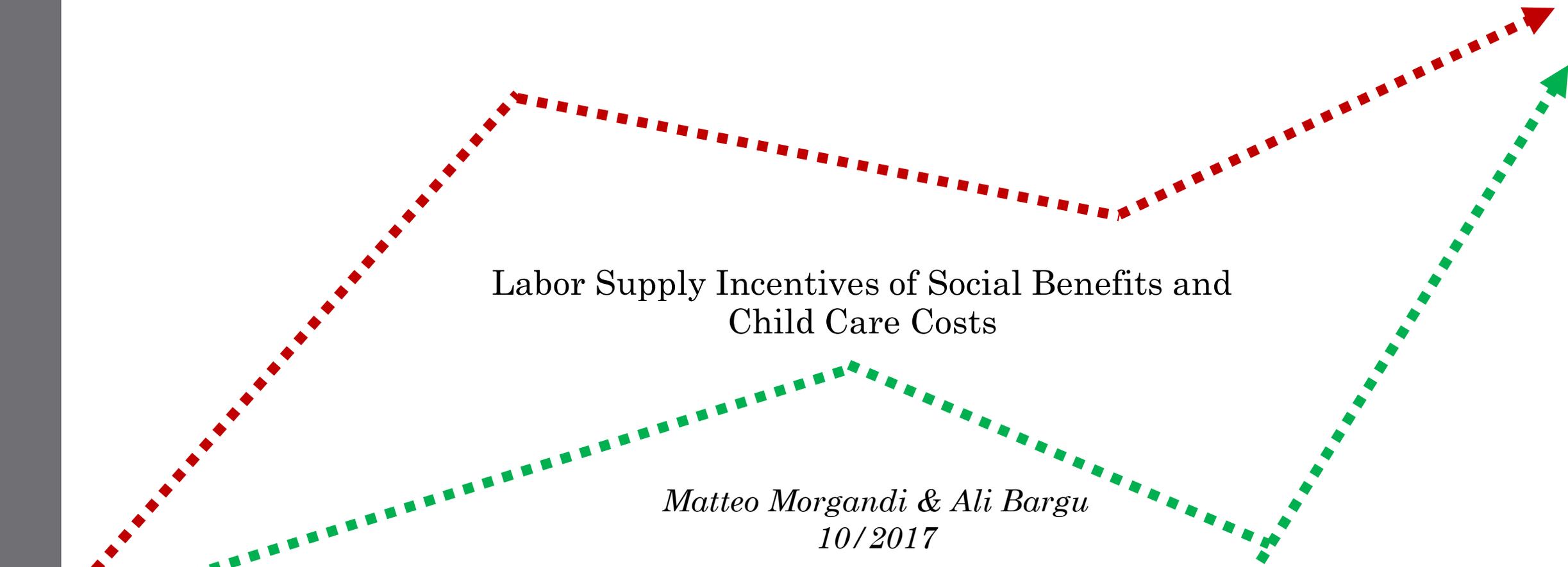


Can mothers afford to work in Poland?



Labor Supply Incentives of Social Benefits and
Child Care Costs

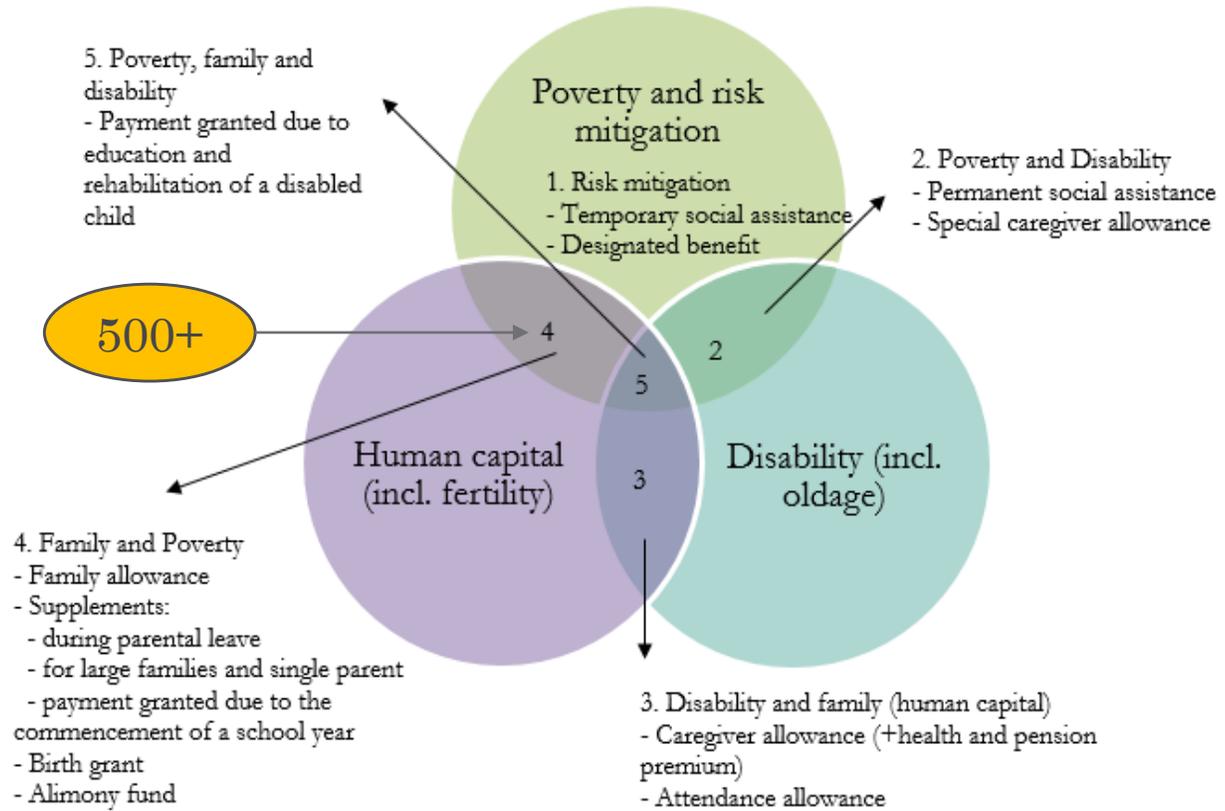
Matteo Morgandi & Ali Bargu
10/2017



WORLD BANK GROUP

Architecture of Spending for Family Support is complex...

- Different objectives
- Complex system consisting of different benefits, allowances and tax credits (40+ different benefits and supplements)
- Eligibility criteria vary (e.g. income thresholds and incorporation of other benefits in calculation)
- New 500+ Benefit has two objectives: Encouraging fertility, reduce child poverty with a means tested benefit for the first child



...with a wide array of eligibility thresholds and rules

Any income	<ul style="list-style-type: none">• Caretake of disabled. Caregiver allowance• Disabled and Age 75+: Attendance allowance• Emergency: Special Need Allowance• 500+ for every child after 1st
1922 zł p.c.	<ul style="list-style-type: none">• Child birth. Birth Grant (national)
800 zł. p.c	<ul style="list-style-type: none">• 500+ means tested for first child
725 zł p.c.	<ul style="list-style-type: none">• Child in separated family: Alimony fund
Moderate poverty line: 668.7 zł. p.c.	
664 zł p.c.	<ul style="list-style-type: none">• Disabled member: Family allowance and up to 7 supplements to family allowance
623 zł p.c.	<ul style="list-style-type: none">• Caretake of disabled: Special Caregiver allowance
574 zł p.c.	<ul style="list-style-type: none">• Children 0-18: Family Benefit and up to 6 supplements
542 zł (single), 456 zł p.c. (family).	<ul style="list-style-type: none">• Disabled or Elderly: Permanent Benefit• Difficult life situation. Temporary Benefit
Absolute Poverty Line: 519 zł p.c.	

The OECD Tax and Benefit model?

The OECD Tax-Benefit models show how tax and benefit rules *de iure* affect the net income of families when they are in and out of work

Models take all legal rules about benefit entitlement and tax liabilities at varying levels of labor income into account for different family types

The model is useful to identify incentives towards formal labor supply deriving from program design

The model assumes that

- 1. Households receive all benefits that they are entitled to and pay all taxes*
- 2. Individuals are aware of the eligibility rules of each benefit*

Limitations of the Tax Benefit Model

- The model considers social insurance a net cost to the family, disregards benefits deriving from formal work other than net wages that families could still value
- Does not capture heterogeneity in benefit award during implementation
- This work is not an empirical assessment of any social program's impact on specific outcomes (poverty, fertility) or the labor market response of households.

Why a TBM?

- **The 500+ program had an important fiscal impact and revolutionized the size of social assistance**
 - Expected to cost PLN 22.2 billion per year (1.3% of GDP)
 - In 2013 all non contributory transfers were 0.7% of GDP
- **The program is estimated to have significant impacts on poverty**
 - The benefit has been estimated to reduce extreme poverty from 8.9% to 5.9% and to nearly eliminate child poverty (*Goraus & Inchauste, 2016*)
- **Limited data to assess the impact of the program on the labor market**
 - Legal constraints to accessing administrative data and combining datasets
 - Lag in availability of household survey microdata



What's New?

Compared to the 2014 OECD Tax Benefit Model, what did we change?

Update Family
Benefit
withdrawal
rules

Inclusion of the
500+ program
into the model

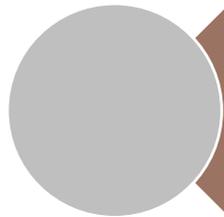
Updated income
thresholds

Updated
generosity of
benefits

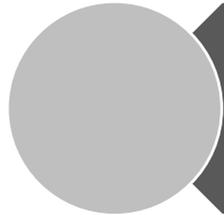
Included
Private and
Public Childcare
Costs

Simulations for Selected Family Types

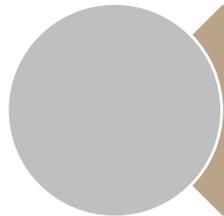
We can examine the work incentives effects of 500+ on



Single household with None, 1 or 2 children

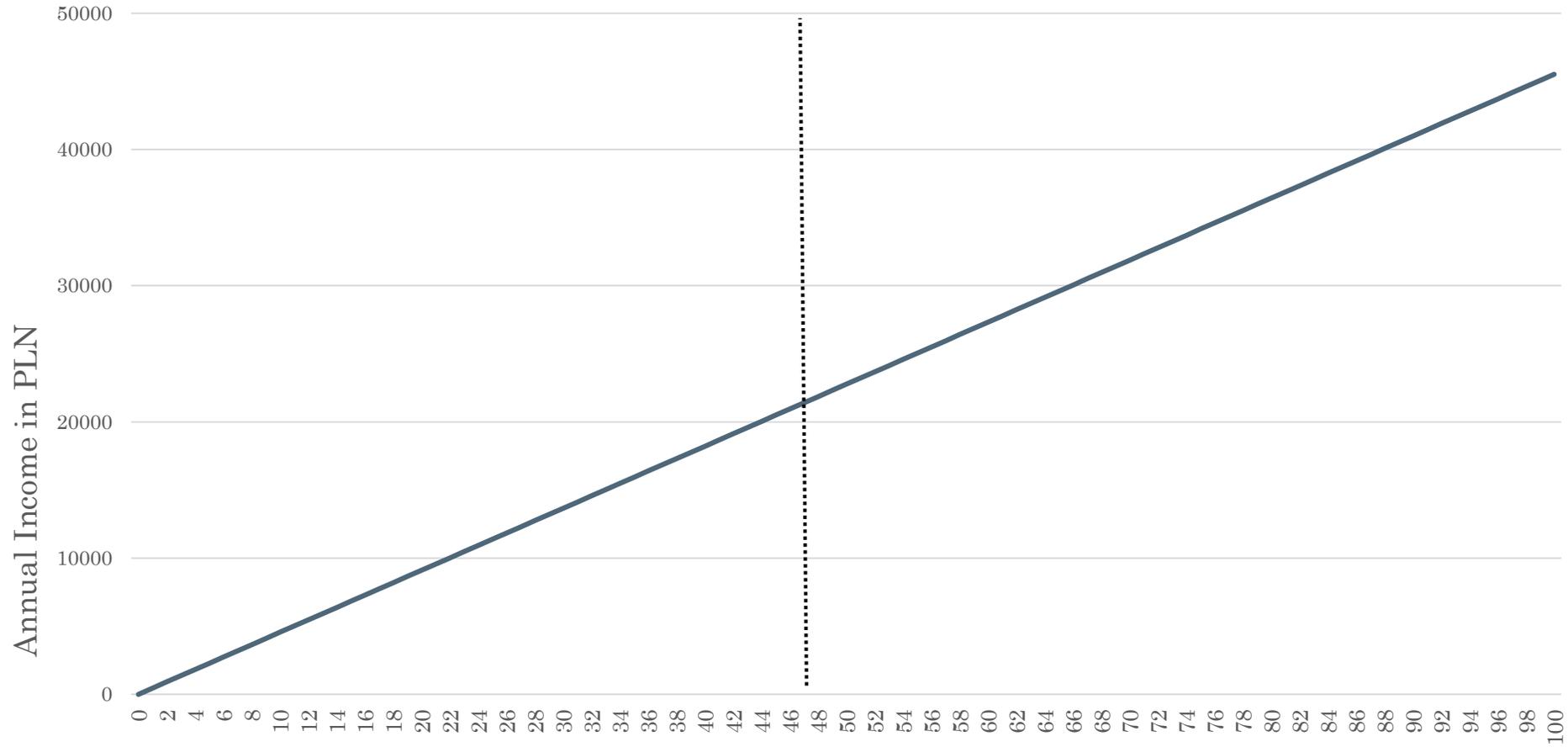


Married (1 earner) household with None, 1 or 2 children



Married (2 earner) household with None, 1 or 2 children,
where the second earner moves into employment and
principal earner is fixed at minimum wage

Single Person No Children



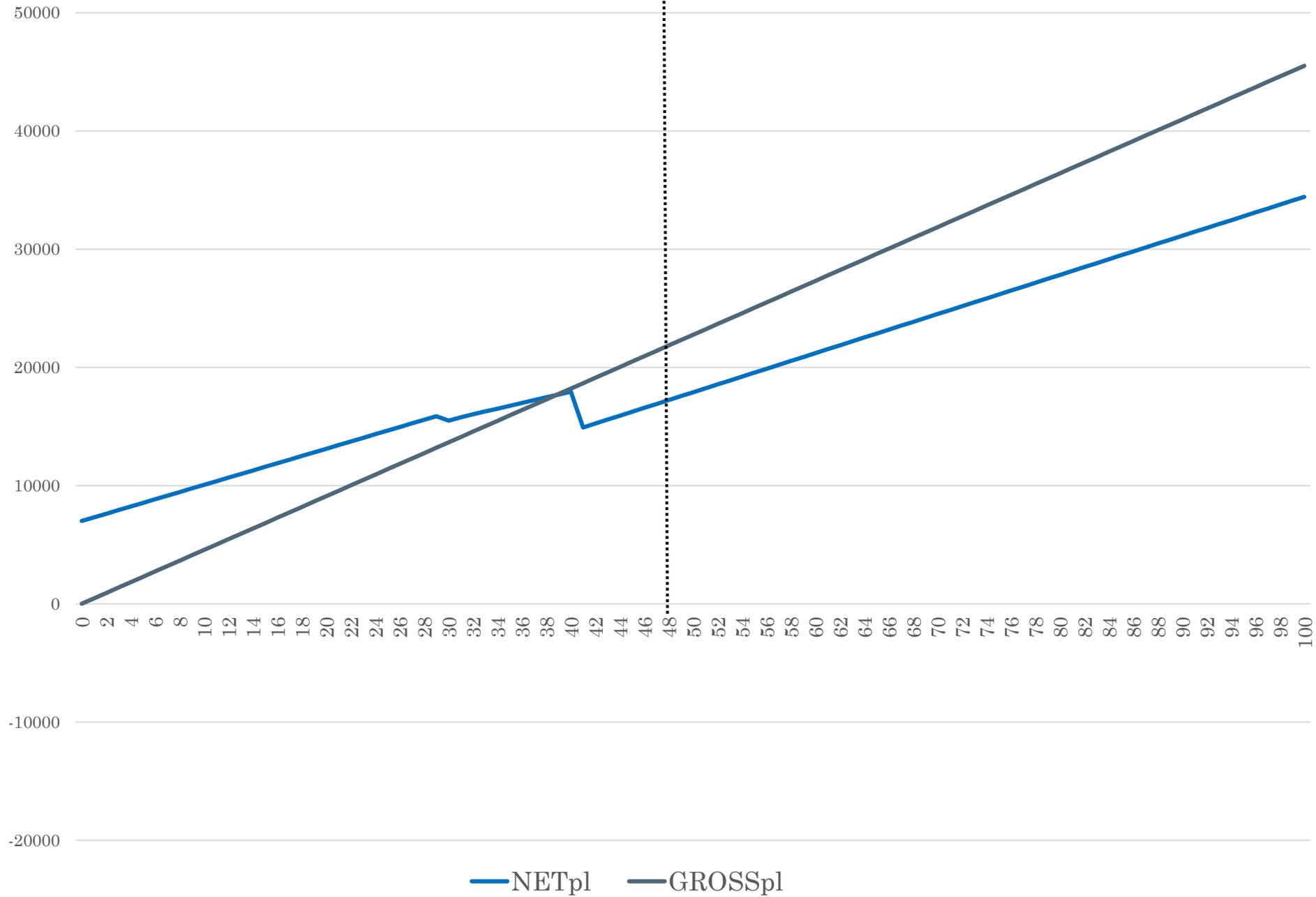
Percent of Average Wage

-10000

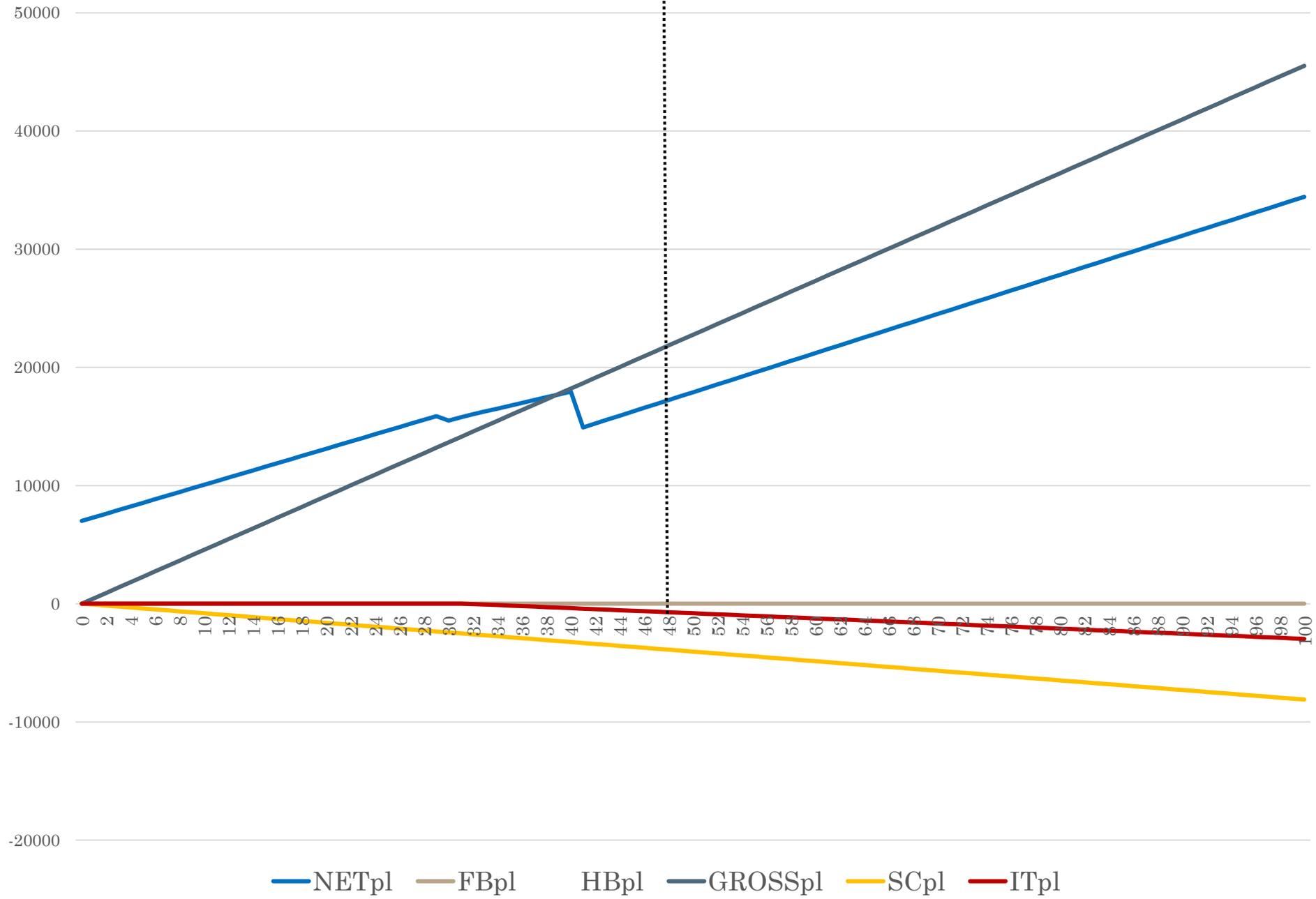
-20000

— GROSSpl

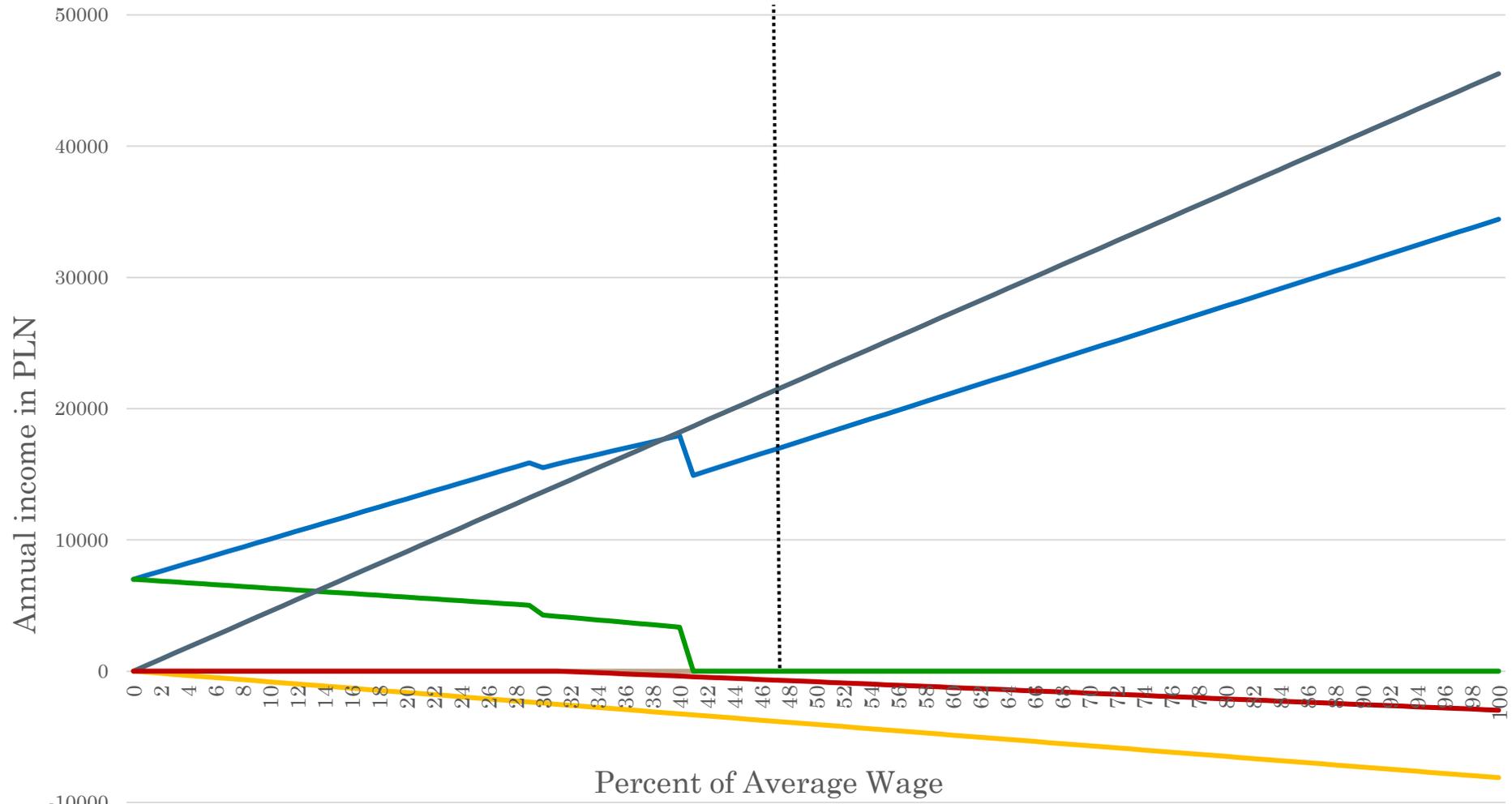
Single Person No Children



Single Person No Children



Single Person No Children

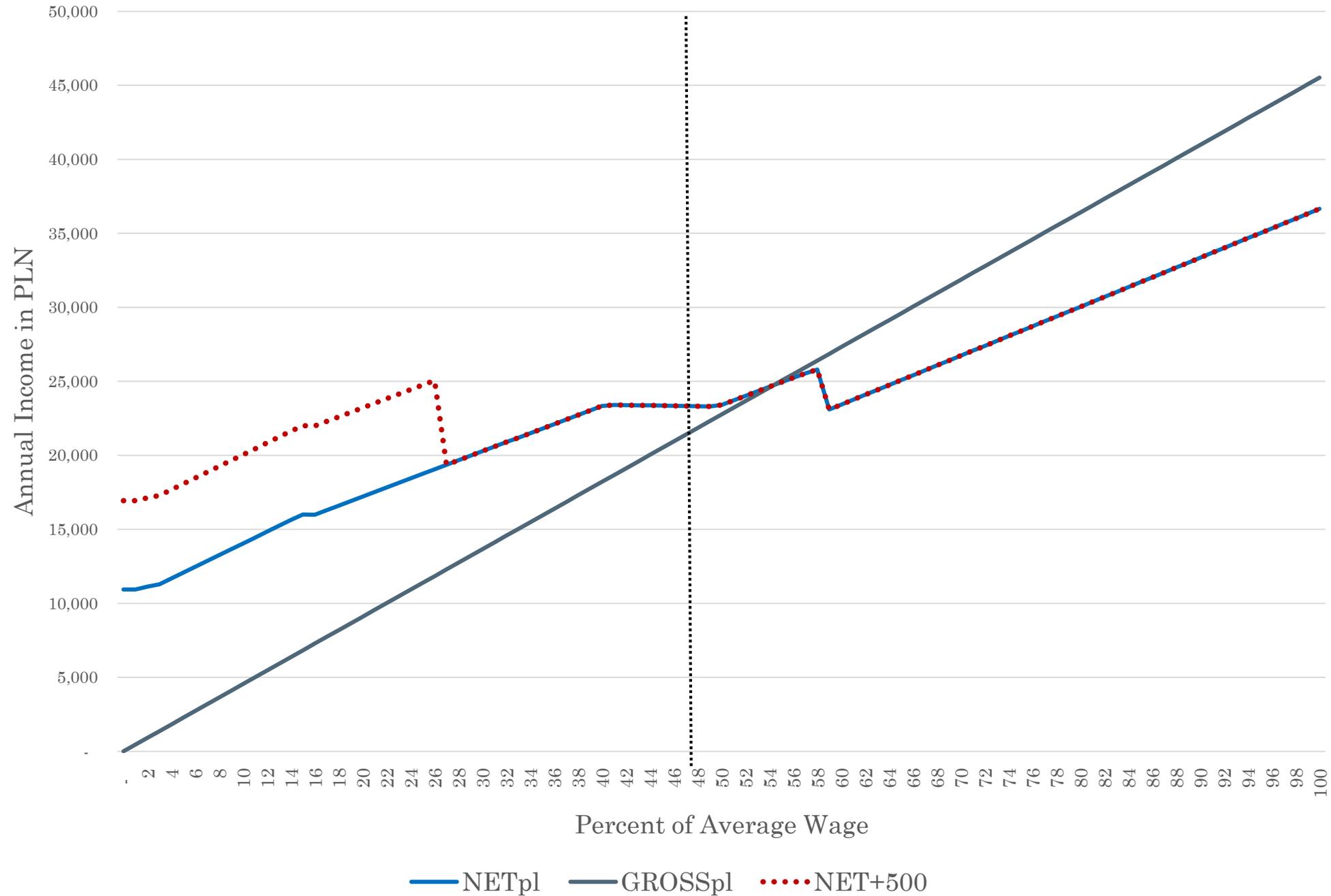


NETpl FBpl HBpl GROSSpl SCpl ITpl

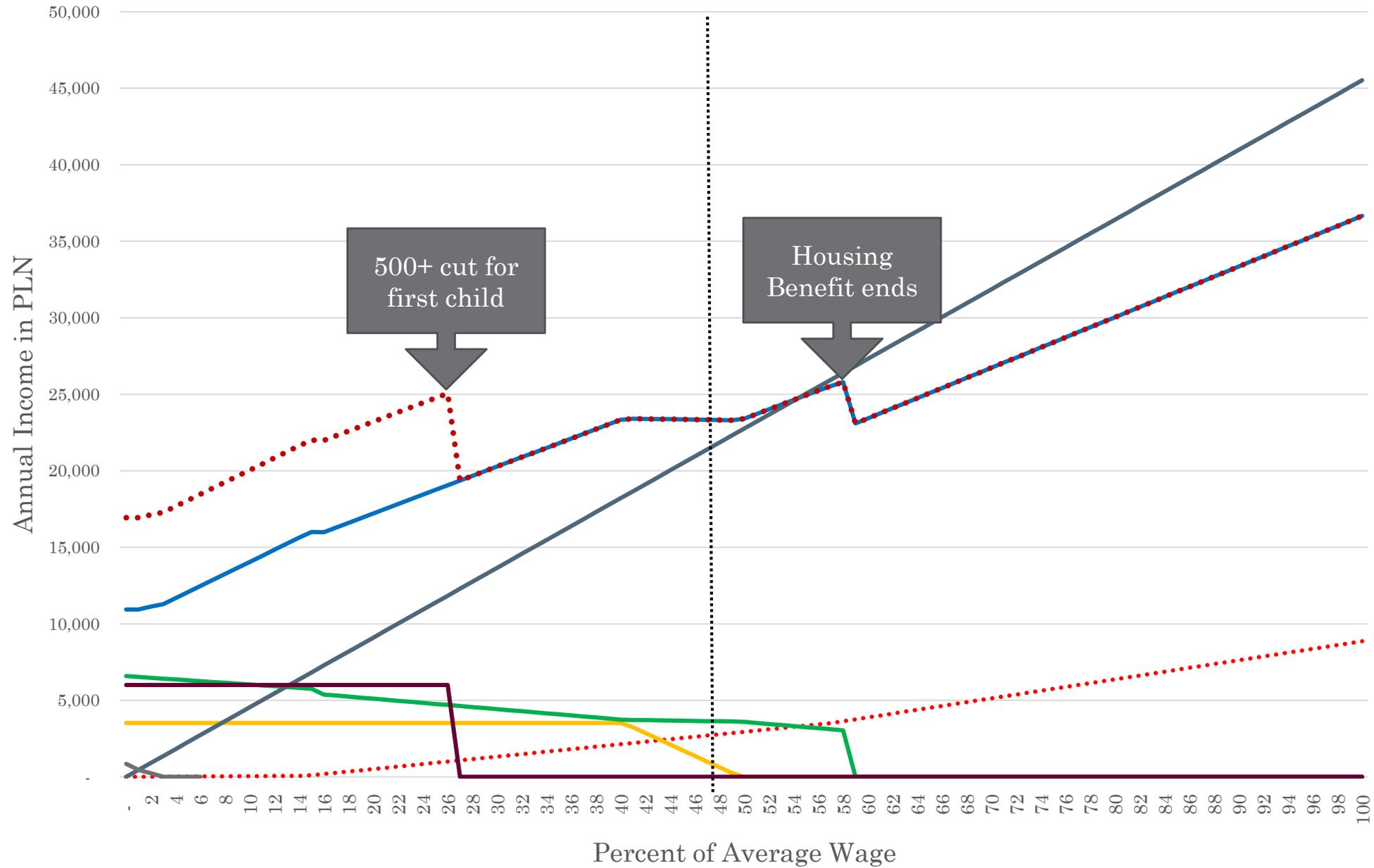


Single Parent One Child

Single Parent with 1 Child

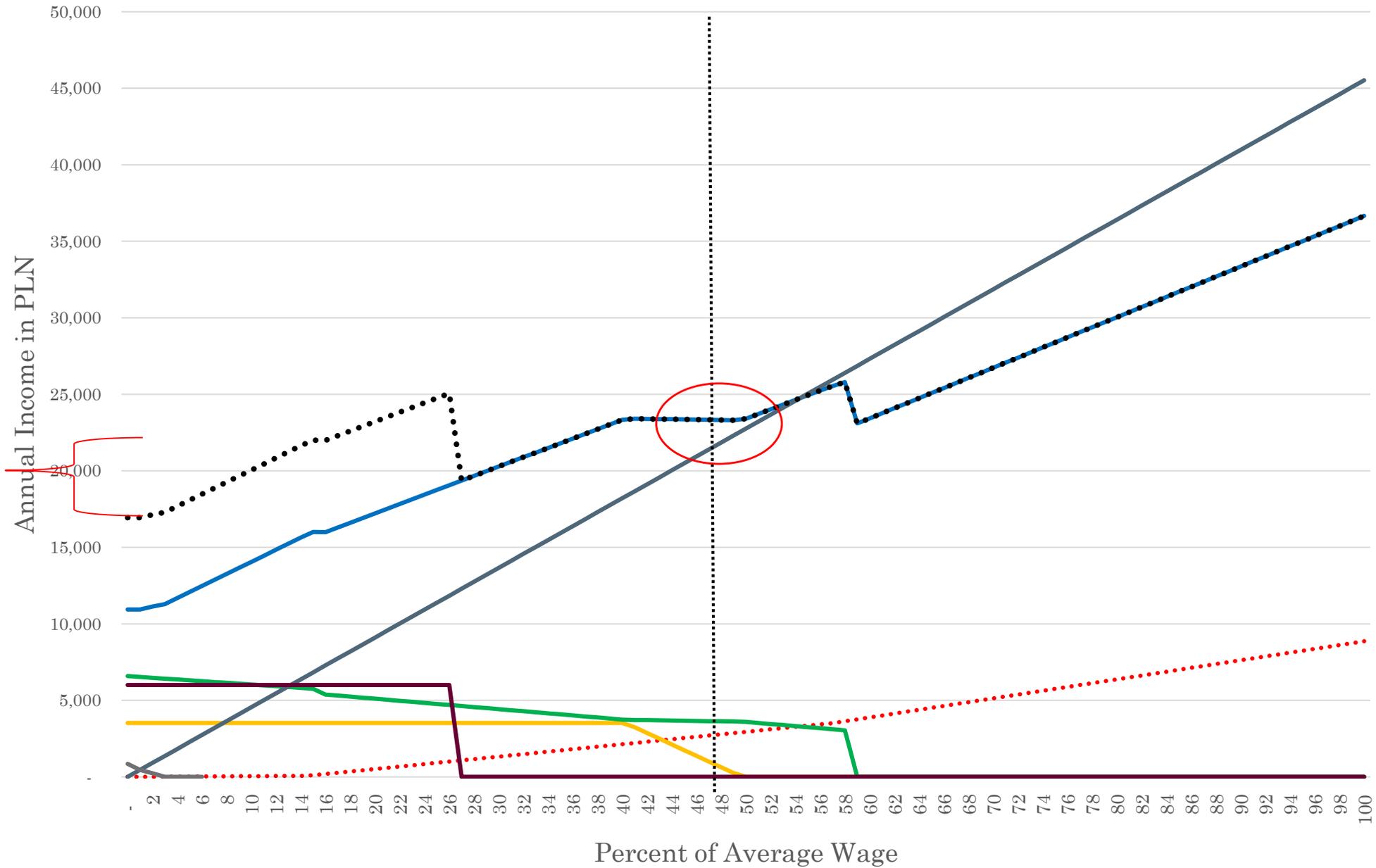


Single Parent with 1 Child



..... T_TAX_SS — NETpl — FBpl — HBpl — GROSSpl — SApl NET+500 — 500+

Single Parent with 1 Child

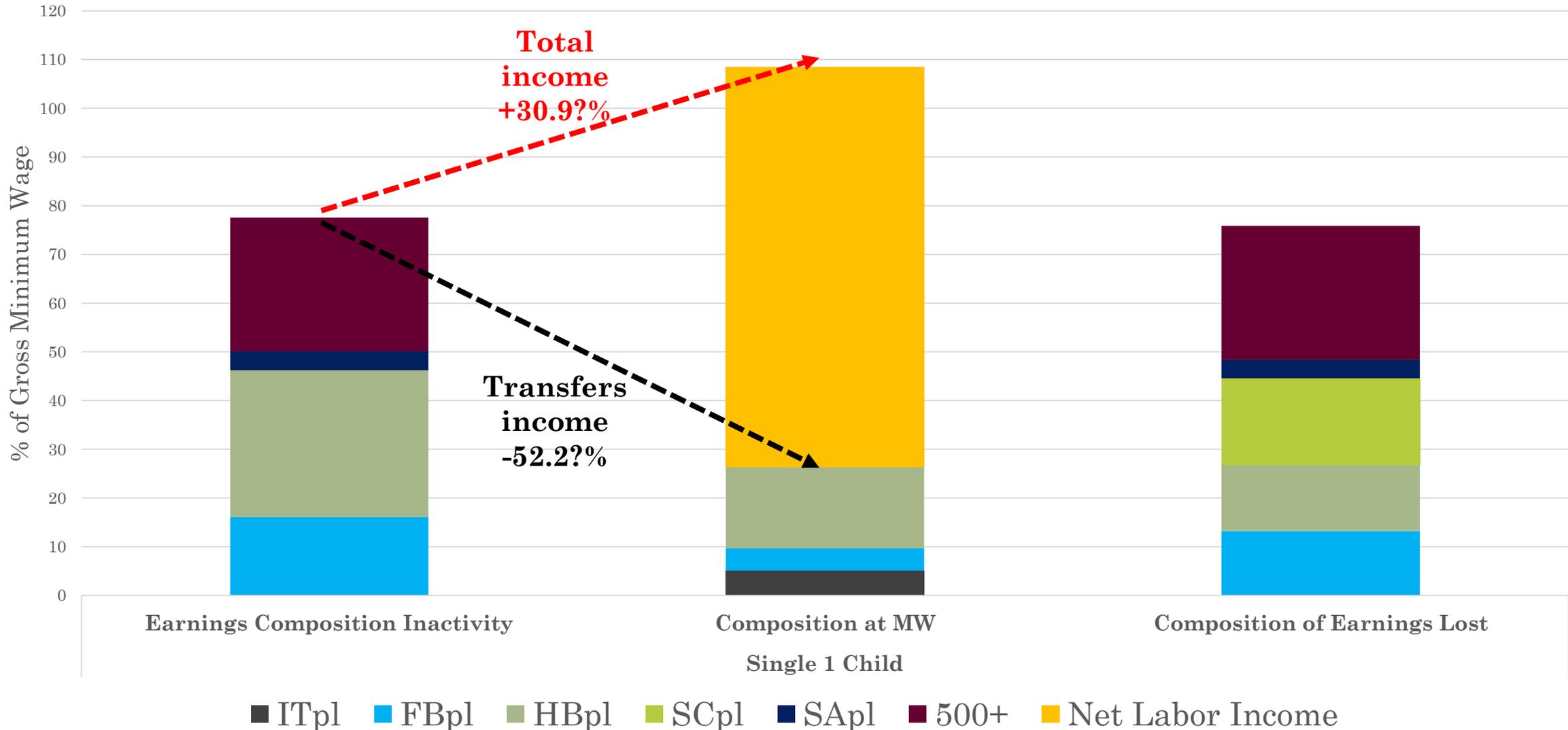


Δ Between no work and 1 MW job FT with 500+ is 6000 PLN (27%; w/o 47%)

..... T_TAX_SS — NETpl — FBpl — HBpl — GROSSpl — SApl NET+500 — 500+

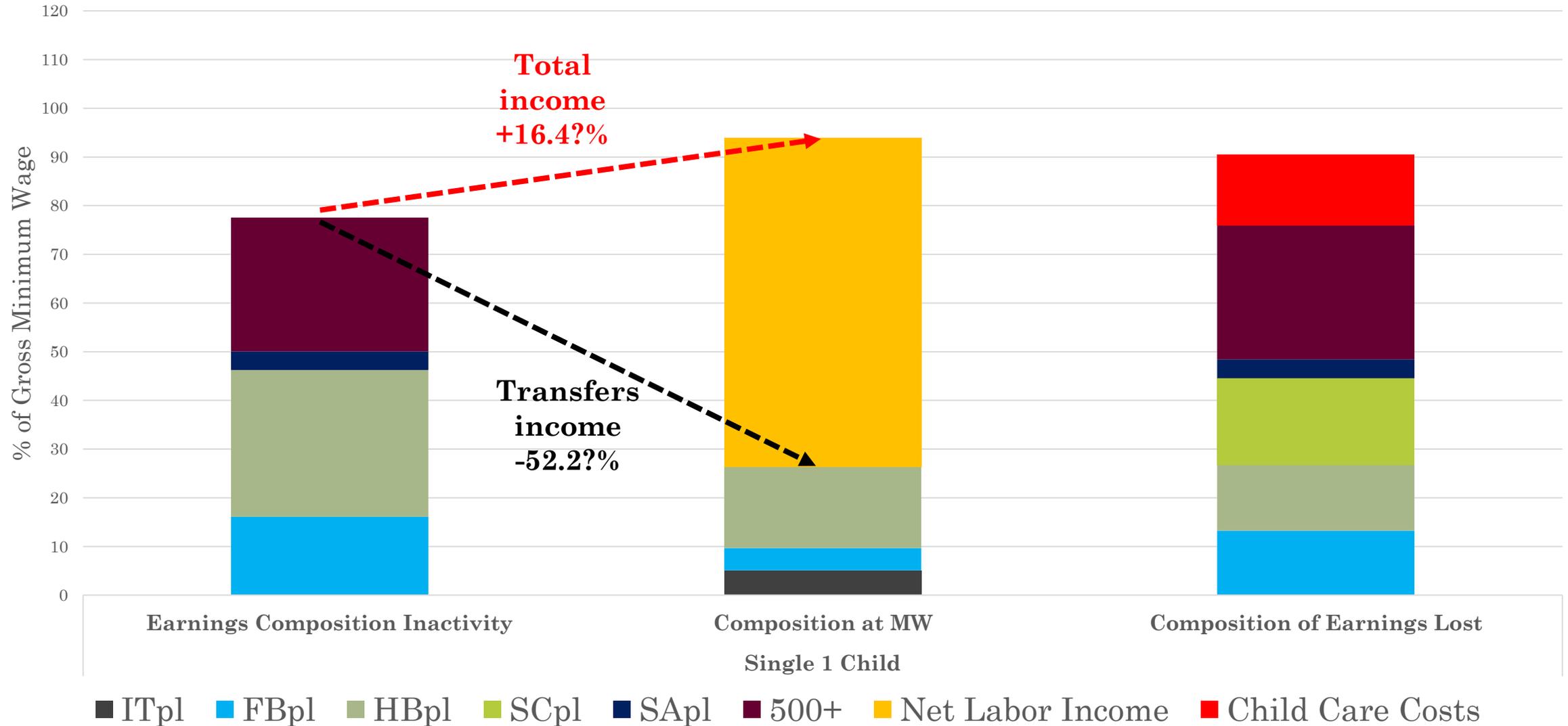
Change in income for a Single Parent with 1 Child when moving from inactivity to MW...

Single 1 Child



...when accounting for average child care costs, income growth from working becomes only 16.4 %

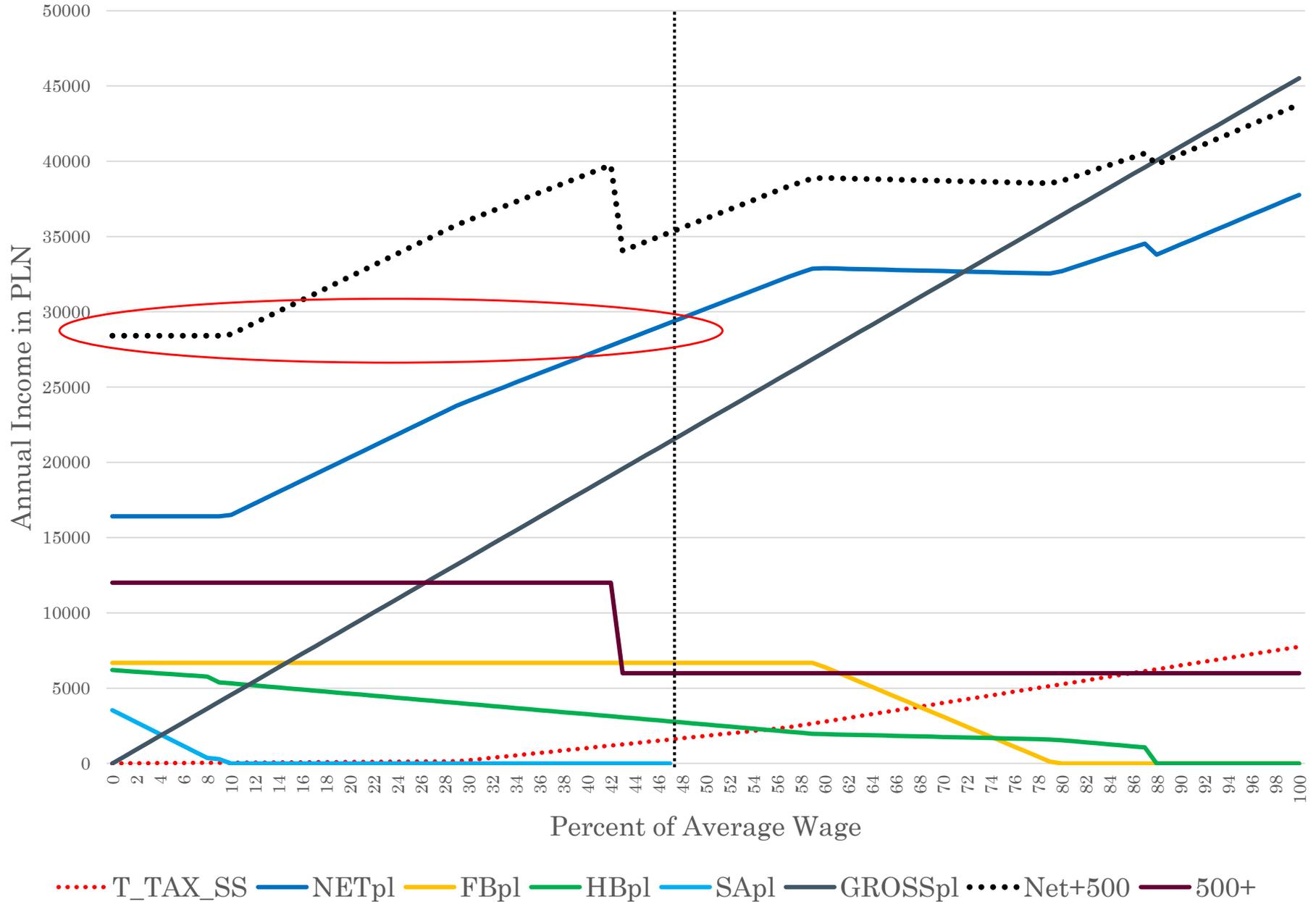
Single 1 Child incl. Childcare costs





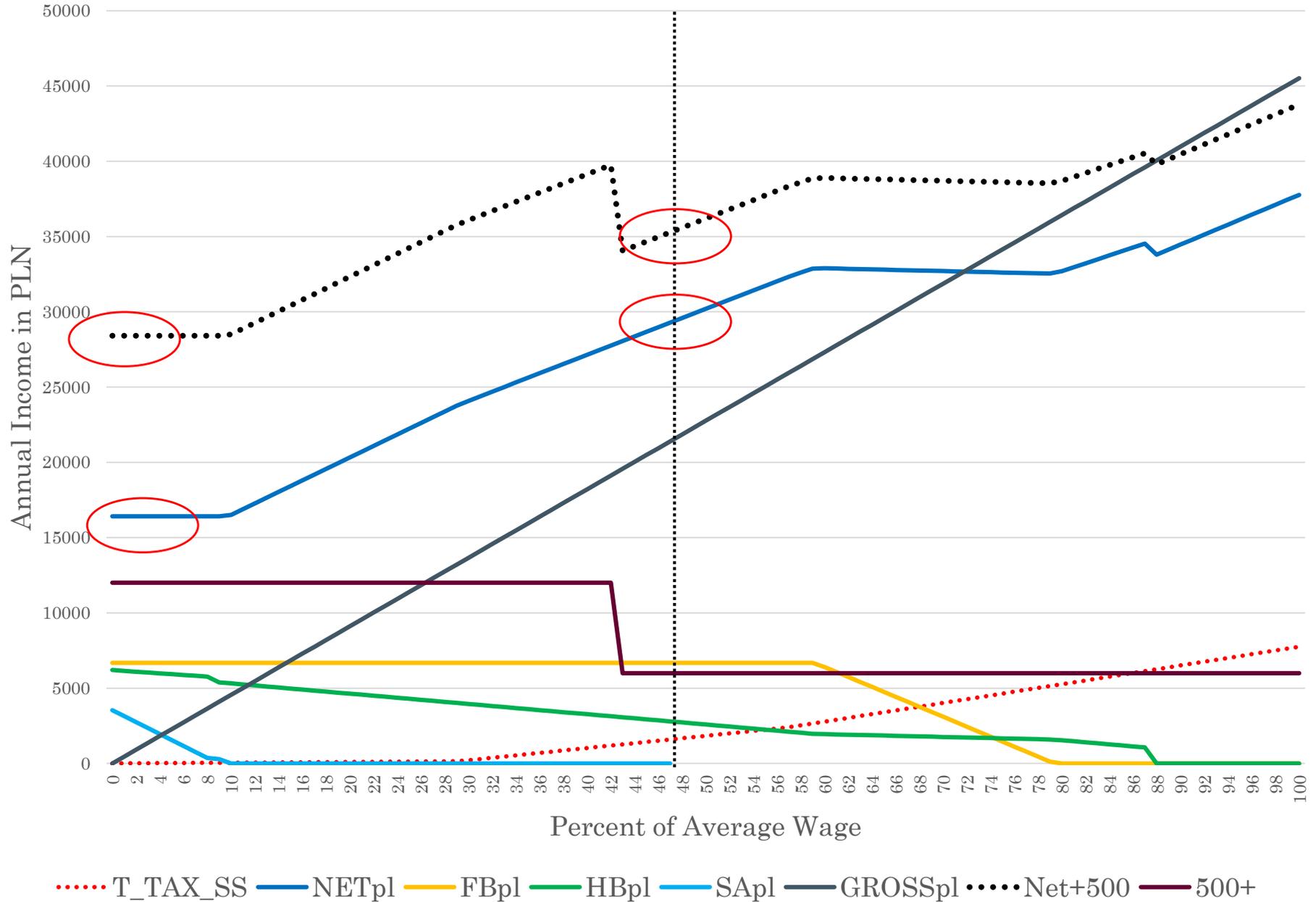
Single Parent Two Children

Single parent with 2 Children



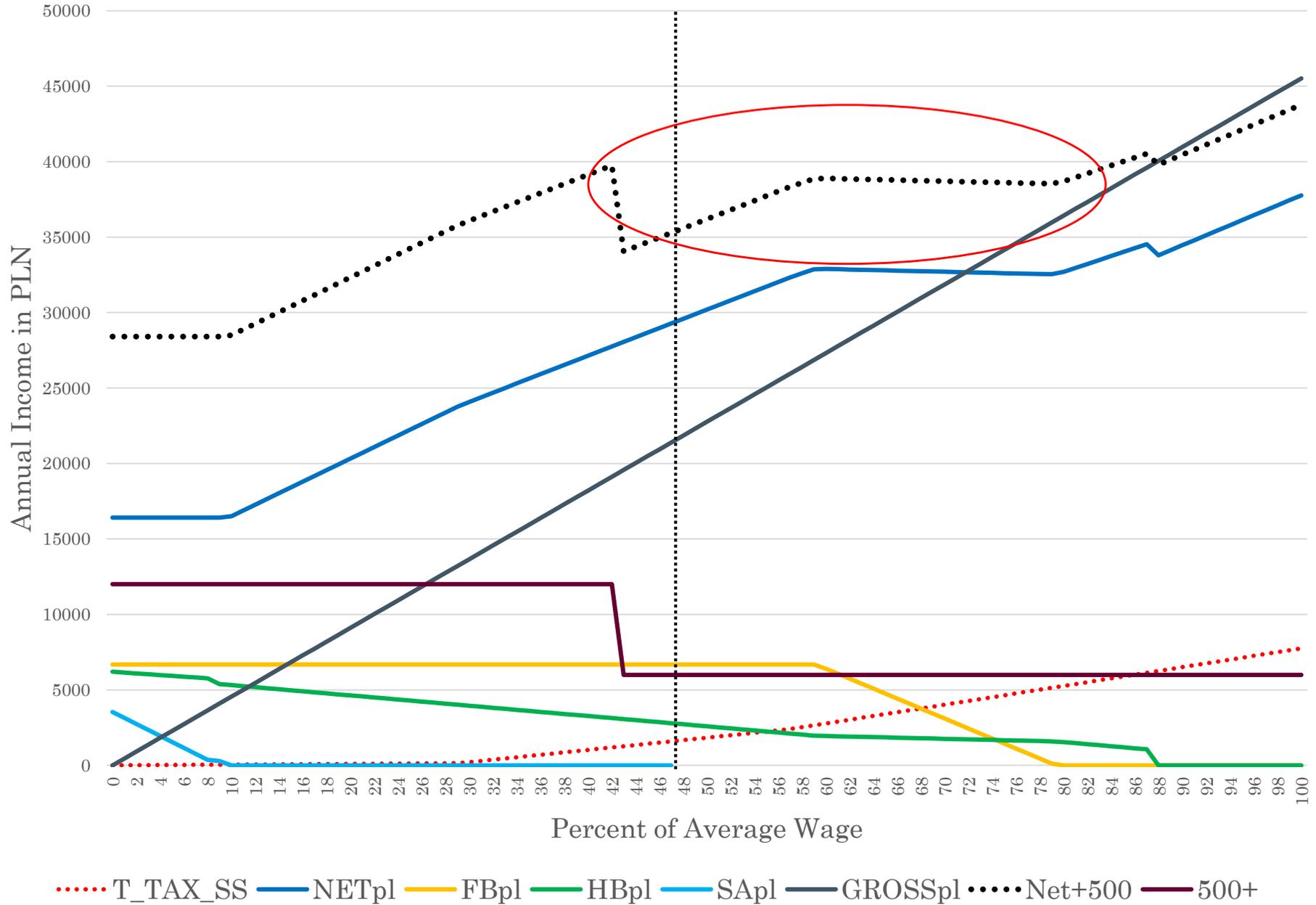
1. Net Income with 500+ = income from working at MW without

Single parent with 2 Children



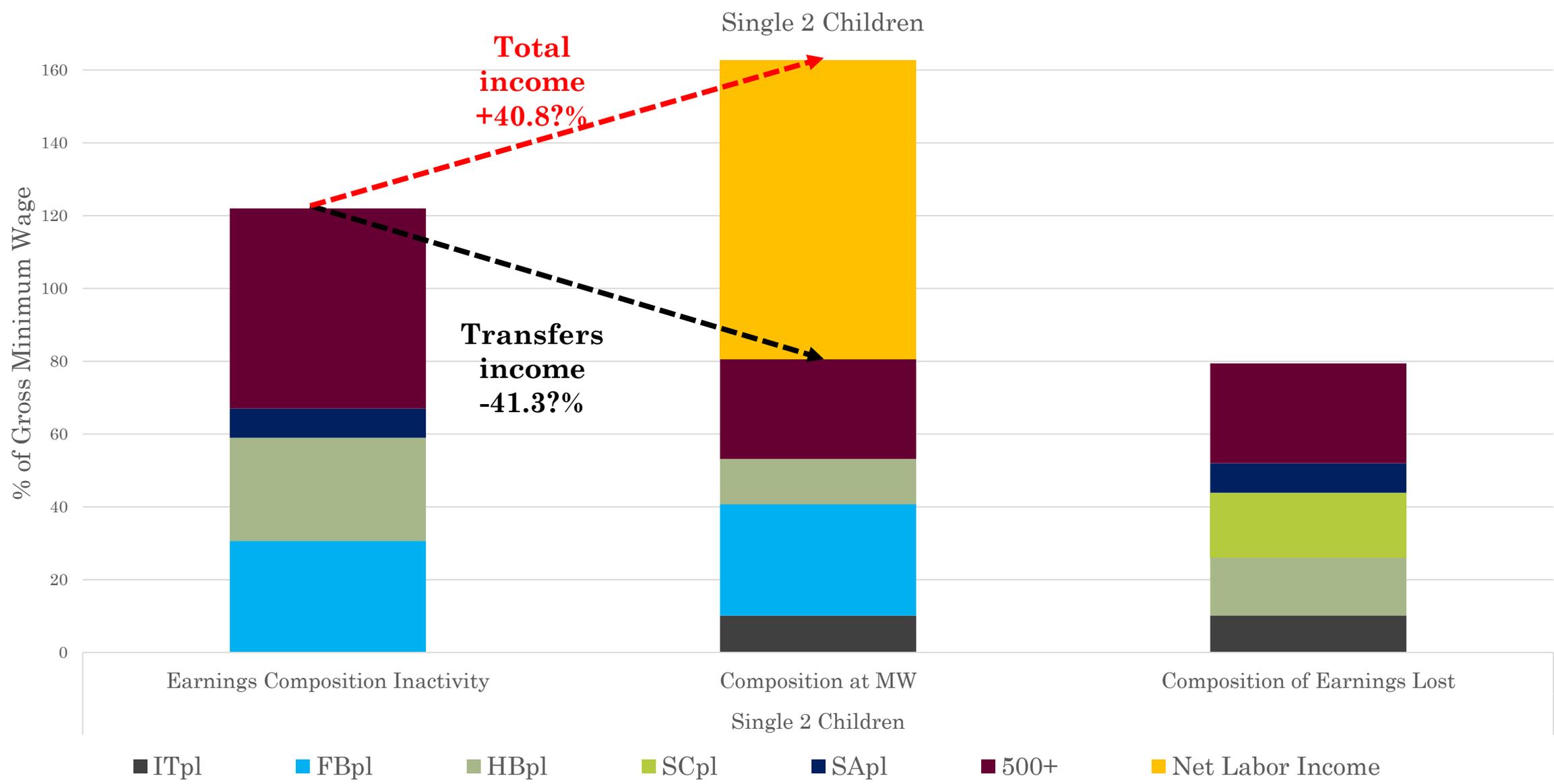
2. Income gains from moving from no work to MW work is lowered to around 20%

Single parent with 2 Children

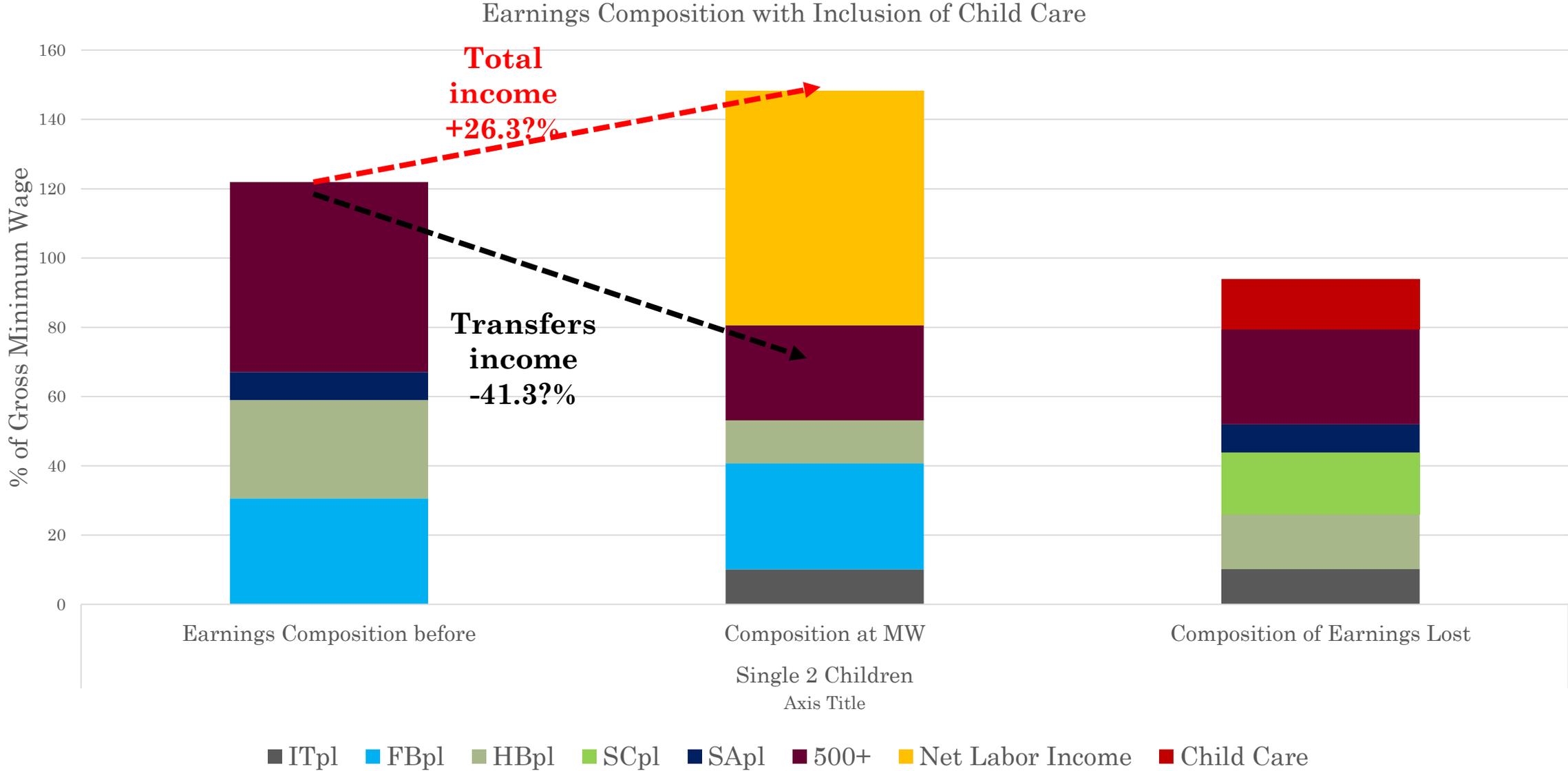


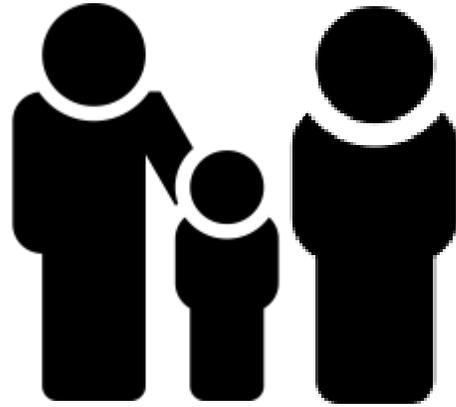
3. Poverty Trap:
Working at 40%
of AW = working
at 88% of AW

Change in income for a Single Parent with 2 Children when moving from inactivity to MW...



...becomes only 26.3% when accounting for child care costs.

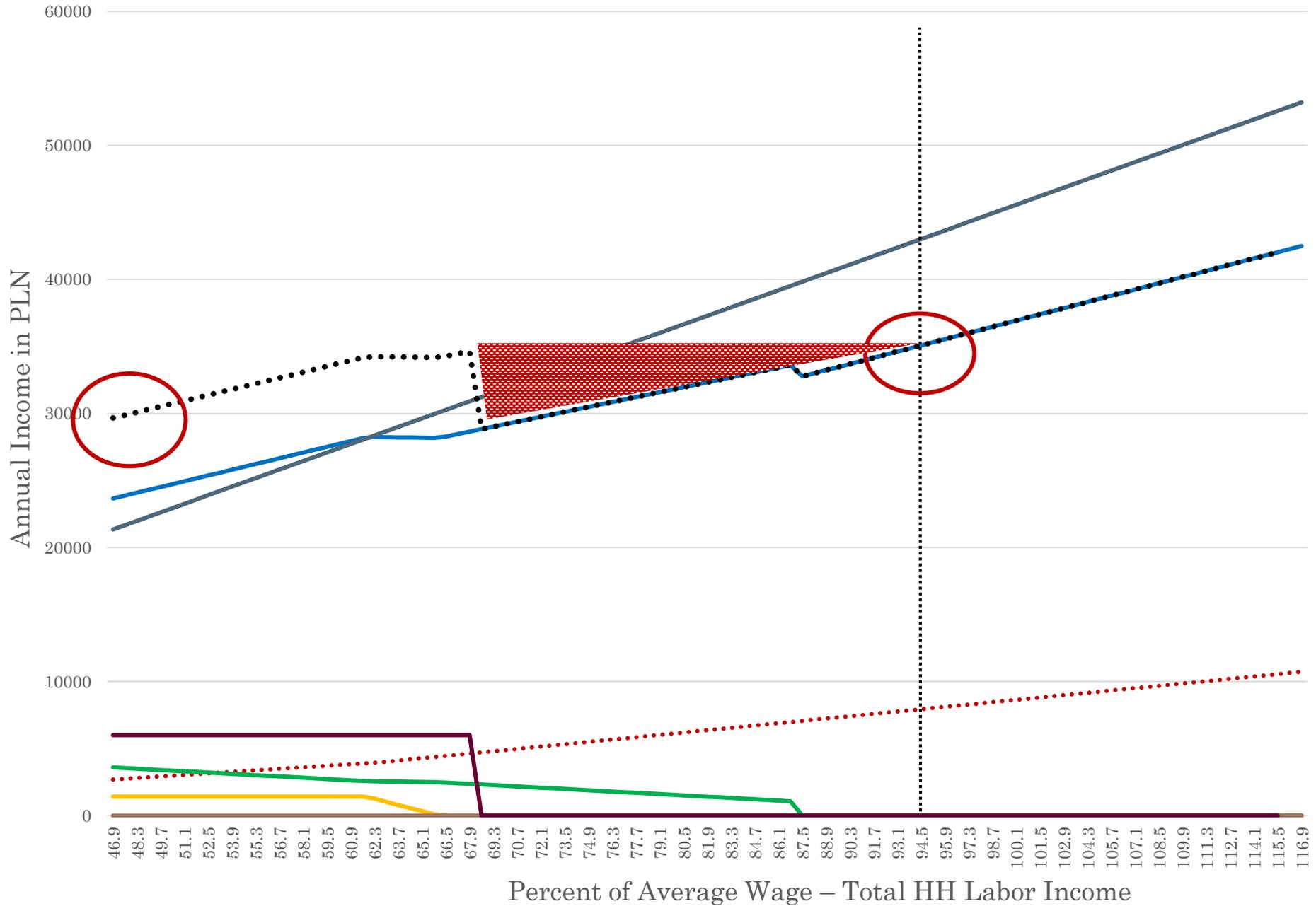




Two Earners 1 Child

Tax Benefit Model Married 2 Earners (Principal fixed approx. MW) 1 Child

1. Net earnings from moving into labor force for 2nd earner are negligible
2. There is a potential poverty trap from around 68% to 95% of AW



..... T_TAX_SS

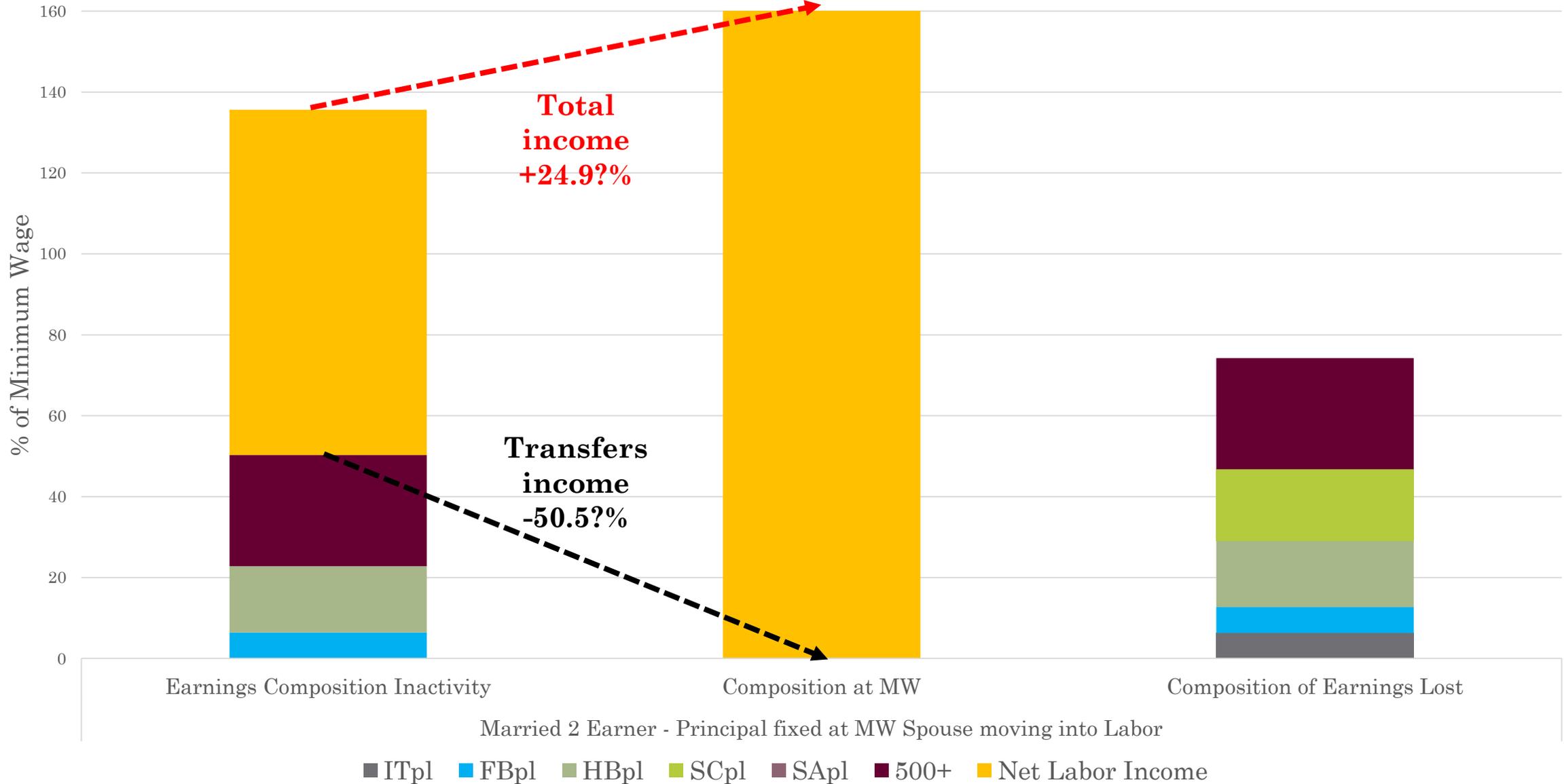
— NETpl

— FBpl

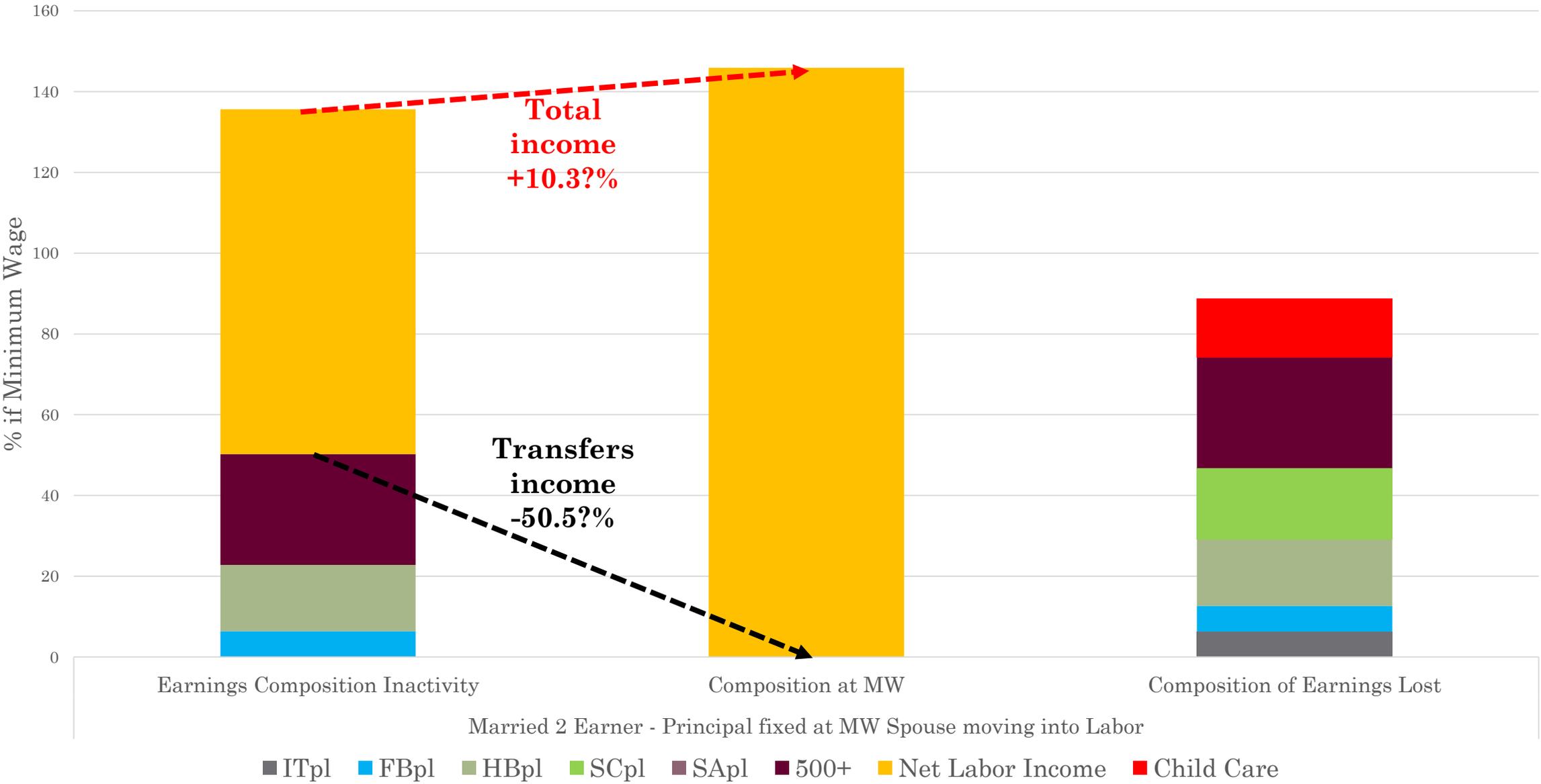
— HBpl

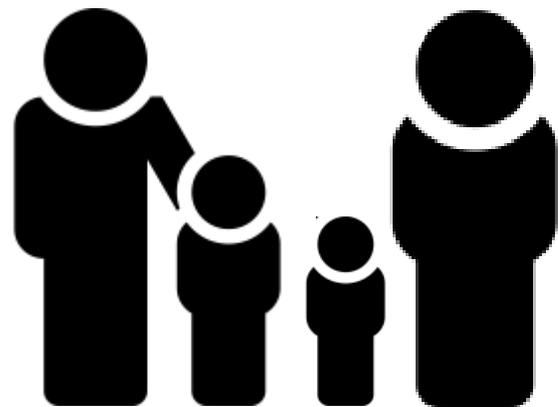
— SApl

In a 2 earner couple, moving from inactivity to work for the second earner wipes off all social benefits



Accounting for Childcare costs, the marginal increase in income is significantly lower



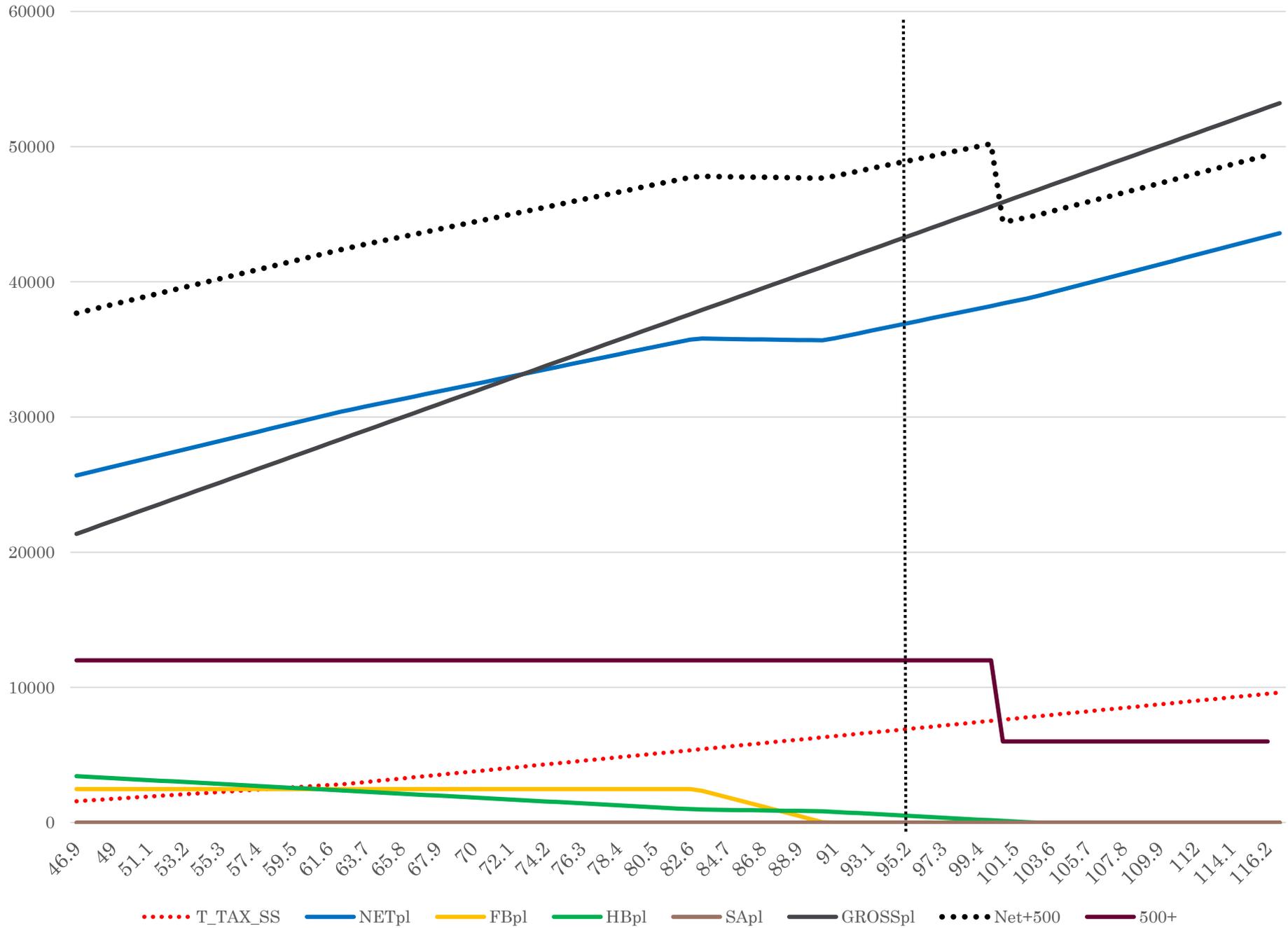


Two Earners 2 Children

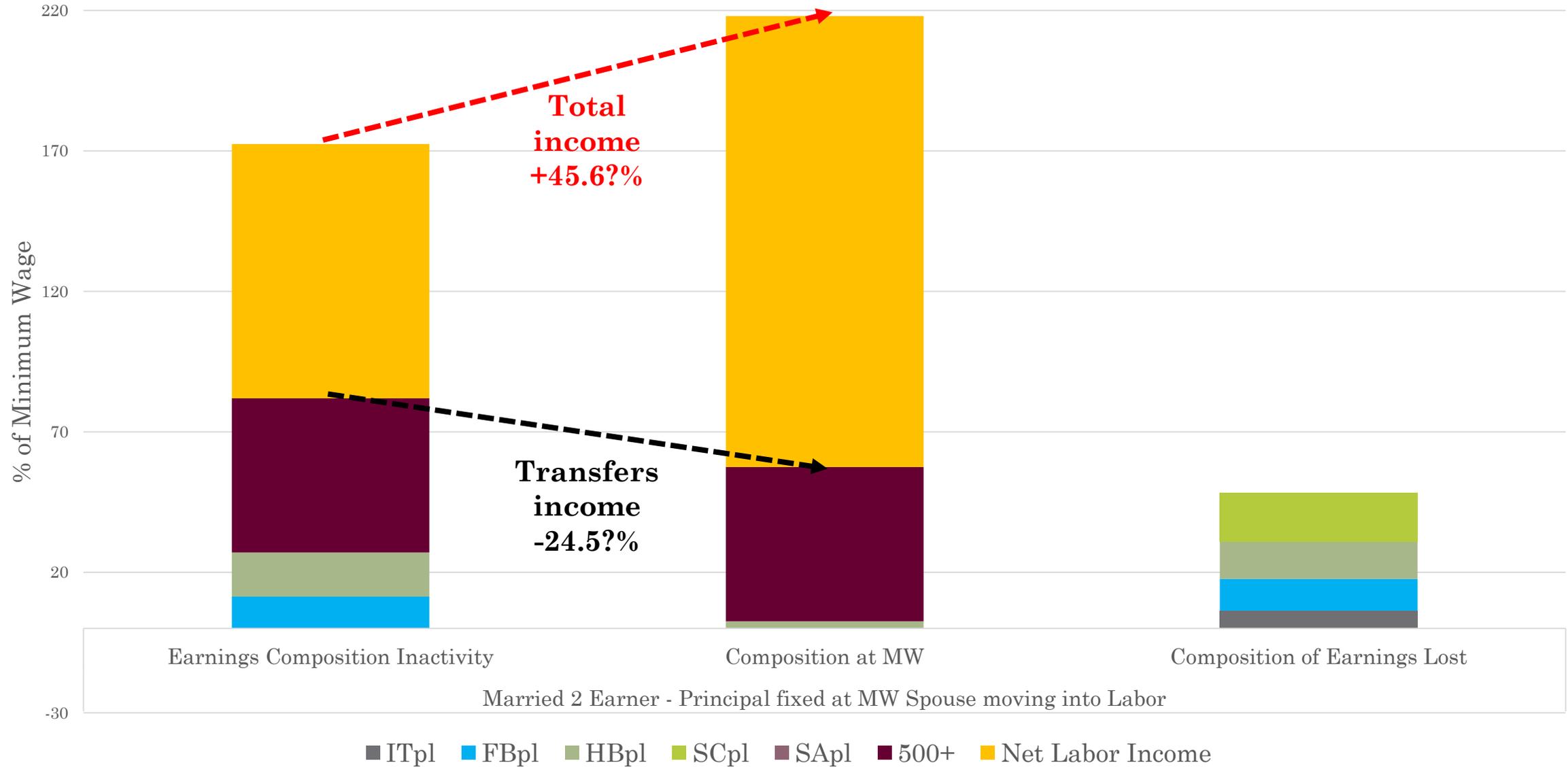
Tax Benefit Model Married 2 Earners (Principal fixed approx. MW) 2 Children

1. The main risk is that earnings just above MW is penalized

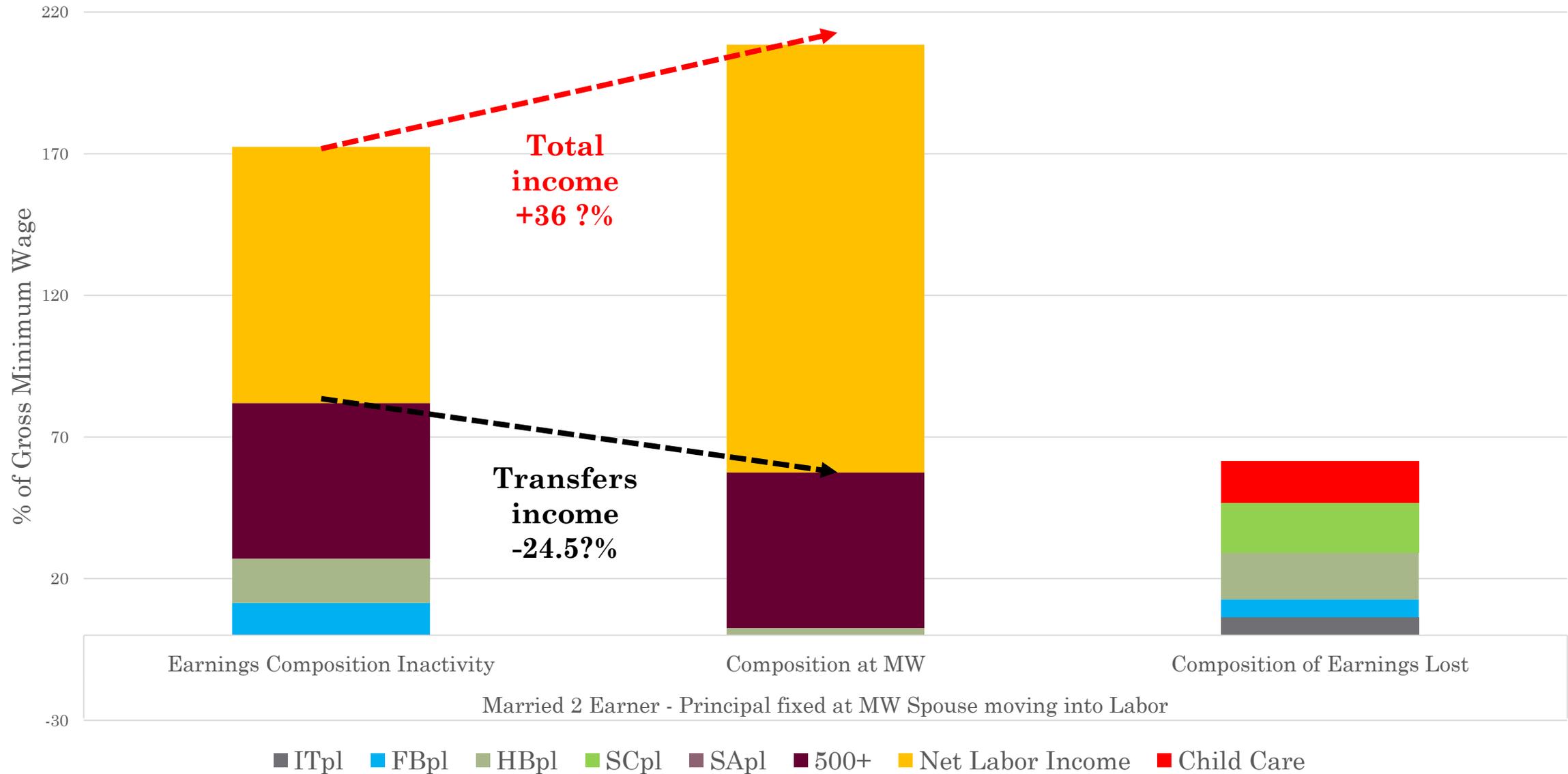
2. Almost no other transfers other than 500+ remain



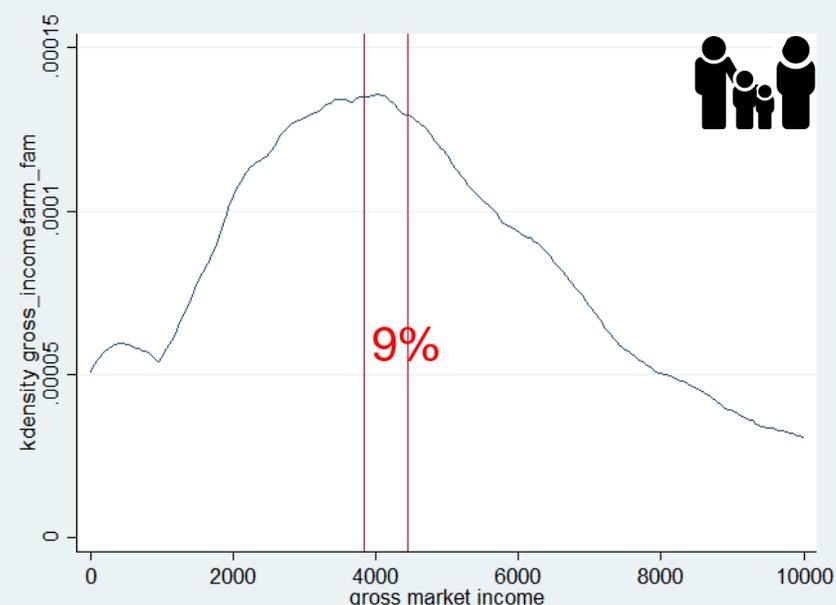
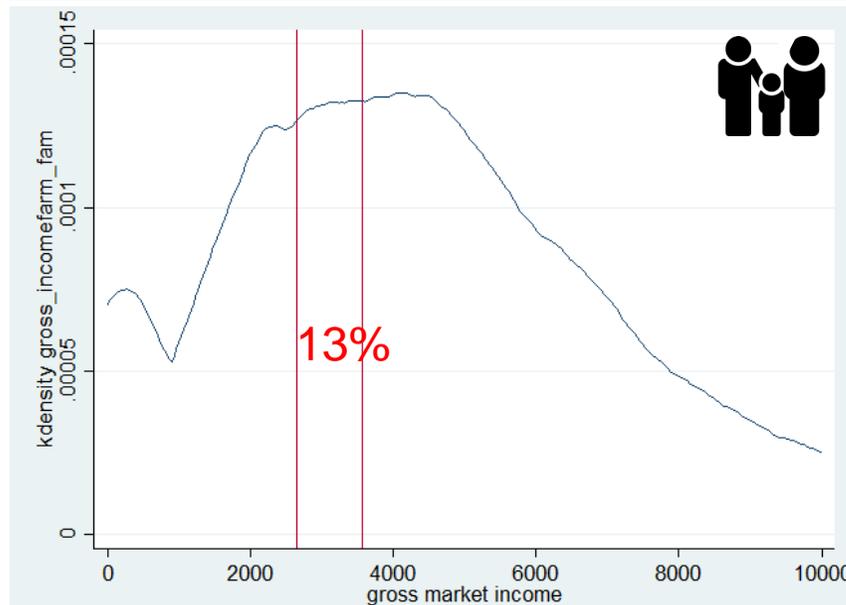
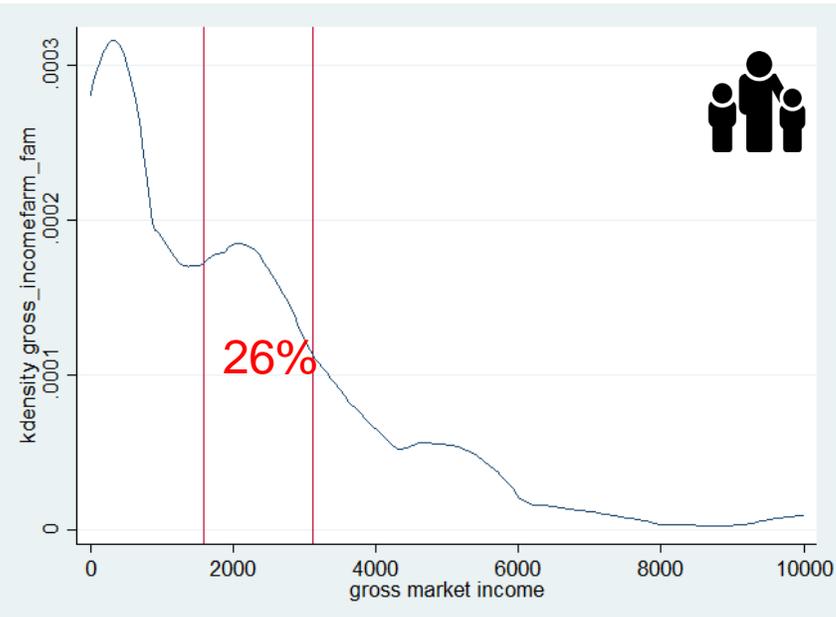
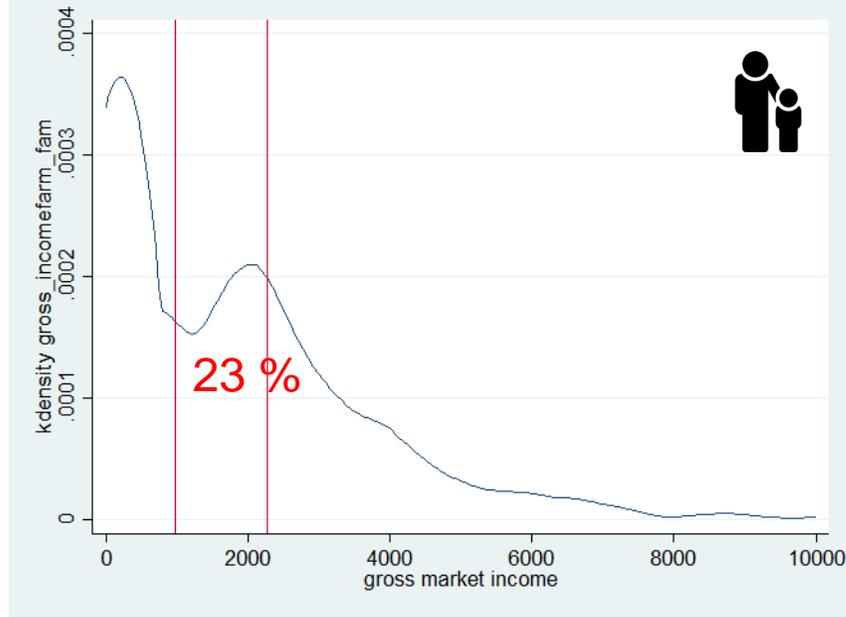
2 Earner with 2 children HHs remain eligible for 500+



Including childcare costs, again the marginal income and incentives for second earner to enter work are lowered



Share of households with monthly income levels that within the 'inactivity traps' in 2016



Source: authors based on 2016 HBS

Caveats of the model findings

- Not all households receive all benefits they are eligible to:
 - Budgetary constraints in local government
 - Low awareness of eligibility or additional criteria receive the benefit
 - Anecdotal evidence that families reduced interest in applying to temporary social assistance after 500+ to avoid transaction costs (social contract and work requirements)
- Wages may be adjusting in response to women's higher reservation wages and reduce the frequency of "poverty traps"

Benefit	Conditions	Budget Source	Actual coverage (number of families)
500+	No conditionality except for means test eligibility	Central	<i>2.7 million families eligible</i>
Family Benefit	Means test, child school attendance	Central, some local components	2.3 million families
Temporary benefit (SA)	Means test, labor activation, household visits, social contract	Minimum is Central, local above min.	0.5 million families
Housing benefit	House size, means test	Local	?

Overview of projected income gains for moving into MW employment with varying levels of childcare costs

Family type	Income gains (in % of MW)	Income gains accounting for estimate of childcare costs at public facilities	Income gains (in % of MW) accounting for childcare costs at conservative market prices (1000 PLZ)
Single Parent with 1 Child	30.9	16.4	-23.9
Single Parent with 2 Children	40.8	26.3	-14.0
Married Couple (2 Earners) with 1 Child	24.9	10.3	-30.0
Married Couple (2 Earners) with 2 Children	45.6	36.0	-4.3

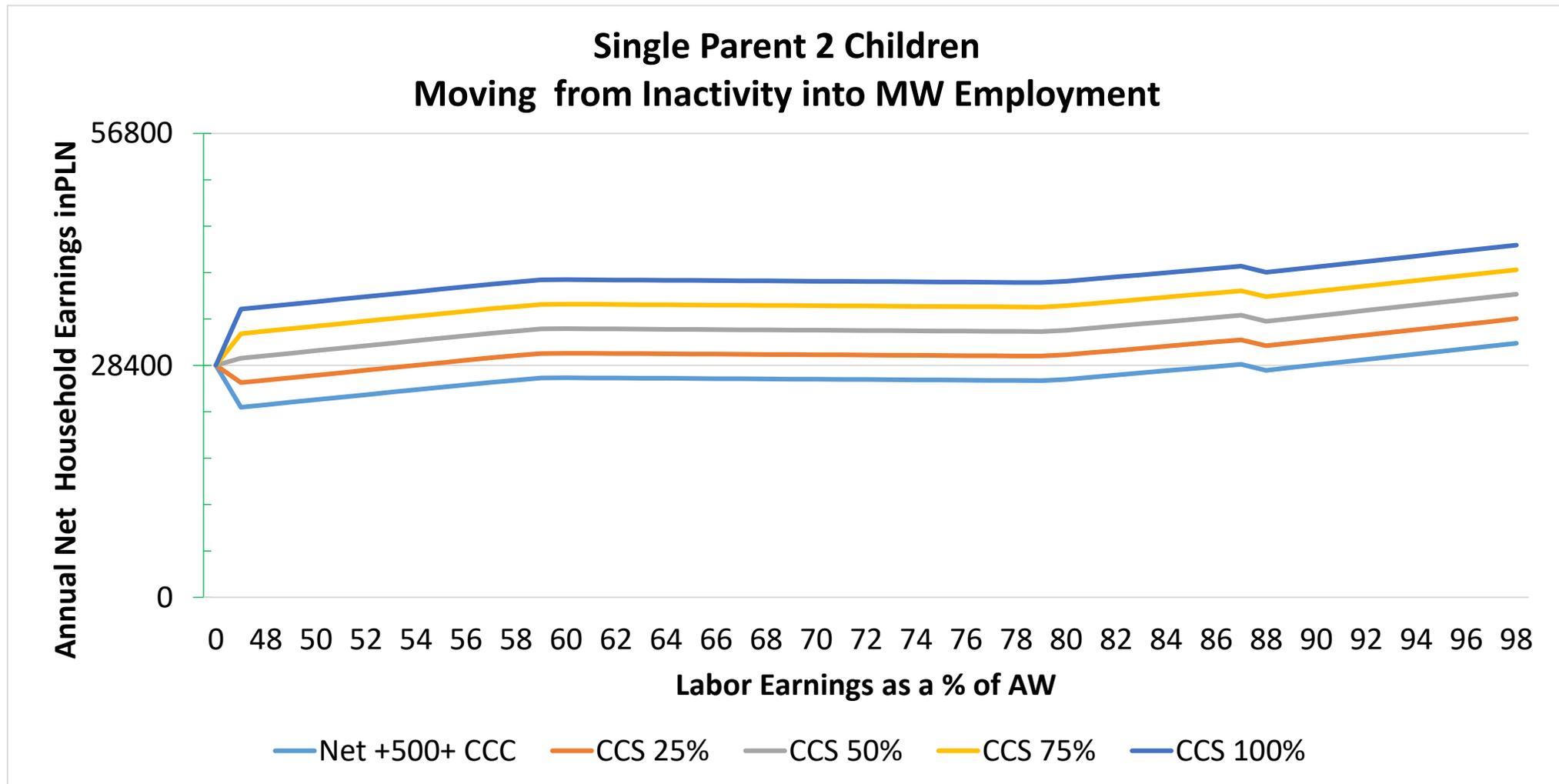
Childcare vouchers are one of the potential instruments to improve the cost-effectiveness of work for second earners with young children

Municipalities in Szczecin and Nysa have introduced vouchers to offset cost of childcare of children under the age of 3

Innovative approach in supporting families with PLN 500 per month for their chosen form of private care (nannies, nurseries, daycare centers)

But what is the optimal amount for vouchers that could restore the incentive to work among second earners?

A childcare subsidy of at least 50% of private childcare cost is necessary to restore viability of work at low pay



% of typical child care costs that is subsidized	No subsidy	25%	50%	75%	100%
Net gain from moving from inactivity to MW employment (PLN) <i>including childcare cost</i>					
Single Parent with 1 Child	-5,620	2,620	380	3,380	6,380
<i>as a percentage of MW</i>	-26	-12	2	15	29
Single Parent with 2 Children	-5,135	2,135	865	3,865	6,865
<i>as a percentage of MW</i>	-24	-10	4	18	31
Principal Earner fixed at MW					
Married Couple with 1 Child	-6,581	3,581	-581	2,419	5,419
<i>as a percentage of MW</i>	-30	-16	-3	11	25
Married Couple with 2 Children	-1,122	1,878	4,878	7,878	10,878
<i>as a percentage of MW</i>	-5	9	22	36	50
Principal Earner Fixed at Median					
Married Couple with 1 Child	3,851	6,851	9,851	12,851	15,851
<i>as a percentage of MW</i>	18	31	45	59	73
Married Couple with 2 Children	-3,270	-270	2,730	5,730	8,730
<i>as a percentage of MW</i>	-15	-1	12	26	40
Moving from inactivity to point of 500+ withdrawal (PLN)					
Married Couple with 2 Children at 100 percent of AW	-5,284	2,284	7,16	3,716	6,716
<i>as a percentage of MW</i>	-24	-10	3	17	31

Note: <0 = disincentive; 0-10 = neutral/no gains; 10-25 = moderate gains; +25 = considerable income gains.

Conclusions

Main findings

- In most household types, especially with young children, the current design of social benefits in Poland reduces the incentive to work at low wage for the caretaking adult
- Lack of childcare or high private childcare costs can exacerbate disincentives
- Design issue could contradict the intended objective of the 500+ program to promote fertility (international literature suggests that sustaining labor supply of women and provision of childcare are as important as financial support to promote fertility)

What can be done? Many possibilities to improve status quo

- With some adjustment to the design of benefits rules, there does not need to be a tradeoff between financial support for families and sustaining female labor supply
- Expanding provision of subsidized public or private childcare
- Introduce a gradual withdrawal of the 500+ benefit for the first child, as recently done with the family benefit, so that it never pays more to be inactive than working
- Disregard work-related costs from means test for 500+ (e.g. childcare, transportation costs)
- Consolidate family benefit and 500+ in a single benefit to reduce fiscal cost while maintaining progressivity