

# The Impact of Asset Tests in Three European Minimum Income Schemes

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This paper assesses the effects of asset tests in social benefit schemes and more particularly minimum income benefit schemes. We look at the impact on three important outcomes: poverty rates, the budgetary costs of minimum income protection and saving incentives among the lowest income groups. The role of asset tests has been extensively researched in the Anglo-Saxon context. To our knowledge however, ours is the first paper that will look at the impact of asset tests in a continental European context on these three indicators, through a comparison of asset test effects in Belgium, France and Germany.

Belgium is an especially interesting case for a number of reasons. It is known to have a moderately high and stable income poverty rate compared to other Western countries (e.g. OECD, 2008). Yet at the same time, median wealth holdings are among the highest in Europe and wealth appears to be less unequally spread than in other countries, in part thanks to traditionally high home-ownership rates. Furthermore, income and wealth appear to be relatively weakly correlated (Kuypers et al., 2015; Arrondel et al., 2014; HFCN, 2013b), including in the lower strata of the income distribution. Germany on the other hand, although characterized by an income distribution that is close to the Belgian one, has far lower wealth holdings among the broader population, that are also more unequally distributed. France takes an intermediate position. At the same time, minimum income benefit levels are comparable in all three countries, around 70% of the poverty threshold for a single, putting these countries in the middle group of western European countries. All three countries have quite detailed asset tests within their minimum income protection schemes, but with important differences that can be exploited for the analysis. Asset tests show different levels of complexity, a different balance of taxing the real income from capital vs. the capital itself, the treatment of real estate and of household appliances.

Earlier research has shown that the profile of the most needy - households with low income, few assets, especially few liquid assets - is different from those that we identify as poor purely on the basis of income, as is conventionally done. Households with a reference person that is young,

unemployed, low educated, migrant, parent of dependent children, and above all a tenant, are especially vulnerable in terms of their overall financial situation. By contrast, the extent and depth of financial need among the elderly - a segment of society that is at a relatively high risk of income poverty - changes drastically. A substantial share of income poor elderly households own significant assets. In other words, there is ample a priori reason to suspect that assets tests could substantially alter eligibility for need-tested minimum income protection, i.e. who gets how much. Asset tests of various kinds can be suspected to radically change where money dedicated to minimum income protection ends up. It may also turn out that adequate minimum income protection is potentially feasible at a lower budgetary cost. Whereas the desire to target non-contributory minimum income support to the neediest groups of the population is understandable, it also raises a number of concerns. First of all, a – mainly Anglo-Saxon – literature has emerged on the issue how asset tests impact on saving behavior of low income groups. Benefiting from natural experiments in US states where different asset tests apply, Powers (1998) and Nam (2008) find that low income households generally save more when asset tests are more lenient. Other authors however only find this effect when looking at a specific type of asset tests (i.e. car) (Baek & Raschke, 2016; Bansak, Mattson, & Rice, 2010; Sullivan, 2006) or shed doubt on its existence entirely (Hurst & Ziliak, 2006). Yet whether or not asset tests impact on overall savings behavior among low income groups, the more direct impact of shedding assets prior to a claim can be considered highly problematic, as it makes social assistance beneficiaries more vulnerable (Paulhus, 2014). It limits their long-term ability to cushion future income shocks (Guo, 2011), or to seek out investments in education (Kuypers), making repeated benefit spell more likely. In se, holding assets can be considered more and more as a *conditio sine qua non* for more resilient households (Atkinson, 2015; Milanovic, 2016). A policy measure that actively discourages asset holding by vulnerable households can in this context be considered counterproductive. In addition, there is also a concern about fairness, when strict asset tests leave people who have saved during their life equally worse off than others (Hills, 2014). Furthermore, asset tests can discourage vulnerable households from applying to social assistance. O'Brien (2008) finds for the American asset tested TANF program, that possible claimants routinely underestimate the amount of exempted savings. Claimants also report that asset tests can be experienced as stigmatizing and intrusive. Also, given the lack of information on asset holdings in many western countries, a focus on asset tests may limit prospects for a more automatized awarding of minimum incomes (Paulhus, 2014), which could substantially reduce non-take-up.

These findings highlight the importance of a more structural assessment of the role of asset tests in European minimum income protection schemes. We will use the EUROMOD microsimulation model on the rich HFCS survey data. The HFCS (Eurosystem household finance and consumption) survey was explicitly designed to more realistically reflect assets and incomes from capital. In addition, while microsimulation has been extensively applied to analyze the redistributive effects of (alternative) minimum income schemes, social insurance schemes and

taxes, this is one of the first papers that microsimulates the effects of asset tests in Europe. In particular, we aim to assess how current and alternative asset tests impact on the coverage of minimum income schemes, and hence on the extent to which they mitigate poverty among the population. Furthermore, we will compare the costs of minimum income protection schemes under alternative asset tests, as well as the likely impact on saving incentives.