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Social Assistance – No, Thanks? The Non-Take-up Phenomenon and its Patterns in Austria, Germany and Finland after 2000
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2 The programmes under investigation are the cash benefits in the "open" social assistance, including permanent and temporary monetary transfers plus housing and heating supplements.

1. Introduction

The research aim of these analyses is twofold. Firstly it investigates the functioning and relevance of a "last resort" safety net by providing up to date estimates on the size and determinants of non-take-up of monetary social assistance in Austria, Germany and Finland.[2] Low participation rates may distort the intended welfare impact of targeted social transfers. Furthermore, the social and financial outcomes of benefit reforms are much more unclear without information on current non-take-up, notwithstanding that claiming behaviour is influenced by possible reforms, too.

Secondly there is also a methodological interest: the results contribute towards the objective of "promoting and supporting comparative research, methodologies and data generation" by revising poverty and income distribution statistics currently derived from tax/benefit micro-simulation models without correcting for errors in targeting benefits. The assumption that all potentially entitled persons actually receive the benefit biases the microsimulation analysis of income inequality and related indicators.

In view of a possible further harmonisation of social policies in the European Union, the analysis gains even more importance as it represents the first comparative analysis of this kind based on similar micro-simulation techniques and detailed empirical data.

2.   Literature review

2.1   Determinants of (non-)take-up

The economic literature (see for example Anderson/Meyer 1997, Blank/ Ruggles 1996, Engels 2001, Hernanz et al. 2004, Kayser/Frick 2001, Riphahn 2001) provides theoretical models of the determinants of (non-) take-up. They stress the direct and indirect costs of applying, including both objective barriers and subjective motives. For descriptive purposes they can be subsumed under four categories (not exhaustive and entirely exclusive):

1. Pecuniary determinants in the sense of a rational cost-benefit equation: the focus of this category is on the level of benefits and the expected duration of receipt. A renouncement to claim will take place if the expected benefit amount is too low and/or the expected duration of the benefit spell is too short to offset costs (claiming is costly in terms of time and effort, e.g. queuing, need to report detailed information to the welfare agency, checks on the willingness to accept suitable job offers, etc.). On the other hand, the (almost) money-less will hardly be able to "decide" not to claim.
2. Information costs about benefit regulations and application procedures: collecting, understanding and completing application procedures imply costs. Entitled persons may abstain from taking-up if the procedures are too complex or disorganised. This includes different degrees of lack of information (up to being not aware of the benefit at all or the eligibility for it), false information and wanting access to help.
3. Administrative costs related to the duration of the administrative process and to uncertainties about the application outcome: frequently it takes time till an application is submitted and processed. If the expected eligibility spell is short or there are concrete expectations about future incomes (e.g., expectation to take up a new job relatively quickly), potential claimants may be induced not to participate. Regarding entitlement uncertainty it is assumed that a higher probability for acceptance of the welfare application (e.g. in the case of families with children, etc.) will lead to higher take-up.
4. Social and psychological costs: these "indirect" costs include the overall perception of state aid as degrading. In addition, the targeting of benefits to specific groups may expose them to stigmatisation. The acting of welfare officials towards claimants may also be perceived as humiliating, particularly if the administration acts as a fraud controller, too.

However, one has to bear in mind that non-take-up is not only influenced by "decisions" of eligible persons but also by administrative decisions (e.g. errors in evaluation procedures, discretionary decisions based on loose programme rules, etc.) which might lead to the rejection of applications by eligible persons (Hernanz et al. 2004, 8), termed as "primary" vs. "secondary" non-take-up (Van Oorshot 1991).

2.2   Problematic outcomes of non-take-up

The outcomes of high benefit non-take-up can be considered as problematic in several respects (see for example Engels 2001, Hernanz et al. 2004, Kayser/Frick 2001):

The welfare goals of benefit programmes are not entirely reached; there is a failure in the provision of a safety net for those in need (as the targeted benefits often do not reach the target group) and in reducing poverty.

Non-participation causes unjustified disparities among eligible clients. This becomes a serious problem if the "decision" is at least partly involuntary, i.e. if some households are discouraged from claiming because of objective or subjective barriers (e.g. if only the better informed claim and, thus, possibly not those who would benefit most).

Finally, non-take-up reduces the capacity to anticipate both social outcomes and financial costs of policy reforms and leads to interpretation problems: the receipt of social assistance cannot be considered as a reliable indicator for deprived circumstances, if it mirrors only the observable part.

2.3   Policies to improve take-up

Following the theoretical models, non-take-up suggests that the anticipated benefit falls short of perceived claiming costs. If such costs are the consequences of intransparent and complex schemes, poor information, etc., they imply a failure in the design or implementation of the programme (Kayser/Frick 2001). As information and administration barriers often play an important part, a few relatively small measures could be very effective. In general, these could consist in providing the required information for potential beneficiaries about existence and application procedures, simplifying the application process and making it more comprehensible as well as arranging the screening of applications in a more transparent and objective way (Engels 2001, Hernanz et al. 2004).

2.4   Empirical data on non-take-up

In particular when compared to universal transfers, means-tested programmes are always characterised by a certain extent of access problems. However, precise empirical data on non-take-up are limited – partly due to the high-quality requirements for this kind of analysis. Evidence for four European countries (UK, FR, DE, NL) in the 1990s suggests that non-take-up of social assistance can be considered as a widespread problem. The estimates show figures between 30% and 65% (Hernanz et al. 2004, 10). [3]

3.   Institutional settings of cash social assistance in Austria, Germany and Finland

With a view on the programme as being part of their national social security system, in Austria, Germany and Finland social assistance can be characterised as a means-tested subsidiary safety net. The target group consists of people who are not able to rely on own resources (work, income, assets), resources of their family (maintenance obligation) or other entitlements (social insurance benefits, etc.) in order to obtain sufficient means for a humane living.

In a typology of social assistance regimes based on the programme structure and its generosity for the early 1990s (Gough et al. 1997), Austria's social assistance system is termed as "decentralised, discretionary relief". The benefit is financed by the federal states, thus 9 different regulations are in place. The system in Germany is described as "dual social assistance" (related to national legal framing, but local execution) with low benefits on average. Finally, Finland's social assistance is classified as "citizenship-based, but residual assistance" with relatively high benefits.

Trends in the number of recipients since the mid-1990s show steadily increasing figures in Austria, whereas in Germany and Finland a peak was reached in 1996/97 with a relatively constant course in Germany and a moderate decrease in Finland afterwards. Figures for 2003 point to the fact that the number of benefit receivers is by far the highest in Finland (more than 10% of the total population), followed by Germany (more than 3%) and Austria (more than 1%). In all three countries the figures suggest a changed structure among recipients, namely an increased share of people in working age (unemployed, "working poor").

3 Throughout the policy brief, non-take-up is defined as the ratio between the number of households which are not receiving the benefit and the total number of households which are potentially eligible (=100%).

4. Empirical results: non-take-up rates and determinants of non-take-up in Austria, Germany and Finland[4]

4 On data and methods see Fuchs 2007.

In the base scenarios the non-take-up of monetary social assistance in terms of eligible households would comprise of 56% in Austria (2003), 59% in Finland (2002) and 67% in Germany (2002).

The sensitivity analyses provide upper and lower boundaries for the estimations by using different scenarios which tighten or ease the conditions that determine entitlement in the model (increase/decrease of allowable incomes/household needs, proxy for assets in the means-test). They suggest that in all three countries at least half of those households eligible to social assistance did not claim (cf. Table 1).

The theoretical models of take-up assume that the expectations related to benefit level and eligibility spells as well as perceived application and psychological costs influence the participation decision. The probability to participate can also be translated into a function of household characteristics which correlate with the (non-)take-up:

Household i takes up at time t if expected utility derived from receipt of social assistance exceeds utility from non-participation minus claiming costs (Kayser/ Frick 2001).

As the direct observation of most of these explaining factors is constrained by the availability of respective information in the data, following Kayser/Frick (2001) different proxies have to be employed:

5 Calculated as the simulated amount of social assistance a given household is eligible for, controlling for own incomes, as percentage of simulated total needs.

The "relative poverty gap"[5] proxies pecuniary determinants, i.e. the level of benefit or, in other words, the material urgency of the respective household.

There are also other proxies for benefit level and expected duration of benefit receipt which illustrate the household's expectations towards the future, too, hence affecting also direct application costs: in that sense information and administrative costs may be lower, e.g. for those with less education, for unemployed, households with children, etc. because they are more likely in need of assistance for longer periods of time and higher amounts (Dahan/Nisan 2007, 23). A particular group less likely to participate might be households with migration background as, for example, these households face more language barriers and in addition those without citizenship may face more uncertainty of claiming.

Social and psychological costs depend on distaste for welfare by household members themselves as well as on perceived stigmatisation (by persons in the neighbourhood as well as government officials). This may differ across age groups as well as across community size (larger towns provide more anonymity) and across family types (perceiving less stigma by administrators if the benefit is also to meet children's needs, etc.).

Probit models were used to calculate the probability of non-take-up related to individual and household characteristics. For Austria and Germany the results support the hypothesis of pecuniary determinants: higher entitlements measured by the poverty gap have a significant positive effect on take-up. In all three countries households with an unemployed, inactive or retired as well as with a low-educated head (the latter two categories not significant for AT) are more likely to participate. Claiming costs pay off in the light of an increased perception of need (longer periods of time and higher amounts). To make ends meet these households may even have no other choice. In addition, as already depending on welfare they may already be well informed about their entitlements and hence information costs might be low.

Also households only renting their flat feature a higher probability to take-up (significant only for SF). Compared to those owning their home or flat, application costs may be lower as they may also be more likely in need of assistance for longer periods of time (Kayser/Frick 2001). Other variables used as proxies for application costs, among them migration background and disability status, show no significant impact.

As regards proxies for social and psychological costs, residence in a metropolitan area, although in AT not significant, shows the expected positive impact on take-up (no data for SF). This supports the hypothesis that the anonymity of living in a big town reduces stigma. In addition, social assistance receipt is not so unusual and information might be more easily distributed.

Furthermore, for Austria and Finland family composition (lone parents) positively impacts on a household's participation (for AT not significant). Although in Germany adults with children show a lesser tendency to participate compared to single adults, there seems to be a higher take-up probability with an increasing number of children. Beside lower application costs (expected longer eligibility spell), less perceived stigma when there are children and a higher acceptance probability by officials might support the decision to take-up.

Age only has a significant impact in Finland (as in Austria elderly tend to feature higher participation rates), households with a male head do not show a significantly higher probability to participate.

In all three countries the Pseudo R-squared amounts to 33/34% and, hence, explains around one third of the total variance (cf. Table 2).

5.   Conclusions

One of the aims of this analysis was to investigate the functioning and relevance of the second safety net of monetary social assistance in Austria, Germany and Finland in a comparative way based on detailed empirical data. Although certain restrictions in the data availability and in specific simulation possibilities have to be considered, the analysis showed significant results:

Calculating participation rates under various scenarios (assuming possible measurement errors by varying both underlying incomes and simulated needs, using a proxy for assets to be taken into account in the means-test) suggests that there is a comparable size of non-take-up in all three countries which exceeds 50% of all potentially eligible households (baseline scenarios: AT 56%, SF 59%, DE 67%).

To investigate the determinants of non-take-up, multiple regression analyses (also adopted to control for possible endogeneity of independent variables; see Fuchs 2007) were applied. It can be resumed that related to the decision to participate, distinct differences across population groups exist. Several proxies for hypotheses based on theoretical models of take-up (rational cost-benefit equation; claim if information, administration and psychological costs are relatively low or offset by expected benefit) show a relatively similar effect across the three countries, despite few contradicting results.

Participation rates are uniformly higher in case of a non-employed head, a low-educated head, in case of renting (instead of owning the home or flat) and if the household is situated in a metropolitan area (for the last category no data for SF). However, a significant effect of a higher "poverty gap", i.e. higher benefit levels entitled to, can only be observed for Austria and Germany, higher participation rates of lone parents only for Austria and Finland.

The second purpose of this analysis related to the methodological interest. The distributional impact of targeting errors is not negligible: e.g. for

Austria the poverty rate (60%-median) derived from the original SILC-data amounts to 12.8% and the Gini to 0.258 in 2003, whereas under the assumption of full take-up (of all simulated means-tested benefits, not only monetary social assistance) this decreases to 10.0% and 0.238.

How far is it possible to account for non-take-up in micro-databases and tax/benefit microsimulation models (among them EUROMOD)? A sound first step to introduce (low) participation rates (and hence a certain form of behavioural modelling) could be based on results from this comparative analysis. Corrections for households with non-take-up could be applied countrywise on a reduced set of common variables for which correlation with non-participation is found, as the probability of claiming can be estimated as a function of household characteristics.

However, prevalent measurement errors (data and simulation errors), which do not allow a perfect simulation of eligibility, make take-up modelling relatively difficult. As it is not straightforward to identify models for potential measurement errors, a basic knowledge about the nature of the measurement error, e.g. related to reported incomes, would be needed. Possible extensions in this direction remain a topic for future work. Improvements could also result from multiple measurements of (reported) incomes and benefit receipt, e.g. by comparing survey data with register data (already the case in Finland).

Furthermore, future research could possibly also benefit from the longitudinal features of datasets. Overall, take-up should be viewed as a dynamic process, e.g. becoming aware of being eligible followed by later transition from non-participation to claiming. Thus, analyses on the individual continuation of non-take-up and on reliable trends in overall rates over time would be very useful. In addition, new benefit reforms are likely to change also participation decisions which points the research interest to the reaction of individuals towards institutional changes.

Further Reading

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Table 1

Non-take-up in % of potential eligible households (=100%): base scenarios & sensitivity analyses

	AT (2003)	DE (2002)	SF (2002)
base scenarios	**56**	**67**	**59**
checks measurement error incomes/needs			
incomes -5%	60	71	60
incomes +5%	54	65	58
needs +5%	61	69	60
needs -5%	54	66	58
robustness check: proxy for assets in means-test; not eligible if …			
capital income >100 EUR per year*	49	-	-

* DE: assets considered (information in the survey data); SF: no assets check in the means-test.

Table 2

Correlates of non-take-up (simple probit: dependent dummy variable: 0 take-up, 1 non-take-up)

	AT	DE	SF
relative poverty gap (in %)	-0.012*	-0.029***	-0.002
age	-0.083	0.010	-0.086***
Type of hh (Ref=single adult)			
lone parent	-0.526	0.092	-0.493**
adults w/o children	7.270#	0.081	-0.284
adults with children	-0.339	0.766**	-0.077
no. of children	0.233	-0.496***	-0.089
male (Ref=female)	-0.539	0.215	-0.029
home owner (Ref=no)	0.809	0.520	1.207***
migration background (Ref=no)	0.121	0.063	-
Community size (Ref=middle)			
rural area	1.002	-0.456**	-
metropolitan area	-0.318	-0.533***	-
Education (Ref=middle vocational)			
lower education	-0.748	-0.310*	-0.396***
higher vocational	0.428	0.123	-0.086
higher education	-0.254	-0.755**	0.612**
HH head is disabled (Ref=no)	0.239	-0.324	-
Employment status (Ref=full time)			
part-time	-	-0.400	-0.193
unemployed	-1.425**	-0.748**	-0.608***
not working	-1.751***	-1.090***	-0.484**
self-employed	-	-0.895	0.353**
pensioner	-0.292	-1.115**	-0.473**
Constant	5.794**	2.816***	2.658***
Observations	146	482	1287
Pseudo R-squared	0.34	0.33	0.34

* p<.10; ** p<.05; *** p<.01; # perfect matching

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