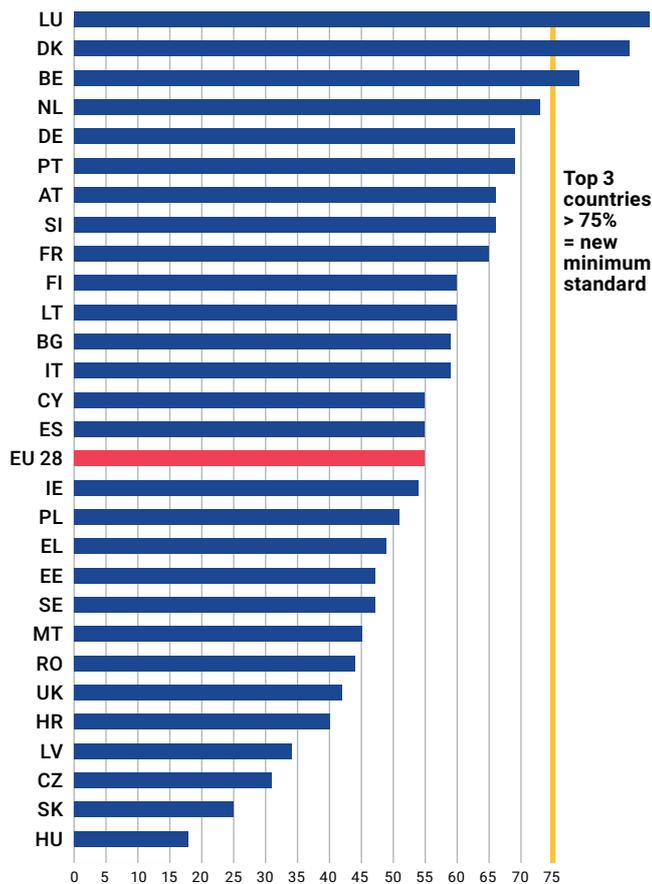
According to the ILO concept, unemployed persons are persons aged 15 to 74 who

- are without work,
- are available to start work within the next two weeks and
- have actively sought employment at some time during the previous four weeks.

A person is not assumed to be "without work" if he or she has worked in paid employment or self-employment for (at least) one hour during the reference week. This common standard indicator glosses over the real labour market situation in Europe and possibly distorts coverage rates as well. A better analysis must be carried out, in order to have a solid basis for putting forward a proposal on a minimum standard for the coverage rate.

## Net replacement rate in unemployment EU 28 (2018)

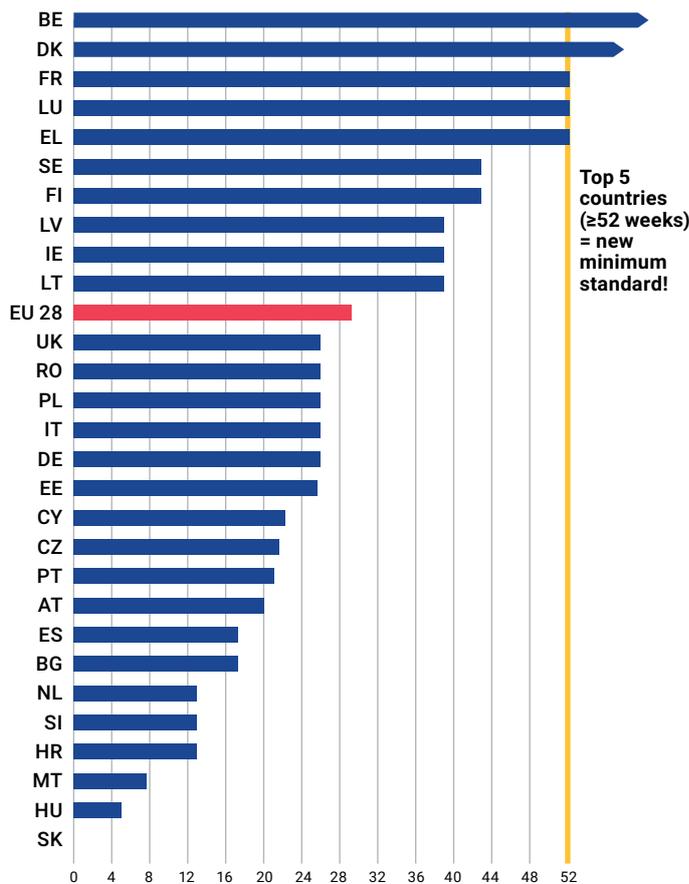
couple with 2 children, partner is out of work, average wage, housing benefits not included



Source: AK (2019), based on OECD <http://www.oecd.org/social/benefits-and-wages/data/>. Data characteristics available on <http://www.oecd.org/social/benefits-and-wages/data/>.

## Maximum duration of unemployment benefits EU 28 (2019)

weeks  
with a 1 year work record



Source: AK (2019), based on MISSOC <https://www.missoc.org/>. The chart displays UB only (unemployment assistance not included).

## Demands

Adoption of a directive pursuant to Article 153(1c) TFEU that sets out the following minimum standards for unemployment benefit schemes in EU Member States:

- minimum of 75% net replacement rate of UB
- minimum of a 1 year entitlement period of UB (after a 1 year work record)
- minimum coverage rate of UB
- entitlement to further education/training in combination with a training allowance at minimum income level

Already existing higher standards must be protected by a non-regression clause. Unemployment insurance falls within the competence of the Member states. The EU shall support and complement the activities of the Member States by adopting minimum requirements for gradual implementation.

## More links

**AK EUROPA** (2018), Memorandum for a Social Europe [https://www.akeuropa.eu/sites/default/files/main\\_report\\_en\\_511.pdf](https://www.akeuropa.eu/sites/default/files/main_report_en_511.pdf)

**European Pillar of Social Rights** [https://ec.europa.eu/commission/publications/european-pillar-social-rights-booklet\\_en](https://ec.europa.eu/commission/publications/european-pillar-social-rights-booklet_en)

**Joint Employment Report 2019** <https://data.consilium.europa.eu/doc/document/ST-6167-2019-INIT/en/pdf>

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November 2019  
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